

# The Skorina Letter

## • Retained Executive Search •

**Our clients:** visionary families, transformative nonprofits, Wall Street trailblazers

**Our vision:** build investment preeminence, create opportunity, enrich lives

**Our work:** provide talent, access, relationships, and insights



## The OCIO Mirage

*The outlook wasn't brilliant for the Mudville nine that day: The score stood four to two, with but one inning more to play ... Casey at the Bat, Ernest Lawrence Thayer*

Hope springs eternal in the OCIO space. Each year confident investment officers and ardent marketeers announce their brand-new best-in-class discretionary outsourced solution. But for most of these eager rookies, few customers will come or care.

Looking back over the last four decades, the best time to pitch an outsourced chief investment officer (OCIO) proposition was probably about thirty years ago when prospects were plentiful, competitors few, and margins were healthy.

In today's hyper-competitive wealth management arena, fielding a full-service institutional grade asset management team is expensive and costs are soaring for compensation, cyber-security, audits, and

compliance, to say nothing of rampant regulatory hurdles and those nasty unknown unknowns.

(See our charts below for detailed office cost breakdowns.)

We recently completed an OCIO search and selection engagement for a sizable east coast nonprofit and found all the responding providers to be consummate professionals and serious competitors.

Firms such as Hirtle Callaghan, Blackrock, J.P. Morgan, and Brown Brothers Harriman, among the stalwarts in our directory, have had years to hone their systems, service, succession, and investment capabilities. But it's never easy.

In an [interview](#) with Jon Hirtle for our 2020 OCIO review he reminisced on the firm's early efforts to win clients.

*Debby [Jon's wife] and I often talk about the financial low point when our checking account had dropped to \$17. What kept us going was that everyone loved the OCIO concept. The idea of powerful, informed, energetic advocacy without the conflicts of interest that define the traditional investment industry.*

## **This Cold Cruel World**

It's tough for newbies and niche players to keep up with the veterans. This year kicked off with Edgehill calling it quits, Agility selling to Cerity Partners, and Vanguard's OCIO team decamping en masse for Mercer.

They're in good company. The past few years have seen a steady stream of outsourcing hopefuls merge with better-resourced patrons including Truvvo, Ellwood Associates, New Providence, CornerStone, PFM, and Permit Capital. There will certainly be more.

Boston Consulting Group, in their Global Asset Management 2023 [review](#), estimates that – due to rising costs – the industry’s compound annual growth rate in profits “will be approximately half the average of recent years (5% versus 10%).”

Most nonprofits and family offices, basically anyone under \$500 million in investable assets, don’t have the time or resources to build competitive and secure internal investment capabilities.

**Investment Office Costs: you pay to play**

Strategic Investment Group [published](#) an investment office cost study recently, *Building Blocks and Costs of an Internal Investment Office*, that’s worth a read.

Keep in mind that the costs in their report focus only on core investment activities, what a family office would likely spend to build in-house capabilities.

For aspiring OCIOs, RIAs, and advisors these costs are just the beginning. Pursuing Wall Street metrics like distribution reach, product innovation, customer acquisition, and AUM growth blows holes through most rose-colored budgets.

Here’s what SIG calculates a build-it-yourself family investment office will cost depending on the size of AUM – \$500 million, \$2 billion, and \$10 billion in assets under management.

<b>Investment Office Costs</b>	<b>\$500mm</b> (000)	<b>\$2bn</b> (000)	<b>\$10bn</b> (000)
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Staffing and Compensation	\$1,392	\$3,728	\$10,833
Hardware, Office Supplies	\$8	\$12	\$34
Internal Systems & Data Licenses	\$200	\$685	\$755
Manager Diligence, Monitoring Costs	\$250	\$397	\$777
Other Costs	\$4	\$4	\$48
<b>Total Costs</b>	<b>\$1,854</b>	<b>\$4,825</b>	<b>\$12,466</b>
<b>Total Costs in basis points (bps)</b>	<b>37.0</b>	<b>24.0</b>	<b>12.0</b>

*As SIG notes, staff is by far the single largest cost item, representing between 75-85% of the total.*

*As portfolios grow in size, the complexity of the investment strategies pursued tends to increase. The operational demands on the investment office go up correspondingly. Regulatory and compliance demands are significant.*

*Moreover, institutions tend to undertake more and more operational functions in-house. As a consequence, the proportion of operational staff in total staffing increases with size at an accelerating pace.*

**A Deeper Dive**

While family office costs are notoriously difficult to pin down, their fraternal twins, private foundations, do report useful cost data in IRS filings – 990PFs to be precise – which foundations must swear to “under penalty of perjury.”

Here’s a revealing data set on investment expenses from our good friend John Seitz, CEO of [FoundationMark](#).

