



Portable Alpha

WHITEPAPER | AUGUST 2026

CONTRIBUTORS

Frank Benham, CFA, CAIA
Brian Dana, CAIA
Lillian McAughan

Most investors treat alpha and beta as inseparable: hire an active manager and accept whatever market exposure comes with the mandate. Portable alpha challenges that assumption. By obtaining market exposure through derivatives and allocating capital to managers operating anywhere in the investment universe, investors can pursue excess return without being confined to a single asset class or strategy. The approach also changes the test that active return must pass. Rather than requiring a manager to beat a market benchmark, portable alpha requires the alpha source to exceed the cost of financing the beta exposure. That is a different question, and it is the one this paper returns to throughout.

This paper provides a structured overview designed to help investors assess both the opportunity and the risks. It begins by defining alpha and beta and explaining the mechanics that make the two separable. It then sets out the case for sourcing active return outside the beta asset class, along with the financing hurdle any alpha source must clear. Subsequent sections examine the potential benefits, followed by the principal concerns: variable beta exposures, the difficulty of identifying durable skill, embedded leverage, liquidity, complexity, and cost. The paper then turns to implementation, covering the choice among bundled, unbundled, and internally managed structures, beta and alpha selection, the mechanics of futures and swap-based exposure, and the vehicle structure questions that arise for investors subject to leverage constraints.

Key Takeaways

- › Long-only active management has not reliably added value in large, efficient markets, where most investors hold their largest allocations. Portable alpha relocates the search for active return rather than abandoning it.
- › The strategy separates market exposure from manager skill. Investors obtain beta efficiently through derivatives while allocating capital to alpha sources that may operate in an entirely different part of the investment universe.
- › The operative test is the financing hurdle, not a market benchmark. The alpha source must exceed the cost of financing the beta exposure, plus fees and implementation expenses, over a full market cycle. Whether that return stream constitutes alpha in a strict sense matters less than whether it clears the hurdle and remains independent of the beta.
- › Portable alpha necessarily involves leverage, measured on either an accounting or an economic basis. Managing it requires clear collateral policies and sufficient liquidity. Where the derivatives are held also determines whether an explicit leverage constraint binds, which is a governance question rather than a technical one.
- › Implementation models differ materially in risk. Bundled programs reduce operational, collateral, and reporting risk while concentrating exposure with one provider and reducing fee transparency. Unbundled and internally managed programs preserve choice and cost visibility, while requiring staff and governance capacity.
- › The principal risk is that alpha and beta lose together. Correlations tend to rise during periods of stress, and an alpha source that fails to clear its financing cost turns the program into an expensive way to own the index.

What is Portable Alpha?

The return produced by any manager (or portfolio) can essentially be separated into two pieces: *beta* and *alpha*.¹ Beta is the portion of a manager's return that is attributable to the risk inherent in investing in a particular market. That is, beta is the part of a manager's return that has nothing to do with skill (or luck) and everything to do with the performance of the asset class. Beta is cheap and easy to acquire (e.g., through derivatives, exchange-traded funds, or index funds).² Alpha, on the other hand, is the portion of a manager's return that is attributable to the manager's skill. By taking active risks (i.e., being different from the market), managers hope to produce a return that exceeds that of their benchmark. However, alpha that is both positive and durable is often expensive, and typically difficult to identify.

Portable alpha strategies seek to make alpha "portable" by combining any independent source of manager skill (alpha) with any market exposure (beta). This allows investors to take advantage of manager alpha anywhere in the investment universe, regardless of that manager's specialty. This mechanism is made possible by financial instruments (e.g., derivatives) that allow for partially funded (i.e., leveraged) exposures, with costs determined by prevailing financing conditions. Practically speaking, the strategy is often viewed as a mechanism to increase the capital efficiency of a portfolio while also increasing flexibility.

Implementing the modern form of portable alpha usually involves layering alpha exposure, often via one or more strategies, on top of another portfolio (i.e., the beta exposure). Alpha exposure should be designed to have little or no sensitivity to broader markets. Said another way, the "alpha" should simply take the form of returns that are expected to be unrelated to market performance. A well-executed portable alpha strategy seeks to surpass the return of a market index without adding a considerable amount of risk. If the alpha and beta sources are truly uncorrelated, then the combined volatility will not be substantially different from the volatility of a beta-only/passive portfolio.

Portable alpha is best used in efficient markets where costs of replicating the beta exposure are low. For that reason, US stocks reflect a common beta source for portable alpha strategies, as do investment grade bonds and inflation-linked bonds. For example, a portable alpha strategy may combine a "market neutral" hedge fund's (alpha) return on top of the S&P 500 (beta) return, with the latter acquired through index futures (see Figure 1).

The Case for Alpha Outside the Beta Asset Class

The argument for portable alpha begins with a problem that has little to do with derivatives. In large, well-covered markets, long-only active management has not reliably added value. Over the ten years ending December 31, 2025, the median US large cap equity manager produced an annualized excess return of negative 53 basis points, before fees.³ Global equity managers fared modestly better, with the median producing an annualized excess return of 41 basis points, again before fees. Investors who allocate heavily to these markets, as many do, therefore face a structural difficulty: a large portion of the portfolio sits where active management has been disappointing, on average.

