The Impact of Active Tax Management

Backtested results from Altruist's Tax Management Suite.

Jan 2020 – May 2025

This material contains hypothetical calculations and is intended solely for an institutional audience capable of evaluating the assumptions and limitations presented. The hypothetical results shown are for informational purposes only and do not represent actual client performance. Nothing in this material should be construed as a recommendation, offer, or solicitation to buy or sell any security. Past performance is not indicative of future results, and actual outcomes may vary.

Putting Altruist's Tax Management Suite to the Test

Clients know that tax management can reduce tax bills by offsetting gains with losses. But they're often left wondering: how much of a difference could it really make?

Without quantifiable results, it's hard for advisors to see the true value of tax management. To help, we created a hypothetical, educational example using a 5-year backtest comparing two model portfolios—one with, and one without, tax-management techniques applied. Our goal was to help demonstrate what daily tax-loss harvesting (TLH) and tax-aware rebalancing can potentially deliver in after-tax performance.

We compared two hypothetical $1M portfolios, each based on a U.S. Large-Cap direct indexing strategy:

- **Tax-Managed Portfolio**: Included daily TLH and tax-sensitive rebalancing.[1]
- **Non-Tax-Managed Portfolio (Clone)**: Tracked the market with no tax considerations, purely buy-and-hold.

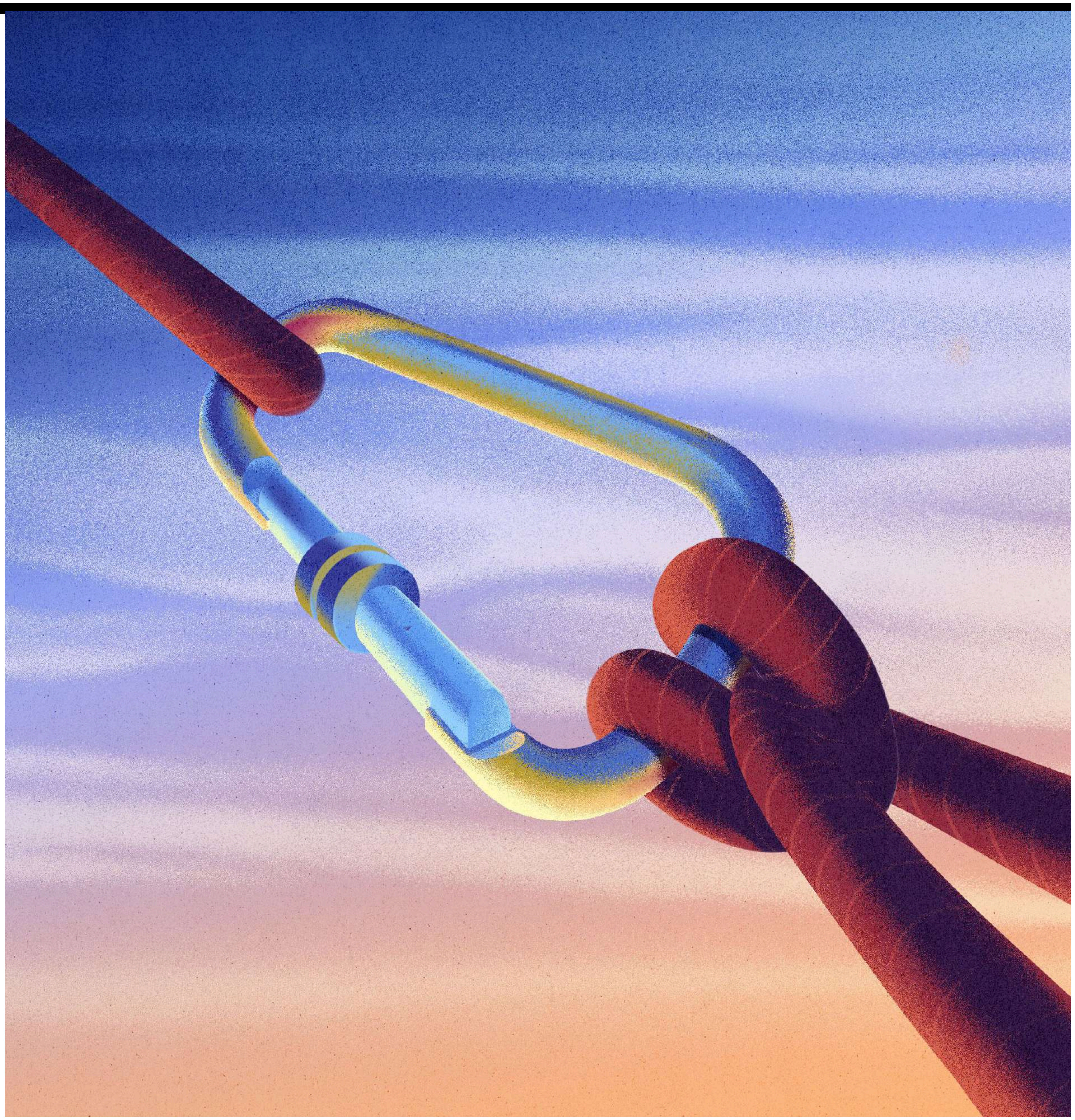
This side-by-side approach helps illustrate the potential "tax alpha" that Altruist's tax management could provide.

