FIFTH THIRD BANK

Tax-Optimized Investing in 2022:
401(k) Investing & Direct Indexing

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Agenda

1. 401(k) Investing
   - Sample investment lineup
   - Two investment approaches
   - Asset allocation guidance
   - 401(k) Tips
   - Active vs. passive
2. Direct Indexing
   - What is it?
   - How does it work?
   - How does it fit in my portfolio?
   - What are the pros and cons?
3. The Long View
4. Questions

401(k) Investing

Sample Investment Lineup

Asset Class	Asset Category	Fund Name	Style	Active or Passive	Expense Ratio
Equity	Domestic – Large Cap	Fund 1	Growth	Active	0.45%
Equity	Domestic – Large Cap	Fund 2	Growth	Passive	0.05%
Equity	Domestic – Large Cap	Fund 3	Value	Passive	0.04%
Equity	Domestic – Large Cap	Fund 4	Blend	Passive	0.01%
Equity	Domestic – Mid Cap	Fund 5	Growth	Active	0.67%
Equity	Domestic – Mid Cap	Fund 6	Value	Active	0.58%
Equity	Domestic – Mid Cap	Fund 7	Blend	Passive	0.03%
Equity	Domestic – Small Cap	Fund 8	Growth	Active	0.75%
Equity	Domestic – Small Cap	Fund 9	Value	Active	0.75%
Equity	Domestic – Small Cap	Fund 10	Blend	Passive	0.04%
Equity	Foreign – Large Cap	Fund 11	Growth	Active	0.32%
Equity	Foreign – Large Cap	Fund 12	Blend	Passive	0.07%
Fixed Income	Short Term	Fund 13	n/a	Active	0.28%
Fixed Income	Intermediate Term	Fund 14	n/a	Active	0.30%
Fixed Income	Intermediate Term	Fund 15	n/a	Passive	0.03%
Fixed Income	Inflation Protected	Fund 16	n/a	Active	0.22%
Cash	Money Market	Fund 17	n/a	Active	0.11%
Target Retirement Date[1]		Funds 18-27	n/a	Active[1]	0.39% - 0.53%[1]

[1] Represents ten unique target retirement date funds.

Two Approaches to Selecting 401(k) Investments

Do it Yourself

- Build your own 401(k) portfolio by selecting from the individual fund choices and determining the appropriate/desired allocation to each.

Target Retirement Date

- Select one of the ten available target retirement date funds, based on your planned retirement year.

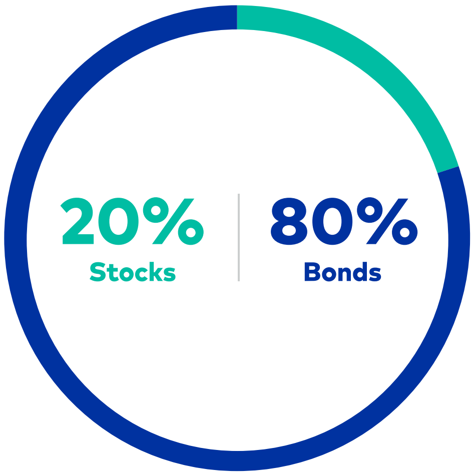
- These funds are made up of several underlying funds, providing exposure to multiple equity, fixed income, and alternative asset classes. The overall risk profile is consistent with what would be generally appropriate for someone planning to retire in the selected year.

Two Approaches to Selecting 401(k) Investments

	Do it Yourself	Target Retirement Date
PROS	• Allows for the greatest amount of control • Access to the best individual fund options • Flexibility to choose active and passive managers based on the asset category	• Simplicity of choice • Very well diversified • The fund becomes more conservative as the retirement date nears (glide path)
CONS	• Relies heavily on good decision making of the part of the participant • Fund selection and asset allocation needs to be revisited periodically • Time consuming	• The asset allocation or glide path may not be a good fit • While diversified at the asset class level, you are typically exposed to one asset manager • Expenses can add up

