NATIXIS INVESTMENT MANAGERS

SOLUTIONS

Direct indexing: Tax-efficient and custom applications

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.

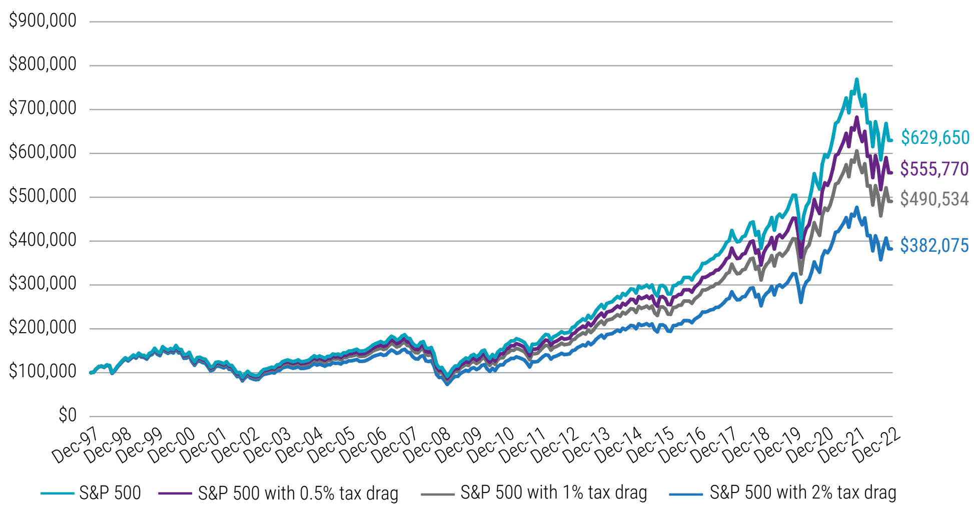
Direct Indexing from Natixis Investment Managers Solutions can address a range of issues facing tax-sensitive investors, using index-based separately managed accounts. When investors own securities directly in an SMA, they can benefit from active tax management.

Direct indexing is a common term for a strategy that creates a personalized index in a separately managed account (SMA).

Higher after-tax returns

Figure 1 shows how annual capital gain 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, 1997 – December 31, 2022)



Data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

Our strategies address this challenge by seeking to track index performance fairly closely before taxes, but **reduce or eliminate capital gain taxes by using active tax management techniques.** There are many ways to use direct indexing strategies, but these are five 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. **Unwinding concentrated positions** by balancing diversification and tax efficiency
4. **Portfolio customization** to align with specific tax or investment objectives, including ESG and values-based investing
5. **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 provides 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 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.

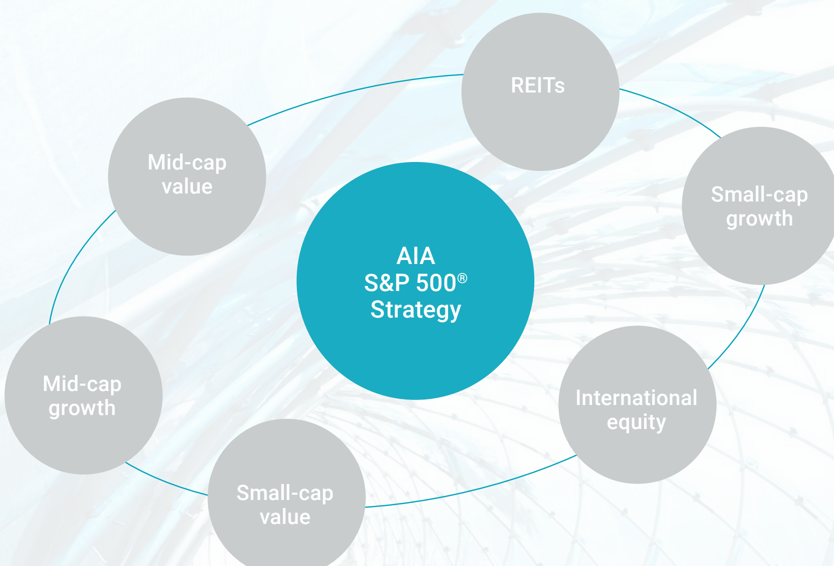
Applications

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:

