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Australian Family Office: the role of technology

From Excel to AI and everything in between

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ETON SOLUTIONS

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Contents

Foreword

Family offices have undergone a rapid evolution in recent years as they seek to adapt to the changing needs and expectations of their sponsor families. Many family offices have become more sophisticated and complex, offering a range of services and solutions beyond traditional wealth management. They have also faced new challenges and opportunities, such as managing intergenerational wealth transitions, considering impact investing, and accommodating broader global diversification.

Ultimately, however, at their core, family offices remain a vehicle for securing the financial future of the family and preserving its legacy. To achieve this goal, they are recognising the need to leverage technology, to improve efficiency, enhance decision-making, and mitigate risks. Technology is now a powerful driver of growth and productivity. It can also help family offices access new opportunities, new sources of expertise, data and insights, as well as offering the opportunity to collaborate more effectively with external partners and stakeholders.

This report explores how certain family offices have used technology to optimise their operations and performance. It draws on the insights and experiences of leading family office executives, practitioners, experts and service providers, who generously shared their views and best practices with us. We are grateful to all the participants for their valuable contributions and support.

We hope that the report will provide useful guidance and inspiration for family offices and their advisers, as they navigate the increasingly complex and dynamic environment of family wealth management. We welcome your feedback and comments, and we look forward to continuing the conversation with you.

Robyn Langsford

Partner, KPMG Enterprise,
National Lead, Family Office
& Private Clients

James Burkitt

Founder,
The Table Club

Introduction

In KPMG's last survey of family offices, the Australian Family Office Compensation Benchmark Report 2023 from September 2023, it was reported that 87% of family office employees were playing a 'hybrid' role, mixing skills and needs.

The report considered that this had the potential to create a 'mismatch' between risks and their management, ranging from activities such as reporting on investment performance through to cyber risk. In doing so, it emphasised the importance of understanding the role of technology in managing the future operations of the family office.

As this new report will explain, family offices have started to explore more fully the ways that technology can improve operational performance and manage risk. However, many are still exploring the potential of technology, with nearly half of the respondents explaining they were considering how generative AI might play a role in the management of their family office.

The adoption of technology solutions inside the family office accelerated during Covid, as it did across all businesses. As recently as 2021/22, when KPMG's Wealth in Transition: Family offices in plain view report was published, the predominant technology in use inside family offices was Excel. In that report, 43% of respondents replied that they 'manually collate data and build reports in Excel'.

In a brief period of only three years, the percentage of respondents that reported only using Excel had decreased to 13%, with 40% of respondents also confirming that they were now heavily reliant on technology. We estimate this to be nearly a five-fold increase in that small window of time.

With an industry now dedicated to the development and implementation of technology solutions for family offices there is no shortage of options to be considered. Our key objective in preparing this report is to provide family offices with an overview of how other participants have approached the use of technology in their offices:

- What were the drivers of their decision-making?
- What were the pain points?
- How did they measure success?
- What were the costs of doing so (as far as it is possible to say)?

Throughout the report we have chosen to round percentages to their nearest whole number for ease of reading. Where totals do not add to 100% this is due to the fact that many questions allowed respondents to provide multiple responses.

We hope that this report provides valuable insights about the technology needs of family offices and how to capture the benefits of technology.

'We have seen an extraordinary increase in the number of family offices being established in Australia. At the same time, there has been an increase in the issues they are facing into and the need for specialist support, particularly with regard to their office infrastructure.'

ROBYN LANGSFORD

Executive summary

This report highlights the following key points:

1. **Key learnings**
   - Fit for purpose – Technology is essential for efficient and effective service delivery, but family offices need to take care to find the right fit for their problems.
   - Planning and strategy – The role of technology in family offices requires careful planning before acquisition and implementation to understand the needs of the family office.
   - Outsourcing – There is an increasing need for family office professionals to manage third-party outsourced service providers and to identify trusted independent advisers.
   - Innovation – The skillset that designed ERP systems for operating businesses does not necessarily correspond to successful outcomes inside the family office.
   - Partnerships and performance – The 'professionalisation' of the family office sector requires a full understanding of the capacity and capability of technology to drive outperformance – and the need to identify skilled partners.

2. **Use of technology**
   - User audience – Technology utilisation and adoption is driven by those responsible for producing reports rather than those that use the data.
   - Efficiency achievements – Technology drives efficiency and productivity, with 84% of family offices now relying heavily on technology.
   - Increased use – The use of technology in family offices has increased five-fold in the past three years.
   - Cloud vs AI – Cloud-based data storage is now nearly universally applied, but only 8% of family offices have started using generative AI.

In the space of 3 years the use of technology in Family Offices has increased five-fold

3. **Costs and benefits of technology**
   - Measurement and improvements – Approximately one third of family offices cannot measure the financial benefits of technology, but nearly all express a sense of technology improving performance.
   - Productivity – one third reported measuring the time cost benefits of technology utilisation.
   - Greater clarity – 79% reported that technology provided clarity around portfolio performance.

4. **Key insights for family offices**
   - No 'silver bullet' – There is no single technology solution that would be capable of meeting the needs of all family offices, or all of a family office's needs.
   - Be flexible – Focus on what should be 'insourced' and 'outsourced' – it pays to be flexible as to choices and remember to accept adaptation via the use of the cloud.
   - Planning – Make sure that all the users of technology, specifically the investment management team, are consulted as to their needs and the benefits they are looking to obtain.
   - Ownership – Appoint an internal owner of the technology project or outsource to a third party.
   - Technology benefits – Family offices must embrace the benefits of technology, including artificial intelligence (AI) to bridge the gap between available resources and expertise.

Recognised benefits

84% Efficiency and productivity

72% Improved reporting

66% Streamlined access to data

56% Enhanced portfolio management

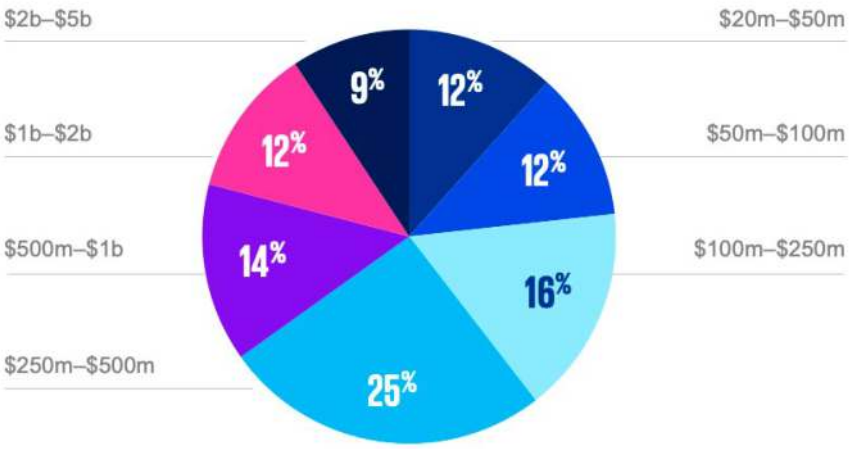
Background

The participants in our latest survey answered a series of questions ranging from the scale of the family office, measured by assets under management (AUM) through to the costs of running technology inside their family office.

Of the 58 family offices, 79% were single-family offices, 7% were multi-family offices and 14% were 'embedded' within the framework of an operating business. The majority of respondents were from family offices based in NSW and served the role of CEO (37%) with 60% being either CEO, CFO or CIO. The next highest population were from the board of directors where the family office has established such a board with 16% being Chairs of that board.

Our principal objective was to explore whether there was a correlation between complexity, measured by scale and activities, and the way in which technology was being deployed by the family office. At the same time, we sought to determine the 'benchmark' for technology use: What was the role of technology inside the family office and what were the future use cases for technology?

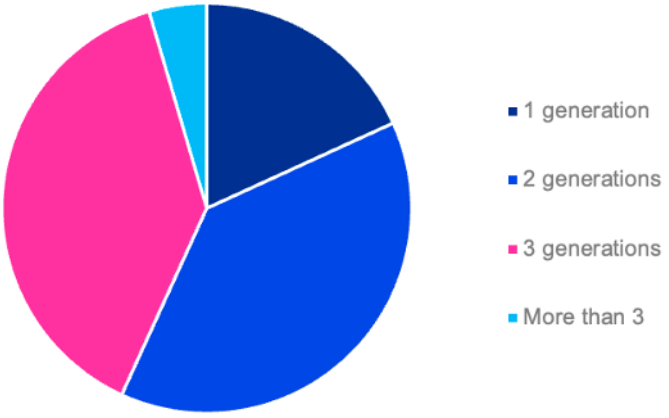
FIGURE 1: WHAT IS THE AUM OF THE FAMILY OFFICE?



From a scale perspective, the largest proportion were from family offices with AUM of between $250 million and $500 million; the next highest proportion were family offices with AUM of between $500 million and $1 billion; and 21% of respondents reported owning AUM of over $1 billion.

The increased maturity of the sector was illustrated by the number of participants (44%) advising that they worked on behalf of three or more generations served by the family office (see Figure 1) and by the fact that 49% were also run by second-generation wealth owners.

FIGURE 2: HOW MANY GENERATIONS DOES THE FAMILY'S WEALTH CURRENTLY PROVIDE FOR?



The number of family offices in Australia that now cater for the needs of two or more generations continues to increase as a percentage of single-family offices in Australia and follows more closely the 'demography' of family offices in other, more established family office jurisdictions, such as the US and Europe.

The greater the number of family members served by the family office – very generally – the greater the number of activities undertaken by the family office and legal entities managed.

The greater the number of activities and entities being overseen, the greater the complexity and potential use cases for technology inside the family office.

