

**Presenter**

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# State of the Portable Alpha Landscape

*The Pulse on the Institutional Market*



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# Agenda



What is Portable Alpha



Liquid Market Portfolio



Comparison | Traditional Approaches



Why use Portable Alpha



Who's Investing



Investment Choices & Implementation



Implications for Allocators

# Institutional Industry | Big Picture



- Portable alpha historically ~\$75B pre-GFC → renewed institutional adoption today (estimated \$100B+ today)
- **Fragmented** ecosystem: hedge funds, banks and overlay providers
- Viewed as a **portfolio construction framework**, not a product
- No standardized benchmarks → **customization is the norm**
- Success depends on **governance sophistication** (derivatives, rebalancing, liquidity)
- **Increasing penetration** beyond pensions → wealth, OCIO, private banks & family offices

# What is Portable Alpha?

## Choose Target Index

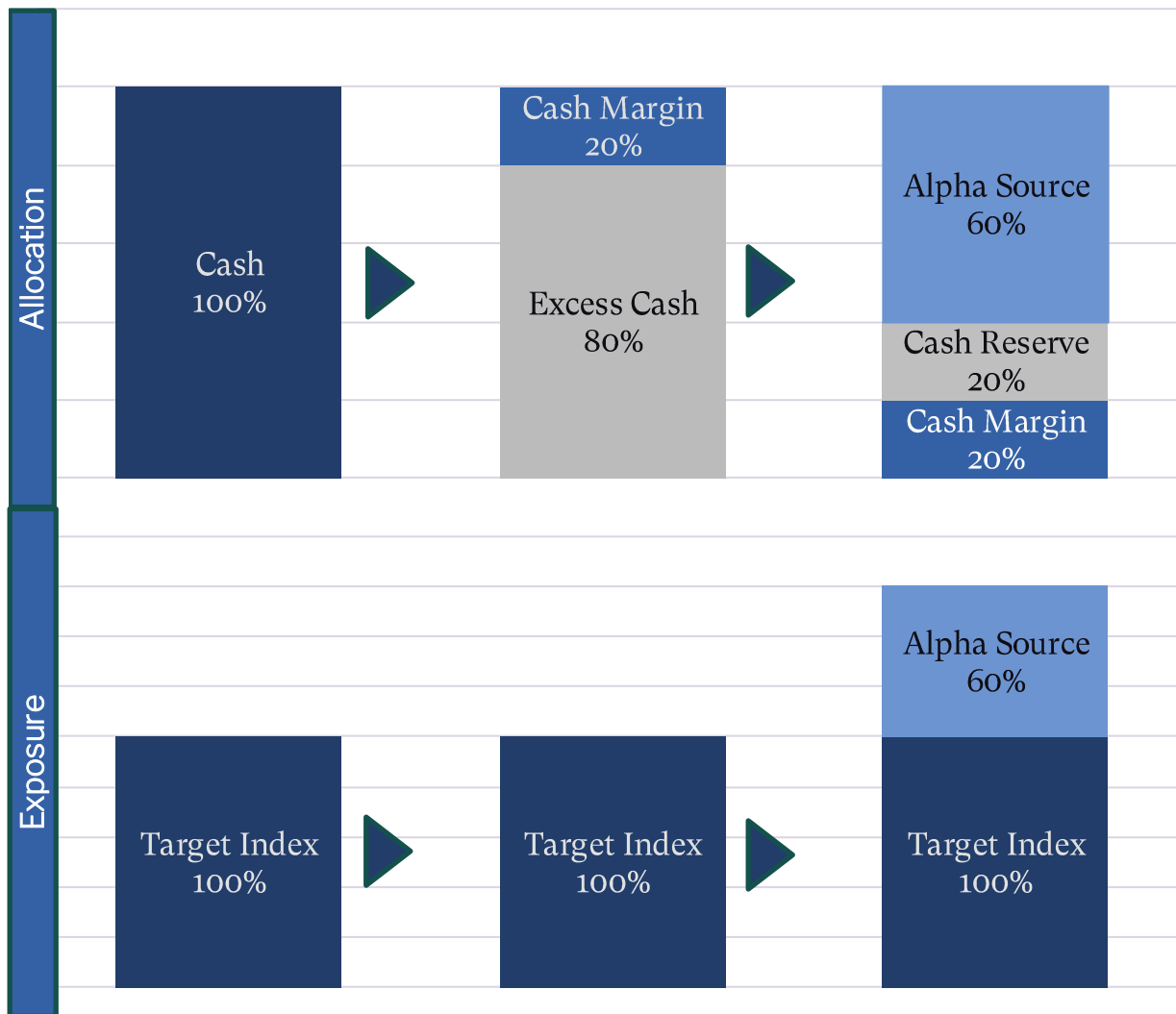
Investor chooses a target index for their beta exposure.

## Synthetic Replication

The index exposure is then replicated using derivatives.

