FundCount
WE GO BEYOND THE NUMBERS

Family Office Focus: Efficiency in Accounting and Investment Analysis

A deep dive into the key technological and operational challenges specific to family offices.

FAMILY WEALTH REPORT
North American Family Office Intelligence

Contents

Foreword

FundCount is pleased to sponsor *Family Wealth Report's* latest research report, ***Family Office Focus: Efficiency in Accounting and Investment Analysis***.

Single and multi-family offices face significant challenges in achieving operational efficiency for back-office accounting and reporting. Time-consuming manual processes such as rekeying data into multiple systems and aggregating information from investment managers or custodians, as well as an over-reliance on spreadsheets can make efficiency elusive.

There are also direct and indirect costs to consider. Lost efficiency and insights mean lost investment opportunities, and this degrades wealth-building over the long term. Similarly, workflow involving too many manual tasks results in errors and unnecessary risk, which ultimately impacts cost of operations and investment decisions.

While family offices are satisfied with certain aspects of their existing accounting and reporting systems, the results of this report indicate that gaps remain. The need for dual entry into QuickBooks and Excel, the lack of a "single source of truth" to facilitate data analysis and the inability to automatically download custodial data were among the top weaknesses cited by survey respondents.

What is clear from this report is that family offices of all sizes spend too much time on manual processes, including reporting. Selecting the right mix of technology solutions and providers to streamline operations is a difficult decision. A family office's structure, needs and staffing all need to be considered when weighing the various options — from best-of-breed to integrated systems to outsourced components. In the end, system success is based on accuracy, the time to prepare reports and most of all, client satisfaction.

We hope that this report will provide operational efficiency insight to help you benchmark against your peers and make wise system choices.

MICHAEL SLEMMER, CFA
Chief Operating Officer – Americas
FundCount

Executive Summary

1. Alternatives allocations generally over half; SFOs substantially more adventurous

The family offices included in this study had an aggregated 53% exposure to alternatives (e.g., private equity, hedge funds and direct investments such as real estate companies).

Multi-Family Offices (MFOs) are allocating 44% of assets to alternatives and Single Family Offices (SFOs) 60%. Within this, MFOs were found to have allocated 17% to private equity or hedge funds on average, rising to 21% for SFOs. Direct investments, including private businesses and real estate companies, stood at 27% for MFOs and 38% SFOs. Interest in cryptocurrencies has yet to translate into investment, with holdings negligible among this sample.

2. A profusion of legal entities poses many challenges

Almost two-thirds (65%) of the SFOs included in this study have 26 or more legal entities. Half of SFOs in the $51m-$250m AUM bracket and almost three-quarters (73%) of those managing $251m-$1bn have over 26 legal entities.

Overwhelmingly, this is also with relatively few staff: 87% of SFOs which use more than 26 legal entities have fewer than 20 employees.

3. Manual work, system "ping-pong" and a lack of look-through reporting big pain points

The top-three system weaknesses family offices are suffering from are a prevalence of manual work; still having to use QuickBooks/Excel; and, relatedly, not being able to account for, analyze and report on all investments in one system.

Tied as the fourth biggest weakness of respondents' main systems were a lack of consolidated reporting for family and sub-family groups across entities and investments; and custodian/broker/investment manager data not being automatically aggregated and downloaded.

4. Speed the standout KPI (and the key to others)

Time taken to produce reports/reconcile data is the most commonly utilized Key Performance Indicator (KPI) to ensure best response to clients. Family member/investor satisfaction was closely followed by report accuracy, with cost of operations at number four.

Some family offices are looking closely at investment management performance and time to make business decisions as important metrics, however.

5. Technology formulas vary widely; multiple non-specialist systems the norm

The majority (63%) of family offices are using multiple systems, and in all the activity areas under examination, many – if not most – firms are relying on systems designed for the broad investment management sector or even general-purpose software. Just 15% have a specialist system for General Ledger Accounting.

6. More systems, more manual work

On average, our respondents estimate that across all personnel, one fifth of working hours are being wasted on manual tasks each week (larger firms labor under even higher manual workloads).

Those using a unified system (either a third-party one designed for family offices or a proprietary one) averaged a manual workload of 18.4% against 22% for those using three systems. Some offices that have upgraded technology reported a much lower manual workload of just 5%.

7. Reporting enhancements high on the agenda

Time to produce reports/reconcile data, family member/investor satisfaction and report accuracy are the top three KPIs used by family offices, yet 81% are not using a specialized system for reporting. Unsurprisingly, a lack of ad hoc reporting was cited as a top-three systems weakness 30% of the time.

Ad hoc customization, portals and mobile delivery are increasingly prioritized.

8. Cloud sentiment drives technology choice

Family offices are still divided over cloud computing and the fact that some systems are cloud-only is causing them to be dismissed out of hand. Responses indicate that family offices have grave privacy and security concerns about data being hosted by third parties.

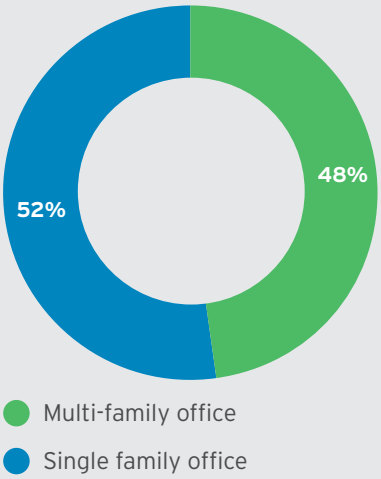
Enduring data security concerns mean on-premise installation still needs to be accommodated.

Methodology and Participant Profile

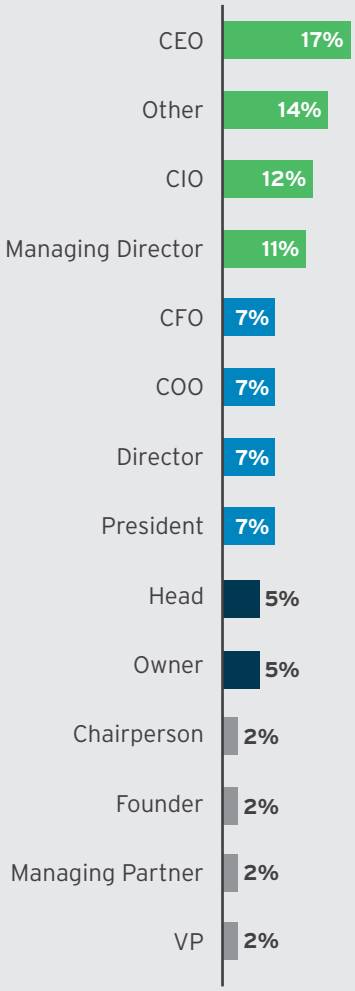
This study is based upon a detailed survey of 44 family offices globally and 20 in-depth interviews with senior executives, carried out between November 2018 and January 2019. These family offices are estimated to represent $72.175bn in AUM (Assets Under Management)*.

Findings are generally presented as whole numbers, with a few rounding errors resulting.

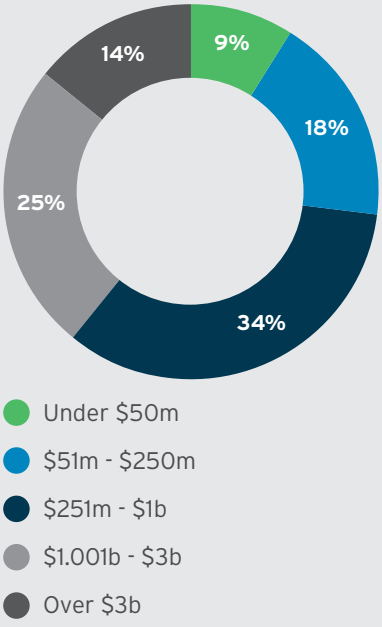
Type of Firm



Respondents' Roles

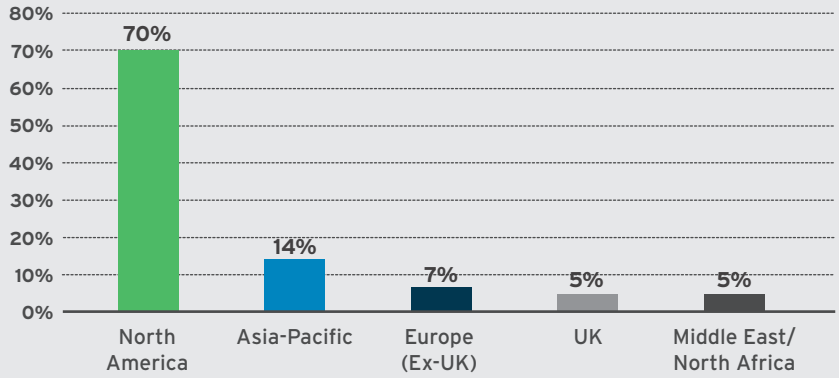


Family Office AUM

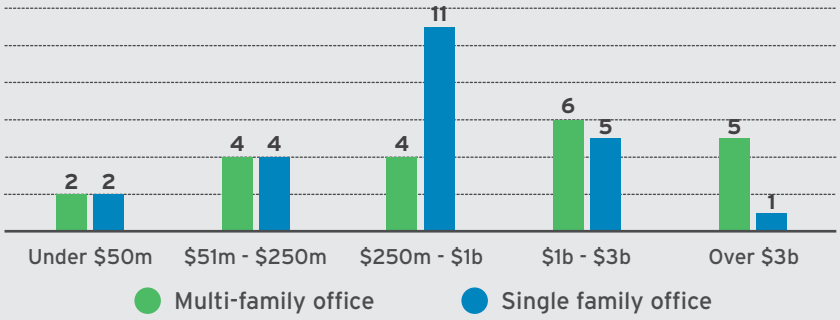


*[*for all but the top category we have taken the midpoint of the range and multiplied by the number of firms in that category; for the top category we had the AUM figures]*