More family generations typically result in an increase in both complexity and the nature of the functions performed in-house.

Family office operations and finance:

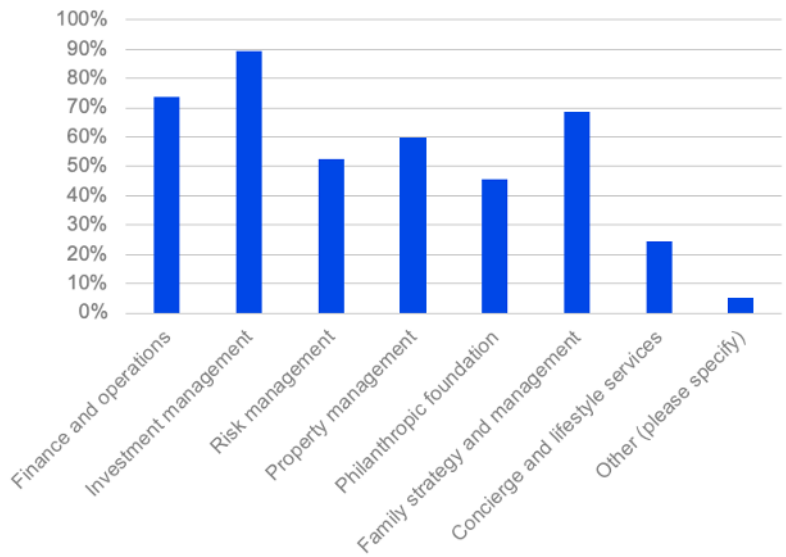
The respondents provided some optional information about their current family office in relation to its operations and finance. The average number of staff working in the family office was 7.4, including 1.36 family members. The average number of separate legal entities administered by the family office was 19.64. The approximate amount of financial capital managed by the family office ranged from $20 million to over $2 billion, with the most common being between $250 million and $500 million (27%). The generation that currently managed the wealth of the family office was mostly the second (45%) or the third (58%). Half of the respondents had a service/cost sharing agreement in place with the members of the family.

The functions of the family office

To appreciate the nature of the family office's activities, respondents provided a summary of the key services they either delivered or managed on behalf of the family group. Surprisingly, investment management was undertaken by 9 out of 10 respondents, and over 70% also ran their own finance functions. Importantly, around 70% were also developing strategies to support the family owners as joint owners of capital.

To understand the extent to which technology is applied (or could be applied) by the family office, it is important to understand the extent to which the family offices are 'insourcing' or 'outsourcing' specific functions; completely, or using a combination of both insourcing and outsourcing to meet their needs.[1] Traditionally, and a point proven by this research, family offices have focused on the investment of financial capital and chosen to insource, or work in parallel with others in the development of portfolios and their management (see Figure 3). Either solely or in conjunction with others, well over four in five reported undertaking portfolio construction, investment management and portfolio reporting. Each of these are areas in which technology can, and does, play a significant role.

FIGURE 3: WHAT FUNCTIONS DOES THE FAMILY OFFICE UNDERTAKE?



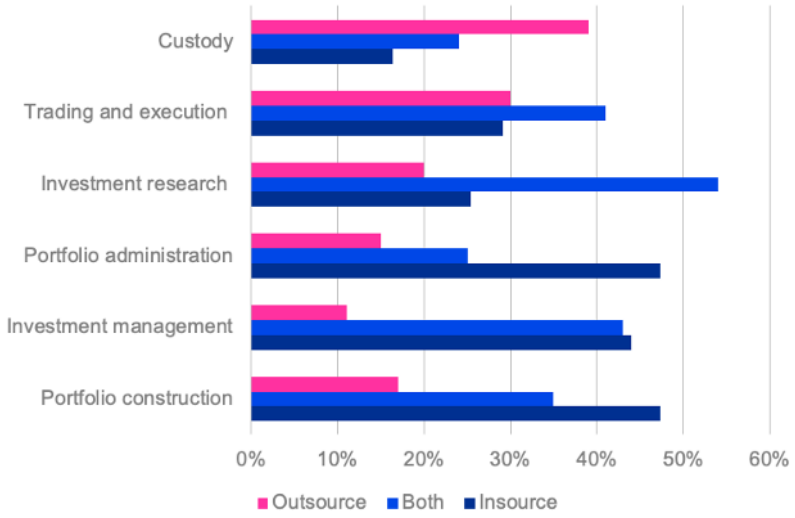
'Whilst family offices appreciate the need for scale and operational efficiency, family offices seem to be at a crossroads – grappling with key IT decisions on what to "build" or "buy" or what to "insource" or what to "outsource" against a backdrop of increasing costs of IT and running the family office.

One way of looking at this is determining which activities in the family office are core versus non-core, and prioritising what's needed from an IT perspective, before assessing whether it's best cultivated "within" or "outside" or via a blended approach.'[2]

PETER GOLOVSKY
Managing Director and Founder of Your MFO Pty Ltd

1. In the white paper Family Office Technology – Ferrari vs Utility – Key Considerations for Asian Family Offices, the authors Shaun Parkin and Peter Golovsky recommend that an important first step for any family office is to 'Find Your Segmentation' and specifically understand what it is the family office will do and can do ('insourced') and what it is that should be 'outsourced'.
2. Peter Golovsky, Non-Executive Director and Independent Board Advisor to Family Offices, Your MFO Pty Ltd.

FIGURE 4: INVESTMENT MANAGEMENT FUNCTION



'Family offices are businesses in their own right – no longer set up as a reaction to a sudden liquidity event, they are carefully planned, and their founders are thinking deeply about their own business models.'

ROBYN LANGSFORD

Where it is apparent that third parties are needed because of the experience they bring to bear, the family office will increase the extent to which the service is outsourced with 30% of trading and execution, for example, being solely managed externally.

Similarly, in the area of accounting and compliance, family offices will look to third-party expertise for matters of complexity and nuance, such as tax planning, rather than develop an in-house capability.

In areas less driven by data, such as family strategy management and legal services, the relevance of third-party accountability was a key reason for outsourcing unless, as for several respondents, it made economic sense to have in-house legal expertise to support the primary activities of the family office.

FIGURE 5: ACCOUNTING AND COMPLIANCE

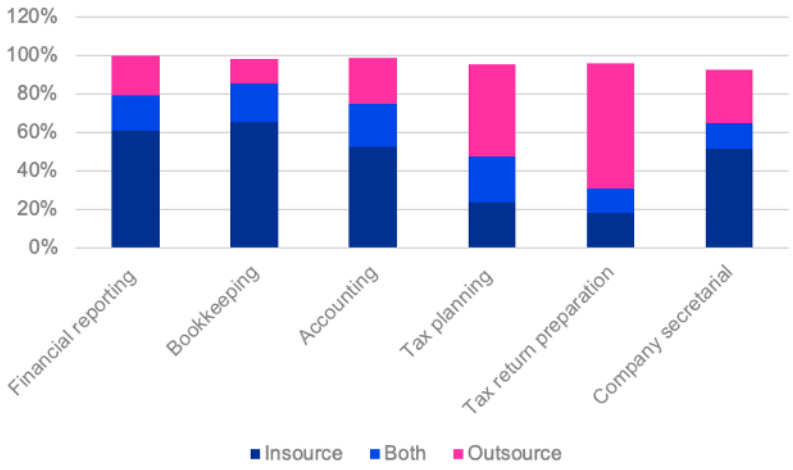
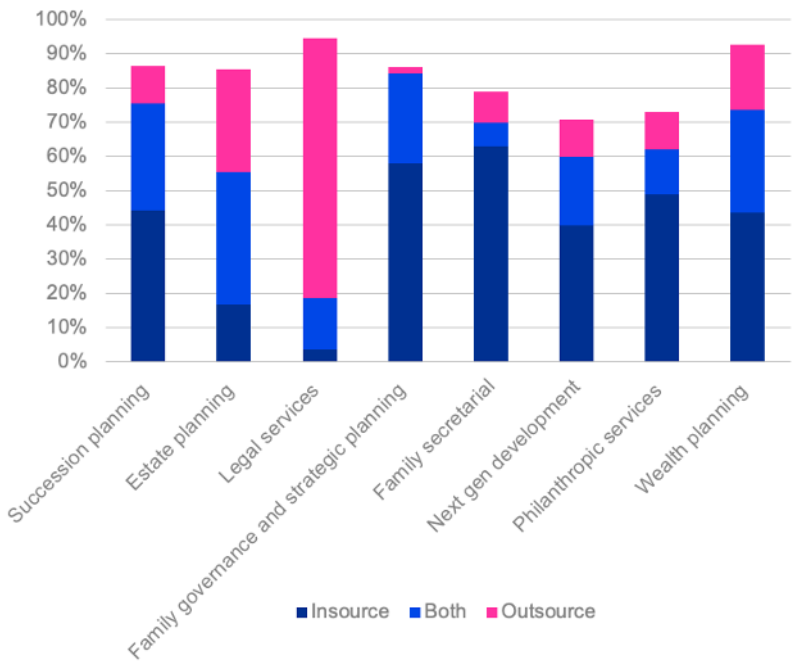


FIGURE 6: OWNERSHIP AND SECRETARIAL



Recognising the breadth of functions undertaken and services provided by family offices, the potential role for technology is significant, and so our research led us to determine the extent to which technology was being applied and to understand the key drivers behind the decision to utilise technology.

Characteristics and functions of family offices

The respondents consisted of:

- CEOs (38%)
- single-family offices (88%)
- those involved in investment management (85%)
- family strategy and management (65%)
- philanthropic foundation roles (58%).

