Family Office Operational Efficiency

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It's not your grandfather's family office! Well, maybe it is, but today's family offices have grown in sophistication and complexity, especially with their investment programs. CIOs of single family offices have a daunting task of developing solutions around technology, operational management and asset allocation while keeping their mandate of capital preservation and income generation.

Family offices have developed investment portfolios that rival the most highly regarded endowment programs. Investing across the risk spectrum of real estate, commodities, currencies, fixed income, equities, private equity and hedge funds creates a challenge of deploying capital to experts in each of these fields while being able to efficiently consolidate the information needed to monitor the program's results. Established family offices have traditionally relied on extensive staff and elaborate Excel spreadsheets to gather information from various sources to generate reports for the CIO to evaluate the programs results. This all too often is produced with considerable time delay and manual input.

The ability to efficiently gather information on a granular level to generate reports on performance, risk concentrations and correlations has been the Holy Grail for CIOs in a quest that is still on-going.

While optimizing the use of Excel has been a preferred solution to family offices, it comes with a number of pitfalls such as scalability. Moreover, it lends itself to issues with the office being held captive by "the keeper of the keys" who has developed the spreadsheets. Loyalty and confidentiality being traditional attributes of family office staff, issues with this key person leaving are not as much the issue but having the proverbial "hit by the bus" situation is often considered.

For those family offices that have recognized this issue there are a number of options to be explored. Purchasing portfolio management, reporting and risk analytic software to be utilized by current staff can be practical for a larger office since these solutions come at a higher price tag. A growing solution has been for smaller family offices to go with an outsourced solution such as employing a multi-family office service provider, accounting firms, or fund administration firms that offer a range of services from bill paying to portfolio reporting and risk analytics for the family office CIO. These providers have a depth of staff who are knowledgeable in the various investment strategies of the family's program from both an operational and reporting standpoint. Their technology is at a level of sophistication that can support any investment program and is kept current to effectively handle emerging issues and trends. This can serve to free up the time and resources of the CIO to focus on the "more pressing" job at hand of effectively allocating the assets of the family or families to achieve their stated investment goals.

Single family offices have to take a hard look at their capabilities and their needs. They can no longer operate as they have in the past. Regardless of what government regulations come to pass in the future that might hold family offices to a level of scrutiny as investment advisors, it is essential that plans of action are developed. As we've seen with the Dodd-Frank bill affecting certain family offices, these offices have a fiduciary responsibility to have the same sophistication in operations, reporting and risk monitoring as any other investment advisor.

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