

Investnet Tax Management Services

Add value with distinctive year-round tax management services.

Many advisors deal with taxes reactively—when either the market or the client’s desire for cash requires some tactical maneuvering. Investnet has a better idea: Make your client’s tax plan proactive, systematic and strategic.

Investnet’s Tax Management Services are available under two programs—a Tax Transition Service as well as Ongoing Tax Management.

These services seek to reduce the drag on portfolio performance by taxes and may provide advisors with a tax management solution to help unlock frozen assets, prospect for new business and attract assets held in custody elsewhere.

Tax Transition Service

Program highlights

Investnet’s Tax Transition Service aims to:

- Potentially reduce investors’ tax liabilities while diversifying their portfolio using active or passive strategies
- Reduce investors’ tax bill and compound money that would have otherwise gone to pay taxes
- Reduce sector or industry overweights when diversifying a concentrated position—customizing their account based on their specific situation

Who benefits from this service?

This strategy is best suited for tax sensitive clients:

- With more than \$750,000 in equity SMA assets per account
- Who have single or multiple stock portfolios with a low basis
- That have sold or plan to sell their company and face large tax bills
- Moving assets from multiple advisors to one but do not want to realize significant capital gains

How it Works

The first step is to establish the client’s tax management goals. Then, throughout the year, Investnet has discretion to trade the client’s account—diversifying low basis holdings and realizing gains and losses as appropriate staying within the capital gains budget determined by the client. Powered by a proprietary fundamental risk model and optimization program developed by Investnet | Tamarac—we work to continuously optimize the portfolio to provide the desired risk-adjusted return. This optimization process prevents wash sales before they occur, restricts the purchase of securities recently sold at a loss until the wash sale period has expired, and evaluates trades by running tens of thousands of trade iterations to come to an optimal solution for the portfolio.

With the Tax Transition Service, Investnet is essentially building a “completion fund” for each individual client, limiting additional exposure to securities whose performance is expected to highly correlate to an existing, low basis position, and increasing exposure to other, less correlated securities.

Investnet will help establish a capital gains budget to be confirmed annually, and assist you with completing all necessary paperwork.

Ongoing Tax Management Service

Program Highlights

Investnet's Ongoing Tax Management Service aims to:

- Deliver a low cost, more automated tax management service
- Potentially reduce tax bill in an effort to boost after-tax returns
- Provide year-round tax management of portfolios to eliminate the need for year-end tax loss harvesting

Who benefits from this Service?

This strategy is best suited for clients:

- Who are funding their accounts in cash
- Who have an existing portfolio with little embedded gains
- Who are willing to realize gains in the transition of existing assets to a new strategy

How it Works

The first step is to collect the cost basis data from the client and to determine the appropriate asset allocation and managers' models to implement. Then, throughout the year, Investnet manages the accounts using predefined rules and constraints in an effort to minimize capital gains and works to continuously optimize the portfolio to provide the desired risk-adjusted return. This optimization process rebalances the account in a manner that both keeps the client portfolio sufficiently close to the model portfolio, while simultaneously taking into account the tax costs of trading that detract from the client's after-tax returns.

With Ongoing Tax Management Service, the optimization process is not constrained by a capital gains budget (as it is in the Tax Transition Service), nor is it building a "completion fund" around low basis, legacy, non-target strategy holdings.

SMA or UMA

Investnet Tax Management Services can be applied to both separately managed account (SMA) strategies and to unified managed accounts (UMA). For SMAs, these services are appropriate for model-based equity SMA strategies only, due to the nature of the security specific risk model data. Mutual funds and ETFs do not provide the transparency necessary for robust optimization; they do not offer real time holdings information, nor do they allow for risk and correlation measures to be accurately calculated on the entire pool of holdings or incorporated into total portfolio calculations.

To fully benefit from Investnet Tax Management Services, portfolios should be constructed within the UMA structure such that all the equity SMA holdings are considered in a single optimization. A single custody account generates only one 1099, saving time for tax-preparers. However, although performance reporting is available for all accounts, sleeve level reporting is unavailable for tax managed UMA accounts, as some securities may not be held by managers.

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