The most frequently insourced functions included book-keeping (61%), financial reporting (57%), and succession planning (48%). The most commonly outsourced functions were legal services (78%), tax return preparation (70%), and estate planning (52%).

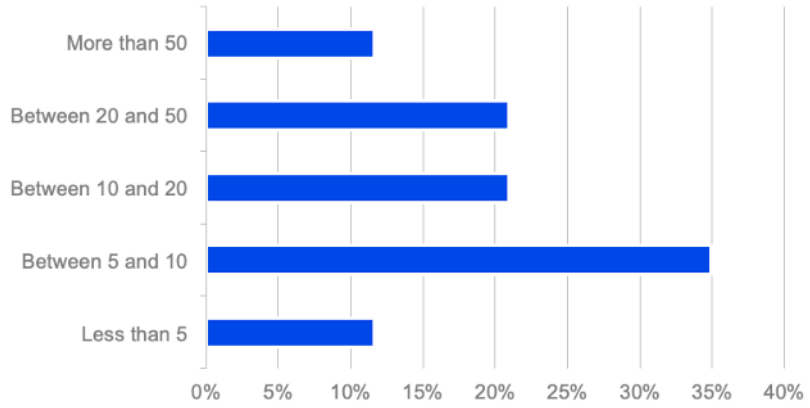
Complexity in the system

Another area of complexity, of course, is created by a family office's legal framework and the need to coordinate reporting across numerous different entities, from trusts to sole purpose companies, through to individual self-managed super funds (SMSFs).

This requires an understanding of not just consolidated reporting requirements, but further to that and more commonly, developing a 'global' view of investments held to get an understanding of the overall asset allocation across the group or individual family member, and how risk is allocated.

The largest number of respondents referred to having between 5 and 10 separate legal entities, with 12% reporting having over 50 separate legal entities being administered within the family office. Separately, over 20% reported having between 10 and 20; and 20 and 50 respectively.

FIGURE 7: NUMBER OF LEGAL ENTITIES ADMINISTERED



Assessing the use of technology

As highlighted in our introduction, over the last three years, family office use of technology has changed significantly and increased with the availability and viability of solutions in the market. As a testimony to that, our research found that 40% of respondents considered themselves to be heavily reliant on technology. However, 46% confessed to being limited users, with only 12% reporting using only Microsoft platforms such as Excel.

Of those reporting limited use of technology, all had fewer than five staff, with several having only one full-time staff member involved with the family office. This is not so surprising given control of data and delivery of reporting can often be tightly managed.

However, where the respondent indicated their family office was an extensive user of technology, the similarities become less pronounced. For example, of these, all but one respondent insourced, either in whole or in part, the investment management function. Generally, one could point to higher levels of staff inside these family offices, and in the cases where the family offices had smaller staff numbers but used technology extensively, there was a correlation between the experience and familiarity of the founder/CEO with the technology solutions available.

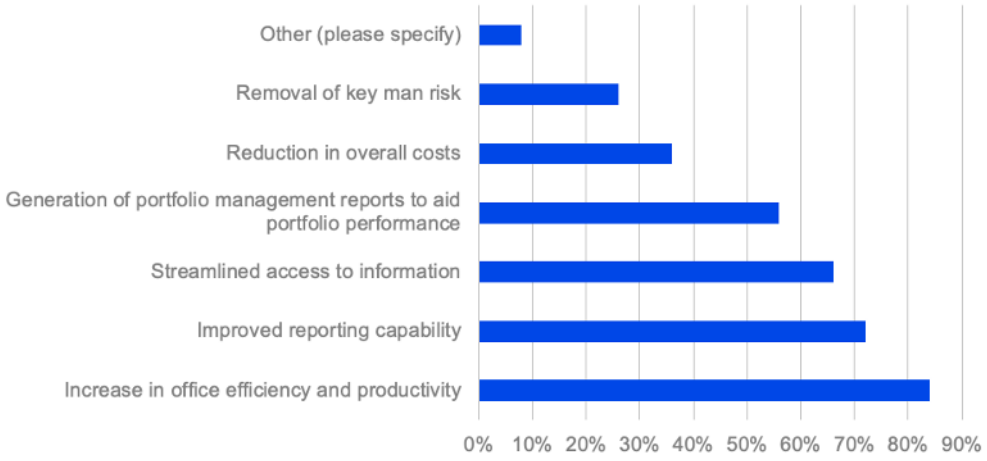
There were several reasons given for the use of technology inside the family office, with the most prevalent reason being to achieve an 'increase in office efficiency and productivity'.

As we shall see later in this report, the extent to which that can be either confirmed as achieved quantitatively is doubtful, but is clearly a primary driver with regard to the purpose of using technology inside the family office.

'Only 12% say they use only Excel. Even if they use other technology, do we necessarily infer that they do not rely on Excel as much? I think it (Excel) remains heavily used.'

SHAUN PARKIN
Founder of Hall Road Investments

FIGURE 8: WHAT IS THE MAIN OBJECTIVE BEHIND THE USE OF TECHNOLOGY?



Interestingly, only 36% of respondents suggested the primary motivation for using technology was to reduce overall costs, but rather technology utilisation was viewed as a way to enhance the performance of the family office by increasing its capacity to report more effectively and streamline the capture of data.

In discussions with family offices, it is significant they reported that a great deal of the data is first managed by the internal finance team. The team collates information that can then be converted into reports for separate sections of the family office, most commonly the investment team.

A great deal of the needs for technology are therefore driven by the needs of the finance team, not the investment team – albeit those needs are a function of being able to report more effectively and efficiently to the investment team. This stresses the importance of developing a whole-of-office perspective in considering the technology needs of the family office.

With the choice and adoption of technology potentially delegated to the finance function, it is not surprising to hear that family offices are often looking for simple and off-the shelf solutions without regard to the way in which technology is currently being used by the investment team.

'Family offices often express a desire for a tech solution that is easy to manage and "out of the box" to set up. However, what they frequently overlook is that their reliance on Excel has led to a platform that is so highly customised and unique that it has become the least flexible option. While Excel allows for exceptional customisation, this results in a system tailored to a single user – the one who created the formulas, matrices, and shortcuts.'

SHAUN PARKIN
Founder of Hall Road Investments

In assessing their needs, 65% of family offices undertook their own internal assessment with 35% using a third-party adviser to help assess the role for technology and provide recommended solutions, with nearly one quarter also working directly alongside the software manufacturer/supplier.

As part of the process of selection, we asked: What have been the pain points in seeking technology solutions? Notably, over 50% referred to the limited time, skills and resources available to dedicate to a search for a solution.

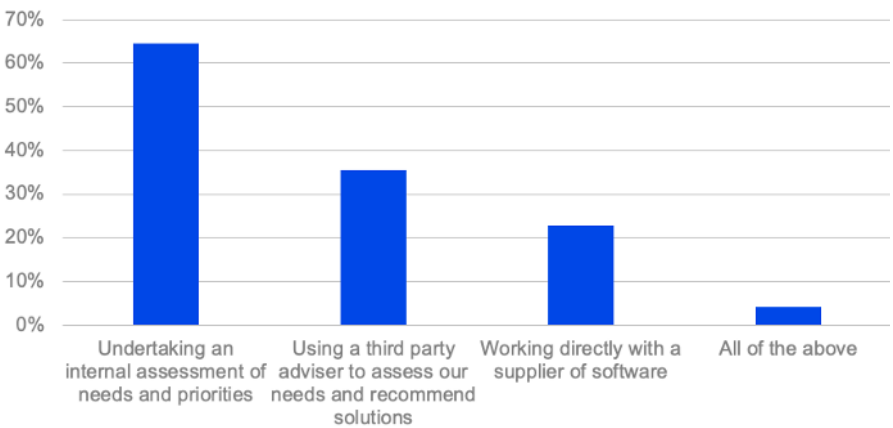
Second and third order concerns were 'meeting the needs of all stakeholders and family members' and 'understanding the "whole of system" impact', indicating that coming to terms with the nature of the problem to be solved or benefit to be derived may have been more problematic for many.

Less problematic, however, was getting to grips with the variety of solutions now available to family offices, although it remained something that over one quarter reported having difficulty understanding.

As one executive from a single family office confided, 'It is extremely difficult to get an indication of costs and more importantly time for this (review of alternatives) process from all providers.'

It is probably the case that referrals of existing solutions are the most effective means by which family offices become aware of technology solutions. In much the same way that investment ideas can be shared with peers, family offices read the testimonials of clients and are then exposed to systems that others have used or researched – it is not necessarily a good thing, however, as bad experiences are not uncommon.

FIGURE 9: HOW HAVE TECHNOLOGY NEEDS BEEN ASSESSED?



