DISCUSSION WHITE PAPER

The Missing Structure in Taxable Alternative Investing

Institutional multi-strategy investing, rebuilt around the after-fee, after-tax compounding of one U.S. taxable investor.

The opportunity is not another hedge fund and not another tax-loss-harvesting product.

It is one proprietary multi-strategy system whose risk allocation and tax realization are managed together inside a dedicated fund-of-one.

The thesis in one sentence

Top-tier multi-strategy firms prove the value of many independent return streams, but their pooled, pass-through-cost model is expensive and largely indifferent to the tax path of an individual U.S. investor. Tax-aware products improve the tax side, but do not combine the same breadth of alpha, individualization, and partnership economics in one vehicle. Modern systematic infrastructure can now bring those pieces together.

MORE SOURCES OF ALPHA	LESS STRUCTURAL LEAKAGE	INDIVIDUAL TAX PATH
Many orthogonal strategies under one risk budget	A lean systematic platform rather than pod-style pass-through costs	A tax engine that reacts to the gains created by the same alpha system

Conceptual discussion only. The structure described here requires investment, tax, regulatory and partnership counsel before offering to investors.

1. The multi-strategy advantage is real

The strongest multi-strategy firms are built around a simple idea: long-term performance should not depend on one style, one asset class or one market regime. Capital is spread across many differentiated sources of return and continuously reallocated under a centralized risk system.

Millennium publicly describes a platform spanning fundamental equity, equity arbitrage, fixed income, commodities, quantitative strategies and credit, supported by centralized risk, financing, data and technology.[1]

The investor should choose total risk - not strategy weights.

Natural gas, volatility, trend, relative value, equities and other programs should compete for the same risk budget. The manager decides the mix.

That architecture matters because genuinely orthogonal strategies can fail at different times. A portfolio that can earn from unrelated opportunities has a better chance of sustaining performance through changing markets than one dependent on a narrow return source.

2. The traditional delivery model is extraordinarily expensive

The leading multi-manager platforms also demonstrate the weakness of the traditional organizational model: the machinery is costly, and a substantial share of gross investment performance can be consumed before it reaches the investor.

- Pass-through structures can charge portfolio-manager compensation, technology, data, financing, real estate, recruiting and other operating costs directly to investors, in addition to performance fees.
- Bloomberg reported that Balyasny's flagship earned 15.2% gross in 2023 but delivered 2.8% to investors after fees and expenses; the same analysis cited BNP Paribas research indicating that multistrategy managers retained 59 cents of each dollar of gross gains in 2023. [2]
- The problem is therefore not only whether a platform can generate alpha. It is how much of that alpha survives the platform itself.

Investor Capture Ratio

After-fee, after-tax return ÷ Gross portfolio return

The relevant question for a taxable investor is not how much the trading operation made, but how much became the investor's wealth.

3. Tax-aware products solve only part of the problem

Managers such as AQR have developed sophisticated tax-aware equity strategies, including long/short equity SMAs designed to manage each account around its own holdings and tax lots. Research in this category argues that long/short portfolios can realize losses, defer gains and, when they generate positive pre-tax alpha, replenish future tax-loss opportunities over time. [3][4]

Some tax-aware managers have gone further by combining tax-aware implementation with alternative strategies in pooled vehicles. AQR's Fusion funds are one example, combining market-neutral global macro, directional global macro and market-neutral global stock selection with U.S. equity exposure. [5] The broader point is that existing offerings tend to solve either individual tax-lot management or broader strategy integration, rather than both in one investor-specific system.

Structure	Many alpha streams	Individual tax path	Tax reacts to same alpha engine	Manager economics
Top-tier pooled multi-strategy	High	No	No	High pass-through + incentive costs
Tax-aware equity SMA	Low / medium	Yes	Only within equity account	Personal advisory fee
Tax-aware pooled multi-strategy	Medium	No	At pooled-fund level	Fund economics
Dedicated fund-of-one system	**High**	**Yes**	**Yes**	**Partnership economics***

* A fund-of-one partnership may allow manager compensation to be structured through genuine partnership profit participation rather than solely as a personal SMA advisory fee. Exact treatment depends on the partnership agreement and tax law. IRS guidance recognizes profits interests granted for services in qualifying circumstances. [7]

What existing products do not combine

Tax-aware SMAs can optimize an investor's tax lots, but generally do not include a broad institutional multi-strategy alpha engine. Tax-aware pooled funds can combine more strategies, but investors share one portfolio and tax history. Traditional multi-strategy funds offer broad diversification, but at high cost and without tailoring tax realization to one U.S. investor.

There is another practical issue with the SMA model for a high-performance-fee product: individual investment-management expenses generally are not deductible as miscellaneous itemized deductions under current federal law. [6]

What is missing is a single structure that does all of this.

Broad multi-strategy alpha + one investor's tax path + one overall risk mandate + fund-style manager economics.

4. The proposed system: one alpha engine, one investor, one tax path

The offering is a dedicated fund-of-one for a U.S. taxable investor. The investor is not choosing a collection of strategy subscriptions. The investor is buying one proprietary multi-strategy investment system.

