Jeffrey Epstein

Preferred Partnership Freeze

Please keep in mind

This material is intended to help you understand the tax and 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. JPMorgan Chase & Co. does not practice law, and does 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.

Preferred Partnership Freeze (PPF) is for investors interested in enhanced wealth transfer opportunities using a Delaware Statutory Trust

Purpose: to "freeze" the value of assets that will be included in the senior generation's estate and shift the excess appreciation to the junior generation(s) without additional transfer tax.

- It enables investors to transfer to beneficiaries' anticipated appreciation in a tax-efficient manner while retaining a large portion of the investment and a fixed return
- Investment is divided into Managing Units, Preferred Units, and Residual Units
- Preferred Units represent majority of initial asset value and carry a fixed (cumulative, non-compounding) rate of return
- Residual Units represent balance of initial asset value *plus* anticipated appreciation in excess of the preferred return
- Residual Units are gifted and/or sold to beneficiaries

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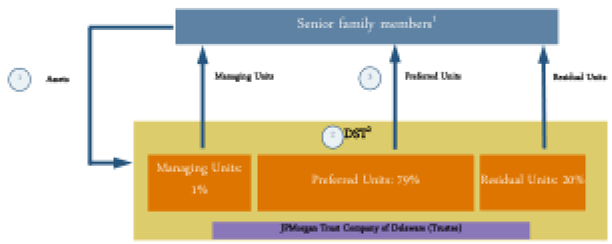
Structure of Preferred Partnership Freeze

1. Senior family members transfer assets into a Delaware Statutory Trust (DST)
2. DST issues multiple classes of units:
   - Managing Units: general management control and collective 1% economic interest
   - Preferred Units and Residual Units: limited management rights and collective remaining 99% economic interest
     - Preferred Units provide a fixed, cumulative annual return to senior family members equal to the annual preferred payment on the Preferred Units (can be deferred for 4 years) and a fixed value on liquidation. Preferred Units provide greater security but limit participation in appreciation of the assets
     - Residual Units provide excess appreciation after satisfying Managing Units' 1% interest, and the Preferred Units preferred return. Residual Units provide less security but accrue the capital, income and appreciation beyond the fixed return to Preferred Units
   - [redacted] Trust Company of Delaware acts as administrative trustee

   Senior family members initially receive all DST units for their contribution

3.



[1] Two members will initially capitalize DST to ensure partnership tax treatment
[2] Member 1 receives 0.5% voting managing units plus all preferred units and residual; member 2 retains the other 0.5% voting managing units

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1 [redacted]. Morgan can provide a professional appraisal that suggests a range of hypothetical valuation discounts.

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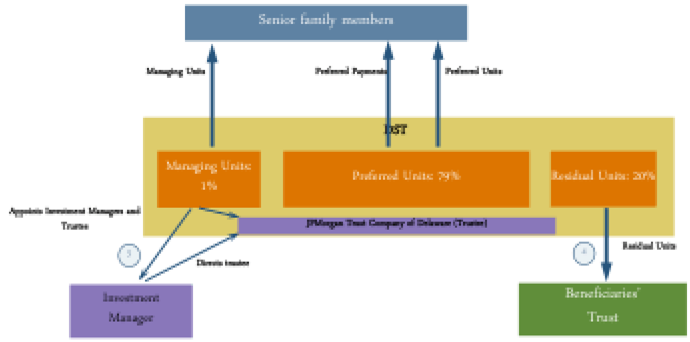
Structure of Preferred Partnership Freeze

4 To maximize the benefits of the PPF, senior family members may gift or sell the Residual Units at discounted value to beneficiaries outright or to trust for their benefit; can also gift or sell Preferred Units overtime

3 · JPMorgan Trust Company of Delaware administers distribution and manages investments subject to managing unit holders.

· Investment Manager directs Trustee as to investment of assets.

· Managing Unit holders control important voting decisions. Preferred and Residual Unit holders have limited voting rights.



1 [redacted] Morgan can provide names for a professional appraisal

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1 [redacted]. Morgan can provide a professional appraisal that suggests a range of hypothetical valuation discounts.

PPF capitalizes on Delaware's favorable laws and continuity of asset management across generations...

