APRIL 2025

Managing Concentrations Through a *Goals-Based Framework*

Authors:

Rachel Catto
Management Associate, Wealth Advisory

Claire Lampazzi
Relationship Manager, Portfolio Management

Brandon White
Management Associate, Wealth Planning

GLENMEDE
PRIVATE WEALTH

Contents

Executive Summary

Portfolios with a concentrated stock position are subject to higher risk than more diversified portfolios. There are three main strategies for managing concentration risk: monetizing, gifting, and diversifying and hedging.

Using Glenmede's Goals-Based Wealth Review approach, this paper models the various concentration risk reduction strategies in the portfolio of the fictional "Glen" family to project future returns and the probability of the family reaching its financial goals. The modeling results are compared to a base case of the Glens maintaining their concentrated position.

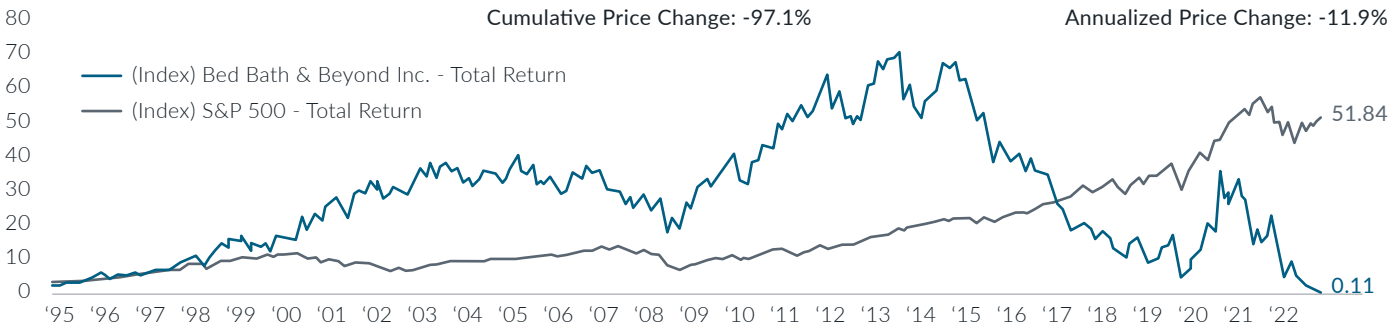
The paper aims to demonstrate through the Glens how investors can most efficiently reduce a concentrated stock position based on their goals and outlines the advantages and disadvantages of various strategies.

The Double-Edged Sword of Concentrated Stock Positions

Concentrated stock positions — which Glenmede defines as an allocation to a specific stock that represents 10% or more of an investor's total wealth — have produced multigenerational wealth for countless investors. Early investors in Bed Bath & Beyond, for instance, saw the company's stock price grow from just $3 in 1995 to nearly $70 in early 2014. That growth represented a 17.5% annualized return that outpaced the broad S&P 500® Index by 7.9% each year for the entire 20-year period.

But concentrated stock positions have also destroyed multigenerational wealth for countless investors. In fact, a study by New York University and the Yale School of Management reveals that of all U.S. stocks since 1926, those that had been top 20% performers over a five-year period went on to lag the market 86% of the time. After 2014, shares of Bed Bath & Beyond fell on average 50% a year until the company closed in 2023, while the broad market index earned an annual average return of over 11% (Exhibit A).

Exhibit A: Bed Bath & Beyond Inc. (BBBY)



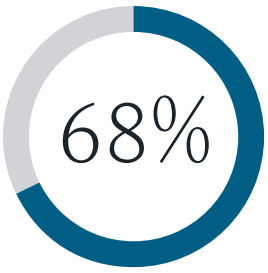
Source: FactSet

Most stocks are very likely to face a significant decline at some point (Exhibit B), which can have a devastating effect on a highly concentrated portfolio. In its role as a fiduciary, Glenmede advises clients on how to mitigate scenarios in which such increased risk exists. Regardless of past performance, portfolios with a concentration lack the proper diversification needed to offset unforeseen business, market and regulatory risks that an individual company may face over time.

Given the obvious risks of concentrated stock positions, why would an investor maintain a concentration?

- **Tax implications:** Given the longevity and historical growth of most concentrations, reducing the position by simply selling it will realize significant capital gains. The taxes paid as a result will decrease the asset base, which represents a significant hurdle to future real growth (Exhibit C).
- **Emotional attachment:** Investors often exhibit an emotional attachment to the stock that was the source of their or their family's wealth.

