

Tax Foundations: Invest to maximize after-tax returns

BlackRock[®]

Tax Foundations

Invest to maximize after-tax returns.

The challenge

Taxes are taking a bigger bite, making active and ongoing tax management essential for taxable investors.

The solution

Help clients keep more of what they earn.

1 Design

Prioritize tax-efficient asset classes

2 Implement

Identify tax-efficient strategies & structures

3 Maintain

Monitor & manage taxable accounts with a tax-efficient process

Asset location

Trading

Tax-loss harvesting

Taxable distributions

THE CHALLENGE: HOW CAN YOU HELP CLIENTS KEEP MORE?

The third wave of modern portfolio design

First it was Markowitz. Then came indexing. Now, it's a singular focus on after-tax returns.

1952: **MPT**

“

You mean risk matters?”

Markowitz introduces *Modern Portfolio Theory*, making risk and return standard tools of analysis

1971: **Indexing**

“

You mean fees matter?”

Low-cost indexing triggers a new focus on fees and tax efficiency

Today: **Taxes**

“

You mean taxes matter?”

Singular focus on after-tax returns sets savvy advisors apart

Maximizing risk-adjusted after-tax returns net of fees can set you apart.

THE CHALLENGE: HOW CAN YOU HELP CLIENTS KEEP MORE?

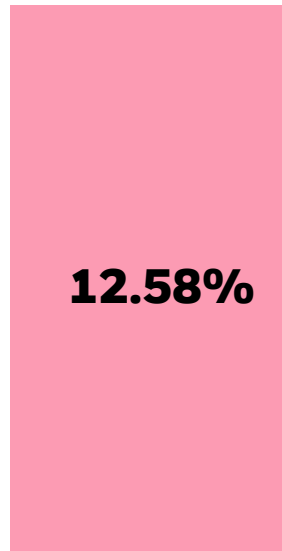
Don't bank on pre-tax returns

Watch out for capital gains distribution in taxable accounts. Elite advisors understand that tax management can be just as important as risk and fee management.

U.S. Large Cap Blend mutual funds

2020-2024 (past 5 calendar years)

Pre-tax returns



After-tax returns



Pay attention!

Capital gains distributions in taxable accounts can eat away at returns!

Source: Morningstar as of 12/31/24. Average of annualized load-adjusted pre-tax and post-tax pre-liquidation returns for U.S. Large Cap Blend Funds over 5 years. Data calculated using the oldest share class of all active U.S. equity open-end mutual funds available in the U.S.

This slide is for illustrative purposes only. Past performance does not guarantee future results.

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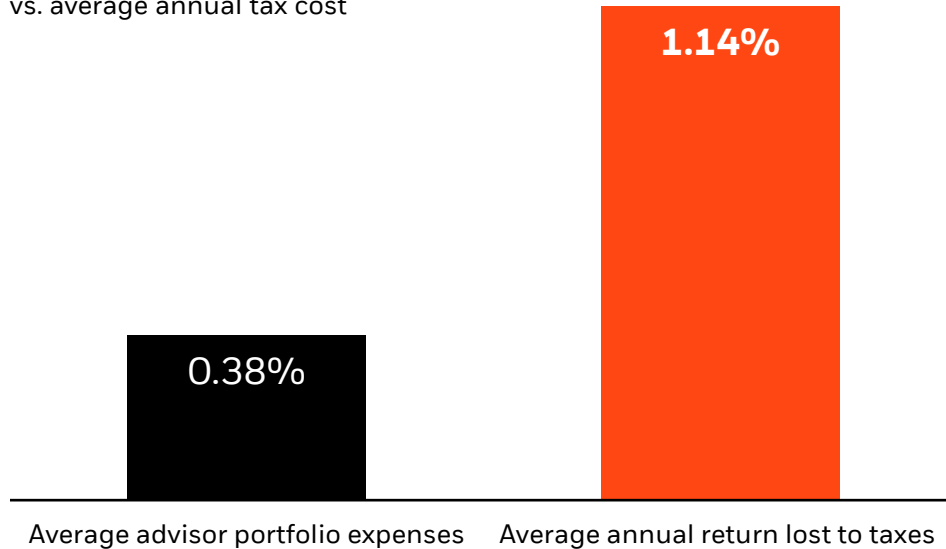
THE CHALLENGE: HOW CAN YOU HELP CLIENTS KEEP MORE?

Tax drag lowers returns

The average investor would probably say fees are more detrimental to overall portfolio returns. But it's actually the taxes.

Taxes take the bigger bite

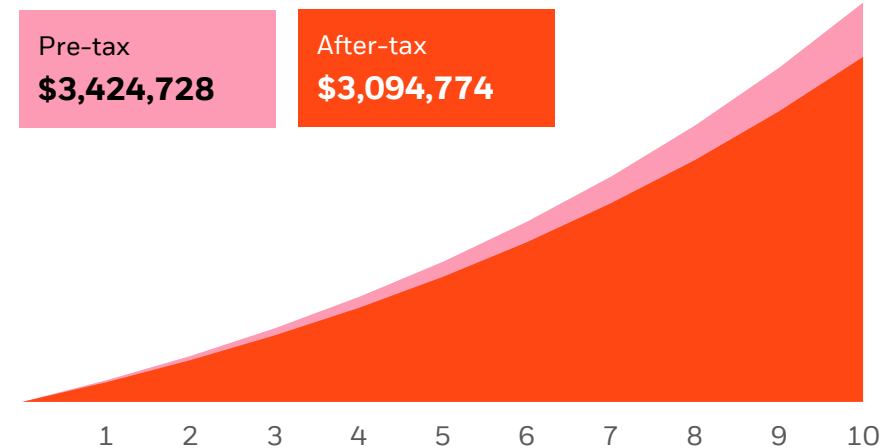
Average advisor portfolio expenses vs. average annual tax cost



The average tax cost for advisor portfolios is 3x the average portfolio fee.

Tax drag compounds over time, hurting your clients & practice

Effect of 1.14% tax drag over time for client with \$1M*

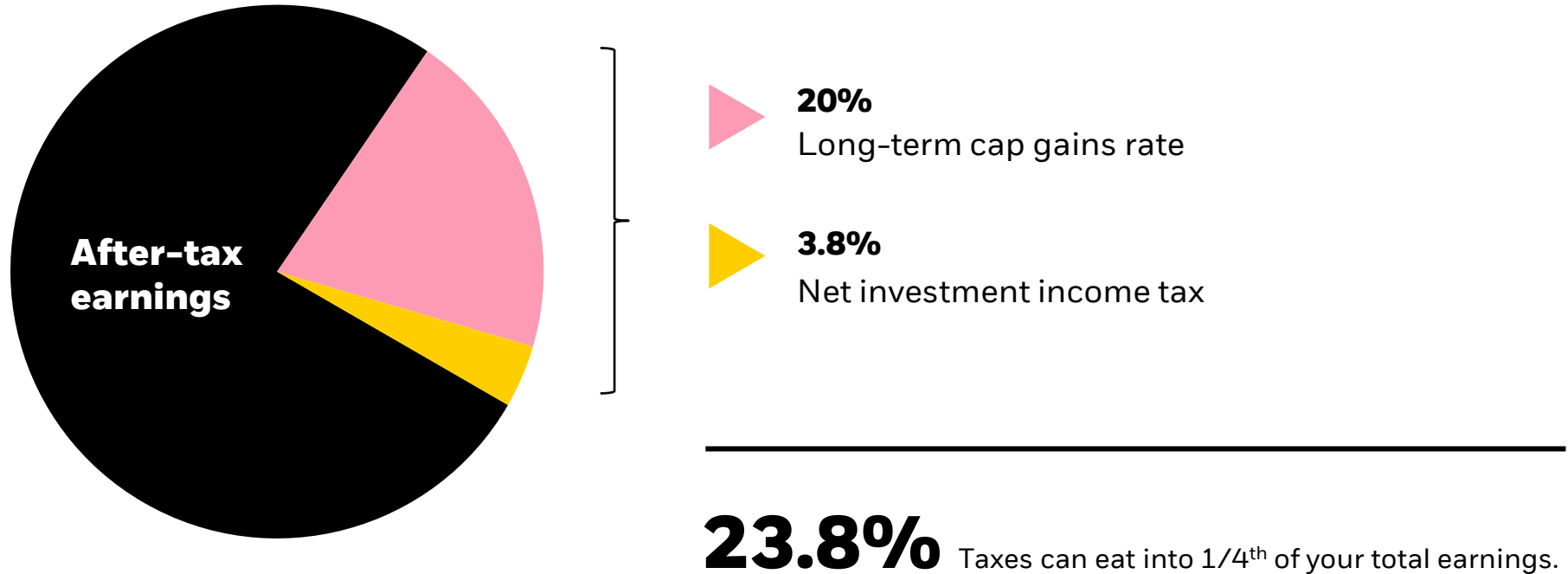


Over 10 years, tax drag results in:

Client's AUM is \$330k lower*	Advisor earns \$1.3M less across 100 clients
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Source: BlackRock. Analysis includes the 22,042 advisor models collected by BlackRock in the 12 months ending 12/31/24. Models can include both ETFs and/or mutual funds across assets classes and share classes. The portfolios analyzed represent a subset of advisor models in the industry that have been shared with BlackRock. As such, there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios. Morningstar: "return lost to taxes" refers to the weighted average 1 year tax cost on the portfolios as calculated by Morningstar. * Assumes a 13.10% annual rate of return based on 10-yr total return of S&P 500 Index as of 12/31/24. Assumes that clients are paying taxes out of assets under AUM fees. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results. For illustrative purposes only.**

Taxes are taking a bigger bite



Long-term top federal capital gains taxes are up over 50% since 2013.