How technology is being used inside the family office

Technology use and objectives

The respondents reported limited use of technology inside the family office (50%) and the main objectives behind the decision to use technology were to increase office efficiency and productivity (77%), improve reporting capability (68%), and streamline access to information (68%). The most common methods to assess technology needs were undertaking an internal assessment of needs and priorities (45%) and using a third-party adviser to recommend solutions (45%). The most common role of technology inside the family office was portfolio performance and reporting (77%)

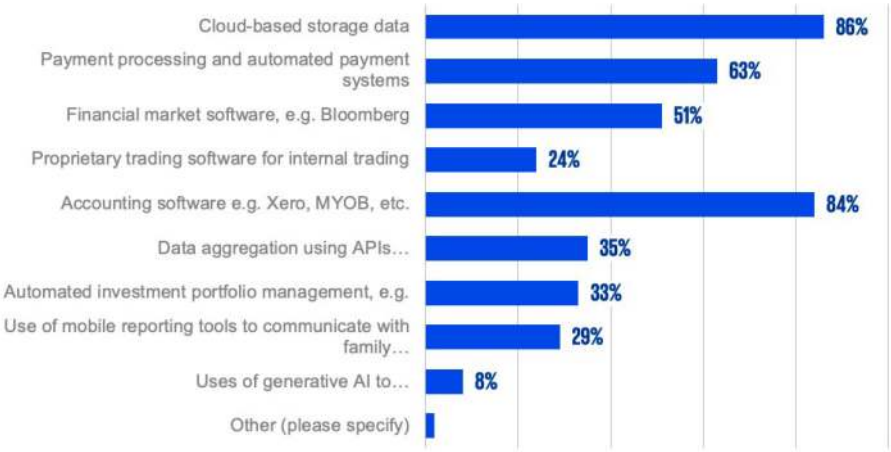
Before examining the responses to the survey, we note several common issues that have challenged the adoption of technology inside family offices in Australia, and elsewhere:

Hybrid approach – Every family office uses a combination of accounting software (e.g. Xero, MYOB) and spreadsheets, suggesting there is no 'universal' system as such. Consequently, it is important to understand that there may be a number of separate software systems that need to be able to work cohesively.

Manual reporting – The impact of tax reporting and the fact that converting portfolio reports into year-end tax statements is, by and large, a manual process, having to take into account both the tax status of the recipient of income and capital, and the nature of the receipt from a tax perspective.

Variety of solutions – Responses suggested a depth and variety of usages of technology inside family offices. As shown in Figure 10, the principal technology used related to data storage in the cloud and the use of accounting software, which reflects the situation for most small to medium enterprises and the fact that, by and large, technology utilisation is driven by the finance function inside the family office.

FIGURE 10: WHAT TECHNOLOGY IS BEING USED?



The balance of technology applications suggested a split between larger family offices with internal investment capability and those where the benefits of data aggregation, for example, were less pronounced.

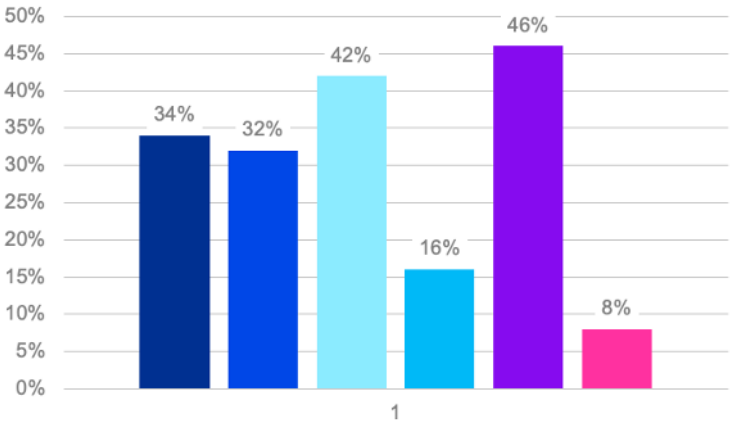
In simple terms, only one third of respondents indicated that they used application programming interfaces (APIs) to collate and aggregate data, or had implemented automated portfolio management reporting – although a similar number are contemplating its use.

Similarly, fewer than 30% reported using mobile reporting tools as a basis for communicating with and reporting to family members.

An example of a nascent technology was the adoption of generative artificial intelligence (gen AI) which, as our research indicated, is likely to increase as family offices understand its potential use cases, particularly with regard to portfolio scenario modelling which is becoming a frequent practice in the financial services industry.

Having identified the uses of technology, our survey asked specifically: What is the role of technology inside the family office? In keeping with the identified use cases, roughly one third reported using technology to collate and aggregate data, with 42% confirming they were using technology (including presumably Excel) to report on portfolio performance. However, only 16% advised they were undertaking portfolio scenario analysis.

FIGURE 11: WHAT IS THE ROLE OF TECHNOLOGY IN THE FAMILY OFFICE?

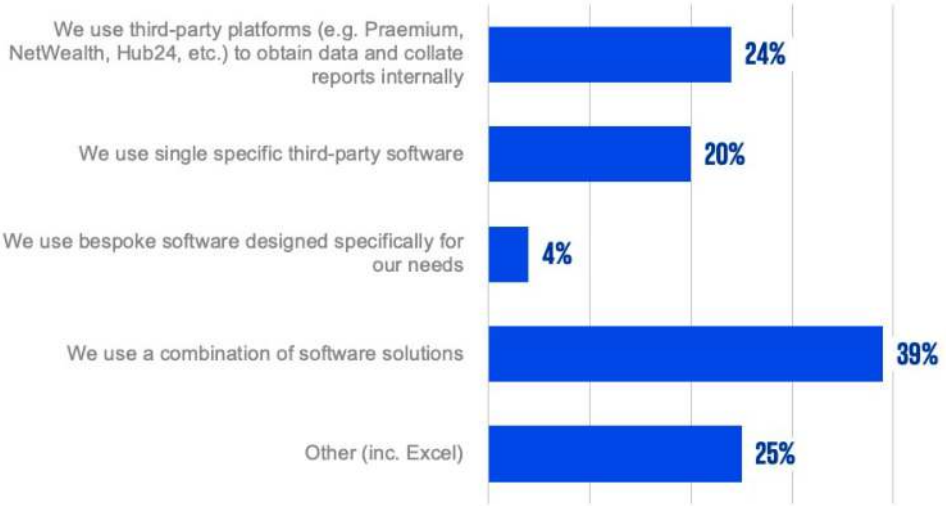


Collation of data from multiple sources	34%
Aggregation of data into a consolidated picture	32%
Portfolio performance and reporting	42%
Portfolio scenario analysis	16%
All of the following	46%
None of the following	8%

Collating and aggregating data

The role of technology in collating data from multiple sources via API is the foundation for the creation of more efficient reporting. In our survey, our respondents indicated the following solutions to the aggregation problem.

FIGURE 12: COLLATING AND AGGREGATING DATA



In dissecting the data, there were two predominant methods used. Primarily, almost 40% of family offices reported using a combination of software solutions, suggesting there was no end-to-end solution. Alternatively, a quarter referred to using Excel in combination with the reporting provided from a third-party platform.

Only one quarter referred to either 'bespoke' software or a single specific third-party software solution.

Across the FUM range quoted, whilst a predominant number of $1 billon+ family offices used a combination of software solutions, single specific solutions were spread across the range of family offices by scale.

Portfolio performance and reporting

In examining responses, 45% of the cohort confirmed they used specific portfolio management reporting software, whilst 55% answered 'no' to the simple question: *Does the family use specific portfolio management reporting software?*

When asked: *What is the nature of technology being used for the purpose of 'Portfolio Performance and Reporting'?*, the responses reflected the tendency, or not, to use a specific solution for the aggregation of data.

The singular role of Excel continued, suggesting its multi-utility value as a tool, and similarly, a reliance on platform providers' reports, presumably used in combination with Excel.

Importantly, a number of family offices used a combination of solutions presumably across different asset classes where performance reporting could be nuanced, as in the context of privately held illiquid positions such as limited partners interests in private equity, or the carried interest of general partners.

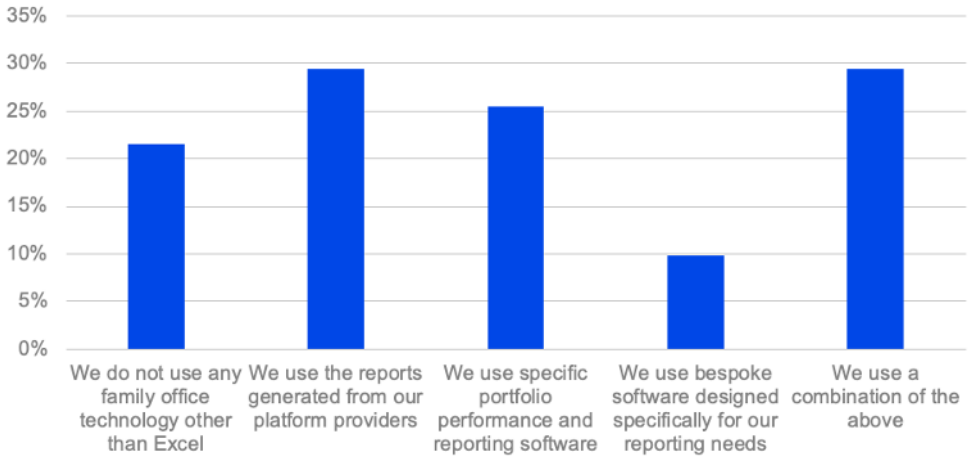
The growth of allocations of capital to private markets

Numerous recent global surveys have shown that family offices are actively looking to increase their allocation of capital to private markets and, specifically, private equity. At the same time, as the regulations governing investment in private equity have been 'liberalised' in the US and Europe, so family offices have extended their interest in both 'indirect' and 'direct' deals.

Managing private equity positions, internally, as an investor, is notoriously difficult. Not only is information difficult to obtain, but simply managing liquidity as a limited partner with regard to 'call' commitments can prove difficult, particularly in an environment where private transactions are taking longer to be realised and owners are choosing to remain private for longer.

Whilst technology doesn't necessarily play a role in the origination of and investment in opportunities, new digital platforms offering increased access to opportunities have emerged, and may help family offices manage their positions more confidently.

FIGURE 13: PORTFOLIO PERFORMANCE AND REPORTING



There was a slight increase in the number of single specific reporting solutions (approximately 35%) emphasising the importance of accurate and timely reporting for many.