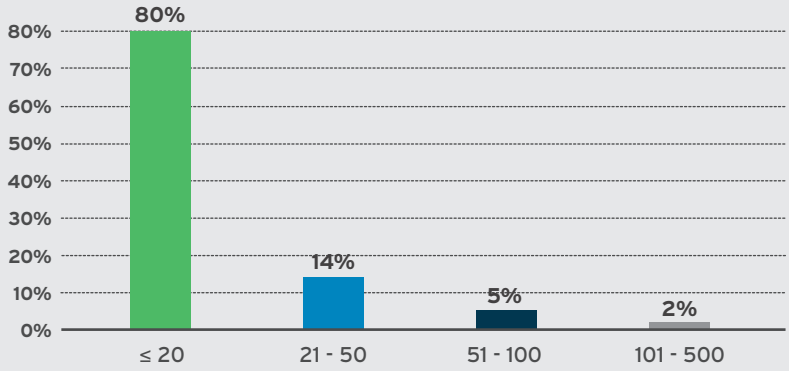
Family Office Location



AUM by Type of Firm



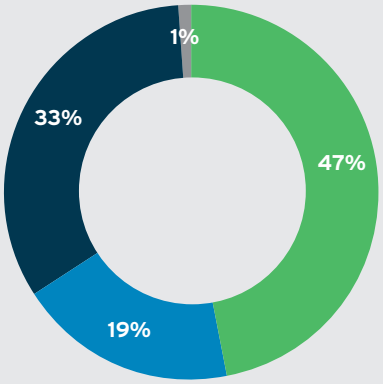
Full-Time Employees (FTEs)



SECTION 1

How Family Offices are Investing and the Implications of High Alternatives Allocations

Figure 1
Aggregate Asset Allocation



- Marketable securities
- Private equity or hedge funds
- Direct investments (real estate companies, etc.)
- Cryptocurrencies/coin IPOS

Our examination of how efficient our participating family offices are in their accounting and investment analysis began with an investigation of how they are investing their estimated $72.175bn in Assets Under Management.

Alternatives allocations generally over half

Increasing allocations to alternatives has long been a general trend in wealth management as investors have sought better diversification to improve returns and risk management. And it is set to continue: PwC has predicted that alternatives will double in size to reach $21.1 trillion and account for 15% of global AUM by 2025, with real assets, private equity and private debt seeing especially strong growth[1].

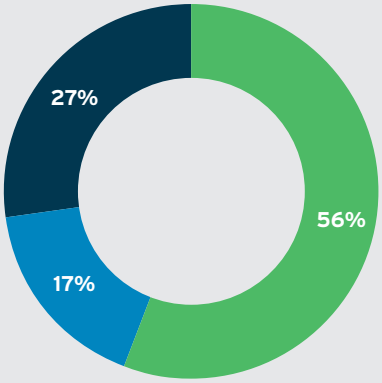
Longer-term, more complex wealth goals, reduced need for liquidity and higher return expectations mean Ultra-High Net Worth investors have been at the vanguard of this trend. For many, dynamic alternatives exposure will have been the main draw towards the family office model and this seems to be particularly true for the firms under examination here. While alternatives have been found to make up 46% of the average family office portfolio generally[2], those included in this study had an aggregate 53% exposure to alternatives (e.g., private equity, hedge funds and direct investments such as real estate companies).

According to Mike Slemmer, Chief Operating Officer at FundCount, "family offices are typically invested in a wide range of assets across the investment spectrum, with exposure to every type of alternative." However, private equity has really come to the forefront in recent times as hedge funds have fallen slightly out of favor, particularly in the US, where 70% of our sample is based. In 2018, 39% of advisors globally said their UHNW clients had increased their private equity holdings in the past year, rising to 76% for those based in North America[3]. Here, we may note that private equity allocations averaged 22% globally in 2018 (up 3.8 percentage points on the prior year) and generated an 18% return against a 15.5% total across portfolios[4].

SFOs substantially more adventurous

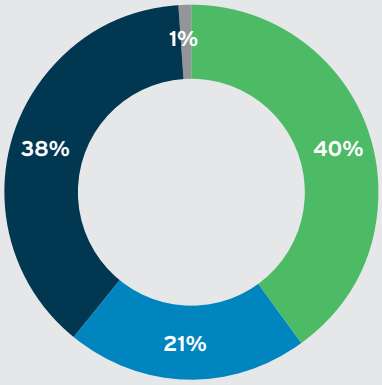
Our research very much confirms private equity, hedge funds and direct investments as key to family office portfolio strategies generally, but it also suggests substantially more adventurous tastes among SFOs: MFOs are allocating 44% of assets to alternatives and SFOs 60%. At the same time, MFOs were found to have allocated 17% to private equity or hedge funds on average, rising to 21% for SFOs. The most striking difference in average asset allocations was for direct investments, including private businesses and real estate companies: these stood at 27% for MFOs and 38% SFOs.

Figure 2
Average Asset Allocation
MFO Only



- Marketable securities
- Private equity or hedge funds
- Direct investments (real estate companies, etc.)
- Cryptocurrencies/coin IPOS

Figure 3
Average Asset Allocation SFO Only



- Marketable securities
- Private equity or hedge funds
- Direct investments (real estate companies, etc.)
- Cryptocurrencies/coin IPOS

> There's no question that accounting and reporting on a massive range of direct investments is a huge job that requires a large, expert staff dedicated to it.
>
> - Head of Direct Investing at a US SFO

Serious operational challenges surround alternatives

Investors may be prepared to embrace the illiquidity, higher risk and relative opacity of alternative investments for enhanced diversification and returns. Investing in alternatives also introduces more challenges to operational efficiency than in public securities.

Our interviews with senior executives confirmed real estate as being particularly accounting heavy, yet even greater complexity comes when families invest directly into privately held operating businesses across a range of locations (which will no doubt also be through a range of holding structures). It was pointed out that corporate practices can vary significantly internationally, but also state-to-state in the US.

"There's no question that accounting and reporting on a massive range of direct investments is a *huge* job that requires a large, expert staff dedicated to it," said the head of direct investing at a $10bn+ SFO. "Keeping track of filings by state, federal taxes, business licenses and so on is very important and you've got to have the right people who really know what they're doing."

In discussing the huge array of alternatives their clients are interested in, executives also highlighted the challenges posed by certain tax-incented investments. "The family wants to take advantage of any tax breaks available, so we hold land used for wind farms and solar energy production," said one CFO. "Those have a very different kind of accounting related to them and because we don't have a good portfolio management system our reporting isn't what we'd like it to be."

Technology and broadening investment tastes

As this report will explore, technological innovation is both driving and being driven by changing investment tastes.

The creation of new platforms and networks is further democratizing access to private equity and helping make specialist areas like responsible investing and impact investing increasingly mainstream.

Currently, 38% of family offices are active in sustainable investing and 45% plan to increase allocations in the coming 12 months[5].

We can therefore expect family offices to increasingly focus on their ability to smoothly integrate investments held via third-party platforms and to accommodate the broader performance metrics and tax reporting complexities responsible investing or impact investing might entail.

Cryptocurrencies: preparing for interest to translate into investment

Direct cryptocurrency holdings seem to be negligible among the family offices included in this study, although several SFO executives mentioned having exposure to related exchanges and technologies via private equity and venture capital funds.

Here again however, that 29% of HNWIs globally profess a "high degree of interest" in cryptocurrencies[6] means family offices must stand ready to integrate emerging asset classes and ensure good connectivity with specialist investment platforms.

> The family wants to take advantage of any tax breaks available, so we hold land used for wind farms and solar energy production. Those have a very different kind of accounting related to them and because we don't have a good portfolio management system our reporting isn't what we'd like it to be.
>
> - CFO at a US SFO

Why vendor heritage matters with alternatives

The participants in this study indicated that many of their challenges stemmed from variable systems competency across asset classes and said they believe truly multi-asset investment management, accounting or reporting systems are quite rare, despite what marketing literature might say. Here, Mike Slemmer advised that because "family offices need confidence a system can manage all the asset classes they invest in, and the intricacies of accounting and analysis for them" a vendor's heritage can provide vital clues.

He explained, "One of FundCount's unique propositions is that we started in the hedge fund world. For that very demanding market we were called upon to build highly sophisticated capabilities for portfolio accounting and all the components of master-feeder structures which have translated very well to the nested entity structures of family offices. And, because we had any number of general partners and limited partners using FundCount, partnership accounting and reporting for private equity was a natural add-on.

"That evolution means we can offer integration right out of the box and are ready to address almost any situation a family might run into. In contrast, other solutions were developed with a singular focus on private equity or marketable securities and then retrofitted to accommodate other types of assets in a way that doesn't tend to work well."

