Solutions for Tax Efficiency and Asset Location

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The Challenge for Investors

Alternative investments and actively-managed investment funds can be a powerful wealth management tool that offer appealing returns and broad diversification.

- **The Downsides**
  - **Taxes:** Investment earnings taxed as ordinary income or short-term capital gains, where one could be hit with a combined federal and state tax rate of over 50%. There is now an additional tax impact from related investment deductions that have been eliminated due to the Tax Cuts and Jobs Act of 2017.
  - **Reporting:** There is an administrative burden with reporting the income from these assets.

- **A Solution**
  - **Private Placement Insurance Products:** Enables the policyholder to customize the investment options within the contract and provides the policyholder with broader options than typically found in retail variable insurance contracts. The investor can invest in these types of funds without the burden of taxes or the respective tax filing requirements.

  Private Placement variable products have the potential to convert highly-inefficient taxable assets into favorable tax-efficient investments.

Private Placement Life Insurance (PPLI)

PPLI is essentially an investment wrapped inside an insurance policy. PPLI takes advantage of revenue code policy by putting an otherwise taxable investment inside a tax-free life insurance policy. This allows investors to keep the compounded gains of their investments and the death benefit of the life insurance, all tax-free.

- **Operational Benefits / Considerations**
  - Tax deferral of all investment gains with an income tax-tax death benefit
  - Withdrawals up to cost basis and properly structured policy loans may be taken on a tax-free basis
  - Flexible structure to accommodate the policyholder's liquidity needs
  - Elimination of K-1s from underlying investments
  - Institutional pricing with no surrender charges
  - Requires financial and medical underwriting

Tax Characteristics and Attributes

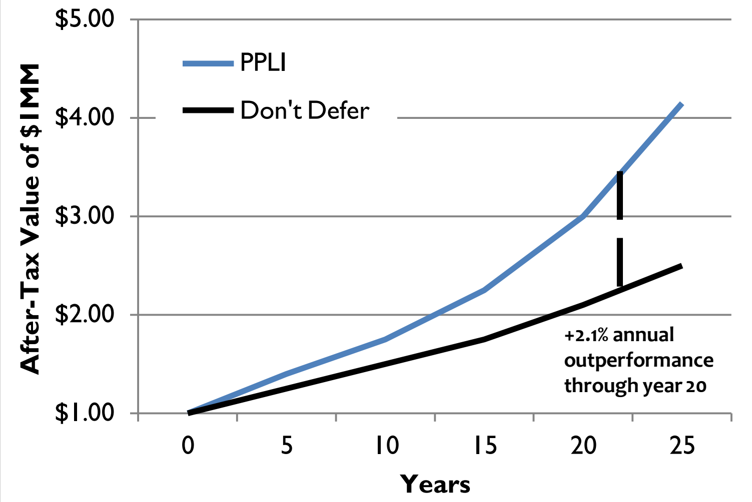
- Investment returns accumulate on a tax-deferred basis. **I.R.C. §7702(g)(1)(A)**
- Assets within a PPLI Investment Account may be reallocated without tax. **Rev. Rul. 81-225 and Rev. Rul. 82-54**
- Withdrawals up to cost basis and properly structured policy loans may be taken on a tax-free basis. Approximately 80% - 85% of PPLI Investment Account values can be accessed income tax-free during the insured's lifetime. **I.R.C. §72(e)(3) and §72(e)(5)**
- If a PPLI Investment Account is fully surrendered, deferred investment gains are subject to tax at ordinary income rates. **I.R.C §72(e)(3)**
- Life insurance proceeds received by a beneficiary, including any accumulated investment gains, are fully exempt from income tax. **I.R.C. §101(a)(1)**

Value proposition: Deferring (or eliminating) tax on investment earnings/gains can add significant value over time

	On-going taxation	Taxation upon distribution
Deferred Scenario (PPLI)	PPLI: No taxation, earnings compound tax-free	PPLI: None, assuming policy is not surrendered and is a Non-MEC
Immediate-Receipt Scenario (i.e. taxable portfolio)	Interest and dividends taxed when received, capital gains taxed when realized	N/A

- The longer you can delay paying taxes on income, the more value there is to compound.
- Income tax elimination can be a significant source of portfolio outperformance over time: "structural alpha."
- PPLI provides opportunities to invest in tax-inefficient asset classes
- Even at lower tax rates, PPLI can provide advantages over a taxable investment.
- Exposure, liquidity, investment horizon, and returns should all be considered in the decision process.

