

# Understanding Actively-Managed Exchange-Traded Funds

## *A Primer*

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Optimizing Investment Through a Modern Structure



# Disclosures

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# What is an ETF? The Modern Wrapper

An ETF\* is a fund, holding a collection of portfolio securities, that issues shares which trade on a stock exchange, much like an individual stock — offering intraday liquidity and real-time pricing.

## Mutual Fund

-  **Trades Once Daily**  
At end-of-day NAV price only
-  **End-of-Day Valuation**  
Price set after market close
-  **Limited Flexibility**  
No intraday trading options

## ETF

-  **Shares Trade Continuously**  
Buy and sell throughout market hours
-  **Real-Time Pricing**  
Live market price updates
-  **Full Trading Flexibility**  
Limit orders, real-time execution

ETFs combine the diversification of mutual funds with the trading flexibility of individual stocks.

\* Under Rule 6c-11, an ETF is an open-end fund that issues creation units (shares) to authorized participants for a basket of securities and cash and whose shares are listed on an exchange.

# Actively-Managed (“Active”) vs. Passively-Managed (“Passive”) ETFs: A Strategic Choice

The **actively-managed ETF** is intended to bring 55+ years of investment expertise into a modern, tax-efficient structure.

## Passive ETF

### Index Tracking

Replicates a market index like the S&P 500

### Rules-Based Investment

Minimal management intervention

### Lower Fees

Typically lower expense ratios

## Active ETF

### Expert Portfolio Management

Dedicated team makes strategic decisions

### Goal: Outperform Market

Disciplined research and long-term thinking

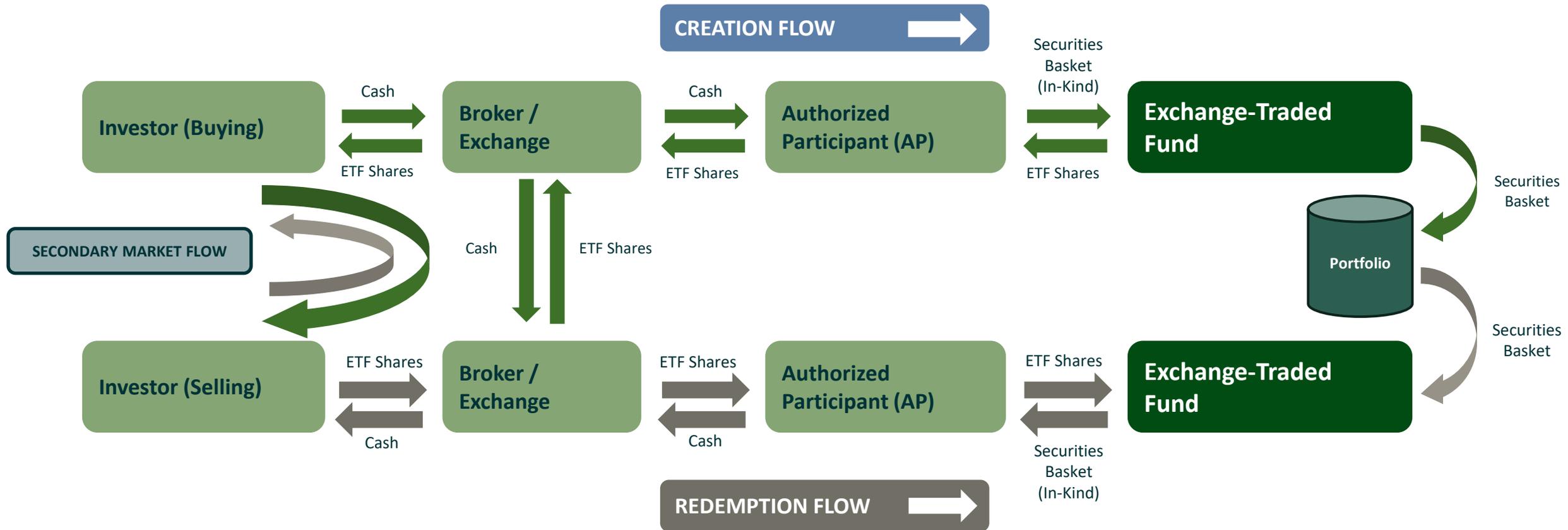
### Concentrated Portfolio

Carefully selected companies

The Sequoia Approach: Active management through disciplined research since 1970.

# The ETF Mechanics: Creation & Redemption

Authorized Participants (APs) facilitate the creation and redemption of ETF shares through in-kind transfers.



The in-kind transfer mechanism is the foundation of ETF tax efficiency — portfolio securities are exchanged, not sold for cash.

# The Magic of Tax Efficiency: In-Kind Transfers Explained

## Mutual Fund: Taxable Distributions

- 1 Fund sells appreciated stock for cash
- 2 Distributes capital gains to all shareholders
- 3 Shareholders pay annual taxes

Redemptions force the manager to sell appreciated securities, creating taxable events for ALL remaining shareholders.