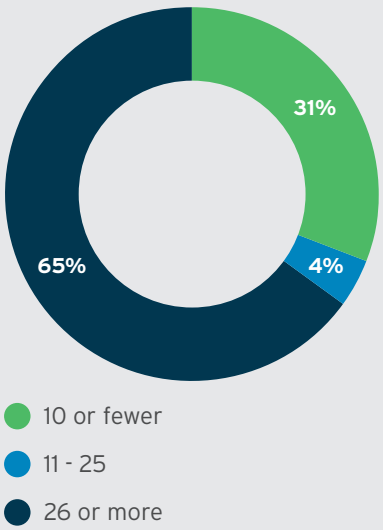
Examples of this kind of "retrofitting" abounded. "Our portfolio management system is more designed for a single strategy manager. It's not well designed for also investing in cash, bonds, private equity and hedge funds, and trying to report on that through a single system," said the Chief Executive Officer of a $1bn SFO. "It's not at all user-friendly and requires a lot of finessing to operate."

> "Our portfolio management system is more designed for a single strategy manager. It's not well designed for also investing in cash, bonds, private equity and hedge funds, and trying to report on that through a single system. It's not at all user-friendly and requires a lot of finessing to operate.
>
> - CEO of a US SFO

SECTION 2

A Profusion of Legal Entities Poses Many Challenges

Figure 4
Number of Legal Entities per SFO



As Figure 4 shows, almost two-thirds (65%) of the SFOs included in this study use 26 or more legal entities to hold their clients' assets. As might be predicted, this was the case for all $3bn+ SFOs, but handling a large number of structures is very much a challenge facing smaller offices as well.

Half of SFOs in the $51m-$250m AUM bracket and almost three-quarters (73%) of those managing $251m-$1bn use 26 or more legal entities.

What's more, they are doing so with fewer than 20 full-time employees and, indeed, often only a handful (see Page 16).

However, it is not only sub-$1bn AUM firms that have small staffs grappling with a large number of legal entities – 87% of SFOs that use more than 26 legal entities have fewer than 20 employees, and multi-billion organizations certainly fell into this group.

In fact, our interviews with SFO executives confirmed that *hundreds* of structures are often in play at the upper end of the spectrum, particularly when families are large and/or their members have diverse business interests. Interviewees described serving client families with over 150 living members and particularly complex ones where 28 entities are being used for just three investors. The CEO of a $1bn+ SFO reported having over 300 entities to deal with, against 38 full-time employees.

Clearly, multiplying the number of families being served leads to even more dizzying numbers. For MFOs with AUM over $5bn and client families in the low hundreds, having several *thousand* entities was not unusual.

Of course, a preponderance of legal entities reflects the essence of what a family office *is*. There is no standard structure; the number and kinds of entities required will be as unique as each family itself. And, the trend is likely to be towards having more entities to support the evolution of goals and investment strategies while wealth grows.

Figure 5
Number of Entities as a Proportion of SFOs by AUM Category

AUM	Number of Legal Entities		
	10 or fewer	11 - 25	26 or more
Under $50m	100%	0%	0%
$51m to $250m	50%	0%	50%
$251m to $1b	27%	0%	73%
$1.001b to $3b	0%	20%	80%
Over $3b	0%	0%	100%

Figure 6
Legal Entities Compared to Personnel

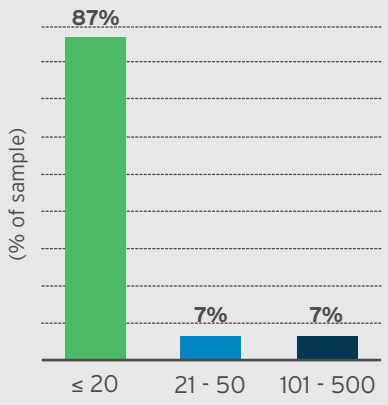
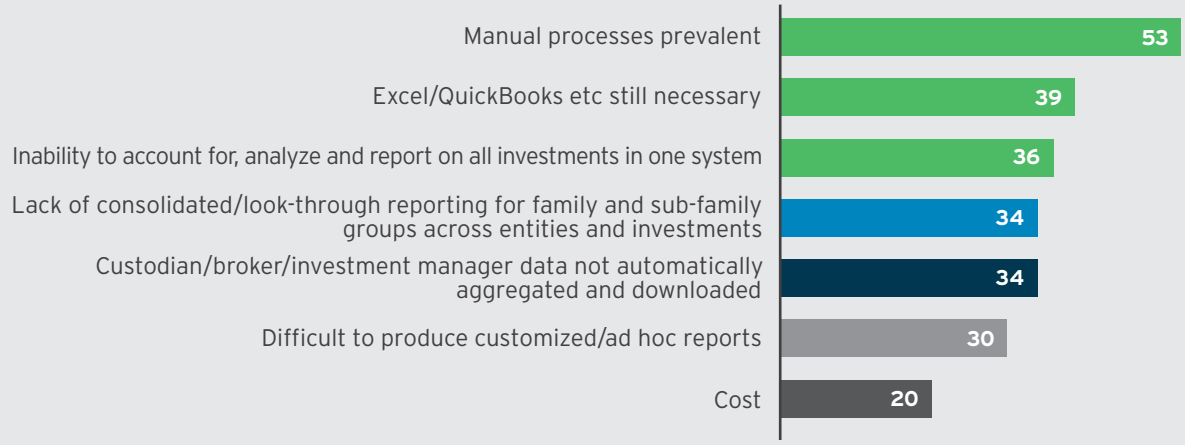


Figure 7
System Weaknesses (most cited in respondents' top three, weighted for position)



> Ensuring that there is look-through reporting is one of the main challenges family offices face in reporting through the layers of nested entities.
> - Mike Slemmer, COO, FundCount

Handling a multiplicity of partnerships, corporations, companies and trusts for each client family is, then, a fact of life for family offices right across the spectrum.

However, the differences between technology infrastructures revealed by our survey would seem to indicate significant variance in how manageable this is. Dealing with multiple entities emerged as a real pain point for those firms relying on general purpose systems not set up for the number and range of holding structures family offices are likely to have in use.

The top three system weaknesses family offices are suffering from are a prevalence of manual work; still having to use QuickBooks/Excel; and, relatedly, not being able to account for, analyze and report on all investments in one system.

Tied as the fourth biggest weakness of respondents' main systems was a lack of consolidated reporting for family and sub-family groups across entities and investments. Also at number four was custodian/broker/investment manager data not being automatically aggregated and downloaded, which is a key contributor to manual work (see Page 21 for more on new data extraction tools).

As Mike Slemmer explained, the complexities of pooled investments like hedge funds, private equity funds or limited partnerships mean "ensuring that there is look-through reporting is one of the main challenges family offices face in reporting through the layers of nested entities. You need to ascribe a percentage ownership in these vehicles to each individual investor according to their beneficial interest, account for that, then efficiently push income down through the layers," he said. "This is very challenging where nested entities are involved."

A dearth of double-entry accounting capabilities

Double-entry accounting – the principal that each financial transaction has equal and opposite effects on at least two different accounts – underpins family office accounting just as it does for any other entity. Yet serious challenges arise when multiple underlying entities and diverse portfolios are involved, which are aggravated by the fact that many systems cannot tackle the whole accounting piece.

Respondents indicated that frustrations abound when it comes to attributing income and expenses for alternative investments. Meanwhile, cumbersome manual workarounds like setting up accounts for each entity individually cause software complications in themselves.

As the Chief Investment Officer of a US MFO with $350m in AUM explained, "QuickBooks – which is typically used by all the accountants – uses single entity ledgers, so if you have clients with multiple entities you end up with many single entity ledgers which then have to have to be tied together somewhere. Suddenly, you have to create other software to integrate all these different things."

Then there is the fact that double-entry accounting is neglected by the majority of portfolio management and reporting system vendors. "We've looked across the market and have found only a handful of systems that even attempt to do a good job of double-entry accounting," said one executive at a US SFO in the $251mn-$1bn AUM bracket. Together, these deficiencies conspire to create manifold inefficiencies and risks.

Double-entry accounting is the only way to get an accurate picture of a family or individual's finances and lacking an accounting system that looks across all portfolios can make simply working out a client's net worth a highly frustrating endeavor. "You have to roll up a lot of different entities to get to that number and at present, to go for a mortgage for example, we have to do all of that manually," said the CFO of a US SFO in the $251-500m bracket.

Inter-party transactions where assets are sold or lent between family members are another particularly laborious area.

> What we often find is that a system can handle the partnership accounting but it simply looks at breaking out the beneficial interest and doesn't get all the way into the general ledger attached. With no integrated general ledger it cannot efficiently produce the required journal entries. This adds to the manual work pain.
> - Mike Slemmer, COO, FundCount

"I can do the calculations for these instant transactions quite easily if I have one system looking at all entities," this CFO continued. "However, with QuickBooks I've got to enter it into one entity and then if it's split into three pieces because it's got three owners, I've got to do entries for those too – so that's four entries I've got to do, which becomes a real pain."

General Ledger integration a "holy grail"

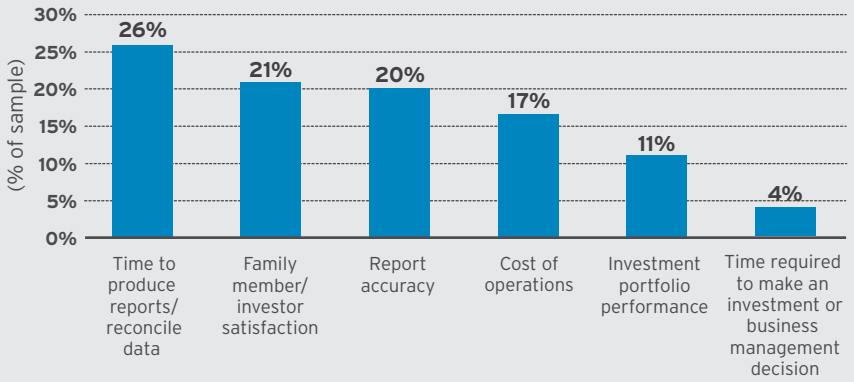
The family office sector has long grappled with the need to integrate and merge portfolio accounting with general ledger accounting – sometimes described as the "yin and yang" of family wealth management.