Portable alpha responds by changing where the investor looks for active return and, importantly, by changing the test that active return must pass. A traditional long-only active manager must beat a market benchmark, which requires both skill and enough freedom to express it. In a portable alpha structure, the beta exposure is obtained separately, so the alpha source is not asked to beat the market at all. It is asked to beat the cost of financing that beta exposure. That cost is generally tied to a short-term rate such as SOFR plus a spread, the level of which varies by instrument, counterparty, and market conditions. Adding the alpha manager's fees and the program's implementation costs gives the full hurdle. The question for the investor is whether the chosen return stream can clear it over a full market cycle.

This framing avoids a debate that would otherwise be difficult to resolve. Marketable alternatives (i.e., hedge funds) have no uniform benchmark, and many strategies carry inherent beta to equities, credit, or other markets, so quantifying true alpha at the asset class level presents real measurement challenges. For portable alpha

Figure 1
Implementation of a portable alpha strategy

Strategy	Exposure	Return
1. Buy S&P 500 Index Futures ("beta") ⁴	+ Equity Market	+8%
2. Invest in Actively Managed Strategies ("alpha")	+ Hedge Funds	+5%
3. Pay (implied) Borrowing Cost ⁵	- Financing Cost	-4%
Portable Alpha Total Return =		9%

purposes, that question matters less than it might appear. The structure does not require the return stream to be alpha in a strict sense. It requires the return stream to exceed the financing hurdle and to be sufficiently independent of the beta exposure that combining the two does not simply concentrate risk. Where an alpha source carries inherent beta that the investor does not want, whether to the program's own beta or to exposures held elsewhere in the portfolio, that beta can be hedged, though hedging adds cost and should be priced into the hurdle.

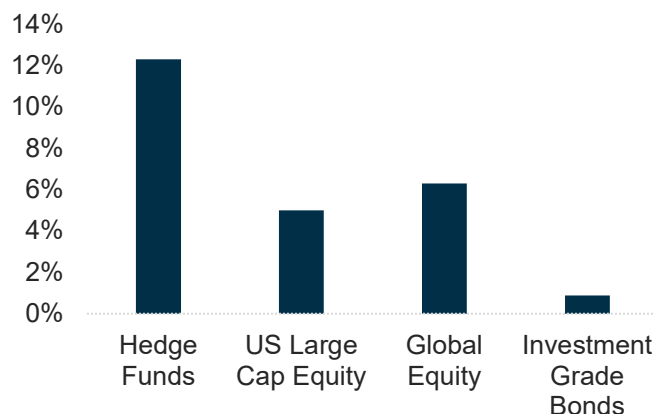
The same reasoning applies to systematic "liquid alternative" strategies that offer hedge fund-like exposures. Whether a given return stream is properly characterized as alpha or as an alternative risk premium matters less for portable alpha purposes than whether it clears the hurdle and what the investor pays for it. Where a return stream reflects factor exposures that can be captured systematically, the investor should expect to pay less for it and should confirm it does not duplicate exposures held elsewhere. For example, an investor whose equity portfolio already carries a value bias gains little diversification from a market-neutral strategy built on the same factor.

On that test, the evidence is reasonably encouraging without requiring heroic assumptions. Over the ten years ending December 31, 2025, the median hedge fund manager returned approximately 7.9% annually, net of fees. On average, roughly 3.6% of this is attributable to equity beta, leaving about 4.3%, net of fees, after that beta is removed (or hedged).⁶ Over this same period, the base borrowing cost (e.g., SOFR) averaged approximately 2.2%.⁷ Adding in a spread of 50 to 100 basis points, the median manager cleared the hurdle (i.e., financing cost) by a margin of roughly 110 to 160 basis points (again, once equity beta is removed).⁸

Dispersion deserves as much attention as the median. The interquartile spread for hedge funds has historically been much wider than for the public market asset classes that tend to constitute a large portion of investors' portfolios (see Figure 2). Hence, investors who think they can identify skilled managers may find themselves better rewarded when choosing from among hedge funds. However, a program underwritten on the expectation of above-average results stands on shaky ground. The more defensible approach is to test whether the program makes sense assuming a median outcome, and to understand what a below-median outcome would mean. An alpha source that fails to clear its financing cost turns a portable alpha program into an expensive way to own the index, and the wider the dispersion in the manager universe, the more consequential the risk of underperformance becomes.

The decision therefore reduces to a question a board or investment committee can reasonably evaluate: does the investor have sufficient confidence that its selected alpha source, chosen without assuming exceptional selection skill, will exceed short-term rates plus financing spread, fees, and implementation costs over a full cycle? If the answer is yes, portable alpha offers a way to apply active management where it has been more productive. If the answer is uncertain, a passive allocation to the beta exposure alone remains the simpler and cheaper alternative.

