

Managing a Concentrated Position: *Strategies & Solutions*

Client Name | Presentation Date

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IMPORTANT NOTE:

Many of the strategies discussed in this presentation involve hedging or pledging shares.

Executives and other insiders of publicly-traded companies are often restricted in their ability to hedge/pledge company stock.

Do not provide this presentation to a corporate insider subject to hedging/pledging restrictions.

Contact Advice Lab Q&A with questions.

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Please read important information section at the end of the presentation.

Please keep in mind

This information is intended to be a high level overview of potential hedging strategies that can be executed through OTC options to achieve specific goals. These strategies may not be suitable for all investors. This is not intended as an offer or solicitation for the purchase or sale of any financial instrument. In discussion of options and option strategies, results and risks are based solely on the hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors are urged to consider carefully whether option or option-related products in general, are suitable to their needs. For a complete discussion of risks associated with any investment, please review offering documents and speak with your investment specialists.

This material is intended to help you understand the financial consequences of the concepts and strategies discussed here in very general terms. However, the strategies found herein often involve complex tax and legal issues. Only your own attorney and other tax advisors can help you consider whether the ideas illustrated here are appropriate for your individual circumstances.

J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries do not practice law, and do not give tax, accounting or legal advice. We will, however, be pleased to consult with you and your legal and tax advisors as you move forward with your own planning. Additionally, please read the Important Information pages at the end of this presentation.

Agenda

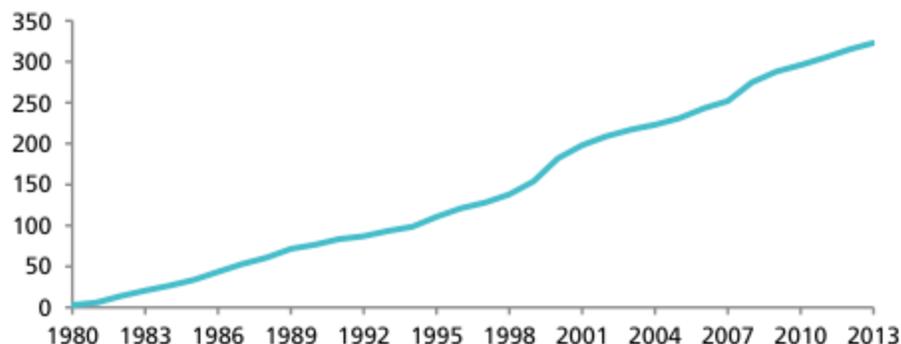
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1. A Principal Installment Stock Monetization ("PrISM") is a prepaid variable forward strategy.

Concentrated investors should carefully consider how they manage their concentration risk

- While some companies substantially outperform the broad market and maintain their value, the odds are stacked against the average concentrated investor
 - Of Russell 3000 Index companies since 1980, the return of the median stock versus the index was -54%, and roughly 40% of all stocks suffered a permanent 70%+ decline from their peak value

Cumulative number of companies removed from the S&P 500 due to distress, number of companies



Sector	Total % of companies experiencing "catastrophic loss," ¹ 1980-2014
All sectors	40%
Consumer discretionary	43%
Consumer staples	26%
Energy	47%
Materials	34%
Industrials	35%
Health Care	42%
Financials	25%
Information Technology	57%
Telecommunication Services	51%
Utilities	13%

Analysis of lifetime returns by sector, 1980-2014

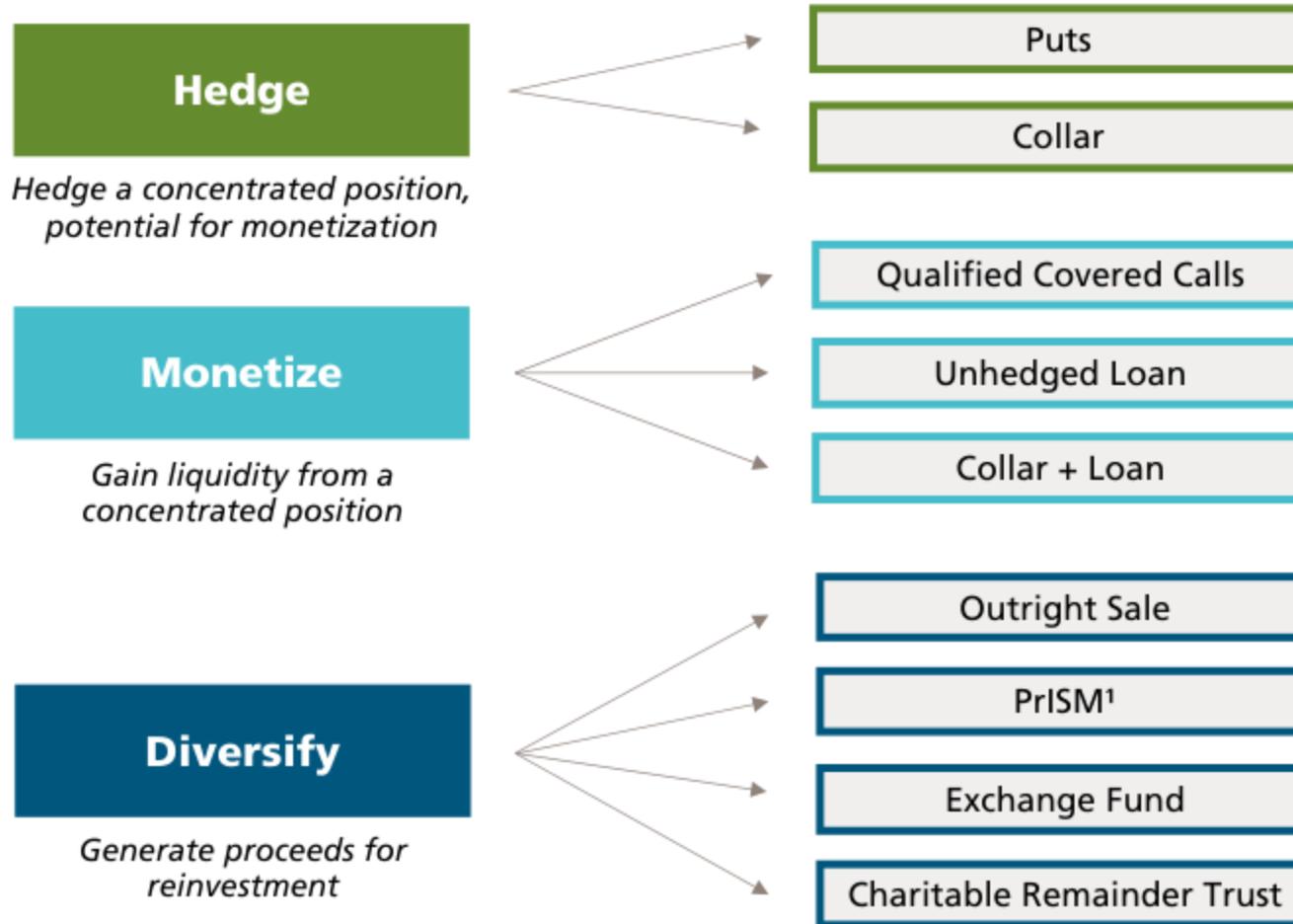
Sector	Median excess return vs. Russell 3000	Percentage of stock with negative EXCESS returns	Percentage of stock with negative ABSOLUTE returns	Percentage of "extreme winner" ² stocks
All sectors	-54%	64%	40%	7%
Consumer discretionary	-62%	65%	44%	7%
Consumer staples	-3%	51%	26%	15%
Energy	-93%	72%	48%	6%
Materials	-73%	66%	34%	8%
Industrials	-58%	64%	37%	7%
Health Care	-39%	60%	42%	8%
Financials	-21%	58%	30%	6%
Information Technology	-63%	71%	53%	6%
Telecommunication Services	-57%	68%	54%	6%
Utilities	-141%	85%	14%	0%

Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

1. "Catastrophic loss" defined as a 70% decline from peak value with minimal recovery. This is a subjective cutoff point; some investors may see smaller permanent declines as equally unacceptable.
2. "Extreme winner" stocks defined as those stock with a 500%+ time-adjusted lifetime price return vs. the Russell 3000 Index. The Russell 3000 index measures the performance of the 3,000 largest U.S. companies representing approximately 98% of the investible U.S. equity market.

What solutions are available to manage your concentrated position?

Depending on your objectives, J.P. Morgan can help create a plan to manage your wealth by using a combination of strategies:



1. A Principal Installment Stock Monetization ("PrISM") is a prepaid variable forward strategy.

The views and strategies described herein may not be suitable for all investors. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument, and is being provided merely to illustrate a particular investment strategy. Typically such investment ideas can only be offered to suitable investors through a confidential offering memorandum which fully describes all terms, conditions and risks. In discussion of options and option strategies, results and risks are based solely on the hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors are urged to consider carefully whether option or option-related products in general, are suitable to their needs. For a complete discussion of risks for any investment, please review offering documents and speak with your investment specialists.

Hedge

Protective puts are a hedge against a decline in the value of a single stock position

Puts provide downside protection by giving the investor the right to sell shares at a fixed price (the put strike price). In exchange for this right, the investor must pay an upfront premium to acquire the put contract. This strategy is appropriate for investors who are neutral to moderately bearish on the stock.

Benefits

- Provides some downside protection
- Investor retains all upside appreciation, dividends,¹ and voting rights
- Investor can borrow against hedged position to raise liquidity, as needed²

Risks

- Requires the investor to pay an upfront premium; this premium is an economic loss if the contract expires worthless
- Shares are pledged as collateral for the put for the duration of the contract
- Over-the-counter (“OTC”) options are typically European-style options that expire at maturity; if unwound early, the payout may vary from expected payout at maturity³

Payment at Maturity

- **If stock price at maturity is less than the put strike price:**
 - Physical settlement: Investor delivers shares and receives the put strike price
 - Cash settlement: Investor receives the difference between put strike price and stock price
- **If stock price at maturity is greater than the put strike price:**
 - Investor continues to hold the shares and the contract expires worthless
 - Investor may claim a capital loss in the amount of the premium paid to acquire the option contract

1. Dividend protection is as defined in the term sheet and confirmation. Dividends would not qualify for qualified dividend income tax treatment during the time the offsetting put is held.

