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# Aiming to Outperform the S&P 500 with Portable Alpha

Howard Chan, Dominique Tersin, and Steve Sapra share the thinking behind the Kurv U.S. Large Cap TaxOptimized Strategy—outlining how it may help investors beat the S&P 500 while enjoying tax-advantaged income along the way.

## What is the Kurv U.S. Large Cap TaxOptimized Strategy?

The Kurv U.S. Large Cap TaxOptimized Strategy seeks to outperform the S&P 500 index by providing full passive exposure to U.S. large cap equities, while maximizing sources of after-tax return through active collateral management, by investing in assets like municipal bonds ('munis') and preferred stocks.

What challenges does this strategy address for investors?

### 1 Increasing need for income that equities no longer provide.

Savers increasingly need to pull their future retirement investment income forward to offset current negative cash flows. Yet the yield of large-cap equities—usually the most significant part of one's portfolio—continues to fall to historical lows. As of June 30, 2026, the dividend yield of the S&P 500 index is around 1% pre-tax and 0.63% after taxes (assuming a 37% marginal tax rate).

#### S&P 500 Index Dividend Yield



Source: YCharts, as of 6/30/2026 | Past performance is no guarantee of future results. You cannot invest in an index.



# What is Portable Alpha?

Portable alpha is an institutional-grade investment approach that's been around for over 40 years. In a nutshell, portable alpha seeks to provide exposure to a benchmark (a 'beta'), while simultaneously pursuing outperformance ('alpha') using a separate strategy. Conceptually, the latter strategy is 'ported' onto the former to enhance its returns. Derivatives such as swaps and options—which do not require significant

upfront cash commitments—are employed to gain the benchmark exposure, which in turn frees up capital to deploy in the pursuit of alpha.

In the case of the Kurv U.S Large Cap TaxOptimized Strategy, the targeted beta exposure is the S&P 500 index. Meanwhile, the Strategy aims to add tax-advantaged yield via active-fixed income management.

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**We believe solutions to boost equity yields are inadequate and at a huge expense to portfolio returns.**

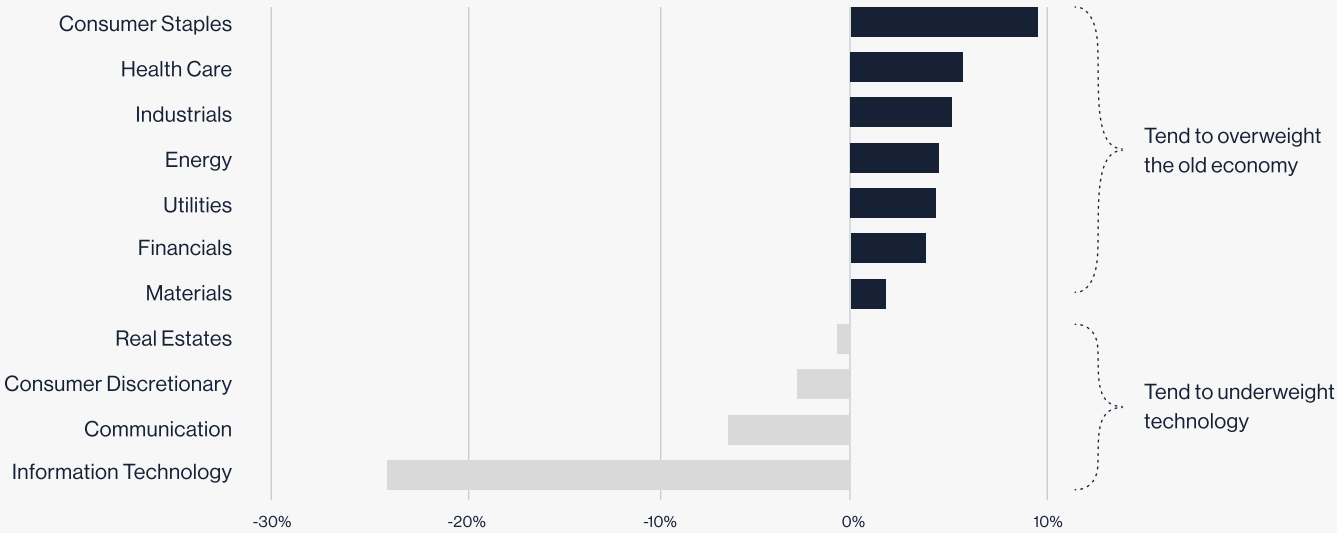
There's a clear trend of advisors and investors turning towards dividend equity solutions to boost income. However, while this approach may solve the yield problem, it results in a problematic trade-off for portfolio returns. Behind much of the fall in U.S. equity dividend yields in recent years is the increase in share prices of growth-oriented technology companies, which now dominate over 50% of the benchmark large-cap index. These companies tend to distribute little to no dividends back to shareholders, choosing instead to reinvest back into their own growth or to repurchase company stock.