Exhibit B

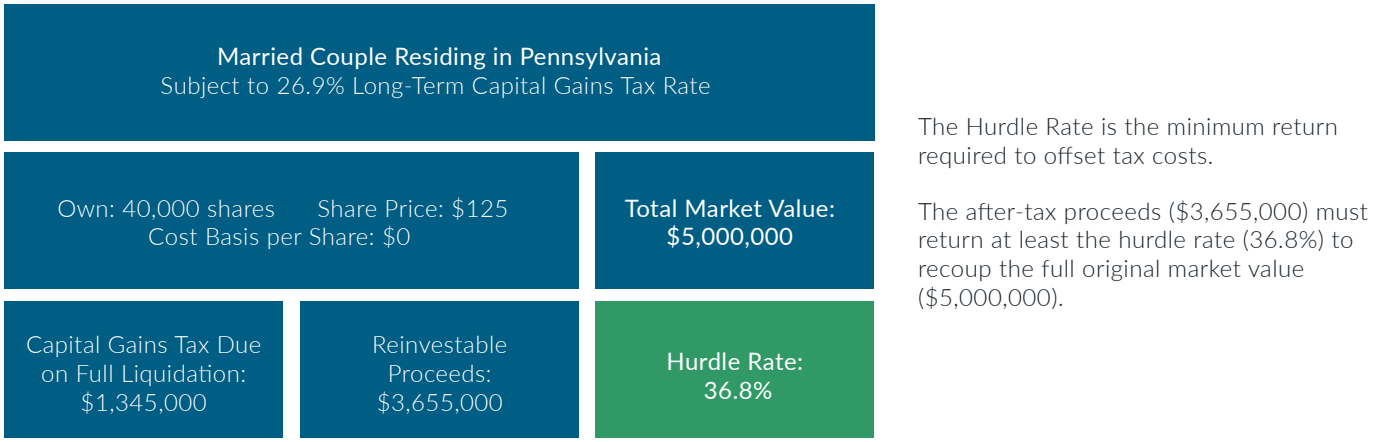


Since 1993, 68% of S&P 500 stocks have experienced drawdowns of more than 40% at some point.

Source: Glenmede

- **Securities and Exchange Commission (SEC) restrictions and public perception:** The SEC enforces strict regulations on corporate insiders' sale of securities (Rule 10b-5). These rules exist because of the potential unfair information advantage a company's officers and board members may have or the influence their transactions may have on public perception.
- **Past performance:** Investors may be reluctant to sell a successful stock because they believe the past outperformance will continue in the future.

Exhibit C



The Hurdle Rate is the minimum return required to offset tax costs.

The after-tax proceeds ($3,655,000) must return at least the hurdle rate (36.8%) to recoup the full original market value ($5,000,000).

The hypothetical example in Exhibit C is solely for illustrative purposes and assumes the highest capital gains tax rate of 20%, plus 3.8% net investment income tax, plus 3.1% Pennsylvania capital gains tax. Hurdle rate represents one-year return and only considers the first order tax impact; it does not consider the taxes on accrued gains after the initial realization.

No matter the reason, individual investors who hold concentrations expose their portfolios to higher risk and should take steps to diversify. There are three main strategies for reducing concentrated stock positions in a portfolio:

- **Monetizing** — for investors focused on immediately reducing their concentration and less concerned about the subsequent taxes.
- **Gifting** — for investors who want to both reduce portfolio risk and transfer wealth to the next generation or support charitable causes.
- **Diversifying and hedging** — for investors who are willing to use more complex investment strategies to potentially mitigate their exposure to concentration risk.

Measuring the Probability of a Client's Success

Glenmede's Goals-Based Wealth Review framework focuses on client goals, investments, risks and wealth planning alternatives across different scenarios. To model a client's probability of success — defined as having enough assets to maintain a specific level of spending over a certain period of time — Glenmede uses proprietary financial planning software to perform a Monte Carlo analysis, running each simulation 1,000 times with a unique and randomized set of market returns and volatility over the client's anticipated time horizon.

The probability of success is measured by the number of simulations out of 1,000 in which the client achieves their financial goals. The modeling also includes median portfolio values — both nominal and inflation adjusted — that represent the most likely projected portfolio values at the end of the client's time horizon.

The Fortunes of the Glen Family

This paper uses Glenmede's Goals-Based Wealth Review approach to illustrate monetizing, gifting, and diversifying and hedging strategies for reducing a concentrated stock position in the portfolio of the fictional "Glen" family.

The Glen family is a married couple, both age 66, who have recently retired. They have two children, ages 30 and 28, and a combined net worth of $28 million. Jamie Glen is a retired executive who was compensated predominantly with stock throughout her career. In fact, Jamie received so much stock that the zero-basis publicly held consumer staples company Stock G now comprises roughly half of the Glen family's net worth. While Stock G recorded excellent growth during Jamie's career, its current growth prospects as a mature business are unlikely to exceed 7.5% annually. The Glen family's primary goal is to ensure they have sufficient assets to sustain their lifestyle through age 95, Glenmede's recommended planning horizon. The family's profile is outlined further in Exhibit D.

Exhibit D: The Glen Family

Family Overview
Goal: Recently retired corporate executive and spouse looking to derisk their portfolio
Age: Both are 66
Income: Social Security (starts at age 70), required minimum distributions from retirement accounts (start at age 73) and distributions from Joint Revocable Trust as needed to meet expenses
Living Expenses: $800,000 excluding federal and state income tax

Net Worth	
Asset	**Value**
Stock G Position:	$13,500,000
Joint Revocable Trust:	$13,500,000
Combined IRA Rollover Balance:	$800,000
Combined Roth IRA Balance:	$200,000
Total	**$28,000,000**

The base case (Scenario 1) assumes the Glen family retains their current asset mix with the concentrated Stock G, resulting in a 95% probability of success and a median portfolio value with today's spending power of $20.5 million once they turn 95. In the following sections, this base case will be used as a comparison point for the three different risk-reduction strategies: monetizing, gifting, and diversifying and hedging.

