



Below are some frequently asked questions and answers about making our Sequoia strategy available through an actively-managed exchange-traded fund (“Sequoia ETF”). If your specific question is not addressed here, or you would like further clarification, don’t hesitate to contact our client team by telephone at 212-832-5280 or by email at [info@ruanecunniff.com](mailto:info@ruanecunniff.com), or contact your account representative directly.

## **UNDERSTANDING THE CONVERSION**

### **What’s happening?**

We have decided to establish an ETF employing the Sequoia strategy. Later this year, you may, if you elect to do so, contribute the portfolio securities in your SMA to the ETF in return for ETF shares. If you elect to participate in the conversion, and once the ETF receives all required approvals, the portfolio securities in your SMA will be contributed to the newly created ETF – the Sequoia ETF – with the same investment objectives, investment strategies, fundamental investment restrictions, and portfolio management team, and substantially similar investment risk as the Sequoia model portfolio. The portfolio securities in your account will transfer to the Sequoia ETF tax-free if you meet the IRS rules (see: “Is my account eligible to participate”), with no sales and no gains recognized at conversion. In exchange for contributing your portfolio securities, you will receive the equivalent value in shares of the Sequoia ETF. This is referred to as a 351 exchange, which is a tax-free exchange that preserves your cost basis and avoids capital gains at the time of conversion. This benefit is not available to accounts that move later, outside of the 351 exchange process.

### **What is not changing as part of this conversion?**

The defining characteristics of Ruane Cunniff and the Sequoia Strategy will remain the same:

- The Sequoia model portfolio
- Investment philosophy
- Investment objective
- Investment strategy
- Investment process
- Research process
- Portfolio managers & investment team implementing the strategy
- Long-term focus

### **How could electing to participate in this conversion potentially benefit me?**

There are several potential benefits to participating clients:

- In a 351 exchange/conversion, your original cost basis carries over to the Sequoia ETF and unrealized gains largely remain deferred until you choose to sell Sequoia ETF shares, meaning long-term compounding continues uninterrupted.



- ETFs are typically managed to minimize capital gains distributions, allowing taxes to be deferred and giving their shareholders greater control over when capital gains are recognized.
- Compared to SMA tax reporting, tax reporting for the ETF is simplified, with one consolidated 1099 reflecting only the aggregate sales of securities by the ETF. Your SMA 1099 typically includes pages and pages of sales of individual underlying portfolio securities.
- Because ETFs are listed on exchanges, investors can buy or sell ETF shares throughout the trading day.
- If ETF shares are held long-term and later transferred as part of an estate, beneficiaries generally receive a step-up in basis, which may reduce or eliminate taxes on previously unrealized gains.

### **What are some of the differences between investing in the ETF and having an SMA with Ruane Cunniff?**

Holding ETF shares is different than having an SMA account holding multiple portfolio securities, and there are a few things you should know up front:

- ETF shares trade in a secondary market at market-determined prices, which may differ from the ETF's net asset value (NAV).
- ETF shareholders may be charged fees and commissions by their brokers when transacting in ETF shares. This is similar to commissions charged in the SMA when portfolio holdings are traded. The commission arrangements may, however, differ.
- There are risks to investing in the ETF, and they are described in the ETF's prospectus. The Sequoia ETF's preliminary prospectus is [available here](#), but it is not yet effective. The final prospectus will be effective and available for your review before the conversion takes place. Investing in the ETF includes different risks than investing directly in the underlying portfolio securities.

### **What are some of the potential drawbacks?**

The primary potential drawback for SMA clients is the inability to customize their portfolio. Because the Sequoia ETF is a pooled vehicle, shareholders of the ETF have an indirect interest in the same portfolio of underlying securities. You also will not be able to use individual company shares for gifting or participate in proxy voting with respect to the issuers of the underlying portfolio securities; however, Sequoia ETF shares can be used for gifting.

### **Is my account eligible to participate?**

To participate in the 351 exchange an account must meet specific diversification rules: at the time of contribution of portfolio securities to the Sequoia ETF, no single security can exceed 25% of the total value of securities contributed to the conversion, and the top five holdings cannot exceed 50% of the total value of securities. Each of these tests is run on an issuer-by-issuer basis. Accounts that are significantly off-model may require some adjustments to make them eligible. We will engage directly with clients whose accounts do not qualify in their current form to determine the most practical solution for their individual portfolio.



### **Do I have to participate?**

No. Participation in the conversion is optional for SMA clients, but we are encouraging eligible taxable clients to consider participation. Unless you require the ability to customize your SMA portfolio, we feel that the potential benefits of the ETF structure outweigh the potential drawbacks. This is particularly true of smaller SMAs where the ETF structure makes it easier to keep the account on model.

