Kayne Anderson Rudnick
Wealth Advisors

Tax Efficiency

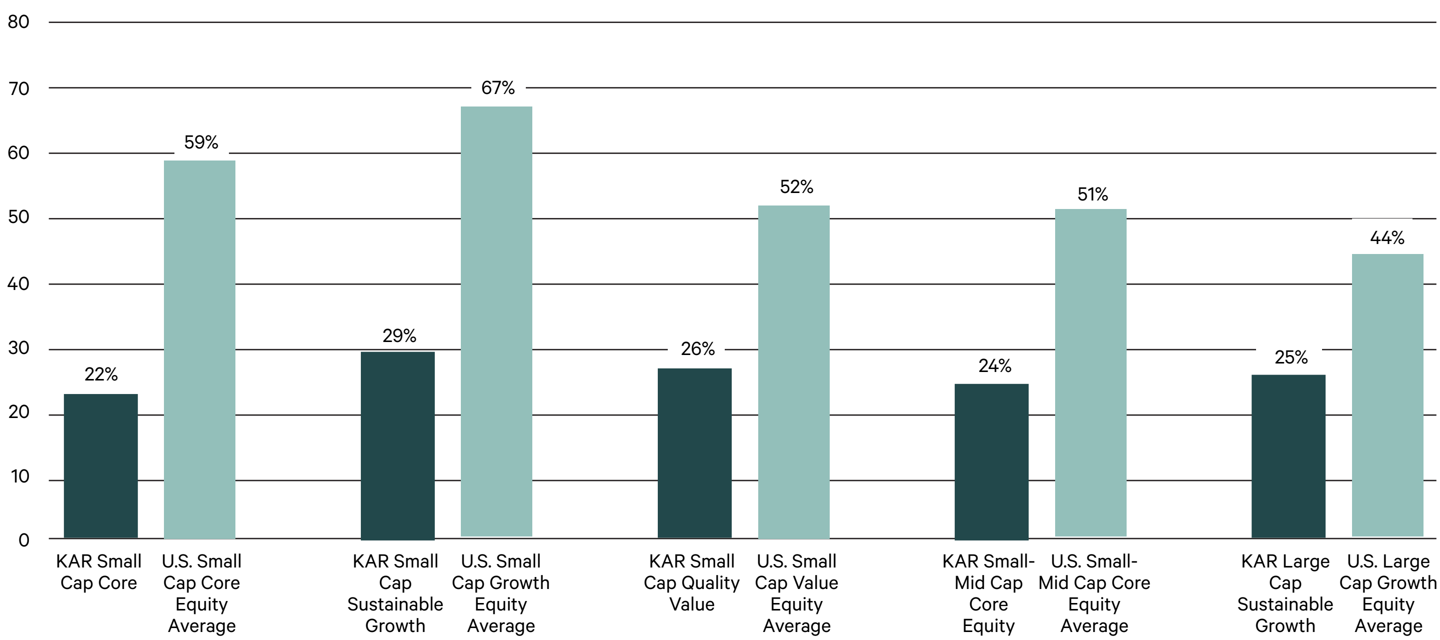
Taxes are a significant part of one's finances. When it comes to investing, it's not only about how much one makes in appreciation and income, but also how much one keeps after taxes.

The good news: Kayne Anderson Rudnick strategies keep taxes in mind. While taxes aren't and shouldn't be the sole basis on which an investment decision is made, we closely look for and act on opportunities to manage and reduce taxes as much as possible, with the goal of helping to protect your wealth and maximize the tax efficiency of your investments.

Among the most important factors determining the tax efficiency of a portfolio is turnover. The turnover ratio is the frequency with which the portfolio buys and sells securities. High turnover is likely to result in short-term gains, which are taxable at ordinary income rates rather than long-term capital gains rates. The turnover rates of some of KAR's largest equity strategies have been significantly lower than those of comparable averages, as shown below:

TURNOVER RATES: 3-YEAR AVERAGE (2020 - 2022)

KAR Strategies vs. Respective Universe Averages



Equity averages are from eVestment universes based upon all managers categorized in the specific asset class. Data is obtained from FactSet Research Systems and is assumed to be reliable. ***Past performance is no guarantee of future results.***

We believe having a separately managed account can also be a significant advantage on the tax front. With a separately managed account, we can pick and choose what to sell with tax considerations in mind. For example, if the overall strategy is positive but has some individual securities that are experiencing losses, we can sell those stocks rather than having to either sell the whole fund or be liable for taxes on the gains. The proceeds also need not sit idly in cash; we can redeploy them to buy benchmark-like exposure.

Example: We believe the benefits of this might be better expressed in contrast to owning a mutual fund. When an investor purchases a mutual fund, he or she does not own the individual securities therein but owns shares of the fund. This creates what is known as an "embedded capital gains" problem. The cost basis of the mutual fund's underlying holdings is determined by when the fund purchased the securities, not when this particular investor bought the fund. Say an investor buys shares of a mutual fund, which includes stock X, which today trades at $200. Later, stock X falls to $150, which clearly presents a loss to the investor. But this would not be the case, for tax purposes, if the mutual fund turns out to have purchased the stock when it was even lower, say at $100. If the fund sells the stock and realizes a gain, it owes taxes. The investor, as one of the owners of the fund, shares in this liability. In contrast, a separately managed account allows the investor to avoid embedded capital gains as he or she directly owns the individual securities.

Another tax-related advantage of having a separately managed account has to do with distributions. Mutual fund owners are exposed to various taxable situations that are out of their control. For instance, mutual funds buy and sell their holdings to generate cash for distribution, which triggers potential capital gains for the shareholder. There is also the risk of having to pay an unfair share of taxes that have been run up by other shareholders. We as an active manager work on behalf of our clients to seek to avoid situations that could lead to an outsized tax bill. We closely monitor the portfolios of our individual clients and can engage in swaps between funds so as to construct the right components in the investment portfolio and help maximize its tax efficiency.

KAYNE ANDERSON RUDNICK

Kayne Anderson Rudnick is an investment firm specializing in high-quality investment and wealth management strategies. The firm has over a 30-year history serving a diverse client base that includes high-net-worth individuals, corporations, endowments, foundations, public entities, taft-hartley clients, and mutual funds. Kayne Anderson Rudnick is known for its commitment to high-quality investment strategies and business practices. For more information, please visit www.kayne.com.