# Hedged equity concentrated stock

BlackRock | SPIDERROCK ADVISORS

# BlackRock | SpiderRock Advisors

## Get to know SpiderRock Advisors

## *Concentrated stock*

- *Covered call*
- *Collar*
- *Strategic Liquidation feature*
- *Exchange Fund Replication*
- *Basis Hedge*

**Appendix: options education**

# SpiderRock Advisors, now part of BlackRock

Founded in 2013, SpiderRock Advisors (SRA) brings comprehensive options expertise and technology to deliver actively managed customized option overlays.

## The power of actively managed option overlays

### Manage for risk-adjusted returns

We seek to enhance returns, both before and after taxes, on a risk-adjusted basis. Our PMs actively manage option strategies based on their risk and reward traits to maintain consistent risk management.

### Institutional scale and execution

Our proprietary technology analyzes all securities, including their volatility surfaces. Options fair market values are assessed to optimize the options' premium per unit of risk.

### Tax-efficiency

Our strategies seek to maximize tax-efficiency when selecting options and rebalancing. We seek to reduce assignment risk and tax friction for liquidating low-basis positions.

**Eric Metz, CFA**

CIO and Head of SpiderRock Advisors

**Fred Sloneker**

Deputy CIO, Chief Quantitative Strategist

**55+**

Options professionals[1]

**20**

Years experience managing option portfolios by each senior PM[1]

1 Source: BlackRock, as of 06/30/2025

# Customized, tax-efficient option overlays delivered at scale

## Designed for you

Option overlays **work with existing holdings**

**Customization** delivered at scale through powerful technology

## Easy to use

Fully integrated with **all major custodians including Schwab, Fidelity, and Pershing**

Daily account **liquidity and full transparency**

## Full Service

**Custom proposals**, performance reporting, and operational support

Partnership on **education and implementation**

**BlackRock works with you and has the experience, the knowledge, and the tools make it easier to use option strategies effectively.**

SOLUTIONS

# Strategy guide

| | Covered call | Collar | Basis Hedge | Exchange Fund Replication |
|---|---|---|---|---|
| **Fees*** | 50bps | | | 85bps |
| **Account min.*** | $250,000 | | | $500,000 |
| **Investment objectives** | Buffers risk by selling call options against the underlying stock. | Sets a protective floor and ceiling by selling call options and using the premium generated to purchase put options. | Hedges risk using a proxy asset with a high historical correlation to provide a break from sector risk. | Swaps stock risk for market risk by using a collar on the stock and a long call and short put on a desired benchmark to add market exposure. |
| **Tradeoffs** | Limits upside potential. | Limits upside potential. | Same as the selected strategy and basis risk-the risk that the hedge and the underlying instrument will not perform similarly. | Can have negative results should the stock outperform the overall market during the same period. |
| **Target beta** | Seeks to reduce beta by 0.35. | Seeks to reduce beta by 0.7. | Dependent on strategy (i.e. covered call, collar). | Seeks to Reduce stock beta by 0.7 and increase market beta by 0.7. |
| **Strategic Liquidation available** | ✓ | ✓ | ✓ | ✓ |

*Account minimums and fees subject to change.

# Concentrated stock solutions

Our Hedged Equity Concentrated Stock program seeks to reduce the inherent risk in concentrated positions, avoid tax consequences, while potentially generating income.

The hedged equity concentrated stock strategy can solve multiple problems for clients:

## 01.

It helps tax-efficiently reduce idiosyncratic stock risk

## 02.

It offers the ability to tax-neutrally liquidate the stock over time

## 03.

It potentially generates income in exchange for some upside growth

For illustrative purposes only.

# Covered call strategy benefits and tradeoffs

## Benefits

Covered call strategies can be utilized to generate call premium and **buffer a position's downside** by selling call options.

The call premium acts as a **diversified source of income** for the portfolio while also aiding as a buffer, or hedge, should the position's stock price decrease.

Finally, **dividends continue to accrue** for the client.

## Tradeoff

A covered call will **limit upside potential** and **does not protect against severe losses in the stock.**

# Covered call strategy example

## Example

By utilizing a covered call strategy on a ~$1 million AAPL position, the client would have generated $59,535 of call premium, which annualizes to an option yield of 11.33%.

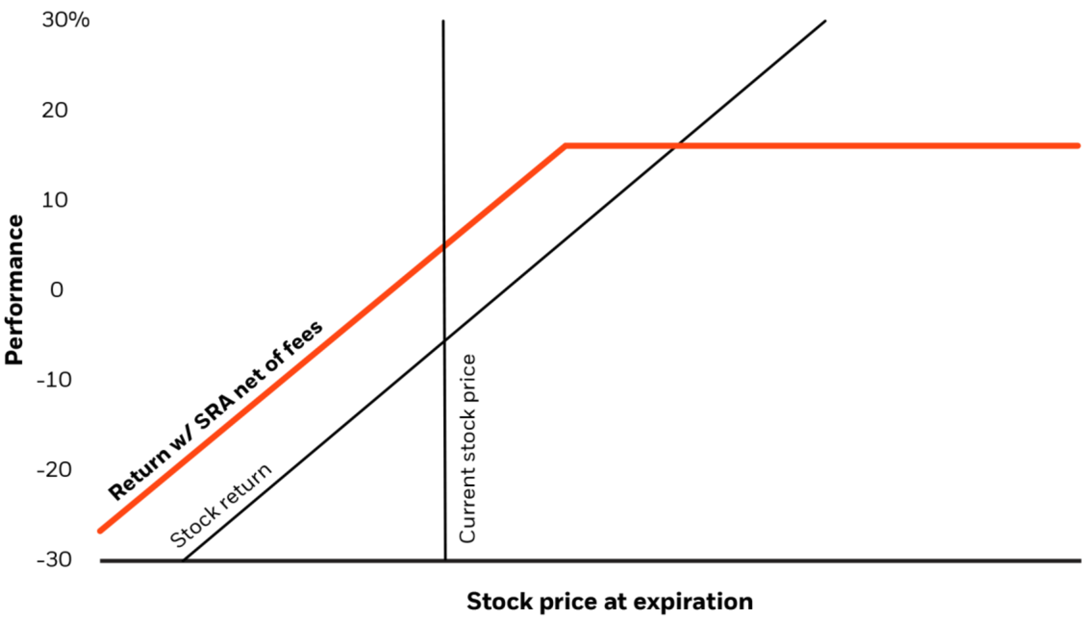
Simultaneously, the position's beta would have been reduced by ~38%.

