

DIRECT INDEXING
SOLUTION SERIES

CASE STUDY: CUSTOMIZING CLIENT PORTFOLIOS

CLIENT CHALLENGE – Personalizing Portfolios to Meet Specific Client Goals



CLIENT PROFILE

Consider this strategy for clients who desire a strategic equity allocation customized to reflect their needs.

Clients often want to personalize their investment portfolios to better align with their values, risk tolerance and objectives. For example, your client may wish to:

- Exclude certain stocks or industries from an equity portfolio.
- Tilt holdings toward certain factors (e.g., dividend yield) to pursue an investment theme.
- Create a custom blended benchmark by combining indexes.

This customization — to more closely align with client preferences — is not possible with pooled index or exchange-traded funds (ETFs). While these can offer cost-effective performance that tracks a broad market index, clients have little to no control over the portfolio holdings.

So, how can you help clients design an equity portfolio tailored to their personal preferences, risk tolerance and goals?

SOLUTION: NORTHERN TRUST ASSET MANAGEMENT (NTAM) DIRECT INDEXING CAN MAKE PORTFOLIO CUSTOMIZATION EASY AND PRECISE

A direct indexing separately managed account (SMA) offers the ability to design a customized portfolio and track a personalized index. It also provides the potential to pursue equity market returns while seeking to maximize after-tax results.

CREATING A PERSONALIZED PORTFOLIO WITH NTAM DIRECT INDEXING

A range of customization capabilities offers countless investing possibilities

Combining indexes into a single account benchmark can help clients efficiently implement a strategic equity allocation. For example, consolidating holdings eliminates the need to monitor multiple accounts for each benchmark and reduces the number of statements to manage. Clients may also benefit from greater tax efficiencies due to the ability to access a larger universe of replacement securities (as opposed to an account with one index benchmark) to shore up the portfolio after loss harvesting. With NTAM Direct Indexing, there are three broad categories for extensive portfolio customization:

1 Select from a comprehensive range of indexes

NTAM offers a robust selection of indexes to help you create a variety of custom blends for your clients. Highlights include:

- Powerful technology that makes index blending easy and smart — even preventing combinations that would result in unnecessary security overlap.
- Account benchmarks (e.g., value and growth, small-, mid- and large-cap) can be blended in any specific percentages to reflect your client's goals.
- Domestic and international indexes can be combined to create a custom global benchmark.

2 Exclude exposures

Many clients wish to exclude certain stocks, industries or sectors from their portfolios. For example, your client may hold a significant amount of employer stock and not want additional exposure to that stock. Similarly, your client may want their investments to emphasize specific values or convictions.

NTAM Direct Indexing enables you to quickly set exclusions and see the impact of each restriction on the portfolio in real time. This allows you to analyze the percentage of stocks that would be excluded from the investing universe, assess tracking error and understand potential tax trade-offs — before making any decisions.

3 Pursue investment themes

For clients with convictions regarding specific investment themes, NTAM Direct Indexing offers the option to implement either positive or negative tilts by industry, sector, size and yield. As an example, you can tilt a client's portfolio to pursue a higher dividend yield than the benchmark.



CLIENT BENEFITS

NTAM Direct Indexing offers a sophisticated yet easy-to-implement solution for pursuing equity market returns through a personalized portfolio. It provides greater control over portfolio holdings and can help improve after-tax returns. Additionally, portfolios are designed to track the client's custom benchmark, which closely aligns with their preferences, convictions and goals, and aids in performance reporting for the account.

GOOD to KNOW:

Consider NTAM for powerful technology and tools

NTAM has 35+ years of experience managing tax-advantaged equity strategies.

Our direct indexing solution is backed by a proven track record of adding after-tax value to enhance overall wealth

POTENTIAL CONSIDERATIONS FOR DIRECT INDEXING ACCOUNTS

The ability to generate losses may be lower than expected, especially in markets that are rising significantly. Furthermore, the continuing benefits may not be fully realized in flat or falling markets because reinvested tax savings could potentially be low or negative.

3 KEY TAKEAWAYS

1

Direct indexing facilitates the design and management of customized portfolios while offering potential tax advantages.

2

Direct indexing clients can create and track a personalized benchmark that aligns with their preferences and convictions, facilitating performance monitoring in line with their customized portfolio.

3

With NTAM Direct Indexing, advisors gain the ability to design and manage custom portfolios at scale. Delivering personalized investment solutions can enhance your value proposition and client satisfaction.

QUESTIONS?

Learn how cutting-edge technology can help solve investing challenges.

Find out about NTAM's direct indexing capabilities by contacting your NTAM sales professional (or by emailing ntam_direct_indexing_sales@ntrs.com).

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