Scenario 1:	Projected Median Portfolio Value		Probability of
Goals	At Age 95	In Today's Dollars	Achieving Goals
1. Base Facts Maintain $13.5M Stock G position	$44,152,093	$20,535,793	95%

Scenario 1 represents the output of a Monte Carlo analysis that uses Glenmede's proprietary capital market assumptions to project future returns and the probability of the Glen family reaching its financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

In the risk-reduction scenarios, the Glen family, in consultation with their Glenmede advisors, are targeting a diversified portfolio mix of 60% equities and 40% fixed income and cash. This diversified portfolio was chosen intentionally because it has a projected growth rate of 7.4%, the same as Stock G, and clearly demonstrates the benefits of reducing overall portfolio volatility by reducing concentration risk. (This paper is not meant to analyze the impact of different asset allocations and growth rates, a topic well covered already throughout the financial industry and academia.)

Monetizing

The first path the Glen family can take toward reducing their stock concentration is monetizing, which is selling the Stock G position, realizing the gain and paying any necessary capital gains tax. Liquidating the stock would reduce the concentration risk by transforming the asset into cash. The net cash proceeds can then be reinvested into a diversified portfolio to mitigate risk.

However, monetizing comes with two risks, namely, significant income tax implications and potential insider trading considerations if the investor is still a corporate insider.

The Glens can monetize all at once (Scenario 2) or over time through staged sales (Scenario 3), which has the advantage of spreading the large capital gains tax bill over several years. The Glen family modeling in Scenario 3 spreads the sale of Stock G over six years. In both scenarios, the sale proceeds are invested into the target diversified portfolio.

Scenarios 2 and 3: Goals	Projected Median Portfolio Value At Age 95	Projected Median Portfolio Value In Today's Dollars	Probability of Achieving Goals
2. Sell All at Once Sell $13.5M Stock G position immediately and invest proceeds into Joint Revocable Trust	$59,677,043	$27,756,677	97%
3. Sales Over Time (Traditional) Sell $13.5M Stock G position over 6 years and invest proceeds into Joint Revocable Trust	$61,465,401	$29,561,647	98%

Scenarios 2 and 3 represent the output of a Monte Carlo analysis using Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Since the projected volatility of the diversified portfolio is lower than that of Stock G, the Glen family's probability of success is more favorable under both monetization scenarios than it would be if they retained their concentrated position in Stock G (Scenario 1). In the simulation, a portfolio with lower volatility results in less variety of outcomes throughout and at the end of the analysis.

When the growth rates are the same, as is the case with the concentrated position and diversified portfolio for the Glens, the scenario with fewer possible outcomes is more likely to achieve the specified goals (Exhibit E).

Exhibit E

	Scenario 1: Retain Stock G	Scenario 2: Diversify Stock G
Growth	7.4%	7.4%
Volatility	18.5%	10.6%
Upside (90th percentile)	$147,242,709	$144,188,901
Median (50th percentile)	$44,152,093	$59,677,043
Downside (10th percentile)	$6,625,454	$17,154,336

Exhibit E represents the output of a Monte Carlo analysis using Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Actual results may differ materially from projections.

Deciding whether to sell at once or in stages depends on when an investor wants to pay capital gains tax. For the Glen family, the probability of success and median portfolio values are not meaningfully different in either scenario. Staged sales look modestly better, but under other circumstances the reverse could easily be the case. The most favorable strategy will depend on an investor's unique circumstances, including cost basis in the stock and other income tax considerations in the year of sale, and the anticipated growth of both the concentrated position and the reinvestment portfolio.

For investors who remain corporate insiders, monetization is possible through a 10b5-1 plan. These plans allow corporate insiders to arrange a pre-established schedule to sell or buy company stock in compliance with SEC regulations. Once the plan is established, corporate insiders can monetize their concentration almost like traditional investors. Investors interested in these plans should consult legal counsel and their tax preparer.

Gifting

Gifting strategies are ideal for investors who wish to reduce portfolio risk, transfer generational wealth and meet charitable goals, while simultaneously minimizing the tax obligations associated with reducing a concentration. However, in all direct-to-recipient gifting scenarios, the transfer of assets out of the grantor's control will reduce the Glen family's probability of success in modeling. A reduction in probability of success can be the result of prudent estate and gift tax planning and an indication of increased transfer tax efficiency. Glenmede's Goals-Based Wealth Review framework can help determine what size gift each investor should consider according to their own unique goals and circumstances.

Direct to Individuals

Investors who want to gift to other individuals can use annual exclusions and the lifetime exemption from the federal gift and estate tax to transfer their concentration without incurring transfer taxes.

