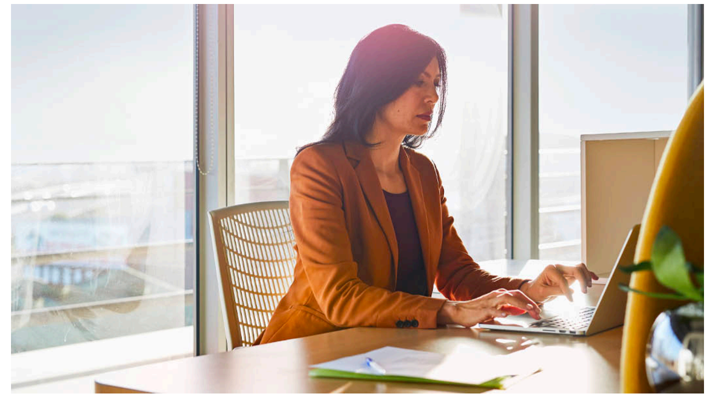
UBS

# Managing Carried Interest

How we helped the General Partner of a venture capital fund realize their carried interest distribution of low basis stock in a tax-efficient way.



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## A proactive approach

– After seeing immense growth in their fund, the General Partner (GP) accumulated a large sum of carried interest against a relatively small balance of low basis stock

## Challenge

– Given the low cost basis, the GP needed to manage the large tax liability on this distribution

– Unlike other forms of compensation, carried interest is typically realized in large, uneven increments, making it difficult to predict and plan for tax obligations

- Additionally, the timing of tax payments may not align with actual cash flow, potentially forcing the client to liquidate assets or find alternative funding sources

## Strategy

– Through collaboration with the client, we implemented a bespoke hedging solution paired with a tax loss harvesting program

– The hedging strategy provided downside protection on concentrated positions, allowing the client to manage risk while maintaining exposure to key investments

## Outcome

– We locked in a price floor and built a substantial tax loss reservoir for use against future gains

– This approach provided both immediate relief from the current tax liability and enhanced flexibility for future financial planning

– As a result, the client maintained portfolio growth potential while optimizing their after-tax wealth preservation strategy

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**UBS Financial Services Inc.**
1285 Avenue Of The Americas
New York, NY 10019-6031

212-821-7000
800-308-3140

**advisors.ubs.com/founders**

**Gabriel Cooperman**
Managing Director
Private Wealth Advisor
212-821-7024
gabriel.cooperman@ubs.com

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