GATEWAY
INVESTMENT ADVISERS, LLC

Harvest Season, Extended
Market Perspective

The Visible Cost of Nearly Invisible Taxes

Let us be clear, Gateway does not provide tax advice. Tax treatment and rates can and do vary over time. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her investment and/or tax advisors. However, Gateway does have some experience with taxes...

In the world of investment management, the "hidden" cost of taxes can be one of the largest drags on an investor's long-term returns. While most investors and advisors are generally aware of explicit costs like management fees, the subtle but persistent impact of tax costs might often go unexamined.

To help – a couple of definitions:

> ***Tax Cost Ratio***
> The percentage of a fund's annual return that is reduced by taxes investors pay on distributions.
>
> ***Tax Alpha***
> Similar to tax cost, but it measures the difference between pretax returns and post-tax returns relative to a fund's benchmark.

For taxable investors, just like larger management fees, larger tax costs eat away at returns and those with longer investment horizons may see a significant impact.

1.9%
Average Annual Tax Cost*
Mutual Funds

0.7%
Average Annual Tax Cost*
ETFs

Be Proactive About Saving

While traditional tax loss harvesting can reduce total tax cost, over time, the amount of available losses may decline, particularly during strong bull markets. An extension tax loss harvesting strategy, such as a 130% long and 30% short (i.e., "130/30") portfolio, may offer a solution.

This strategy actively seeks out negative correlations in the market, providing a consistent source of potential capital losses that can be harvested to offset gains. Unlike traditional methods, which might rely on market downturns, the short positions in an extension strategy can generate losses even in flat or upward-trending markets. This may offer a more consistent and reliable source of tax benefits across various market environments.

Long/Short Indexing
Potential to recharge traditional tax loss harvesting strategies that are no longer offering effective benefits, or fund strategy with cash.

Legacy Holding Transition
Can facilitate smooth portfolio transitions by using long/short positions to manage risk exposures and tax liabilities on legacy assets with cash.

Concentrated Position Diversification
Extensions can systematically transition concentrated portfolios to diversified portfolios, using losses to offset realized gains.

Furthermore, an extension strategy can generate additional capital for implementation through the short portion of the portfolio, allowing for a more robust and scalable approach to tax consciousness and diversification. This may significantly improve after-tax returns. By maintaining a steady supply of harvested losses, extensions can preserve more of an investor's returns, keeping more capital invested and compounding overtime – transforming tax management from a *reactive* tactic into a *proactive* driver of after-tax performance. Investors may be interested in looking beyond traditional tax loss harvesting and considering these next-generation strategies to diversify portfolios or protect their returns through any market environment.

Past performance does not guarantee future results. Data source: Gateway Investment Advisers, LLC and Morningstar Direct[SM]. Gateway does not provide tax advice. Tax treatment and rates can and do vary over time. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her investment and/or tax advisors. *Represented by the average of Morningstar's U.S. Funds Large Value, U.S. Funds Large Growth and U.S. Funds Large Blend categories, which include mutual funds and ETFs.

A Legacy of Expertise, the Future of Investing

Founded in 1977, Gateway offers a single-source, unified framework for alpha and risk management, applying a rigorous, quantitatively driven approach to navigate market complexities and unlock value. This extensive experience of managing complex market exposures and seeking to optimize returns has allowed Gateway to consistently deliver sophisticated solutions for a wide range of risk-conscious and tax-aware investors.

The firm's capabilities naturally extend to advanced strategies such as Extension Tax Loss Harvesting, where Gateway applies its quantitative skill in an effort to deliver greater, more consistent tax benefits with targeted tracking-error management – recharging direct indexing portfolios, facilitating tax-aware rebalancing, and enabling tax-efficient diversification.

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