



# Equity Hedging and Monetization

Risk Management and Liquidity Strategies for Concentrated Stock Positions

Solutions for Financial Intermediaries

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# Introduction

## Client Problem – Concentration

Single investment dominates portfolio?

Sold business, received shares of an acquirer?

Heavy compensation in company stock?

Select examples of a multitude of scenarios where a client holds a **concentrated equity position**

### Associated Risks with Concentrated Equity Position

Market Risk

Taxation Risk

Loyalty Risk

Liquidity Risk

Diversification Risk

# Introduction

## Citi Solution – Hedging and Monetization



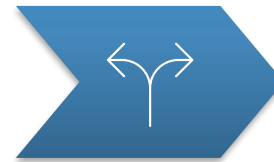
### Hedge

Client enters into a “collar” agreement with Citi



### Monetize

Citi pays client cash based on stock protection in collar



### Diversify

Client uses liquidity to diversify investment portfolio



### Repeat

After collar “expires”, client can:

- “Roll” into a new trade without loan repayment
- Return cash
- Sell shares

### Why it Works

Preserve Capital

Diversify Exposure

Generate Liquidity

Defer Tax

### Citi's Strategic Equity Solutions Global Network

High Net Worth Individuals

Family Offices

Sovereign Wealth Funds

Private Equity

Pension Funds

Corporates / Institutional Accounts

Substantial  
structured margin  
lending and volatility  
book ensures  
aggressive pricing

Global reach and  
connectivity with  
most sophisticated  
investors

Dedicated coverage  
and execution

# Targeted Solutions

## Available Options to Clients

### Citi Strategy Focus

	Exchange Fund	Margin Loan	Equity Collar	Collar + Loan	Variable Prepaid Forward
<b>Investor Goal</b>	Diversification	Monetization	Hedging	Monetization	Monetization
<b>Downside Protection</b>	Partial, limited	No	Yes	Yes	Yes
<b>Upside Participation</b>	Partial, limited	Yes	Yes, up to a limit	Yes, up to a limit	Yes, up to a limit
<b>Upfront Cost to Investor</b>	No	Yes, only partial monetization	No, provided it is structured as zero cost	No, provided it is structured as zero cost	No, provided it is structured as zero cost
<b>Provide Liquidity</b>	No	Yes	No	Yes	Yes

# Targeted Solutions

## Equity Collar Overview

### Collar: Protect investment at little to no cost

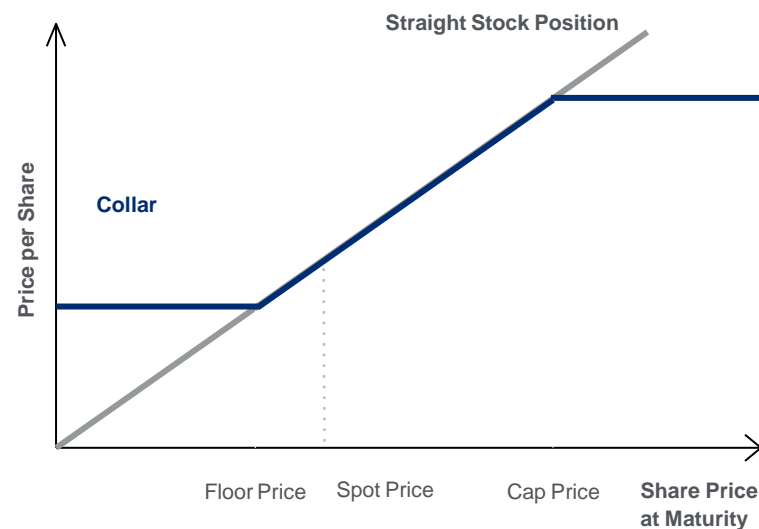
#### Description

- Collar: Protects principal below the “Floor price”, retains all upside up to the “Cap Price”
- Options:
  - Put option (Investor **buys**, struck at the Floor Price)
  - Call Option (Investor **sells**, struck at the Cap Price)
- No margin requirement – Investor posts shares as collateral

#### Benefits

- Defer taxes
- Full downside protection below the Floor
- Full upside retention to the Cap
- No margin calls