| Company           | Dividend Rate |
|-------------------|---------------|
| Apple             | 0.35%         |
| Microsoft         | 0.75%         |
| Tesla             | No dividends  |
| Netflix           | No dividends  |
| Amazon            | No dividends  |
| Google / Alphabet | 0.26%         |

Source: Apple, Microsoft, Alphabet | As of 6/30/2026

Dividend equity solutions, instead, look to allocate capital to higher dividend payers—typically companies in the utility, energy, and industrial sectors. These are the firms that, in days gone by, were the largest components of the U.S. equity indices. Think of them as the proverbial Old Economy stocks. And as decades have passed, the boards of these firms decided that dividend distribution made sense as growth in their respective industries fell below their rate of return on capital.

Dividend Equity ETF: Avg Over/Underweight vs S&P 500



Largest Dividend Equity ETFs

**SCHD:** Schwab US Dividend Equity ETF

**VYM:** Vanguard High Dividend Yield Index ETF

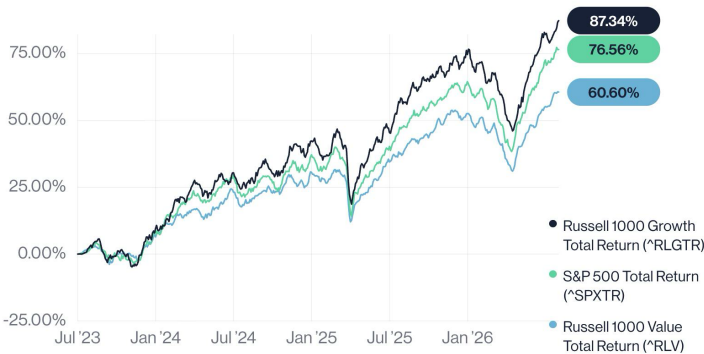
**DGRO:** iShares Core Dividend Growth ETF

**SDY:** SPDR S&P Dividend ETF

Source: investing.com, As of 6/20/2026

In retrospect, the higher dividend rate may sound great at first glance; however, the 2–2.5% yield pickup came at the expense of 25% underperformance relative to the broad or growth equity indices over the past 3 years.

Growth vs Value



Source: YCharts, As of 6/30/2026

# LCTO

## Kurv U.S. Large Cap TaxOptimized ETF

By design, the Kurv U.S. Large Cap TaxOptimized Strategy looks to generate tax-advantaged income while offering broad market exposure without sector distortion. So, unlike dividend equity solutions that focus on slow growing sectors, the strategy intentionally includes large technology companies that have the potential to deliver compelling long-term capital appreciation to investors.

# How is the Kurv U.S. Large Cap TaxOptimized Strategy Implemented?

Kurv follows a two-step process to implement the U.S. Large Cap TaxOptimized Strategy.