The key benefits of gifting concentrations to individuals are:

- A reduction to the grantor's taxable federal estate
- A potential income/dividend source for the recipient
- The possibility of maintaining a sense of heritage or ownership in the grantor's source of wealth
- The potential to shift the income tax liability to a lower tax bracket if the recipient has less income or more itemized deductions, which is often the case

But there are other factors investors should consider before they use gifting to reduce a concentrated stock position:

- **Age** — An investor's age should be considered before gifting low-basis stock, given that assets held at death can receive a cost basis adjustment based on current estate tax law (commonly referred to as a "step-up"). For older investors, it might make sense to wait and receive the step-up in basis so that the embedded gains (and therefore the income tax liability) will disappear.
- **Estate planning** — Swap powers may be used to transfer low-basis assets out of irrevocable grantor trusts and back into the donor's estate. This is a nuanced estate planning technique and state laws vary, so it should be coordinated with counsel.
- **Generation-Skipping Transfer Tax (GSTT)** — When gifting to family or individuals, GSTT implications also need to be considered, depending on the recipient. Estate and GST taxes pose the risk of significantly reducing a family's generational wealth. Glenmede's most successful estate planning clients keep this top of mind and set a strategy early on to mitigate this risk.

There are a few drawbacks with gifting to individuals. The gifted stock likely carries a low cost basis, which then shifts to the recipient (carryover basis). It may also transfer the previously addressed issues and risks associated with concentrations to the recipient and limit the growth potential of the gift compared with simply gifting cash.

The Glen family decides to gift $10 million of Stock G to their children (Scenario 4). Glenmede's framework helps the Glens determine an appropriately sized gift by demonstrating the gift's impact on their probability of success.

Scenario 4:	Projected Median Portfolio Value		Probability of
Goals	At Age 95	In Today's Dollars	Achieving Goals
4. Gift $10M in Stock G to Family Gift $10M Stock G position in-kind to family	$16,761,877	$8,061,587	80%

Scenario 4 represents the output of a Monte Carlo analysis using Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Once Jamie Glen and her spouse determine the size of the gift, they need to consider the most efficient way to make it. With a low cost basis and low-growth stock like Stock G, it would likely be better for both the grantors, in this case Jamie and her spouse, and for the recipients, their children, to sell the stock, incur the tax liability, and gift the net cash proceeds rather than gift the concentration directly (Exhibit F). While the portfolio's ending value of the gift after 30 years is reasonably similar and the outflow of assets from the Glens is the same in both cases, a smaller share of the couple's lifetime exemption is used with the cash gift.

The low cost basis gift of stock could incur significant capital gains for the recipients (the Glen children) if they choose to sell. In the cash gift scenario, the children could invest their cash in a higher growth-seeking diversified portfolio, thereby increasing the gift's potential value. Once diversified, the portfolio has the added benefit of reduced volatility. This strategy is even more powerful for grantors with taxable estates looking to gift the maximum amount, as the "gift" of the tax burden does not count toward their annual and lifetime gifting limits.

Exhibit F

	Gift $10 million concentration	Sell concentration and gift after-tax cash
Starting value	$10,000,000	$7,310,000
10-year value	$16,235,848	$13,273,641
20-year value	$26,129,286	$23,409,501
30-year value	$41,707,668	$40,508,467

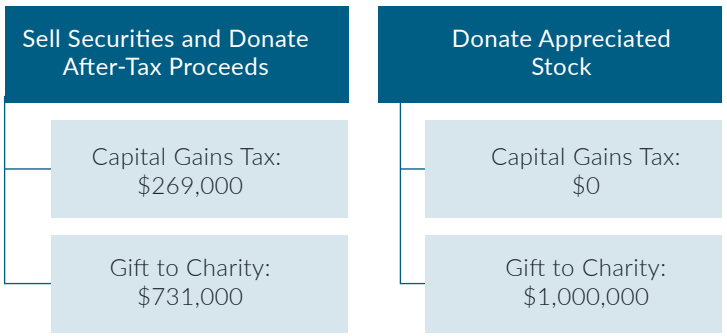
Exhibit F shows the comparison between gifting $10 million of Stock G compared with selling $10 million of the stock, paying capital gains tax (26.9%), and gifting the proceeds. In the first scenario, the gift is valued at $10 million and the projected value at the end of 30 years, with a straight-line growth rate of 5.7%, is $41,707,668. The second scenario of gifting cash starts with a value of $7,310,000, is invested in a diversified portfolio with a straight-line growth rate of 6.45%, and the projected value at the end of 30 years is $40,508,467. Actual results may differ materially from projections.

Direct to Charities and Donor-Advised Funds

Gifting to their children is not the only option open to the Glens; they could also gift their Stock G concentration outright to a charity. Charitable gifts are efficient vehicles for immediately reducing the risks associated with concentrated stock positions, both for the grantor and the charitable recipient. If the Glens made a charitable gift of Stock G, they would remove the concentration risk from their portfolio and earn a tax deduction.

Once the tax-exempt charity or charitable vehicle receives the gift, it can immediately diversify the concentration. Investors should be aware that charitable tax deductions are subject to adjusted gross income (AGI) limits and discuss this with their tax preparers.

Exhibit G: $1M Gift to Charity



The hypothetical example in Exhibit G is solely for illustrative purposes. The option on the left assumes the highest capital gains tax rate of 20%, plus 3.8% Net Investment Income Tax, plus 3.1% Pennsylvania capital gains tax.

