FundCount

2022

# FAMILY OFFICE FOCUS:
## An Update on the Industry's Efficiency in Accounting and Investment Analysis

FAMILY WEALTHREPORT



# Foreword

*Family Wealth Report*, and its sister publication *WealthBriefing*, first undertook a deep dive into the challenges around accounting and investment analysis for family offices back in 2019. We are delighted to have the support of FundCount as our research partner again as we update our original study for 2022.

The world has of course changed immeasurably in those intervening years. The COVID-19 pandemic has revolutionized how the wealth management business is carried out, as well as impacted the investment environment in ways that will continue to play out for years, and perhaps decades, to come. In particular, family offices now face immense challenges in preserving and growing wealth since traditional investment strategies may not be relied upon to deliver.

While UHNW investors have always allocated heavily to alternatives, their allure is inevitably far stronger now. And, while alternatives may be the only way for investors to achieve the returns and diversification required, this asset class can only broaden and deepen the complexities of running their money in turn. For family offices, dealing with assets which are by their nature hard to account for and report on is a significant and growing conundrum.

Although technology may not be a panacea in and of itself for these and other operational challenges, family offices (and their wealth management 'cousins') are increasingly able to leverage toolkits that are now very smart indeed. In other words,  software designed specifically for wealth management business, and for the complexities of structures and asset classes so common at the upper end of the spectrum. This report updates our view of how that modernization movement is progressing.

We would like to offer sincere thanks to all the family office founders and C-suite professionals surveyed and interviewed for this study, and also to the following for contributing their expertise and time so generously:

- **Martin Portnoy**
  Partner, Tax and Private Capital, EY
- **Mark Somers**
  Founder and Managing Partner, The Somers Partnership
- **William Trout**
  Director, Wealth Management, Javelin Strategy & Research
- **Ashley Whittaker**
  President, Global Sales, FundCount

As ever, we welcome feedback on this or any other of our research outputs, and would be pleased to hear of new areas ripe for investigation too.

**WENDY SPIRES**
*Head of Research*
***Family Wealth Report/WealthBriefing***

# Contents

# Executive Summary

1 Our 2022 survey indicates that for many institutions the manual work situation may have significantly worsened since our original 2019 study. On average, the family office professionals who participated in this year's survey said that they believe 42% of the 40-hour week is wasted on manual processes across all personnel, whereas previously respondents had estimated that 20% of the week's working hours were being expended this way.

2 As in our previous study, the manual work burden seems to be significantly worse for multi-family offices (MFOs), which reported a 48% average wastage on manual work each week, versus 39% for single family offices (SFOs) and 37% for private banks and wealth managers.

3 Headcounts remain modest, making the burden of manual work heavier still for those institutions laboring under it. For the vast majority of SFOs (67%), their FTE headcount is less than 10, and even most MFOs (58%) have fewer than 50 full-time employees. All the while, 50% of the institutions included in this study have over $1bn in assets under management.

4 Dealing with a multiplicity of legal entities is clearly the cause of much manual work. Almost a quarter (22%) of institutions that are serving just one family have over 26 legal entities in play. For MFOs, the challenge is obviously very much larger and commensurate with client numbers, with over 1,000 entities across 100 families being far from unusual among the biggest institutions we spoke to.

5 Our interviewees pointed to a number of ways in which a multiplicity of legal entities combined with non-specialist software can cause manual pain in accounting – and it seems like this will be the case for around half of institutions. This year's survey found that 53% of respondents are using generalist general ledger accounting software, alongside 54% using non-specialist tools for partnership/investor accounting. This does, however, represent a significant improvement from 2019 when, respectively, 74% and 47% of respondents were using non-specialist tools.

6 This year, we see that institutions have become significantly more adventurous in their investment tastes, piling into private equity or hedge funds, direct investments and digital assets. Interestingly, for SFOs, the emphasis is very much on direct investments, with these institutions looking almost twice as keen on these as their multi-family counterparts. Meanwhile, MFOs reported average allocations of 6% to digital assets, against 1% for SFOs.

7 To ensure efficiency and best response to clients, the most commonly used key performance indicator (KPI) is time to produce final reports after period-end (53%). However, firms are using a whole range of metrics that are close behind in importance, most notably client satisfaction, accuracy and – related closely to the "need for speed" – data reconciliation time, all monitored by 47% of firms.

8 When asked what the biggest strength of their most critical system is, 41% of respondents prized the automated downloading and consolidation of data from custodians, investment managers and brokers. Second, but at only 24%, was that their foundational system excelled at supporting the management, reporting, and accounting for complex structures, showing how relatively rare such capabilities are.

9 An inability to ingest, account for, analyze and report on all investments in one system was the biggest weakness cited for critical systems, closely followed by difficulties in producing customized or ad hoc reports. Unsurprisingly then, nearly a third (31%) do not use their primary accounting or investment system for reporting.

10 Topping the wish lists of improvements family offices would like their main investment system vendor to make, were improved integration with and reporting on alternatives, and better configuration for the nuances of family office business, both tied at 19% of the votes. Their desires do however also extend to better integrations, built-in workflows, attribute assignment, sophisticated data visualization tools, which cover structures as well as holdings – and more.

SECTION 1

# Even more manual work now necessary in accounting and investment analysis?

In our original 2019 study, we found that on average respondents believed that one fifth of the week's working hours, across all personnel, were being wasted on manual tasks in accounting and investment analysis, with larger firms very often laboring under even higher manual workloads. This looked as if it was a function of more systems being in play in many cases.

While those firms using three systems for these activities showed an average manual wastage of 22% of the working week, the estimations of those using an "all-in-one" system for these activities averaged quite significantly lower at 18%. Some respondents reported that as little as 5% of FTEs' hours were being expended on manual tasks as their institution had invested in the most modern and family office model-specific technologies to handle these tasks.

Our 2022 survey indicates that for many institutions the manual work situation may have significantly worsened. On average, the family office professionals who participated in this study said that they believe 42% of the 40-hour week is wasted on manual processes across all personnel.

Again, the burden seems significantly worse for MFOs, which reported a 48% average wastage on manual work each week (Figure 1). This is in comparison to 39% for SFOs and 37% for private banks and wealth managers -- which presumably, given their size and budgets, will be the most likely to have implemented cutting-edge systems to assist with handling what will likely generally be far larger client bases.

During interviews, it was not uncommon to hear that half or more of all accounting and investment analysis work within family offices has to be carried out "by hand." As Figure 2 makes clear, family offices typically do not have an abundance of staff to absorb this. For the vast majority of SFOs (67%), their FTE headcount is less than 10, and even most MFOs (58%) have fewer than 50 full-time employees. All the while, 50% of the institutions included in this study have over $1bn in assets under management (Figure 3).

