Customized index replication strategies

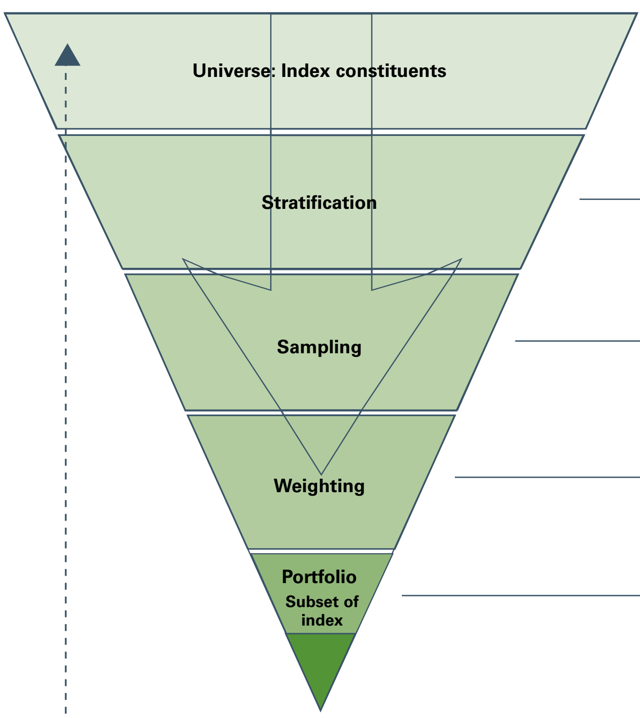
Index-based solutions for portfolios in transition

Active Index Advisors®*
portfolio strategy

AIA index portfolios

AIA uses proprietary methodology to construct customized index portfolios that can address a variety of client needs in a tax-efficient and cost-effective manner. AIA index portfolios complement existing holdings, reduce trading costs, and optimize opportunities for tax loss harvesting. In taxable accounts, losses are harvested aggressively to pursue enhanced after-tax returns.

CONSTRUCTING AN AIA PORTFOLIO



- AIA utilizes a proprietary stratification methodology to group securities within each sector
- AIA provides a proprietary sampling methodology to select stocks from each sector of the index
- AIA weights each position to seek correlation with the benchmark index
- Final portfolio contains a subset of stocks from the index

On a regular basis, AIA rebalances all accounts to seek sector-neutral weights and diversification across market capitalization.

Sell criteria:
- Loss harvest
- Risk management
- Deletion from index

*Previously known as Active Investment Advisors®

Customized solutions for high-net-worth investors

Taxes can present a significant barrier for investors seeking to change strategies or realign portfolios. Active Index Advisors® combines the low fees and tight benchmark correlation of index investing with the tax management and flexibility of separate accounts to construct diversified, tax-efficient portfolios. Both the strategy and index can be customized to complement existing portfolio holdings.

Cost-effective index-based solutions from AIA can help you address three of the issues that matter most to affluent investors:

1. Tax-efficient equity exposure
2. Portfolio transition strategies
3. Strategies for concentrated wealth

High-net-worth clients have unique concerns that often fall beyond the scope of traditional financial advisor services and off-the-shelf products. Offering the right solutions can help you build and maintain stronger relationships with prospects and clients.

1. Tax-efficient equity exposure

"My client uses ETFs or index mutual funds for their tax efficiency, but how can they do better?"

Target client

- Individuals who use ETFs or index mutual funds for their tax efficiency.
- Investors who want a tax-efficient equity core to complement their fixed-income tax strategy
- Investors who have capital gains distributions or anticipate a future capital gains event

Possible issues

- Even when ETFs and index mutual funds are able to avoid capital gains distributions, they still have dividend distributions, reducing their after-tax returns.
- Compounding tax costs reduces after-tax wealth
- ETFs and mutual funds cannot distribute capital losses, limiting their tax efficiency

