**Invest for after-tax returns**

Don’t bank on pre-tax returns. Use our “Fill First” approach to maximize after-tax returns.

As you build portfolios, don’t let taxes take a back seat to risk and cost considerations. Taxes can be a big drag on your returns, so work with your advisor to structure your accounts for what really matters – **after-tax returns**. Use BlackRock’s “**Fill First**” framework to help you get started.

**Setting the stage**

Take a total view across your investment accounts. Remember, money is money, no matter where it sits, so make sure your IRA and taxable accounts work together towards a common goal. Let’s start with two guiding principles that can help maximize your after-tax returns.

**Rule #1 – Bonds**

Fill your IRA with taxable bonds, like corporates, before owning any bonds in your taxable accounts. *

**Rule #2 – Equities**

Anchor your taxable account with buy-and-hold equity ETFs. †

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**Investor profile**

Next, let’s introduce a hypothetical investor with assets spread across IRAs and taxable accounts.

**Investor assets**

$1,000,000 total, with $500K in an IRA and $500K in a traditional taxable account

**Asset allocation**

80% stocks, 20% bonds – this is an aggressive growth risk profile

**Investment preference**

50% of equities in low-cost ETFs, 50% mutual funds & stocks

**The assets**

- **Bonds**: $200,000
- **Equity ETFs**: $400,000
- **Equity mutual funds & stocks**: $400,000

**The accounts**

- **IRA**: $500,000
- **Taxable account**: $500,000

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**How should the investor fill the buckets?**

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**Notes:** In certain cases, there may be opportunities to tax optimize with certain accounts (e.g. Roth IRAs).

* Assumes bonds are part of a long-term asset allocation strategy and are not needed for current income. † For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains.
“Fill First” in three steps – seek to maximize after-tax returns.

**Step 1:**
Fill IRAs with bonds.

Fill your IRA with taxable bonds that seek higher yields where you can defer taxes.* If you need more bonds than your IRA can hold, complete your fixed income allocation in your taxable account.

**Step 2:**
Fill taxable accounts with ETFs.

Anchor your taxable account with buy-and-hold equity ETFs.†

**Step 3:**
Overweight mutual funds in IRAs.

Give your active equity managers a better chance to shine in the absence of capital gains taxes.

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**Did you know?**

No iShares U.S. style box ETFs have paid a capital gain over the past five years.⁴

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**ETFs and IRAs**

Equity ETFs are also well suited for IRAs, so it’s a matter of preference—but if you seek outperformance with mutual funds, consider overweighting them in your IRA.

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**Talk to your advisor about re-positioning your portfolio for after-tax returns.**

* Assumes bonds are part of a long-term asset allocation strategy and are not needed for current income. † For taxable accounts, also consider tax-managed SMAs for clients with large unrealized capital gains.

1 Source: BlackRock as of 12/31/22; ICE BofA 5-10 Year US Corporate Index. 2 Source: BlackRock, as of 12/31/22, ICE BofA Municipals 5-10 Yrs Index. 3 It is not possible to invest directly in an index. Index performance provided is not representative of any specific product. 4 Source: BlackRock as of 12/31/22; Morningstar, average of years 2018–2022 as of 12/31/22. Number of funds includes all funds that incepted on or before 10/31 of each year, and excludes any funds that closed on or before 12/01 of each year. Past distributions not indicative of future distributions. Transactions in shares of ETFs will result in brokerage commissions and will generate tax consequences. All regulated investment companies are obliged to distribute portfolio gains to shareholders.
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Carefully consider the iShares Funds’ investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds’ prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.ishares.com or www.blackrock.com. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal.

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