Foremost in the struggle is how to convert the former's investment-focused format into the latter's accounting-focused one with minimal manual intervention. Then, as Mike Slemmer describes, there is the fact that most systems lack the follow-through necessary to truly unite these two worlds to integrate Profit & Loss and balance sheet reporting (along with the workflows for activities like bill payment). A plethora of alternatives being held in sophisticated structures also poses significant challenges. "What we often find is that a system can handle the partnership accounting but it simply looks at breaking out the beneficial interest and doesn't get all the way into the general ledger attached. With no integrated general ledger it cannot efficiently produce the required journal entries. This adds to the manual work pain," he said. "To accurately monitor expenses and income and that balance sheet then requires hooking in another system."

As Figure 10 shows, just 15% of family offices have a specialist system for general ledger accounting, but desire for all-in-one solutions is evidently great. "A system that is part portfolio accounting, part general ledger and which bridges those together would be a real holy grail for us," said the CEO of a US SFO with AUM of over $1bn.

> A system that is part portfolio accounting, part general ledger and which bridges those together would be a real holy grail for us.
> - CEO of a US SFO

Figure 8
KPIs Used to Ensure Efficiency and Best Response to Clients



The impact of systems inefficiencies on investment returns

Although less frequently cited than other KPIs family offices consider, investment portfolio performance and the time to make business/investment management decisions are being monitored by an appreciable proportion. While speedy report production is generally a key benchmark, these firms seem even more keenly aware of the impact *informational* wealth can have on financial wealth.

And, as discussed in Section 4, some participating firms have clients who are indeed using reporting data to inform investment and business management decisions on a day-to-day basis.

However, a patchwork of systems and a lack of consolidated reporting capabilities means many family offices lack a 360-view on their investments and cannot easily generate a meaningful accounting "snapshot," Slemmer explained. "You need to report the financials on an entity-by-entity basis – unconsolidated – whereas in a system like FundCount you can have fifteen family members across the top with the general ledger categories going down the Y axis (or vice versa), and get one complete picture."

In addition to weakening the efficacy of investment strategy, a lack of look-through reporting across entities can seriously impact returns in more indirect ways.

As Howard Geller, family office consultant at Hudson Peak Group, pointed out, dealing with capital calls can be a very inefficient, painful process for family offices working off systems that are not fit for purpose, with chief investment officers often left puzzling over spreadsheets to find liquidity against the clock.

He said, "Firms that have a good solid system flow can process things like capital calls quite efficiently. But the ones with QuickBooks, Excel or just a very dated system, are scrambling every time there's a capital call – it's all hands on deck to find out which entity has which amount of a call. Then, because it's a surprise, they have to look to raise money and because they may sell assets on a very untimely basis that can impact their investment results."

> Firms that have a good solid system flow can process things like capital calls quite efficiently. But the ones with QuickBooks, Excel or just a very dated system, are scrambling every time there's a capital call.
>
> - Howard Geller, Family office consultant at Hudson Peak Group

Addressing the challenges posed by capital calls has therefore long been a focus for FundCount, Slemmer explained, "When a capital call notice comes in, you need to have a system that knows the percentage ownership for each person in the family to efficiently make the accounting entries and send investor notifications. You don't want to be figuring things out individually and going into each person's record to manually input numbers."

Big potential for automation

One CEO of a US MFO with over £3bn in AUM reported reaping big benefits from accounting software purpose built for family offices, particularly regarding the ease with which the firm can make changes and manually update information to flow through.

The CEO said, "For a private equity holding, we might have multiple families with the same holding and we may have multiple structures within a family unit that have that holding. Now, when a capital call comes out, we can simply input the call information and waterfall it out through any entity and structure that has that holding. Just by identifying we have a capital call for XYZ partners for X%, we can go through and calculate what that equates to for all the various holdings, saving us a ton of time."

Beyond capital calls, the senior family office executives interviewed for this report also saw significant demand for systems that help to automate back-office subscription agreements and Schedule K1s for alternative investments (tax documents reporting the incomes, losses and dividends of a business's partners or the shareholders in an S corporation). And, as one executive at a $10bn+ MFO highlighted, family offices investing in private companies will also have to support various accounting years and reporting requirements for corporate entities.

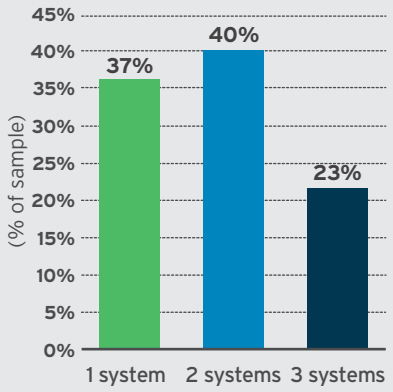
"Keeping on top of all these things is really onerous," said the Managing Director of a $4.5bn AUM US MFO. "There are definitely systems out there that are really good for standard marketable securities portfolios, but when you get into the family office space and start adding the alternatives, the layers of entities and trusts, and the partnerships, the complications mean it's hard to find a system that does it all. You end up piecemealing different things for different reasons."

> When you get into the family office space and start adding the alternatives, the layers of entities and trusts, and the partnerships, the complication means it's hard to find a system that does it all. You end up piecemealing different things for different reasons.
>
> - MD at a US MFO

SECTION 3

How Family Offices are Formulating their Technology and the Many Costs of Manual Work

Figure 9
Number of Systems Used for Accounting and Investment Analysis



Technology formulas vary widely; multiple non-specialist systems the norm

Our executive interviewees often made mention of having "piecemealed" their technology set-ups as a point solution to emerging challenges. Like the wealth management sector generally, family offices are also grappling with legacy issues and cost pressures, but they have even more specialized needs, which mean their technology "formulas" are highly diverse. As Figures 9 and 10 show, there is great variation in the number and types of systems being used for accounting and investment analysis.

A general lack of unified systems designed specifically for the family office context, however, is clearly evident. The majority (63%) are using several systems and in all the activity areas under examination, many firms – if not most – are relying on systems designed for the broad investment management sector or even general-purpose software like QuickBooks and Excel.

Of course, these can be very powerful tools and family offices no doubt like that their ubiquity means no great investment, training or changes to technology infrastructure are required to use them.

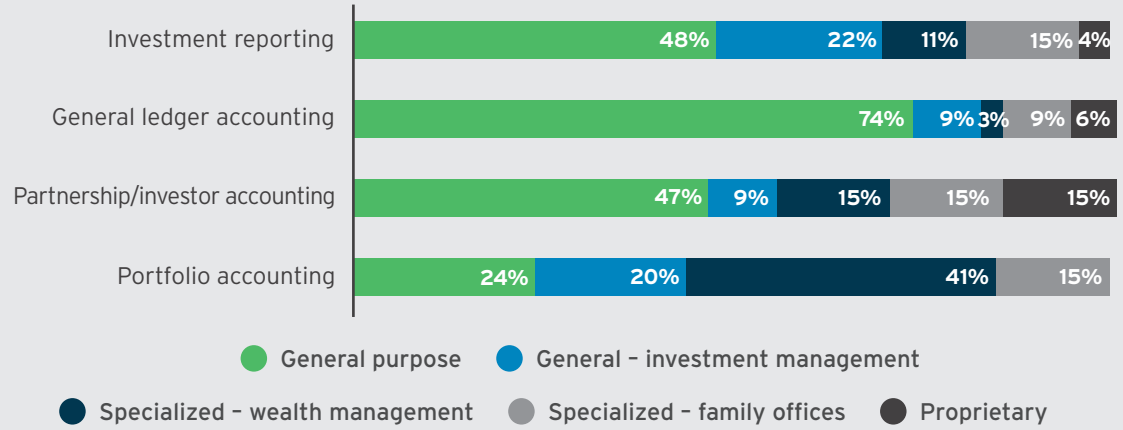
However, our field work reveals that a great many organizations are now struggling with inefficiencies and risks associated with using technology that is outmoded or simply not designed for the type of work family offices carry out – namely, accounting and reporting across numerous legal entities – while also accommodating the full spectrum of alternatives.

The executives interviewed for this report seemed to be increasingly questioning the sustainability of making do with generalist systems. Several said they were in the process of trying to convince wealth holders that only-just workable approaches are no longer good enough. The amount of manual work family offices are engaged in – and its many costs – speak for themselves (see Figure 12).

The many costs of manual work

Maximizing operational efficiency and therefore profitability is a priority for all wealth management organizations today. This is even more true for family offices, where staffs are generally small (sub-20 FTEs), and the challenge of attracting and retaining top talent makes for high compensation costs (see Page 17).

Figure 10
Specialist Versus Generalist Systems



Minimizing manual work so that personnel can focus on higher-value tasks is also vital in meeting the elevated expectations for both service standards and investment performance found in the family office space.

Yet as Figure 12 shows, firms have a long way to go on this quest: on average, our respondents estimate that across all personnel one fifth of working hours are wasted on manual work every single week (mean: 20.3%; median: 20%).