[1] To learn more about the factors that can trigger rebalancing, click here.

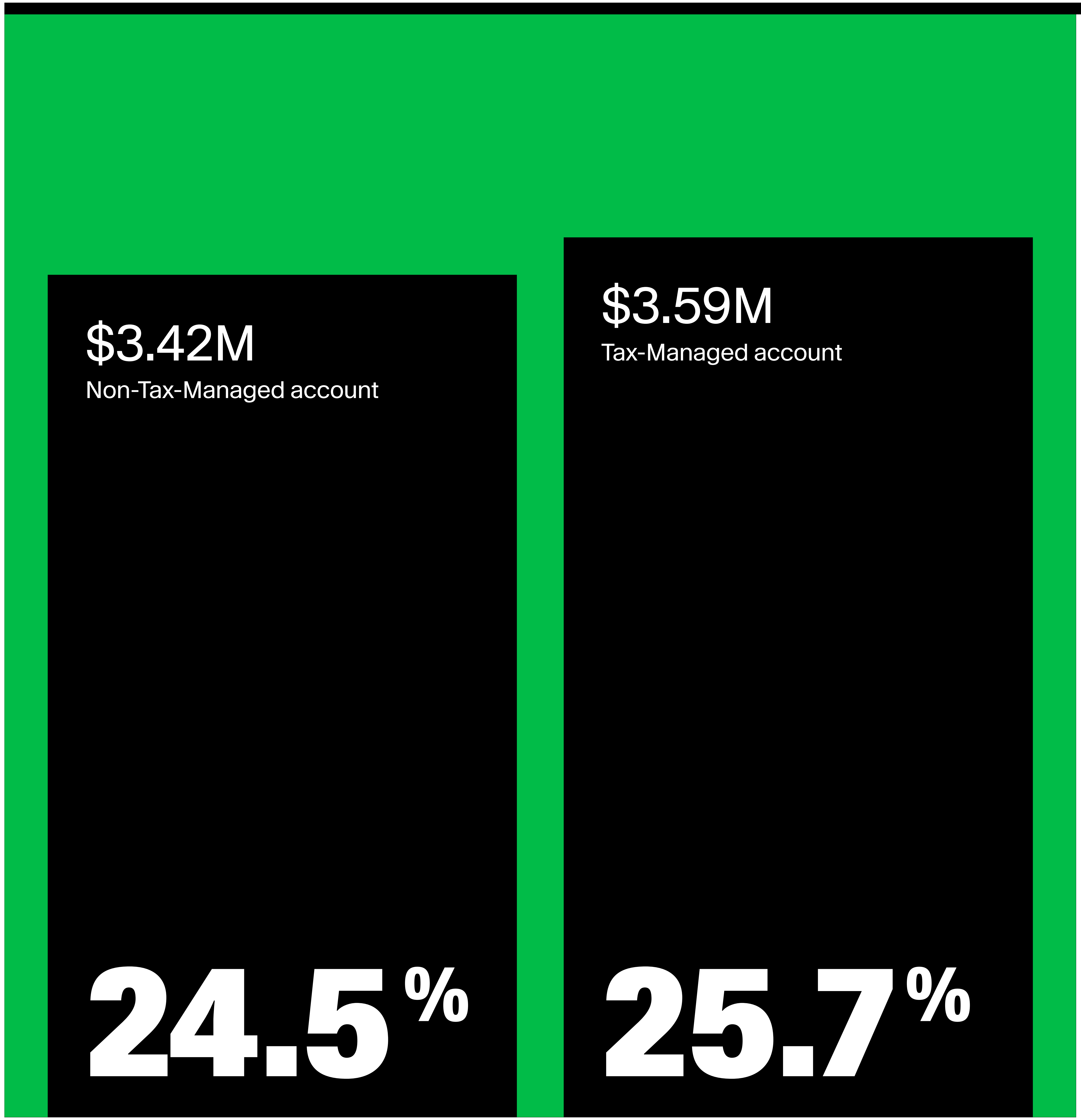
Modeling the Backtest

To mirror real portfolio conditions, we modeled tax-managed and non-tax-managed U.S. Large-Cap Direct Index* portfolios on Altruist's Rebalancer, capturing the impact of tax optimization versus pure index tracking:

