

# THE COMPENSATION CRISIS OF 2021

## *Have difficult times made compensating talent easier?*

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**W**e often talk about the compensation crisis in Family Offices and how Family Office Leaders

struggle with compensating their staff due to their unique and often absurd requirements as well as the lack of benchmarks supporting both.

By this we mean the benchmarked and rigid backgrounds that Family Office professionals arrive from and the unparalleled requirements Family Offices ask of them - from speaking

multiple languages to having broad-based experience and being adaptable.

While it must be said that Professionals do not join Family Offices for the money, when it is in the hands of one individual to generate wealth, mitigate risk and cut costs, incentivising your staff has never been more important.

This is a conversation we have been having for more than a decade. It is also a problem we have been trying to solve since 2015 with the launch of our first Global Compensation Benchmark Report - analysing the make-up, demographics and compensation of Family Office Professionals across the globe.

The last year however has been paramount. It

has reshaped the way we live, work and think. It has accelerated digitalisation and globalisation in Family Offices, changed the way Family Office professionals invest and completely re-shaped the conversation around compensation.

While our Family Office benchmarks still exist, the methodology behind Family Office compensation has shifted with an increase in portfolio diversification, a move towards digital assets and a global push to IPOs. They have collectively reshaped the way we retain and reward talent in the Family Office community which is why we set out to create our 2021 Bonus Benchmark Report.

While we have annually compared salaries on a global scale, this time we have explored how both salaries and bonuses compare and investigated how recent trends have impacted both. After all, with more assets under management, newly diversified portfolios and larger in-house teams to manage both, how can Investment Executives still be compensated in the same way?

Family Office Investment Professionals are responsible for a broad range of assets under management. Each of these assets necessitate a unique set of requirements - from the length of time, commitment and contribution involved, the skill-set and specialism required and the level of risk it calls for. They also carry unique factors impacting level of return and ability to measure that return from holding period yields, inflation and interest to demand and economic growth.

Each asset class also requires a different

benchmark which, as we now know, is usually based on different indexes, industries, regions and countries.

All of these idiosyncrasies make valuing assets an individual and laborious task but awarding a bonus based on those valuations is near impossible and has only been exacerbated by the move to further diversification. As a result, we were expecting to find a selection of sophisticated structures catering for each asset class but it seems overall, compensation or at least bonuses, are not as complicated as we once thought.

A year on from the birth of COVID-19 and discretionary bonuses are still the most common method of reward. Even where formulaic bonuses do exist, 20% have a discretionary element attached.

The same whole-of-fund or perhaps meritocratic approach is carried through when we discuss key drivers behind bonuses as the majority of Family Office Professionals believe their relationship with the Principal has the greatest weighting. They believe it comes above and beyond investment return and in fact, was a sentiment shared by more than 50% of all Accounting, Finance, Support, Operational and Investment Professionals.

While the Compensation Crisis may have struck a peace deal through the pandemic, it did offer a remarkable insight into how we have changed our approach to compensation on a global scale.

For five years, our Global Family Office Compensation Reports have found certain

eccentricities but overall offered a cohesive and standardised view of compensation across the map.

Our bonus report suggested that actually the UK and USA specifically have a very different approach to broader compensation. Operations Professionals in the US take home twice as much as their UK counterparts and Executives in the UK triple the compensation of their US peers.

We also found an almost identical compensation structure in the Middle East to the US market which we found remarkable given the contrast in maturity of both landscapes but perhaps not surprising given their talent shortage and favourable taxation policies.

Most surprisingly, aside from the easing of formulaic structures and the geographical impact on compensation, was the use of Long-Term Incentive Plans (LTIPs) or in fact, the lack of.

Just 48% of Executives are offered an LTIP followed by 30% of Investment Professionals and just 15% of all Accounting, Finance and Operational Staff. They may have only been in and around the Family Office Community for a few years but it is disappointing to see the lack of long-term planning and reward within Family Offices across the map.

LTIPs can be a phenomenal way of incentivising talent to stay with the Family Office on a longer-term basis by aligning interests, cultures and values.

While the Compensation Crisis may be over, the battle to retain talent has just begun and we will be analysing compensation trends over the next 12 months to see if an absence of longer-term reward structures and a whole-of-fund approach has deprived Family Offices of top talent.

### Key drivers and benchmarks for investment staff

#### Key drivers

85% receive a performance bonus

48% of these are discretionary

39% are formulaic

30% are also offered a LTIP

39% of which are offered co-investing opportunities

#### Benchmarks

43% have an ROI benchmark

33% of those benchmarks are based on indexes

57% of those who use indexes to benchmark use a combination of indexes for different asset classes

4-6% is the average ROI benchmark for Family Office Professionals