



ABC CAPITAL LLC



"Sam Adler"

Director, Head of Research
ABC Capital

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Executive Summary/Synopsis

Founded in 2007, ABC Capital is a New York family office. Family offices are private wealth management firms which serve ultra-high net worth individuals and their financial portfolios. Although originally set up to manage one family, ABC expanded to service two families shortly after opening. Sam Adler was hired as an analyst in 2007, becoming the firm's second hire under the managing director, and first employee to focus on investment advisory.

While it is unusual for a family office to operate in this particular set-up, serving two clients, each client was comfortable with the arrangement. The clients agreed to split ABC's overhead costs evenly, including employee salaries and bonuses, as they expected to receive an equal amount of quality care. As time wore on, and ABC expanded in order to manage two growing portfolios, it became apparent that one client required more than 50% of ABC's time. This client also pulled back from evenly sharing bonus payments, which meant the binding agreement they signed was essentially moot.

Background

No family office is the same; the size and wealth of portfolios differ, as well as the financial products being offered. Single family offices individualize their approach to give the client a unique perspective on investments. They are created by people who wish to have a full team with undivided focus managing their personal wealth. Multi-family offices are similar but less individualized. ABC is unusual in that they provide an individualized approach in a multi-family setting. The two clients ABC serves are each multi-billionaires with different backgrounds. The head of Family A is a first-generation, self-made individual. The head of Family B is a second-generation individual, born into most of his wealth.

Sam Adler is the Director and Head of Research at ABC. He started his career as a financial analyst and has worked directly for ABC's founder, the managing director, since 2007. He holds a CFA (Chartered Financial Analyst) designation, which is a postgraduate program teaching high-level analytic subjects, including an area on ethics. This exam has a notoriously low passing rate, most recently averaging less than 30%. The CFA program addresses topics like keeping a standard in place to clients, fair dealing, and the equality of opportunity versus the equality of outcome. Over time, Sam's relationship with his boss has become one of acute trust, and Sam now oversees several employees.

Sam is a man of great faith. He was raised in the Orthodox Jewish faith, and his beliefs have only deepened throughout his life. He strictly adheres to Orthodox rules and puts his faith and family above all else. He follows daily prayer, keeps a kosher diet and regularly attends temple. Reading scripture is often part of his method to reflect upon difficult situations.

Case (Problem)

Despite the initial agreement with ABC, which stipulated an equal allocation of resources and time to each of the families, it gradually became evident that Family B demanded a significantly greater dedication from the staff to maintain the client's satisfaction. In contrast, Family A placed a high level of trust in ABC's managing director and team to adequately manage and invest their funds.

The once 50/50 distribution of services began to shift towards a 75/25 distribution, favoring Family B. This became an issue of equality of outcome vs equality of opportunity. With a 75/25 distribution, both Family A and Family B were satisfied because their needs were being met. They both felt as though their wealth was being properly managed. However, Family A was unaware of this uneven allotment of service, so had they been informed, they may not have felt as if the same opportunities were being presented to them. Had ABC neglected the requests of Family B and stuck to their original 50/50 resource split, Family B would not be happy and would feel as though the firm was not adequately catering to their financial needs, despite ABC's goal of granting each family the equality of opportunity.

Furthering the issue of inequality was a shift in payment to ABC's overhead. At the end of the year, finance professionals receive a bonus, partly based on their annual salary. The baseline amount is 20% of the salary, although this number rises significantly dependent upon how well a client's portfolio grows within the year; if a portfolio does well, the bonus amount substantially increases, sometimes up to 100% of an employee's salary. While Family A continued to award ABC's employees with bonuses based on the above industry standards (adhering to the agreement), Family B contributed to bonus payments with less consistency and appreciation. Sam was unhappy that he and his team were not being financially rewarded per the agreement set in place.

Sam felt as though it was not ethical for ABC to unequally distribute time and effort between the two clients, especially considering Family A was uninformed of this discrepancy. Thinking back to scripture, he recalled an Old Testament teaching: Being honest in business will result in a long life. Sam knew his boss had the mentality of ensuring each client's outcome was equal, rather than to focus on the equality of opportunity. After all, the stakes are extremely high when dealing with the sums of money both clients had, and they expected an exceptionally elite level of care. Rocking the boat in any sense could result in the loss of employment, or even risk a client going elsewhere for service, which would be catastrophic to ABC's operation.



However, while Sam did not want to marginalize his boss's opinion, he felt very strongly that the two clients were receiving different services, and therefore different financial assets. Sam faced a difficult choice of whether to pressure his manager to pursue change and work out a solution, or to remain negligent to this ethical concern.

Should Sam confront his boss and push to alert Family A of the unfair service they are receiving, thus risk losing credibility with his boss? Or, should he continue to allot his time and effort unequally, without voicing his and the staff's concerns?

Conclusion

As months turned into years at ABC Capital, Sam's desire to follow the original parameters of the firm's agreement with the two families grew. He felt it was ethically imperative to right the ship's direction so that Family B would not continue taking advantage of both ABC and Family A's lack of awareness.

Sam decided to address the matter with his boss, the Managing Director. He first held several meetings with his team and gathered data on many points of interest, from actual hours employees were spending on each portfolio, to probable financial benefits for Family A had they been given more attention, to the growing cost of living in New York and how larger bonus payments would have offset inflation post 2008's recession and cushioned employee pension contributions.

Feeling prepared, Sam met with his boss and strongly urged him to correct the errors of the firm. While his boss agreed the current environment was not ideal, he refused to bring the matter to either of the families.

Sam revisited the problem several more times with his boss, but has yet to approach either family, as he believes it is the responsibility of the firm's leader to do so. He still works for ABC and continues to champion for fairness among the families and ABC's employees. He often uses prayer for comfort and guidance.