The most straightforward strategy is an outright gift to charity. Unlike with gifting to individuals, the Glens should donate the low-basis concentration instead of cash to maximize the value of the gift and tax savings (Exhibit G).

Another charitable gifting strategy the Glens could consider is a donor-advised fund (DAF), in which the Glens (the donors) irrevocably transfer their assets to the sponsoring institution of the DAF; the assets can then be invested by the sponsor into a diversified portfolio. Other than the immediate diversification, there are several benefits to this strategy. The donor may:

- Take a deduction at the time of transfer.
- Be flexible about the timing and recipients of grant requests.
- Involve other generations in grant-making decisions.
- Make additional contributions to the DAF.
- Appoint a successor to continue making grant requests after their lifetime.

Based on current tax law, bunching future charitable gifts into a single year can also increase tax efficiency by allowing itemized deductions to exceed the standard deduction.

The modeling is the same for an outright gift to charity or a DAF (Scenario 5) because the gift results in the same transfer amount and tax deduction for the donor. This scenario closely mirrors the outright gift to an individual (Scenario 4) but looks slightly better due to tax deductions.

Scenario 5: Goals	Projected Median Portfolio Value At Age 95	Projected Median Portfolio Value In Today's Dollars	Probability of Achieving Goals
5. Gift $10M in Stock G to Charity			
Gift $10M Stock G position in-kind to charity	$18,466,469	$8,881,407	82%
Receive itemized deduction			

Scenario 5 represents the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Charitable Remainder Trust

A final charitable gifting strategy for the Glens to consider is a Charitable Remainder Trust (CRT). Appreciated shares of Stock G are transferred into a CRT that provides the grantor Glens or their beneficiaries with an annual income stream for the duration of the trust. At the trust's termination, the remaining assets go to charity. The CRT itself is a tax-free entity and can immediately diversify the concentration, and capital gains are triggered only upon distributions to the Glens or their beneficiaries.

There are costs associated with creating and funding a CRT. An attorney will need to draft the trust agreement, and federal law requires that the CRT pass several numerical tests when it is funded. Because these tests are designed so that the charity will receive a sufficient remainder, it is important that an estate planning attorney ensures that the trust as drafted and funded complies with IRS regulations.

The two basic types of CRTs are a charitable remainder annuity trust (CRAT), which pays a fixed dollar value to the noncharitable beneficiary each year for the life of the trust, and a charitable remainder unitrust (CRUT), which pays a fixed percentage of the fair market value of trust assets as determined annually on a specific date to the noncharitable beneficiary each year for the life of the trust. Additional contributions to the trust are not allowed in CRATs but can be made in CRUTs.

The CRT modeling (Scenario 6) significantly increases the probability of success for the Glens compared with an outright gift due to the 7% annual unitrust payment the Glens will receive throughout the term of the trust (Exhibit H). CRTs are a strong option for grantors who could benefit from an income stream, though this income stream could meaningfully increase their taxable estate. With that in mind, CRTs should be considered in tandem with other techniques and monitored over time.

Scenario 6: Goals	Projected Median Portfolio Value At Age 95	Projected Median Portfolio Value In Today's Dollars	Probability of Achieving Goals
6. Gift $10M in Stock G to CRT			
Gift $10M Stock G position to CRT (Growth Rate: 6.4%; Payout rate: 7.0%)	$59,090,433	$28,419,412	99%
Receive itemized deduction			

Scenario 6 represents the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Exhibit H

Age	Beginning of Year Balance	Transfers In	Growth and Income	Total Distributions	End of Year Balance
66/66	$0	$10,000,000	$644,000	$700,000	$9,944,000
67/67	9,944,000	0	640,394	696,080	9,888,314
68/68	9,888,314	0	636,807	692,182	9,832,939
69/69	9,832,939	0	633,241	688,306	9,777,874
70/70	9,777,874	0	629,695	684,451	9,723,118
90/90	8,739,102	0	562,798	611,737	8,690,163
91/91	8,690,163	0	559,646	608,311	8,641,498
92/92	8,641,498	0	556,512	604,905	8,593,105
93/93	8,593,105	0	553,396	601,517	8,544,984
94/94	8,544,984	0	550,297	598,149	8,497,132
95/95	8,497,132	0	547,215	594,799	8,449,548
Totals		10,000,000	17,830,197	19,380,649	

Exhibit H illustrates a hypothetical CRUT with a 7% payout for the lifetime of the grantor and a growth rate of 6.44% within the trust. The chart skips from age 70 to 90 for brevity. The Transfers In column shows that the CRUT was funded with $10,000,000 of Stock G. The grantors received $19,380,649 during their lifetime. The remaining balance of $8,449,548 went to charity.

Since each charitable strategy offers different features, this decision matrix (Exhibit I) can facilitate conversations about charitable goals and help quickly identify strategies that may best align with those goals.

