GRAVITY® SOFTWARE

HOW TO EMBRACE INNOVATION TO CREATE SUSTAINABLE GROWTH FOR YOUR MULTI-ENTITY FAMILY OFFICE

Managing a family office is exciting and rewarding in many ways. Family office executives have the opportunity to see the direct impact of each investment on a a family's legacy, fostering the growth and preservation of wealth for generations to come.

They're also part of a rapidly accelerating industry.

In the past decade, the wealth management industry has seen a 10-fold increase in growth, according to Pavilion Global Markets.

There are currently over 7,300 family offices worldwide, a 38% increase in just the past two years, according to Mordor Intelligence.

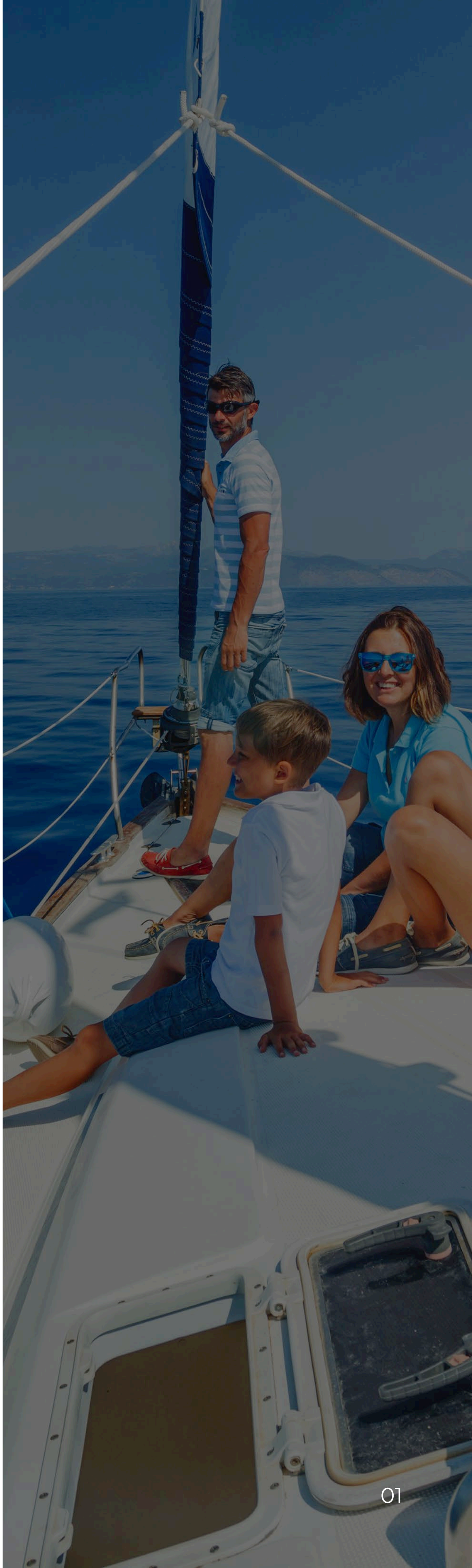
Family offices currently manage over $4 trillion in wealth — and that wealth is more distributed than ever before. These portfolios are also becoming more diversified.

As family offices expand to include multiple individuals, companies, properties and private equity investments, wealthy families expect more from their advisors and managers than ever before.

At the same time, a desire to protect the wealth families have accumulated can make them somewhat reluctant to embrace change.

As a trusted advisor, you're in a unique position to understand the challenges and help your family office adopt innovative technologies, strategies, and processes.

Here's a closer look at the unique challenges family offices face today, how technology can help you overcome them and how to make the business case for digital transformation.



5 key challenges facing family offices

Managing more diverse investments

While family offices have historically invested in hedge funds, private equity and other avenues that require less direct management, research shows they are seeking more active investments that align with their values and interests.

Many start off by investing in venture funds and then make direct investments. A report by Campden Wealth and SVB Capital, published by the Gilmartin Group, found the average family office held 46% of its venture portfolio in funds and 54% in direct investments, at an average of $4.5 million per deal.

Family offices are becoming more interested in companies that support environmental and social causes, with 47% making ESG investments.

They are also seeking private equity opportunities, with 83% adding these investments to their portfolio.

