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Why Active ETFs May Help Create Greater Tax Efficiency

These increasingly popular funds may help investors keep more of what they earn in the markets.

Pursue More Control Over Tax Bills

Everyone wants their investments to do well, but investing could also come with a hefty tax liability.

The tax bite can be particularly hard to stomach on certain mutual fund investments that may actually lose market value, but have required capital gains distributions.

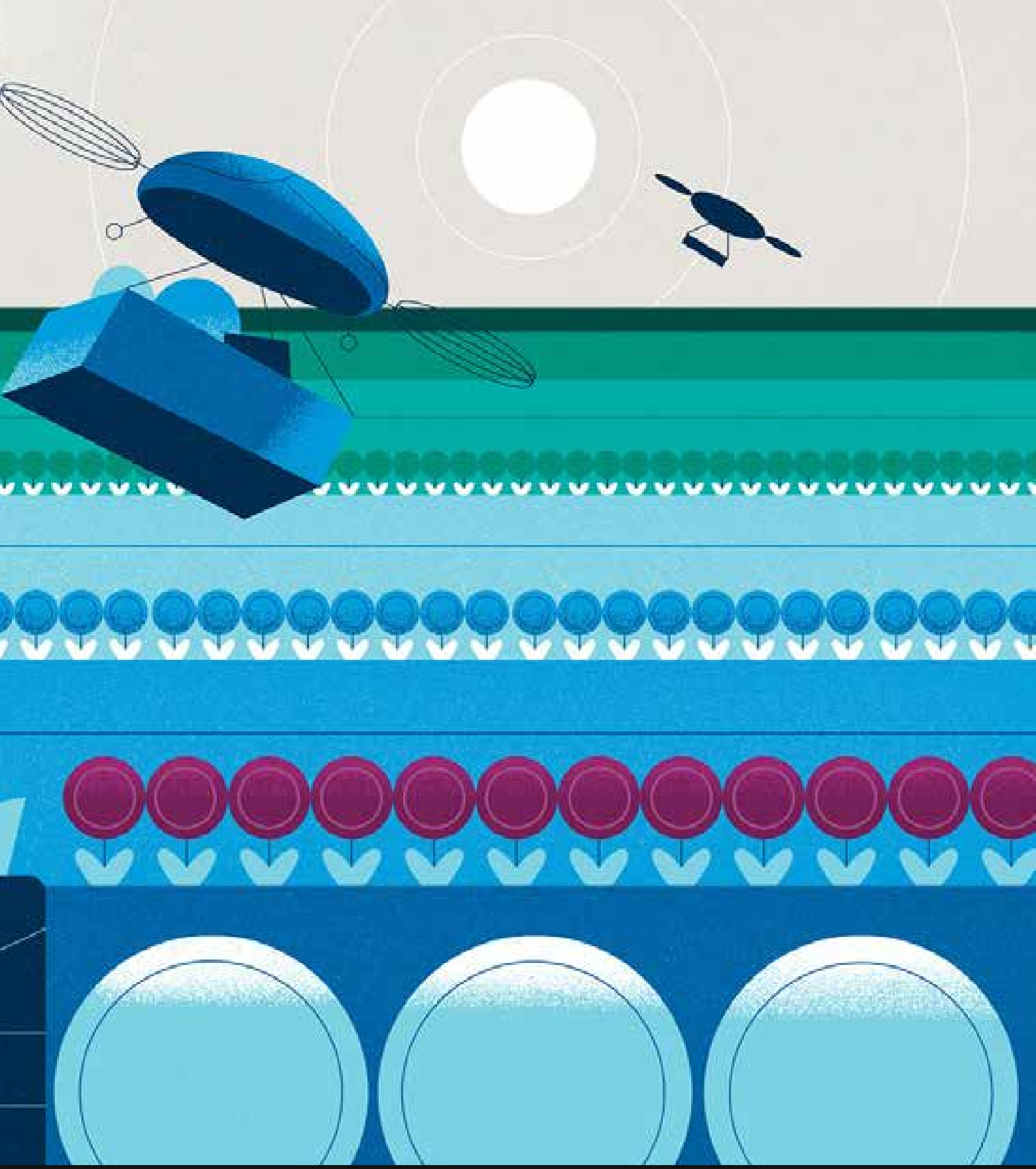
Insulate Yourself From the Action of Others

As with all ETFs, the tax advantages of active ETFs stem from the way they are designed.

