Taxes can be a drag

USE ASSET LOCATION TO GENERATE TAX ALPHA

Taxes can have a significant effect on portfolio performance, reducing gains and slowing wealth accumulation. Wealth managers who evaluate the tax drag of different investments and actively control the location of those assets among taxable and tax-deferred[1] accounts can add net of tax return and provide a source of tax alpha[2] for clients. Volatility sometimes causes investors to move portions of their equity assets into fixed income accounts and add alternatives to their portfolios.

While diversifying[3] equity assets with alternatives and fixed income investments can work to help manage volatility, the inherent tax inefficiencies of these investments may reduce your returns.

Ultimately, taxable income distributions and frequent portfolio turnover generate a percentage per-year tax drag, which creates small reductions in earnings that can significantly add up over the long term.

Placing tax-inefficient investments into tax-advantaged accounts can keep more of your money working for you.

[1] Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA, and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

[2] Tax alpha occurs from additional net-of-tax investment performance due to tax-related wealth-management decisions.

[3] Diversification does not assure a profit or protect against loss in a declining market.

[4] Morningstar®, tax drag, and percent of return data is based on the listed Morningstar Categories 10-year returns ending September 30, 2022.

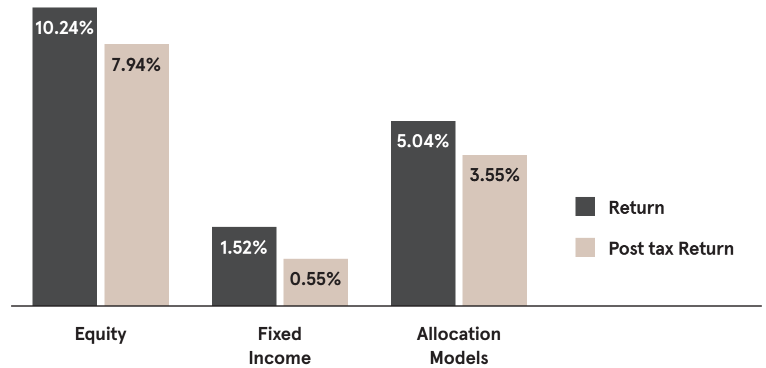
[5] An average of several asset allocation models–each containing a mix of equities, fixed income, and alternative assets and strategies using Morningstar.

[6] Relative tax drag equals absolute tax drag divided by the pre-tax return.

[7] Absolute tax drag equals the pre-tax return less the post-tax return.

LOSING YOUR GAINS

The graph shows how taxes erode the investment returns of various asset types.[4]



	Equity	Fixed Income	Allocation Models[5]
Relative Tax Drag[6]	22.47%	63.54%	29.54%
Absolute Tax Drag[7]	2.30%	0.96%	1.49%

Equities is based on the average returns of: US Fund Large Growth,, US Fund Large Blend, and US Fund Large Value Morningstar categories.

Fixed Income is based on the average returns of the US Fund Bank Loan, US Fund Corporate Bond, US Fund High Yield Bonds, US Fund Inflation-Protected Bond, US Fund Intermediate Core Bond, US Fund Intermediate Core-Plus Bond US Fund Intermediate Government Bond, and US Fund Multisector Bond Morningstar categories.

Allocation Models are based on the average return of: US Fund Allocation 15% to 30%, US Fund Allocation 30% to 50%, US Fund Allocation 50% to 70%, US Fund Allocation 70% to 85%, and US Fund Allocation 85% Equity Morningstar categories.

Past performance is no indication of future results.

See other side

Call your financial professional today to learn more about how tax-advantaged accounts could benefit you.

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