Private Bank

Consolidated Reporting in Family Offices

Lab for Family Offices

Introduction

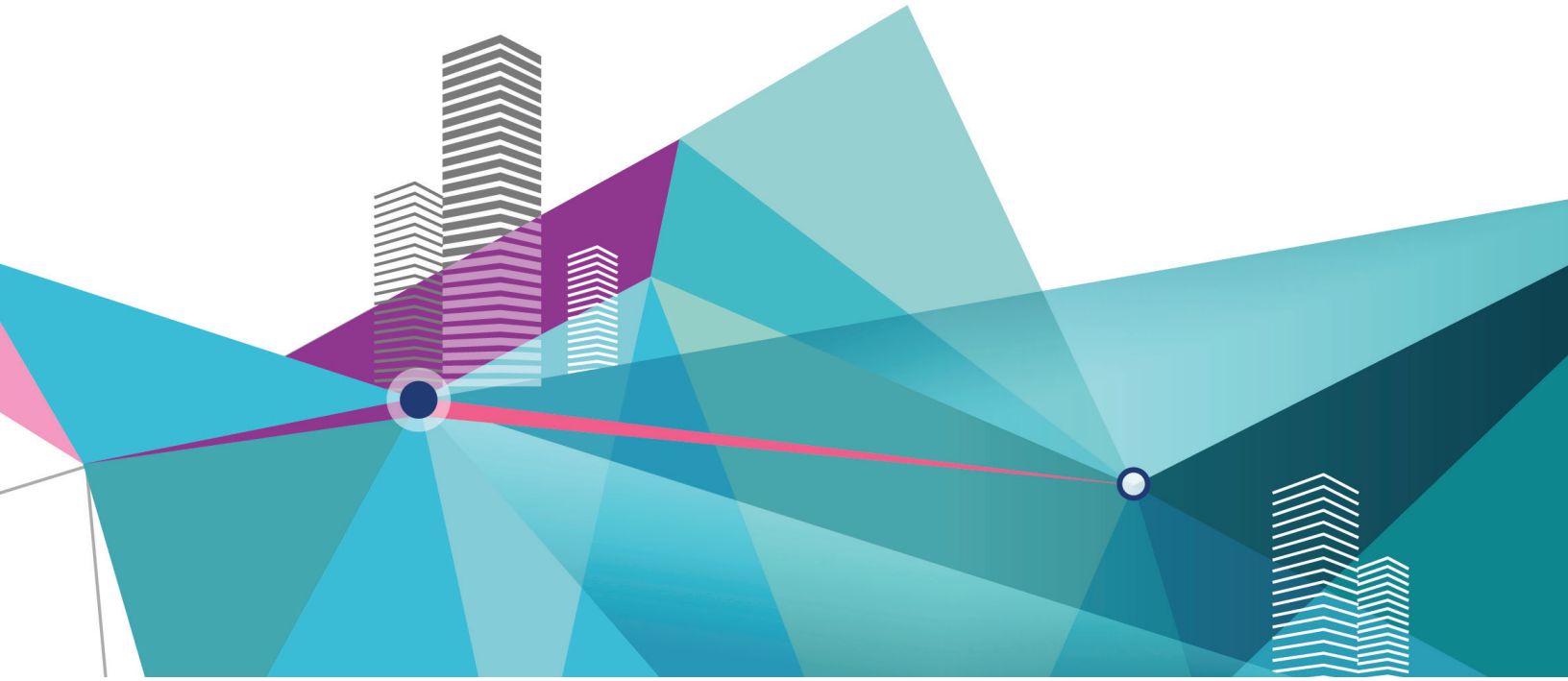
The effective management of family wealth spans numerous considerations, including: appropriate portfolio construction, risk and liquidity management, navigation of inter-generational wealth transfer, the nuances of investing in illiquids; and risks inherent in any operating businesses. Alongside these more obvious factors, access to consolidated reporting is crucial for monitoring purposes and for Family Offices (FOs) to provide timely feedback to their families. The timeliness of this is only achievable when data is easily accessible and available across various entities, such as asset managers, banks, and private companies. This document describes the tools currently available to support consolidated reporting, the challenges facing the industry and the Private Bank's best practices in this space.

