Q4 2025 — VOLUME LXXXV

Caldwell Trust Company

QUARTERLY

When Mutual Funds Become ETFs:

What Investors Should Know

IN THIS ISSUE

This quarter's newsletter reflects what has always defined Caldwell Trust—thoughtful stewardship, enduring relationships, and forward-looking guidance in a changing landscape.

INVESTMENT LETTER

Tracking Industry Trends: A Floodgate for Fund Conversions?

As an investment manager, Caldwell Trust Company prioritizes control, customization, and tax management in client accounts. This drives our preference for constructing portfolios using individual stocks and bonds versus mutual funds. Despite this preference, many clients own mutual funds from past investing relationships. We are closely monitoring a major move among fund companies that will give us options for dealing with highly appreciated mutual funds held in clients' taxable accounts.

Mutual Funds: History, Benefits, and Downsides

Mutual funds were built on a simple idea: pool many investors' dollars to buy a diversified portfolio that would be difficult to replicate individually. The modern mutual fund took shape in the early 1900s. In the U.S., the financial regulatory reforms of the 1930s–1940s established disclosure and governance standards that helped mutual funds become a mainstream household investment.

Mutual funds offer investors the benefits of instant diversification, professional portfolio management, and easy access to broad markets or specific strategies. On the downside, embedded fund expenses and trading costs can reduce returns. There are fund-level issues of style drift, manager turnover, and the impact of shareholder flows on trading. Importantly, taxable investors can face capital-gains distributions even without selling shares.

Enter the ETF

By the late 1900's, investors were looking for a more efficient vehicle for tracking and trading major market indexes. Exchange-traded funds (ETFs) were created to deliver broad market exposure with the convenience of trading a single stock, without giving up the benefits of a fund structure.

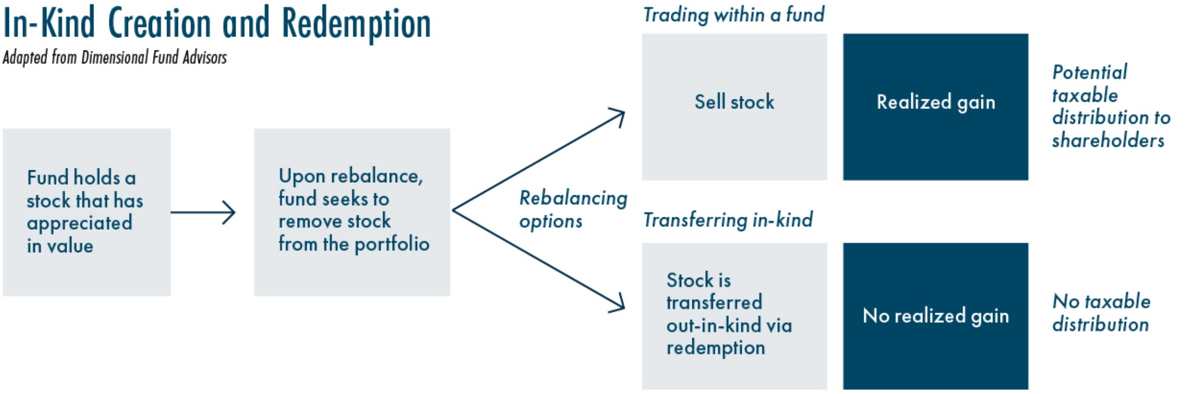
The first U.S.-listed ETF (the SPDR S&P 500 ETF or SPY) debuted in January 1993. The original design goals were:

- Intraday tradability and liquidity. Unlike traditional mutual funds which transact once per day at net asset value, ETFs were engineered to trade on an exchange throughout the day. This enables real-time execution, limit orders, and easier tactical rebalancing.
- Scalable share supply via creation/redemption. The ETF structure includes a primary-market mechanism that allows shares outstanding to expand or contract based on demand. This supports liquidity and generally keeps market prices close to underlying value.
- Tax efficiencies driven by in-kind creation/redemption. Many ETFs can meet redemptions "in-kind" (delivering securities rather than selling them), which can reduce the need to realize capital gains inside the fund relative to traditional mutual funds. This mechanism is illustrated below. It has enabled many ETFs to limit capital gains distributions to zero or close to zero.

See diagram on next page ›

In-Kind Creation and Redemption

Adapted from Dimensional Fund Advisors



Exemptive Relief Enables Investment Innovations

Mutual funds and ETFs are registered investment companies that are regulated by the Securities and Exchange Commission (SEC) under several laws, including the Investment Company Act of 1940 (Act). To protect fund investors, the Act is highly restrictive, but the SEC is empowered to grant exemptions from provisions of the Act. Thus, if a fund has an idea for a novel practice or structure that would be prohibited by the Act, it can apply to the SEC for "exemptive relief" from the Act. Applications for exemptive relief orders have historically played a significant role in helping the fund industry to grow, innovate, and adapt in ways that benefit investors.

