

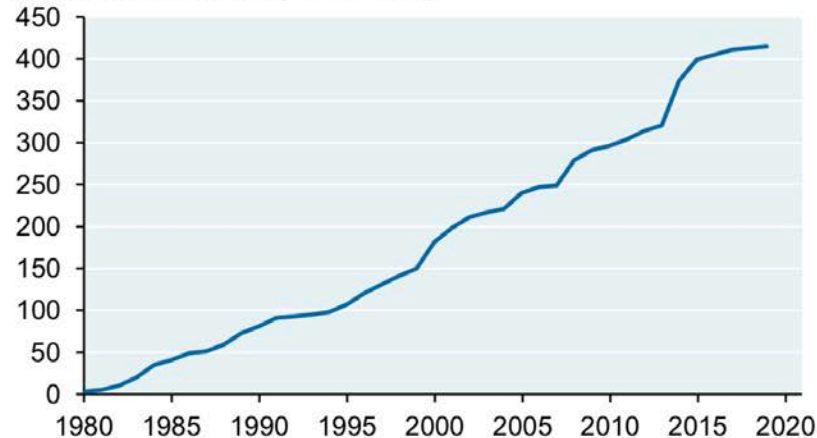


Introduction to Stock Protection Trusts

January 2022

Stock Concentration = Underestimated Risk of Large Losses

Cumulative number of companies removed from the S&P 500 due to distress, 1980-2019



Source: Bloomberg, Factset, J.P. Morgan Wealth Management. 2019.

| Sector | Total % of companies experiencing "catastrophic loss" 1980-2020 |
|------------------------|---|
| All sectors | 44% |
| Communication Services | 49% |
| Consumer Discretionary | 48% |
| Consumer Staples | 32% |
| Energy | 65% |
| Financials | 29% |
| Health Care | 48% |
| Industrials | 39% |
| Information Technology | 59% |
| Materials | 38% |
| Utilities | 14% |

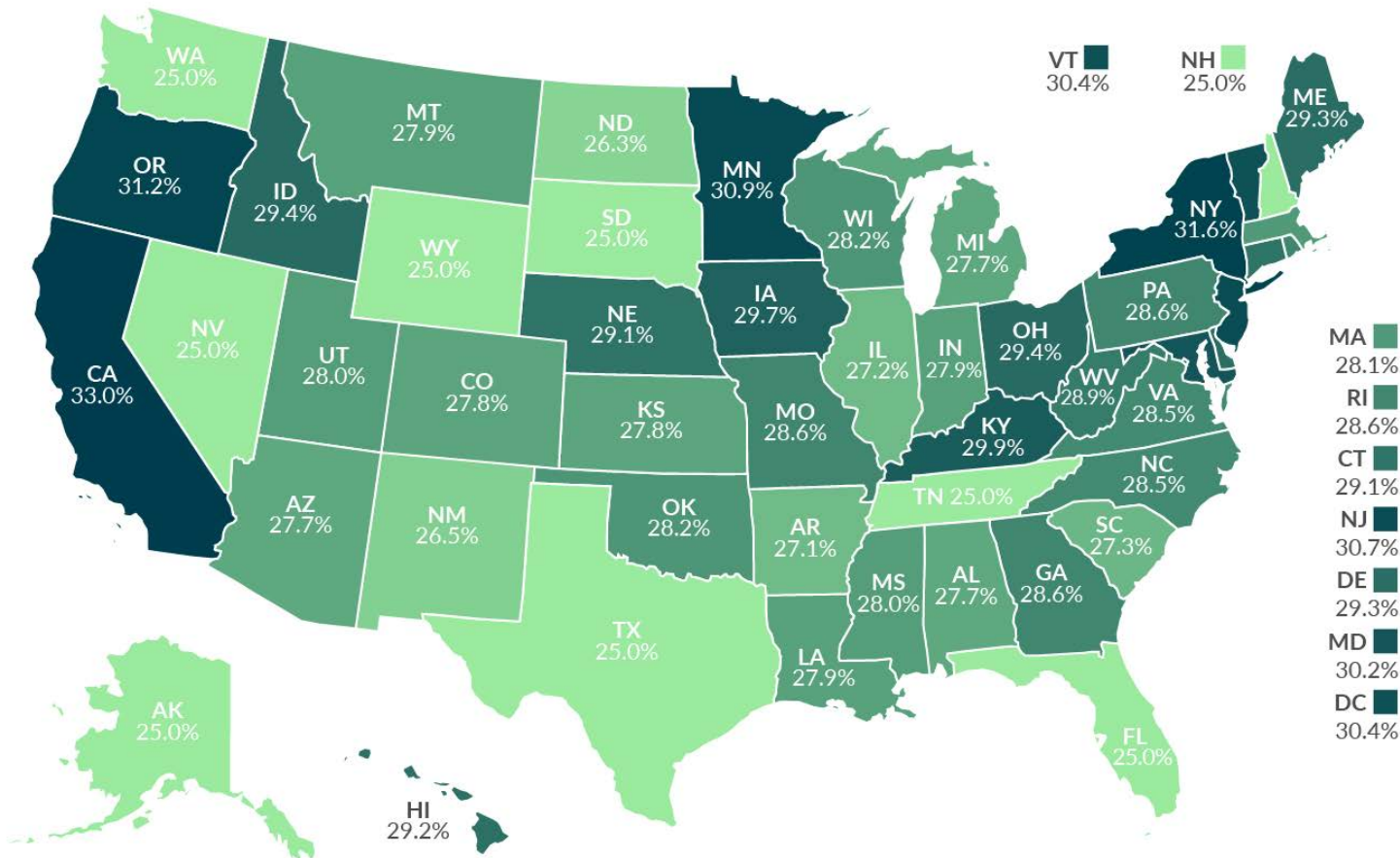
Source: Factset, Bloomberg, J.P. Morgan Wealth Management. September 2020.

