

Identifying Private Wealth Investor Personas



This guide offers strategies to quickly categorize client types and assess their needs which may be helpful for those advisors who do not use internal risk ratings or processes.

What You Should Know

- ▶ While there are many different types of investors, we have categorized the most common into three main investor types, or personas: the optimizer, the fence sitter and the empire builder.
- ▶ Personas can help you quickly assess private wealth investor types to tailor advice and address asset allocation, portfolio strategy, construction and implementation.

Three Types of Investor Persona

In this paper, we define and explain three investor personas and suggest how to lead a private markets conversation with each persona. We will also discuss case studies you can review with your clients who may be considering private markets investments.

Of course, every private wealth client is unique, with specific investment objectives, contractual obligations and restrictions. So, using personas to categorize your clients – at least initially – may help you position private markets investments to meet their specific needs. Keeping these personas in mind may even save you time and enhance your level of client service.

Persona Investment Preferences

Persona	Investment Preferences
The Optimizer	<ul style="list-style-type: none">• Wants to maximize reward and minimize risk• Focused on quantitative measures• Seeks higher than average comparable returns, interested in a good deal
The Fence Sitter	<ul style="list-style-type: none">• Cautiously optimistic but wants to maintain equity risk exposure• Concerned with drivers such as macroeconomic and/or geopolitical events• Interested in finding good entry points into the market
The Empire Builder	<ul style="list-style-type: none">• Enjoys the cache of the private markets• Tends to be wealthier and more sophisticated• Wants unique offerings and to simplify allocations

How to Identify Investor Personas

As a private wealth advisor familiar with constructing [portfolios](#), you know that there are subtle differences in why, how and when clients want to accomplish their objectives. Below are questions that can help you quickly uncover these differences, tailor a [portfolio construction](#) approach and, ultimately, strengthen the health of your advisory business.

Below are four questions that identify common investor characteristics. Tally your clients' answers to these questions to determine which persona they most resemble.

1. Risk/Return: How does your client react when there is a market downturn or investment returns miss your expectations?

- A. May have regrets but will rationalize future investments if the data is compelling and can be used to maximize long-term risk/reward potential.
- B. May not react well unless they can turn unmet return expectations into more attractive entry opportunities.
- C. Understands that private markets involve risk but still seeks unique opportunities with long-term performance potential.

2. Liquidity: What are your clients' liquidity needs? For example, do they need liquidity to send a child to college in the next five years? Do they need less immediate liquidity for retirement goals?

- A. Understands liquidity's opportunity cost and looks for ways to enhance returns while maintaining appropriate liquidity levels.
- B. Perpetually overestimates their liquidity needs while waiting for an entry point; tends to 'stay on the sidelines.'
- C. Focuses on cash management and available capital to preserve capital and build generational wealth.

3. Diversification: How does your client think about building portfolio diversification?

- A. Prefers to add complementary investments to their portfolio for diversification.
- B. Prefers to target individual opportunities across the investment spectrum to maintain investment optionality.
- C. Prefers to make targeted allocation adjustments to grow their portfolio and preserve wealth.

4. Investment Themes: How does your client think about themes that can influence their investment entry point?

- A. Wants to target supply and demand imbalances in a sector or strategy to narrow the range of possible negative outcomes.
- B. Wants investments where the opportunity cost is too great to sit out of the market.
- C. Considers how new investment themes might fit into their existing portfolio strategy.

If most of the answers were:

A. Your client aligns with **the optimizer**, who prefers to maximize return potential while minimizing risk.

B. Your client aligns with **the fence sitter**, who prefers to find the best possible deal and will sit on the sidelines until it is found.

