TRANSITION YOUR PORTFOLIO, TRANSFORM YOUR OPPORTUNITIES

Investor preferences are shifting towards increased customization and advisors are searching for solutions to help align client portfolios with their individual investment objectives. Some investors may be looking to diversify from their concentrated portfolio of a few stocks or are wishing to move out of their investments with an underperforming active manager. Others may have just inherited a portfolio not in line with their current investment needs. Whatever the unique client situation, advisors must continually be ready to provide options for their clients to change their existing investments and transition their portfolios.

The challenge with this change is that it almost always comes at a cost, and that cost usually comes in the form of taxes. The equity markets have appreciated so substantially in recent periods with the S&P 500 up 363% over the last 10 years[1]; any advisor that wishes to suggest changes to clients' portfolios must also convince them it's worth realizing the capital gains in their portfolio and incurring the associated tax cost to do so. At Goldman Sachs Asset Management, we offer solutions that can help investors transition their existing portfolios to a diversified index-oriented separately managed account in a tax-efficient manner.

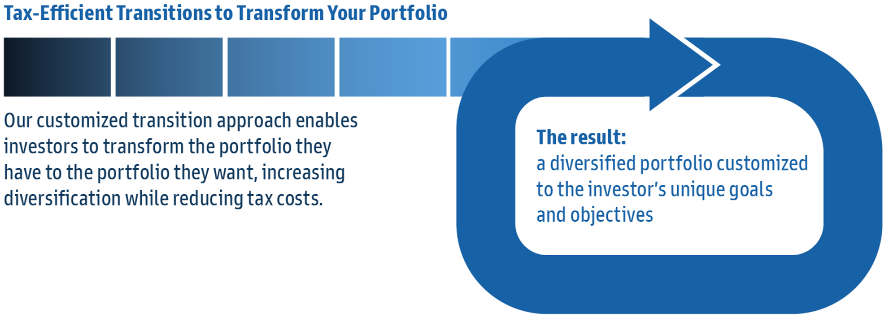
THE BENEFIT OF A TAX-ADVANTAGED APPROACH

To better understand the value of a tax-aware transition process, let's go through a real-life example. In this situation, an advisor came to the Custom Equity team because he wanted to terminate his client's portfolio with an underperforming active manager. The advisor was becoming weary of explaining the underperformance, spending valuable time with his client that he could have been spending on relationship building or other greater value-add activities.

What are the advisor's options for moving this client's portfolio away from the underperforming manager? If the client liquidated her portfolio to fund a new portfolio, she would realize a significant amount of capital gains from selling the appreciated holdings in her current portfolio and incur a high tax liability.

At Goldman Sachs Asset Management, we've developed a custom approach that offers advisors and clients solutions to tax-efficiently transition portfolios. Our goal is to construct a diversified portfolio and reduce the tax costs associated with transitioning the existing portfolio. These costs cannot be eliminated, but they can be reduced through a tailored, tax-advantaged transition plan. The result? A customized, diversified portfolio that aligns with the client's unique investment goals with minimized tax costs upon transition.

Tax-Efficient Transitions to Transform Your Portfolio



[1] Source: Standard & Poor's. Data as of December 31, 2021.
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INSTANT PORTFOLIO ANALYTICS

Continuing with the above example, our Custom Equity team worked closely with this advisor to provide a customized solution to match the client's specific needs. First, the team helped the advisor analyze the investor's existing holdings. Using our proprietary web-based tool, the advisor uploaded the investor's current portfolio tax lots and within seconds had access to analytics to help him understand how the portfolio was positioned. This includes detailed information on risk exposures and unrealized capital gains.

Exhibit 1 below shows the results of this client's existing $1.1 million portfolio with a tracking error to the benchmark of nearly 5%. If this investor opted to fully liquidate her portfolio to fund new investments, she would realize more than $290,000 in capital gains and incur a $94,777 tax bill. The Portfolio Analysis also shows the top 10 holdings of the portfolio and the sector exposures compared to the benchmark, providing immediate insight into the existing portfolio's concentrated positioning. At the time of the analysis, the top two holdings in the account were Microsoft (at 8.2%, which was 2.0% overweight relative to the benchmark) and Adobe (at 6.4%, a 5.7% overweight). Additionally, from the Sector Exposures graph, the advisor could easily see that the existing portfolio had overweights in the Industrials and Materials sectors, with underweights in Financials, Consumer Staples, Energy, and Utilities.