"No matter how well you know your industry and your company, no one is impervious to event risk and industry changes. The factors outside management control...are a formidable list, and have grown in complexity since we first drafted this report 10 years ago. *This is perhaps the most important epiphany we gained from the study: that exogenous forces may overwhelm the things we can control.*"

Source: *The Agony & The Ecstasy: The Risks and Rewards of a Concentrated Stock Position*, by Michael Cembalest, J.P. Morgan Asset Management

Tax Consequences of Selling are Substantial

Many investors have large unrealized gains while the tax cost of selling can exceed 30%



Note: Accounts for state and local tax rate on capital gains income, the 3.8 percent Net Investment Income Tax, and the marginal effect of the Pease limitation on itemized deductions. Alabama, Iowa, and Louisiana allow one to deduct federal income taxes from state taxable income.

Source: Tax Foundation, IRS Statistics on Income, Commerce Clearing House



Dedicated Stockholders are Committed to their Position

- **Some investors reluctant to sell for reasons other than taxes**
 - Belief stock will further appreciate
 - Dividend yield
 - Strong emotional attachment to stock
 - Restrictions compelled by securities laws/regulations or contractual provisions (IPO-lock-up, merger or employment agreement)
- **For dedicated stockholders, it seems prudent to:**
 - Preserve unrealized gains
 - Defer triggering a taxable event, and possibly eliminate the capital gains tax
 - Retain all future appreciation and dividend income
- **Difficult to find a solution that can fulfill these objectives over a long-term period**
- **Investors looking for new tools to address concentration risk**

An Alternative Solution: The Stock Protection Trust (SPT)

- **What is a Stock Protection Trust?**
 - Patented long-term solution for cost-efficient risk management
 - Preserves stock's unlimited upside potential
 - Full or partial refund if many of the protected stocks appreciate
- Each investor contributes cash into a cash pool which is used to reimburse losses (if any)
- Investor can sell their protected stock at any time
- Investor's stock remains with the investor and not encumbered in any way
- Does not trigger the "tax straddle" or "constructive sale" rules; does not disqualify Qualified Dividend Income (QDI); and does not involve any counterparty risk
- Based on the time-tested principles of both modern portfolio theory and risk-pooling

The Mechanics of How SPTs Work – An Overview

- 20 stockholders – each owning a different stock in a different industry – contribute cash (not stock) into a Cash Pool
- For example, 20 stockholders – each protecting \$5 million of stock – create a Cash Pool of \$10 million ($20 \times \$500,000 = \10 million)
- The Cash Pool is invested for 5 years by U.S. Bank in 5-year U.S. Government Bonds
- After 5 years, the Cash Pool is disbursed according to 1 of 2 possible scenarios:
 - Cash Pool > Stock Losses
 - Stock Losses > Cash Pool

Scenario 1 of 2: Cash Pool Exceeds Stock Losses

WITHOUT a Stock Protection Trust...



