



*Single Family Office blind spots:  
Practitioner perspectives on the  
10 most common Missteps*

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Part 5 of 5

# Misstep #9:

## *Lack of Operating Memorandum*

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### **The Missing Link in Family Office Management**

A common oversight in the family office sector is the lack of an operating memorandum. While some offices may possess fragments of such a document, a comprehensive version that consolidates all activities, stakeholders, and processes is often missing. This absence represents a significant gap, as the operating memorandum is an indispensable tool for any Single Family Office (SFO).

### **The Multifaceted Role of an Operating Memorandum**

The operating memorandum serves several crucial functions:

1. **Family Guidance:** It provides a clear explanation to family members about the family office's purpose and mission, as well as the roles and responsibilities within it.
2. **Employee Onboarding and Training:** The document serves as a manual for both current and new employees, elucidating the office's operational procedures and collaborative networks.
3. **CEO's Operational Review:** It aids the CEO in the regular assessment of processes and stakeholder

relationships within the family office.

4. **Risk Mitigation:** The memorandum helps to alleviate the risks associated with over-reliance on key individuals by documenting essential processes and procedures, thereby preparing the office for potential disruptions or transitions.

### **The Importance of Regular Updates**

Ideally, the operating memorandum should undergo an annual review and update. When well-crafted and maintained, it can become a transformative asset for any family office.

Generally, many SFOs suffer from a lack of documented policies and procedures. The absence of an operating memorandum is a significant oversight that directly addresses this issue in a centralized manner. This document not only clarifies roles and responsibilities for family members and staff but also equips the CEO with a tool for ongoing assessment and improvement. By tackling this misstep and instituting a comprehensive operating memorandum, family offices can significantly enhance their operational efficiency and overall effectiveness.



# Misstep #10:

## *Neglecting a Holistic Wealth Perspective in Strategic Asset Allocation (SAA)*

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### **The Competitive Landscape of Asset Management**

The asset management industry stands as one of the most competitive sectors globally, with only a select few achieving consistent success over time. Dominated by sovereign funds, pension funds and central banks, individual investors and family offices often find themselves somewhat on the periphery.

### **The Asset Allocation Conundrum**

In our workshops, we often pose a fundamental question: “Where do you believe performance comes from?” The industry consensus, based on seminal studies, suggests that 75-90% of the variability in a portfolio’s returns can be attributed to strategic asset allocation, while factors like stock selection and market timing contribute to the remaining 10-25% of the variability[3]. This leads to a pivotal question: Where should a family office focus its resources?

### **The Pitfalls of Narrow Focus**

Investment committees often get entangled in the allure of individual stock stories, or alternative investments fables, frequently peddled by private banks. These narratives may constitute only a small fraction of the portfolio but tend to consume a disproportionate amount of discussion time. While stock selection has its place, the process for determining a family’s SAA is often less robust. Risk tolerance questionnaires are commonly employed, but they seldom capture the full complexity of a family’s financial situation.

### **The Need for a Holistic Perspective**

Many family offices fail to consider the family’s entire wealth spectrum, which often includes not only the

family business but also real estate, art, and collectibles. This oversight leads to a dislocated approach. While some aspects, such as cash flow and currency considerations, may be well-managed, other crucial factors like interest rate sensitivity and geographical diversification are frequently overlooked. For example, if a family business is burdened with debt and sensitive to interest rate changes, the bond allocation in the SAA should be adjusted accordingly.

### **Asset Characteristics and Family Wealth**

Family wealth is often a complex blend of various asset classes, each with its unique characteristics and trade-offs. For example, family businesses are not only long-term revenue generators but also sources of pride, family unity, and social capital. However, they are often illiquid, requiring considerable time to sell.

In the investment portfolio, traditional assets like stocks and bonds offer unique advantages in terms of liquidity and divisibility. They can mold to complement other asset classes, such as real estate or collectibles, providing essential diversification. Moreover, this adaptation can be achieved quickly.

Much like a master chef carefully selects and blends ingredients, each contributing its unique flavor but reaching culinary excellence only when combined in the right quantities and at the right time, so too does the art of asset allocation lie in finding the right balance among various asset classes. Given these diverse asset characteristics, family offices must adopt a holistic approach to SAA. This involves tailoring the investment portfolio to complement the family’s financial ecosystem, thereby maximizing overall wealth. Adopting such a comprehensive approach is not merely best practice; it’s essential for the family’s long-term financial success.