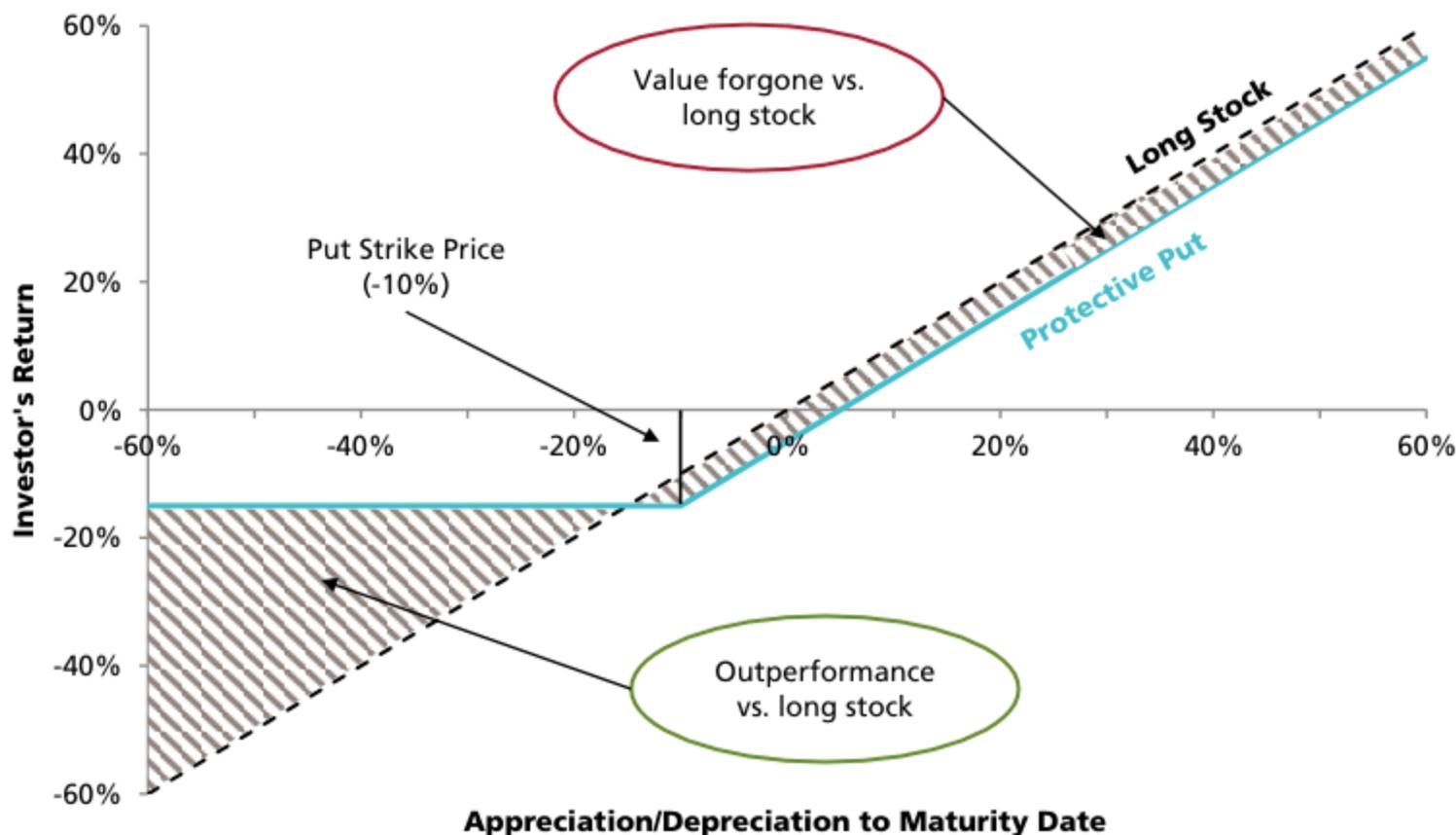
2. Subject to credit approval.

3. Based on factors including the underlying stock price, volatility, interest rates, dividend yield and time to maturity.

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Potential benefits of an OTC protective put strategy

Payout Profile (Illustrative Only)



The protective put strategy outperforms versus the long stock when the stock falls below the strike price plus the premium paid.

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Collars provide downside protection and upside appreciation to a defined cap

Collars provide downside protection by foregoing some potential upside appreciation. The strategy consists of buying a put and selling a call, with payoff contingent on the stock price at maturity. This strategy is appropriate for investors who are neither aggressively bullish nor bearish on the stock.

Benefits

- Provides some downside protection
- Less costly than purchasing the equivalent protection of a put alone; “cashless” collars incur no out-of-pocket cost
- Investor retains all upside appreciation up to the call strike price, dividends¹, and voting rights
- Investor can borrow against hedged position to raise liquidity, as needed²

Risks

- Investor caps the potential return on the stock at the call strike price and gives up any stock appreciation above the call strike price³
- Shares are pledged as collateral for the collar for the duration of the contract
- Over-the-counter (“OTC”) options are typically European-style options that expire at maturity; if unwound early, the payout may vary from expected payout at maturity⁴

Payment at Maturity

- **If stock price at maturity is less than the put strike price:**
 - Physical settlement: Investor delivers shares and receives the put strike price
 - Cash settlement: Investor receives the difference between put strike price and stock price
- **If stock price at maturity is greater than the call strike price:**
 - Physical settlement: Investor delivers shares and receives the call strike price
 - Cash settlement: Investor pays the difference between stock price and call strike price
- **If stock price at maturity is equal to or greater than the put strike price and equal to or less than the call strike price:** No payments are made by either party and contract expires worthless

1. Dividend protection is as defined in the term sheet and confirmation. Dividends would not qualify for qualified dividend income tax treatment during the time the collar is in place.

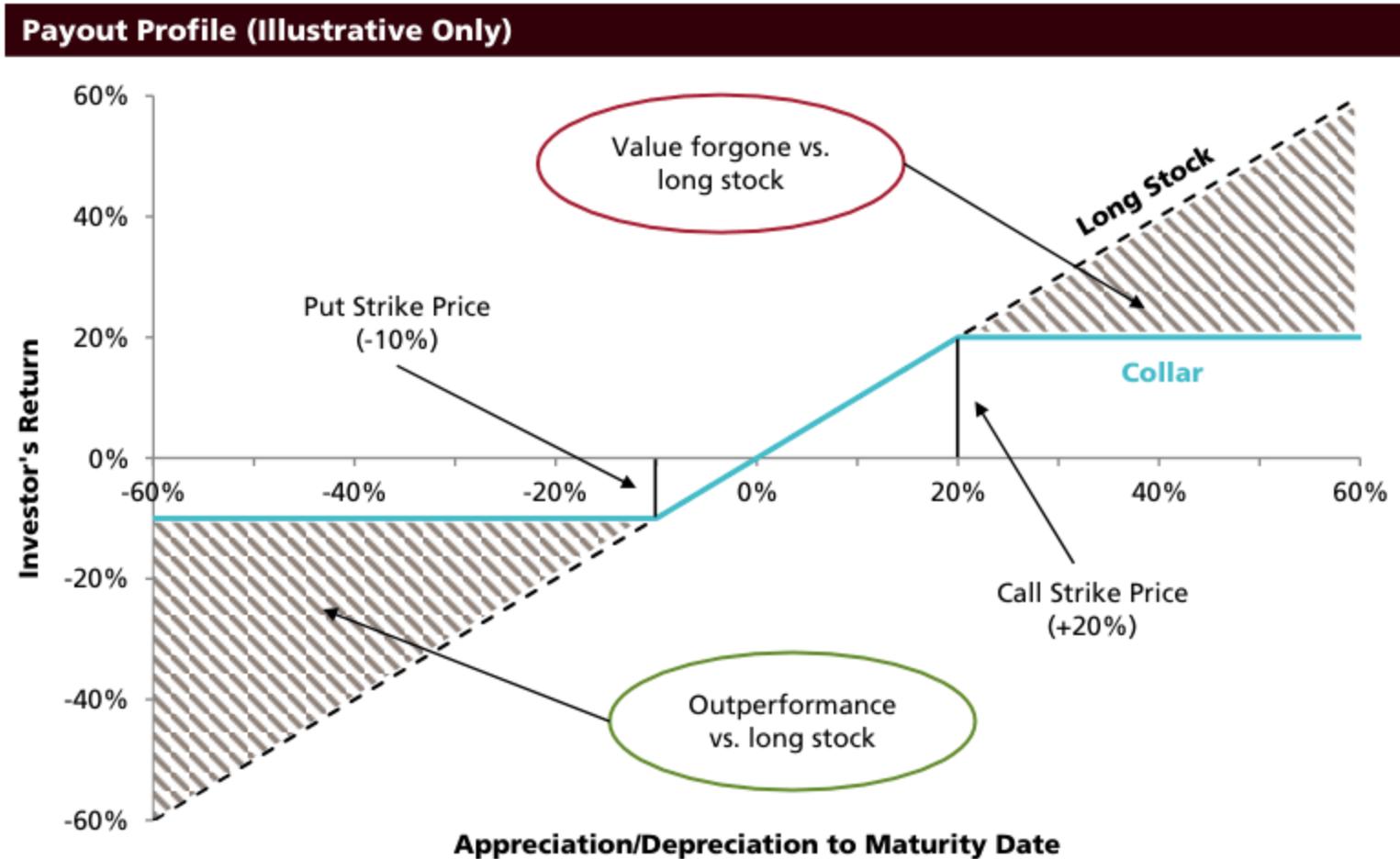
2. Subject to credit approval.

3. The collar locks in the amount that can be realized at maturity to a range defined by the put and call strike prices.

4. Based on factors including the underlying stock price, volatility, interest rates, dividend yield and time to maturity.

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Potential benefits of an OTC cashless collar strategy



The collar strategy outperforms versus the long stock when the stock price at maturity is below the put strike price.

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Monetize

Call overwriting allows you to retain stock ownership and potentially enhance yield

Call writer receives an upfront payment (“premium”) in exchange for selling partial upside above a predetermined price. This strategy is appropriate for investors who are neutral to moderately bullish and do not expect the stock price to increase above the “effective sales price”¹ on the call overwriting strategy.