Asset Allocation Guidance – Total Portfolio

Defensive

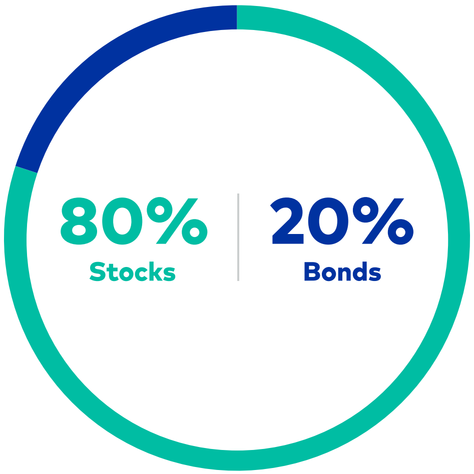


Average annual return: **7.2%**
Best year (1982): **40.7%**
Worst year (1931): **–10.1%**
Years with a loss: **16 of 95**

Balanced

Average annual return: **8.7%**
Best year (1982): **33.5%**
Worst year (1931): **–22.5%**
Years with a loss: **20 of 95**

Growth



Average annual return: **9.8%**
Best year (1982): **45.4%**
Worst year (1931): **–34.9%**
Years with a loss: **24 of 95**

Source: Vanguard

Asset Allocation Guidance – Equity Portfolio

Equity Asset Category	Current Fifth Third Target	MSCI All Country World Index IMI[1]
Domestic – Large Cap	56%	46%
Domestic – Small/Mid Cap	13%	13%
Foreign – Developed	24%	29%
Foreign – Emerging Markets	7%	12%

- The figures to the left serve as a guide for how to allocate to global equities in your 401(k).

[1] The MSCI All Country World Index Investible Market Index is a widely-quoted global equity index. It represents roughly 99% of the investible global equity market.

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Active or Passive?

- Active management: focuses on selecting securities to outperform the market in comparison to a specific benchmark, like the S&P 500
- Passive management: mirrors the investment holdings of a particular index in order to achieve similar results

- Key takeaways:
  - Active management strives for greater returns, but typically does so with greater risk and expenses
  - A passive manager is only as good as the index he or she is tracking
  - Active managers, on average, have had significantly more success in less efficient areas of the financial markets

- My 401(k)-specific recommendation: A blended approach, favoring passive
  - Favor passive (index funds) for large cap domestic – most efficient market
  - Favor active for small/mid cap domestic and foreign – least efficient markets
  - Success can often be dependent upon the “investing climate”
  - You can blend even at the asset category level
  - Tax management is moot

401(k) Tips

2022 Contribution Limits

- Up to age 49: $20,500
- Age 50 and over: $27,000

- Generally-speaking, you should max out your 401(k) contributions before making other less tax-advantaged investments.

Example Employer Matching

- 150% of your first 2% of compensation
- 100% of your next 4% of compensation

- Therefore, a contribution of 6% of your compensation can be effectively viewed as your “minimum contribution.”

- With the employer match, a contribution of 6% of your compensation is equivalent to 11% of your compensation.

- Note that employer matching is subject to IRS-imposed compensation limits ($305k in 2022).

401(k) Tips

Roth 401(k) Option

- Different than a traditional pre-tax 401(k) contribution, Roth contributions are made with post-tax money.
- When you take a qualified distribution in retirement, you are not taxed on any part of that distribution, including investment earnings.
- The traditional rule of thumb is to choose a Roth if you expect to be in a higher tax bracket at retirement. That said, a Roth can be generally more advantageous, as you are only paying income tax on your contributions.

Self-Directed Brokerage Option

- Some plans have an optional feature that allows you to transfer a portion of your 401(k) assets to a brokerage account within the plan.
- The brokerage account allows you to select and invest in assets beyond what have been identified as the core investment options.

401(k) Tips

- Many 401(k) plans allow for contributions from certain bonus/incentive compensation payouts.

- Leave your 401(k) alone. Don't take loans or other pre-retirement distributions if you can avoid it. You should, however, revisit your asset allocation and fund selection at least every 2-3 years.