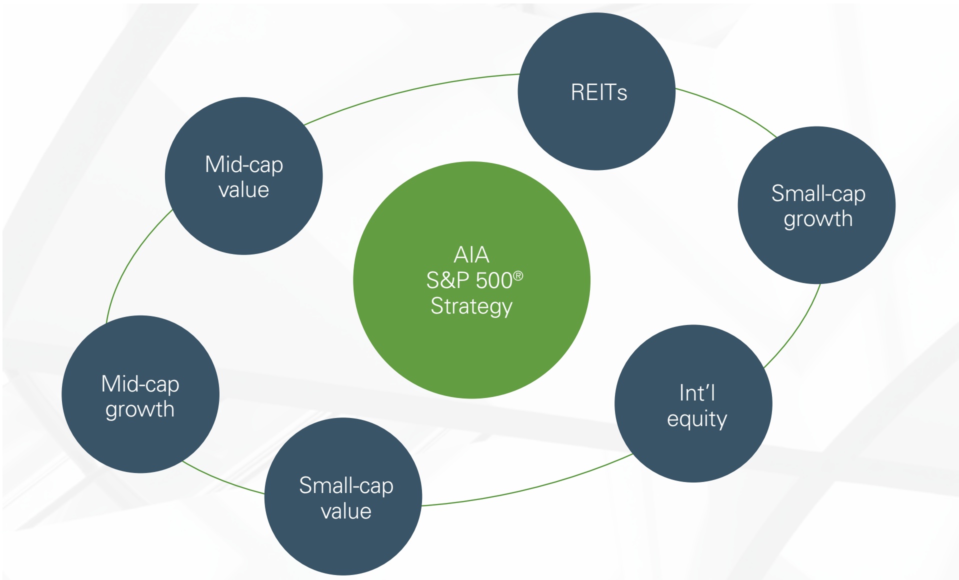
The AIA solution

- AIA managed separate accounts, where investors own the stock directly, providing many benefits:
- Investors may benefit from net realized losses to defer taxes indefinitely
- AIA may be able to help maximize after-tax wealth for each individual accounts since no two accounts look alike
- Each account may be customized to exclude specific stocks, incorporate ESG/SRI screens, or forced to hold existing positions
- AIA can be used as a core equity holding and as a loss-harvesting vehicle to offset cap gains from other investments

KEY THOUGHT

AIA can help bring portfolios more in line with client objectives without starting from square one.

CORE-SATELLITE SOLUTIONS: INVESTMENT PROCESS



The above hypothetical is for illustrative purposes only and does not represent the structure of an actual portfolio.

2. Portfolio transition strategies

"Turning prospects into clients – and reallocating client portfolios – would be a lot easier if taxes weren't such a significant factor."

Target client

- Prospects looking to consolidate or transfer taxable holdings to a new platform or advisor
- Clients looking to make significant changes in portfolio allocations

Possible issues

- Likes new platform features, but doesn't want to trigger a tax liability
- Concerned about the tax consequences of moving assets to advisor's new firm
- Reluctant to make necessary portfolio changes because of the tax impact of embedded gains or low original cost basis

The AIA solution

AIA's index-based solutions can help minimize the tax impact of portfolio transitions. Based on specific planning concerns and investment objectives, AIA reviews each client portfolio and proposes a customized transition plan that seeks to:

- Incorporate current holdings
- Manage risk
- Control tracking error
- Avoid excessive taxes
- Upon request, set a net cap gains budget, even if $0.

KEY THOUGHT

Presenting a client or prospect with a tax-managed strategy for portfolio transition can overcome many of the barriers to implementing this critical decision.

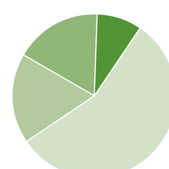
AIA S&P TRANSITION CASE STUDY: A SIDE-BY-SIDE COMPARISON

STARTING PORTFOLIO VALUE: $771,012.00

Sell non-index	9%
Sell overweights	17%
Sell loss harvest	18%
Retain in kind	56%

Total liquidation

Net long-term capital gains $101,799



AIA process

Net long-term capital gains (losses) ($30,819)

