



## Overlay Services

Sophisticated and Flexible Risk-Based Overlay





Envestnet | PMC offers Overlay Services as a discretionary, holistic solution that enables advisors and investors to address comprehensive needs around tax management or values-based screening, or both, while minimizing the effect these client-specific customization requirements have on their investment portfolios.

**Tax Overlay Services** is a customizable solution for investors who want to control or customize the realization of unrealized gains in their portfolios or diversify concentrated portfolios in a tax-efficient manner.

**Values Overlay Services** allows clients to direct multiple screens aligned with an integral representation of a client's personal values.



## Tax Overlay Services

PMC uses a sophisticated tax-optimization engine that measures and considers the tax costs of potential security sales in making portfolio construction decisions. A portion of the taxes in client portfolios are in the form of realized short-term capital gains, and our tax-management process seeks to minimize and, when possible, eliminate net short-term capital gains realization. By modeling the tax impact of trades and considering realized gains and losses, PMC seeks to improve the client's after-tax returns.

### The Process

As the overlay portfolio manager, PMC is responsible for coordinating the investment activity within an account. The individual managers who make up the client's account act as subadvisors who provide their model portfolios to PMC. When a subadvisor recommends a change to its model, PMC, as overlay manager:

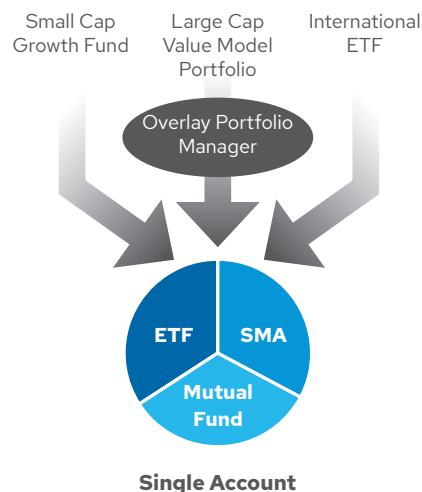
- Weighs the impact of transactions on taxes against the risk of not complying with the manager's recommendation;
- Maintains responsibility for the account administration and coordinates all trades; and,
- May elect to prevent the transaction, or look to make additional changes to balance the recommended change, if the individual client's tax situation dictates the trades not occur.

### Risk-Based Overlay

PMC's risk-based overlay portfolio management allows advisors to combine multiple investment strategies and vehicles into one account to meet the specific needs of an individual client. This approach incorporates strict adherence to each individual investment manager's strategy within the account and centralizes the discretionary authority, providing a single, aggregate investment solution.

Our patented portfolio optimization process (US PTO # 7,668,773) enables balancing the investment decisions of individual managers with specific client customization requests (i.e., tax and security-specific considerations) while maintaining the overall risk profile of an account.

### Unified Managed Accounts





## Implementation of Tax Overlay



### Coordinating taxes across managers

The selected investment managers act as subadvisors on your clients' accounts, who provide their portfolio models to PMC. Since PMC has discretionary control over the account, we can deliver a customized tax solution at the individual client account level.



### Gain/loss matching

In certain circumstances, PMC attempts to offset Net Short Term Gains within an account by matching gains with losses, when possible, or selling at a loss later to offset previous gains.

For Net Long Term Gains, PMC only seeks to Gain/Loss match to reduce Net Long Term Gains if the client's Long Term Gain Budget (if applicable) has been exceeded.



### Deferring gains

If no losses are available, PMC can potentially defer the sale of securities, which otherwise would result in short-term gains, until they reach a favorable long-term gain status.



### Establishing tax budgets

PMC seeks to minimize net short term capital gains realization, and manages the amount of net long term capital gains realization if the client has elected to apply a desired tax budget on long term capital gains.



### Diversifying concentrated equity portfolios

With our Diversification Solution, PMC can facilitate the diversification of concentrated, low-cost basis equity portfolios by allowing highly tax averse investors to take up to seven years to conform to PMC's traditional tracking error guidelines, thereby distributing their tax bill in a manageable way.