**FIGURE 1**
Estimated % of a 40-Hour Week Wasted on Manual Processes, Across All Personnel

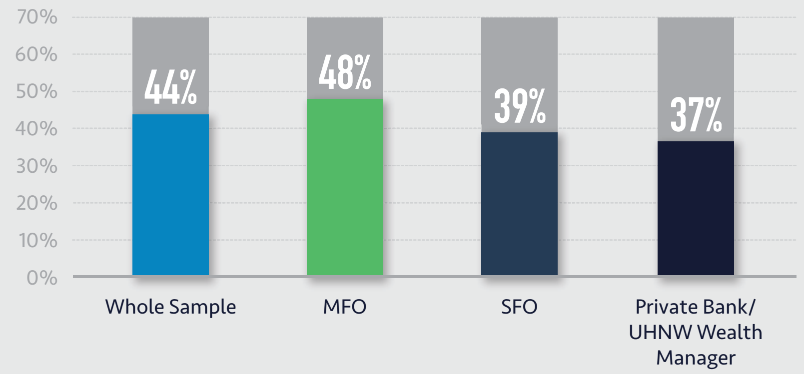
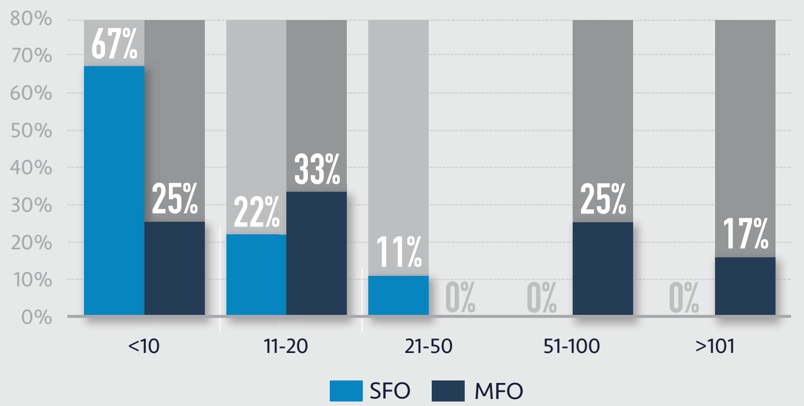



**FIGURE 2**
Number of Full-Time Employees




The underlying reasons for the prevalence of manual work included a combination of customization requests from clients, a multiplicity of legal entities, a lack of purpose-built systems and, predictably, the inherent challenges of dealing with illiquid assets.

### COPING WITH CUSTOMIZATION REQUESTS FROM CLIENTS

Although Figure 4 underscores that institutions of all sizes can have high manual workloads, it seems that MFOs with between

51 and 100 full-time employees seem to have the heaviest by quite a margin.

This was certainly borne out during the interviews carried out for this study. Several MFO leaders in this cohort spoke of being in a situation where their headcount is still relatively small, their client base is in the hundreds and growing, and where the families they serve can be quite demanding (when it comes to wanting exceptional processes to be implemented as if they were being serviced in a single-family basis). Although the intention is of course always to deliver a "white glove" service and meet these no-doubt perfectly reasonable demands, all these exceptions (and the workarounds that inevitably come along with them) can quickly mount up, it was repeatedly said.

As the CEO of a U.S.-based MFO with 100 clients and 50 family offices explained: "The manual work we have to carry out is largely down to deviations from standardized processes based on client requests for something a little bit different. For example, a client may want to have a debit card on the account from which bills are paid. Of course, we want to offer this kind of 'life facilitation', but something as simple as that can mean transaction volumes go from 20 to 200 a month for just that one entity, and suddenly you're having to classify things like digital wallet payments too."

"Nearly all professional accounting systems include capabilities for setting up business processes and customizing reports. The question is how closely these abilities attune the system to the needs of family offices," adds Ashley Whittaker, President, Global Sales, FundCount."

"Each family office has its own processes, and each family member may have specific reporting requirements. This is a multi-factor issue. The complexity increases exponentially for MFOs when configuring a chart of accounts and payment instruments, building data flows with banks and custodians, and setting up workflow rules to ensure good governance. Finally, the format and content of reports may differ for each family office and family member. FundCount is uniquely developed to address these needs with its visualization tools, flexible customization and self-service reporting."

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**FIGURE 3**
Assets Under Management

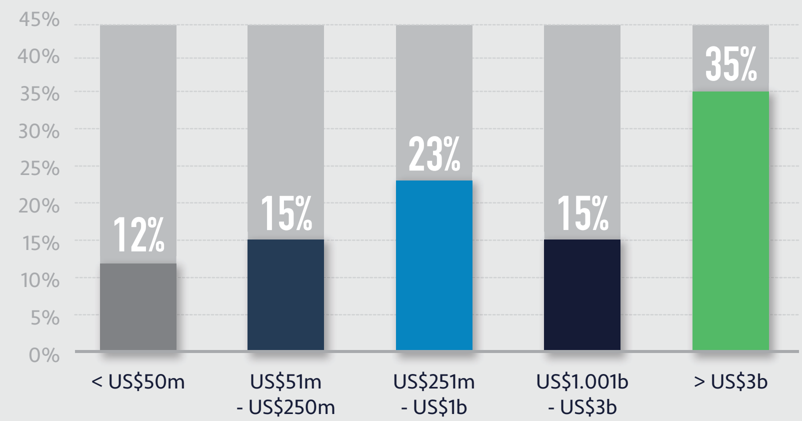
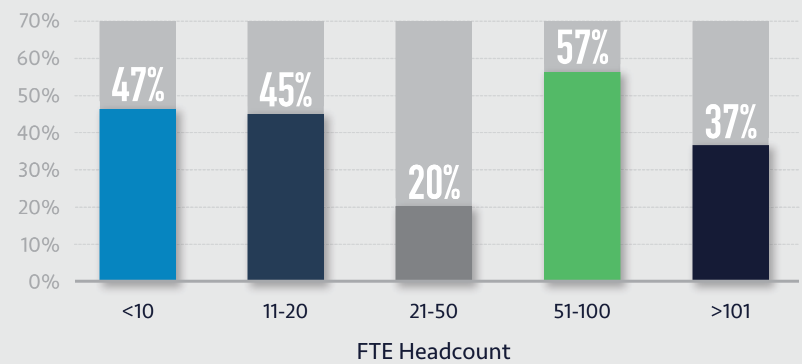



**FIGURE 4**
% of Working Week Wasted on Manual Tasks vs. FTE Headcount



SECTION 2

# The grind of dealing with multiple entities with "generalist" accounting software

**FIGURE 5**
Number of Legal Entities Being Managed

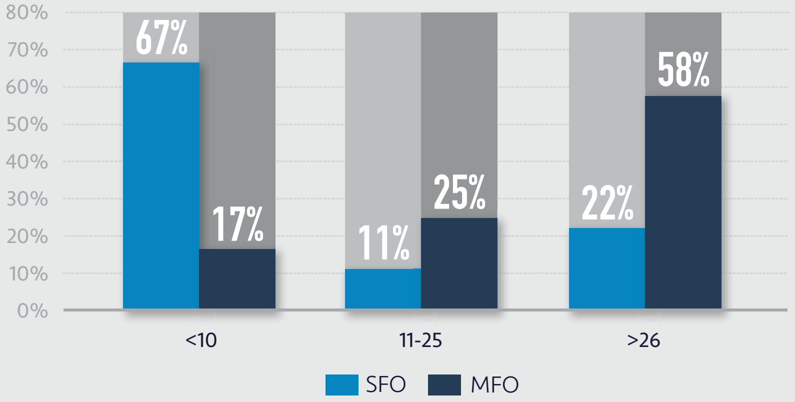



**FIGURE 6**
General Ledger Accounting Systems

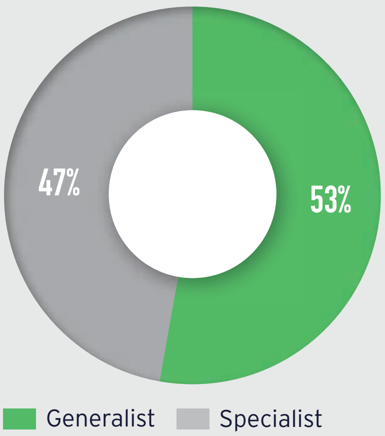
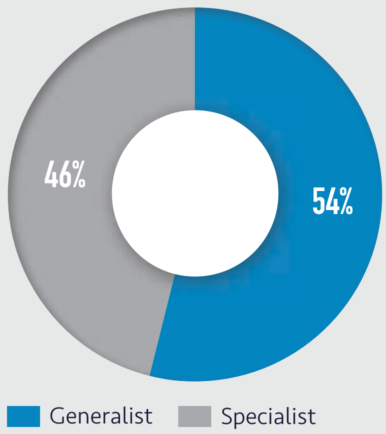



**FIGURE 7**
Partnership/Investor Accounting Systems




While exceptions to standardized processes, as just described, can account for the creation of much manual work, those involved in this study confirmed that in large part the amount of manual work comes down to the sheer number of legal entities for each client or client family – and the interactions between them. Even for institutions serving just one family, almost a quarter (22%) manage over 26 legal entities (Figure 5). Given that many wealthy families from industrialized nations are now in their third or fourth generation and thus may have a hundred members (or more) on an extended basis, SFO interviewees often spoke of commensurate numbers of entities having to be managed.

