A PIMCO Company

Gurtin Municipal Bond Management

Tax Loss Harvesting

A Case Study of Gurtin's Municipal Tax Loss Harvesting Process

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Introduction

688 bond sales
for tax loss harvesting purposes

$110 million
in total par sold in 2018

$1.27 million
in state and federal taxes offset

Goal: To Decrease or Permanently Eliminate Tax Liabilities

Tax loss harvesting with municipal bonds can help decrease or permanently eliminate tax liabilities investors have realized from capital gains in other portions of their overall investment portfolio. Using a systematic tax loss harvesting process, investors are able to sell securities that have depreciated in value and thereby realize losses that can be used to net out realized gains.

Unlike tax loss harvesting in other asset classes — such as equities — where the realization of losses is accelerated and the realization of gains is postponed, tax loss harvesting in municipal bond portfolios can create a permanent capital loss, assuming that replacement bonds purchased are held to maturity.

Gurtin's Differentiated Approach

We believe Gurtin's year-round method of tax loss harvesting, combined with our ability to block together CUSIPs across accounts to optimize liquidity upon sale, differentiates our award-winning approach to municipal tax loss harvesting.[1]

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1 Gurtin was recognized by the WealthManagement.com 2019 Industry Awards in the Asset Manager: Fixed Income category in recognition of our tax loss harvesting process.

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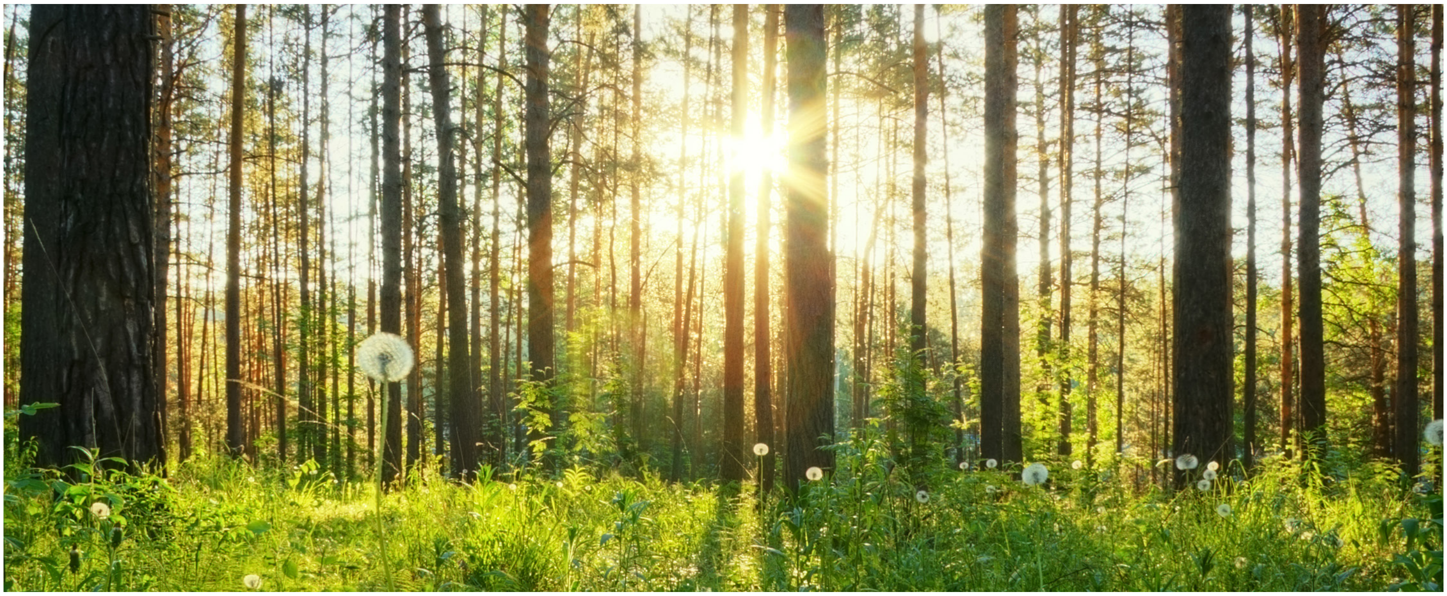
2018: A Case Study