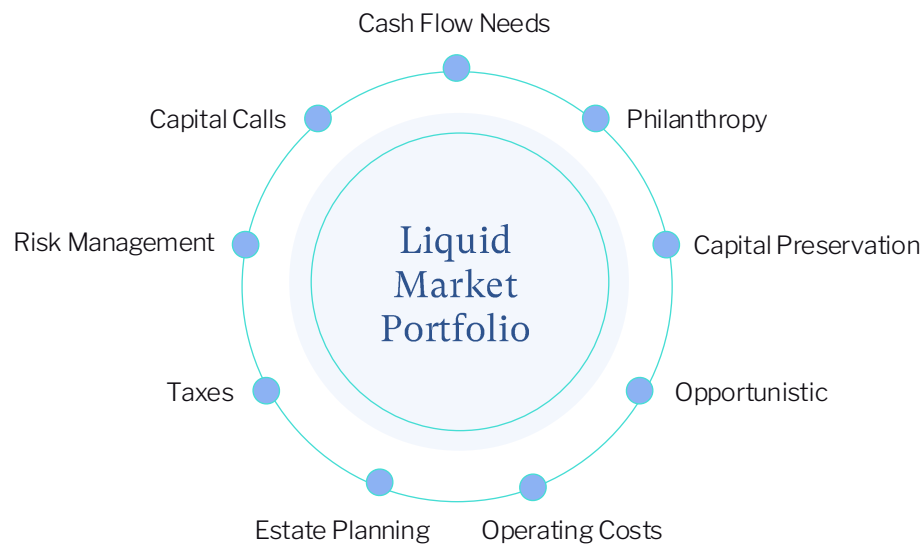
## Deploy Excess Cash

Excess cash is deployed to an alpha source. Additional cash required.



# Your liquid portfolio really matters

Portable alpha starts with how allocators think about their liquid portfolio



## A well-designed liquid portfolio:

- Offers risk-managed return, not just passive exposure
- Has structural diversifiers
- Provides stability, freeing resources to focus on other areas

# Portable Alpha Comparison

Once implemented, portable alpha changes *where returns come from*, not just how they are generated.

## Traditional



Lower return per unit of risk

Cash inefficient

Regime dependent

Lacking alpha / beta flexibility

Excess Return – Manager Selection

## Portable Alpha



Improved return per unit of risk

Cash efficient

Regime agnostic

Mitigation of behavioral biases

Excess Return – Structuring Advantage

# Why Allocators Are Turning to Portable Alpha

Market backdrop

1

- Future equity & bond returns compressed
- Integrate seamlessly into existing portfolio