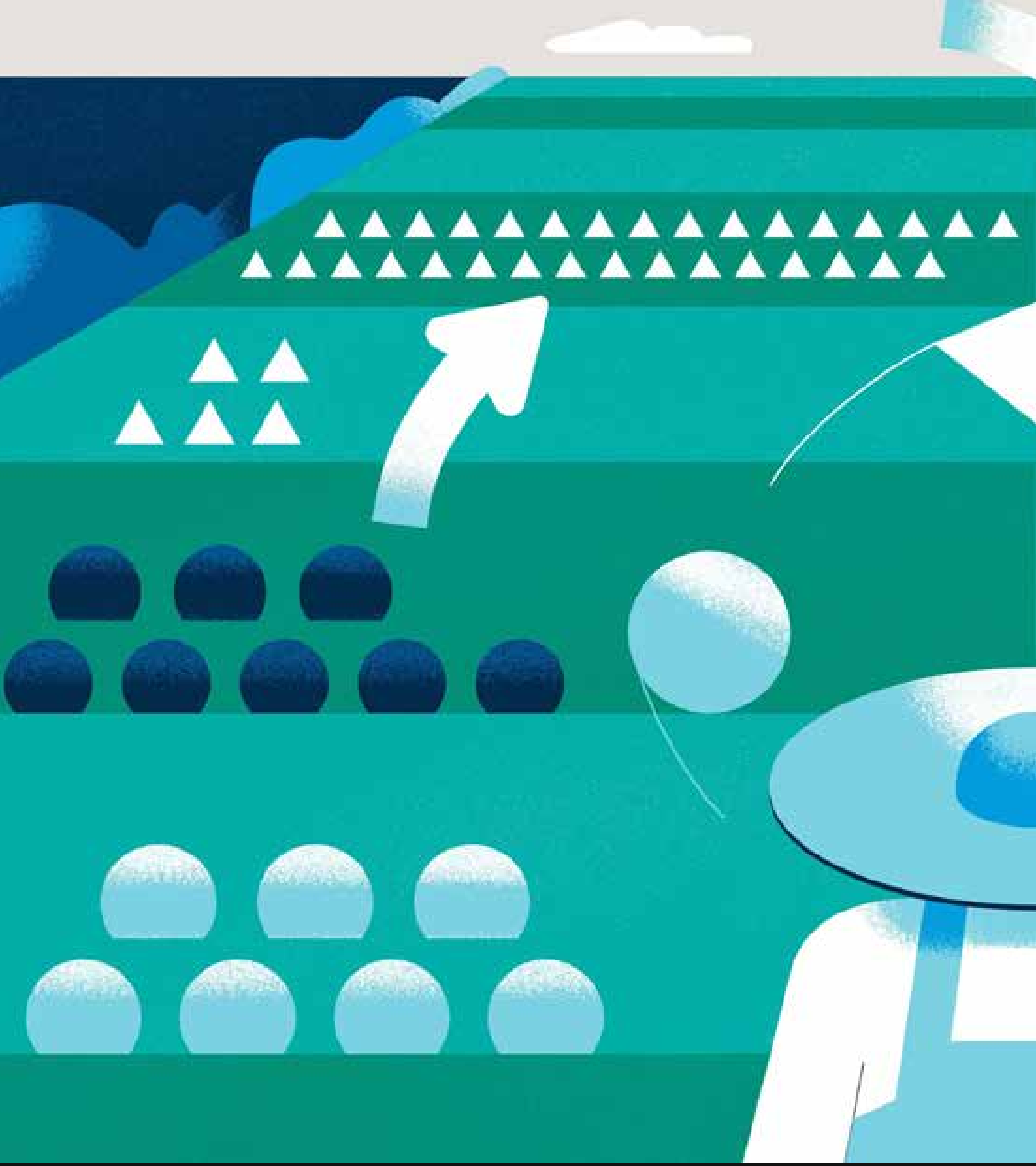
First off, ETFs trade in the secondary market — such as a stock exchange — which can separate the fund from individual investors' trading activity. And, secondly, when selling activity on an exchange does result in a redemption from the fund, it is usually tax-free to remaining investors because of the ability for the ETF issuer to deliver a basket of the lowest cost basis holdings to the exiting shareholder, who will then pay taxes based on the capital gain of the investment.

Offset Your Taxes With Tax-Loss Harvesting

Harvesting your losses can serve as a prelude to considering active ETFs.

