SOLUTIONS

Direct indexing: Tax-efficient and custom applications at Edward Jones

Direct indexing is a common term for a strategy that creates a personalized index in an SMA.

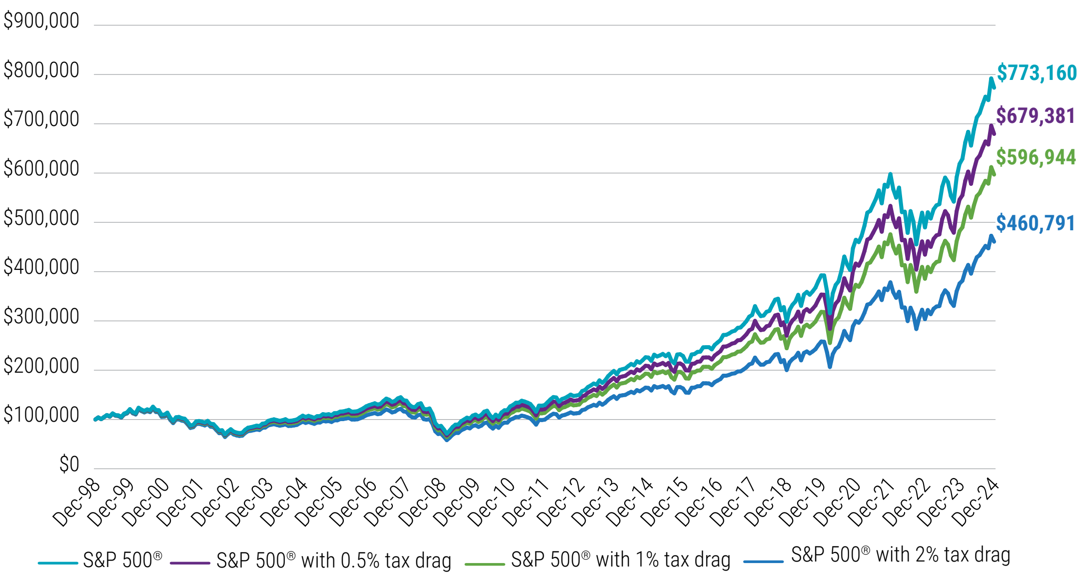
High-net-worth investors have unique concerns that often fall beyond the scope of traditional advisory services and off-the-shelf products – particularly when it comes to taxes.

Direct indexing from Natixis Investment Managers Solutions can address a range of issues facing tax-sensitive investors, using index-based separately managed accounts (SMAs). When investors own securities directly in an SMA, they can benefit from active tax management.

Higher after-tax returns

Figure 1 shows how annual capital gains taxes can erode the value of an account over time, based on a hypothetical tax drag ranging from 0% to 2% annually.

FIGURE 1: Tax drag: Hypothetical growth of $100,000 (December 31, 1998–December 31, 2024)



Data shown represents past performance and is no guarantee of future results.

Indexes are not investments, do not incur fees and expenses, and are not professionally managed. It is not possible to invest directly in an index.

Our strategies address this challenge by seeking to track index performance fairly closely before taxes but **reduce or eliminate capital gains taxes by using active tax management techniques**. There are many ways to use direct indexing strategies, but these are four of the most popular applications:

1. **Tax-managed equity indexing** to generate higher after-tax returns.
2. **Account transition strategies** to minimize the tax consequences of moving assets to a new account.
3. **Portfolio customization** Edward Jones offers standard socially responsible category restrictions and the ability to restrict up to 10 individual tickers; specific sectors cannot be restricted.
4. **Banking losses to offset future capital gains** related to selling a business, exercising stock options, or estate planning.

1. Tax-managed equity indexing

Use as a loss harvesting vehicle to offset gains from other investments

Target investor

High-net-worth investors who want to optimize tax efficiency across all portfolio investments.

Benefits

Direct indexing seeks to provide beta exposure to equities while systematically harvesting investment losses that can be used to offset taxable gains in other parts of the portfolio. This offers distinct advantages over index funds and exchange-traded funds (ETFs):

- Even though index mutual funds and ETFs are tax efficient, they do pay taxable dividends, which contribute to tax drag.
- Due to their legal structure, index funds and ETFs cannot pass on losses to investors.
- Owning index securities directly enables tax loss harvesting.