High taxes increase the benefit of PPLI



Assumptions: $1MM pre-tax starting value, 8% pre-tax return of which 2% is yield and 6% appreciation, 40% annual turnover, 43.4% income tax, 23.8% capital gains tax

Applications and Structural Considerations

- **PPLI**
  - **To Improve Tax Inefficiencies in Investment Portfolio:** Investment returns accumulate on a tax-deferred basis and are eventually received by a beneficiary on an income tax-free basis.
  - **To Supplement Retirement Income in a Tax-Efficient Manner:** Approximately 80% - 85% of the PPLI Investment Account values can be accessed income tax-free during the insured's lifetime.
  - **Effectively Utilizing the Estate and Gift Tax Exemption**
  - **Intergenerational Wealth Transfer:** Dynastic Generation Skipping Trust assets grow tax-deferred within PPLI Investment Accounts. While minimizing taxes on investment growth, families are able to grow their assets for their next generation.
  - **ILIT and Split-Dollar Arrangements:** Split-dollar life plans may offer an effective means to limit or eliminate gift tax issues associated with funding a life insurance policy owned by an ILIT, by reducing the amount deemed to be gifted from the full premium funded.

Private Placement Variable Annuity (PPVA)

PPVAs enable investors to defer income tax on investment gains. A variable deferred annuity contract has an owner, a beneficiary, and an annuitant. The owner of a PPVA Investment Account can make deposits, adjust the asset allocation among various tax-compliant investment options, and change the beneficiary designation at any time without a tax impact. The annuitant is the measuring life for payments in the event the annuity is annuitized.

- **Operational Benefits / Considerations**
  - Income tax-deferral of underlying investment gains
  - Elimination of K-1 reporting for assets held in the PPVA
  - Efficient and transparent institutional pricing including no surrender charges imposed by issuer
  - Passes tax free to a family foundation, charity or other tax-exempt entity
  - No limits on contributions and no required minimum distributions (No distributions required until age 95 or older)
  - Distributions are subject to a 10% penalty if annuitant is under 59 ½ years old
  - Distributions on any gains above policy basis are taxed at ordinary income tax rates to the recipient

Tax Characteristics and Attributes

- **Favorable tax treatment (i.e., tax deferral of investment gains held in account) requires compliance with IRS definition of annuity (IRC §72). Denies tax-deferral to annuity contract if not held by an individual.**

- **Exceptions:**
  - Entity holding annuity as "agent for natural persons"
    - Disregarded entities where funder/grantor is an individual
    - Single-member LLC
    - Grantor Trust
  - Non-Grantor Trust to the extent beneficial owners are individuals

- **Tax is deferred on any gains from investments until withdrawals are taken from the annuity**

- **At time of withdrawal, gains above basis are taxed at ordinary income**

- **In addition to any tax payable on withdrawals, a 10% tax penalty will be imposed on withdrawals taken prior to age 59-1/2 in most instances**

