COLUMBIA THREADNEEDLE INVESTMENTS

MAXIMIZE AFTER-TAX RETURNS

Q: Why think about maximizing after-tax returns?

A combination of high taxes (potentially higher in 2023 than 2022 for higher income taxpayers), low interest rates, increasing inflation and bond prices under pressure from an uncertain credit and interest rate environment may leave you concerned about the ability of your fixed-income investments to deliver the income needed to reach your financial goals. One strategy to help you keep more of what your investments earn and reach your goals is to examine the tax efficiency of your portfolio.

While you may think tax-efficient investing is a strategy geared toward high-net-worth investors, let's face it — taxes matter for everyone. The goal of tax-efficient investing is not to avoid taxes. It is to maximize the after-tax return of an investment portfolio.

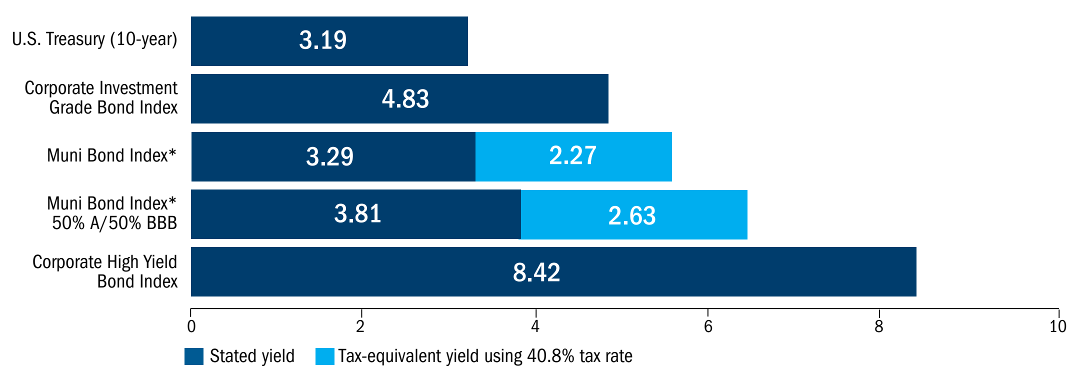
Two of the most common strategies to maximize after-tax returns are: 1) investing in municipal bonds that distribute federally and possibly state tax-exempt income and 2) placing assets in tax-deferred accounts, such as IRAs and 401(k)s.

Q: How can municipal bonds and municipal bond funds help maximize after-tax returns?

Many investors don't realize how much of a negative impact taxes can have on long-term portfolio performance. Although tax-exempt investments may be more advantageous to investors in higher tax brackets, the potential benefits of investing in municipal bonds can be significant, regardless of your income tax bracket. While interest earned on taxable fixed-income investments, such as corporate bonds and Treasuries, is taxed at the investor's ordinary income tax rate, interest earned on municipal bonds and exempt-interest dividends from municipal bond funds is generally exempt from federal taxes — which means you keep more of what you earn. In addition, depending on your state of residence, your municipal bond income may also be exempt from state taxes.

For the two municipal investment categories in the chart below, the additional yield provided by their tax-exempt status is indicated in the light blue portion of the bar. Although taxable bond yields may appear higher in some cases on a pretax basis, once you factor in taxes, the tax-exempt options begin to look better for investors across a range of income tax brackets.

Municipal bonds offer competitive yield: Taxable equivalent yields (%)



