NORTHERN TRUST
ASSET MANAGEMENT

DIVERSIFYING A LOW BASIS, CONCENTRATED POSITION(S)

CLIENT CHALLENGE

Highly appreciated single stock positions can create significant concentration risk while making outright diversification costly due to embedded capital gains. Selling too quickly may trigger substantial tax liabilities, while delaying action can leave portfolios exposed to "stock specific" risk. Investors often are looking for a way to reduce the concentration more tax efficiently, without waiting for prolonged market drawdowns to generate losses.

CLIENT PROFILE

Designed for investors who:

- Hold large, highly appreciated individual stock positions in taxable accounts
- Not willing to take capital gains upon inception of the strategy
- Seek to reduce concentration risk while managing realized gains
- Are open to long/short structures and adding leverage and shorting of shares
- Prioritize tax efficient diversification over immediate liquidation
- Work with advisors focused on coordinated portfolio and tax planning

Common scenarios include founders, executives, or long tenured investors with legacy stock positions and limited natural loss capacity.

NORTHERN TRUST ASSET MANAGEMENT (NTAM) INVESTMENT PROCESS

NTAM applies a long/short tax managed framework alongside concentrated holdings to expand the opportunity set for tax loss harvesting to support the potential for improved pre- and after-tax outcomes.

- Increased gross exposure through long and short extensions relative to long only portfolios
- Loss harvesting opportunities generated on both long and short positions
- Ability to restrict concentrated securities from shorting, where appropriate
- Ongoing monitoring of wash sale and constructive sale considerations within the managed strategy
- Employs an active stock picking component

By increasing gross exposure, the strategy may generate sufficient harvested losses to help offset gains as concentrated positions are gradually reduced, potentially shortening the timeline for diversification.

CLIENT BENEFITS

- May help support more tax-efficient diversification over time from concentrated stock exposure
- Seeks to provide greater loss-harvesting flexibility relative to traditional long-only approaches
- Provides an approach for managing gains gradually over time, rather than through a single taxable event
- Incorporates coordinated investment management and tax-aware considerations within a disciplined portfolio framework

Tax outcomes depend on individual circumstances, but the strategy is designed to expand the tools available for managing concentration risk in taxable portfolios.

3 KEY TAKEAWAYS

1. **Gross exposure creates flexibility:** Long/short extensions may produce losses that support diversification without relying solely on market declines.
2. **Concentration can be addressed sooner:** Harvested losses may help offset gains over a relatively shorter time horizon.
3. **Built for complex tax situations:** Designed for investors whose single stock exposure has outgrown traditional diversification approaches.

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