Needless to say, the numbers for some MFOs are often very large indeed. "We have 85 separate families of different shapes and sizes, and so thousands of legal entities to work with," said the Managing Director of a U.S. MFO. Another put their figure at around 1,600 entities across 100 client families. To help explain why the number of legal entities being managed can drive up manual work so significantly, one interviewee pointed to a common flaw in the "generalist" accounting software that our survey found was commonly used – it does not create linkages between entities to suit the way that family offices work in action – with funds shuttling around entities in all manner of ways, all of the time.

As one U.S.-based MFO's CEO explained: "We have one family that has forty entities and nine trusts, and they have about 25 inter-company relationships between all the entities, so that one is bill paying on behalf of another and so on, and you have to track all that. If we were trying to do that with the 'standard' software, we'd have to open one file, close it and record in the other file to capture the transaction. Think about doing that every single time."

As Figures 6 and 7 show, over half of institutions are likely to be in the position of having to do just that, with 53% of respondents using generalist general ledger accounting software alongside 54% using non-specialist tools for partnership/investor accounting. This does, however, represent a significant improvement from 2019 when, respectively, 74% and 47% of respondents were using non-specialist tools for general ledger and partnership/investor accounting.

Specialist systems really are essential, Whittaker explained: "Generalist general ledgers, which often underlay partnership/portfolio accounting solutions, can never become a single source of financial truth for family offices because they are unable to handle the granular ownership attribution family offices require and the information is spread across different databases, making it difficult to consolidate. Specialist solutions like FundCount provide an accounting engine that is unified with the portfolio and partnership capabilities in one database. This approach ensures all assets, portfolios, ownership structures, and financials are stored in a single silo and do not require matching or reconciliation. You do not need to spend hours closing the books to get accurate financial and NAV reporting."

SECTION 3

# SFOs are diving into direct investments, MFOs into digital

**FIGURE 8**
Average Allocations Per Asset Class (whole sample: 2019 vs 2022)

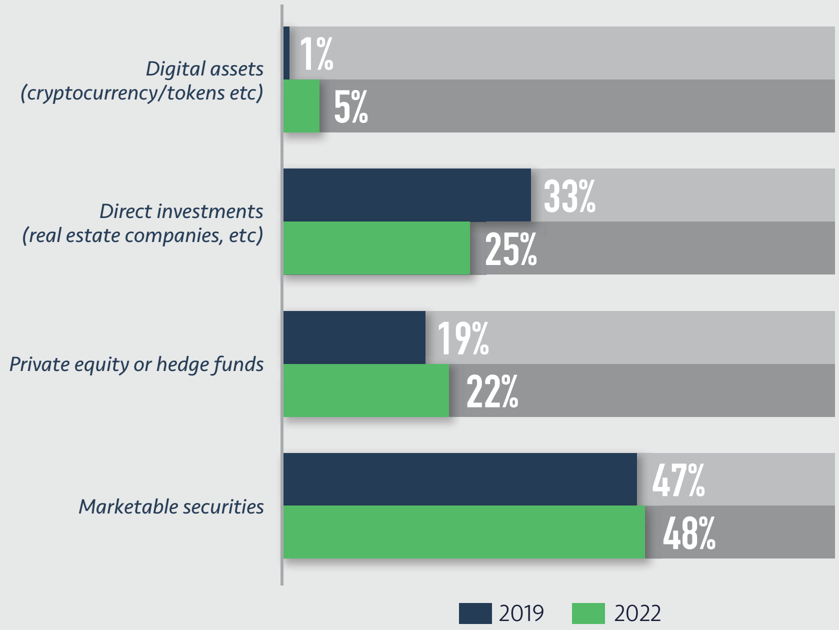
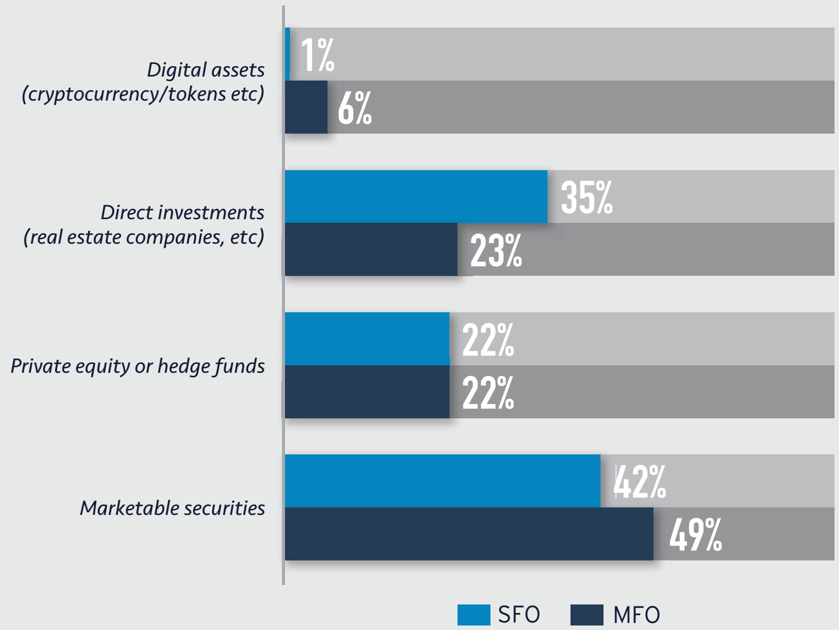



**FIGURE 9**
Average Holdings Per Asset Class (SFO vs. MFO 2022)




Our original 2019 study found that family offices had an aggregated 53% exposure to assets other than marketable securities, but with significantly higher exposure to alternative asset types among SFOs. On average, MFOs were found to have allocated 17% to private equity or hedge funds, rising to 21% for SFOs. Direct investments, including private businesses and real estate companies, stood at 27% for MFOs and 38% SFOs.

This year, we see that institutions seem to have become significantly more adventurous in their investment tastes, piling into private equity or hedge funds, direct investments, and digital assets. Interestingly, for SFOs, the emphasis is *very* much on direct investments, with these institutions looking almost twice as keen as their multi-family counterparts on these investments.

Demand for alternative investments has been increasing for years now as investors seek better diversification and sources of uncorrelated, higher returns. This trend has very much taken hold right across the wealth spectrum as faith in marketable securities and supposedly uncorrelated asset classes continues to be shaken. The first six months of 2022 were a particularly torrid time for the markets. The S&P had only experienced worse returns on six other occasions and bonds simultaneously failed to fulfill their capital preservation role with yields at multi-decade lows (and even into negative territory once the now alarmingly high levels of inflation globally are taken into account).

As firms hunker down for what now looks to be an unavoidable – and perhaps brutal – global recession, even regular HNWIs are looking to alternatives in earnest and really broadening their investment horizons. By some estimates, half or more of HNWIs say their appetite for alternatives will grow over the coming year.[1] Real estate leads in a list of top interest areas, which also spans assets as diverse as "net zero" funds, forestry and even esoteric passion assets such as art and fine wine.