Figure 2
Dispersion for Liquid Asset Classes



Source: Meketa analysis of data from eVestment Alliance, as of September 30, 2025. Interquartile spread calculated as the difference between the 75th and 25th percentiles.

Benefits

There are several theoretical benefits to portable alpha strategies. First, portable alpha provides the investor considerable flexibility in manager selection: there is virtually no limit to the type of manager or strategy that can be used as the alpha source. Managers can invest in any public market asset class, including those considered to be less efficiently priced.

Second, by adding portable alpha to a fully invested portfolio, an investor may increase that portfolio's return potential. As discussed above, the strategy changes what the active return must accomplish. Rather than requiring a manager to beat a market benchmark, portable alpha requires the alpha source to exceed the cost of financing the beta exposure. This widens the range of strategies an investor can productively employ.

Portable alpha can be an efficient way to take on leverage and beat a traditional market benchmark.⁹ This comes with the caveat that leverage can be measured in different ways. For example, accounting leverage generally focuses on explicit borrowing or balance-sheet exposures, while economic leverage captures the broader economic exposure created through derivatives.

The distinction between accounting and economic leverage carries practical consequences for investors operating under explicit leverage constraints. Where the derivatives sit inside a commingled fund or a dedicated fund vehicle rather than on the investor's own books, the investor holds fund shares and the leverage resides with the fund. This may allow an investor whose statute or investment policy restricts plan-level borrowing to obtain the desired exposure (i.e., utilize leverage). However, the economic risk does not disappear simply because it is recorded elsewhere.

Issues and Concerns

Portable alpha is not without its drawbacks, including variable or undefined betas, the difficulty of finding alpha, inherent leverage, complexity, and cost.

Variable Betas and Common Exposures

Portfolios or investment strategies designed to generate alpha are rarely devoid of beta exposure. This variable beta exposure may result from explicit exposure to the underlying market or through other forms of commonality (e.g., even in a market-neutral strategy, performance can move similarly to a traditional market). Moreover, if the beta portion of the alpha source varies through time, measuring it appropriately will be a constant challenge. This is particularly important during periods when correlations tend to increase, such as during bear markets that would likely accompany a period of perceived systemic risk.

It is entirely possible that both the alpha and beta sources will suffer a simultaneous loss, even if they are uncorrelated on average. This was indeed the experience in 2008, where hedge funds lost 19% on average, while the broader equity market lost 37%.¹⁰ Much of this stemmed from the fact that conservative and market-neutral strategies are often exposed to some form of risk premium (e.g., value) that can co-vary with traditional beta markets at times. Moreover, during market stress, covariance can rise as volatility increases and investors simultaneously reduce risk, forcing otherwise distinct strategies to sell similar assets or unwind similar exposures at the same time.

The Difficulty of Finding Alpha

Active returns are largely zero sum within a given market, since the aggregate of active positions is the market itself.¹¹ One manager's gain generally comes at another's expense, which is why durable skill is scarce and difficult to identify in advance. Portable alpha lowers the hurdle a manager must clear, from beating a market benchmark to exceeding the cost of financing, and it widens the markets from which

a return stream can be sourced. Neither change makes skill more common. The investor must still identify, ex ante, a manager likely to clear that hurdle net of fees over a full cycle, and a wider opportunity set also means a larger universe to evaluate.

Leverage

Portable alpha strategies employ leverage, no matter how leverage is defined. While the type of leverage utilized is different from traditional "borrowing," it is effectively the same (i.e., an investor has more exposure than underlying cash/collateral). Moreover, the alpha source may also use leverage independent of the portable alpha construct. Depending on how a portable alpha strategy is implemented, up to two times the amount committed may be effectively invested.¹²

The maximum loss depends on how the strategy is held. An investor implementing directly, holding futures or swaps on its own balance sheet, retains the obligation to meet margin and mark-to-market payments and could in principle lose more than the amount originally allocated. An investor holding shares in a limited-liability fund vehicle is generally exposed only to the amount invested, since the fund rather than the investor is party to the derivative contracts. That difference is meaningful, though a total loss of the allocation remains possible under either approach.

This also underscores the need to maintain ample liquidity to meet potential margin calls or mark-to-market payments on the beta exposure. Without sufficient liquid collateral, an investor may be forced to reduce exposure or sell assets at unfavorable prices when markets are under stress.

Liquidity

While beta exposure usually offers daily liquidity, it is not unusual for the alpha source to be less liquid, particularly during periods of market stress. For example, hedge funds may impose lockups or redemption gates during periods of crisis. Hence, investors may temporarily have little to no access to what was otherwise considered to be a liquid segment of their overall portfolio. However, many hedge funds and "liquid alternatives" strategies that investors commonly use as sources of alpha offer less stringent liquidity provisions.¹³ Regardless, liquidity parameters and potential mismatches are a critical element when constructing a portable alpha program.

Complexity

Portable alpha programs are inherently complex, requiring derivatives expertise, active risk monitoring, collateral management, and ongoing oversight of alpha managers. The Implementation section describes how that burden varies across implementation models.

