TAXES CAN BE A DRAG

Utilize Asset Location to Generate Tax Alpha

Taxes can have a significant effect on portfolio performance, reducing gains and slowing wealth accumulation. Wealth managers who evaluate the tax drag of different investments and actively control the location of those assets among taxable and tax-deferred accounts[*] can add net of tax return and provide a source of tax alpha[†] for clients. Volatility sometimes causes investors to move portions of their equity assets into fixed income accounts and add alternatives to their portfolios.

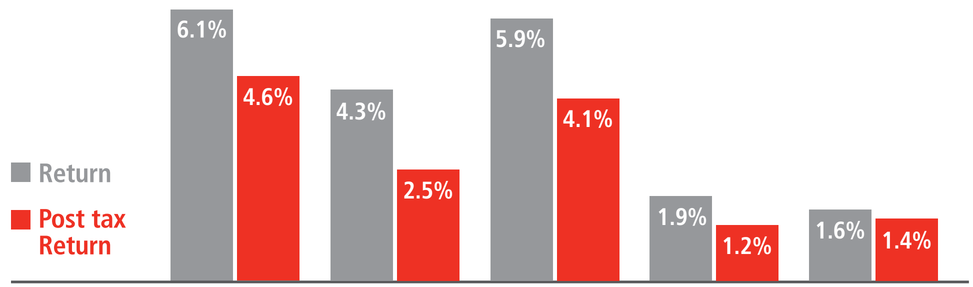
While diversifying[1] equity assets with alternatives and fixed income investments can work to help manage volatility, the inherent tax inefficiencies of these investments may reduce your returns.

Ultimately, taxable income distributions and frequent portfolio turnover generate a percentage per-year tax drag which creates small reductions in earnings that can significantly add up over the long term.

Placing tax-inefficient investments into tax-advantaged accounts can keep more of your money working for you.

LOSING YOUR GAINS

The graph shows how taxes erode the investment returns of various asset types.[‡]



	Equity	Fixed Income	Allocation Models[§]	Alternative Assets	Alternative Strategies
Relative Tax Drag	24%	40.5%	29.6%	36.4%	8.1%
Absolute Tax Drag	1.5%	1.7%	1.7%	0.7%	0.1%
Average Turnover	91.8%	137.4%	103.9%	87.4%	424.3%

‡ Morningstar® average turnover, tax drag and percent of return data since funds' inceptions through December 31, 2018.

§ An average of several asset allocation models–each containing a mix of equities, fixed income, and alternative assets and strategies–calculated using Morningstar.

Equity is comprised of Morningstar's Equity Global Broad Category Group.

Fixed Income is comprised of Morningstar's Fixed Income Global Broad Category Group.

Allocation Models is comprised of Morningstar's Allocation Global Broad Category Group.

Alternative Assets is comprised of Morningstar's Commodities Global Broad Category Group and Morningstar's U.S. Category Groups: Energy Limited Partnership, Equity Precious Metals, Global Real Estate, Infrastructure, Real Estate, Natural Resources.

Alternative Strategies is comprised of Morningstar's Alternative Global Broad Category Group.

Past performance is no indication of future results.

Variable annuities are long-term, tax-deferred investments, involve investment risks, and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

* Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA, and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

† Tax alpha occurs from additional net-of-tax investment performance due to tax-related wealth management decisions.

See other side →

1 Diversification does not assure a profit or protect against loss in a declining market.

Call your financial professional today to learn more about how tax-advantaged accounts could benefit you.

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