Trust Company Oklahoma

INVESTMENT PERSPECTIVES

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PREVENTING SUPPLY CHAIN STRAIN

Can bringing manufacturing home be the answer to the challenges of global production?

Becca Mitchell
CFA
Vice President

Most of us would prefer to forget the early days of the pandemic, but I carry some of those memories with me. I remember my first time going to the grocery store after health officials recommended wearing face coverings.

I ran into one of my colleagues at a Reasor's Foods who was wearing a blue bandana across her face, as if she had stepped out of an old Western movie.

What stands out even more in my memories was my most bizarre trip to Target. When the store opened, about a dozen other customers joined me in grabbing carts and walking in a single-file line through the quiet aisles to the paper products. Most of the shelves were bare except for one bay holding the greatest prize of 2020: toilet paper. Each customer took one, as the sign above directed them.

While consumers' fears early in the pandemic caused some of the shortages outlined above, the shortages of toilet paper and other necessities revealed an actual problem in our nation's supply chains. We had globalized to an extreme efficiency level, but it put us at risk of not having the necessary things, especially in times of upheaval.

How We Embraced Globalization

If you've ever been in an economics class, you probably covered the concept of comparative advantage. The principle states that one entity (country, company, etc.) can produce certain goods at a lower opportunity cost than its trading peers. Opportunity cost can mean the cheapest cost, but it also considers other items a producer could use resources to make. Conversely, different entities will be more efficient at producing different goods. By partnering, countries can take advantage of these benefits by trading.

The last half of the 20th century saw the dismantling of trade barriers and the rise of free trade agreements. Countries began to work together to maximize their comparative advantages.

Several trade agreements developed into the World Trade Organization, established in 1995, which was pivotal in fostering this interconnectedness. Technological advancements in communication and transportation further facilitated the movement of goods and services across borders.

Developing economies like China attracted companies looking for cheaper labor and production capabilities. In addition to lowering production costs, offshoring portions of supply chains allowed companies to introduce themselves to new consumers worldwide. Consumers also benefited from a wider variety of goods offered at lower prices.

Where We Are Now

While the conversation about reshoring manufacturing in the U.S. increased during the pandemic, previous events displayed vulnerabilities in global supply chains.

The 2008 financial crisis exposed vulnerabilities in globalized supply chains, leading to calls for greater self-reliance. The economic instability of other countries during the crisis impacted companies' supply chains.

Additionally, it became apparent that outsourcing production came with sacrifices, including increased communication and transportation costs and the loss of intellectual property. The global financial crisis also coincided with high unemployment in the U.S., and

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MARKET RECAP

The S&P 500 turned in its 13th best first half performance since 1950, powered mainly by investment in artificial intelligence resulting in the "Magnificent 7" returning 37% versus just 7% for the S&P 500 ex-"Magnificent 7."

	Second Quarter	YTD	Past 12 Months
S&P 500	4.3%	15.3%	24.5%
EAFE (International)	-0.4%	5.3%	11.5%

VIEW**POINT** A Message From the Desk of Michael Hopper

Michael Hopper
CFP®
President & Chief Executive Officer

For nearly 25 years, clients and colleagues knew one person who always had unwavering dedication, a sharp legal mind, and a heart brimming with Midwestern compassion: **Lesa Creveling**.

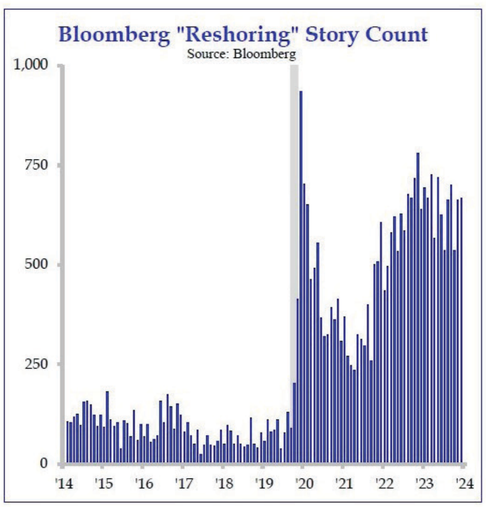
Recently, we marked the bittersweet retirement of this remarkable woman who wore many hats – legal counsel, tax manager, real property manager, mineral manager, risk manager, corporate secretary, and executive vice president – but always remained a foundational member of our team.