Cost

The implicit and explicit cost of portable alpha strategies can be high. First, setting up the derivatives-based beta portion of the program has a modest cost, and it can be time-consuming, likely ranging anywhere between four and eight weeks. While the initial setup cost may appear modest in isolation, the all-in expense can be substantial once financing spreads, legal documentation, collateral management, transaction costs, and ongoing oversight are included. There are also related legal complexities and obligations.

Second, true skill-based alpha is typically expensive. Hedge fund costs are considerable and vary across strategies. Fees can range from a flat 0.5% to a traditional “2 and 20” fee schedule,¹⁴ while certain multi-manager, multi-strategy, and market-neutral funds may have higher costs due to the inclusion of pass-through expenses borne by investors.¹⁵ For fund of funds, there is an additional layer of fees above that paid to the underlying managers, perhaps nearing 1%.

Fee structure warrants as much attention as fee level. Performance fees in portable alpha programs are commonly calculated in one of two ways. Under the first, the alpha manager earns a performance fee whenever the alpha strategy itself generates a positive return. Under the second, the fee applies only when the program’s total return exceeds the stated benchmark. The distinction matters because financing costs and implementation frictions sit outside the first calculation. An investor can therefore pay a performance fee in a period when the overall program has underperformed the benchmark it was designed to beat.

Interest Rates

As discussed above, the hurdle for a portable alpha program is the cost of financing, which is driven by the prevailing interest rate environment. Thus, a low interest rate environment represents a lower hurdle for portable alpha strategies to overcome, while a rising or high-rate environment represents a higher hurdle for portable

alpha strategies. However, hedge funds may also benefit from higher rates because their cash or cash-equivalent balances can earn higher yields.

Not Appropriate for Every Investor

Portable alpha is not a fit for every investor. Investors operating under statutory or policy constraints that prohibit even implicit leverage should not pursue the strategy, because leverage is intrinsic to the structure rather than an optional feature. Scale and liquidity also matter. Due to operational complexities and mandate minimums, smaller investors will likely rely on turnkey providers, which limits them to a narrower set of beta choices and less transparency in exchange for the convenience. Investors must have sufficient unencumbered liquidity to meet margin calls on the beta exposure during any drawdown.

The 2007 to 2009 period offers a useful reference point. Assets in portable alpha strategies declined by more than 50% due to a combination of investment losses and program terminations.¹⁶ This indicates that a substantial number of institutional investors either reduced or exited these strategies during the Global Financial Crisis. The difficulties reported at the time centered on implementation rather than on the underlying concept. Equity beta exposures generated margin calls precisely when alpha sources, many of them funds of hedge funds, were themselves posting losses and, in some cases, restricting redemptions. Investors unable to meet those calls from liquid resources faced the choice of selling alpha positions at depressed prices or closing beta positions and forgoing participation in the subsequent recovery.

Investors evaluating portable alpha today should assess honestly whether their liquidity position and governance process would allow them to hold the structure through a comparable episode, because the strategy’s benefits may only accrue to those who are not forced to unwind it at the wrong time.

Implementation

Implementing a portable alpha program involves three decisions: which beta exposure to acquire, how to acquire it, and which alpha source to pair with it.¹⁷ Each is addressed below. Programs also require ongoing rebalancing and, in some cases, a hedge against beta embedded in the alpha source.

For policy and reporting purposes, a portable alpha strategy is often bucketed according to the asset class of its beta component. The beta exposure is typically the primary driver of the strategy's market risk and typically determines where the allocation sits within the broader asset allocation framework, even if the alpha source is drawn from a different part of the investment universe.

Implementation Models

Investors can structure a portable alpha program in three broad ways, which differ considerably in operational burden, cost transparency, and flexibility.

Under a bundled, or turnkey, arrangement, a single manager provides both the alpha strategy and the beta overlay. The investor holds one position and receives consolidated reporting. Because the manager controls both components, it can move cash between the alpha and beta sleeves as margin requirements change, measure the beta embedded in its own alpha strategy directly, and report the program's performance against the stated benchmark as a single figure.

Under an unbundled arrangement, the investor hires the alpha manager or managers separately and retains a third party, often a custodian bank or a derivatives specialist, to manage the beta overlay. The investor selects each component independently and can replace either without disturbing the other.

Under an internally managed arrangement, the investor executes and maintains the beta overlay with in-house staff. This offers the greatest control and the lowest explicit cost, and it requires investment, operational, and legal capabilities that few investors possess.

The unbundled and internal approaches give the investor more control, and both introduce risks that the bundled approach substantially reduces. Four deserve particular attention.

- › **Operational risk** arises because rolling futures contracts and administering swap agreements require accurate execution on a recurring schedule.

- › **Collateral and cash management risk** arises because cash held against the beta position and cash held by the alpha manager sit in separate places, so meeting a margin call may require moving assets between managers on short notice.
- › **Beta measurement risk** arises because the investor, rather than a single manager with visibility into both sleeves, must estimate the beta embedded in the alpha strategy and decide whether to hedge it.
- › **Reporting risk** arises because no single party is accountable for the program's total return, which complicates both performance measurement and attribution.