1	2	3	4	5
Investor chooses overall risk	Manager allocates across alpha programs	Alpha engine creates economic return	Tax engine manages realization path	Investor compounds after fees and taxes

The alpha engine

Many differentiated proprietary programs compete for the same risk budget. These may include futures, volatility, commodities, relative value, trend, equity and other systematic strategies. The investor does not decide how much natural gas or volatility arbitrage belongs in the account; the manager does.

The tax engine

A dedicated individual-equity long/short book gives the system control over a large inventory of tax lots. Its job is not to manufacture losses for use elsewhere. Its job is to reduce the tax drag created by the fund's own alpha programs without sacrificing expected return unnecessarily.

- When the alpha engine is strongly profitable, the tax system places greater value on economically inexpensive equity losses that can offset current taxable gains.
- When the alpha engine is weak or negative, the system does not blindly continue harvesting. It can preserve loss capacity, incorporate prior fund-generated carryforwards, and use weak years to reset appreciated equity positions when economically worthwhile.
- Every fund evolves differently because every investor begins on a different date and develops a different history of tax lots, realized gains, embedded gains and wash-sale restrictions.

The fund-of-one

Each investor receives a separate partnership vehicle and brokerage account. That preserves the individualized path of an SMA while allowing the investment system, tax realization and manager economics to live inside one legal vehicle. No other investor's subscription or redemption forces a trade in the portfolio.

What is tailored - and what is not

INVESTOR CHOOSES	MANAGER CONTROLS
• Overall risk mandate • Hard legal / ethical restrictions • Contributions and withdrawals	• Strategy and position sizing • Beta, leverage, liquidity and collateral • Execution and tax-lot management

5. Why this becomes practical now

Historically, providing an institutional multi-strategy portfolio separately to many individuals would have recreated the cost base of a large hedge fund. Modern systematic research, automation and AI change the operating economics.

- A common research platform can generate and monitor the same alpha programs for every vehicle.
- Account-specific software can maintain separate positions, risk states, tax lots and wash-sale restrictions without requiring a separate human investment team for each investor.
- Execution, reconciliation, risk monitoring and tax-state updates can be automated, with human oversight focused on research, portfolio design and exceptions.

AI is not the investment proposition. The proprietary alpha is the investment proposition. AI and automation are what make individualized institutional implementation scalable without reproducing the traditional multi-manager cost structure.

6. The economic objective: maximize what the investor keeps

Gross alpha × diversification × fee efficiency × tax efficiency

The objective function is after-fee, after-tax compounded wealth - not gross return, not tax alpha, and not the number of losses harvested.

The proposed system attacks the two largest avoidable leakages at the same time:

- Structural leakage: use a lean systematic platform rather than a pod-style organization that passes a large personnel and infrastructure cost base through to investors.
- Tax leakage: make realization decisions in direct response to the gains and losses produced by the same proprietary alpha engine, on the unique path of one investor.

Conclusion

The opportunity is to give a taxable U.S. investor something that is rarely offered as one coherent system: the breadth and centralized allocation logic of an institutional multi-strategy fund, the tax-lot individualization of a sophisticated SMA, and the economics of a dedicated partnership vehicle.

The investor chooses the amount of risk. The manager controls the machinery. Every investor receives the same proprietary investment intelligence, but a different tax path. The success of the product is measured by a simple outcome: how much of the gross alpha generated by the system becomes long-term after-fee, after-tax wealth for that investor.

Institutional multi-strategy investing, optimized for what the individual investor actually keeps.

Source notes

1. Millennium Management, “Approach and Strategies at Millennium,” current website, accessed August 2026. https://www.mlp.com/approach/

2. Bloomberg, “Hedge Funds Are Pocketing Much of Their Clients’ Gains With ‘No Limit’ Fees,” February 10, 2025. Bloomberg analyzed pass-through disclosures from five major multistrategy firms. https://www.bloomberg.com/graphics/2025-hedge-fund-investment-fees/

3. AQR, “Flex,” current product website, accessed August 2026. Flex is cited as one example of a tax-aware long/short equity SMA. https://flex.aqr.com/

4. Joseph Liberman, Nathan Sosner and Pedro Freitas, “The Tax Benefits of Pre-Tax Alpha,” AQR, March 17, 2026. Cited as an example of research on the interaction between pre-tax alpha and tax-aware long/short investing. The paper finds that, in its simulations, positive pre-tax alpha increases long-run tax benefits, with stronger effects at higher leverage and longer horizons. User-supplied research paper.

5. AQR, “AQR Launches the AQR Fusion Mutual Fund Series,” 2025. Cited as one example of a pooled tax-aware product integrating multiple alternative strategies. The disclosed MS Fusion categories include market-neutral global macro, directional global macro and equity market-neutral global stock selection. https://funds.aqr.com/News/2025/AQR-Launches-the-AQR-Fusion-Mutual-Fund-Series

6. Internal Revenue Service, Publication 529; and Public Law 119-21, §70110. Investment-management expenses of individuals are generally miscellaneous itemized deductions and current federal law disallows miscellaneous itemized deductions beginning after 2017, subject to statutory exceptions. https://www.irs.gov/publications/p529

7. Internal Revenue Service, Publication 541 (Rev. Dec. 2025), “Partnerships.” IRS guidance recognizes that a partner may acquire a profits interest for services and describes qualifying circumstances in which receipt is not a taxable event. https://www.irs.gov/publications/p541