

TAX-AWARE STRATEGIES

When Tax Is the Variable That Matters *Most*.

Strategies for Business Owners, Executives, and High Net Worth Investors.

Tax is often the single largest variable in how much capital a business owner, executive, or investor retains. When treated as an input to portfolio construction rather than a post-event concern, structured strategies defer tax liabilities, keeping capital invested for long-term compounding.

“You can only eat after-tax returns” - Warren Buffett¹



¹Source: Financial Times “The \$62bn secret of Warren Buffett’s success” (March 4, 2015) - [LINK](#)



01 – AT A GLANCE

Three Situations Where a Tax-Aware Architecture Changes After-Tax Outcomes.

Before the tax event, coordination determines how much you keep.

01 / LIQUIDITY EVENT

You are expecting a significant tax event: a business sale, an equity raise, or a real estate disposition. A 1031 exchange limits your investable universe to real estate only.

OUR APPROACH

Tax-aware long/short strategies harvest capital losses preemptively to offset the recognized capital gain at realization, with no reinvestment mandate, no replacement clock, and the ability to invest proceeds with flexible exposure to publicly traded stocks.

**CAPITAL
GAINS**
Tax deferred

02 / CONCENTRATED STOCK

A significant share of your net worth is held in a single equity or a handful of individual stocks with low cost basis: Selling triggers capital gains tax on every share. Holding leaves the portfolio exposed to single-name risk indefinitely.

OUR APPROACH

A long/short overlay harvests losses systematically against each sale, enabling a tax-efficient exit over a few years at minimal to zero immediate tax cost.

**EXIT THE
POSITION**
Keep capital invested

03 / HIGH INCOME EARNER

You have high ordinary income: executive compensation, business distributions, or a RSU vesting. The tax burden compounds annually with few conventional offsets available.

OUR APPROACH

A partnership-structured absolute return strategy generates a less market correlated return stream with additional tax benefits. The strategy provides active business expenses and non-capital losses that pass through to your K-1 as ordinary losses, offsetting W-2 ordinary income directly at your marginal rate. The investment can eventually be redeemed from the partnership at capital gains rates.²

**OFFSET
INCOME**
Directly from your K-1

² AQR Capital Management, AQR FLEX & Delphi Plus Strategy Report, 2025. Loss harvest rates are illustrative; actual results vary by size, timing, and market conditions. Consult your tax advisor regarding applicability to your situation.



02 – THE MECHANISM

Growing Capital While Reducing What You Owe.

How tax-aware long/short strategies harvest losses and defer taxes.

These strategies add extensions, long positions in higher-quality companies and short positions in lower-quality ones. The portfolio aims to generate outperformance above a benchmark while capturing consistent net capital losses, including in rising markets, because individual position outcomes diverge regardless of the market's overall direction. This strategy enables investors to realize losses today and defer gains into the future. Depending on your leverage selection, the strategies can grow your capital base while harvesting significant short-term capital losses, generating both a return and a tax benefit from the same portfolio. The judgment about which strategy fits your situation, how much capital to size against your specific event, and when to engage relative to the triggering transaction is where Lakewood's architecture begins.³



1031 EXCHANGE VS. TAX-AWARE LONG/SHORT

ATTRIBUTE	1031 Exchange	Tax-Aware Long/Short
Asset coverage	— Real estate only	✓ Any asset sold with a taxable gain
Timeline	— 45 / 180-day windows	✓ No replacement clock
Capital flexibility	— Full reinvestment required	✓ Partial deployment OK
Loss harvesting	— Not available	✓ Preemptive & ongoing
Tax outcome	✓ Deferral + step-up	✓ Deferral + step-up

³AQR Capital Management, AQR FLEX Strategy Report, 2025. Loss harvest rates are illustrative; actual results vary by size, timing, and market conditions. Consult your tax advisor regarding applicability.