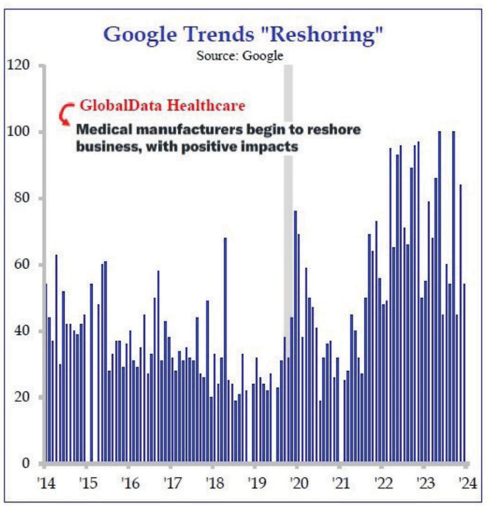
Lesa's true passion lay in championing the vulnerable. Medical malpractice victims, seniors facing financial elder abuse, and those preyed upon by unsuitable trustees – all of them found a fierce advocate in Lesa. She possessed an uncanny ability to translate complex legalese into clear, actionable steps, empowering those wronged to reclaim their lives.

Beneath the formidable legal mind and unwavering resolve beat a heart deeply connected to her roots. Hailing from southwest Iowa, Lesa brought a refreshing dose of small-town sensibility to the trust and wealth management business. Her dry wit and down-to-earth demeanor disarmed even the most hardened opponents, while her sense of fairness ensured every decision was rooted in common sense and ethical principles.

Few individuals can claim the distinction of wielding both the power of law and the precision of accounting. Lesa was one such rarity. A CPA and an attorney, she possessed a unique blend of financial savvy and legal prowess. This exceptional combination enabled her to navigate complex situations with unparalleled clarity and foresight.

Lesa's contributions have left an indelible mark on this company. Her dedication and expertise will continue to shape our work and team for many years to come. She will be missed by her clients and colleagues alike.





Source: Strategas

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reshoring offered a way to create jobs here.

The U.S.-China trade war further strained the relationship between the two economic giants, raising concerns about reliance on a single source for critical goods. In 2018, the Trump administration began investigating China's intellectual property practices, and each country began imposing a series of tariffs on the other. While the first phase of a trade deal was signed in 2020, the Biden administration has continued to have concerns surrounding trade with China.

In addition to the pandemic, these events shed light on global supply chain weaknesses and pushed governments and companies to reflect on the benefits of making supply chains less complex and bringing them closer to home.

Friend-Shoring, Near-Shoring, Reshoring

A 2021 survey conducted by Kearney found that 92% of U.S. manufacturing executives had considered reshoring or had moved some manufacturing operations closer to home. The survey also found that 70% of CEOs with manufacturing in Asia were considering moving production to Mexico, Canada, or Central America.

Additionally, a Thomson Reuters' Global Trade report surveyed 200 global trade professionals, and 78% agreed that global multinational firms should diversify supply chains by expanding through local sourcing or near-shoring.

Friend-shoring is moving production to countries allied with the United States. The war in Ukraine and continued conflict between the Chinese and United States governments are significant catalysts for the U.S. to seek places to produce goods other than China, even though China has been a leading exporter to the United States for some time.

Other Southeast Asian countries are some of the biggest beneficiaries of U.S. companies moving production out of China. While not formally allied, Vietnam and the United States entered a strategic partnership in 2023, and Vietnam has seen an increase in production partnerships with U.S. companies.

Vietnam is an attractive production hub for several reasons. Vietnam's labor costs are about half of Chinese labor costs. In 2020, the average labor cost in China was approximately USD 6.50/hour, compared

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A 2021 survey conducted by Kearney found that 92% of U.S. manufacturing executives had considered reshoring or had moved some manufacturing operations closer to home.

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to USD 2.99/hour in Vietnam.

Additionally, the labor force is relatively large and well-educated, and the Vietnamese government has passed legislation to further invest in training its workforce. Vietnam also has several international airports, seaports, and rail links facilitating production flow.

For U.S. trade, Mexico has been a big beneficiary of near-shoring. Many factors that make Vietnam an attractive production destination also make Mexico a beneficiary of changing supply chains. Its wage cost advantages are similar to those of several Asian manufacturing locations.