Benefits

- Investor receives an upfront premium, available for current reinvestment
- Investor retains dividends² and voting rights on the shares during the term of the transaction
- Assuming the calls meet the definition of a “qualified covered call” (QCC)³ for tax purposes:
 - Investor does not realize a tax event until the exercise or expiry of the call option
 - Shares continue to accrete holding period
 - Dividends continue to qualify for tax treatment as qualified dividend income
 - There would be no limitation on loss recognition if shares are sold

Risks

- Potential return on stock appreciation is capped at the call strike price
- Partial downside protection is limited to the amount of call premium received
- Shares are pledged as collateral for the duration of the strategy
- OTC options are European-style options which are exercisable only at maturity. If unwound early, the payout may vary from expected payout at maturity⁴

Payment at Maturity

- If **stock price at maturity is greater than the call strike price**:
 - Physical settlement: Investor delivers the underlying stock and receives the call strike price
 - Cash Settlement: Investor pays difference between the stock price and the call strike price
- If **stock price at maturity is less than or equal to the call strike price**: Call option expires worthless
- Investor keeps the upfront premium in all cases

1. The effective sales price is the call strike plus the upfront premium.

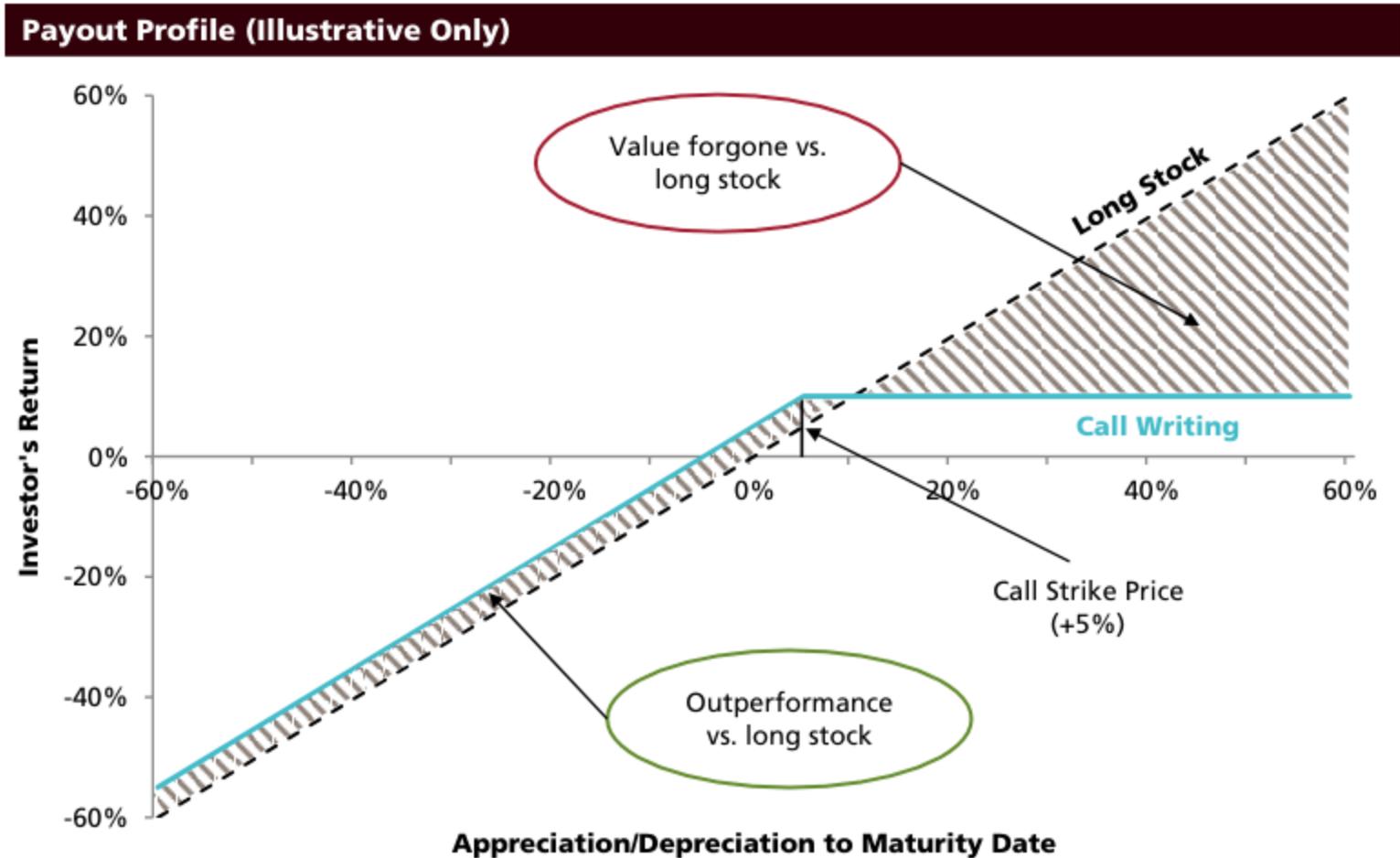
2. Dividend protection is as defined in the term sheet and confirmation.

3. If exchange-listed calls exist on the position, an OTC call option generally will be treated as a QCC if written: i) out-of-the-money, ii) with a maturity date in 33 months or fewer, and iii) more than 30 days before expiry

4. Based on factors including the underlying stock price, volatility, interest rates, dividend yield and time to maturity.

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Potential benefits of an OTC call overwriting strategy

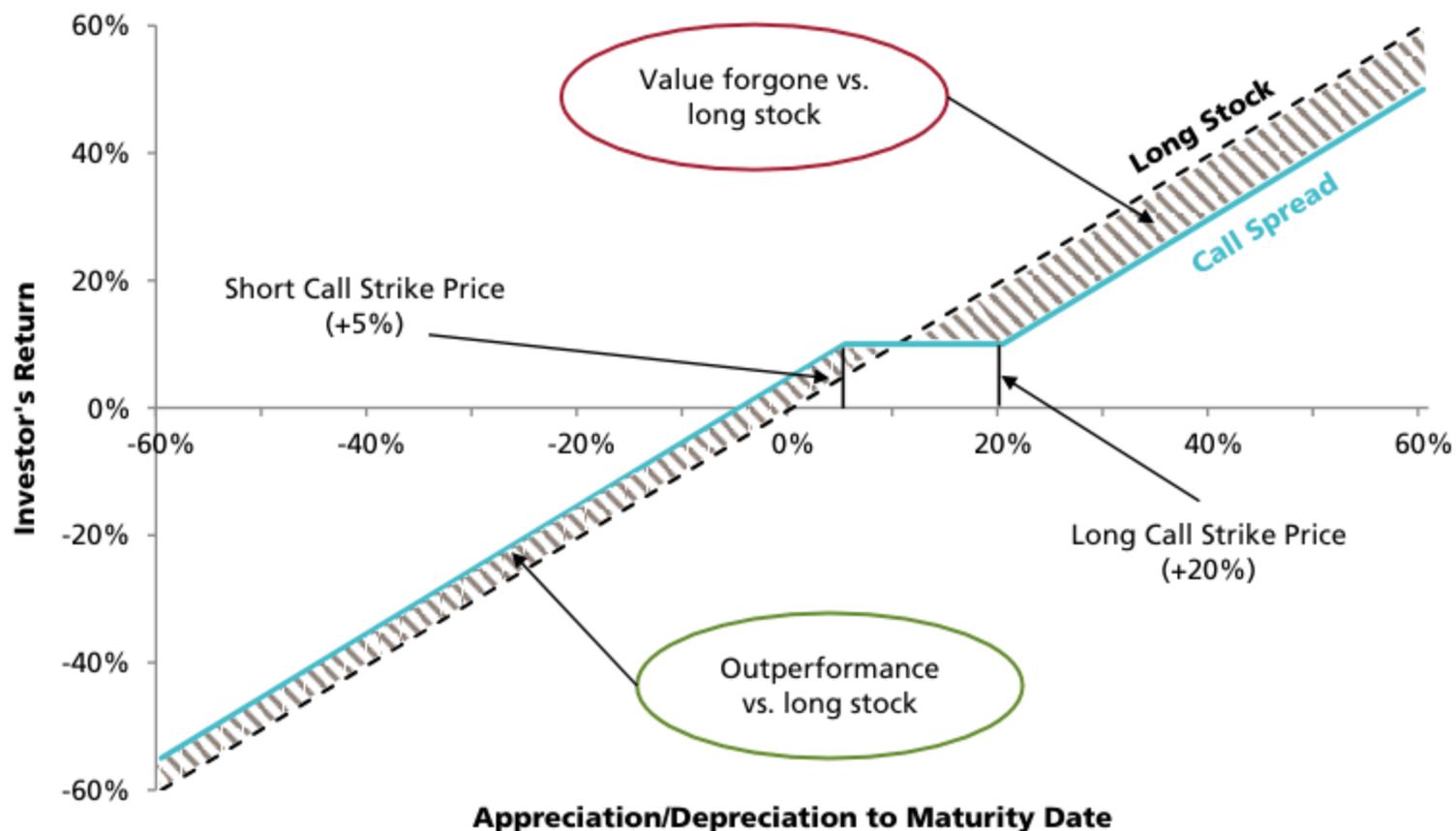


The covered call strategy outperforms versus the long stock as long as the stock does not appreciate by more than the upfront premium plus the call strike price.

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Overwriting a covered call spread would allow you to retain some exposure to the upside

Payout Profile (Illustrative Only)



By using part of the premium received from writing a covered call to purchase another call option at a higher strike price, you can retain some exposure to the upside.

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A securities-based line of credit can be an effective way to monetize your concentration

Benefits

- Borrower is able to extract value from the concentrated position by pledging the securities as collateral on a line of credit facility extended by the bank
- Borrower may use the loan proceeds for any purpose; if reinvested at a rate of return greater than the rate of interest on the line of credit, an arbitrage opportunity may exist
- Lending value of a concentrated position will be lower than lending value of a diversified portfolio of investments; protecting the position with a collar or other hedging strategy may increase lending value¹

Risks

- Shares are pledged as collateral for the duration of the strategy and may be subject to forced sale by the lender
- A decline in the value of the pledged securities may require the borrower to pledge additional collateral and/or pay down the line of credit; this risk is heightened by the concentrated nature of the pledged shares
- Borrowers hedging their concentrated position with a protection strategy intended to match the anticipated maturity of the loan run the risk that the hedging strategy and/or the loan must be unwound early

1. Lending values are determined by JPMorgan Chase Bank, N.A. in its sole discretion. Advance rates on securities are determined by JPMorgan Chase Bank, N.A., and are subject to change without notice.

