



The family office space is chock full of firms that can point toward decades-long legacies of serving high-net-worth clients. In contrast, newer entrants to the space don't have that luxury.

For firms such as Englewood, NJ-based Pathstone Federal Street, the only option is to innovate. Pathstone believes its best hope for growth lies in the confluence of data, integration and automation. Here's how it intends to set the mold for the family office of the future.

Pathstone Family Office was founded back in 2010 by former Harris myCFO executives Steve Braverman,

Allan Zachariah and Matt Fleissig. In 2016 Pathstone merged with the (relatively) more-established Federal Street Advisors, founded in 1991, to form Pathstone Federal Street. Later that year Pathstone purchased Convergent Wealth Advisors, which was hemorrhaging assets following the suicide of CEO David Zier in 2014, from City National Bank.

The firm consists of 30 partners out of 107 total employees. Pathstone has offices in Massachusetts, New Jersey, Washington D.C., Georgia, Florida, California and Oregon. It manages over \$12bn in assets for over 300 high-net-worth individuals, families, non-profits and family foundations.



This \$13bn multi-family office sees a future shaped by data, integration and automation

By Max Viscio

From the very beginning, Pathstone has sought to set itself apart in the family office space through its focus on technology.

"It's astonishing and amazing, it's like certain aspects of the industry are in the dark ages [compared to the rest of the financial services space]," says Matthew Fleissig, president at Pathstone. "It's like there is no technology out there and the technology solutions that are coming out are like the [turnkey asset management platforms] of the olden days resurfacing."

Unlike the more established family offices, Pathstone could not afford to rely on a legacy to attract and retain clients.

"The whole idea when we started the business was that we were building the house while we were living in it," Fleissig says. "As a small business, we realized that as we grew we were forced to have an entrepreneurial-like way of doing things."

John Elmes, Pathstone's executive managing director, tells *PAM* that this resulted in a deliberate effort to instill a tolerance for risk-taking among the firm's staff.

"It's culture," he says. "It's super hard to create a governance that takes chances and risks and invests in the future with a vision."



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Matthew Fleissig, Pathstone

Much ado about data

The highlight of Pathstone's efforts to develop a modern approach to the family office is its focus on data and automation.

"When you onboard a client with a hundred trusts, you have these mountains of papers and you would have to get all the paperwork filled out," Fleissig says. "It sounds silly, but in the family office space the concept of automating account opening is foreign."

But before Pathstone could contemplate automating its operations, it had to get the various systems to talk to each other.

"It really started from the observation that our investment performance systems were not connected to the accounting systems," Fleissig says. "So, what we started doing is taking our control of and warehousing our data."

The result was the creation of the Pathstone Data Exchange, which gave the firm the foundation for wider integration starting from the very beginning of the onboarding process.

Sending the data on its way

Every wealth manager gathers client data during the first meeting. Advisers consider factors such as their client's current wealth, risk tolerances and investment goals to create a portfolio that fits their needs.

But when Pathstone gathers that data, it goes into the PDE. Then the firm can create custom internal optimizers and automatically output a personalized asset allocation.

"The data we collect from the prospect flows into our optimizer, and outflows from that, a thorough analysis of the prospect's current circumstances versus what their circumstances would or could be under our advice," Fleissig says. "Furthermore, as the firm changes its beliefs on things such as large-caps or mid-caps or a specific manager, it allows us to [make changes] en masse."

The data gathered during the onboarding process is only the beginning of an iterative cycle of collection and improvement that extends far beyond asset allocation.

"It allows us to keep building and building, not just for improving the information, but for process as well," Fleissig says. "As you get bigger, you have to be able to timestamp and approve wires. We started building this very intensive software package for process. So, every wire and every report goes through a review process with time stamps. For client meetings, the agenda, the travel plans, the meeting follow-ups, etc."

P-Cubed: Pathstone's overlay manager

Another facet of Pathstone's automation-focused attitude is its approach toward executing trades.

The firm calls its trading service the Pathstone Portfolio Platform, or P-Cubed. As is the case with many other investment platforms, client portfolios built using P-Cubed can contain separately managed accounts, mutual funds, exchange-traded funds, and/or single-stock positions.

But the key difference between P-Cubed and its competition concerns the role of the asset manager.

With a traditional investment platform, the fund manager executes on security selection, portfolio implementation, trading and reconciliation. But P-Cubed uses an overlay manager that handles everything except the security selection.

This is made possible, in part, by the push among custodians to develop application programming interfaces to streamline transaction processes.

"If you go and open an account at Fidelity or Pershing, you have a team of people that re-key in wires and trades by hand," Fleissig says. "But if you have the right people and developers, you can start integrating with the custodians."

According to Fleissig, the benefits of this approach come to down to cost savings and convenience.

The savings component comes from the administrative tasks completed by the manager overlay. By reducing manager administration costs, Pathstone can bargain for lower management fees for its clients. The firm claims that clients have experienced fee reductions ranging from 10 to 100 basis points.

The convenience factor comes with the ability to custody the entire portfolio under a single account. This means that assets can be view simultaneously and rebalancing does not require cash transfers between accounts. Furthermore, come tax season the client receives a single 1099 form.

A unified approach to ESG

Pathstone's emphasis on integration extends to its approach toward environmental, social and governance investing. To that end, the firm developed a proprietary rating methodology scoring over 7,500 securities across more than 50 data points. The result is an ESG rating that goes from 0 to 100.

Fleissig tells PAM Pathstone has been working on the methodology for over a year. The result is a

universal rating process that can score traditional equities, fixed income, hedge funds and private equity.

"We got a lot of public data, we bought a lot of data, and did a lot of regression analysis," he says.

The firm will then use this data to develop ESG proxies for benchmarks from the likes of S&P, Russell and MSCI.

Looking towards the future

In the coming months, Pathstone will relaunch its website to help position itself as the family office of the future.

"We took it on our shoulders about a year ago to make sure that our brand stood for that," Elmes says. "We called ourselves the modern family office, trademarked that and started building our brand around that."

While Pathstone provides a comprehensive service suite, Elmes notes family offices can also choose an à la carte approach. This will be reflected in the new website, which will have a "build-your-own family office" section.



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Matthew Fleissig, Pathstone

Beyond marketing its current capabilities, Pathstone plans to further its automation and integration efforts. This would include automated account opening along with wider automation of wires and trades.

"Integrated financial and performance reporting at a very high level is now something that's not a foreign concept for us," Fleissig adds.

Longer term, Pathstone will focus on using artificial intelligence to take advantage of the integrated data on its platform.

"The next step in all of this stuff is AI. That's where you go from automating spreadsheets to bringing things to the next level," Fleissig says. "Instead of people keying things in, we can work off exception reports and bring AI into the financial world. That's where we're going to be focusing this year and early next year."

Finally, Fleissig notes Pathstone has seen interest from other wealth managers in the firm's proprietary platform. However, he is hesitant about offering Pathstone's services as a vendor.

"Not yet," he says. "But we have looked at a couple other providers and what we've built in house is more advanced, scalable, and developed." ●

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