| | |
|---|---|
| **Equity value** | $1,010,394 |
| **Risk reduction** | 37.7% |
| **Premium collected at inception** | 5.89% \| $59,535 |
| **Tenor (Months)** | 6.24 |
| **Annualized premium** | 11.33% \| $114,490 |
| **Annualized dividend yield** | 0.66% |
| **Net annualized yield** | 11.99% |

## Payoff at expiration (June 18, 2021) – Covered call

**Underlying price:** $124.74 | **Option moneyness:** 112.23%

**Options used:** -81 AAPL Jun 18, 2021 C140




| Stock return at expiration | -40% | -30% | -20% | -10% | 0% | 10% | 20% | 30% | 40% |
|---|---|---|---|---|---|---|---|---|---|
| **AAPL** | -40% | -30% | -20% | -10% | 0% | 10% | 20% | 30% | 40% |
| **AAPL w/ SRA** | -33.77% | -23.77% | -13.77% | -3.77% | 6.23% | 16.23% | 18.47% | 18.47% | 18.47% |

For illustrative purposes only. Performance is not guaranteed and past performance is not indicative of future results. Does not depict an actual client account and actual results may vary.

# Collar strategy benefits and tradeoffs

| | |
|---|---|
| **Benefits** | Collars can **hedge a position's downside exposure for little or no cost** by selling call options and then using the call premium to purchase protective puts.<br><br>The strategy can reduce **the position's beta**, and in some situations, can also generate income for the client. |
| **Tradeoff** | **Collars will limit upside potential**, just like covered calls. |

# Collar strategy

## Example

In this example, by utilizing a collar strategy on a ~$1 million AAPL position, the client would have netted $16,200 of premium, which annualizes to an option yield of 1.43%.

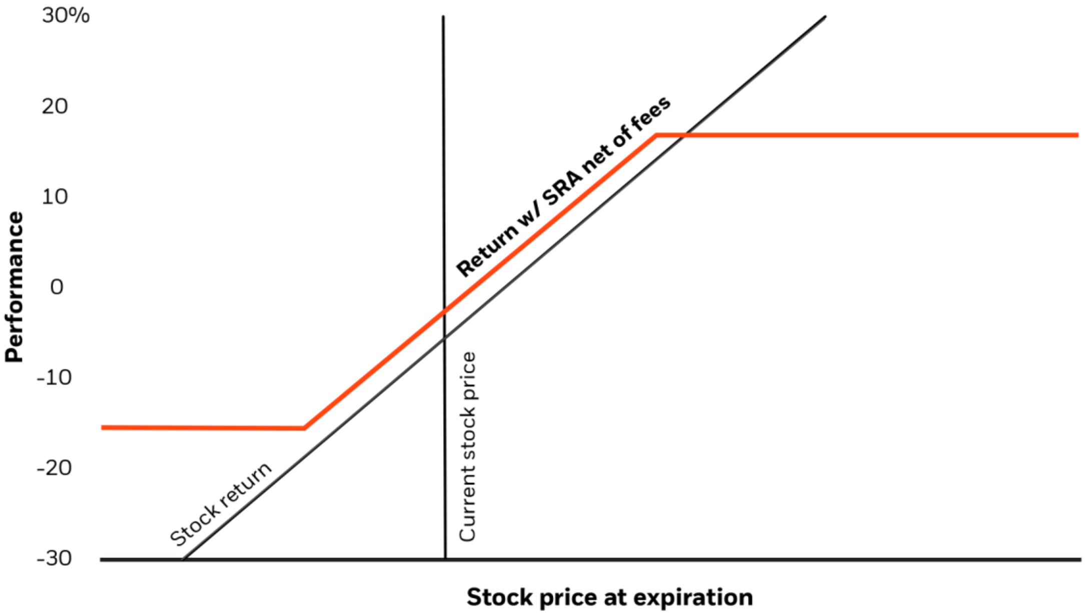
Simultaneously, the position's beta would have been reduced by ~68%.

| | |
|---|---|
| **Equity value** | $1,010,394 |
| **Risk reduction** | 67.9% |
| **Premium collected at inception** | 1.60% \| $16,200 |
| **Tenor (Months)** | 13.44 |
| **Annualized premium** | 1.43% \| $14,471 |
| **Annualized dividend yield** | 0.66% |
| **Net annualized yield** | 2.09% |

## Payoff at expiration (June 18, 2021) – Collar

**Underlying price:** $124.74 | **Option moneyness:** 116.2% | 84.2%

**Options used:** -81 AAPL Jun 18, 2021 C145 | 81 AAPL Jun 18,2021 P105




| Stock return at expiration | -40% | -30% | -20% | -10% | 0% | 10% | 20% | 30% | 40% |
|---|---|---|---|---|---|---|---|---|---|
| **AAPL** | -40% | -30% | -20% | -10% | 0% | 10% | 20% | 30% | 40% |
| **AAPL w/ SRA** | -13.48% | -13.48% | -13.48% | -7.66% | 2.34% | 12.34% | 18.58% | 18.58% | 18.58% |

For illustrative purposes only. Performance is not guaranteed and past performance is not indicative of future results. Does not depict an actual client account and actual results may vary.

# Strategic Liquidation

BlackRock can sell calls on concentrated stock, potentially generating a new stream of income that can be used to pay the capital gain taxes associated with liquidating the stock or generate losses that can be harvested.

**Two potential scenarios when using Strategic Liquidation:**

**The stock declines…**

…below the strike price – the client is buffered by the call premium generated and can use the premium to liquidate a portion of the stock.

**The stock increases…**

…through the strike price — the client buys the option back at a loss.

