INTRODUCTION

Working closely with SFOs is an important segment of Pathstone's business. This commitment has afforded us the opportunity to better understand several common and interrelated Trends within the SFO community. Below is an outline of the main Trends that we continue to observe as we work with new and existing SFOs. Several of the Trends overlap and we have noticed that best practices include thoughtful consideration of how integrating these decisions create the most successful path forward.

TREND 1 – LEADERSHIP

Single Family Office ("SFO") leadership faces a demographic shift. Many SFOs are led by an aging family member or a trusted professional nearing retirement. This transition raises a series of management decisions. Addressing the family's service requirements and their generational vision of success is a good starting point. Clarity on these macro-objectives will help inform the family on the necessary experience and cultural alignment of new leadership. Best practices include developing long-term budgets inclusive of new leadership costs and engaging industry experts in executive searches. By initiating this exercise as early as possible, it provides ample time for existing leadership to transition without disrupting operations. Growing numbers of SFOs are considering outsourcing core service elements, thereby reducing the responsibility and expense of new leadership.

TREND 2 – TAX EFFICIENCY

Concerns on potential tax law changes and methods to create more tax efficiency are top of mind. Questions include what strategies should be considered based on the possible income/estate laws changes and does the SFO have the right fact pattern to create a for-profit management company structure. Potential tax changes range from increasing income tax rates, increase capital gain rates, ending of the estate step up in basis, and lowering of the lifetime estate tax exemption. These will have an enormous impact on the families served by SFOs. SFOs are proactively working closely with tax and estate advisors to brainstorm planning strategies to address these potential changes. The best approach is to model the benefit of specific strategies under different scenarios.

Related to management companies, the 2017 tax changes, potential tax increases, and IRS rulings around SFO structures provide a good backdrop for value-add discussions. If the SFO has the correct fact patterns, this strategy can add measurable value and enable the SFO to create a sustainable economic model into the future.

TREND 3 –TECHNOLOGY & CONTROLS

SFOs have historically utilized third-party software to assist with accounting, investment performance reporting, bill pay, middle office controls, and investment administration. These software packages typically do not synch with each other. Therefore, the SFO was forced to build internal controls and solutions to create customized deliverables for the family. Integrated solutions now exist and are proven to address this challenge.

Many SFOs get stuck determining which software tool will integrate with their existing platform and how to implement the change without disrupting services. Many SFOs continue to utilize multiple software solutions coupled with excel spreadsheets to provide the family with the information and format they prefer. This manual process is labor-intensive, fraught with data entry errors, and typically does not provide timely information for the family to make decisions. Linked to this software conundrum is the critical element of ensuring that there are adequate controls around money movement and cybersecurity. SFOs are addressing this issue by examining hardware, data centers, layers of employee approval/review, and multi-factor authorizations. Best practices vary depending on how the SFO has addressed the first several trends. For the SFOs that have determined outsourcing is a long-term strategy, there has been significant demand for middle-office services, including accounting, bill pay, controls, secure storage, and consolidated investment reporting.

TREND 4 – SHIFTING SERVICE DEMAND

Most SFOs are serving multiple generations. The younger generation is asking for an engagement model that is very different from the traditional one. They are asking for digital delivery of timely information and instant access to data when needed, yet still would like an intimate, customized service experience. This shift creates strategic challenges around leadership, scope, talent, solutions, and technology. SFOs that are successfully navigating this trend have acknowledged the interrelated nature of these decisions. For example, having the right leader who can adjust the SFO's platform and, importantly, the culture to match this new demand is vital. However, not addressing the technology platform will hamstring this leader's success in serving this new shift.

TREND 5 – INVESTMENT PIVOT

Active managers inclusive of alternatives like hedge funds have been challenged to keep up with relevant benchmarks over the last decade. SFOs have pivoted and started to allocate larger percentages to private investments, both private equity and real estate. Also, there has been an increased demand for access to solutions across traditional asset classes that are innovative, reasonably priced, and tax-efficient. Sophisticated unified managed account structures are filling the need for expense/tax-efficient traditional equity allocations allowing the SFO to focus their time on private investments. This has resulted in a greater demand for deal flow and comprehensive reporting on the larger private investments volume.

TREND 6 – IMPACT INVESTMENTS

The ESG/Impact space has matured. There are now solutions across asset classes. The idea of sacrificing returns can now be argued with real facts and results. Today SFOs need to navigate this space on their own or partner with a firm that has a comprehensive solution set. The most recent development in this space is measurement. It is now possible to review the portfolio's potential "impact".

New tools and solutions have been created to compare an ESG portfolio to standard benchmarks like the S&P 500. Investors can compare how their portfolios score on ESG elements and adjust their portfolios based on their values. While these trends seem top of mind today, the true nature of a family office is to serve and care for those who recognize "they don't know what they don't know." Effective family offices need to be proactive and identify risks, opportunities, and solutions before their "clients" do. Watching for "what's next" is key to perpetuating the family's success on all fronts and is core to the responsibility of family office leadership.