Figure 11
Family Offices' Personnel Numbers

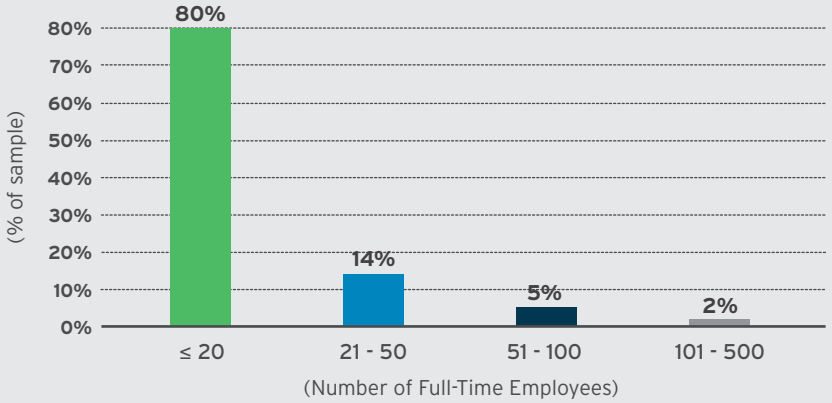
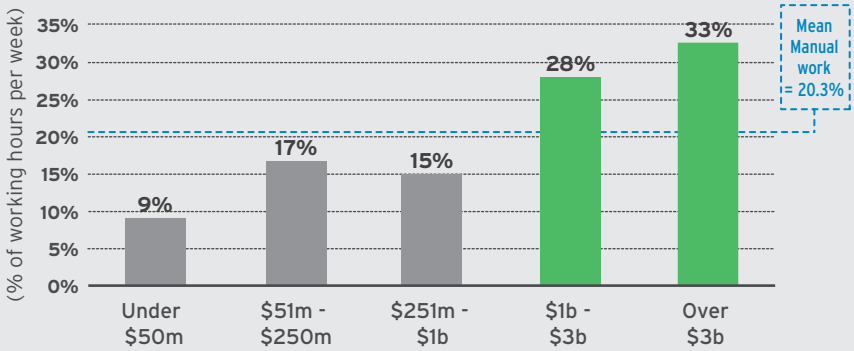


Figure 12
Average Manual Work Levels Versus Size of Firm



Manual work the top tech headache

The frustrations caused by technological inadequacies and the resulting need for workarounds are clearly deeply felt. When asked to name the biggest weakness of their most critical system, a prevalence of manual processes came on top by a wide margin (see Figure 7).

It might also be said that the pain of manual work underlies the second and third-placed system weaknesses: Excel and QuickBooks still being necessary; and the inability to account for, analyze and report on all investments in one system. In fact, it is easy to the see rekeying of data, its manual manipulation and general "system ping-pong" across the system weaknesses family offices labor under.

Biggest system strengths

"Integrated accounting, analysis and reporting" was by far the biggest system strength mentioned for existing systems, yet many of these same participants also indicated too many manual procedures as a weakness. The challenge is not integration but automating the download of investment data from various systems in the first place to minimize manual processes (see Page 21 for more on this topic). The "other" strengths mentioned tended to focus on some element of flexibility and robust integration, ease of data entry, an ability to support complex structures and to integrate operational workflows with data.

Figure 13
Biggest Strength of Most Vital System

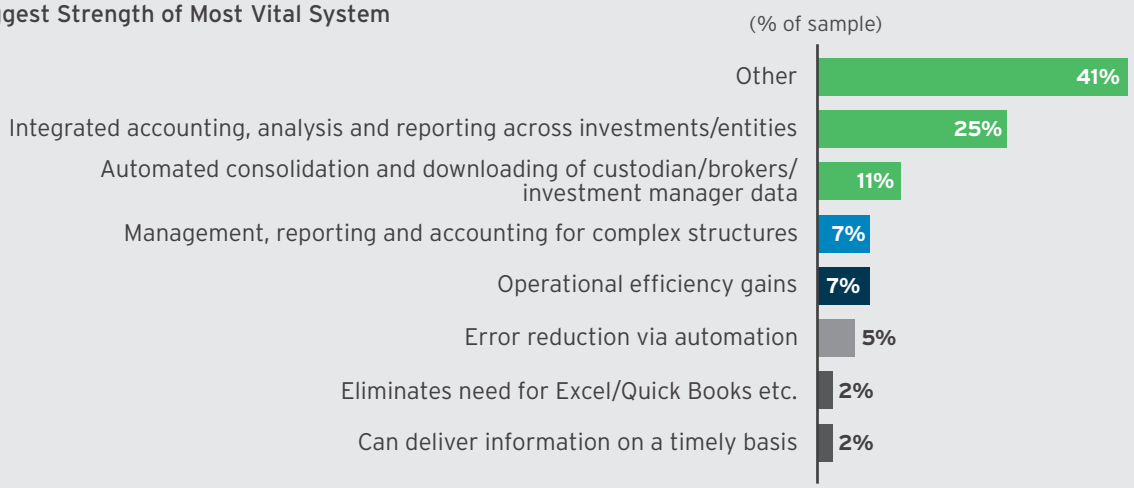
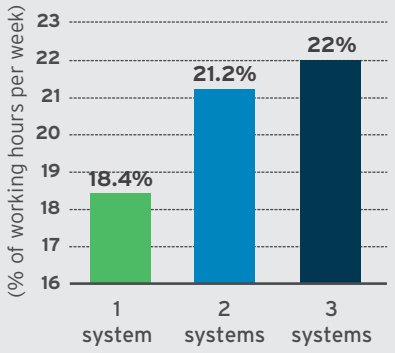
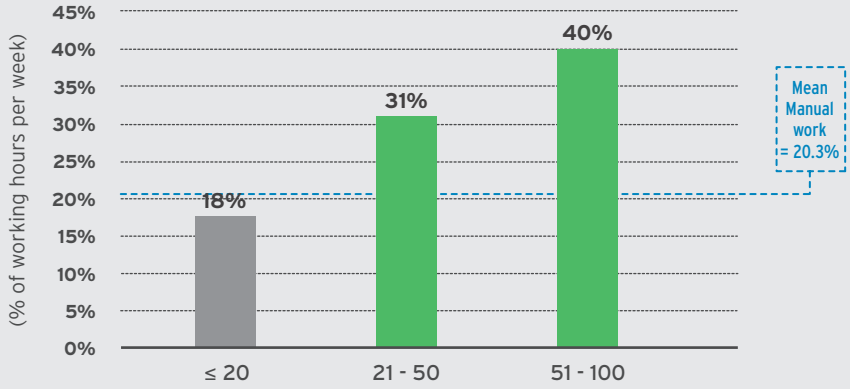


Figure 14
Manual Work Levels Compared to Number of Systems



*[*those using over three systems excluded due to statistical insignificance]*

Figure 15
Manual Work Levels Compared to Headcount



*[*101-500 employee participant excluded due to statistical insignificance]*

More systems, more manual work

Predictably, the number of systems family offices are using for accounting and investment reporting has a significant impact on the proportion of manual work they must carry out. Those using a unified system (either one designed for family offices or a proprietary one) averaged a manual workload of 18.4% (of total hours per week) against 22% for those using three.

Cost impact compounded for larger firms

Although the complexity of family office affairs makes its eradication infeasible, the many costs of manual work mean keeping it in check is vital – particularly since our survey suggests larger firms are particularly affected.

While average manual work estimates hovered at around 20% of working hours for both the SFO and MFO subsets, there were strong correlations with both AUM and headcount. Although the smallest (sub-$50m) FOs reported spending less than one tenth of their time on manual work, for the largest ($3bn+) firms, this rocketed to one third.

Correspondingly, we see that family offices with fewer than 20 FTEs are exhibiting lower-than-average manual workloads of 18%, against 31% for those with 21-50 FTEs and 40% for those with 51-100 FTEs.

This trend was confirmed by several interviews who recalled the spiraling costs stemming from trying to run a large and growing family office using generic accounting and reporting software.

"There's no leverage in having people in QuickBooks and Excel. You just have to continue hiring people and throwing bodies at it the bigger you get," said the CIO of a US MFO with $350m in AUM, relaying how this was exactly what had happened at his former firm – which didn't even do bookkeeping. "The operations group grew and grew because the manual work was at 30-50% – it was a really big number."

Importantly, since executive compensation tends to rise in line with AUM (see below), we can be confident that the cost impact of employees' valuable time being wasted on manual tasks is *hugely* compounded for larger firms.

Current compensation levels in family offices

The average base salary for **CEOs** at US SFOs is $556,100, with average total compensation including bonuses amounting to $1,130,500[7].

Firms with under $100m AUM pay CEOs an average base salary of $432,600 and total compensation of $491,800. However, CEOs at firms with over $1bn AUM can expect a base salary of $919,400 and total compensation of $2,370,100.

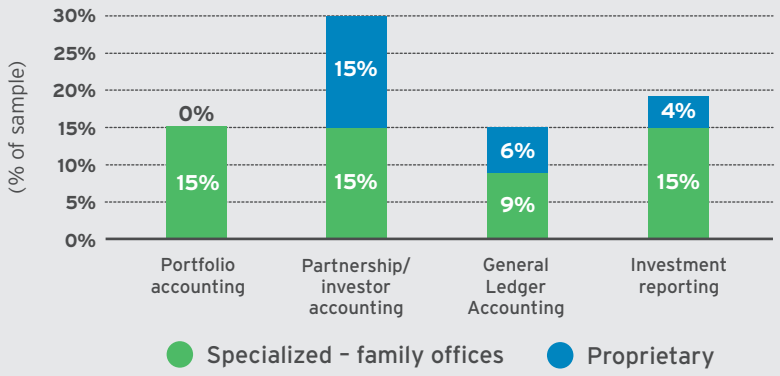
The average base salary for **CIOs** at US SFOs is $401,600, and average total compensation is $810,800. CIOs at firms with over $1bn AUM can expect a base salary of $606,100 and average total compensation of $1,499,600.

