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<table>
<thead>
<tr>
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<th>May Lose Value</th>
</tr>
</thead>
</table>

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• Capabilities and interest from the next generation
• How many generations the land has been in the family
• Split families--2\textsuperscript{nd} marriages
• Profitability/cash flow of farm, ranch and timber operations
• Liquidity and asset structure of other family wealth
• Resident or non-resident owner
• Non-family ranch/farm manager
• Age of non-family ranch manager
• Potential estate tax
• Tax cost basis
• Board, committee and oversight structures
• Advisory team
DISCUSSION TOPICS

SUCCESION PLANNING

- Continuity of the underlying enterprise-ranch, farm, timber
- Alternative legal structures-LLC, FLP, C-Corp
- Future ownership
- Transferring that ownership
- Determine heirs to manage property
- Objectives for the land-business, homestead, recreation
- Funding the operation

FAMILY GOVERNANCE

- Family board-composition, independent members, terms, roles & powers
- Management and employment practices
- Family employment policies
- Conditions for future sale and how decision will be made
- Decisions on acquiring debt
- Family meetings
- Managing recreational use-hunting, fishing and hiking
- Fees for external use
### FAMILY GOVERNANCE

#### GOVERNANCE COMPARISONS

<table>
<thead>
<tr>
<th>FAMILY BUSINESS</th>
<th>FAMILY TRUST</th>
<th>FAMILY OFFICE</th>
<th>PRIVATE TRUST COMPANY</th>
<th>FAMILY COUNCIL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits:</strong></td>
<td>• Source of wealth and identity • Employment • Order / hierarchy</td>
<td>• Legal process/ potential tax benefits • Professional asset management • Balances needs of multiple beneficiaries</td>
<td>• Manages family risk — taxes and insurance • Oversees team of advisors • Educates and trains the future heirs • Vehicle for family engagement</td>
<td>• Reduces liability exposure for family-member trustees • Investment flexibility — includes private businesses and concentrations • Preserves family investment philosophies</td>
</tr>
<tr>
<td><strong>Challenges:</strong></td>
<td>• Succession • Members not employed • Dividend policies</td>
<td>• Sometimes impersonal • Times and needs change • Trustee succession • Ability to decant</td>
<td>• Costs/efficiencies • Staffing and succession • Staying relevant over time</td>
<td>• Increased costs/ capitalization • Regulator compliance/ audits • Staffing</td>
</tr>
<tr>
<td><strong>Relevance:</strong></td>
<td>• When significant number of family members work in company • The major source of current income</td>
<td>• Tax and estate planning driven • Family may want a corporate trustee at the table • Family may not want to be forever engaged in managing assets</td>
<td>• Family still engaged in investing • Pooling assets for access to investments • Need some professional assistance • Accounting is important</td>
<td>• Family in third or fourth generation • Many trusts and beneficiaries • Family business in trusts • Wish to retain concentrations</td>
</tr>
</tbody>
</table>
CONCEPTS OF ESTATE TRANSFER

• Treat all children equally with same ownership of each asset
• Only heirs who work in the business or on the ranch will inherit it
• Equalization of estate
• Fair and equitable, but not necessarily equal
## Ownership Succession Alternatives

<table>
<thead>
<tr>
<th>Succession Strategy</th>
<th>Benefits</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single majority owner/operator</td>
<td>• Sole decision maker</td>
<td>• Exposure to tough times</td>
</tr>
<tr>
<td></td>
<td>• Can still consult with minority owners</td>
<td>• Higher liability for decisions</td>
</tr>
<tr>
<td></td>
<td>• If competent, a smooth operation</td>
<td>• Siblings could stir discontent</td>
</tr>
<tr>
<td>Equal active owners</td>
<td>• Complimentary talents</td>
<td>• Confusion over roles</td>
</tr>
<tr>
<td></td>
<td>• More financial backing</td>
<td>• Decision authority</td>
</tr>
<tr>
<td></td>
<td>• Reduce exposures</td>
<td>• Competition for power</td>
</tr>
<tr>
<td>Passive shareholders</td>
<td>• Capital</td>
<td>• May require dividends</td>
</tr>
<tr>
<td></td>
<td>• Participation-family involvement</td>
<td>• Employment, board role or other privileges</td>
</tr>
<tr>
<td></td>
<td>• One heir as managing partner</td>
<td>• Requires supportive shareholders</td>
</tr>
</tbody>
</table>
## FAMILY STAKEHOLDERS

