

Tax-aware

Keep more of what you earn

The hidden cost: tax drag

Investors have a silent partner taking 20–30% of their returns—and that partner never invested a dime. Over a lifetime, tax drag can potentially cost hundreds of thousands, even millions, of dollars.

While investors naturally focus on pre-tax returns, it's what they keep after taxes that compounds into real wealth.

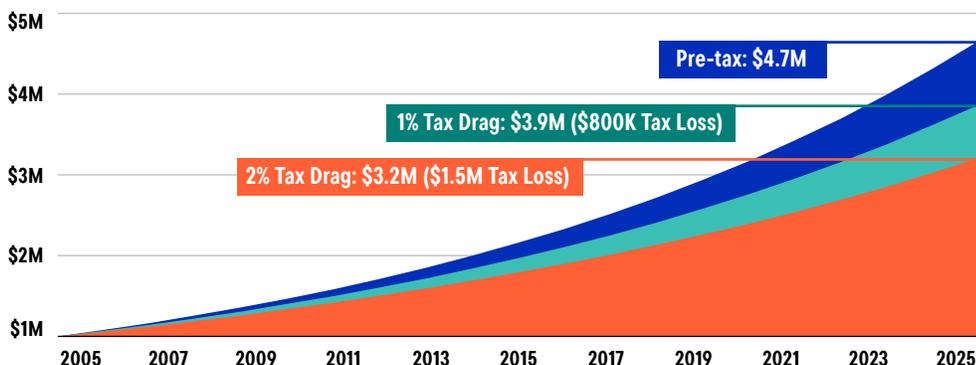
How to keep more? Two approaches:

- **AVOID** paying taxes on income
- **MITIGATE** by reducing taxes on gains

The compounding penalty of tax drag¹

Growth of a Hypothetical \$1 Million Investment

For the 20-year period ending 12/31/2025



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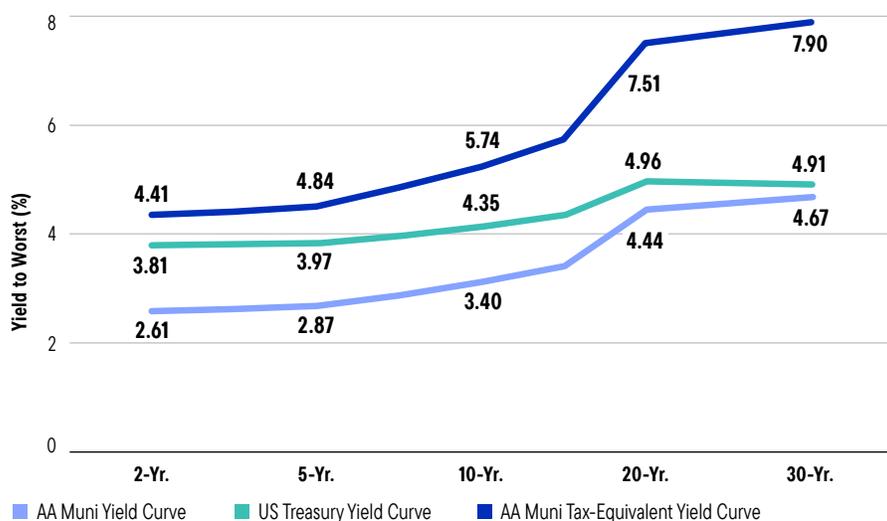
Avoid taxes with tax-free income

The simplest form of tax awareness? Never pay the tax in the first place.

Municipal bonds are designed to deliver income that's exempt from federal taxes—and often state taxes too. At today's yields, munis offer higher potential than taxable bonds on an after-tax basis.

Muni's Shine After Tax²

As of March 31, 2026



The real dollar impact:

Hypothetical \$1 Million Investment²

	Taxable Bonds	Municipal Bonds
Yield (30-Yr)	4.91%	4.67%
Gross Income	\$49,100	\$46,700
Taxes Owed	\$20,032	\$0
Net Income	\$29,067	\$46,700
		\$17,633
		Income Advantage per Year

To match this with taxable bonds?

That requires a 7.90% yield—approximately 300 basis points above what taxable bonds offered as of March 31, 2026.

All charts are for illustrative purposes only and do not reflect the performance of any Franklin Templeton affiliated fund. Past performance does not guarantee future results.

1. Source: Chaudhuri, S. E., Burnham T. C. and Lo, A. W. (2020). "An Empirical Evaluation of Tax-Loss Harvesting Alpha. *Financial Analysts Journal*, 76:3, 99–108. The study found that a tax-loss harvesting strategy produced an average 1.08% tax alpha per year over the period 1926–2018 and ranged from 0.57% to 2.29% per year during low and high volatility periods. This study did not involve Franklin Templeton or O'Shaughnessy Asset Management, LLC. Tax drag represents the reduction of potential investment returns due to taxes. There is no guarantee a tax-managed strategy will result in increased after-tax returns. Results will differ based on an individual investor's circumstances.