Managing multiple companies

At the same time, many family offices are managing multiple companies of their own. These companies often cross a variety of industries, including healthcare, hospitality, consumer goods and software.

They may be doing business on a global scale, at many different locations and with multiple currencies.

To properly advise them on the best direction for each one, family office accounting and management teams need real-time insight into the performance of each at a granular level and as a whole. They need business intelligence that helps them see a breakdown of revenue and expenses, as well as other factors such as assets, labor and inventory.

Communicating with multiple stakeholders

Most family offices have multiple family members who have ownership over different assets or investments. They want real-time insights into the performance of each one. This can be difficult if your family office doesn't have an easy way to maintain separation between entities and report on them in a single dashboard

Attracting, training and retaining talent in a hybrid environment

Family offices can range from having a few people on staff to dozens in each department. While turnover tends to be lower compared to other industries, family offices are not immune to economic factors, including labor shortages.

The latest PwC survey found 65% of employees are looking for a new job, and quit rates are at historic highs.

Workforce expectations have also changed following the pandemic. Now, nearly 80% of employees expect to work remotely at least one day a week, with almost 20% of them preferring to be entirely remote.

> *So much of what we thought we knew has been turned on its head," said Jim Coutre in FFI Practitioner, a publication of the Family Firm Institute. "Within the office, we thought we knew how things needed to be run, where people needed to work, and what approaches would surely result in doom. Within the family, we thought we knew what we needed an office for, how it had to be staffed, and what overarching vision of success it was supporting. The post-pandemic family will of course still have legal, tax, investing, and reporting needs. But is there anything they've learned about themselves that might also suggest new or different ways the office could support the family?"*

Coutre said he's seeing more family offices re-evaluate the role of a physical office and look beyond geographic boundaries to find top talent.

To give employees the flexibility they've come to expect, family offices need to have the right technology and processes in place — including secure, cloud-based software employees can access anywhere.

They also need more efficient knowledge transfer so they can withstand some inevitable turnover. For this reason, 48% of employers who responded to the PwC survey said they were updating their processes to become less dependent on institutional knowledge.

Investing in digital technology and skills is a key part of keeping current employees engaged and attracting new ones.

Another PwC survey that focused specifically on family offices found 80% use technology to improve efficiency, collaboration and decision-making across their business and 65% are investing in training their employees to make better use of technology.

Managing cybersecurity

A recent survey of 200 family office executives found over a quarter of them experienced a cyberattack — and most took place within the past year.

The report cites an underestimation of threats and a “culture of complacency” as two reasons family offices are especially vulnerable.

With an increase in remote work, online transactions and ransomware attacks, cybersecurity has become the top concern for global family offices, according to a Family Office Benchmarking Survey by Northern Trust.

One of the most common threats for family offices is email phishing scams, which prompt an individual to click a link or open a document to allow a cybercriminal to gain access to the email system. From there, they can steal valuable data, send fraudulent emails or wire transfers and even prevent office managers or accountants from gaining access to files to disrupt operations.

Family office managers should hire a dedicated IT manager or team if they don’t already have one to ensure they are following best practices, including:

- Securing physical offices and networks
- Encrypting data to render it unusable to attackers
- Implementing “Zero Trust” access control, which includes multi-factor authentication for individual users and devices
- Educating employees and family members about cybersecurity risks and how to protect the business, including working on secure wireless networks and reporting suspicious emails
- Routinely testing existing cybersecurity protections
- Developing a plan to respond to a cyberattack and ensure the office can recover data quickly

Vetting your technology vendors is another critical component of cybersecurity. Nearly 60% of organizations have experienced a breach from a third-party provider. Any vendor you choose should have a detailed security policy for protecting their systems and data from unauthorized use.

The cost of legacy systems and processes

Although the business climate family offices operate within is evolving faster than it ever has at any time in history, family office leadership can be slower to recognize the need for change. This can create inefficiencies, multi-generational conflict, and increased security risks.

Consider a family office that relies entirely on paper checks to manage employee and vendor payments and investments. If one employee needs to personally sign every check, it could take several weeks to process those payments — especially if that single point of contact is out of town or unavailable.

