nuveen
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Harness the benefits of direct indexing

***Direct indexing products** are separately managed accounts (SMAs) that provide ownership of, and direct access to the underlying securities, typically equities, in an index-like solution. Direct indexing can closely replicate performance of a selected benchmark, while delivering additional benefits including tax alpha from systematic year-round tax-loss harvesting, tax-aware management of concentrated positions, and advanced personalization capabilities.*

Moreover, direct indexing serves as a core investment allocation by offering exposure to a broadly diversified portfolio with minimal tracking error versus an underlying index. Additionally, direct indexing products generally have lower fees compared to traditional actively managed products, while providing enhanced customization and tax efficiencies compared to mutual funds and exchange-traded funds (ETFs).

As the fastest growing segment in the SMA market, direct indexing experienced sizable growth in 2023, increasing 41% throughout the year to $615 billion in total assets. We believe direct indexing solutions, in particular multi-asset class portfolios, can provide a unique combination of benefits and efficiencies to address the complex needs of a variety of investors.

Direct indexing can serve as a core strategy for an overall portfolio while helping to provide a solution for many of the complex situations facing investors today. Personalized security selection capabilities, combined with active tax management, can potentially deliver an enhanced client experience and greater after-tax returns than traditional investment products or vehicles.

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DESIRABLE BENEFITS AND ATTRIBUTES

Tax management

One primary advantage direct indexing offers is the ability to maximize after-tax returns through tax loss harvesting. In an SMA structure, the investor owns the underlying securities which provides transparency of the "cost basis" used to compute gains and losses when selling stocks. The ability to conduct tax loss harvesting allows investors to sell shares of individual securities whose value has declined since they were initially purchased. Realized capital losses can be used to offset capital gains, income taxes, or carried forward. Once a position is sold at a loss, investors can reinvest the proceeds into similar securities, thus maintaining

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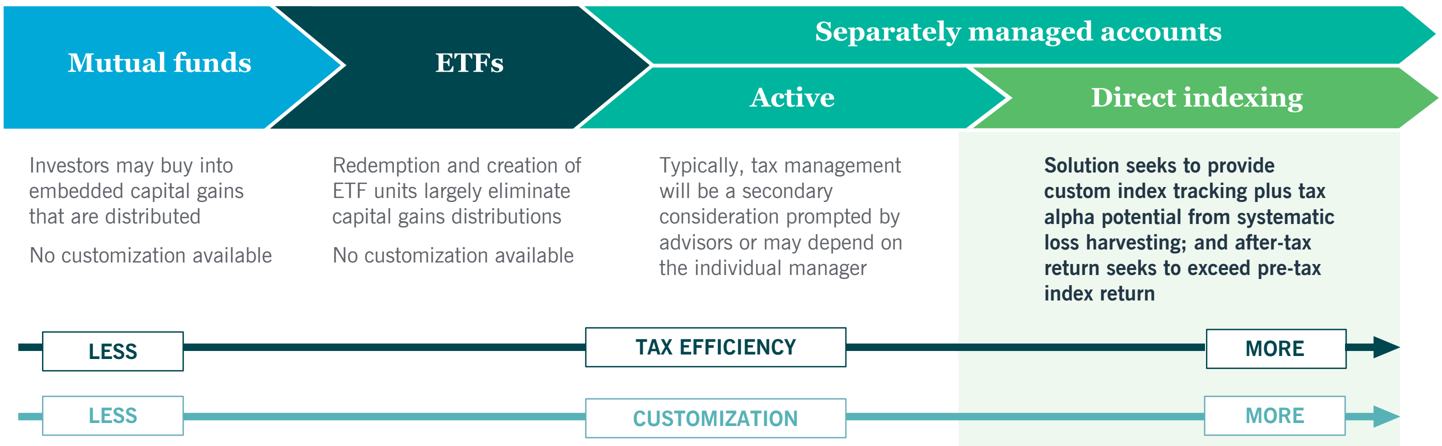
Figure 1: The evolution of investment product wrappers

Unlike mutual funds or ETFs, direct indexing through a separately managed account can provide greater tax efficiencies and the ability to customize a portfolio that's more tailored to individual client preferences.