### Transitioning equity mutual fund and ETFs

For qualifying mutual funds and ETFs, PMC may allow their retention of not-in-model holdings in an eligible managed product sleeve, which allows these holdings to be sold over multiple years rather than fully liquidating them at the account's inception. For more information on what is an eligible managed product sleeve, please contact a member of the Overlay Services team.

## Tracking error

As is the case with all tax-managed accounts, there is a trade-off between realizing gains and adhering to the manager's model. Any difference between how our tax-managed account is managed and the manager's model is measured by tracking error (TE). PMC seeks to limit the amount of TE while also balancing the tax implications of each transaction within a client's account. Ultimately, PMC strives to replicate the manager's model as closely as possible, subject to the client's specific tax situation.

This information is for illustrative purposes only and does not represent actual results that will be implemented in the account. This information will change, and may change significantly, due to changes in market prices, changes made by money managers to their underlying model holdings and position weights, and any differences in the cost basis of the client's holdings.

## Trading Activity and Unrealized Gain/Loss Analysis

Current Portfolio		Scenario 1 Buy/100%	Scenario 2 Buy/100%	Scenario 3 Buy/100%	Scenario 4 Buy/100%	Scenario 5 Buy/100%
Assets	207	207	207	207	207	207
Liabilities	207	207	207	207	207	207
Equity	\$1,344,444	\$1,342,222	\$1,439,277	\$2,425,776	\$2,421,124	\$2,205,449
Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Other	0	0	0	0	0	0
Total	627	627	627	627	627	627
Assets	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Liabilities	210	210	210	210	210	210
Equity	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
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Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Other	210	210	210	210	210	210
Total	627	627	627	627	627	627

## Top 10 Holdings

Current Portfolio		Scenario 1 Buy/100%	Scenario 2 Buy/100%	Scenario 3 Buy/100%	Scenario 4 Buy/100%	Scenario 5 Buy/100%
Assets	207	207	207	207	207	207
Liabilities	207	207	207	207	207	207
Equity	\$1,344,444	\$1,342,222	\$1,439,277	\$2,425,776	\$2,421,124	\$2,205,449
Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Other	210	210	210	210	210	210
Total	627	627	627	627	627	627
Assets	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Liabilities	210	210	210	210	210	210
Equity	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Other	210	210	210	210	210	210
Total	627	627	627	627	627	627

Current Portfolio		Scenario 1 Buy/100%	Scenario 2 Buy/100%	Scenario 3 Buy/100%	Scenario 4 Buy/100%	Scenario 5 Buy/100%
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Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
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Total	627	627	627	627	627	627
Assets	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Liabilities	210	210	210	210	210	210
Equity	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Fixed Income	210	210	210	210	210	210
Alternatives	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444	\$1,344,444
Other	210	210	210	210	210	210
Total	627	627	627	627	627	627

proposed title: Family Account  
proposal number: envestnet

prepared by: Portfolio Management Consultants

prepared for:  
Aug 11, 2020

## Proposed Asset Transition Summary (PATs Report)

PMC provides a hypothetical report summarizing how taxable accounts with large embedded gains may transition into an account that is using Tax Overlay Services. A PATs report illustrates PMC's tax management capabilities for accounts with legacy assets, and is not intended to be used as an actual transition plan.

Screenshots provided are for information purposes only, and do not represent an actual client account.



## Values Overlay Services

PMC's risk-based overlay portfolio management allows advisors to combine multiple values-based screens and apply them to traditional and impact specialist managed accounts. This approach focuses on strictly adhering to each individual investment manager's strategy within the account and centralizes the discretionary authority to provide a single, overall investment solution. Our patented portfolio optimization process enables balancing the investment decisions of individual managers with specific client-customization requests while adhering to the overall risk profile of an account.

The client, in consultation with his or her advisor, can determine the appropriate asset allocation, manager selection, and personal convictions to deliver a fully customized solution to meet all of the needs of the client.