- Limited liability for all unit holders, even if they participate in management
- Confidentiality of all unit holders is preserved as only the name of the trust and the name and address of the Delaware trustee need to be disclosed
- Dissolution does not necessarily occur upon the death, incapacity or bankruptcy of a unit holder
- Flexibility to react to changes in regulatory or tax laws to facilitate the changing needs of trust participants
- Trustee is allowed broad investment authority to employ modern portfolio theory and flexibility of delegating investment decisions to other advisors

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…and JPMorgan's ability to offer bundled delivery makes the PPF a cost-efficient solution

- The formation of a estate freeze strategy is simple and economical
  - established by filing a Certificate of Trust with the Delaware Secretary of State
- Investment management costs can be reduced through economies of scale
- JPMorgan's fiduciary system provides the following:
  - documentation of the value of units transferred among family members
  - attendance to tax compliance
  - maintenance of the records of the Estate Freeze Strategy to preserve its integrity for tax purposes as a separate legal entity

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Delaware administration responsibilities

- Account set-up
- Ongoing communication
  - Administrative matters including record keeping and market value statements
  - Fiduciary oversight for regulatory and planning considerations
- Account administration
  - Investment maintenance (i.e. subscription agreements and offering memoranda)
    - Ongoing communication with Managing Unit holders and investment manager
  - Custody including safekeeping, income collection and optional trading platform
- Responsibility for liquidations, distributions and withdrawals
  - Preferred payments, tax distributions, redemptions
    - Executing distribution transactions including deferral of preferred payments
    - Evaluating distribution/redemption requests from unit-holders
    - Determining amounts and timing of all distributions
    - Obtaining valuations to support distributions, as necessary
    - Complying with Internal Revenue Code Section 2701 rules and provisions of estate freeze strategy documents
    - Cash-flow analysis for preferred payments
    - Maintaining required income/principal ledgers
- Delegated responsibility for tax compliance
  - Compilation of partnership return work papers
  - Review and execution of partnership returns and K-1s
  - Evaluation of filing positions including Section 754 elections

Transfer tax considerations

- Internal Revenue Code Section 2701 describes and sanctions the estate freeze strategy
- Gift tax value of Residual Units must be ≥ 10% of the capital account funding value of estate freeze strategy
- Discounts may apply to funding, calculation of the effective preferred rate & valuation of Residual Units
- Appreciation in estate freeze assets exceeding effective preferred payment rate accrues to benefit of Residual Unit holders without causing additional gift or estate tax
- Preferred Payments:
  - Based on prevailing "Market Rate" of return, typically determined by valuation professional's appraisal and may be deferred for 4 years on a rolling basis
  - Nominal preferred rate may be reduced by discounted funding, deferral of preferred payments and benefit of all capital (including common units) at work to produce amount necessary to pay this lower effective rate
  - 4-year deferral of payment on a rolling basis
- PPF may be less likely to be subject to IRS scrutiny than standard family limited partnerships.
  - Reinforced by the independent Trustee's control over distributions

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Income tax considerations

- PPF: Delaware Statutory Trust classified as partnership for income tax purposes

- Contributions: generally in-kind contributions do not cause immediate gain recognition
  - Exceptions may apply, such as:
    - Investment company rules – diversification
    - Property contribution subject to liabilities assumed by partnership
  - Built-in gains: subsequent partnership sale allocations of pre-contribution gain to contributor

- Basis (if tax free contribution):
  - Partnership's basis in assets same as contributor's basis
  - Partner's basis equals cash plus adjusted basis of contributed assets

- Allocations:
  - Profits: First to Common Managing Units and Residual Units allocable for prior aggregate losses, second to Preferred Units for prior aggregate losses, third to Managing Units percentage interest and Preferred Units' cumulative return, and fourth to Residual Units
  - Losses: First to Common Managing Units percentage interest and Common Residual Units until reduced to zero then second to Preferred Units until reduced to zero

- Preferred payments: made only from net cumulative tax profits from inception, so Preferred units have taxable income up to nominal return when partnership has taxable income
  - Not guaranteed payments which are required regardless of income and which are taxed as ordinary income with partnership realized events when satisfied in-kind
  - Non-taxable in-kind distributions or borrowed cash can be used to satisfy timely preferred payments