Be aware of opportunities for lower tax rates

Holdings periods

&

Distribution types

Categorization of capital gains and income matters!

Short-term gains¹

40.8%

Long-term gains¹

23.8%

Ordinary income¹

40.8%

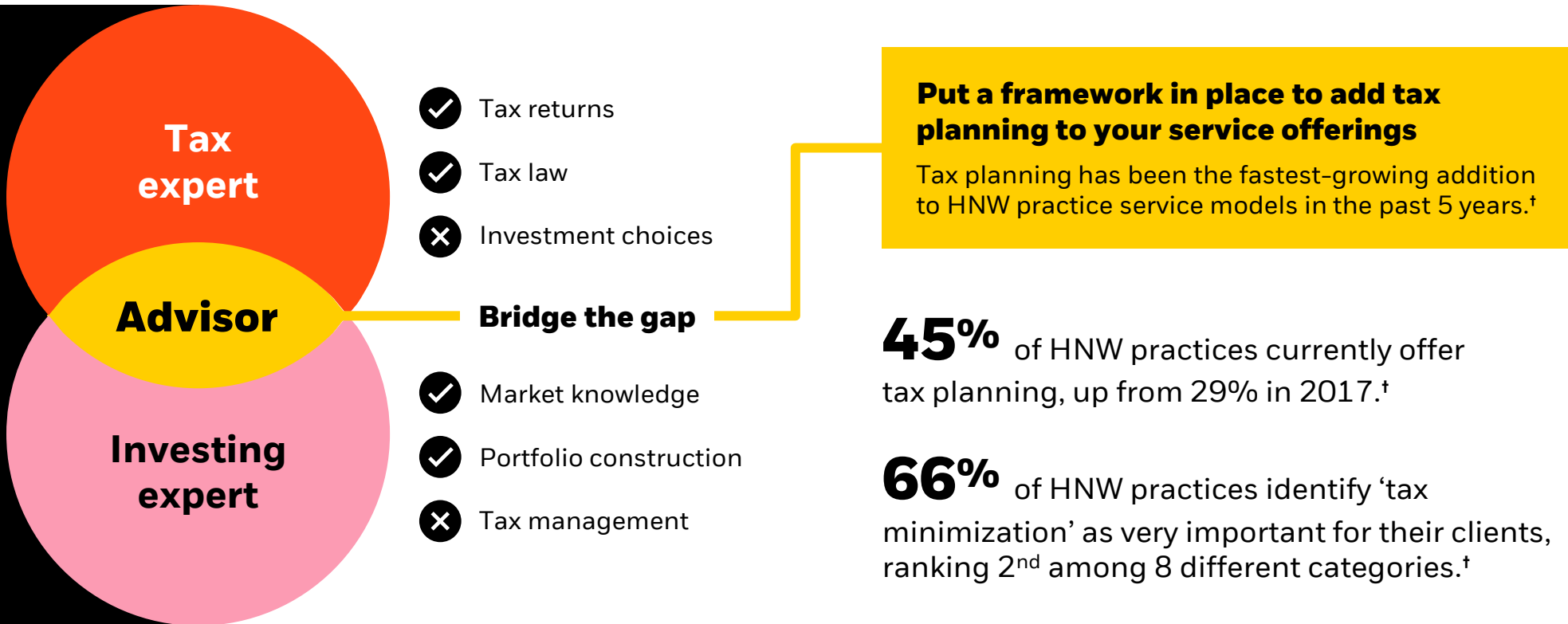
**Qualified dividend
income¹**

23.8%

THE CHALLENGE: HOW CAN YOU HELP CLIENTS KEEP MORE?

Prepare to help meet the needs of the next generation of HNW clients

\$73T is shifting from baby boomers to heirs over the next 20 years.* The next generation of HNW clients will expect their advisor to keep taxes in mind when building their portfolios.



*Source: The Cerulli Edge—U.S. Advisor Edition, 3Q 2021 Issue. †Source: Cerulli U.S. High-Net Worth and Ultra High-Net Worth Markets, 2023. "8 different categories" refers to other ranked categories from HNW advisors in this order: wealth preservation (72%), tax minimization (63%), wealth transfer strategies (48%), risk management (44%), income generation (35%), absolute return (35%), liquidity management (24%), inflation/deflation protection (24%).

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What makes an investment tax-efficient?

It can depend on...

1. Asset class

Broad category exposures such as equity and fixed income. For example, assets that distribute primarily ordinary income (like corporate bonds) tend to be less tax-efficient than assets like munis that distribute tax-exempt income.

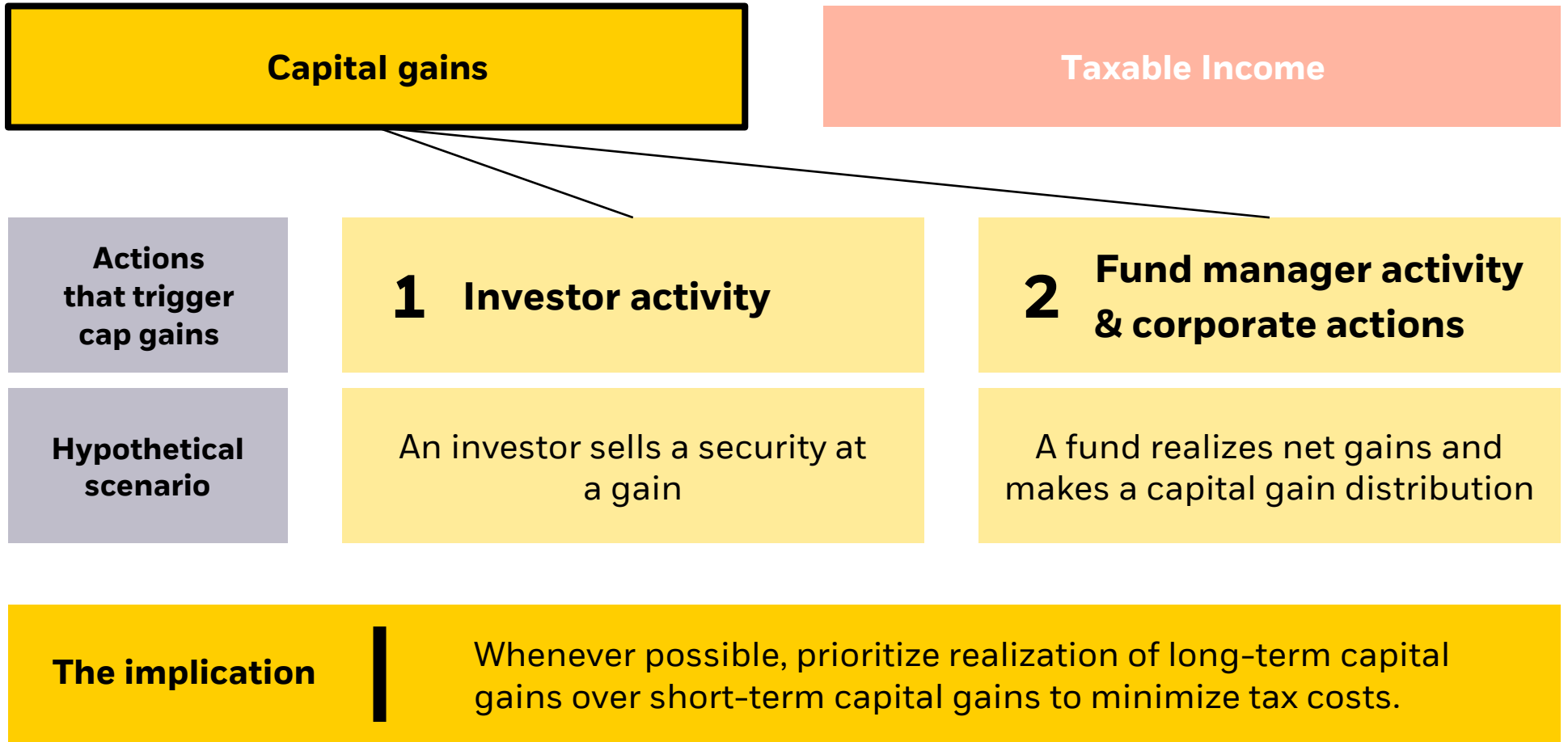
2. Investment strategy

Specific investment approaches can provide greater tax benefits by nature. For example, index strategies tend to have lower turnover than active strategies, making them less likely to pay out hefty cap gains distributions.