#### Sale Price at Maturity



#### Considerations

- Potential upside is limited to the Cap

# Targeted Solutions

## Equity Collar + Loan / Variable Prepaid Forward Overview

### Collar + Loan / Variable Prepaid Forwards: Protect investment while also generating liquidity

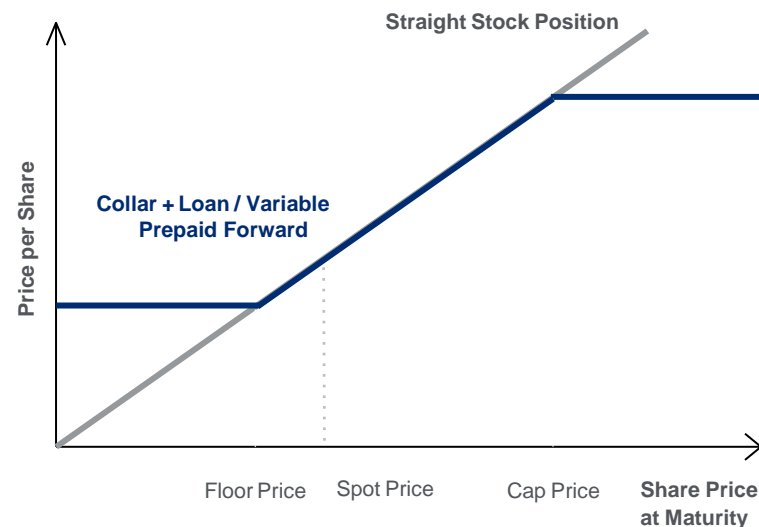
#### Description

- Collar: Protects principal below the “Floor price”, retains all upside up to the “Cap Price”
- Options:
  - Put option (Investor **buys**, struck at the Floor Price)
  - Call Option (Investor **sells**, struck at the Cap Price)
- Investor receives a cash loan Day 1, equal to the present value of the Floor Price (less the cost of the collar, if any, upfront).
- No margin requirement – Investor posts shares as collateral
- At maturity, Investor settles the structure by either:
  - repaying the proceeds received (cash settle)
  - delivering all or a portion of the underlying shares (physical settle).

#### Benefits

- Defer taxes
- Full downside protection below the Floor
- Full upside retention to the Cap
- No margin calls
- Receive proceeds today
- Can be structured as a single contract (Variable Prepaid Forward) or bifurcated into a collar + loan document

#### Sale Price at Maturity



#### Considerations

- Potential upside is limited to the Cap



# Targeted Solutions

## Hypothetical Indicative Variable Prepaid Forward

### Structure

<b>Issuer</b>	Large-Cap Technology Issuer
<b>Hedge Price</b>	Citi's weighted-average sale price of Hedge Shares (assumes \$141.50)
<b>Value of Shares Underlying<sup>1</sup></b>	\$20.0 million
<b>Number of Shares</b>	141,343

### Terms

<b>Tenor</b>	12 months	
<b>Dividend Treatment</b>	Shareholder Retains \$0.22 Dividend per Share	Dividend pass-through on Citi's then-current Hedge Shares
<b>Floor Price</b> (% of Hedge Price / \$ Price per Share)	90.0%   \$127.35	90.0%   \$127.35
<b>Cap Price</b> (% of Hedge Price / \$ Price per Share)	106.5%   \$150.70	107.5%   \$152.11
<b>Collar Cost<sup>2</sup></b>	Zero	Zero
<b>Hedge Shares</b> (% of Shares / Number of Shares Sold)	77.8%   ~110K	76.5%   ~108K

### Optional Financing

<b>Loan Amount</b> (Repayable in Cash or Shares) <sup>3</sup>	90.0%   \$18.0mm	90.0%   \$18.0mm
<b>Initial Loan Proceeds<sup>4</sup></b>	89.2%   \$17.8mm	89.2%   \$17.8mm
<b>Max. Potential Upside Retained<sup>5</sup></b>	16.5%   \$3.3mm	17.5%   \$3.5mm

(1) Number of Shares multiplied by Hedge Price

(2) Cost of Purchased Floor less Proceeds from Sold Cap

(3) Floor Price multiplied by Number of Shares

(4) Calculated as the Present Value of the Floor Price at L + 75 basis points less Upfront Cost (if any).

12-month swap rates used: 0.17%, respectively

(5) Calculated as (Cap Price – Floor Price) multiplied by Number of Shares

Prices are indicative only. Citi is not committed to entering into such transactions at the indicated values. Pricing assumes market borrow with protection above 25 bps per annum.