Chief compliance/risk officers command an average base salary of $223,400 and total compensation of $339,100.

Senior portfolio managers have an average base salary of $281,900, with average total compensation strongly boosted by bonuses to $651,400.

Meanwhile, **portfolio managers** earn an average annual base salary of $184,700 (total compensation $414,300) and **senior analysts** an average base salary of $152,100 (total compensation $238,500).

Figure 16
Family Offices' Use of Specialist Systems



Talent management challenges exacerbated

Our research has long shown that technology quality is very much a talent management issue in the wealth management industry. Our research has found that 73% of investment professionals would carry out technology due diligence before joining a new firm and 76% would be driven to change jobs if the employer had poor systems[8]. Further, family offices are competing for talent with large, well-known companies where economies of scale have likely enabled investment in cutting-edge technology.

It is worth noting that within family offices portfolio managers' total compensation tends to be strongly boosted by bonuses. This means that they may feel even more acutely the frustrations of a fifth or more of their working week being eaten up by manual tasks.

In contrast, interviewees whose firms had upgraded to unified, specialist systems, were able to report manual workloads as low as 5% and far happier workforces as a result.

The pros and cons of proprietary systems

As Figure 16 shows, a small proportion of family offices have decided to invest a huge amount of effort into developing their own systems, namely proprietary data warehouses (these being central repositories of data amalgamated from multiple, disparate sources). Indeed, several executives saw their data warehouse as their "most vital system," with comments such as "this is the home for practically all our data" emerging frequently.

Citing integration as the primary value driver, these firms built proprietary data warehouses as a way to achieve the flexibility to develop what they needed for clients from a reporting standpoint. At the same time, they wanted the ability to build their own workflows around investment and holding entity data.

On the former, executives described CRM systems forming the backbone of a data warehouse, pulling in feeds from fund administrators, custodians, private equity operations and mainstream investment management platforms, from which proprietary reporting sets are built (baking in manual entries too). On the latter, they spoke of custom workflows such as consolidating capital calls quarterly and generating simplified "packets" outlining all their details.

A common (mis)perception was that proprietary data warehouses were the only way these family offices could build the reporting capabilities and workflows required to support their way of business. Yet, as our interviewees freely admitted, significant drawbacks are inherently associated with proprietary builds.

"The good news is that we've been able to build exactly what we need and differentiate; the downside is that we've built our own system and now we have to deal with that," said the COO of a $7bn US MFO. "We have control and flexibility on the upside, but the same on the downside – it's the flipside of the same coin."

Here, interviewees described how it is easy to start losing discipline in operational efficiency, building business processes that aren't really warranted simply because they are possible. More importantly, they acknowledged significant maintenance and upgrade challenges arising from esoteric systems.

"Our data warehouse resolves the systems weaknesses we previously had, but its proprietary nature does inevitably expose us to key man risk," said one executive at a $5bn MFO. "The few of us who really know how to navigate it are the only ones who can troubleshoot or develop on it."

"With the wide array of commercial systems now available it makes no sense for any family office to build one themselves – are they a fintech shop or a family office? A family office simply cannot scale development and spread costs the way vendors can, and they rarely can match the vendor expertise inherent to serving a diverse client base," said Mike Slemmer.

> "With the wide array of commercial systems now available it makes no sense for any family office to build one themselves – are they a fintech shop or a family office? A family office simply cannot scale development and spread costs the way vendors can, and they rarely can match the vendor expertise inherent to serving a diverse client base.
>
> - Mike Slemmer, COO, FundCount

Is cloud aversion curtailing investment into specialist systems?

> Cyber risk is the primary concern, but we're also concerned about the ownership of our data and what it's being used for. We're skeptical about providers themselves using the data, or even the government. It's not just about hacking risk, but who can get at your data generally. Why would you want someone else to host it?
>
> - CIO of a US SFO

The striking lack of specialist accounting and reporting systems in the family office space comes down to several factors, with cost and disruption concerns naturally figuring highly. But it seems that worries over the cloud and hosting are also acting as a brake on investment.

As might be expected, much of family offices' thinking about technology is colored by data protection concerns. They know their sector represents an irresistible environment for cybercriminals that is increasingly targeted, but more broadly see protecting privacy as their whole raison d'etre.

As the CIO of a 251m-1bn SFO said, "Our investors, families and the details of investments are meant to be private and because we're focused on direct deals, there's a lot of sensitive company information that we're not comfortable having out there.

"Cyber risk is the primary concern, but we're also concerned about the ownership of our data and what it's being used for. We're skeptical about providers themselves using the data, or even the government. It's not just about hacking risk, but who can get at your data generally. Why would you want someone else to host it?"

Cloud concerns limit technology choice

The advent of web-based Software-as-a-Service (SaaS) offerings has democratized access to cutting-edge wealth management technology and many no longer see the need to house, operate and incur the expense of physical servers.

But the debate around on-premise installation versus cloud hosting has additional resonance for family offices, so while some have followed the broad financial sector's increasing openness to the cloud, our executive interviews revealed an aversion endures elsewhere. That is proving a huge influence on technology buying decisions since, as Howard Geller observed, "a lot of the providers like to work solely via the cloud now."

This has led to several of our participants to reject specialist family office systems and continue with general purpose software, despite its manifold limitations. As the MD of a US SFO said, "We've stuck with QuickBooks as it's completely on our server, rather than us having to use a system on the cloud. Cloud providers are a plum target for hackers and it really worries us to see the significance and sophistication of companies that have had data breaches."

Reassuring measures

The veracity of these concerns is, however, debatable and some take the view that big cloud providers are actually a route to *better* security. "We don't see an argument that we, as a 50-person firm, can create a more bullet-proof environment than, say, Microsoft," said the COO of a $7bn+ US MFO. "So, while you could say we're not as much of a target as they are, we can't invest in cutting-edge security the way they do. We've made ourselves comfortable that we're acting in our clients' best interests by going for the cloud."

Geller also described how vendors have taken reassuring measures on who can access data. "There is a level of concern about Amazon, Microsoft, etc., so some of the providers offer their own servers dedicated to the client and encryption that only the family office has the key to," he said. "This means the provider can't see the data; they can only help you with the reporting – your data is your data and only you can see it."

A contrarian approach

Nonetheless, assertions like "we are skeptical of all the cloud-based services" were common in our interviews. A recognition of this strength of feeling has led FundCount to take what Slemmer calls a "contrarian" approach.

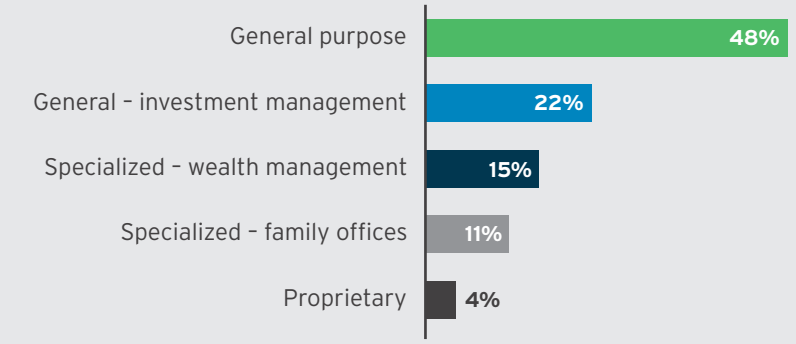
He explained, "Many of our competitors tout the fact they are cloud-based. Yes, there are benefits to that – you don't have to make technology investments or have staff to manage it, so you'll save money there. But family offices are often very reluctant to take that route as they just don't trust it.

"We're happy to be a contrarian and tell the world that we're one of the few software systems that can be deployed on your own servers. We *do* have a hosted option, but that's not our only answer, whereas many of our competitors are only hosted, outsourced or co-sourced and you don't have an option to go in-house. Where in-house control has a high value to the family, it's been a very significant factor in our favor."

SECTION 4

Reporting Enhancements Urgently Required

Figure 17
Reporting Systems in Use



> In the reporting and accounting world, your ability to get reports out in a certain number of days is key.
> - Director at a US MFO

Reporting often falling short

In a highly competitive market – and what is an increasingly challenging investment environment – family offices have to really prove their portfolio management mettle (particularly those under external scrutiny). They are therefore understandably keen on customizable reporting that allows them to precisely highlight the impact their expertise has had on returns and risks.

As with the wealth industry generally, there was also a sense of wanting to track success in wider terms. As one executive said, "We're laser-focused on investment return, both in a relative sense of manager selection, but also in an absolute sense of 'Are we meeting the client's broadest goals?'"

Specialist reporting systems in short supply

However, as Figure 17 shows, over eight in ten family offices are not using investment reporting software designed specifically to accommodate their particular needs, namely, those around alternative investments and multiple holding structures.

This, our contributors confirmed, is a significant contributor towards family offices spending a fifth – or perhaps very much more – of their working hours on manual work. Doubtless, this is also impacting family offices' scoring across the KPIs highlighted on Page 13.

Speed the standout KPI (and the key to others)

As Figure 8 illustrates, family offices employ a range of Key Performance Indicators or metrics to ensure efficiency and best response to clients. The time taken to reconcile data and produce reports stood out significantly as the most-cited KPI.