- As a tax-efficient way to gain exposure to index performance.
- As a core equity allocation with a loss-harvesting engine to offset cap gains from other investments.
- As 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 for illustrative purposes only; 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, including individual stocks, SMAs, ETFs, mutual funds, and closed-end funds, selling only as much as necessary for proper diversification.
- Transitions can be guided by a capital gains budget to limit taxable gains each year.

Applications

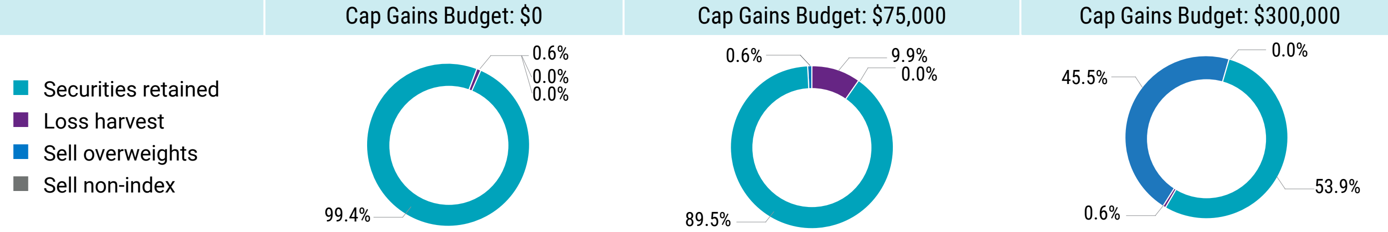
Because each account is customized, investors can specify capital gain limits to minimize, delay, or avoid any net taxes that could be caused by the transition. Figure 3 compares three courses of action for a hypothetical investor transitioning a portfolio of individual securities to gain the broad market exposure of an index, with capital gains budgets ranging from $0 to $300,000.

- Securities retained or sold for loss harvesting purposes are intended to reduce realized capital gains.
- Securities sold due to being overweight relative to the index or not included in the index are intended to reduce tracking error.

In this example, the $0 Cap Gains Budget would have the least tax impact, but the index tracking error on the new portfolio could be significantly higher than if the portfolio's overweight positions were sold immediately.

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.

FIGURE 3: Transition comparison for hypothetical portfolio valued at $763,220



	Cap Gains Budget: $0			Cap Gains Budget: $75,000			Cap Gains Budget: $300,000		
	Net capital gains (losses) ($303)			Net capital gains (losses) $72,095			Net capital gains (losses) $308,237		
Breakdown of securities	# Positions	$ Value	% Value	# Positions	$ Value	% Value	# Positions	$ Value	% Value
Securities retained	79	$758,719	99.4%	79	$682,781	89.5%	79	$411,592	53.9%
Securities sold									
Loss harvest	3	$4,501	0.6%	3	$4,501	0.6%	3	$4,501	0.6%
Sell overweights	0	$0	0.0%	4	$75,938	9.9%	19	$347,127	45.5%
Sell non-index	0	$0	0.0%	0	$0	0.0%	0	$0	0.0%
Total securities		$763,220	100.0%		$763,220	100.0%		$763,220	100.0%
Predicted tracking error			5.9%			4.8%			1.6%

This information is general in nature and is not intended as tax advice. You should consult a tax professional as to how this applies to your situation. Please see the Disclosures page for additional information.

3. Unwinding concentrated positions

Tax-efficient way to improve portfolio diversification

Target investor

Individuals or families who have a large portion of their wealth tied to a handful of stocks – or even a single stock.