WITH a Stock Protection Trust...

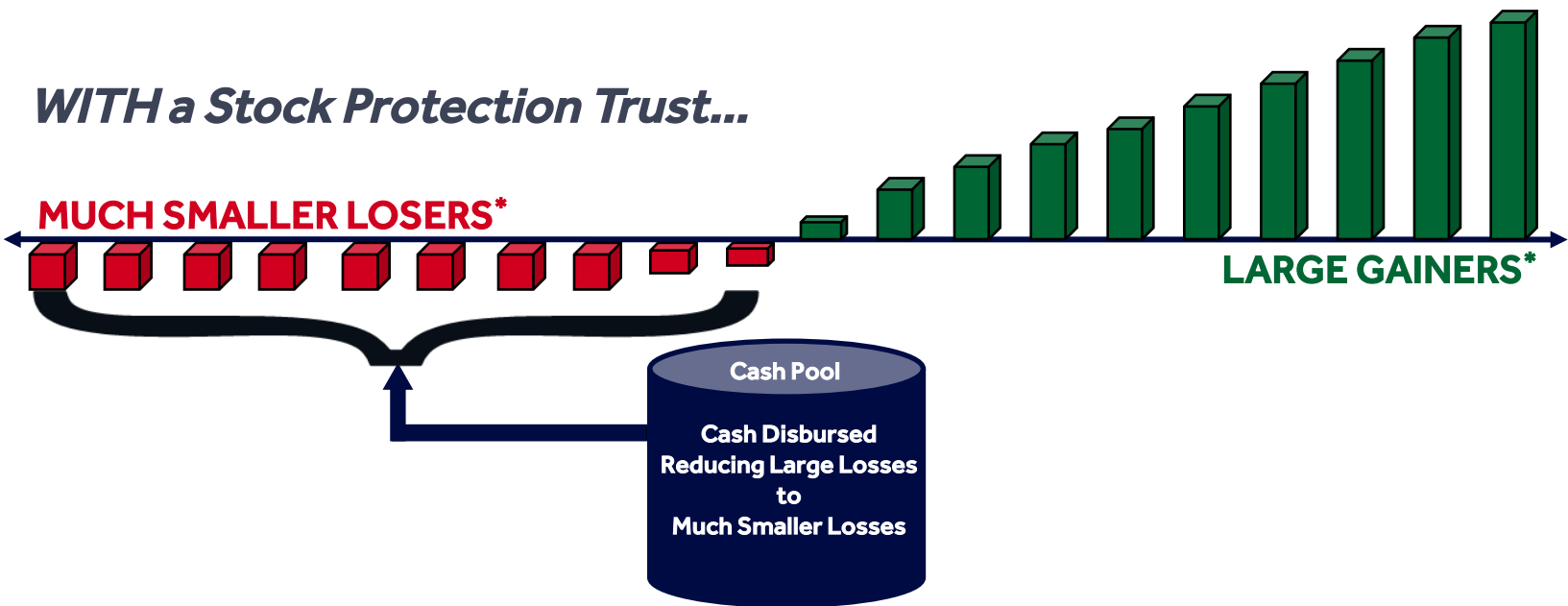


Scenario 2 of 2: Stock Losses Exceed Cash Pool

WITHOUT a Stock Protection Trust...



WITH a Stock Protection Trust...



*Gross of SPT fees
STRICTLY PRIVATE & CONFIDENTIAL

The Mechanics of How SPTs Work – An Example

Showing Cash Contribution of 2% per annum or \$0.5 Million Paid Up-Front by 20 Investors – Each Protecting a \$5 Million Stock Position for 5 Years
 ...Resulting in a Maximum Stock Loss of 0% (i.e. All Losses are Fully Reimbursed by the Cash Pool)*

INITIALLY (DAY 1)

| 20 Investors with 20 Different Stocks In 20 Different Industries | | |
|---|-----------------|-----------------------|
| Investor | Stock Protected | 10% Cash Contribution |
| 1 | \$5M | \$0.5M |
| 2 | \$5M | \$0.5M |
| 3 | \$5M | \$0.5M |
| 4 | \$5M | \$0.5M |
| 5 | \$5M | \$0.5M |
| 6 | \$5M | \$0.5M |
| 7 | \$5M | \$0.5M |
| 8 | \$5M | \$0.5M |
| 9 | \$5M | \$0.5M |
| 10 | \$5M | \$0.5M |
| ⋮ | ⋮ | ⋮ |
| 20 | \$5M | \$0.5M |
| TOTAL | \$100M | \$10M |