The bundled approach mitigates these risks while introducing others that investors should weigh. Combining the alpha strategy and the derivative exposure with one manager creates provider concentration, so an operational or financial problem at that firm affects the entire allocation rather than one component of it. Because a bundled program is a single mandate, replacing a disappointing alpha manager generally means terminating the entire program, including the beta exposure, rather than substituting one component. The choice of beta exposure is also limited to what the provider offers, and the choice of alpha strategy is limited to the provider's own capabilities or to third-party strategies it can access.

No single approach is appropriate for all investors. A bundled program lowers operational risk and may bring portable alpha within reach of investors who could not otherwise administer it, at the cost of concentration, typically higher fees, and reduced flexibility. An unbundled or internal program preserves choice and cost visibility, and it requires staff and governance capacity that the investor should confirm it has.

Beta Selection

Portable alpha may be most appealing as a replacement for traditional active management in markets where active managers have not reliably beaten the market, such as large cap stocks. This is very similar to considering the case for where passive management makes sense. However, the opportunity set is also limited to those markets where the desired exposure can be obtained relatively easily and cheaply via derivatives.

For investors who opt for the turnkey route, choices of beta exposure are limited to what turnkey providers offer. These typically include the largest and most liquid institutional benchmarks. For example, a portable alpha program based on the S&P 500 index is by far the most common option, in part because of the size and liquidity of the futures market for the S&P 500 index.

However, the futures market for the most common investment grade bond benchmark, the Bloomberg US Aggregate index, is neither large nor liquid. As a result, an investor would most likely enter a swap agreement to gain exposure to the index. This type of arrangement may be relatively expensive; alternatively, Treasuries (including TIPS) are among the least expensive beta sources, as the futures market is large and liquid.

Achieving Beta

Portable alpha strategies most commonly obtain beta exposure through swaps or futures. In either case, the cost is usually tied to short-term interest rates (e.g., SOFR) plus a spread, though pricing varies by contract and market conditions.¹⁸ The two instruments differ mainly in operational burden, liquidity, and how closely each tracks the target index (see Figure 3).

Neither instrument dominates the other. Futures tend to suit investors who value operational simplicity and the ability to adjust exposure quickly, while swaps tend to suit investors seeking a benchmark for which no liquid futures contract exists. Transaction costs for either are often lower than the cost of holding the underlying securities.

Alpha Selection

After a beta source has been selected, investors typically select one or more alpha sources believed likely to produce consistently positive returns greater than borrowing costs, implementation costs, and management fees over a full market cycle. This requirement is straightforward in concept if perhaps difficult in practice.

Figure 3
Beta Implementation Options

	Swaps	Futures
Upfront capital	None required	Initial margin, plus cash reserved for variation margin ¹⁹
Capital available for alpha ²⁰	Up to 100% of notional, in theory	Less than 100%, since margin must be held
Setup burden	Onerous. Requires ISDA ²¹ documentation, credit lines, and a cash account for mark-to-market payments	Limited. Little upfront administrative work
Benchmark match	Customizable, with no tracking error to the benchmark	An appropriate contract may not exist, and futures can trade away from fair value, either of which creates tracking error
Ongoing maintenance	Rebalanced primarily quarterly	Rolled quarterly, incurring transaction costs
Liquidity	Less liquid	More liquid. Exposure can be adjusted quickly, including intraday
Counterparty risk	Bilateral counterparty exposure	Low, since contracts are exchange traded

The choice of alpha source may necessitate another step. This is because it is not uncommon for alpha sources to have some beta (to one or more markets) in their portfolio. A related consideration is whether to hedge any residual beta out of the alpha manager's portfolio, recognizing that such hedging carries an additional cost.²²

Vehicle Structure and Leverage Constraints

Some investors operate under statutes, trust documents, or investment policy statements that restrict or prohibit the use of leverage. Because portable alpha requires leverage in economic terms, these investors face a threshold question about whether the strategy is available to them at all. In practice, the answer often depends on how the strategy is held rather than on what it does.

When an investor implements directly, entering into futures or swap positions in its own name, the derivative exposure appears on the investor's books and generally counts against any leverage limit. When an investor instead purchases shares in a commingled fund or a dedicated fund vehicle that executes the derivatives internally, the investor's holding is an equity interest in a fund. The leverage belongs to the fund. Under most accounting and policy frameworks, that interest is not itself treated as borrowing, and the constraint may not bind. Investors and their advisors sometimes describe this as delegated leverage.²³

Two points deserve emphasis. First, the difference is not purely one of labeling. A fund vehicle organized with limited liability caps the investor's exposure at the amount invested, whereas direct implementation leaves the investor responsible for margin calls and mark-to-market payments regardless of how large they become. An investor who genuinely cannot tolerate open-ended obligations obtains a real risk reduction from the fund structure, not merely a favorable accounting outcome.