<table>
<thead>
<tr>
<th>ROLE</th>
<th>AREA OF INVOLVEMENT</th>
<th>EXPECTED ROLES AND BEHAVIORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>• Family business&lt;br&gt;• Operating farm or ranch&lt;br&gt;• Family office&lt;br&gt;• Family foundation&lt;br&gt;• Real estate business</td>
<td>• Provide business leadership&lt;br&gt;• Set and implement operating principles&lt;br&gt;• Understand and manage risks&lt;br&gt;• Collaborative style with family shareholders</td>
</tr>
<tr>
<td>Directors</td>
<td>• Family council&lt;br&gt;• Family business board&lt;br&gt;• Foundation board&lt;br&gt;• Trustee</td>
<td>• Oversight role of family entities&lt;br&gt;• Align family shareholders &amp; management’s interests&lt;br&gt;• Insure sound succession plans are in place</td>
</tr>
<tr>
<td>Shareholders</td>
<td>• Outside careers&lt;br&gt;• Family meetings&lt;br&gt;• Investor relations&lt;br&gt;• Trust beneficiaries</td>
<td>• Understand the family enterprise&lt;br&gt;• Achieve some level of financial literacy&lt;br&gt;• Understand the need for good stewardship</td>
</tr>
</tbody>
</table>
## FUTURE OWNERSHIP OPTIONS

<table>
<thead>
<tr>
<th>OWNERSHIP OPTION</th>
<th>RELEVANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outright Fee Simple</td>
<td>• Capable, accepted family successor(s)</td>
</tr>
<tr>
<td></td>
<td>• Desire to maintain land in family for upcoming generations</td>
</tr>
<tr>
<td></td>
<td>• Willing to let heirs appoint future interests</td>
</tr>
<tr>
<td>Split Interest</td>
<td>• Marital trust ownership-spouse wants to live on and oversee property</td>
</tr>
<tr>
<td></td>
<td>• Owner wants to direct ownership after spouse dies (QTIP Trust)</td>
</tr>
<tr>
<td></td>
<td>• Life estate and remainder interest</td>
</tr>
<tr>
<td>Charitable Interest</td>
<td>• Life estate to family individual</td>
</tr>
<tr>
<td></td>
<td>• Passes to foundation/charity at certain event (e.g., death), age or term of years</td>
</tr>
<tr>
<td></td>
<td>• Passes to charity if family disharmony prevents decision-making</td>
</tr>
</tbody>
</table>
OWNERSHIP SITUATION EXAMPLE

SITUATION:

• Second marriage
• Wife runs household, domestic employees, equestrian center, entertainment, and property grounds
• Wife wants to reside on ranch if she survives husband
• Wife’s son, from first marriage, is ranch foreman and runs hunting trips
• No direct heirs desire to operate ranch
• Family foundation exists

ESTATE PLAN

Estate plan calls for marital trust to include ranch and level of funding

Wife has life estate for ranch, and receives income from trust

If she leaves ranch, trust will provide funds for replacement property up to a dollar amount

Ranch will be sold if she leaves; proceeds go to marital trust

Ranch or replacement property, and marital trust goes to foundation upon her death
## TECHNIQUES

<table>
<thead>
<tr>
<th>TECHNIQUES</th>
<th>BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment Sale</td>
<td>• Orderly transfer to new family owner</td>
</tr>
<tr>
<td></td>
<td>• Estate freeze value</td>
</tr>
<tr>
<td></td>
<td>• Can do a self-cancelling installment note</td>
</tr>
<tr>
<td></td>
<td>• Retirement cash flow</td>
</tr>
<tr>
<td></td>
<td>• Estate is made whole</td>
</tr>
<tr>
<td>Lifetime Gifts to Heirs</td>
<td>• Effective for multiple heirs/managers</td>
</tr>
<tr>
<td></td>
<td>• Reduce estate tax exposure</td>
</tr>
<tr>
<td></td>
<td>• Retain majority or voting control</td>
</tr>
<tr>
<td>Buy-Sell Agreement at Death</td>
<td>• Fair and equitable for all heirs</td>
</tr>
<tr>
<td></td>
<td>• Valuation</td>
</tr>
<tr>
<td>Business Interest Gifts in Trusts (split-</td>
<td>• Control future ownership</td>
</tr>
<tr>
<td>interests)</td>
<td>• Could defer or reduce estate taxes</td>
</tr>
</tbody>
</table>
• Funding the buy-out
• Role in equalizing the estate for non-operating heirs
• Estate tax coverage
• Key-man coverage
LIQUIDITY RISK POOLS - THE FINANCIAL ECOSYSTEM

