

Overview

Ongoing tax-loss harvesting can enhance overall returns for the taxable investor. For the taxable investor, active tax-loss harvesting has the potential to create value in two ways:

- Minimizing current year tax liabilities
- Deferring tax liabilities (leveraging compounding and potential changes in tax rates)

Tax-loss harvesting isn't a new concept, but there is time and complexity involved in identifying replacement trades that help maintain thoughtfully constructed exposures to a range of asset classes.

While the benefit from tax-loss harvesting is highly dependent on the path of the market, 55ip estimates being able to create on average 20 to 150 basis points of "tax alpha" annually per portfolio¹. Key variables in actual performance include the number of positions/asset classes held, the dispersion among returns, portfolio rebalancing frequency, and the number of years that taxes can be deferred.

55ip's ETF Overlay Approach

As ETF pioneers and seasoned investment thought leaders, 55ip's team actively monitors individual portfolios and thoughtfully selects ETF proxies relative to existing ETF holdings to use when tax-loss harvesting.

For many, tax-loss harvesting is either an infrequent (i.e. annual) or a simplistic (1:1 ETF replacement) exercise. However, 55ip believes there is value to be had in both the ongoing systematic harvesting of losses as well as the thoughtful selection of "proxy baskets".

Proxy baskets, which may represent more than one ETF when selling a single ETF holding, represent the best approach to carefully maintaining the investor's targeted allocation (based on risk/return decisions) while at the same time realizing value from harvesting losses.

55ip/Advisor Engagement Model

55ip has a four-step process that makes it easy for advisors to deliver value to their clients:

- Advisor provides 55ip access to the ETF holdings within portfolios at the tax lot level
- 55ip reviews portfolios on an ongoing basis to identify tax-loss harvesting opportunities (being mindful of the "wash sale" rule)
- 55ip sells ETF holding(s) where tax-loss harvesting opportunities exist and replaces them with the 55ip ETF proxy holding(s): single ETF or basket of ETFs
- 55ip provides quantification of the value of the tax losses harvested alongside the investment rationale behind each proxy basket

1. Based on back tested data from January 2007 to April 2016 across multiple 55ip strategies and assuming liquidation of the strategies in April 2016
2. Illustrative data

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