- If you have a 401(k) with a former employer, you can generally roll it over to an IRA or to your current employer's 401(k). A comparison of the plans, fund options, fees, etc. may reveal an opportunity.

- Have as much equity exposure as your comfort level allows.

Proposed 401(k) Changes

The Problem

- By the end of the decade, roughly 21% of the U.S. population will be 65 or older
- Only one-third of non-retired adults think their retirement savings will be sufficient
- The 401(k) was supposed to be just one leg of a three-legged retirement savings stool
- The 401(k) is effectively designed for higher income-earning Americans

The Proposed Solution

- SECURE Act (2019) – removed maximum age limits on contributions; tax credits for small businesses; benefits to some long-term part-time employees
- SECURE 2.0:
  - Mandatory automatic enrollment
  - Increased catch-up contributions
  - Student loan repayment treated as retirement account deferrals
  - Delay mandatory withdrawals & limit tax penalties
  - Part-time workers can contribute
  - Other miscellaneous provisions

Direct Indexing

What is direct indexing?

- Definition: A form of passive/index investing where the investor replicates an index (like the S&P 500) in their portfolio by directly purchasing the components of the index at the appropriate weights.

- Why would someone do this? This is done to gain passive exposure, while preserving the ability to harvest losses.

- Direct indexing solves one big problem with index ETFs, and two big problems with index mutual funds:
  - ETFs are a single security; thus, they provide no ability to tactically realize gains or losses at the constituent security-level
  - Mutual funds add a second problem – forced capital gains distributions

How does it work?

1. Identify securities held at a loss

Sell shares of Car Company A to realize a short-term loss of $25,000
Tax value of this trade is $10,200 at 40.8% tax rate

2. Select replacement securities

Buy shares of Car Company B to replace Car Company A

The portfolio weight to the automobile industry stays close to the benchmark

3. Portfolio continues to deliver client-specified exposure

Seek to outperform the index by 1 to 2% return per year after taxes through active tax management

4. Sectors, industries, and securities are risk-managed relative to benchmarks

Source: Parametric Portfolio Associates ®

How does it work?