Meanwhile, sophisticated UHNWs continue to invest very broadly, but with a greater emphasis on alternatives than ever. UHNWIs have evidently developed a particular passion for private market investments, as confirmed by the discussions for this study, as well as other reports published by *Family Wealth Report/WealthBriefing*. For instance, 77% of advisers serving the wealthiest clients in Asia-Pacific see strong demand for private market investment opportunities, and a further 16% see very strong demand.[2] Gaining access to interesting investment opportunities and taking part in true innovation may be strong drivers here, but many would hold that there really is little choice in today's investment environment.

As one chief investment officer remarked, "We're being *forced* to look at private assets to get the returns we're targeting, more than anything else." In our survey, the potential for superior returns was seen as the strongest driver toward private markets by far, with this achieving 50% of number one rankings. In fact, the majority (42%) of advisors said their clients expect a minimum 11-15% internal rate of return. Improved diversification also figured highly, coming second at 29%.

Now that huge economic uncertainty has rocked the world, a squeeze in funding threatens. It has been estimated that there was a shocking 23% drop in funding for start-ups in Q2 2022 compared to the previous quarter – the biggest drop in ten years.[3] However, amid plunging valuations, sophisticated family office investors will no doubt want to swoop, knowing that deals done under an economic cloud are often the strongest performers long term. Sourcing, vetting and structuring exciting new deals is undoubtedly where family office professionals would rather be spending their time – and what their employers would want them to be doing too – instead of manual work which in many instances might be distinctly below their pay grades.

Whittaker said: "Private markets provide great potential for diversification through strategies not readily available via public markets. Working with a wide number of investment vehicles from equities and debt to focused investments such as real estate, infrastructure projects, or commodities, asset managers must have adequate investment accounting tools to support all asset classes in use. For high-end reporting, it is not enough to use the same 'universal asset class template' for all investments in your portfolio: each asset has its accounting and reporting traits, which your accounting system must support."

# Doing low-value work by hand has hidden HR costs

Having potentially hundreds of hours of working time eaten up each year by tasks that could easily be automated with software purpose-built for family office business is clearly sub-optimal from a cost perspective. Institutions also cannot afford not to take into account the *hidden* costs of manual work from a human resources perspective either.

Studies indicate that many family offices are on the headhunting trail. According to specialist search firm Agreus Group, 51% of family offices will expand their investment teams in 2022; 29% will hire at least one legal professional to manage upcoming regulation; and 28% are looking to improve their diversity by bringing more female leaders on board.

These would be big ambitions for most wealth managers, but recruiting and retaining talent are notoriously more difficult in the family office space than in the sector at large for a number of well-discussed reasons. Not least is the fact that generally such institutions will – by definition – not have the brand cachet of big banks. Additionally, they may lack opportunities for career progression and managing large teams due to their smaller and discreet nature.

Working for a family office, however, is certainly attractive for a particular type of person at the right stage in their career. But, as experts point out, the attraction of making this move must not be negated by a superfluity of manual work or creaking technology infrastructures that may seem retrograde compared to what professionals have been used to elsewhere.

***Deploying the human element where it most counts***

As Mark Somers, Founder and Managing Partner of wealth management recruitment company The Somers Partnership, argued: "Family office professionals have a T-shaped career, going in with deep expertise in one area (the stem of the T). And, while they still practice their specialism in the family office, they also develop very broad expertise very quickly; there's business as usual but then also abundant problem-solving opportunities.

"The sort of people who are attracted to family offices and who are attractive to them are natural problem-solvers, so anything that can be done to relieve the tedium of repetitive work and free up time for more interesting tasks and problem-solving is vital. Therefore, one of the most important things when you are thinking about building and retaining the family office team is the technology."

This was a view put forward by numerous contributors to this report, who also often made the point that the idea is not about eradicating manual work completely. Rather, the emphasis is on automating away lower-order, repeatable tasks so that the human element can be deployed where it counts most.

As the chief financial officer of a U.S.-based SFO put it: "Where we gain some efficiency, we use that as an opportunity to enhance our checks. A certain amount of manual may be inevitable, even desirable. It's where that effort is directed that is important."

SECTION 4

# Reporting on alternatives: different ways, different times, different formats

> "A lot of the pain relates to robotic process automation-type functionality, or rather the lack thereof. Firms need to be able to use RPA or other types of automation to extract data from PDFs and spreadsheet documents and do so in an accurate manner. When it comes to illiquid investments, those types of documents are the building blocks of the deal flow."

Interest in private market and other alternative investments is only set to grow for investors willing to take on more risk for the promise of greater rewards. Therefore, institutions serving the UHNW sector clearly need technology that can cope with the more "exotic" types of assets and holding structures, to avoid their manual work burden becoming untenable. As with so many of wealth management's challenges today, the availability and what we might call digestibility of data is at the heart of the matter. Namely, that alternatives are reported on in different ways, at different times and in formats which are often far from helpful.

As William Trout, Director, Wealth Management at Javelin Strategy & Research explained: "A lot of the pain relates to robotic process automation-type functionality, or rather the lack thereof. Firms need to be able to use RPA or other types of automation to extract data from PDFs and spreadsheet documents and do so in an accurate manner. When it comes to illiquid investments, those types of documents are the building blocks of the deal flow.

"Private equity deals have historically taken up to 40 or 50 days because there's a lot of mailing and "FedEx-ing" of documents back and forth. Now, you may be able to digitize that but you're still emailing a PDF, and you've got to extract the data from it."

As Trout notes, there are now high-end RPA platforms or services that can extract data with 80% accuracy. Even with improvements happening all the time, a lot of manual work tends to remain.

The CEO of a U.S.-based MFO remarked that tracking several hundred partnerships is "really hard" and that despite automation efforts "a lot of the time you're still reading off a PDF to book it to an accounting system." "You could have a partnership that is a draw fund, and you can have contributions that go against your commitment, distributions, recallable distributions, and all kinds of transactions," they said. "To be able to book those correctly you usually need to have a human eye on the statement. Otherwise, your unfunded commitment and all the things about that capital call or distribution that are going against that commitment are unlikely to be correct. You have to be meticulous."

"Family offices are familiar with software tools that can recognize paper documents and online PDFs. More importantly, however, is what can you do with data received from a PDF document, such as a capital call notification?" said Whittaker. "In a sub-optimal case, you must manually calculate and input each investor's figures. In an ideal world, your accounting system recognizes the data and automatically sends capital call notifications to investors based on their ownership percentage."

Several of the interviewees also drew attention to the vagaries of U.S. State and Federal legislation and business practices as another major contributor to manual workloads. "I think in Europe things are further along in terms of having a common language around reporting financial transactions, but in the U.S., everyone has their own way of representing information," said one interviewee.

"The variation in nomenclature is part of the challenge," affirmed Trout. "But the real bureaucratic burden in the U.S. comes from the fact that there is a multi-layered regulatory environment here with the SEC and state regulators. So, fulfilling the compliance requirements means it's hard to get to uniform taxonomy and terminology that corresponds to the automation of data extraction and dataflows. It's a huge issue."

SECTION 5

# Crypto challenges: pricing, reporting and technology

> "Even the most conservative family offices are thinking 'This is big and we can't just ignore it, so we'd better have some crypto, even if it's just 1%'. In fact, many would say now it's got to be 1% minimum, and likely more towards 5%."

We also see a modest but significant increase in the allocations being made to digital assets, which gives rise to a range of new challenges. Although some of the institutions included in this study were unfavorable toward any form of crypto investing or digital assets, our findings do seem to reflect broad family office sentiment (i.e., that they should have at least some exposure).