C. Your client aligns with **the empire builder**, who prefers to grow capital slowly and preserve wealth.

Investing in Client Relationships

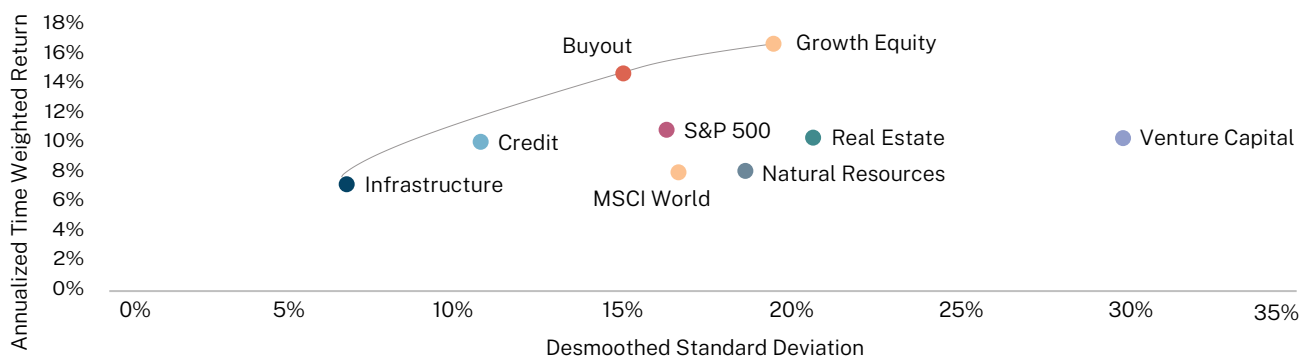
To see the type of investment journey that each persona typically goes on and ways to get them more involved in the private markets, jump to the appropriate section below: [The Optimizer](#), [The Fence Sitter](#), [The Empire Builder](#).

The Optimizer

The optimizer may be newer to private markets and wants to maximize returns with minimal risk. For example, an optimizer might say, “I want an investment that can potentially outpace the market and do it with less risk.”

Risk

Long-Term Private Markets Efficient Frontier



Source: Hamilton Lane Data via Cobalt (June 2024)

Buyout and growth equity strategies sit on the efficient frontier over most time periods, while venture capital is more sensitive to time horizon. Volatility figures have been adjusted to make a more “apples-to-apples” comparison to the public markets.

Optimizers want to invest efficiently - if possible, precisely on the efficient frontier line. The chart above can show clients that their private markets return expectations for the same number of risk units (measured by standard deviation) would be about 400 basis points higher compared to the S&P 500. So, your optimizer clients may want to explore buyout and growth equity strategies that straddle the efficient frontier line as a logical extension to their equity portfolio. Venture capital, on the other hand, presents the opportunity to drive higher return potential in exchange for taking on more risk. Developing risk and return assumptions requires an analysis of long-term historical data, an assessment of strategy behavior during the “most relevant” time periods and forward-looking investment judgement.

The Fence Sitter

The fence sitter prefers taking risk only if there are notable and actionable opportunities that they believe can lead to outperformance. They typically remain on the sidelines until there is a sufficiently appetizing deal. For example, a fence sitter might say, “I’m concerned about shifting conditions in the broader macroeconomic and geopolitical landscape, so I only want to invest if there is a qualified opportunity that takes advantage of these shifting conditions.”

Sharing specific [examples](#) about how sitting out of the market can affect portfolio performance over time can help fence sitters get off the fence. The following case study can help you orient that conversation.