Applications and Structural Considerations

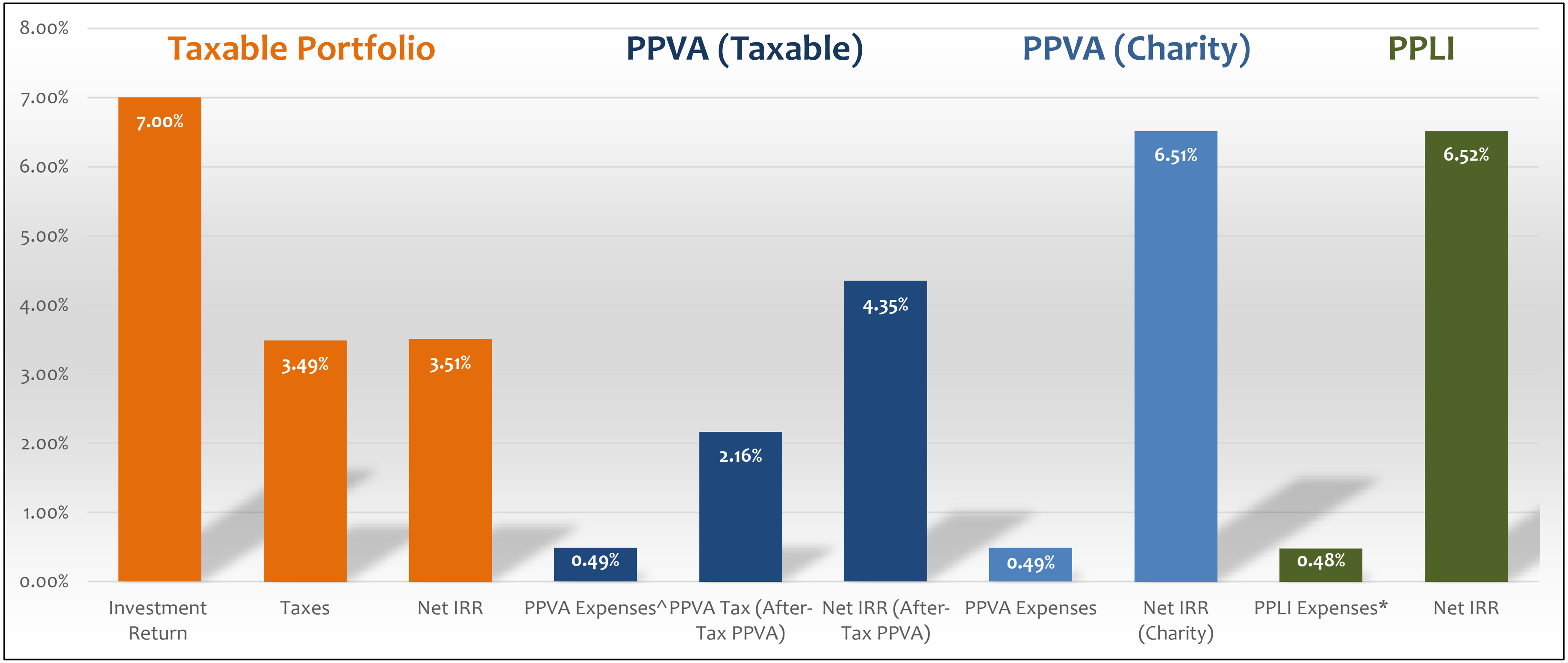
- **Tax-Deferred Investing**
  - Especially attractive for alternative asset class investments generating a high percentage of Ordinary Income, and for clients one day relocating to an income tax-free state (e.g., Nevada, Florida).

- **Charitable Legacy Planning**
  - Ideal for tax-efficient investing of capital that clients do not want to gift irrevocably. By beneficiary designation, a client's personal foundation or favored charities will be gifted the value of the tax-deferred account.

- **Restructuring High-Fee Retail Variable Annuities**
  - §1035 tax-free exchanges permit the accumulated value of high-fee retail annuities to be transferred, free of income tax, to a PPVA Investment Account.

- **Dynasty Planning with a Complex Trust**
  - A planning solution that allows for estate tax elimination and also allow the multi-generational deferral of income taxes.