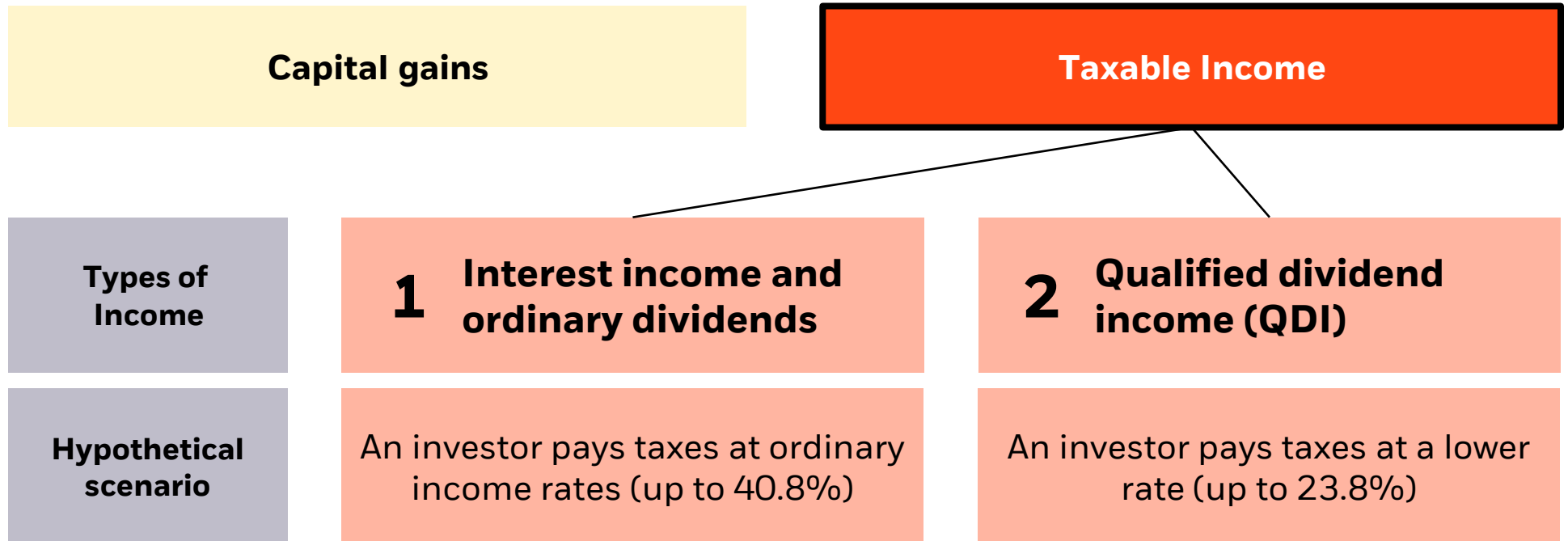
3. Vehicle structure

The type of investment wrapper (i.e. mutual fund, ETF, or SMA) you choose has an impact on tax efficiency. For example, across U.S. equity funds, 76% of active mutual funds have distributed cap gains over the last 5 years vs. 3% of index ETFs and 17% of active ETFs.¹

Where do tax costs come from?



Where do tax costs come from?

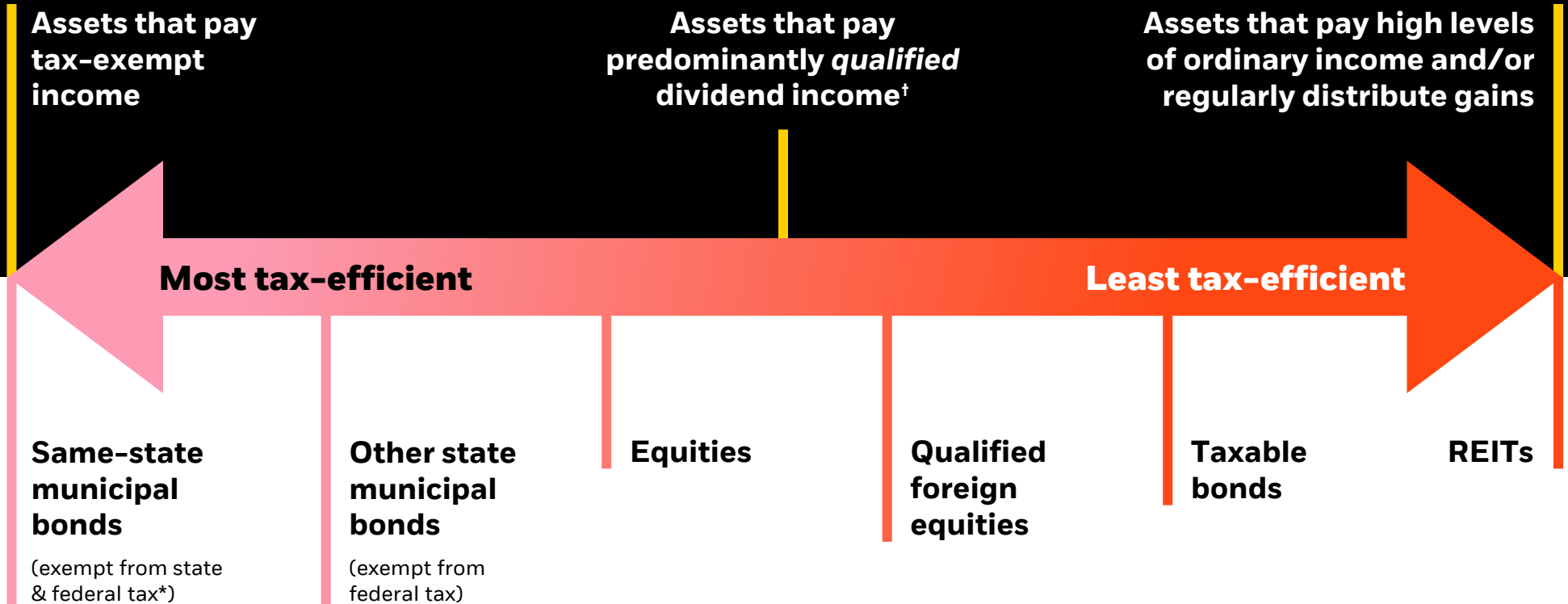


The implication

Save on taxes by maximizing your exposure to investments that are eligible for qualified dividend income treatment.

Tax treatment of distributions across asset classes

Once you've chosen which asset classes are best suited for your client, consider these tax implications.



*Municipal bonds are often free from state taxes if the bond issuer is in the purchaser's state of residence. However, in states like Oklahoma, Illinois, Iowa, and Wisconsin, interest income is taxable for residents. [†]Qualified Dividend Income (QDI) refers to dividends that are received from a domestic corporation or a qualified foreign corporation and meet certain holding period requirements.

Tax treatment & timing

Income must meet specific criteria to be considered “qualified” and enjoy lower tax rates.

Qualified dividend income

- ▶ U.S. stocks
- ▶ Qualified foreign stocks

Qualified:

- ▶ Held unhedged for 61 out of 121 day period
- ▶ Clock starts 60 days before securities ex-dividend date



A few days can be the difference between qualified and ordinary tax rates!

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Vehicle selection: tax treatment of vehicles

Vehicle matters. MFs, ETFs and tax-managed SMAs have different structures that lead to different tax treatments.

Active mutual funds

Open-end funds bought & sold directly from fund manager. Seek to outperform a benchmark.

- ✗ **Tax implications shared** when shares are created / redeemed securities are bought / sold within fund
- ✗ **Higher turnover** often sell / buy 75% of stocks that make up fund annually
- ✗ **76% of U.S. active equity MFs paid a capital gain in the last 5 years***

Index ETFs

Seek to replicate and track a benchmark index and can be bought and sold throughout the day on an exchange like a stock.

- ✓ **Ability to leverage “In-kind” creation-redemption process** When ETF shares are created/ redeemed, an Authorized Participant (AP) can conduct an in-kind trade, meaning securities are exchanged rather than cash. This allows the ETF to avoid capital gains.
- ✓ **Lower turnover** since passively managed
- ✓ **Only 3% of index ETFs paid a capital gain in the last 5 years†**

Active ETFs

Like an index ETF, active ETFs trade on an exchange. These funds are actively managed with the goal to outperform.

- ✓ **Only 17% of active ETFs paid a capital gain in the last 5 years†**

Tax-managed SMAs

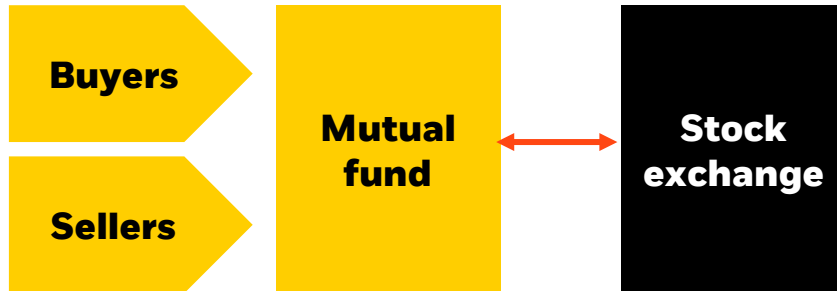
Professionally managed account providing exposure to a benchmark through direct ownership of individual securities, while seeking to outperform on an after-tax basis by tax loss harvesting.

- ✓ **Customized tax loss harvesting**
- ✓ **Tax-managed transitions**

*Source: Morningstar Direct, as of 12/31/24. U.S. style-box funds are those funds categorized by Morningstar as U.S. Large-Cap Growth / Blend / Value, U.S. Mid-Cap Growth / Blend / Value or U.S. Small-Cap Growth / Blend / Value. † 3%, 17%, and 76% of index ETFs, active ETFs, and active MF, paid capital gains respectively. Source: Morningstar Direct, as of 12/31/24. Avg % of payers = avg % of funds that have paid out capital gains in each year from 2020-2024. Median capital gain distribution as a % of NAV = median capital gain distribution from 2020-2024. Analysis includes U.S. mutual funds and U.S.-listed ETFs with available NAVs as of 11/30 in each applicable year. Mutual fund universe includes only oldest share class funds. **Past distribution not indicative of future distributions. Active funds are subject to management risk, which means the fund manager's techniques may not produce desired results, and the selected securities may not align with the fund's investment objective. Legislative, regulatory, or tax developments may also affect the fund manager's ability to achieve the investment objective.**

ETFs vs. mutual funds: mechanics

Mutual fund investors buy and sell shares directly from the fund company



All investors share tax implications:

When mutual fund shares are created/redeemed securities are bought/ sold within the fund, which **can generate capital gains that will be taxed.**

ETF investors buy and sell shares on an exchange



Designed to protect from unanticipated tax implications of departing investors:

When ETF shares are created/ redeemed, an **Authorized Participant (AP)** can conduct an **in-kind trade**, meaning **securities are exchanged rather than cash**. This helps protect investors from unanticipated tax implications of departing investors.

