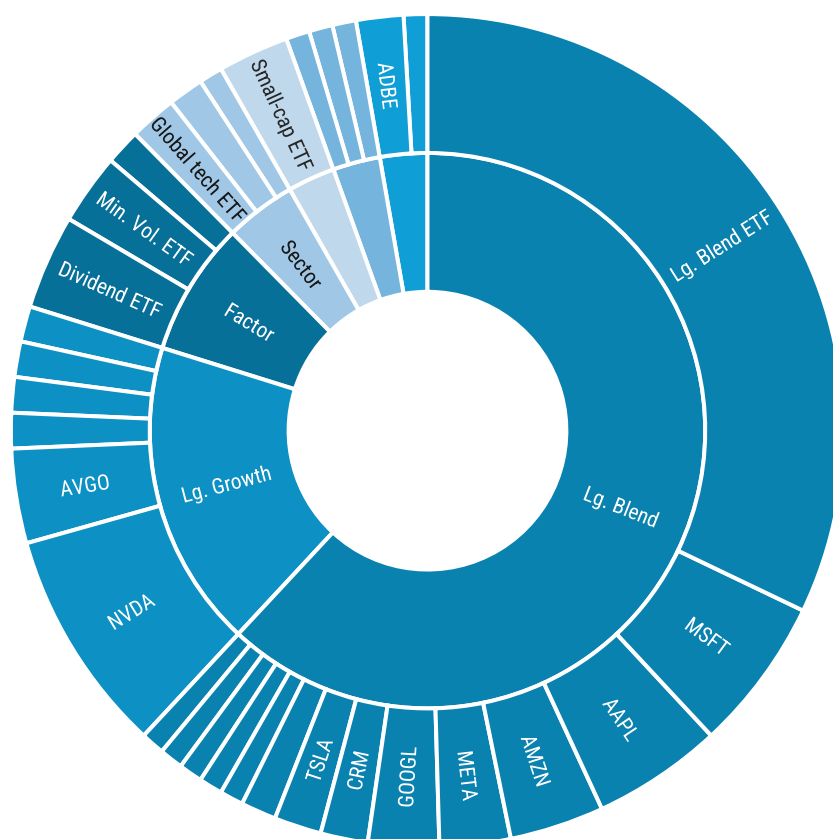


Case study

Executing a 351 Exchange

Rapid U.S. stock growth has left many portfolios lopsided and under-diversified, with limited flexibility to adapt due to embedded tax liabilities. In our view, a 351 Exchange is a potentially suitable way to address this problem, offering a way to “reset” a tax-locked allocation back to broadly-diversified U.S. market exposure without recognizing embedded gains at the time of transfer.

Candidate portfolio | Significant overlapping exposure, high operational friction



A portfolio that has accumulated a mix of stocks and ETFs is one of the **best candidates for a 351 Exchange**.

This composition tends to feature **overlapping exposure** to styles and sectors – individual tech stocks and growth ETFs are common.

The **number of positions** creates the illusion of diversification, when, in reality, portfolios, like this example, tend to be highly correlated to the U.S. stock market.

And, while returns have likely been stellar, operationally, the portfolio is **difficult to manage**: any adjustment becomes nearly impossible without triggering taxable events.

A 351 Exchange could be a good fit for a portfolio with this profile.

This hypothetical portfolio along with the tickers and companies listed thereon, are for illustrative purposes only and is not intended to be nor does it constitute investment advice.

In-Kind Contribution Risk: At its launch, the newly-formed ETF expects to acquire a material amount of assets through one or more in-kind contributions that are intended to qualify as tax-deferred transactions governed by Section 351 of the Internal revenue Code. If one or more of the in-kind contributions were to fail to qualify for tax-deferred treatment, then the newly-formed ETF would not take a carryover tax basis in the applicable contributed assets and would not benefit from a tackled holding period in those assets. This could cause the newly-formed ETF to incorrectly calculate and report to shareholders the amount of gain or loss recognized and/or the character of gain or loss (e.g., as long-term or short-term) on the subsequent disposition of such assets.