As Martin Portnoy, Partner, Tax and Private Capital, EY, argued: "Even the most conservative family offices are thinking 'This is big and we can't just ignore it, so we'd better have some crypto, even if it's just 1%'. In fact, many would say now it's got to be 1% minimum, and likely more towards 5%." This is almost precisely replicated by our findings, with SFOs having an average allocation to digital assets of 1%, and MFOs 6%.

Digital assets have undeniably represented a wild ride in 2022, with recessionary fears, historic inflation, geopolitical tensions and regulatory rumblings combining to take a harsh toll on the notoriously volatile (and some might say, speculative) cryptocurrency space. In June, some $2tn was wiped off crypto's market value, yet advocates will still point out that despite coming down 50% from its hype-fueled November 2021 high, Bitcoin had held the crown for best-performing asset of the decade (as calculated by CEO of Compound Capital Advisors Charlie Bilello in a well-shared Yahoo article). They might also point to the increasing cachet of this hardest of hard forms of money as inflation starts to seriously erode wealth.

Even the family office professionals interviewed who don't want digital assets as part of their offering conceded that clients will often have "away assets" of this kind, which somehow need to be brought into the overall wealth picture. But, as contributors highlighted, the challenges of accounting for these assets are particularly difficult.

As one MFO founder observed: "From an accounting perspective, I believe crypto is still treated as an intangible asset, which is *really* unique. If you put a $100,000 in Bitcoin, then at least in the U.S. the GAAP guidance is to treat it like an intangible so you can't write it up, only down. If you had a 10x return in Bitcoin from an accounting perspective, it stays at your book value but if it decreases, you must write it down and you cannot write it up. From an accounting perspective, that needs to change. Bitcoin needs to be regulated and treated like a security and should follow mark- to-market accounting."

According to Trout (and others) there is a need for both regulators and technology providers to step up to accommodate what is, at least for some, a huge interest in digital assets.

He said: "I think there is significant interest in crypto as an asset class, but the pricing and regulatory issues are the big barriers. At the moment, crypto is treated like it's a commodity or means of payment; it's certainly not a security or an investment.

"Then there is the technology. There are portfolio management tools which are emerging to support different types of coins and assets and even things like NFTs, but those aren't really available to institutional investors at any scale. I think the issues around pricing and reporting make it very difficult for institutional investors to really embrace digital assets at present, and family offices too."

## SECTION 6

# A wide range of KPIs are considered, but the need for speed is paramount

As has already been highlighted, pricing and reporting challenges are by no means limited just to digital assets. Tackling these challenges is essential to delivering on family offices' chosen KPIs as they move to ensure efficiency and best response to clients.

Just as in 2019, the KPI most commonly used by institutions is the time taken to produce reports after a period-end, as 53% of respondents affirmed. Yet, as Figure 10 clearly illustrates, firms are using a whole range of metrics, which are close behind in importance. Most notably, client satisfaction, accuracy and – related closely to the "need for speed" – data reconciliation time, which are all used by 47% of respondents. At 41%, the cost of operations cannot be neglected either.

Correspondingly, when asked what the biggest strength of their most critical systems is, 41% said they most appreciated the automated downloading and consolidation of data from custodians, investment managers and brokers. Meanwhile, only 24% could say that their foundational system excelled at supporting the management, reporting and accounting of complex structures.

These findings reflect a marked change from 2019, when automatic download and consolidation of data was in second place (11%); and integration of accounting, analysis and reporting across all investments and entities was first (25%). "Other" qualities, which were cited most frequently as a top strength, tended to focus on some element of flexibility and robust integration, ease of data entry, an ability to support complex structures or an ability to integrate operational workflows with data.

This year's survey results reflect real growth in the importance of automated dataflows from outside the organization. This need resurfaced in our interviews with family office executives, who cited direct feeds with custodians as a "must have" in terms of reducing manual data entry and reconciliation errors in their quest for enhanced operational efficiency.

**FIGURE 10**

KPIs Used to Ensure Efficiency and Best Response to Clients

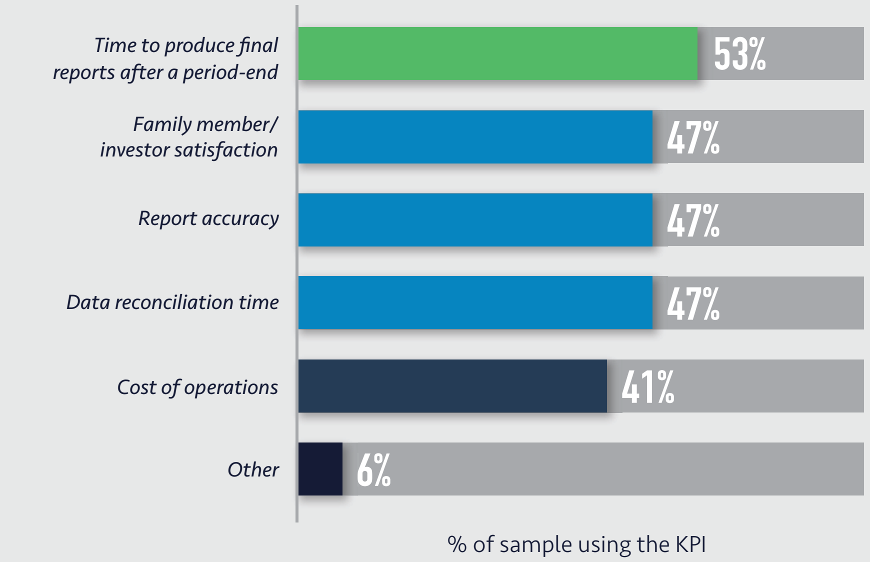
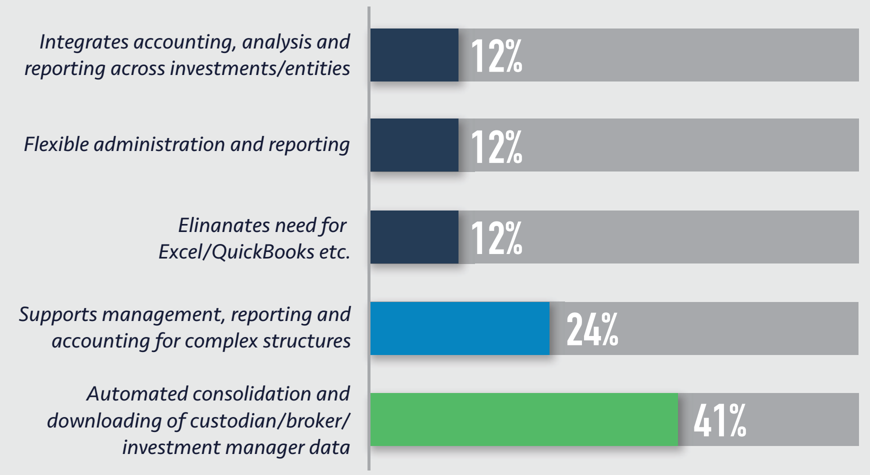



**FIGURE 11**

Biggest Strength of Most Critical/Most Used System



Although numbers may well be very much higher for MFOs, even SFOs frequently said that they were dealing with 6-8 custodial institutions. This led to the CEO of an SFO managing U.S.$1-3bn in assets to remark that, "the ease of integration with global custodians is predominantly what got us into our relationship with our provider in the first place."

FundCount leads on connectivity, Whittaker explained: "During implementation, clients ask us to link data from multiple sources, including custodians, brokers, market data sources, and alt managers/private equity funds. Some projects require more than 20 links. With more than 20 years of experience building such data feeds, we understand how to analyze, design and configure new connections to accommodate different assets, tricky data formats, and special rules for cleansing and importing data into FundCount to give clients maximum flexibility.

