Choreo Tax Advantage™: *Direct Indexing*

Choreo Tax Advantage™ offers the option to utilize direct indexing (also called personalized indexing or custom indexing), which may help further enhance optimization of tax outcomes. Investing in a direct index account is similar to investing in an **index fund**, like the S&P 500, but a **direct index account** offers additional opportunities for tax loss harvesting, with the goal of improving after-tax returns.

Index Funds. Index funds are available to investors as mutual funds or ETFs, and they're designed to diversify holdings and spread investment risk across sectors. When choosing an index fund, investors are purchasing an interest in the fund itself, rather than the individual stocks owned by the fund. In any given year, some securities within the index fund typically underperform, generating losses even if the overall fund performance is positive. Unfortunately, investors are unable to take advantage of losses on individual securities within the fund for the purpose of tax loss harvesting (using investment losses to offset gains to minimize taxes). Instead, the "benefit" of the loss remains locked inside the equity positions held by the fund, leaving an investor with the taxable upside growth of the fund but no associated losses to offset the taxes generated. Index funds are also "take it or leave it," meaning that what the investor sees in the fund is exactly what they get. Even if the investor objects to a certain asset or company held within the fund, there's no option to make an adjustment.

Direct Indexing with Choreo Tax Advantage™. A direct index account is designed to mimic the performance of a specific index. Because this type of investment strategy allows for directly holding a portion of the equities included in the index, losses within the account become individually harvestable. Individual equities can also be substituted based on the investors' personal values, allowing for the same mix of asset classes within the fund but not necessarily the exact same stocks. Direct indexing was not commonly used in the past, because it was a manual, labor-intensive process to continuously maintain alignment to the index fund as equities change in value, as well as manage costs impacted by market timing. Now, as part of the Choreo Tax Advantage™ approach and investment platform, this can be done automatically, on-demand or even daily, at scale, across an entire household portfolio – with tax considerations and implications built-in.

What Direct Indexing Can Do for Your Portfolio.

- Access tax loss harvesting opportunities to help minimize taxes and optimize returns where possible
- Customization of asset/equity mix based on multiple benchmarks with different weightings to broadly assess account scenarios and tax implications
- Manage taxes across household, based on your pre-set budget for net gains or taxes paid
- Document and quantify actual cash value of active tax management across household, as well as within each individual account
- Regular monitoring of accounts for tax loss harvesting opportunities and continued alignment to strategy

Key Differences Between Index Funds/ETFs and Direct Indexing.

Benefit	Direct Indexing	Index Funds/ETFs
Direct stock Ownership	Yes	No
Customization/ Personalization	Tailor portfolio to investor needs, with values-based and ESG exclusions available	None, ESG options are limited to those available within the fund
Tax Loss Harvesting Opportunities	Allows for tax-loss harvesting of individual equities	Limited capability due to lack of owned equities
Cost	Varies, may be higher due to management fees and transaction costs	Generally lower expense ratios
Rebalancing	Monitored daily to capitalize on tax loss harvesting opportunities and improve tracking error	Done according to index rules

Who Can Benefit from *Direct Indexing?*

Investors in higher tax brackets: Because direct indexing allows for tax-loss harvesting on individual securities within an account, investors can use the losses either to offset capital gains OR use up to $3000 of losses per year to offset ordinary income. Either approach typically results in a lower annual tax bill, and with capital gains taxed between 20% and 40% depending on circumstance, the offset can be significant. Investors can also carry the losses over in preparation for future realized gains.

Investors with long-term, appreciated holdings: When tax loss harvesting is incorporated as part of a regular investment process, total after-tax gains may be higher. This is because paying less taxes annually allows investors to keep more money invested longer.

Investors overweighted/overconcentrated in certain sectors: Direct indexing allows investors to substitute similar stocks for those held within the index fund. This is especially useful for corporate executives who own a significant amount of company shares, as they can diversify over time while taking advantage of tax-loss harvesting.

Charitably inclined investors with long-term holdings: Donating highly appreciated assets (rather than cash) to charity can eliminate the investor's capital gains liability (effectively increasing the net donation amount) while also providing a potentially sizeable tax deduction.

Investors passionate about personal values: Direct Indexing allows investors to include or exclude certain equities from their accounts based on select criteria. For example, investors who are passionate about the environment may not want to hold equity in a company that's known for its high carbon emissions. That stock can be replaced by another that's more aligned with investor values.

For more information about how Choreo Tax Advantage™ may help you, please contact your advisor.

For more information about Choreo, please visit www.choreoadvisors.com.

About the Sub-Advisory Relationship with Smartleaf Asset Management, LLC

Smartleaf Asset Management LLC ("SAM") is a sub-advisor to Choreo, LLC ("Choreo"). SAM and Choreo are not affiliated. SAM is a fully owned subsidiary of Smartleaf, Inc. whose automated rebalancing workflow platform helps its clients deliver customized, tax-optimized portfolios at scale. SAM is an SEC-Registered Investment Advisor that operates Smartleaf Inc. software to automate household and account rebalancing and trade execution services.

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