

# Direct Indexing Tax Alpha Simulation for Lisa and Leslie

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## Wealthcare Tax Alpha Simulator (Hypothetical)

### Annualized After-Tax Returns

#### Assumptions

Portfolio Value: \$1,600,000

Stock Volatility: 25%

Market Return: 4%

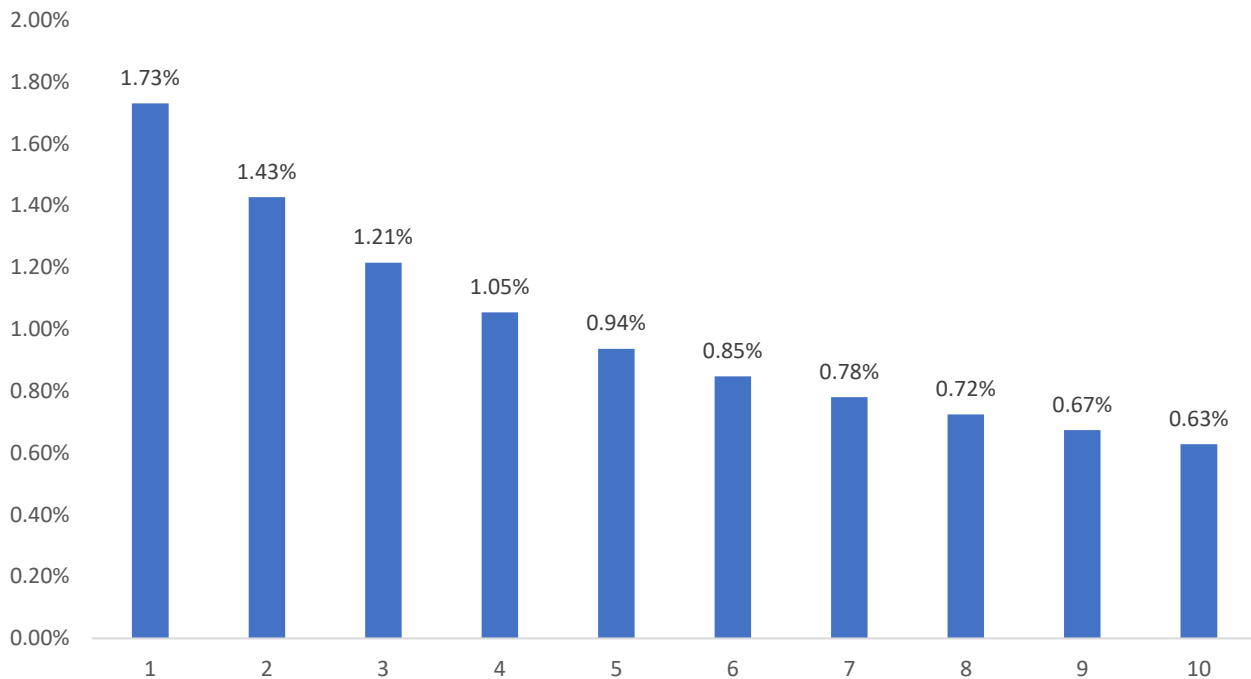
Tax Rates: 41%

To explore the influence of certain market conditions on tax alpha, we simulate after-tax results by randomly generating security returns for a portfolio of large-cap stocks and applying our tax management program over a period of ten years. Security returns are drawn from a normal distribution with a mean equivalent to a given expected market return and the selected level of stock volatility. The simulation produces both pre and post-tax returns for the portfolio and the benchmark. The stream of after-tax returns generated by actively harvesting losses and deferring gains on individual securities in the simulated portfolio is compared against the after-tax returns that would have been achieved by a passive investment in the same portfolio with no tax management to calculate tax-alpha.

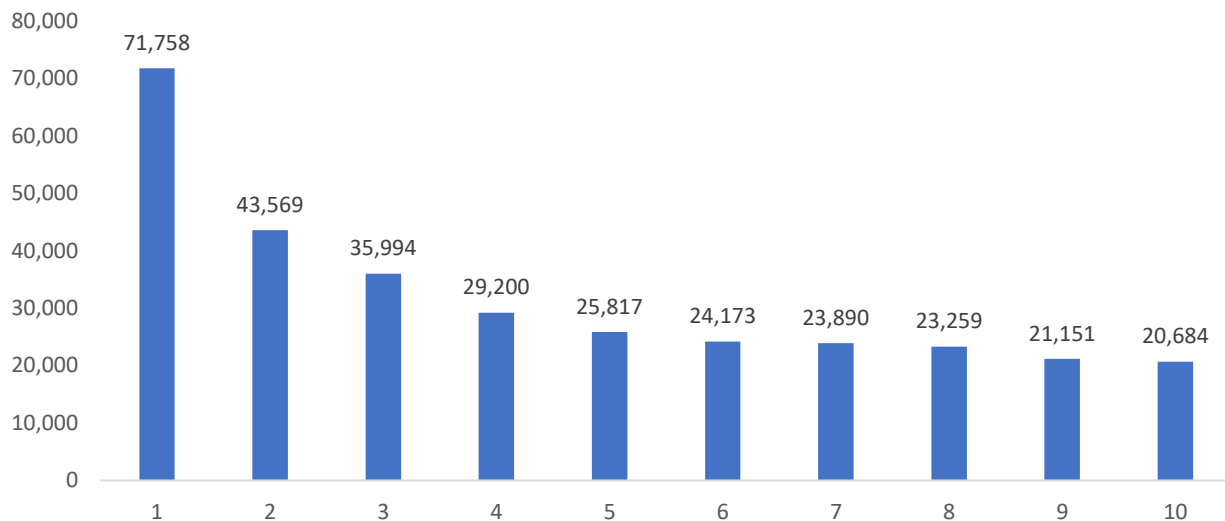
|          | Tax Loss<br>Harvesting | No Tax Loss<br>Harvesting | Tax Alpha |
|----------|------------------------|---------------------------|-----------|
| 3 Years  | 3.5%                   | 2.3%                      | 1.2%      |
| 5 Years  | 3.4%                   | 2.5%                      | 0.9%      |
| 7 Years  | 3.3%                   | 2.5%                      | 0.8%      |
| 10 Years | 3.2%                   | 2.6%                      | 0.6%      |