Capital efficiency

2

- Better utilization of cash
- Blend beta with diversifying alpha streams

Sophisticated allocators

3

- Actively manage equity/risk exposures
- Think in portfolios, not line items

Customization trend

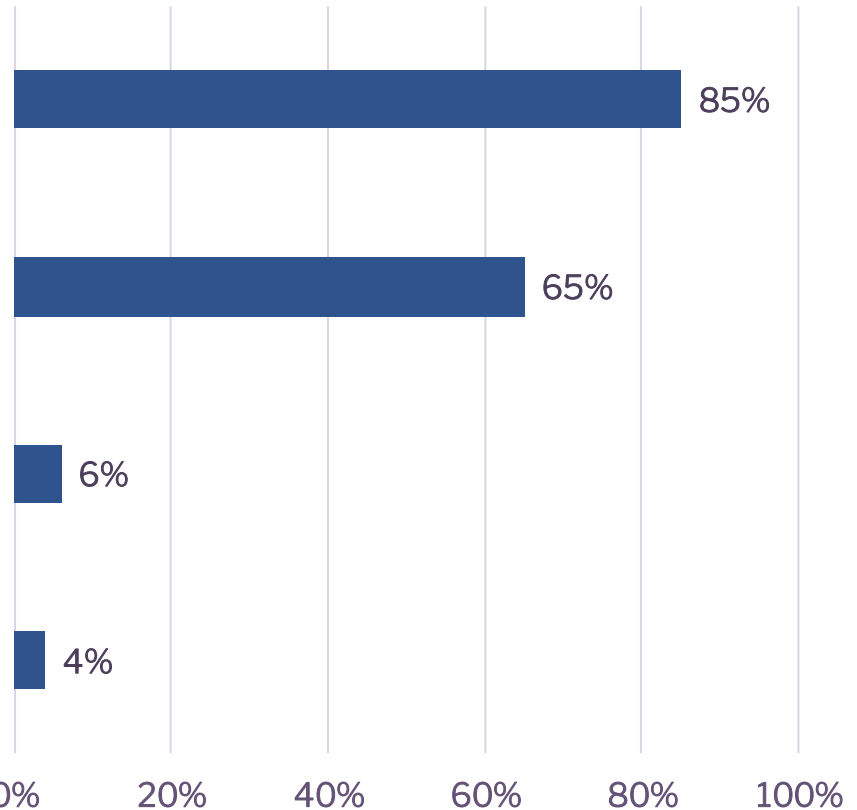
4

- Tailored benchmarks
- More tolerance for tracking error & risk

# What's Driving Interest in Portable Alpha

*Of those interested*

Looking for excess returns over a benchmark



Operational efficiency of a combined product



Unsatisfied with my hedge fund portfolio



Other\*

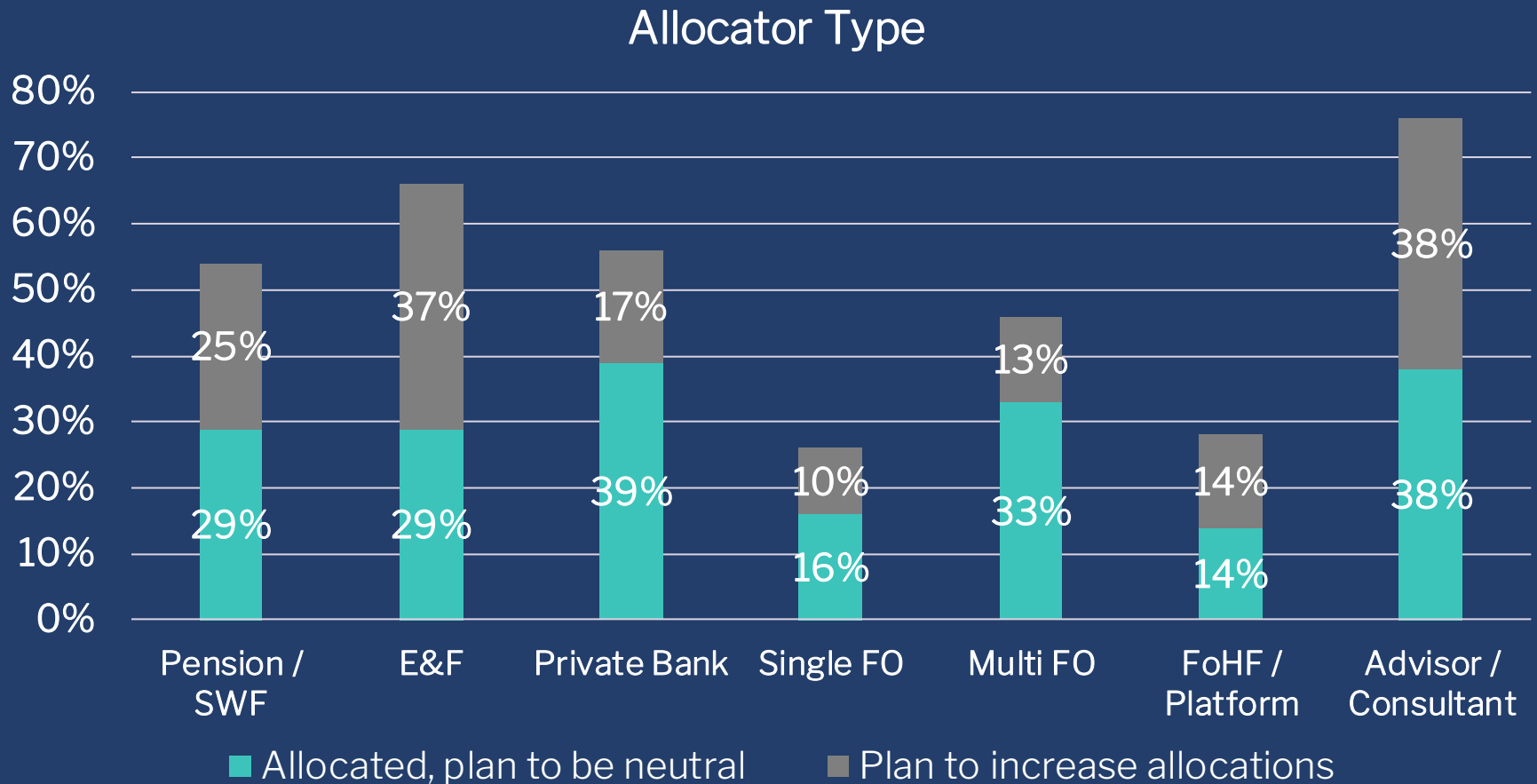


Source: UBS Capital Consulting "Portable Alpha & Active Extension Investor Survey" (Q1-2025).

\*Other responses include "Capital Efficiency."