Benefits

Having too much invested in a small number of holdings exposes investors to unwanted concentration risk. But selling shares to improve diversification can result in a large capital gain tax, particularly with low-basis stock positions.

- Direct indexing can reduce or delay capital gains using a budget aligned with an investor's priorities.
- The goal may not be to eliminate the large position entirely, but to reduce the exposure over time while transitioning to an index-like portfolio.
- We can build a customized index around the concentrated position, selling shares in a tax-efficient manner and reinvesting the proceeds in other sectors.
- Investors can decide how aggressively they want to unwind the position, balancing the need for diversification with the desire for tax savings.

Applications

Investors with a higher capital gains budget may be able to diversify their holdings more quickly, and have lower tracking error to the index. Conversely, for investors who are less willing to pay cap gains up front, the process may take longer and tracking error may be higher initially.

Concentrated stock transitions are driven by three primary factors:

- Allowable capital gain realization
- Cash funding that can be paired with the concentrated stock
- Current unrealized gain

A capital gains budget specifies an upper limit on gains that will be generated each year by the portfolio management team as they unwind the low-cost-basis positions given to them to fund the portfolio.

Tracking error indicates how closely a portfolio follows its benchmark index.

Figure 4 illustrates a concentrated $1 million Tech Stock A position with a cost basis of $250,000 ($750,000 in unrealized capital gains) and $250,000 in cash funding. Compared to the benchmark S&P 500® Index, the single Tech Stock A position has a predicted tracking error of 28.2%, with sector exposure concentrated solely in Information Technology.

FIGURE 4: Unwinding strategies for $1 million tech stock holding, $250,000 cost basis, $250,000 cash funding

Underweight Overweight

Sector weights	Index (Absolute)	Current Portfolio (Relative)
Information Technology	26.71%	73.29%
Healthcare	13.0%	-13.0%
Consumer Discretionary	12.51%	12.51%
Financials	11.29%	-11.29%
Communication Services	11.16%	-11.16%
Industrials	8.74%	-8.74%
Consumer Staples	6.07%	-6.07%
Energy	2.80%	-2.80%
Materials	2.68%	-2.68%
Utilities	2.59%	-2.59%
Real Estate	2.44%	-2.44%
Portfolio Characteristics	**Index**	**Current**
Cash	–	$250,000
Securities	–	$999,953
Total Portfolio Value	–	$1,249,953
Number of Holdings	505	1
Predicted Tracking Error	0.0%	28.2%

These examples are hypothetical in nature, for illustrative purposes only, and do not represent an actual client portfolio. This information should not be considered tax or investment advice.

Figure 5 illustrates three potential day-one portfolios when pairing the $1,000,000 Tech Stock A position with $250,000 of cash funding. The three scenarios compare the differences based on the realization of $100K, $250K or $500K of net capital gains.

As the figure shows, selling a defined amount of Tech Stock A based on the designated capital gains budget allows the managers to reduce the concentration to more closely align the portfolio exposures to the index weights. Predicted tracking error and the overweight exposure to Information Technology are decreased as higher amounts of capital gains are realized.

FIGURE 5: Unwinding strategies for $1 million tech stock holding, $250,000 cost basis, $250,000 cash funding

Underweight Overweight

Sector weights	$100K Cap Gains Budget	$250K Cap Gains Budget	$500K Cap Gains budget
Information Technology	43.05%	27.08%	0.46%
Healthcare	-7.59%	-4.78%	-0.07%
Consumer Discretionary	-7.36%	-4.61%	-0.06%
Financials	-6.62%	-4.16%	-0.07%
Communication Services	-6.55%	-4.13%	-0.07%
Industrials	-5.14%	-3.24%	-0.06%
Consumer Staples	-3.56%	-2.25%	-0.04%
Energy	-1.65%	-1.04%	-0.02%
Materials	-1.59%	-0.99%	-0.02%
Utilities	-1.53%	-0.96%	-0.02%
Real Estate	-1.45%	-0.91%	-0.03%
Portfolio Characteristics	**Index**	**Index**	**Current**
Cash	$6,306	$6,287	$6,253
Securities	$1,243,647	$1,243,666	$1,243,699
Total Portfolio Value	$1,249,953	$1,249,952	$1,249,952
Number of Holdings	130	130	130
Predicted Tracking Error	18.9%	14.1%	6.2%