**Strategic Liquidation solves multiple problems:**

- It provides a solution for your client in which they can liquidate their position while remaining net neutral on related tax consequences
- It enables you to remove the glaring compliance risk, for which you most likely weren’t being compensated
- It allows your client to potentially generate a new income stream from their stock

# AAPL strategic liquidation scenarios

## What happened?

**1** The stock price decreased or remained relatively flat.

**2** The options expired worthless.

**3** The client kept all the call premium, buffering their downside.

## What's next?

**1** The client pays taxes on the generated call premium.

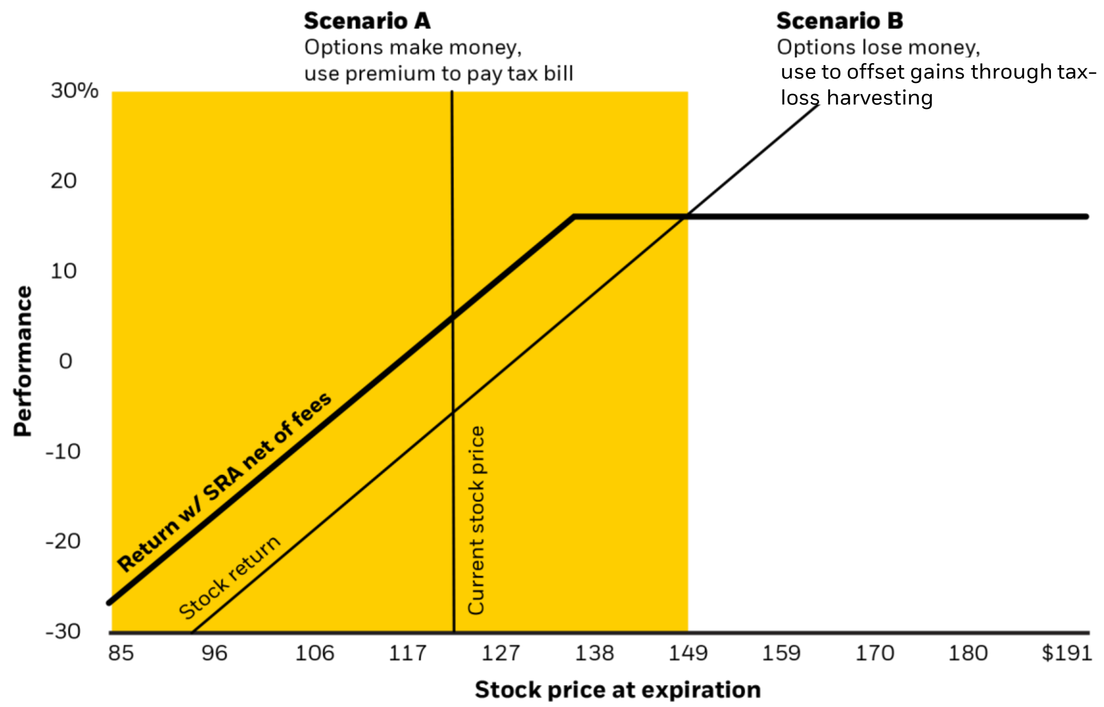
**2** The client receives the leftover call premium or "income".

**3** The advisor can sell a targeted amount of stock, creating a taxable event.

**4** The advisor can use the received call premium to pay the tax liability associated with selling the position.

## End result

The client can liquidate a portion of their concentrated position without paying the affiliated taxes out-of-pocket.




Source: SpiderRock Advisors. Option Key: June 2021 AAPL $140 Strike Call Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%. For illustrative purposes only.

# AAPL strategic liquidation scenarios

## What happened?

**1** The stock price increased through the strike price.

**2** The client kept all the call premium but the equity's upside was truncated.

## What's next?

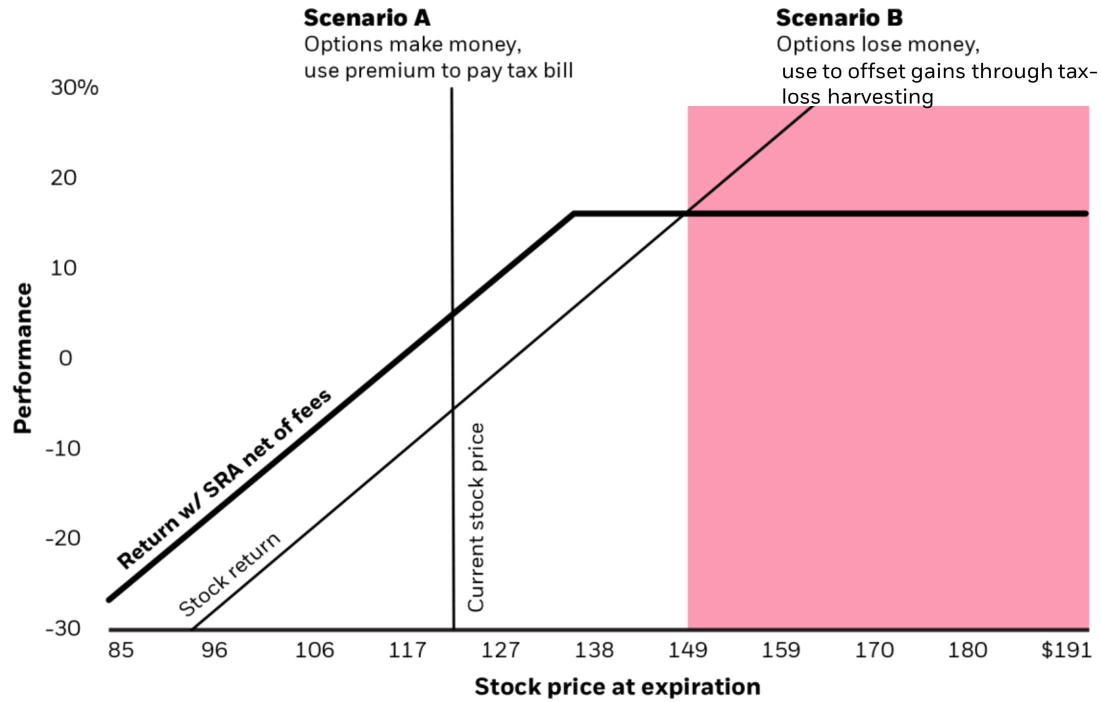
**1** The options are bought back at a loss.

**2** This loss allows the client to liquidate a targeted amount of stock, essentially "tax free".

**3** The targeted amount of stock is based on the value of the offsetting capital loss created, i.e., the higher the stock rises, the more you can liquidate.