"By far the most important metric is 'How long does it take for us to get things together?' because we have to reconcile against cash accounts," said the CIO of a 251m-1bn SFO. "We spend a lot of time making sure money is in the right place and that's our job, but anything that can speed that and make it easier would be a driving force."

Where families are using reports to make investment decisions, getting as close as possible to real-time reporting had certainly driven technology upgrades, but a desire to hit tighter deadlines after period-end was common to a great many firms.

Indeed, many firms see this as a significant competitive differentiator. "In the reporting and accounting world, your ability to get reports out in a certain number of days is key," said a Director at a US MFO with $1.5bn in AUM. "We aim to get them out so many weeks after the quarter end, so for monthly reports that's by mid-month. We definitely measure against those targets to ensure we're getting better."

Our interviewees clearly place great importance on speed's contribution to both client satisfaction and cost control, and aren't limiting themselves to report production in their quest for efficiencies.

"We're looking at ease of use and back-office efficiency more than report turnaround time in itself as most of our families aren't pulling up reports live, even though they could," said the CEO of a $3bn+ MFO. "The more critical variable for us is how long it takes our team to get through a stack of account statements or capital call notices."

As another MFO executive summed up, "Speed equates to cost, and by extension profitability for us as an organization."

Speed is clearly not to be at the expense of accuracy, however, which was naturally a top-cited KPI and a prerequisite for reporting information being disseminated at all.

The risks of rekeying and "system ping-pong"

As Figure 7 shows, an inability to automatically download and aggregate investment data from custodians, brokers and investment managers is the joint fourth most acutely felt weak spot in family offices' main systems.

Across the sector, Mike Slemmer sees a lack of connectivity with custodians being a huge driver of manual work for family offices. They often have to build many spreadsheets to capture data rekeyed or downloaded from custodians and then must import into QuickBooks or other systems for further analyses.

More than just being inefficient, he warns this can carry serious risks: "Family offices can spend a lot of time building reports in Excel or sending data other systems in what we call 'system ping-pong'. You're passing data around where there are many nested entities, and many investors and pooled funds. There are no guardrails around data, so how do you ensure it's accurate? How do you audit and ensure that data is reconciled?"

> "You're passing data around where there are many nested entities, and many investors and pooled funds. There are no guardrails around data, so how do you ensure it's accurate?
> - Mike Slemmer, COO, FundCount

New tools to power through PDFs

Here, it must be acknowledged that the challenge of collating reporting information from disparate sources isn't solely about weaknesses within family offices' own systems, but also the difficulty of obtaining data from alternatives managers too. As the MD of a US SFO with $51m-$250m in AUM said, "Because half of our investments are private equity and hedge funds, at least half or more of our data isn't available to be downloaded and aggregated via brokers or custodians."

However, here again specialist tools can meet the urgent need for aggregated information, and tackling this perennial problem has been another big focus for FundCount. "The reality is that most alternatives managers only report information in PDF or another type of hardcopy format that in no way lends itself to the easy integration of investments," said Slemmer. "In response, we've developed a very powerful ETL (Extract, Transform and Load) tool that can capture that information for consumption pretty easily. Our users can also leverage our integration with PCR (Private Client Resources), which has thousands of integration APIs with alternatives managers – this greatly speeds data aggregation and collapses the reporting lag time."

Aggregation aggravation and investment blind spots

The inefficiencies arising from assets being handled via disparate systems are very worrisome in themselves, but our contributors also highlighted how this can seriously undermine the value proposition of the family office itself. As they pointed out, if technology doesn't facilitate "slicing and dicing" holdings or performance attribution, a lot of manual work will be required for an office to function as a family's master asset allocator and investment selector.

"Clients are often just looking for a good aggregate portfolio performance measurement and when you don't have all your assets in one portfolio system it becomes very difficult to even estimate if someone's portfolio has grown, let alone what the key return drivers are," said the CEO of a US SFO with over $1bn in AUM. "We can tell them how individual managers have performed, but we don't have as much ability to tell them how the *entire* portfolio has performed."

The array of legal entities underlying each client family – and its individual members – can also create blind spots, since a lack of specialist accounting and reporting software can make getting a holistic overview of asset allocation next to impossible.

"From a reporting standpoint, the biggest difficulty for us is being able to drill all the way down to a security level and understand somebody's asset allocation across all those entities based on their pro-rata ownership," said the MD of a $4.5bn AUM US MFO. "Bigger families with very complicated groupings are particularly challenging; think of the number of partnerships and entities that might exist for a family of 100 members or more."

> "From a reporting standpoint, the biggest difficulty for us is being able to drill all the way down to a security level and understand somebody's asset allocation across all those entities based on their pro-rata ownership.
> - MD of a US MFO

Facilitating investment oversight

Importantly, Slemmer reports that only around 30% of the family offices he encounters today are actually running investments in-house, meaning that the majority need granular monitoring and analytical capabilities to assess third-party managers.

Family offices may also be thinking about data being pushed out to any external consultants that might be assessing investment management performance or helping them better capture and organize information on their alternative investments – both of which being common scenarios today.

"Fit-for-purpose investment management platforms greatly ease the transmission of data and slash costs," said Slemmer. "Better systems can significantly reduce or even eliminate the cost of outside consultants, because family offices can do so much more of the analyses in-house."

Enhanced reporting reinforces value-add

As stated in the beginning of this section, many family offices are targeting better reporting capabilities as a means to better demonstrate the value they add. This is as much cutting through the investment "noise" and tailoring reporting to individual requirements as it is in investment performance itself.

Being able to present *precisely* the right information for the conversation at hand is increasingly the focus of many of the family offices involved in this study. Often mentioned was an ability to dial up information on certain risk exposures as market conditions dictate.

"Depending on the situation and market fears, we may want to look at different parameters period to period," said the COO at a $51-250mn AUM US SFO. "Recently, we've been looking at sensitivity to credit rather than to equities due to the high-yield and credit markets looking shot."

As our participants observed, it is beneficial to highlight the risk management value being added as well as investment returns. Yet selectiveness is key. As one contributor pointed out, "If you report all of it all the time it gets a little bit daunting for clients, so it's about being able to say 'these are your holdings, but today we'll slice them this way'."

A spectrum of reporting requirements

MFOs need to allow for the fact that different families may use their reporting data in very different ways, while even SFOs need systems that can accommodate the requirements of a range of family members.

According to the CIO of a US MFO with $600m under management and advisement, the baseline requirements of most clients can be summed up as follows: "In my experience, they typically want a standard client report comprising an income statement, balance and cashflow. For investment performance they really just want an income type statement which says, 'I invested this much and this is what it returned'. Then there's what I call a balance sheet with performance, which is like a listing of the assets and their performance."

Yet as one SFO founder explained, preferences can vary widely according to a family's approach to managing their wealth. "My clients are very entrepreneurial and just want to know the facts for each holding: What it is, how it is doing and what we need to do," he said. "But equally, some families are very institutional and want a beautiful report every month wrapped up in a bow."

Having multiple reporting streams for different stakeholders also seems common. For instance, several SFO contributors said that constant dialogue means principals only require fairly informal (if more regular) data packets, while formal overviews of all investments across the family are reserved for quarterly reviews with wider participation.

Ad hoc customization to cope with "curve balls"

Many executives said that they had honed the format and content of investment reporting over long collaboration with clients so that they receive information exactly as they wish, with an overlay potentially added to address "hot topics". A lot of effort also goes into anticipating all the questions investors might have so that advisors can go into meetings armed with answers.

Yet curve balls still arise – whether that be a request to see high-level information from a different angle or to drill down into the detail of holdings. "Even with the best preparation, you'll very often need information on the fly," confirmed the COO of a US SFO.

"Ad hoc customized reporting should definitely be on family offices' agendas, since when clients ask questions, they want the answer then and there," observed Howard Geller.

Figure 7 confirms that ad hoc reporting is very much a priority – a lack of ad hoc reporting was cited as a top-three systems weakness 30% of the time. Yet it seems some vendors don't yet appreciate just how responsive family offices must be.

Here, the CIO of a US MFO with $350m in AUM recounted that the best one reporting system vendor could do was to produce customized reports overnight, so although the firm liked the output very much, this delay scuppered the deal. As they rightly said, "If a client asks how a specific fund has done, or they want to look at individual securities, it's just not good enough to say 'I'll let you know tomorrow as right now I have no idea'."

As such, FundCount's clients very much appreciate real-time reporting capabilities. "Our nearly real-time data aggregation, together with a very flexible report writer, means that today's clients get the reports they want, when they want them. Again, having originally built FundCount for hedge fund managers, real-time reporting in any format was – and remains – de rigueur," said Mike Slemmer.

> "If a client asks how a specific fund has done, or they want to look at individual securities, it's just not good enough to say 'I'll let you know tomorrow as right now I have no idea'.
>
> - CIO of a US MFO

Client satisfaction crucial, but generally informally assessed

The executives interviewed for this study confirmed that formal client satisfaction surveys are less necessary, and so less common, in the family office space due to the close nature of relationships, although some do carry them out regularly. Even small SFOs are gathering formal feedback, but generally this rather comes through regular meetings/calls, if not via the "constant dialogue" with principals many executives mentioned. As it is the ultimate proof point of the relationship and the apex communication family offices have with their clients, reporting requirements are a big focus of this monitoring.