Wealth Preservation from Efficient Asset Location



- All net IRRs calculated over 30 years.
- Assumes 7.00% return on investments. Actual results may vary and are not guaranteed. No current deductions of losses are allowed and ability to deduct losses on surrender or withdrawal may be restricted.
- Assumes ordinary income tax rate of 54.1% comprised of Federal tax rate of 37.0%, Net Investment Income tax rate of 3.8% and CA State income tax rate of 13.3%.
- Assumes capital gains tax rate of 37.1% comprised of Federal tax rate of 20.0%, Net Investment Income tax rate of 3.8% and CA State income tax rate of 13.3%.
- Assumes 75% ordinary income and 25% capital gains per annum.
- The PPVUL policy assumes $10.0 million of premium contributed over 4 years for a non-MEC single life policy issued in SD and a 50-year-old Male insured with preferred underwriting.
- The PPVA policy assumes $10.0 million premium.

* PPLI Expenses represents all insurance policy charges over first 30 years of the policy.
^ Includes taxes upon surrender value.

Important Information About Cohn Financial Group and PPVUL and PPVA

This material is for educational purposes and should not be relied upon for deciding whether to purchase any policy. For specific facts about the policy that is recommended to you, please carefully read the Private Offering Memorandum, as it will contains details regarding risks and characteristics that are not contained herein, and should be used as your primary source of information.

Private Placement Variable Universal Life (PPVUL) and Private Placement Variable Annuity (PPVA) products are unregistered securities products not subject to the same regulatory requirements as registered variable products. As such, PPVUL and PPVA should only be presented to accredited investors or qualified purchasers as described by the Securities Act of 1933 and the Investment Company Act of 1940. The information presented here is not an offer to purchase or the solicitation of an offer to purchase an investment product and under no circumstances should be construed as a prospectus or advertisement.

PPVUL and PPVAs are long-term investments. The value of the investment options will fluctuate and, when redeemed or annuitized, may be worth more or less than the original cost. Product guarantees, including the death benefit, are subject to the claims-paying ability of the issuing insurance company. Alternative investments, such as hedge funds, involve risks that may not be suitable for all investors. These risks include (but are not limited to), the possibility that the investment may not be liquid, principal return, and/or interest rate risk. Higher fees associated with alternative investments may offset any potential gains. Investors should consider the tax consequences, costs and fees associated with these products before investing.

PPVA: If buying a variable annuity to fund a retirement plan that already provides tax deferral (such as a 401(k) plan or IRA), you should do so for reasons other than tax deferral, as you will receive no additional tax advantage from the variable annuity. Withdrawals of taxable amounts are subject to ordinary income tax and, if made prior to age 59 ½ , may be subject to an additional 10% Federal income tax penalty.

When referenced, the IRR on the PPVUL Surrender Value is equivalent to an interest rate (after taxes) at which an amount equal to the illustrated premiums could have been invested outside PPVUL to arrive at the same Surrender Value as PPVUL. Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

A modified endowment contract ("MEC") is created when the amount by which the contract death benefit exceeds the policy cash value or "amount at risk" is less than the minimum allowed by the IRS. A MEC does not receive the same beneficial tax treatment on policy loans and withdrawals as a non-MEC life insurance contract. Also, if a life insurance contract becomes a MEC while inforce, the policy holder may be subject to additional taxes and penalties.

The tax and legal references attached herein are designed to provide accurate and authoritative information with regard to the subject matter covered and will be provided with the understanding that Cohn Financial Group is not engaged in rendering tax, legal or actuarial services. If tax, legal or actuarial advice is required, you should consult your accountant, attorney or actuary. Cohn Financial Group does not replace those advisors.

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Your benefits (including life insurance) are not guaranteed, but may be entirely dependent on the investment performance of the subaccounts you select. Poor investment performance could cause your policy to lapse and you could lose your insurance.

Investors should consider the investment objectives, risks, charges and expenses of any variable product carefully before investing. This and other important information about the investment company is contained in each product's offering memorandum, which can be obtained by calling (602) 468-9667. Please read it carefully before you invest.

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