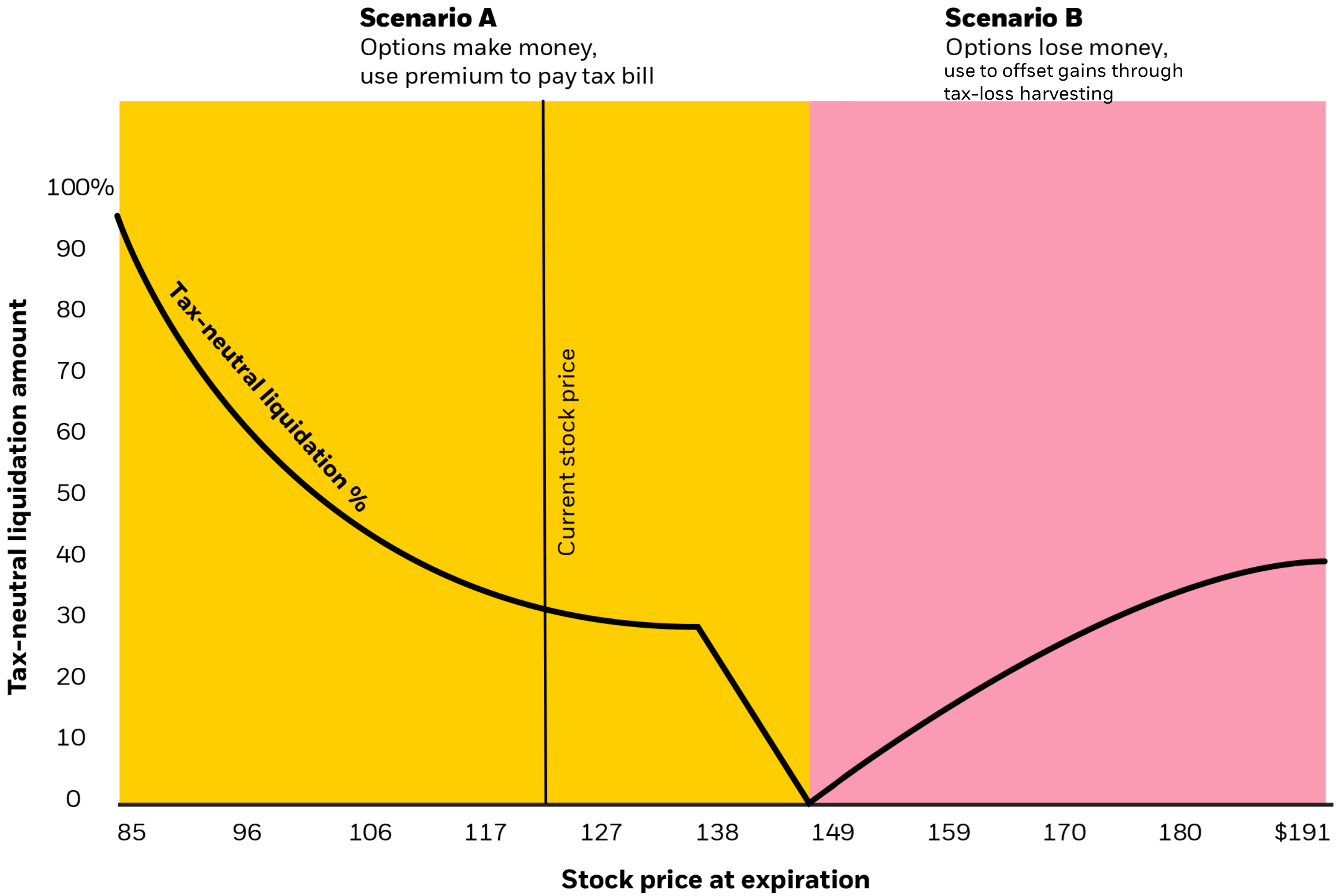
## End result

The client can liquidate a portion of their concentrated position without paying the affiliated taxes out-of-pocket.




Source: SpiderRock Advisors. Option Key: June 2021 AAPL $140 Strike Call Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%. For illustrative purposes only.

# Amount of liquidation




Source: SpiderRock Advisors. Option Key: June 2021 AAPL $140 Strike Call Embedded Capital Gains: 50%. Short/Long Term Tax Rate(s): 37.0%, 23.8%. For illustrative purposes only.

# Strategic Liquidation forecast

Clients can use BlackRock's Strategic Liquidation to exit a low-cost position in a tax-efficient manner.

| Year | Beginning stock price | Beginning shares | Stock MV | Strike | Option premium (%) | Option premium ($) | Hyp. stock perform. | Ending stock price | End of year market value | After-tax options gain/ losses | Shares available to sell tax-neutral | Stock sold tax-neutrally | Cash available to invest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | $100.00 | 100,000 | $10,000,000 | 105.0% | 7.0% | $700,000 | 20% | $120.00 | $12,000,000 | ($800,000) | 11,429 | $1,371,429 | $571,429 |
| 2 | $120.00 | 88,571 | $10,628,571 | 105.0% | 7.0% | $744,000 | -15% | $102.00 | $9,034,286 | $468,720 | 37,873 | $3,863,077 | $3,863,077 |
| 3 | $102.00 | 50,698 | $5,171,209 | 105.0% | 7.0% | $361,985 | 15% | $117.30 | $5,946,890 | ($155,136) | 2,305 | $270,394 | $115,257 |
| 4 | $117.30 | 48,393 | $5,676,497 | 105.0% | 7.0% | $397,355 | 20% | $140.76 | $6,811,796 | ($454,120) | 5,004 | $704,296 | $250,176 |
| 5 | $140.76 | 43,389 | $6,107,500 | 105.0% | 7.0% | $427,525 | -20% | $112.61 | $4,886,000 | $269,341 | 18,076 | $2,035,469 | $2,035,469 |
| **Ending Values:** | | **25,314** | **$2,850,531** | | | **$2,630,864** | **2.4%**[1] | | | | | $8,244,664 | **$6,835,408** |

| Summary statistics with SpiderRock Advisors | |
|---|---|
| Number of shares sold: | 74,686 |
| Percent of stock sold: | 75% |
| Taxes offset by option gains/losses: | $1,073,464 |
| **Cash available to invest:** | **$6,835,408** |

**Assumptions:**

LT tax rate: 23.8%
ST tax rate: 37.0%
Starting number of shares: 100,000
Cost basis (per share): $50
Cost basis (total): $5,000,000

