

Tax Management in the Absence of Performance



Underestimated and overlooked: How tax management delivers value in any market

Markets are cyclical; therefore, periods of sustained gains and losses are normal. Tax management is valuable, as it helps bolster after-tax returns. Both statements are widely accepted principles, but they're often treated as mutually exclusive. In other words, there's a tendency to view tax management as a convenient tactic to occasionally offset gains versus a permanent fixture in a portfolio's overall strategy.

Although regulations are evolving and increasingly complex, taxes should be top of mind for advisors, whether the market is rising to new heights or retreating to new lows. Because tax alpha is timeless, it can be achieved in any economic climate and, as such, should be thought about year-round.

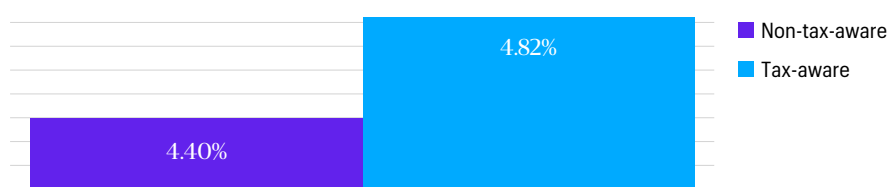
Let's explore.

Case study: Tax management enhances returns during up market

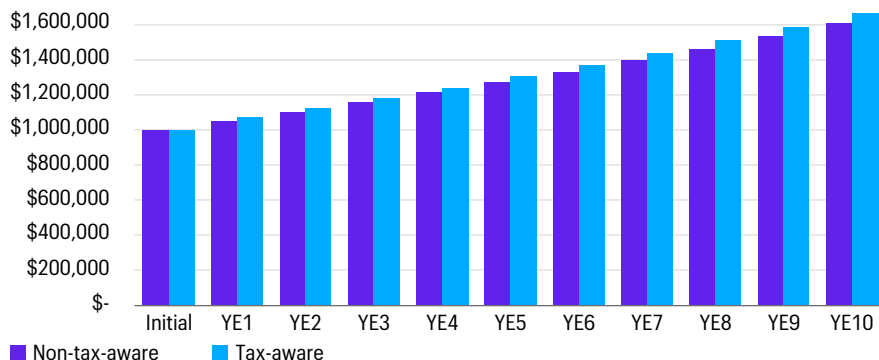
Tax management boils down to one fundamental principle: every basis point counts.

Consider a hypothetical \$1 million fixed income portfolio with a 10-year investment horizon. Non-tax-aware strategies can generate steady returns in an up market. However, by administering tax management strategies like loss harvesting and gain deferrals, after-tax returns can potentially be increased by 0.42% per year.¹

HYPOTHETICAL PORTFOLIO RETURNS DURING UP MARKET (AFTER-TAX, POST LIQUIDATION)



HYPOTHETICAL PORTFOLIO ENDING VALUES DURING UP MARKET



For illustrative purposes only.

1. This chart and the results shown are hypothetical and for illustrative purposes only and do not represent any product managed by Allspring Global Investments. The charts are intended to serve as a general example of a portfolio of corporate bonds with an initial investment of \$1,000,000, expected annual total return of 6.7%, expected annual turnover of 30%, coupon rate of 3.8%, short-term tax rate of 40.8%, and long-term tax rate of 23.8%. Tax-aware portfolio values and returns reflect the deductions of tax loss. Non-tax-aware portfolio values and returns do not reflect the deduction of tax loss.

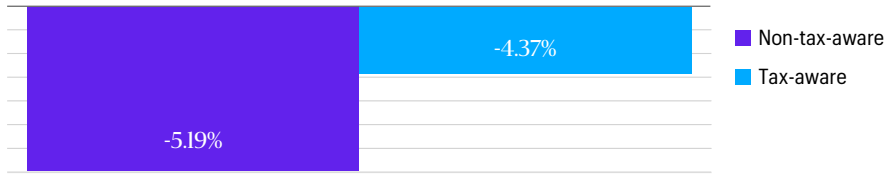
Case study: Tax management preserves value during down market

Downturns are stressful for everyone. Clients worry about their wealth and financial goals—some may even press for an escape to safe havens or a shift to less risky assets. Advisors are charged with helping them weather the storm, dispelling concerns and thwarting hasty decisions. That’s far easier said than done.