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4. Portfolio customization

Align portfolio holdings with tax, investment or personal objectives

Target investor

Investors who want to modify an index portfolio to pursue specific investment or values-based objectives.

Benefits

We view indexes as a flexible foundation that can be adapted to each investor's specific goals and requirements. In addition to tax management, accounts can be customized, using positive or negative screens related to:

- Specific GICS sectors, industries or individual securities
- Investment styles, such as value, dividend, or growth tilts
- Environmental, social, governance (ESG), racial equity or other values-based criteria
- Capital gain constraints

Applications

Account customization can solve for a variety of objectives:

- Actively aligning investments with personal values or an Investment Policy Statement (IPS)
- Creating custom-weighted indexes to pursue higher returns
- Building a personalized index to complement concentrated positions

Personalized indexes may combine both positive and negative screening to create a customized portfolio that reflects the desired investment strategy.

Figure 6 shows screens currently available for customizing investor portfolios. While there are many benefits to personalized indexing, it is also important to understand the potential drawbacks of customization. Actively excluding securities from an index or adjusting the weights of selected constituents may lead to increased tracking error and higher – or lower – returns than the original index.

Positive screening identifies best-in-class securities using third-party ratings. Negative screening excludes securities based on investor guidelines.

FIGURE 6: A broad range of customization options*

GICS Sectors – Exclusion can also be done at the sub-sector and industry level
Communication Services • Consumer Discretionary • Consumer Staples • Energy • Financial Services • Healthcare • Industrials • Information Technology • Materials • Real Estate
Business Involvement Screens – Any industry tie or 10% revenue threshold
Abortion & Contraceptives • Adult Entertainment • Alcohol • Cluster Munitions • Defense & Weapons • Firearms • Gambling • Landmines • Nuclear Power • Stem Cell • Tobacco
Environmental/Social/Governance Screens – Absolute basis or "best in class" relative to peers
ESG • Racial Equity • Animal Testing • Employee Rights
Faith-Based Screens
Catholic Values • Islamic Values

* Certain screens can eliminate a large number of securities from the investable universe. This is particularly true of screens based on ESG ratings and GICS (Global Industry Classification System) sectors. Index-based strategies often have the flexibility to work around these constraints, but it may be inadvisable to apply some of these screens to actively managed separate account strategies as they may have a very large impact on portfolio composition.

5. 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 gain 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:

