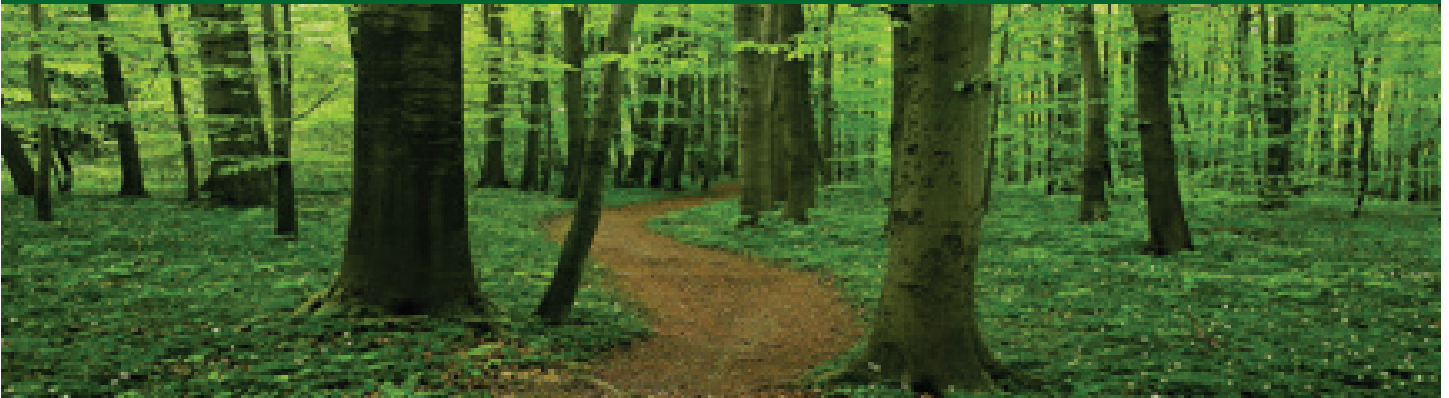


# THE SEARCH FOR TALENT: FAMILY OFFICES

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*The economic dislocations of the past two years have brought closer two hitherto relatively unrelated markets: family offices that own significant wealth in the form of business assets, investments, real estate, and cash; and senior level hedge fund professionals.*

An awareness of the need for greater investment sophistication and a desire to obtain the advantages enjoyed by other institutional investors are prompting some family offices to turn to hedge fund professionals. Under what circumstances would hedge fund professionals be interested in moving into the world of a family office? What, from the talent side, are the challenges of family offices? What are the attractions? What combination of investment activity, culture, and compensation would make the world of family offices attractive to a pool of talent with the highest levels of investment skills?

To answer these questions, Hunter Advisors conducted a survey of hedge fund portfolio managers and senior analysts working within the United States to determine:

- What portion of senior hedge fund professionals have already been in contact with family offices
- What if any interest exists among hedge fund professionals in pursuing opportunities with family offices
- What kind of appeal family offices hold for hedge fund professionals

- What kinds of reservations hedge fund professionals have about working at family offices
- What kind of compensation expectations those professionals have for roles at family offices

### **THE SURVEY POOL**

Hunter Advisors conducted its family office survey between April and June 2009. 845 senior analysts and portfolio managers in the United States were invited to participate in the electronic survey and responses were received from 119 of those invited. Of those responding, more than half were currently portfolio managers and over a third were senior research analysts. Altogether, the group represented senior level hedge fund investment professionals. More than 85 per cent of the survey participants have five or more years of investing experience, and 25 per cent have more than 10 years of experience.

Over a third of the respondents specialized in distressed credit and over 40 per cent focused on long/short equities. The remaining areas of specialization — event-driven equities, high-yield credit, and long-only equities — were found in 16 per cent of the other respondents.

In interpreting our findings, therefore, it is important to remember the bias toward distressed credit and long/short equities might skew the survey's findings.