**1** Annualized 2.4%.

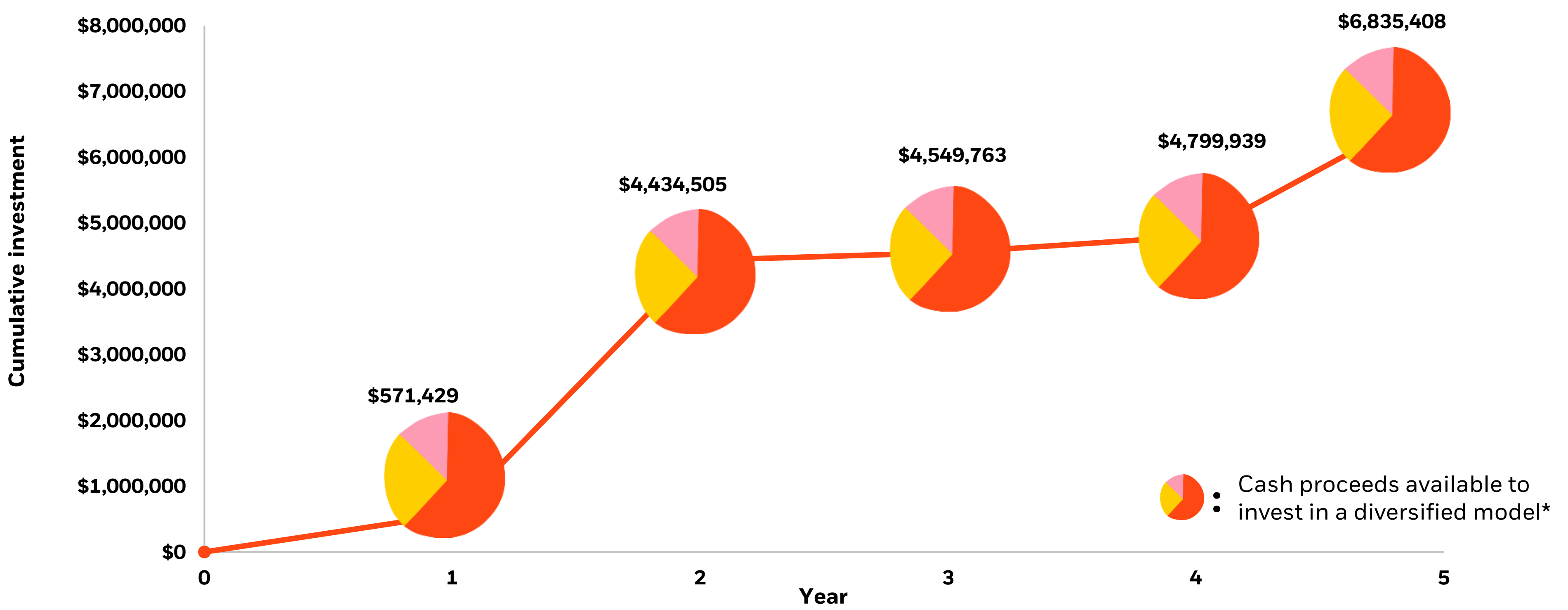
This analysis is provided for illustrative purposes only. It is not based on the actual performance of any account or specific stock position, nor is it a result of a backtest. Any actual performance or estimated after-tax gains or losses for a live mandate will differ. Option Strike and Premium are simplifying examples and do not account for the fact SRA will generally actively manage such a program.

Nothing in this analysis should be considered tax advice. Clients are encouraged to seek qualified tax counsel, as SpiderRock Advisors does not provide tax guidance.

# Portfolio value growth illustration

In this example, the client systematically sells out of their concentrated stock position at a level where option premiums or losses offset the capital gains bill triggered by selling shares, and then reallocates at the end of each year into a diversified model.

## Contribution to a diversified model




*The portfolio is illustrative only. The example uses the cumulative dollar amounts from the "cash available to invest" column on the previous page to illustrate the additions made to a diversified model from the tax-neutral proceeds of liquidating concentrated stock. The illustration assumes no growth in the diversified model. For illustrative purposes only.

# Exchange Fund Replication

Our Exchange Fund Replication strategy seeks to exchange stock risk for market risk with less barriers than an exchange fund.

| Potential risks | Traditional exchange fund | Exchange Fund Replication (EFR) |
|---|---|---|
| **Control** | • Exchange funds no longer accept many stocks<br>• Basket returned will be low-cost basis and may contain "rejects" | • Customized strategy based on daily liquid option positions<br>• Ability to select which indexes you want exposure to |
| **Expenses** | • Typically have a 1%+ front load, and ongoing fund expenses of 1% or more per annum | • 85 bps* |
| **Fund restrictions** | • 20% of fund assets required to be in non-publicly traded securities or real estate | • No leverage used<br>• No similar requirement to exchange funds |
| **Funding source** | • Stock availability by portfolio manager discretion | • Potential to work with any stock |
| **Liquidity** | • Limited liquidity prior to 7th year<br>• Penalties for early redemption<br>• Early redemptions don't receive basket | • Daily liquidity<br>• No lock-up period<br>• No penalties for closing account |
| **Qualified purchaser** | • Must own $5 million or more in liquid investments | • No qualified purchaser requirement<br>• Account minimum $500,000* |
| **Taxes** | • K1 reporting from the partnership | • 1099 reporting from your custodian |
| **Dividends** | • Not entitled to future dividends on the concentrated stock | • Retain dividend income on the concentrated stock. Dividends on the index are incorporated into option prices and is part of total return |