We wrote about Mr. Seitz in our newsletter a few months ago on [“Foundation Investment Performance,”](#) and his research and insights are a go-to source for asset owners and purveyors of investment products and services.

## Private Foundations Identifiable Investment Office Costs

From 990PFs, FY2022  
(dollars and bips)

-	Foundation	Investment Staff Costs	Legal & Acctg	Rent, Travel, Media	Total Office Costs	Total Office Costs	Avg. AUM
-	-	\$	\$	\$	\$	bps	\$ bns
1	Ford Fdn	26,290,751	2,390,629	1,131,134	9,812,514	<b>16.8</b>	17.70
2	William & Flora Hewlett Fdn	17,879,424	728,968	273,447	18,881,839	<b>13.7</b>	13.74
3	Robert Wood Johnson Fdn	16,661,627	304,477	1,578,134	18,544,238	<b>13.4</b>	13.84
4	Gordon E And Betty I Moore Fdn	15,012,449	363,417	653,857	16,029,723	<b>18.4</b>	8.73
5	David And Lucile Packard Fdn	14,079,539	603,398	1,023,925	15,706,862	<b>17.7</b>	8.88
6	John D & Catherine T Macarthur Fdn	12,139,326	584,727	576,196	13,300,249	<b>15.3</b>	8.70
7	Harry & Jeanette Weinberg Fdn	8,984,291	438,260	1,462,545	10,885,096	<b>34.2</b>	3.19
8	Kresge Fdn	9,153,382	427,203	447,287	10,027,872	<b>23.6</b>	4.24
9	The Leona M & Harry B Helmsley Charitable Trust	8,855,450	697,531	325,572	9,878,553	<b>12.9</b>	7.64
10	Andrew W Mellon Fdn	8,331,043	390,452	865,550	9,587,045	<b>11.1</b>	8.63
11	Rockefeller Fdn	7,915,382	511,461	371,887	8,798,730	<b>13.3</b>	6.64
12	Carnegie Corporation Of New York	7,441,031	259,407	438,718	8,139,156	<b>18.6</b>	4.37
13	James Irvine Fdn	7,066,272	218,325	507,671	7,792,268	<b>21.6</b>	3.60

14	Conrad N Hilton Fdn	6,055,438	601,372	559,144	7,215,954	<b>9.6</b>	7.48
15	Charles Stewart Mott Fdn	6,220,157	177,996	599,241	6,997,394	<b>17.4</b>	4.02
16	Mother Cabrini Health Fdn	5,911,906	158,900	388,226	6,459,032	<b>17.3</b>	3.74
17	J Paul Getty Trust	5,820,446	-	-	5,820,446	<b>6.5</b>	8.96
18	The California Endowment	4,490,571	413,843	798,469	5,702,883	<b>13.1</b>	4.36
19	Margaret A Cargill Fdn	4,896,026	382,165	379,952	5,658,143	<b>16.4</b>	3.46
20	Alfred P Sloan Fdn	4,526,243	89,281	419,509	5,035,033	<b>23.4</b>	2.16
21	W K Kellogg Fdn Trust	3,187,761	1,358,740	56,325	4,602,826	<b>5.6</b>	8.28
22	The JPB Fdn	3,825,226	460	440,878	4,266,564	<b>9.3</b>	4.57
23	William Penn Fdn	3,258,197	86,393	226,121	3,570,711	<b>10.0</b>	3.57
24	Liliuokalani Trust	2,608,478	632,745	236,006	3,477,229	<b>29.3</b>	1.19
25	J. E. Barbey FBO Tenacre Fdn	3,252,361	2,889	-	3,255,250	<b>18.9</b>	1.72
26	The Wallace Fdn	2,829,985	186,776	232,516	3,249,277	<b>17.7</b>	1.84
27	Diana Davis Spencer Fdn	2,338,606	239,902	-	2,578,508	<b>18.0</b>	1.43
28	M J Murdock Charitable Trust	2,037,726	156,694	345,872	2,540,292	<b>12.3</b>	2.06
29	Rainwater Charitable Fdn	2,130,971	128,623	129,155	2,388,749	<b>21.4</b>	1.12
30	Ewing Marion Kauffman Fdn	1,840,596	96,531	61,943	1,999,070	<b>6.4</b>	3.13
31	Starr Fdn	1,345,063	54,450	569,374	1,968,887	<b>12.3</b>	1.60
32	Richard King Mellon Fdn	1,759,530	135,900	41,207	1,936,637	<b>5.9</b>	3.30
33	John Templeton Fdn	1,476,595	167,315	213,650	1,857,560	<b>5.4</b>	3.41
34	Sherman Fairchild Fdn	1,047,573	112,098	160,233	1,319,904	<b>11.5</b>	1.15
35	Joyce Fdn	992,286	96,928	151,183	1,240,397	<b>9.7</b>	1.28
36	Conrad Prebys Fdn	508,051	692,415	30,124	1,230,590	<b>9.9</b>	1.25
37	The Schmidt Family Fdn	783,396	163,871	273,375	1,220,642	<b>6.5</b>	1.89
38	The California Wellness Fdn	965,817	35,225	191,614	1,192,656	<b>10.7</b>	1.11
39	Lumina Fdn For Education	870,788	207,160	76,507	1,154,455	<b>7.9</b>	1.46
40	J. E. and L. E. Mabee Fdn	887,343	79,212	157,131	1,123,686	<b>6.3</b>	1.77
41	The Colorado Health Fdn	851,285	213,680	37,890	1,102,855	<b>3.8</b>	2.89

