

Private Markets



Investment Management that Transcends the Public Markets

This is the first in a series of articles from HBKS Wealth Advisors' Investment Management Group on private market investment opportunities.

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 Director of Investment Research

MANY FINANCIAL FIRMS try to attract investors by advertising that they offer more than just buying stocks and bonds. But few can live up to the promise of comprehensive financial management. While all registered investment advisories are bound by a fiduciary duty, that is, to put their clients' interests first, and many don't sell their own branded products or commissioned investments, few have the expertise or make the commitment required to thoroughly understand the investor, their obligations and goals. Even fewer can boast of being part of a firm that includes one of the nation's largest CPA firms, thereby providing the expertise to develop portfolios that accommodate ever-changing tax laws and maximize after-tax returns. And almost none can provide investment management that transcends the public markets to the private markets of particular interest and value to high net worth investors.

"Over the last five years, we have built out our solution to include access to investments where there is limited access, including the private equity and private credit markets," noted HBKS Chief Investment Officer Brian Sommers.

"When building portfolios of public stocks and bonds, one offers the expectation of higher returns while the other offers volatility reduction. That is the trade-off inherent in traditional portfolio construction. On the other hand, private markets offer both higher expected returns and volatility reduction. The trade-off with private markets is that you give up daily liquidity," explained Ethan Berkebile, CFA, CAIA, Director of Investment Research for the HBKS Investment Management Group. "And, by expanding the investable universe into businesses that are smaller than most public companies, investors are diversifying their portfolios."



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HBKS focuses on private equity strategies that focus on businesses with annual sales of less than \$500 million at the time of initial investment. Comparatively, the weighted average annual sales of stocks in the Russell 2000, a U.S. small cap index, is almost \$2 billion.

“The smaller size of these businesses is certainly a factor in why we expect private market investments to outperform their public counterparts, but it isn’t the only one,” Berkebile added. “Historically smaller public companies have delivered a premium to larger ones and HBKS views private market investing as an extension of that concept.”

That so-called “U.S. middle market” accounts for roughly one-third of private U.S. GDP, and includes nearly 200,000 companies of varying ownership structures, including family-controlled, private equity sponsored, and publicly owned businesses. While they are smaller than most publicly traded companies, they can be large enough to employ dozens if not hundreds of people.

“If you’re investing in private markets,” Sommers added, “due diligence on the underlying asset manager is absolutely critical because dispersion of returns is huge compared to the public markets. You have to be with the best managers to increase the probability of success.”

Establishing and managing private market portfolios requires most importantly working with investment managers with deep expertise in sourcing, underwriting, and executing private market strategies. That is key to returns, Berkebile stressed, as “it is costly to make a mistake in private markets, so we do a lot of thesis testing and reference checks during our underwriting.”

AHEAD OF THE CURVE

Sommers and the HBKS Asset Management Group have designed their private funds around the investments and access most appropriate for their high net worth clients, which he defines as individuals or families with investible assets of \$10 million or more. These solutions, he explained, include private equity and private credit, available through what Berkebile identified as a focus on “small, capacity-constrained strategies,” in contrast to the mega cap strategies provided by bulge bracket firms.

“Most products geared towards retail investors provide access to the largest private market managers like Blackstone,” Sommers said. “But some of the best performers are small and middle-market managers. So a few years ago we started building our own funds to include those managers.”

According to Berkebile, investors typically enter private markets in varying degrees. By the very nature of the investment, in particular its illiquidity, private market investing is part of a long-term investment strategy. A client’s portfolio might start off with a 10 percent allocation to private equity and a similar amount in private credit.

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AN ASPECT OF COMPREHENSIVE WEALTH MANAGEMENT

HBKS is distinguished among registered investment advisories (RIAs) in providing comprehensive financial management, from financial planning to tax and business consulting to estate and succession planning. The firm has invested in the expertise — the internal expertise — to support clients holistically, in every aspect of their financial lives, from education planning to retirement to leaving their legacy.

“Being able to provide our high net worth clients access to vetted private markets — and high-performing small, capacity-constrained managers — is one more way we live up to our promise of comprehensive financial management,” Sommers said.

For more information on private market investing and HBKS Wealth Advisors’ private equity and private credit funds, contact us at (724) 934-8200.

Next in our series on private market investing: a discussion on the importance of private market manager selection.

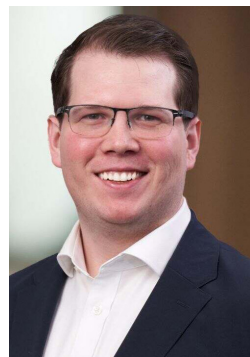
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Ethan Berkebile is a Director of Investment Research in our Pittsburgh office, working with the Asset Management Group and Park Shore Partners, a wholly owned subsidiary of HBKS. Ethan contributes to HBKS client portfolio construction by leading the firm’s efforts to source, underwrite, and monitor investment managers across all asset classes. Ethan sits on the investment committee Park Shore’s Strategic Income and Private Equity strategies. He also works with advisors to help customize portfolios for the firm’s largest clients.

Ethan is a cum laude graduate of Saint Francis University School of Business where he double majored in finance and economics. He earned the Chartered Financial Analyst designation in 2019 and the Chartered Alternative Investment Analyst designation in 2023. Ethan is a member of the CFA Institute, CFA Society of Pittsburgh, the Pennsylvania Chapter of the CAIA Association.

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