

Direct indexing: Unlocking SMARt Possibilities

CLIENT OPPORTUNITY

Transition away from a long-held mutual fund to a direct indexing SMA

Converting to a tax-aware, personalized portfolio offers a compelling solution



Client scenario:

An investor holds an equity mutual fund with high embedded (unrealized) capital gains and is seeking an alternative solution.



Goals:

- Enhance after-tax returns
- Personalize the investment
- Reduce costs



Challenge:

- Create a personalized portfolio composition to meet new goals (Direct Indexing SMA: Large Cap Equity)
- Increase the tax efficiency of the portfolio
- Create an effective transition plan



Solution:

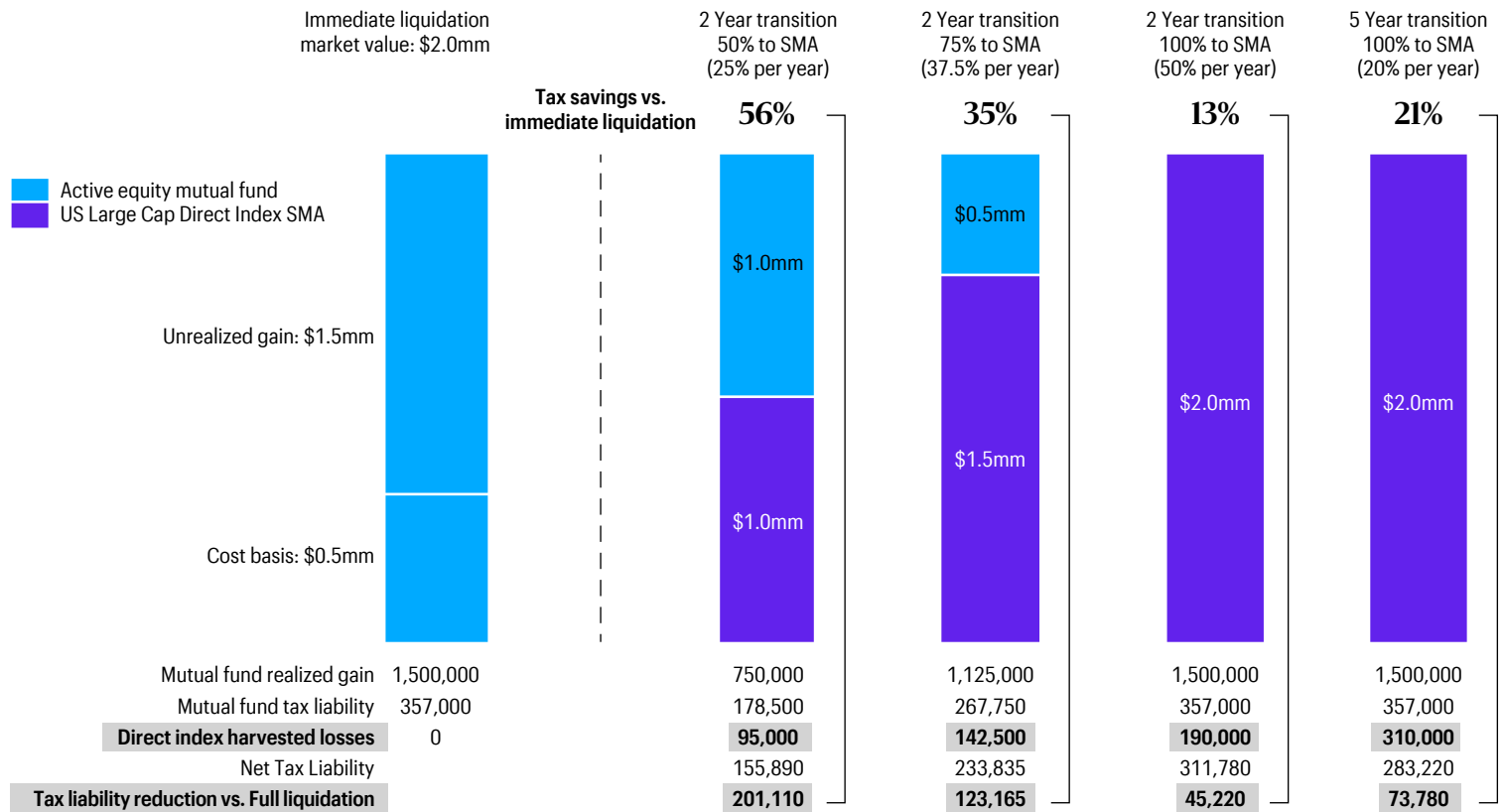
- Execute an effective exit and transition plan
- Utilize a systematic transition process to move to a customized SMA specifically designed to meet the client's needs
- Fund a personalized, cost-effective, and tax-efficient direct index SMA

Implementation:

Selling the entire position of the mutual fund all at once may leave an investor with a relatively high taxable capital gain. In order to mitigate this, the investor may prefer a measured approach in order to minimize the overall tax burden. As holdings in the fund are being liquidated, proceeds can be used to fund the new direct indexing SMA strategy which is tailored to address the specific needs of the client.

Results in **31%** average tax savings

POTENTIAL TRANSITION OPTIONS OVER TIME



Source: Allspring Global Investments. Illustrative purposes only. The illustration provided is hypothetical and assumes that all gains and losses are long-term, taxed at the highest current rate (23.8%), inclusive of the additional net investment income tax of 3.8%. State income taxes are not reflected in the illustration. Key assumptions in the illustration include (1) there are no separate tax lots in the appreciated mutual fund holding, (2) capital deployed in the US large-cap direct indexing strategy at the beginning of each annual period generates losses equal to 7.5% of portfolio value in the first year, 4% in the second year, and 2.5% in each subsequent year, (3) fund and portfolio values are held constant, in other words, we assume no portfolio appreciation or depreciation over the transition horizons and (4) there are no management fees or transaction costs. Actual gains and losses will vary depending on specific circumstances and the market environment.

New portfolio benefits:

Reduced costs

Enhanced and ongoing tax-management, creating greater tax alpha potential

Increased portfolio flexibility, customization, and personalization



Direct indexing with Remi

Remi is Allspring’s intelligent solution for personalizing separately managed account portfolios—powered by technology, research, human insights, and systematic tax management. Remi combines Allspring’s proven investment expertise with powerful and proprietary technology to deliver truly tailor-made, tax-optimized, and cost-effective multi-asset portfolio solutions.

Investors may choose from multiple investment options with Remi. If you are seeking to build a systematic, tax-efficient, personalized direct indexing investment portfolio, Remi delivers.

Interested in learning more? Go to [Allspringglobal.com/remi](https://www.allspringglobal.com/remi).

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