$4.07 million
in total losses realized across 284 accounts

11 basis point
increase in yield-to-worst on swaps[2]

$121 thousand
additional estimated income (annualized)

Leveraging a Year-Round Process

Rather than only harvesting losses at the end of the calendar year, our process actively identifies securities eligible for tax loss harvesting on an ongoing basis. Through this approach, we seek to take advantage of loss harvesting opportunities that are otherwise created and quickly erased by fleeting periods of rising interest rates.

Achieving Best Execution and Minimizing Transaction Costs

By taking into account all client accounts opted into our tax loss harvesting process and blocking together eligible securities to sell, we endeavor to achieve best execution and minimize transaction costs. This block trading strategy offers greater liquidity to ensure that all portfolios can similarly benefit from tax loss harvesting — regardless of portfolio size.[3]

2 Increase in yield on swaps represents the weighted mean (on trade value) difference in yield-to-worst between the bond sold and the first buy following the sale within the account. $121K figure is calculated by multiplying 11 basis points of pickup by $110MM total par sold.
3 Our observations show execution costs are markedly lower when our traders sell bond lots of $100,000 par or greater versus bond lots of less than $100,000 par. In order to reach the $100,000 par threshold, we block together CUSIPs for sale when possible, in some cases blocking up positions across as many as 20 portfolios.
There is no assurance that any portfolio or strategy will achieve its investment objectives or that the desired results will be achieved.