Tax Advisory Disclaimer: Neither ETF Architect nor its affiliates provide tax advice. In compliance with IRS Circular 230, we wish to inform you that any tax advice contained in this communication was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any matters discussed herein. We strongly advise that you consult an independent tax advisor to assess your specific circumstances.

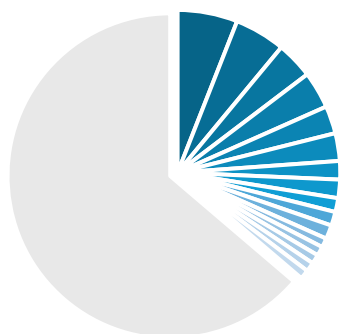
Estate Planning Notice: The information included in this communication is not intended as a substitute for comprehensive estate planning and does not constitute legal or estate advice. It serves only as a preliminary outline of how tax-free conversions operate. For detailed guidance, we recommend consulting your legal counsel.

Case study

Executing a 351 Exchange

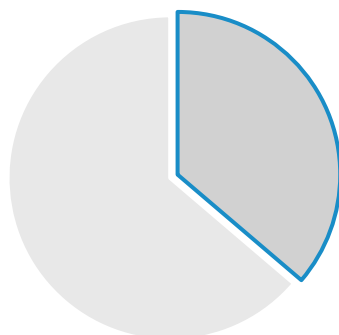
Section 351 allows shareholders to transfer ownership from one entity to another, such as into an ETF, without recognizing unrealized gains, provided certain conditions are met. Once a client has consulted their tax and financial professionals, the 351 Exchange process largely occurs behind the scenes. **From a client's perspective**, they see a list of securities in their account one day, and the newly-formed ETF the next.

How Alpha Architect executes a 351 Exchange



Identify potential securities to contribute

To qualify, securities must meet specific diversification tests. Alpha Architect has created a proprietary tool to evaluate if the basket of securities selected for contribution may qualify.



Contributing portfolio tax lots reconciled

One week prior to launch, Alpha Architect submits the final tax lot for all contributing portfolios. Two days before launch, the third-party custodian receives securities and reconciles against submitted tax lot files.



Subscribers receive the newly-formed ETFs

Following a final diversification check using closing prices, ETF shares are created and allocated to client portfolios based on contributed portfolio value. The newly-formed ETF begins trading.

Case study

Executing a 351 Exchange

The 351 Exchange consolidates existing positions into a newly-formed ETF. Tax lot information, including original basis, acquisition dates, and unrealized gains, carries over on a diversified lot-by-lot basis. The reconciliation process means the incoming lots remain the same following the exchange. **This ensures continuity** for accounting and reporting purposes while deferring recognition of embedded gains.

What happens to the tax lots?

Holding	Tax Lots	Value	Cost Basis
ETF A	1	\$100,000	\$50,000
ETF A	2	\$250,000	\$150,000
STOCK	1	\$500,000	\$350,000
ETF C	1	\$150,000	\$100,000
ETF C	2	\$50,000	\$10,000
ETF C	3	\$200,000	\$150,000
		Tax Lots	Value
		6	\$1,250,000
		Cost Basis	
		\$810,000	

Holding	Tax Lots	Value	Cost Basis
351 ETF	1	\$100,000	\$50,000
351 ETF	2	\$250,000	\$150,000
351 ETF	3	\$500,000	\$350,000
351 ETF	4	\$150,000	\$100,000
351 ETF	5	\$50,000	\$10,000
351 ETF	6	\$200,000	\$150,000
		Tax Lots	Value
		6	\$1,250,000
		Cost Basis	
		\$810,000	

For illustrative purposes only.

Learn more about 351 Exchanges.

*Keep learning.
Stay ahead.*

Interested in learning more about a 351 Exchange? The best resource for questions, clarifications, or indications of interest is a conversation with Jack Vogel, PhD. He can be reached at jack@alphaarchitect.com. You can also [schedule a meeting here](#).

IMPORTANT INFORMATION

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