

# The Power of Direct Indexing:



## Tax-Managed Models to Add Tax Alpha

### What is Direct Indexing?

Direct indexing is the process of replicating a broad market index through the direct purchase of individual securities—rather than purchasing the index itself. With ownership of the underlying securities, advisors can add additional tax alpha to client portfolios.

### How Does Direct Indexing Generate Tax Alpha & Additional Value?

#### Tax-Loss Harvesting

Harvest stock losses to offset taxes on capital gains elsewhere

#### Trading Flexibility

Buy and sell specific positions without liquidating an entire index

#### Holdings Transparency

Justify your advisory fees by providing full transparency into clients' exact holdings

### What are the CLS Direct Indexed, Tax-Managed Models?

Using a proprietary SMA portfolio customization tool, CLS has created five direct indexed, tax-managed models that generate tax alpha through tax-loss harvesting capabilities. As advisors look for new ways to differentiate their services, these models offer more personalized investment options for clients.

### What is Tax Alpha?

Tax Alpha is a portfolio's excess after-tax return, relative to its benchmark, adjusted for any excess pre-tax returns.

Excess After-tax Return

– Excess Pre-tax Return

**Tax Alpha**

### How to Access these Models:

The CLS tax managed models are **exclusively** available on the Orion Portfolio Solutions platform in the Strategic Mandate. Contact the Orion Portfolio Solutions Sales Team to request fact sheets and a proposal.

**800.379.2513 option 5**  
**sales@orion.com**

Model	Tracked Index
S&P 500 Market Beta Tax Managed	S&P 500 Index
U.S. Large Cap Market Beta Tax Managed	U.S. Large/Mid Cap (Russell 1000 Index)
U.S. Small Cap Market Beta Tax Managed	U.S. Small Cap (Russell 2000 Index)
U.S. High Dividend Yield Tax Managed	U.S. High Dividend Yield TSP
U.S. Quality Value Tax Managed	U.S. Quality Value TSP

Designed for Clients Looking for	Minimum Investment	Indexing Approach	Target # of Securities	Tax Management Strategies	Cost
U.S. core allocation, tax-efficient rebalancing in their taxable accounts	\$50,000	Core/satellite (ETFs + stocks)	Up to 300	Tax-Loss Harvesting	25 bps

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The **S&P 500 Index** is an unmanaged index of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The **Russell 2000** is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small-cap stocks. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

CLS's Target Strategy Portfolios (TSPs) are SMA based portfolios that use quantitative rules to select stocks based on investment and behavioral factors. The U.S. Quality Value TSP pursues companies with higher earnings quality and lower levels of debt, and that trade at lower valuations relative to the market. As a result, this portfolio places emphasis on up to 300 companies with historically moderate earnings growth, stable balance sheets, and below-average valuations relative to the market or industry peers. The U.S. High Dividend Yield TSP pursues companies with above-average dividend yields, higher earnings quality, and lower levels of debt. As a result, this portfolio places emphasis on up to 100 companies that are perceived to have sustainable higher dividend yields over time.