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Investor Strategy News

Lessons from the world of private wealth

(Pictured: Raymond Harbert)

Super funds and other investors interested in going down the benchmark-unaware path could do worse than study family offices and fund managers which have developed from private fortunes. Harbert Management Corporation, from Birmingham, Alabama, presents an interesting case study.

Harbert, which started in the 1980s with a grab-bag of investments designed to diversify the family's successful construction company earnings, invests in 11 different strategies, eight of them private markets and the other three hedge funds. It has an Australian private equity firm, run by Jeremy Steele, which it acquired and which oversees the firm's representation too.

When Raymond Harbert, who started in the firm's real estate division, took over as group chief executive in the summer of 1993, it had 7,500 employees and annual turnover of about US$3 billion. It also had more than 60 legal entities all over the world, including a shrimp business in Thailand. His first task was to rationalize the business, selling off investments for which the returns were not matching the risks.

"I considered turning it into a family office," he said on a visit to Australia last week. "I also thought about liquidating it. It had commercial real estate, power generation, a substantial public equity and debt portfolio and a lot of cash. I ended up buying the investment operations and their management teams."

At one point after his father passed away, he recalls, his board of directors consisted of himself, his mother and his sister. Apparently, his sister was more prickly than his mother.

"Whatever we became, we were always going to be an alternatives management shop. Our first fund was a commercial real estate fund. It wasn't easy. Our expression used to be: 'stay alive 'til 95'. We didn't make money for a long time."

His long-time head of operations and family friend, Michael Luce, joined in 1995 to set up the private equity funds. Harbert says: "Mike was living and working in New York at the time. I phoned him and said: 'have you thought about moving to Birmingham?' He replied 'no'. But I convinced him…"

He says the firm made a lot of mistakes, mainly through too much diversification. It now invests only in pools and also only in things it will put the family money into alongside the other investors.

“You can’t make the investment game easy,” he says, “but you can make it easier.”

Steele says that most family offices do direct investing but they tend not to put them into a properly constructed portfolio. They therefore tend to take more risks.

These days Harbert Management Corp has a lengthy track record, with a staff of more than 150 handling the investments, which includes about A$60 million in Australian private equity.

So, the lesson is to blend the absolute returns goals and private investment style with the disciplines of professional funds management, particularly on the portfolio construction side.

After tidying up the portfolio in his early years, Raymond Harbert then set about diversifying outside the US. “We have been trying to get a higher and higher proportion of assets outside the US,” he says, which still accounts for about 60 per cent. The firm’s most recent fund is a European growth strategy.