03 - THREE APPLICATIONS

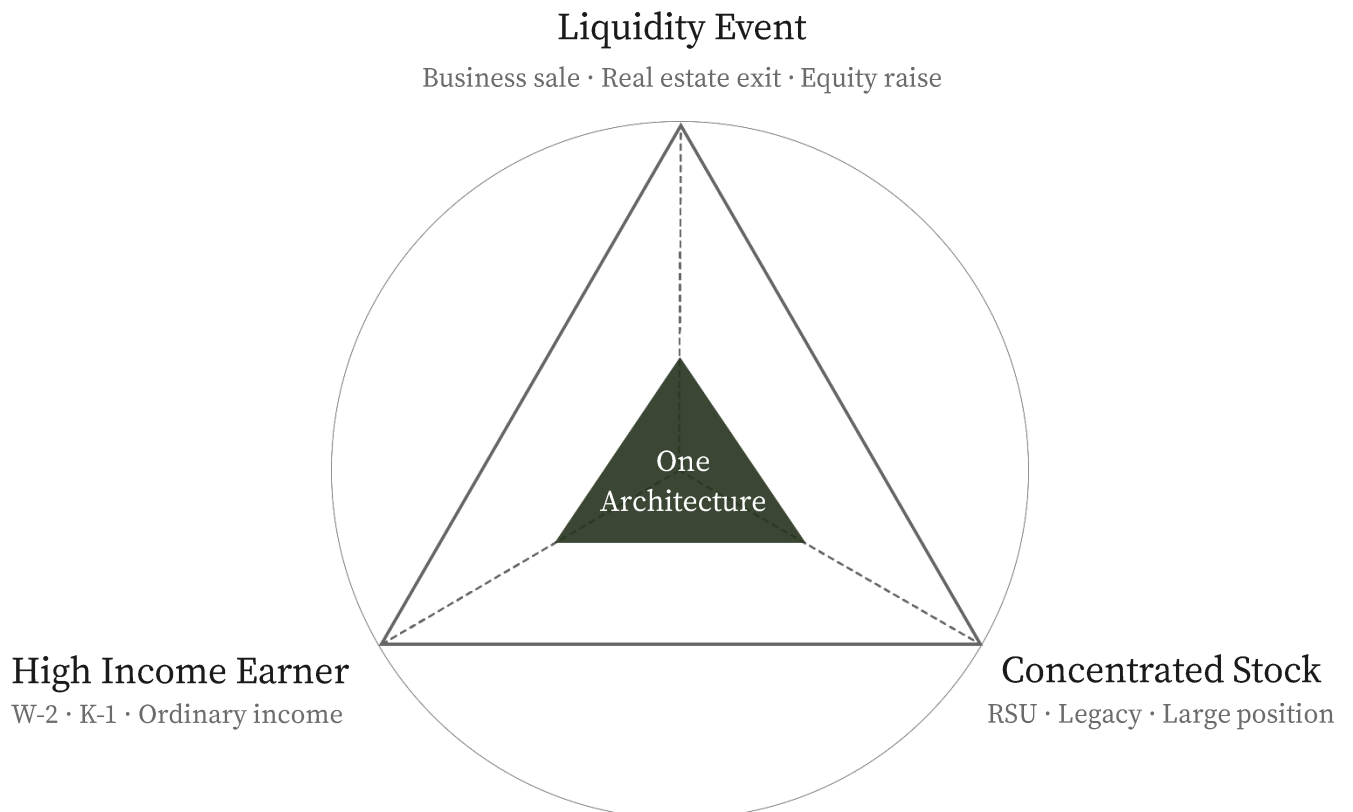
Matching the Strategy to the Situation.

The single largest variable in your actual outcome is how much you keep after tax.

HOW IT WORKS

The architecture is the same across all three situations. What changes is the entry point, the type of tax liability being offset, and the timeline to exit. Each application reflects a client situation Lakewood navigates with a specific deployment approach. As the strategies generate losses, those losses are harvested to directly offset realized capital gains. You decide your market exposure and growth potential while the strategy systematically reduces what you owe to the government.

An improvement in net proceeds is not a market outcome. It is a planning outcome. The difference is when the architecture is in place relative to the event.



01 / LIQUIDITY EVENT

A business owner or real estate investor has a large, embedded capital gain. The optimal approach is to deploy the strategy preemptively, ideally a few years before the event closes, so that harvested capital losses accumulate in advance and are already in place to offset the recognized long-term gain. When a sale happens without advance planning, the timing of the transaction itself becomes the critical lever: because the strategy operates across tax years, even shifting a closing date from November into January moves the gain into the following tax year, opening an additional year to harvest offsetting losses.

02 / CONCENTRATED STOCK

A disproportionate share of net worth is held in a single stock position, whether from significant unrealized appreciation, vested RSU, or rapid growth of a position. Selling triggers capital gains tax on every share. Holding the single stock position indefinitely leaves the portfolio exposed to single-company risk. The long/short overlay changes the trade-off by harvesting losses systematically against each sale, enabling a gradual, tax-efficient exit over a few years, with proceeds reinvested into a diversified stock portfolio.

03 / HIGH INCOME EARNER

A professional with high recurring ordinary income faces a tax burden that recurs and grows every year. Few conventional strategies provide meaningful offsets against ordinary income rates specifically. Lakewood offers a third-party managed tax-aware partnership strategy: a fund structure that generates active business and non-capital losses, passed through to you on a K-1, that offset your W-2 or business income directly. The investment can eventually be redeemed from the partnership at capital gains rates rather than ordinary income rates.⁴

04 / COMBINING STRATEGIES

For investors facing both high ordinary income and an anticipated liquidity event, deploying the tax-aware partnership and tax-aware long/short strategies together produces an outcome neither achieves alone. The partnership fund generates ordinary losses that reduce your annual ordinary income tax burden while the position is held. The long/short strategy simultaneously accumulates net capital losses over the same period. The accumulated capital losses can then offset potential capital gains from the exit of a business, real estate, or the tax aware partnership itself.