Shares of ETFs may be sold throughout the day on the exchange through any brokerage account. However, shares may only be redeemed directly from a Fund by Authorized Participants, in very large creation/redemption units. Buying and selling shares of ETFs may result in brokerage commissions. Certain traditional mutual funds can also be tax efficient.

ETFs tend to be tax efficient because...

The lower portfolio turnover of index strategies may lead to fewer capital gains realized and distributed (compared to active mutual funds).

ETFs

The ETF structure is designed to insulate investors from the actions of others because ETFs are bought and sold on exchange. As a result, the ETF manager doesn't have to sell holdings to meet investor redemptions.

ETFs contributed less than 1% of 2024's total capital gains distributions¹

ETFs can produce capital gain distributions. For example, capital gains distributions are produced during an underlying index reconstitution or corporate action (especially foreign). Trading shares of ETFs will also generate tax consequences and transaction expenses. Certain traditional mutual funds can be tax-efficient as well. **1** Source: BlackRock analysis of Morningstar data (as of Dec. 31, 2024). Past distributions not indicative of future distributions.

SMA benefits for unique clients

Different from pooled vehicles, SMAs provide investors direct ownership of securities that allow you to address specific needs.

Benefits of holding individual securities include:

Customization

- Provides personalization at the individual security level, including sector/stock restrictions and ESG screens
- Tailors portfolios to specific client objectives and liquidity needs

Tax-efficient capabilities¹

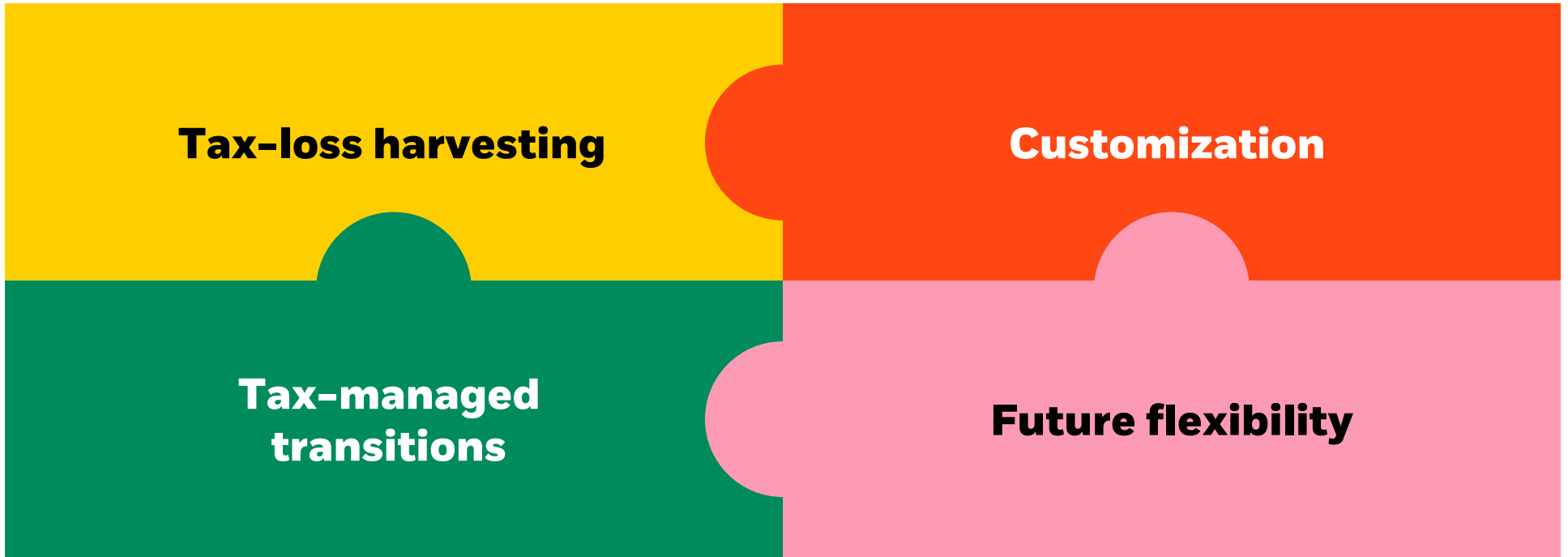
- Adjusts portfolios based on individual tax situations
- Applies tax-managed transitions to help avoid capital gains

Low-cost solutions

- Offers potential for lower-cost options that mutual funds
- Provides simple fee conversation with clients – wrap fee
- Offers potential for tiered pricing and relationship discounts

¹ Any investor must consult with his or her independent professional as to investment, legal, tax, financial or other matters relevant to the appropriateness of a separately managed account.

The potential tax benefits of the SMA structure



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Maintaining a tax-efficient portfolio

**Asset
location**

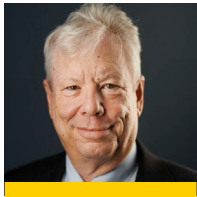
**Trade with
taxes in mind**

**Identify
tax-loss
harvesting
opportunities**

**Monitor
taxable
distributions**

Mental accounting: a behavioral bias

Even though qualified and taxable accounts should work together towards a common goal, mental accounting bias leads investors to view them separately and even in competition with each other.



Richard Thaler

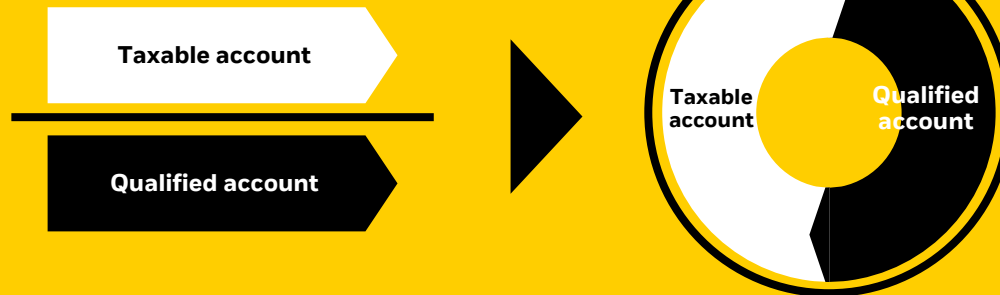
2017 Nobel Memorial Prize for Economic Sciences

Thought leader in Mental Accounting bias and behavioral economics

The challenge: Overcome mental accounting

Get your clients from here...

“I want every one of my accounts to perform as well as my best account”



...to here

“I want my accounts to work together to meet a common goal”

“Fill First”

Take a total relationship view across qualified and taxable accounts.

The assets



The accounts



Rule #1 – Bonds

Fill your qualified accounts with taxable bonds, like corporates, before owning any bonds in your taxable accounts.*

Rule #2 – Equities

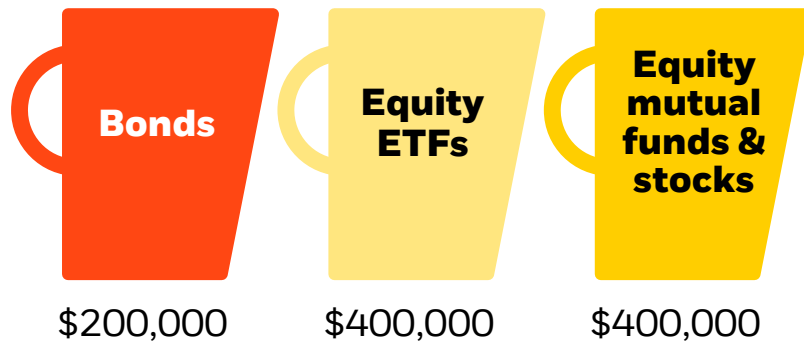
Anchor your taxable account with buy-and-hold equity ETFs.**

Notes: For some clients, there may be additional opportunities to tax optimize with certain accounts (e.g. Roth IRAs).

*Assumes bonds are part of a long-term asset allocation strategy and are not needed for current income. ** For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains.

Case study: “Fill First”

The assets



The accounts



Client profile

- \$1,000,000 in total assets
 - \$500,000 qualified account
 - \$500,000 taxable account
- Aggressive: 80% stocks, 20% bonds

Advisor profile

- Manages for after-tax returns using “Fill First”
- Splits equities roughly 50% to ETFs and 50% to active equity (MFs & individual stocks)

Case study: “Fill First”

Step 1 – Fill qualified accounts with bonds.



Rule #1 – Bonds

Fill your qualified account with taxable bonds where you can defer taxes.* If you need more bonds than your qualified account can hold, complete your fixed income allocation in your taxable account.

*Assumes bonds are part of a long-term asset allocation strategy and are not needed for current income.