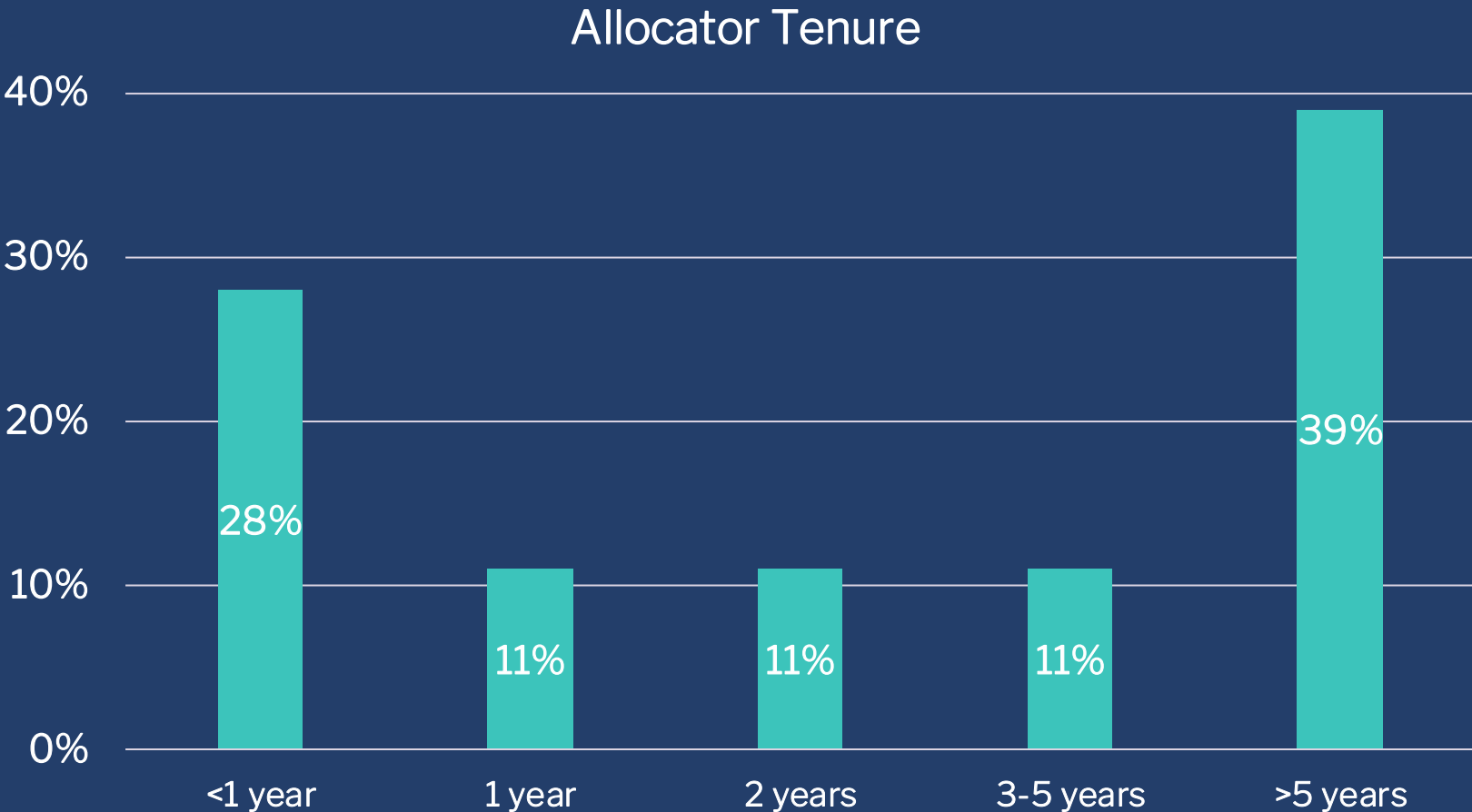
# Who's Investing in Portable Alpha

Established existing demand with expectations to increase across investor types



# Investor Tenure in Portable Alpha

*Of those invested*

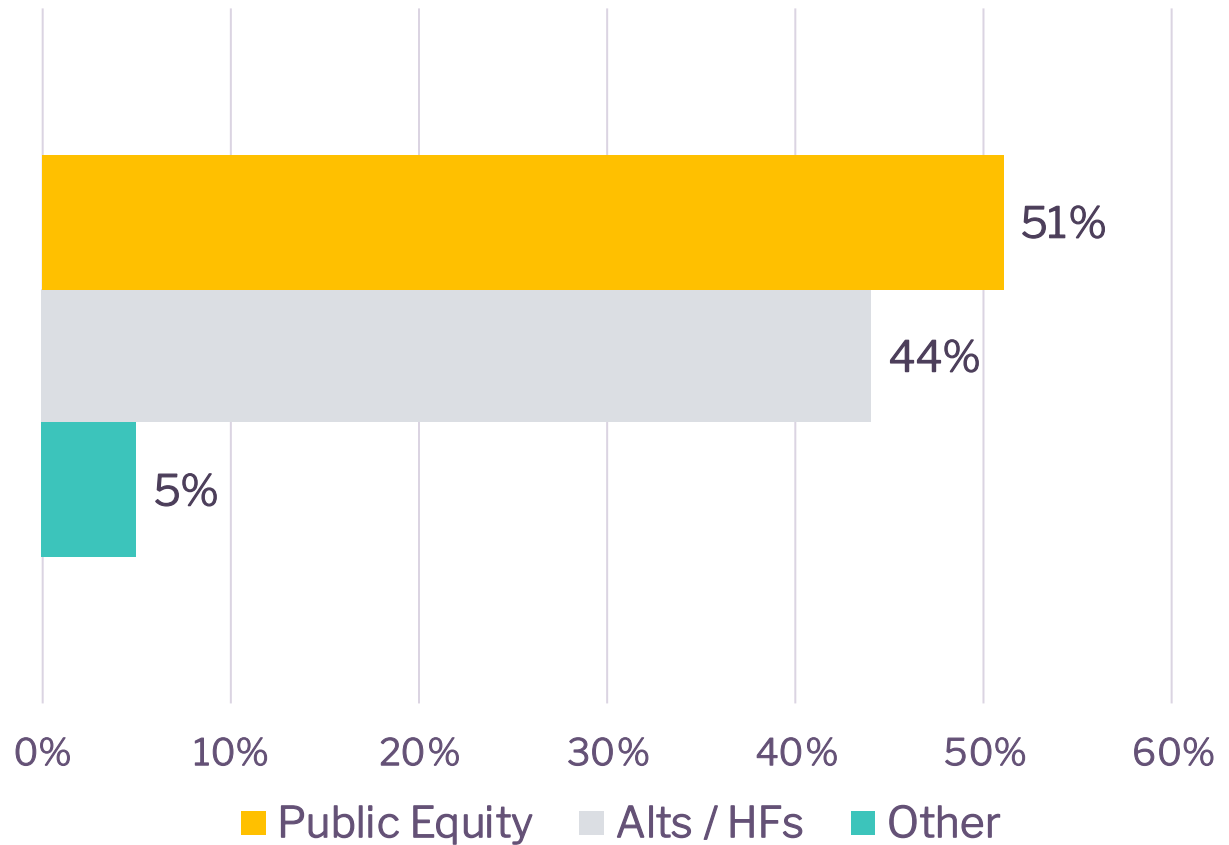


Source: UBS Capital Consulting "Portable Alpha & Active Extension Investor Survey" (Q1-2025).

Over half of respondents put portable alpha in public markets given the beta-one characteristic



