Tax Overlay Service

Tax-efficient investing

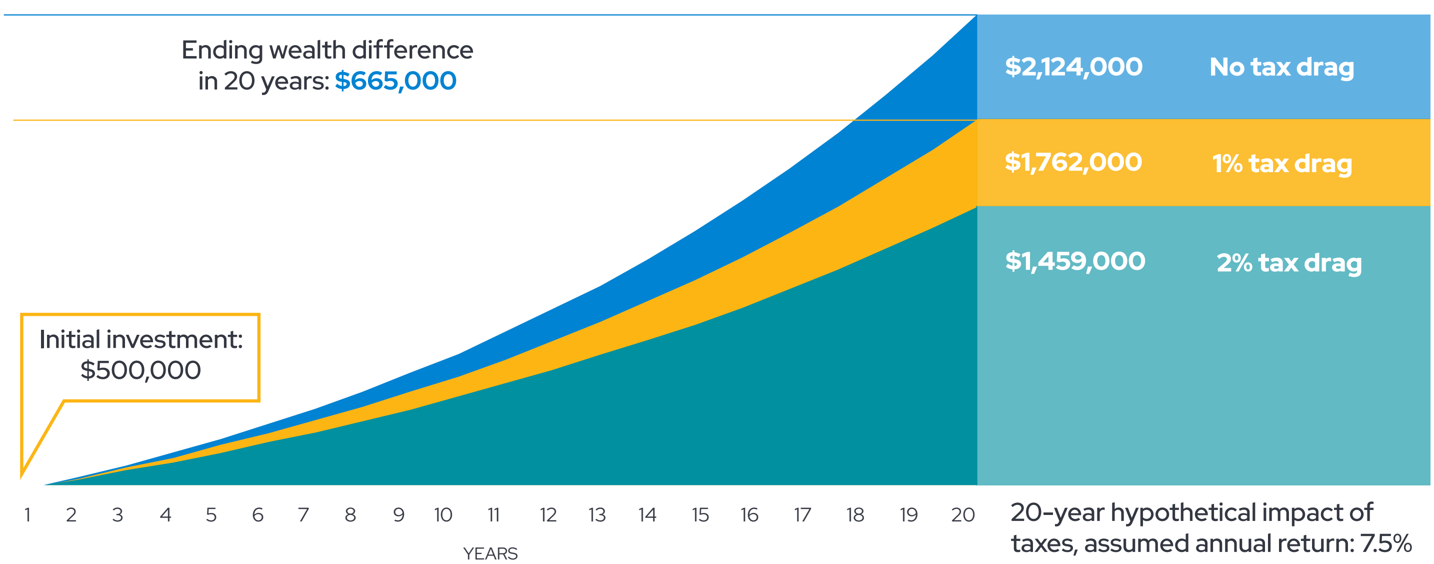
The Tax Overlay Service is designed to help reduce tax exposure with the goal of improving after-tax returns.

It's Not What You Make, It's What You Keep That Matters

Taxes you pay on gains from investments, or capital gains taxes, could be your portfolio's largest expense. Particularly for some investors, the taxes they pay on these gains could approach 50 percent or higher.

While you may only file taxes once a year, managing your capital gains tax liability should be continuous and ongoing.

Hypothetical Growth Of $500,000 Over 20 Years At 7.5% Per Year



This is a hypothetical illustration and not meant to represent an actual investment strategy. A client's actual results will vary depending on their individual tax circumstances. Tax drag is the reduction of potential investment returns due to taxes. The statement that tax could approach 50 percent or higher is based on maximum federal, state, and municipal tax rates and surcharges in some jurisdictions. Taxes may be due at some point in the future and tax rates may be different when they are. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Trusted With Over $14 Billion Of Client Assets*

Today, Envestnet | PMC automates tax and values overlays for more than $14 billion in client assets at over 100 firms.* By offering these overlay services, we're able to help clients customize portfolios to fit their specific investment goals in an automated, efficient manner.

Envestnet | PMC Automates Tax And Values Overlays For More Than $14B in Assets At Over 100 Firms*

Over 15 years' experience in tax-efficient investing	Patented risk optimization process
Ability to manage portfolios to customized client/account-specific mandates	Dedicated support team

*Source: Envestnet | PMC. As of September 30, 2023.

How We Manage Your Capital Gains

Managing your capital gains starts when you are making decisions about how to build your portfolio. By choosing to use a Unified Managed Account (UMA), you can combine several different investments, including Separately Managed Accounts (SMAs), mutual funds, and exchange traded funds (ETFs), in a single account. This can provide both you and your advisor with a number of benefits, one being the ability to automate the tax management of all of the UMA's investments.

If your UMA has 50% or more allocated to managed products, it qualifies for our Tax Overlay service, which automates the tax management of your portfolio and allows you to customize its tax settings. The Tax Overlay service will attempt to minimize realization of Net Short Capital Gains in your portfolio. You may choose to set a desired limit on the amount of Net Long Term Capital Gains for your portfolio. You may even specify a desired amount of additional losses you'd like Envestnet to harvest for your portfolio. Personalize your settings according to your specific goals and update them at any time.

By investing in a managed product, you're hiring an investment manager to provide you with their selection of stocks for a particular strategy. Additionally, as markets move through different economic environments, the manager will make changes to its holdings.

The changes made by the manager will require your account to sell some shares to buy others, which could lead to realizing taxable gains. As the manager makes changes, and depending on your firm and client configurations, Envestnet will evaluate the tax cost of executing those changes and may make different trades than the model. The optimization process balances the tax cost of adhering to the manager's trade versus the tracking error incurred by deviating from the manager, with the goal of delivering better after-tax performance.

