

Exchange Funds provide a strategic solution for investors holding concentrated stock positions with significant unrealized capital gain.

Why Exchange Funds – For investors with concentrated positions carrying substantial capital gains, Exchange Funds provide a tax-efficient diversification solution. These funds enable investors to exchange their concentrated stock position for fund shares without triggering immediate capital gains tax. Both the initial contribution and eventual redemption are structured as non-taxable events, allowing investors to defer the tax impact while achieving broader market exposure.

How an Exchange Fund Works – Qualified investors holding over \$250,000 of a single stock with substantial unrealized gains can contribute their shares to an exchange fund. In return, they receive shares of the fund equal to their contribution value. After a mandatory holding period of 7 years, investors can redeem their fund shares for a diversified basket for 10+ stocks, spreading their original capital gains exposure across multiple positions.

Structure of the Fund – The fund’s portfolio aims to track the S&P 500 performance while maintaining approximately 20% exposure to real estate. The structure allows investors to participate in broad market returns while reducing concentration of their original holdings.

Exchange Funds Pros & Cons

Pros:

- Potential to defer capital gain taxes
- Diversified concentrated positions
- Multiple exit strategies
- Exposure to real estate

Cons:

- Restricted liquidity
- 3 year minimum lock-up
- 7 year minimum for non-taxable redemption
- Funds may use leverage, increasing risk

Exchange

- Single stock position is exchanged for shares of the Fund
- Cost basis remains the same in the exchange

Holding

- Shares may not be redeemed for 3 years
- Shares may not be redeemed tax-exempt for 7 years

Redemption

- Shares of Fund exchanged for diversified basket of 10+ stocks
- Cost basis remains the same, but is spread between holdings
- Taxable gains are offset through a means of diversification

Year 1

Year 3

Year 7

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Please contact us for a copy of our QCA Capital Management Form CRS and ADV Part 2 Brochure for additional information about our services and fees.