# Portable Alpha Location in Portfolio



# Portable Alpha Building Blocks

Variety of usage  
across both beta  
indices and alpha  
strategies

## Equities [Beta]

- S&P 500
- MSCI World
- MSCI ACWI
- MSCI EAFE
- Russell 3000

## Fixed Income [Beta]

- Core Bonds [Barclays Agg.]
- TIPS
- CLOs

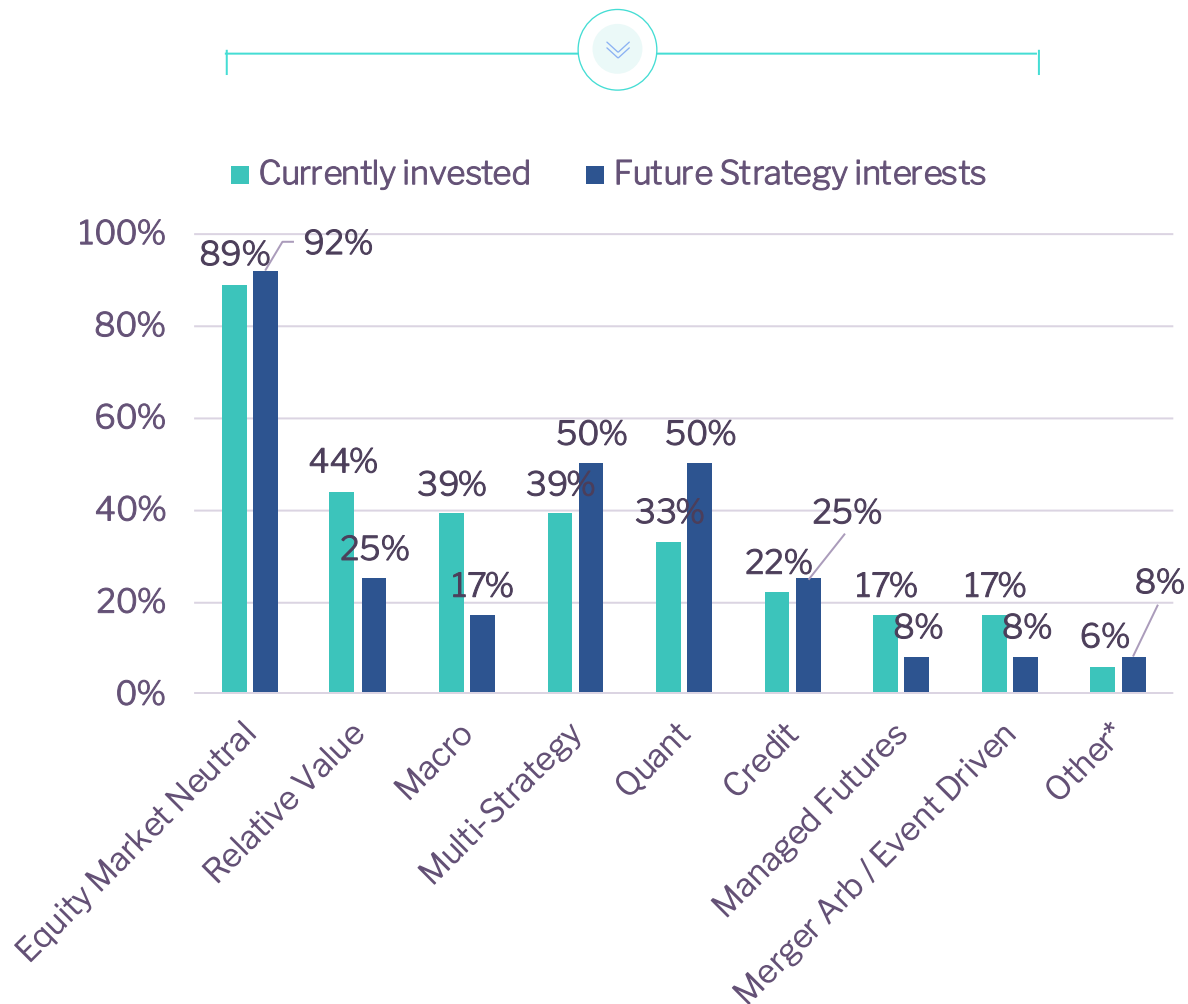
## Alpha Strategies

- Equity Market Neutral
