



# Tail Hedge Programme for a Family Office

## Running a Private Equity Sleeve

### SCENARIO TYPE

Single Family Office – Concentrated private equity and co-investment allocation

### ASSET CLASS

Direct PE, co-investments, listed equities, SPX and VIX listed options as proxy hedge

### RISK FOCUS

Illiquid portfolio as correlation amplifier, delayed mark recognition, no monetisation framework, governance speed mismatch

### PRIMARY OFFER

Structuring-as-a-Service™

### RELEVANT SERVICES

Pre-Crisis Playbook · Listed proxy hedge architecture · Pre-authorized trigger framework · Monetisation doctrine · Family council governance pack

## THE SITUATION

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The 2022 drawdown did not break the portfolio. It revealed it.

A single-family office had allocated aggressively into direct private equity and co-investments over the prior three years. The thesis was sound: the family had operational expertise in the sectors they were backing, deal flow through relationships, and a long enough time horizon to accept illiquidity. The allocation had reached approximately forty per cent of total portfolio value by the time market conditions changed.

When listed markets sold off, the family office's overall portfolio performance looked surprisingly resilient for several months. Listed equities fell. Private equity marks moved only modestly. The Investment Committee noted the diversification benefit and moved on.

What followed over the next twelve months was a second wave. Private equity marks – reported at cost or modest discount – were revalued as underlying businesses refinanced at higher rates, faced margin compression, and were marked by GP valuers with access to comparable transactions. The losses that had appeared well-contained arrived all at once.

The private allocation had not diversified the portfolio through the stress period. It had deferred and concentrated the losses. The family office had no protection in place, no rebalancing capacity, and no pre-committed framework for what to do when a stress event arrived.

## HOW THE TRAP FORMS

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Private equity performs the way it does through a stress period not because the underlying businesses are unaffected, but because the reporting cycle creates a lag. Quarterly valuations, GP discretion in applying comparable multiples, and the absence of a secondary market that clears at transparent prices all contribute to a picture that looks better than it is while conditions are deteriorating.

That lag is not a design flaw. It is a structural feature of private markets. The problem arises when the family office interprets smoothed reporting as evidence of genuine resilience rather than a timing artefact. The natural response to listed market stress – adding protection or reducing risk – is suppressed by the misleading signal from the private allocation.

A portfolio with forty per cent in illiquid private equity also has limited ability to rebalance. When listed equities fall sharply, the private allocation's share of the total portfolio rises mechanically. The office becomes more concentrated in the illiquid component at exactly the moment when the illiquid component's actual value is declining but not yet visible.

## WHAT TYPICALLY BREAKS

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### Instrument selection driven by cost, not liquidity

OTC options and bespoke credit protection are often pitched as more cost-effective than listed options. In a stress event, the difference between an instrument monetisable with a phone call to an exchange and one requiring a dealer to answer and be willing to quote matters enormously. For a family office without a trading desk, OTC liquidity in stress is not reliable.

### Governance too slow for the signal

A VIX spike from 15 to 45 happens in days. The window during which a tail hedge is maximally valuable is short. A governance process that operates on weekly or monthly cycles is not compatible with the speed at which that window opens and closes.

### No monetisation doctrine

A hedge that pays in a stress event but has no pre-committed framework for when and how to realise gains is only partially useful. If gains accumulate but the governance process requires a committee meeting to authorise any action, the window during which gains are realisable at peak may close before authority is granted.

### Hedge sized against the wrong number

Sizing the hedge against total portfolio value including illiquid assets creates an overhedge in normal conditions and understates the actual protection ratio when private marks eventually move. The hedge should be sized against the listed equity portion of the portfolio.

## THE STRUCTURAL INSIGHT

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A private equity portfolio cannot be hedged directly. But a portfolio that contains private equity alongside listed assets can be protected at the portfolio level using instruments sensitive to the macro conditions that drive PE stress rather than the PE valuations themselves.

When private equity portfolios experience stress, it is almost always accompanied by a significant selloff in listed equity markets, a widening in credit spreads, a spike in implied volatility, or some combination. None of those signals require access to private market data. They are visible in real time.

The key design principle: the hedge should pay before the private marks move, not alongside them. A protection instrument that pays at the same time as the private marks are revised down arrives too late to influence the portfolio's response.

The protection programme was built in two layers. First, a rolling SPX put programme – long out-of-the-money puts at strikes approximately fifteen to twenty per cent below the current index level, using listed CME instruments rather than OTC structures. That choice was deliberate: listed instruments can be monetised at any point during trading hours without counterparty negotiation.

Second, a VIX call spread – also listed – designed to pay if implied volatility spiked sharply. VIX options provide convexity that SPX puts do not: in a sudden market fracture, the VIX can move several multiples of the SPX move. The call spread captures that convexity cheaply relative to the payout profile in a genuine tail event.

## INTENDED OUTCOMES

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- ▶ Liquidity now when it is typically in shortest supply – hedge proceeds available to meet capital calls from private managers in stress without selling listed assets at distressed prices.
- ▶ Pre-authorized trigger framework in place – the CIO had authority to monetise any portion of the hedge within defined observable market thresholds without waiting for a committee meeting.
- ▶ Partial monetisation bands designed – a ladder of realisation decisions at different profitability levels so gains were not left entirely unrealised waiting for a peak that might not arrive.
- ▶ Re-hedge mechanics established – automatic conditions under which a replaced position would be entered after monetisation, so the portfolio did not go unprotected after the first drawdown.
- ▶ Family council governance converted from post-hoc to forward-looking – conversations moved from discussing what had already happened to discussing the response framework for specific scenarios.

## WHERE THIS APPLIES

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Most relevant where a family office holds a significant illiquid allocation alongside listed assets; has experienced or is concerned about delayed mark recognition in private markets; and has a governance structure not designed to operate at the speed of a stress event.

Less relevant where the private allocation is small relative to total assets; the family has sufficient liquidity buffers to absorb a stress period without a formal hedge programme; or the governance structure already includes pre-authorised rapid response protocols.

### TYPICAL ENGAGEMENT PATH

**Structuring-as-a-Service™** – Pre-Crisis Playbook: tail hedge architecture design, instrument selection, monetisation doctrine, and governance framework.

**Secondary:** Listed proxy hedge implementation pathway, pre-authorised trigger framework, partial monetisation band design, family council governance and reporting pack.