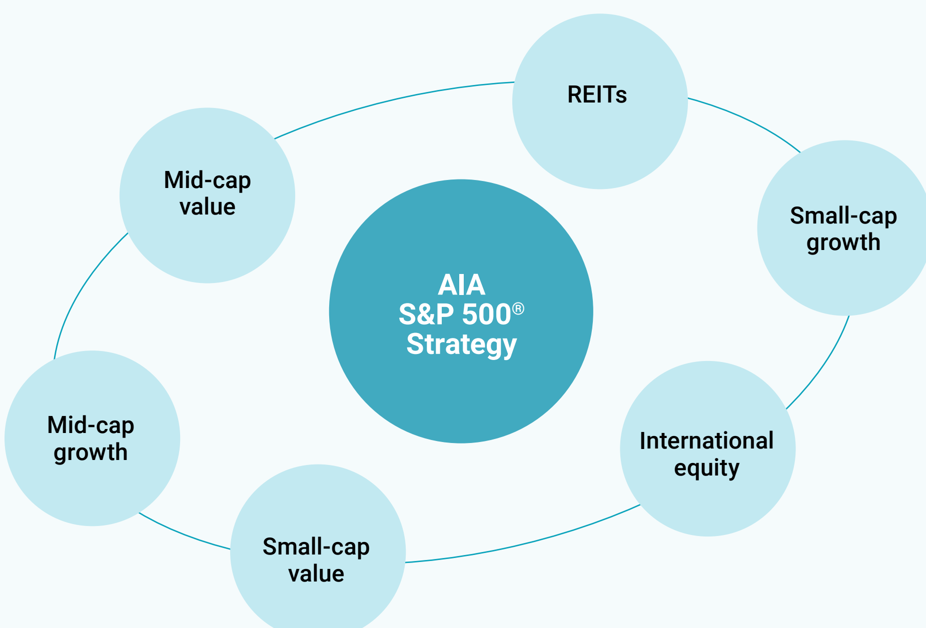
Applications

In our AIA separate accounts, investors own stocks directly. This offers the ability to accrue current losses that can be used to offset capital gains from other portfolio investments, now or in future years. Applications could include:

- A tax efficient way to gain exposure to index performance.
- A core equity allocation with a loss harvesting engine to offset cap gains from other investments.
- A passive core holding, coupled with satellite active allocations to pursue alpha.

Tax loss harvesting involves selling selected investment positions at a loss and reinvesting the money back into the portfolio. Realized capital losses can be used to offset capital gains, both within the strategy and from other investments – reducing taxes paid to the IRS.

FIGURE 2: Use the AIA S&P 500® Strategy as a core that can offset gains from other investments



Hypothetical is for illustrative purposes only; it does not represent the structure of an actual portfolio.

2. Account transition strategies

Minimize the tax consequences of account transitions

Target investor

Clients or prospects who want to transition assets without incurring excessive taxes on capital gains.

Benefits

Liquidating an existing portfolio can create significant realized capital gains, which can result in a large tax bill and less money left over to invest. Direct indexing can make portfolio transitions less taxing:

- Complete portfolio(s) can be transitioned to maximize tax efficiency.
- Current positions can be used as a foundation for the new indexed portfolio, incorporating existing holdings as much as possible and deferring capital gains.
- Investors can transfer securities in kind, with the strategy looking to hold onto index names that will help build a diversified portfolio.

In-kind transfers are transferred "as is," so there are no tax consequences associated with selling appreciated securities. Our strategies can often accept in-kind transfers to use in creating the new personalized index.

3. Portfolio customization

Portfolios that put taxes first

Most investors are concerned about fees, but in many cases, taxes take an even bigger bite out of returns. Direct indexing strategies can help address key issues facing tax-sensitive investors – through portfolios that put taxes first.