Understanding the Need for Consolidation & Aggregation Services

Family Offices require accurate consolidation services to facilitate decision-making at all levels, ensuring that portfolios meet the family's goals and objectives. As the FO's assets grow and as cross-generational family needs become more complex, the need of consolidation services becomes still more important. For many, automation of the asset aggregation and consolidation process is highly desirable as they look to enhance their decision making capabilities and fine tune day-to-day management of their total wealth.

Over recent years, our dialogue with over 1,400 FO clients globally has helped Citi Private Bank (CPB) identify key questions that reporting providers are commonly expected to answer, specifically:

1. What are the various risks in the investment portfolios?
2. What is the total asset allocation when compared to the Investment Policy Statement (IPS) and is there any concentration in investments?



3. How are the investments performing and are there any specific managers or investments outperforming the benchmarks?

4. What are the liquidity needs for the direct investments over the next few years?

5. Are the portfolios generating sufficient cash flow to meet the spending needs?

6. Are there any regulatory concerns about the overall investments and portfolio?

7. Have there been any major movements between the generational allocations?

Upon reflection, most of these concerns can be addressed by existing reporting available to families; however, the disparate nature of this data proves problematic.

The range of documents below provides a typical sample of information requiring aggregation to meet the issues listed above:

1. **Forecasting and Budgeting —** providing spending patterns, estimations, forecasts for budgeting and planning support. This should include each family member's income and expenses.

2. **Financials statements —** tabulating the balance sheet, income statement and cash flows, which will provide insights for managing the family wealth.

3. **Ownership of Family Entities —** providing insights into the complex ownership structure particularly when one or more generation members are involved. This could also include the responsibilities of each family member within the entities and the allocation of entities amongst family members.

4. **Investment performance reports —** across direct company investments and public investments, attributing and comparing the performance of different advisors and asset managers.

5. **Risk assessments —** commissioned to consider the entire family wealth.

6. Any other custom and ad hoc reporting.

This paper will focus on consolidation services addressing points 4 to 6.

Challenges with Consolidation Today

Today, a significant amount of time and resources is expended consolidating data and reports across various providers. This is especially challenging when the investments are spread across different asset classes, providers, custodians and asset managers. A further challenge arises when different family members assume discretion over independent sub-portfolios.

In order to feed data into portfolio analysis tools or models, consistency of formats is integral; however, the format, delivery of information, and available data fields differ across providers. Although the landscape is slowly shifting in response to industry-wide recognition of clients' consolidation needs, there is currently no single standard available globally. Barriers to progress in these areas include: international data restrictions/regulations, divergent software methodologies across providers and regions, and attempts at data protection (such as the widespread use of PDF files) — all of which make the consolidation process more laborious.

This concept of data protection and account security is particularly cumbersome. For example, there is no consistent and seamless way to obtain data as many providers utilize different access requirements to their systems (e.g., passwords, two-way security protection via either/or text or email, face ID, or mobile access). This complicates the consistency needed for information access.

Beyond security the lack of a consistent industry standard for modular performance reporting blurs consolidation still further. For example, some providers report performance after-tax, whilst others simply detail gross and net profitability. Reporting methodologies on alternative asset classes also differ across providers, as reporting time-lags and a lack of market information are the norm for Private Equity, Real Estate, and Hedge Fund investments.

Available Solutions & Key Considerations

At present, aggregation services are provided (in various degrees) by:

- Fintech Companies;
- Advisors (such as private banks and consultants); and
- Established aggregators.

Whilst each of these firms addresses different aspects of consolidation and aggregation, it is our opinion that the ideal consolidator should provide the following:

1. A clean, easy to access, reliable and automated data stream;
2. Data analytics that specifically facilitate decision-making for family officers, enabling timely feedback to the families;
3. A dashboard available over different platforms (web, desktop or mobile); and
4. An ability to provide custom and ad hoc reporting

In the following section, we detail several additional considerations FOs should address prior to appointing an aggregator.

