



Texas Family Office Association, LLC

SERVING THE SINGLE FAMILY OFFICE COMMUNITY SINCE 2007

How Should I Staff My Single Family Office?

Marc J. Sharpe

The people that comprise the team who oversee and manage the SFO will be the most critical factor in the ultimate success of the family office. While staff can be hired and fired, having a stable and high functioning team is desirable, if not essential. There's an old adage in the family office world that "an SFO is either the best place in the world or the worst place in the world to work, and it all depends on the family and how they treat the people that work for them". If you want great talent, who will stay with you over the long term, you should expect to treat them well and pay them competitively. There may be a trade-off, in terms of a better lifestyle at a family office versus corporate America and Wall Street, but great talent will only stay if they are treated well and compensated fairly.

Given the importance of talent, the family should strongly consider interviewing and selectively working with one or multiple recruitment professionals that have experience with staffing senior SFO positions. With any position, there needs to be a clearly defined mandate and job description, a process for hiring and a due diligence investigation conducted for all potential hires. An employee handbook outlining protocols and procedures drafted by an employment attorney is recommended in addition, the attorney needs to draft non-disclosure and privacy documents for all interviewees and further documentation, including employment agreements, for all hires.

The family office should also engage a compensation, specialist experienced in SFOs, to assist in designing a compensation and benefits plan to attract, retain and motivate the most qualified candidates. A compensation specialist can design a compensation package that includes short and long-term incentive bonuses, carried interest opportunities, co-investment opportunities, qualified retirement plan offerings, insurance, and deferred compensation (409A) / phantom stock 'golden handcuff' strategies. The right mix aligns interests, encourages long-term employment and productive relationships.

It is recommended to hire carefully and prudently to ensure the right personnel. Many families hire only the employees that are absolutely required initially, while outsourcing other functions.

Over time, additional employees are hired to replace outsourced services in a phased approach. It is common for the first hire at a newly formed SFO to be a trusted relationship who has worked for many years with the family. Typically, this will be the Controller in the family business, who can manage the accounts and execute administrative tasks, or the external CPA or Tax advisor, who's familiar with the family dynamics, assets, and planning. While expedient in the short term, this can lead to problems later in the life of the SFO when more senior and experienced talent, with a broader set of skills, is needed to manage complexity of a larger team. Any high-quality CEO or President will want to know the team they have working for them is both loyal and capable. Where possible, it is better to hire the most senior position first and allow them to have some input into the hiring process as the SFO team is built out.

The most common SFO positions are outlined below:

➤ **Chief Executive Officer (CEO)**

The Chief Executive Officer (CEO) should be a highly experienced professional, with a broad set of skills and experience, who can lead the SFO. Trustworthiness, leadership, communication, and the unwavering ability to execute the family plan are essential. This is a role for an 'Expert Generalist'. Using a sports analogy, the CEO is the 'quarterback' who needs to maximize and coordinate the efforts of all the 'players'.

There is no set formula and the SFO and its personnel must be customized per a family's needs. Usually, the CEO is an experienced business professional with a broad knowledge in finance, accounting, technology, and other technical areas; however, the CEO does not have to be a true expert in every technical aspect of the SFO. There are times when a very strong financial, accounting, or legal background is preferable to business and leadership savvy. The right CEO for an SFO that runs multiple operating businesses will likely not be the right CEO for an SFO that runs multiple operating businesses will likely not be the right CEO for an SFO that invests primarily in public markets.

The CEO needs to carry out the mission and effectively coordinate all aspects of the SFO in a synchronized effort in fulfilling the family's mission and vision. The CEO needs to be engaged in all aspects of the SFO yet understand the importance of delegating (with oversight and accountability). The CEO needs to communicate on an on-going basis with the family and focus on the SFO's mission. This position answers directly to the family leaders and SFO board/committee. For a CEO to be effective, he or she must have the ability to engage multiple family members and generations. Education and motivation of the younger generation will be critical to the long-term success of the family and the SFO. An understanding of family dynamics and the ability to facilitate critical family discussions effectively is important.

