

DESIGNING A VIRTUAL FAMILY OFFICE®

A How to Guide

BY STEPHEN MARTIROS

The Development Plan

The Martiros Guide to Designing A Virtual Family Office provides a conceptual framework for building a family office solution using a combination of internal and external resources.

STEP 1**Identify Your Requirements**

Interview family and team, map current processes

STEP 2**Create Family Office Framework**

Develop framework, create plan and new processes

STEP 3**Conduct Due Diligence for Each Component**

Conduct research and evaluate buy vs. build choices

STEP 4**Evaluate Major Cost Components**

Conduct cost-benefit analysis and negotiate agreements

STEP 5**Build and Manage Your Family Office**

Create teams, entities, and monitoring processes

STEP 1

Identify Your Requirements

Below is a checklist of common requirements for family offices that is separated into two categories; Capital-Related (primarily investment activities) and Service-Related (everything else). Since investment activities involve different types of expertise, technology, personnel, counter-party risks, etc, they should be evaluated as a distinct set of activities within the context of the chosen family office investment model (see: *Family Office Investment Models* at www.martiros.com for more information).

Capital-Related Requirements

- Asset Allocation
- Investment Due Diligence
- Portfolio Management
- Direct Investments
- Securities Analysis
- Research
- Trading
- Performance Analytics
- Custody & Reporting
- Information Management
- Credit Management
- Cash Flow Management
- Audit
- Capital Risk Management

Service-Related Requirements

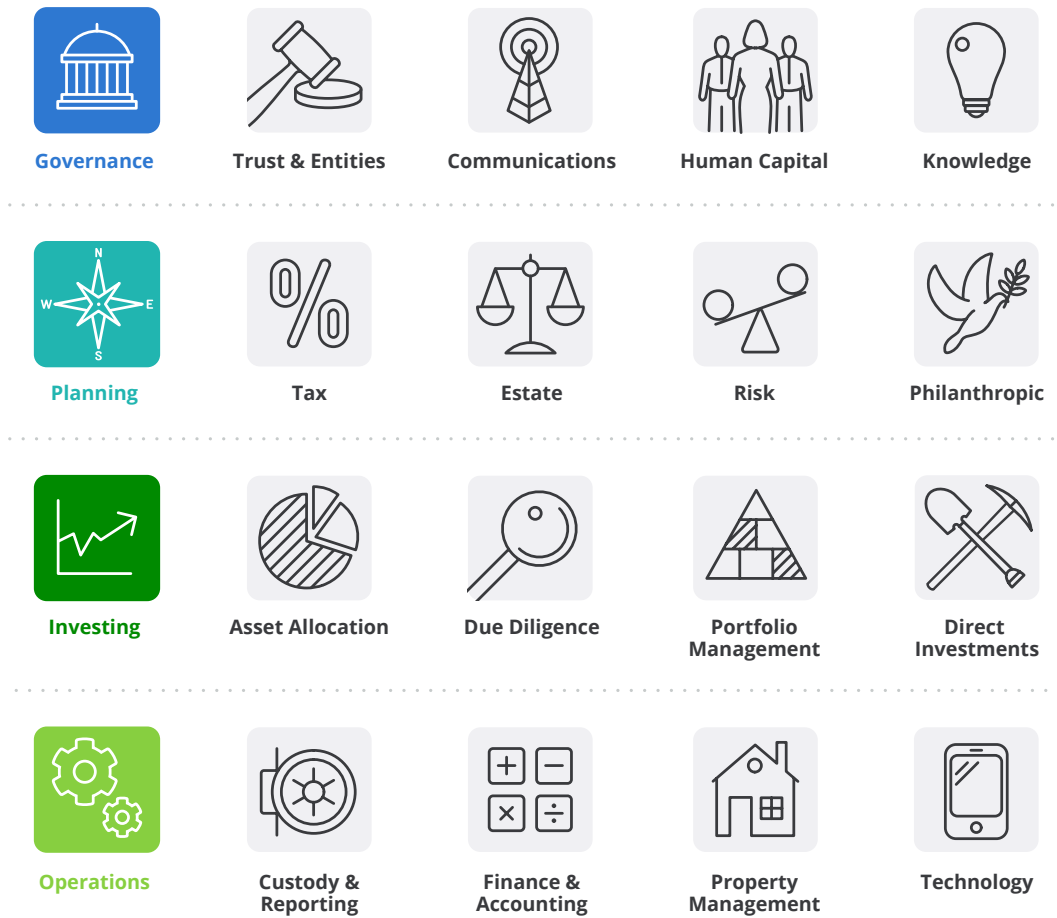
- Accounting and Budgeting
- Executive Reporting
- Risk Management
- Project Management
- Provider Management
- Property Management
- Human Resources
- Concierge/Family Help Desk
- Security Coordination
- Trust & Trustee Support
- Philanthropic Operations
- Communications
- Family Events
- Travel Services
- Aviation & Marine
- Financial Planning
- Estate Planning
- Philanthropic Planning

STEP 2

Create Family Office Framework

The Martiros Virtual Family Office Framework is designed to serve as a template for creating a family office. The overall framework consists of four layers; Governance, Planning, Investments, and Operations. By using a modular design, each component of a family office can be evaluated and sourced independently thus providing a more flexible and resilient structure.