- Distributions:
  - Cash: distribution taxable typically as capital gains only if exceeds basis
  - Security: distribution generally not taxable event
    - Exception – Built-in gains within 7 years of contribution unless contributor reacquires back originally contributed property
  - Non-liquidating distribution: partnership inside basis allocation
  - Liquidating distribution: partner's outside basis allocation; generally non taxable event unless cash exceeds outside basis
  - Disguised sale presumption: taxable event presumption for distributions within two years of contribution

- Mergers with Family Limited Partnerships

Assumptions for PPF analysis

- $16,000,000 in funding
- 15% valuation discount on asset due to illiquidity and lack of marketability
- 1%/79%/20% Managing/Preferred/Residual Unit split
- 15% estimated total return[1]
- Estimated 7.5% mandatory fixed annual payments attributable to Preferred Units[2]
- Residual Units gifted[3] to beneficiaries' trust at discounted value:
  - 10% illiquidity discount on overall value of DST
  - 30% additional discount on value of Residual Units
- Undiscounted value of gift: $3,200,000; discounted value: $2,720,000
  - ~~$200,000 gift tax exemption available~~
- Client has already utilized lifetime gift exemption
- Gift tax rate (2010): 35%
- Estate tax rate (2020): 55%
- 4 year deferral of mandatory fixed annual payments to Preferred Units
- Grantor retains income tax liability due to grantor trust status in beneficiaries' trust[3]

Discounts assumed are supported by the explanations in the white paper provided.

$16MM * 20% residual share = $3.2MM; $3.2MM with 15% discount on asset = $2.72MM.

This referenced a customized analysis that we did in a prior transaction and unfortunately was not stricken when we made a generic deck for you. The next bullet is correct: there is no remaining gift exemption.

Note: Numbers are for illustrative purposes only.
[1]Return does not consider yield versus appreciation, since income tax is not considered. Return estimate is for illustrative purposes only. Actual return will vary.
[2]Effective hurdle rate: [illegible]: 7.5% preferred coupon rate reduced by [illegible] discount on underlying asset, plus benefit of additional residual and managing value to fund coupon payments, benefit of deferral periods, less effect of cost of gift tax.
[3]Units can be gifted or sold. GST exemption can be allocated to gifting.
Please read "Important Information" in Appendix.

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More details on the cash flows of this summary can be found on the following page

Compared to doing nothing, PPF can increase wealth to beneficiaries with little upfront cost

35% gift tax rate * $16MM * 20% residual share with 15% discount for asset funding, 10% discount for illiquidity and lack of control, and 30% discount for lack of marketability

Cash flow example: $16,000,000 assets, 15% return on assets

Sum of managing and preferred payouts grows over time

		Scenario 1	Scenario 2: Preferred Partnership Freeze				
			Senior Family Members				Beneficiaries
					79%	1%	20%
					$13.6MM * 79%	$13.6MM * 1%	$13.6MM * 20%
Year		Hold asset	Cost of gift tax	Fixed annual payments	Preferred	Voting Managing	Residual
0	Discounted assets	$13,600,000			$10,744,000	$136,000	$2,720,000
	Gift tax incurred upon gift		($599,760)				
10	Value of assets upon liquidation	64,728,924	(2,426,364)	10,380,770	10,744,000	543,482	43,060,672
	Estate tax	(35,600,908)	1,334,500	(5,709,424)	(5,909,200)	(298,915)	-
	Net wealth to beneficiaries	29,128,016	(1,091,864)	4,671,347	4,834,800	244,567	43,060,672
					8,658,850		43,060,672
	Total value to beneficiaries	$29,128,016				$51,719,522	
	Value added by Preferred Partnership Freeze			**$22,591,506**			

Assumptions: Pre-funding economic value = $16,000,000; Discount on DST = 10%; Discount on residual = 30%; Discount on assets contributed = 15%; Preferred = 79%; Residual = 20%; Managing = 1%; Fixed annual payments = 7.5%; Return on assets & fixed annual payments = 15%; Years of payout deferral = 4; 2010 Gift tax rate = 35%; 2020 Estate tax rate = 55%

Note: Above example is for illustrative purposes only. These materials should not be construed as providing legal, tax, or accounting advice. Numbers have been rounded for convenience, are only estimates for illustrative purposes and should not be relied upon. Actual return will vary.

