



NORTHERN TRUST
ASSET MANAGEMENT

Discover Direct Indexing

A path to tax efficiency and
wealth preservation

Explore the benefits of portfolio personalization

Tailored solutions for forward-looking investors

For most investors seeking equity market returns, standard options such as index mutual funds and exchange-traded funds (ETFs) may be excellent choices.

Until they aren't.

Growing portfolios bring evolving needs, prompting investors to seek advanced solutions aligned with their goals.

That's why, increasingly, advisors and investors are discovering the benefits that direct indexing can deliver, relative to mutual funds and ETFs.

What Is Direct Indexing?

Direct indexing is an investment strategy in which investors create a custom portfolio of individual stocks designed to replicate a specific index. By holding individual stocks in a separately managed account (SMA), advisors and investors gain opportunities for:



Advanced tax
optimization strategies



Detailed
customization



Greater portfolio
transparency and
flexibility.

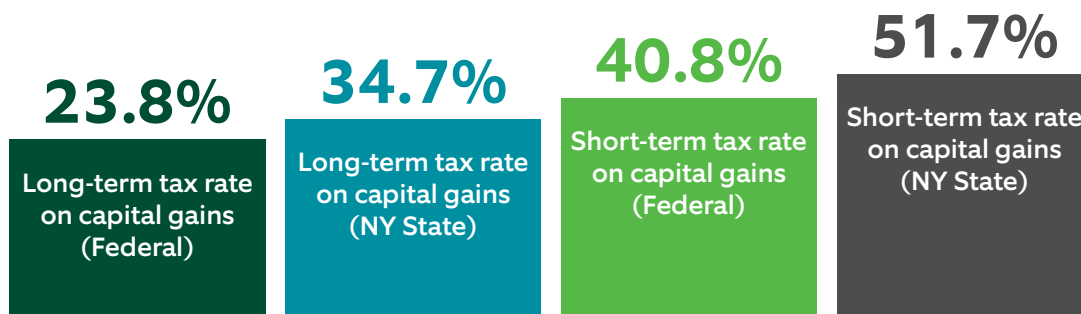
With Northern Trust Asset Management Direct Indexing, investors can gain next-level benefits – beyond what’s possible with many traditional investing solutions.

Enhance (not diminish) after-tax wealth

Direct indexing is gaining popularity for good reason. One of its main benefits is the ability to optimize tax management.

As shown below, taxes are among the largest costs for many investors. High net worth individuals commonly pay the following tax rates, and state taxes can increase their burden.

CAPITAL GAINS TAX FOR HIGH-NET WORTH INVESTOR'S



Source: Northern Trust Asset Management and IRS.gov website, as of 2025.

Note: This information is general in nature and should not be construed as tax advice.

A tax advisor should be consulted as to how this information affects your particular circumstance.

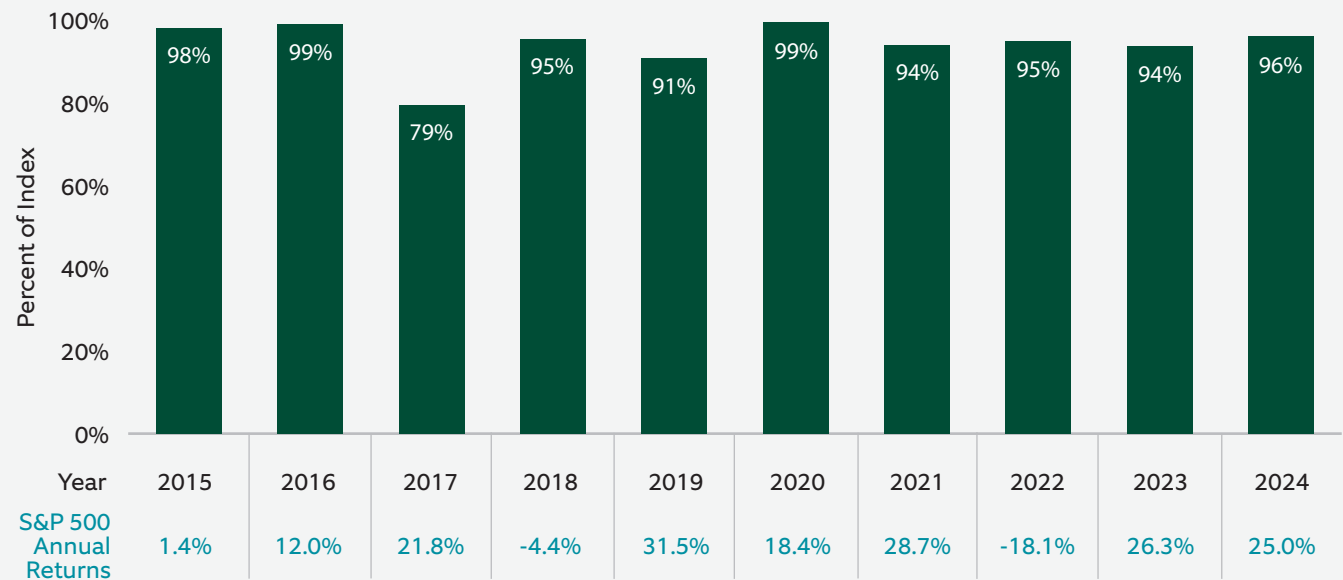
Direct indexing helps reduce the pain of those percentages.