PROCESS REPEATS ITSELF CONTINUOUSLY

Portfolio
- ~400 Securities
- 1% Predicted Tracking Error

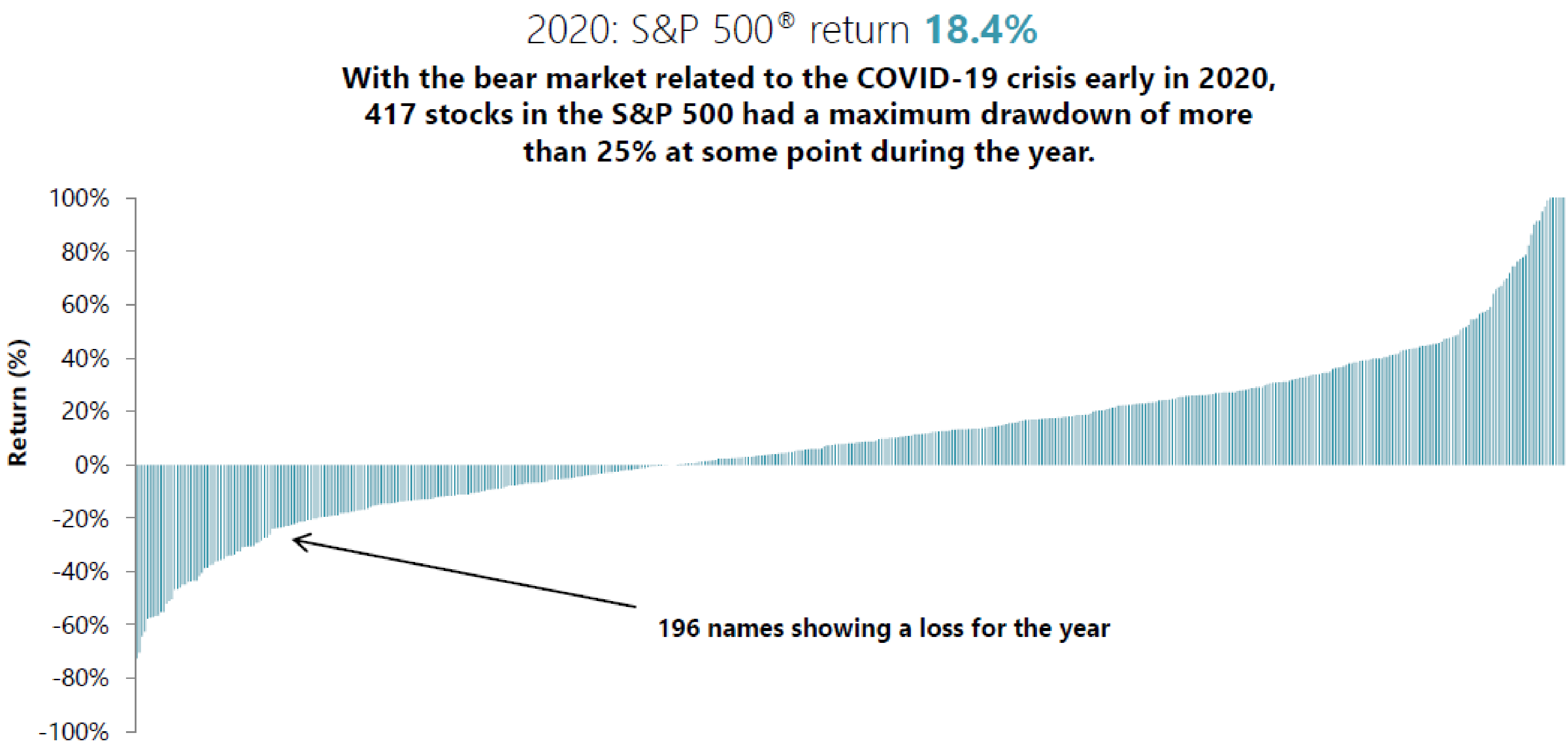
Actively loss harvest
- Identify loss harvesting opportunity within portfolio
- Example:
  - Sell 40 tax lots to realize loss of $25,000
  - Tax Value of this trade $10,200 at 40.8% tax rate

Replace
- Buy 45 replacement securities
- One Way Turnover: 5%

Final portfolio
- 405 Securities
- .95% Predicted Tracking Error
- Cash reduced, overweights / underweights reduced

Source: Parametric Portfolio Associates ®

Losses are not the goal. Yet, they always occur.