In 2000, the Vanguard Group applied for and was granted exemptive relief to offer ETF shares as a separate class within an existing index mutual fund structure. This structure, which Vanguard patented, provided significant tax advantages and was exclusively available to Vanguard for over two decades.

Vanguard's patent for the ETF share-class structure expired in May 2023. This event opened the door for other asset managers to apply for similar exemptive relief from the SEC. Indeed, dozens of mutual fund sponsors filed applications to offer dual-class funds. The applications languished, but recent SEC policy shifts that prioritize innovation have created the potential for a transformation in the broader fund industry.

Specifically, the SEC issued a landmark order in November 2025 granting Dimensional Fund Advisors (DFA) relief to launch ETF share classes in thirteen of its mutual funds. DFA was the first applicant for exemptive relief after Vanguard's patent expired. Their approval signals a green light for more than seventy other asset managers with applications on file. The SEC staff requested that other applicants' filings conform to DFA's and promised expedited processing for "substantially identical" requests.

What's Next

Today's requests for exemptive relief move beyond the passive ETF model (Vanguard's patent) to allow active and traditional funds to adopt this structure. Fund industry experts expect rapid issuance of similar orders for other large fund groups that filed compatible applications, making the dual-share-class model a new standard in the industry.

A key feature many fund companies seek is an "exchange privilege" that gives investors the ability to exchange mutual fund shares for ETF shares of the same fund. Investors who have long-held positions in the mutual fund share class may be holding their positions at significant capital gains. A tax-free exchange would mean no realization of any gains at the point of exchanging mutual fund shares for ETF shares in an otherwise taxable account. The investment would still have the original cost basis of the mutual fund position, and the investor would still be subject to taxes on any gains realized at the point at which they sold the (now) ETF shares. However, they would reap the benefits of the ETF structure for as long as they hold the asset.

It will take focused efforts by industry participants and service providers to work toward facilitating efficient and scalable availability of tax-free conversion between mutual fund and ETF share classes. We expect broad availability will occur once an industry-wide automated solution is in place, potentially in the next year.

Conclusion

Caldwell Trust Company has long preferred constructing client portfolios with individual stocks, bonds, and select ETFs. We recently worked directly with Vanguard funds and our fund recordkeeper to convert eligible Vanguard mutual funds to their respective ETF shares. We will be closely monitoring the adoption of the dual-share-class structure by other fund companies and will process tax-free exchanges when it is in our clients' best interests.

Did You Know?
Florida Has a New LLC Law—and It May Benefit You

Florida has updated its Limited Liability Company (LLC) laws, introducing enhancements that may significantly benefit individuals and families who use LLCs as part of their financial or estate planning strategies. These changes—highlighted at the recent Florida Bankers Association Annual Conference in Fort Lauderdale—affect how LLCs are structured, governed, and managed, creating new opportunities for flexibility and long-term planning.

Why This Matters

LLCs are a cornerstone of many clients' planning strategies—used to hold real estate, operate family businesses, and protect multigenerational wealth. With the adoption of Florida's Revised LLC Act (Chapter 605, Florida Statutes), the legal framework governing LLCs is now more modern, flexible, and responsive to the needs of families, trustees, and business owners.

One of the most notable advantages is the ability to streamline ownership by using a primary (or "master") LLC with multiple sub-LLCs. This structure can simplify administration while preserving liability protection across different assets or ventures.

The revised law also gives LLC members greater freedom to define management and governance through the operating agreement. This allows families to create customized structures that reflect their values, succession goals, and decision-making preferences.

What's New?

- **GREATER FLEXIBILITY**

  Operating agreements can now be more precisely tailored to family dynamics, succession plans, and control preferences.

- **SIMPLIFIED STRUCTURES**

  A single LLC can more efficiently oversee multiple sub-LLCs, reducing complexity while maintaining separation of assets.

- **CLEAR AUTHORITY**

  The introduction of a Statement of Authority makes it easier to document who can act on behalf of the LLC (useful in banking, financing, and real estate transactions).

- **SMOOTHER TRANSITIONS**

  The law clarifies how ownership interests are handled when a member dies, becomes incapacitated, or exits the business, supporting continuity in trusts and estate plans.

Our Take

These updates reinforce LLCs as powerful tools for asset protection, wealth transfer, and long-term planning. If you own or manage an LLC, it may be worthwhile to review your current structure with your real estate attorney or corporate lawyer to determine whether the new law presents opportunities to simplify, strengthen, or modernize your plan.

Florida LLC Law Changes

Honoring A Legacy:

H. Lee Thacker, Jr. Retires

As the year draws to a close, Caldwell Trust Company celebrates the remarkable career of H. Lee Thacker, Jr., CFP®, Senior Executive Vice President, Secretary, and Trust Officer, who will retire this December at the age of 91.

Lee joined Caldwell Trust Company in 1996 after a distinguished 37-year career in banking and financial services. What began as a client relationship soon became something far more meaningful. Lee quickly emerged as a guiding force within the firm, helping shape its culture, governance, and growth during its formative years.