Exhibit I: Charitable Strategies to Gift a Concentrated Position

	Tax Deduction	Income Stream	Impact of Gift in Short Term	Impact of Gift in the Future	Involve Family in Grant Making	Additional Cost
Outright Stock Gift	✓		✓			
Donor-Advised Fund	✓		✓	✓	✓	✓
Charitable Remainder Trust	✓	✓		✓		✓

Diversifying and Hedging

The final approach the Glens can take to manage their concentration risk is to diversify or hedge their position in Stock G. While diversifying or hedging can be quite complex, it can also allow the Glens to customize their goals. Some diversification strategies maintain the concentration while seeking a diversified return, and others mitigate the taxes associated with diversifying a concentration or attempt to cap the downside return exposure.

Completion Portfolio

A completion portfolio is an index-based approach that uses the proceeds from staged sales (Scenario 3) to build investments around the concentration, aligning the total portfolio with a target index. For the Glen family, this avoids the duplication in Stock G and the consumer staples sector that would occur from investing the sale proceeds into a standard diversified portfolio. If the Glens are targeting better alignment with the S&P 500 Index, they would first build out exposures in non-consumer staples sectors such as technology and healthcare. Thinking back to the adage of not putting all one's eggs in the same basket, a completion portfolio works to put eggs into all the other baskets (that is, index sectors and exposures) over time.

The most common way to manage the completion portfolio approach is through direct indexing. With direct indexing, investors use optimization software to create a portfolio that seeks to generate a return similar to that of an index, while only owning a subset of companies in the index. If the goal is to replicate the S&P 500, which comprises 500 stocks, a direct index offering might hold about 200 stocks. It could accomplish this by, for instance, holding only Exxon rather than both Exxon and Chevron. Since the direct indexing portfolio owns 200 stocks instead of 500, when Exxon is trading at a loss, it can be sold, thus generating a tax loss benefit, often called tax alpha. The direct indexing portfolio might then buy Chevron to ultimately maintain the same type of sector and performance exposure.

In the case of a concentration, this tax alpha helps offset some of the gains realized from selling a concentration. For the Glens specifically, owning the underlying stocks in the direct indexing portfolio allows them to keep a portion of their legacy Stock G position to fill out their consumer staples exposure to the index, saving further gains realization.

Direct indexing can underperform or outperform a traditional index exchange-traded fund (ETF) product (this is called tracking error), especially in periods of significant market concentration, because the strategy will hold fewer stocks than are represented in the targeted index for replication. The tax alpha benefit of direct indexing is not guaranteed and tends to erode over time.

For a client like the Glens who already plan to sell out of their concentration over time (Scenario 3), the tax savings provided by using a direct indexing completion portfolio is projected to increase their probability of success (Scenario 7).

Scenario 7:	Projected Median Portfolio Value		Probability of
Goals	At Age 95	In Today's Dollars	Achieving Goals
7. Sales Over Time (Direct Indexing)			
Sell $13.5M Stock G position over 6 years and invest proceeds into Joint Revocable Trust using Direct Indexing for 60% equity	$69,823,042	$33,581,236	99%+

Scenario 7 represents the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Disclaimer: A reminder that probability of success figures is based on Monte Carlo simulation analyses and are not a guarantee. Though the Probability of Achieving Goals shows 99%+, there are still risks that the simulation has not accounted for.

Securities-Based Loan

A securities-based loan is a loan in which the concentrated position serves as collateral. Typically, the loan issuer will recognize the enhanced risk of a concentration and only loan out a portion of the concentration's collateral value. For Glenmede clients, a 35% loan-to-value (LTV) ratio is most common among lending partners, and investors like the Glens could use that 35% new cash from the loan proceeds to invest into a diversified portfolio.

Because this strategy maintains full exposure to the concentration and introduces leverage, it is not for the risk averse; it will increase the volatility profile of the portfolio. That said, by unlocking additional liquidity to invest in a diversified portfolio, the investor's investable assets increase, reducing their overall performance exposure to the concentration. This is a good strategy to consider for investors unwilling to part with their concentration.

The success of a securities-based loan strategy depends to a high degree on the current and future path of interest rates. An investor who employs this strategy is predicting that the return on their diversified portfolio purchased with the loan proceeds will exceed the interest expense of the loan. The Glenmede framework demonstrates that this may be possible even with a low-growth company like Stock G in a low-interest rate environment (Scenario 9) but becomes very unlikely in a high-interest rate environment (Scenario 8).

Scenarios 8 and 9: Goals	Projected Median Portfolio Value At Age 95	Projected Median Portfolio Value In Today's Dollars	Probability of Achieving Goals
8. Securities Based Loan 7% Use Stock G as collateral for $4.7M loan at 7% interest Invest loan proceeds in Joint Revocable Trust Repay loan in 10 years	$42,740,961	$20,556,170	94%
9. Securities Based Loan 3% Use Stock G as collateral for $4.7M loan at 3% interest Invest loan proceeds in Joint Revocable Trust Repay loan in 10 years	$48,712,957	$23,428,388	96%

Scenarios 8 and 9 represent the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Option Contracts

Options can be extremely elaborate, but for investors with a concentration, pairing option contracts with their concentrated position can help cap downside risk, as with a protective put, or earn additional income, as with a covered call. All options contracts exist for a defined amount of time, so investors looking to use this strategy will have to reset their contracts often to maintain continuous hedging.