Source: Cerulli Associates and Nuveen

their portfolio's asset allocation, equity exposure, and anticipated risk-return characteristics.

Ownership of the individual securities within an SMA can allow investors to exercise greater control over potential tax liabilities compared to ETFs or mutual funds. Unwanted capital gains distributions driven by portfolio turnover are a well-known potential impact to mutual funds. A well-managed direct indexing portfolio can avoid unwanted capital gains because each investor's portfolio is managed separately, accounting for individual tax considerations.

Even during strong up-markets, opportunities for tax loss harvesting still exist within index-like portfolios. As shown in Figure 2 on the next page, a significant number of stocks within the S&P 500 have declined during calendar years characterized by strong equity market performance such as 2006, 2017, 2020 and 2023. By consistently seeking opportunities to strategically realize losses, tax loss harvesting throughout the year can help boost after-tax returns by reducing the year-end tax burden, effectively adding alpha.

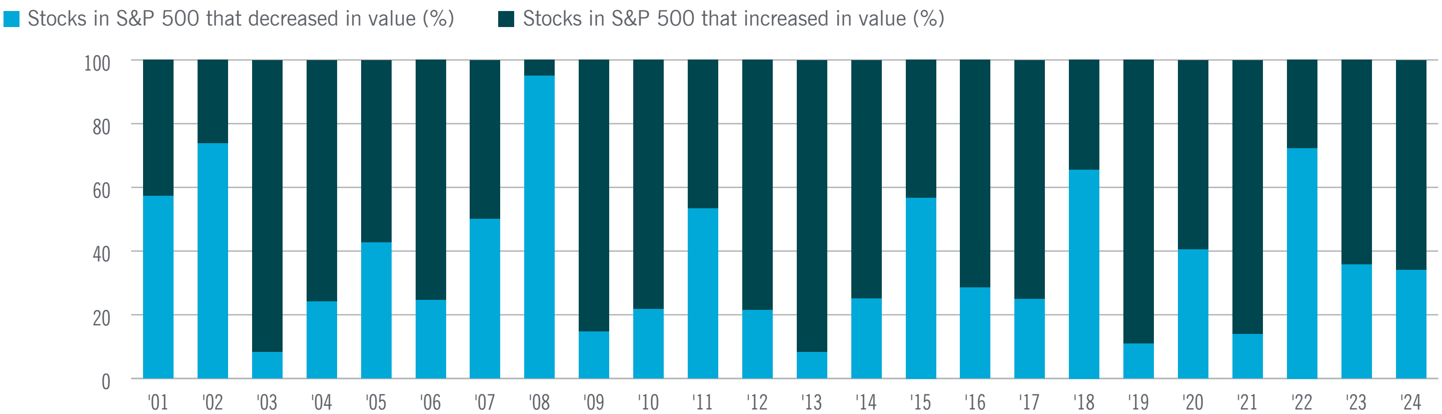
DIRECT INDEXING INVESTOR BENEFITS

- Actively minimize tax impacts through a powerful combination of frequent monitoring, rebalancing and year-round tax-loss harvesting opportunities
- Create a highly personalized portfolio with customization capabilities tailored to individual investor preferences
- Manage tax-optimized portfolio transitions and tax-neutral sell down programs for concentrated positions
- Access streamlined technological support and management efficiencies for both advisors and their clients

> ***A well-managed direct indexing portfolio can avoid unwanted capital gains because each investor's portfolio is managed separately, accounting for individual tax considerations.***

Figure 2: Losses can exist in all markets

Historically, individual stock losses have occurred in both up and down markets, creating advantageous tax-loss harvesting opportunities to offset capital price gains.



	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22	'23	'24
S&P 500 historical annual price return (%)	-13.04	-23.37	26.38	8.99	3.00	13.62	3.53	-37.00	23.45	12.78	0.00	13.41	29.60	11.39	-0.73	9.54	19.42	-6.24	28.88	16.26	26.89	-19.44	24.23	23.31

Data source: S&P Global, 2001 – 2024. Different benchmarks and economic periods will produce different results. Other methods and market conditions may result in significantly different outcomes. Historical annual return calculated as the % change to the last trading day of each year from the last trading day of the previous year. Investments cannot be made directly in an index.