"From the moment we met Lee, it was clear he would be instrumental to who we became," said R.G. 'Kelly' Caldwell, Jr., President and CEO. "He brought wisdom, integrity, and a steady hand to everything he touched."

Over nearly three decades at Caldwell, Lee served on the Executive, Trust, and Security Committees and on the Boards of Directors of both Caldwell Trust Company and its parent company, Trust Companies of America. Known for his calm leadership, humility, and humor, Lee became a mentor to colleagues and a trusted advisor to generations of clients.

Lee's commitment to service extended far beyond the office. He devoted more than 40 years to the Boys & Girls Clubs movement, including 25 years with the Boys & Girls Clubs of

Top Image: *Executive Team, 2015. Back row (left to right): R.G. "Kelly" Caldwell, Jr., H. Lee Thacker. Front row (left to right): Jan Miller, Wendy Fishman.*

Bottom Image: *Suzanne and Lee Thacker with Michael Doyle, Senior Vice President of Strategic Initiatives, Boys & Girls Clubs of Sarasota & DeSoto Counties.*

Sarasota and DeSoto Counties. He served as Board President, chaired fundraising efforts, and was instrumental in opening the Robert and Joan Lee Boys & Girls Club in Venice. He also served in leadership roles at Venice Theatre, supporting the arts in the community he loved.

Lee's wife, Suzanne Thacker, also recently retired from Caldwell Trust, where she served as Trust Compliance Coordinator. Together, they exemplified the values of family, integrity, and shared purpose that define Caldwell Trust Company.

"Lee leads quietly, but his influence is lasting," said Jan Miller, Senior Executive Vice President & Trust Officer. "His integrity and wisdom set the standard for how we serve our clients and one another."

As Lee and Suzanne begin this next chapter surrounded by their children, grandchildren, and great-grandchildren, Caldwell Trust Company extends its deepest gratitude for Lee's extraordinary legacy. His impact on the firm, the community, and the countless lives he touched will endure for generations.

Celebrating 25 Years of Excellence:

Honoring Jan Miller's Milestone Anniversary at Caldwell Trust Company

Top Left Image: *Jan Miller (center) with former Tidewell CEO Gery Radford (left) and Jonathan D. Fleece (right), President & CEO of Empath Health and its Affiliates.*

Top Right Image: *R. G. "Kelly" Caldwell, Chairman, President & CEO, and Jan Miller at Greater Sarasota Chamber of Commerce Annual Business of the Year Awards, 2013*

Bottom Image: *Jan Miller (25 years) with Sonya Kristie, who began as an intern and has worked with Jan for 20 years.*

On January 3, 2026, Caldwell Trust Company proudly marks a momentous occasion: Jan Miller's 25th anniversary with the firm. Over the past quarter century, Jan has become one of the pillars of Caldwell's success, guiding its growth with expertise, integrity, and a profound commitment to serving clients and community.

Joining the company in its earlier years, Jan quickly emerged as a trusted leader, helping define the culture of service that continues to distinguish Caldwell today. As Senior Executive Vice President and Trust Officer, she has played a vital role in shaping the firm's trust services, mentoring future leaders, and navigating countless families through some of life's most meaningful financial decisions. Her depth of knowledge and calm, thoughtful approach have made her a steady source of guidance for clients and colleagues alike.

Her influence extends well beyond the office. Beginning in 2026, Jan will assume the role of Board Chair for Empath, a major nonprofit healthcare organization with a $500 million footprint and a presence across 19 Florida counties. This prestigious appointment speaks to her leadership and commitment to strengthening the wellbeing of Floridians.

Reflecting on her milestone, R.G. "Kelly" Caldwell, Jr., President, CEO, and Chairman of Caldwell Trust Company, shared his admiration not only for her accomplishments, but for their long history together:

"I met Jan while my father was still leading Caldwell Trust Company," Kelly recalls. "Even then, it was clear she had a rare combination of professionalism, compassion, and humility. Over the last 25 years, she has continually shaped who we are as a company. Jan has made Caldwell better—our clients feel it, our staff feels it, and I feel it personally. We are profoundly grateful for her dedication and leadership."

> *"We are profoundly grateful for her dedication and leadership."*
>
> **R.G. "Kelly" Caldwell, Jr.**
> *President, CEO, and Chairman of Caldwell Trust Company*

As Jan celebrates this remarkable milestone, the entire Caldwell family recognizes her profound impact on the firm's legacy. Her dedication has strengthened the company, shaped its direction, and inspired everyone fortunate enough to work alongside her.

Please join us in congratulating Jan on 25 extraordinary years, and in celebrating the leadership, vision, and heart she brings to Caldwell Trust Company and to the communities we serve.

CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

BUILDING WEALTH, PRESERVING LEGACY – ACROSS GENERATIONS

Why Caldwell Trust?

INDEPENDENT Your interests, first and only.

FLORIDA-FOCUSED Deep roots. Local insight.

FIDUCIARY Guided by the highest standards.

RELATIONSHIP-DRIVEN Measured in generations.

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