## TWO STEP PROCESS

- 1 Constructing the Passive Beta
- 2 Porting the Alpha

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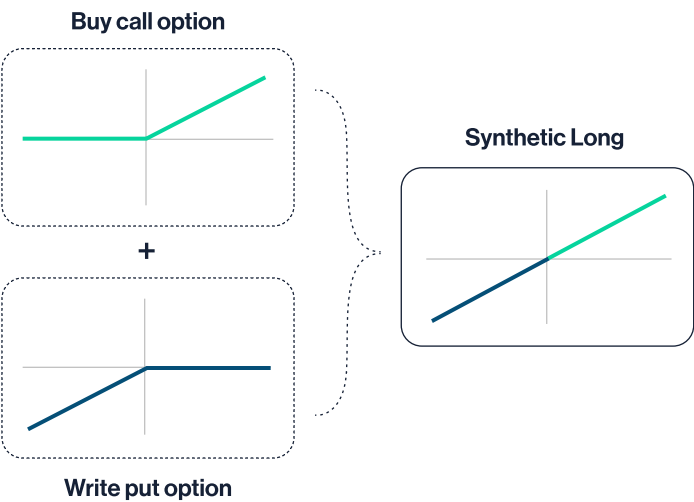
### CONSTRUCTING THE PASSIVE BETA

#### Passive U.S. Large Cap Exposure via Options on ETFs

The strategy gains underlying equity exposure via option positions.

The purchase of a call option in conjunction with the sale of a put option with the same strike and expiration generates a payoff profile similar to owning the underlying ETF, but without the full cash commitment that a typical ETF purchase requires.

The combination of the long call and short put generates full exposure to the underlying strategy. It is economically equivalent to long futures position.



### Option on U.S. Large Cap ETFs

Replicating US Large Cap exposure via options on large cap ETFs may enable the strategy to defer capital gains taxes.

Gains on S&P 500 futures receive preferential tax rate of 60% long-term and 40% short-term capital gains on realized and unrealized gains. However, an option implementation is preferred because gains on equity options may be deferred through the portfolio rebalancing process.

As shown in the table below, the market for both the underlying ETFs and their associated options is highly liquid.

| ETF names                                         | SPDR S&P 500 ETF Trust | iShares Core S&P 500 ETF | Vanguard S&P 500 ETF |
|---------------------------------------------------|------------------------|--------------------------|----------------------|
| Tickers                                           | SPY                    | IVV                      | VOO                  |
| AUM<br><small>(billions, as of 6/30/2026)</small> | 780                    | 888                      | 474                  |
| Option Trading Volume                             | 3,685,083              | 1,450                    | 3,300                |

Past performance is no guarantee of future results

Replicating equity exposure via options typically only requires a fraction of portfolio assets.

The remaining portfolio assets can be invested in other yield-generating securities to generate additional income.

Payoff curve, for illustration purposes only



### Why Should Income-Focused Investors Consider a Portable Alpha Strategy?

**While most active U.S. large cap equity managers believe they can beat the index, the reality is that historically, most have not.**

Consider the data: According to Morningstar, 76% of active large-cap blend managers failed to beat their benchmark in 2023. And over a longer time horizon, the underperformance of stock-pickers becomes even more pronounced — from 2014 to 2023, fully 90% of active U.S. large-cap blend managers underperformed their benchmark.

The fixed income portfolio is updated on a monthly basis and designed to provide a high level of after-tax income.

Bond yields are adjusted to put them on the same tax-equivalent basis.

Adjusted yields are then incorporated into the optimization process, which takes into account the correlation between sectors and the S&P 500.

### Can Active Managers Beat the Index?

**Alpha is incredibly difficult to generate using equity strategies, but the same is not true with fixed income. In fact, research shows that active fixed income managers can generate persistent outperformance.**

For example, most bonds are still traded over-the-counter (OTC), which can lead to less efficient pricing. There are also clear structural segmentations in fixed income. Some fixed-income portfolios cannot invest in bonds with less than 1 year of maturity, while others can only invest in bonds with a maximum of 1 year left of maturity. An experienced active manager can exploit these market structures to generate structural alpha.

## 2 PORTING THE ALPHA

### Active collateral management

Next, an actively managed tax-efficient fixed income portfolio is ported on top of the passive U.S. equity exposure.

The active collateral management looks to exceed the implied financing rate of passive equity exposure as well as to generate a higher yield than the S&P 500 index.