Case study: “Fill First”

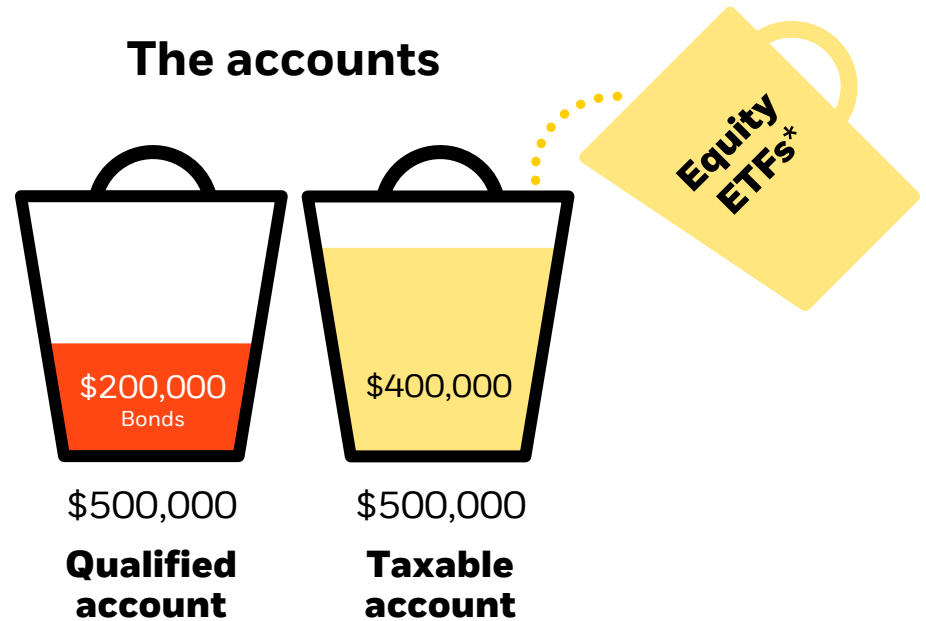
Step 2 – Anchor taxable accounts with ETFs.

The assets



\$400,000

The accounts



\$500,000

Qualified account

\$500,000

Taxable account

Rule #2 – Equities

Anchor your taxable account with buy-and-hold equity ETFs.*

78%
Mutual Funds

6%
ETFs

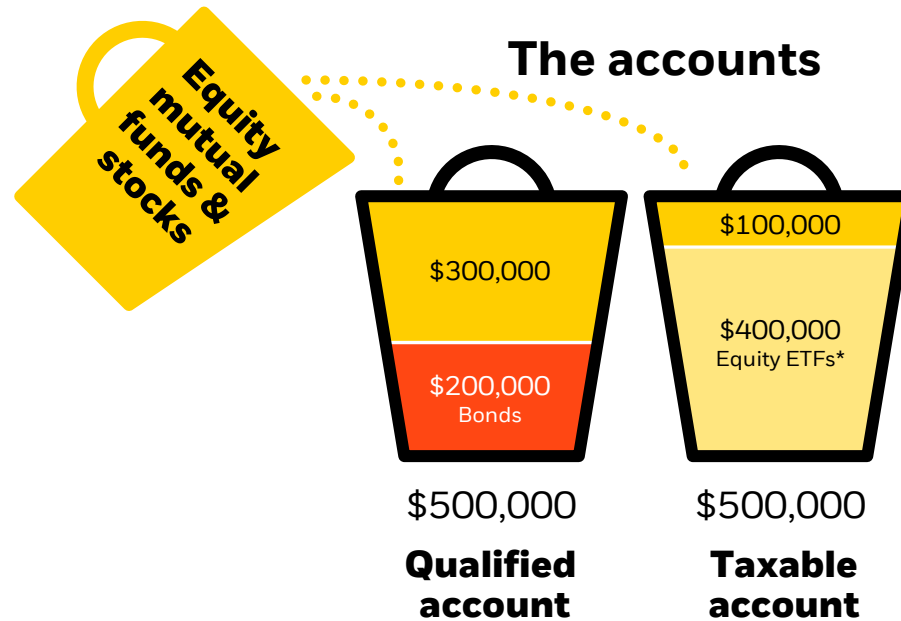
% of U.S. equity funds that paid capital gains in 2024¹

*For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains. ¹Source: Morningstar Direct. As of 12/31/2024.

Case study: “Fill First”

Step 3 – Go active in qualified accounts.

For investors seeking outperformance with equity mutual fund strategies, go active in qualified accounts. Equity ETFs are also well suited for qualified accounts, so it’s a matter of preference – but if you want equity mutual funds, consider starting in the qualified account.



Start with qualified accounts...

Skilled managers shine even more in the absence of capital gains taxes.

...continue allocating

equity mutual funds to taxable accounts if you have high conviction the funds will outperform after taxes.

*For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains

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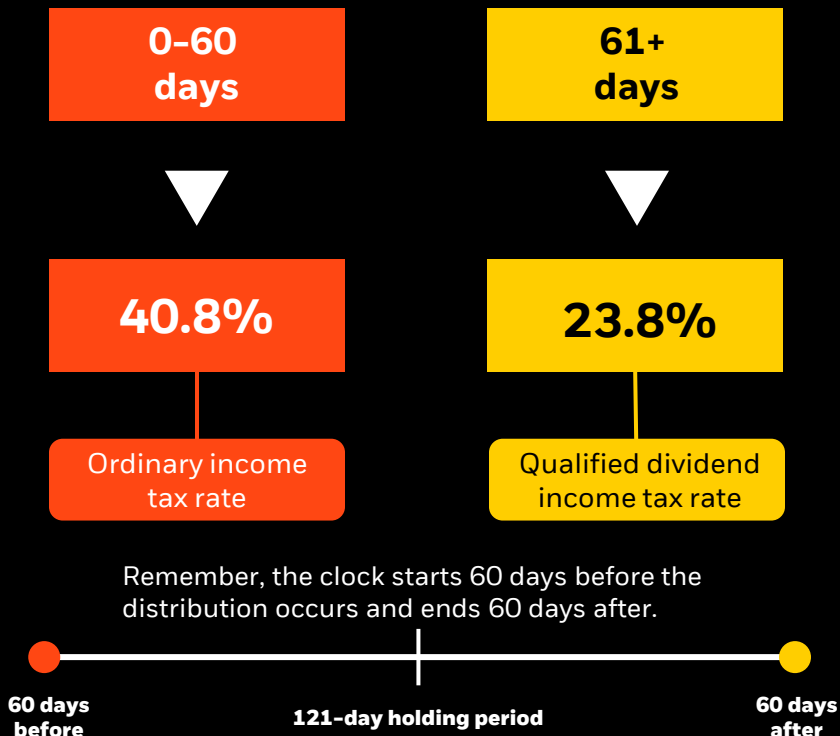
Tax-loss harvesting

Taxable distributions

Avoid excessive trading to lower your tax bill

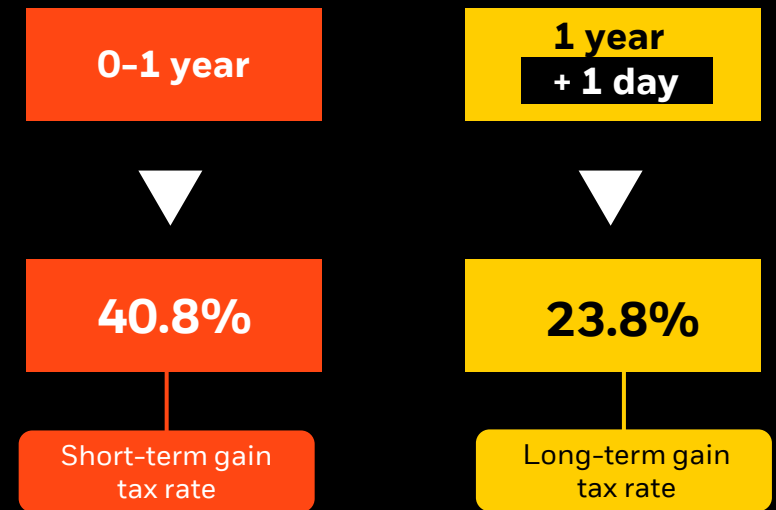
INCOME

Hold dividend-paying stocks for at least 61 out of the 121-day period surrounding the distribution to qualify for a lower tax rate.



CAPITAL GAINS

Hold securities for 1 year + 1 day (or more) to qualify for more favorable long-term cap gain rates.



Waiting a day to sell could significantly reduce your tax bill!

Do the math, incorporating tax costs

Weigh the costs of realizing a gain today against the long-term cost savings, tax savings, and expected return differences.

Do the math!

Tax efficiency can drag down returns and can be a bigger drag than trading costs.

Reasons to consider trades

- ▶ Cost savings
- ▶ Tax savings
- ▶ Expected return difference

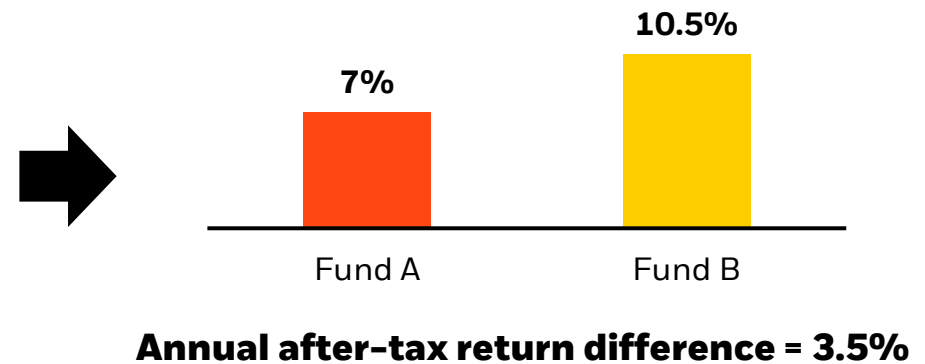
What is the cost of selling the current position?