Breakdown of securities	$ Value	% Value	$ Value	% Value
Securities retained in kind	$0	0%	$430,553	56%
Securities sold				
Loss harvest	$0	0%	$141,749	18%
Sell overweights	$771,012	100%	$127,356	17%
Sell non-index	$0	0%	$71,355	9%
Total securities sold	$771,012	100%	$340,460	100%
Anticipated realized gains/losses				
Long-term gains	$145,241		$7,990	
Long-term losses	($43,442)		($38,809)	
Net long-term gains (losses)	$101,799		($30,819)	

For illustrative purposes only. This analysis is based on a hypothetical portfolio and is only intended to demonstrate the effect of the tax-loss harvesting approach used by Active Index Advisors®. It does not take into account transaction costs. This information is general in nature and is not intended as tax advice. Your clients should consult a tax professional as to how this applies to their situation.

3. Strategies for concentrated wealth

"My client needs a balance between diversifying concentrated holdings and managing tax concerns."

Target client

- Clients with extensive low-cost-basis holdings
- Investors with portfolios centered on one or more large stock positions

Possible issues

- Ready to sell low-cost-basis securities, but worried about the capital gains
- Trying to unwind a concentrated stock position without triggering excessive taxes
- Concerned about lack of diversification, yet believes there may be still some upside to owning their concentrated stock

The AIA solution

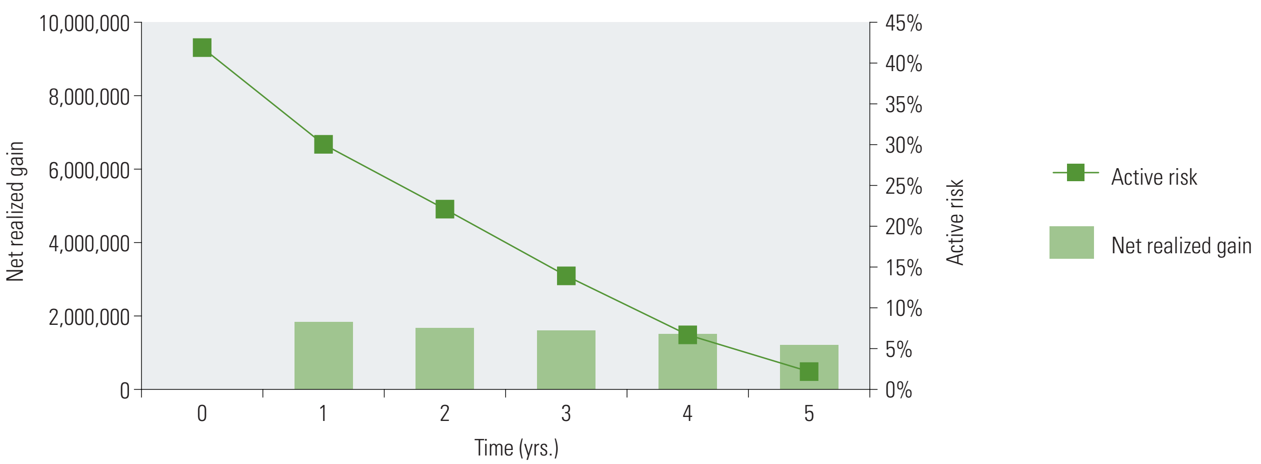
AIA can work with you to create a strategy for unwinding concentrated stock positions or selling low basis shares. Depending on your client's objectives, the timing of the transition process and the amount of stock sold will vary. The options for diversifying concentrated positions with AIA include:

- Liquidate concentrated positions immediately for diversification with little focus on tax impact
- Transition positions over time, thereby balancing diversification and tax impact
- Tax-neutral transition with emphasis on minimizing net capital gain realization over diversification

KEY THOUGHT

Clients with a flexible time frame may be able to minimize the impact of taxes on their portfolios.

TRANSITION OVER TIME



This example is hypothetical in nature, for illustrative purposes only, and does not represent an actual client portfolio. This information should not be considered tax or investment advice. Additionally, as each investor's needs and risk tolerances differ, so does each client's investment strategy. This information is intended to be general in nature. Diversification does not insure against market loss.

The portfolio transition analysis set forth in the previous pages is intended to demonstrate the effect of the portfolio transition service/tax loss harvesting approach used by Active Index Advisors®.