"We do survey our clients; accuracy is obviously big, but so is showing the information that they want to see," said the MD of a $4.5bn US MFO. "Different clients like to see information presented in different ways, so flexibility of reporting is pretty critical for us."

"We don't do a full survey with our clients, but as some of them are co-owners of the firm we certainly hear from them," said a Director at a $1.5bn AUM MFO. "They're all sophisticated investors and they're all pretty direct with us about the things they like, dislike or need in real time."

Real-time reporting *is* required by some

Timely reporting will be hugely important for all clients, but how close this needs to be to real time can differ widely. Family offices may generally encourage a long-term perspective over avid portfolio watching, but there are clients requiring a real-time view.

As the CEO of an MFO administering over $3bn in assets explained, "Most of our clients don't use our reporting platform for anything more than just staying apprised of what's happening with their assets, yet we do have one family using it to actively manage the assets on a daily basis, so it's critical that we have timely information.

"Now we have no more than a 24-hour lag with account values and reports, but before we implemented our new system there could be a seven to ten-day lag, which for this family was unacceptable."

As such, aiming to satisfy the reporting requirements of the most demanding family (or family member) a firm might have could be a good future-proofing strategy.

Why less can be more for some investments

Yet, for all the calls for investment data to be more readily available and granular, it was also pointed out that the ability to customize reporting may often actually require that *less* detail be included.

"One of our family members has 80 venture capital investments worth less than $1m and while of course they need to know where things stand, a $500,000 investment isn't going to make or break them, so they don't need to have that reported on in anywhere near the same depth as their main investments," said the Founder of a $10bn US SFO. "Some systems would require us to input the same level of detail as for multimillion-dollar projects, which just doesn't make sense. By the time staff have chased down and loaded up all the venture capital information, with one company having a fiscal year beginning December, and another beginning July and so on, you can spend a huge amount of time on administration that's not really adding value at all."

As this contributor and others observed, busy early-stage businesses may not get around to sending Form 10-Ks (a summary of a company's financial performance) until the last minute, leaving "holes' in data: "Reporting systems need to be able to tolerate family members having hundreds of investments, properties and bits of companies where not everything requires the same level of data input, or where data isn't available at a certain point."

Although some families are institutional across the board, the common desire to "see more about more significant investments and less about the less significant ones" can leave firms (wrongly) feeling proprietary systems are their only option, according to Slemmer. He explained, "Firms fear off-the-shelf systems won't facilitate the kind of customizable views where they're not ignoring smaller investments but aren't spending onerous amounts of time on them on a quarter-by-quarter basis either.

"To address that, we offer 'look-through reporting' whereby you can choose to report on certain investments as a 'black box' without seeing the underlying detail. Or, turn it on and 'look through' if you want more detail. This means you can see true asset allocation and do deeper analysis, but you're not forced into an unnecessary level of detail for general reporting purposes."

> "We offer 'look-through reporting' whereby you can choose to report on certain investments as a 'black box'... this means you can see true asset allocation and do deeper analysis, but you're not forced into an unnecessary level of detail for general reporting purposes.
> - Mike Slemmer, CEO, FundCount

Dealing with diversity in delivery channels

As the wealth management industry's digitalization continues apace, the delivery channels family offices use for reporting is something of a vexed question. As our recent research exploring reporting in-depth has set out[9], delivery methodologies across the wealth management industry vary considerably between hard copy, PDF, encrypted or

Key reporting questions for family offices

Enhanced reporting capabilities can clearly add significant value for both clients and firms in numerous ways. Correspondingly, reporting upgrades are a near-term aim for a great many of the family offices involved in this study.

Howard Geller, family office consultant at Hudson Peak Group, advises family offices to consider the questions below to help codify their requirements:

1. Is it more effective and efficient to insource or outsource?
2. Do we aim to roll up assets for reporting or not?
3. How available and timely is data, and which reporting periods are we targeting?
4. How final are we aiming for reporting data to be?
5. What delivery time and means of delivery are we targeting? How do we see that changing over time?
6. Are we comfortable having our data hosted?

non-encrypted and online access. This also very much seems to be the case for family offices, who variously attributed a lack of cutting-edge capabilities to under-investment, technical barriers or a perceived lack of demand.

"We have some clients of an older generation who are really used to face-to-face communication and paper, while younger clients don't really adopt that," said the COO of a $7bn US MFO. "At the same time, we have clients across all ages who want everything through the portal." As a result, this firm has opted to push everything to their portal – irrespective of whether clients actually use it or not – while also placing all transaction documents and estate plans in a secure digital vault.

> We have some clients of an older generation who are really used to face-to-face communication and paper, while younger clients don't really adopt that. At the same time, we have clients across all ages who want everything through the portal.
>
> - COO of a US MFO

Portals address privacy concerns

Although firms do have to accommodate the enduring appeal of paper for some clients, the many benefits of portals, not least privacy, were keenly felt.

"A portal would make data transfer and information sharing a lot easier for us," said one executive at a US SFO with of $251mn-1bn in AUM. "I'd love to have a portal aspect to our system enabling us to distribute documents to each family member's account according to what they are allowed to see."

In the words of one SFO's CEO, "not everybody needs to know everyone else's business," meaning that having various levels of permissions in place is essential across accounting, reporting and planning documents. Differences in beneficial ownership must be handled with the utmost discretion, for instance, while wealth-owners don't necessarily want children and grandchildren to know who will inherit what when setting up trusts.

It is easy to see how customizing, organizing and distributing reports along these lines could involve a large amount of manual work and have the potential for error. Here, Slemmer notes that modern solutions like FundCount offer emails directly out of the system, alongside digital vault or portal capabilities to reduce risks to client confidentiality.

Mobile access increasingly a "must"

The family office executives interviewed who currently lack portal capabilities overwhelmingly have it top of their wish lists for a variety of operational efficiency, risk management and client experience reasons. Many are also investigating mobile access with greater intent too.

"Being able to deliver relevant information in a timely fashion, wherever the client is, is becoming increasingly important, as many aren't satisfied with episodic reports anymore," argued one Director at a $5bn+ US MFO. "At the same time, very few investors will want to do full report creation on their tablet or smartphone. They just like to see what's going on at a very high level – what they have and what it's valued at, at a particular point in time."

Because clients may not need too much to make them happy on the mobile front, they may feel very frustrated that even these modest demands aren't being met – and particularly so knowing that technology capabilities are often very much better further down the wealth scale.

The fact that research suggests even UHNW investors are happy to "self-serve" to an extent, may also mean that technology laggards are robbing themselves of significant operational efficiencies as well as client experience gains.

As Slemmer concluded, "With modern systems, you can push reports to clients' devices almost in real-time. But if you're depending on an age-old system without digital access and the related portal and smart device reporting we offer, you'll often have to reply 'Let me get back to you with that information'."

Here again we see how efficiency in accounting and investment analysis is bound up with providing a great client experience and improving the performance of institutions and staff alike.

> Being able to deliver relevant information in a timely fashion, wherever the client is, is becoming increasingly important, as many aren't satisfied with episodic reports anymore.
>
> - Director at a US MFO

Conclusion

The survey and interview data obtained for this report have yielded a wealth of insights showing efficiency in accounting and reporting to be inextricably linked to a host of other areas of performance for family offices.

We have found that family offices generally use multiple non-specialist systems and face a range of challenges and risks as a result. As the senior executives we spoke to have made so clear, many firms' systems simply do not have the capability to help them manage the full spectrum of alternative investments across a plethora of legal entities.

Obtaining and manipulating investment data, achieving look-though reporting across investors and entities, ad hoc customization and marrying up investment and general ledger accounting came up time and again as major challenges. But underlying most technological woes was the high level of manual work facing family office staff. According to our survey, this amounts to an average of 20% of working hours, week in, week out, and as much as double that for larger firms.

The cost impact of manual work is great for family offices in general and hugely compounded as organizations grow. With most offices operating with fewer than 20 staff and the need to meet very high expectations from clients, all offices should be looking to focus employees' time on higher-value tasks as much as possible.

Among the family offices included in this report, there was a significant contingent of firms that have invested in specialist systems. This has not been without its challenges (particularly with proprietary builds), but these firms report such compelling benefits that they must be at the forefront of a wave of upgrades.

Many family offices now stand at an inflection point in their evolution, and technological upgrades in accounting and reporting systems are shaping up to be a significant driver of success. We look forward to tracking the sector's future development.

WENDY SPIRES
Head of Research
Family Wealth Report/WealthBriefing

References

Number	Source
1	*"Asset & Wealth Management Revolution: Embracing Exponential Change,"* PwC, 2017
2	*"2018 Global Family Office Report,"* UBS and Campden Wealth
3	*"The Wealth Report 2018,"* Knight Frank
4	*"2018 Global Family Office Report,"* UBS and Campden Wealth
5	Ibid
6	*"World Wealth Report 2018,"* Capgemini
7	*"Compensation Survey of Investment Professionals in Single Family Offices,"* McNally Capital, Botoff Consulting and Mack International, 2018, as reported by "Family Capital"
8	*"Help or Hindrance - The Link Between Technology Provision and Advisor Productivity,"* SS&C Advent and *WealthBriefing*, 2015

Published by:

Family Wealth Report
52 Grosvenor Gardens
London, SW1W 0AU
United Kingdom
www.familywealthreport.com

In association with:

FundCount
3 Allied Drive, Suite 303
Dedham, MA 02026
USA
www.fundcount.com

Report Author: Wendy Spires,
Head of Research, *Family Wealth Report*

Report Design: Jackie Bosman, Head of
Production & Design, *Family Wealth Report*