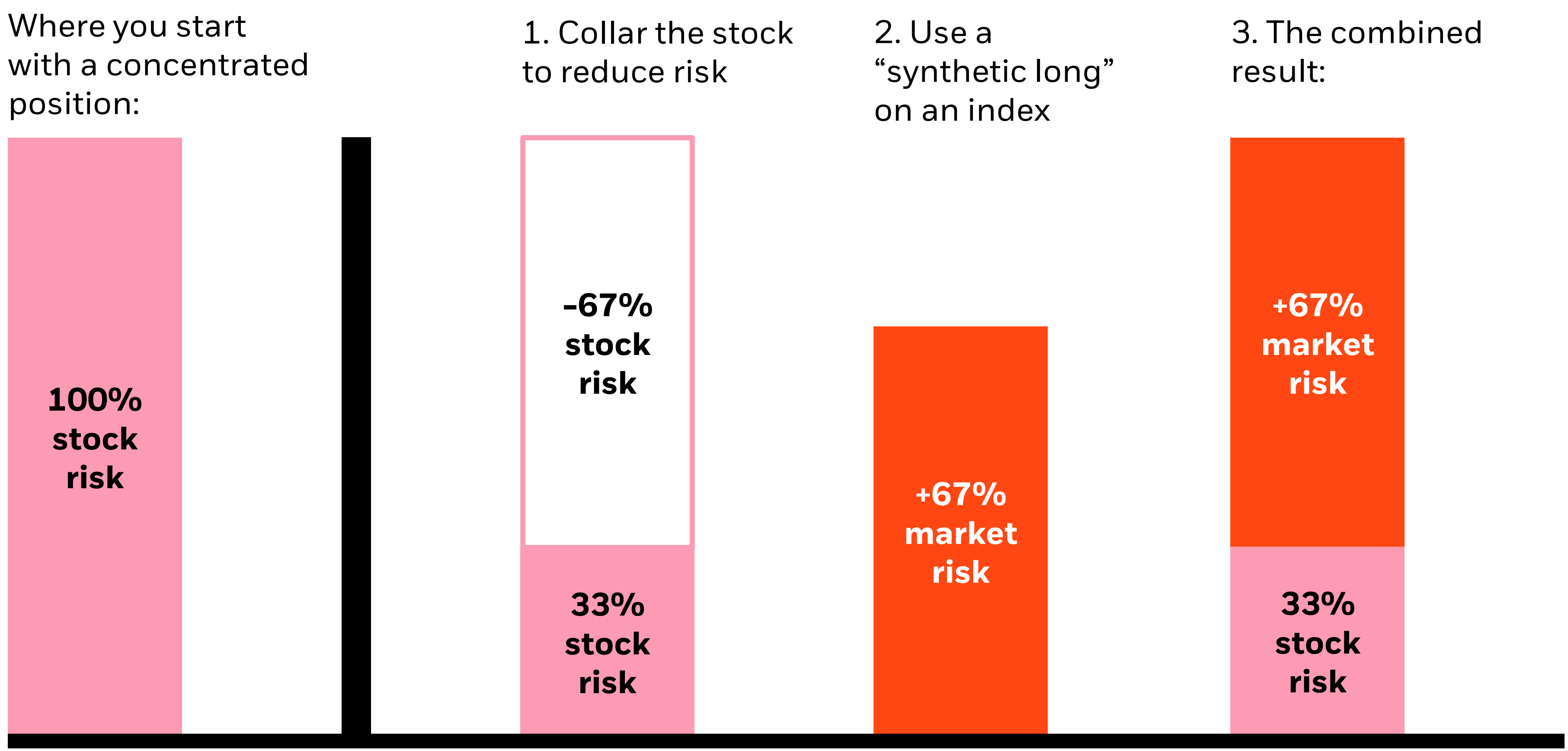
*Account minimums and fees subject to change. An exchange fund, also known as a swap fund, is an arrangement between concentrated shareholders of different companies that pools shares and allows an investor to exchange their large holding of a single stock for units in the entire pool's portfolio. Exchange funds can also require >20% non-security type assets which can impede diversification and performance of the fund.

EXCHANGE FUND REPLICATION

# How does EFR work?

The Exchange Fund Replication strategy seeks to swap ~70% stock risk for ~70% market risk, without triggering an upfront tax bill.

## The Exchange Fund Replication process

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# What to expect in different scenarios with EFR

| Stock return ↓ / Market return → | Down | Flat | Up |
|---|---|---|---|
| **Up** | **Strategy return:** low<br>**Tax-neutral liquidation potential:** highest | **Strategy return:** modest<br>**Tax-neutral liquidation potential:** high | **Strategy return:** highest<br>**Tax-neutral liquidation potential:** moderate |
| **Flat** | **Strategy return:** low<br>**Tax-neutral liquidation potential:** high | **Strategy return:** flat<br>**Tax-neutral liquidation potential:** low | **Strategy return:** high<br>**Tax-neutral liquidation potential:** low |
| **Down** | **Strategy return:** lowest<br>**Tax-neutral liquidation potential:** moderate | **Strategy return:** low<br>**Tax-neutral liquidation potential:** low | **Strategy return:** modest<br>**Tax-neutral liquidation potential:** lowest |

For illustrative purposes only.

# Basis Hedge

A hedging solution for when the options are limited.

## The problem

- Client wants to hedge a concentrated stock position but is unable to do so due to the lack of options.
- Even if options on the underlying could be sold, the execution cost of illiquid options to the end client both into and out of the trades, is prohibitively high.
- Client wants to hedge a concentrated position, but is unable to do so due to corporate plan restrictions (Rule 10b5-1, ESOP, etc.).

## Our solution

- We can help by analyzing the market, selecting a proxy for the underlying concentrated security, and implementing a basis hedge.
- A basis hedge is a similar security that has a high historical correlation to the security the client wishes to hedge.
- We will sell options against a risk-adjusted amount of the concentrated security to be hedged.
- While the underlying risk can be hedged, and liquidity costs can be improved, it is important to realize that the hedge is an imperfect one: the client is exposed to basis risk.

*Restricted stock may require additional collateral for basis hedging strategy. Due to some companies corporate governance policies, restricted stock may not be able to use basis hedging. Advisors should consult with their client on specific limitations for restricted stock.

# The process for Basis Hedge

## 1

To find an appropriate hedge, we will screen for 1) stocks/ETFs that have a high historical correlation to the underlying instrument, and 2) stocks/ETFs that have a liquid options market.

## 2

We will run a regression analysis of returns in order to find the beta between the instruments.

## 3

Once an appropriate hedge has been selected, we will run a basis risk analysis to illustrate the distribution of historical dispersion.

## 4

BlackRock “beta adjusts” the underlying portfolio and hedges with the equivalent amount of allocated notional dollars to isolate the risk of the underlying instrument.

Process subject to change.

# What is basis risk?

Basis risk is created by the use of an imperfect hedge — the risk is that the hedge and the underlying instrument will not move with perfect correlation, even though past returns have been highly correlated.

**Basis risk can be positive or negative:**

\+ Positive basis risk occurs when the security being hedged outperforms the underlying of our option hedge.

