

Real Quality Control for the Family Office



*By Dr. iur. Frederick Metz Shepperd
CEO Shepperd Investors AG, Küssnacht*

In the aftermath of the global financial crisis, family offices are correctly taking more control of their investment decisions. A 1% fee agreement for asset management all too often turned into fees direct and indirect of 5 to 12%, depending on the hidden fixed transaction-fee charges that were, to be kind, part of the fine print. However, now that they are in their hands, how do they assure that they are making the right choices at the right time? Not only what decisions should be made when, but who should make them and how to make certain that there is a check and cross-check process to avoid having a mess on their own watch.

New standards

Yes the “who” question is also important. Family offices have discovered various finder’s fees and other payments to their employees or trusted advisors that focused their attention often on the amount of the fee and not the return on the family office’s investments. Almost 20 years ago, the manufacturing world developed a system of quality-control procedures known as ISO 9000. It provided an international standard (from the International Standards Organization in Geneva) for manufacturing and services businesses to review

the quality of their work and to document the process of a business the same way around the world.

Now there are standards developing, and some readily available, for family offices to use. The Institute for Wealth Management Standards, based in the U.S., has developed a remarkable set of review processes not unlike ISO 9000 for the manufacturing world. They cover the areas of family-office governance, risk management, investment management, oversight as well as monitoring family-office operations. The standards call for clarity in wealth management and include:

- Separation of custody of assets and investment management
- Complete transparency of advisors’ fees
- Full disclosure requirements to prevent conflicts of interest
- Standards for compensation of family-office executives
- Discouragement of investment vehicles without transparency or liquidity
- Insistence on customised investment portfolios meeting the needs of the owner
- Ensuring that wealth holders serving as trustees or investment-committee members are aware of their fiduciary duties
- An investment strategy that can be readily understood by wealth holders

The standards also create a new position within the family office. It can be a family member or a trusted advisor with the title of “Standards Director”. “This person is responsible for ensuring that every wealth holder – and its individual members – receives advice and service consistent with the standards. The Standards Director can engage assistance, turn to auditors and may ultimately be able to secure certification.” It can be one of the existing family-office members, but it is an important, independent function, not unlike the quality manager in a produc-

tion facility. The standards can be found at www.wealthstandards.org.

Developing clear universal standards is the next real step in the evolution of wealth management. It is actually a benefit for advisors as well. Clear guidelines from family offices are often conflicting or difficult to obtain. The hope is that the standards will help families and family members “get back to leading their lives and enjoying freedom from the burdens of wealth”. That will be good news for everyone.

The standards are further developed by quality-control expert Don Trone and Charles Lowenhaupt, an expert on family-office governance, who also have written a successful book on the topic. They are helped by Campden Media, an organizer of family-office events. All saw the need for the standards around the world. In an industry known for its high level of regulation, now come objective, independent standards in the family-office space, where, in fact, there are none.

Ask the right questions

It provides family offices a set of standards in order to ask the right questions of their advisors and family-office team. However, they need to make it a team effort for self-improvement. Look for the positive results that will come from the process as much as the end result. It is a great way to deal with some tough issues. Of course, there will be situations where the owner flashes the standards in front of his advisors and it results in real fireworks, but that is part of the process. It will not make a bad deal good, but will certainly help avoid some of the very bad deals and some of those “black swans” flying around the investment world.

Family-office owners have been forced to look much closer into family-office operations, policies and procedures and few are properly equipped to do the job in a proper way. It is time to look realistically and professionally into ways to improve family-office operations and the standards are a great starting point for everyone.

fmshepperd@shepperdinvestors.com