Managing concentration

How we helped a Founder gain clarity and manage concentration risk in the public and private markets.

Brant Point Group
UBS Financial Services Inc.

A proactive approach

Our client was an early employee at a large publicly traded technology company. A significant portion of their wealth was held in company stock due to RSU and option grants they received.

Since leaving the company our client founded their own venture, which raised a significant amount of capital through their Series A.

Working closely with tax and legal advisors, we were able to put a plan in place to mitigate their concentration risk and plan for a tax efficient exit strategy.

Challenge

The client found themselves with two concentrated positions, one public and one private, with large unrealized gains in both. Through an analysis it was determined that our client could utilize their Qualified Small Business Stock (QSBS) deduction to exit a portion of their private stock position in a tax efficient manner during an upcoming secondary sale.

They needed a tax efficient plan for the additional non-QSBS shares, as well as the large unrealized gain in their concentrated public equity position. In addition to exit planning strategies, they wanted to build a diversified portfolio designed to help support both their short and long-term needs as a young growing family.

Strategy

We first tackled our client's concentration in the public company's stock; utilizing an options strategy to mitigate risk and generate income.

Funds from the secondary sale were used to seed a direct index strategy with an active tax-loss overlay. The losses generated from this strategy were used to offset gains as we sold down a portion of the concentrated public stock position.

Finally, we educated the client on various trust structures which might solve for their non-QSBS shares while also supporting their philanthropic goals.

Outcome

The result was that our client was able to put in place a plan to gain liquidity from their private company stock while fully exiting their concentrated public equity position in a tax-efficient manner.

The proceeds were then reallocated across an investment portfolio which supports the family's short and long-term goals. Our clients can now feel more confident, knowing they have a plan in place.

In addition, the family is now looking into setting up various trust structures so they can transfer their wealth to their two children in a tax-efficient manner.

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