Customization to align with personal preferences

Growing investor demand for increased personalization in investment products has driven the need for more customizable offerings. Unlike ETFs or mutual funds, which lack the ability for personalized customization, direct indexing SMAs offer a high degree of tailored flexibility. Customization can range from simple exclusions of single stocks or sectors to a fully bespoke portfolio that incorporates the client's investment interests, their advisor's tactical views, or other preferences. For instance, screens can be applied to filter out specific categories, such as tobacco production, firearms, animal cruelty, or even entire industries or sectors. By aligning investors' portfolios with their values, advisors can create a positive, more-individualized client experience that goes beyond investment returns.

Efficiencies

Recent technological advances have spurred strong growth for direct indexing in recent years. In addition to the tax management and customization efficiencies, direct indexing can also provide cost efficiencies and enhanced practice management capabilities for financial professionals, enabling them to better focus on the client.

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A SOLUTION DESIGNED FOR NUMEROUS INVESTOR SCENARIOS

Investors today have complex needs, and traditional portfolios may not sufficiently align with the individual's goals, values and other preferences. With advances in technological efficiencies, the benefits of direct indexing are now available to scale for a much larger investor base. While direct indexing may not be an appropriate fit for all investors, the investment approach helps to solve the complex needs and desires that traditional actively managed products may not fully meet.

Transition management

Transition management plays a vital role in assisting investors to minimize tax liabilities and protect their investment capital. Investors are often burdened with significant unrealized capital gains that limit their ability to change their asset allocation or investment strategy given the potential tax consequences. The technology and tax optimization tools that power direct indexing products can guide tax sensitive transitions. With a separately managed account, investors can fund a new account with in-kind securities and select a predetermined capital gains budget to customize the transition process. By adhering to this budget, the direct index provider can tailor the gradual transition to the investor's individual tax situation by strategically timing the sales of the inherited securities. This personalized transition can help mitigate the impact of taxes on their returns while strategically transitioning the portfolio to the new desired benchmark with client directed customization.

Concentrated positions

With companies often including equity as a compensation tool, many entrepreneurs and professionals may have accumulated sizable positions in a single stock. Furthermore, the strong U.S. stock market performance following the Great Financial Crisis and the incredible recent performance of select companies driven by investor enthusiasm surrounding secular trends such as artificial intelligence, cloud computing and obesity drugs, have resulted in concentrated positions in the portfolios of a broader group of investors. Those concentrated stock positions can often come with significant single-company risk and a large tax liability given the appreciation of the stock. Direct indexing offers a few ways to effectively manage the risk and tax burden of that concentrated position:

- **Reducing the risk of a concentrated stock position in a tax-efficient manner**
  Since wealth tends to be created by entrepreneurs who embrace concentrated risks, these investors often hold appreciated stock positions that they wish to sell down in a tax-efficient manner given the undue investment risk. A key component of a direct indexing approach is the ability to manage the tax liability by strategically realizing losses across other holdings while gradually reducing the concentrated position. The pace of the sell down can be dictated by the amount of tax losses harvested in the direct indexing portfolio, which are used to offset gains realized from selling the concentrated position, dollar for dollar.

> *Direct indexing creates optionality for an investor, and we believe the ability to include multiple asset classes within a single custodian account provides a holistic portfolio management solution tailored to individual preferences while strategically minimizing tax liabilities.*

- **Maintaining a concentrated position in a portfolio**
  Conversely, direct indexing can also be a solution for clients who need to maintain a concentrated stock position as part of a larger portfolio. For instance, corporations may require members of their executive management teams or board of directors to hold a significant stock position in their company. In these situations, a direct indexing strategy can be used to optimize a diversified portfolio with advanced customization around the concentrated position to best mitigate the risks.

