

Demand for CIOs Soars “Off Charts”

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Rapidly growing multi-family offices are roiling an already competitive recruiting market for CIOs at foundations, endowments, pension plans, funds of funds, and private banks.

Multi-family office assets hit \$305 billion last year, topping the prior year by 20.4%, according to an annual survey from the Family Wealth Alliance, an industry association in Wheaton, Ill. Such growth is building pressure for the creation of CIO roles, says Neil Kreuzberger, president of Kreuzberger Associates, a recruiter in San Rafael, Calif.

As the market matures, multi-family offices are building open architecture platforms that demand a CIO, says Paige Scott, partner and co-head of the asset management and hedge fund practices in Boston for Sextant Search Partners, a New York-based recruiter. “Not only is it a trend, it’s a reality,” she adds.

The CIO market is already super-heated, according to the 11th annual Asset and Wealth Management Recruiting Trends report issued this week by Russell Reynolds Associates, a New York-based executive search firm. “The demand for chief investment officers in all segments of the industry is off the charts, escalating compensation and widening ‘move premiums,’” the report reads. The report cites family offices and private wealth platforms as CIO seekers this year and predicts a continued hot pace in 2008.

CIO searches are active despite the holiday season, Sextant’s Scott says. Firms are laying the groundwork to “dislodge” talent early next year after first-quarter bonus payouts, she adds.

The frenzied search is compounded by a lack of CIO-caliber talent, says Tom Kellerhals, senior partner at the Westminster Group, a recruiter in Chester, S.C. “I don’t think that there is enough talent out there, though clearly there is a lot more than 10 years ago,” he adds.

For that reason, CIOs are increasingly likely to move across borders, particularly between the multi-family office, fund of funds, foundation, and endowment spaces, Kellerhals says. “I think that there is quite a bit of overlap, especially in terms of analytical skills,” he says.

And Kreuzberger says that pension plan CIOs may align even more closely with the competencies and skills needed for a multi-family office.

For now, multi-family offices may have some traction in luring CIOs from the institutional sector. Compared to the foundation and endowment arena, multi-family offices pay better in general. The recruiters outlined a compensation package range for a CIO worth \$300,000 to \$850,000 for foundations and endowments, but \$500,000 to \$1.5 million for multi-family offices.

Still, finding the right candidate for the multi-family office CIO is difficult, because the role often requires a combination of robust analytic, strategic planning, and people skills, along with the ability to execute a management strategy, the recruiters say.

The specific mix depends on what the multi-family office needs, because some are building investment capabilities from scratch, while others are just trying to grow, Kreuzberger says. “There has to be a certain asset size, number of families, and infrastructure to have a dedicated CIO,” he adds. “You need the technical competency and the investment competency, but the rest depends on what they’re trying to do with the function.”

In most cases, manager selection experience and industry knowledge are the most critical ingredients, Kellerhals says. The ideal candidate would be deeply versed in alternatives and long-only investments alike, as well as have an alphabet soup mix of degrees and designations - including MBA, CFA, CAIA, and even FRM. "I know of one person in nine years that has all of those designations," he adds.

But family offices probably more than the institutional sector also place a premium on client-facing skills, Kellerhals says. "That's one of the areas where the circles don't overlap fully," he says.

Working directly with families is vastly different than working with a foundation board, Scott says. "Understanding those dynamics is critical," she adds. "You can be enveloped by the family dynamics in a good way and in not so positive ways."

The need for "consultative" skills also sometimes means splitting the CIO role, Kreuzberger says. "You can have internal and external functions for CIOs, with the tech skills on one side and the polished client service skill set on the other," he adds. "It's tough to find all of them in one person because frequently the skill sets do not go hand in hand."

One example of a multi-family office elevating client-facing skills is Threshold Group, which recently hired David Rosenberg as its new CIO. Rosenberg is expected to provide strategic direction for the office's \$6 billion in assets under management for 11 family clients but also will have "a fair amount of client interface," says Ed Lazar, president of the firm, which is anchored by the Russell family of Russell Investments, and which is located in Gig Harbor, Wash. Rosenberg will likely have a role in asset allocation discussions or other big picture meetings with family clients. But to accomplish that, Threshold split off some of the operational and reporting duties that the previous CIO had undertaken, Lazar says.

The ranks of relationship managers and lower-tier investment professionals to promote from are thin in the multi-family office world. "We're learning that we've got to grow these folks because we can't keep robbing from each other or looking for the banks to rescue us [with candidates to hire]," Lazar says. "That's a tough challenge as an industry. You've got to pay people competitively and offer a career path for somebody who is young."

Though multi-family offices aren't equipped to compete solely on compensation for investment professionals from established Wall Street institutions, they often can sell the attractiveness of an entrepreneurial opportunity and less hectic lifestyle, which might compare favorably to the highly structured - and often political and hierarchical - world of a large institution, Threshold's Lazar says. "You really have to reach a point in your career where you say, 'I've reached a certain amount of financial success, and now it's really mostly about the clients,'" he adds.

A lifestyle change was part of the lure for Rosenberg, who recently had left a role as head of U.S. investment solutions for Citi Private Bank in New York, Lazar says. "He had had it with the large Wall Street shops and wanted a situation where he could work directly with clients but also at a strategic level," Lazar says.

Citi has not decided whether to fill that slot, a spokesman says. Rosenberg will be moving to Washington when he assumes his new role in January.

Rosenberg, a 25-year industry veteran, had the right mix of investment capabilities and people skills, Lazar says. Though Threshold typically uses recruiters, the hire came through an industry contact and good timing, with the CIO position opening up just as Rosenberg was charting his next move, Lazar says. The two had met several years ago, which smoothed the introduction. Lazar adds that while Threshold doesn't match the compensation for investment professionals

on Wall Street, the Russell family agreed that it was worth it to offer the best possible package to attract Rosenberg.

Rosenberg will be in charge of strategic direction for the firm's investment function and "deciding where we should be moving into and out of given conditions in the market today," Lazar says. "I was impressed by his ability to make connections globally about how one thing affects another and where that's likely to lead."