What is the expected holding period of the new position?

Is the expected total return after taxes still worth making the trade?

Evaluate trades on an after-tax basis

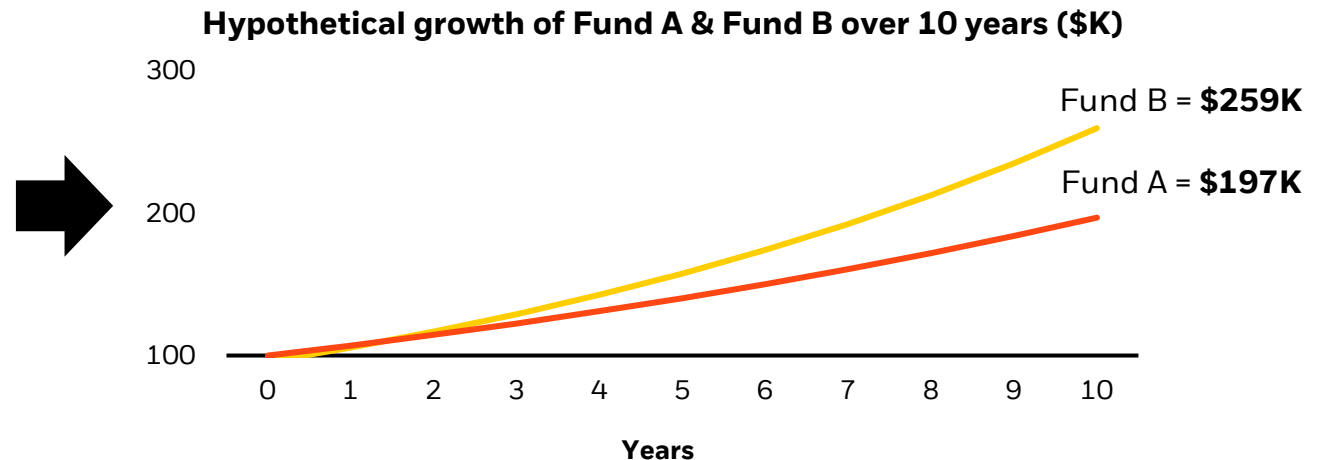
	Fund A	Fund B
Pre-tax return (gross of fees)	10.3%	11.5%
Fees	102 bps	27 bps
Cost	222 bps	67 bps



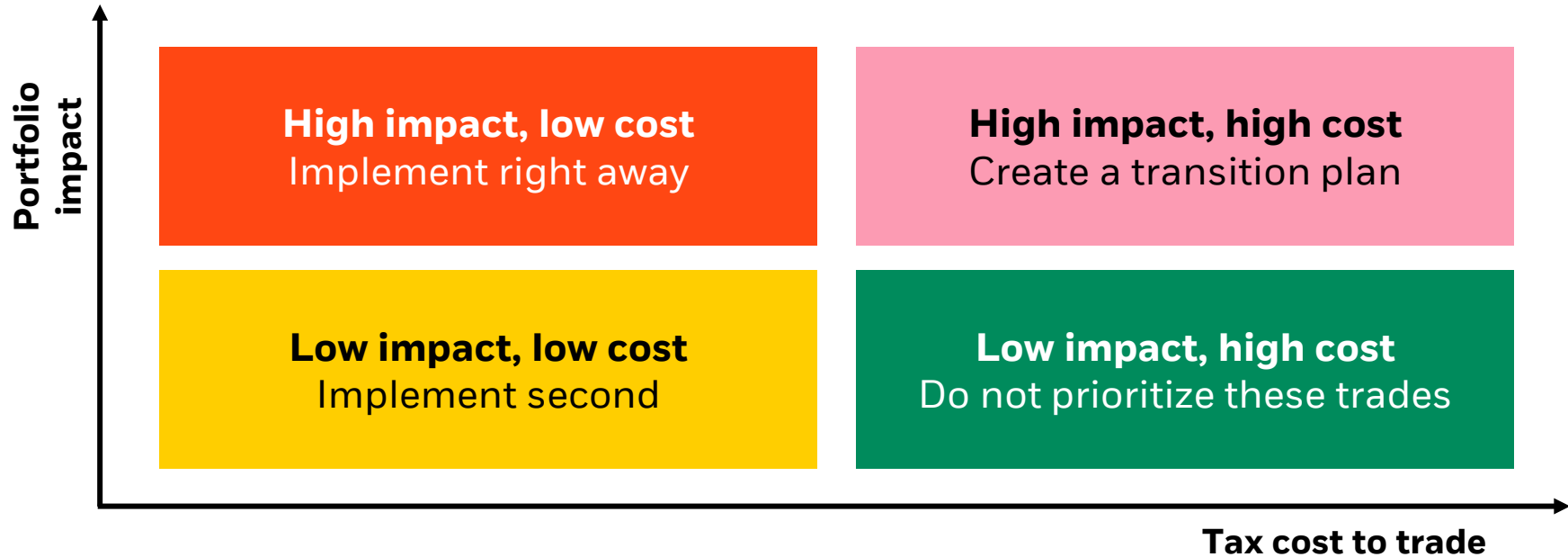
A Fund A: Starting value = \$100K

B Fund B: Starting value = \$95.6K (\$100K - \$4.4K due in taxes)

Over 10 years, the after-tax return difference in your original \$100k investment could compound, and result in **\$63k more if you trade Fund A for Fund B.**



So, what's the plan?



Prioritize your positions



Evaluate difference from your target



Pinpoint areas driving differences



List out trades to consider

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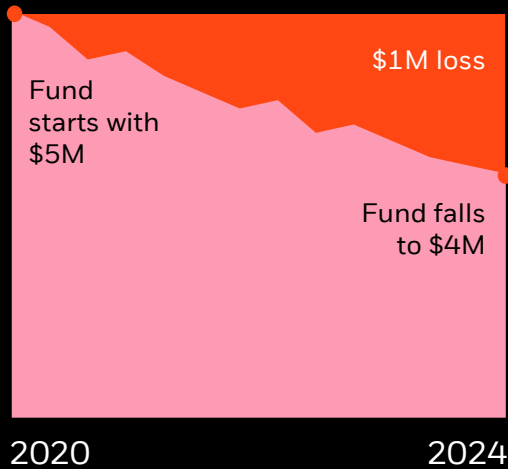
Monitor for potential tax-loss harvesting opportunities



Tax loss harvesting: how to do it in 3 easy steps

1. Sell funds at a loss

Sell fund & bank \$1M loss



2. Reinvest to stay on track

Put \$4M back to work in your portfolio

You can either consider...

Maintaining asset allocation

Allocate to a low-cost ETF in the same Morningstar category

OR

Reallocating

to a high conviction active strategy



3. Add value for clients

Offset gains with losses, reducing taxes owed

Offset \$1M portfolio gain now or in the future

OR

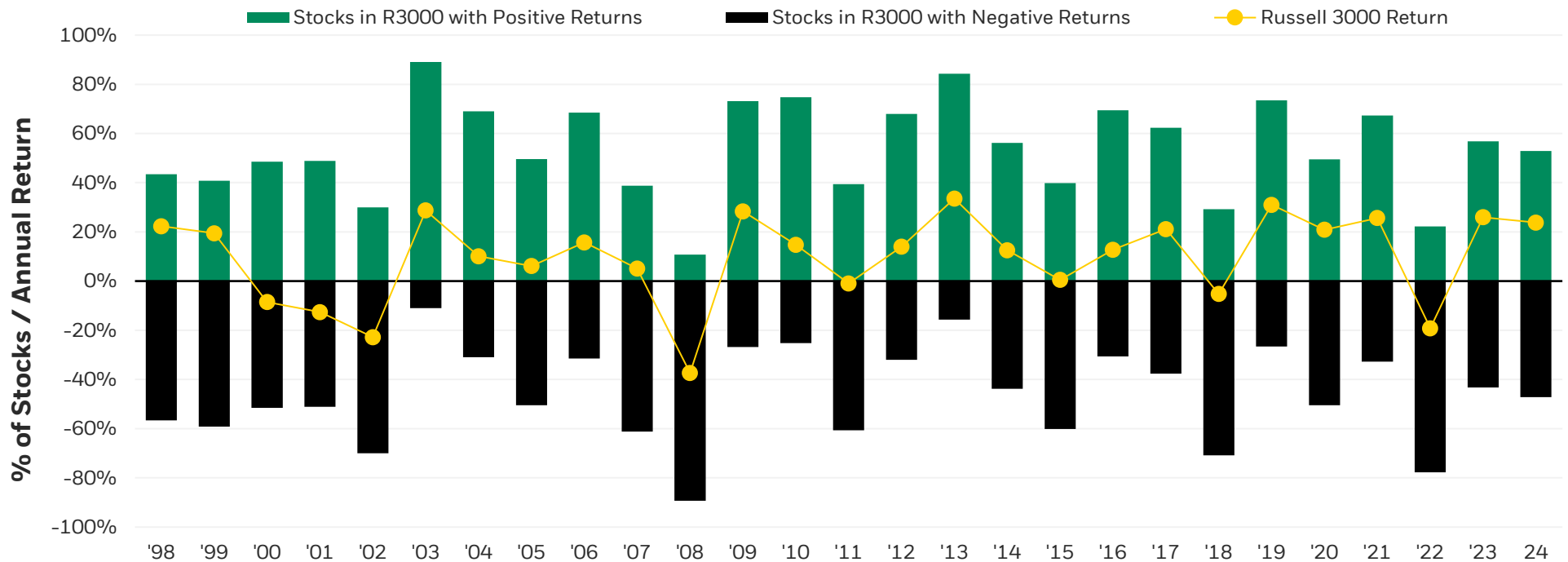
Offset ordinary income by up to \$3K per year*

