

Special Report

Family office investment technology

From spreadsheets to automation



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Introduction

The investment strategy of every family office is hyper-customised to the unique needs of the family and its members. Some have simple investment philosophies relying on a person or small number of individuals, whilst others have the rigour of an institution, with investment committees and executive functions. A growing trend across all types is that family office investment portfolios are becoming more complex as generations pass, as more investment options become accessible, and as investment technologies proliferate.

This white paper puts the spotlight on this last ingredient – investment technologies. To begin, we examine the challenges families face in managing multi asset class portfolios, before looking at the overall role the right technology can play in a high-functioning family office. We look at how technology can power portfolio management and performance reporting, then share why sticking to a traditional spreadsheet approach holds risk. We also demonstrate the different ways family offices can balance internal and outsourced support.

Importantly, we uncover the opportunity cost of not embracing the right investment technology – from facing higher costs to greater security risks, and even difficulty attracting the best talent.

As the title suggests ‘from spreadsheet to automation’ we hope this whitepaper inspires you to dive in and investigate the technology options available that could genuinely support and enhance your investment growth.

Matt Heine

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The challenges of managing multi asset class portfolios

When a family has an operating business, they are generally focused on a single asset – the business. When they sell some or all of the business and begin to invest that money, they become an asset manager.

Often, the breadth of their asset portfolio is not understood until the spreadsheet and manual updates become unwieldy and hard to manage. Further, as the portfolio grows, investment management complexity increases. According to UBS’s recent report on Global Family Offices, 43% of investments are in alternative asset classes – those that are often even harder to manage.

Running a multi asset class portfolio requires capabilities that may not have been essential when establishing the family office.

Considerations include:

Internal skill sets and interests - Who will manage the investments, or take on the operational roles? Is there a network of trusted suppliers? If not, where can the right support be sourced?

Experience in dealing with financial service counterparties - These could include asset managers, brokers, wealth managers, professional services, private banks, and custodians, etc.

Technology expertise - Skills in managing legacy and new technology, as well as staying abreast of new technologies and software vendors.

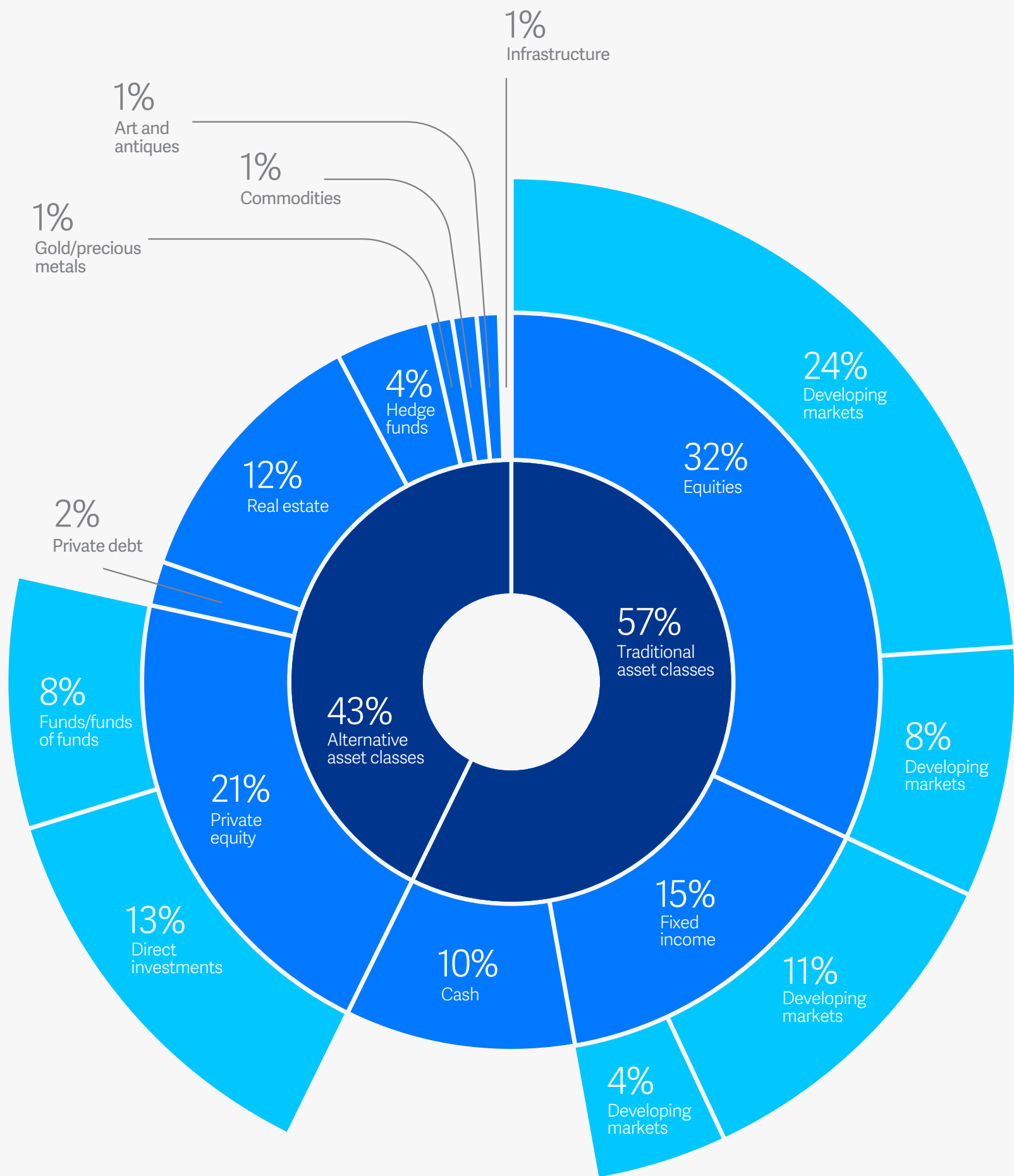
Governance and processes - The frameworks needed to manage the idiosyncratic investment strategies and processes, as well as effective communication to family office members.