Tax-managed equity indexing

Direct indexing strategies seek to track an index before taxes and outperform it after taxes; using tax loss harvesting is not possible with an index mutual fund or ETF. Tax loss harvesting is a strategy for selling securities that have lost value to offset taxes on capital gains.

Account transition strategies

Direct indexing can help minimize or eliminate the tax consequences of moving your assets to a new advisory firm or brokerage by accepting securities in kind to fund the new account. Your financial professional can work with you to create a transition plan that addresses your specific tax-saving objectives.

Account restrictions

For investors with specific tax or investment objectives, portfolios can be customized to exclude specific securities, including social responsible screening.

Banking losses to offset potential future capital gains

Direct stock ownership through an SMA offers the ability to accrue current losses that can be used to offset capital gains from other portfolio investments, now or in future years.

Applications could include:

- Estate planning
- Exercising stock options
- Selling a business

To learn more about direct indexing separate account strategies, contact your financial professional or Visit: im.natixis.com.

4. Banking losses to offset future capital gains

Take steps now to save on taxes in the future

Target investor

Investor or business owner who expects to have a significant taxable event sometime in the next three to ten years.

Benefits

Planning ahead for a taxable event can help reduce federal capital gains taxes that can erode profits.

- A direct indexing account can track index performance while creating a bank of accrued capital losses that can be used to offset large capital gains in future years.
- Through its active tax loss harvesting strategies, the AIA S&P 500® Strategy has historically generated average tax losses equivalent to 20%–25% of assets over a three-to-five-year period, depending on market volatility.
- Securities sold at a loss are replaced with similar securities to maintain appropriate index diversification.
- The banked losses can be carried forward indefinitely for federal income tax purposes and used, as needed, to minimize future tax impact.

Applications

With advance planning, accrued capital losses can be used to reduce the tax impact associated with:

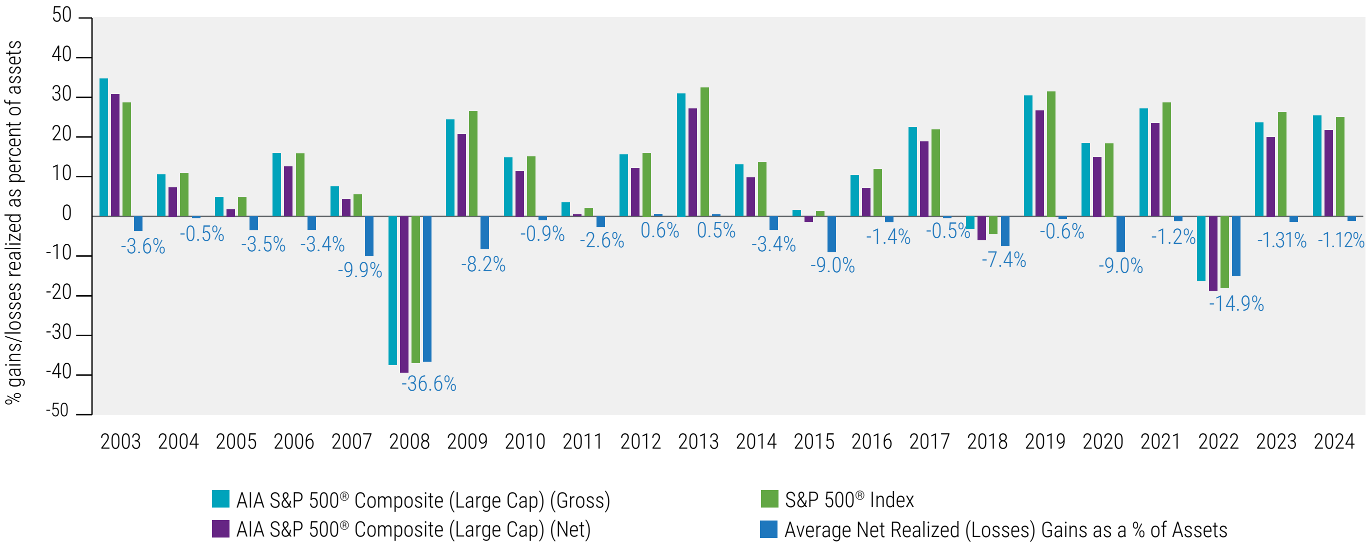
- The sale of a business
- Real estate transactions
- Stock option conversion

Opening a direct indexing account seeks to provide market participation while generating realized losses that can be retained for future use and Figure 3 shows the historical annual returns, before taxes or fees, of the AIA S&P 500® Composite and the S&P 500® Index – and the losses harvested in each calendar year as a percentage of assets.