**AVERAGE ANNUAL EARNINGS**  
(over past three years)

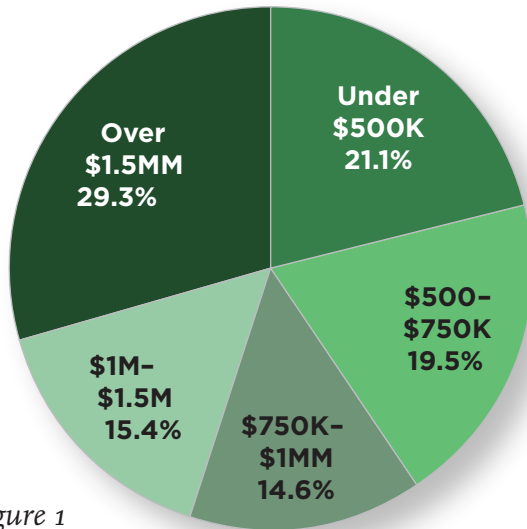


figure 1

Finally, the majority of the respondents reported earning over \$750,000 and 30 per cent annually earn over \$1.5 million (see figure 1), with the average compensation for family office CIOs falling between \$600,000 and \$800,000 by comparison. The significance of the compensation information is that the majority of the respondents are at or above the average of \$794,000 of 2008 hedge fund income, as reported by *Alpha* magazine.<sup>1</sup> In terms of compensation, then, the respondents represent industry averages. Their expectations for compensation should also be in accordance with the majority of hedge fund investment professionals, making the sample useful to gauging the fit between family office compensation culture and that of hedge fund professionals.

<sup>1</sup> See "Hedge-Fund Pay May Fall 25% in 2009 as Fees Evaporate," *Bloomberg*, March 25, 2009, citing *Alpha's* compensation figures.

## MAKING INTRODUCTIONS

There has been little apparent interaction between family offices and hedge fund professionals, according to our respondents. 75 per cent of them have never spoken to a family office about employment roles. Moreover, only 10 per cent of the survey participants are currently in touch with a family office about an investment role.

The most significant finding is that over 90 per cent of the survey participants are interested in exploring opportunities at family offices. In other words, there is considerable interest in exploring opportunities in this hitherto largely untapped market of investment talent. From our perspective as a search firm, this strongly suggests that there are considerable opportunities to introduce senior-level hedge fund professionals to family offices that are looking for highly experienced, mature investment professionals. Additionally, though, there is a need to inform and to educate hedge fund professionals about the opportunities within the world of family offices.

## ALLURE OF FAMILY OFFICES: DIRECT INVESTING V. THIRD PARTY FUND MANAGERS

In gauging the appeal of a family office position, respondents showed a clear, though by no means overwhelming, preference for roles that incorporate direct investing as well as the supervision of external managers: roughly 35 per cent of respondents preferred roles that included direct investing while just over 27 per cent found the addition of direct investing to evaluating external managers less attractive. Perhaps most significant is

that approximately 38 per cent of respondents reported that the addition of direct investing responsibilities made no difference to their level of interest in family office roles.

The appeal of direct investment may be linked to the comparative lack of experience among respondents with evaluating third-party fund managers. Over 55 per cent of the group have no experience in such work. Of those that do, almost 52 per cent have experience performing such work on behalf of clients; 13 per cent as board members or trustees and over 35 per cent have gained experience by supervising personal and family investments. Additionally, the structure of the hedge fund market — with many firms holding limited-partner interests in other hedge funds — means that even those professionals who lack official third-party manager experience still have detailed familiarity with a range of other hedge funds and their professionals. The question remains, though, whether evaluating managers in a personal and an indirect rather than a professional capacity constitutes experience sufficient for the demands of complex, larger family offices.

The importance of direct investment, though, emerged in greater relief when respondents were asked to rank the attractiveness of different facets of a family office role. Over 50 per cent of respondents described the ability to invest directly as “very important” and roughly another 32 per cent ranked it as “important.” The only elements that were of greater importance to respondents were long-term compensation and career opportunity, capital permanence, and the culture of a given family office (see figure 2).

## PERCEIVED DRAWBACKS: INTERNAL AND EXTERNAL

Hedge fund professionals have concerns about the professionalism, the comparative lack of professional prestige and of career development opportunities that may involve moving into the world of family offices. The role of family in family offices — the potential for nepotism, the involvement of unqualified family members, the role of family politics, a lack of autonomy and transparency — were concerns for the respondents. It is tempting to connect the concern about lack of auton-