27%

Say lack of internal expertise is a barrier from further additional technology utilisation

PWN 2023 PWN Family Office Technology Report

Strategic asset allocation of family offices



Source: UBS Global Family Office Report 2022

* <https://www.ubs.com/global/en/family-office-institutional-wealth/reports/gfo-client-report.html>

How technology is supporting the family office

In the 2023 PWN Family Office Technology Report, PWN members ranked increased efficiency as the number one most important technology benefit family offices were looking to achieve in the next 12 months.

Efficiency is a broad term, but one that has long challenged family offices. The right expertise and investment infrastructure normally needed to manage a multi asset portfolio is rarely set up from the beginning. This leads to workarounds and staff members tasked with low value, repetitive data entry. Therefore, establishing the correct technology ecosystem is a complex yet critical step.

When building out your family office technology stack, it helps to start with the primary function you are looking to support, and what features of the software will bring the greatest return on investment. Outlined below (and summarised in the diagram to the right) are some operational needs and the sorts of technology that can support them.





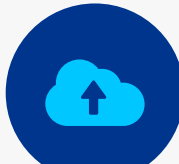
Client portal and mobile app

Whilst a family office doesn't have a 'client' list, it has stakeholders and shareholders, each with their own preferred 'view' of how their investment is managed and monitored. A client portal provides a centralised online place for family members and stakeholders to link into the back-office systems so they can review investments, deep-dive into performance, or to understand cash positions.

General accounting

Typically, the family office will need to manage the cashflow and balance sheet requirements for operating businesses, their direct investments, private market liquidity requirements, standard investments such as stocks and bonds, plus all operating expenses, bills, and family distributions. General accounting software is the primary tool for this. Integrating family office software with this system can drive better investment reporting and in turn, may reduce double-handling.



Private office function/need	Technology solution	
Family group / individual Monthly reporting, admin, management, concierge		Client portal and mobile app
Finance Cash flow management, billing, tax compliance & reporting		Accounting, general ledger and billing
Investments Investment policy, asset allocation, implementation, performance reporting, research & ideation		Portfolio management solutions
Governance Identify, asses and manage various risks and manage regulatory requirements		Risk management solutions
Investment partners eg. banks, asset managers, wealth managers, asset consultants etc. Service tiering, expanses, philosophy, fee structure, customisation, min assets and ticket sizes, heavy lifting, approved product lists.		Data management and document storage

Portfolio management and performance reporting

Software solutions to support investment management focus on providing an overview of the family’s investments, including asset allocation, performance metrics, risk analysis, custom implementation and trading, and benchmark comparisons. They can generate customised reports with detailed analytics for various asset classes, including stocks, bonds, real estate, and alternative investments.

Risk management and compliance

Risk management and compliance software solutions can help family offices identify, assess, and manage various risks associated with their investments, operations, and regulatory requirements. These solutions often provide tools for scenario analysis, stress testing, and regulatory reporting.