"When gathering data from outside, paying attention to the frequency of updates, security and safety, data validation and reconciliation is essential. Your system should be able to deal with different protocols, file formats, and archives and know what to do if the data connection fails."

While speed of information is a critical factor, and one upon which investor satisfaction is substantially based, *quality* is also clearly key – and that means reporting to clients in an immaculately accurate, customizable and even very visually attractive way. As one CEO remarked: "The number one deliverable our clients want is simply information. So, my concern is how to get the right information to the client quickly and in a manner that is acceptable to them".

> "There is a lot of course correction needed when you do reporting. You'll give clients a financial package with perhaps seven tabs and they tell you they'd like it to look 'this way'. We go back and make the changes, then there might be more requests over several months until they're happy."

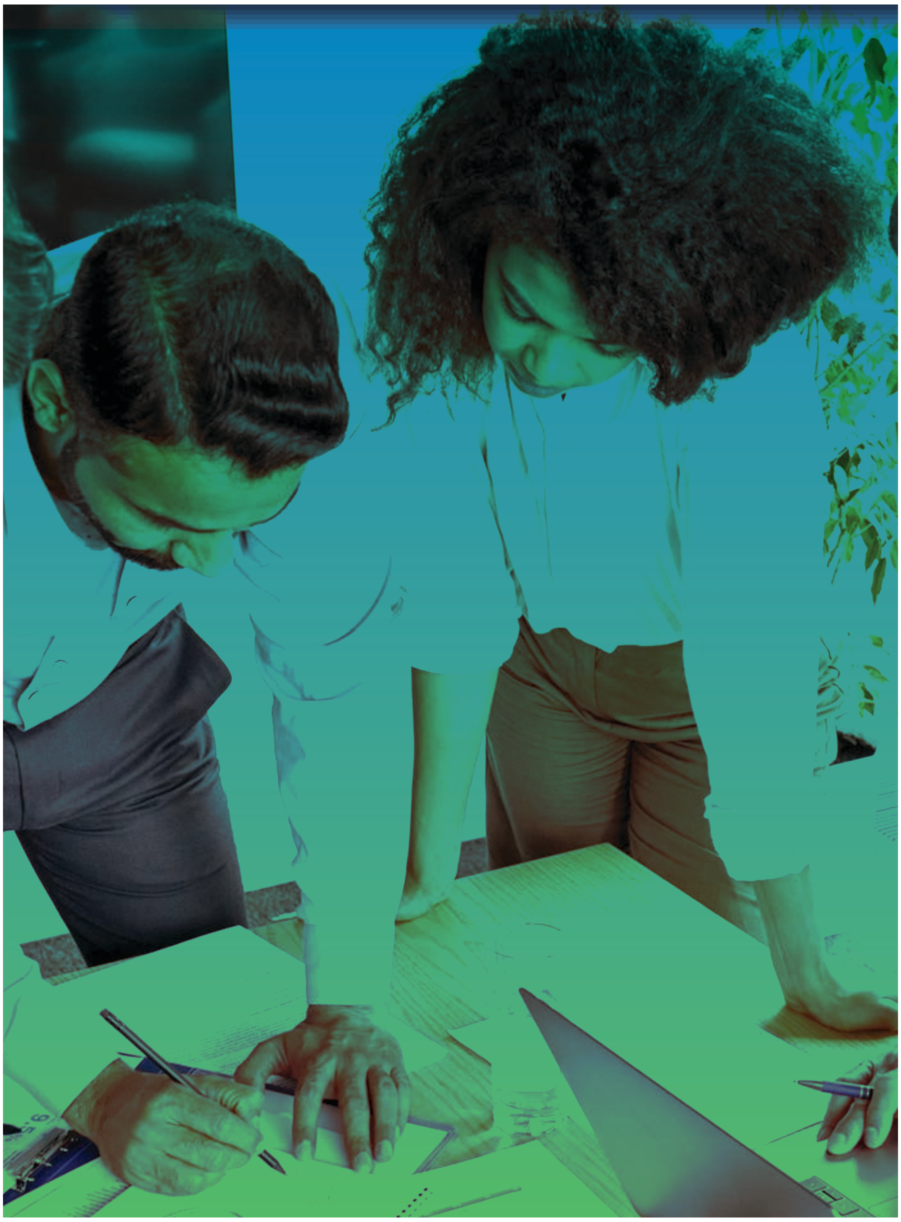
However, as this interviewee and others pointed out, presenting information in a manner that is acceptable is very often a highly iterative process even just for one client – and only in terms of the aesthetics.

They continued: "There is a lot of course correction needed when you do reporting. You'll give clients a financial package with perhaps seven tabs and they tell you they'd like it to look 'this way'. We go back and make the changes, then there might be more requests over several months until they're happy."

Catering to the varying wants, needs and knowledge levels of members of a family can therefore be quite a task in itself, let alone when that is scaled up to a very large, multi-generational family or indeed an MFO scenario.

"Family offices are highly demanding users regarding report layouts, content, and delivery," Whittaker observed. "Each office and each family member has a different view of what they want and how they want to see the data presented. Reports with a standard appearance, grouping and sorting are not usually adequate. More often, the requirements are so sophisticated that you need a fundamentally different approach to building a new report, which also incorporates formulas to consolidate data from various sources.

"In addition to the standard report customization tool, FundCount users benefit from the Custom Reports capability that enables them to set FundCount as a universal data source for an Excel-like report with formulas, summation, grouping, and unlimited design options."



SECTION 7

# Reporting typically requires supplementary software

There seems, however, to be a real dearth (in implementation, if not availability) of satisfactory reporting technology in the family office space. An inability to ingest, account for, analyze and report on all investments in one system was the biggest weakness cited for critical systems, closely followed by difficulties in producing customized or ad hoc reports. It comes as little surprise then, that bolt-on solutions (and even spreadsheet use) are so prevalent.

Ease of customization in reporting is clearly essential to delivering on the top KPI of investor satisfaction. However, it seems that a great many institutions require functionality not offered by their primary accounting or investment system since 31% are using additional software to get the job done. Interestingly, while around half of these firms have invested in specialist reporting solutions designed for family office business, spreadsheets are still widely used alongside data visualization software which, though it may be powerful, is again not designed specifically for the sector.

For some of our interviewees, these workarounds are deemed to be manageable as they are only necessary relatively infrequently, such as when a client wants to drill into a particular element of their portfolio's performance following a specific event. But for many, spreadsheets and mass market data visualization tools are vital and very regularly used elements of their reporting toolkits.

On this point, the CEO of a Canadian SFO remarked: "On the basics, and on the regulatory side of things, we're very well-served with our primary portfolio management software. But sometimes we have to go beyond the basics in our reporting to provide the family with the data that matters to them, so we do find that we have to customize elements through spreadsheets or use other data visualization tools for asset allocation." "Sixty-five percent of people are visual learners," noted Whittaker. "As a result, it is crucial to present sophisticated information, especially financial data, in a clear and easy-to-understand manner.

"By integrating with specialized analytics instruments like Tableau or Microsoft Power BI, FundCount extends its capabilities further and enables users to show not only the actual distribution and performance of assets, but also link everything to market data for a robust dynamic visualization approach. These tools become part of an online self-service portal where family members can access their cabinets and get reports and analytics from any device."