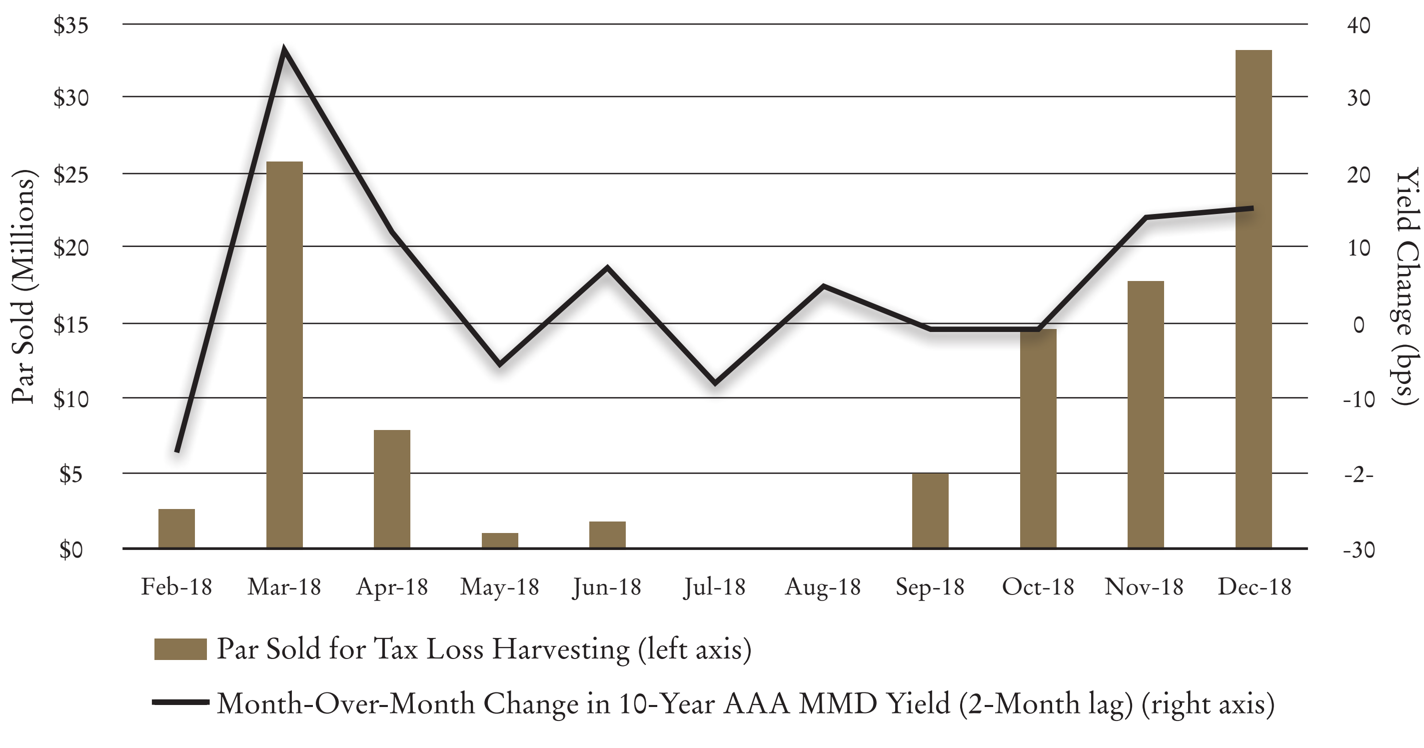
Benefits of Our Ongoing Process

Total Sales

Throughout 2018, we executed a total of 688 bond sales for tax loss harvesting purposes, which equated to roughly $110 million in par sold. These sales enabled us to realize approximately $4.07 million in total losses across 284 client accounts, with participating accounts ranging in size from $350,000 to nearly $200,000,000.[4]

Figure 1 shows the monthly breakdown of our sales for tax loss harvesting purposes over the year. While our 2018 efforts were heavily concentrated in periods of rising interest rates, we believe this figure highlights the benefits of an ongoing process. By additionally executing tax loss swaps throughout the first three quarters as opposed to deferring the process to just the final quarter, we were able to sell an additional $44 million in par, which comprised 40% of our total tax loss harvesting sales for the year.[5]

Figure 1: Par Sold vs. 10-Year AAA Muni Yield Interest Rate Trends (2-Month Lag)[6]



4 Market value of account on last business day prior to swap. Total realized losses represent every trade executed for tax loss harvesting purposes for all accounts opted in, although not every account opted in had a trade occur in 2018.
5 $44 million in par sold from February 2018 - September 2018.
6 10-Year AAA MMD Yields taken as of final business day of the month (example: Feb-18 Data point represents change in 10-year AAA MMD Yield from 11/30/2017 – 12/29/2018). 10-Year AAA MMD yields are sourced from Thomson Reuters MMD Interactive Data. Par sold calculations performed internally by Gurtin Municipal Bond Management.

Potential for Additional Income

Offsetting Taxes

Losses that we generated offset approximately $1.27 million in state and federal taxes. In order to calculate this figure, our team identified the realized loss on each sale, and multiplied the resulting dollar value by the client's assumed federal capital gains tax rate and state income tax rate.[7] As illustrated in Figure 2 — an example of one of the 688 bond sales we executed in 2018 for tax loss harvesting purposes — there can be a material associated tax benefit for just a single swap in a single portfolio.

Figure 2: Example Calculation for Taxes Offset for Single Swap in Portfolio[8]