Liquidation value * 1% managing share

Liquidation value – Accrued Preferred – EOY Preferred – EOY Managing

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This page provides details on the cash flows of the summary found on the previous page

Economic flows of PPF

$16MM * (1-15% Discount on Asset Funding) = $13.6MM

Example	
Pre-funding economic value	16,000,000
Discounted FMV of capital accounts	13,600,000
Discount on assets contributed	15%
Preferred units percentage	79%
Managing units percentage	1%
Residual units percentage	20%
Term of strategy	10
Fixed annual payment	7.5%
Annual payout amount	805,800
Years of payment deferral	4
Total return of asset	15.00%

EOY Economic Value * 15% return

Fixed payments @ $13.6MM * 79% Preferred Units Share

DST Total + grantor payments

	Beginning of year	Appreciation	Distributions		End of Year					Grantor fixed annual payments	Total
Year	Total		Managing	Preferred	Accrued payments	79% Preferred	1% Managing	20% Residual	DST Total		
0						10,744,000	136,000	2,720,000	13,600,000	-	13,600,000
1	13,600,000	2,400,000	-	-	805,800	10,744,000	160,000	4,290,200	16,000,000	-	16,000,000
2	16,000,000	2,760,000	-	-	1,611,600	10,744,000	187,600	6,216,800	18,760,000	-	18,760,000
3	18,760,000	3,174,000	-	-	2,417,400	10,744,000	219,340	8,553,260	21,934,000	-	21,934,000
4	21,934,000	3,650,100	-	-	3,223,200	10,744,000	255,841	11,361,059	25,584,100	-	25,584,100
5	25,584,100	4,197,615	(8,139)	(805,800)	3,223,200	10,744,000	289,678	14,710,898	28,967,776	813,939	29,781,715
6	28,967,776	4,705,186	(8,139)	(805,800)	3,223,200	10,744,000	328,590	18,563,213	32,859,003	1,749,878	34,608,972
7	32,859,003	5,280,650	(8,139)	(805,800)	3,223,200	10,744,000	373,339	22,893,374	37,333,914	2,826,405	40,160,318
8	37,333,914	5,960,087	(8,139)	(805,800)	3,223,200	10,744,000	424,801	26,888,061	42,480,061	4,064,305	46,544,366
9	42,480,061	6,732,089	(8,139)	(805,800)	3,223,200	10,744,000	483,981	33,846,850	48,398,131	5,487,890	53,886,021
10	48,398,131	7,619,720	(40,697)	(4,029,000)	-	10,744,000	543,482	43,060,872	54,348,154	10,380,770	64,728,924