Second, the economic risk that motivated the constraint remains. The investor still holds market exposure that exceeds the capital committed, still bears the possibility of losing the full allocation, and still depends on the fund maintaining sufficient collateral through a drawdown. The fund may also gate or suspend redemptions during stress, which limits the investor's ability to act.

For these reasons, investors subject to leverage constraints generally treat the choice of vehicle as both a governance question and an implementation consideration. Where a board or investment committee approves a portable alpha allocation on the basis that the leverage sits inside a fund, documenting that reasoning and confirming with legal counsel that the relevant statute or policy language supports the interpretation is common and advisable practice. A related practice is reporting the strategy's economic exposure, including notional derivative positions, to their governing body on a regular basis even where accounting standards do not require it. Doing so allows the body that set the constraint to understand what the portfolio actually holds.

Conclusion

Portable alpha asks investors to separate two decisions that are usually combined: where to obtain market exposure and where to seek active return. Acquiring beta through derivatives frees capital to pursue return streams unconstrained by asset class, which matters because active management has been least productive in the markets where most investors hold the most.

The case rests on demanding conditions. The alpha source must exceed the cost of financing the beta exposure, net of management fees and implementation expenses, and must remain sufficiently independent of that beta and of the investor's other exposures. In higher interest rate environments, the hurdle rises and the margin for error narrows. Dispersion among candidate managers is wide, which can be beneficial when the performance of the underlying manager(s) is exceptional but costly when it is subpar.

Structure and governance matter as much as manager selection. Portable alpha involves leverage regardless of how it is measured, and managing it requires collateral policies, adequate liquidity, and oversight capacity. The choice among bundled, unbundled, and internally managed implementations determines which risks the investor bears directly and which are delegated, and it affects fee transparency and the ability to replace a component without unwinding the program. For investors subject to explicit leverage constraints, the choice of vehicle is generally a decision for their governing body.

For investors who can meet these conditions, portable alpha offers a way to apply active management where it has been more productive, without giving up the market exposure their policy requires. The critical inputs are rigorous manager selection, transparent cost accounting, and a governance framework equal to the operational demands. Where those conditions are not met, a passive allocation to the beta exposure alone remains the simpler and less expensive alternative. Whether portable alpha is appropriate for a given investor depends on the investor’s governance capabilities, risk tolerance, and liquidity profile.

Appendix: Detailed Mechanics

To illustrate the detailed mechanics of implementation and the components of a portable alpha strategy’s return, two examples may be helpful (see Figure 4 and Figure 5). In the first example, an investor wants to “port” the return of a market neutral strategy (i.e., the alpha source) onto the market return of an equity index (i.e., beta) using futures. In the second, swaps are used to execute the same strategy. Neither involves netting out an alpha source’s potential beta exposure(s).

Swaps generally require no upfront capital and can be customized. There is no tracking error to the benchmark, and rebalancing is primarily done quarterly. By using swaps, up to 100% of the swap value, theoretically, can be committed to the alpha manager. However, the initial work to enter into a swap agreement is onerous, as the investor must go through the process of setting up ISDA documentation, establishing credit lines, and maintaining a cash account to meet mark-to-market payments.

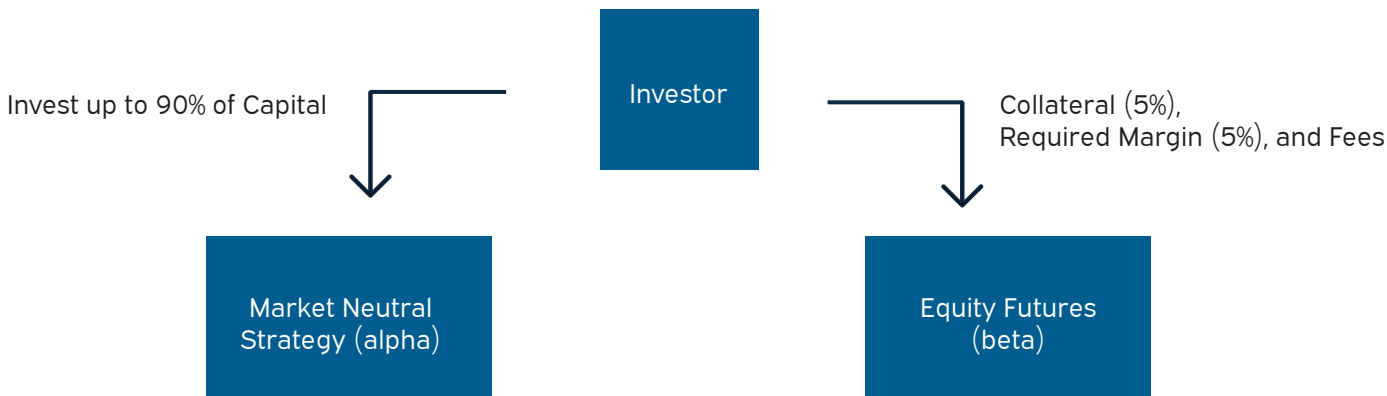
Furthermore, swaps are less liquid than futures and include counterparty risk.

