More Attention on Tax-Aware Investing Is a Good Thing for the Industry and Investors

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We've shared publicly what we've learned about tax-aware long/short investing for fifteen years now. 1 1 Close Starting with Israel and Moskowitz (2011). , 2 2 Close Some additional perspective is important: Although we have published a number of articles on tax-aware investing, they represent only a sliver of AQR's overall research on investment signals, portfolio construction, and asset allocation. Our articles on tax-related topics always cite the relevant investment-focused literature, which serves as a foundation for tax-aware long-short factor strategies. Whether in peer-reviewed publications, 3 3 Close For example, Sialm and Sosner (2018), Liberman et al (2023), Krasner et al (2024). award-winning research articles, 4 4 Close Liberman et al (2020). blogs on our site, 5 5 Close For example, "Our Research into Tax-Aware Long-Short Investing," AQR Tax Matters blog (2025) and references therein. or short-form video, 6 6 Close "Economic Substance Doctrine," AQR Quick Take (2026). we've been clear about how it works, 7 7 Close Krasner and Sosner (2024). how to make it better, 8 8 Close Liberman, Sosner and Freitas (2026). and what investors should evaluate when considering it. 9 9 Close "Separating the Wheat from the Chaff," AQR Tax Matters blog (2024).

Of course, AQR didn't invent tax-aware investing; even a decade in, we're relative newcomers. The overall ecosystem is huge – take direct-indexing, a roughly $1.2 trillion industry. 10 10 Close MMI-Cerulli Q1 2026 Advisory Solutions Data | Money Management Institute. What was decades ago a financial innovation has since improved outcomes for hundreds of thousands of investors 11 11 Close For example, Parametric manages 136,000 accounts as of 3/31/2026, Goldman 68,000 accounts as of 12/31/2025, and BlackRock 33,000 as of 12/31/2025. by providing a tax-efficient way to participate in equity market growth.

Tax-aware long/short is a relatively recent innovation, comparatively small, but getting more attention among investors, 12 12 Close See for example, https://www.taxalphainsider.com/tax-aware-longshort-grows-to-150/ researchers, and the media. This attention has brought with it a range of perspectives, narratives, and debates. And we think that's a good thing.

In our view, interest from the broader tax, investment, and academic community can help identify and prevent practices that could undermine investor confidence in these strategies. If anything, responsible participants – both managers and investors – should benefit from transparency and education that would help differentiate strategies on the basis of their economic substance and expected pre-tax profits.

We have consistently maintained that tax-aware investing should be based on credible and time-tested investment strategies. In keeping with this principle, we offer the same investment strategies to both tax-exempt institutions and clients whose objective is instead strong after-tax returns, particularly because for investment strategies such as ours, tax efficiency can be effectively balanced with pre-tax profits. We would be doing a disservice to those clients who seek after-tax returns if we failed to take tax consequences into account when tax-awareness fits naturally into our investment process and is designed to operate in accordance with relevant guidance and regulations.

Thoughtful evidence-based discussion that gives appropriate attention to costs, benefits, and limitations of tax-aware strategies across their full lifecycle, including long-run economic outcomes and liquidation tax liabilities, can be useful. While, for economically profitable strategies, there is meaningful value in deferral, the exit tax can be significant. Indeed, we encourage all investors and advisors to look beyond the top-line metrics and examine investors' net after-tax position, including when liquidation taxes are accounted for. We believe this type of constructive dialogue can help the industry better serve investors, which is always one of our utmost goals.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor’s own analysis and an investor’s own view on the topic discussed herein.