Regarding the use of the data for scenario modelling, nearly 50% advised they used their own in-house models, only 12% referred to using third-party software models and 35% did not undertake any portfolio scenario modelling.

The fact that 50% of family offices were using their own in-house models points to the fact that the capacity to undertake scenario modelling is extremely important to family offices. The ability to make informed decisions, for example, regarding the reallocation to particular PE managers, the optionality of hedging, and the impact of leverage beyond basic 'risk' and 'return' optimisation, requires the use of multiple systems and the capacity to have an integrated technology solution.

In a report published by KKR, 70% of respondents responded 'Yes' to the question: Are you looking to enhance performance analytics?

As one family office consultant to the sector noted, 'This (integrated reporting with scenario modelling) is what families are after – and when they see it – they will take to it like a duck to water.'

The opportunity for gen AI to play a role here is well appreciated – how AI is utilised by family offices is being considered by nearly one half of respondents.

3. Loud and Clear: KKR 2023 Family Capital Survey, KKR, February 2024

Emerging technologies are significantly transforming the wealth management industry

Insights from The Franklin Templeton Institute

The wealth industry has been notably impacted by cloud-based processing, big data, and AI tools. The emergence of the internet opened new channels to deliver wealth services directly to clients, democratising access to investing. This shift required wealth firms to consider a broader range of clients, from self-directed to full-service, across a wider set of touchpoints.

The Franklin Templeton report, *On the verge of transformation: The state of investment and wealth management in 2023–2024* discusses the following insights:

Competition in the current period of investment management is based increasingly on the use of technology. Whereas everyone in the industry was forced to upgrade their capabilities and infrastructure to align to the new financial market infrastructure and increasingly electronic trading and execution in the Set It and Forget It era (1970s to 2000s), proprietary-technology builds became a point of competitive differentiation in the current 'Let's Build a Solution' phase (2000s to today).

In addition, leading investment managers used emerging cloud-based technologies, big data processing, and the early suite of artificial intelligence tools – machine learning, natural language processing and predictive analytics – to build more scientific investment platforms able to consume large amounts of alternative and structured data. The primary result has been a growing focus on the factors driving investment returns, how to optimise the process steps that investment teams take, and the ability to use quantitative assessments together with fundamental analysis to create new insights. Many firms also built a separate solutions platform that focuses not on the fund, but at the portfolio level. These platforms are being used to support bespoke advisory services for institutional clientele and to create new types of multi-asset class and outcome-oriented solutions for individual investors.

Leading innovators, such as robo-advisers, have challenged incumbents by externalising portfolio management software and offering these capabilities directly to individual investors via app-based services at extremely low costs. This has forced many wealth managers to consider similar offerings.

Additionally, there has been a growing focus on the 'duty' owed to wealth and retail clients, with regulatory changes pushing for more fiduciary-like responsibilities and fee-based compensation models. Wealth managers are now adding a suite of value-add services, including financial planning, tax and estate services, specialised savings accounts, insurance, banking, and lending support.

To compete in the new industry dynamics, wealth managers are utilising the same cloud, big data, and AI toolkit that investment managers use but for different purposes. They are building robust content portals with easy-to-use analytics, journey-tracking tools, and cohort analyses to understand client behaviour and optimise adviser interactions.

This shift towards customisation is enhancing the engagement model between investment and wealth managers, allowing for more targeted and relevant investment portfolios.

The implementation of technology inside the family office

It is one thing to have assessed the technology needs of the family office, and quite another to manage the project of implementation, as the results of the response to the question: *How do you implement the use of technology once a solution is determined?* suggested.

One factor, which can often be overlooked, is the process of onboarding, and the need to run parallel systems while the new software is being implemented.

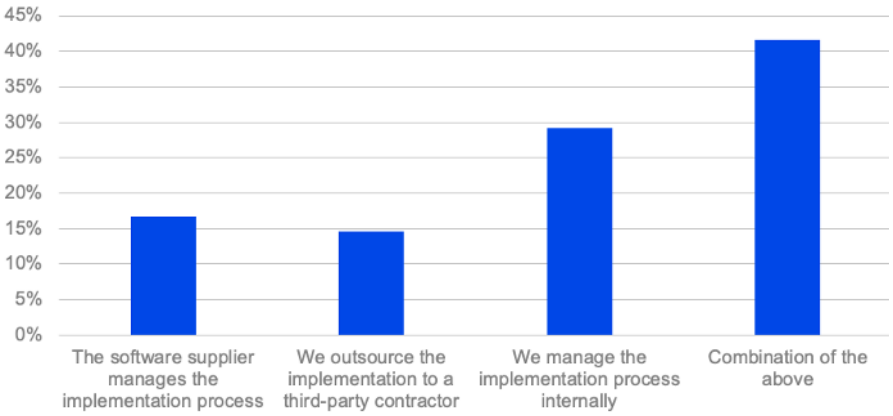
The costs related to this management process are predominantly labour costs, rather than the cost of the technology itself. However, it does create a potential area for cost pressures and tensions to emerge.

Only a quarter reported managing the process internally, with many preferring to rely on both the software supplier themselves and independent contractors, who may also be their outsourced Chief Investment Officer.[4]

In KPMG's earlier and complementary report, Australian Family Office Compensation Benchmark Report 2023, 87% of staff inside single-family offices (SFOs) reported playing 'hybrid' roles. This, coupled with the relatively small number of staff employed inside SFOs (between five and ten on average), supported by the responses to this survey, means that technology implementation and integration is often a responsibility borne by Chief Operating Officers or the finance team, with relatively few Chief Technology Officers employed inside family offices.

With this in mind, the responses to the question: *How is technology managed at an operational level?* were not surprising.

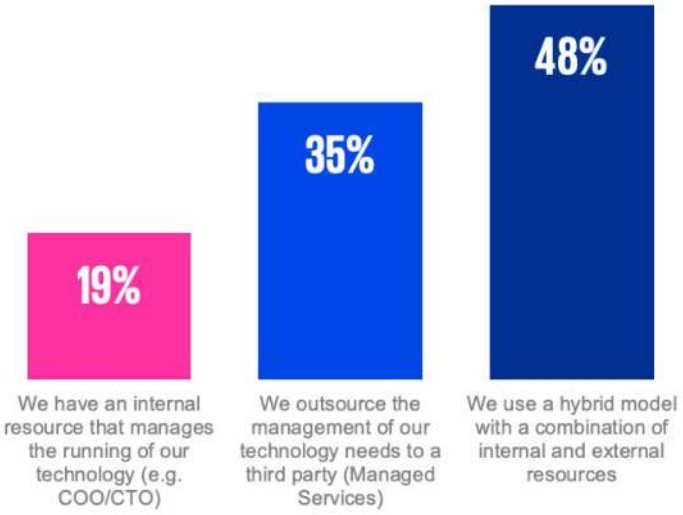
FIGURE 14: HOW DO YOU IMPLEMENT TECHNOLOGY USE?



Selection, onboarding and design continue to be major challenges.

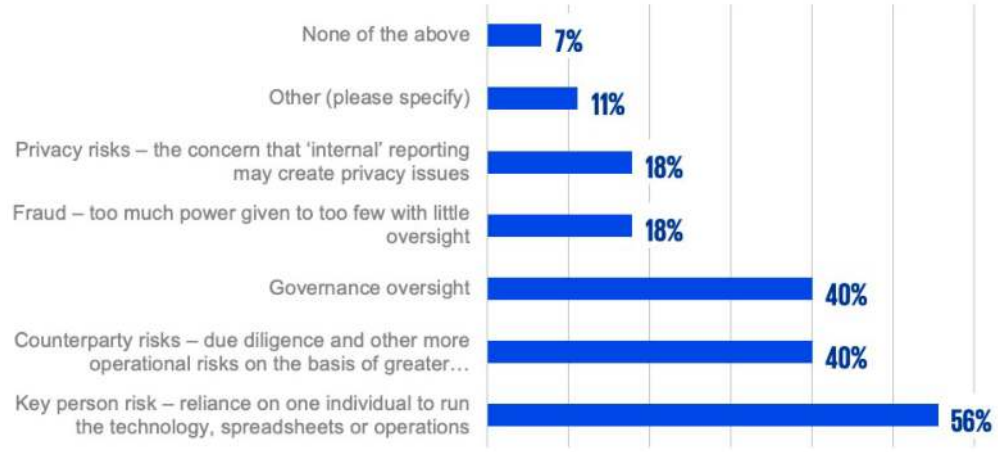
4. There are already managed service providers for family offices who are playing this role (e.g. DSC, [provide another example here so it doesn't look like an endorsement]).

FIGURE 15: HOW IS TECHNOLOGY MANAGED AT AN OPERATIONAL LEVEL?



Where family offices chose to outsource this responsibility, in whole or in part, the following were identified as the main risks that they were trying to mitigate.

FIGURE 16: WHY DO YOU OUTSOURCE COMPONENTS?



The fact that 'Key person risk' was the most predominant choice indicates the extent to which family offices typically run very lean organisations, with the concentration of responsibility centred on one individual who may also be engaged in several other tasks.

Separately, the nature of 'Counterparty risk' and 'Governance' point to appropriate concerns around the quality of data and the management of that information. It is potentially far more robust to rely on a third party's own security frameworks, policies and procedures for example, than building one's own.

As Shaun Parkin, founder of Hall Road Investments observed when considering the issue of resource management inside family offices, 'Maintaining a "side of the desk approach" almost never works when it comes to managing investment technology – either have someone own it or outsource it.'

Cyber risk management

With the heightened focus on the potential for cyber to impact business operations, and the privacy of data of family members being of paramount concern for family offices, it was pleasing to see that only 15% of respondents reported that the family office or a member of the family had been subject to, or a victim of a cyber threat.