* Gross of SPT fees

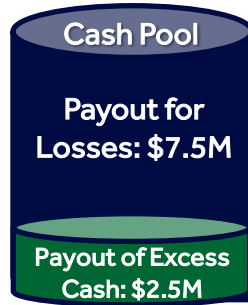
** Assumes Investors 11-19 have positive total returns

*** Assumes the annual cost of operating the SPT is fully paid for by interest income generated by the Cash Pool

Day 1



After 5 Years



AFTER 5 YEARS

| **Investor | Without a Stock Protection Trust | | With a Stock Protection Trust | | |
|------------|-------------------------------------|-------|----------------------------------|----------------|-------------------------------------|
| | Stock's Total Return | | ***Total Payout | | Total Payout + Stock Value |
| | % | \$ | Loss | Excess Cash | |
| 1 | -50% | -2.5M | \$2.5M | -- | \$5M |
| 2 | +140% | +7.0M | -- | 0.167M | \$12.167M |
| 3 | -20% | -1.0M | \$1.0M | -- | \$5M |
| 4 | -30% | -1.5M | \$1.5M | -- | \$5M |
| 5 | +60% | +3.0M | -- | 0.167M | \$8.167M |
| 6 | +20% | +1.0M | -- | 0.167M | \$6.167M |
| 7 | -10% | -0.5M | \$0.5M | -- | \$5M |
| 8 | +180% | +9.0M | -- | 0.167M | \$14.167M |
| 9 | +70% | +3.5M | -- | 0.167M | \$8.667M |
| 10 | +10% | +0.5M | -- | 0.167M | \$5.667M |
| ⋮ | ⋮ | ⋮ | ⋮ | ⋮ | ⋮ |
| 20 | -40% | -2.0M | \$2.0M | -- | \$5M |

Cash Pool Pays Stock Losses

Excess Cash Divided Among Those Who Did Not Incur a Loss

Why SPTs Work

MODERN PORTFOLIO THEORY (MPT) tells us that over time there is substantial dispersion in individual stock performance...



- Different stocks in different industries perform very differently
- It's impossible to predict the performance/outcome for a particular stock
- In a world of substantial uncertainty and bubbles, the only certainty is that diversification is the best defense in managing/mitigating downside risk

RISK POOLING spreads similar financial risk evenly among the participants in a self-funded plan designed to protect against catastrophic loss

- Any one investor who sets aside cash lacks the powerful benefit of risk mutualization
- If you set aside cash yourself, in the event of loss, only your money is available to reduce your loss
- In a risk pool, the combined pool of deposits from all contributors is available to reimburse losses

Combining the properties of MPT and Risk Pooling provides a cost-efficient risk management solution for concentrated stock owners

Benefits of Using SPTs

- **Cost-effective**
 - Affordability enables investors to embrace a **long-term, strategic approach** to mitigating their stock's specific company risk while retaining 100% of its appreciation and dividends*
- **Tax-efficient**
 - Not a statutory or common law "constructive sale"
 - Not a "straddle" - any gain is LTCG and any loss is currently deductible against capital gains
 - Dividends remain "qualified" and are taxed as LTCG
- **Shares can be sold anytime**
 - Shares are not pledged nor subject to liens/security interests of any kind and therefore can be sold by the investor at anytime during the term of the SPT
- **Shares can be held in custody wherever each shareholder chooses**
- **Simple to use, easy to understand, and completely transparent (i.e. daily mark to market)**
- **Potentially Cashless**
 - Investors can borrow against their shares to fund their contribution to the SPT
 - Investors can write covered calls to help fund the cash contribution
- **No dealer counterparty credit risk**

Who We Are



BRIAN YOLLES
Founder & CEO



KAMRAN NOURI
General Counsel



JOHN BERGER
Chairman



KAREN GENDRON
Financial Principal

- StockShield provides solutions for advisors who are working diligently to solve a significant fiduciary challenge they face with key clients
- Awarded 5 U.S. patents for our innovations, including the Stock Protection Trust and Deferred Compensation Protection Trust
- SEC-registered and FINRA-regulated
- Unblemished regulatory history in 10+ year operating history
- CEO and General Counsel both Yale graduates
- Board includes several members with over 30+ years in financial services

Contact Information



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