Net capital losses can be carried forward indefinitely to offset future gains on federal income taxes. Up to $3,000 annually can be used to offset ordinary income. State tax regulations vary.

Losses vary by year and can be unique to every investor, but loss harvesting opportunities exist in both up and down markets. In 2020, the AIA S&P 500® Composite generated 9% in capital losses as a percentage of assets while posting an 18.5% (15% net of fees) return for the year. As an illustrative example, this equates to a **$90,000 bankable loss for a $1 million portfolio**.

FIGURE 3: Annual return percentage for AIA S&P 500® Composite and S&P 500® Index – 1/1/03–12/31/2024



As of 6/30/2025	Composite pure gross returns (pretax)	Benchmark returns	Difference	Composite net bundled (pretax)	Benchmark returns	Difference
1 Year	14.81%	15.16%	-0.35%	11.45%	15.16%	-3.71%
5 Years	16.35%	16.64%	-0.29%	12.94%	16.64%	-3.70%
10 Years	13.62%	13.65%	-0.03%	10.29%	13.65%	-3.36%

Benchmark is the S&P 500 Index

Performance is shown gross of fees. Performance data shown represents past performance and is no guarantee of future results. Sources: Standard & Poor's Financial Services LLC, Natixis Investment Managers Solutions.

Please consult your investment professional for investment minimums. Gross-of-fees performance does not take into account transaction costs, investment advisory fees, custody fees, transactional fees, or other expenses or deductions for income taxes. Pure gross-of-fees returns are supplemental information. After-tax returns are only applicable to taxable accounts. Such fees will reduce performance over time. Net-of-fees performance reflects the deduction of an annual wrap program bundled fee of 3% and has been retroactively applied since inception. It is not possible to invest in an index. Indexes are not investments and do not incur fees and expenses and are not professionally managed

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To learn more about direct indexing separate account strategies, contact your financial professional.

Visit: im.natixis.com
Call: 800-862-4863

NATIXIS INVESTMENT MANAGERS SOLUTIONS – DIRECT INDEXING

Natixis Investment Managers Solutions provides design, development and execution of portfolio strategies tailored to specific investment objectives and unique portfolio constraints. Our direct indexing strategies can be customized to maximize after-tax return, align with personal values or pursue specific investment objectives.

There are significant differences between SMAs, Mutual Funds and ETFs, including, but not limited to, minimum account size, cost, and liquidity. Please consider these differences before investing. A mutual fund is an investment company that pools money from investors and invests the money in securities. Investors buy shares of a mutual fund. ETFs are pooled investment vehicles that trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Separately managed accounts are investment portfolios owned by an investor and managed by an advisor.

The AIA S&P 500® Cash Funded Composite includes all fully discretionary, taxable, fee-paying portfolios that invest in the AIA S&P 500® which have initially been funded with cash. This strategy seeks to track the S&P 500® Index on a pretax basis by investing in a subset of securities from within the index, while utilizing loss harvesting and tax management techniques to outperform on an after-tax basis. The S&P 500 Index measures the performance of 500 widely held stocks in US equity market.

Investment Risks: Equity securities are volatile and can decline significantly in response to broad market and economic conditions. There is no assurance that an investment will meet its performance objectives or that losses will be avoided. Management Risk: A strategy used by the investment manager may fail to produce the intended result. All securities are subject to risk, including possible loss of principal. Please read the risks associated with each investment prior to investing.

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There can be no assurance that developments will transpire as forecasted. Actual results may vary.

Future tax rates and rates of return are unknown and will affect your personal outcome. All investments are subject to risk of loss.

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