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The Completion Portfolio

A Framework for Investor Alignment and Family Stewardship

Meaningful GP capital invested alongside LPs is the foundation of alignment. Over time, however, that same concentration can introduce structural tax friction at the family level. A completion portfolio is designed to preserve alignment while strengthening long-term after-tax compounding.

Alignment shapes how risk is assessed and how capital is deployed. It also often results in significant personal concentration in a single strategy. Early in a fund's lifecycle, that concentration is both intentional and rational. The firm's success and the GP's family balance sheet are effectively one and the same.

As wealth accumulates, the calculus changes. The GP's role expands beyond managing investor capital to stewarding their family capital, often across multiple generations. That responsibility extends beyond pre-tax performance to the durability of after-tax compounding, liquidity planning, intergenerational transfer, philanthropic flexibility, and long-term balance sheet resilience. While most hedge fund GPs have devoted decades to refining their investment process, fewer have applied the same discipline to the structure of their own balance sheet.

The question is how alignment can be preserved while strengthening after-tax efficiency at the family balance sheet level.

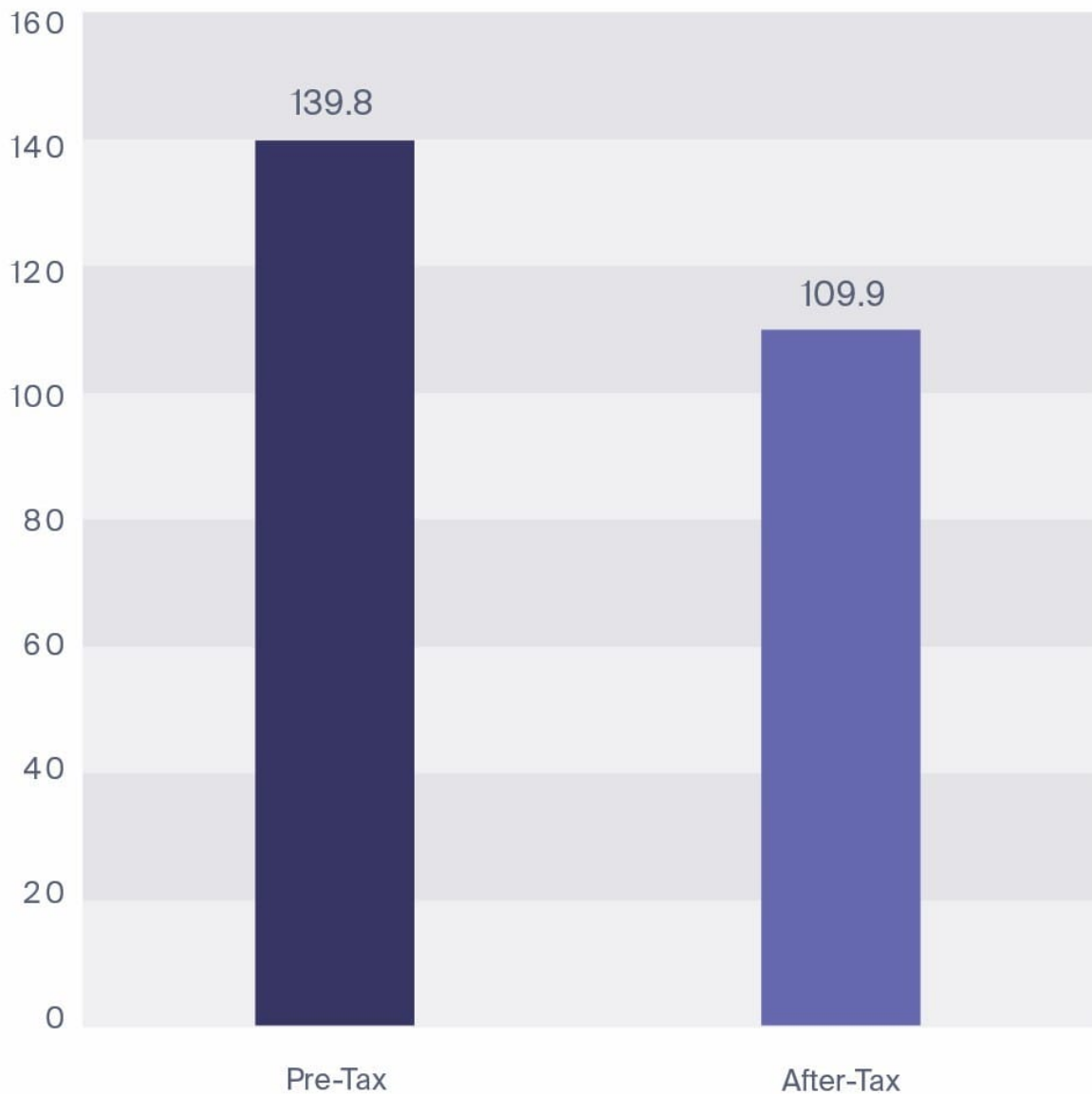
Tax Drag and Long-Term Compounding

Hedge fund performance is typically evaluated in pre-tax terms, while family wealth compounds in after-tax dollars. When a meaningful portion of annual return is realized and taxed, especially at short-term rates, the divergence between pre-tax and after-tax outcomes becomes material over time. Realization patterns vary by strategy, but any recurring taxable gains create structural drag on long-term compounding.