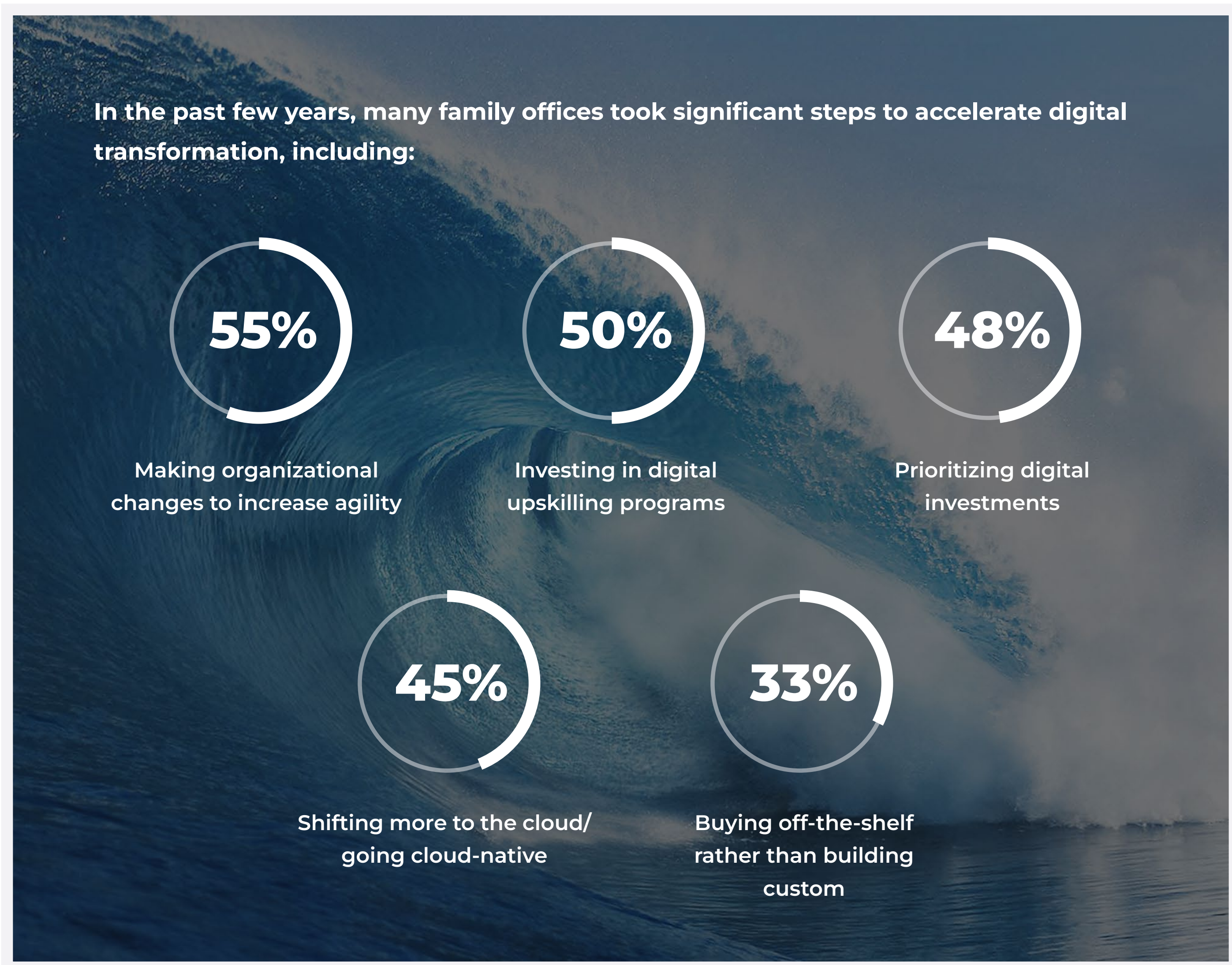
This keeps family offices from seizing attractive investment opportunities as they arise or reconciling revenue to create timely, accurate financial reports.

It also severely limits succession planning. When expertise in managing accounting, investments, taxes, and other daily operations remain with just a few individuals, the challenge of finding suitable replacements becomes even more difficult when the inevitable need for succession arises.

According to Accenture, 68% of CFOs say they need real-time financial processes to prepare for the future, but only 16% have them in place.

Benefits of new technology

To remain relevant, the wealth management industry must meet the expectations of this newer generation, especially in terms of digital solutions and services." (The Family Office)



Source: 2021 Middle Market Digital Transformation Survey, the Family Office Exchange

While nearly one-third of family offices believe embracing new technology is their most pressing challenge, as the Deloitte National Family Office Forum found in a recent survey, it has the potential to transform many family office challenges into opportunities.