- **Regular contributions:** $50,000 deposits each quarter to establish tax lots at different cost basis.
- **Cash settings:** Targeted a 1% cash balance, with a minimum of 0.75% and a maximum of 1.25%.
- **Tax assumptions**: Top federal and state (California) rates (32.3% for long-term gains, 49.3% for short-term gains).
- **Dividends**: Taxed like long-term gains and paid out in cash, not automatically reinvested.
- **After-tax calculation**: Realized gains/losses were netted and taxed at appropriate rates, with losses assumed to offset other household gains, just as a client would see on their actual return.



*The U.S. Large-Cap Direct Index is based on the S&P 500.



1.4% Tax Alpha

Our Findings:

In the five-year hypothetical backtest, the portfolio with Altruist's tax management features outperformed the control portfolio under the assumptions of our analysis.

Here's how it stacked up:

Ending account values:
- **Tax-Managed:** $3.59M (after-tax)
- **Non-Tax-Managed:** $3.42M (after-tax)

Annualized returns:
- **Tax-Managed:** 25.7%
- **Non-Tax-Managed:** 24.5%

That's an annualized outperformance of 1.15% or **$170,000 in additional after-tax value over the period.** After accounting for the impact of tracking error, the tax benefits generated **1.4% in annualized tax alpha.**

Results are based on hypothetical calculations and provided for informational purposes only. These results reflect the benefit of hindsight and assume a 0.12% annual advisory fee; actual fees and client experiences will vary. Trading costs and other expenses are excluded. **Past performance is not indicative of future results. Altruist does not provide tax or legal advice.**

Note: These results assume a 0.12% annual advisory fee on the tax-managed account, with performance metrics calculated net of that fee. Other potential fees and expenses, including trading costs, commissions, and market-impact costs, were excluded. The results reflect the benefit of hindsight and should not be interpreted as predictions or guarantees of future performance. Hypothetical performance is provided for illustrative purposes only and does not represent actual client accounts. Past performance, whether actual or hypothetical, is not indicative of future results.

	Tax-Managed (DI)		Non-Tax-Managed (DI)
	Gross	Net	
Beginning Value	$1,000,000	$1,000,000	$1,000,000
Ending Value (Pre-Tax)	$3,412,822	$3,390,856	$3,451,445
Ending Value (After-Tax)	**$3,617,820**	**$3,594,534**	**$3,421,604**
Cumulative Return (Pre-Tax)	225.03%	222.94%	228.71%
Cumulative Return (After-Tax)	244.55%	242.34%	225.87%
Annualized Return (Pre-Tax)	24.47%	24.32%	24.73%
Annualized Return (After-Tax)	**25.83%**	**25.68%**	**24.53%**

	Gross	Net
Tax Management	1.30%	1.15%
Tracking Error Alpha	-0.26%	-0.26%
Tax Alpha	**1.56%**	**1.41%**

Source: Historical performance of a U.S. Large-Cap Direct Index backtest, based on the S&P 500, from January 2020 through May 2025.

The Real Impact of Tax Management

Our backtest helps demonstrate—and quantify—the potential value of Altruist's tax management suite offers the potential as a powerful driver of long-term wealth growth with a direct indexing strategy.

- **Tax savings compound.** Daily tax-loss harvesting and tax-aware rebalancing can deliver higher after-tax returns.
- **Clients build more wealth.** In our hypothetical backtest, that extra ~1.4% annually added nearly $170K over five years on a $1M portfolio.
- **Worthwhile tradeoff.** While tax management introduced a slight tracking error (~0.5%–0.75%), especially during periods of heavy loss harvesting, this short-term deviation was offset by long-term tax benefits in our hypothetical backtest. Of course, actual results may vary.

High After-Tax Gains, Low Tracking Error

Delivering tax alpha while tracking the index:

After taxes, the Tax-Managed Direct Indexing strategy meaningfully outperforms the control portfolio. Over the five-year period, it generated an additional **$170,000** of after-tax value.

