

# The Skorina Letter

## ● Retained Executive Search ●

Our clients: Boards, Asset Managers, Family Offices

We recruit CEOs & CIOs, advise on performance and pay, M&A consulting

**Building the World's Best Investment Management**

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## Family Offices and Chief Investment Officers, it's complicated

*If you're a **conventional** investor and things go well, that's great.*

*If you're a **conventional** investor and things go wrong, who could have known?*

*If you're an **unconventional** investor and things go well, maybe you just got lucky.*

*If you're an **unconventional** investor and things go wrong, you're fired.*

-- Anonymous

Boston Consulting Group's "[Global Wealth 2021](#)" report counts 20,600 UHNW individuals in the US with personal wealth over \$100 million. As a group, they hold about \$5.8 trillion in investable assets.

By 2025 BCG anticipates an additional 7,400 ultras will have scaled the \$100MM heights, packing an additional \$2 trillion in assets to invest.

New family office formations, we suspect, are not far behind. And that means a need for more chief investment officers. Lucky us.

But there's a snag. Institutional style money management and entrepreneurial success are two different things and too often CIOs and ultras don't understand each other.

A few months ago, I spoke with one of these ultras, a wildly successful first-generation entrepreneur who was thinking about hiring a money manager for his family office.

He had just made a fortune selling his retail empire and wanted to bring on an investment head to channel the cash tsunami about to wash up on his shores.

But during our call, it became clear that an endowment style, risk-focused CIO was not at all what he had in mind.

In his words, “the type of individuals you described – institutional CIOs at endowments and foundations – and the way they invest sounds really boring Charles. I want excitement. I want someone who can help me do more of what I do.”

He’s not alone. Most entrepreneurs have a hard time understanding what institutional CIOs do or why anyone would waste their time investing that way.

## **Diversification? What’s that?**

Entrepreneurs and business titans mostly made their money from shooting the lights out on single ventures.

Blavatnik, Gates, Musk, Zuckerberg, went “all in” and won big. Their recipe? Highly concentrated investments, risk-taking, innovation, and sheer audacity.

As Elon Musk tells it, “My proceeds from the PayPal acquisition were \$180 million. I put \$100 million in SpaceX, \$70m in Tesla, and \$10m in Solar City. I had to borrow money for rent.”

Mark Zuckerberg’s much-maligned motto sums up their investment style. “Move fast and break things.”

In theory, entrepreneurial skill and family office smarts should be a marriage made in heaven.

Mr. Stuart Lucas, senior investment officer for his own family's office, contends in his book [“Wealth. Grow it and Protect It”](#), that entrepreneurs can bring a lot to the family office table.

*Entrepreneurs have networks, innovative skill, and they are generally great judges of people. They know their industries and the disruptive forces at work. And they can move fast.*

*A family office can leverage those connections, insights, and people skills to identify and judge investment opportunities.*

But CIOs at endowments and foundations seldom move as fast or as boldly. They operate on a simple principal, don't lose the money. Their goal? Steady returns compounded over decades.

In their world, you break things you get fired. See [The Endowment Model: If everyone thinks alike, who's doing the thinking?](#)

With first-gen ultras and prospective CIOs there's another dynamic at play – control. It's hard for most founders to give it up as one family office CIO said to me recently.

*For a new CIO going in, it's important to know how close you are to the generation that produced the initial wealth. The closer you are to the person who made the fortune, the more likely they will be directly involved, and you will need to understand how much independence they will give you. For CIOs, independence and empowerment are key.*

In practice, founders good at wealth-creation have little patience with wealth-maintenance, where capital preservation is paramount, and diversification is key. It's a different mind-set and a different set of skills.

**Where are the “10s?”**

Big league entrepreneurs hire 10s.

Stephen Schwarzman, CEO and co-founder of Blackstone, [rates job applicants](#) on a 1-10 scale. He is always on the lookout for those 10s.

“Hire 10s whenever you can. They are proactive about sensing problems, designing solutions, and taking a business in new directions.”

David Swensen, Yale’s long-time CIO, was a 10. But he was an outlier. Some of the best endowment investment heads may have [fascinating backgrounds](#), but nowadays hiring CIOs is mostly a game of musical chairs.

About two-thirds of all endowment and foundation chief investment officers come from other endowments and foundations. Look at the recent changes at Northwestern, University of Chicago (yet another Boeing CIO), USC, Columbia, Smith, and Bryn Mawr.

Family office heads, on the other hand, are more open-minded because there is no bureaucracy to purge the outliers. And when they like someone, they could care less what others think. They made their money bucking convention.

Wall Street offers a more suitable hunting grounds for the talent – and excitement – these UHNW entrepreneurs seek.

Goldman Sachs, Morgan Stanley, Lazard, JP Morgan, Blackstone, KKR, et al., employ hundreds of exceptional investment professionals with entrepreneurial zeal and relentless ambition.

Take Mike Larson at Cascade (Bill Gates), Glenn Fuhrman (ret.) and John Phelan at MSD (Michael Dell), Steve Rattner at Willett Advisors (Michael Bloomberg), and Tim Cavanaugh at Summer Hill (Farmer family) for example.

There are a few exceptions, of course, institutional CIOs that mesh well with their entrepreneurial bosses.

Kristin Gilbertson at Access Industries (Len Blavatnik), Suzi Kwon Cohen at Mousse Partners (Alain and Gerard Wertheimer), and Trent May at 1888 Management (Charles Koch) all served time on the institutional side.

But these are savvy CIOs working with exceptional family heads and substantial asset pools.

### **What's my point?**

As one large multi-family-office CEO wrote to me recently,

*My experience with family offices is that there is a significant percentage (especially among the first generation) that truly want the excitement of generating portfolio outperformance.*

*The family members who have sold businesses desperately want to continue to feel relevant - not to turn their wealth over to a trust company that seeks to preserve it and charge fees.*

So, here's the bottom line. If an UHNW first-gen entrepreneur wants excitement, hire an investment banker or private equity whiz.

If he or she wants capital preservation and old-fashion compounding, hire an institutional chief investment officer.

Recruiting investment executives is our business and we're here to help. There are still a few 10's around.

-- Charles Skorina

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**Wanted: Chief Investment Officer**

We are looking for a chief investment officer for the Monterrey Institute of Technology and Higher Education, headquartered in Monterrey, Mexico.

ITESM is a large, private, country-wide university system with a substantial endowment — 25 campuses throughout Mexico, 60,000 undergrads, 94,000 total students, 10,000 faculty.

**Instituto Tecnológico y de Estudios Superiores de Monterrey, Mexico (ITESM)**

The mission is to build a fully diversified world class investment portfolio.

The chief investment officer will be responsible for overall development and management of the portfolio and must have experience as a CIO or Director at a US endowment, foundation, or pension fund.

We seek an investment officer with experience across all asset classes and a strong background in private markets.

While location and Spanish language are not absolutes — everyone in administration speaks excellent English — it's always better from a career standpoint to have a base at headquarters and a feel for the nuances of the culture.

If you are interested or someone comes to mind, please let me know. I would love to speak with you.

Charles Skorina

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## **CHARLES SKORINA & COMPANY**

*Our services: recruit CEOs & CIOs, advise on performance and pay, M&A consulting*

*Our clients: board members, family offices, institutional asset managers*

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