31% Enhancing the office operations through process or technology changes

28% Understanding the true expectations of the family

23% Attracting, retaining, and motivating the right talent

8% Managing the investment returns and opportunities the family wants to pursue

5% Other

3% Enhancing the security of confidential information

2% Preparing for potential economic and political changes impacting the family financial position

This is especially true as artificial intelligence has entered the picture.

Some family offices have begun introducing AI to help develop personalized financial plans, analyze data, and even create initial drafts of standard documents.

“AI can play a role in supporting advisors by relieving them of other tasks, enabling them to prioritize and devote more time to client interaction,” said Scott Lamont, director of Consulting Services for F2 Strategy, in a recent article. “For example, there are AI tools that can put together a quarterly performance review much faster than an advisor can, offering analysis based on performance return data combined with market data

By implementing solutions that improve processes, enable more flexible ways of working and give family members deeper insight into the performance of their investments and the impact of other economic factors on those positions, family office executives can bring even more value to the people they serve.

Here are just a few examples.

Improving processes

As family offices grow to include multiple entities, the number of routine tasks grows exponentially. Keeping up with billing, invoices and monthly reporting for one or two businesses is manageable for a single accountant, but maintaining the same processes for 30 different entities can be overwhelming.

Family offices may need to hire additional employees to keep up with these routine tasks. This adds costs without contributing significant value. In addition, manual processes introduce more opportunity for error.

Picture an accountant receiving a bill that applies to all 30 entities within a family office. While manually transferring the information across each entity, someone interrupts them, causing them to overlook entering the data in several places. This results in the incorrect distribution of revenue and an inaccurate financial statement.

By investing in technology that automates manual processes, family offices can save time and money while improving the quality of their work.

Enabling transparency

Using paper-based processes or outdated software only a few people can access makes it difficult to maintain transparency among all members of the family.

If a family office has several individuals who own dozens of companies, each one could have a different ownership structure, ledger and accounting period. Additionally, individual stakeholders may require unique monthly statements tailored to their specific investments, differing from those of other family members.

Simplifying investment management

In addition to the companies a family office owns, many members also have a mix of investments in other private companies.

They want to track the performance of each and make adjustments accordingly. Utilizing the right technology significantly streamlines the process of identifying new investment opportunities while providing comprehensive visibility into their performance.

Yet 77% of family office members still rely primarily on their peers to generate investment ideas, according to the Fidelity Family Office Investment Survey.

Identifying growth opportunities

The average cost of running a family office is about 1% of the total assets under management, according to family office consultant Francois Botha. That means a family office managing $50 million in wealth could easily spend $500,000 or more on salaries, fees and other services.

Without the right data, family offices could miss opportunities to reduce some of these costs and further build wealth.

Many family offices may not realize how much they're spending on office space, staffing, investment fees and other costs. They may also lack insight into the day-to-day operations of the businesses they own.

Business intelligence solutions can help them identify new ways to sustain and grow wealth by answering critical questions, such as:

- Which entities have experienced the most growth in the past year?
- Which ones have experienced the slowest growth?
- Which investments have had the highest returns?
- Which holdings have the least returns?
- What percentage of the family office's total expenses goes to office real estate? Salaries and benefits? Software and IT support? Payments to other vendors?

With this information readily available, it's easier to make decisions that improve the bottom line, such as consolidating underutilized office space or divesting underperforming investments.

What technologies should you consider?

While every family office operates differently, it's important to take a holistic view of the technology you need to support critical functions in a digital environment.

That includes solutions for:

- Advanced Financial Reporting
- AP Automation
- Business Intelligence
- Investment Management
- Multi-Currency
- Multi-Entity Accounting

How to evaluate new technology

Recognizing the importance of investing in technology is a given, but navigating through the multitude of solutions can be challenging. The abundance of choices, all seemingly similar at first glance, adds an extra layer of complexity to finding the right solutions.

As you evaluate your options, here are some important factors to consider.