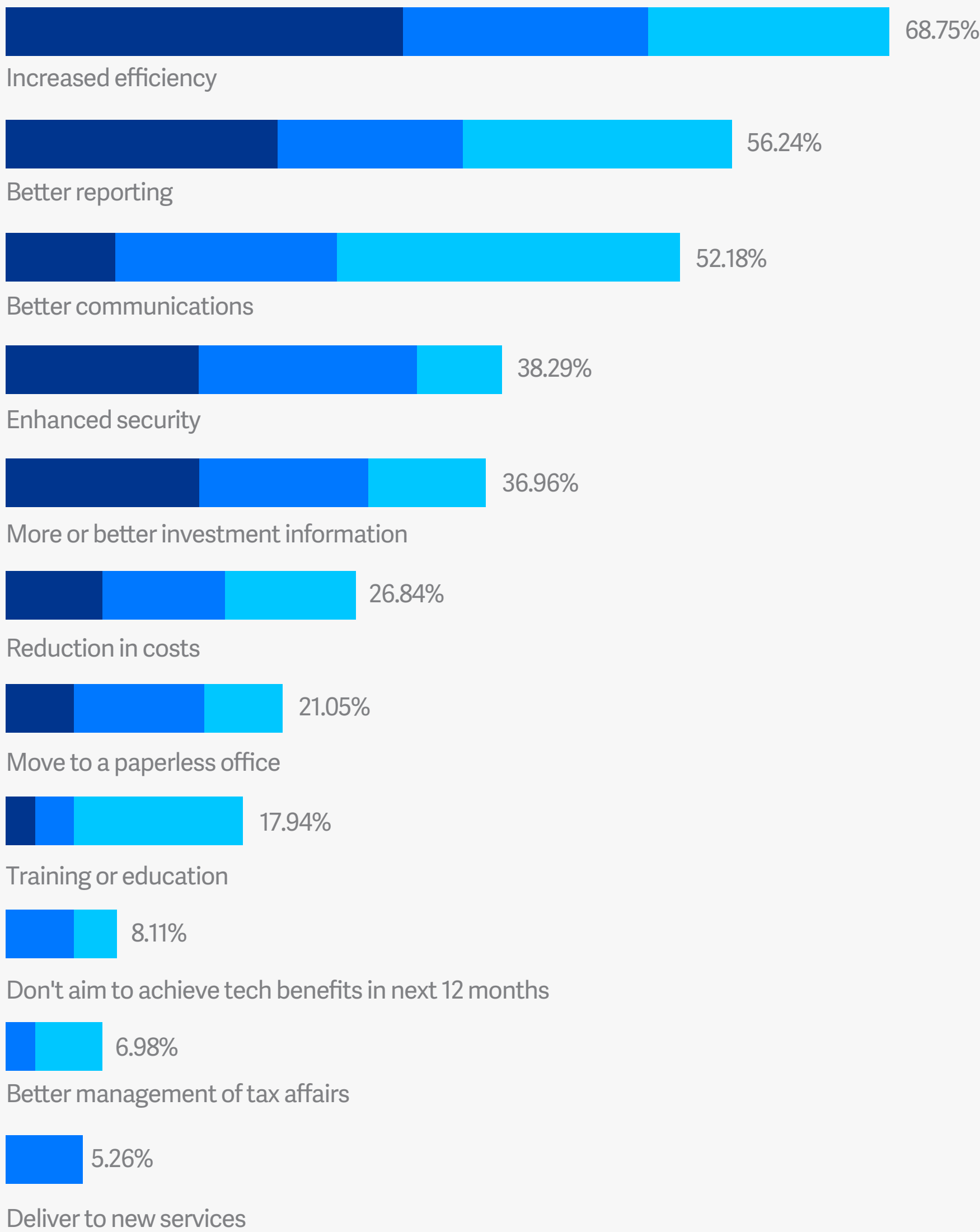
Data management and document storage

Data and document management systems help family offices work with investment partners such as banks, as the software can securely store and organise important data sets, documents, and files, including legal, financial, and personal documents. These systems often include features like version control, access permissions, and audit trails, plus they have rich security and integration features.

“Increased efficiency and better reporting are the most sought-after technology outcomes by family offices.”

Please rank from 1 to 5 the most important technology benefits your family office or family structure will try to achieve in the next 12 months [top 3]

- First rank
- Second rank
- Third rank



Source: 2023 PWN Family Office Technology Report

Portfolio management and performance reporting

An emerging trend is where the family office becomes the central aggregator of all investment information. This has prompted the need for improved controls and better technology for internal investment operations staff.

Family offices that traditionally relied on third parties to provide their investment reporting and trading needs, such as their financial adviser or private custodial bank, are now wanting to do it themselves, and track investments regardless of where they are held.

Investment operations staff are looking to build hyper-customised reports for all stakeholders, to include all assets under one reporting structure as opposed to many, and to include other third-party data sources (e.g., from counter parties) into a single ‘source of truth’.

To do this, wealth management technology solutions are crucial, due to the volumes of data, real-time pricing, complexity in reporting and visualisations – plus the need for optimal security.

This is illustrated in the 2023 PWN Family Office Technology Report, where most family office members (77.27%) indicated that ‘consolidation/reporting of all investments held (by them)’ was a highly valued feature of investment reporting technology. To provide perspective, this was valued slightly higher than security and almost twice as valued as cost. Other highly valued features that support the desire for enhanced reporting included: data feeds from banks and investments (58.14%), consolidation across holdings structures (58.14%), performance calculation (58.09%), and integration with tax and accounting software (46.51%).

