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## Multi Family Office: Theory vs. Practice

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### What is a Multi Family Office?

The concept of the Multi Family Office (“MFO”) appears to offer the best of all possible worlds for a wealthy family who isn’t ready (or perhaps large enough) to start a Single Family Office (“SFO”) of their own. Under one roof it promises a convenient repository for all documentation, reduced overhead, consolidated buying power, diversified risk management, plus economies of scale and talent. But despite their theoretical promise, in practice an MFO must manage a complex set of conflicting interests while simultaneously navigating a financial industry that is largely focused on short-term gains rather than creating long-term value.



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The literature typically frames MFOs as a stepping stone between traditional wealth management for the mass-affluent and a robust single-family office solution for the ultra-wealthy. We believe the perspective most needed – and often conspicuously absent – is from the perspective of the family itself. What organizational, operational and investment advantages might an MFO offer the family and how can a family identify those traits within an industry that is often opaque by design? This whitepaper offers an analysis of the challenges both families and MFO’s face; as well as a set of practical principles and concepts to help families who are vetting Multi Family Offices for their financial, investment and other needs.

While the landscape of the family office industry is changing, one certainty is that the Multi Family Office space will continue to grow. This is true for a number of reasons, including the changing demographics of wealth, new attitudes toward risk management, and market-based pressures to find new ways to scale the Single Family Office market to a broader segment of the population. While these new vistas are exciting, not every adaptation will be successful. These emerging trends in the family office space make a deeper study into what makes a Multi Family office successful both timely and important. <sup>4</sup>

## An RIA with a Worse Business Model?

With the rise of more holistic approaches to asset management and legacy planning, the “Multi Family office” concept is often cited as the future for the Wealth Management industry. The term is frequently used to describe a broad range of businesses involved in asset management and investment advisory work as well as a range of non-financial related services that cater to the specific lifestyle needs of wealthy families. The ‘trendiness’ of the MFO moniker from a marketing perspective makes it difficult to identify the core functions of a what

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<sup>4</sup> In our whitepaper, [“Family Office Networks, Clubs & Associations: What Would Groucho Marx Do?”](#) we make the distinction between “open” and “closed” MFOs. This paper is focused on open MFOs as they are open to bringing on new clients. Closed MFOs are closed to new clients and as such have no business development or sales team.

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an MFO should actually offer its clients. At the risk of being pedantic, a Multi Family office should be “Multi” in that it represents multiple families of significant wealth; and also should serve “families” with a broad range of services focused on non-investment related disciplines, including education and strategy, philanthropy, tax and wealth planning, risk management, finance, operations, and governance.

From the vantage point of a strictly returns-focused investment manager, a Multi Family Office solution typically looks like an RIA with a “worse” business model. “Worse” in this instance refers to the host of activities the MFO offers which may not themselves be revenue or profit producing. This gets at the central tension within the MFO business model and begs the question: “To what extent is their mandate to manage a family’s assets in conflict with their desire to provide a set of non-investment services to help a family define and execute on their legacy?”

The answer to this question falls in part on the MFO to clearly define their service model. But it is also incumbent on the family being served to understand what they’re looking for from an MFO. It should go without saying that if a family is only concerned with identifying the best asset manager(s) for their investments, an MFO is probably not going to be a best fit. There are specialist managers who solely focus on specific investment strategies and asset classes that are more likely to be able to generate consistent ‘alpha’ than a generalist MFO that is managing the complexity of multiple family’s overall asset allocations. On the other hand, if you and your family are beginning to think more broadly about wealth management, especially as it relates to the management of complex trust structures and multigenerational legacy plans, then a Multi Family Office may offer a good balance between the investment management and family office advisory services you need. The important thing is to recognize that, almost by definition, since no firm can be “the best” at everything, by choosing an MFO you are de facto

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making a compromise. Either you will get great investment performance or great family office services, but it's unlikely you can get both under one roof at a price that makes sense.

## Best Practices and Diligence Considerations

Although the Multi Family Office landscape is changing, the more resilient and time-tested MFOs typically exhibit common characteristics. Ultimately the most important factor to evaluate is their advocacy as a fiduciary for their clients (versus their veracity as asset gatherers). This evaluation includes both the way they demonstrate their ability to act and advise in your best interest, but also their awareness and transparency regarding conflicts of interest (especially when it comes to the services they are financially rewarded or incentivized toward). Taking extra qualitative steps as a fiduciary to flag or avoid conflicts is often what separates the best from the rest. In order to assess the strengths and weaknesses of any particular MFO, we recommend using the following three lenses: 1. Fees; 2. Business Structure and Ownership; and 3. Typical Client Profile.

