

WHY DIRECT INDEXING?

Direct Indexing



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The potential benefits of personalized indexing through Pershing X's platform and Mellon's expertise.

Direct indexing is an investment strategy that offers a level of personalization and tax efficiency that may not be possible with traditional investment vehicles. Advisors are exploring its potential benefits and the opportunity to provide clients a unique and customizable indexing strategy. They are asking: Is it right for my clients? We present five reasons why we believe an advisor might choose direct indexing for an investment portfolio.

REASON 1

CUSTOMIZE BASED ON VALUES

Create a personalized portfolio that aligns with investor goals, preferences and values. Direct indexing allows for customizable exposures, considering specific needs an investor may have with respect to personal beliefs and individual constraints.¹

REASON 2

ACHIEVE TAX ALPHA

Manage tax implications in a cost-effective manner through tax-loss harvesting, tax-gains harvesting and tax transitioning.² Tax alpha has

been estimated to add an average 1.08% in additional after-tax returns for a U.S. high-tax-bracket investor.^{3,4} Direct indexing provides the opportunity to maximize tax management capabilities based on the client's tax needs.

REASON 3

MITIGATE TRANSITION RAMIFICATIONS

Minimize the tax consequences of moving assets into a new account.⁵ Direct indexing gives investors the opportunity to fund a new index portfolio with cash or existing securities via an intuitive tax transition scenario planning tool, which could help minimize the tax burden that comes with transition.

REASON 4

DIVERSIFY CONCENTRATED POSITIONS

Overconcentration may cause a risky situation for portfolios due to idiosyncratic risk. Direct indexing can potentially help investors by constructing a more diversified portfolio around a concentrated position, potentially reducing idiosyncratic risk exposure but maintaining stock- or sector-specific exposures they may want to keep.

REASON 5

OPTIMIZE HOLDINGS

Indexes typically can be replicated by narrowing in on a small subset of components. Direct indexing seeks to provide index-like returns with similar characteristics of the benchmark even if an investor doesn't own every index constituent.

CHOOSE PRECISION AND PERFORMANCE

BNY Mellon Precision Direct IndexingSM leverages Pershing's innovative platform⁶ and Mellon's institutional-quality indexing expertise to provide advisors customized solutions at scale to deliver tax-efficient, customized beta exposure to their clients. Contact your relationship manager to find out more about BNY Mellon and Mellon's indexing capabilities.

¹As of October 2023, the only target index available is the S&P 500® Index.

²Tax-loss harvesting is a process designed to reduce capital gains taxes owed from selling profitable investments. Tax gain harvesting, as opposed to tax-loss harvesting, is a process of turning unrealized long-term capital gains into realized capital gains at a specific time for tax purposes. Tax transitioning is designed to spread out and help mitigate the tax consequences of the phased transitioning of an account to the target strategy over a period of time. There's no guarantee that a particular investor will realize significant tax benefits from harvesting gains or losses. Investment strategies that seek to employ tax management may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions and/or client account holdings may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. Tax considerations, while important, are just one factor to consider before making any investment decision. Tax-managed investing and tax transitioning do not equate to comprehensive tax advice, are limited in scope and not designed to eliminate taxes in an account. Investors should contact their own tax advisor or financial professional for more detailed information on tax issues as they relate to an investor's specific situation.

³Tax alpha is the potential value generated by tax optimized solution based on the difference of excess pre-tax return and after-tax return. Estimates of tax alpha vary greatly across market conditions, but average to 1.08%, annualized over the period of study (1926 to 2018). Refer to the study: *An Empirical Evaluation of Tax-Loss-Harvesting Alpha*, Chaudhuri et al Financial Analysts Journal (2020).

⁴Tax alpha example is for illustrative/educational purposes only and is not intended to constitute legal, tax, investment or financial advice. The tax alpha example may not be applicable to or appropriate for every investor and should be used only after consultation with professionals who have reviewed an investor's specific situation.

⁵The ability to minimize tax consequences for a specific account may decrease as gains have the potential to accumulate over a period of time. Investors in lower tax brackets generally will not derive the same level of potential tax benefits from tax-managed strategies than those in higher tax brackets.

⁶Clients must be appropriately contracted to use the Wove platform and all the associated services and tools including the Tax Transition Scenario Planner tool.

DISCLOSURE

All investments involve risk, including the possible loss of principal. Certain investments have specific or unique risks. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Past performance is no indication of future performance. Diversification does not ensure a profit or protect against a decline in a down market.

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The Standard & Poor's 500 (S&P 500®) Index is a widely accepted, unmanaged index of US stock market performance. Investors cannot invest directly in an index.

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BNY MELLON PRECISION DIRECT INDEXINGSM

The Nexus of Precision & Performance

Leveraging Mellon's investment management expertise and the power of Pershing X's technology, we are proud to provide advisors and clients with institutional-quality, personalized index solutions.

Precision by Mellon. Powered by Pershing X.

MELLON

Institutional-Quality Indexing

With 40 years of indexing experience, Mellon is a global leader in index investment management. Their deep understanding of markets powers the precision required to navigate rebalances and build solutions that meet clients' unique needs.

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Pershing X is building an interconnected suite of financial applications that will work together, so you can spend more time focusing on helping your clients thrive.

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