Source: Wealthcare. Simulated results are hypothetical and are provided for illustrative purposes only. They do not reflect the actual experience of any investor or Wealthcare strategy. The simulated results are based on inputs made by the user regarding the initial portfolio value, expected volatility and market rate of return over a 10-year period. The simulation assumes annual rebalancing. The assumed market rate of return is not guaranteed. There are risks associated with investing including the risk of loss not reflected in this illustration. An investor should consider his/her current and anticipated investment horizon and income tax bracket when making investment decisions. See Disclosures for additional information.

## Tax Alpha

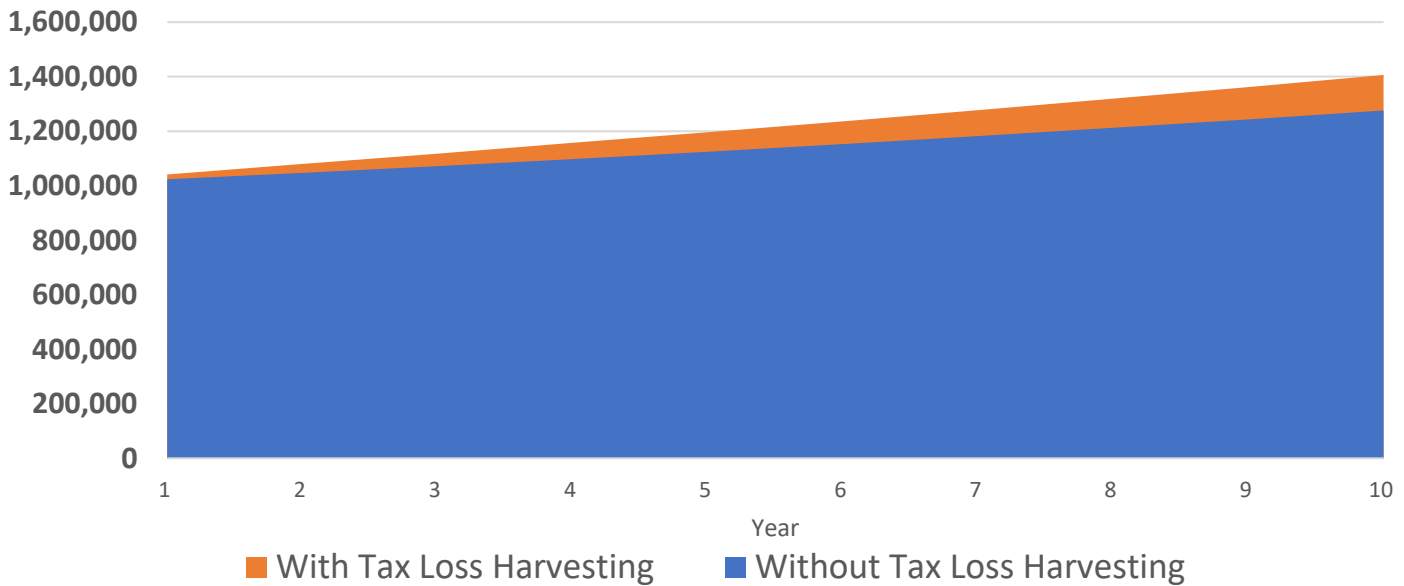


## Net Losses Harvested



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## After Tax Growth



|   | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Portfolio Pre-Tax Return                              | 4.05%  | 3.90%  | 3.81%  | 3.99%  | 4.06%  | 4.07%  | 4.06%  | 4.07%  | 4.06%  | 4.13%   |
| Portfolio After-Tax Return (No Tax Loss Harvesting)   | 2.40%  | 2.33%  | 2.29%  | 2.42%  | 2.48%  | 2.51%  | 2.52%  | 2.55%  | 2.56%  | 2.62%   |
| Portfolio After-Tax return (With Tax Loss Harvesting) | 4.13%  | 3.75%  | 3.50%  | 3.47%  | 3.42%  | 3.36%  | 3.30%  | 3.27%  | 3.23%  | 3.25%   |
| Tax Alpha   | 1.73%  | 1.43%  | 1.21%  | 1.05%  | 0.94%  | 0.85%  | 0.78%  | 0.72%  | 0.67%  | 0.63%   |

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Realized capital losses can be used to offset capital gains or \$3,000 of income. We illustrate 3 scenarios: one in which capital losses are used to offset ordinary income, one in which capital losses are used to offset capital gains immediately, and one in which capital losses are used to offset capital losses in 10 years.

|  | TaxAlpha (\$) | TaxAlpha (%) |
|--|---------------|--------------|
| Capital Losses Used Immediately (%)          | 114,799       | 0.70%        |
| Capital Losses Deferred                      | 101,910       | 0.60%        |
| Capital Losses Only Offset \$3,000 of Income | 10,325        | 0.06%        |

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# Disclosures

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