Source: Factset, Parametric Portfolio Associates ®

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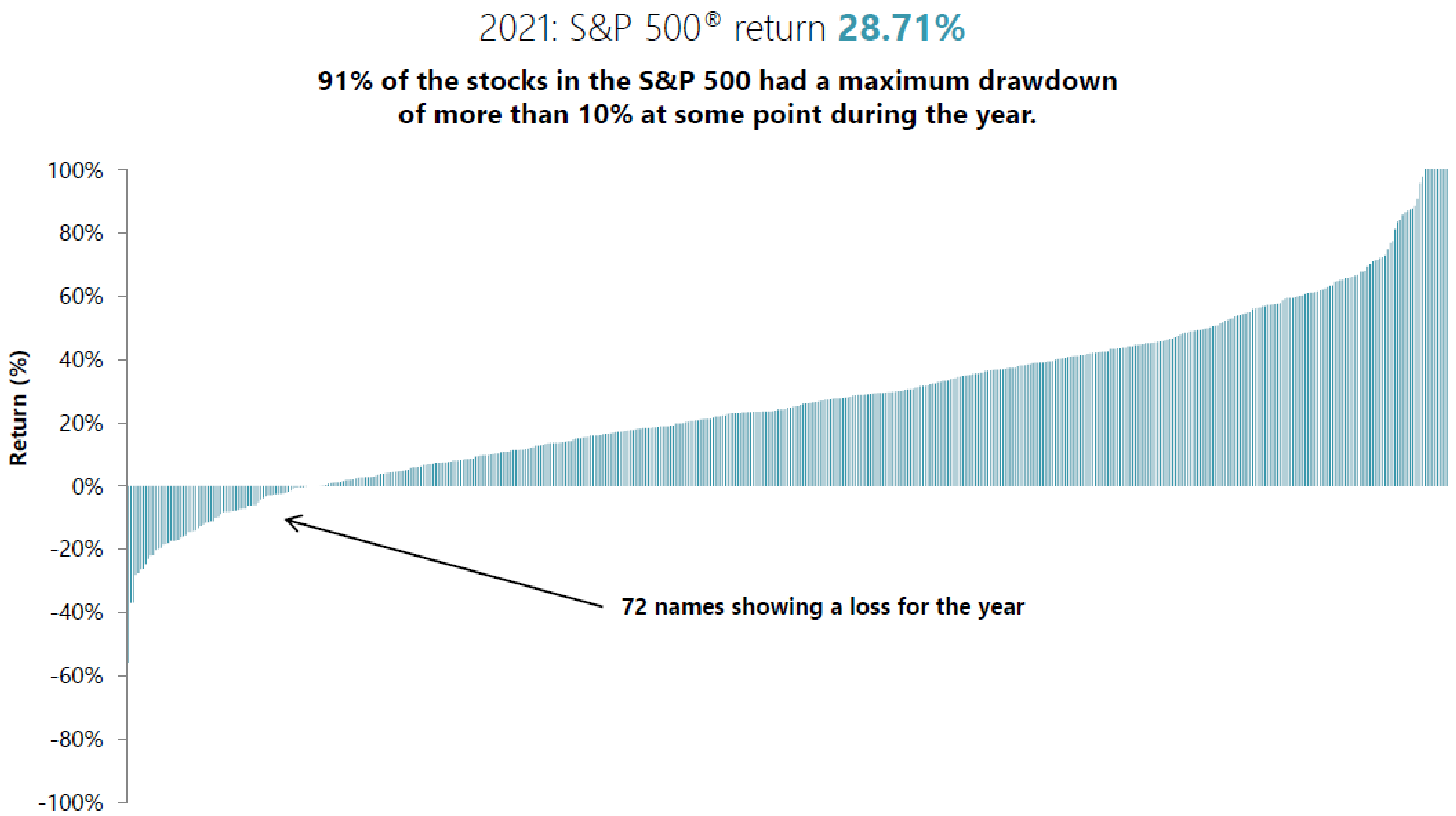

Source: Factset, Parametric Portfolio Associates ®

An actual example of the power of direct indexing

Direct Indexing Portfolio

- Target Benchmark: S&P 500
- Reporting Period: As of 12/31/20
- Portfolio Market Value: $7,881,358
- Portfolio Cost Basis: $5,039,005

2020 Performance

Pre-Tax %		After-Tax %	
Portfolio	S&P 500	Portfolio	S&P 500
17.47%	18.40%	22.20%	17.76%
Delta	**-0.93%**	**Delta**	**+4.44%**

