A longer term approach to tax management

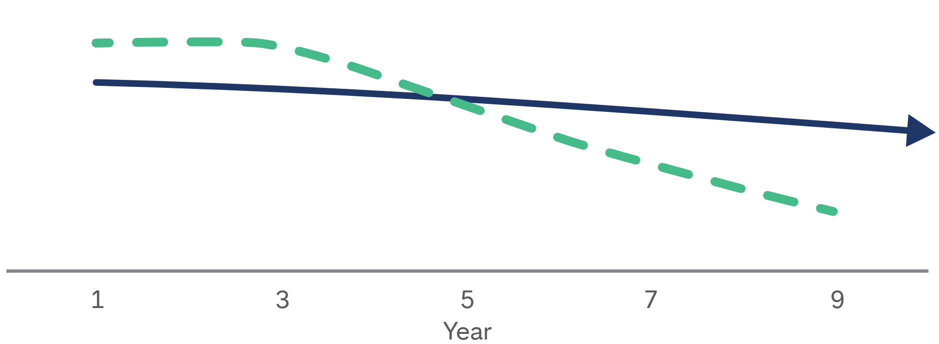
Key considerations when choosing between direct indexing and active investing

For investors focused on tax efficiency, direct indexing can be an effective investment tool. But its passive structure comes with an important consideration that's often overlooked.

Passive direct indexing can produce meaningful tax benefits in the early years when holdings are more likely to dip below cost basis, providing harvestable losses. But if investments grow and fewer losses are available to offset gains, tax alpha may fade — especially if new cash isn't invested to create fresh cost basis.*

Capital Group's **active investing**, through disciplined, high-conviction portfolio changes, can help fuel the tax management process — extending the potential for tax alpha.

Hypothetical after-tax value over time



Passive investing
Active investing

Illustrative example shown for educational purposes; not based on actual client accounts or actual results and not a guarantee of future tax savings or performance. Illustration assumes no new cash investments made in either portfolio.

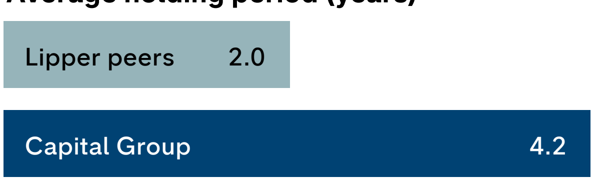
Why choose Capital Group active investment strategies?

Investment approach matters. The design of Capital Group's actively managed SMA strategies can create additional opportunities to enhance the effectiveness of tax management.

1. Longer holding periods

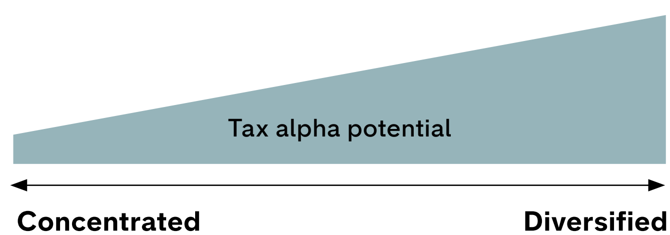
Capital Group SMA strategies have tended to hold stocks longer than peers. Longer holding periods allow a systematic tax management process time to potentially add value through gain deferral and loss harvesting.

Average holding period (years)†



2. Less constraint

Capital Group's equity-focused strategies tend to be highly diversified, holding a large number of securities. A wider set of investment options can help create after-tax value.



Footnotes/Important information:

*Sosner, N., Gromis, M., & Krasner, S. (2022). The tax benefits of direct indexing: Not a one-size-fits-all formula. The Journal of Beta Investment Strategies, 13(2), 28–51.

†Holding periods as of December 31, 2025, based on equal-weighted average turnover across representative portfolios for all Capital Group equity SMA composites with at least one year of history versus Lipper category peers.

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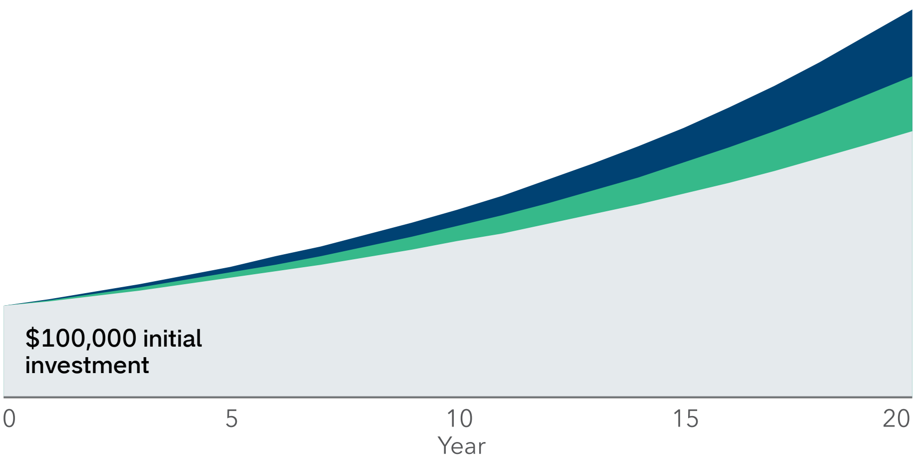
Taxes can drag your portfolio down

For investors with substantial capital gains, taxes can weigh on investment performance and, over time, erode wealth. Active tax management seeks to reduce this tax drag and preserve positive long-term outcomes.

The goal: Keep more money invested and compounding over the long term

Illustrative growth of $100K over 20 years

7.5% annual return assumption



Ending value with tax impact

$424,785 Tax drag 0%

$352,365 Tax drag 1%

$291,776 Tax drag 2%

Tax drag measures how much annual return is lost to taxes — such as capital gains, dividend and income taxes — by comparing pre-tax and after-tax performance. The illustrative example shown does not represent the results of any specific investment. Your investment experience will differ.

What's active tax management?

Active tax management seeks to improve after-tax results while staying aligned with a target portfolio or benchmark. It's a systematic approach to harvesting losses and deferring gains that can create added tax value for certain investors. When layered on top of an existing portfolio, this is often called a tax overlay.

Who might benefit?

Active tax management may deliver the most benefit for investors:

- In higher federal tax brackets
- With large, non-qualified portfolios
- With complex financial planning needs

Ask what Capital Group SMAs are available with tax management.*

Glossary

Cost basis: The purchase price of fund shares, including reinvested dividends and capital gains, as well as any sales charges paid when those shares were purchased. It is used to calculate taxable gains or losses when an asset is sold.

Direct indexing: Replicates an index through direct ownership of its individual securities, allowing investors to pursue index-like exposure while managing taxes at the security level.

Tax alpha: The potential after-tax return gained through tax management strategies. It measures the potential value created by managing taxes of an investment without changing the overall investment objectives.

Tax drag: The reduction in investment returns caused by taxes on income, dividends or capital gains. Tax drag lowers the overall growth of an investment by decreasing the amount that stays invested and compounds over time.

Tax-loss harvesting: Selling investments that have lost value to realize a loss, which can then help offset taxable gains from other investments. This may help cushion an investor's overall tax impact while allowing reinvestment in similar assets to maintain the investment strategy.

Footnotes/Important information:

*Select Capital Group SMA strategies are available with active tax management from an independent tax solutions provider.

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