The Skorina Letter

Our Work: building preeminent investment management
Our Clients: Boards, Asset Managers, Family Offices

● Retained Executive Search ●

John 3rd, Winthrop, Abby, Laurance, David, Nelson
Grandchildren of John D. Rockefeller 1960

Succession and the Business of Money

If I thought all I could achieve over the next ten years was 13 percent annual growth I'd junk my company and start over. – Anonymous Founder

Sooner or later most successful businesses lose the founder's intensity and vision, and attention eventually shifts to the mundane business of making money.

Founders grows old, the heirs lose interest, marriage, divorce, and death intervene and before they know it all that's left are trusts, dividends, and decline.

It doesn't have to be that way. Some families stay on top for centuries. A Bank of Italy study a few years back found that many wealthy Florentine families have stayed wealthy for 600 years.

And a recent IMF paper concludes that "for given portfolio allocation, individuals who are wealthier are more likely to get higher risk-adjusted returns" and "high returns both bring individuals to the top of the wealth scale and prevent them from leaving it."

Education, culture, and entrepreneurial talent all play a part and an internal investment office for UHNW families may help promote generational alignment and cohesion.

As professor Mandy Tham at the Singapore Management University writes, a constructive family office can serve as a forum where the generations can negotiate and agree on investment goals and legacy.

But building a family investment office to last is not easy. Too many family heads confront what Noam Wasserman, professor, author, and dean of Yeshiva University's Sy Syms School of Business calls the founder's dilemma.

Founders who want to manage empires will not believe they are successes if they lose control, even if they end up rich. Conversely, founders who understand that their goal is to *amass wealth will not view themselves as failures when they step down from the top job.*

Family office confidential

What some founders and CIOs really think about building and running an investment office.

A family office investment operation will never earn as much as the family business, so why have one?

The business of money management is all about risk mitigation and wealth preservation and first-gen founders aren’t usually built that way.

A notably successful individual had this to say after we showed him our latest 10-year Endowment Performance Rankings a few weeks ago.

Keep in mind that these are terrific returns for diversified, multi-asset, global portfolios and these CIOs are the best in the business.

Bowdoin and former CIO Paula Volent topped the charts with a 13.3 percent return, MIT and Seth Alexander finished a hair's breadth behind at 13.02, Brown and Jane Dietze ranked third with 12.3, and Princeton and Andy Golden fourth at 12.2.

After studying our rankings and returns, he paused for a moment and then said "Charles, if I thought all I could achieve over the next ten years was 13 percent annual growth I'd junk my company and start over."

[The average return by the way, for our pool of one-hundred endowments over one billion dollars AUM, was 9.2 percent with a mean of 9 percent.]

I don't want a chief investment officer looking over my shoulder.

Jon Hirtle, co-founder of Hirtle Callaghan, has been managing family and institutional money for almost forty years.

We asked him why successful founders don't always see eye to eye with endowment style chief investment officers and here's his reply.

Mr. Hirtle: Wealth is created and lost through concentration. Successful founders have almost always created wealth by concentrating their assets and efforts in an industry where they have differentiated expertise, even mastery.

Think of a real estate operator who has concentrated his natural ability and hard work on his local market and comes to know it better than anyone else.

Wealth creation almost always requires that same kind of concentrated expertise whether in stainless steel, microchips, logistics or energy production.

While succeeding in that business the founder enjoys a differentiated edge in expertise, a situation ideal for wealth creation. But in public markets the edge disappears.

Trying to create wealth through concentration or active, operating-stye management without a differentiated edge can destroy wealth. So, once the business is sold and the asset is now liquid, it is a mistake to concentrate.

The task at hand is no longer to create wealth but to protect and compound what has already been created. That is best achieved by pursuing an array of compelling, complementary investments – which, by the way, is much more challenging than simple diversification.

The “rule of 72” tells us that an asset compounding at 7.2% will double in 10 years. An asset compounding at 10% will double in 7.2 years.

But consistently achieving those powerful returns, net of all fees and taxes, while managing risk, requires tremendous skill and highly differentiated access - beyond the capability of most family offices. The reason comes down to scale and growth.

Without growth and the career opportunities that go with it, it is difficult to attract and retain tremendous talent in the investment office.

Without true scale and consistent growth, it is difficult to be seen as one of the world's best limited partners, the key to gaining access to the world's best general partners.

It is also true that skilled operators can be challenged in this new environment where disciplined decision-making and patience are far more important than instinct and drive.

Operating skills are tremendously valuable, however, and successful Chief Investment Officers might work with their founder to fund a new operating business with a relatively small portion of the created wealth.

That can provide a new wealth creation opportunity, give the founder and other family members a business to collaborate on, and perhaps enhance patience which is the key to success in compounding wealth.

Retail follies

Family office CIOs have countless tales about their bosses' enthusiasm for exciting new ventures.

The founder hears about an opportunity from his friends at the club and the next thing you know the investment team drops everything to research and manage the investment or acquisition. When the founder loses interest as often happens, the staff is left to pick up the pieces.

There are plenty of exceptions of course. Entrepreneurs and CEOs who raise institutional money from pensions, endowments, and foundations meet regularly with the CIOs and staff and some model their family investment office on those of their limited partners.

They develop and implement investment policy statements with risk parameters and a benchmark portfolio, diversify away from the family business, and avoid opportunities they don't understand.

Founders know their business cold, but take them out of their domain and they lose home-field advantage. Most are fortunate to hit one home run in their lifetime.

Speaking of baseball

Speaking of the national pastime, both George and his son Ned Steinbrenner ("The New York Yankees") graduated from Culver Academies.

I met George at Culver one fine spring day not long before he died. He was, as widely noted, "grumpy." Nevertheless, we had a nice chat about his plans for the gymnasium and weight room.

But as one of Mr. Steinbrenner’s limited partners, John McMullen is quoted as saying "There is nothing in life quite so limited as being a limited partner of George Steinbrenner."

Final thoughts

Professor Wasserman ends his article on the founder's dilemma with an oft-quoted Chinese proverb.

"If you must play, decide on three things at the start: the rules of the game, the stakes, and the quitting time."

-- Charles Skorina

We Build Legacies

Every now and then we eye our subscriber list and marvel at the folks behind our 25,000 often anonymous emails.

Our recruiting and consulting assignments come from our readers, visionary entrepreneurs, Wall Street pioneers, and transformative nonprofits.

We support these inquisitive, creative, opportunity-engineers building preeminent investment management and turning intent into reality.

Call us anytime.

And thank you for reading our newsletter.

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.