Unlike swaps, futures require posting an initial margin and setting aside assets in a cash account to maintain variation margin. Therefore, less than 100% of the futures value can be committed to the alpha manager or managers. In addition, there may not be an (appropriate) futures contract available for the market that an investor seeks, leading to tracking error. Moreover, futures can trade at a premium or discount to fair value at various times, which can likewise lead to tracking error. Futures contracts are also typically “rolled” every quarter to maintain exposure to the index, thus incurring additional transaction costs. However, because they are generally more liquid than swaps, futures contracts allow investors to adjust market exposure relatively quickly and easily. Since they are exchange-traded, they offer low counterparty risk, can be traded intraday, require little upfront administrative work, and carry transaction costs that are often lower than owning a portfolio of stocks and bonds.

Futures Example

To gain exposure to its beta source, the investor purchases equity index futures in an amount equivalent to an investment in its alpha source. Because of the variation margin requirements of futures, not all of the desired allocation is available for investment in the alpha source. Five percent is kept in margin to meet the daily mark-to-market of the futures contracts, and an additional five percent is set aside as collateral.²⁴

Figure 4
A portable alpha strategy that uses futures.



The investor's total return will be the sum of the following components:

- 1. Plus: Gain (loss) on futures
- 2. Plus: Gain (loss) on the market-neutral strategy
- 3. Plus: Interest gain on the collateral set aside to cover margin
- 4. Minus: The financing rate
- 5. Minus: Fees paid to market-neutral strategy

Swap Example

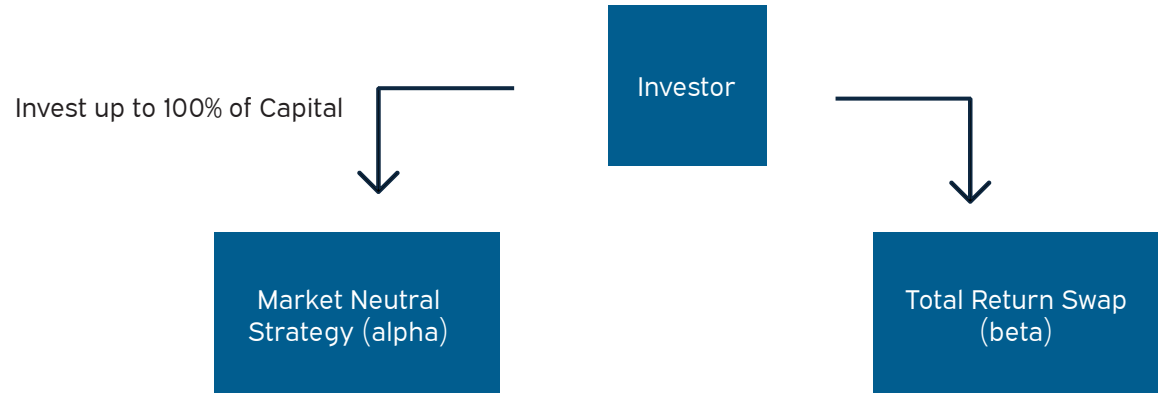
To gain exposure to its beta source, the investor enters into a total return swap agreement with a counterparty wherein the investor receives the return on an equity index and

makes a quarterly interest rate payment.²⁵ Because swap payments are netted out and paid less frequently, cash transfers are easier to estimate.

In this example, the investor's total return will be the sum of the following:

- 1. Plus: Net gain (net loss) on total return swap (i.e., the return experienced by the index less the coupon paid to the counterparty)
- 2. Plus: Gain (loss) on the market-neutral strategy
- 3. Minus: Fees paid to market-neutral strategy
- 4. Minus: Rate paid to swap counterparty

Figure 5
A portable alpha strategy that uses a swap.