- Multi-Strategy
- Managed Futures
- Global Macro
- Arbitrage

# Underlying Hedge Fund Strategies

*Of those invested*

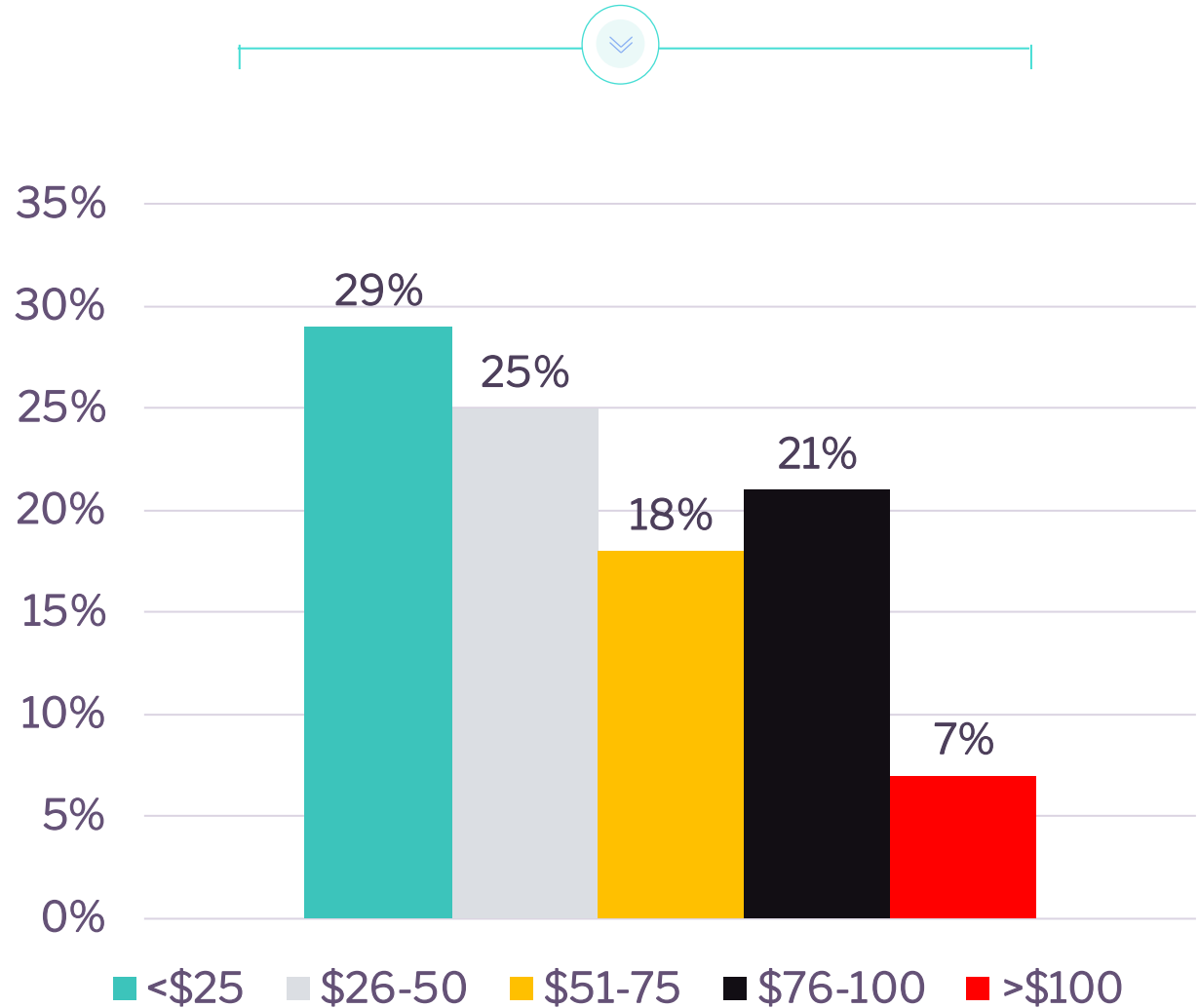
## Equity Market Neutral is the clear leader across HF strategies



Source: UBS Capital Consulting "Portable Alpha & Active Extension Investor Survey" (Q1-2025). \*Other responses include "Capital Efficiency."