This represents a significant reduction in the level of incidence reported in the Wealth in Transition: Family offices in plain view report in 2021.

The low level of reporting of the incidence of such threats reflects positively on the approach to the management of the risk within family offices. However, only 49% of family offices reported to be actively managing the risk, with a further 40% recognising the need to heighten their cyber resilience.

As to the approach to managing cyber risk, nearly 80% reported either using an external third-party cyber risk manager, relying on their operating company's IT division, or having in place cyber insurance – or as mentioned by 36%, a combination of each of these.

Several mentioned their specific internal activities including staff training and the use of two-factor authentication and formal password management procedures.

FIGURE 17: HOW ARE YOU MANAGING CYBER SECURITY RISKS?

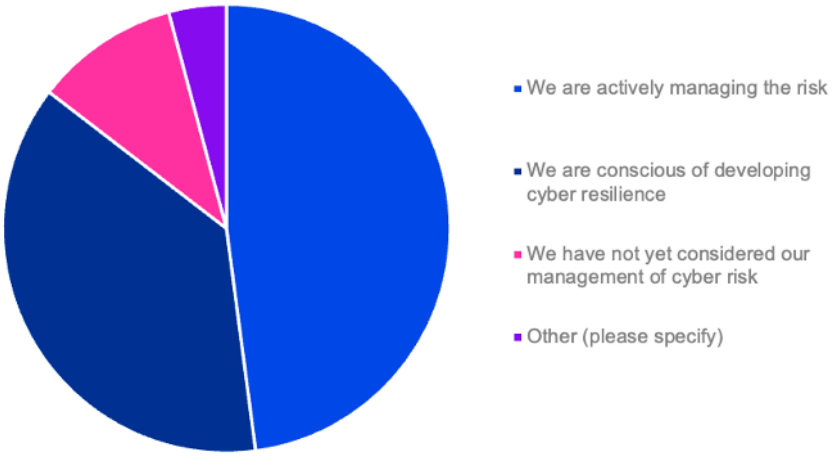
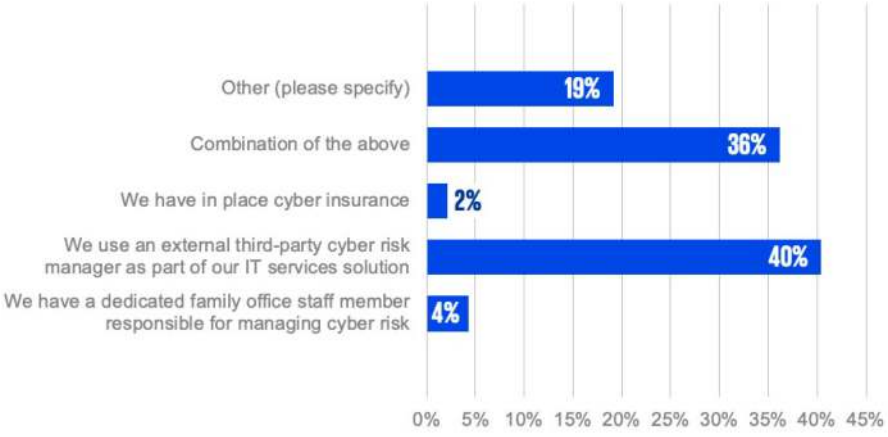


FIGURE 18: WHICH APPROACH ARE YOU TAKING TO MANAGE CYBER RISK?



Measuring the benefits of technology inside the family office

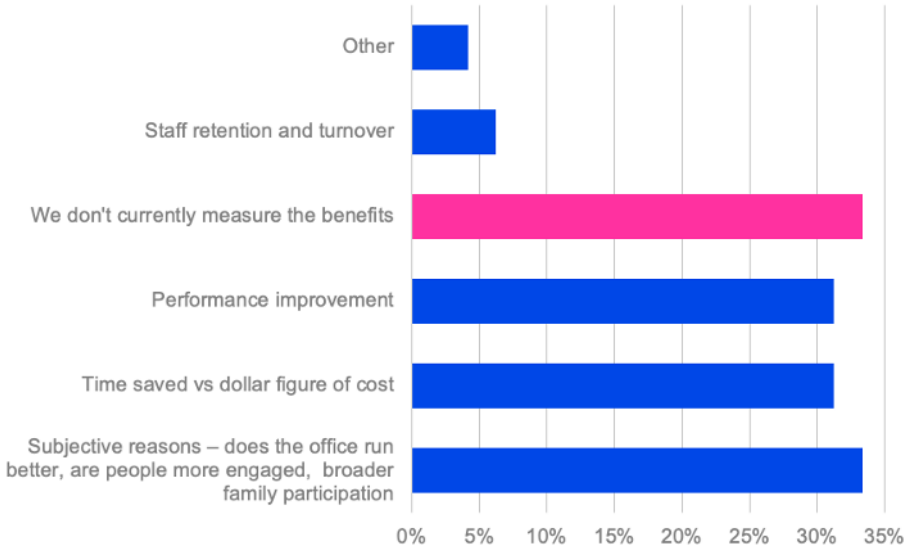
Amongst the most striking responses from the survey was the recognition by one third of respondents that they do not currently measure the benefits of technology – or at least not in the ways we prescribed in our survey response.

One of the most poorly understood measurements of technology's benefit is, of course, the cost of time saved and the opportunity for that individual or team inside the family office to focus on more productive or lucrative tasks. It does not appear that technology in and of itself reduces the number of those employed inside the family office, as family office personnel numbers appear to be stable; instead one presumes that the workload of many is capable of being better managed. This is important in context of the 87% of staff in Australian family offices that reported playing hybrid roles in the previous survey of compensation and benefits inside the family office.[5]

Of those that do measure benefits, the basis of measurement was broadly split across three separate categories: performance improvement; time saved; and more subjective analysis, including that the office runs better, greater levels of engagement from staff and broader family participation.

The benefits of reduced staff turnover were less pronounced, perhaps underlining a relatively stable workforce in the sector.

FIGURE 19: HOW DO YOU MEASURE THE BENEFITS OF THE USE OF TECHNOLOGY?



5. Australian Family Office Compensation Benchmark Report – KPMG Australia

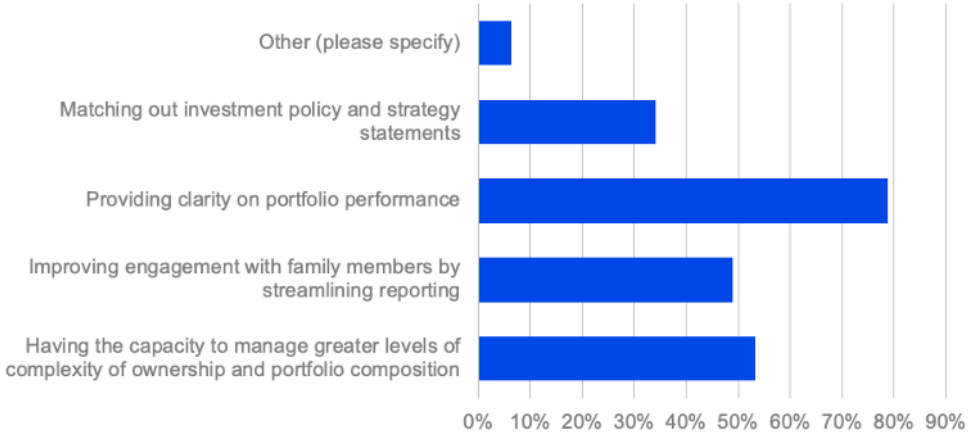
In determining *What benefits have accrued?* from initiating reporting improvements, the majority of respondents (53%) referred to having an increased capacity to manage complexity both across various legal entities, 'ownership' and portfolio composition. In these cases, the expected benefits would seem to have been realised by most based on their reasons for implementing technology inside the family office.

However, the vast majority (79%) reported having greater clarity with regards to portfolio performance, which has in turn led to the portfolio performance improvements cited as measurable benefits in the above.

Other notable benefits include 'improved engagement with family members through much more effective reporting' – presumably tailored through 'dashboards' designed for ease of interpretation and improved accessibility. A benefit one would assume that 51% would also aspire to.

In addition, whilst relevant only for those with existing investment policy statements (IPSs), typically developed for more diversified investment portfolios, the technology has enhanced the ability to match portfolio weightings to the IPS and, to some extent, allow for more effective attribution of returns and re-weightings to longer-term strategic asset allocation targets.

FIGURE 20: WHAT BENEFITS HAVE ACCRUED?



Recognising the individuality of single-family offices, the benefits of technology are being most readily identified with those where complexity of ownership and portfolio construction has dictated its adoption.

