

THE NATURAL INVESTOR

Situation:

In Wes' mind, he had a balance sheet of \$50 million. By most standards, more than a lifetime's worth of money. But as the CEO and steward of a global, family-owned, private infrastructure investment business, Wes felt an obligation to maintain a bulletproof personal balance sheet so he could make thoughtful and informed decisions for the benefit of his fellow shareholders and, most importantly, the company's many employees.

He was young when we met him—in his early 40s—and he never wanted to find himself at the mercy of a market cycle, unable to make a key strategic investment, or limited in terms of future growth by needing to make short-term decisions about distributions or liquidation opportunities.

When Wes first became a **Performance Advisory** client, the asset allocation for his personal portfolio was divided 50/50 between stocks and bonds, with \$20 million in municipal bonds. This was understandable, given his mindset. But in his effort to be cautious, Wes was failing to take into account some important facts. First, he held a meaningful ownership position in the company and its underlying funds. While these holdings were illiquid, the company was well-established and diversified, and even at book value, the holdings made his balance sheet considerably larger than it was in his mind. Second, he had been receiving reliable annual distributions of income and carry from the company's underlying funds and could safely expect to do so for the foreseeable future.

Solution:

Our team helped Wes to see the \$50 million not as a static balance sheet but as a dynamic and growing investible portfolio—assets he would not need in the near future and that should be compounding at a much more substantial rate than they were at the time. He was comfortably able to live on his distributions (and add annually to his portfolio from them) as well as to fund his family office, which was largely made up of accounting professionals who helped to manage the cash flows into and out of the business.

Wes was a natural investor. Outside of his core areas of expertise, he had a keen intellectual interest in biotechnology and financial technology. Given his day job, he had an especially deep understanding of financial technology that intersected with his industry, and with the riskier half of his portfolio, he had made some thoughtful one-off investments here and there. But what was missing was a programmatic, long-term approach to investing.

We designed a multiyear investment program, initially committing \$5 million to \$6 million a year to alternative investments and building up to \$7 million a year over time as he added cash to the portfolio from his distributions. In the public markets, based on Wes' worldview, we diversified the portfolio globally with a slight overweight to China. We continue to maintain a modest allocation to high-quality bonds as part of the liquidity bucket. But a far greater proportion of the portfolio is now meaningfully deployed for long-term appreciation with no negative impact to Wes' personal lifestyle or business safety net.



Another reason why Wes could have relaxed some about his personal wealth is that the company had a discipline of keeping \$75 million to \$100 million of cash on hand to deploy opportunistically. The funds were held in short-term bonds and, given the very low-rate environment, they were earning almost no return as they sat on the sidelines.

Our team assessed the liquidity needs for these funds. It became clear that in the company's history, it had never been deployed with less than 90 days' notice—a fact that significantly widened the opportunity set in terms of investments. Our team designed a highly customized portfolio of fixed income and alternatives. Paying careful attention to liquidity provisions, we were able to turn a 1% annualized return into a 5–7% annualized return while ensuring that the pool of capital remained available for opportunistic deployment according to the company's business plan. This materially added to the company's performance without compromising its core mission, giving Wes even greater comfort in his personal investing plan.

Outcome:

Investment acumen, manager relationships and a thoughtful, strategic approach were key components of this success story. But it really began with Wes choosing to engage a trusted advisor to help him evaluate his situation and opportunities. With our outside perspective and experience working with numerous highly successful clients and family offices, we were able to help Wes reshape his thinking, resulting in a materially better investment journey for Wes, his family and his company. [B](#)

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