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## Vanguard puts private-equity investments on the menu

Its new partnership with PE specialist HarbourVest initially targets nonprofits but eventually will be available to individual investors



February 5, 2020 **BY JEFF BENJAMIN**

The Vanguard Group has moved a step closer to offering **private-equity** investments to individual investors, which could represent another asset allocation tool for financial advisers serving wealthy clients.

The \$6.2 trillion asset manager **announced Wednesday** that it is partnering with private-equity markets investment specialist HarbourVest to add PE exposure to endowment and foundation accounts that Vanguard manages through its Outsourced Chief Investment Officer program.

“We have come to the conclusion there is an enduring investor case for private equity,” said Fran Kinniry, head of private investments at Vanguard.

He added that the nonprofit organizations investing through Vanguard’s \$50 billion OCIO business will benefit from the added “diversification and potential for higher returns” that

come with PE exposure.

While Mr. Kinniry was not able to provide a specific timeline, he confirmed that qualified individual investors are a future market for Vanguard's PE products.

"Our advice capabilities are growing, and private equity has become a more common allocation in the advice offering," he said. "Our commitment to staying at the cutting edge of advice is why we're doing it now."

In a statement, Vanguard chief executive Tim Buckley said, "Private equity will complement our leading index and actively-managed funds, as we seek to broaden access to this asset class and improve client outcomes. While this strategy will be initially available to institutional advised clients, we aim to expand access to investors in additional channels over time. For individual investors in particular, this partnership will present an incredible opportunity — access and terms they could not get on their own."

While private-equity funds have become ***increasingly active in buying shares of financial planning firms***, time will tell whether advisers are ready to allocate client assets to private investments that can be illiquid and expensive.

Dennis Nolte, vice president at Seacoast Investment Services, pointed out that part of what makes private investments valuable as portfolio diversifiers is their limited liquidity and access, and making private equity more available to a broader market could reduce the diversification benefits.

"Caveat emptor, of course, but to me this suggests making the asset class less noncorrelated to traditional investments, as liquidity is a factor in correlation coefficients," Mr. Nolte said. "My investors would probably not be good candidates for PE as we mostly work with the traditional mass affluent, whose appetite for risk and liquidity are different than institutional investors. I'd probably pass except for the occasional one-off clients who might appreciate the risk/reward and be able to stomach low liquidity."

Eric Walters, founder of Silvercrest Wealth Planning, described Vanguard's move into the private-equity space as "an interesting development, and fraught with risks for Vanguard."

"I think it could work if they are able to access top-quartile private-equity managers, most of which are closed to new subscriptions," he added. "Managers below the top quartile often don't do any better than public equities and often do worse. When you add the high fees and long holding periods, accessing lower-tier managers would be a bad deal for Vanguard clients."

Kashif Ahmed, president of American Private Wealth, also believes that it "doesn't make sense for the vast majority of people, even those that are accredited investors."

"PE locks up money and investors seldom remember hearing that part of it when they are sold PE," Mr. Ahmed added. "I have spent far too much time unwinding people's private-equity allocations that they were recommended when they were clients of wirehouses, just because they need the money now."

Even though Vanguard has not yet announced a time frame for offering PE to individual investors, Mr. Kinniry said, "we are committed to putting all our efforts and energies into this."

"We're offering private-equity investments to investors who want it, but it's not going to be

forced on anyone,” he said. “The initial market is our nonprofit endowments and foundation clients, but the aim is to take it to other clients we think will benefit from it through time.”

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