## ETF: Tax-Efficient In-Kind Transfers

- 1 Fund transfers appreciated stock in-kind to Authorized Participant
- 2 Limited fund-level taxable sales occur
- 3 Taxes typically deferred until you sell your ETF shares

The ETF can strategically choose to give APs the portfolio securities with the lowest tax basis, further reducing the tax burden to shareholders.

“No muss, no fuss, no capital gains transaction for the ETF.”  
Result: Your investment grows tax-efficiently until **you** decide to sell ETF shares.



# Investor Control & Compounding

## A Powerful Advantage

### Control Over Tax Events

The timing of capital gains is in YOUR hands. Typically, you only incur capital gains taxes when you choose to sell your ETF shares.

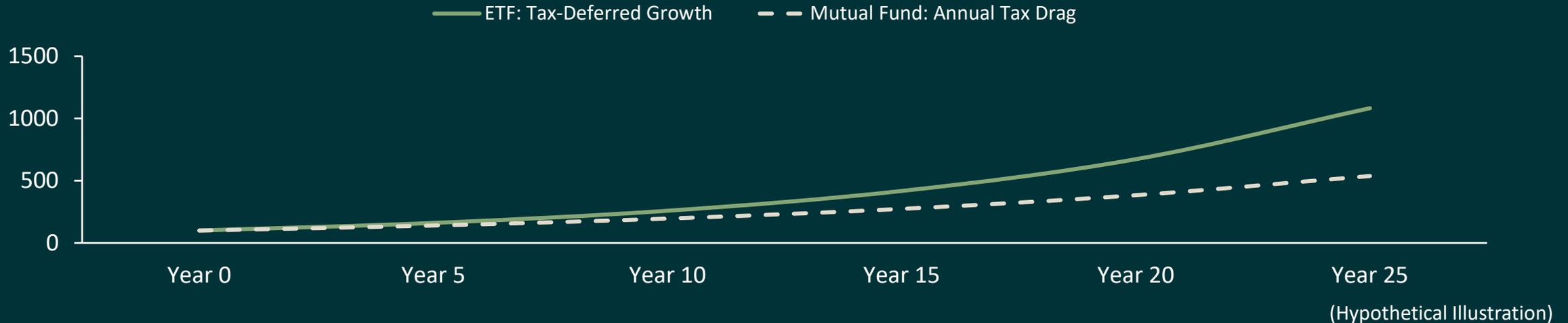
### Uninterrupted Compounding

Deferred taxes keep more investment value working and growing without being eroded by annual payments.

### Estate Planning Benefits

Beneficiaries can benefit from a step-up in basis, further enhancing transferred value.

## Compounding Effect: Tax Deferral



You choose when to incur taxes, maximizing your long-term growth potential.

# Beyond Taxes: Comprehensive ETF Benefits

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## Transparency

Daily public disclosure of entire portfolio holdings.



## Liquidity & Trading

Trade throughout the day with limit orders and advanced options.



## Simplified Reporting

Consolidated 1099 eliminates individual foreign tax reclaims.



## Portfolio Management Flexibility

Make portfolio changes without incurring substantial transaction costs in the form of brokerage and other commissions.

# Important Considerations & Nuances

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A balanced view of potential risks and considerations for ETF investors.

## **Requires a Brokerage Account**

ETF shares need to be held in brokerage accounts with the ability to transact in ETF shares.

## **Trading Price**

ETF shares trade in a secondary market at market determined prices, which may differ from the NAV.

## **Transparency Risks**

Full daily portfolio disclosure means others could potentially replicate the manager's strategy without paying the fee.

## **Inflow Control**

ETFs generally cannot close to new investors, which could lead to capacity constraints if AUM grows rapidly.

## **Transaction Costs**

Bid/ask spreads can widen during market turmoil, potentially increasing costs. Such costs are typically minimal under normal conditions.

## **IRA Shareholders**

Investors in tax-advantaged accounts do not directly benefit from tax efficiency. These investors may need new brokerage accounts for custody.

## **In-Kind Transfer Dependency**

Tax advantages depend on Authorized Participants engaging in in-kind transfers. In rare circumstances, small tax distributions could occur.

We are actively managing these considerations to mitigate potential risks for our clients.

# The Sequoia Strategy in an ETF Wrapper

## Our Investment Philosophy and Process: Unchanged Since 1970.

### Unchanged Philosophy

Core investment philosophy refined since 1970 remains unchanged. Same investment committee and analysts.

### Continuity of Principles

Disciplined research, long-term thinking, and concentrated portfolio of carefully researched companies.

### Client-Centric Evolution

This conversion is an evolution to a modern, transparent vehicle designed to provide significant in-kind tax advantages and allow for uninterrupted compounding for our long-term investors.

## Conversion Timeline



# Embracing the Future

## *Sequoia ETF*

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The evolution to an active ETF structure represents a significant step forward, offering improved tax efficiency and greater investor control, while retaining the proven investment strategy of Ruane Cunniff.

*We remain committed to our clients and our disciplined approach to long-term value creation.*

## Learn More

[www.ruanecunniff.com](http://www.ruanecunniff.com) | [www.sequoiafund.com](http://www.sequoiafund.com)

Visit our websites for detailed information and FAQs.  
Our client team is available to discuss any questions.