# Alpha Exposure per \$100 of beta

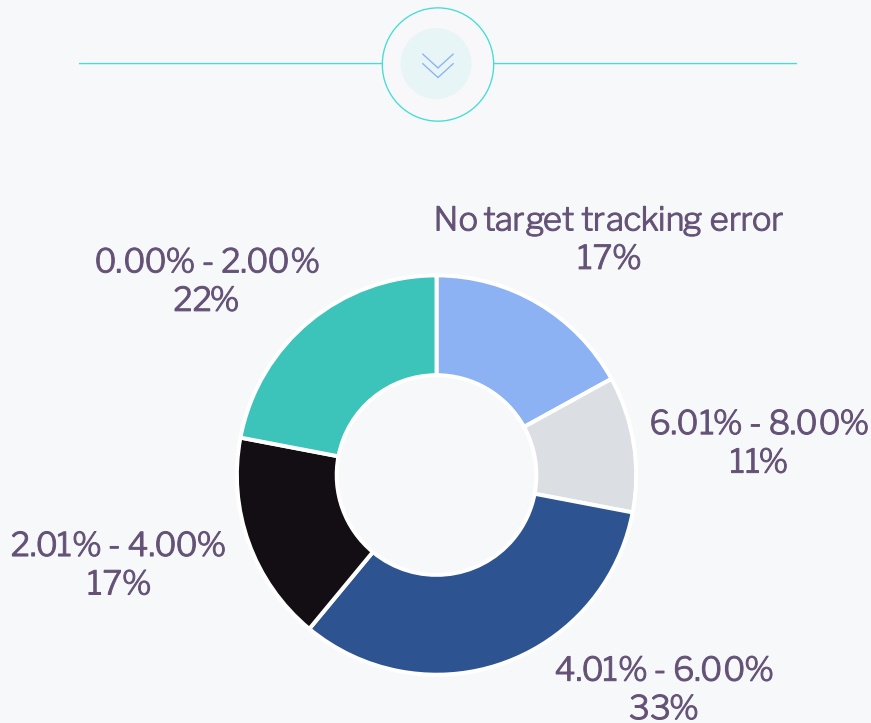
## Varying degrees of alpha / tracking error expectations



# What Investors Expect from Portable Alpha

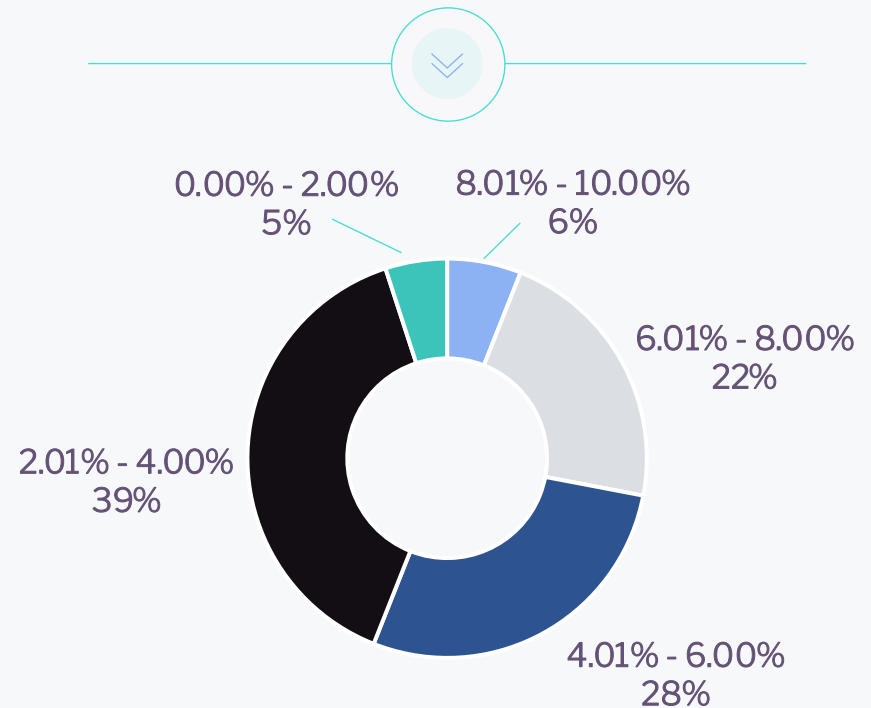
## Target Portable Alpha Tracking Error:

*Of those invested*



## Target Alpha Return for Portable Alpha Strategies:

*Of those invested*



# Implementation Choices

1

'One-stop-shop' [manager offers a share class or SMA, overseeing both beta and alpha]

2

Outsourcing to providers [offered by prime brokers, 3<sup>rd</sup> party solution providers etc.]

