alterDomus*

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THE PRESSING NEED FOR MEANINGFUL SOLUTIONS IN THE UHNW INVESTOR SPACE

For as long as ultra-high-net-worth (UHNW) investors have existed, they have struggled to find comprehensive solutions to meet GAAP accounting standards and report on their investments.

With complex portfolios, asset diversification, and partnership/co-invest structures, traditional tools fail to meet all of their needs. Since the 1980s, institutional investors have relied on software to meet their portfolio reporting needs, which continues to be the most common approach today. Whether it's through an all-in-one software, best in breed combinations, or QuickBooks and Excel, the investor relies on technology and staff to deliver their reporting.

Changing Investment Landscape

The UHNW investor portfolio has changed considerably over the last 20 years. Initially this involved diversifying from equity and bonds into currency and foreign investments. It subsequently moved into alternatives such as hedge funds, fund of funds, and private equity. More recently portfolios include more co-invest vehicles, direct assets, and real estate. The future will likely hold more credit/debt structures and cryptocurrency. Fifteen years ago, alternative assets made up a very small percentage of the typical family office—many firms were still using a more traditional 60/40 asset mix between equities and bonds. Today, a typical family office portfolio has almost 50% of assets in alternatives. Of these investments, private equity and real estate are the most common as hedge fund interest has decreased.

Staff and Reporting Requirements

Back in 2000, UHNW investors filled their in-house teams with staff that knew the equity and other marketable security market, with a bit of hedge fund knowledge.

Did you know...

It is not uncommon for firms to run three separate systems heavily supplemented by Excel just to provide results to their CIO, family members, or board of directors.

By 2019, they needed their teams to be composed of staff who were well-versed in private equity and real estate.

Not only has the required knowledge of in-house staff evolved, but UNHW investors' approaches to reporting have changed as well. UHNW investors fall into two categories – Institutional Investors and Family Offices – each taking their own approach to reporting over the years.

Institutional investors, such as foundations and endowments, have traditionally relied on private banks and custodian relationships for their primary reporting. With the move into alternative and direct investments, they have supplemented this information with Excel and in-house staff.

Family offices have also relied on in-house staff and software for their solutions, with their staff remaining with the family long-term. At the same time, software conversions are costly and time-consuming and, as such, are extremely rare.

When firms rely solely on in-house staff and technology, they create long-term challenges that may not be apparent on day one. Different offices move into investment trends at different times and with different allocations. Over time, firms face two major drawbacks as their investment landscape changes.

1. Staff have experience in the previous strategy, not current investments, resulting in:
    a. User error due to lack of knowledge
    b. Staff bloat to handle new scenarios
2. Current in-house technology cannot handle the investments properly, resulting in:
    a. Manual workarounds
    b. Addition of new tools to meet needs
    c. Failure to deliver timely information to investors

A Flawed Approach

The majority of staff and technology serving family offices are US-centric at a time when UHNW investors are investing globally. This creates another gap between investor needs and the core competency of their internal teams.

The reality is that many family offices have misaligned or inflated staff relying on insufficient or inept technology tools to support current market trends. This results in data lag, manual errors, and ineffective insights.

Institutions, such as foundations and endowments, have spent their resources adding new staff to handle the alternatives that their custodians don't handle properly or don't know about, such as real estate. Their teams are manually integrating the custodial data with their internal data for what they hope to be a complete picture.

Investors' historic focus on accounting and tax reporting—rather than shorter-term performance metrics—has resulted in a lack of daily deliverables, daily performance, and real-time data access. To overcome these limitations, offices have started to supplement their core systems with new investor-focused ones. It is not uncommon for firms to run three separate systems heavily supplemented by Excel just to provide results to their CIO, family members, or board of directors.

Future-Proofing Strategy

While UHNW investors are all looking for a better solution, one hasn't been available until now.

Alter Domus has invested in becoming the leader in the private client space by building the right internal teams, technology infrastructure, and providing a global long-term solution to the market.

We believe in a hybrid of technology and service bridging the problems UHNW investors face. Our team becomes a true extension of your firm, handling the daily data aggregation, accounting, and processing. With over 2,200 people in more than 40 countries, we have both the expertise and capacity to meet the changing needs of investors.

Our technology solution provides complete transparency into each and every transaction. As if you bought your own technology, you'll have nonstop access to dashboards, query tools, reports, and debit/credit transaction details.

With a scalable staff, scalable technology, and a professional financial firm providing back-office support for your investment strategy, you'll have a clearer perspective, allowing you to take advantage of opportunities as they arise.

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