Lines of credit are extended at the discretion of J.P. Morgan, and J.P. Morgan has no commitment to extend a line of credit or make loans available under the line of credit. Any extension of credit is subject to credit approval by the lender in accordance with the terms contained in definitive loan documents. Loans collateralized by securities involve certain risks and may not be suitable for all borrowers and investors. A decline in the value of securities pledged as collateral may require the borrower to provide additional collateral and/or pay down the loan or line of credit in order to avoid the forced sale of the securities by the lender.

Diversify

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An outright sale of shares is the most direct path to diversification

But deciding on a selling strategy is more complex than it may seem

- Shares can either be sold all at once or in stages
- Investors selling a concentrated position must ask themselves the following questions:
 - What is the right amount for me to sell? (Consider liquidity needs and appetite for continued exposure to single-stock risk)
 - Am I comfortable selling out of the position more gradually if it means potentially selling at a higher price?
 - Am I comfortable selling out of the position more gradually if it means potentially selling at a lower price?
 - If I sell in stages, what is an appropriate pace for the sales?
 - How will the realized capital gains event(s) impact my overall income tax situation?

Immediate Sale

- Generates immediate cash for diversification
- Possibility of selling at a depressed or undervalued price
- Large lots may move markets
- Investor may be subject to trading restrictions
- Creates an immediate capital gains tax liability

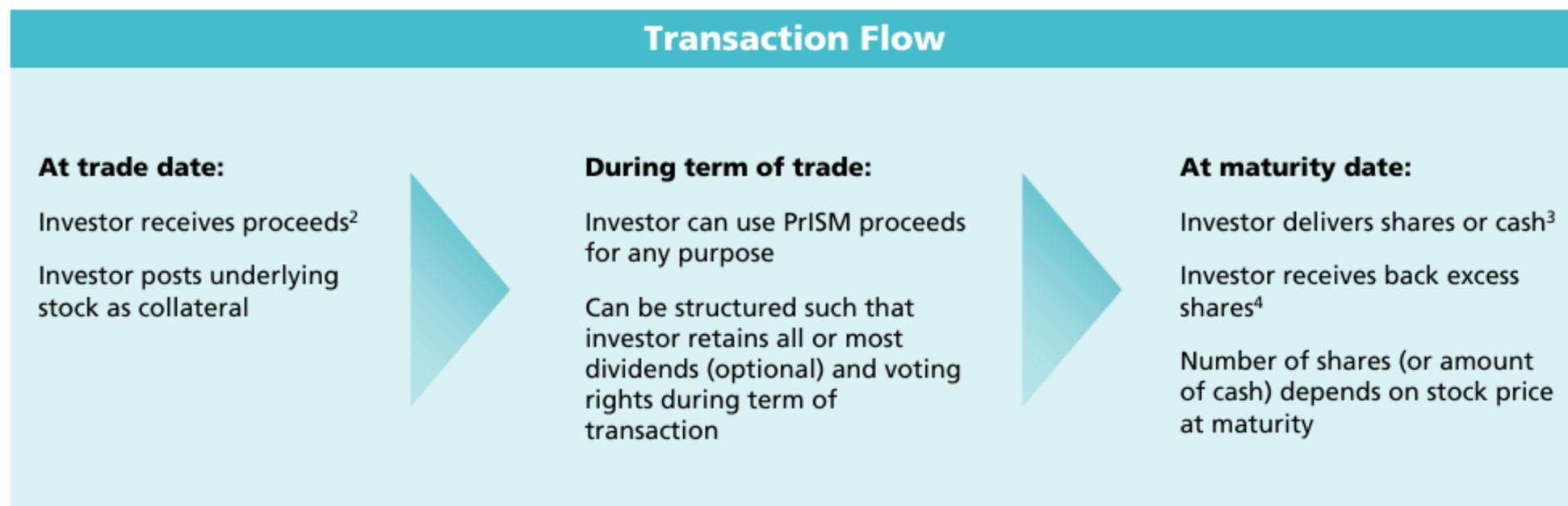
Staged Selling Strategy

- Liquidity realized more gradually
- Greater potential upside and downside because concentration is held longer
- Can accommodate investors subject to trading restrictions
- Capital gains taxes incurred, albeit at a staggered pace

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A "PrISM" adds value by providing proceeds upfront

A Principal Installment Stock Monetization ("PrISM")¹ is a private contract that allows an investor to receive attractive upfront liquidity (typically 75%-90% of the stock value), downside protection, and flexibility in the use of investment proceeds.



1. A PrISM is also known as a pre-paid variable forward.
2. Strategy typically allows a client to receive 75-90% of the stock value upfront with a variable number of shares delivered (or cash value payable) at maturity.
3. May be settled in stock or the cash equivalent, upon Client's election.
4. If stock price at maturity is greater than the hedged value; total number of shares retained subject to payments under the cap level.

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A PrISM offers limited exposure to the upside and proceeds upfront

A Principal Installment Stock Monetization (“PrISM”) is a private contract that allows an investor to receive attractive upfront liquidity (typically 75%-90% of the stock value), downside protection, and flexibility in the use of investment proceeds.

Benefits

- Upfront liquidity, protection below the hedged value, and upside appreciation to a predetermined limit
- While similar to collar plus a loan, no interim interest payments required, structure generally provides more cash upfront, and more flexibility in the use of proceeds
- Taxes on underlying shares deferred until maturity (or beyond if cash settled)
- Can be structured so investor retains dividends¹ (optional) and voting rights during contract

Risks

- Stock appreciation is capped at the upside limit
- Shares are pledged for the duration of the PrISM
- OTC options are European-style options which are exercisable only at maturity. If unwound early, the actual payout may vary from expected payout at maturity²

Payment at Maturity

- **If stock price at maturity is less than hedged value:**
 - Investor delivers 100% of the shares (or cash value)
- **If stock price at maturity is between the hedged value and the upside limit:**
 - Investor delivers a percentage of the number of shares equal to the hedged value divided by the settlement price (or cash value)
- **If stock price at maturity is greater than the upside limit:**
 - Investor delivers a percentage of the number of shares equal to the hedged value of shares plus appreciation above the upside limit divided by the settlement price (or cash value)

1. Dividend protection is as defined in the term sheet and confirmation. Dividends would not qualify for qualified dividend income tax treatment during the term of the PrISM contract.

2. Based on factors including the underlying stock price, volatility, interest rates, dividend yield and time to maturity.

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Hypothetical PRISM transaction

PRISM Assumptions

Underlying Stock: ABC Inc. (ABC)	OTC Option Style: European
Current Share Price: \$100	Settlement: Cash or Physical
Number of Shares: 50,000	Bank Counterparty: JPMorgan Chase Bank
Other Assumptions: Dividend Protection (based on a dividend schedule of \$1.00 per quarter)	

Structure	Maturity	Hedged Value		Upside Limit		Purchase Price	
A	2 years	100%	\$100.00	120%	\$120.00	89.46%	\$4,473,000

Payoff at Maturity for Structure A

Share Price at Maturity	Position Value	Physical Settlement		Cash Settlement		
		Shares Delivered (%)	Shares Delivered	Cash Delivered ¹ (Optional)	Residual Value ²	Residual Value (%)
\$70.00	\$3,500,000	100.00%	50,000	\$3,500,000	\$0	0.00%
\$85.00	\$4,250,000	100.00%	50,000	\$4,250,000	\$0	0.00%
\$100.00	\$5,000,000	100.00%	50,000	\$5,000,000	\$0	0.00%
\$106.67	\$5,333,333	93.75%	46,875	\$5,000,000	\$333,333	6.67%
\$113.33	\$5,666,667	88.24%	44,118	\$5,000,000	\$666,667	13.33%
\$120.00	\$6,000,000	83.33%	41,667	\$5,000,000	\$1,000,000	20.00%
\$135.00	\$6,750,000	85.19%	42,593	\$5,750,000	\$1,000,000	20.00%
\$150.00	\$7,500,000	86.67%	43,333	\$6,500,000	\$1,000,000	20.00%

1. With adjustments for fractional shares.

2. Residual Value = (Number of Shares – Shares Delivered) × Share Price at Maturity

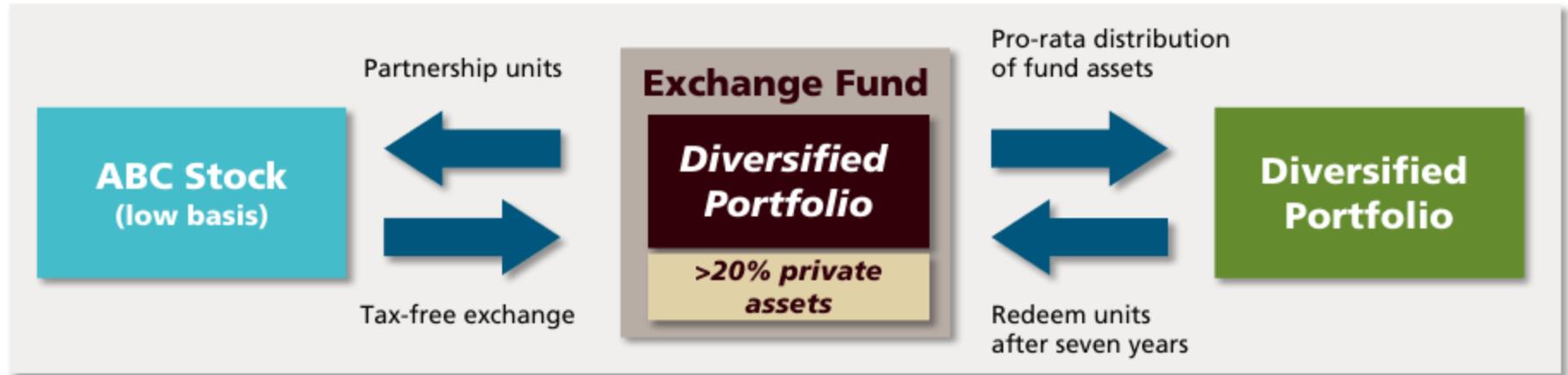
Note: Prices are for purposes of illustration only and do not represent actual prices.

The payoff on early termination will not equal the payoff a client would expect given the same underlying equity price at maturity.

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Private placement exchange funds provide an opportunity for tax-efficient diversification

An exchange fund is a potentially tax-efficient diversification tool. Investors holding concentrated positions of low-basis stock can contribute the securities to the Fund in exchange for Fund units. Similarly situated investors contribute other marketable securities as well. After a minimum of seven years,¹ the individual investors may redeem their units of the fund for a pro-rata share of a diversified basket of securities with the same cost basis as the individual investors' bases in the securities originally contributed.