There is a very broad range when it comes to SFO CEO compensation. Based on limited market data and anecdotal research, the CEO in a small SFO commands \$300,000 - \$600,000 and in a larger SFO (or small SFOs with more dynamic requirements and/or family members that see the value in a great aspirational candidate regardless of cost) can cost anywhere from \$500,000 - \$3,000,000, inclusive of base salary, short-long term incentive bonuses, deferred compensation and, possibly, co-investing opportunities. SFOs are competing with global institutions and must have compensation plans that attract, retain, and motivate the best talent.

➤ **Chief Investment Officer (CIO)**

After the CEO, the next most senior position in an SFO is usually the Chief Investment Officer (CIO). Broadly this role falls into two camps: direct investors, and allocators to managers.

Although less common than allocators, many larger families and entrepreneurial families see the value in being direct investors. This commonly means hiring a CIO with significant direct investment expertise. There are many advantages to being a direct investor, such as controlling the investment cash flows, reducing investment-related expenses, and timing exits to ensure favorable capitals gains tax treatment. For SFOs that seek to be direct investors, the CIO needs a strong grounding in direct deals and a great network for unique deal sourcing.

More commonly, SFOs are allocators. In this scenario the CIO needs to be first and foremost excellent at planning, organizing, sourcing (money managers and business opportunities), due diligence, monitoring, validating, and reporting on all investment activities. The CIO of an allocator SFO needs to source best-in-class money managers who carry out the actual investing of a particular allocation, such as cash management, bonds, equities, real estate, and commodities. In addition to (or instead of) traditional long-only managers, alternatives managers may be selected for a given allocation to add shorting, leverage, and derivative strategies. Some allocator SFOs provide deferred compensation in the form of incentive allocations, though such incentives are less common than for direct investor SFOs.

Direct investor CIO base salaries can range from \$250,000 - \$500,000. However, factoring in annual cash bonus and deferred compensation from incentive allocations in deals sourced by the CIO can bring total compensation for a top direct investor CIO to several million dollars or more. Purely Allocator CIO base salaries also range from \$250,000 - \$500,000 with bonuses ranging from \$200,000 - \$600,000. Both CIO types are often presented with the opportunity to co-invest alongside the family as part of a deferred compensation plan. Many SFOs require the CIO to co-invest, seeking full commitment into the investment and aligned interest.

Both the direct investor and allocator models will generally require the SFO to hire junior analyst(s) to source and evaluate opportunities. Total costs can vary and include some of the same structure of salary, bonus, deferred compensation, and co-investment opportunity as in the CIO position. Salary levels + bonus typically total between \$150,000 - \$300,000 per analyst.

➤ **Chief Financial Officer (CFO)**

For families with substantial business interests and/or significant personal, trust and partnership accounting requirements, the CFO is an essential addition to the SFO. Traditionally, the candidate would have a strong combination of business and personal accounting background, preferably from the Big Four, as well as CFO experience in a successful private company.

The CFO position within an SFO differs from a traditional CFO position in other companies in that this position is also responsible for the personal tax issues and returns of the family members (including family trusts and partnerships). The CFO should be experienced in complex multi-generational estate planning and needs to coordinate efforts with family legal counsel (whether in-house or outsourced). In certain areas of extreme tax specialty on these issues, the CFO will outsource to appropriate accounting council and coordinate efforts. The CFO will also need to coordinate with the CIO on tax strategies for the family involving their investment portfolio. SFOs created by financial figures frequently prefer CFO type 'CEOs' so that the investing aspect remains the domain of the family principal; in such cases cash flow, business management / accounting, personal accounting, partnership, and LLP interest as well as estate planning are paramount talents for this position.