2020 Income & Capital Gains

Dividend Income	$123,131
Net Capital Gain/Loss	-$708,477

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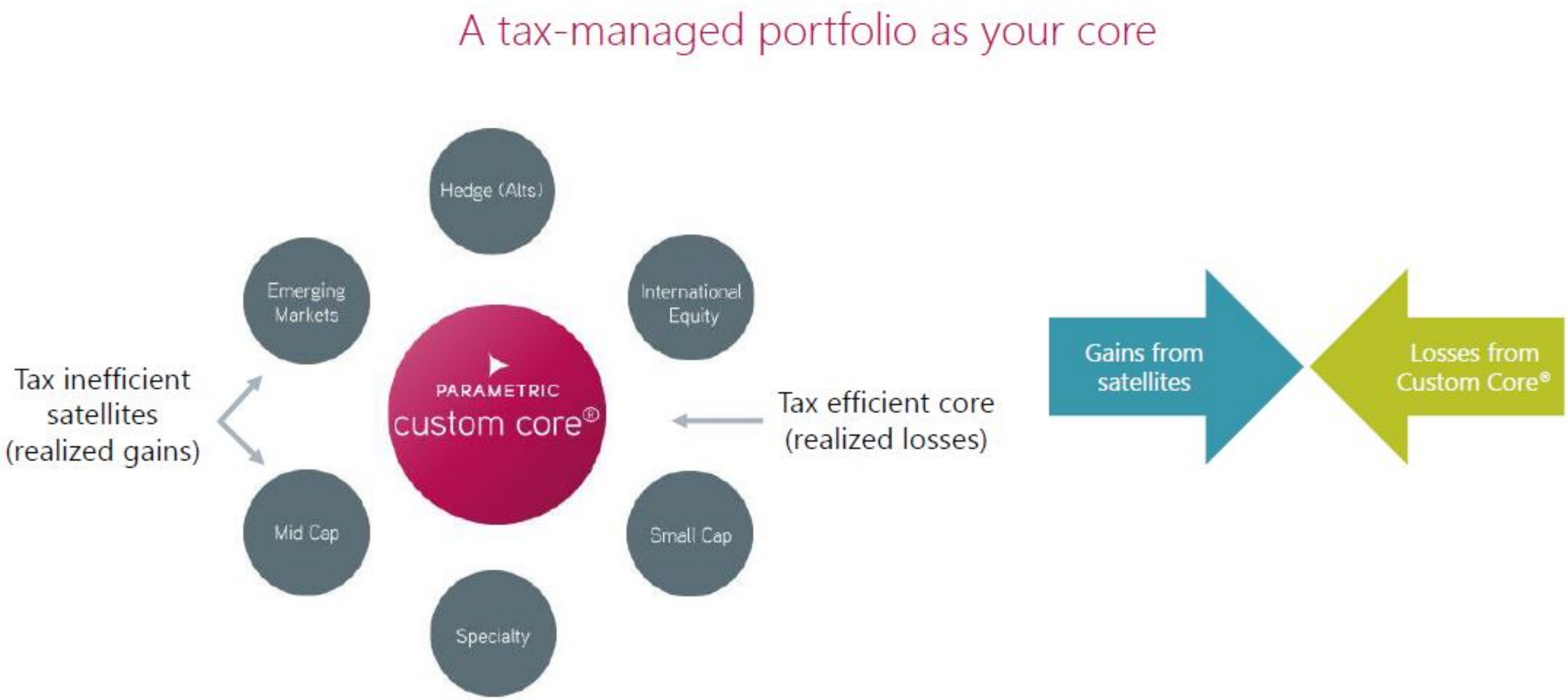
How does direct indexing fit into a portfolio?



Source: Parametric Portfolio Associates ®

The benefits of direct indexing

1. Amidst the rise in the popularity of passive investing, it offers greater autonomy and the ability to customize
2. A reduction in tracking error
3. Greater control of capital gains tax
4. Potentially reduced capital gains tax
5. Captures value in volatile and declining markets
6. Better aggregate investment performance via “tax alpha”
7. Provides for greater actively-managed flexibility elsewhere in your portfolio

The potential downsides of direct indexing

1. Owning several hundred individual stock positions adds a layer of complexity (e.g. proxy voting; lengthy client reporting sacrificing the simplicity of a single vehicle)

2. More expensive than investing in a low-cost ETF

3. As we enter a cycle of potentially greater dispersion in investment returns, active managers may outperform

4. An investor may jump on a specific theme, misunderstanding that owning many positions is not synonymous with diversification

5. A measurement of the potential tax benefits of direct indexing relies on assumptions and does not consider that the investor may already be managing their portfolio in a very tax-efficient manner

6. Direct indexing has essentially no value within a tax-advantaged account

Why is direct indexing gaining popularity now?

