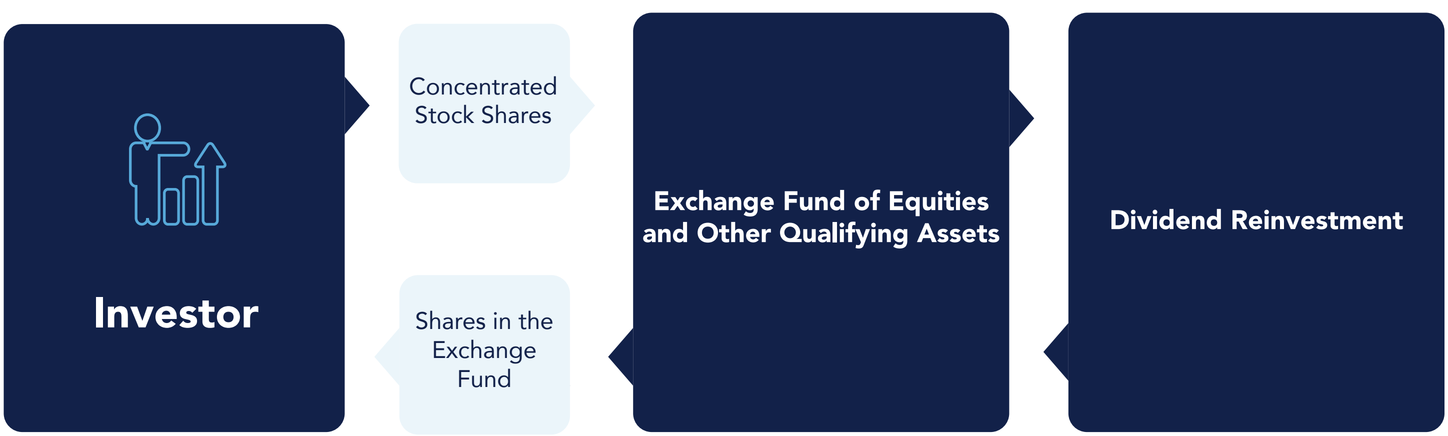
SHOULD YOU CONSIDER AN EXCHANGE FUND?

What's an exchange fund?

An exchange fund, or swap fund, allows an investor to "exchange" or "swap" stock shares that they already own for shares in the fund.

- The investor "puts in" concentrated stock shares, which are pooled with other equities and qualifying assets.
- As the fund grows and when enough shares have been contributed, the fund closes to new shares.
- Then, each investor is given interest in the exchange fund based on their portion of the original contributions.
- Over time, any dividends earned by the contributed shares are reinvested in the fund.

Exchange funds provide investors with an easy way to diversify their holdings while deferring taxes from capital gains.



Why use an exchange fund?

Exchange funds are used to:

Provide diversification

With one move, the investor swaps a concentrated stock position for ownership of a diversified portfolio.

Offer potential tax benefits

Because concentrated shares are exchanged for fund shares, no taxable sale occurs and investors can benefit from tax-deferred growth.

Support estate planning goals

Exchange fund units qualify for the same step-up in cost basis as other investments, potentially reducing the tax bill for heirs when they eventually redeem their exchange fund units and sell their distributed shares.

Who can benefit from exchange funds?

Exchange funds tend to appeal to investors, executives, and business owners, who have amassed positions centered on one or a handful of companies. Participating in the fund allows them to diversify those heavily concentrated positions of stocks while deferring taxes.

Things to know about exchange funds

Before deciding to invest in an exchange fund, there are a few key considerations we recommend:

- Each exchange fund is established with specific investment goals, such as long-term growth and to outperform or match the returns of the overall market.
- Acceptance policies vary from fund to fund. For example:
  - Each fund has a list of defined stocks in its investable universe that are approved for investment; there may be capacity constraints on those stocks, subject to the fund's needs/availability.
  - Some funds accept only stocks of established companies with large market capitalization and a history of profitability, while others are open to mid-cap or small-cap positions.
  - Restricted stocks are eligible for acceptance in many cases, but your window to sell your shares would need to line up with the fund's acceptance window.
- Depending on the fund, minimum investments range from $500,000 to $1 million. Cash is not accepted.
- Investors receive a partnership share commensurate with their contribution and are generally required to commit to a minimum holding period of 7 years to realize the potential advantages.
- If an investor decides they wish to leave, they will receive shares drawn from the fund rather than cash. Those shares will be dependent on what has been contributed to the fund and is still available.
- Up to 80% of the assets in an exchange fund can be stocks, but the rest must be made up of illiquid investments, such as real estate investments.

How we can help

If you're curious about how participating in an exchange fund might be relevant to your specific situation, we can help guide you through the process and determine if the strategy is appropriate for you.

Partner with us:

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