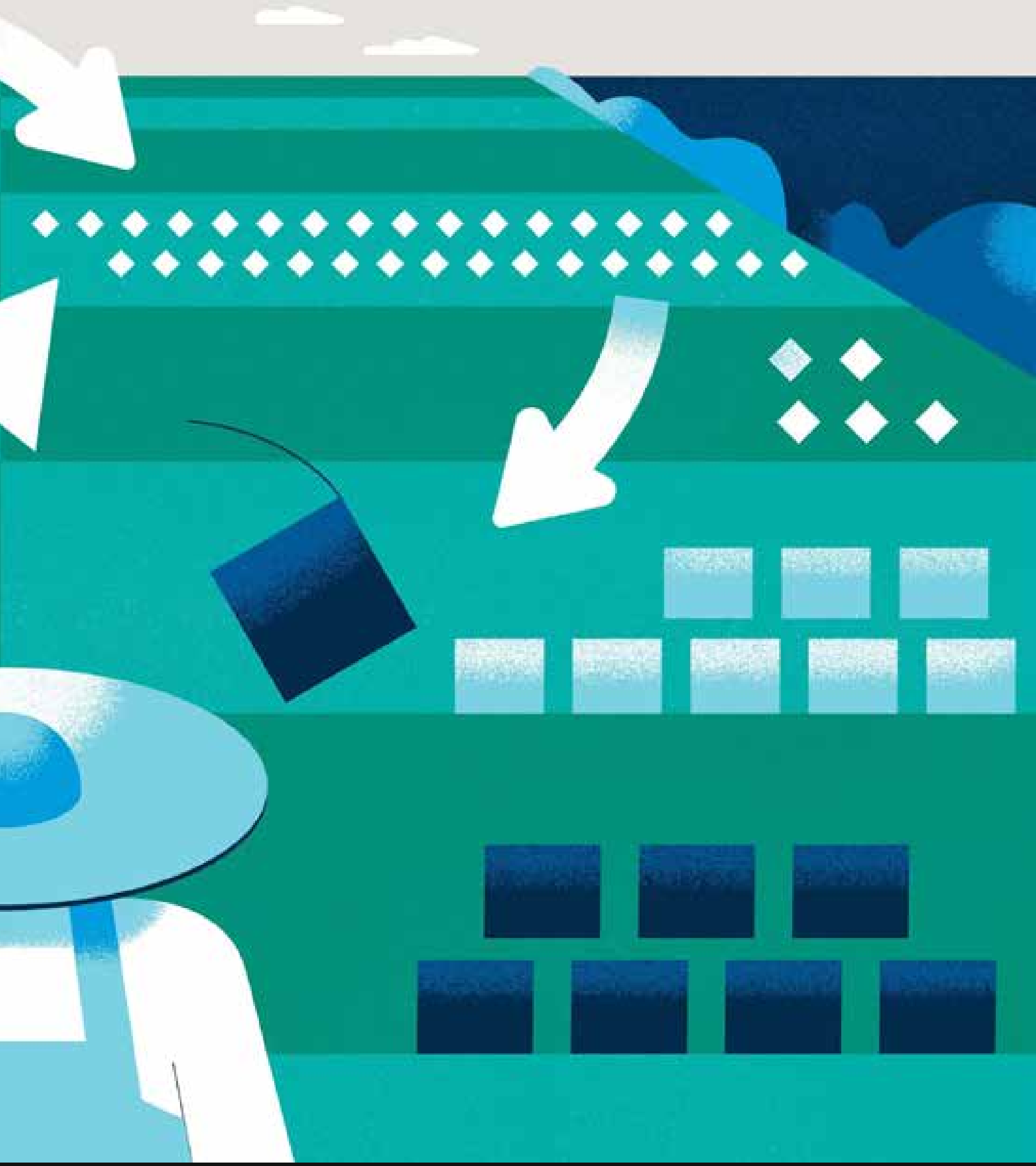


Offsetting some short- and long-term capital gains generated from selling an investment with capital losses from selling a losing investment elsewhere in a portfolio may help reduce taxes while also creating an opportunity to shift a portfolio into more tax-efficient funds. Many advisors still view tax-loss harvesting as a year-end practice, but the savviest professionals see it as a monthly discipline year-round.