**FIGURE 12**
Biggest Weaknesses of Most Critical/Most Used System

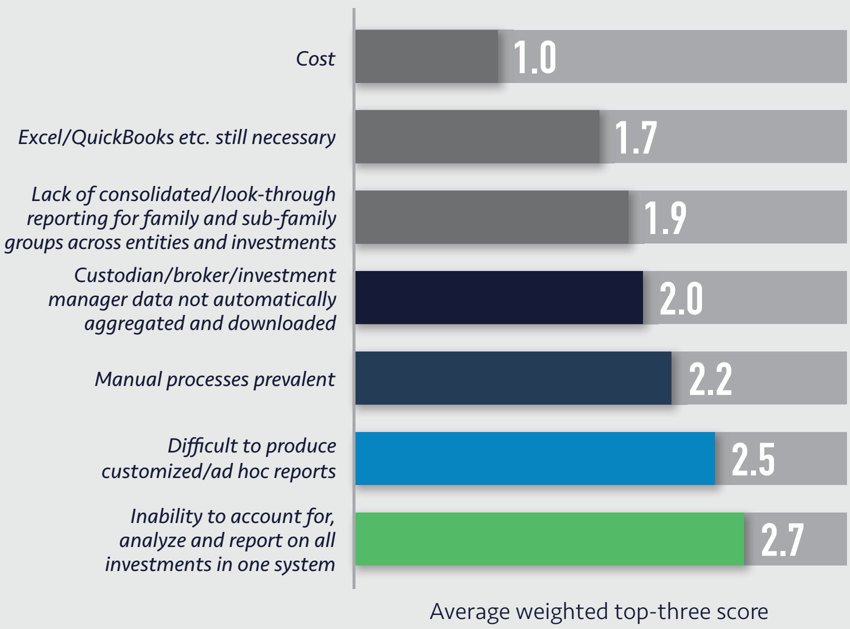
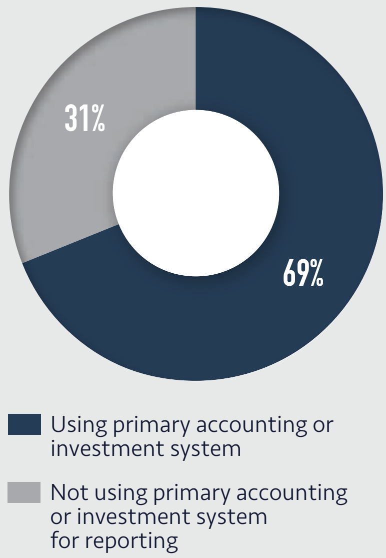



**FIGURE 13**
Are Institutions Using Their Primary Accounting or Investment System or Not?



SECTION 8

# A long wish list for investment system vendors to address

It appears that many institutions would like to see a raft of improvements rolled out to their main investment systems simultaneously. When our survey participants were asked which one thing their vendor could implement to improve their experience of the product, two enhancements emerged with a lead, albeit not a very large one, over the other potential choices. The two frontrunners were improved integration with and reporting on alternatives, and better configuration for the nuances of family office business, both attaining 19% of the votes.

The five wish-list items behind at 13% are still significant, however, in that that they highlight what seems to be a stark divide between the "haves and have-nots" in accounting and reporting tools. There seems to be a real bifurcation between those firms that are able to call a particular feature a strength of their systems and those that do not have anything like that at all.

### TWO CAMPS ON LOOK-THROUGH REPORTING CALLS FOR THE CAPACITY TO GO BOTH WAYS

While not top-rated, a lack of look-through reporting reflecting the groups and subgroups within the family, did figure on the list of biggest system weaknesses identified by participants.

Here, our interviewees said that they saw clients fall into two camps, implying that institutions need the capacity to go both ways. As a partner at a U.S. MFO observed, some individuals do want to get very granular indeed, whereas others would tend to see this as somewhat "getting lost in the weeds."

They recalled: "We've certainly had clients who will say something like, 'I've got 15% in this partnership and so I want you to show me on my statement 15% of each of the 200 things that this particular partnership holds.' Others say, with some justification in my view, 'I can't sell that 15% of the 1,000 shares in X company the partnership holds, so putting that as an individual line item on my statement doesn't really give me any actionable information.' What we therefore need is to be able to switch that on or off."

Whittaker said: "Accounting for the complex nested entity family structures has always been challenging for family offices. When it comes to pooled investments such as limited partnerships, private equity, or hedge funds, allocating returns to individual investors takes time and leads to many mistakes if done manually or with traditional accounting systems.

"FundCount clients benefit from the master-feeder capability that keeps the ownership percentage in all layers of nested entities for each investor, speeds up reconciliation, and enables automatic calculations on all ownership layers."

### AN ABILITY TO ATTACH ATTRIBUTES TO ASSETS AND VISUALIZE STRUCTURES

As this report has emphasized, the customizability institutions are calling for has several facets. One feature that was repeatedly mentioned was the importance of being able to assign attributes to investments. "I know, for instance, that's fundamentally a U.S. equity owning partnership, so everything that is there is a U.S. equity even if it's cash because that might be deployed into U.S. equities," said one interviewee.

And while attribution "labels" are generally used for internal analytical purposes, it was also highlighted that ESG reporting is another 'must' for institutions with investors who are highly engaged with such issues. It is expected that these numbers will only continue to grow as wealth transitions to the younger generations. Research suggests that around two-thirds of millennials are likely to factor societal problems into their investment decisions[4] and a third often or exclusively use ESG-related investments, compared to just 2% of baby boomers.[5]

Firms need maximum customization capacity for clients who want to look at their portfolio in granular detail through various lenses like ESG metrics. Contributors also pointed to the fact that reporting can also function rather like a "refresher course" of what clients own – and that this is a key reason why other tools often need to be brought in to paint a picture of what is where and why, so to speak.

As one interviewee observed: "It's questions like, 'Remind me how that account works again? How is it I own this asset?' Although some do want to break down the valuations, I find the customization requests focus more on what the entities and partnerships and funds are, and the role they play in the overall wealth picture." As they remarked, "the industry needs need really good visualization tools for that".

"We've certainly had clients who will say something like, 'I've got 15% in this partnership and so I want you to show me on my statement 15% of each of the 200 things that this particular partnership holds.' Others say, with some justification in my view, 'I can't sell that 15% of the 1,000 shares in X company the partnership holds, so putting that as an individual line item on my statement doesn't really give me any actionable information.' What we therefore need is to be able to switch that on or off."

SECTION 9

# Toward true (and timely) consolidated reporting

> "Providing that snapshot view of a client's position remains extremely challenging even in 2022. This is still somewhat a function of connectivity to custodians, brokers and investment managers, although that's far less of a problem than in the past. Your vendor should have built up their APIs by now and getting the data for the 'vanilla' proportion of portfolios made up of cash and marketable securities shouldn't be a problem, no matter how many sources are required."

Although some respondents were able to say that their main system's biggest strength was in consolidated reporting, it appears that over a tenth are crying out for better integration and data feeds – and that the same proportion lack these capabilities *at all*. The desirability of being able to show a client, hopefully at a glance, their complete position across all their investments is obvious. Yet this notoriously remains something of a holy grail, which still eludes a great many providers even in the broader wealth and asset management sector, let alone those dealing with the complex affairs of the UHNW.

Deciphering the persistency of this issue in the family office space, our expert commentators urged institutions to first ensure that their technology providers have made the requisite investments to take care of what should be the easy part: traditional assets.

Trout said: "Providing that snapshot view of a client's position remains extremely challenging even in 2022. This is still somewhat a function of connectivity to custodians, brokers and investment managers, although that's far less of a problem than in the past. Your vendor should have built up their APIs by now and getting the data for the 'vanilla' proportion of portfolios made up of cash and marketable securities shouldn't be a problem, no matter how many sources are required."