To employ this strategy, the Glens would purchase a put contract allowing them to sell their concentrated Stock G, currently priced at $100, for $95 regardless of the future price over a specific timeframe. If the stock price falls, they have limited their downside to $95, a $5 loss. If the stock price increases, they have retained all the upside exposure. This example does not incorporate the cost of the put contract itself (a premium), which can vary significantly based on the security, its liquidity and other factors.

For a covered call, the Glens would receive payment for writing a call contract, which is an agreement that they will sell their concentrated Stock G, currently priced at $100, for $105 regardless of the future price. If the stock price falls, they have no protection, but their loss is partially offset by the premium income they earned from selling the call contract. If the stock price increases, they have capped their upside exposure to $105 and must sell the stock at that price or pay cash to close the contract. Some investors view covered calls as a method to monetize their patience, waiting to sell their stock at a higher price.

A popular strategy for investors is to use a combination of these strategies, employing protective puts and covered calls together in what is called a collar (Exhibit J). Collaring a concentration can be achieved in a zero-cost way, matching the expense of the protective put with the income earned from the covered call. If the goal of this strategy is diversification without spurring the recognition of capital gains, the collar should not be set to perfectly insulate the stock because this would be considered a "constructive sale" for tax purposes. Business insiders or those with restricted stock units often cannot use collars consistent with this constructive sale concept.

Exhibit J

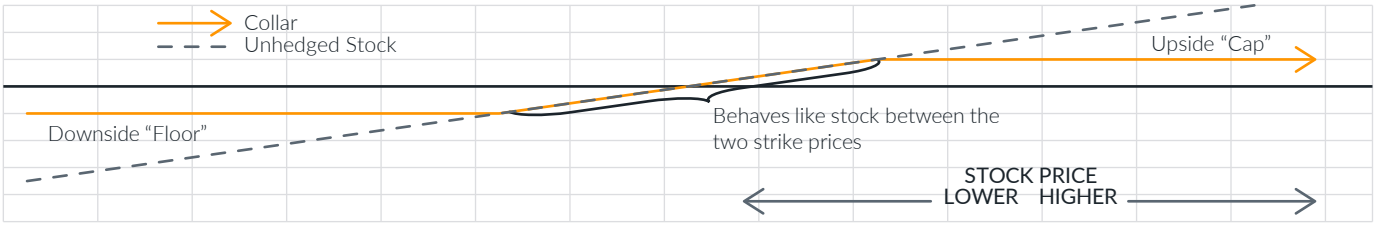


Exhibit J is a general illustration of the payoff pattern of a collar strategy. The actual details of collar strategies in practice may differ materially from the patterns shown.

When a concentration is collared, the volatility of the position is significantly reduced as both upside and downside returns are capped. This is a popular strategy for managing concentrations because the stock price smoothing dampens the emotional experience of a volatile stock position, but the Glen family modeling (Scenario 10) demonstrates that this short-term reduction in volatility and downside risk may not actually change the family's long-term probability of success. The reduction in volatility gained from using the collar is offset by the limited upside return, resulting in a similar overall probability of success.

Scenario 10:	Projected Median Portfolio Value		Probability of
Goals	At Age 95	In Today's Dollars	Achieving Goals
10. Collar Strategy (50%)			
Collar $6.75M Stock G with rolling contracts for 5 years	$41,814,020	$20,110,360	96%

Scenario 10 represents the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Exchange Fund

An exchange fund uses a limited partnership structure to pool qualified purchaser investors (individuals or entities with more than $5 million and $25 million, respectively, of liquid assets) with concentrations in a way that reduces each individual investor's exposure to a given stock. Exchange funds aim to match the sector exposures of a large equity index like the S&P 500 or Russell 3000®.

The Glen family would contribute Stock G to an exchange fund and receive an ownership piece of the fund in return. All the other investors in the fund also contribute their concentrated stocks, diversifying further as more investors enter the fund. Importantly, this transfer does not trigger the recognition of any gains for income tax purposes. For the transfer to be a nontaxable event, exchange funds must have a 20% weight to real assets, often using real estate. An investor's exposure remains predominantly equity, however, as the fund finances the real asset exposure with strategies such as securities-based loans.

Outside of the qualified purchaser rules, there are three other notable investment hurdles for exchange funds:

- The list of accepted stocks
- Holding period rules
- Cash flow considerations

The list of accepted stocks varies based on the stocks currently represented in the fund compared with the index. In practice, that means if Stock G or the consumer staples sector was already overrepresented in the fund, the Glen family might not be able to invest in that fund until additional capacity opened.

The holding period rules typically include early redemption fees, except in the case of death, and a seven-year rule around contributed shares. If the Glen family wanted their shares of Stock G back, they would have to submit for redemption before the shares had been invested for seven years. The number of shares the Glens received would depend on how the overall fund performed relative to the concentrated stock. If their concentrated stock outperformed the fund, they would only get a portion of their original shares back. If their concentrated stock underperformed the fund, they would get their full concentrated stock position back plus additional shares of other companies.

