



# Reporting for duty

PAM's latest breakfast briefing looked at the challenges facing wealth advisors attempting to optimize their client reporting process, including increasingly complex portfolio structures, changing client demographics and difficulties in integrating technologies

BY STEPHANIE BARTUP

**A** recent study from advisor software company InvestEdge describes the client reporting procedure as the 'Achilles' heel' of many advisors – and as a panel of four experts dug into the trials of the process at PAM's breakfast briefing, it found that the fast-paced advisor industry isn't always able to meet clients' demands.

Tina Lorenz, vice president, product management, at InvestEdge, noted that the challenges relating to client reporting tend to grow as an advisor's assets under management increases. "If a firm is just starting out with two or three hundred million dollars under management, they're often using tools that are readily available and low cost, for example, Excel spread-

sheets," she said. "But as they grow, they realize that this manual method of reporting becomes a bigger expense and a drain on their resources."

As a firm evolves from small- to mid-size, or mid- to a large corporation, its reporting should ideally grow in tandem – but that isn't always the case. Laurie Hesketh, a director at financial services company Meradia Group, said that around 40% of Meradia Group's high-net-worth and institutional clients use PowerPoint presentations created manually to service bespoke client needs. "Standard report packages and performance systems are not sophisticated enough to meet the needs of sophisticated clients – and if the system doesn't support variability, then you're producing very time-consuming manual reports. This creates opportunities for operational risk because it is so easy

*Continued on page 18 ►*

to make a mistake when you're working in Excel." She added that outsourcing to specialized firms which have the expertise and systems to provide more detail is now "an interesting alternative."

### DEMOGRAPHIC DIFFICULTIES

As advisory firms scale up, their client base inevitably goes through a generational evolution – assets are transferred down, and younger generations become more involved in the selection and retention of advisor firms. Hesketh wondered what this trend will mean in terms of reporting expectations. "Do younger generations really care about paper reports?" she asked. "They want to know why they can't access investment information on their cell phones using fingerprints for authentication. Generation Y is pressing for more immediate, timely access to their investments. They don't want to wait a month or a quarter for a paper report to arrive at their house."

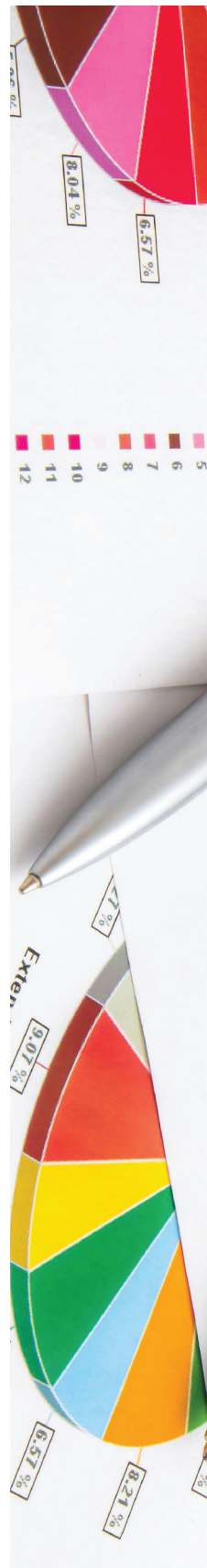
However, dealing with increasing demands from the next generation of ultra-high-net-worth individuals (UHNWIs) is not the only issue advisors are facing – as this demographic grows in size, wealth managers are having to be increasingly flexible with the reporting services they offer, to satisfy both their younger and their older, more traditional clients. "It's a challenging transition, in which wealth management firms are having to invest in new technology as well as support the paper-based clients; both clients and advisors are looking for options, and offering different methods of accessibility is key," said Lorenz.

This issue of who the advisor is creating the report for may not just be expounded across their client base, but also within the same family. When a report cites an entire family's investments, one member may wish to read through lengthy descriptions and stress tests, while another may simply want the bottom line.

As partner-in-charge of O'Connor Davies' family office services division, Gemma Leddy and her team aggregate clients' data for purposes including tax and estate planning, compliance, financial reporting, cash flow planning, budgeting and governance. She said that when beginning a relationship with a new client, one of the first things she asks is which family members and advisors will need access to the reports.

"We need to know exactly who will be deciphering information from the reports – both internal and external parties, to make sure the relevant information is being given," she said. "Often, a family's assets are held in multiple partnerships and trusts, and may be managed by several different investment managers. This creates more work in terms of tracking the information both by entity and beneficiary, and can complicate the reporting process."

With a standard report, as opposed to a customized one, clients will often request additions, supplementary information, and in some cases, for overly complex and irrelevant information to be taken away. "Advisors need to make sure that what they are



showing a client is of informational value," said Sam Won, founder of Global Risk Management Advisors. "In the case of a foundation which we work with, we create a report for the CIO, a report for the board, and a separate report for the individuals in charge of the other investment strategies, like private equity, for example. Their information needs are completely different, so each constituent involved in the investment process has their own report"

As with all areas of advice, one client's reporting needs will inevitably differ from the next – and Lorenz said she has seen reports running the gamut from a large package that covers all possible pieces of information, to what she said is one of the more popular summaries – a one-page 'quadrant' report. "This one-page report really captures the main information, such as asset allocation, market value, goals and targets, and returns versus the benchmark," she explained. "The trouble with a very basic report is that although clients don't want to be stifled with too much information, they often have questions about the context of the information; such as, what caused that return? Or, why did this return have a blip? Other reports are generally supportive of the initial one page."

### COMPLEX CASES

While advisors grapple with increasingly polarized needs and expectations, the portfolios of their clients have become more fragmented, made up of investments common in institutional portfolios a decade ago.