How It Works

1. During the proposal process, you and your advisor will work with an Overlay Specialist to analyze your existing holdings against your desired UMA portfolio allocation. This analysis will demonstrate the tradeoff between limiting capital gains realization and accepting higher tracking error. Based on this analysis, you will decide the long-term capital gains budget you wish to set. These settings will govern the initial trading in your portfolio.
2. The product manager or your advisor communicates to Envestnet which actions to take within the portfolio, such as replacing one security with another, rebalancing the portfolio, or raising cash.
3. Envestnet inputs those changes, along with other client-specific portfolio information like your capital gains budgets and evaluates them using a risk optimization engine.
4. The risk engine analyzes the portfolio changes, possible tax implications of the changes, and provides trade recommendations that balance your tax cost with your portfolio's risk, measured by tracking error.
5. Envestnet evaluates the risk engine's recommendations for appropriateness and executes the trades in your portfolio.

Portfolio In Transition Illustration**

"High Net Worth" Client

Value: $1,164,913

Cost Basis: $894,870

Tax adverse client is transitioning assets to new financial advisor and switching financial institutions.

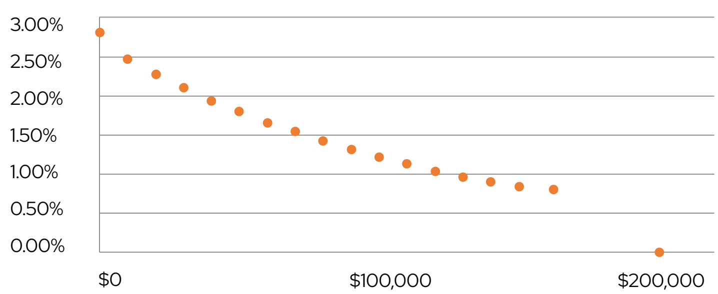
The Overlay Services team proposed the new diversified investment solution for the transition.

No Tax Management	
Net Realized Short Term Gains	$37,623
Net Realized Long Term Gains	$162,577
First Year Tax Bill	$54,043

Selecting A Tax Budget

The client was provided an analysis done by an Overlay Specialist that shows the tracking error based on the different levels of capital gains realization. The potential deviation of the portfolio's performance from the investment manager's portfolio will be greater, with a smaller amount of capital gains being realized. The client can then consider what level of deviation they are comfortable with as well as the exact amount of long-term gains they want to realize.

Tracking Error vs. Realized Capital Gains



Potential Outcome

The client chose a tax budget that realizes $50,000 in long-term gains in year 1 to be able to have a reasonable first year tax bill of $11,900 while maintaining a tracking error below 2%. With Tax Overlay, their tax bill ended up being $43,121 less than if they did not use the Overlay, and with a tax management fee of $1,164, they ended up saving $41,957 in total the first year.

Year One Tax Budget	Net Realized Short-Term Gains	Net Realized Long-Term Gains	Weighted Account Tracking Error	First Year Tax Bill Due To Transition	Tax Management Fee	Potential First Year Tax Savings
No Tax Management	$37,623	$162,577	.02%	$54,043	$0	N/A
$0ST/$0 LT	$0	$0	2.81%	$0	$1,164	$52,879
$0ST/$50K LT	$0	$50,000	1.80%	$11,900	$1,164	$40,979
$0ST/$100K LT	$0	$100,000	1.22%	$23,800	$1,164	$29,079
$0ST/Unlimited LT	$0	$162,577	.80%	$38,693	$1,164	$14,186

**This is a hypothetical example for illustrative purposes only and not based on actual account information. Assuming an income tax rate of 40.8% and a capital gains rate of 23.8%.

Glossary

Capital Gains Taxes – Taxes paid on profits made from an investment. Short-term capital gains taxes are paid on investments held for less than one year, while long-term capital gains taxes are paid on investments held for one year or longer. In many cases, the tax rate for short-term capital gains is higher than for long-term capital gains.

Overlay – Changes made to a portfolio by a third party based on direction given by the client. For instance, a tax overlay involves altering trades dictated by the investment manager to align with the client's tax preferences. Similarly, an impact overlay is when shares of certain companies are sold from a portfolio to reflect the client's personal values and beliefs.

Tax Drag – The difference between an investment's pre-tax and after-tax returns due to the taxes paid on the investment's profits.

Tracking Error – A statistical measure of how much your portfolio can be expected to deviate from the investment manager's portfolio. Ultimately, a smaller tracking error means your portfolio will be expected to follow the performance of the investment manager's portfolio more closely. A tracking error of 5.0% should be interpreted to mean your portfolio's annual performance will be within +/- 5.0% of the investment manager's 66% of the time and within +/- 10.0% (or double the tracking error) 95% of the time.

Unified Managed Account (UMA) – The term refers to both a program and a technology that allows advisors to build a diversified, tax-aware, multi-asset portfolio within a single account/ registration. One can refer to either the individual products or the asset allocations used within the UMA as a "sleeve." The UMA program may include a variety of investment vehicles, including mutual funds and exchange-traded funds ("ETFs"), as well as third-party managed portfolios, such as separately managed accounts ("SMAs") and Fund Strategist Portfolios ("FSPs").

Talk To Our Team

Envestnet | PMC's Tax Overlay Services team automates tax management for more than $12B in assets at over 100 firms (as of September 30, 2023). Contact us at PMCOverlayServices@Envestnet.com to learn how you can help your clients manage their capital gains taxes.

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