4 Year Deferral period

DST Total * 1%

Managing & Preferred Payouts grown

Note: Preferred payments can be deferred for 4 years

Assumes assets are liquidated in year 10

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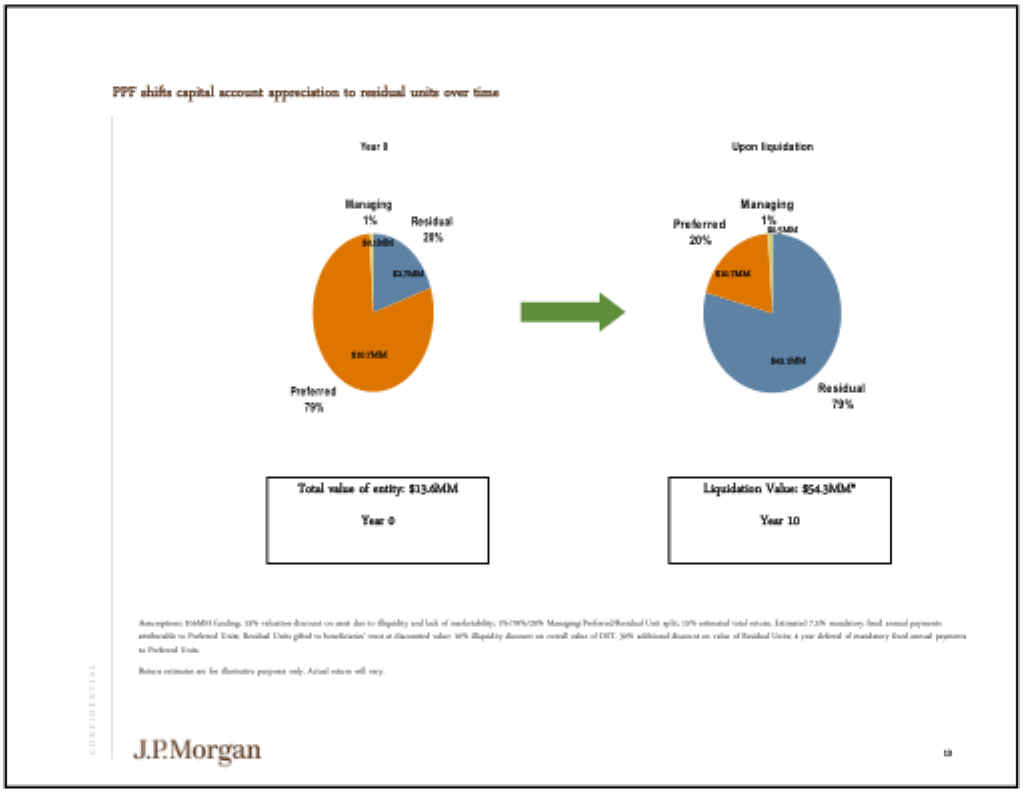

•Fixed annual payment required to preferred unit holder is determined by a valuation expert - additionally, the discount rates are determined by a valuation expert

•The payment amount is calculated by: Preferred rate x preferred discounted value. In the current example this is $6,715,000 x 7.5% = 503,625.

•When preferred payment is made to preferred unit holder – managing 1% must also receive a distribution. Thus, entity must actually accrue for 4 years and ultimately pay annually $508,712 = $503,625 + 1% x $508,712

•Entire 100% of undiscounted entity value helps to fund the 7.5% required payment – reducing the effective rate

•The ability to defer each years payment 4 years adds additional benefit – this means year 1 payment is deferred to year 4, year 2 is deferred to year 5, etc.

•Finally, the discount on the asset contributed further reduces the effective rate on the freeze entity

Key Benefits

Non-economic

- Single upfront transfer eliminating need for annual transfers in the future (i.e. cascading GRATs that continually "re-GRAT"
- Consolidated management in Delaware
- Strong legal certainty
- Beneficial definition of security law "Qualified Purchaser" vs. GRAT
- Leverage other strategies with additional discount afforded structure

Economic

, minimal leakage thereafter

- May benefit from valuation discounts
- GST allocation with gift of residual
- If appreciation not as expected, can redeem preferred, locking in value or dissolve and recapitalize
- Hurdle rate may be lower than AFR and 7520 rates per valuation discount and benefit of preferred payments deferral

Key Risks

- IRS may arrive at different valuation conclusions
- Underlying asset could experience losses or earn less than the preferred coupon
- Tax law changes may affect potential benefits of structure

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1 The estate freeze hurdle rate is calculated based on the following assumptions: Pre-tax, pre-fee rate of return; no distributions prior to year 15; no consideration of income taxation; preferred units of $950,000 plus 8.5% cumulative,
non-compounding coupon; common units of $50,000, with a 40% discount for gift tax purposes; transfer tax rate = 55%.

2 February 1999 long-term AFR.

3 February 1999 Section 7520 rate.

Creative gifts of Residual Units may further enhance the PPF

- Gifts to grantor trust
  - investor remains responsible for income taxes of trust, allowing the trust principal to grow tax-free
  - trust provisions may provide for asset substitution, allowing investor to transfer high basis property/cash to trust in exchange for the low basis property in order to receive benefit of stepped up estate tax basis
- Gifts to generation-skipping trusts
  - value passes beyond children's generation without second level transfer taxes
  - Perpetual Delaware Trust compounds estate tax free for successive generations
- **Other wealth transfer strategies may be integrated with the PPF**

Residual units fund a GRAT

The PPF lends itself to working in concert with other strategies. The 10 year GRAT and 10 year Cascading GRAT pages are examples of how GRATs can be effectively funded with PPF common/residual units.