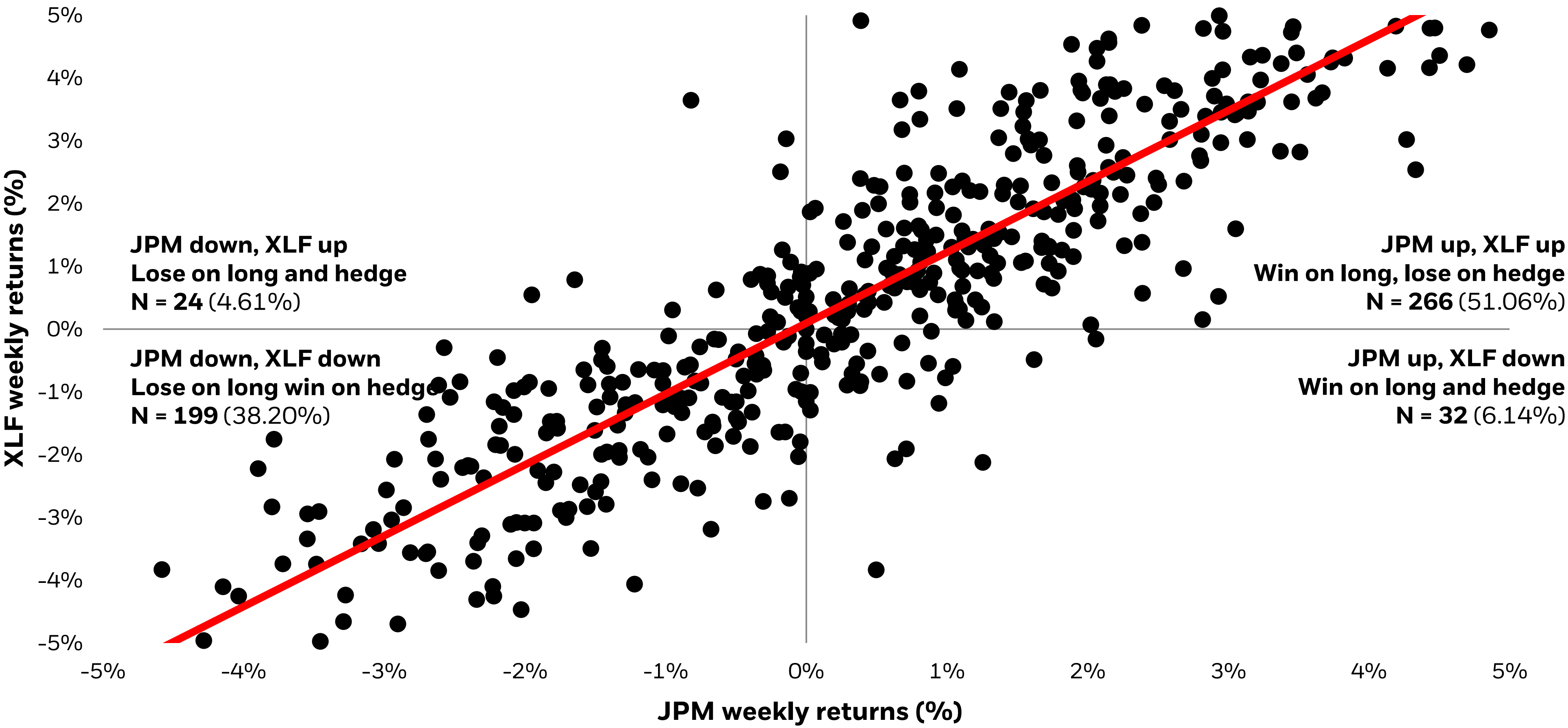
\- Negative basis risk occurs when the underlying of our option hedge outperforms the security being hedged.

**We optimize the hedge based on correlation, yield and distribution of basis risk.**

BASIS HEDGE

# Basis Hedging example for JPM using XLF

(WEEKLY RETURN PAIRS, JULY 2015– JULY 2025*)