- Marketable securities
- Real properties
- Business operations of the land
- Private equity
- Timber, farm & ranch
- Hedge funds
- Natural resources
MANAGEMENT ISSUES AND STRATEGIES

- Oversight of non-family ranch manager
- Transitioning (smoothly) a soon-to-retire ranch/farm manager
- Having a successor in place
- Expectations for grooming the successor
- Bonus/extended retirement benefits for managing a successful transition
- Employing younger generation-summer internships
- Balancing business, homestead and recreational priorities-how to govern that
- Importance of annual family meetings
- Dividends and ownership redemptions
COMPOSITION

FAMILY MEMBERS
• Business leader / CEO
• Business successor
• Real estate investor
• At large member

INDEPENDENT MEMBERS
• Family attorney-ranch/farm experience
• CPA
• Business associate/ranch or farm experience

GOVERNANCE

Terms and succession process
Business oversight
Trust protector or oversight role
GOVERNANCE EXAMPLE

FAMILY SITUATION:

- Operating ranch
- Commercial real estate portfolio
- Charitable entities
- Investment portfolio
- Gen 1-2; Gen 2-4; Gen 3-8.

FAMILY ADVISORY BOARD

- Family established advisory board
- Nine members-5 family, family office head, CPA, ranch manager, real estate investor
- Serves as trust protector for major trusts
- Oversees ranch, real estate and investments
THE GOVERNANCE OF TRUSTS-TRUSTEE ALTERNATIVES

- Sole family professional or corporate trustee
- Corporate & professional trustee
- Family & professional trustee
- Trust protector
- Corporate professional & family trustee
## THE GOVERNANCE OF TRUSTS - TRUSTEE OPTIONS

<table>
<thead>
<tr>
<th>SOLE CORPORATE TRUSTEE</th>
<th>CORPORATE AND PROFESSIONAL CO-TRUSTEE</th>
<th>CORPORATE/PROFESSIONAL/FAMILY CO-TRUSTEES</th>
<th>TRUST PROCTOR</th>
<th>FAMILY AND CORPORATE TRUSTEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Impartial advisor</td>
<td>• Usually corporate trustee and</td>
<td>• Usually corporate trustee,</td>
<td>• Can be used in conjunction with</td>
<td>• Have benefit of family</td>
</tr>
<tr>
<td>• Continuity</td>
<td>attorney and CPA</td>
<td>attorney and senior family member</td>
<td>the other options</td>
<td>representation</td>
</tr>
<tr>
<td>• Administrative</td>
<td>• Practicing attorney on board/</td>
<td>• Family member is sometimes the</td>
<td>• Role is to oversee</td>
<td>• Can engage an impartial</td>
</tr>
<tr>
<td>• Tax expertise</td>
<td>legal coverage</td>
<td>power-holder</td>
<td>activities of the trustee(s)</td>
<td>advisor as well</td>
</tr>
<tr>
<td>• Investment</td>
<td>• Shared responsibility for tough</td>
<td>• Lends personal input to decisions</td>
<td>• Can remove trustees without</td>
<td>• Support/advice on</td>
</tr>
<tr>
<td>• capabilities</td>
<td>decisions</td>
<td>• Enables family to get full range of</td>
<td>cause</td>
<td>distribution policies</td>
</tr>
<tr>
<td></td>
<td>• Delineation between attorney’s</td>
<td>corporate trustee services</td>
<td>• Can intervene on</td>
<td>• Professional investment</td>
</tr>
<tr>
<td></td>
<td>role as trustee and legal advisor</td>
<td>• Provides legal coverage on key issues</td>
<td>major decisions</td>
<td>management and oversight</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Can sometimes change status of</td>
<td>• Can utilize range of trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>trust without court approval,</td>
<td>administration services of</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>and overall, reduces occasions</td>
<td>corporate trustee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>for court involvement</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Can be individual or committee</td>
<td></td>
</tr>
</tbody>
</table>

• Practicing attorney on board/legal coverage
• Shared responsibility for tough decisions
• Delineation between attorney’s role as trustee and legal advisor
THE GOVERNANCE OF DIRECTED DYNASTY TRUSTS

**Bifurcated Structure**

- **Administrative Trustee**
  - Custodian, prepares fiduciary tax return
  - Processes discretionary distributions

- **Investment Trustee**
  - Invests assets and selects managers
  - Can operate as a committee