The illustration below models a \$30 million portfolio over 20 years, assuming an 8 percent annual pre-tax return, a 32.3 percent blended effective tax rate, and 50 percent annual realization split between long and short-term gains, resulting in approximately \$30 million less value.

Impact of Taxes on Long Term Compounding

20-Year Ending Value (\$MM)



The challenge is how to preserve alignment while designing the family balance sheet for durable, long-term after-tax compounding.

The Completion Portfolio

A completion portfolio restores fiduciary balance at the family level while retaining alignment with LPs. The GP's fund remains the primary wealth engine and continues to represent the majority of invested capital. A complementary allocation to a tax-managed long-short strategy is added to the portfolio, structured to maintain defined market exposure while generating losses that can offset taxable gains elsewhere on the manager's balance sheet.

The GP can calibrate the strategy's market exposure and benchmark to complement the broader portfolio and risk preferences. Alignment is preserved because the fund remains the dominant driver of wealth creation and the principal allocation of GP capital. The completion portfolio enhances structural efficiency around it.

Why Long-Short Tax Loss Harvesting?

Traditional long-only tax loss harvesting can add value, particularly in volatile or declining markets. However, as embedded losses are realized, harvesting capacity is gradually depleted. In sustained up markets, that capacity can diminish meaningfully.

A long-short framework materially expands the opportunity. Losses can be realized from both long and short positions. Gains can be deferred while losses are crystallized. Ongoing turnover refreshes the loss inventory rather than allowing it to exhaust. The result is a structurally renewable source of tax assets less dependent on market drawdowns and less vulnerable to depletion.

Research supports the magnitude of this difference. Long-only tax-managed strategies typically generate cumulative realized losses between 25 and 35 percent of initial capital during the first five years of investment. By contrast, long-short tax-managed strategies have generated cumulative realized losses between 80 and 100 percent of initial capital over comparable five-year periods, with outcomes potentially higher depending on portfolio construction and leverage.

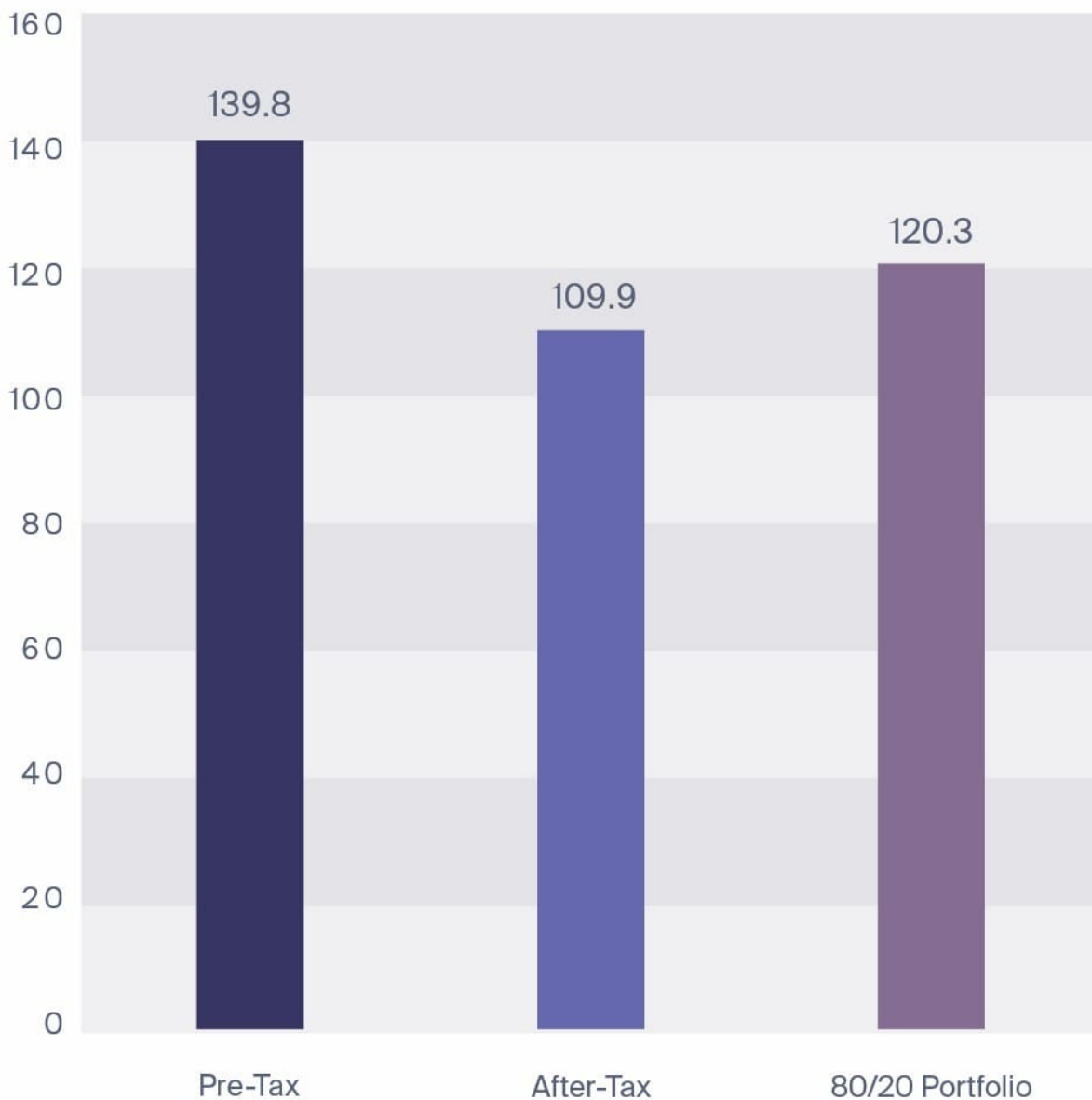
The practical implication is capital efficiency. Because long-short structures can generate a larger and more durable pool of realizable losses, they materially reduce the capital required to construct an effective completion portfolio. Internal modeling suggests that achieving comparable tax mitigation through a traditional long-only approach could require allocating 70 to 80 percent of capital to that strategy, a reallocation that would likely be viewed as misaligned with investors. A long-short structure, by contrast, may require only 20 percent of capital to achieve a similar tax impact.