The "investment company" tax rules (which concern a tax definition of a pre-tax diversification concept) must be avoided (i.e., avoid taxable event inbound in the capitalization of the partnership/swap fund). The most common way to avoid these rules is to initially close the fund with more than 20% of the fund value composed of certain private assets (i.e., fail one of the tax definitions in the investment company rules)

Income Tax Treatment

- No income tax consequence on contribution
- No income tax consequence on distribution (after at least seven years)
- Investor allocates his or her original cost basis to the basket of securities distributed to him or her
- Capital gains tax due on later sale of the securities received

Transfer Tax Treatment

- Depending on the facts, value of fund units may reflect a discount to their apparent market value, because of their illiquidity and "minority" status
- Exchange fund generally should incorporate a feature that would allow units to be gifted
- If held by a decedent, units may also qualify for a valuation discount for estate tax purposes

1. Timeframe driven by current partnership tax law. There have been legislative proposals in the past that would have extended this time period to ten years and future legislative changes could alter this timeframe.

The views and strategies described herein and the applicable tax rules are complex and may not be suitable for all investors. This information is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial instrument, and is being provided merely to illustrate a particular investment strategy. J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries do not practice law, and do not give tax, accounting or legal advice. You should consult your own tax, legal, and accounting advisors before engaging in any financial transactions.

A Personal Exchange Fund, under certain circumstances, may allow indefinite deferral of capital gains tax on low-basis shares

A personal exchange fund allows a number of shareholders, acting through a single vehicle, to hedge and monetize a low-basis single stock position and actively manage investments, while offering the opportunity to defer capital gains tax associated with the low-basis shares.

In a typical personal exchange fund, three or more shareholders form a partnership or limited liability company (LLC), contributing the same low basis single stock.¹ The LLC then enters into a seven-year² variable prepaid forward contract (such as a PrISM)³ to generate cash for reinvestment.

Unlike a public exchange fund, the LLC can actively manage its investments in accordance with the objectives set forth in its shareholders' operating agreement (e.g., in a diversified equity portfolio).

Benefits

- Under certain circumstances, strategy may allow for indefinite deferral of capital gains tax on a low-basis stock holding
- Partners determine how fund's assets are invested, and may vary these investments over time
- Partners retain upside exposure on the underlying shares
- Strategy may be executed in a family limited partnership or family limited liability company that could also own other assets, including closely-held business interests

Risks

- Tax law changes may affect certain tax benefits of the structure
- Early non-pro rata distributions from the LLC (as a result of death, taxable corporate actions, etc.) may have a negative effect on the overall strategy
- Appreciation in the underlying stock price is limited to the upside limit in the PrISM structure
- Partners may sell their fund units, likely at a discount, before the seven-year period expires

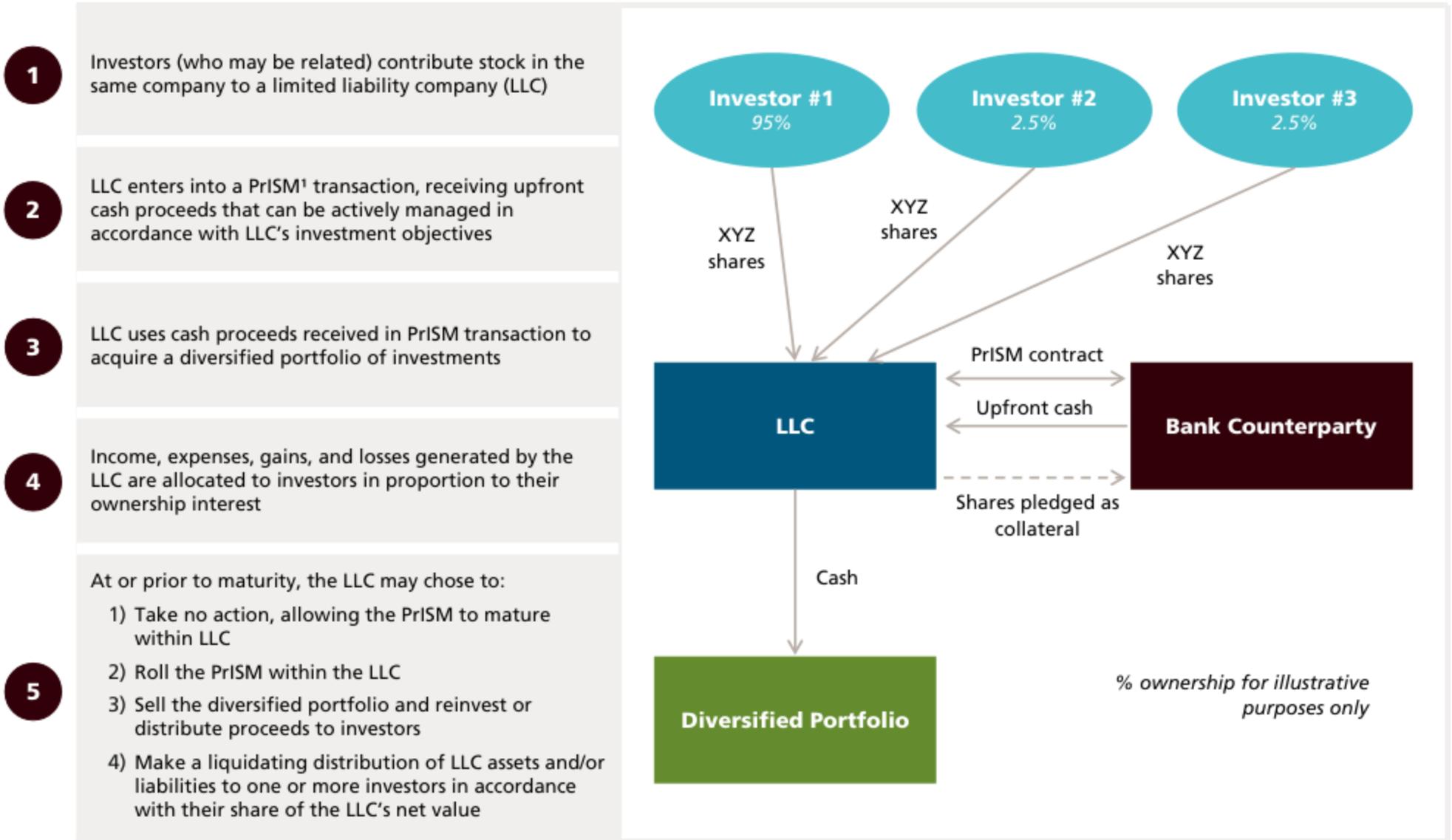
1. Partners may have previously received their stock by gift from another partner. The lapse of time between the gift and the contribution to the partnership is an additional consideration.

2. Timeframe driven by current partnership tax law. There have been legislative proposals in the past that would have extended this time period to ten years and future legislative changes could alter this timeframe.

3. A Principal Installment Stock Monetization ("PrISM") is a prepaid variable forward strategy.

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How a Personal Exchange Fund works



1. A Principal Installment Stock Monetization ("PrISM") is a prepaid variable forward strategy.

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Strategies to consider at or prior to the maturity of the PrISM

1) Have LLC deliver the required number of shares on maturity of the PrISM and continue investing through the LLC

- The LLC may elect this option if:
 - the stock has declined in value since inception,
 - the prospects for the issuer of the stock are not favorable, and
 - the tax consequences of the delivery of the shares are acceptable in light of the costs of the other alternatives
- At maturity, the LLC may choose to deliver shares of stock. Physical delivery of the shares would result in a taxable long-term capital gain on the difference between the amount received upfront and the tax basis of the shares delivered (assuming the shares had been held for more than one year prior to entering into the PrISM). The cost basis of the shares would either be their original basis or, to the extent that one of the investors has died in the interim, the stepped-up tax basis resulting from that event (assuming the LLC has made an election pursuant to IRC §754)
- Unless the LLC's investors agree otherwise, this would be the "default" option

2) Roll the PrISM within the LLC

- The LLC might elect this option if the stock subject to the PrISM has experienced a decline in value since inception which they believe is unwarranted or overdone. In this case, the LLC would modify the terms of the PrISM contract to extend the delivery date (paying consideration to the counterparty in the process). The LLC's investors may not recognize gain or loss at the time the PrISM contract is modified as the transaction would remain open until the extended delivery date¹

1. *Estate of McKelvey v. Commissioner*, (2017) 148 TC No. 13.

IRC: Internal Revenue Code

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Strategies to consider at or prior to the maturity of the PrISM (cont.)

3) Redeem out one or more investors with a non-pro rata portion of the LLC's assets and/or liabilities

- The LLC might elect this option for one or more of the investors in exchange for all or a portion of the stock subject to the PrISM or of the diversified portfolio that differs from that of the other investors
- For example, the LLC may choose to redeem the interest of one of the investors in exchange for all or a portion of the diversified equity portfolio, with the shares subject to the PrISM remaining in the LLC. Assuming that:
 - The redemption takes place more than seven years¹ after the formation of the LLC,
 - The redeemed investor is the original investor (and not his/her estate), and
 - The LLC makes a §754 election,

the redemption would result in a stepping down in the cost basis of the diversified portfolio to the cost basis that the redeemed investor had in the shares subject to the PrISM (plus any gain recognized in the intervening period). This basis step-down would result in a corresponding step-up in the cost basis of the assets remaining in the LLC (consisting primarily of the shares subject to the PrISM). The step-up in basis may reduce the gain the LLC would otherwise recognize when it delivers shares upon maturity of the PrISM, assuming the LLC chooses to satisfy the PrISM by delivering shares (as opposed to settling the PrISM with cash). The redeemed investor would be left with a diversified equity portfolio with a basis that should equal that of the original (low) basis of the stock that the redeemed investor contributed to the LLC (plus that investor's pro-rata portion of any gain recognized in the interim)

4) Redeem the interest of one or more investors in exchange for shares subject to the PrISM and an assumption by those investor(s) of the PrISM liability

- The assumption by the redeemed investor(s) of the PrISM liability should cause a step-up in the cost basis of the distributed shares subject to the PrISM. The step-up in the distributed shares should reduce the gain that would otherwise be recognized on closing out the PrISM (assuming the PrISM is closed out by delivering some or all of the shares subject to the PrISM rather than via delivery of cash). The law now mandates a basis step-down in the diversified portfolio left behind in the partnership

1. Timeframe driven by current partnership tax law. There have been legislative proposals in the past that would have extended this time period to ten years and future legislative changes could alter this timeframe.