For illustrative purposes only. This material does not constitute any specific legal, tax or accounting advice. Please consult with qualified professionals for this type of advice. *According to the IRS, if your capital losses exceed your capital gains, the amount of the excess loss that you can claim to lower your income is the lesser of \$3,000 (\$1,500 if married filing separately) or your total net loss shown on line 16 of Schedule D (Form 1040). For more information visit the [Topic No. 409](#). *Source: Internal Revenue Service as of 12/31/24. Topic no. 409 capital gains and losses and Topic No. 559, net investment income tax. Note 40.8% is highest marginal tax rate and applies the highest federal income tax rate (37%) and net investment income tax (3.8%); applicable rates will vary. Transactions in shares of ETFs may result in brokerage commissions and may generate tax consequences. All regulated investment companies (RICs) are required to distribute at least 90% of investment company taxable income to maintain RIC status. Past performance does not guarantee future results. Consider the wash-sale rule when tax loss harvesting. Wash sale restrictions prevent investors from realizing a loss on a sale and then buying a "substantially identical" security 30 days before and after the sale of the security. Please note that iShares ideas do not take wash sale rule considerations into account and BlackRock does not provide tax advice. We urge you to consult a tax professional regarding the potential consequences of this rule.

Where are the opportunities for tax-loss harvesting in equities?

Given the volatility and dispersion of stock returns, we believe there are almost always stocks that have declined in price.

Russell 3000 Index from 1998 to 2024— every year had stocks with negative returns



Source: MSCI Barra. Data as of 12/31 of each year. We tracked Russell 3000 stocks at the beginning of each year and removed any securities not included for the full year. The performance of the stocks is measured using dividend yield-adjusted annual returns and then separated into positive and negative buckets.

You cannot invest directly in an index. See "Important notes." Given that several stocks in the Russell 3000 in every year from 1998–2022 experienced negative returns, we believe there should be opportunities during any given calendar year to utilize tax-loss harvesting strategies, but **past performance is not indicative of future results.**

The “secret sauce”: focus on price returns

Focus on price return, not total return – this can help unlock significant tax loss harvesting opportunities.

Distributions drive down fund price (NAV)

Mutual fund total return

—

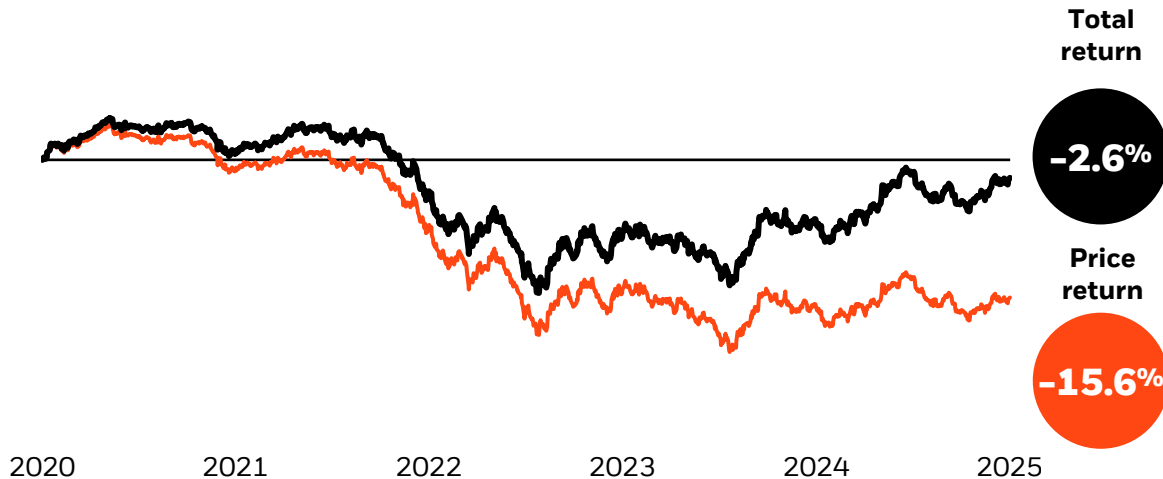
Capital gains & income distributions

=

Mutual fund price return

Funds with a positive total return can still have a negative price return

Bloomberg U.S. Aggregate price return vs. total return (3/31/20–3/31/25)*



Price return minus cost basis determines capital gain (or loss)

Analyze your book

Since bond funds tend to distribute the bulk of their return in income distributions, their price return is usually below their total return during bond bear markets.

*Source: Bloomberg, cumulative returns as of 3/31/25 for illustrative purposes only. †Source: Morningstar, as of 3/31/25, 97.1% and 98.0% of Core and Core-Plus bond mutual funds have a negative cumulative price return over 3-year and 5-year tracking periods. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

A simple hypothetical example of loss harvesting

In this two-trade example, a depreciated stock is sold at a loss to create a tax benefit:

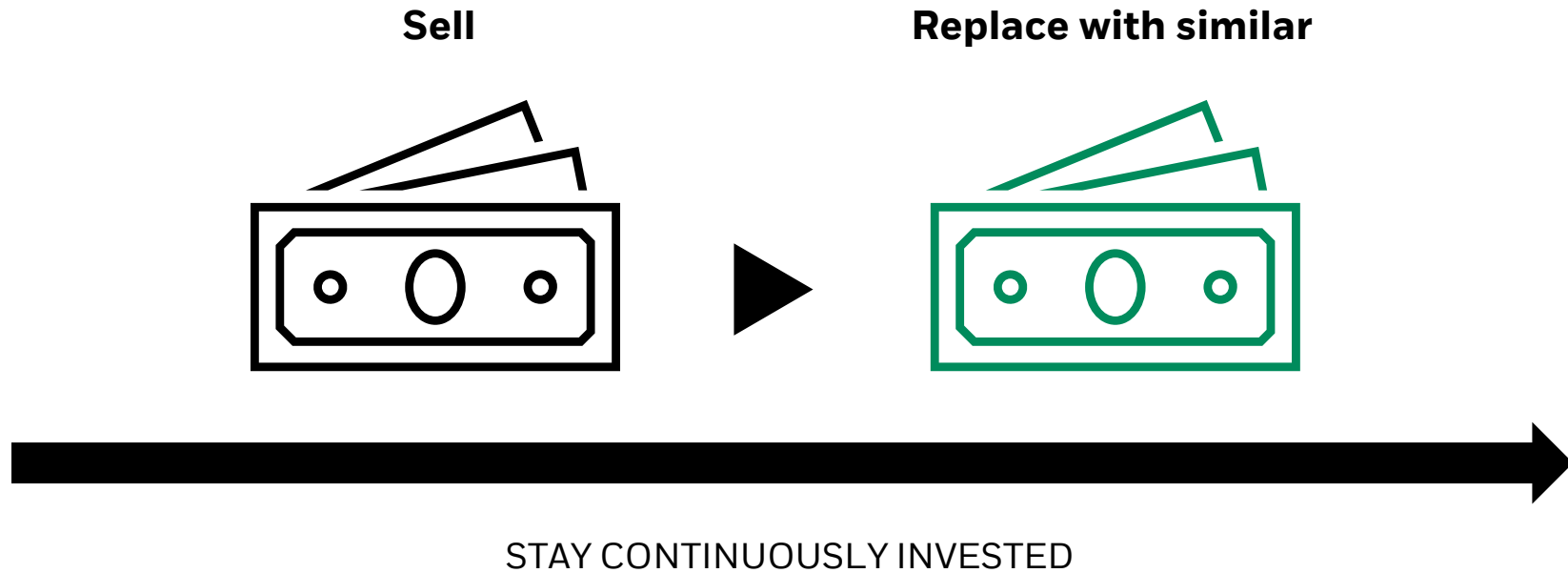
	1 st trade	Between trades	2 nd trade
	A hypothetical investor: <ul style="list-style-type: none"> • Buys \$5M of Stock A • Buys \$5M of Stock B 	Assume: <ul style="list-style-type: none"> ↑ Stock A goes up \$1M ↓ Stock B goes down \$1M 	The investor: <ul style="list-style-type: none"> • Sells Stock B for \$4M, then buys \$4M of Stock C • Realizes a loss of \$1M for a tax benefit of \$408K
Value of stock A	5,000,000	6,000,000	6,000,000
Value of stock B	5,000,000	4,000,000	
Value of stock C			4,000,000
Total portfolio value	10,000,000	10,000,000	10,000,000
Cost basis	10,000,000	10,000,000	9,000,000
Losses harvested			1,000,000
Tax benefit*			408,000
Tax benefit as a % of value			4.08%

*Tax benefit assumes 2025 federal short-term tax rate of 40.8%. Tax benefit would be greater in states with state taxes.

This hypothetical example is for illustrative purposes and is not a recommendation to buy or sell any stocks listed on this page.