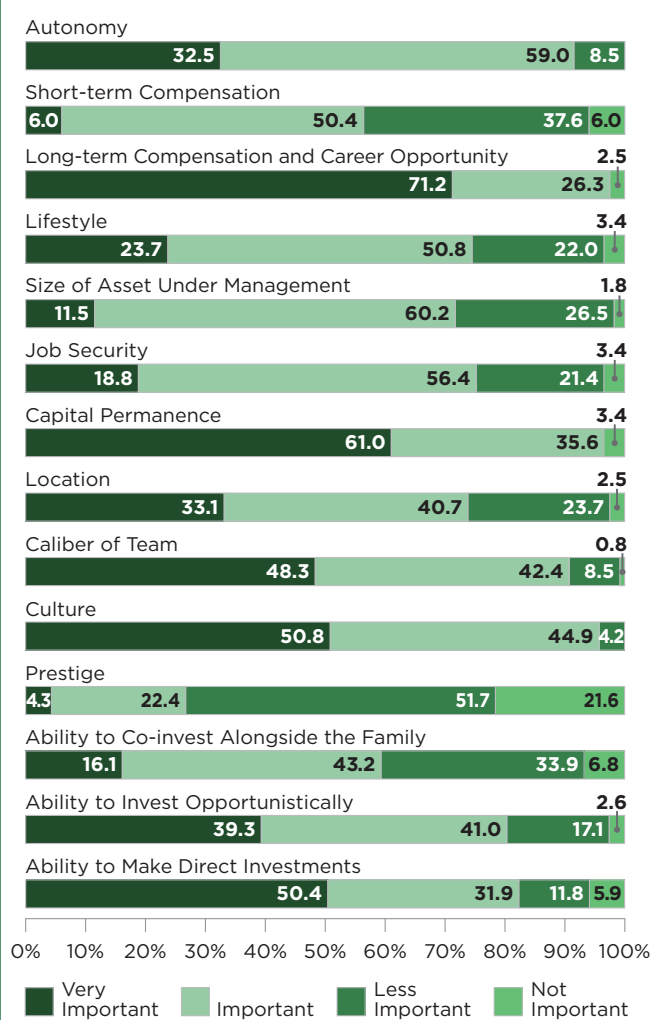


figure 2

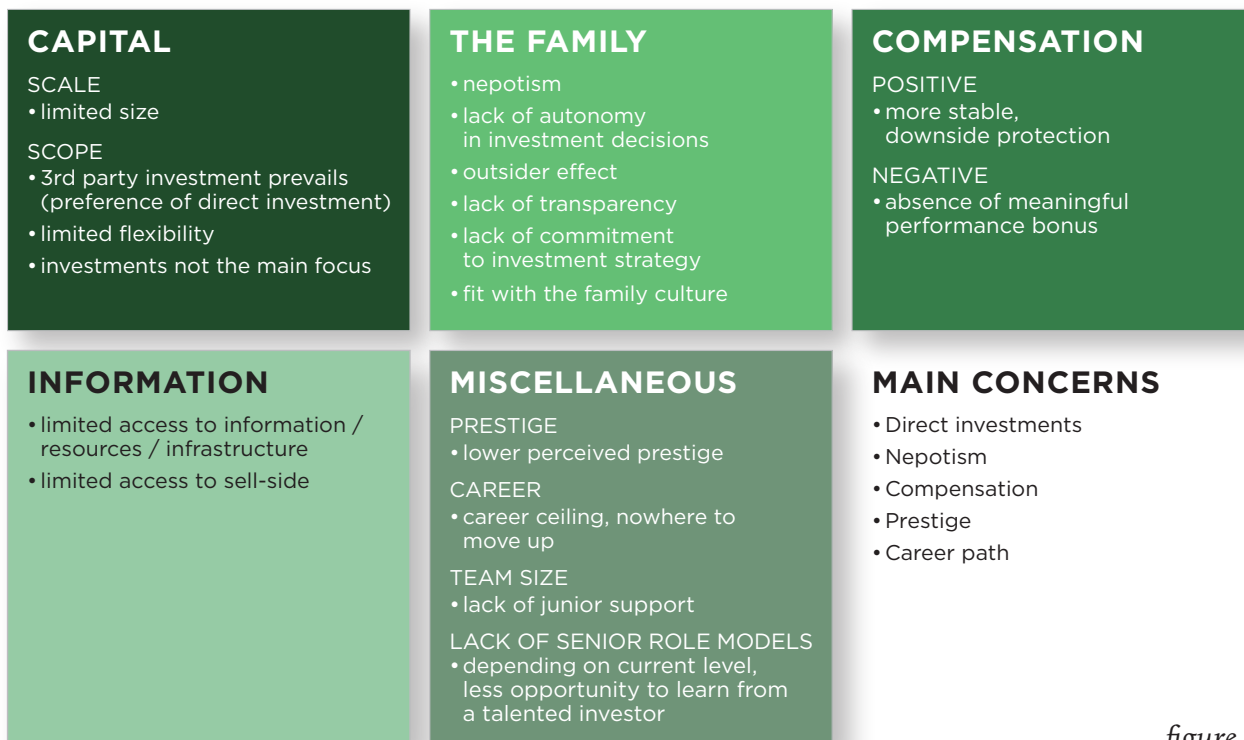


figure 3

omy and decision-making authority voiced by respondents to their reiterated desire to invest directly (see figure 3).

