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
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.
## 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

<table>
<thead>
<tr>
<th>SERVICES</th>
<th>CAPABILITIES</th>
<th>OPERATIONS</th>
<th>REPORTING</th>
<th>COST</th>
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<td>PROVIDER D</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>
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.
Build and Manage Your Family Office

There are four ways to obtain services for a family office, hire in-house employees, work with retained consultants, partner with outsourced service providers, and for specialized or one-time services, work with providers on a periodic basis.

Capital Functions
- 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 Functions
- 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
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- Financial Planning
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- Philanthropic Planning
About the Author

Stephen Martiros

Stephen Martiros is a wealth—management expert who has advised private investors and family offices for more than 25 years.

Stephen is the founder of Financial Building Blocks®, a modular education system that helps people master the basics of personal finance. This proprietary software application is effective for both individual and group learning, and is easily tailored to the specific needs of individuals, families, companies, and organizations.

Previously, Stephen founded and served as CEO of Summits®, an award—winning cloud software company that provides family offices and investment advisors with a secure platform for creating a virtual family portal and an encrypted digital vault. He was awarded multiple patents for interactive advertising and an animated user interface for computer displays.

Stephen also served as the Managing Partner of CCC Alliance, where he helped build America’s largest private knowledge network of single—family offices, and led CCC Alliance to the “Family Office of the Year” award presented by Institutional Investor’s Private Asset Management magazine.

Stephen began his career as an investment advisor with E.F. Hutton (now Morgan Stanley) and later worked with Alex. Brown & Sons (now Deutsche Bank). He received his BS and MBA from Babson College, where he serves on the Board of Overseers, and is a recipient of the college’s Snyder Award for Distinguished Service. He lives with his wife and children in suburban Boston.

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