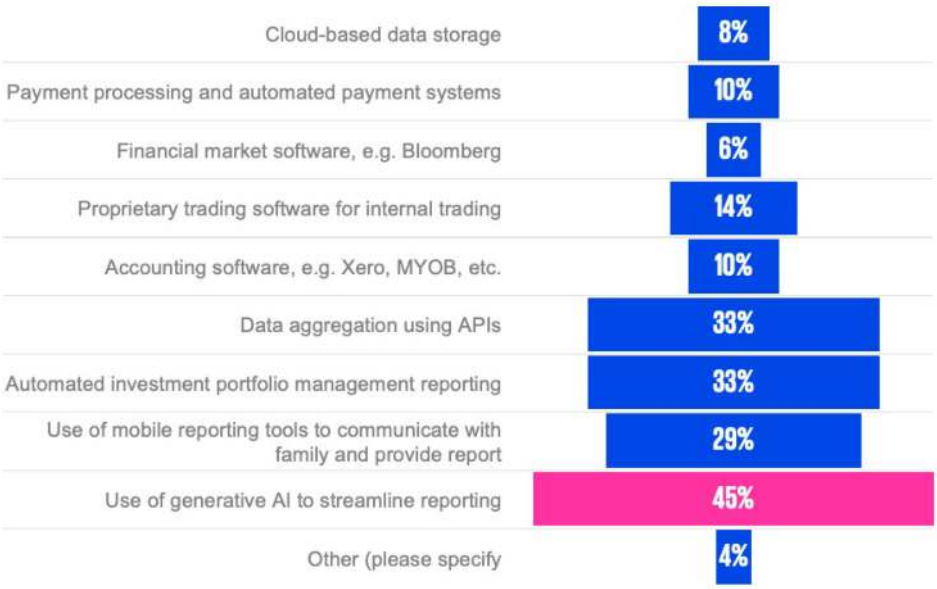
As the technology itself becomes embedded within family office processes, we anticipate that the real benefits will flow through after a period of familiarisation.

However, for many who are still either exploring the role of technology inside the family office or considering the myriads of alternative use cases, the most striking is in the area of AI.

When we asked the question: *What technology is being considered for use by the family office?*, 45% of respondents referred to generative AI, when only 8% had already adopted AI inside the office.

Separately, one third were contemplating the introduction of data aggregation using application programming interfaces (APIs) and automated portfolio investment reporting.

FIGURE 21: WHAT TECHNOLOGY IS BEING CONSIDERED FOR USE BY THE FAMILY OFFICE?



What is the role of generative AI inside a family office?

While generative AI has been identified as a growing investment thematic of family offices, its role in supporting family office operations is less clearly defined and will evolve.

It is worth noting that in a survey of family office tech software providers published earlier this year, over three-quarters of software providers had either incorporated or were incorporating AI into their software solution.

However, the nature of that technology and the process of its implementation varies.

It is beyond the scope of this report to critically examine the potential of AI other than to affirm the general interest in its adoption and the caveat that artificial intelligence cannot be taken at this stage as anything other than a tool that complements existing or planned software solutions and reporting.

However, as AI's adoption within the financial services industry as an asset management tool becomes clearly defined, it is inevitable that family offices will adopt similar practices that can enhance productivity and drive portfolio performance improvements.

6. Global Wealth Report 2024, UBS Global, 2024
7. D. Struthers & F. Botha, Family Office Software & Technology Report 2024, Simple, 2024

The role of AI in technology reporting: predictive AI for portfolio review and reporting

Murali Nadarajah, Chief Information Officer, ETON Solutions, L.P.

The integration of predictive AI into reporting is revolutionising how single-family offices (SFOs) and multi-family offices (MFOs) conduct portfolio reviews and implement strategies.

Advances in AI and data processing have transformed traditional reporting frameworks, which relied on historical data and static projections, into dynamic systems capable of real-time forecasting and performance evaluation. Machine learning based predictive AI integrated with generative AI now enables precise risk management and scenario analysis, offering deeper insights into future trends.

Some generative AI platforms now integrate both structured and unstructured data, processing real-time metrics, market news, and behavioural trends for comprehensive predictions. Enhanced natural language processing (NLP) from platforms like EtonGPT™ allows the incorporation of qualitative data – like economic reports and geopolitical events – into quantitative models, providing a more nuanced view of potential market shifts.

For real-time portfolio optimisation, reinforcement learning models can simulate various market scenarios and dynamically adjust asset allocations to optimise portfolio performance, and ensures that the portfolio remains aligned with evolving risk profiles and investment objectives, maximising returns while mitigating potential downside risks.

In risk modelling, AI's improved capability to simulate a wider range of economic scenarios has led to more realistic stress-testing and sensitivity analysis. This allows family offices to better anticipate the impact of various market conditions on portfolio performance and adjust strategies accordingly. Causal AI, another emerging technique, enhances these capabilities by enabling the identification of cause-and-effect relationships within complex datasets. This allows for a deeper understanding of how specific investment strategies or macro-economic factors influence portfolio outcomes, making it possible to fine-tune strategies with a more evidence-based approach.

From a reporting perspective, these developments enable a shift from static, backward-looking reports to interactive, forward-looking dashboards. Predictive analytics allow for scenario-based projections, where users can model the potential outcomes of different investment strategies. Coupled with this, AI visualisation techniques have improved the ability to communicate complex insights clearly, making it easier for stakeholders to grasp underlying trends and make informed decisions.

Equally important to the generation of reports are the narratives that accompany them. Style, tone, context, and language are often just as critical – if not more than the data itself. For instance, a large MFO in the US is experimenting with the EtonGPT™ platform to create narratives that align with their investment objectives. Meanwhile, an MFO in Singapore is also using EtonGPT™ to experiment with translating reports from English to Mandarin.

In summary, generative AI platforms further enhance these reports by providing insightful narratives that are tailored to the wealth owner's specific context, tone, and style. What was once a reactive process has now evolved into a proactive, data-driven approach that utilises reinforcement learning for real-time optimisation and causal AI for impact analysis. This shift enables family offices to make more informed strategic decisions and navigate financial uncertainties with greater confidence.

The costs of technology inside the family office

Technology implementation and management

The respondents reported a range of third-party costs in assessing and implementing technology solutions, with the most common being up to $20,000 (26%) and between $20,001 and $50,000 (21%). The most common way to implement the technology once a solution was determined was a combination of internal and external resources (40%). The most common way to manage the technology at an operational level was to outsource it to a third party (55%). The respondents were conscious of developing cyber resilience (45%) and actively managing the cyber risk (35%). Only 20%, reported being subject to or the victim of a cyber threat in the last 12 months.

'Offices often underestimate the true cost of managing their technology, primarily because they overlook the human resource expenses involved. A US$50k price tag for a reporting platform may seem high, but it becomes reasonable when you consider the countless hours spent by highly skilled professionals on data entry and reconciliation – tasks that distract them from their actual responsibilities.'

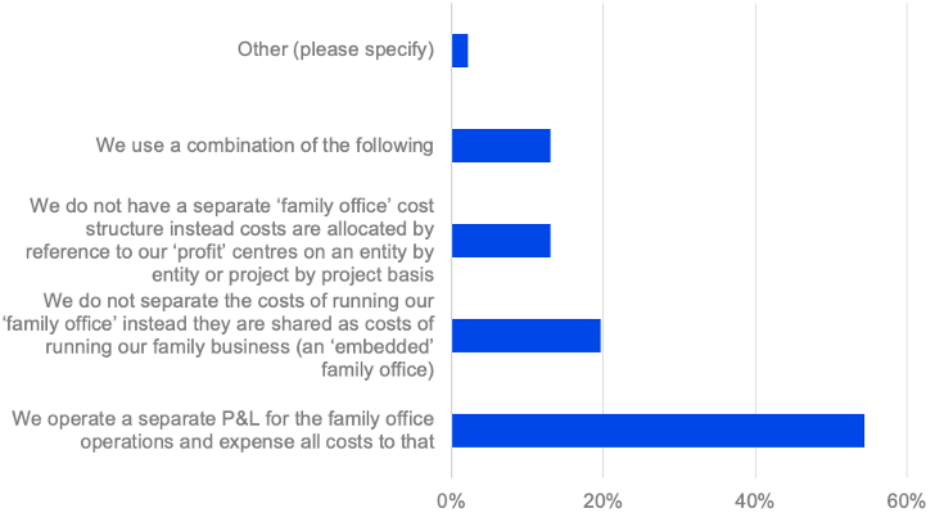
SHAUN PARKIN
Founder of Hall Road Investments

The original aim in developing this survey, and other separate modules, was to understand the 'costs of running a family office'. Our previous survey in this series concentrated on the costs of remuneration and benchmarked specific roles inside the family office.

Because of the increasing reference to technology designed for family offices, implementing and running technology was one area of costs that it was considered would be helpful for family offices to get some insight on.

What our survey has shown is the inherent difficulty in measuring the costs attributable to family office operations in certain circumstances. While 54% do expense costs to a separate P&L, those with a family business would typically 'embed' expenses in their operating business; and for others, 'family' office costs may be allocated not to the 'family office' per se, but instead to individual profit centres associated with different legal entities.

FIGURE 22: HOW DO YOU ACCOUNT FOR FAMILY OFFICE COSTS?



Where technology is concerned, the inherent variability of single-family offices and their idiosyncratic processes, means that the nature of technology deployed and manner of its deployment cannot be standardised – whereas by contrast the role of a CEO or CIO can be, when comparing salary and bonus arrangements, for example.

However, the responses to the survey did provide some support for the general proposition that technology needs (and costs) increase with complexity. Whilst complexity is not directly correlated with the family office's AUM, it can be an indicator of greater levels of diversification and, with it, greater demand for technology solutions to enhance reporting.

We wanted to understand at first instance what the costs of undertaking an assessment of the family office technology needs were. We specifically asked respondents to provide details where an assessment had been undertaken in the last 12 months – which represented two-thirds of the respondent population – indicating, if nothing else, the level of importance family offices attach to considering their technology needs.

In the largest number of cases, the third-party costs incurred in assessing their needs were up to $20,000; however, in a couple of cases the costs were significantly in excess of that figure. In each case, the family office AUM exceeded $1 billion.

