The Skorina Letter

• Retained Executive Search •

Our Clients: Boards, Asset Managers, Family Offices

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

Building the World's Best Investment Management

Cosimo I de' Medici, Grand Duke of Tuscany 1519–1574

Family Office Chief Investment Officers: One in a Million

I made my money the old-fashioned way. I was very nice to a wealthy relative right before he died

— Malcolm Forbes

Everyone is chasing family money these days. Andreesen Horowitz, west coast venture capital powerhouse, is the latest institutional investor to create a wealth management arm. Their hook of course is quite tempting, you let us manage your money and there just might be room for you in our next venture fund.

They recently hired Michel Del Buono, formerly of Jordon Park, Makena, and Scion Capital as the new chief investment officer. (Remember Scion Capital and its prescient founder Michael Burry, played by Christian Bale in The Big Short?). Clever devils.

For those family offices able to access the top VC firms, the returns can be impressive. Family portfolios produced an internal rate of return of 24 percent in 2021 according to a survey by Silicon Valley Bank.

Family wealth, that pot of gold

The asset management business is diverse, powerful, and exceptionally profitable. No wonder so many banks, brokers, OCIOs, and RIAs, are clamoring for a piece.

Boston Consulting Group's Global Asset Management Report 2021 estimated $45 trillion in US institutional and retail assets under management at the end of 2020 with revenues as a share of average AUM at 23.7 bps. That's well over one-hundred billion dollars.

Taken as a whole, S&P Global IQ calls financials the most profitable of eleven sectors they follow, with a 25.3 percent profit margin in 2021. Energy firms ranked near the bottom by the way at 8.3 percent, though you wouldn't know it from the howls coming out of Washington.

Ultra-High-Net-Worth (UHNW) families are well aware of the fees and hidden costs attached to wealth management offerings which explains why so many family offices are adding internal investment capabilities.

That's our job, recruiting chief investment officers for institutions and families.

Leave it to the kids

While family dynamics probably haven't changed much since Count Leo Nikolaevich Tolstoy wrote his famous line about unhappy families, the modern family investment office has come a long way from 1878 when Anna Karenina was published, adding structure, discipline, and academic rigor to the management of UHNW wealth.

According to Capgemini's latest wealth report, Top Trends 2022, millennials and gen-X are set to inherit somewhere between $10T to $30T over the next two decades via multigenerational transfers. (Estimates vary widely but they all tally in the trillions)

Some will choose wealth advisors but, in our experience, once a family accumulates over half a billion dollars in investable assets, they start thinking seriously about hiring an investment manager.

That's when it gets interesting. Each first-gen founder and every multi-generational family has a distinct culture, temperament, and objective. The fit has to be just right between the family and their head of investments.

Hands on, hands off

Most founders and families are inclined to invest in one of two ways, institutionally or opportunistically.

In the most general sense, the institutional, or "endowment style" of investing – with investment policy statements (IPSs), diversification, and risk mitigation – appeals more to gen-two and beyond, while first-gen entrepreneurs, not surprisingly, prefer a hands-on, opportunistic approach, investing directly in any business, security, or private vehicle that catches their eye.

As one highly successful family office client wrote in our last newsletter, "We consider ourselves opportunists rather than allocators; we are not driven by an allocation-based investment policy statement (IPS). So we always want to have sufficient cash (or borrowing capacity) to meet opportunities as they arise."

Diversification? How boring

It's hard to discuss risk with an entrepreneur who has made a fortune by going all-in on the next big thing.

Last year I spoke with a wildly successful first-generation founder who was thinking about hiring a money manager for his family office.

But at the end of our call, he said, "those institutional CIOs you described at endowments and foundations and the way they invest sound really boring Charles. I want excitement. I want someone who can help me do more of what I do."

Don't lose the money

Institutional investors, on the other hand, never bet the house. They invest with one overriding principle in mind – don't lose the money. They seek consistent returns compounding over decades.

[Jon Hirtle](), founder and CEO at OCIO [Hirtle Callaghan](), puts it this way:

Serious investing is about consistency and serious investors position their portfolios to succeed in a highly uncertain future. But, consistently predicting which asset [or investment] will do best each year has proven to be impossible.

That's why diversification is so powerful. A diversified portfolio is not just about owning a bunch of things, it's about carefully assembling a collection of investments – from as broad an opportunity set as possible – to generate complementary cash flows that rise and fall at different points in the economic cycle.

The opportunists

For those first-gens who truly want the excitement of generating returns through direct investments and hands-on management, we recommend an investment banker or private equity whiz.

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

Michael Larson, Steve Rattner, Tim Cavanaugh, and Suzi Kwon Cohen are four of the best-known Wall Street to family office crossovers.

All attended top schools and have private equity or investment banking backgrounds. Ms. Cohen and Mr. Rattner are Brown undergrads, (Ms. Cohen has a Stanford MBA), while Messieurs Larson and Cavanaugh received BAs from Claremont McKenna and Notre Dame respectively and MBAs at University of Chicago.

Mr. Larson and Mr. Rattner each work for first-gen founders Bill Gates and Michael Bloomberg, Tim Cavanaugh reports to second-gen Scott D. Farmer (strictly speaking Mr. Farmer, from Cintas Corp, is a fourth-gen family member), and Ms. Cohen manages the legacy for third-gen brothers Alain and Gerard Wertheimer at Mousse Partners – and is setting up trusts all the way out to gen-eight.

Americans think in decades, Europeans plan for centuries.

The institutional option

For those families seeking capital preservation and old-fashion compounding, we turn to endowments and foundations for candidates.

Most nonprofit chief investment officers begin their careers as traders, analysts, or consultants, working with spreads and price dislocations, capital structures and cash flows, or advising on asset allocations and manager selection.

But eventually, by intent or serendipity, they find their way to the endowment and foundation world where the "opportunity set" is inexhaustible.

These well-rounded, all-weather investors source the globe for opportunities; appraising, presenting, closing, and managing investments and relationships.

Kristin Gilbertson and McCall Cravens are quintessential institutional investors.

Kristin Gilbertson, CIO at Access Industries (Sir Leonard Blavatnik), headed the University of Pennsylvania endowment, ran equities at the Stanford endowment, and cleaned up post-soviet clutter on assignment for the World Bank. Stanford MBA, Harvard BA.

McCall Cravens, CIO at the Heinz Family Office (Teresa Heinz Kerry), spent four years as CIO at the Hunt Organization and five years at the Southern Methodist endowment investing globally across asset classes. Harvard MBA, BS Vanderbilt.

Best in class

Two outstanding CIOs on every recruiter's list are Ms. Rukaiyah Adams, departing CIO at Meyer Memorial Trust, former bond manager at The Standard, corporate lawyer at Skadden, Arps, board chair Oregon Investment Council. Stanford JD and MBA, Carleton BA.

And Mr. Sam Gallo, for ten years top quartile CIO at the University System of Maryland Foundation, former PwC hedge fund practice leader, Chicago-based multi-strat prop trader, and Arthur Andersen valuation specialist. MBA University of Chicago, BS University Illinois.

One last thing

In the end, a great family office chief investment officer – and all top CIOs for that matter – are much more than good managers and savvy investors, although those are rare enough. He or she must be a good politician and know how to get the votes.

Hiring: Chief Investment Officer for the Lewis family office

Based at the Lewis Group Of Companies corporate headquarters in Upland, California, we are looking for an experienced institutional style CIO who will work with family leadership to develop, implement, and manage a strategic investment plan in alignment with the family's objectives and priorities.

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.