A MORE DIRECT AND PERSONAL WAY TO GAIN INDEX EXPOSURE

We live in an age of customization. Nearly everything we do—how we shop, order food, watch movies—can be curated to satisfy the needs and personal preferences of individual consumers. So why should investing be any different?

Investors, too, want choices—and they are increasingly looking for solutions that can be tailored to fit their unique needs rather than one-size-fits-all products.

One of the most effective ways to customize a portfolio, in our view, is using an approach called direct indexing. Like traditional index funds, direct-indexed accounts are designed to track the performance of a benchmark. But instead of owning shares in a commingled vehicle like an ETF or mutual fund, investors own many of the underlying securities that comprise the index in a separately managed account (SMA). This direct ownership allows investors to tailor their portfolio in a number of ways to suit individual preferences and needs.

Let's look at examples of how investors can use direct indexing to build a portfolio that's in line with their goals:

- **Wealth concentration:** Imagine a software engineer who has a high percentage of her wealth in a large technology stock from her employee stock plan. She wants to diversify some of that concentrated stock risk and move into a diversified index. If she buys a market index ETF, she would add to that concentrated stock exposure since the index ETF would have exposure to the stock of her employer. With direct indexing, she can screen this company out of her portfolio—or screen out the entire sector if she desires—and get diversified market exposure without over-concentrating on one stock.
- **Market view:** Perhaps an investor is looking for diversified index exposure but has the long term market view that the energy sector will underperform amid concerns around climate change. He may want to screen out specific names or energy-related industries in hopes that his portfolio will outperform the market. These views can also be implemented through direct indexing.
- **Values alignment:** Let's consider again an investor who wants to screen out the energy sector—but this time, because she does not want to support companies that contribute to climate change. Maybe she also feels strongly about animal testing and wants to eliminate stocks from companies that engage in such testing from her portfolio as well. With direct indexing, she can build a portfolio that coincides with her ethics while maintaining sufficient diversification to allow her portfolio to grow with the market.
- **Tax sensitivity:** For tax sensitive investors, direct indexing provides greater opportunities to maximize portfolio growth through an approach called tax-loss harvesting. Tax-loss harvesting through direct indexing can allow an investor to experience a pre-tax return in line with the index along with enhanced after-tax returns. The after-tax returns are created by realizing capital losses in individual securities, simultaneously replacing those positions with similar securities and using the realized losses to offset realized gains elsewhere in the investor's portfolio. Direct indexing—and the direct ownership of securities it entails—makes it possible for investors to more strategically harvest losses. Investors in an ETF, by contrast, can only realize capital losses when the entire market is down.

In all of these examples, the goal of direct indexing is to build a portfolio that is similar to a broad market index while allowing for investor specific situations. At Goldman Sachs Asset Management, we offer a wide variety of choices for investors to customize their portfolios and we also provide robust analytics around how these choices may affect the portfolio's risk and return relative to the benchmark index.

To explore how we can help you with tax-advantaged investment opportunities, visit gsam.com/TaxStrategies.

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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

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