**LCTO**

YIELD ADVANTAGE

(Assuming 37% tax bracket) | As of August 25, 2026

**1.12%**

S&amp;P 500 Dividend Yield

**2.71%**

LCTO After-Tax 30-Day SEC Yield

**3.49%**

LCTO Pre-Tax Distribution Rate

The performance data quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. High short-term performance may be unusual, and investors should not expect such performance to be repeated. Performance of less than one year is cumulative. For the most recent standardized or month-end performance, please call 1-833-955-KURV (5878) or visit <https://www.kurvinvest.com/etf/lcto>

## LCTO Portfolio Construction Process Summary

Collateral portfolio is optimized to maximize risk-adjusted after-tax income.



## What Use Cases Might the Kurv U.S. Large Cap TaxOptimized Strategy Address?

The Kurv U.S. Large Cap TaxOptimized Strategy can address three key use cases at the same time.

### 1 REPLACE DIVIDEND EQUITY

For investors holding dedicated dividend-equity strategies, the Kurv U.S. Large Cap TaxOptimized Strategy offers a compelling alternative: high levels of after-tax income without the sector and stock-level bets many dividend strategies carry. Because it behaves like core large-cap exposure, it also lets investors consolidate multiple managers into a single line item.

### 2 REPLACE PASSIVE EQUITY

For investors using a passive index fund as core equity exposure, the strategy is built to offer higher return potential than passive alone while still tracking closely to the index it references. It aims for a similar total return profile to the benchmark, with low tracking error, so it can sit alongside — or in place of

— a passive allocation without introducing meaningful deviation risk, while still giving the portfolio a chance to outperform.

### 3 FREE UP INVESTOR CAPITAL

Because of how the strategy is constructed, it lets investors consolidate several return and beta exposures into one capital-efficient position rather than maintaining separate holdings for each. That consolidation frees up capital that would otherwise be tied up across multiple individual positions, capital investors can then redeploy elsewhere in the portfolio.

## Conclusion

It's easy to imagine a U.S. large-cap equity manager beating the S&P 500. The reality, however, is that most do not — and very few can outperform year in and year out. But there's good news: Investors can take a page from institutional investors to achieve risk-adjusted equity returns that may be superior to those on offer from large-cap benchmarks. By porting active fixed income onto an equity beta, an investor can see higher returns alongside better after-tax income.

**Definitions:**

**Alpha:** A measure of an investment's performance relative to the return that would be expected based on its exposure to a benchmark or other risk factors. Positive alpha indicates performance above the expected return, while negative alpha indicates performance below the expected return.

**Beta:** A measure of an investment's sensitivity to the movements of a broader market or benchmark. A beta of 1.0 indicates that an investment has historically moved approximately in line with the benchmark, while a beta greater than 1.0 indicates greater sensitivity and a beta below 1.0 indicates lower sensitivity.

**Options Trading Volume:** The total number of options contracts bought and sold during a specified period. Trading volume reflects the level of activity in an options market and does not indicate whether contracts were bought or sold to open or close positions.

**Dry Powder:** Capital or other liquid assets that are available to be deployed for investment or other strategic purposes. The term generally refers to funds that have not yet been invested and can be used when opportunities arise.

**Annualized Premium:** The total amount of premium paid annually is called the annualized premium.

**Dividend Yield:** a financial ratio, expressed as a percentage, that shows how much a company pays out in dividends each year relative to its stock price.

**30-Day SEC Yield:** 30-day SEC Yield is based on a formula mandated by the Securities and Exchange Commission (SEC) that calculates a fund's hypothetical annualized income, as a percentage of its assets. A security's income, for the purposes of this calculation, is based on the current market yield to maturity (in the case of bonds) or projected dividend yield (for stocks) of the fund's holdings over a trailing 30-day period. This hypothetical income will differ (at times, significantly) from the fund's actual experience; as a result, income distributions from the fund may be higher or lower than implied by the SEC yield. Distributions are not guaranteed.

**Implied Volatility:** a measure of how much the market believes the price of a stock or other underlying asset will move in the future, and is a key factor in determining the price of an options contract.