Unlike Vietnam, Mexico offers additional benefits to companies because of its proximity to the United States. Sharing a border allows for reduced transportation and logistics costs. In March 2023, the U.S. Surface Transportation Board approved a merger of Canadian Pacific Railway Limited and Kansas City Southern Railway Company. This merger created the first transcontinental railroad that linked Mexico, the U.S., and Canada, offering a streamlined route for products leaving Mexico headed north.

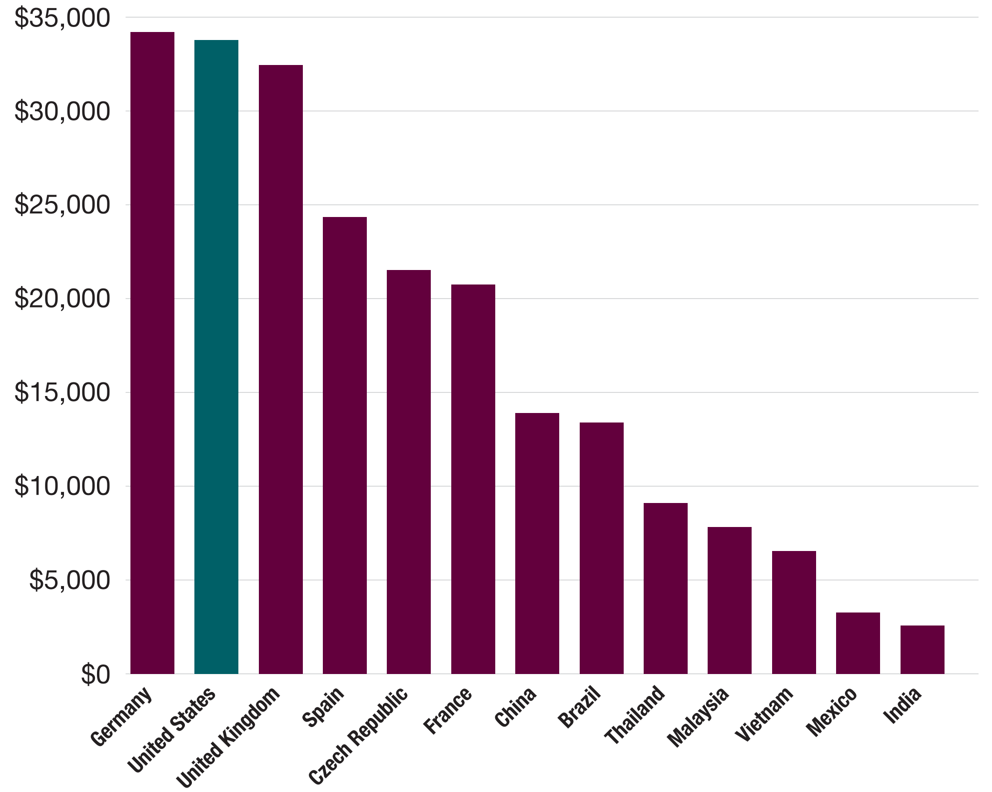
Proximity also allows companies to establish warehouses and logistics facilities to keep inventory closer to home, helping to avoid supply shocks like those seen during the COVID-19 pandemic.

Partnerships with Mexico directly relate to efforts to bring production back to the United States. Due to their proximity to Mexico, Texas, Arizona, and New Mexico are seeing additional investment.

Arizona has become a beneficiary of reshoring and the Chips and Science Act. Taiwan Semiconductor Manufacturing Company (TSMC) is building facilities to produce its semiconductor chips in the U.S. Other companies, including Micron Technology, Samsung, and Texas Instruments, have also announced plans to build semiconductor manufacturing facilities in the United States.

Average Salaries of Production Workers / Machine Operators (World)

Source year: 2022, Indeed.com; Glassdoor.com; Salaryexplorer.com; Salary.com; Payscale.com



Source: Reshoring Institute

Much of this reshoring is due to the support companies are receiving from the Chips and Science Act. The $280 billion plan has encouraged companies to invest in semiconductor manufacturing in the United States and has urged universities to increase educational opportunities related to semiconductor manufacturing.

The act creates opportunities in different regions, creating clusters similar to Silicon Valley, where universities and companies collaborate. These plants also allow for a competitive advantage in shortening the supply chain, creating logistical efficiencies, and encouraging foreign direct investment in the United States.

Not Leaving China Altogether

While the tension between China and the U.S. has been an increasing catalyst for U.S. companies to shift production, not all production is leaving China. Many companies are focused on diversifying their supply chains, including keeping some production in China.

