

Why leave wealth on the table?

Make SMAs and Direct Indexing Part of Your Advisor Toolkit

Market pressures force advisor progress

As an advisor, you succeed when your clients succeed – your business growth depends on your clients' satisfaction. But disruptive technologies and changing client expectations have put advisors like you under intense pressure, pinned by decreasing fees on one side and increasing demands for personalization on the other.

There is an escape from this bind, one that liberates both you and your clients from the limitations of pooled investment vehicles – mutual funds, exchange traded funds (ETFs) – and the expensive complexities of traditional active management: the Separately Managed Account, or SMA.



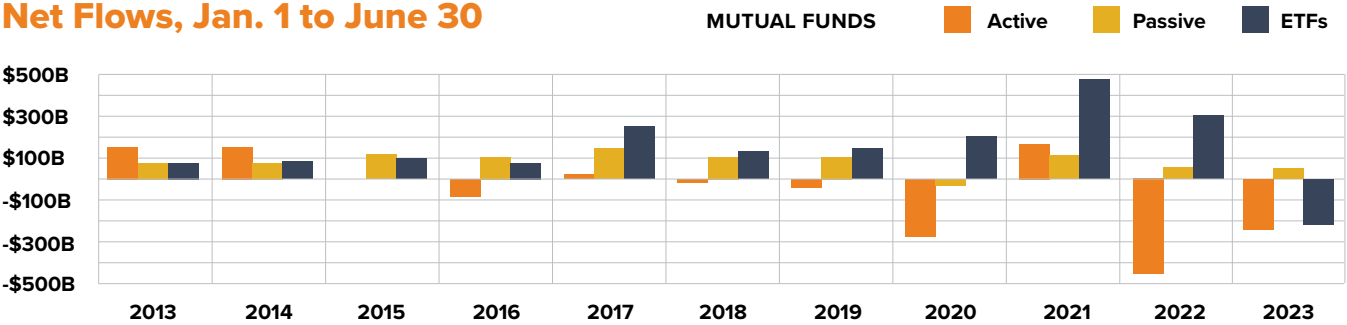
SMAs allow individual security ownership, making personalization for a client's unique tax situation, investment objectives or personal preferences possible.

	SMAs	Mutual Funds/ETFs
Ownership	Investors directly own the underlying securities	Investors own shares of the fund, but do not own underlying securities
Customization	Personalized for investment style, risk level, security and thematic restrictions	None
Tax Efficiency	Investors can implement tax-loss harvesting without exiting the strategy	Limited – Cannot distribute capital losses
Funding	Funded with cash or transition in-kind securities tax efficiently	Cash only

A “taxing” problem that means real opportunity

While alpha attracts attention, taxes silently erode performance. In the first half of 2023, investors pulled billions from active mutual funds, leaving those who stayed invested to deal with the capital gains distributions most funds will need to make at year end.

Net Flows, Jan. 1 to June 30



SOURCE: Morningstar Direct. Data include open-end funds domiciled in the U.S. It excludes money market funds and funds of funds. All figures through June 30 of each year.

The hypothetical performance does not represent actual performance, was not achieved by any investor, and actual results may vary substantially.

By regulation and design, mutual funds and ETFs do not and cannot allow investors to unlock the value of tax losses within these vehicles to offset gains, undermining each client’s wealth. These missed opportunities not only represent a disappointment to your clients, but a decline in your AUM and an additional (or preventable) fee/expense for your client. Fortunately, there’s a favorable solution for both of you: tax-loss harvesting within an SMA.

Tax-loss harvesting transforms losses into opportunities for overall portfolio gains.

Sample After-Tax Performance Calculation

The figures presented are intended for illustrative purposes only and do not represent expected results.