EOY MV * 1% (note: EOY MV accounts for annuity payments, which are made in kind).

Cash flow example: $16,000,000 assets, 15% return on assets

		Scenario 1	Scenario 2: Estate Freeze			
			Senior Family Members			Beneficiaries
				79%	1%	20%
Year		Hold asset	Fixed annual payments and GRAT payments	Preferred	Voting Managing	Residual
0	Discounted assets	$13,600,000		$10,744,000	$136,000	$2,720,000
	Gift tax incurred upon gift					
10	Value of assets upon liquidation	64,728,924	12,463,687	10,744,000	522,652	40,998,584
	Estate tax	(35,600,908)	(6,855,028)	(5,909,200)	(287,459)	-
	Net wealth to beneficiaries	29,128,016	5,608,659	4,834,800	235,194	40,998,584
			10,678,653			40,998,584
	Total value to beneficiaries	$29,128,016			$51,677,237	
	Value added by Estate Freeze		**$22,549,221**			

Note: Preferred partnership residual units are transferred to a 20% escalating 10 year GRAT and, along with the preferred payments, aggregate to the $12.4MM

Assumptions: Pre-funding economic value = $16,000,000; Discount on DST = 15%; Discount on residual = 30%; Discount on assets contributed = 15%; Preferred = 79%; Residual = 20%; Managing = 1%; 7520 rate: 2.60%; Fixed preferred yield = 7.5%; Return on assets & fixed annual payments = 15%; Years of payout deferral = 4; 2010 Gift tax rate = 35%; 2020 Estate tax rate = 55%.

Note: Above example is for illustrative purposes only. These materials should not be construed as providing legal, tax, or accounting advice. Numbers have been rounded for convenience, are only estimates for illustrative purposes and should not be relied upon. Actual returns will vary.

This previously referenced 2009 and 2018, respectively. While it should have said 2010 and 2020, as it does now, this does not affect the calculations, as the 10 year period still holds to the example.

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Residual units fund a Cascading GRAT

The PPF lends itself to working in concert with other strategies. The 10 year GRAT and 10 year Cascading GRAT pages are examples of how GRATs can be effectively funded with PPF common/residual units.

Cash flow example: $16,000,000 assets, 15% return on assets

EOY MV * 1% (note EOY MV accounts for annuity payments, which are made in kind).

		Scenario 1	Scenario 2: Estate Freeze			
			Senior Family Members			Beneficiaries
				79%	1%	20%
Year		Hold asset	Fixed annual payments and GRAT payments	Preferred	Voting Managing	Residual
0	Discounted assets	$13,600,000		$10,744,000	$136,000	$2,720,000
	Gift tax incurred upon gift					
10	Value of assets upon liquidation	64,728,924	11,846,705	10,744,000	528,822	41,609,397
	Estate tax	(35,600,908)	(6,515,688)	(5,909,200)	(290,852)	-
	Net wealth to beneficiaries	29,128,016	5,331,017	4,834,800	237,970	41,609,397
				10,403,787		41,609,397
	Total value to beneficiaries	$29,128,016			$52,013,184	
	Value added by Estate Freeze		**$22,885,168**			

Note: Preferred partnership residual units are transferred to a 20% escalating 10 year Cascading GRAT and, along with the preferred payments, aggregate to the $11.8MM

Assumptions: Pre-funding economic value = $16,000,000; Discount on GST = 10%; Discount on residual = 30%; Discount on assets contributed = 15%; Preferred = 79%; Residual = 20%; Managing = 1%; 7520 rate: 2.4%; Fixed preferred yield = 7.5%; Return on assets & fixed annual payments = 15%; Years of payout deferral = 4; 2020 Gift tax rate = 35%; 2020 Estate tax rate = 55%.

Note: Above example is for illustrative purposes only. These materials should not be construed as providing legal, tax, or accounting advice. Numbers have been rounded for convenience, are only estimates for illustrative purposes and should not be relied upon. Actual return will vary.

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