A well run SFO will need frequent access to updated cash flow reports, family income and expense statements, as well as financial statements (i.e. P&L and balance sheet). The CFO needs to perform this function and maximize utilization of the applicable infrastructure and technology systems at their disposal in preparing documents and reporting. If there is no CFO, then the CEO may take on this function directly or manage and compile the data from internal sources (CIO, bookkeeper, accountant, etc.) or outsourced providers. Although sometimes sourced to bookkeeping and/or an executive assistant, the CFO may also handle bill paying for the SFO as well as the family. Lastly, the CFO will commonly assist in evaluating business and real estate opportunities for the family, managing lines of credit, business, and family loans, as well as cash distributions to family members.

CFO base salary frequently ranges from \$175,000 - \$250,000. Salary, combined with short-long term bonuses, deferred compensation and (although less common) may include co-investing opportunities, combined compensation frequently will range between \$300,000 - \$550,000.

➤ **Chief Legal Officer (CLO)**

Families with highly complex and/or multiple business interests can benefit greatly from hiring an in-house legal professional. The Chief Legal Officer (CLO) can evaluate business, real estate, and complex investment opportunities from a different perspective than the other senior executives of the SFO and can negotiate business transactions and perform closings. The CLO may be hired for both business and personal needs, or have a focus on the personal family needs, organizing and monitoring family trusts and partnerships, as well as trust & estates issues. Families of significant wealth often need multiple specialized experts in business, patents, litigation, marriage law/pre-nuptials, trust & estates, etc. A well-diversified and connected CLO can manage these areas through internal staff and outsourced relationships and coordinate all efforts. CLO base salaries frequently range from \$175,000 - \$250,000. Salary, combined with short-long term bonuses, deferred compensation and (although less common) may include co-investing opportunities, combined compensation frequently will vary between \$300,000 - \$550,000.

➤ **Director of Philanthropy**

Most commonly, the family's philanthropic initiatives are directed through a separate entity, such as a family foundation(s), as opposed to directed by the family SFO. However, some families do elect to create a Director of Philanthropy position.

Most families of significant wealth desire to improve their ability to identify and verify philanthropic opportunities for causes that are in alignment with their family values, investment focus, and personal passions. More often, the decision is based on passion and engagement, and less so by financial motivations. It is recommended to create separate entities for the SFO and the family foundation(s). Until a family's philanthropic mission and giving level is sufficiently expansive to warrant hiring a full-time director, typically an engaged family member assumes the responsibility for the role. The family member or director selected to undertake this endeavor needs to understand how philanthropic endeavors fit within the family mission statement and business plan. Focusing active family members and engaging younger generations in their passions is critical to this role. Philanthropic giving goes deeper than tax benefits and helps to teach the younger family members about compassion, giving and choices.

The Director of Philanthropy, along with a specific philanthropic advisory committee, sources and vets philanthropic opportunities aligned with the family mission statement and business plan. If the family seeks outside contributions, fundraising experience is preferred, with both traditional and online expertise. Executive management experience at a foundation or other charitable experience would be recommended. How the family should donate money to various organizations involves legal and tax implications. This is best left to experienced in-house or outsourced legal and tax professionals. Family foundations, charitable

remainder trusts, and charitable lead trusts are all viable options. The Director of Philanthropy should assist in managing the process and distributions to charity (no matter the vehicle), as well as following through to gauge and measure the results. If going outside the family to fill the position, salary can range from \$150,000 - \$200,000.

➤ **Director of Information Technology**

Large SFOs frequently hire a Director of Information Technology (IT). This position is vastly underrated and should be considered in all SFOs. This position advises and coordinates the technical infrastructure of the SFO. Many SFOs have critical computer needs and highly specialized software requirements that all need to be supported and upgraded on an ongoing basis. This position should positively impact family connectivity and communications as well as costs and control of the SFO. This position can range from \$150,000 - \$200,000, depending on the complexity of the technology infrastructure required.