Narrowing the Compounding Gap

Consider a \$30 million portfolio structured with 80 percent invested in the GP's hedge fund and 20 percent allocated to a long-short, tax-managed completion portfolio. The GP's core exposure and alignment with LPs remains intact while the complementary strategy operates alongside it.

Impact of Completion Portfolio on Long Term Compounding

20-Year Ending Value (\$MM)



20-Year Ending Value (\$MM). Modeling assumptions: \$30 million starting capital; 80/20 allocation; 8 percent annual pre-tax returns; 32.3% percent blended tax rate; 50 percent annual realization; completion sleeve generating cumulative losses equal to 80 percent of allocated capital over five years, followed by 12 percent annual short-term losses thereafter. Results are gross of any fees or trading costs.

Under these assumptions, allocating just 20 percent of capital to the completion portfolio meaningfully narrows the compounding gap created by recurring taxation. Over twenty years, the strategy generates approximately \$15.6 million of cumulative short-term capital losses, producing substantial tax savings and increasing the GP's after-tax return and taxes not paid remain invested. When those retained dollars compound alongside the broader portfolio, they contribute nearly \$11 million of incremental terminal capital over the same period. The completion sleeve does not attempt to replace the hedge fund's return stream. It seeks to

reclaim capital otherwise lost to structural tax drag and redirect it back into the compounding base.

Secondary Structural Benefits

Beyond tax efficiency, the completion portfolio introduces meaningful structural advantages to the family balance sheet. When implemented through a separately managed account, the structure provides greater transparency and control over the timing and character of realized gains and losses. Tax outcomes can be coordinated with other liquidity events across the broader portfolio. This coordination allows family capital to be managed with greater intentionality rather than reacting to the timing of pass-through income. Liquidity also improves as exposure can be resized or accessed without disturbing core hedge fund holdings. In addition, appreciated securities can be donated in-kind rather than liquidated. This reduces embedded gains, enhances charitable deduction efficiency, and expands philanthropic optionality, particularly in years when taxable income is elevated.

Incentive Allocations and Capital Architecture

For many hedge fund GPs, carried interest and performance allocations drive long-term wealth creation. These interests are frequently held in trust vehicles designed to optimize estate efficiency and facilitate intergenerational transfer.

Therefore, asset allocation should be deliberate not incidental. The tax managed completion portfolio should typically be held at the individual level, where realized losses can directly offset personal capital gains and where liquidity decisions and philanthropic strategies are executed.

Incentive allocation interests, by contrast, are often positioned within long duration trust structures, including generation-skipping vehicles, designed to maximize appreciation outside of the taxable estate and allow capital to compound across generations. The objective here is durable growth and estate efficiency, not current loss utilization.

The interaction between these components is not mechanical. It is architectural. Loss generation and compound growth serve distinct functions for the family. One enhances income tax efficiency and liquidity at the individual level, whereas the other seeks to capture long-term upside within protected structures. When coordinated intentionally, they form a coherent capital system that preserves alignment with LPs, advances generational transfer objectives, and manages after-tax efficiency across multiple time horizons.

Dual Stewardship

Hedge fund GPs operate with two parallel fiduciary responsibilities: one to their investors and one to their families. Alignment with investors requires conviction and meaningful capital at risk. Stewardship of family wealth requires structural intentionality and attention to after-tax durability. Concentration in one's own fund may be entirely appropriate and aligned. Allowing tax friction to erode long-term outcomes is not.

A completion portfolio preserves the economic core of alignment while introducing a structural mechanism designed to mitigate uneven tax exposure and improve long-term after-tax compounding. Positioned within a deliberate capital framework, it integrates investor alignment with family stewardship in a coherent and durable structure.

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Gresham Partners LLC

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