Some of the issues raised by respondents involved perceived disadvantages of family offices when compared to other professional investment opportunities. For example, the issue of the limited scale of investments implicitly contrasts the size of family offices with other investment firms. Team size, limited resources, lack of infrastructure and limited access to the sell-side are in contrast to the resources afforded by other buy-side positions.

Finally, other issues concerned the relative novelty of the move to a family office environment. The perception that working at a family office leads to career plateauing — there is

nowhere to move up — may be accurate; or it may be that the model of career advancement that is associated with hedge funds and other investment managers is inadequate to describe the opportunities afforded by family offices. However, it is clear that current concepts of promotion, advancing compensation, and the time-line of successful professional development need meaningful adjustment within the world of family offices to make them attractive to high-level investment professionals.

### OPPORTUNITIES AND INNOVATION

From the perspective of respondents, the potential disadvantages of family offices is more than matched by the opportunities associated with them. If the time-line of

family office investments and development are unsettling to hedge fund professionals, the long-term stability of capital is compelling. Against the backdrop of the credit crisis, recession, and the market volatility of the past several years, respondents were deeply interested in the opportunity — even the need — to think beyond monthly or quarterly numbers toward the long-term growth of family assets. If being an outsider dealing with family politics is a daunting prospect for hedge fund professionals, working with the family leader, often admired for his or her achievements, intelligence, and financial sophistication, is an attraction. While some respondents voiced concern about possibly limited compensation, others welcomed the greater stability of compensation, were interested in long-term compensation models, as well as the opportunity to co-invest with the family.

The current crisis has hurt many family offices, as it has hurt other investors, whether institutional or private, along with vast segments of the global economy. It has also created opportunities and one of them is the emergence of a pool of talent that is open for the first time to exploring the opportunities for investment professionals at family offices. Taking advantage of that opportunity, however, will require a number of interventions:

➤ *Education:* the secretive world of family offices must be willing to educate investment professionals on the opportunities involved in running family wealth. A degree of visibility and a degree of transparency are necessary if such professionals are to learn about those opportunities.

➤ *Professionalization:* senior investment professionals need to work in professional environments that protect their work from the internal vicissitudes of the family. Autonomy, protection from nepotism and unwarranted involvement from unqualified family members are necessary components of a professional culture at a family office. Professionalization also requires the creation of compensation models and career development that allow senior hedge fund professionals to join family offices without diminishing their professional status or long-term mobility.

➤ *Innovation:* Family offices need to innovate to overcome their comparative disadvantages within the world of investments. For example, some family offices have just begun to take advantage of their scale to gain access to institutional sell-side coverage and resources. Those family offices are moving toward a hybrid structural model that melds the structure and benefits of an alternative asset management firm with the patience and stability of traditional family office goals.

The question remains if family offices are willing and able to take advantage of the opportunity to evolve institutionally and financially with new talent. We look forward to serving both communities — family offices and hedge fund professionals — and will continue to explore the opportunities of this new market.

## HUNTER ADVISORS

*Hunter Advisors Corporation is a retained executive search firm specializing in the Hedge Fund and Family Office and Endowment industries. Since Hunter Advisors' founding in 2003, we have developed strong expertise with team transfers and business build outs. For more information, please visit our web site, [www.hunterac.com](http://www.hunterac.com).*

## GREG COULES

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*Previously, Greg was at Metropolitan Capital Advisors where he was Director of Research for the \$400 Million event driven hedge fund. Prior to Metropolitan, Greg was a VP at JP Morgan, where he was a senior distressed bank debt analyst. Prior to JP Morgan, he was a VP at Morgan Stanley as the Broadcasting, Printing and Publishing Analyst within the High Yield division. At Morgan Stanley, Greg was named by Institutional Investor Magazine as the 2002 Best Up and Coming Analyst across all industry specialties and the Media team was awarded the #1 ranking in 2002, for which Greg was lead coverage. Greg began his career as an M&A attorney at Skadden, Arps, Slate, Meagher and Flom.*

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