2. Source: Bloomberg. Assumes the maximum US marginal tax rate of 40.8%, inclusive of the 3.8% net investment income tax.

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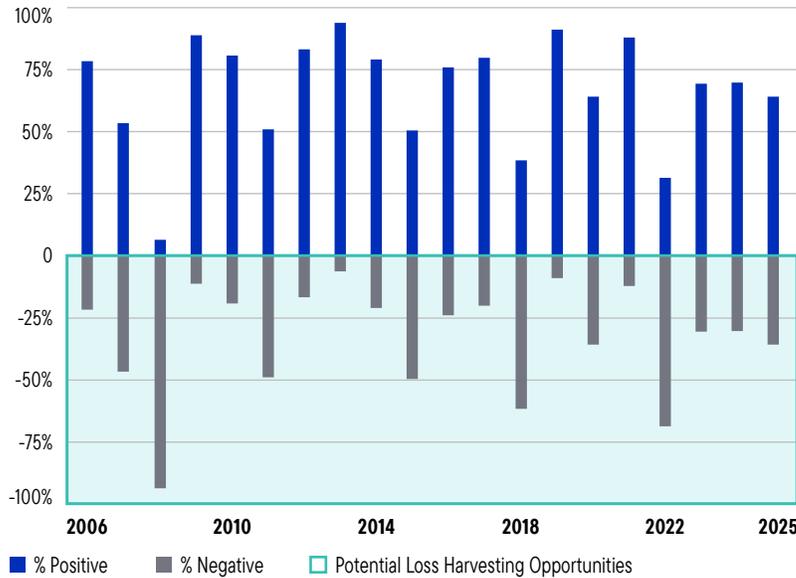
Mitigate taxes with tax-loss harvesting

Turn market losses into tax savings

Even in good markets, individual investments experience losses. On average, 35% of S&P 500 stocks are down in any given year—and many more experience temporary declines at some point during the year. Tax-loss harvesting captures losses to offset capital gains—reducing taxes without changing market exposure.

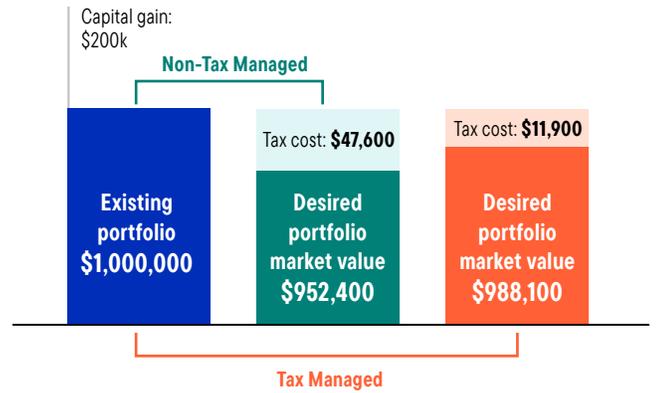
Individual Stocks Create Harvest Opportunities—Even in Up Markets³

For the 20-Year Period Ended December 31, 2025



The real dollar impact:

Hypothetical \$1 Million Portfolio With a \$200k Embedded Gain Wants to Rebalance Portfolio⁴



- No tax management: \$47,600 tax cost (23.8% rate)
- With tax-loss harvesting: \$11,900 tax cost
- **Tax savings: \$35,700**

Tax awareness matters: Tax drag can sap 20–30% of investment returns—the question is which approach to use:

Need income? → AVOID taxes with municipal bonds

Have capital gains? → MITIGATE taxes with tax-loss harvesting

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. **Bond prices** generally move in the opposite direction of interest rates. Thus, as prices of bonds in a portfolio adjust to a rise in interest rates, the portfolio's value may decline. **Changes in the credit rating** of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. All bonds are subject to the potential for default. **High-yield, lower-rated (junk) bonds** generally have greater price swings and higher **default** risks. **Municipal income** may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. **Capital gains**, if any, are taxable. **Tax management** practices may impact performance, portfolio characteristics and holdings; and may not result in favorable outcomes.

These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties or complying with any applicable tax laws or regulations. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account.

3. Sources: FactSet, S&P Global. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

4. Source: O'Shaughnessy Asset Management, LLC (OSAM). Assumes 23.8% federal long-term capital gains tax rate, all gains are eligible for long-term rate, and no state tax rate. The feasibility of potentially reducing the tax cost from \$47,600 to \$11,900 is dependent on market environment, incumbent securities, and investor preferences and capital gains considerations. This scenario assumes that over time the portfolio generates losses that can be used to offset \$200k in capital gains. When transitioning to tax-managed strategies, individual accounts will deviate from the target model due to tax management practices.



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