Additionally, China-based manufacturing companies are also expanding their production to other countries. In other words, there is still ample opportunity for U.S.-China partnerships in production; those partnerships simply change in function and location. This business strategy has been named the "China Plus One" strategy.

In Conclusion

This article merely scratches the surface of the changes we see in our supply chains. Reshoring and diversifying supply chains can increase national security, create more resilient supply chains, and meet changing consumer preferences by offering greater transparency in production.

It is also expensive to develop new production facilities. It requires continued investment in infrastructure from countries experiencing an increase in manufacturing industries and time to build new facilities and shift production.

Infrastructure investment means increased capital expenditures and a lag time in realizing efficiencies. Advancements in automation and technology can support these transitions. However, continued cooperation between countries is needed to support these changes in the global trading system.

LEAVE A RICH VEIN, NOT A LEGAL DRAIN: ESTATE PLANNING FOR OIL & GAS ASSETS

Streamline the transfer of your oil and gas royalties to your heirs with clear and organized estate planning.

Oil, often dubbed the lifeblood of the modern world, remains an indispensable resource underpinning global economies and daily life.

Oil's pervasive influence touches nearly every aspect of contemporary existence, including fueling transportation, powering industries, and being a critical ingredient in manufacturing countless products.

Its role extends beyond energy, shaping geopolitics, driving technological advancements, and affecting the economic stability of nations.

As we navigate the complexities of the 21st century, understanding oil's profound impact is essential to appreciating its enduring significance in our interconnected world.

Not Slipping Away

Despite the growing emphasis on renewable energy sources, the global demand for oil remains robust, driven by various economic and infrastructural factors. Oil continues to account for a substantial portion of the world's energy consumption, with sectors such as transportation, manufacturing, and petrochemicals heavily reliant on it.

The transportation sector, in particular, remains predominantly dependent on oil, with millions of vehicles, ships, and airplanes powered by gasoline, diesel, and jet fuel. Additionally, industrial processes and the production of plastics, chemicals, and other essential goods maintain a steady demand for oil.

While experiencing significant growth and investment, renewable energy sources face challenges that hinder their ability to supplant oil soon. These include intermittency issues with solar and wind power, the current high costs of battery storage solutions, and the substantial infrastructure overhaul required to support widespread renewable adoption.

Consequently, oil's entrenched position in global energy systems and ongoing advancements in extraction technologies ensure its demand remains high, highlighting the complex and gradual transition toward a more sustainable energy future.

Jared Ogle

Trust Officer,
Oil & Gas Land Specialist

Plan to Thrive

Given the critical importance and persistent demand for oil, managing oil and gas assets effectively through estate planning becomes paramount.

These assets, whether mineral rights, royalty interests, working interests, or surface rights, present unique challenges because of their complex nature and fluctuating values.

However, by effectively managing these assets, you can ensure a seamless transition of wealth to future generations.

Clear documentation of title and ownership is vital to prevent legal disputes and complications during asset transfer; conducting a thorough title search and resolving any issues beforehand can avert future problems.

Understanding and planning for significant tax implications, including estate taxes, income taxes, and severance taxes, can help minimize the burden on heirs and give you control over your financial legacy.

Estate Planning Strategies: Trusts and Limited Liability Companies (LLCs)

Trusts and LLCs are two effective strategies for managing oil and gas assets within an estate plan.

LLCs: Offering flexibility and liability protection, LLCs are well-suited for managing oil and gas assets.

- **Centralized Management**: By forming an LLC, owners can centralize the management of oil and gas assets under a single entity, simplifying decision-making and ensuring continuity in operations. This structure can prevent disputes among heirs and facilitate long-term planning.
- **Asset Protection**: LLCs provide liability protection, shielding owners from personal liability related to the company's activities.
- **Succession Planning and Flexibility**: LLCs allow for flexible ownership structures and succession planning. Operating agreements can stipulate how ownership interests are transferred upon an owner's death, ensuring a smooth transition of oil and gas assets to heirs or other designated beneficiaries.

Professional management and oversight of trusts are essential to ensure compliance with legal requirements and maximize beneficiary benefits.

Trusts: Establishing trusts can offer numerous benefits in managing oil and gas assets:

- **Revocable Living Trusts**: These allow flexibility and control during the grantor's lifetime. Assets placed in a revocable living trust can pass to beneficiaries without probate, streamlining the transfer process and maintaining privacy.
- **Irrevocable Trusts**: These provide asset protection from creditors and potential estate tax advantages. While the grantor relinquishes control over the assets placed in an irrevocable trust, this strategy can help mitigate estate taxes and provide long-term management benefits. They also

ensure the assets are managed according to the trust terms to benefit the beneficiaries.