After seven years invested in the fund, the Glens would receive a diversified basket of different stocks back from the fund. Some investors look forward to this seven-year change, but it depends on their unique goals. In either case, the original basis is retained, and the assets are still eligible for a step-up at death.

On the cash flow front, if Stock G had a meaningful dividend, the Glen family could see their income decline significantly because the family's new income stream would be based on the target index instead of the individual stock. Additionally, fees and expenses are deducted from dividend income before it is distributed to the fund's limited partners (the investors).

If the Glens are willing to deal with these hurdles, based on Glenmede's framework, they would be poised to increase their probability of success compared with holding the concentration indefinitely or incurring significant taxes to diversify (Scenario 11). That said, the exchange fund strategy only mitigates concentration risk; it does not accomplish the Glens' goal of reducing their overall equity exposure. The result is a more volatile portfolio. Over the long run, that leads to a much higher median portfolio value than the 60% equity and 40% fixed income and cash reinvestment portfolio scenarios and a more pronounced downside risk.

Scenario 11: Goals	Projected Median Portfolio Value At Age 95	Projected Median Portfolio Value In Today's Dollars	Probability of Achieving Goals
11. Exchange Fund Tax-free exchange of Stock G for diversified fund	$126,774,055	$60,971,699	99%

Scenario 11 represents the output of a Monte Carlo analysis employing Glenmede's proprietary capital market assumptions to project future returns and the probability of reaching financial goals. Projected Median Portfolio Values represent the middle outcome of the Monte Carlo analysis, both in nominal U.S. dollars and inflation-adjusted dollars. Probability of Achieving Goals represents the share of simulations in the Monte Carlo analysis in which all financial goals were met. Actual results may differ materially from projections.

Every diversify and hedge strategy comes with its own set of advantages and disadvantages. The decision matrix below (Exhibit K) outlines some of the key features of each strategy.

Exhibit K: Strategies to Hedge and Diversify a Concentrated Position

	Cost Effective	Tax Effective	Maintains Control of CP	Generates Diversified Return Stream	Retains Upside Exposure of CP	Limits Downside Exposure of CP
Completion Portfolio	✓	✓	✓	✓	✓	
Securities-Based Loans		✓	✓	✓	✓	
Protective Puts					✓	✓
Covered Calls	✓					
Collars	✓					✓
Exchange Funds		✓	✓	✓		

Conclusion: Finding What Works for a Unique Situation

Managing a concentrated position does not have to be a daunting task. Through a planning-led, investment-aligned framework, Glenmede can demonstrate how various concentrated position management strategies affect clients and their portfolios. Since every family is unique, each Goals-Based Wealth Review is tailored specifically to their circumstances, motivations, and tax considerations.

This paper introduces each concentrated position management strategy on a stand-alone basis, but it may often make sense to consider using multiple strategies concurrently. Glenmede's holistic approach to advising clients can account for complex situations like these.

If you are interested in learning more about the monetizing, gifting and diversifying and hedging strategies discussed above or using the Goals-Based Wealth Review framework to model your unique situation, please visit Glenmede.com.

This paper provides information of possible interest to Glenmede Trust Company clients and friends and is not intended as personalized investment advice. When provided to a client, advice is based on the client's unique circumstances and may differ substantially from any the monetizing, gifting, diversifying/hedging or other strategies discussed in this paper. Outcomes (including performance) may differ materially from any expectations and projections noted herein due to various risks and uncertainties. Any reference to risk management or risk control does not imply that risk can be eliminated. All investments have risk. Any company, security, fund or strategy identified herein is provided solely for illustrative purposes and should not be construed as a recommendation or solicitation for the purchase or sale of any company, security or fund, or for the utilization of any strategy.

A goals-based investing framework provides a way to tangibly measure the sensitivity of holistic wealth plans in an easily understood metric – the probability of success. It is important for investors to understand how their financial plan can be exposed to the adverse impact of the different diversification strategies. For some investors, it may not have a material impact on the likelihood of achieving their financial goals. For others, the diversification strategies may be cause for proactive change to an investment and/or wealth plan. In any case, armed with this knowledge, a team of Glenmede investment and wealth professionals is prepared to help individuals and families navigate the path forward for their wealth. "Monte Carlo Simulations" and other modeling analyses which may be provided to clients may yield different results depending on the input variables and the assumptions underlying the calculations. Glenmede's proprietary capital market assumptions represent the assumptions regarding the projected behavior of asset classes to project future returns and the probability of reaching financial goals. Since the market data used to generate these rates of return change over time, the simulation results may with over time. Monte Carlo analysis is used to implement complex statistical methods that chart the probability of hypothetical financial outcomes at certain times in the future. This charting is accomplished by generating hundreds of randomized hypothetical market scenarios that could affect the performance of a portfolio. Some of these randomized scenarios will assume favorable market returns consistent with some of the best periods in investing history, and some scenarios will assume unfavorable market returns consistent with some of the worst periods in investing history. Most scenarios will fall somewhere in between. Outcomes presented using Monte Carlo or other simulations are only a few of the many possible outcomes. Past performance may not be indicative of future results. Actual results, including the achievement of an investor's investment goals, may differ materially from projections based on Monte Carlo or other simulations.