1. Bias towards passive investing
2. Passive exposure can be tailored to an individual's geographic preferences, investment style, or responsible investment goal
3. Low/zero commission stock trading
4. Fractional share stock trading
5. Awareness of potentially increasing capital gains taxes
6. Several financial services firms are now offering direct indexing to individual/retail investors

Direct indexing as table stakes

1. Charles Schwab, Goldman Sachs, CI Financial, J.P. Morgan, Franklin Templeton, Prudential Global Investment Management, Pershing and UBS have all bought in.

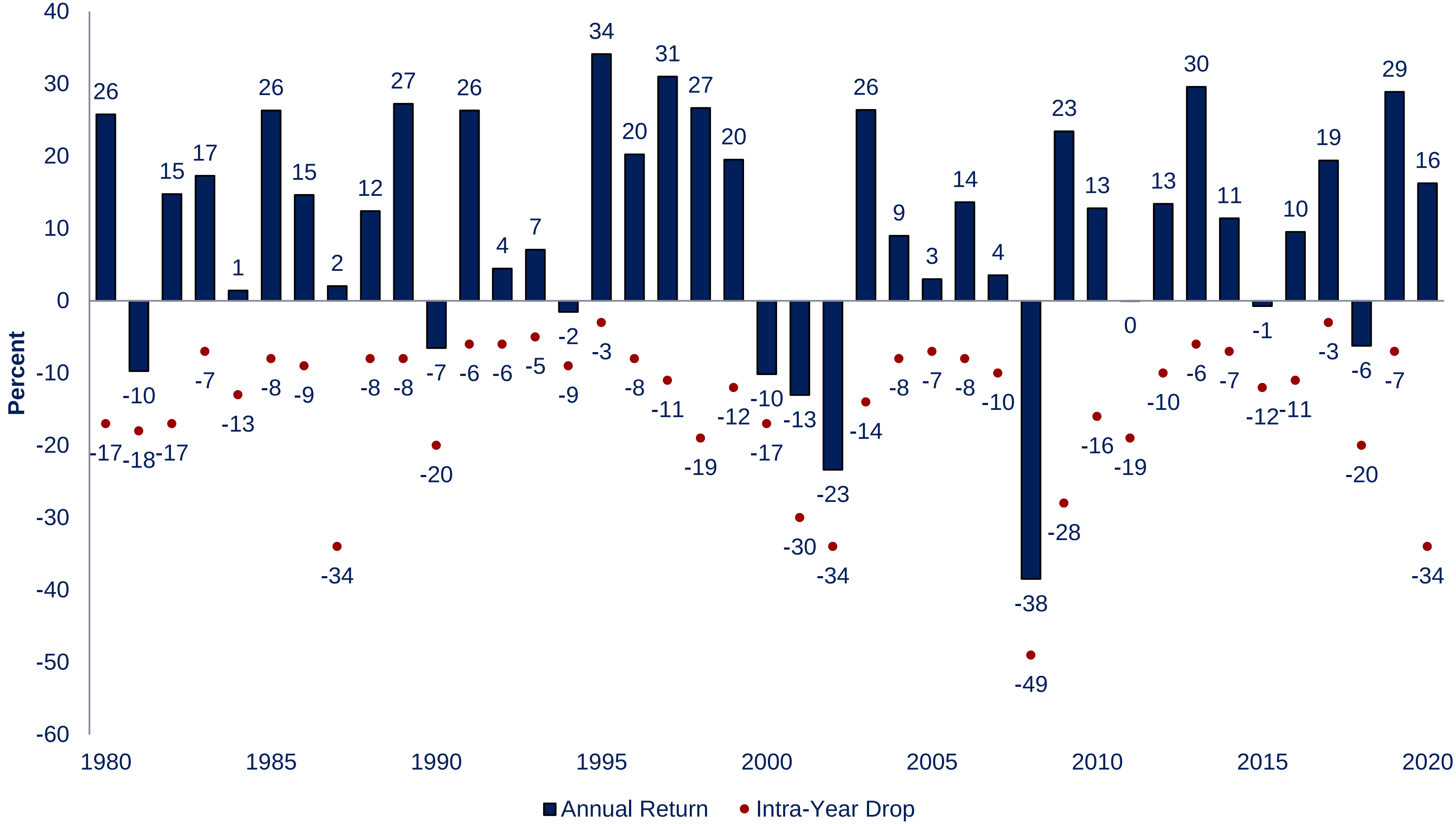
2. Vanguard purchased direct indexing fintech firm Just Invest in October 2021, which was the massive firm's first acquisition in company history.

