



GREAT LAKES ADVISORS®

A WINTRUST WEALTH MANAGEMENT COMPANY

THE ADVISOR'S GUIDE TO TAX-MANAGED INVESTING

AN OFTEN-OVERLOOKED YET
GROWING PRIORITY





Why Tax Efficiency Matters

Taxes have always been a reality of investing, but their impact has grown significantly in recent years. The demand for tax-efficient strategies is no longer confined to the ultra-wealthy. It spans a wide range of clients looking to maximize the value of their portfolios. For Financial Advisors, integrating tax management is an opportunity to address a critical aspect of client portfolios that is often overlooked. Just consider:

- On average, tax drag costs investors up to 2% of their annual returns. This leaves a \$1M portfolio with \$218,994 less over 10 years.¹
- Even a modest 1% out-performance due to active management has profound positive effects. This adds \$104,622 to a \$1M portfolio over that same 10-year period.¹

Tax-managed investments have become an essential component of modern portfolio management, offering investment advisors a powerful way to enhance value for their clients, while at the same time, increasing the opportunity to expand and elevate their prospecting solutions.

This guide explores the following:

- Who benefits from tax-managed solutions.
- Why active portfolio management + active tax management make sense.
- The unique advantages that the Great Lakes Advisors tax-managed strategies offer.

As an investment advisor, you understand the increasing demand for strategies that optimize after-tax returns. Clients want more than market performance—they expect solutions tailored to their unique financial situations, particularly when it comes to mitigating tax liabilities.

¹Great Lakes Advisors Disciplined Equity Team

Leveraging Your Time with Tax-Managed Strategies

When advisors recognize the breadth of potential clients and prospects suitable for these strategies, many look to partner with an experienced investment manager that offers a tangible plan and customized solution they can use to deliver a beneficial outcome.

Clients most likely to benefit from active tax-managed investments include:

Clients/Prospects with existing, taxable accounts that include individual stocks/ETFs that are being self-directed or need professional management.

Portfolios that may include highly-appreciated positions, where the realized capital gain burden of selling prohibits prudent management.

Accounts and positions from existing managers that may not be available on your particular platform.

Wealthier clients/prospects in higher federal tax brackets who also reside in a state with a high tax rate.

Clients/Prospects with highly concentrated holdings, needing to expand their diversification.

The GLA Approach to Tax Management – Active Portfolio Management & Active Tax Management

Experience

For the past 20+ years and with over \$1.2B in tax-managed strategies, Great Lakes Advisors has delivered these particular solutions to numerous types of clients – from large Corporate accounts, to high net worth clients, to everyday individuals looking for unique strategies.

Alpha Potential

Active tax management does not sacrifice performance for tax efficiency. By leveraging disciplined stock selection and systematic processes, it offers the potential to outperform benchmarks while minimizing tax drag. This dual focus allows clients to benefit from both pre-tax and after-tax returns.



Year-Round Tax Efficiency

Active tax management involves continuous portfolio monitoring. This approach allows advisors to capitalize on market volatility and align strategies with each client's evolving tax situation.

For example, in 2020, markets experienced a sharp decline in Q1 before recovering by Q4. Advisors using active tax-managed strategies harvested losses during the downturn, positioning their clients for better after-tax returns as the market rebounded.

Transition Management

By carefully evaluating existing holdings, active managers can minimize upfront taxes while positioning portfolios for long-term growth. Realized gains are capped during the transition, allowing for a more tax-efficient adjustment process. Holdings are not automatically sold off to simply get to a model or benchmark. Our Transition Analysis is a valuable tool to share with your client/prospect that demonstrates our solution on Day 1 of managing their portfolio.



Maximize After-Tax Returns

Our investment approach is rooted in discipline and tax efficiency. In periods of strong pre-tax returns, we focus on preserving tax-loss harvesting opportunities for future use. During periods of lower returns or market declines, we proactively identify and realize losses to enhance after-tax performance.

Customization

Individual tax situations, capital gains budgeting, exclusion requests, stock-specific, industry-specific, and ESG considerations.