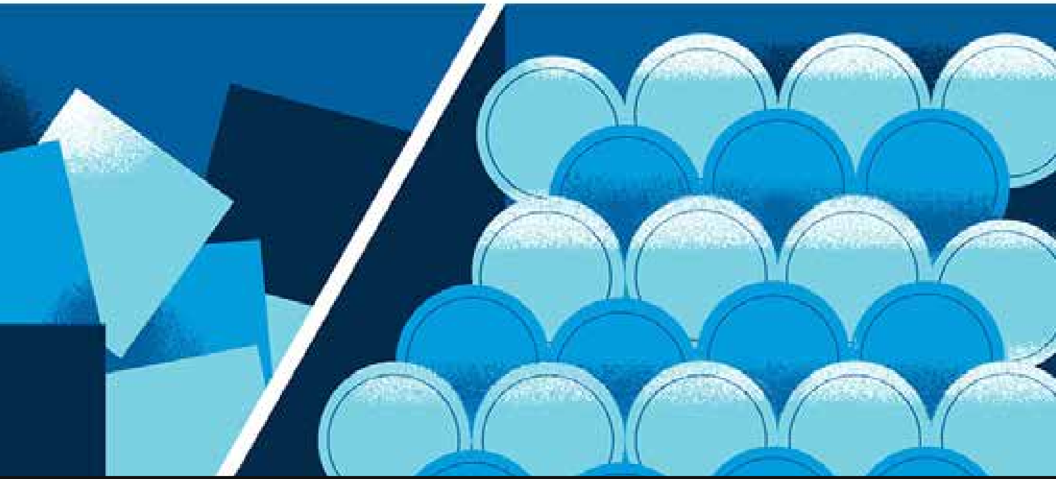


More Tax-Wise Steps

The pursuit of more tax-efficient holdings doesn't necessarily mean having to sell existing funds.

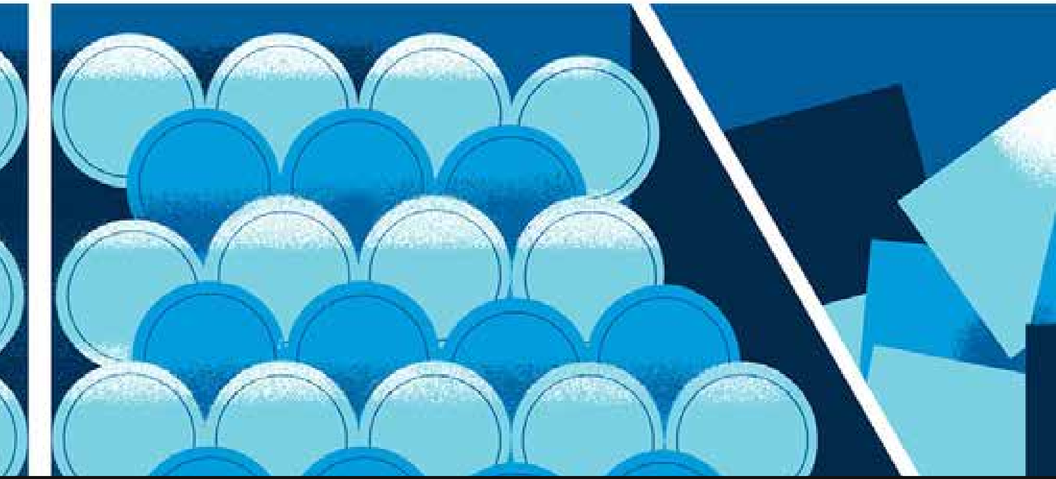


Advisors can use sidelined cash and even cash from dividends that were routinely funneled back into legacy mutual fund positions to build positions in active ETFs.



Active ETFs as Tax-Efficient Building Blocks

Capital Group’s lineup of active ETFs has a broad range of options for advisors to consider.



Capital Group Core Plus Income ETF (CGCP) and the U.S. Multi-Sector Income ETF (CGMS) help manage bond exposures across sectors within the fund, while Capital Group International Focus Equity ETF (CGXU) seeks to generate growth of capital in non-U.S. developed markets. And the Core Equity ETF (CGUS) can serve as a complement to an S&P 500 Index fund.

Leading With Active ETFs

According to a recent survey conducted by WSJ Intelligence in June 2023, advisors cite tax efficiency as the primary attribute for investing in active ETFs, as these funds may offer ways to reduce yearly taxes on investments.

Discover how Capital Group can help advisors create tax-efficient portfolios built around active ETFs.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Capital Group exchange-traded funds (ETFs) are actively managed and do not seek to replicate a specific index. ETF shares are bought and sold through an exchange at the then current market price, not net asset value (NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV when traded on an exchange. Brokerage commissions will reduce returns. There can be no guarantee that an active market for ETFs will develop or be maintained, or that the ETF's listing will continue or remain unchanged.

As nondiversified funds, Capital Group ETFs have the ability to invest a larger percentage of assets in securities of individual issuers than a diversified fund. As a result, a single issuer could adversely affect a fund's results more than if the fund invested a smaller percentage of assets in securities of that issuer. See the applicable prospectus for details.

This material does not constitute legal or tax advice. Investors should consult with their legal or tax advisors.

For CGUS, CGXU, CGCP and CGMS, investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

For CGCP and CGMS, the return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional securities, such as stocks and bonds. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus.

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