Exhibit 1: Sample Portfolio Analysis[2]

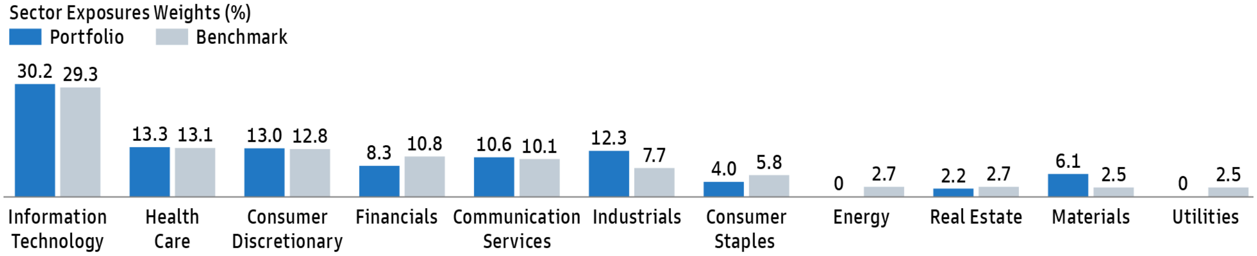
Existing Portfolio Summary

Total Market Value	# Holdings in Portfolio	Predicted Tracking Error	Unrealized Net Gains / Losses	Tax Cost to Liquidate Portfolio	Benchmark	SALT
$1,131,861	**59**	**4.63%**	**$290,548**	**$94,777**	**S&P 500**	**New York 8.82%**

Top 10 Holdings

Ticker	Name	GICS Sector	GICS Sub-Industry	Portfolio %	Benchmark %	Active %
MSFT	Microsoft Corp	Information Technology	Systems Software	8.16	6.19	1.97
ADBE	Adobe Inc	Information Technology	Application Software	6.38	0.66	5.72
AMZN	Amazon.Com Inc	Consumer Discretionary	Internet & Direct Marketing Retail	6.02	3.66	2.36
AAPL	Apple Inc	Information Technology	Technology Hardware, Storage & Peripherals	5.95	6.98	-1.04
FB	Meta Platforms Inc	Communication Services	Interactive Media & Services	3.71	1.97	1.74
HON	Honeywell International Inc	Industrials	Industrial Conglomerates	3.11	0.35	2.76
TMO	Thermo Fisher Scientiic Inc	Health Care	Life Sciences Tools & Services	3.08	0.63	2.45
DHR	Danaher Corp	Health Care	Life Sciences Tools & Services	2.37	0.49	1.88
ECL	Ecolab Inc	Materials	Specialty Chemicals	2.31	0.14	2.17
V	Visa Inc	Information Technology	Data Processing & Outsourced Services	2.31	0.91	1.39

Sector Exposures Weights (%)



[2] Source: Goldman Sachs Asset Management. For illustrative purposes only to demonstrate a sample risk report/analysis and should not be construed as investment advice or an offer to sell or the solicitation of an offer to buy any Goldman Sachs product for service described herein. The information shown herein should not be relied upon as representative of actual or future information for any Goldman Sachs products. Results for the products depicted herein may vary substantially from those in this report or analysis. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. Federal Tax Rates used are 23.80% for long-term and 40.80% for short-term. The selected State and Local Tax Rate for New York used for this analysis is 8.82%. Predicted tracking error are statistical estimates of the divergence between the price behavior of a strategy and the price behavior of its benchmark, derived from statistical models. Actual tracking errors are likely to vary from the predicted tracking error.

TRANSITIONS AND TRADE-OFFS

Next, selecting from the Custom Equity team's broad range of products and customization capabilities, the advisor helped the client design a portfolio that aligned with her investment objectives, including choosing the portfolio's market exposure and any additional customizations. In this case, the client wanted her portfolio to achieve returns in line with the S&P 500. The advisor was then able to run a custom transition analysis and within minutes, evaluate various options for transitioning her current concentrated portfolio to the diversified, tax-advantaged index-oriented strategy that she selected.