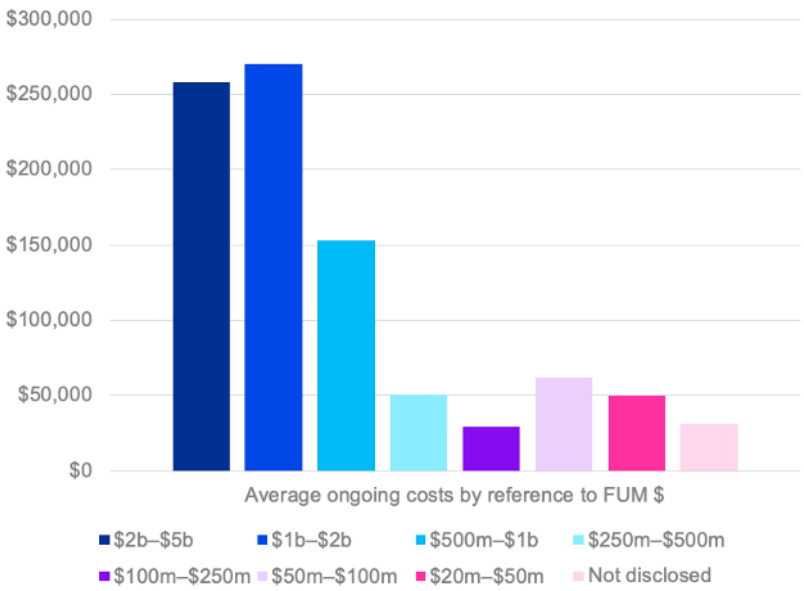
FIGURE 23: COSTS IN ASSESSING TECHNOLOGY NEEDS

To gain a general understanding of the range of ongoing technology costs, we asked respondents to estimate total costs by reference to separate bands (see below).

IN REGARDS TO YOUR ONGOING COSTS, PLEASE PROVIDE AN ESTIMATE OF THE RANGE OF ONGOING COSTS PER ANNUM PAID TO THIRD-PARTY SUPPLIERS BY WAY OF LICENCE FEES, SUBSCRIPTIONS AND SERVICE COSTS:	%
Up to $20,000	31%
Between $20,001 – $50,000	22%
Between $50,001 – $100,000	21%
Between $100,001 – $200,000	8%
Between $200,001 and $500,000	8%
Between $500,001 and $1,000,000	4%
Not sure	6%
Total	100%

Separately, we examined the responses to estimate an average annual cost by reference to the family office's AUM and, in general, the anticipated increase in costs with AUM prevailed (see Figure 24).

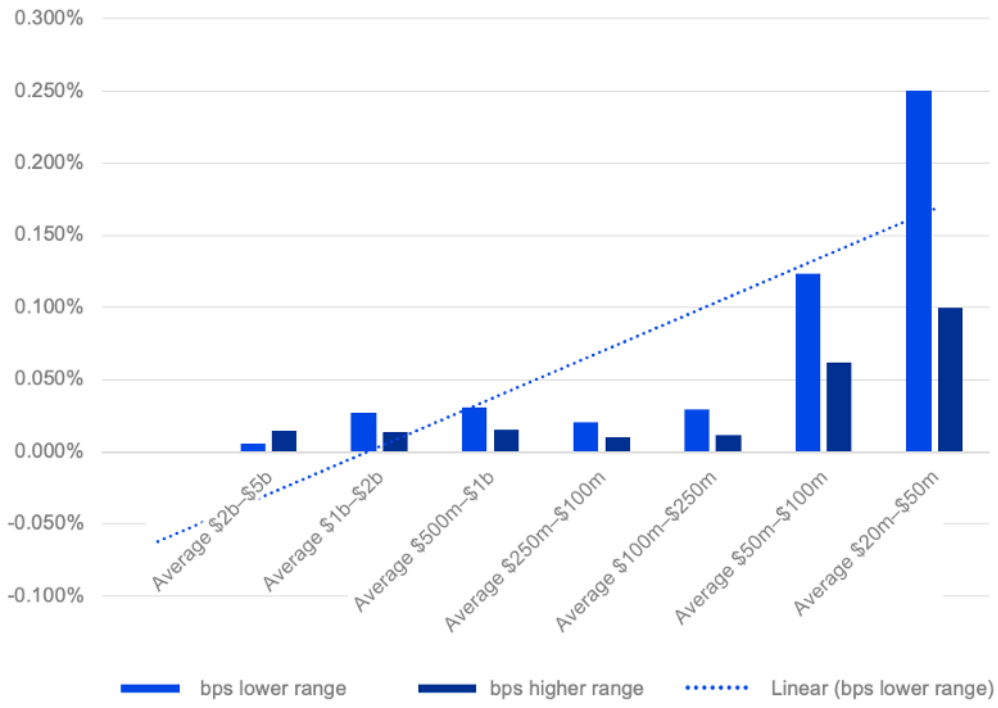
FIGURE 24: AVERAGE ANNUAL COSTS



Using the ranges provided, the data was then re-examined to determine to what extent it was possible to estimate an annual basis points fee as a percentage of AUM for single family offices.

Here again, it was not surprising to see basis point fees reducing as SFO AUM increased. In the figure below we have quoted both an upper and lower range.

FIGURE 25: COSTS EXPRESSED AS BASIS POINTS AS A %



Relative to other global studies of technology costs in family offices,[8] the estimated costs above are in line with those studies. For example, in the Campden Wealth report (cited) the average cost of technology as a percentage of total costs was estimated at 5% globally, or $200,000 per annum in total. The figure in the APAC region was reported as $100,000 per annum and 4% as a percentage.

8. The Asia-Pacific Family Office Report 2023, Campden Wealth, 2023

What does this mean for family offices?

Family offices are now widely acknowledged as a defined segment of investors and buyers of specialist services. Each year, new family offices are established, existing family offices mature and the foundations for their operational future are secured via investment in next-gen education, recruitment of new talent, and development of governance processes that consider not just the family's financial capital but also the management of the family dynamic.

KPMG opinion

'If I had to summarise what I believe family offices should be thinking about now it would be:

1. Understand the role of technology in your office. It requires careful planning to map out the needs of the family office.
2. Ensure that a review of needs is done on an 'holistic' basis including both the finance and investment functions.
3. Make sure that those who will use the technology are consulted and support the adoption of technology solutions.
4. Think carefully about the outcomes that are being sought as a basis for ensuring the technology is fit for purpose.
5. Most family offices run 'bespoke' processes using Excel – 'off the shelf' solutions will rarely be able to replace those processes entirely.
6. Build your technology stack incrementally and add greater complexity only when ready.'

ARI SEMERTZIDIS
Director, KPMG Australia
Business Lead, KPMG's Finance Hub

Underpinning all of this, however, as evidenced by the survey responses, is the importance of considering the utilisation of technology to drive operational efficiencies, mitigate risks and enhance portfolio returns.

In light of the survey findings, family offices should therefore consider the following:

Plan for future growth

As costs increase with growing AUM, proactive planning is essential, to minimise the potential impact on future returns and long-term performance. Steps to take include:

- projecting future technology needs and budgeting accordingly
- investing in scalable solutions that can grow with the office's needs
- implementing advanced software solutions that streamline operations and provide real-time insights
- integrating technology platforms to improve data management and decision-making processes.

Evaluate technology costs

Given that the responses to our survey suggest that technology costs for family offices are consistent with global benchmarks, it is important to review and optimise these expenditures.

Specifically, family offices should:

- take full account of the current costs of data aggregation and portfolio management reporting as a basis for understanding the potential benefits for the implementation of technology solutions
- analyse current technology spend to identify areas for cost reduction
- ensure technology investments are aligned with the strategic goals and growth plans of the family office across all relevant functions both insourced and outsourced – removing the impact of 'siloed' reactions.

Optimise fee structures

As the survey indicates a trend of decreasing basis point fees with increasing AUM, family offices should:

- review their fee structures to ensure they are competitive and reflective of the value provided
- consider tiered fee arrangements that provide economies of scale as AUM grows and understand the fee structures of software providers.

Acknowledgements

KPMG would like to acknowledge and thank the respondents to the survey that provided the data enabling the production of the report.

We are grateful to them for providing these insights and appreciate the time taken to do so.

Separately, KPMG would like to acknowledge the contributions of the following that helped in the publication of the report:

The Table Club, specifically James Burkitt, Charles Creswick, Will George and Jan Vencalek, who helped to develop the survey and sought the contributions from their member base that helped populate the report.

Shaun Parkin, founder of Hall Road Investments, who reviewed the data in conjunction with KPMG and provided feedback on the findings quoted in the report and his co-author, Peter Golovsky, of a white paper, *Family Office Technology – Ferrari vs Utility – Key Considerations for Asian Family Offices* published in March 2024.

About our contributors

THE TABLE CLUB

The Table Club is a private membership group founded in Australia, now representing over 1,800 family offices/HNWs across 10 geographies, with some of the world's oldest and largest family offices. The primary objective of The Table Club is to operate as an extension of each family it represents by facilitating networking opportunities, idea generation and co-investment opportunities on a global scale.

The most visible aspect of The Table Club is its family office/HNW events; educational sessions focused on investment themes and other relevant topics for HNWs. The Table Club held over 180 of these events in calendar year 2023. With physical presence in Australia, The Table Club has the capacity to work alongside families as a trusted adviser on a range of issues from deal origination to succession planning and advice.

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ETON SOLUTIONS

Eton Solutions is an ERP software (AtlasFive®) and services company based in Research Triangle Park, NC, USA, and with its international headquarters in Singapore focused on serving markets outside of the Americas. AtlasFive® reimagines each intricate process of a family office into one integrated platform that leverages cutting-edge AI technology to optimise efficiency, increase transparency, and maximise accuracy. Managing over US$936 billion on the platform that holistically aggregates and manages all liquid and alternative investment assets as well as family office data, reporting and workflow processes.

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