Beyond Mutual Funds

Reasons to Consider Investing in an SMA Structure

A review of some of the average costs of mutual funds:

Mutual funds can offer benefits such as liquidity and reinvestment of income. However, shareholder costs can add up, including sales charges, ongoing management fees and other expenses such as tax costs.

Trading Costs

Including "loads" or brokerage commissions and market impact costs

Average Trading Costs = 0.75%*

Total Annual Operating Expenses

Management fees, distribution (12b-1) fees, and other expenses, expressed as a percentage of average net assets

Average Expense Ratio for an equity mutual fund = 0.55%**

Taxes

Portfolio managers typically do not manage mutual funds for tax efficiency

Median annual tax cost for an equity mutual fund: 0.99%***

Today's high net worth investor often has complex needs and expects a personalized and holistic approach to asset management. While mutual funds can be a convenient way to invest in a diversified group of companies with low investment minimums, the vehicle lacks the ability to manage taxes and cannot be tailored to the investor's goals and objectives.

Separately managed accounts can offer many unique benefits such as customization, flexibility and the ability to manage taxes, which may make them a beneficial choice for high net worth investors. Below are some reasons to consider investing in a separately managed account.

Individual Ownership Prevents Disruption from Other Investors

In a separately managed account, investors own the underlying individual securities in the portfolio and are not negatively impacted by the cash flow of others.

Customization

Separately managed accounts may be tailored to the investor's long-term goals and objectives. If there are certain securities or groups of securities an investor wishes to avoid, they can be excluded from the portfolio.

Potential Tax Advantages

Separately managed accounts are only taxed on realized gains and portfolio managers can manage the portfolio in a way that helps mitigate tax liability. In fact, based on an internal study of Clark Capital's separately managed accounts, **ongoing tax-loss harvesting has helped our clients earn an average of 1.04% of added annual returns over a 3-year period.**

Investor and Portfolio Manager Interests Are Aligned

Portfolio managers are not paid solely on performance, allowing them to manage individual accounts to meet the investor's long-term goals and objectives.

Portability and Borrowing Leverage

Investors have the flexibility to transfer the assets between financial institutions, without needing to liquidate or sell the securities first. They can also use invested assets as a line of credit with a more favorable rate than they may be able to secure with a bank loan.

Sources

Singapore Management University. "Mutual Fund Trading Costs and Diseconomies of Scale" (April 2017).
**Asset weighted industry average of equity mutual fund expense ratios. Investment Company Institute. "Trends in the Expense and Fees of Funds, 2018" (March 2019).*
***U.S. stock mutual funds' tax cost: 15 years ended September 30, 2014. Vanguard. "Tax-efficient equity investing: Solutions for maximizing after-tax returns" (March 2015).*

Tax loss harvesting is a strategy of selling securities at a loss to offset a capital gains tax liability. It is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains, though it is also used for long-term capital gains. The utilization of losses harvested through tax loss harvesting will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws. Losses harvested through the strategy that are not utilized in the tax period when recognized (e.g., because of insufficient capital gains and/ or significant capital loss carryforwards), generally may be carried forward to offset future capital gains, if any.

The tax-loss data presented is based on internal research of existing Clark Capital taxable accounts over $1 million that were invested in at least 80% equities from 12/31/15 to 12/31/18. Any accounts funded after 12/31/15 were excluded from the study. The study assumed a tax rate of 20% for long-term, 39.6% for short-term for 2016 and 2017, and 37% for short term for 2018. Added annual returns were calculated by dividing the amount in taxes saved each year by the average beginning market value plus ending market value. The benefits of tax loss harvesting, if any, in reducing an investor's tax liability will depend on the investor's entire tax and investment circumstances, including but not limited to: income, state of residence, the purchases and dispositions of assets in household accounts outside of Clark Capital, type of investment, and investment holding period. Investors should confer with their personal tax advisor regarding the tax consequences of investing with Clark Capital. Clark Capital does not represent in any manner that the tax consequences described herein will be obtained or that Clark Capital's tax-loss harvesting strategies, or any of its products and/or services, will result in any particular tax consequence. Past performance is not indicative of future results. Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

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