**Trifurcated Structure**

- **Investment Trustee**
- **Administrative Trustee**
- **Distribution Trustee**
THE GOVERNANCE OF DYNASTY TRUSTS

EMERGING TRUST OPTIONS

BIFURCATED STRUCTURE

- Administrative and investment trustees
- Administrative trustee has no investment liability
- Administrative trustee is the custodian, makes discretionary distributions and prepares fiduciary income tax returns
- Investment trustee invests assets and appoints advisors
- An investment committee can be established with family participation
- Delaware and South Dakota are popular situses for this structure
- Corporate trustees frequently serve as the administrative trustee and have a role in distributions

TRIFURCATED STRUCTURE

- Trustee structure can be segmented into administrative, investment and distribution trustees
- Investment and distribution trustees can be governed by committee
- A trust protector is sometimes employed to coordinate the three
- Distribution trustees can include family (subject to tax issues) and independent members
## ROLE OF TODAY’S STRATEGIC ADVISOR AND TRUSTEE

<table>
<thead>
<tr>
<th>Compliance &amp; Risk Management</th>
<th>Formulate Distribution Policies</th>
<th>Generational Wealth Transfer</th>
<th>Advisor to Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Trust laws and principles</td>
<td>• Thought partner in formulating strategy</td>
<td>• Thought partner with attorney and CPA</td>
<td>• Develop more holistic advisory role with both beneficiary classes</td>
</tr>
<tr>
<td>• Prudent investor rules</td>
<td>• Unitrust versus income distribution</td>
<td>• Examine alternative situses</td>
<td>• Ability to operate within a family’s governance structure</td>
</tr>
<tr>
<td>• Establish investment policy statement</td>
<td>• Special purposes for dynasty trusts</td>
<td>• Efficient use of charitable techniques</td>
<td>• Ability to oversee complex assets such as real estate, farm &amp; ranchland, timber, oil &amp; gas properties and operating businesses</td>
</tr>
<tr>
<td>• Basic fiduciary tax principles</td>
<td>• Designing a family bank structure</td>
<td>• Advise on placement of assets within specific trusts</td>
<td>• Adept at selecting advisors and investment managers</td>
</tr>
<tr>
<td>• Performance oversight</td>
<td>• Decanting process</td>
<td>• Suggest/review additional wealth transfer ideas</td>
<td></td>
</tr>
<tr>
<td>• Expense management</td>
<td>• Adhering to the spirit of the founder’s legacy</td>
<td>• Periodically authorize review of estate plans including 2nd and 3rd generations</td>
<td></td>
</tr>
<tr>
<td>• Insurance coverage</td>
<td>• Adapting to changing family circumstances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Audits and accountings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# THE FUTURE SALE

## CONDITIONS
- No interested or capable heirs to manage it
- Heirs do not want responsibilities for oversight if externally managed
- Liquidity issues
- Estate plan circumstances
- Other investment opportunities
- Cattle and crop prices

## DECISION PROCESS - WHO DECIDES?
- Current owner decides
- Current owner and immediate heir/successor
- Trustees if in trust
- Family unit
- Board/advisory committee
CONDITIONS

• No interested heirs
• Retiring ranch manager
• Enterprise consists of 5 ranches, not contiguous
• Successor would be very capable to manage a smaller operation
• Cattle prices were escalating
• Strong ranch demand

DECISIONS AND RESULTS

- Reduced enterprise to single homestead and nearby ranch
- Installed successor ranch manager
- Owner and advisory board approved deals
- Invested proceeds in income producing commercial real estate
- Accomplished via a 1031-tax deferred exchange.
SALE OR EXPANSION? EXAMPLE 2

CONDITIONS:

- One of the sons and family currently runs the ranch
- Member of G-3 appears capable of leading family in future, with some grooming
- Ranch actively used for hunting, fishing and family/business conferences
- Family’s enterprise includes commercial real estate and another operating businesses
- Have placed conservation easements on land; estate plan in good order

FAMILY ADVISORY BOARD

Decided to expand ranch and purchase continuous lands over the past decade; developing ranching into a formal business

Now organize an annual family meeting/retreat in July

Serves as trust Formal education program for family members-3 days of the annual meeting for major trusts
• Statement of family mission and values
• Family ranch/farm employment policies
• Ownership policies including dividends and redemptions
• Management succession principles
• Trustee selection and succession
• Trust distribution policies
• Investment portfolio strategy and guidelines
• Charitable profile
• Use of oversight boards or committees
• Board membership and external directors/members