# Flows and Execution

## On-boarding Criteria and Minimum Requirements



### Who Citi Faces

- **Institutional Onboarding:** (banks, funds, corporations e.g., LLC's, LP's etc.) – Citi IB
- **Individual Onboarding:** (two-legged, SSN, trusts) – Citi PB with Non-Disclosure and Non-Solicitation Agreements



### Minimum Requirements

- **Individual Client Total Net Worth:** >\$25mm
- **Concentrated Position Notional:** At least \$10mm

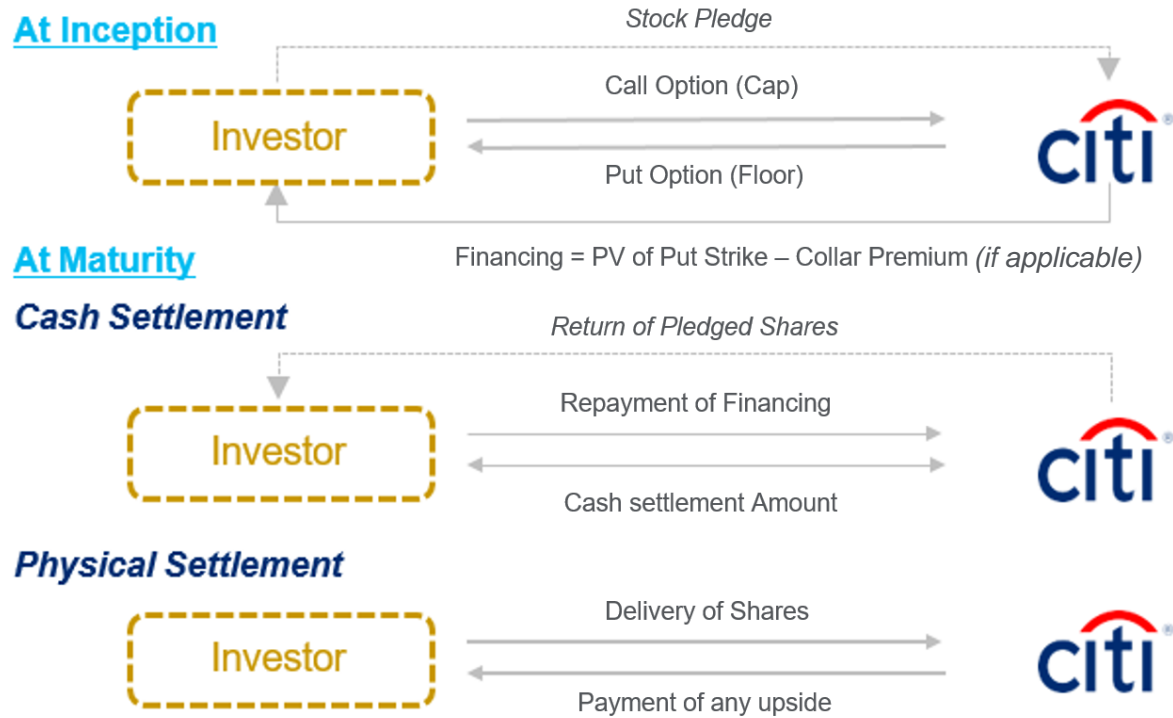


### Process

- **Non-Disclosure and Non-Solicitation:** Available for individuals so there is no client contact while trade is live
- **Tri-Party Collateral Agreements:** Ability to keep securities/collateral with current custodian
- **KYC / AML Checks:** Typical turnaround of ~2 weeks

# Flows and Execution

## Transaction Flows for Variable Prepaid Forward



# Flows and Execution

## Equity Collar + Loan / Variable Prepaid Forward Execution Mechanics

### Inception

- Investor enters the contract with Citi over a fixed number of shares and with a known maturity



### Establishing the Reference Price

- Citi will determine the Floor Price and Cap Price of your trade based on a variety of factors, including but not limited to:
  - Size of the trade
  - Liquidity of the Stock
  - Market Volatility

### Receiving Proceeds Against the Floor Price

- At any time during the trade, Investor may draw proceeds against the present value of the Floor Price
- Proceeds are calculated as: The present value of the Floor Price, multiplied by the shares underlying the transaction



### Maturity

- Investor can choose to physically settle (sell stock and receive proceeds), net share settle, or cash settle the transaction



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