➤ **Family Office Manager**

The Family Office Manager is a unifying position that focuses on the SFO running as efficiently and effectively as possible. This position can involve HR functions (managing directly or in coordination with an outsourced firm). The Family Office Manager frequently is the conduit for the family and in-house staff and assists with coordinating outsourced professionals. The Family Office Manager is commonly less defined by a traditional role than other positions. The position requires a person of diverse talents who learns quickly, is highly organized, and initiates solutions. In smaller SFOs, the Office Manager will coordinate business and personal services for the family, in conjunction with the executive assistant. This position can range from \$150,000 - \$200,000.

➤ **Executive Assistant**

Families can have one or multiple executive assistants depending on the size and number of employees of an SFO. Frequently, there is an executive assistant to the key family leader(s) and another executive assistant assigned to key SFO personnel. The responsibilities of this position, particularly at the personal level, can vary widely. An executive assistant may act as the primary person coordinating household management and personal household staffing needs. They may manage multiple personal matters such as medical information, insurance, family vehicles, childcare, and collectibles. They may be the primary conduit to the family leader for personal appointments, calendar management and children's needs.

Personal service and impeccable organizational skills are the hallmarks of this qualified professional. Being infallible under pressure and proactive in the identifying and meeting needs of the family or key SFO personnel. The executive assistant is excellent at communication (written and verbal) and proficient in technology. This position can range from \$100,000 - \$150,000.

➤ **Bookkeeper**

This position often supports the CFO, or in smaller SFOs without a CFO, may take on additional responsibilities. Managing payroll (or coordinating with an outsourced firm), handling receivables, paying business and personal family bills, coordinating medical and insurance claims, processing and coordinating mail (this may also be handled by an executive assistant) are just some of the traditional responsibilities of this position. This position can range from \$100,000 - \$150,000.

➤ **Family Security Director**

Many families are concerned about security and see a need to hire a Security Director to manage and mitigate family residence, business, cyber and outside activity risks. If not a direct employee of the SFO, the security director can be an outsourced specialist. The Family Security Director is responsible for the security measures within the SFO, including offices, technology security and family safety. This position can range from \$150,000 - \$200,000.

Marc J. Sharpe is the founder and Chairman of [TFOA](#), an organization formed in 2007 to provide a forum for education and networking and to serve as a resource for single family office principals and professionals to share ideas and best practices, pool buying power, leverage talent and conduct due diligence. Mr. Sharpe is active in the community and has served on the Board of the Holocaust Museum Houston, the HBS Houston Angels, and on the Investment Committee for two Texas based foundations. Contact: [Marc Sharpe](#)

TFOA is an affinity group dedicated primarily to the interests of Single Family Offices. TFOA is intended to provide members with educational information and a forum in which to exchange information of mutual interest. TFOA does not participate in the offer, sale or distribution of any securities nor does it provide investment advice. Further, TFOA does not provide tax, legal or financial advice. Materials distributed by TFOA are provided for informational purposes only and shall not be construed to be a recommendation to buy or sell securities or a recommendation to retain the services of any investment adviser or other professional adviser. The identification or listing of products, services, links, or other information does not constitute or imply any warranty, endorsement, guaranty, sponsorship, affiliation, or recommendation by TFOA. Any investment decisions you may make based on any information provided by TFOA is your sole responsibility. The TFOA logo and all related product and service names, designs, and slogans are the trademarks or service marks of Texas SFO Association, LLC. All other product and service marks on materials provided by TFOA are the trademarks of their respective owners. All of the intellectual property rights of TFOA or its contributors remain the property of TFOA or such contributor, as the case may be, such rights may be protected by United States and international laws and none of such rights are transferred to you as a result of such material appearing on the TFOA web site. The information presented by TFOA has been obtained by TFOA from sources it believes are reliable. However, TFOA does not guarantee the accuracy or completeness of any such information. All such information has been prepared and provided solely for general informational purposes and is not intended as user specific advice.