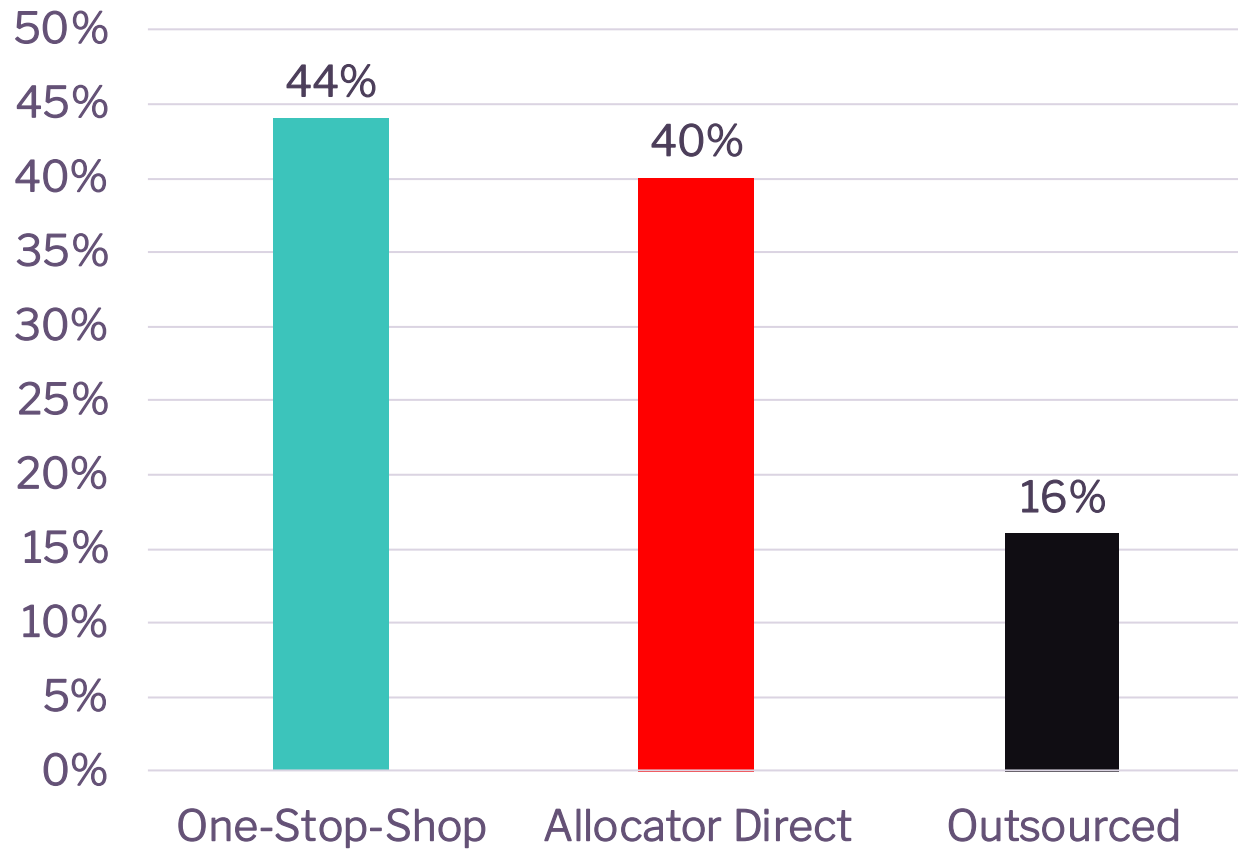
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Allocator Direct [invests in alpha sources directly and reserves cash balance to trade derivatives directly]

# Investor Preferences

'One-Stop-Shop' and Allocator Direct are leading approaches in obtaining portable alpha exposures

## Implementation Approaches



Source: Goldman Sachs. "Insights in Brief: 'Beta Times Ahead - The landscape and key considerations for beta-1 equity strategies managed by hedge funds" (June 2025).

# Portable Alpha | Fees & Liquidity

*'One-Stop-Shop' approach has a number of structural factors that can vary across HF managers*

## Product Component



Management Fee

Performance Fee

Hurdle Rate

Liquidity

Lock-up

Notice Period

## Findings



0.5 – 2%

15 - 20% [alpha only]

Effectively, the beta

Monthly / Quarterly

Uncommon

30 – 45 Days

# Implications for Allocators



- **Industry Direction** - Portable alpha is moving from niche strategy → core portfolio tool
- **Source of Edge** – Shifting from alpha sourcing to implementation and structuring
- **Allocator Behavior** – Increasingly managing portfolios holistically
- **Capital Efficiency** – Becoming a primary driver of portfolio design
- **Competitive Landscape** – Expanding beyond pensions into wealth and other types
- **Role in Portfolios** – Increasingly used to enhance existing exposures