Through investing in separately managed accounts, there are smart, tax-efficient ways to transition the portfolio and obtain diversification without fully liquidating the holdings and realizing over $290,000 in capital gains. How do we achieve this? We run optimizations that identify which tax lots to hold onto and which to sell out of, balancing the tax costs and diversification benefits. Using this portfolio's overweight in Adobe as an example, rather than fully selling out of this position (and thereby incurring an outsized capital gain), a tax-efficient transition can maintain some of the overweight to Adobe and then underweight a basket of other stocks from the Information Technology sector or with a similar risk profile to balance the overweight position in Adobe.

In a tax-efficient transition, the key tradeoff is the one between portfolio risk, as measured by tracking error (TE) relative to the benchmark, and the gains to be realized upon transition. Our tool presents advisors with two solutions that reflect this trade-off:

- Low Tracking Error Solution: for an investor who wants to minimize their risk relative to the benchmark, lowering their active stock and sector bets so they more closely track the reference index, and is generally willing to accept a higher tax cost upon transition.
- High Tracking Error Solution: for an investor who wants to further minimize tax costs from transitioning and is willing to accept greater tracking error relative to the benchmark and thus greater performance variance vs. the benchmark.

In **Exhibit *2***, we examine the risk benefits and tax costs associated with immediate transition to our tax-advantaged strategy. Our transition analysis is designed to present advisors with the data and analytics necessary to decide which of the two approaches makes the most sense for each of their clients' portfolios.

Exhibit 2: Transition Analysis[3]

		Transition to Tax Loss Harvesting	
Transition Details	**Existing Portfolio**	**Low Tracking Error**	**High Tracking Error**
Market Value	$1,131,861	$1,131,861	$1,131,861
Cash Inflow (Outflow)	$0	–	–
Predicted Tracking Error	4.63%	1.10%	1.84%
Number of Holdings	59	176	111
Net Realized Gains (Losses)			
Hypothetical Liquidation of Existing Portfolio	$290,548	–	–
Upon Transition to TACS (A)	–	$48,288	($7,215)
Post-Transition Estimated Loss Harvesting (B)	–	($17,709)	($10,465)
TACS Portfolio Year-End Estimates* (A + B)	–	$30,579	($17,680)

[3] Source: Goldman Sachs Asset Management. For illustrative purposes only. Goldman Sachs does not provide accounting, tax or legal advice. Diversification does not protect an investor from market risk and does not ensure a profit. Post-transition estimated loss harvesting may vary significantly depending on market environment. Year-end estimates are for the period from the date of the transition through the end of the respective year. These estimates do not include any realized gains or losses prior to the transition date. The estimated realized gains/losses from this analysis are for informational purposes only as of the date of this paper. These estimates are not a guarantee of future results. Please see additional disclosures and assumptions at the end of this paper.

