



## TAX AWARE

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# Style Investing and Tax Efficiency: Building a More Tax Efficient Global Equity Portfolio for Australian Investors

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Style or factor-based equity strategies have become increasingly popular in recent years, and the styles themselves — such as Value, Momentum and Quality — have been researched and documented for several decades in numerous empirical studies. These studies have been predominantly focused on the expected gross returns of styles; however, for tax-sensitive investors, the critical input for investment decisions are the returns net of transaction costs and taxes. Though transaction costs are a common concern, taxes may have a much greater effect on the net returns received by Australian investors.

This paper evaluates the performance of long-only style-based equity strategies after accounting for these real-world frictions and concludes that style investing — when efficiently implemented in a tax-aware manner — is indeed worth pursuing for Australian investors. We first consider the after-tax returns of single-style strategies and of a naïve mix of single-style strategies. We then assess the tax sensitivity of an integrated multi-style portfolio construction approach. We find that an integrated approach to combining styles may not only improve pre-tax performance, but it can also potentially result in significantly improved after-tax outcomes. Furthermore, the expected after-tax returns of an integrated-style portfolio may be significantly improved via a tax-aware approach that anticipates the tax consequences of portfolio rebalancing decisions.

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