*Assumes a 2022 federal income tax rate of 40.8% (37% income tax rate + 3.8% net investment income tax rate). Other taxes are possible. State income taxes may be applicable and can further reduce the after-tax returns of some municipal bond investments (depending on the state of residence). Income from certain tax-exempt securities may be subject to the federal and/or state alternative minimum tax for some investors. In addition, federal and state income tax rules will apply to any capital gain distributions and capital gains or losses on sales. When investing in municipal securities, investors in higher tax brackets can receive a greater tax benefit than those in lower tax brackets. Municipal bonds provide income exempt from federal and, in some cases, state income taxes. Past performance does not guarantee future results. Sources: Columbia Threadneedle Investments as of 08/31/22. Asset classes represented with the following indices: Bloomberg Treasury Index (U.S. Treasury), Bloomberg Corporate Investment Grade Index (Corporate investment grade bond index), Bloomberg Municipal Bond Index (Muni bond index), Bloomberg U.S. Corporate High Yield Index (Corporate high yield bond index). The Muni Bond Index 50% A/50% BBB represents a 50/50 allocation to the Bloomberg Muni Bond Single-A and BBB indices, which are noninvestable indices of tax-exempt bonds rated A or BBB.

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The tax-exempt interest that income municipal bonds and municipal bond funds distribute can be very attractive in an environment where investors are looking for higher yielding options.

As an investor, you cannot control interest rates or changes in tax law. However, depending on your overall investment picture, investing in municipal bonds is an option that may provide income, diversification and tax advantages.

Q: Are there additional benefits associated with investing in municipal bonds?

Financial planning often presents a dilemma for socially conscious investors. You care deeply about your community, the environment and the welfare of others, but you also want to reach your financial goals. You need an investment option that prioritizes both doing well (financially) and doing good (for the community).

By investing in municipal bonds — bonds generally created to serve the public good by providing funding for schools, hospitals, affordable housing and infrastructure, for example — you may be able to contribute meaningfully to the growth and improvement of local communities without compromising your investment goals. However, like all investments, municipal bonds are subject to risks, including interest-rate risk and credit risk, and the investments can lose value.

Q: How can asset location help to maximize after tax-returns?

Choosing tax-efficient investments, such as municipal bonds, is only the first step. The potential to realize additional tax benefits increases when asset location is included as part of your overall investment strategy. Asset location is all about how you allocate your investments between taxable, tax-free and tax-deferred accounts. Typically, tax-efficient investments, such as municipal bonds and municipal bond funds, are best placed in taxable accounts to preserve the tax-exempt nature of their interest, while less tax-efficient holdings, such as taxable bond funds, are typically held in tax-deferred accounts, such as an IRA or 401(k). Your financial advisor can help you create an asset location strategy that's right for you.

The chart on the following page illustrates the importance of choosing the appropriate asset location for your investments. Suppose an investor, John Dough, has $200,000 in a traditional IRA account and $200,000 in a taxable account. He would like to invest $200,000 in a nonmunicipal bond fund for a period of 20 years, after which he will have reached retirement age. Let's assume his federal tax rate is 35.8%,[1] not the highest tax rate, and the investment will earn an annual rate of 6% before taxes. (Actual returns may vary.) Which type of account — tax-deferred or taxable — should John choose for his bond fund investment? If he chooses his tax-deferred IRA, the amount he has at the end of the 20-year period after liquidating the investment and paying applicable taxes could be over $57,000 more than the liquidation value of the taxable account. If the investor is in a higher tax bracket, the benefit of the tax-deferred account is even greater.

[1] Thirty-two percent federal income tax rate plus 3.8% net investment income tax (NIIT). Note, that the 3.8% NIIT does not apply to IRA distributions, but those taxable distributions can affect the taxation of other income related to the NIIT. Also, the example assumes no long-term capital gains.