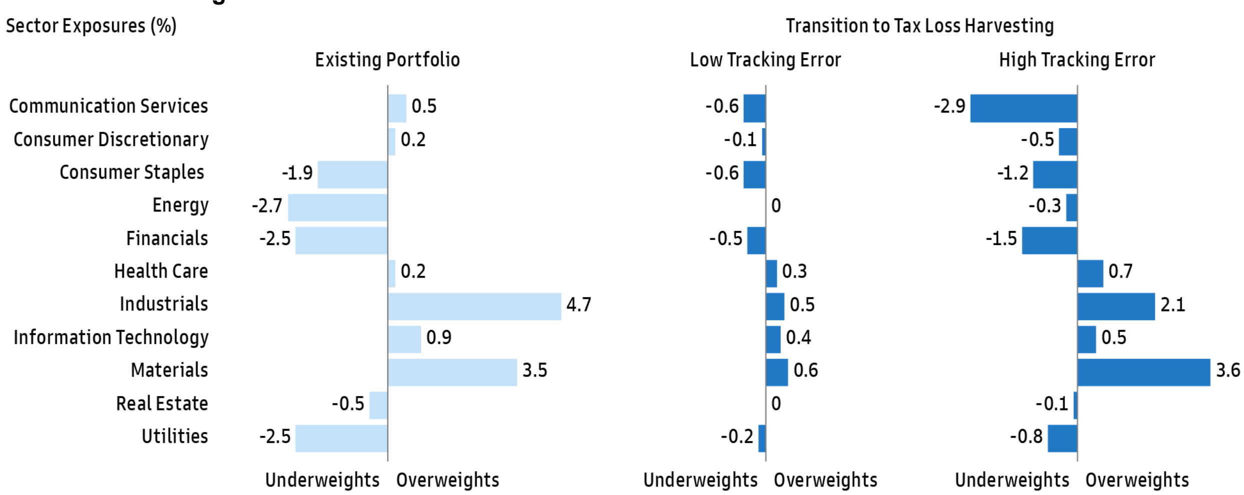
In the low TE solution, we convert the existing basket of stocks to a portfolio that closely resembles the size, style, sector and stock positioning of the S&P 500. In doing so, we nearly triple the number of securities held from 59 to 176, reducing risk by diversifying the portfolio across a greater number of holdings. To fund these purchases, existing shares of overweight names are trimmed in a tax- and risk-aware manner, bringing the predicted tracking error down significantly from 4.6% to 1.1%. While this solution reduces risk, it does trigger capital gains of over $48,000. But keep in mind that a full liquidation of this portfolio would incur more than $290,000 in gains.

A more tax-sensitive investor who wants less gain recognition upon transition and is willing to assume higher risk relative to the benchmark might opt for high TE solution. Here, there's a more modest but still significant increase in the number of securities held (59 to 111). Portfolio diversification improves and the predicted tracking error still declines meaningfully from 4.6% to 1.8%, but this is nearly a full percentage point higher than the low TE example. In exchange for accepting higher relative risk, this investor would experience a net capital loss upon transition of over $7,000 – diversifying her portfolio without incurring a capital gains liability and creating a tax asset that she can use to offset gains from elsewhere in her portfolio!

Our tax-advantaged strategies deliver ongoing and lifetime tax management. We opportunistically realize capital losses in the portfolio throughout the year and these harvested losses can be used to offset gains elsewhere across the client's investments, delivering tax savings that can be reinvested to compound and grow with the market. When reviewing the transition summary, an important consideration is the extent to which additional tax-loss harvesting can be done in the year an investor transitions a portfolio. If there are opportunities to harvest additional losses, it may be possible to offset any upfront capital gains realized from the transition. In the example above, Post-Transition Estimated Loss Harvesting indicates a forward-looking estimate of the amount of losses we might expect to realize over the remainder of the calendar year.

Our tool also compares the sector weights and active weights of the existing portfolio to those of the low TE and high TE portfolios. In **Exhibit 3**, we see that both the low TE and high TE portfolios have tighter sector weights and active weights relative to the benchmark, though the high TE solution allows for greater deviation from the benchmark. In the active weight table in *Exhibit 3*, we see that the overweight in Adobe was trimmed, but the overweight was maintained in both the low TE and high TE solutions; the analysis proposed to retain some of this position and found more tax-efficient ways to diversify the portfolio.

Exhibit 3: Shrinking sector and stock bets[4]



[4] Source: Goldman Sachs Asset Management. For illustrative purposes only. Portfolio holdings and/or allocations shown above are Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this paper. Diversification does not protect an investor from market risk and does not ensure a profit. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

Existing Portfolio Largest 5 Active Weights %

		Transition to Tax Loss Harvesting	
	Existing Portfolio	Low Tracking Error	High Tracking Error
Adobe Inc	5.72	0.98	3.13
Honeywell International Inc	2.76	0.75	0.93
Thermo Fisher Scientific Inc	2.45	1.03	2.45
Amazon.Com Inc	2.36	0.25	-0.05
Twitter Inc	2.18	-0.08	-0.08

Ultimately the investor chose the high TE solution. Through our custom transition analysis, the advisor was able to offer a customized solution that diversifies his client's portfolio in a tax-efficient manner and the investor has been satisfied that her portfolio now performs more in line with the market.

