

Portfolio construction

Tax efficiency in mutual funds, ETFs and SMAs



What's the best fit for clients seeking greater tax efficiency?
It depends.

Know the benefits of different vehicles for client goals

Building tax-efficient portfolios can make a big difference in the long term. But vehicle selection depends on client-specific circumstances such as asset base, account type, cash flow and portfolio composition. How much flexibility do you and your clients need to manage tax liability and tap into the potential benefits and tradeoffs of tax-loss harvesting?

	Limited flexibility		Most flexibility to customize and manage tax liability across a client's portfolios
	Mutual funds	ETFs	SMAs
Who controls tax management within each vehicle	Portfolio managers	Portfolio managers	Portfolio managers, financial professionals and/or individual investors
Tax management methods	May use tax-loss harvesting to mitigate potential realization of capital gains	May use tax-loss harvesting and in-kind creation and redemption to minimize and defer capital gains	May choose to tax-loss harvest at the individual security level to minimize and defer capital gains
Ways to fund	Cash required to fund	Cash required to fund	Can be funded with cash and/or in-kind trades
Account types	Tend to be attractive for qualified* accounts	Tend to be attractive for non-qualified accounts	Tend to be attractive for non-qualified accounts
Minimum investment and fees	Typically a \$250 minimum for Capital Group. Investors pay expense ratios, which include management fees and operating expenses; some share classes also include distribution and servicing fees.	ETF share price or \$1 for platforms that allow fractional shares. Investors pay expense ratios.	Typically \$100,000 to \$250,000 minimum for Capital Group, depending on the asset class. Typically, investors pay the program sponsor an all-in or "wrap" fee, which includes an investment management fee, an advisory fee, and a platform fee that covers trade and other administrative fees.
Liquidity	Transactions occur at next available net asset value (NAV), typically settling at T+ 1 (one business day after transaction). Regulations allow for a maximum of T+7 (seven business days after transaction).	Transactions occur at any time during market open hours.	Requires notification to the account manager and can occur the same day for equities or up to five to 10 business days post-request for fixed income depending on the securities' liquidity.

*Qualified accounts need to meet Employment Retirement Income Security Act (ERISA) requirements.



"What's certain about markets is that no one knows for sure how they will perform in the near or long term. But advisors do have a fair amount of control over their clients' tax liabilities, provided they make strategic choices."

– Leslie Geller
Senior wealth strategist

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What are the key methods across vehicles?

Tax-lot accounting Documents the purchase cost of individual securities, allowing investors to assess the tax impact of a sale.

Used in **mutual funds, ETFs and SMAs** as fundamental method to track gains and losses

In-kind creation and redemption Exchange-traded funds (ETFs) generally satisfy redemption requests in the primary market through an in-kind delivery of securities to an intermediary (rather than cash).

Used in **ETFs** to significantly reduce or eliminate capital gains

Tax-loss harvesting Losses are realized (or "harvested") to offset taxes from capital gains. That harvested loss can be used to lower or eliminate taxes on gains accrued during the year. Tax-loss harvesting can lower overall taxes by deferring tax liability to some point in the future when the investor has a lower tax rate.*

Used with **mutual funds, ETFs and SMAs**. Losses are harvested at the fund level for mutual funds and ETFs. Separately managed accounts (SMAs) allow for more precise gain and loss budgeting across portfolios due to the direct control of individual securities in an SMA

Most flexibility to manage tax liability across a client's funds and portfolios

*Limits to tax-loss harvesting depend on the availability of gains and losses in mutual funds, ETFs and SMAs. SMAs allow for additional flexibility to manage tax liability through security-specific tax-loss harvesting and potentially deferring capital gains.

Building tax-efficient portfolios for the long term

Key traits to help reduce the negative impact of taxes and add potential value over time

Lower turnover and longer holding periods

- Can create fewer taxable events, depending on market conditions and portfolio composition.
- May help reduce the realization of short-term gains.



Why Capital for tax-aware vehicles?

- Capital offers a full spectrum of active mutual funds, ETFs and SMAs to meet different client needs.
- Capital strategies have tended to hold stocks longer than peers on average.*
 - **4.3 years** for equity SMAs vs. **2.1 years** for peers
 - **3.0 years** for equity mutual funds vs. **2.0 years** for peers
 - **3.9 years** for equity and balanced ETFs vs. **2.2 years** for peers

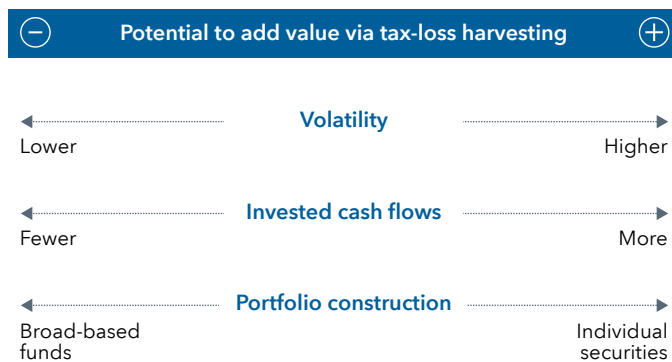
*Average turnover for Capital strategies. Holdings periods as of December 31, 2024, based on equal-weighted average turnover. Average holding period is the reciprocal of annual turnover. For example, if turnover were 25% per year, the average holding period would be four years; the amount of time it would hypothetically take for the fund to fully turn over at that rate. Sources: Capital Group, Lipper, Morningstar. For **mutual funds**: equity funds versus Lipper equity category peers. For **ETFs**: equity ETFs with at least one year of history versus Morningstar category peers. For **SMAs**: across representative portfolios for all Capital Group equity SMA composites with at least one year of history versus Lipper category peers.

How can an active approach add tax value over time?

Not just a year-end activity

Active tax management via tax-loss harvesting aims to minimize portfolio tax drag and maximize the potential for after-tax alpha (the difference between pre-tax and after-tax return versus a benchmark).

Many factors can increase the potential to add tax-loss harvesting value through different market environments, including volatility, the number of securities in a client's portfolio, sufficient income to consume losses, current tax rates, cash flows (which can be amplified by regular portfolio contributions) and liquidity.



Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectus, which can be obtained from a financial professional and should be read carefully before investing.

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