### Overlay screens

Through partnerships with Sustainalytics and Veris Wealth Partners, leaders in the impact investing industry, PMC has the ability to apply one or more of the following screens in investor accounts:

- Abortion
- Adult Entertainment
- Alcohol
- Animal Testing
- Catholic Values
- Contraceptives
- Customer Rights
- Embryonic Stem Cell/Fetal Tissue Research
- Employee Rights
- Environment
- Firearms
- Fossil Fuels
- Gambling
- Human Rights
- Military Weapons
- Nuclear Power
- Pork/Usury
- Social Justice
- Tobacco
- Unsustainable Farming

## Tax and Values Overlay Services

The client now has the capability to combine both tax and values overlay services into one account. The client can customize values-based screens and manage taxes efficiently at the same time.





For more information about Overlay Services, email  
[PMCOverlayServices@envestnet.com](mailto:PMCOverlayServices@envestnet.com) or visit our websites at  
[envestnet.com/tax-managed-overlay](https://envestnet.com/tax-managed-overlay) or [envestnet.com/sustainable/solutions/overlay](https://envestnet.com/sustainable/solutions/overlay)

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In providing Values Overlay Services, Envestnet is dependent upon information provided by third-party data providers. Envestnet does not independently verify or guarantee the accuracy, timeliness, or comprehensiveness of such information. The assessments made by third parties are based on data that relates to a company's involvement in a particular product or ESG-related topic, and such data may not cover all of a company's services and practices. The overlay restrictions will only be applied in cases where the information is available, which is limited to a specific universe of securities covered by the third-party data providers. While our tools are designed to help advisors understand and implement the expressed preferences of their clients, this may not be possible in all situations due to inherent limitations on available data and investment options.

At the discretion of Envestnet, values category criteria may change. Envestnet will periodically review the criteria and consider whether or not revisions may be appropriate. Envestnet is not affiliated with third party data providers. In providing values overlay services, Envestnet will allow client's account to deviate from client's selected investment strategy, based on the additional reasonable restriction instructions provided by the Client. With the Values Overlay Services, Client's account(s) may not own all holdings that are part of their selected model, and as a consequence, Client's account may experience significant performance differences from the selected investment strategy. In Client chooses an overlay, Envestnet makes no guarantee that the account's performance will be within any range of the selected investment strategy or the strategy's benchmark.

For more details on PMC's research practices and/or portfolio attributes, please contact [pmc@envestnet.com](mailto:pmc@envestnet.com) or call 1-888-612-9300. Advisors should always conduct their own research and due diligence on investment products and the product managers prior to offering or making a recommendation to a client.

Neither Envestnet, Envestnet | PMC™ nor its representatives render tax, accounting, or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor.

Client must carefully determine if the use of tax overlay services is appropriate for their circumstances, risk tolerance, and investment objectives. Tax management services are limited in scope and are not designed to permanently eliminate taxes in the account.

In providing tax overlay services, Envestnet will allow Client's account to deviate from Client's selected investment strategy. Client's account may experience significant performance differences from the selected investment strategy due to Client's selection of tax overlay services. Envestnet makes no guarantee that the account's performance will be within any range of the selected investment strategy or the strategy's benchmark. If Client subsequently disables tax overlay services this may result in the recognition of significant capital gains.

Envestnet may manage Client's account using tools and processes which may result in Client's trades being executed at a different time or in a different manner than other Envestnet trades, including the potential to not participate in Envestnet's standard trade rotation processes (if such Client trades would have been otherwise eligible to participate).

Actual investment and tax consequences may differ if any of the following has occurred: changes in your portfolio's funding, changes in your portfolio's holdings, changes in your portfolio's taxlots, changes in your portfolio's cost basis, changes to your selected Product, changes in your selected Product's holdings or model weights, changes in market prices, changes in the risk attributes of the securities in your portfolio or your selected product, changes in the risk attributes of the market in general.

Client is responsible for ensuring that all positions and taxlots in the account have complete and accurate cost basis at all times account is managed by Envestnet. Failure to do so may result in inaccurate account management. Additionally, initial management may not begin until cost basis is updated on all positions in the account..

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