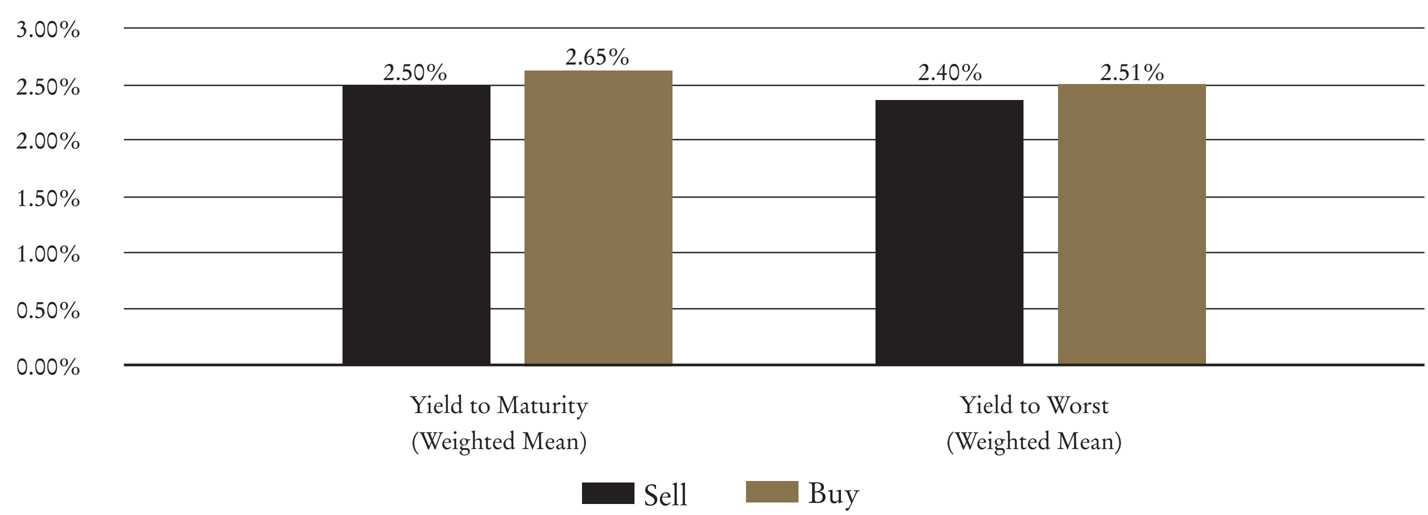
Quantity Sold	Realized Loss	Assumed Federal Tax Rate	Estimated Federal Tax Offset	Assumed State Tax Rate	Estimated State Tax Offset	Estimated Total Taxes Offset
$1,500,000	$84,009.24	23.8%	$19,994.20	4.25%	$3,570.39	$23,564.59

Yield Pickup

Throughout our tax loss harvesting efforts, we implemented a control process — including both automated and manual checks — designed to prevent swaps that would leave a portfolio worse off (i.e., swapping into a bond with a lower yield).

Taking this one step further, we also sought to actively improve portfolio yields during the process. By successfully increasing the yield-to-worst by 11 basis points (bps) on the $110 million in total par sold, we were able to generate $121,000 in additional annual income for our clients and increase the spread to MMD by 3.6 bps on bonds into which we swapped, as shown in Figure 3.[9]

Figure 3: Yield and Spread Lift on 2018 Tax Loss Harvesting Swaps[10]



7 Assumed the highest Federal Long-Term Capital Gains Tax rate (20%) and Medicare Tax (3.8%) for all portfolios. Assumed the highest marginal state tax income tax rate based on state of residence indicated for each individual portfolio.
8 Assumed Federal Capital Gains Tax Rate of 23.8% and assumed Michigan State Income Tax Rate of 4.25%. Example is a Michigan-domiciled portfolio. Calculations performed internally by Gurtin Municipal Bond Management.
9 Weighted Mean by Trade Value. MMD refers to the Thomson Reuters Municipal Market Data (MMD) AAA Curve.
10 Calculations performed internally by Gurtin Municipal Bond Management.

We offer our award-winning, systematic tax loss harvesting process at no additional cost for Gurtin clients invested in a selection of our municipal strategies.[11]

If you have any questions or would like to discuss how to participate in our year-round tax loss harvesting process, please contact us:

858-436-2200
AdvisoryServices@gurtin.com

11 Tax Loss Harvesting is available for our Municipal Ladder (with the exception of Ladder – Ultra Short), Municipal Intermediate Value, Municipal Social Advancement, Municipal Extended Value, and Municipal Stability strategies.

To discuss which strategy may be right for your specific goals and objectives, contact us:

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