The Family Office Challenge
One Wirehouse Advisor’s Transition to Managing a Family Office

I&WM: How have things changed and what’s different about your role since you began running the Meredith family office in 2001?

Scott Mullen: It’s been a dramatic change. I started at Drexel Burnham in Beverly Hills in 1986. For another 11 years I was at Salomon Smith Barney in Los Angeles, where I had a team of five individuals and grossed over $2 million a year, with about 200 families, running a big discretionary equity portfolio management business along with a sizeable municipal bond business. When I moved to Austin to run Tom and Lynn Meredith’s family office, it was a whole different world. The first six months of my career here, I literally felt like I was drowning every day. I just could not keep up with the pace of activity. Obviously, working for a technology family has a lot of additional implications, which added to my stress. I survived and here I am seven years later with a much deeper understanding about running an investment business and a family office. There’s a whole different investment world out there than you are exposed to by working for one of the major sell-side Wall Street firms.

I&WM: Many IMCA members run the type of practice that you had prior to this. What are some of the challenges running this family office?

Scott Mullen: If you had told me seven years ago that one family could keep 20–25 employees busy beyond their wildest dreams as opposed to my previous role in working with 200 families, I never would have believed it. In my days at Salomon and Drexel as financial advisors and portfolio managers, my team was focused on four main areas: investment performance, assets under management, customer service, and fees and commissions. Here I have a whole different agenda. In running a family office you have to wear many more hats and have a lot of expertise in a lot of different areas. If you do not have the expertise needed, you need to know where to find it. I was initially tasked in helping find our office space, hiring employees, writing investment policy statements, instituting our company mission and values statement, deciding on our organizational structure, implementing multitudes of process, conducting annual employee reviews, etc. Hence, my drowning for the first few months.

The Meredith family also has a large private family foundation. As I began to sit on that board, I had to gain a lot of knowledge in both the philanthropic and nonprofit world. Setting the asset allocation for that pool of money was just the beginning. Managing people with a variety of job roles and expertise, coupled with a much different set of company expectations, creates a different working environment than most Wall Street firms provide. Add in a high-technology family office and the work variables multiply. I remember in the old days I’d get probably anywhere from 35–50 e-mails each day in my inbox, mostly research. I was clearing most of those out before I left at the end of the day. At any given time now I have between 500 and 800 e-mails in my inbox— and that’s after I’ve deleted the junk.

I&WM: Where do the e-mails come from? Are you actively engaged in communication with the family to the extent that the e-mails are being generated, is it the 20–25 employees, or a combination of both?

Scott Mullen: It’s a combination plus outside firms and vendors trying to get a moment of my time. Working for the Merediths has been a great opportunity for me. They give me a lot of discretion over a lot of different areas. I pick the things that I really have the most passion for and then delegate to our team. Now that I’m sitting on the other side of the investment table, I get calls and e-mails all the time about people trying to pitch to me, whether it’s public or private equity, fixed income, hedge funds, cash management, or real estate deals. You name it, we get solicited. It’s a much different world than Wall Street because I really have nothing to sell other than client service and investment performance for one family. Basically, we were charged with three things in the beginning for the family office: simplify the family’s life as much as possible, generate positive returns in...
both good and bad markets, and create an environment that is fun for the employees—fun meaning a creative and learning environment in which they can professionally grow and evolve.

**I&WM:** Was this the Meredith family’s first stab at having a family office?

**Scott Mullen:** Yes. Tom Meredith used to keep lots of his investment and financial records in boxes in his bedroom, much to the chagrin of his wife Lynn. He had thought about setting up a family office for quite some time as he was winding down his career at Dell Inc. The first thing Tom did after we got started was to give all those packed boxes to our newly hired general counsel. Lynn became much happier. Seven years later we’ve learned a lot of lessons and are doing a lot of things reasonably well at MFI. That’s not to say there aren’t areas for us to improve on. We as a team are always setting new goals to improve efficiency and drive results.

Over the years, I’ve become actively involved with other people who run family offices. Several years ago, we opened up our books to Fidelity’s Family Office Services Group with some of their initial family office platform beta projects. They came in and spent 2–3 days with our team. At the end, I asked them a very simple question: What is different about our family office than all the other family offices that you have visited? Within their beta mix, Fidelity had a variety of family offices, from first-generation to third-generation. The biggest difference, they said, is that we run our family office like a business. Many family offices have a matriarch or patriarch that writes checks to cover most of the services and expenses. But we at MFI are charged with making a profit and covering our overhead expenses each and every year no matter what the market conditions.

We have monthly and quarterly meetings with both Tom and Lynn Meredith that focus on asset allocation, investment performance, household spending, cash flow, balance sheets, income statements, real estate, insurance, risk assessment and management, and the MFI Foundation, to name a few. We are data-driven, which leads to information, which leads to analysis, which hopefully leads to wisdom.