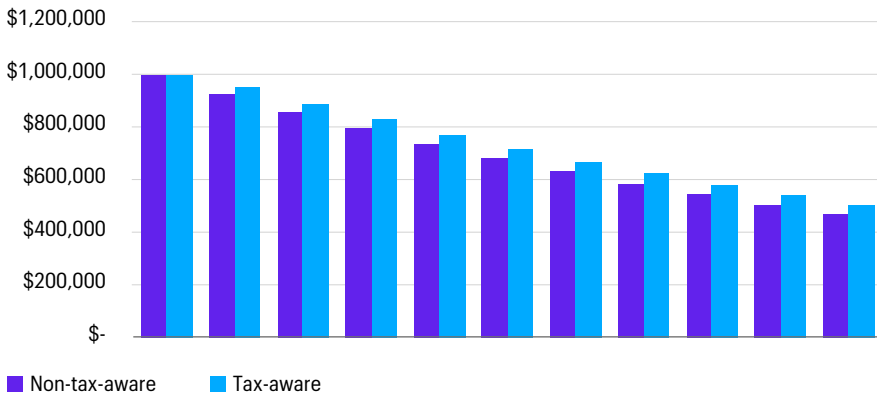
Strategic tax management is an underestimated approach to not only preserving wealth but also adding value to a client’s portfolio during a market slump.

Even in a prolonged downturn that depresses returns for a decade, tax management strategies could help a \$1 million fixed income portfolio outperform a non-tax-aware approach by 0.82% per year.²

HYPOTHETICAL PORTFOLIO RETURNS (AFTER-TAX, POST LIQUIDATION) DURING DOWN MARKET



HYPOTHETICAL PORTFOLIO ENDING VALUES DURING DOWN MARKET



For illustrative purposes only.

2. This chart and the results shown are hypothetical and for illustrative purposes only and do not represent any product managed by Allspring Global Investments. The charts are intended to serve as a general example of a portfolio of corporate bonds with an initial investment of \$1,000,000, expected annual total return of -6.7%, expected annual turnover of 30%, coupon rate of 3.8%, short-term tax rate of 40.8%, and long-term tax rate of 23.8%. Tax-aware portfolio values and returns reflect the deductions of tax loss. Non-tax-aware portfolio values and returns do not reflect the deduction of tax loss.

Tax management: The path to value in the absence of performance

Yet, as it stands today, tax management is often seasonal and underused. That's not lost on clients. According to an Orion survey of investors, 90% of respondents think taxes hurt the growth prospects of their accounts, while 80% of respondents want their advisors to prioritize minimizing taxes.³

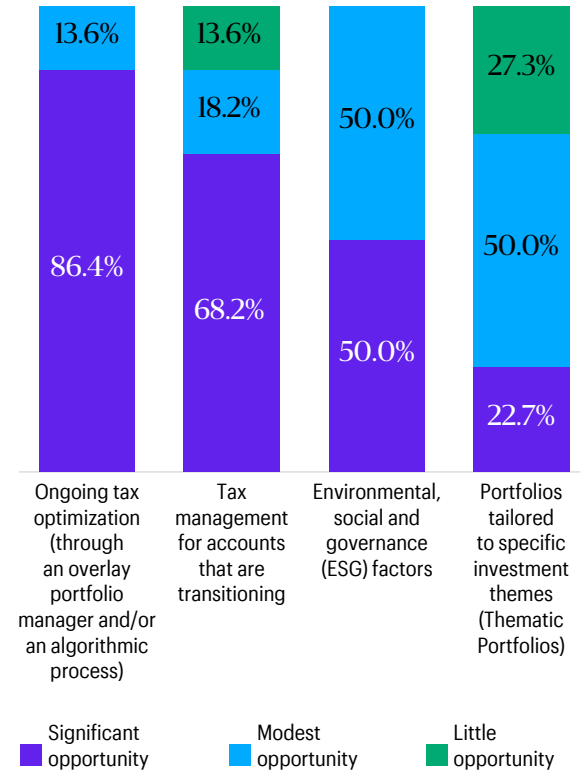
And they're right. Routinely harvesting losses, aligning loss carry forwards with deferred gains, pinpointing opportunities for increased yield without sacrificing credit quality—these strategies can help insulate portfolios from long-term erosion and maximize net returns. That said, taxes can be operationally complex to manage for an entire book of business, as every client's financial situation is unique. It's no surprise then that customized separately managed accounts (SMAs) and direct indexing are increasingly popular solutions.

