

Adding Value Through Asset Location

Baird Private Wealth Management

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Wealth Management | Capital Markets – Investment Banking | Private Equity | Asset Management

Charlotte Chicago Frankfurt London Milwaukee Shanghai

Concept review: What is asset location?

Asset location: Placing asset classes in different types of investment accounts in order to lower tax burden

By putting higher tax asset classes into tax-deferred accounts and lower tax asset classes into taxable accounts, an investor can effectively lower their tax burden and in turn increase investment return by saving money in taxes.

In other words, investments that cost a lot in taxes should be in the most tax-advantaged accounts. Although that concept is simple, it's much harder to implement as each asset class has varying levels of risk and tax efficiency.

The tables on the next three pages provide general guidance for the relative tax efficiency of various asset classes, and which type of investment account is most appropriate.

Like asset allocation, asset *location* is ultimately meant to increase returns, but the two are quite different.

Asset allocation: Blending asset classes in certain percentages to reduce risk and increase returns.

Asset location: Placing asset classes in different types of investment accounts to minimize tax burden and increase returns.

Asset location should result in a high level of tax efficiency.

Asset Location Guidelines

Concept review: Taxable vs. Tax-advantaged accounts

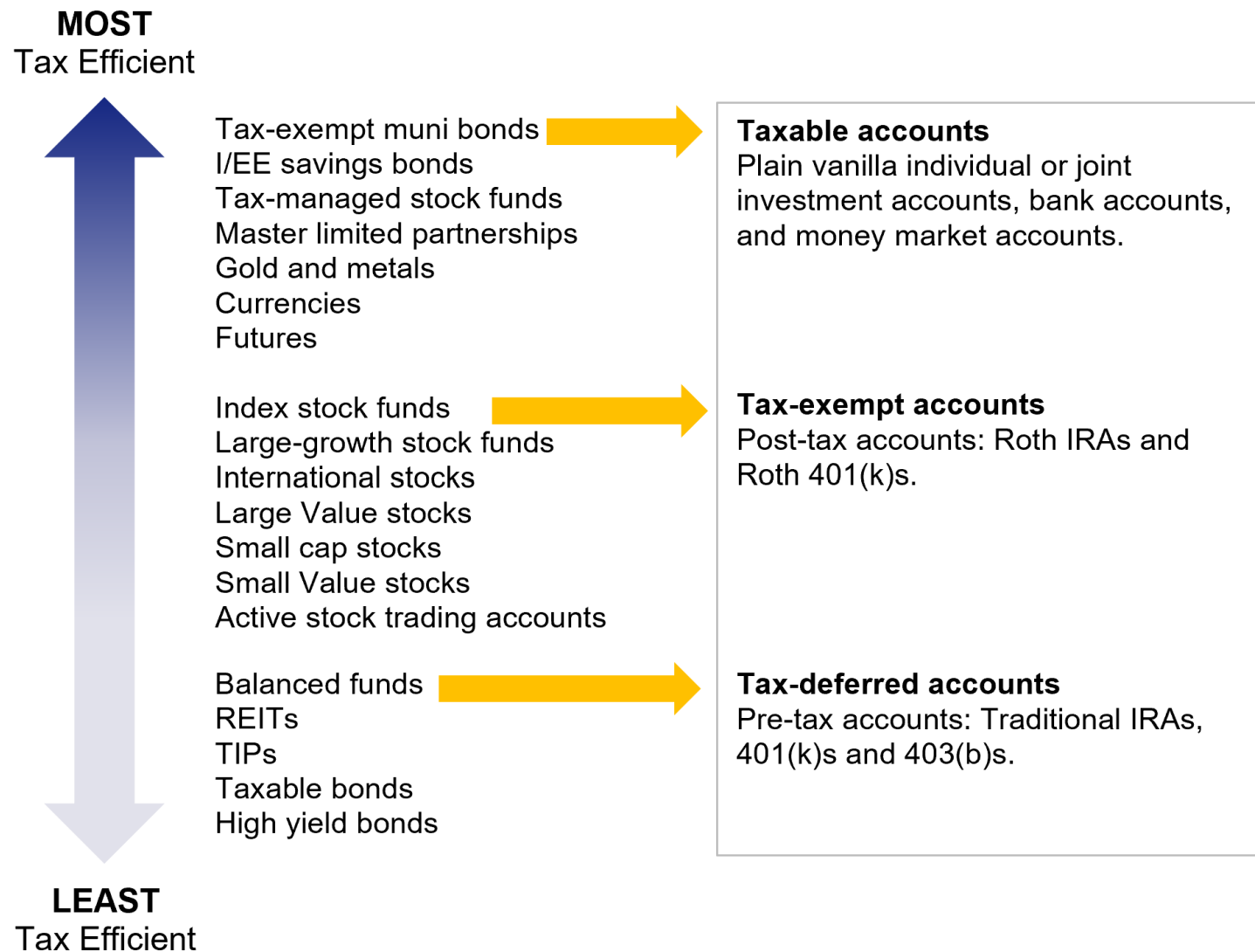
| TAXABLE ACCOUNTS Ideal for: | TAX-ADVANTAGED ACCOUNTS* Ideal for: |
|--|---|
| Individual stocks you plan to hold for more than one year | Individual stocks you plan to hold for more than one year |
| Tax-managed stock funds, index funds, exchange-traded funds (ETFs), low-turnover stock funds | Actively managed funds that may generate significant short-term capital gains |
| Stocks or mutual funds that pay qualified dividends | Taxable bond funds, zero-coupon bonds, inflation-protected bonds or high-yield bond funds |
| Municipal bonds, I bonds (savings bonds) | Real estate investment trusts |

***Tax-advantaged refers to both tax-exempt and tax-deferred accounts: See the following page for more on this distinction.**

Asset Location Guidelines

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Dividing assets between 3 types of investment account



Asset Location Guidelines

Dividing assets between 3 types of investment account

| | Tax treatment of expected returns | Taxable | Tax-deferred | Tax-exempt |
|---|---|---------|--------------|------------|
| Municipal securities and mutual funds | Generally exempt | ✓ | ✓ | ✓ |
| Equity securities held long-term for growth | Taxed at long-term capital gain rates | ✓ | ✓ | ✓ |
| Equity index funds/ETFs (other than REITs) | | ✓ | ✓ | ✓ |
| Tax-managed mutual funds | | ✓ | ✓ | ✓ |
| Real estate investment trusts (REITs) | 80% of income taxed at ordinary rates; 20% tax-exempt (generally) | ✓ | ✓ | ✓ |
| High-turnover stock mutual funds that deliver effectively all returns as short-term capital gains | Taxed at ordinary income rates | ✓ | ✓ | ✓ |
| Fully taxable bonds and bond funds (corporates) | | ✓ | ✓ | ✓ |

✓ **More appropriate**

✓ **Appropriate**

✓ **Less appropriate**

Appendix-Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

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Not all investment strategies will be appropriate for all investors, this is always fact specific and should be discussed with a financial advisor or tax professional before any investment is considered. Tax situations may change and interpretations of law may change over time.

Diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Investors should consider the investment objectives, risks, charges and expenses of any fund carefully before investing. This and other information about the fund can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained from your financial advisor or a fund website and should be read carefully before investing.

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