**I&WM:** Do these monthly and quarterly reviews include just Tom and Lynn, or do they also include other family members?

**Scott Mullen:** The Merediths have four children. We also have some meetings with them. One, Will Meredith, actually works for the family office on the real estate side. In addition, we have them involved to certain degrees within our MFI Foundation board meetings, which is an all-day affair at least once a quarter. Also as a family office, we’re charged with educating and exposing them to a wide variety of financial, investment, and philanthropic issues.

**I&WM:** What advice would you give to individuals who are aspiring to do what you did seven years ago? Give up a lucrative career and move across the country to take this role?

**Scott Mullen:** The most important thing, whether it’s a family office or any other business that you’re starting, at the end of the day, it all comes down to the people. You’re only as good as the people that you work with. Obviously, I made some mistakes in the beginning with the types of people that we hired. Quite honestly, the types of individuals you need in the beginning are not necessarily the types of individuals that you need later in the growth of your organization or to get you to the next level, whether that’s three years, five years, or seven years. Looking back, one of the most pivotal hires that is important for any family office is a great chief financial officer (CFO) and an in-house general counsel. We started out with a controller that kept track of all the financials. A couple years ago I told Tom that we needed to make the leap for an executive package that we were willing to offer for a CFO. We needed to hire a finance person who would actually bring their analysis, opinions, and convictions around our financial matters rather than just compiling and printing the numbers. Since Tom is a recovering CFO, that was not a difficult conversation. Kim Rose, our current CFO, was a critical hire for us.

Another critical hire for MFI was our in-house general counsel. A lot of family offices outsource a wide variety of tasks and roles to third parties. Our family office is distinct in that we do a lot of things in-house. We prefer to hire experts in the different areas that we work in rather than outsourcing them. This is not to say that we don’t outsource some areas, but we generally do most of the critical-thinking tasks in-house. One area that we have greatly outsourced is our public equity investments. Seven years ago if you would have told me that I would have outsourced much of our capital to third-party investment managers, I never would have believed it. That is because one of the things that I loved to do was to trade. However, it quickly became apparent to me that, with all the different hats that I wear, I just didn’t have time to sit in front of four computer monitors and track the market like I used to. I still keep a couple accounts that I like to trade, but my primary job now is to create an overall asset allocation and allocate those assets to the best managers while monitoring portfolio risk.

**I&WM:** What are the two or three things about the job that energize you?

**Scott Mullen:** Just being exposed to such a wide variety of different investment options and opportunities than is typically found at Wall Street firms is energizing to me. One of our other affiliate companies, Meritage Capital
I, was a fund-of-hedge-funds business that was started five years ago with two different funds of funds with different investment objectives. We’ve always invested in hedge funds, but we recently offered our team’s expertise to outside investors. We now have a second office in downtown Austin. It is extremely energizing to be exposed to the best and brightest minds in the hedge fund world. These managers are typically hard closed to new investors, but Meritage Capital has often been able to gain capacity for our investors through symbiotic relationships. Meritage Capital’s investment results are a testament to this process. It also is fascinating for me to witness the vast due diligence that both Meritage Capital and the individual hedge fund managers put forth in constructing their portfolios. It is certainly difficult to go back to my own trading desk and execute trades after being in their presence.

At the end of the day, I have a passion about investments and I’m a huge fan of learning. Our particular MFI asset allocation strategy has been modeled after some of the better-known endowments in the United States. For example, currently we only have a 20-percent exposure to the U.S. domestic market, which still seems like too big an allocation given current market conditions. Our portfolio returns since I’ve been here have been good and positive every single year. As you might be able to tell, I can get quite passionate about being competitive and results driven.

*I&WM:* Is it fair to say that the chief investment officer hat is your favorite?

**Scott Mullen:** Absolutely. Going back to an earlier point, it’s all about the people and the team. My passions are not going to be the same as our CFO, general counsel, estate manager, or administrative personnel. It’s all about finding the right people and matching our organization’s needs with the expertise and passion that those individuals can bring to the table for us. Knowing that I was in over my head in MFI’s infancy, I joined Dan Sullivan’s Strategic Coach Program in Chicago, which many of your readers have attended. I was in Dan’s program for over four years, which helped me immensely with a lot of the entrepreneurial aspects of running and starting a new business. Also, joining Young Presidents’ Organization (YPO) four years ago has proved to be invaluable.