Direct indexing with individual stock ownership empowers portfolio managers to apply precise, stock-by-stock tax-saving strategies. By leveraging tax-loss harvesting, this approach helps reduce tax drag and improve after-tax returns, especially in volatile or declining markets, where losses can be transformed into opportunities for long-term growth.

No matter which way the market moves, tax-loss harvesting keeps working for you.

While these losses can feel like bad news at the time, they can provide ongoing fuel for a consistent tax-loss harvesting strategy. And, as described below (Consider This), even modest tax-savings can add up over time.

PERCENTAGE OF STOCKS THAT DECLINED BY ANY AMOUNT IN EACH CALENDAR YEAR



Note: Index returns do not reflect the deduction of any fees or expenses but assume the reinvestment of dividends and earnings. It is not possible to invest directly in an index. Any discussion of risk management is intended to describe NTI's efforts to monitor and manage risk but does not imply low risk. Past performance does not guarantee future results. For illustrative purposes only. Source: Bloomberg and Northern Trust

CONSIDER THIS:

A modest 0.5% annual boost in after-tax returns could add more than \$87,000 to a \$100,000 investment over 30 years. That's the power of compounding—and the quiet strength of tax-smart investing.

Create one-of-a-kind portfolios

As a technology-driven investment platform, our direct indexing solution is designed to serve multiple roles in shaping personalized investment strategies.

While the practical applications of direct indexing are many, five specific features can offer significant benefits for HNW investors.

NTAM Direct Indexing Features	Investor Benefits
<p>Ongoing tax loss harvesting</p>	<p>Keep a greater share of your investment earnings Do you have a strong overall portfolio delivering capital gains? Direct indexing can help ease the tax burden from other investments. Northern Trust Asset Management systematically harvests tax losses actively and efficiently. No matter the market environment, there will likely be losses to take advantage of – helping to offset gains.</p>
<p>Tax-smart portfolio transitions</p>	<p>Easily and cost-effectively transition to a NTAM Direct Indexing Portfolio Do you already own stocks in your existing portfolio that are in your chosen index strategy? Because Northern Trust Asset Management Direct Indexing allows funding in-kind, it's easy and cost effective to transfer your existing holdings to a Direct Indexing portfolio. You can continue to defer gains on those holdings without liquidating and realizing capital gains.</p>
<p>Diversification for concentrated stock holdings</p>	<p>Reduce concentration risk Are you holding on to a large stock position with significant gains in order to avoid a tax hit from selling? Capital losses from the direct indexing portfolio can help lower the tax bill that results from reducing that position, potentially lowering the risk of a large loss.</p>
<p>Highly personalized portfolios</p>	<p>Feel confident that values and investments are aligned Want to invest in your own stock market convictions – for example, by excluding certain types of companies? Northern Trust Asset Management ability to tailor your account in a risk-controlled manner helps to ensure that your investing results reflect your preferences and values.</p>
<p>Tax-friendly opportunities for charitable donations</p>	<p>Make charitable investments more impactful Have a donor-advised fund or just want to donate directly to a charity? Northern Trust Asset Management direct indexing portfolios can make charitable giving more effective. Donating appreciated shares from the direct index account instead of cash, removes these positions (and their embedded gains) from your portfolio. This creates a tax deduction, and, if replenished with cash, can help maintain loss-harvesting possibilities even longer.</p>

What else do direct indexing investors need to know?