Martiros Virtual Family Office Framework



STEP 3

Conduct Due Diligence for Each Component

It is important to create a rigorous process for conducting due diligence that incorporates input from family members, family office employees, peers, experts, and providers. Below is a checklist that can be used to conduct due diligence, and a sample decision-making matrix that can be customized to help evaluate options.

1. Identify goal or project
2. Obtain family input
3. Evaluate and prioritize requirements
4. Conduct peer research
5. Engage subject matter experts
6. Create cost/benefit analysis and timeline
7. Evaluate buy versus build alternatives
8. Synthesize findings and create options grid
9. Manage sourcing and RFP process
10. Conduct reference and background checks

11. Create Decision Matrix (see sample) →

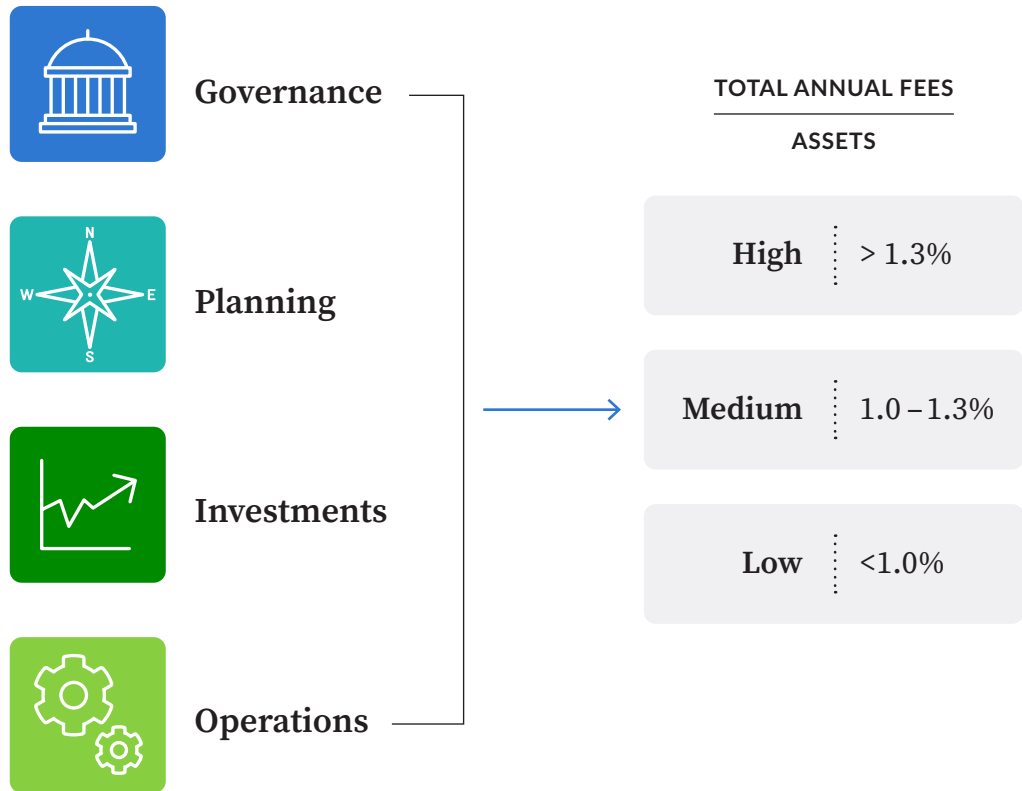
Due Diligence Matrix

PROVIDER A	2	2	0	3	5
PROVIDER B	3	5	3	5	3
PROVIDER C	5	4	5	4	5
PROVIDER D	1	3	1	4	1
	SERVICES	CAPABILITIES	OPERATIONS	REPORTING	COST

STEP 4

Evaluate Major Cost Components

The costs of running a family office include professional service fees for tax and legal services, custody and trustee fees, investment management fees, compensation expenses for family office employees, consulting fees for outsourced services, capital expenditures for equipment, furniture, and technology, and other operating expenses like insurance, rent utilities, communication services, etc. It is important to calibrate the total costs to the size of the family's asset base because ultimately these costs are a drag on net investment results.



STEP 5

Build and Manage Your Family Office

There are multiple ways to obtain services for your family office including hiring in-house employees and working with outsourced service providers, specialized consultants, project-based providers, and technology solutions.



About the Author

Stephen Martiros

FOUNDER

617.970.7740

stephen@martiros.com

Stephen Martiros is a wealth management expert with more than 30 years of experience working with private investors, family offices, and family foundations.

Stephen is the founder of Financial Building Blocks®, an online financial knowledge platform designed to help organizations provide unbiased financial education.

Previously Stephen founded and served as CEO of Summitas, an award-winning cloud software application for family offices, and served as the Managing Partner of CCC Alliance, where he helped build America's largest private network of single-family offices.

Stephen received his BS and MBA from Babson College. He is the co-founder of the Babson Institute for Family Entrepreneurship, co-founder of the Babson Financial Literacy Project, and recipient of the college's Snyder Award for Distinguished Service.