Minding the Money

'Family Office' Chiefs
Get Plied With Perks;
Club Membership, Jets
September 7, 2007

The people who run "family offices" -- private operations dedicated to managing the money and
daily lives of the rich -- are increasingly getting rich themselves.

Wealthy Americans have set up 3,000 to 5,000 family offices, experts estimate. The growing
number of families going this route, combined with the increasing complexity of investing, has led
to heightened competition for the relatively limited pool of people qualified to manage these
offices. Salaries for high-level family-office managers have risen more than 20% a year since
2002, reaching $3 million a year or more for the most experienced investment managers.

That's why some families have taken to poaching staff from other families. Others are showering
their family-office chiefs with plush perks like club memberships, free meals, invitations to elite
black-tie charity events -- and use of the family jet.

One family even offered guaranteed admission to an elite private school for the children of its
family-office chief, since the patriarch of the family is a trustee of the school, says Jane Bierwirth,
a New York-based executive search consultant at Higdon Partners who helps the rich find office
managers. "People are getting more creative with perks," she says.

Competing With Wall Street
And a growing number of wealthy families are dangling the biggest perk of all: allowing their
family-office manager to become a "participant," investing his or her own funds along with the
family money in big deals with the possibility of becoming rich themselves. Richard Rainwater, the
investment adviser who became wealthy managing money for the Bass family of Texas in the
1980s, has become the model for such family-office chiefs.

"The game has totally changed over the past five years or so," says Bob Hamshaw, managing
director of the family office for the Santo Domingos, a wealthy South American clan. "Today,
there's much more demand for the good investment people and true professionals."

Granted, family offices are nothing new. John D. Rockefeller Sr. in the 1890s employed Frederick
Gates (no relation to Bill) to handle many of his personal investments, family-wealth issues and
philanthropy. Over the past century, family offices became more diversified, handling everything
from investing and estate planning to more mundane tasks like arranging the family trip to Paris,
hiring the maids and walking the dog.

Family offices have traditionally been the exclusive purview of the super-rich. Because they are
costly to run, family offices made economic sense only for households worth $100 million or
more. Those worth less were better off using traditional wealth managers, such as private banks
or trust companies, along with travel agents and household-staffing services.

Yet in recent years, as the number of multimillion-dollar households has soared, family offices
have proliferated. At the same time, they became more affordable to households worth less than
$100 million, as outsourcing and specialized family-office service companies helped reduce the number of workers needed to run such an office.

Still, "I don't think that compensation has caught up with the demands and rigors of the job," says Nathan Troutman, who recently ran Microsoft billionaire Paul Allen's family office. As a result, the demand for seasoned family office chiefs is outstripping supply. Some managers are drawn from the accounting and legal professions. With financial markets becoming increasingly complicated, more families are looking for top investment managers to run their offices, which means they have to compete for talent with Wall Street, hedge funds and private-equity firms. Since salaries and bonuses in those businesses have soared, so have family-office salaries.

"The hedge fund and private equity model is spilling over into family offices," says Stephen Martiros, managing partner at CCC Alliance, a Boston-based coalition of families worth $100 million or more.

Michael Dell, for instance, hired a top Goldman Sachs investment chief, Glenn R. Fuhrman, to manage investments for his family office. Mr. Martiros said another family recently hired a pension-fund manager from Hewlett-Packard who had experience evaluating hedge funds and portfolio managers.

Russ Alan Prince, head of Prince & Associates, a Connecticut-based wealth research firm, recently conducted a study of 189 single-family offices and found a growing divide in pay between the traditional way such offices were organized and the new "participant" style. The median 2006 compensation for traditional family-office chiefs, who are family employees and no more, was $205,000 a year.

But median compensation for participant family-office managers hit $1,932,000, boosted by their ability to piggyback on the investments of their employers. "They want a piece of the action," Mr. Prince says of these managers. "They're no longer content to be employees."

Mr. Prince says family-office managers are also demanding higher compensation to deal with the demands of dysfunctional families -- whether it's finding lawyers for the spoiled son who gets in trouble or monitoring the credit-card debts of the free-spending daughter. "If I'm a family-office manager making $3 million, dealing with the brat is no big deal," he says. "If I'm only making $100,000, the brat is a pain in the neck."

And when all else fails, some families are poaching. Kathryn McCarthy, a new York-based adviser to ultrawealthy families setting up family offices, says one Midwest family lured a family-office chief away from another rich family. When he didn't work out, they poached again. "Going to another family office is the first line of defense for talent," she says.