BESPOKE SOLUTIONS FOR EVERY INVESTOR

Every investor situation is unique – from the tax lots in their current portfolio to what they plan to do with their investments. This is why we customize our proposed solutions for each and every investor. Our customized analytics are just one example of how we deliver personalized, technology-driven solutions tailored to each and every client, from the investment strategy to the client experience. And this personalized approach means clients who work with us to transition their assets to our strategy know that it will be designed to fit their unique situation and preferences. Advisors no longer need to feel handcuffed and unable to make needed changes to their clients' portfolios due to tax transition costs.

If you have further questions or would like to evaluate the tax trade-offs involved in transitioning a portfolio, please contact your sales representative.

General Disclosures

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For portfolio valuation purposes it is the responsibility of the custodian, administrator or such other third party appointed by the client, to obtain accurate and reliable information concerning the valuation of any securities including derivative instruments which are comprised in the portfolio. The information that GSAM provides should not be deemed the official pricing and valuation for the Account. GSAM is not obligated to provide pricing information to satisfy any regulatory, tax or accounting requirements to which the Client may be subject.

The cost basis of a tax loss harvesting portfolio is driven down due to the realization of capital losses, creating a contingent tax liability. For investors who will eventually bequest their tax loss harvesting portfolio to charity or to their heirs upon death, taxes on the unrealized gains are generally avoided. However, if the tax loss harvesting portfolio is liquidated, the investor will pay taxes on the realized gains upon liquidation. Gross after-tax calculations include realized losses incurred by the portfolio but do not account for unrealized gains. If the portfolio is neither gifted nor bequeathed, the investor will pay taxes on the realized gains upon liquidation, which will affect after-tax returns

Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this p and are subject to change without notice. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client. Actual data will vary and may not be reflected here. These forecasts are subject to high levels of uncertainty that may affect actual performance.

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Predicted tracking error applies statistical methods and a series of fixed assumptions based on actual characteristics of a representative account in the strategy. Reasonable people may disagree about the appropriate statistical model and fixed assumptions. These models have limitations, as the assumptions may not be consensus views, or the model may not be updated to reflect current economic or market conditions. Accordingly, these models should not be relied upon to make predictions of future results. Goldman Sachs has no obligation to provide recipients hereof with updates or changes to such data.

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Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of “failed” or closed hedge funds may mean that each index overstates the performance of hedge funds generally.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

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Additional Information

Please note that this analysis has been created by an investment analysis tool at your request and the output is based upon discussions that we have had with you. If you would like the analysis to be run again with different variables, GSAM and your Wealth Advisor have the ability to re-run this analysis to modify the strategy selection, local tax rates, existing portfolio holdings for transition, and the thematic screens applied. The analysis relies on current market data that is updated daily. An analysis that is re-run at a later date and/or with different variables may provide results that substantially differ from previous analyses. Current information is as of 3 Jan 2022.

Key Assumptions and Limitations

The assumptions used for the transition analysis have been generated by the Equity SMA Investment Tool. Based on the positions GSAM or your Wealth Advisor has uploaded to the Equity SMA Investment Tool, an optimization is run which determines the portfolio turnover to transition to a TACS strategy. The securities that are bought as a result of transition turnover create newly purchased tax lots with cost basis equal to market value. Our research has shown that turnover increases the probability of being able to harvest losses. The estimated realized gains/losses is a function of portfolio turnover, simulated loss expectation, the remaining time left in the calendar year, and a haircut to account for uncertainty (i.e., we multiply the result by a certain percentage, which we may change in our discretion, to yield a conservative estimate). The estimated realized gains/losses from this analysis are for informational purposes only as of the date of this paper.

As with all long-term projections, the values in this analysis are subject to substantial uncertainty and may not fully reflect the actual conditions present in the client's portfolio. Targets are subject to change and are current as of the date of this paper. Targets are objectives and do not provide any assurance as to future results.

These assumptions are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially. Results will vary with each use and over time.

The investment analysis can be run for cash funded or security funded accounts. If requested, we will include or exclude investments held outside of GSAM in the investment analysis.

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