The Skorina Letter

News, Interviews, Research for Institutional and Family Office Investors

● Retained Executive Search ●

We recruit chief investment officers and senior asset managers for
endowments, foundations, family offices and institutional investment firms

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http://www.charlesskorina.com/ skorina@charlesskorina.com
Office: 520-529-5677

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A Family Office Home Companion

Honey, We're Rich!

Say what, dear reader? You have just been blessed with a humongous liquidity event?

After decades of work and a bit of luck you "suddenly" have millions, perhaps even tens or hundreds of millions of dollars in investible wealth after selling your business or going public.

You are now officially rich, and it feels great.

But wait. What's that? Obscure family members you never knew existed are beseeching you for "loans"; allegedly good causes from Missoula to Mozambique are demanding donations; sketchy financial "advisors" are bombing your email and phones with "once-in-a-lifetime opportunities."

First things first

We've recruited family office investment heads and advised on selecting wealth-management firms. But it works both ways. We listen very carefully to our clients and learn a lot from them.

Here is some advice from clients who have been through it.

1. The very first thing. Hire a tough, experienced lawyer who is used to dealing with wealth managers, brokers, and solicitors. (Not just the firm who helped you with routine legal chores on the way up.) It will be money well spent and you won't regret it. You will need a real pro to run interference for you against the sharks.

2. The very next thing. Hire a reliable and reputable accountant who understands the complexities of wealth-management. You will need financial controls and a voice of caution. Dollars can slip away fast without an experienced check on your newly-rich exuberance.

3. Take your time. No sudden moves. Think about how to organize your affairs, your objectives, impact on family-members and upcoming generations.

4. Establish a realistic spending rate. And stick to it. One rashly-purchased yacht, jet, or hobby-ranch can punch a surprisingly big hole in your seemingly-unsinkable new fortune.

Fortune and fate

Entrepreneurs and business titans mostly made their money from shooting the lights out on a single venture. Dell, Brin, Gates, Zell, Zuckerberg, went "all in" and won big. Their recipe? Highly-concentrated investments, risk-taking, innovation, and sheer audacity.

But here’s the rub. Wealth is *created* by entrepreneurs, but *maintained* by diversification, sophisticated risk-management, and prudence.

And that's the dilemma. People good at wealth-creation have had little time or experience with wealth-maintenance, where capital preservation is paramount, and diversification is the key. It's a different mind-set and a different set of skills.

Family wealth management: build or buy?

People who offer investment-management services to the affluent have their own ways of slicing up the market and peddling their wares.

Long ago there were just bank trust departments for Old Money. Quiet, discreet gentlemen who inherited their clients just as their clients inherited their wealth.

Now wealth management is an industry, diced into segments and chasing every dollar. The segments are usually broken out as: retail (below $250,000), affluent ($250,000 to $1 million), lower high net worth ($1 million to $20 million), upper HNW ($20 million to $100 million, and ultra-high net worth (above $100 million).

A good move for many in the HNW bracket has been the semi-custom services of an OCIO (outsourced chief investment officer) provider, offered by many established asset-management firms. Or, a so-called Multi-Family Office (even more customized, but still an external institution).

But many who can afford it prefer the maximum control, service, and privacy of a traditional Single-Family Office, or just plain FO. They hire a chief investment officer and build capabilities in diversification, asset allocation, and direct investments.

FO heads must deal with estate, foundation, investment, art collections, and organizational issues; implement an accounting and reporting infrastructure; establish generation-skipping trusts; manage personal properties and staff; and, navigate the delicate task of educating and mentoring family members.

And did we mention taxes, taxes, taxes?

John D. Rockefeller, William (Bill) H. Gates and American philanthropy

Ron Chernow's definitive biography on John D. Rockefeller, "Titan", should be required reading for all UHNW entrepreneurs. Mr. Rockefeller essentially created the modern American corporation, warts and all. And his family office and philanthropic endeavors are legendary role-models for modern philanthropists and family wealth managers.

Of those who have followed, no one has done it better than Bill and Melinda Gates. And their investment office is a template for contemporary family offices.

Michael Larson, the chief investment officer, handles most of Mr. Gate's personal money (through Cascade Investment LLC) as well as the assets of the Bill and Melinda Gates Foundation.

He took on the typical family-office challenge of turning a mountain of founder's stock into a highly-diversified portfolio, while maintaining a CAGR of 11 percent from 1995 to 2014 (per Wall Street Journal, Sept. 19, 2014).

Mr. Larson, a Chicago MBA who manages about 140 staffers and 40 investment professionals in Kirkland, Washington, has clearly bonded with Mr. Gates and, for twenty-four years, has met the challenge of keeping that AUM climbing even as Mr. Gates continues to give away his money.

You want to know how to do it right, look to Bill and Melinda Gates and the investment pro they hired.

Building a UHNW family office the German way

Europeans have created and managed family offices for centuries. One of the best is a multi-billion-dollar, multi-generational office in Germany, and we'll refer to the principal as Herr Anonymous.

With Teutonic thoroughness they've implemented a best-in-class organization that rivals any Wall Street or institutional investment operation.

We did some work for them a while back and wrote about their rigorous professional standards and staff development process.