# Conclusion and final words from Gregoire

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## The Imperative of Self-Awareness

The journey of managing a SFO is akin to navigating a labyrinth. Each turn presents its own set of challenges, and the path is rarely linear. This chapter has illuminated ten most common missteps that SFOs encounter, offering a roadmap to navigate this intricate landscape. The key to successfully traversing this maze lies in self-awareness. Understanding the unique intricacies of your family's wealth, objectives, and dynamics is the compass that guides you through the labyrinth.

## The Convergence of History and Modernity

The concept of the family office is deeply rooted in history, transcending geographical and cultural boundaries. Yet, the modern SFO faces challenges that are unique to our times—digital security, governance structures, and the complexities of global finance. This duality underscores the need for a balanced approach that honors historical wisdom while embracing contemporary solutions.

## The Symphony of Governance

Governance in an SFO is not a solo act but a symphony. Each player—the CEO, the investment committee, the family members—has a role to play, and the music is most harmonious when everyone is in tune. The pitfalls often arise when roles overlap or when key players are missing, leading to discord. Instruments like a comprehensive Operating Memorandum, a well-defined Investment Policy Statement (IPS), and a clear mission statement serve as the sheet music, guiding each player in their role.

## The Illusion of Templates

The allure of convenience often leads SFOs down the path of one-size-fits-all solutions. This approach is akin to shoehorning something into a space that doesn't quite fit; it's not only ineffective but can also cause damage. The uniqueness of each SFO demands a tailored approach, one that is aligned with the family's specific needs, objectives, and values.

## The Holistic Wealth Ecosystem

Finally, the concept of wealth in an SFO extends beyond mere financial assets. It encompasses the family business, real estate, art collections, and even intangibles like reputation and social capital. A truly effective SAA considers this holistic wealth ecosystem, ensuring that each asset class complements the others, thereby enhancing the family's overall wealth and long-term sustainability.

## The Road Ahead

As we move forward in an increasingly complex and interconnected world, the challenges facing SFOs are unlikely to diminish. It's important to recognize that SFO's are not static institutions; they must evolve to meet the changing needs of the family across generations. Moreover, staying attuned to the opportunities that digital evolution can bring to both the family and the family office is essential. By being cognizant of these common missteps and actively seeking to avoid them, SFOs can not only navigate the labyrinth but also find the treasure that lies at its center—a well-managed, sustainable family legacy.

## Final Thoughts

I extend my deepest gratitude to those who have allowed me to share these insights and, more importantly, to you, the reader, for investing your time in this chapter. By adhering to these practical guidelines, you're doing more than just sidestepping pitfalls; you're actively contributing to sound governance and effective wealth management that can benefit future generations. May this chapter serve as a valuable guide in fortifying the resilience and ethical standards of your family office. Best of luck on your journey toward building a more robust and responsibly governed family office.

*Sincerely,*  
*Grégoire Imfeld*

# Commentary from Agreus

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Regarding the points made in Misstep #9, we see that having an operating memorandum which documents all the activities, stakeholders and processes is something that only a small number of highly professionalised Family Offices adhere to. This is certainly a practice that we recommend. While creating such a document can be time-consuming and arduous, it helps establish a framework often missing in many Family Offices for the reasons stated above. On the other hand, understanding your purpose can help give clarity to decision-making and act as an internal guide for operations.

The only caveat to this is that a memorandum is only as good as its execution, which lies completely in the hands of the people running the Family Office. This brings us back to the importance of building the right team. With succession planning being a priority for most Family Offices and their beneficiaries, an operating memorandum can serve as a valuable fallback tool for guiding operational decisions too.

Regarding Misstep #10, - While no two Family Offices are the same, we notice that broad diversification of assets is a common trend among our clients, especially for those whose purposes are long-term wealth preservation. Interestingly, the author also points out a common mistake we see in Family Offices, where despite having an SAA spread across various asset classes, they

still tend to be concentrated in regions or industries they are familiar with. Though it is easier said than done, the ultimate goal must be to take a holistic view, including the operating businesses and the investments, to achieve a truly balanced SAA.

The author has already alluded to the important role of investment committees, but we want to take this further. The assumption here is that this should be common practice among Family Offices, but more than 40% of respondents in our Global Family Office Compensation survey confirmed that they do not even have a formalised Investment Committee in place. We would like to emphasise the importance of creating the right investment governance structure and establishing a formalised Investment Committee as a starting point.

All things considered, our biggest takeaway from this report is that in order to ensure you don't fall into these common missteps, you need to have the right people in your Family Office, guiding and driving the purpose.

***The biggest asset in a Family Office is and will always be the people who run it.***



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