The portfolio transition analysis figures are based on a hypothetical initial investor portfolio and a hypothetical AIA portfolio. Actual portfolio holdings, trades, taxes and tax savings will vary depending upon the actual portfolio provided, customization, tax rates, cost basis, holding periods, risk requirements, size of portfolio, market values, and other considerations.

The hypothetical initial investor portfolio shows initial funding information with the amount of cash and securities placed with AIA along with the associated hypothetical cost basis, market value and unrealized gains or losses. The resulting hypothetical AIA portfolio shows the cash and securities values after AIA rebalances the initial investor portfolio.

The security trades information summarizes the value expressed in dollars, and value expressed as a percentage of the total portfolio value, for hypothetical trades due to liquidating non-index securities, securities sold for loss harvesting (selling tax loss to realize capital losses), additional positions sold (or reduced) for risk management purposes (overweights sold), the amount of associated purchases to diversify the portfolio, and the securities kept in kind. The securities kept in kind result in both tax and cost savings for the hypothetical client vs. liquidation.

The anticipated gains/losses section compares the estimated gains and losses that would be realized in liquidating the account vs. transitioning it using an AIA Index Portfolio. Realized gains and losses are estimated based on the difference between hypothetical current market value and hypothetical cost basis. Short-term gains and losses are those with respect to securities held for one year or less. Long-term gains and losses are those with respect to securities held for more than a year.

The analysis is based on an assumption of a complete liquidation of a hypothetical portfolio and, thus, the immediate realization of all unrealized gains and losses in the portfolio. This assumption is used in order to provide a comparison point to calculate the current tax positions of the account transitioned and the potential benefits of AIA's services. It is not intended to imply that complete liquidation of an account is the only alternative to the use of AIA's services or that such an option would necessarily have been selected by a client.

Actual trades will vary between the date of analysis and actual implementation due to index changes and market conditions.

Portfolio and trades herein are illustrative only and should not be considered advice to buy or sell specific securities shown.

There is no guarantee that a transitioned portfolio will result in an improved tax situation.

This information does not cover state-specific laws that may affect the applicability, accuracy or completeness of this information. It is provided for informational and educational purposes only and should not be construed as tax or legal advice. Your clients should always consult their tax professional concerning their specific situation before making any financial decisions. This information should not be relied upon for determining tax liability.

It should not be assumed that the structure outlined herein will prove to be profitable, that future investment decisions will prove to be profitable, or that future performance will equal the illustrative performance shown in this presentation. All investments carry a degree of risk, including loss of principal. The risks should be discussed with your clients.

Active Index Advisors®

Active Index Advisors® (www.activeindexing.com) specializes in customized, index-based separate account solutions. The group is known for an innovative approach that combines proprietary investment strategies with sophisticated tax-management techniques.[1] Headed by Chief Investment Officer Kevin Maeda, AIA's principals represent top indexing talent, drawn from leading institutional managers.

NATIXIS GLOBAL ASSET MANAGEMENT

Natixis Global Asset Management serves thoughtful investment professionals worldwide through our Durable Portfolio Construction® approach: applying risk-minded insights to empower more intelligent investing. Uniting over 20 specialized investment managers globally ($877.1 billion AUM[2]), Natixis is ranked among the world's largest asset management firms.[3]

1 NGAM Advisors, L.P. does not offer tax advice. Please consult with your tax advisor regarding your specific situation.

2 Net asset value as of December 31, 2016. Assets under management (AUM) may include assets for which non-regulatory AUM services are provided. Non-regulatory AUM includes assets which do not fall within the SEC's definition of 'regulatory AUM' in Form ADV, Part 1.

3 Cerulli Quantitative Update: Global Markets 2016 ranked Natixis Global Asset Management, S.A. as the 16th largest asset manager in the world based on assets under management as of December 31, 2015.

▶ To find out more about how AIA can help address your clients' investment challenges, call **800-862-4863** or visit **ngam.natixis.com**. All investments carry a certain degree of risk, including loss of principal. The risks should be discussed in detail with your clients.

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Exp 3/31/18
WP140-0217R