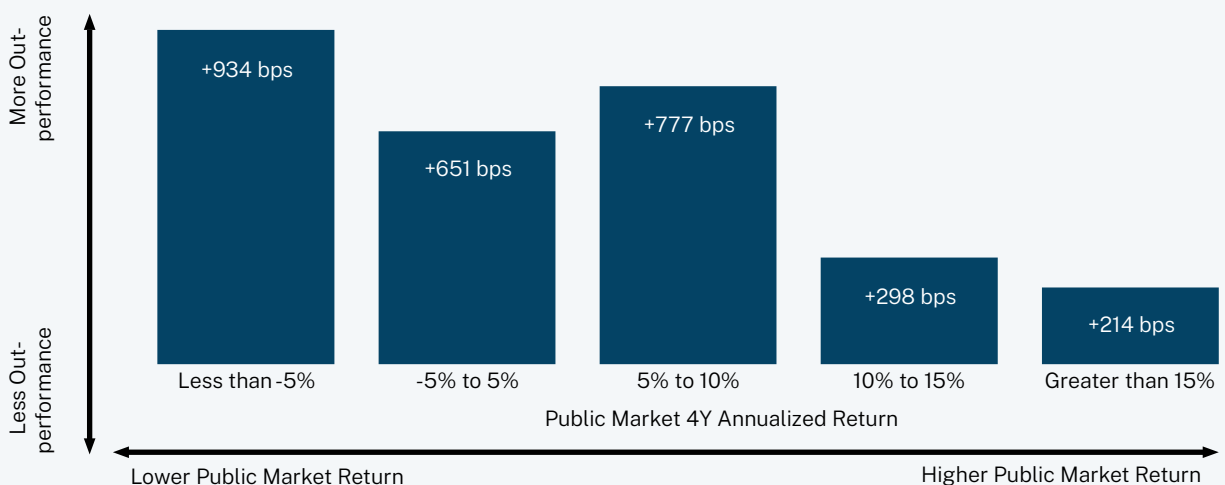
CASE STUDY

Many investors, even those who understand the long-term benefits of private markets, may question their risk exposures in the face of uncertainty. Fence sitters, especially, may sit on the sidelines for longer because they believe that there are investment opportunities elsewhere which can generate higher returns than private equity.

If your client is a fence sitter who believes that the markets might be choppy going forward, they may be hesitant to invest in what they perceive as “riskier” private markets investments. In this situation, you have an opportunity to help fence sitters understand the benefits of incorporating private markets investments into a broader portfolio. Sharing the following chart as a guidepost may be helpful.

Performance by Public Market Regime

Private Equity Average 4Y Excess Return by S&P 500 Return Regime



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2024)

Private equity outperformance of public markets has been at its greatest level during periods of more mediocre or negative public market returns

While PE returns are (relatively) compelling in nearly all market conditions, liquidity is a valid concern. Especially for the fence sitter, who is prone to worrying about her liquidity position. Additionally, while a larger private markets investment will also increase the percentage of a client's illiquid assets, introducing evergreen funds into the conversation can help remove clients' hesitation.

Evergreen, or semi-liquid funds, generally provide subscription and redemption options that offer liquidity. In an evergreen fund structure, the fund is continually accepting additional capital and making new investments and presents the option to redeem earlier than a traditional closed-end fund, which typically holds investors' capital for 10 to 12 years until the underlying assets are sold. Discussing this with clients, along with the fact that private markets have historically helped improve portfolio risk/return characteristics, can help ease fence sitters' macroeconomic and geopolitical concerns. ■

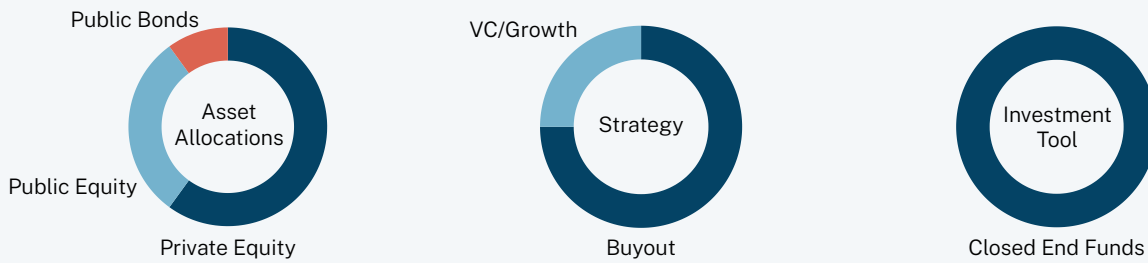
The Empire Builder

The empire builder prefers long-term allocation strategies with simplified access. They are typically a wealthy, sophisticated investor who has conviction in the long-term performance of private markets. Like optimizers, empire builders want to maximize returns with minimal risk to preserve and grow their wealth. For example, an empire builder might say, "I want to be able to deploy capital quickly when opportunities for outperformance arise but am otherwise comfortable with slow and steady gains."

CASE STUDY

The empire builder is already convinced that they should start building a private markets exposure and want to know the best options for building their empire. The case study below can be used to help empire builders understand the differences between slow and steady pacing versus quickly building private markets positions using new tools.

In this case study, an empire builder is considered an experienced investor with a \$25 million portfolio, an average commitment size of \$100,000 - \$150,000 per fund and an annual commitment pace of \$500,000 per year.