Factor 1: Cost

Example of cost structures charged by providers are (1) per client, (2) per user or (3) per a certain set number of custodians. A private bank could also potentially offer consolidating/aggregation services to FOs as part of the overall relationship management or as a separate add-on cost/service.

Factor 2: Data Compatibility

Consolidated reporting outputs should be compatible with other services provided by FOs. Formats should match the tools used within the FOs and, similarly, solutions providers should have the ability to easily read any and all documentation — whether presented in Excel, Word, or PDF for example.

Care should be taken to ensure that the consolidated reports are easily accessible by the FOs whether via web interfaces, API protocols for further customization or direct and secure emails. Mobile availability and portability represent a consideration in their own right (see below).

Factor 3: Data Storage

Where and how can the data be stored? One option is to have the data stored transiently in various providers' platforms and have the data deleted once the consolidated report is generated. The other option is to store the entire data set for aggregation within FO's complex so that historical reports can be easily generated. If the consolidation solutions providers can provide their services via cloud capabilities, storing the right information securely and safely will be under the FO's control.

Factor 4: Privacy of Data and Cybersecurity

In light of the highly personal and sensitive nature of FO investment information, data privacy and cybersecurity are critical. Protecting against ever-increasing cybersecurity threats from hackers requires secure protocols across all counterparties interacting with FO data, with consolidation providers no exception. FOs should request information of the provider's cybersecurity track record and understand the expertise they employ to respond to this evolving threat.

Factor 5: Data Output

We have discussed this topic in detail in the above sections. The end report should provide valuable insights which will facilitate decision-making for the FOs and allow FOs to provide timely feedback to the families.

Factor 6: Flexibility/Ability to Customize Consolidated Reports

Flexibility refers to the ability to read into different data formats, customize various reports with optional fields, circumvent some or all fields when building the database and/or allow for flexible time periods for performance reports. It also includes the ability to adapt to new user requirements and environment changes, work on any platform or any device, integrate with open architecture and adapt to future technologies.

Different family offices (Institutional FOs, Traditional FOs and Virtual FOs) take different approaches in terms of managing capital (through internal management and/or outsourcing services). The consolidated reporting should provide customizations so that requests from different FO configurations are supported. Customizations could include ability to incorporate various co-investment opportunities, capital market securities, tax and investment manager allocations, and tactical asset allocation changes and optimized portfolio views.

Factor 7: Ability to Support Global Solutions

The consolidated reporting services need to accommodate FOs across the globe. For example, services should accommodate for various currencies in which the wealth is invested. In addition, the direct company investments will have both the economic and translation exposure of various reference and base currencies as defined by the FO Investment Policy Statement.

The dashboard should be flexible enough to highlight the reflection on the entire portfolio based on both the base currency and the translated reference currency. The investments, expenses and cash flows can get complex based on the generational allocations of the total family wealth particularly when it comes to geographic presence all over the world.

Factor 8: Additional Data Insights/Services

The providers could potentially offer deeper insights to the FOs by sharing best practices of other FOs. What are the various insights that could be powerful? An example is the capital and investment allocation across the FO segment. Some FOs have a lot of "dry powder" sitting in cash and cash equivalents and waiting for new investments. Other FOs have diversified portfolios but concentrated on a specific sector, industry, region, home bias, etc. The ability to highlight the various FO allocations/portfolio compositions provides deep insights to the FOs which will further meaningful conversations on customized asset allocation, risk assessment and driving innovative investment strategies that meet FOs' goals and objectives.

Factor 9: Mobile Availability & Portability

Information access via various mediums is becoming the de facto standard in the modern age and, as such, data aggregation and consolidated reports should be made available to both FO employees and family members via mobile platforms. Ideally information visibility should also be similar across these platforms (i.e., web versus mobile platforms).

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