Won gave an example of one of his family office clients that has holdings including long-only equities and long-only fixed income, as well as an alternatives bucket filled with various investment types, such as private equity, real estate, hedge funds, real assets, and direct investments in coal mining and gold. "For that portfolio, a simple Excel sheet with NAV won't help the client understand the risk or performance drivers from their holdings," he said.

Given this complexity, the client would only get a full picture of their portfolio by including stress tests and scenario analysis for each holding, he said. However, he stressed that all of those reporting elements need to be part of something larger; governance, processes and controls. "Good reporting is about marrying it with good risk and investment management processes, controls and governance; those things have to link," said Won. "It doesn't matter whether the client can see the report on their mobile device if the information is irrelevant or a partial picture."

Leddy added that in her experience, ensuring that all aspects of a family's wealth are tracked in a customized reporting system is key, and said that many reporting systems fail to cover the entire wealth of the family. "Some neglect alternative investments, or real estate holdings, for example. Within a family office, there is often a family partnership which is owned by different family members. In this circumstance, individual reports to show exactly how their specific

## CLIENT REPORTING STUDY *Source: Family Wealth Alliance*

The Family Wealth Alliance's inaugural *Client Reporting Study*, released last year, revealed:

- 40% of participants are less than highly satisfied with their firm's client reporting. Multifamily offices express the greatest level of dissatisfaction and single-family offices the least.
- Another four in 10 cite specific client-reporting improvements they want to make but have been unable to. Typical barriers to upgrading include legacy technology systems that are costly to modernize, as well as the complexity of some enhancements such as after-tax reporting or delivery of client reports on mobile electronic devices.
- External CIO firms were most likely to say reporting services were very important to their clients (94%) and that such importance has increased in the last two years or so (76%).
- The most-offered high-end service was tax reporting, by 85% of single-family offices and 64% of multifamily offices, though only 29% of external CIOs provide it.

*A total of 76 firms participated in the Family Wealth Alliance study, which was conducted in 2013. They include 45 multifamily offices, 18 firms offering external chief investment officer services to families, and 13 single-family offices. Participating firms have more than \$500bn under advisement.*

investments are affected, is the only way that each family member has a true picture of their holdings.”

She added that from a family office's perspective, it can be frustrating when reporting systems are poorly integrated and merely 'glued together.' "Reporting system capabilities have advanced in the last two years to enable better integration of multiple reporting functions. This allows a family to capture and track their information in one place which improves the client experience," she said. "It isn't really a question of whether a family is being given 'too much' reporting information, it's whether that information is useful and captured in a meaningful way."

This fundamental quest to provide the necessary information, said Won, is more challenging for advisors because there is a dearth of systems that can competently aggregate all of the necessary data for clients. "There are risk management systems, CRM, portfolio management, order management systems – and all of them require specialist know-how to implement and maintain. You cannot just drop off some software with a family and expect them to figure it out. If the software is robust, they'll need staff or an advisor with the relevant subject matter experience to help them manage, compute and interpret the information."

Leddy added that she gets more inquiries relating to outsourcing the reporting process, and said that family offices generally don't want to hire a specialist in-house to run these complex and costly systems. "They don't want to deal with security issues, and deal with the aftermath of staff turnover when the specialist's knowledge leaves the office," she explained.

### DEMANDING TRANSPARENCY

Reports offered to clients have, for the most part, changed dramatically since the 2008 financial crisis. Prior to this, many experts agree, hedge fund clients would commonly be handed pages of market commentary, often undecipherable to the average – and

very busy – client. "In the past few years, the receiving side – for example, a family office – has really raised their expectations of the reports they are being given," said Won. "For family offices and their advisors, the thing to be conscious of is that information is going through a proliferation, and so it's just a matter of time before people start demanding it. Not just as best practice – but as a non-negotiable. Clients will take their business elsewhere if not offered."

Won added that in the past six or seven years, the regulatory environment has changed in the aftermath of the financial crisis, meaning that clients should be handed much more transparent reports from their asset managers, clearly detailing their investment returns, risk drivers, tax ramifications, and fees. "There are so many reporting acronyms for advisors to get to grips with; in the hedge fund industry alone, there are forms ADV and PF, for example, demanding they disclose investment risk profile information they never had to previously. The whole industry is going through this realization, as everyone is now caught in this web of reporting; there is more transparency and more information than ever before."

Hesketh said that a report should contain, at the very least, details of performance return, net of all fees – and fees should be transparent. "I also want to see some basic measures of risk – upside and downside – which show likely performance in both good and bad markets," she said. "Basic measures should all be able to fit on one page. Many client reporting packages are bulky but don't answer the most basic questions."

Looking forward, the panelists agreed that expectations from clients – in terms of quality, speed, ease of accessibility and understanding – are only set to grow. "Clients are seeing new technologies and are demanding access to them – and they have a right to demand that," said Won. "If advisors want to keep these people as clients, they have a vested interest in having the best reporting capabilities, providing meaningful reports that give investors adequate risk and performance details."

A sense of immediacy in discovering return prospects, market conditions and consequences is very real, but although day market value reports can be generated through client portals, Lorenz issued a caution about constantly checking an investment's performance: "I'd advise an investor to be careful about obsessively checking performance; during a temporary market downturn, you might panic or make a bad decision over a move that you'd never have known occurred a week, or a month later. It's important to understand the information in context."

Hesketh said that today's clients would like to see some daily information. "Reporting will continue to evolve as people get more comfortable receiving information on mobile devices," she said. "Clients are expecting custom information which meets their individual needs, and they expect us to have the tools behind the scenes to adapt." ■