Further Considerations

Professional management and oversight of trusts are essential to ensure compliance with legal requirements and maximize beneficiary benefits. Trusts can be structured to allow for distributions of income from oil and gas assets while preserving the principal for future generations.

Both LLCs and trusts offer potential valuation discounts for estate tax purposes, making them advantageous for estate planning involving oil and gas assets. Both structures allow for continuity in asset management and provide mechanisms for ensuring the assets are passed on to future generations according to the grantor's wishes.

Collaborating with professionals like our TCO team is crucial when implementing these strategies. Their expertise and guidance can provide reassurance and confidence in the process. They can provide insights into the legal, financial, and tax implications specific to oil and gas assets. In doing so, they ensure the estate plan remains aligned with the owner's goals and adapts to changes in family dynamics, financial situations, or tax laws.

A Well-Oiled Transition

In navigating the complexities of estate planning for oil and gas assets, utilizing LLCs and trusts as strategic tools offers significant advantages. These entities provide structured frameworks for managing assets, ensuring continuity in operations, and maximizing benefits for future generations.

By collaborating with the experienced professionals at TCO, you can tailor your plans to align with your goals while effectively managing legal, financial, and tax considerations.

As the global oil demand persists amidst evolving energy landscapes, proactive estate planning remains crucial for preserving wealth and securing the long-term success of oil and gas holdings.

BUILDING TRUST: CHOOSING A FIDUCIARY FOR PEACE OF MIND

James L. Maddux
CFP®, CTFA, AEP®
Vice President

Selecting a fiduciary is a critical decision that can significantly impact your future and the well-being of your loved ones. A fiduciary is someone you entrust with a position of legal responsibility, such as managing your finances, making medical decisions, or caring for your children if you're incapacitated or pass away. Here are some things my family considered when choosing a fiduciary:

1. **Character and Trustworthiness**: Choose someone with a strong moral compass, known for their honesty, integrity, and good judgment. Consider their past behavior in handling financial matters and their ability to make responsible decisions.
2. **Competence and Skills**: Match the chosen fiduciary's skillset to the specific role. For financial matters, look for someone with financial literacy and experience managing similar assets. If you need someone to make medical decisions, choose someone who can understand complex medical information and advocate for your wishes.
3. **Availability and Willingness**: Your chosen fiduciary should be readily available to fulfill their duties. This includes time commitment and geographical proximity, especially if the role involves physical care or frequent meetings. Ensure they are genuinely interested and willing to take on the responsibility.
4. **Age and Health**: Consider the long-term implications. While younger individuals might be physically more capable now, longevity and potential health issues of both you and the fiduciary need to be considered.
5. **Communication Style**: Choose someone you can openly communicate with. They should be comfortable discussing sensitive topics and ensuring your wishes are understood.
6. **Alignment of Values**: Select someone who understands your goals for your assets or your health care. Doing so ensures decisions align with your wishes and philosophy.
7. **Professional Guidance**: A corporate fiduciary, such as TCO, can serve as a neutral and professional executor, trustee, or agent under a power of attorney. Additionally, one can name a trust protector to oversee the corporate trustee. The trust protector can advocate for beneficiaries if needed and even replace the corporate trustee if the beneficiaries are mistreated.
8. **Backup Plan**: It's wise to have a backup person designated in case your primary choice becomes unable to serve. A corporate trustee is a great back up to a person.
9. **Family Dynamics**: Consider the potential impact on your family. Will choosing a family member create tension or conflict? Sometimes, a neutral third party might be a better option.
10. **Compensation**: Discuss compensation for the fiduciary, especially if it's a significant time commitment or involves managing assets.

Like many others, my family is blended. I insisted my parents name a contingent corporate successor trustee in their estate plan in the hopes that their estate administration would go smoothly. They need a contingency should deterioration develop in our already delicate family dynamic. I would gladly pass the responsibility and pay the modest trustee fee to preserve my relationships. Though those decisions were made years ago and long before I started working at TCO, guess who we named?

TCO has the expertise and neutrality to handle our family's complex dynamics, no matter what the future holds.

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Call (918) 744-0553 to RSVP, or contact your TCO representative for more information.