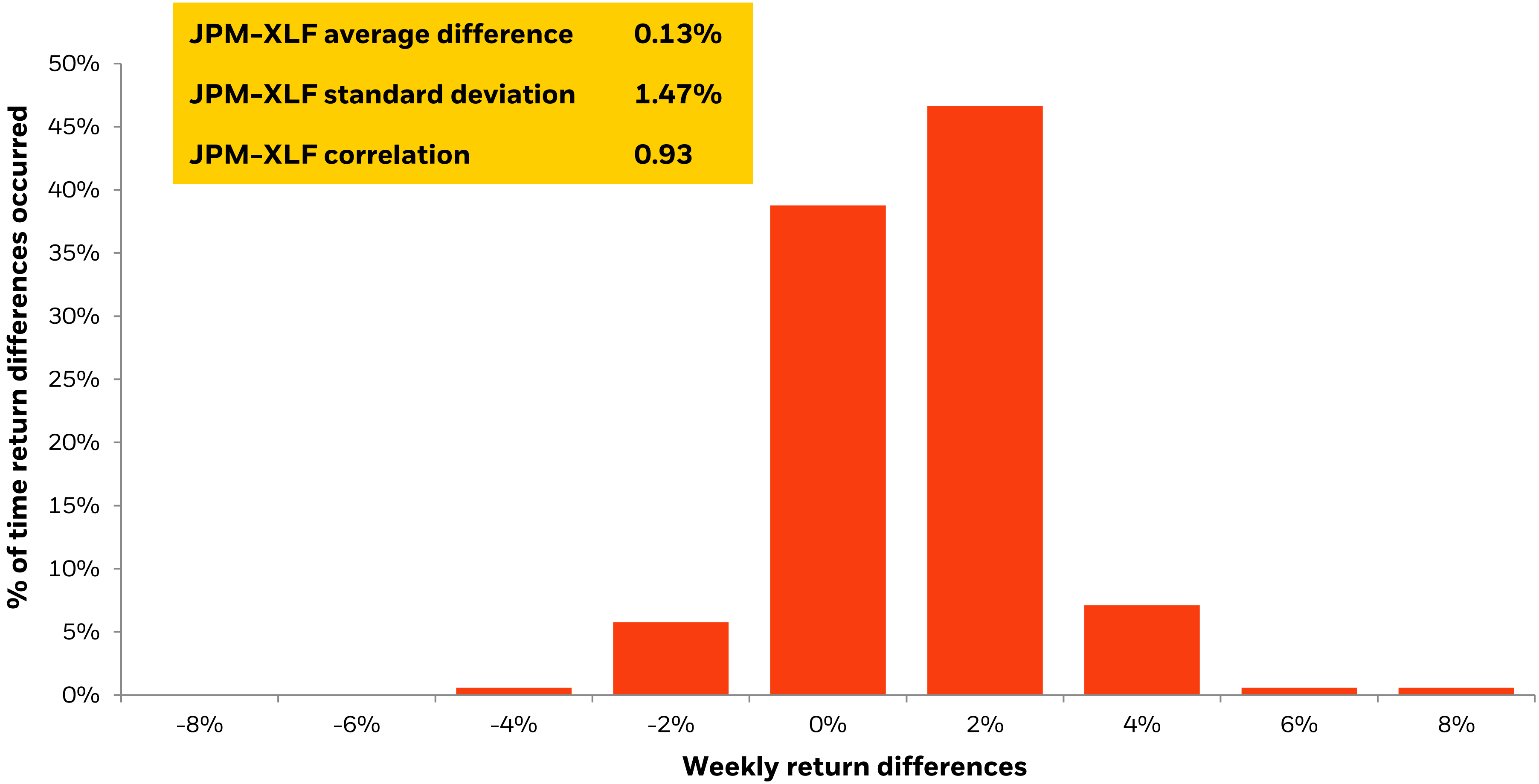



*Data Source: Bloomberg. Data timeframe: July 2015 – July 2025. For illustrative purposes only. This example shows a basis hedge using the financial sector as a proxy for JPM. XLF was identified due to its high historical correlation to JPM and its high options liquidity. Using the financial sector as a hedge as opposed to a single stock seeks to avoid additional idiosyncratic risk.

BASIS HEDGE

# Basis risk of hedge to JPM

**(WEEKLY RETURN DIFFERENCES, JULY 2015 – JULY 2025*)**




*Data Source: Bloomberg. Data timeframe: July 2015– July 2025. For illustrative purposes only. This example shows a basis hedge using the financial sector as a proxy for JPM. XLF was identified due to its high historical correlation to JPM and its high options liquidity. Using the financial sector as a hedge as opposed to a single stock seeks to avoid additional idiosyncratic risk.

NEXT STEPS

# To learn more or to request a client proposal

Contact your BlackRock representative at

**1-877-ASK-1BLK**

# Options definitions

| Term | Definition |
| --- | --- |
| At the money | An option is at-the-money when the stock price is equal to the strike price. (Since the two values are rarely exactly equal, when purchasing options the strike price closest to the stock price is typically called the "ATM strike." |
| Call options | Call options are financial contracts that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other asset or instrument at a specified price within a specific time period. |
| Called away | Called away refers to when a financial contract, primarily an options contract or a callable bond, is terminated. When a call option is exercised, the investor's shares must be sold to the option holder. |
| Collar | A collar is an options strategy implemented to protect against large losses, but it also limits large gains. |
| Derivatives | Derivatives are financial products whose value is based (derived) on the underlying asset, usually another financial instrument. |
| In-the-money | For call options, this means the stock price is above the strike price. So if a call has a strike price of $50 and the stock is trading at $55, that option is in-the-money.<br><br>For put options, it means the stock price is below the strike price. So if a put has a strike price of $50 and the stock is trading at $45, that option is in-the-money. |
| Idiosyncratic stock risk | Idiosyncratic risk is a type of investment risk that is endemic to an individual asset (like a particular company's stock), or a group of assets (like a particular sector's stocks). |

Options Terminology | Options Definitions - The Options Playbooks

# Options definitions (cont)

| Term | Definition |
|---|---|
| Out-of-the-money | A call option whose strike price is higher than the market price of the underlying security, or a put option whose strike price is lower than the market price of the underlying security. |
| PUT | The benchmark put writing index is the CBOE S&P 500 PutWrite Index (PUT) and has been in existence since 1986. PUT is a passive investment strategy designed to sell a sequence of one-month, at-the-money, S&P 500 Index puts and invest cash at one- and three-month Treasury Bill rates. The number of puts sold varies from month-to-month, but is limited so that the amount held in Treasury Bills can finance the maximum possible loss from final settlement of the SPX puts. |
| Put writing | Put writing is a family of options trading strategies that involve the selling of put options to earn premiums. A put is a strategy used to generate income, or buy stocks at a reduced price. When writing a put, the writer agrees to buy the underlying stock at the strike price if the contract is exercised. |
| Strikes | Strike prices are used in derivatives (mainly options) trading. Derivatives are financial products whose value is based (derived) on the underlying asset, usually another financial instrument. |
| Synthetic tax | The tax bill you would otherwise have to pay to have an equivalent risk reduction. |
| Tenor | Tenor refers to the length of time remaining before a financial contract expires. It is sometimes used interchangeably with the term maturity, although the terms have distinct meanings. Tenor is used in relation to bank loans, insurance contracts, and derivative products. |

## Want to know more?

blackrock.com | askblackrock@blackrock.com | 877-472-7625 (1-877-472-ROCK)

# Important notes

**Investing involves risk, including possible loss of principal. Asset allocation and diversification may not protect against market risk, loss of principal or volatility of returns. Actual investment outcomes may vary.** There is no guarantee that these investments strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. No representation is being made that any account, product or strategy will or is likely to achieve profits.

SpiderRock Advisors, LLC ("SRA"), an investment adviser registered with the SEC and a commodity trading advisor registered with the CFTC, provides discretionary options overlay investment strategies. SRA is an indirect wholly owned subsidiary of BlackRock, Inc.

Options involve risk and are not suitable for all investors. There is no guarantee that any investment strategy illustrated will be successful or achieve any particular level of results.

Since basis hedging uses options on a proxy asset, idiosyncratic risk on individual stocks may not be hedged. There is also tracking error risk as the proxy asset may not track with the underlying asset, despite previous calculations of historical correlation.

Due to the complexity of tax law, not every single taxpayer will face the situations described herein exactly as calculated or stated; i.e., the examples and calculations are intended to be representative of some but not all taxpayers. Since each investor's situation may be different in terms of income tax, estate tax, and asset allocation, there may be situations in which the recommendations would not apply. Please discuss any individual situation with tax and investment advisors first before proceeding. Taxpayers paying lower tax rates than those assumed or without taxable income would earn smaller tax benefits from tax-advantaged indexing or even none at all compared to those described.

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