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Illustrating the benefit of a Personal Exchange Fund: Assumptions

Concentrated Stock Assumptions

Underlying stock	XYZ
Number of shares	1,000,000
Current XYZ share price	\$50.00
Cost basis per share	\$0.00

PrISM Contract Assumptions

PrISM Proceeds (% of total position value)	70.00%
PrISM Proceeds (\$ value)	\$35,000,000
Hedged value	\$39.05
Upside limit	\$58.57
Length of contract	7 years

Concentrated Stock Return Assumptions

Total return	8.60%
Yield	2.40%
Expected appreciation	6.20%
Volatility	25.40%
Geometric appreciation*	3.35%

Assumes no underlying turnover in the stock until PrISM contract is settled and shares are sold.

Tax Assumptions

State of residence for tax purposes	U.S. Federal Only
State income tax rate	0.00%
Effective ordinary income tax rate	40.80%
Effective long-term capital gains tax rate	23.80%

Tax rates shown reflect those used in the majority of the years in the analysis.

Diversified Portfolio Return Assumptions

Total return	5.21%
Yield	2.43%
Expected appreciation	2.79%
Volatility	8.88%
Geometric appreciation*	2.42%
Annual turnover rate	41.34%

*The expected appreciation represents the average of all returns, whereas the geometric appreciation represents an estimate of how volatility impacts the expected appreciation; the greater the volatility, the lower the geometric appreciation is relative to the expected appreciation.

Note: The information contained herein is based on certain assumptions and is provided for informational purposes only. Assumptions as of 01/01/2018.

Return assumptions shown are pre-tax. References to expected returns are not predictions of future performance. Actual results may be expected to vary from assumptions, which are made for discussion purposes only. The views and strategies described herein may not be suitable for all investors. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument, and is being provided merely to illustrate a particular investment strategy. J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries do not practice law, and do not give tax, accounting or legal advice.

Comparing a PrISM and a Personal Exchange Fund to an outright sale of shares

Steps	Scenario 1: Outright Sale	Scenario 2: Use a PrISM		Scenario 3: Use a PEF	
		XYZ Stock	Portfolio	XYZ Stock	Portfolio
Sell Low-Basis Stock					
Value of shares	\$ 50,000,000	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -
Capital gains tax ¹	(11,900,000)	-	35,000,000	-	35,000,000
Total assets reinvested	38,100,000	50,000,000	35,000,000	50,000,000	35,000,000
Take Out PrISM Contract					
Value of shares	\$ 50,000,000	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -
Net PrISM proceeds	(11,900,000)	-	35,000,000	-	35,000,000
Total assets invested	38,100,000	50,000,000	35,000,000	50,000,000	35,000,000
Settle PrISM Contract					
Value in Year 7	\$ 62,955,251	\$ 62,955,251	\$ 52,466,647	\$ 62,955,251	\$ 52,466,647
XYZ share price in Year 7	\$62.96	\$62.96	\$62.96	\$62.96	\$62.96
Number of shares to deliver	689,938	689,938	689,938	689,938	689,938
Value of shares delivered	\$ (43,435,251)	\$ (43,435,251)	\$ -	\$ (43,435,251)	\$ -
Capital gains tax due ²	-	-	(8,330,000)	-	-
Sell Residual Shares					
Value after settling PrISM	\$ 50,000,000	\$ 19,520,000	\$ 44,136,647	\$ 19,520,000	\$ 52,466,647
Sell residual shares	(11,900,000)	(19,520,000)	19,520,000	(19,520,000)	19,520,000
Capital gains tax on sale	-	-	(4,645,760)	-	(4,645,760)
Total ³	38,100,000	-	59,010,887	-	67,340,887
Benefit vs. Scenario 1		\$8,643,938		\$16,973,938	
Annualized "tax alpha"		2.90%		5.35%	

1. Tax calculated assuming a current effective long-term capital gains tax rate of 23.80%.

2. In Scenario 3, no capital gains tax is due upon settlement of the PrISM contract because one of the partners assumes the PrISM liability in a liquidating distribution and receives a step-up in cost basis.

3. The ending cost basis of the portfolio is about 97% of market value in Scenario 1, 97% of market value in Scenario 2, and 33% of market value in Scenario 3.

Note: These materials should not be construed as providing legal, tax or accounting advice.

In Scenario 3, it is assumed that the investor forms an investment partnership with two smaller partners who contribute the same stock position with a proportionally equivalent cost basis. For comparison purposes, only the investor's share of partnership assets are shown. At the time the PrISM contract is to be settled, one of the smaller partners takes a liquidating distribution from the partnership and assumes the PrISM liability. Doing so, the partner receives a step-up in the cost basis of the shares delivered to settle the PrISM, thereby closing the transaction with little or no capital gains tax incurred. The residual shares and the diversified portfolio remaining in the partnership receive an equivalent step-down in their cost basis.

"Tax alpha" means the amount by which the annual return of Scenario 1 would have to exceed the annual returns of Scenarios 2 and 3 on a pre-tax basis in order for the portfolio to be worth the same amount at the end of the analysis period.

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FLPs may enable you to minimize transfer taxes while maintaining some degree of control over assets

What is a Family Limited Partnership (FLP)?

- An FLP is a limited partnership that holds the investment property contributed by its members
- An FLP has two types of partner:
 - the General Partner(s) (GP), who is responsible for managing the FLP and its assets
 - the Limited Partners (LPs), who have an economic interest in the FLP, but have no ability to control, direct, or otherwise influence its operations. LPs also generally lack the ability to liquidate their partnership units without the consent of the GP

How can an FLP reduce transfer taxes?

- The family's senior generation creates the FLP and contributes assets, receiving in exchange all the GP and LP units
- The senior generation subsequently gifts LP units to the junior generation, while retaining the GP units
 - This allows the senior generation, through the GP units, to continue to exercise control over the FLP's assets
 - Due to the limited partners' lack of control and lack of independent liquidation rights, the appraised value of the gifted LP units for transfer tax purposes generally should be less than if the FLP's assets were transferred to the junior generation outright

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An FLLC provides the same benefits as an FLP with the added benefit of limited liability for all participants¹

- A Family Limited Liability Company (FLLC) functions similarly to an FLP: membership interests are divided between those of managing members and non-managing members
- As the managing members of an FLLC, the senior generation may buy, sell, or otherwise operate FLLC assets without consent of the non-managing members
- As with an FLP, this structure allows gifts of membership interest to the junior generation to be valued at a discount to fair market value for transfer tax purposes
- An added benefit of the FLLC is that it provides limited liability to all members, insulating them from liability for the FLLC's activities

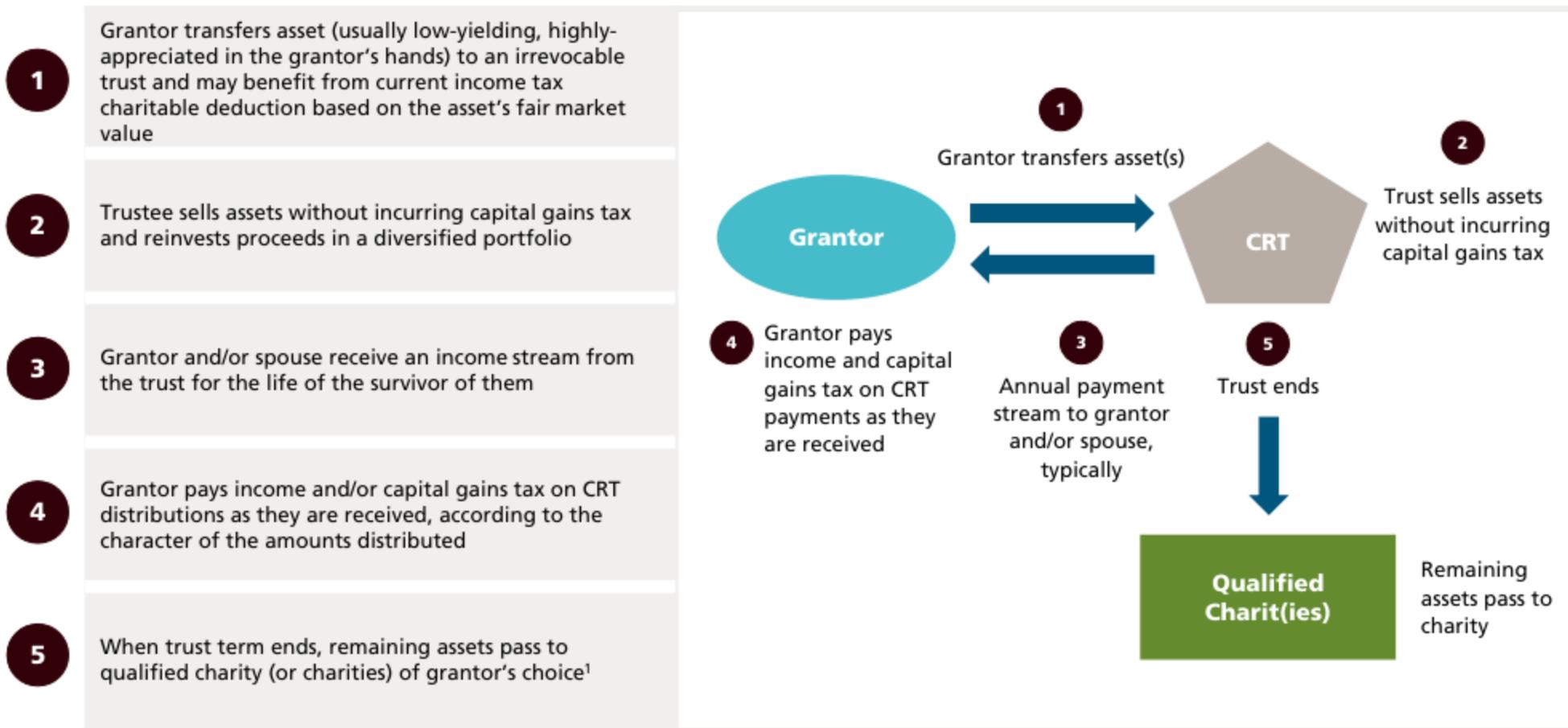
	FLP	FLLC
Allows you to maintain some control over the assets	✓	✓
Creates economies of scale in consolidating/diversifying family wealth	✓	✓
May minimize transfer taxes because value of gifted partnership units may be discounted	✓	✓
Can accommodate different investment objectives among multiple beneficiaries	✓	✓
Provides limited liability for all participants	✗	✓

1. In some states, a limited partnership may be preferable in order to avoid a gross receipts tax.

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A Charitable Remainder Trust ("CRT") can provide a means of tax-efficient diversification

A successful CRT will also benefit the charities selected to receive the trust remainder interest



1. A family foundation or a donor-advised fund can be named as a beneficiary, giving the grantor's family greater influence over the assets that will pass to charity.