A Cerulli survey of registered investment advisors⁴ found that practically all respondents (97%) planned to offer greater customized SMAs or direct indexing strategies to their clients, as the opportunity to optimize taxes at scale is too large to ignore.

Tax management can add tens of thousands, if not hundreds of thousands, of dollars in value to affluent client portfolios in any market through tax-aware transitions and ongoing, systematic strategies like loss harvesting and tactical deferrals.

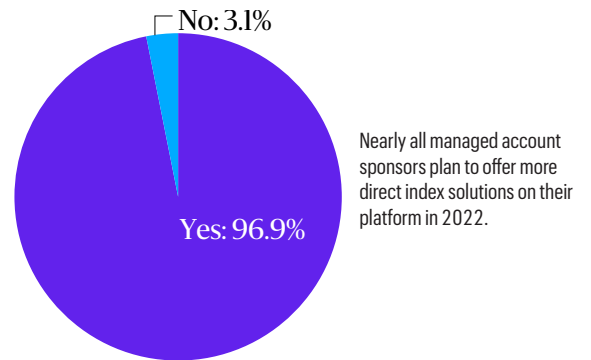
Fortunately, delivering customized solutions at scale doesn't have to be time-consuming or operationally complex. Remi, Allspring's intelligent SMA ecosystem, combines proven investment expertise and sophisticated technology to empower advisors with robust personalization capabilities and ongoing tax management. **Are you ready to unlock better outcomes for your clients?**

ASSET MANAGERS: PERCEIVED VALUE FOR DIRECT INDEXING, 2022



Source: The Cerulli Report "US Managed Accounts 2022: The Future of Personalized Portfolios | Analyst Note: Respondents were asked, "Please select the opportunity that you feel each type of direct indexing presents."

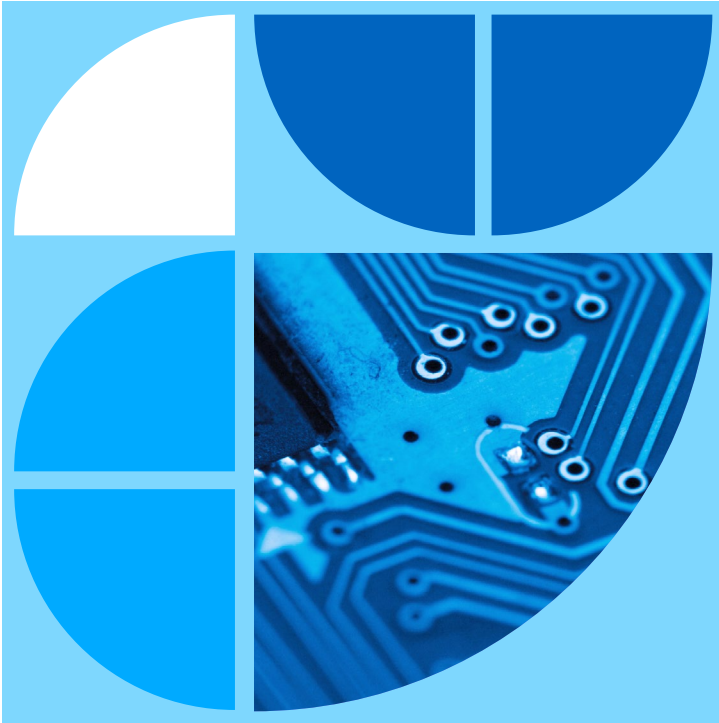
SPONSORS' PLANS FOR CUSTOMIZATION, 2022



Source: The Cerulli Report "US Managed Accounts 2022: The Future of Personalized Portfolios | Analyst Note: Respondents were asked, "Do you have plans to offer greater direct indexing or customized SMA options to advisors and clients using your managed account platforms in 2022?"

3: <https://www.forbes.com/sites/davidrae/2022/03/14/why-most-financial-advisors-do-not-provide-valuable-tax-planning/?sh=7433aa1d4cf5> and <https://www.businesswire.com/news/home/20211115005925/en/Orion-Tax-Pulse-Survey-Client-Expectations-for-Tax-Smart-Advice-are-Underestimated-by-Advisors>

4: The Cerulli Report "US Managed Accounts 2022: The Future of Personalized Portfolios"



Unlocking smart outcomes

For further information

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