**Volatility Index (VIX):** is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX).

**S&P 500:** is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. The index includes 503 components because three have two share classes listed.

*The Fund may not be suitable for all investors. There is no guarantee that the Fund's investment strategy will be properly implemented, and an investor may lose some or all of its investment. In addition, an investor may lose its investment even if the strategy is properly implemented.*

*An investor should consider the investment objectives, risks, charges, and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-719-KURV (5878) or click here. Read the prospectus carefully before investing.*

*The Fund is new with a limited operating history.*

**Fund Objective:** The Fund seeks total return which exceeds that of its benchmark index consistent with prudent investment management. A secondary objective seeks to maximize risk-adjusted after tax current income.

*An investment in the Fund entails risk, including the loss of principal. The Fund is not a complete investment program and investors should review the risks associated with the Fund before investing. The Fund is an actively managed portfolio, and the portfolio managers will apply investment techniques and risk analyses that may not produce the desired result. There can be no guarantee that the Fund will meet its investment objective.*

*As an ETF, the Fund is exposed to the additional risks, including: (1) concentration risk associated with Authorized Participants, market makers, and liquidity providers; (2) costs risks associated with the frequent buying or selling of Fund shares; (3) market prices may differ than the Fund's net asset value; and (4) liquidity risk due to a potential lack of trading volume.*

**Fund Risks:** The Fund seeks to exceed the total return of the S&P 500 Index by investing under normal circumstances in U.S. large cap equity exchanged traded funds (ETFs) as well as derivatives on U.S. large cap ETFs, backed by a portfolio of Fixed Income Instruments and Preferred Securities Instruments.

**Distribution Risk and Return of Capital Risk:** The Fund aims to provide monthly income, although there's no guarantee of distribution in any given month, and the distribution amounts may vary significantly. Monthly distributions may consist of a return of capital, which is a return of some or all of the money you invested in the Fund and may not represent the Fund's net profit.

**Active Management Risk:** The Fund is actively managed, which means that investment decisions are made based on investment views. There is no guarantee that the investment views will produce the desired results or expected returns, which may cause the Fund to fail to meet its investment objective or to underperform its benchmark index or funds with similar investment objectives and strategies.

**Large Cap Securities Risk:** The value of investments in larger companies may not rise as much as smaller companies, or larger companies may be unable to respond quickly to competitive challenges, such as changes in technology and consumer tastes.

**Municipal Bond Risk:** Municipal bonds are subject to the risk that litigation, legislation or other political events, local business or economic conditions, credit rating downgrades, or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest or otherwise affect the value of such securities.

**Options and Derivatives Risk:** The Fund's use of derivatives, including options, may pose risks in addition to those associated with directly investing in securities. These risks include market risk, imperfect correlation with the underlying issuer, volatility risk, liquidity risk, valuation risk, and legal or regulatory constraints. The value of options may be highly sensitive to changes in volatility, time decay, interest rates, and market events.

**New Fund Risk:** The Fund is a new fund, with limited operating history.

The Fund's adviser has contractually agreed to limit the Fund's current operating expenses through October 31, 2026, so that the Total Annual Operating Expenses After Fee Waiver and Reimbursement (excluding: (i) any front-end or contingent deferred loads; (ii) brokerage fees and commissions, (iii) acquired fund fees and expenses; (iv) borrowing costs (such as interest and dividend expense on securities sold short); (v) taxes; and (vi) extraordinary expenses, such as litigation expenses (which may include indemnification of Fund officers and Trustees, contractual indemnification of Fund service providers (other than the adviser)) will not exceed 0.99% of average daily net assets ("Operating Expenses Limitation Agreement"). These fee waivers and expense reimbursements are subject to possible recoupment from the Fund within the three years after the fees have been waived or reimbursed, if such recoupment can be achieved within the lesser of the foregoing expense limits or the expense limits in place at the time of recoupment. This Operating Expenses Limitation Agreement may be terminated only by the Board of Trustees on 60 days' written notice to the Fund's adviser, Kurv Investment Management LLC.

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