NUVEEN'S APPROACH: DIFFERENT SOLUTIONS FOR DIFFERENT NEEDS

To date, direct indexing has predominantly served as a core equity solution. However, as demand for direct indexing capabilities continue to grow, financial professionals and investors are seeking new capabilities and efficiencies to further enhance portfolios and financial practices. A common request we receive from clients is the desire to integrate fixed income securities as a complementary element to their core equity portfolios. Direct indexing creates optionality for an investor, and we believe the ability to include multiple asset classes within a single custodian account provides a holistic portfolio management solution tailored to individual preferences while strategically minimizing tax liabilities, as well as providing more efficient ongoing reporting capabilities around performance, holdings and portfolio transition management.

A multi-asset class solution

In addition to core equity options, Nuveen's multi-asset class solution enables financial professionals to deliver both equities and municipal fixed income in a single custodian account with the benefits of comprehensive tax management and personalization across the entire portfolio. Our direct indexing portfolios are managed and available through Nuveen, with a strategic collaboration with Brooklyn Investment Group. In our multi-asset solution Nuveen oversees the fixed income allocation options across a variety of active and laddered municipals and Brooklyn manages the equity allocation. Both tax advantaged products rely on Brooklyn's flexible, scalable technology, incorporating active tax loss harvesting through a robust optimization process that considers the impact on tracking error, transaction costs and client-specific customization.

Enhanced direct indexing

Traditional direct indexing can be a very effective strategy for many clients. However, there are situations where more powerful tools are needed. Nuveen and Brooklyn have also partnered to offer tax-advantaged long/short SMA strategies. These strategies can enhance tax alpha and help accelerate the speed at which investors diversify out of a concentrated position, reset the basis in older, more highly appreciated portfolios, or help to realize additional losses that can be used to offset some of the gains related to an upcoming liquidity event.

CONCLUSION

We believe direct indexing is a competitive and forward-thinking segment poised for future growth in the SMA space. Demand is expected to be driven by a powerful combination of potential benefits for advisors through enhanced practice management and cost efficiencies, combined with a tax management and customization experience tailored for each investor.

Working together with Brooklyn, Nuveen offers a variety of highly personalized direct indexing solutions that incorporate equity and fixed income portfolios into a single solution on a common platform designed specifically with the needs of financial professionals in mind.

For more information, please visit us at nuveen.com.

Endnotes

1 Cerulli Associates, December 2024 report: U.S Product Development 2024 - The Future of Funds of Funds & Defining Direct Indexing.

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All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. It is important to review investment objectives, risk tolerance, tax liability and liquidity needs before choosing an investment style or manager.

Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Investments in mortgage-backed and asset-backed securities are subject to prepayment risks. There is no assurance that the private guarantors or insurers will meet their obligations.

An investment in any municipal portfolio should be made with an understanding of the risks involved in investing in municipal bonds, such as interest rate risk, credit risk, and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. Please contact a tax professional regarding the suitability of tax-exempt investments in your portfolio.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

Tracking error risk: Tracking error risk refers to the risk that the performance of a client portfolio may not match or correlate to that of the index it attempts to track, either on a daily or aggregate basis. Factors such as fees and trading expenses, client-imposed restrictions, tax-loss harvesting, imperfect correlation between the portfolio's investments and the index, changes to the composition of the index, regulatory policies, and high portfolio turnover all contribute to tracking error. Tracking error risk may cause the performance of a client portfolio to be less or more than expected.

Tax-managed investing risk: Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Any reduction in taxes will depend on an investor's specific tax situation. Market conditions may limit the ability to generate tax losses. A tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. A tax loss realized by a U.S. investor after selling a security will be negated if the investor purchases the security within thirty days. Although portfolio managers can seek to avoid such a "wash sales" and temporarily restrict securities sold at a loss within the same portfolio, a wash sale can inadvertently occur for a variety of factors, including trading in other accounts, including accounts managed by the same investment adviser, client-directed activity and account contributions, withdrawals or rebalancing. Investment strategies that employ tax-loss harvesting also involve the risk that a replacement investment could perform worse than the original investment and that such factor, as well as transaction costs, could offset any potential tax benefit. Investors should discuss the implications of tax-managed strategies with their tax advisor.

Model and quantitative risks: Certain strategies, such as direct indexing, use proprietary quantitative tools to assist portfolio managers in making investment decisions. If these tools have errors or are flawed or incomplete and such issues are not identified, it may have an adverse effect client investment performance.

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