

Tax-Free Today vs. Tax-Efficient Tomorrow

Section 351 Exchange → Tax-Free Entry Into a Tax-Efficient ETF Vehicle

Tax-Free Today – Section 351 Exchange

- Transfer appreciated securities to a newly launched ETF without recognizing capital gains at transfer.
- Original cost basis and holding period carry over to the received ETF shares.
- Helps reposition legacy or concentrated holdings without a taxable event today.

Skip the tax bill today – keep more of your capital working: Assume an investor holds \$1M of appreciated stock with a \$200K cost basis. Selling would trigger an upfront tax bill of nearly \$190K. A 351 exchange allows the full \$1M to move into the ETF with no tax owed at the time of transfer, keeping those dollars working instead.

Tax-Efficient Tomorrow – ETF Wrapper

- In-kind creations and redemptions—when available—limit fund-level capital gains and taxable distribution
- Investors control when gains are realized—typically when they sell ETF shares.
- ETFs help reduce tax drag, supporting stronger after-tax compounding over time.

ETFs can preserve more after-tax wealth over time: Assume two investors each allocate \$1M to similar all-cap strategies growing at the same rate—one via a mutual fund and the other via an ETF. The mutual fund grows to ~\$1.75M after taxes, while the ETF reaches ~\$2.20M, leaving the ETF investor with over \$440K more capital.

Figure 1:

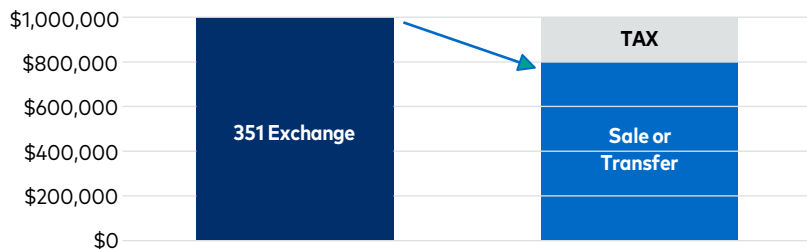
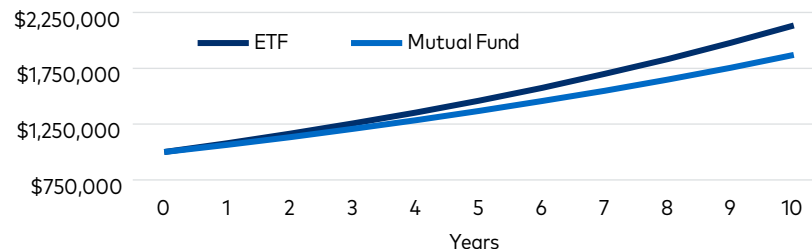


Figure 2:



Assumptions: Long-Term Capital Gains + Net Investment Income Tax Rate: 23.8%. Figure 2: Annual gross return for each both vehicle is 8%, ETF annual taxable distribution: 0.5% of NAV, Mutual fund annual taxable distribution: 6% of NAV, Taxes assessed each year on the distribution amount reduce that year's value (after-tax compounding).

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