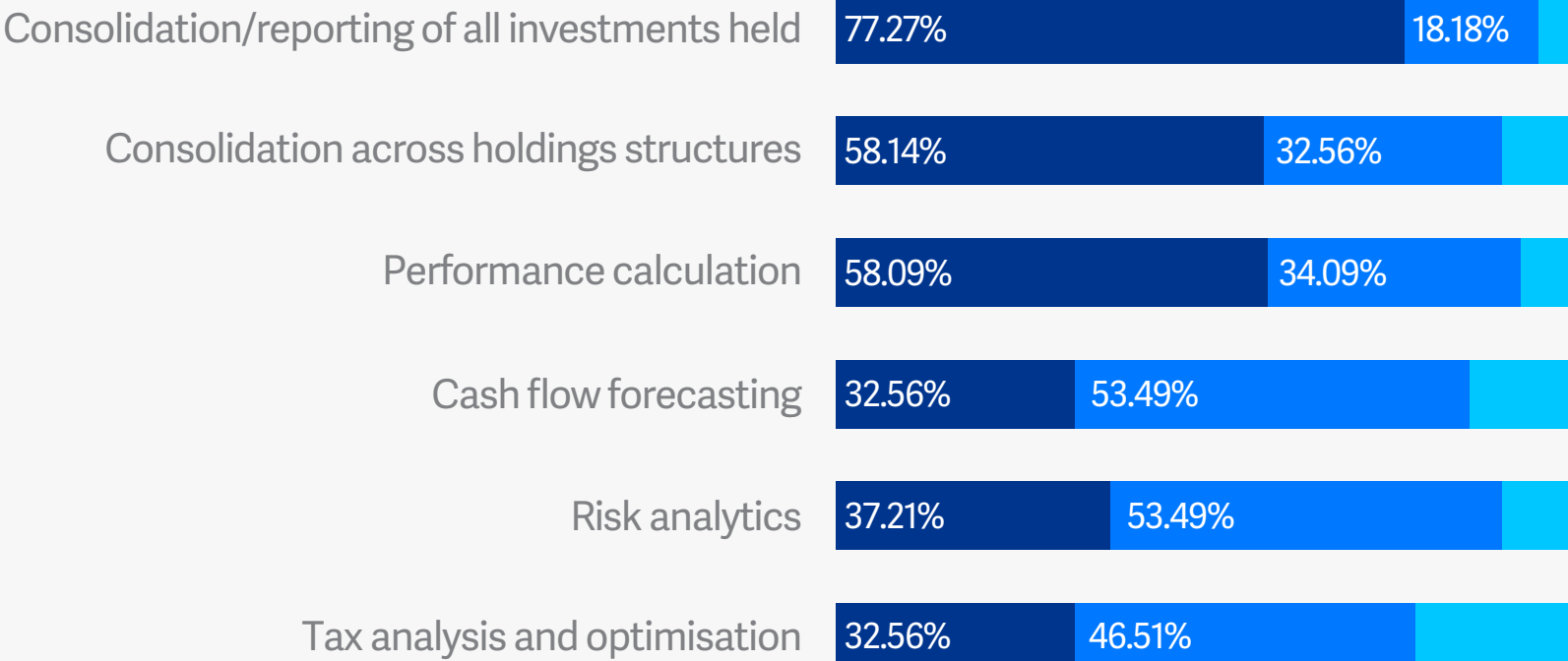
“Family offices are recognising the importance that best-of-breed technology solutions can offer their investment function.”

What features are important in an investment or reporting technology provider

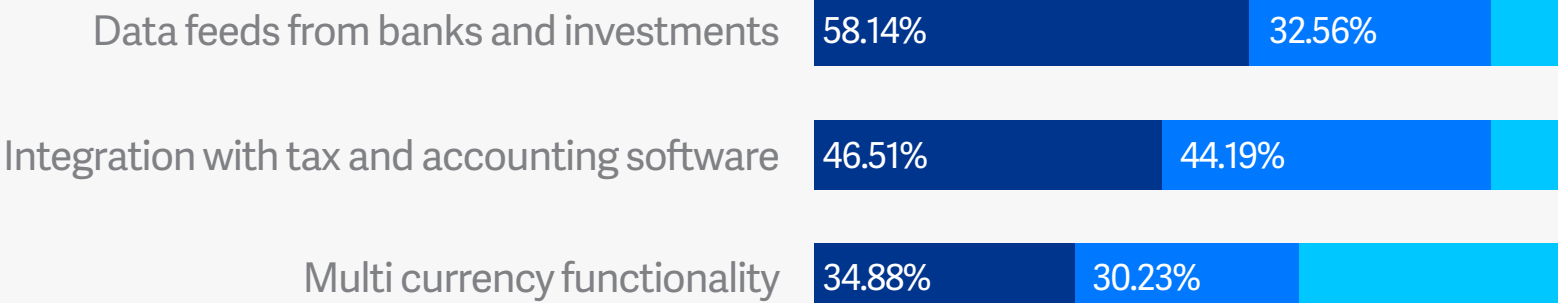
● Highly value ● Somewhat value ● Do not value