	HYPOTHETICAL ACCOUNT	BENCHMARK	DIFFERENCE
Initial Contribution	\$1,000,000.00	\$1,000,000.00	
Ending Pretax Market Value	\$1,079,000.00	\$1,080,000.00	
Gross Pretax Return	7.90%	8.00%	-0.10%
Dividends Earned	\$20,000.00	\$20,000.00	
Realized ST Losses (4% of Initial Value)	\$40,000.00	\$0.00	
Realized LT (1% of Initial Value)	\$10,000.00	\$0.00	
Taxes Due			
Tax on Dividends (23.8%)	\$4,760.00	\$4,760.00	
Tax Savings from ST Losses	\$16,320.00	\$0.00	
Tax Savings from LT Losses	\$2,380.00	\$0.00	
Ending After-tax Market Value	\$1,092,940.00	\$1,075,240.00	
After-tax Return (Gross)	9.29%	7.52%	1.77%
After-tax Value Add	1.39%	-0.48%	
Tax Alpha			1.87%

Assumes tax rates of 23.80% for LT and 40.80% for ST.

For Financial Professional Use Only. Not For Use With The Public.

It's time for another look at SMAs and Direct Indexing

By maintaining tax-lot-level detail within a portfolio of SMAs, clients can capture tax losses when the opportunities arise. Add to that the power of direct indexing, which provides the ability to replicate an index with an individual portfolio of stocks, and you also facilitate personalization for individual preferences. It also allows for portfolio substitutions without impacting performance expectations and makes tax loss harvesting easier.

Direct Index SMAs are especially advantageous because the number of holdings and available substitutes are not as constrained as they would be in an actively managed portfolio. The Direct Index SMA means:

- Tax losses used to reduce the tax owed on gains
- Individualized customization for personal preferences
- In-kind funding and withdrawals reduce tax consequences of portfolio changes (when compared to using cash)
- Flexibility of share ownership and management (cost basis, voting rights, tax treatment)
- Continuous tax-lot level management and optimization

VAST: removing barriers to personalized investing at scale

Since the creation of SMAs and direct indexes, the complexity and expense of their management, especially at scale, has created roadblocks for advisors and their clients.

Today, Vestmark has lifted the roadblocks and built a highway: VAST. Through VAST, Vestmark automatically manages the complexities of back-office management while investors enjoy tax-advantaged portfolio management and advisors focus on what they do best – serving their clients and growing their businesses.

For Financial Professional Use Only. Not For Use With The Public.

There is no assurance that a separately managed account ("SMA") will achieve its investment objective. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in an SMA.

Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. Prospective investors should consult with a tax or legal advisor before making any investment decision.

Discover the potential of Direct Index SMAs with Vestmark

In the past, the power of tax management and the privileges of personalization have been limited to the largest home offices with the most advanced back-office technologies.

Now Vestmark can become an advisor's virtual back office, providing the automation and scalability necessary to make the Direct Index SMA a practical means for portfolio growth.

Apply the same power as the world's leading broker dealers

Your biggest obstacle is back-office scalability. But you can overcome the challenges the same way as the biggest offices: 6 of the 10 largest broker dealers rely on Vestmark for automated tax optimization and personalized portfolio management at scale.

See what Vestmark can do for you

Learn more about how Vestmark VAST can help you provide personalized investing and tax management at scale.

Contact Us:

Email: vast@vestmark.com

www.VestmarkVAST.com

For Financial Professional Use Only. Not For Use With The Public.

Vestmark Advisory Solutions, Inc. ("VAS"), a wholly-owned subsidiary of Vestmark, Inc., is an investment advisor registered with the U.S. Securities and Exchange Commission ("SEC"). VAS acts as a paid sub-advisor and/or overlay portfolio manager offering VAST and tax optimization services. Registration does not imply a certain level of skill or training. VAS has its principal place of business in Wakefield, MA. Investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money. Past performance is no guarantee of future returns and individual investor results will vary. Please consult our [full disclosure document](#) for a discussion of risks related to the services provided by VAS.

©2024 Vestmark, Inc. All Rights Reserved. Reproduction in whole or in part in any form or medium without express written permission is prohibited. Vestmark, VAST, and the Vestmark icon are registered trademarks. Other trademarks contained herein are the property of their respective owners. Vestmark believes that the information in this publication is accurate as of its publication date; such information is subject to change without notice.