Pre-Tax Account Value

Pre-tax performance of the Tax-Managed strategy closely tracks the index, highlighting the low realized tracking error.

After-Tax Account Value

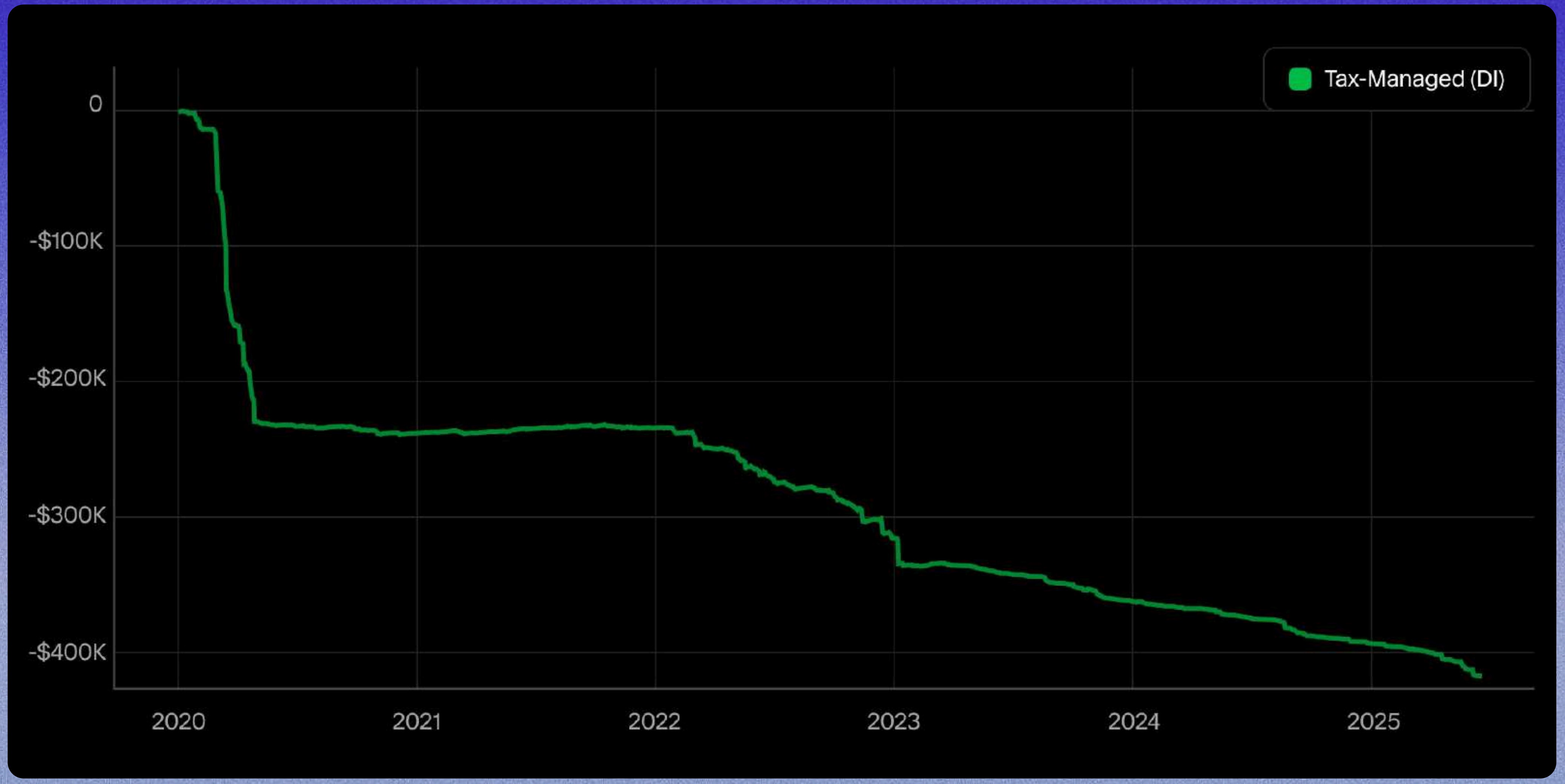
While pre-tax performance closely matches the index, the Tax-Managed DI strategy outperforms the index after taxes.