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A valid CRT must conform to various U.S. tax laws and regulations

Trust term

- A “term” CRT ends, and distributes its remaining assets to charity, at the end of a fixed term (of up to 20 years) determined by the grantor
- A “lifetime” CRT ends, and distributes its remaining assets to charity, at the death of the grantor
 - A CRT can also be created to last for the life of the survivor of a married couple

Annual payments

- Charitable Remainder Unitrusts (CRUTs) distribute a fixed percentage of the trust’s total assets to the income beneficiaries at least annually
 - Generally, a CRUT must distribute at least 5%, but no more than 50%, of its assets annually (must pass 10% test; see below)
- Charitable Remainder Annuity Trusts (CRATs) pay the income beneficiaries a fixed dollar amount, at least annually
 - The annuity paid by a CRAT must be no less than 5%, and no more than 50%, of the initial fair market value of all property transferred to the trust (must pass 10% test; see below)

Trust remainder

- The present value of the CRT remainder interest, as valued at the time of funding, may not be less than 10% of the fair market value of the funded property. This “10% test” effectively caps the annuity amount/unitrust interest income beneficiaries can receive
- Young grantors with long life expectancies may be unable to create a lifetime CRT for either of the following two reasons:
 - It may not be possible for the present value of the CRT remainder interest to pass the 10% test
 - A lifetime CRAT’s (a) fixed annuity payment requirement and (b) indeterminate term create a risk of trust depletion; the IRS has ruled¹ that the actuarial probability of the grantor’s surviving past the point of trust depletion can be no greater than 5% for a valid CRAT to be created
- The IRS has provided a sample provision for CRATs that may be used as an alternative to the above tests. If an annuity payment would result in the trust corpus’ being less than 10% of its initial value, this provision would cause the early termination of the CRAT on the date immediately before such annuity payment would be made²

1. Rev. Rul. 77-374

2. Rev. Proc. 2016-42

Note: These materials should not be construed as providing legal, tax or accounting advice. Source: Internal Revenue Code Sec. 664

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Illustrating the benefit of a CRT: Assumptions

CRT Assumptions

Charitable remainder beneficiary	Public Charity
Type of property contributed to trust	Appreciated Stock
Value of assets contributed	\$50,000,000
Cost basis of assets contributed	\$0
Payment type	Unitrust
Trust term	20 years
U.S. Treasury discount rate	2.60%
Unitrust amount	11.158%
Charitable deduction for remainder interest	\$5,001,000

Tax Assumptions

Grantor's state of residence for tax purposes	U.S. Federal Only
State income tax rate	0.00%
Effective ordinary income tax rate	43.40%
Effective long-term capital gains tax rate	23.80%
Effective estate tax rate	40.00%

Tax rates quoted are those used in a majority of the years in the analysis.

Portfolio Return Assumptions - Grantor

Total return	6.11%
Yield	2.33%
Expected appreciation	3.79%
Volatility	11.81%
Geometric appreciation*	3.13%
Annual turnover rate	38.35%

Portfolio Return Assumptions - CRT

Total return	6.15%
Yield	2.47%
Expected appreciation	3.68%
Volatility	11.81%
Geometric appreciation*	3.03%
Annual turnover rate	36.24%

Note: The information contained herein is based on certain assumptions and is provided for informational purposes only. Assumptions as of 01/01/2018.

*The expected appreciation represents the average of all returns, whereas the geometric appreciation represents an estimate of how volatility impacts the expected appreciation; the greater the volatility, the lower the geometric appreciation is relative to the expected appreciation.

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Selling assets in a CRT can preserve more wealth for family and charity than selling them outright

Cash flow example: \$50,000,000 asset with \$0 cost basis; pre-tax unitrust amount = 11.16%

Scenario 1: Hold Assets	
	Grantor
Net proceeds of sale ¹	\$ 38,100,000
Benefit of income tax deduction	-
Value at end of Year 20	89,535,896
Estate tax	(35,814,358)
Net wealth to family	53,721,538
Wealth to charity	-

Scenario 2: Use a CRUT		
	Grantor	CRUT
Net proceeds of sale	\$ -	\$ 50,000,000
Benefit of income tax deduction*	1,850,370	-
Value at end of Year 20	89,963,890	15,588,765
Estate tax	(35,985,556)	-
Net wealth to family	53,978,334	-
Wealth to charity	-	15,588,765

1. Assumes an effective long-term capital gains tax rate of 23.80%.

Total wealth to beneficiaries	\$69,567,099
Value added by CRUT	\$15,845,561
Annualized "tax alpha"	1.69%

*Assumes a minimum adjusted gross income (AGI) for the grantor that would allow the full deduction to be claimed currently. Economic benefit assumes deduction is taken against income taxed at the top ordinary rate

Note: The information contained herein is based on certain assumptions and is provided for informational purposes only.

"Tax alpha" means the amount by which the average annualized return of the seed capital in the Hold Assets scenario must exceed the average annualized return of the CRT scenario on a pre-tax basis in order for the Hold Assets scenario to pass the same net wealth to beneficiaries.

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It is possible to combine multiple strategies into one comprehensive plan

Designate different pools of shares to contribute to overall objectives

Sample Objectives:

- Lock-in value of stock position
- Retain share price upside
- Generate positive cash flow
- Maintain dividend income, if any
- Divest at a convenient level

Example Plan:

- Three or more tranches with a mix of protection, monetization and income strategies

Scenario 1: Does not result in divestiture

	Year 1	Year 2	Year 3
34%	1yr Collar	2yr Collar	
33%	2yr Collar		1yr Collar
33%	Generate Income	Generate Income	Generate Income

Scenario 2: Results in divestiture

	Year 1	Year 2	Year 3
34%	1yr PrISM	Divested	Divested
33%	2yr PrISM		Divested
33%	Generate Income	Generate Income	Generate Income

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Appendix

- Block Sales
- Decumulator
- Private Placement vs. Personal Exchange Funds
- “Rolling” Variable Prepaid Forward Contracts
- Estate Protection Option (EPO)

Immediate Sale | Block sales may be an attractive option for investors holding large positions

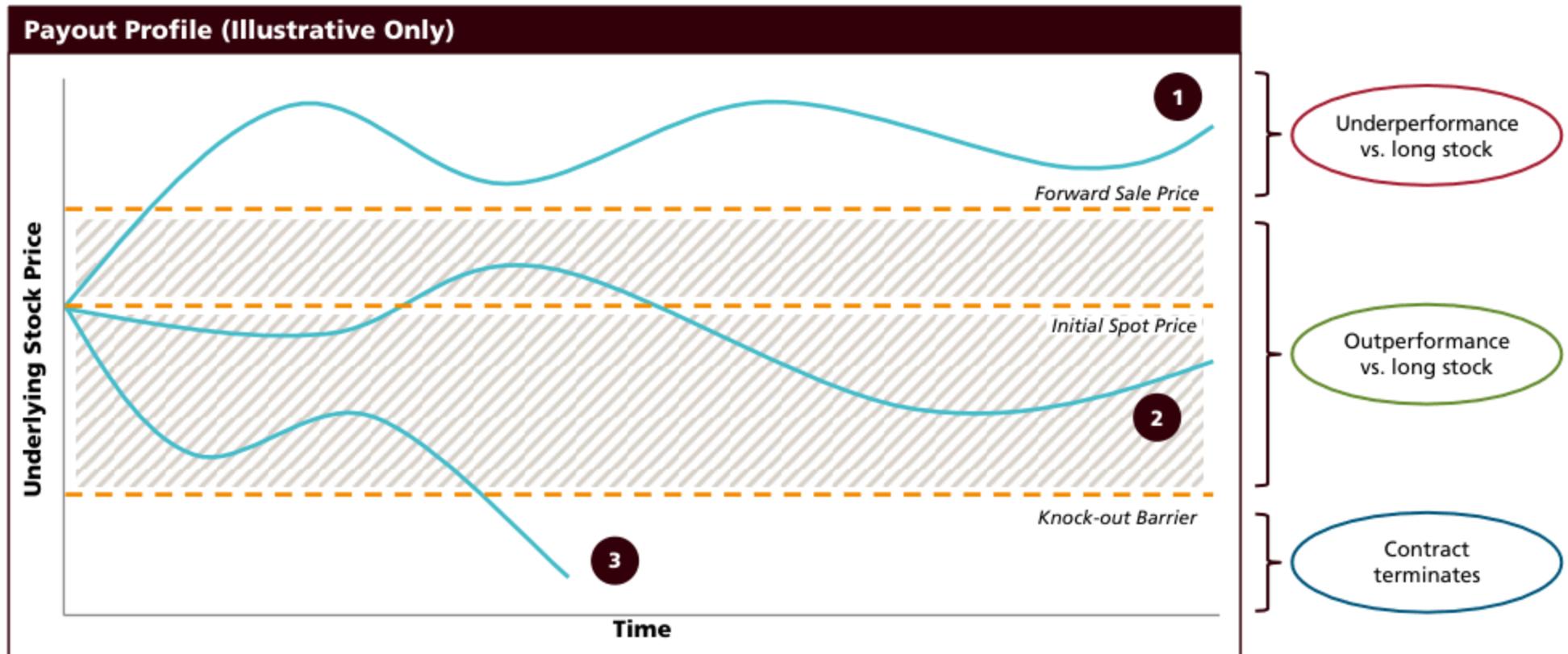
- Investors who hold large positions many times the average daily trading volume of a stock may require several weeks to exit a position completely, during which time they are exposed to market volatility
- A block sale allows an investor to unload shares in a single transaction
- In a block sale, an investor contracts with an investment bank to sell the stock. The investor sells the shares to the investment bank, which assumes risk on its own balance sheet as it sells the shares in the open markets
- In exchange for assuming this risk, the investment bank purchases the shares from the investor at a discount to current market levels
- Investors considering a block sale should weigh pricing against their desire to exit the position while minimizing risk



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Staged Selling | A Decumulator strategy hedges against price swings as shares are sold

In a Decumulator selling strategy, an investor contracts with a bank counterparty to sell a predetermined number of shares at an established forward price each day during the length of the contract. The contract also establishes a “knock-out” barrier. If the stock closes at or below the knock-out barrier at any point during the length of the contract, the trade terminates. A Decumulator strategy may be appropriate for investors who expect moderate price volatility as they sell out of the position.