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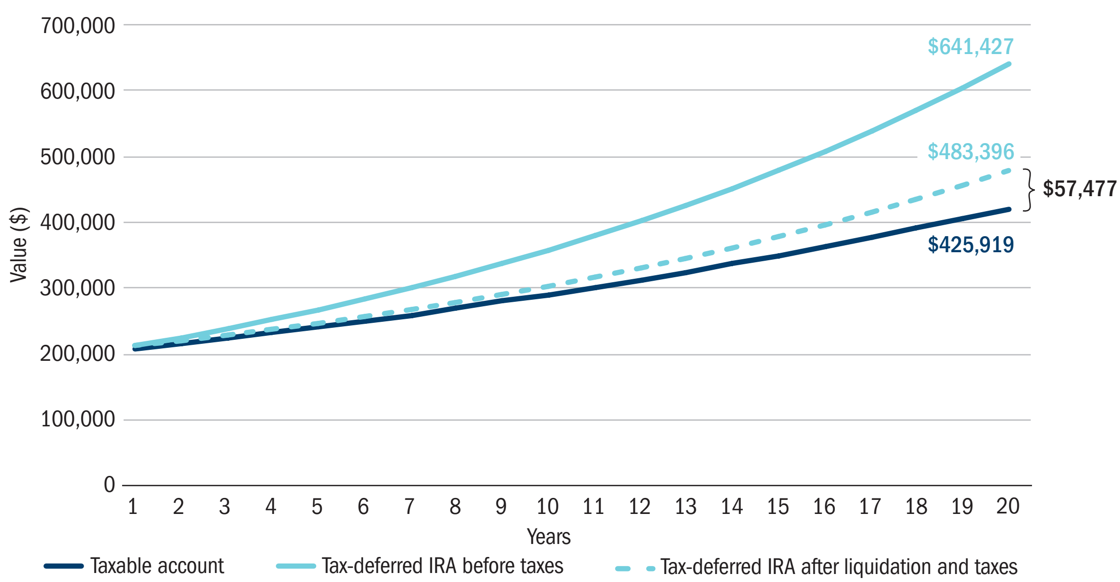
Some important things to keep in mind:

- Income from tax-deferred accounts (such as a traditional IRA or 401(k)) is subject to taxes upon withdrawal. The $57,477 difference between the dotted and dark blue lines in the graph below represents the advantage of 20 years of compounded earnings in the tax-deferred account, even after taxes are paid at liquidation. The illustration also assumes John remains in the same tax bracket throughout the entire period. If his tax rate increases, the tax advantage of the tax-deferred account will be greater. Conversely, if his tax rate decreases, the tax advantage will be lessened.
- Since municipal bonds and municipal bond funds are already tax-advantaged, placing them in a tax-deferred account would generally not create any additional tax benefits. In fact, such placement would likely be unfavorable because municipal bond income received would be taxable when distributed from a traditional IRA or retirement plan.
- Investors should not make investment decisions solely on the basis of tax treatment. You should consider other account and investment features including, but not limited to, available investment options, return potential, risks, fees and expenses, services, liquidity, potential penalties (such as for early withdrawals), required minimum distributions and creditor protection. Your financial advisor can help you evaluate these factors and choose an appropriate asset location.

20-year returns in taxable account vs. tax-deferred IRA



Source: Columbia Management Investment Advisers, LLC

The graph shows accumulation for a taxable portfolio and tax-deferred portfolio assuming a 6% hypothetical average annual return. This rate does not represent any particular investment and is not guaranteed. If the portfolios had long-term capital gains or qualified dividend income, lower maximum tax rates for these would make the investment return for the taxable investment more favorable, thereby reducing the difference between the investments shown. Losses recognized on taxable investments may provide current income tax benefits, potentially increasing the favorability of taxable accounts. Any federal and/or state tax penalties (e.g. for early withdrawals) would reduce the figures for tax-deferred investments. Taxation of both portfolios is based on the assumptions provided; actual taxation will depend on individual tax circumstances.

Diversification strategies are becoming increasingly complex. But by evaluating the potential tax impacts of your investments and structuring your portfolio accordingly, you can help minimize the erosive effects of taxes on your portfolio. Keep more of your hard-earned savings. You deserve it!

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Investing smarter for the world you want

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Source: Columbia Threadneedle Investments as of June 30, 2022.

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Investments in municipal securities will be affected by tax, legislative, regulatory, demographic or political changes, as well as changes impacting the issuer's financial, economic or other conditions. There are risks associated with fixed-income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

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