The nine professional investment staff members must all study and achieve educational and technical development goals.

New employees are offered three-year contracts. During that initial three-year period, employees are assigned goals and objectives, with regular feedback and assessment. They must earn the CFA designation and the CAIA charter, and acquire a global, multi-asset, long-term approach to capital deployment. At the end of the three years, they may be offered an additional five-year employment contract depending on performance.

There is a competitive and detailed compensation formula, with clear objectives. All bonus vesting is retained as earned. No matter when they leave, they retain their rights to the portion of their bonus already accrued.

Building superior investment teams is a daunting task. They've built theirs to last and excel.

Not every aspiring family office can hope to operate on the scale of Bill Gates or Herr Anonymous. But that's not the point. You identify the best-in-class and adapt their standards to your own circumstances.

How do I find a chief investment officer?

That's an easy one...you call us, of course!

For additional guidance, we suggest our article on where to find chief investment officers.

Investment heads come from three broad categories; nonprofit institutions, family offices, and the for-profit investment world of Wall Street. The latter includes the whole bestiary of investment banks, insurance companies, mutual fund managers, RIAs, hedge funds, and consulting firms.

When we gather together all nonprofit chief investment officers, family office heads, and for-profit multi-asset investment leaders, and add another 2,000 succession-ready deputies, we count a CIO candidate pool of at least 5,000., plenty of solid investment professionals to recruit from.

Fees, fiduciaries, and family offices

Once the decision is taken to recruit a CIO, there is the pesky issue of what and how to pay him or her. Remember to offer incentives that promote your goals.

Many offices tie overall compensation to the performance of the entire portfolio and tie part of the bonus to the specific investment ideas proposed by the investment head.

Here are some examples of CIO salaries at the major endowments. Because there is seldom a pension component, some offices allow the CIO to invest alongside the family in opportunities that he sources, offering co-ownership in these deals. Long-term carry can be a powerful incentive.

Costs and fees

We think the best benchmark for independent data on investment office costs are college endowments. As a group they are run efficiently, they employ top investment talent, and the data is more readily available than from foundations, family offices, or wall street money managers. A good UHNW family office may look a lot like the endowment office of a small or mid-size college.

In our report on the subject we concluded that the internal costs of a professionally-staffed office (salaries, travel, overhead, and payments to vendors for non-asset-management expenses like IT and custody services) run about 20 basis points on AUM, although variation around that mean is considerable. That's for managing a sophisticated, multi-asset portfolio including typical endowment-style allocations.

Fees to external managers average about 140 basis points, again with significant variance.

Taken together, we think an FO can run a $100 million portfolio on a budget of $1.5 to $2.0 million annually, all in.

How do I connect with other family offices?

Unfortunately, that's not so easy.

FOs are complex, opaque, and slightly mysterious organizations. These investors seldom appear at conferences, in the media, or show up at public events because UHNW families like to keep a low profile.

There are quite a few organizations who cater to family offices, among them, the FON (Family Office Networks), FOX (Family Office Exchange), and IPI (Institute for Private Investors). Although, they themselves keep a low profile.

And, there is an excellent book for those just beginning the process of managing that windfall. "Wealth", by Stuart E. Lucas. Mr. Lucas runs a wealth advisory firm in Chicago and his book has been mentioned to us many times by people in the industry.

Final thoughts

Most newly-rich do not come from the financial sector so, don't be afraid to ask dumb questions about arcane terms you don't understand. Demand plain answers. And don't be in a hurry to embrace complex strategies or exotic asset classes you aren't comfortable with. Mr. Buffett may not be quite the guileless everyman he like likes portray, but he does like to keep things (relatively) simple. And it's worked quite well for him.

Skorina seeks CIO for $1.5 Billion portfolio

We’re looking for a Chief Investment Officer to manage a $1.5 Billion investment portfolio. This is a new position with a highly rated, multi-line insurance company located in the greater Philadelphia area.

We need a senior investment officer with experience at a top-tier asset owner such as an insurer, health system, endowment, foundation, pension fund, family office, or institutional asset manager.

A strong background in fixed income/credit is necessary. And experience with manager search and selection in opportunistic credit is highly desirable.

Compensation for this key position is competitive.

If you're interested, send me your resume. If you have a friend or colleague who might be suitable, please spread the word.

Charles Skorina & Co. is the exclusive search agent for this position.

Contact: skorina@charlesskorina.com

The Skorina Letter

Each issue explores how the world's most accomplished asset managers think and invest. Original content includes profiles and interviews with industry veterans and research on compensation and investment performance.

Our insights and commentary come from our clients - board members, CEOs, chief investment officers - and the global investment community within which we work as executive search professionals.

Institutional investors operate at the crossroads of capital, talent, and ideas, shepherding over seventy trillion dollars in global assets. It's a constantly evolving spectacle and The Skorina Letter gives readers a ringside seat.

Prior issues can be found in "archives" on our website

The Skorina Letter
Publisher: Charles A. Skorina
Editor: John C. Legere

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Charles Skorina & Company
Retained Executive Search
Chief Investment Officers ● Institutional Asset Managers
6080 N. Sabino Shadow Lane
Tucson, AZ 85750
520-529-5677
skorina@charlesskorina.com
www.charlesskorina.com

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