- 1. Strategy underperforms** when the stock price rises above the forward price
- 2. Strategy outperforms** when the stock price trades between the forward price and the knock-out barrier
- 3. Strategy terminates** when the stock price trades below the knock-out barrier

Note: This information is intended to be a high level overview of potential hedging strategies that can be executed through OTC options to achieve specific goals. These strategies may not be suitable for all investors. This is not intended as an offer or solicitation for the purchase or sale of any financial instrument. In discussion of options and option strategies, results and risks are based solely on the hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors are urged to consider carefully whether option or option-related products in general, are suitable to their needs. For a complete discussion of risks associated with any investment, please review offering documents and speak with your investment specialists.

Comparing Private Placement Exchange Funds and Personal Exchange Funds

	Private Placement Exchange Fund	Personal Exchange Fund
Funding	One or more single stocks	Single stock
Investments held	<p>Single stocks contributed by multiple parties and generally managed to a benchmark through the use of derivatives</p> <p>Fund is required to purchase and hold 20% or more of its value in certain private assets</p>	<p>Partnership takes out variable prepaid forward contract on the single stock contributed</p> <p>Forward prepayment used to build diversified portfolio with initial cost basis equal to market value</p>
Minimum term	7 years	7 years
Distribution	A diversified basket of individual shares selected by the portfolio manager with the tax cost basis of the contributed shares	A diversified portfolio with the tax cost basis of the contributed shares
Minimums	Generally \$1 million	No required minimum; however, such a strategy will likely not make sense for less than \$10 million
Other requirements	Investors must be accredited investors and qualified purchasers	Three or more parties (who may be related) must capitalize a partnership or other local law entity classified as a partnership for U.S. income tax purposes. Units can also be used for estate planning
Use of derivatives	Used to maintain correlation to the fund's benchmark index	A variable prepaid forward contract involves the purchase of a put option and sale of a call option

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“Rolling” a variable prepaid forward contract: The *McKelvey* case

A recent Tax Court case may provide investors with a significant opportunity

- Regulations published under Internal Revenue Code §1001 generally provide that the material modification, in economic terms, of a derivative contract will be treated as a sale or exchange and any gain or loss on the contract is realized as if the contract had been sold
- A recent Tax Court case, *Estate of McKelvey v. Commissioner*,¹ stands for the proposition that a taxpayer may “roll” a variable prepaid forward contract (such as a PrISM²) by extending the length of the contract
 - Taxpayer had outstanding variable prepaid forward contracts with two investment banks as the respective counterparties
 - Counterparties agreed to extend the length of the contracts in exchange for cash consideration from the taxpayer
 - Taxpayer took the position that there had been no realized tax event upon modification of the contract and that the transaction remained open
 - IRS took the position that the modified contracts should be viewed as separate financial instruments and that constructive sales had occurred
- The Tax Court ruled in favor of the taxpayer and held that the open transaction treatment afforded to the variable prepaid forward contracts in Rev. Rul. 2003-7 continued until the transactions were closed by the future delivery of cash or shares under the terms of the modified contracts
- The *McKelvey* case is not a panacea:
 - The IRS has not acquiesced to the Tax Court’s decision and may appeal or litigate in another forum
 - The IRS believes that the decision is at odds with black-letter law in both the Internal Revenue Code and the controlling regulations
 - The facts of the case involved a single modification of the contracts; there is no indication how the courts might view a taxpayer’s attempts to roll a contract indefinitely

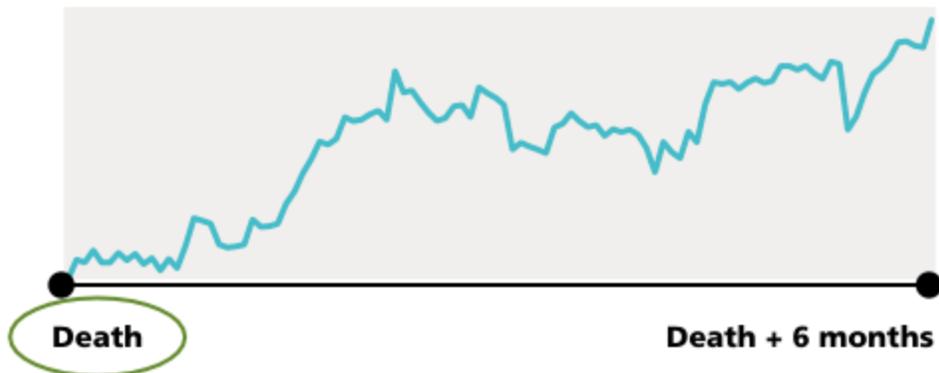
1. *Estate of McKelvey v. Commissioner*, (2017) 148 TC No. 13.

2. A Principal Installment Stock Monetization (“PrISM”) is a type of variable prepaid forward contract.

An EPO may help executors maximize the after-tax value of stock held by an estate

- When an estate holds a significant concentrated equity position, the executors may face competing objectives:
 - Minimize valuation of assets for estate tax purposes
 - Raise cash to meet estate tax obligations by selling the stock
 - Manage investment risk so as to maximize value for heirs
- An estate protection option (EPO) is a protective put that may allow the executors to manage risk on the downside and generate an estate tax deduction
 - The option premium may be claimed as a deduction against the gross estate or alternatively would reduce capital gains taxes owed upon exercise of the option
- An EPO generally has a six-month maturity in order to take advantage of a planning opportunity under the Internal Revenue Code:
 - Estates generally establish the value of assets for estate tax purposes as of the date of death. However, in certain circumstances, the executors may elect to value the assets six months after the date of death¹

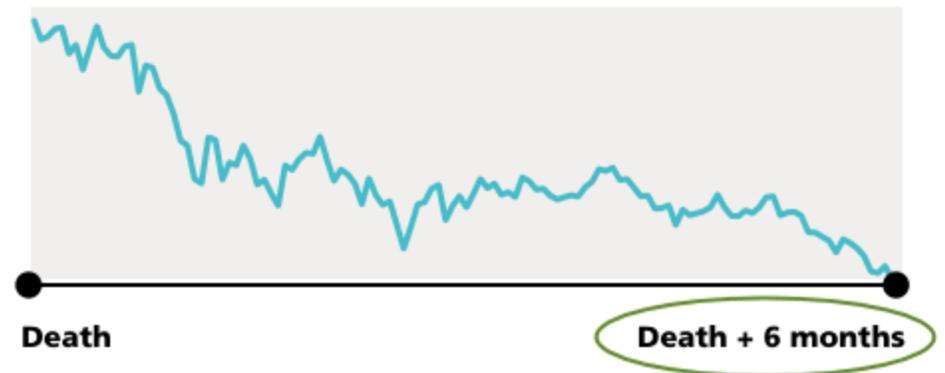
Stock appreciates



Elect date-of-death value for estate tax purposes

EPO expires worthless, but may be offset by gain on stock

Stock depreciates



Elect value of stock six months after date of death

Exercise EPO to sell stock at higher strike price

1. This election would apply to all assets of the estate. Accordingly, this strategy may be of particular interest when a concentrated position represents the majority of an estate's assets. This is not intended as an offer or solicitation for the purchase or sale of any financial instrument. In discussion of options and option strategies, results and risks are based solely on the hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors are urged to consider carefully whether option or option-related products in general, are suitable to their needs. For a complete discussion of risks associated with any investment, please review offering documents and speak with your investment specialists. For illustrative purposes only. This document is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

Comparison of EPO to immediate sale of stock by estate

Scenario: 100% of option premium claimed as estate tax deduction



Assumptions: Current stock price = \$64.00; put strike price = \$60.17; put premium = \$3.00.

Effective estate tax rate = 40.00%; effective long-term capital gains tax rate = 23.80%.

Assumes 100% of put premium is deducted against estate taxes and 0% of put premium reduces sales proceeds on exercise.

Breakeven occurs if stock returns -45.51% or 3.69% in the six months following the date of death.

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Risk and return measures are developed by J.P. Morgan and a multi-factor model. Estimates of unmanaged return and volatility for portfolios are based on our projected long-term estimates and are described in greater detail below.

Our investment management research incorporates our proprietary projections of the long-term returns and volatility of each asset class over the long term, as well as mathematically derived correlations among the asset classes. Clearly, neither we nor any other financial firm can predict how markets will perform in the future. But we do believe that by analyzing current economic and market conditions and historical market trends, and then, most critically, making projections of future economic growth, inflation, and real yields for each country, we can estimate the long-term performance for an entire asset class, given current and our estimated equilibrium levels.

The equilibrium level shows the average or central tendency over a very long period of time around which market returns will tend to fluctuate, because it represents the value inherent in that market. It is possible indeed, probable that actual returns will vary considerably from this, even for a number of years. But we believe that market returns will always at some point return to the equilibrium trend.

We further believe that these kinds of forward-looking assessments are far more accurate than historical trends in deciding what asset class performance will be, and how best to determine an optimal asset mix.

In reviewing this material, please understand that all references to return are not promises, or even estimates, of actual returns one may achieve. They simply show what the long-term return should be, according to our best estimates.

Also note that actual performance may be affected by the expertise of the person who actually manages these investments, both in picking individual securities and possibly adjusting the mix periodically to take advantage of asset class undervaluations and overvaluations caused by market trends.

For the purpose of this analysis volatility is defined as a statistical measure of the dispersion of return for a given allocation and is measured as the standard deviation of the allocation's arithmetic return. Correlation is a statistical measure of the degree to which the movements of two variables, in this case asset class returns, are related. Correlation can range from -1 to 1 with 1 indicating that the returns of two assets move directionally in concert with one another, i.e. they behave in the same way during the same time. A correlation of 0 indicates that the returns move independently of each other and -1 indicates that they move in the opposite direction.

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Important information

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