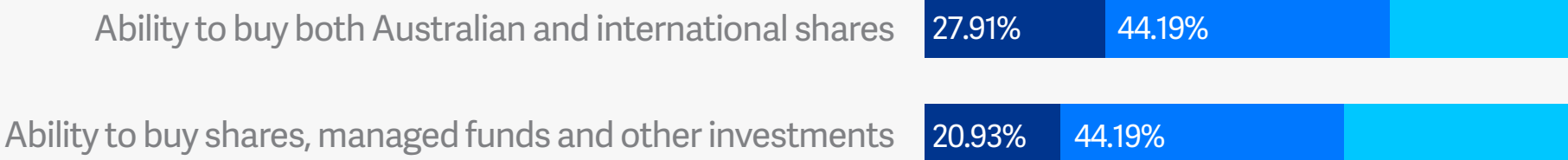
Reporting



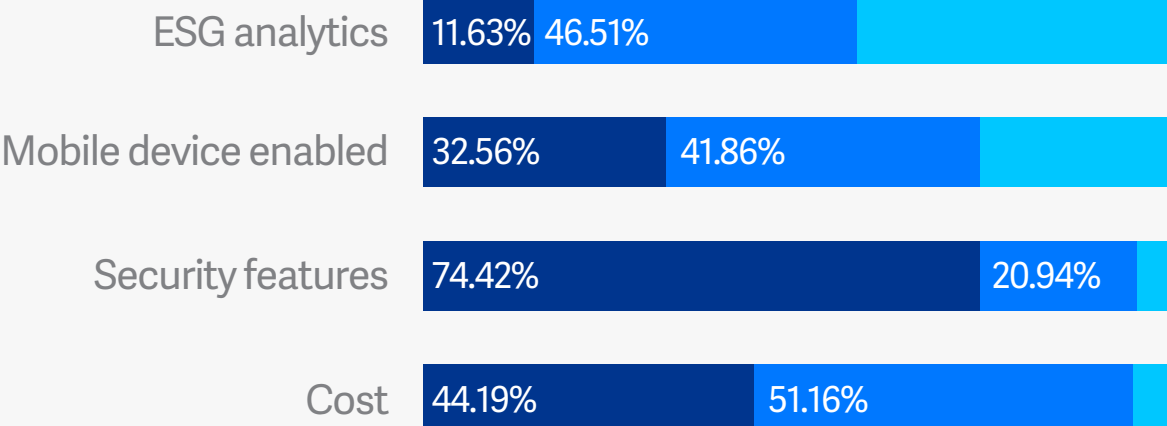
Data



Buy / Sell



Other



Source: 2023 PWN Family Office Technology Report






Why family offices are moving on from spreadsheets

In the 2023 PWN Family Office Technology Report, 45% of members reported that they use Excel to generate reporting across their assets and entities. However, this approach can pose long-term risk in some cases.

Savvy family offices are starting to recognise the risks associated with spreadsheets and are engaging with more comprehensive and tailored technology solutions.

“According to the 2023 PWN Family Office Technology Report, only 13% of family offices have a dedicated person in the office responsible for maintaining their technology infrastructure, while 23% outsource this function.”

The risks associated with spreadsheets

 Managing market volatility	 Managing key person risk	 Attracting and retaining staff	 Preventing internal or external fraud	 Managing cyber risk
When markets are volatile or investment opportunities present themselves, there is a greater need for reporting with real-time (or near) pricing. Finding answers for principles on current exposure, liquidity, or counterparty risk can be cumbersome and time consuming when using elaborate and manual spreadsheets.	With manual entries for investments, the specific general ledger detail or the bookkeeping responsibilities are often with one key person (e.g., a key family member or staff member). This introduces key person risk, including the risk of losing knowledge and any customised processes if they leave the family office.	Today’s professionals expect to have systems and technology tools that allow them to do their job effectively – and this is no different for a family office’s CFO or CIO.	When systems are lax, or responsibility is concentrated with only one or a few people, there is a greater risk of fraud.	A serious risk for family offices are external threat actors targeting them via IT systems that have little or no security.

What family offices want from investment reporting

The diversity of investments held by family offices, and where they are held, requires different types and frequencies of reporting.

Family offices are looking for a strong reporting system that helps manage data such as pricing, as well as to deal with capital calls, distributions, corporate actions, etc.

There are several features a good wealth or investment reporting system should provide, that include:

Tracking custodial and non-custodial investments

Family offices have diverse assets held in a wide range of structures. They regularly invest in idiosyncratic investments, such as businesses, non-domicile funds that have their own nuances (think Cayman Islands vs. Delaware), private market lock-up funds (with capital calls), and impact investments. These investments might be on several exchanges or be a non-custodial arrangement.

A leading portfolio reporting system should be able to track each asset, regardless of source.

Advanced aggregation

With family office's adopting centralised reporting structures, it is critical that all investment data seamlessly 'plugs in' via integrations and interoperability. The aim is to reduce the number of systems and aggregation sources to just a few or even one system. This one system should capture all investment data from the different exchanges or non-custodial arrangements – and reconcile it. This creates a single reporting platform that supports consolidated reporting across the entire family, and also allows for more granular reporting.

For example, where a single investment (such as a non-domicile fund) is held across multiple entities, the reporting tool should attribute ownership and performance to the family office as well as to the individual and/or sub-entities.