Most common questions about Direct Indexing

Can direct indexing be integrated with my existing investments?

Yes, direct indexing can integrate seamlessly with mutual funds, ETFs, and other existing holdings. It can function as a customizable, tax-managed sleeve within a broader investment portfolio. Accounts may be funded with either cash or existing securities.

Can I withdraw or add capital at any time?

Yes, you can add cash and/or equity securities or withdraw cash at any time. Your advisor will help ensure that any transactions align with your tax and investment strategy.

How often is my portfolio adjusted?

All of the portfolios are reviewed daily by the Northern Trust Asset Management portfolio management team for tax loss harvesting (12 to 15 times per year on average) and risk management opportunities.

What are the costs?

Direct indexing can be more expensive than index funds, but typically less costly than actively managed funds.

What risks or trade-offs should be considered with direct indexing?

Direct indexing carries market risk like any equity strategy. While it offers customization and potential tax benefits, it may lead to performance deviations.

The Direct Indexing Difference

Direct indexing offers significant customization that ETFs or mutual funds cannot provide.

WHILE ETFs AND MUTUAL FUNDS OFFER SIMPLICITY, DIRECT INDEXING OFFERS FLEXIBILITY AND CUSTOMIZATION

Description	Mutual Fund	Exchange Traded Fund	Northern Trust Asset Management Direct Indexing
Investment flexibility	Pre-existing benchmark		Customized benchmark options
Portfolio funding	Cash purchase		Cash or transition existing securities
Withdrawals	Tax liability based on limited tax lots		Tax liability based on multiple tax lots
Turnover	Based on index changes, redemptions	Based on index changes	Based on loss realization, index changes, strategy management
Change in mandate	Requires sale of fund, creating tax event		Tax-efficient transition over time
Tracking error	Always minimized		Considers client expectations and tax impact
Tax lot management	Each purchase is one tax lot		Each security has multiple tax lots
Tax planning	Gains unknown until distributed, no losses distributed		Gains and losses known at all times, passed to investor
Tax efficiency	Inefficient – gains distributed from taxable events created by other investor flows, no losses distributed	More efficient – gains possible, no losses distributed	Most efficient – losses are harvested and applied to help offset potential capital gains elsewhere in the portfolio

Setting a New Standard for Personalized Portfolios

Investing with us means more than a strategy, it's a partnership. Together we will create a tailored portfolio that reflects your unique needs.

Northern Trust Asset Management has been at the forefront of direct indexing for over 35 years, delivering tax-efficient strategies and personalized solutions for investors and their advisors.

Backed by cutting-edge research, advanced technology, and a commitment to innovation, our platform sets the industry standard.



35+ years delivering tax-advantaged strategies



\$137B in existing tax-advantaged strategies



Experienced and tenured portfolio management team



Portfolios reviewed daily for tax loss opportunities



Customization supported with leading edge technology

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**Find out how direct indexing could work for you.
Contact your financial advisor to start the conversation.**

Glossary

Separately Managed Account (SMA): A portfolio of individual securities managed on behalf of an investor, allowing for customization and direct ownership of stocks. SMAs are the vehicle through which direct indexing is implemented.

Tax-Loss Harvesting: A strategy that involves selling securities that have decreased in value to realize losses, which can then be used to offset capital gains from other investments, thereby reducing the investor's tax burden.

Tax Optimization: The process of managing investments to minimize tax liabilities and maximize after-tax returns, often through strategies like tax-loss harvesting and strategic transaction timing.

Factor Investing: An investment approach that targets specific drivers of return across asset classes, such as value, growth, volatility, or ESG (Environmental, Social, Governance) factors.

In-Kind Transfer: Moving securities directly into a new account or portfolio without selling them, which can help avoid triggering capital gains taxes.

Concentrated Stock Position: A situation where an investor holds a large portion of their wealth in a single stock, often due to employer stock from stock options, years of compensation, or inheritance. This can increase portfolio risk and create tax management challenges. Direct indexing can be used to systematically diversify, reduce risk, and manage tax consequences over time.

Tax Alpha: The additional after-tax return generated through effective tax management strategies, such as tax-loss harvesting and strategic transaction timing. Tax alpha represents the value added to a portfolio by minimizing tax liabilities and maximizing after-tax wealth, beyond what is achieved by simply tracking an index.

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.

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