Goal of tax-loss harvesting

Stay continuously invested and realize a tax benefit on an asset with negative price performance.



Remember the Wash-sale Rule!

The new investment must not be substantially identical to the current investment.

Tax Foundations

Invest to maximize after-tax returns.

The challenge

Taxes are taking a bigger bite, making active and ongoing tax management essential for taxable investors.

The solution

Help clients keep more of what they earn.

1 Design

Prioritize tax-efficient asset classes

2 Implement

Identify tax-efficient strategies & structures

3 Maintain

Monitor & manage taxable accounts with a tax-efficient process

Asset location

Trading

Tax-loss harvesting

Taxable distributions

What are capital gains?

Capital gain distributions:

The investor's share of the proceeds of a fund's sale of securities caused by:



Portfolio trading decisions



Redemption requests

Weigh the trade-offs:

Benefits

of staying invested



vs.



Tax-cost

of distributions

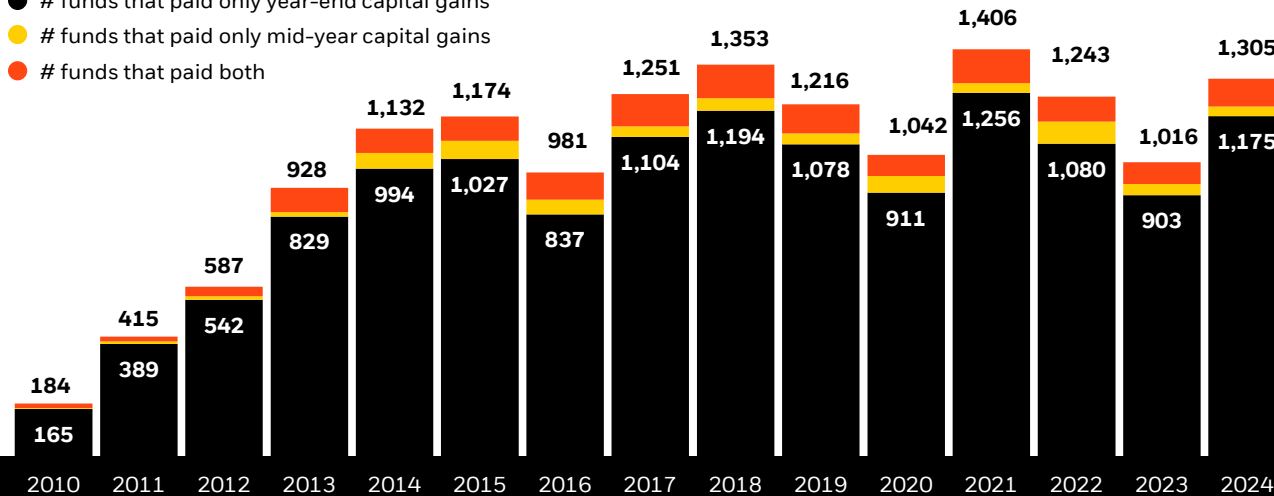
Capital gains can be costly

BREADTH – **76%** of U.S. active equity mutual funds distributed year-end capital gains over the past 5 years on average.
 DEPTH – The average distribution was **7.5%***

Capital gains happen year-round, but ~90% occur at year-end

U.S. active equity mutual funds capital gains distributions†

- # funds that paid only year-end capital gains
- # funds that paid only mid-year capital gains
- # funds that paid both



Year-end cap gain distribution across U.S. style-box active MFs

Annual average, 2020 – 2024*

- % of mutual funds (MFs) distributing
- Average size of distribution as % of fund NAV

	Value	Blend	Growth
Large	78%	80%	81%
	6%	7%	9%
Mid	73%	81%	67%
	7%	6%	9%
Small	72%	71%	65%
	6%	7%	8%

! Investors must pay taxes on capital gain distributions, even if they have taken no action.

*Source: Morningstar Direct, as of 12/31/24. U.S. style-box funds are those funds categorized by Morningstar as U.S. Large-Cap Growth / Blend / Value, U.S. Mid-Cap Growth / Blend / Value or U.S. Small-Cap Growth / Blend / Value. †Source: Morningstar Direct, as of 12/31/24. U.S. active equity mutual funds = funds categorized as "U.S. Equity" under Morningstar's U.S. Category Group and as oldest share class, Non-indexed open-end funds. *Source: Morningstar Direct, as of 12/31/24. U.S. style-box funds are those funds categorized by Morningstar as "U.S. Equity" under Morningstar's U.S. Category Group and as oldest share class, non-indexed open-end funds. % of MFs distributing = 5-year annual average % of funds that paid a gain from 2020-2024. Includes funds available as of 10/31 in each year from 2020-2024. Past distributions are not indicative of future distributions.

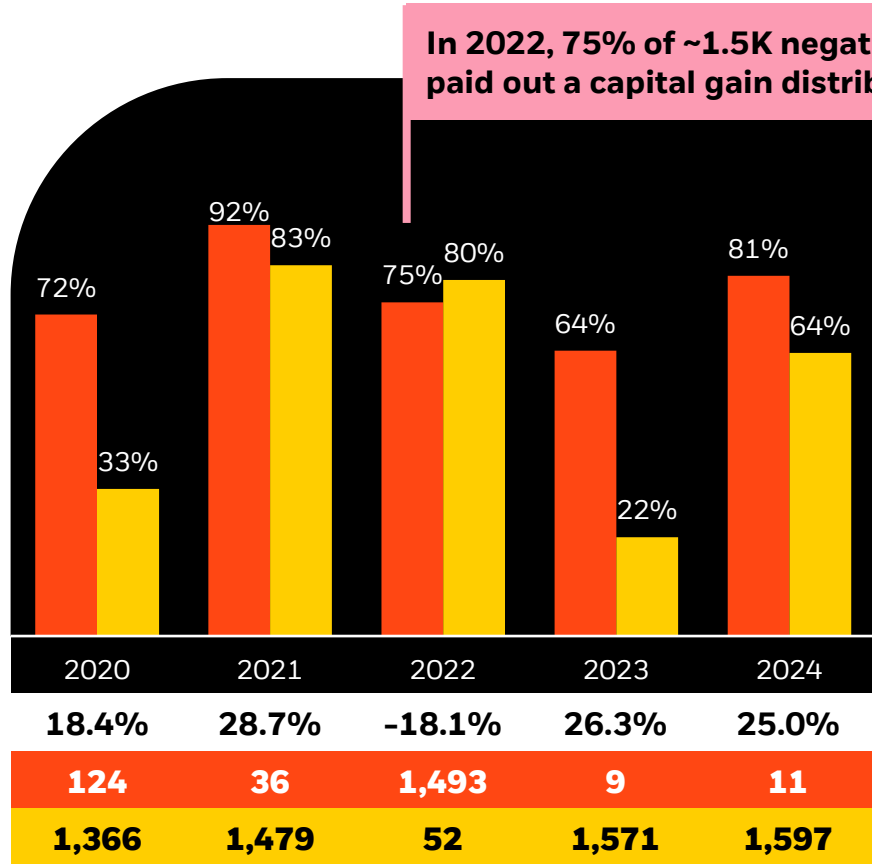
Underperforming funds still pay out capital gains

When funds are down, many clients are surprised when they still owe taxes on capital gains distributions. How is this possible on funds with negative returns?

Capital gains distributions for U.S. active equity mutual funds

Percentage of funds paying capital gains that ended the year with positive vs. negative returns

- % of negative funds that distributed capital gains
- % of positive funds that distributed capital gains



Structural differences in ETFs may help mitigate unwanted capital gains distributions.

Even with negative returns, a losing fund could still distribute capital gains if a fund manager trades underlying positions in a portfolio that have appreciated in value; or if redemption requests force the fund manager to sell positions to meet client requests.

Year	2020	2021	2022	2023	2024
S&P 500 returns	18.4%	28.7%	-18.1%	26.3%	25.0%
Total # negative-returning funds	124	36	1,493	9	11
Total # positive-returning funds	1,366	1,479	52	1,571	1,597

Source: Morningstar as of 12/31/24. Includes all active, oldest share class mutual funds categorized as "U.S. Equity" under Morningstar's U.S. Category Group. Indices are unmanaged and not available for direct investment.

Takeaways

Taxes matter.

It is critical to focus on after-tax returns in taxable accounts.

Start with tax-efficient asset classes.

Prioritize tax-friendly asset classes like municipal bonds and equities in taxable accounts.

Implement views with tax-efficient strategies & structures.

Vehicles matter. Inefficient wrappers can override asset class tax efficiency.

Take advantage of asset location.

Use tax-shielded accounts for your favorite high-tax ideas.

Trade with taxes in mind.

Consider tax implications when evaluating trades and setting up your rebalancing process.

Seek tax-loss harvesting opportunities.

Offset taxable gains by selling investments with negative price returns.

Monitor cap gain distributions.

Investors must pay taxes on capital gain distributions, even if they have taken no action.

Important notes

Past performance does not guarantee future results. Investing involves risk, including possible loss of principal.

Please ask your clients to carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

Important Risks of Mutual Funds: The funds are actively managed and their characteristics will vary. Bond values fluctuate in price so the value of your investment can go down depending on market conditions. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. Non-investment-grade debt securities (high yield / junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher rated securities. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable. The fund may use derivatives to hedge its investments or to seek to enhance returns. Derivatives entail risks relating to liquidity, leverage and credit that may reduce returns and increase volatility.

Important Risks of ETFs: Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments.

There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to federal or state income taxes or the Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

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