If you would like a customized transition analysis prepared for your client, please contact us at:

SMA@greatlakesadvisors.com

Exploring the Tax-Managed Investment Landscape

Not all tax-managed strategies are created equal. Advisors have options to consider, each with distinct strengths and limitations. The three most recognized strategies are:

Tax-Advantaged ETFs

ETFs are often seen as the most accessible entry point to tax-managed investing. Their structure allows them to avoid passing on capital gains distributions to shareholders, meaning taxes are incurred only when the investor sells the ETF at a profit.



Cost-effective and simple to implement



Avoids annual pass-through distributions



Limited ability to customize portfolios for individual tax needs



Does not allow for tax-loss harvesting at the security level

Tracks benchmarks while allowing for tax loss harvesting

Provides moderate customization options

Limited transition capability due to tracking error requirements

Larger, up-front minimum investment and a large number of holdings to replicate the specific benchmark

Prone to tracking error in less volatile, upward-trending markets

Heavily reliant on cash contributions and charitable donations to maintain tax efficiency

Direct Indexing with Tax Overlay

Direct indexing aims to replicate an index while offering additional tax benefits, such as tax-loss harvesting and customization for factors like ESG preferences.

Active Tax-Managed Portfolios

Active tax management combines the flexibility of direct indexing with the performance potential of active management. Portfolios are continuously monitored, and securities are strategically replaced to optimize both pre- and after-tax outcomes.



Combines alpha generation with rigorous tax management



Highly customizable for individual client needs, including tax brackets, cost basis, and restrictions



Year-round tax-loss harvesting ensures opportunities are not missed due to market timing



Requires expertise and active oversight, which may lead to higher fee structures

Comparing the GLA Approach

Investment Vehicle	Targets a specific asset class	Limits capital gains distributions	Can customize portfolio	Allows loss harvesting at individual security level	Actively attempts to outperform benchmark	Transitions to portfolio in tax-efficient manner
ETF Investing						
Direct indexing with Tax Overlay						
GLA DE Tax-Managed Portfolios						

The Importance of a Quantitative and Systematic Process in Tax Management

Active tax management involves much more than identifying opportunities for tax-loss harvesting. A quantitative or systematic process is essential for ensuring that every trade and decision is optimized for both tax efficiency and investment performance. This level of precision is only possible through robust data handling expertise and advanced portfolio management systems.

Why a Quantitative Approach Matters

Tax-efficient investing requires meticulous monitoring and strategic adjustments across a wide array of securities. A systematic process allows the manager to identify opportunities and manage risks in ways that a manual or less structured approach simply cannot. Here's why this approach is so vital:



Accurate Monitoring:

- Tracks wash sale periods to ensure compliance and avoid unintended tax penalties.
- Monitors securities nearing long-term gain or loss status, enabling proactive and informed decision-making.

Tax Optimization:

- Incentivizing Sale of “Almost Long-Term” Losses: Prioritizes the realization of short-term losses as they approach long-term status, maximizing their tax efficiency.
- Penalizing Sale of “Almost Long-Term” Gains: Avoids triggering higher tax liabilities by holding gains until they become long-term, wherever possible.

Strategic Risk Management:

- Actively assesses the risk profile of up to 3,000 securities to identify suitable replacement holdings when a loss is harvested. This helps ensure that the portfolio remains aligned with the client's overall risk and return objectives.
- Avoids being merely “constructive” in loss-harvesting by selecting replacement securities with genuine return potential rather than focusing solely on tax considerations.

Conclusion

Tax-managed investments are no longer a luxury—they are necessary in today's tax-conscious investment environment. As clients demand more tailored solutions, investment advisors can deliver value by integrating strategies that optimize after-tax outcomes.

While many paths exist to achieving tax efficiency, active tax management offers the most comprehensive approach. Combining alpha generation, year-round tax optimization, and unparalleled customization equips advisors to meet client expectations and distinguish their practice in a crowded marketplace.

For investment advisors seeking a partner in this space, exploring active tax management solutions can be the key to delivering exceptional client outcomes. Contact us today at SMA@greatlakesadvisors.com to learn more about how these strategies can support your practice and your clients' long-term financial goals.



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