KEYNOTE INTERVIEW

# Managing your own wealth

*PE professionals are experts at delivering returns for investors, but there is room for improvement when it comes to personal finance, say Y TREE's Stuart Cash and Johnnie Hampel*

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The co-founders of specialist wealth adviser Y TREE, Stuart Cash and Johnnie Hampel, explain how connecting with purpose and taking a proactive approach to portfolio management is transforming the way partners at private equity firms think about their personal finance and the positive, long-term impact their wealth can have if managed appropriately.

**Q How has the asset class evolved over the last 20 years? Has that had any impact on the way PE professionals think about personal finance?**

**Johnnie Hampel:** The private equity industry has grown at pace over the last few decades. The investor base has expanded, the number of funds in the market has grown and funds are much larger. This has meant there are now more people working in the industry and more people who will generate significant wealth during their careers.

Even though the asset class has become bigger and more sophisticated, the approach PE professionals take towards managing their own money has not changed much. I have been working with partners of private equity firms for more than 20 years, and they generally fall into three camps.

Some sit on cash that isn't already allocated to their firm's funds. They are so busy that they just want to make sure they have liquidity to put into their funds when required, even though that is not the most efficient approach.

Others make multiple allocations to private banks because they want to diversify risk. However, keeping on top of performance and fees can make tracking performance difficult and complex.

The third camp wants to try to do it themselves and almost play their own macro fund manager role, but trying to time markets and manage risk is a very different skill set to what they do on a day-to-day basis.

## Q PE execs are good at running investor money. What are they like when it comes to managing their own?

**Stuart Cash:** There is huge room for improvement. PE professionals are good at understanding businesses, understanding valuations and investing in companies. They are experts in negotiating the deal, securing a great price and managing leverage to unlock value.

The toolkit they use to deliver returns from their funds, however, is very different to what is required to manage a diversified portfolio spanning multiple asset classes.

There is no question that they are smart and financially savvy, but they are professional private market investors, not professional public market investors. Trying to infuse the core skill set from the former into the latter is not the best way to manage a personal portfolio.

**JH:** They are busy people who are focused on maintaining their firm's funds. They simply don't have the bandwidth to monitor their own portfolio as much as they would like, and there isn't the time to keep on top of multiple bank relationships and analyse how risk and liquidity work across the length of their careers.

## Q How can PE professionals manage their money better?

**JH:** Liquidity is a point that comes up time and again. General partners at PE firms are in a uniquely privileged position in that they can get access to their in-house funds at zero cost, but they don't have the data to decide on what allocation to make to their own funds. We are often told by clients that it is a 'finger in the air' decision every time a fund comes around, and what we have found is that GPs are chronically underallocated to their own funds.

What we are doing at Y TREE is creating a platform that tracks all the assets, liabilities and the inflows, outflows and distributions. With that visibility we can build a model that sets out a budget for commitments to their funds each year. We call it an illiquidity budgeting model, and it helps PE professionals understand what the optimal strategic allocation to private markets is. In each case, our clients have increased their commitments significantly. They have recognised they can do that, which of course benefits them but also benefits the fund.

The focus is on maximising the efficiency and the productivity of their liquidity without taking on much more risk, rather than just sitting on cash. The model will also provide insight into the appropriate amount of leverage on their own balance sheets and on their fund allocations.

**SC:** What we are doing is providing support to help PE professionals run their personal finances like institutional investors. We are using technology to bottle up portfolio construction insights and know-how across asset classes, and combining that with data aggregation and financial algorithms to help these professionals think about asset liability management, risk management, tax, liquidity and leverage.

## Q Is there an ideal starting point when deciding how to structure a portfolio?

**JH:** Appropriate portfolio management can generate levels of wealth that can change the world, so we always start with purpose. What do you want to achieve? Do you realise that you can create long-term intergenerational wealth, or build your own philanthropic endowment and make a massive contribution to society if you run your portfolio efficiently?

These professionals are so locked in and committed to their roles that they don't always have the space to think about what comes next. We help them understand what their purpose is, then we can start thinking about the allocations and risk that will deliver on that ambition.

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>
> **STUART CASH**

**SC:** I don't think they always realise they have a tremendous opportunity to help society. They have built up sufficient capital to sustain their personal needs and goals, so it can be difficult to find the motivation to spend hours trying to maximise your already substantial personal wealth.

What is especially eye-opening is when you have the conversation about just how much additional value they can create by making a portfolio more efficient through marginal gains. Eyes will light up when clients connect with a purpose that goes beyond meeting their own needs.

By thinking about their personal finances in an institutional way and avoiding wastage and inefficiencies, a PE professional who has earned £50 million ($56 million; €57 million) by the age of 45 could reap between £1.5 billion to £4.6 billion of additional value across his or her financial life. That is wealth that has the potential to change the world.

Over the last few years there has been massive growth in the PE industry and the profile and wealth of the people who are running it. There are now so many more people with substantial personal wealth in private equity, and the challenge for them for the next 20 years is what they can do for the world with that wealth. ■