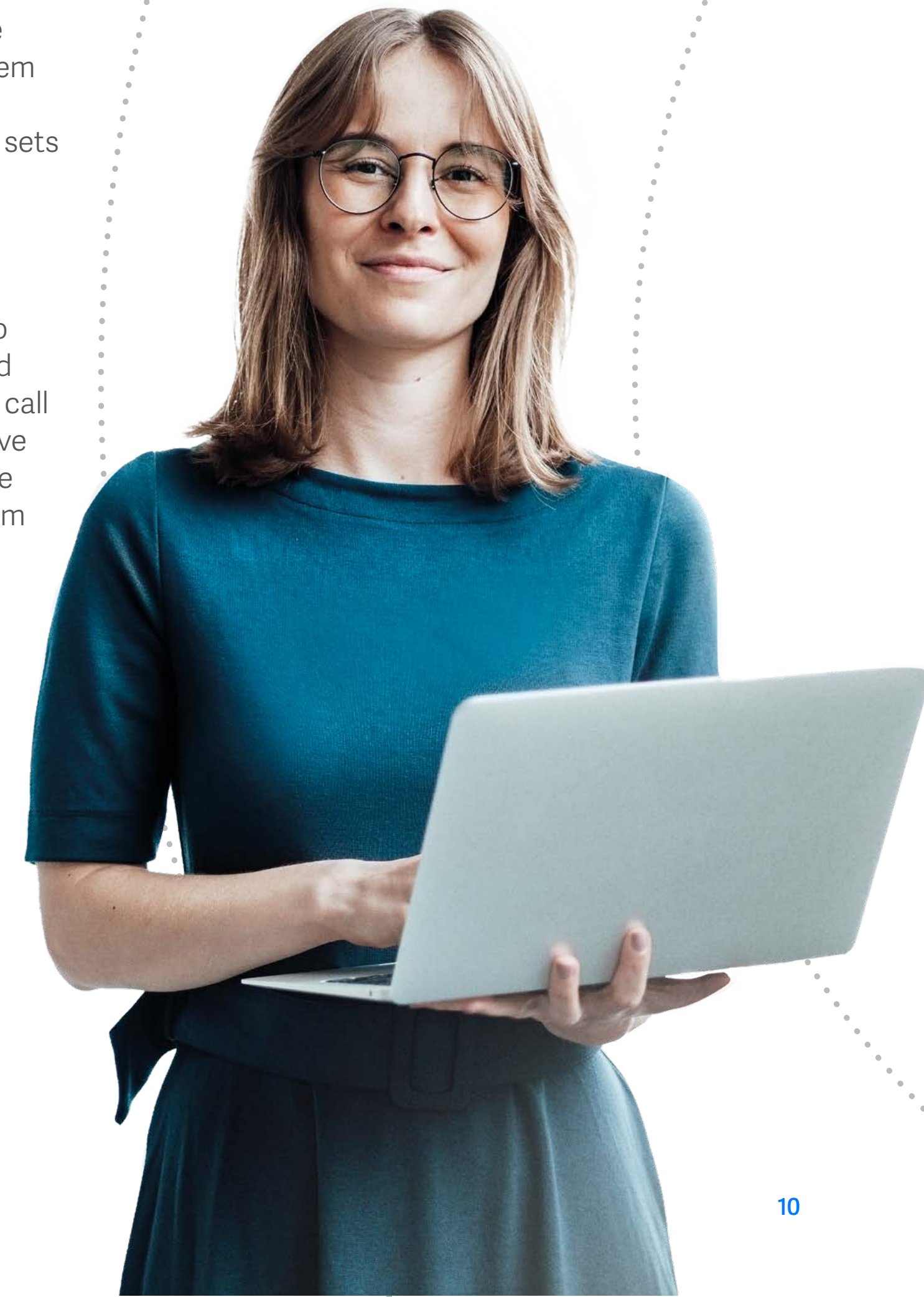
Customised reporting metrics

Family offices can be unique in how they view investment performance. Some use common approaches such as internal rate of return (IRR). Others use measures specific to assets such as private markets (e.g., Money on Invested Capital, MOIC, and Total Value to Paid-in Capital, TVPI).

Family offices need reporting solutions that give them commonly used metrics, but also allow them to create more tailored metrics – some of which need greater computing power or different data sets that are not easily accessible via a spreadsheet.

Private market capability

Investing in private markets can deliver unique reporting challenges. These include the ability to track risk, assist with portfolio management, and interact with the finance department for capital call management and forecasting. Also, they can have unique portfolio benchmarking and performance metrics such as MOIC and TVPI which the system needs to work with.



Benefits of insourcing vs outsourcing



To resolve the reporting and administration challenges of running family office investment operations, there are many decisions to make. Therefore, understanding your administration and technology partnership model is critical.

We have identified a few working models below which may help you decide the most appropriate approach for your family office.

1/ Fully insourced, both administration and technology

In this model, the family office builds a proprietary investment technology solution (and maintain it). The family office will also manage the administration of all investments in the portfolio. This approach suits family offices with capabilities to manage all the technology and administration in-house, rather than engaging external vendors. It requires people who are willing to spend the time, effort, and money to develop and maintain the technology and processes.