3. Leveraging zero cost trading and fractional share trading, Fidelity rolled out a new product (FidFolios) this year that provides direct indexing to retail investors for just a $5,000 minimum.

4. According to a report by Cerulli and Parametric, assets in direct indexing are expected to grow at an annualized rate of more than 12% over the next five years, outpacing ETFs and mutual funds.

The Long View

Putting investment returns into context



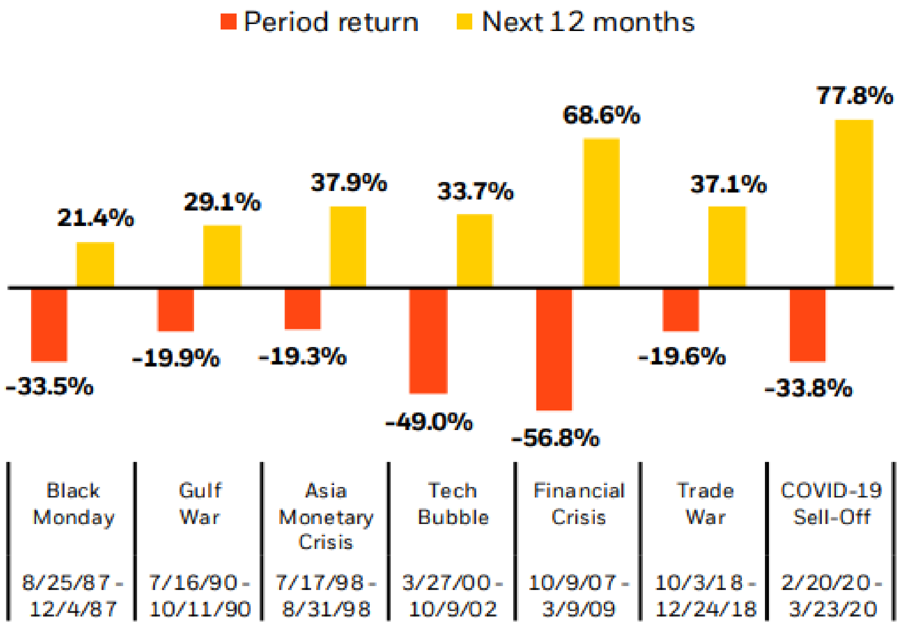
Source: Bloomberg, J.P. Morgan Asset Management; Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposed only. Returns shown are calendar year returns from 1980 to 2020.

Stay the course amid market volatility

Worst Days*
Since 1950

Calendar Days	S&P 500 Decline*	Return 1 year later*
10/19/87	-20.5%	23.1%
3/16/20	-12.0%	69.0%
3/12/20	-9.5%	61.8%
10/15/08	-9.0%	20.8%
12/01/08	-8.9%	35.9%
9/29/08	-8.8%	-4.1%
10/26/87	-8.3%	23.5%
10/09/08	-7.6%	17.8%
3/9/20	-7.6%	43.6%
10/27/97	-6.9%	21.5%
08/31/98	-6.8%	38.0%
01/08/88	-6.8%	15.3%
11/20/08	-6.7%	45.1%
05/28/62	-6.7%	26.7%
08/08/11	-6.7%	25.2%
Average	***-8.9%***	***30.9%***

Past growth scares and bear markets
Since 1987



Source: BlackRock; Morningstar as of 1/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 1/31/22 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. **Past performance does not guarantee or indicate future results.** *Indicates principal return, dividends not included. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 PR Index.

Questions?

Thank you.

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