42	The Heinz Endowments	812,634	137,665	113,229	1,063,528	<b>12.3</b>	0.87
43	W M Keck Fdn	661,738	295,466	-	957,204	<b>6.0</b>	1.61
44	Lilly Endowment	882,047	51,349	1,746	935,142	<b>0.3</b>	36.79
45	Bush Fdn	829,232	22,419	18,990	870,641	<b>5.6</b>	1.56
46	Duke Endowment	653,890	179,277	15,890	849,057	<b>1.6</b>	5.40
47	Moody Fdn	505,016	245,909	42,337	793,262	<b>3.4</b>	2.35
48	Shimon Ben Joseph Fdn	622,386	153,278	4,125	779,789	<b>6.0</b>	1.31
49	Brown Fdn	488,123	40,649	27,835	556,607	<b>3.0</b>	1.86
50	Hillman Family Fdns	472,043	3,185	15,689	490,917	<b>2.4</b>	2.03
51	Mcknight Fdn	264,154	122,814	96,483	483,451	<b>1.7</b>	2.85
52	Rockefeller Brothers Fund	220,920	217,960	38,569	477,449	<b>3.3</b>	1.47
53	Dogwood Health Trust	274,085	184,923	16,704	475,712	<b>2.5</b>	1.89
54	Daniels Fund	284,966	38,848	26,183	349,997	<b>2.1</b>	1.65
55	Robert W Woodruff Fdn	303,688	2,680	10,507	316,875	<b>0.8</b>	4.07
56	Waverley Street Fdn	178,205	136,414	-	314,619	<b>1.0</b>	3.07
57	Sunderland Fdn	292,705	14,893	-	307,598	<b>2.4</b>	1.29
58	The Annenberg Fdn	196,944	41,631	49,477	288,052	<b>1.8</b>	1.61
59	Houston Endowment	103,989	147,590	-	251,579	<b>1.0</b>	2.49
60	Samuel Roberts Noble Fdn	160,000	76,122	-	236,122	<b>2.1</b>	1.10

## No Free Lunch

If total office costs seem low, there's probably a reason. Foundations list all their costs in the 990s, but it's not always clear what went where.

Take the Duke Endowment, for example. From their line items in row 46 in our chart above, we see average investable assets of \$5.4 billion and investment office costs of \$849 thousand. A tad light, don't you think?

We thought so too. So, we combed through the 990 and focused our attention on one item in particular called Other Professional Fees (OPF), a black hole for wayward expenses including OCIO and consultant fees.

In the case of the Duke Endowment, their money is managed by the excellent team at DUMAC (Duke University Management Company), a perennial top performer in our annual endowment investment [report](#).

The charge for DUMAC's investment services in 2022 was \$5,688,220, which we found – you guessed it – among “other professional fees” totaling \$8,704,212 on the Duke Endowment 990 form.

You would not know it, of course, unless you looked in another section of the 990s titled “Five highest-paid independent contractors for professional services,” Part VII. It's not hidden, just scattered about.

Add the DUMAC management fee to the Duke Endowment office costs and we have a skosh over twelve bps. Quite reasonable for the amount of AUM.

## **The Wrap**

OCIO services are a compelling proposition for serious investors, whether they are institutions or families. And the demand for full-service, discretionary asset management shows no sign of slowing.

But building a resilient business with sales, service, and investment capabilities, adding financial muscle, and developing bench strength takes time and money.



If the goal is to deliver superior performance, service, and solutions and be there for multiple generations and perpetual institutions, who is most likely to endure and deliver?

And who will families and institutions – and their search consultants – select to manage their legacies?

Aspiring newbies? Or the seasoned warriors on our list with billions in AUM, rock-solid balance sheets, and decades of hard-won experience?

I think you know the answer.

Charles Skorina

[skorina@charlesskorina.com](mailto:skorina@charlesskorina.com)

[www.charlesskorina.com](http://www.charlesskorina.com)

(520) 529-5677