- Hyper-customised to the needs of the family office
- In-house capabilities are continually enhanced and refined
- Data is held within the office
- Ability to develop proprietary metrics

Cons:

- Resource intensive and expensive
- Continually need to maintain technology, so pipeline of improvement might be small (as it is expensive)
- Need to find and hire experts
- No ability to learn from other family offices
- Information security might be harder, as it is a highly specialised field

2/ Hybrid – administration insourced, technology outsourced

In this model, technology is typically outsourced to a specialised portfolio and reporting SaaS (software as a service) vendor (e.g., Addepar), whilst the family office will have specialist staff that will run the back-office investment administration – which may include data upload and management, and reconciliation of investments against statements or cost-base.

- Software designed for family offices, that can be configured to the needs of the office
- Dedicated software development teams that continually enhance software features
- Can choose from different software vendors based on family office needs
- Can switch from vendor to vendor
- Internal administration skills and processes can be developed and refined
- Information security

Cons:

- Internal administration skill sets need to be hired and retained
- Internal processes need to be developed
- Internal administration expenses, with key person risk
- Supplier risk – service levels, data breach, etc.

3/ Fully outsourced - administration and technology outsourced to different providers

In this scenario, the family office will outsource administration to a consultant or professional services firm (e.g., ONDA or Mirador), that specialises in investment administration. Typically, the administrator is agnostic to technology allowing the family office to select its preferred solution. This set up means the family office is making investment decisions without the hassle of running the back-office administration nor the technology.

Pros:

- Technology agnostic
- Family office specialisation
- Administration operations excellence
- Reduced data maintenance and monitoring
- Information security

Cons:

- Can be offshore which may impact client service
- Hard to build up internal administration skill sets
- With large portfolios, can be expensive as fees are often based on a percentage basis

- Supplier risk – service levels, data breach, etc.

4/ Administration and technology outsourced to a single provider

In this scenario, the family office will outsource both administration and technology to a single provider. The provider is responsible for the technology delivery, and also the administration of the assets. Providers could be a) a wealth management platform, or b) a private bank or asset consultant.

4a. Wealth management platform

Companies, such as Netwealth, specialise in both the technology development and administration of custodial assets, such as listed equities, managed funds, managed accounts, and term deposits. Some wealth management platforms have expanded their offer to support the administration of non-custodial assets (such as private equity).

Pros:

- One-stop shop
- Dedicated software development teams that continually develop the software, data-feeds and integrations
- Dedicated client service teams, often locally based
- Utilising best of breed operational expertise, e.g., data management, managing corporate actions, tax reporting, managing pricing and distributions
- Information security

- No (or few) internal administration staff required – lowering costs

Cons:

- Vendor lock-in
- Reporting is often not offered on select investments, e.g., real property or operating businesses
- Reduced ability to customise
- Supplier risk – service levels, data breach, etc.

4b. Private bank or asset consultant

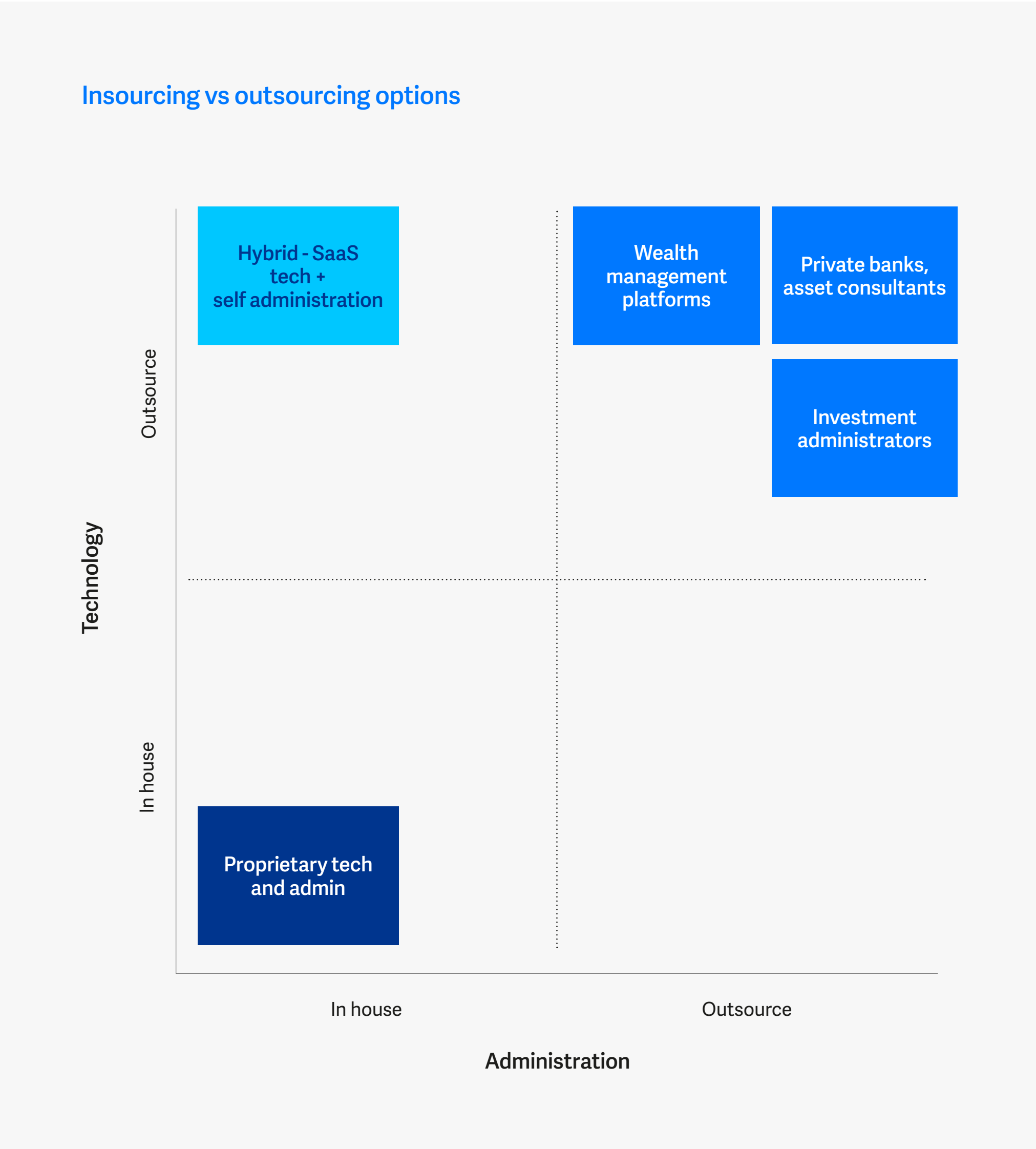
These types of organisations often provide the value-add of specialist portfolio construction and investment advice. Whilst they may use their own in-house technology, often they utilise wealth management platforms.

