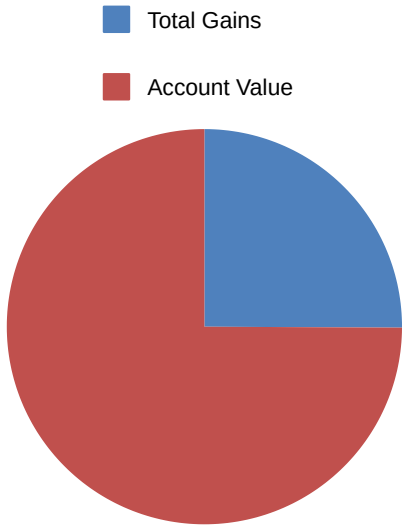
THE PORTFOLIO CONSISTS OF ETF'S WITH SUBSTANTIAL GAINS

OPPORTUNITY/CLIENT BACKGROUND

The client has a portfolio consisting of ETF's, with substantial embedded gains in many positions. The account has been "locked" into these positions over many years due to the tax consequences of liquidating them. The client is also tax sensitive, bringing about a multi-year transition plan if the account was to be transitioned to a centrally managed strategy. The 351a conversion applies to ETF positions as well and can be converted like equities if the look through on the underlying basket of positions is properly diversified.



GOALS OF ETF EXCHANGE

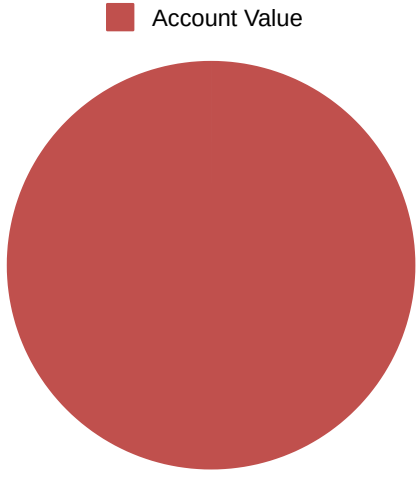
- Transferring securities that are "tax trapped" to the ETF
- Providing diversification benefits without triggering capital gain taxes
- Provides client with access to a liquid ETF

CHALLENGES OF ETF EXCHANGE

- No single asset that is being transferred can represent more than 25% of the portfolios total value
- Positions greater than 5% can't collectively be more than 50% of portfolio's NAV

SOLUTION

The client's portfolio value is $6,872,000 with $2,300,000 in gains. The largest positions are IYW and IWF with 780,000 in gains between the two, at 7% and 6% weights, respectively. Given the level of diversification among the positions in the account we can convert all positions through the 351a exchange, deferring the $2,300,000 in gains.



CLIENT BENEFITS AND CONSIDERATIONS

- Tax Efficiency: Defer capital gains taxes
- Securities that were previously being held due to gains rather than a bullish view on the company are no longer weighing on the portfolio (Diversification)
- Liquidity benefits of an ETF
- Transparency into the ETF's holdings

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