As a result, consolidated reporting should therefore be more an issue of general data hygiene in terms of getting information on alternative investments, in his view. "Once you get into alternatives and illiquid assets, manual work and timeliness inevitably become problems; you've got to move stuff around and there's a significant natural time lag built into private equity, for instance," he said. "It's a question of how do you get trade and other information that's up to date so that you're comparing apples with apples with the data in order to enable analytics and reporting."

As Martin Portnoy reiterated, however, "it's not easy to pull everything together, particularly when different assets are accounted for in different ways." This highlights once again the need for accounting systems that can indeed get closer to comparing apples with apples. And he also pointed out that a lack of visibility over what is owned and where the assets "are" is a surprisingly common issue. "Of course, clients want that holistic view of their overall position so they can know easily what their exposure is to X or Y. But you can have very wealthy families who don't have full visibility over all of their assets generally – let alone getting fully consolidated regular reports," he said.

The corollary of the extremely challenging nature of consolidated reporting (and its relative rarity) is that it can be a very powerful differentiator for those technology providers that are able to help institutions towards attaining it. And, in turn, it will be a powerful differentiator for institutions seeking to retain and/or attract younger generations of clients used to having information at their fingerprints and presented in a user-friendly way.

Whittaker concluded: "The industry has reached an inflection point. SFOs and MFOs are not only faced with new asset classes and greater overall complexity, but also the transition of wealth to a younger, more tech savvy and more tech-demanding generation. FundCount's accounting and investment analysis software provides flexible customization and self-service reporting to meet the specialized needs of family offices. It offers what all family members and family offices want most – a consolidated, single view of wealth."

# Conclusion: Why workaround models may not work for much longer

As both this and our previous study underscore, there appears to be a significant contingent of family offices – many managing very considerable sums – which have yet to make investments in technology designed specifically for their business. While they may have good reasons, like budgetary constraints, our contributors were clear that for many institutions, workaround models may not work for them for much longer as they seek to grow and younger clients inherit wealth.

Taking a step back, Trout sees a clear correlation between whether an institution is still reliant on manual workarounds and bolt-on technologies, and its type and development phase. In his words, "the use of spreadsheets is often a function of the history of the family office."

"Institutions that emerged as an SFO and are content to remain as such, or those which still target an older set of clients, have often stitched together their technology stack reactively over time," he explained. "In contrast, those trying to engage with the next generation and perhaps looking to attract more client families, are generally looking to innovate around investments and planning – they know that they need to create a compelling digital experience. As a result, they will be seeking to consolidate their technology platforms and remove the need for all these workarounds."

While workarounds may "do" on an ad hoc basis, Trout sees institutions rapidly starting to really feel the pain they can cause once they start to think about scaling – or when the status quo is otherwise shaken up.

He continued: "The manual workarounds that still persist in the SFO space become less effective, and frankly less palatable, in the MFO space as you seek to expand your footprint to other families or clients. Then, firms must become much more focused on scale, timeliness of data and the digital experience, particularly in light of what new clients may have been used to elsewhere."

But keeping up with the needs of their sole family party can be just as much of a concern for SFOs, with certain trigger points very often at play. Trout explained: "For SFOs, the tipping point for investment is typically some sort of event, like a liquidation of a business or a major cash-driven event, that requires an investment in digitization. This tends to have a generational aspect too."

"For the SFO, it's often the transfer of wealth from the matriarch or patriarch to the next generation that generates a need for better digital capabilities. It might be that the parents' close advisors aren't necessarily going to represent the whole 'bench' for the next generation. They may also be looking to branch out in a host of ways investment wise, which means that improved third-party access to documents and data become a real priority. Almost without exception, however, the next generation who grew up with smartphones and apps will be looking for greatly enhanced digital communications and reporting – and that of course speaks to the accounting challenges firms need to find solutions to as well."

With all this in mind, it seems clear that the times when family offices could merely "make do" with generalist technology and the goodwill of staff may be coming to an end – and soon. Whether for clients or for staff, attracting and retaining the best is rapidly coming to be determined by investing in tools designed for this very special, and specialized, line of business.

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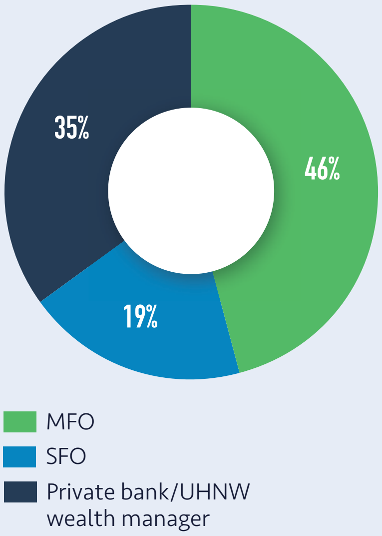
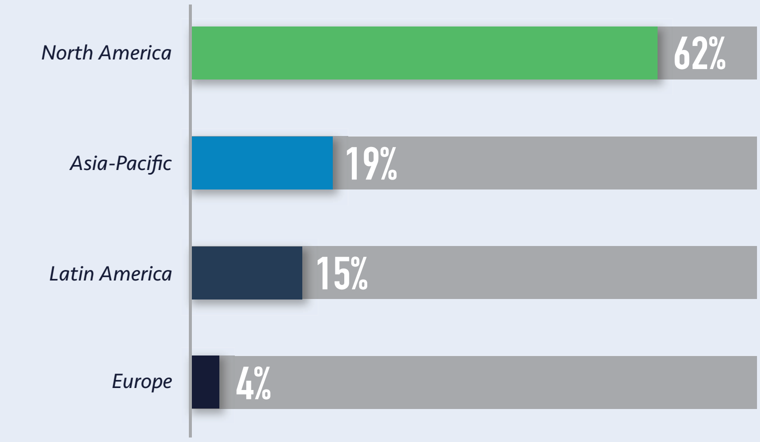
# Methodology

For this report, 27 senior-level professionals, owners and founders from family offices were interviewed and surveyed during May and June 2022. The composition of this sample was as follows.

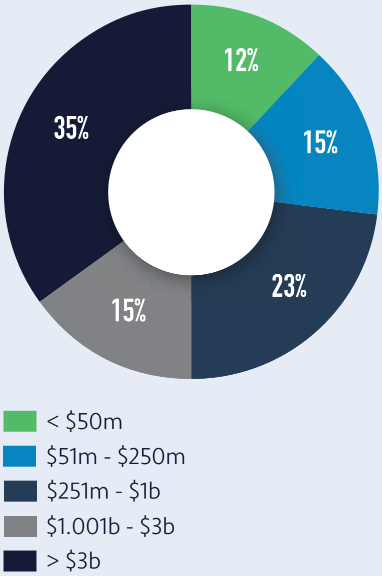
### Type of Institution




### Location of Institution

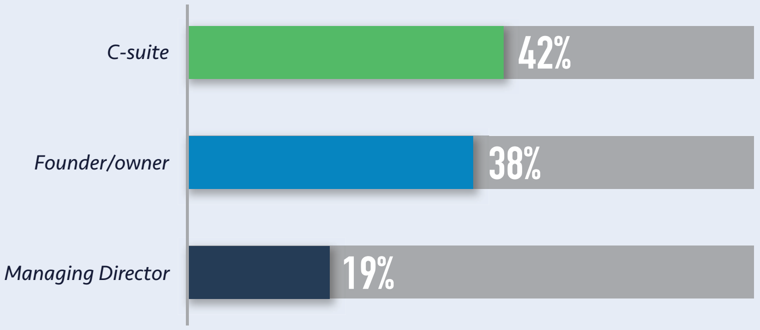



### Assets Under Management




(U.S. Dollars)

### Participant Role



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