End Notes

- ¹ Beta is a measure of the systematic, non-diversifiable risk of an investment. Specifically, beta measures the exposure of an investment (e.g., a manager's portfolio) relative to the market, which is defined as the manager's benchmark. Alpha is an estimate of the value added by a manager due to skill (or luck).
- ² Futures and swaps are the derivatives most commonly used for achieving beta exposures, while repurchase agreements and options may also be used.
- ³ Source: Meketa Investment Group analysis of data from eVestment as of December 31, 2025. Represents manager returns minus the benchmark return for the period where data is available. See Meketa's Manager Alpha white paper for more information on the methodology.
- ⁴ Futures are a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a financial index, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.
- ⁵ The implied financing rate is based on short-term secured borrowing rates (e.g., SOFR) and reflects cost-of-carry considerations embedded in equity index futures pricing.
- ⁶ Source: eVestment and INVMetrics, as of December 31, 2025. Indices used: eVestment Hedge US Universe, MSCI ACWI (Net). Hedge fund returns based on monthly rolling returns, default vehicles, performance reported net of fees. Note that these figures come from an index of self-reporting managers and carry the survivorship and reporting biases common to such data, so they should be read as indicative rather than precise.
- ⁷ We used 90-day SOFR data starting in July 2018. For the 30 months prior to that, we used the Fed Funds effective rate. The average monthly difference between the two for the overlapping period of July 2018 through December 2025 was 2 basis points.
- ⁸ Note that returns would be further reduced by any implementation and oversight costs.
- ⁹ Leverage is the use of borrowed money to gain additional exposure to an investment without increasing the principal.
- ¹⁰ Source: Hedge Fund Research, Inc. and S&P Dow Jones Indices. The HFRI Fund Weighted Composite Index declined approximately 18.7% in 2008, while the S&P 500 Total Return Index declined approximately 37.0%. Fund of funds and absolute return strategies also experienced significant losses during the Global Financial Crisis.
- ¹¹ There is substantial literature supporting this argument. See, for example, William Sharpe's 1991 paper "The Arithmetic of Active Management" (Financial Analysts Journal).
- ¹² Economic exposure may approach twice the capital committed when an investor obtains beta exposure through derivatives while simultaneously investing substantially all available capital with an alpha manager. Actual exposure depends on derivative structure, margin requirements, collateral policies, and alpha manager utilization.
- ¹³ In our experience, "liquid alts" tend to offer better liquidity terms but also tend to have more beta.
- ¹⁴ Refers to a management fee of 2.0% and a performance-based fee of 20% of profits.
- ¹⁵ Pass-through expense can include operational and other fund-related costs that are charged separately from stated management and incentive fees.
- ¹⁶ Source: Pensions & Investments, "Portable alpha strategy continues slide, but fans stay optimistic," February 8, 2010, and "Plans dump portable alpha as returns sour," August 10, 2009. According to P&I's annual survey of the 200 largest US retirement plans, assets in portable alpha strategies peaked at approximately \$50.3 billion as of September 30, 2007, declined roughly 19% to about \$41 billion a year later, and fell a further 43.5% to approximately \$23.2 billion as of September 30, 2009.
- ¹⁷ Investors who use a risk budgeting approach must determine how much active risk to assume and, therefore, how much capital to allocate to these alpha managers. See Meketa Investment Group, "Risk Budgeting," for additional discussion of defining, measuring, and allocating risk across a portfolio framework.
- ¹⁸ SOFR is the primary reference rate for US dollar-denominated short-term financing markets and has replaced LIBOR as the standard benchmark in derivatives and financing transactions.
- ¹⁹ Variation margin refers to additional margin required to bring an account up to the required level due to market fluctuations.
- ²⁰ It is common for investors to use a lower share than what is available (e.g., 50%).
- ²¹ ISDA refers to the International Swaps and Derivatives Association, an entity that sets the standard language for futures and swaps contracts.
- ²² To fully avoid the need to hedge, the alpha source should be uncorrelated with all of an investor's market exposures, as adding one beta on top of another beta, even if it is in another area of the investor's portfolio than the beta component of the portable alpha program, represents taking additional risk in that market.
- ²³ Whether a specific restriction is in fact avoided depends entirely on the wording of the governing state, trust document, or policy, and should be confirmed with legal counsel before it is relied upon.
- ²⁴ The amount of collateral is dependent upon the volatility of the market to which the investor is gaining exposure (e.g., less collateral would be needed for bonds than for stocks).
- ²⁵ The financing rate is tied to a floating benchmark (e.g., SOFR) and adjusts as market interest rates change.

Important Information

This report (the “report”) has been prepared for the sole benefit of the intended recipient (the “recipient”).

Significant events may occur (or have occurred) after the date of this report, and it is not our function or responsibility to update this report. The information contained herein, including any opinions or recommendations, represents our good faith views as of the date of this report and is subject to change at any time. All investments involve risk, and there can be no guarantee that the strategies, tactics, and methods discussed here will be successful.

The information used to prepare this report may have been obtained from investment managers, custodians, and other external sources. Some of this report may have been produced with the assistance of artificial intelligence (“AI”) technology. While we have exercised reasonable care in preparing this report, we cannot guarantee the accuracy, adequacy, validity, reliability, availability, or completeness of any information contained herein, whether obtained externally or produced by the AI.

The recipient should be aware that this report may include AI-generated content that may not have considered all risk factors. The recipient is advised to consult with their Meketa advisor or another professional advisor before making any financial decisions or taking

any action based on the content of this report. We believe the information to be factual and up-to-date but do not assume any responsibility for errors or omissions in the content produced. Under no circumstances shall we be liable for any special, direct, indirect, consequential, or incidental damages or any damages whatsoever, whether in an action of contract, negligence, or other tort, arising out of or in connection with the use of this content. It is important for the recipient to critically evaluate the information provided.

Certain information contained in this report may constitute “forward-looking statements,” which can be identified by the use of terminology such as “may,” “will,” “should,” “expect,” “aim,” “anticipate,” “target,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Any forward-looking statements, forecasts, projections, valuations, or results in this report are based upon current assumptions. Changes to any assumptions may have a material impact on forward-looking statements, forecasts, projections, valuations, or results. Actual results may therefore be materially different from any forecasts, projections, valuations, or results in this report.

Performance data contained herein represent past performance. Past performance is no guarantee of future results.