*Scott Mullen:* I usually set our asset allocations for the year in January or early February and rarely change them during that year. Once we make our asset allocation we rebalance quite regularly, sometimes several times a month. In the fourth quarter of 2007, we began to become more cautious with some of the things we were hearing, especially from our hedge fund contacts, and we became a little bit more defensive. I cut our exposure, which has never been that great, to the U.S. domestic equity market and cut our exposure a little bit overseas. We’ve always had a pretty sizeable allocation to absolute return funds and other asset classes such as real assets, which can include real estate, private real estate investment trusts, raw materials, timber, and commodities, which obviously has benefited us greatly in our performance this year. I also raised some cash when the credit markets first broke and luckily sold all of our auction rate securities. I started my career in the fixed-income arena, so I understood some of the early signs to look for in a deteriorating credit market.

Yes, the market does worry me. I don’t think it’s going to get better any time soon, and we’ve made our asset allocation based upon that. Another big difference of running an investment portfolio for a family office rather than running portfolios for households at a Wall Street firm is the additional asset classes you can get exposure to. We do more than just stocks, bonds, and cash. This is in addition to also being able to play the short side of markets. Obviously, a real key to wealth preservation or wealth growth is to protect your assets in a down or bear market. We are not buy-and-hold investors.

It takes 3.3 years on average after a bear market to get back to even. That is too long a timeframe for our liking. Given a choice, I would much prefer to outperform in a down market than outperform in a rising market. Again, MFI pays me to create positive absolute return in any given year.

*Scott Mullen:* You’re in the beginning and the end of the investment decisions? Are you a committee of one?

*Scott Mullen:* On the public side I typically am. I have two to three other people on my investment committee with whom I often consult. I typically set the asset allocation, find the managers, and execute the trades. We have another individual, Mark Mouritsen, along with Tom Meredith, who is responsible for private equity investment decisions. Presentations to the investment committee often are made, culminating in a vote to invest or pass. On the real estate side, Tom Patton and Will Meredith bring our investment committee real estate deals to consider. I set the overall asset allocation every year, with input from Tom Meredith, and then we fund based upon that
allocation. In the absolute return class with the hedge funds, we often piggyback our due diligence with Meritage Capital.

**I&WM**: What about the idea of philanthropy and the education that you do for the children? Are the parents involved in those discussions or is that something that’s strictly part of your job description?

**Scott Mullen**: Obviously, philanthropy and giving back to the community are an integral part of the Meredith family’s philosophy about life. Several years ago, Tom and Lynn were interviewed by Barron’s because of their unique philanthropic attitude in making a difference in our world today. They’re pillars of philanthropy in the Austin community. Therefore, the children learn a lot just by their parents’ example of what they’re doing in the community. It’s much easier to write a check for a lot of people, but the MFI Foundation demands accountability and organizational performance for these monetary grants. So, we often have personal follow-up visits with a lot of these nonprofit organizations. The Merediths are great in taking their children along on site visits to the different charities that the MFI Foundation gives grants to. Site visits often are great teachers for the types of philanthropic values the Merediths are trying to instill in their children.

At their dinner table, during regular family vacation trips, Tom and Lynn always are talking about philanthropy. At MFI, we actually hit philanthropy with the Meredith children from a multi-prong approach because we have found that using other individuals often helps get the ideas across faster and deeper. Even great kids do not just only listen to their parents. We bring in professionals that we’ve used throughout the years to have discussions with them. One of the great things that we also do at the MFI Foundation level is that we give, based upon the child’s age, a certain amount of money that they are responsible for giving away to 501(c)(3) organizations each year. The children will have to report back to the board the reasons they chose the organization as well as report back on the grant’s progress. When the Meredith children first got their individual MFI Foundation money to allocate, they typically gave to the schools that they were attending. Over time they are becoming more involved in a wide variety of different philanthropies that interest them.

**I&WM**: When do you begin handing over piles of philanthropic money for them to make decisions on?

**Scott Mullen**: The Merediths started giving their children MFI Foundation money to allocate at age eight for the youngest one. For the three older children, the MFI Foundation came into existence when they were in their teens, so they’ve all learned through this process. This obviously is a very important philosophy. The bulk of the Meredith assets at Tom and Lynn’s death actually will go to the MFI Foundation. That will be one of their legacies, so it’s very important to teach their children the importance of giving back and to create a desire for them to become involved in that giving.

**I&WM**: Not much different than Warren Buffet?

**Scott Mullen**: Absolutely. As parents, you want to give your children enough money that they don’t have to worry, but you don’t want to give them so much money that it takes away their drive and passion for the things that they want to pursue in life.

**I&WM**: That’s a delicate balancing act.

**Scott Mullen**: That’s exactly true. That’s the issue that keeps a lot of wealthy individuals and families awake at night. It’s not necessarily their investment returns or their asset allocation. It’s how to raise responsible, well-adjusted, loving children who are good citizens that give back to their communities and the world at large.

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