Please note, the opportunity to convert to the Sequoia ETF tax-free is only available at the time of the conversion. If you elect not to participate in the conversion, you will not have another opportunity to contribute portfolio securities in your account tax-free into the Sequoia ETF.

SMA clients that do not participate in the conversion will maintain their current account as-is.

Non-taxable accounts are not eligible to participate in the conversion and will remain as-is.

### **PREPARING FOR CONVERSION**

#### **What does the process involve and what's the timeline?**

March-July – Participation Decision: Once you have determined whether or not to participate in the conversion, please communicate your choice to our team. If you have decided not to participate in the conversion, nothing will change with your account. If you have decided to participate in the conversion and the conversion receives other required approvals, your account representative will either confirm that your account is eligible to participate in its current form or outline the options to make the account eligible. We will also require you to sign a Letter of Authorization and an amended Investment Management Agreement. We are requesting that clients communicate their decisions by the end of July.

July-August – Account Adjustments: Any adjustments that are required to make an account eligible to participate in the conversion should be completed by the end of August, but we will work with you in advance of that to formulate a plan. There will be transaction costs and potential tax effects associated with any adjustments. Similarly, accounts with Special Holdings or off-model positions should have a plan in place by August 15. (See: **“What happens to my special holdings / off-model positions”** below) If you would like your Sequoia ETF shares to transfer to a brokerage other than Pershing, we will need the account details no later than August 15.

Early September – Freeze Period: ***In the five (5) to seven (7) business days leading up to the conversion, your account will be frozen to ensure a proper transfer of securities to the Sequoia ETF.*** All necessary contributions, withdrawals, or rebalances should be completed by the end of August. We will communicate the exact cutoff and freeze dates to you as we approach the conversion date.

Mid-September – Conversion date: We are currently targeting September 11 as the conversion date and September 14 as the first trading day of the Sequoia ETF. This date is subject to change and will be confirmed as we get closer. ***Please note, after the conversion, there will be a period (possibly as long as one (1) to two (2) weeks) when your SMA will have “delivered out” the portfolio holdings you have agreed to contribute to the Sequoia ETF, but you will have yet to receive your Sequoia ETF shares.***

We believe we have chosen a world-class group of outside counterparties to assist us with the conversion process, and we will be reviewing it to ensure it proceeds as rapidly as possible, but the process is complex, and the above-mentioned periods of temporary inconvenience will be unavoidable.



### **Do I need a brokerage account to participate in the conversion?**

Yes, a brokerage account is required to receive and hold ETF shares. The majority of our SMA clients have accounts at Pershing that will qualify as a brokerage account to hold the ETF shares. For SMA clients that have accounts away from Pershing, please confirm that your account can hold ETF shares.

### **What happens to my special holdings / off-model positions?**

Our client team will work with accounts that have meaningful Special Holdings balances or are out of line with our model to determine the possible solutions given their circumstances. This may include rebalancing the portfolio (which may have tax implications, transaction costs and give rise to taxable gains), holding back some positions from the conversion process, or contributing more assets (cash and/or securities).

Special Holdings securities that are currently in the Sequoia model will be eligible to be contributed as part of the conversion provided the combined portfolio still satisfies the diversification requirements of Section 351. Special Holdings securities that are not currently in the Sequoia model may also be eligible (again subject to the diversification rules) at the discretion of the Investment Committee.

### **What happens to my cash balance during the conversion?**

By default, the cash in your account is contributed alongside your securities and is reflected in the total value used to determine the Sequoia ETF shares you receive. You will receive Sequoia ETF shares based on the total value of the cash and portfolio securities contributed to the Sequoia ETF at closing.

If you would like to withdraw cash from your account prior to the conversion, we will need your instructions by August 15 and the withdrawal to be executed by August 31 in advance of the freeze period. We'll communicate the exact cutoff and freeze dates to you closer to the conversion.

## **AFTER THE CONVERSION**

### **Who will be responsible for my portfolio and account?**

Ruane Cunniff will be the investment adviser to the Sequoia ETF. Our client team will remain your primary resource for questions about your remaining portfolio and how it is managed.

Your broker will be responsible for account-level administration, including custody of your Sequoia ETF shares, trade execution, statements, tax reporting, and related services.

### **What happens to my cost basis?**

Your SMA cost basis carries over to the Sequoia ETF, meaning the total cost basis of your account at the time of the exchange is spread across the ETF shares you receive. The Sequoia ETF share lots will also reflect the long term/short term nature of portfolio you contributed. You should consult with your broker as to the methodology they will use to apply the holding period and cost basis of your SMA securities to your Sequoia ETF share lots.