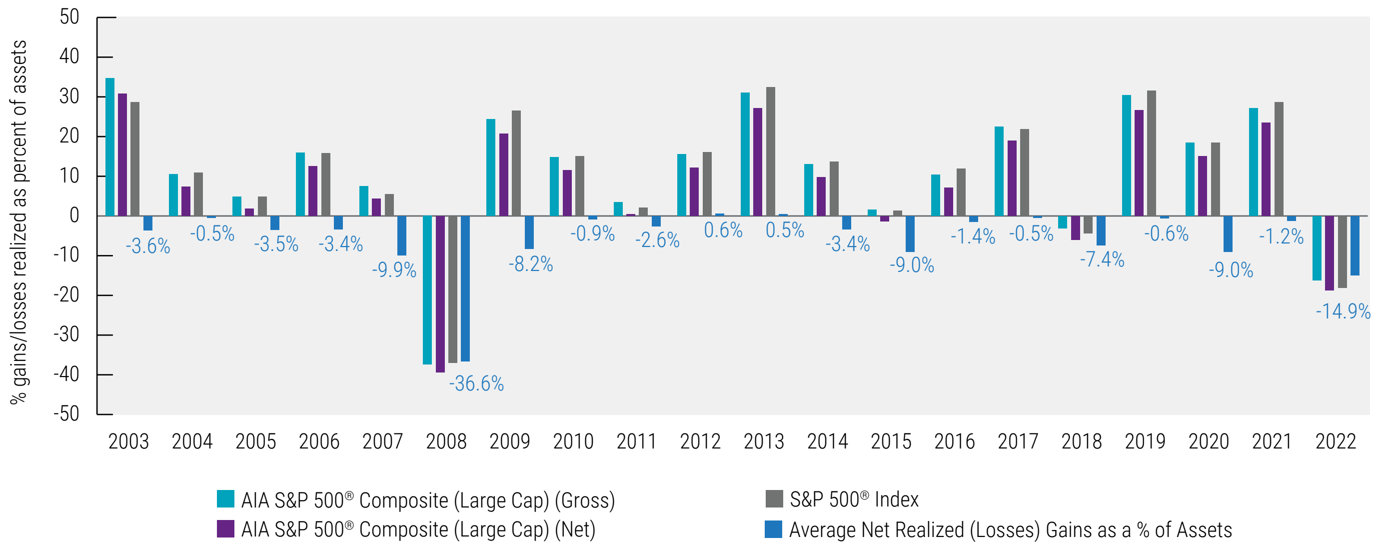
- The sale of a business
- Real estate transactions
- Stock option conversion

Opening a direct indexing account now provides market participation while generating realized losses that can be retained for future use. Figure 7 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, but loss harvesting opportunities exist in both up and down markets. In 2020, the AIA S&P 500® generated 9% in capital losses as a percentage of assets while posting an 18.5% return for the year. This equates to a **$90,000 bankable loss for a $1 million portfolio**.

FIGURE 7: Annual return percentage for AIA S&P 500® Composite (Gross) and S&P 500® Index – 1/1/03–12/31/22



	Composite Pure Gross Returns (Pre-Tax)	Benchmark Returns	Difference	Composite Net Bundled Fee Returns (Pre-Tax)	Benchmark Returns	Difference
1 Year	-16.24%	-18.11%	1.87%	-18.76%	-18.11%	-0.65%
5 Years	9.78%	9.42%	0.36%	6.55%	9.42%	-2.87%
10 Years	12.49%	12.56%	-0.07%	9.19%	12.56%	-3.37%

Performance is shown gross of fees. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative 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 fee of 2% prior to 1/1/2020 and 3% thereafter. • 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.

natixisimsolutions.com

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

Visit: natixisimsolutions.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.

The examples shown in these scenarios should be viewed as the starting points for portfolios transitioning to the AIA S&P 500 Strategy. All portfolios can be customized to investors' specific circumstances and preferences.

After the initial transition or purchase, our managers will tax loss harvest the portfolio on a quarterly basis. In cases of unwinding concentrated positions, realized losses are used to offset gains associated with selling additional shares. The proceeds from the harvested names and the concentrated shares are reinvested to further align the portfolio with the benchmark.

The AIA S&P 500® Cash Funded After-Tax 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 pre-tax 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.

Clients can also request to realize additional net capital gains after the initial rebalance or transition, and most commonly spread them over several tax years. By using direct indexing for a portfolio transition, clients can benefit from tax-neutral selling of any concentrated stock due to quarterly tax loss harvesting.

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 Natixis Investment Managers Solutions Direct Indexing.

The portfolio transition analysis figures are based on a hypothetical initial investor portfolio and a hypothetical 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 invested, along with the associated hypothetical cost basis, market value and unrealized gains or losses. The resulting hypothetical direct indexing portfolio shows the cash and securities values after the managers rebalance 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 our direct indexing services. It is not intended to imply that complete liquidation of an account is the only alternative to the use of these 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.

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DI06-0423