UNDERSTANDING THE
APPROACH

How Long/Short Tax-Aware Equity
Strategies Work

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How does a "long/short tax-aware" equity strategy work?

The Core Concept

Traditional investing involves buying stocks you believe will go up (going "long"). A long-short strategy adds a second component: simultaneously selling borrowed stocks you believe will underperform (going "short"). This dual approach creates unique opportunities for generating tax losses while maintaining equity market exposure.

How Tax Losses Are Generated

The strategy systematically harvests tax losses through several mechanisms:

1. **Short Position Losses**

   When short positions increase in value (the stock goes up), the strategy realizes losses when covering those positions. These losses are genuine economic outcomes of the short-selling process, not artificial constructs.

2. **Long Position Tax-Loss Harvesting**

   On the long side, the strategy actively harvests losses from underperforming positions while maintaining similar market exposure by replacing them with comparable securities.

3. **Continuous Rebalancing**

   Regular portfolio rebalancing creates ongoing opportunities to realize losses throughout the year, not just during market downturns.

The Tax Benefit

- **Internal Offset:** Losses can offset gains generated within the strategy itself, potentially eliminating or significantly reducing taxable distributions, or an account can be funded with, and help unwind, concentrated stock positions while limiting the tax consequences.
- **External Offset:** Excess losses can offset capital gains from other investments in your portfolio—such as gains from business sales, real estate transactions, concentrated stock positions, or other investment accounts

Disclosures

This information is provided for informational and educational purposes only. As such, the information contained herein is not intended and should not be construed as individualized investment, legal, or tax advice, or recommendation of any kind.

Long/short strategies involve additional risks, including short-selling risk, leverage risk, and the potential for losses exceeding those of traditional long-only strategies. There is no guarantee that tax-loss harvesting will be successful, that losses will be available when needed, or that any tax benefit will be realized. Tax outcomes depend on an investor's individual circumstances and current tax law, which may change.

All investing involves risk, including the potential loss of principal. Investors should consult their own advisers to determine whether this strategy is appropriate for their situation.

Equity securities are subject to price fluctuations, and investments in small- and mid-cap companies generally involve a higher degree of risk and volatility than investments in large-cap companies. International securities are generally subject to increased risks, including currency fluctuations and social, economic, and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Fixed-income securities are subject to loss of principal during periods of rising interest rates and are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise, and conversely, when interest rates rise, bond prices typically fall.

Commodity investments may be affected by the overall market and industry- and commodity-specific factors and may be more volatile and less liquid than other investments.

There is no assurance that any investment, plan, or strategy will be successful. Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results, and nothing herein should be interpreted as an indication of future performance. Please consult your financial professional before making any investment or financial decisions.

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