The clients who benefit most are the ones who have an architecture built early.

⁴The vehicle Lakewood uses for this solution: AQR Capital Management, AQR TA Delphi Plus Strategy Report, 2025. Past performance does not guarantee future results. Loss harvest rates are illustrative; actual results vary by size, timing, tax situation and market conditions. Consult your tax advisor regarding applicability to your situation.



04 - IMPLEMENTATION

How Lakewood Coordinates the Strategy.

Architecture before allocation. Coordination is the value access cannot replace.

CPA COORDINATION

The judgment about when to deploy, how to size capital against a specific tax event, when the strategy needs to be in place: that is the advisory role. Lakewood builds the architecture before the event, not after the tax bill arrives. We evaluate which strategy fits the situation; sizing the allocation to the client's specific gain, income level, and timeline. For most liquidity events, that is a few years ahead of time. A qualified investor can access these strategies through an institutional platform. What Lakewood provides is the architecture around them. That judgment is the product of three careers built inside institutional finance: multi-asset derivatives trading for institutional portfolios and hedging concentration risk at JPMorgan. We coordinate directly with your tax team. We deliver annual K-1 reports according to the timeline your filing schedule requires. We join tax planning calls alongside your CPA and estate advisors. The goal is for the tax work and investment architecture to be built together, not reconciled after.

WHO THIS IS DESIGNED FOR

These strategies are most effective for investors with \$3M or more in investable assets and deliver the greatest impact at \$5M and above, where the tax benefits meaningfully compound.

FLEXIBILITY BY DESIGN

Lakewood guides clients on market exposure. Whether you want your proceeds in lower or higher risk assets, the tax benefit remains intact. The goal is to keep more of what you earned, on terms that fit your plan. Every year, the strategy expects to generate net capital losses, adding to a loss reserve you can use to reduce taxes on current or future gains.

MULTI-MANAGER ACCESS

Lakewood evaluated six institutional managers across the tax-aware long/short landscape. The selection criteria included realized composite performance, annual net capital loss generation, fee structure, funding flexibility, and single-stock concentration limits. Two platforms meet our standard: one preferred for long/short and the partnership strategy, the other for situations requiring greater flexibility in leverage or single-stock funding. Each allocation is sized to your specific tax situation.

UNDERSTANDING THE RISKS

These strategies involve leverage, short selling, and active trading, introducing risks not present in traditional long-only portfolios. The strategies can underperform their targeted benchmarks. Manager risk, counterparty risk, and liquidity constraints apply. Tax outcomes are illustrative and depend on individual facts, timing, and market conditions. Tax benefits reflect deferral, not elimination. These strategies are appropriate for accredited and qualified investors who understand and are comfortable with the risks involved. Lakewood evaluates suitability on a client-by-client basis before any allocation is made.



The Partners.

THE NEXT STEP

If you are anticipating a future liquidity event, have a concentrated position, or a high-income year, the value of this planning is determined by when it is initiated. We are currently having this conversation with clients and their tax advisors.

We are ready to have it with you.

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FIDUCIARY OVERSIGHT

Fee-only. No commissions. Every recommendation is evaluated on its after-tax merit to your situation.

REGULATORY FRAMEWORK - MANAGED WITHIN THE STRATEGIES

Three IRS rules govern this space. The Economic Substance Doctrine requires that strategies target pre-tax returns, not tax benefits alone. The Wash-Sale Rule (IRC Section 1091) disallows a loss if a substantially identical security is repurchased within 30 days. Constructive Sale rules (IRC Section 1259) restrict shorting a position with large, embedded gains. The strategies are designed explicitly around each constraint.

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AQR STRATEGIES

AQR TA Delphi Plus and AQR Flex strategies are sophisticated alternative and long-short equity investment vehicles that involve material risks, including the potential for loss of principal. AQR TA Delphi Plus, offered through a partnership structure, is designed to generate ordinary losses that are reported to investors on Schedule K-1. AQR Flex seeks to deliver excess returns while systematically realizing short-term net capital losses through active trading. While these strategies aim to provide tax-aware benefits, there is no assurance that they will generate ordinary losses, capital losses, or any specific level of pre-tax or after-tax performance in any period. The actual tax impact depends on each investor's unique facts and circumstances and is subject to important limitations and restrictions under the Internal Revenue Code (including, without limitation, basis limitations under §704(d), at-risk rules under §465, passive activity rules under §469, and excess business loss limitations under §461(l)). All tax-related information and examples presented herein are for illustrative and informational purposes only and do not constitute tax, legal, or investment advice. Investors should consult with their own independent qualified tax advisor, CPA, and legal counsel regarding the applicability and consequences of these strategies to their specific tax situation before making any investment.