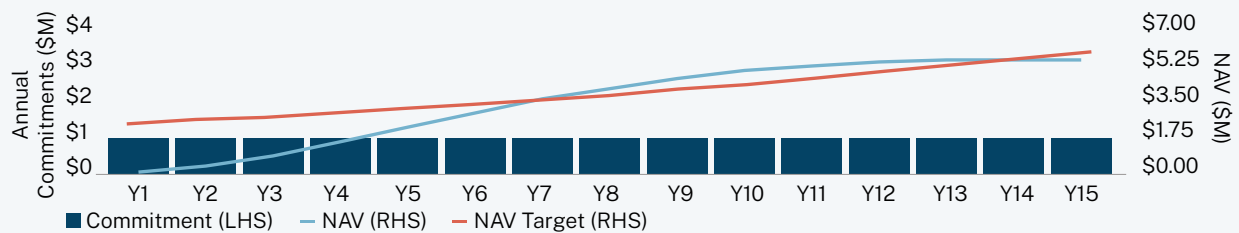


For illustrative purposes only
Does not represent a portfolio managed by Hamilton Lane

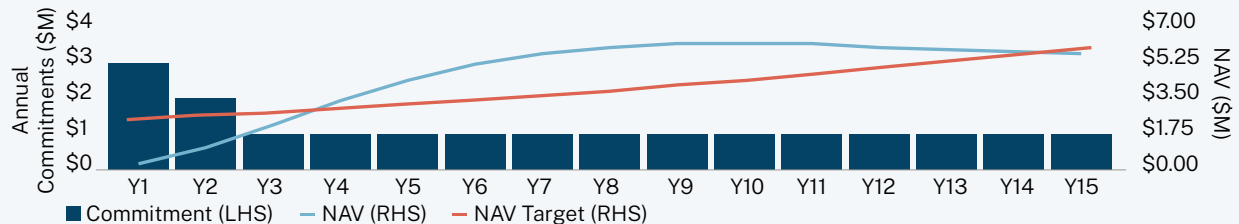
Pacing

Portfolio NAV and Annual Commitment

Portfolio 1:



Portfolio 2:

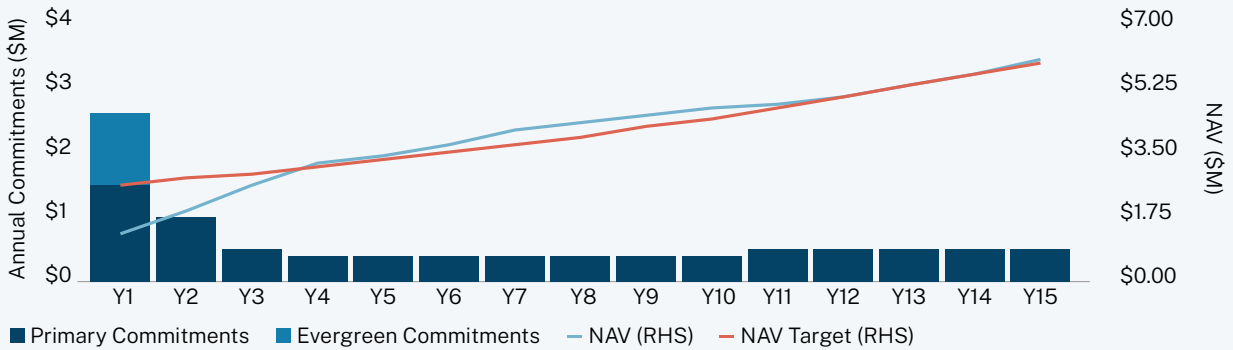


Here are two approaches to reach a target allocation using drawdown funds. In both scenarios, pacing and portfolio concentration differ.

- Portfolio 1:** In the slow and steady pacing scenario, if a client were to commit \$1 million every year, they would reach their target range by year seven. Seven years can be a long time for an investor, but they would only slightly exceed their target, which is positive. This scenario is optimal for controlling the build and achieving vintage year diversification goals but takes some time to complete.
- Portfolio 2:** In the New Tools scenario above, evergreen private equity vehicles are fully funded and fully deployed on day one. Deploying \$1 million from the outset and operating a satellite of fund exposures can allow clients to quickly hit target allocations and manage their exposure.

Building with Evergreen

Annual Commitment Using Evergreen Structures



To help empire builders reach their target allocations sooner – without overshooting their allocation – they may want to quickly deploy capital into historically favorable investments, such as private equity. ■

Conclusion

Using personas can help you tailor private markets conversations with your clients and offer investment options that fit their objectives, such as:

1. Historically favorable risk/reward potential.
2. Access to a more diverse set of investment opportunities.
3. Investments that span strategies, structures and sectors.

To find more ways to efficiently engage clients and start private markets conversations, visit [Hamilton Lane's Advisor Practice Management](#) portal.

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As of July 16, 2024



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*As of March 31, 2024