

Understanding a family office: the questions

Appendix A and Chapter 2. The same questions whether you are joining an office, working with one, or helping a family design its own. The answers place the office on the spectrums of the book: single to multi-family, narrow to comprehensive, small to large.

Family / office		Prepared by	
Date		Reviewed by	

Question	What to ask	What you found
Whom it serves	Whom does it serve, and how exclusively: one family, or several? If several, how are conflicts between them handled?	
Scope	Investments only, or the family's whole situation: structuring, reporting, governance, philanthropy, the next generation, the administration of the family's life?	
Scale	How large and how sophisticated: a small operation, a virtual office coordinating outsourced providers, or an institutional one?	
In house or coordinated	Which functions are done in house, and which are coordinated from outside? Who holds the whole picture?	
Decisions	How is it structured, and how does it make decisions? Is there a family council, a written statement of values, a way to resolve disputes?	
Culture	What is its culture, and who sets it? What does the family want from it: comprehensive stewardship, or a narrower service?	
Where on the path	Where does the family sit on the path from private bank to specialist advisers, virtual office, single-family or multi-family office, and where is it heading?	

The three numbers a professional should know about their own office

Question	Answer	Source
What does this office cost to run in a year, people and running costs together?		
What is that as a share of the assets it oversees, in basis points?		
What would the same family pay a multi-family office for the same scope?		

The functions of a family office: a checklist

Appendix C. No office does all of these. Mark each function: done in house, coordinated from outside, or not done. A function marked "not done" is a decision to record, not a gap to hide.

Family / office		Prepared by	
Date		Reviewed by	

Function	In house	Outside	Not done	Who	Note
Investment					
Setting the investment strategy and asset allocation from the family's goals					
Selecting and overseeing external managers					
Evaluating and managing direct investments, whatever their source					
Managing the illiquid portfolio: liquidity, commitment pacing, concentration					
Building and managing the whole portfolio, not a collection of investments					
Structuring					
Holding the wealth in appropriate structures					
Estate planning and succession					
Coordinating the tax and legal advisers so their work fits together					
Reporting					
Consolidating the family's whole financial position					
Producing clear, comprehensive and timely reporting					
Providing the information needed for decisions, compliance and oversight of the office itself					
Protection					
Managing the full range of risks, not only investment risk					
Preserving the wealth across generations					
Security of the family's money, data and information					
The family					
Supporting the family's governance					
Managing the family's philanthropy					
Educating and engaging the next generation					
Navigating the family's human dynamics, with discretion					
Operations					
Executing the family's affairs reliably, with sound controls					
Coordinating the family's external advisers					
Handling the administrative and personal matters entrusted to the office					

What the office costs, and when it pays: a worksheet

The appendix, on paper. Fill in the office line by line, then the multi-family schedule you have been quoted. The blank workbook on the same page does the arithmetic, and solves the crossover in whichever tier it falls.

Family / office		Prepared by	
Date		Reviewed by	

People	\$ per year	Running the office	\$ per year
Chief investment officer		Premises	
Chief operating officer		Technology and reporting platform	
Investment analyst		Audit, tax and legal	
Controller		Custody and banking	
Administrator		Insurance, including directors' cover	
		Travel, research, memberships	
Salaries (A)		Running cost (D)	

Step	How	Result
Employer costs and benefits (B)	$A \times \text{the rate (the appendix uses 25 per cent)}$	
Bonus pool (C)	$A \times \text{the rate (the appendix uses 30 per cent)}$	
People cost	$A + B + C$. Salaries alone understate it: compare with A.	
TOTAL ANNUAL COST (K)	$A + B + C + D$	
Cost in basis points at the family's wealth W (\$m)	$K \div (W \times 1,000,000) \times 10,000$	

Multi-family tier	Up to (\$m)	Rate	Fee at the top of the tier
First tier			
Second tier			
Third tier			
Above	no limit		—

The answer	How	Result
Tier in which K falls	the first tier whose top fee is at least K	
CROSSOVER (\$m)	bottom of that tier + $(K - \text{fee at the bottom of the tier}) \div (\text{rate of the tier} \times 1,000,000)$	
Hurdle at the family's wealth (bps)	$(K - \text{multi-family fee at } W) \div (W \times 1,000,000) \times 10,000$. Negative: the office pays for itself.	
What the arithmetic does not settle	Confidentiality, control over hiring and reporting, acting on a Friday afternoon, the next generation. Price them: hurdle $\times$ W is what the family pays for them each year.	

Is the family office world for you? A self-assessment

Appendix D and Chapter 14. Score each line from 1 (not me) to 5 (exactly me), honestly. There is no pass mark: the pattern of low scores tells you what to develop, or where else in finance you would be happier.

Name		Date	
Current role		Target role	

Quality	Statement	1	2	3	4	5
Breadth	I would rather see the whole of a family's situation than specialise in one slice of it.					
Breadth	I can coordinate specialists whose work I could not do myself, and tell when their advice conflicts.					
The long view	I am comfortable judging my work over decades rather than quarters.					
The long view	I can hold a strategy through a market fall, and help others hold it.					
Discretion	I can keep a confidence completely, including from people I like.					
Discretion	I do not need public recognition for work that went well.					
Relationships	I prefer deep, lasting relationships to a transactional pace.					
Relationships	I can earn the trust of several family members who disagree, without taking sides.					
Judgment	I can say no to a family member's pet deal, kindly and firmly.					
Judgment	I know when a question is technical and when it is human, and treat each accordingly.					
Competence	I have, or am building, a real skill the office needs: investments, operations, reporting, structuring.					
Meaning	Serving one family and its legacy across generations is something I would find meaningful.					

Your lowest two qualities, and one thing you will do about each in the next ninety days
