Tax overlay and transition services.

Enhanced flexibility for tax-managed transitions

SEI's tax overlay services help investors manage the realization of capital gains while transitioning an existing set of securities to a new portfolio recommendation. For investors whose tax objectives require greater deviation from standard tracking error guidelines, the tax-constrained option provides additional flexibility.

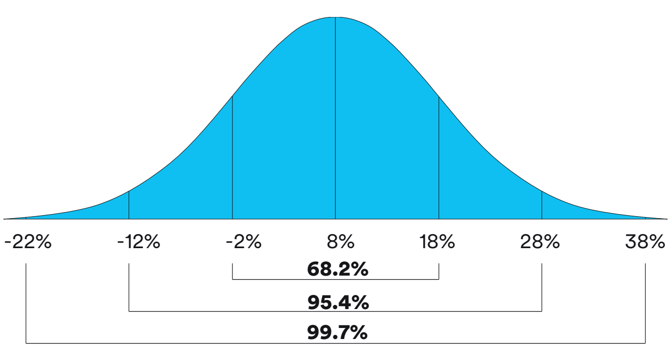
How does tracking error affect portfolio returns?

When managing an investment portfolio for tax efficiency, a trade-off exists between realizing gains and adhering to the investment manager's model. Both may have consequences—such as a greater-than-anticipated tax burden or elevated risk—so striking a more controlled balance is critical.

Tracking error (TE) measures the difference between how a client's customized, tax-managed portfolio and the manager's model are managed. SEI seeks to limit the TE while balancing the tax implications of each transaction within a client's account, from original implementation through the ongoing management of the account.

Ultimately, SEI works to align client portfolios with the manager's model, while taking into account client-directed tax considerations, constraints, and other portfolio requirements, subject to each client's specific tax situation. For clients with tax situations that require diversifying legacy positions over a certain period or targeting a specific capital gains budget constraint, our tax overlay and transition services offer two different solutions.

The potential impact of tracking error on a manager's model



Money manager's expected return = 8%
Tracking error due to client's required tax budget = 10%
For illustrative purposes only.

Solution for restrictive gains budgets

Tax-Constrained option

For investors with unrealized gains or gains budgets so restrictive that it makes it difficult to manage the portfolio within standard tracking error guidelines, we offer the Tax-Constrained option.

This option provides a tax-efficient means of transition that may span multiple years, where a set amount of annual net realized capital gains is targeted and proceeds invested to bring the portfolio increasingly more in line with the target model. ETFs as well as mutual funds may be eligible for inclusion.[1]

	Standard approach	Standard approach + Tax-Constrained option
Tracking error constraint	Medium	High
Primary portfolio optimization variable	Tracking error to strategy	Tax/realized gain sensitivity
Annual capital gains budget mechanics	Gains Budget **aims for an upper limit** for net realized gains each tax year	Gains Budget sets **specific net realized gains target** each tax year
Primary investor use case	Optimize investment portfolio within tracking error limits, while seeking to maximize tax-efficiency	Seeks to unwind large, embedded gains over one or more tax years, with progressive moves to optimize investment portfolio.[2]

Illustrative outcome: A more controlled path toward the target portfolio

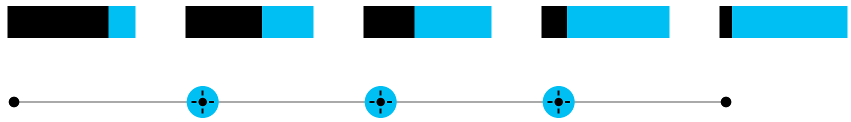
The Tax-Constrained option may enable a more gradual, multi-year approach to portfolio implementation, incorporating tax considerations as the portfolio is repositioned toward the target model.

Portfolio in transition

Shifting from legacy holdings to the target portfolio

■ Concentrated/legacy holdings
■ Holdings aligned with target portfolio

Starting point	Tax year 1	Tax year 2	Tax year 3+	Outcome
Initial/legacy holdings	Begin transition with specified gains target	Continue to unwind embedded gains	Final years complete the transition	Increased alignment within target portfolio



Annual gains budget

Specific net realized gains target each tax year.

	Tax year 1	Tax year 2	Tax year 3+	
	Specified net realized gains target	Specified net realized gains target	Specified net realized gains target	

Annual gains target guides the pace of the transition

Tracking error

Seek to limit while balancing the tax implications of each transaction within an account.

Higher early, declining over time as portfolio aligns to target.

- Leverages capital gains target to sell legacy holdings with proceeds invested to bring the portfolio increasingly more in line with target portfolio
- Portfolio optimization seeks daily opportunities (dividends, cash flows) for further alignment with target portfolio

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[1] SEI sponsored mutual funds and ETFs are not currently available.
[2] Tax-Constrained option offers the opportunity to unwind large, embedded gains over one or more tax years with progressive moves to optimize the target Investment Strategy, setting a specific net realized gains target each tax year without a tracking error limit, regardless of the deviation from the target Investment Strategy. This option will increase the probability of further deviation from the target Investment Strategy.

IMPORTANT INFORMATION

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In performing its analysis, SEI Investments Management Corporation (SIMC) may utilize various analytical tools from, but not limited to, Smartleaf and Parametric Portfolio Associates. These analytical tools are designed to assist SIMC in its analysis and while SIMC believes that these analytical tools produce beneficial output, SIMC does not guarantee its accuracy. SIMC is a wholly owned subsidiary of SEI Investments Company (SEI).

The sample illustrative outcome is provided solely for illustrative purposes to help investors understand the potential implications of transitioning a current portfolio to align with a model portfolio, highlighting the standard approach. If you are transitioning securities in-kind into your Account to fund your Investment Strategies, implementing a Gains Budget may, depending on the Gains Budget selected, result in such in-kind assets being retained as part of an Investment Strategy that it would have been sold absent the Gains Budget instruction and could prevent the transition indefinitely.

Standard approach - Designed to incorporate advanced elements of our integrated approach to tax management. Offers a higher tax sensitivity and potential for less realized gains but higher deviation (risk) from the target model. The "Standard" approach selection is the default option, offering enhanced (increased) tax sensitivity and a greater probability of deviating further from the Investment Strategy's target model.

Tax-Constrained option - Removes tracking error limits and offers the opportunity to unwind large, embedded gains over one or more tax years with progressive moves to optimize the target Investment Strategy. Sets a target net realized capital gains amount for each calendar year without a tracking error limit, regardless of the deviation from the target Investment Strategy. This option will increase the probability of further deviation from the target Investment Strategy.

Tracking error - The measure of the risk of the client's portfolio relative to the underlying target portfolio. A tracking error of 1% means that the invested portfolio return is expected to be +/- 1% from the model return 68% of the time and +/- 2% from the model return 95% of the time.

Please note that (i) any discussion of U.S. tax matters contained in this communication cannot be used by you for the purpose of avoiding tax, penalties, and/or interest which may be imposed by the IRS or any other taxing authority; (ii) this communication was written to support the promotion or marketing of the matters addressed herein; and (iii) you should seek advice based on your particular circumstances from an independent tax advisor. Accordingly, Clients should confer with their personal tax advisors regarding the tax consequences of investing with SIMC and engaging in the tax-management techniques described herein (including the described tax-loss harvesting strategies) based on their particular circumstances. Clients and their personal tax advisors are responsible for how the transactions conducted in an account are reported to the IRS or any other taxing authority on the Client's personal tax returns. SIMC assumes no responsibility for the tax consequences to any Client of any transaction.

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