Pros:

- One-stop shop
- For large enough investments, administration costs might be reduced (or waived)
- Can provide complex asset management and administration within one ecosystem

Cons:

- Need to have a certain asset base for them to work with you
- They often only administer and report on assets offered by them, so will not support assets that sit outside their mandate
- Some have opaque fee structures, i.e., no separate pricing for administration vs. wealth management
- Vendor lock-in
- Supplier risk – service levels, data breach, etc.



The opportunity cost of doing nothing

The opportunity cost of not reviewing and updating investment office technology can be significant, impacting efficiency, competitiveness, risk management, and overall business success.

In a family office, time and resources can be scarce and often new technology may seem like a 'nice to have, but not right now'. Add to this, the effort of working through the myriad of options in terms of wealth management and investment platforms can make it tempting to put it in the "too hard basket".

However, family offices need to recognise there is an opportunity cost to indecision. Potential issues include:

Reduced efficiency: Think of all the workarounds and frustrations your current technology is imposing on you and your staff. Further, just because the technology installed 5 years ago was cutting edge then doesn't mean that it can't be improved.

Limited access to information: Modern investment technology platforms offer advanced data analytics capabilities, which can be crucial in generating insights and identifying investment opportunities. As markets are never static, lack of knowledge increases risk.

Lower returns: When markets are volatile and investment opportunities arise, there is a need to figure out where they fit into the portfolio. Without data and clarity of exposure, the investment team may either miss opportunities entirely or may be unsure of their fit.

Higher costs: Maintaining outdated systems can be costly in terms of maintenance and support, while newer systems often have lower operating costs due to improved usability, greater features, and improved integrations. This improves investment operations by reducing double handling and manual intervention.

Increased risk: Modern technology platforms often have better security features, which can help protect sensitive data from cyber threats. Neglecting to update technology may increase the risk of data breaches and other security incidents.

Difficulty attracting talent: Family offices can face hurdles in attracting quality investment and finance staff. Skilled professionals in these areas prefer working with modern tools and systems, so providing the latest technology can support talent attraction and retention.

Regulatory burdens: Along with tax reporting, any regulatory changes may require increased scrutiny of investment operations. Outdated technology, without good audit functions, may make it difficult to meet these requirements.

Regularly evaluating and investing in new technology solutions can help family offices stay ahead in the rapidly evolving financial landscape.

A basis point mentality to technology costs

The costs of running technology for a family office can be wide ranging. A key challenge is knowing how much you should be spending.

Think about your technology expenditure in a similar way to a total cost ratio, based on the asset size. That is: how many basis points should you be allocating to your investment operations?

When calculating this, make sure you look at the cost of the technology plus the cost of operations. For example, while using a spreadsheet is low-cost, you need to add the operational time taken by experienced staff to manage it.

Speak to us

Netwealth

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If you are looking for flexibility and control when you invest your super, SMSF, or non-super monies, Netwealth offers a range of super and investment solutions. We provide an extensive selection of investment options and sophisticated online tools.

View all of your investments in one online place, and discover a paperless way to manage your portfolio, complete with consolidated performance and year-end tax reporting.

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Hall Road Investments

Hall Road Investments is a consulting firm specialising in family office clients seeking a guide through the vast array of complex services required to build, review or improve their investment office infrastructure.

Hall Road guides and advocates for you, every step of the way.

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