Managing Taxes and Risk

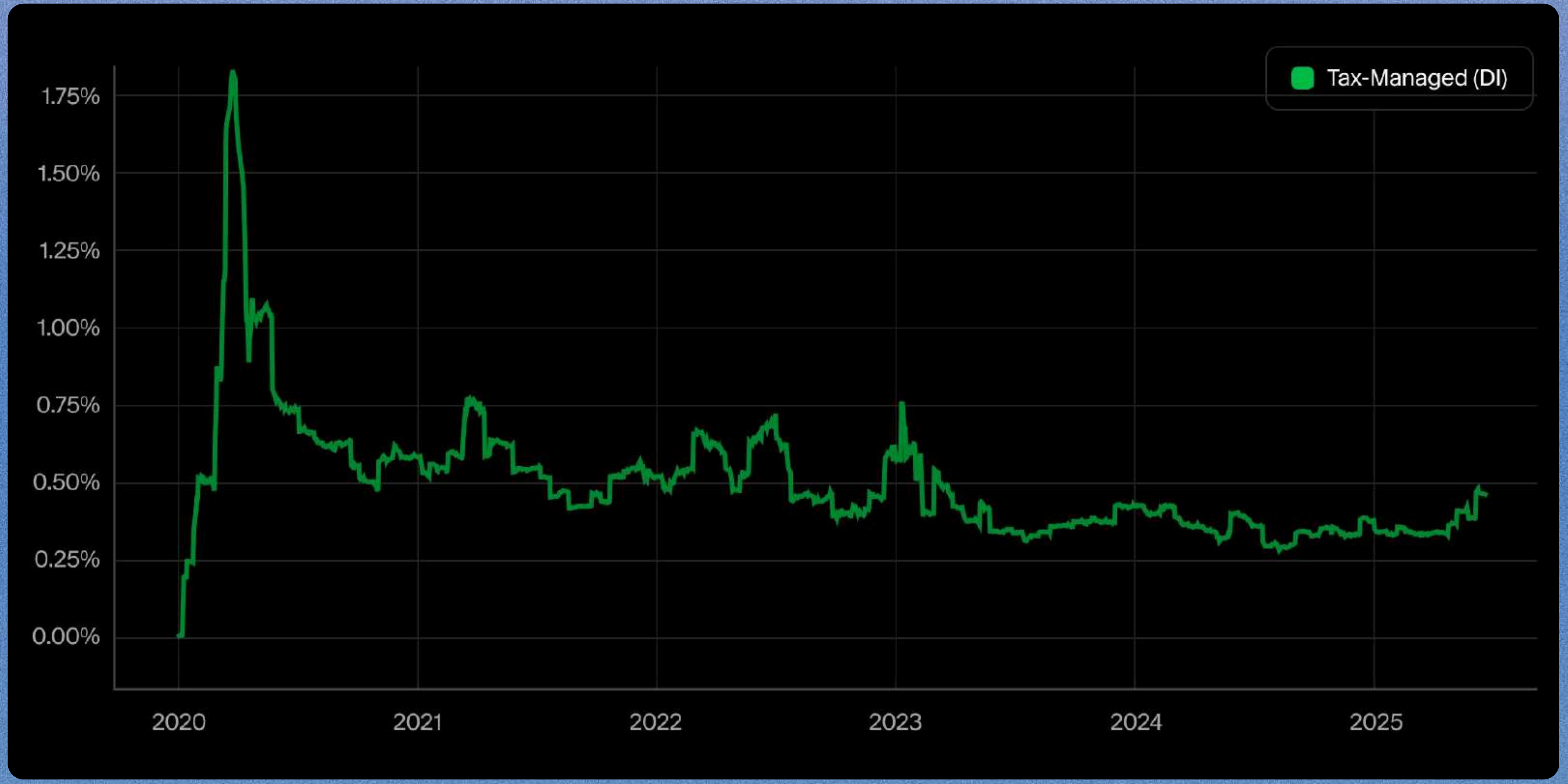
Active loss harvesting with controlled tracking error:

Tracking error stayed modest, averaging **0.5%** over the five-year period, while the rebalancer captured losses efficiently over time. This balance ensured steady tax savings without excessive drift from the index.

Cumulative Next Gain/Loss



Tracking Error



The Bottom Line

The hypothetical backtest makes a simple point clear: tax management on the Altruist platform has the potential to add measurable value. Even modest differences in after-tax returns can compound into meaningful wealth over time. By combining daily tax-loss harvesting with smart rebalancing, Altruist has the potential to help clients keep more of what they earn.

Important Note

This is a **hypothetical backtest.** It does not represent actual client accounts, includes the benefit of hindsight, and cannot predict future performance. Results are not guaranteed and will vary depending on market conditions and each client's unique tax situation.

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