### **Will I ever have to pay taxes with regard to the ETF?**

Yes. If you sell the Sequoia ETF shares, you will owe taxes on any gains relative to the basis assigned to the specific lots sold, unless it becomes a part of your estate, in which case your heirs may get a step-up in basis on the shares. There may be annual distributions of income from the Sequoia ETF that will be taxable to you, such as income earned by the ETF from dividends or interest. In addition, it is possible that there could be capital gains distributions by the Sequoia ETF that are subject to tax, although any such distributions are not expected to be substantial.

### **How are capital gains taxed?**

Compared to SMAs, where direct ownership of portfolio securities means portfolio sales can result in a tax bill, ETFs are typically managed to minimize capital gains distributions. In many cases, you realize a gain only if you sell your Sequoia ETF shares at a profit.

### **How are dividends taxed?**

Dividends paid by the Sequoia ETF are treated similarly to dividends from individual stocks. The Sequoia ETF will periodically deposit dividends into your brokerage account. These are generally taxed as qualified dividends or ordinary income according to IRS rules. You can elect to reinvest dividends or receive them in cash through your brokerage.

### **How do I withdraw cash?**

Any cash contributed as part of the conversion will be converted into Sequoia ETF shares. Once the conversion is complete, you simply sell Sequoia ETF shares through your brokerage account and transfer the proceeds after the trade settles. Settlement typically occurs within one to two business days, depending on your brokerage arrangement.

### **How are purchases and sales of ETF shares handled?**

You can transact directly in your brokerage account just as though you were purchasing or selling a stock.

### **What happens to my recurring transactions?**

Any automatic contribution or withdrawal programs that were established in your SMA account will not carry over to the ETF. You will need to re-establish recurring transactions directly with your broker after the conversion. For Pershing accounts, we can do this on your behalf.

### **What will happen to the statements and reports that I receive as an SMA client?**

Statements and tax documents will continue to come from your brokerage account custodian. You will also receive regulatory documents including the Sequoia ETF's prospectus and annual/semi-annual reports from



your broker. Your broker may also provide some ETF-level reporting such as positions, transactions, and dividends in your statements or online account.

Additionally, Ruane Cunniff will produce quarterly reporting and commentary on the Sequoia ETF's portfolio and performance. The materials will be available on the Sequoia ETF website and shareholders will have the option to join the Sequoia ETF mailing list.

**Can I direct sales of specific underlying securities?**

No. The conversion will result in you holding ETF shares rather than individual Portfolio securities.

**Can I do tax-loss harvesting?**

You can still harvest losses by selling Sequoia ETF shares at a loss and observing wash-sale rules, but you won't be able to harvest losses on specific portfolio holdings of the Sequoia ETF.

**Can I still gift shares of securities?**

You can gift ETF shares just as you would individual stocks. Following your broker's procedure, you may transfer shares to another person or entity.

**How are shares of the ETF treated for basis step-up purposes?**

In a taxable account, Sequoia ETF shares are treated like stocks or mutual funds for estate planning purposes. If the account owner passes away, the shares typically receive a step-up in cost basis to their fair market value on the date of death, which can reduce or eliminate capital gains on prior appreciation. Specific outcomes depend on estate and tax rules which can vary by state.

**If I have an IRA, am I still required to take an RMD on my Sequoia ETF holding?**

Yes. Required minimum distributions are based on the type of account you hold your Sequoia ETF shares in, not on the investment itself. You can satisfy the RMD by selling Sequoia ETF shares (or other positions) and distributing cash, or by in-kind distribution of Sequoia ETF shares if supported by your brokerage arrangement.

While Roth IRAs generally do not have RMDs during the original owner's lifetime, different rules may apply to beneficiaries.

**Will you still handle foreign tax reclaims and class action lawsuits on my behalf?**

Yes. The Sequoia ETF's administrator will handle foreign tax reclaims and monitor class action settlements for the fund as a whole. Any recoveries or reimbursements will be reflected in the Sequoia ETF's NAV and tax reporting.

\* \* \* \* \*



## Disclosures

An investor should consider the investment objectives, risks, and charges and expenses of the Sequoia ETF carefully before investing. The Sequoia ETF's prospectus contains or will contain this and other information about the Sequoia ETF. An investor may obtain the prospectus by [clicking here](#). The prospectus should be read carefully before investing. The information in the Sequoia ETF prospectus is not complete and may be changed. The Sequoia ETF may not sell its shares until the registration statement filed with the SEC is effective. The prospectus is not an offer to sell the shares and is not soliciting an offer to buy the shares in any state where the offer or sale is not permitted.