### 1. Fees

The most important aspect of an MFO's fee structure is its transparency and alignment. The structure should be completely transparent and easy to understand. There are two common structures: a). AUM Based Fee (typically ~1% p.a.)<sup>5</sup> or b). Base Retainer, with an à la carte menu of services that have associated costs.

a). The biggest challenge for the AUM based fee model is twofold: first, the MFO's ability to balance its desire to increase AUM, by finding new clients, with the necessity to best

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<sup>5</sup> What is included as a countable asset is important here. In theory, a true MFO will manage all the family's assets, including a broad spectrum of assets as well as the family's operating business. Under the AUM model it's especially important to understand how the fiduciary standards of the MFO align with the family's desired allocation strategy, which will likely involve both liquid and illiquid investments.

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serve the existing client base. And second, the fact that the MFO is providing non-investment service work under the aegis of an investment service fee structure. This leads to the situation where the MFO looks more like an RIA “with a worse business model,” since AUM fees are directed toward business lines that themselves are not revenue generating (and are essentially loss-leaders for the core investment management service). The biggest strength of the AUM fee model is its simplicity: one fee charged once per year and in turn you have complete access to every service the business offers (and then some). This level of transparency, at its best, can help facilitate a unique kind of bond between the family and the Multi Family Office team, where the family feels comfortable bringing any kind of project or vision to the MFO for discussion and execution.

b). A base retainer plus services menu model solves some of the problems of the AUM model but is not without its own challenges. Chief among these is complexity and the uncapped nature of the potential cost to the family. Service items can be complex and adding a layer of scoping and pricing of projects on a case-by-case basis adds negotiation and deliberation that can slow down operations. From the perspective of behavioral economics, individuals may become deterred from important work simply because they believe the costs are too high, or they can’t get comfortable with the scope of work process. Although this model has the potential to allow a family to specifically tailor services to their needs, it risks a financial barrier between the MFO team and the family, which can extend to matters of trust (especially if the family feels like every problem they raise ultimately leads to a discussion of scope of work and additional cost).

A common way to split the difference between these two models is simply to charge AUM on actively managed assets and then also charge a retainer fee for the broad spectrum of services that the MFO provides. While this blend creates an added layer of complexity, it can

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help separate out conflicts of interest associated with paying for non-investment services through investment performance. A detailed service level agreement can also help!

## 2. Business Structure and Ownership

As a general principle, MFOs that are privately owned and operated tend to be more aligned with the needs of their family office clients. Private ownership is important, if only for the fact that public ownership puts shareholder outcomes above all else. The quarterly demand to show growth and profitability to shareholders does not usually align with the long-term design and strategy for families thinking about multi-generational legacy (or even simply a structured philanthropic wind-down process for the founders to give much of their wealth away in their lifetime).

An equally important aspect from a business design perspective is how the office handles sales and client service. The most effective way to manage an AUM model is to separate the Sales division from Client Service division. This division of labor allows the sales team to focus wholly on finding new families that the business can serve, while the client services division can wholly focus on serving the current clients to the best of their abilities. Conflicts of interest emerge when individuals are required to recruit new families while also serving current families. This is not a strict “red flag,” but when evaluating a Multi Family Office that mixes sales with services, take extra time to understand how the business manages this inherent tension. Finally, how does the MFO identify, attract, and retain top talent? Is there a lot of turnover within the client services division and are the current employees happy, efficient and friendly?

MFO’s often emerge out of a particularly successful Single Family Office that is opening up its platform to other families to monetize the investment it has made in technology, talent,

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and systems. The provenance of an MFO is an important consideration. If the MFO still serves the founding family, how much attention will you get before their needs are serviced? If the MFO was founded initially as a family trust, how will that impact the types of investments you will have access to? Does the structure of the MFO have any implications for tax planning or intergenerational transfers of wealth? These are just some of the many questions you should be asking when considering an MFO to serve your family.

### 3. Client Profile

Simply put, does your family look like the current roster of families served by the Multi Family Office from the perspective of structural complexity and net worth? While MFO's may say they deliver the highest level of service equally to all their clients, the pragmatic reality of running a business means that some families will command more time and attention than others. Understanding the workload and coverage demands for those that will work with your family will help you understand this from the perspective of business operations, but it is also helpful to consider this issue on a more absolute basis in terms of what percentage of the business your family would represent in comparison with other client families. And, if the squeaky wheel is going to get more grease, then you may want to consider how that will impact the level of service you can expect from your chosen MFO provider.

### Conclusion: Disruption in Private Wealth Management?

The Multi Family Office model continues to evolve and there is an increasing proliferation of business models that appear to be disrupting the traditional Private Wealth Management industry. Virtual Family Offices, Fractional Family Offices, and even exclusive Co-Working Spaces all represent ways the industry is evolving to bring the knowledge and insight of the family office model to more families. However, we recommend you proceed with caution. While the promise of innovation is alluring, it is always important to analyze and understand

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the fundamentals of a business, especially when that business is your family. Be sure to ask hard questions around MFO structure, conflicts of interest, transparency, fees, service levels, alignment, incentives, and performance. And always keep in mind that no firm can be “the best” at everything, by choosing an MFO you are de facto making a compromise.

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