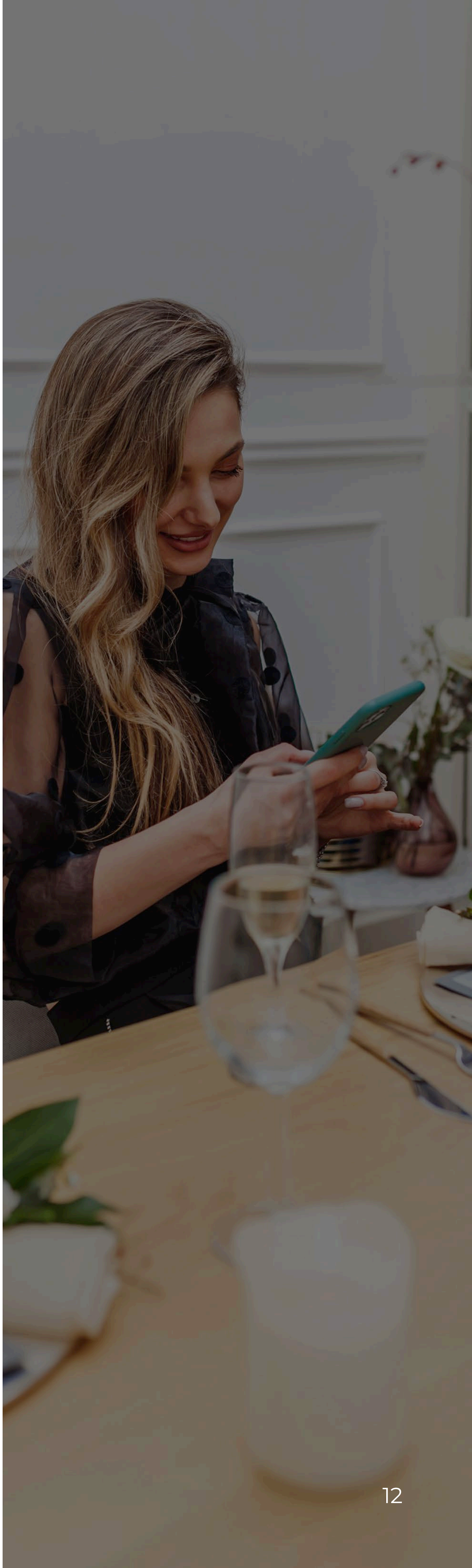
Ease of implementation

Software that is installed on physical servers typically requires a larger upfront capital investment and a dedicated IT team to maintain and update it. Cloud-based solutions are easier to implement and maintain because the provider covers all data hosting, maintenance and upgrades. These costs are included in your monthly or annual subscription fee.

The cloud software market is expected to grow at a compound annual growth rate of 17.5% by 2025, reaching over $832 billion worldwide.

Ease of use

While it's important to find technology with all the features you need, some solutions are so comprehensive they can be difficult to navigate. A single menu could have hundreds of features. Some solutions also make it difficult to create personalized workflows designed for the way your family office operates. You should be able to easily add fields and create workflows to simplify complex processes without needing a developer.



A complete audit trail

In a family office, one irresponsible individual could put the entire family's legacy at risk. In one highly publicized case, a family office capital management firm reportedly lost $8 billion in 10 days after trading security-based swaps. There could also be broader legal repercussions if a family member's bad decisions involve criminal activity.

Additionally, family offices could face new reporting requirements if the SEC tightens regulations, such eliminating the family office registration rule exemption.

That's why it's critical to have a full audit trail that includes a summary of all financial changes with user entries and time and date stamps.

Integrates well with other solutions

To maximize efficiency, your technology solutions should build upon each other. The solution you use for accounting, for instance, should connect seamlessly with the solution you use to manage investments, gather business intelligence, and create financial reports.

Best-in-class security

To mitigate cybersecurity risks, you need software solutions that use best-in-class security standards, including data encryption, data backups, virus protection and multi-factor authentication to validate each user and device.

Any vendor you choose should have documented security policies and conduct regular audits of its own security protections.

Scalability

Any solution you choose needs to not only meet your current needs, but also be equipped to seamlessly support your family office, encompassing multiple companies, multiple currencies, and an increasing number of users as it grows.

This is especially critical when it comes to accounting. Many solutions are designed to handle operations for a single business, not multiple entities sharing a single chart of accounts. While these solutions may seem like the easiest, most affordable option at first, they won't save you time if you constantly need to copy and paste the same information across dozens of different entities or manually enter data into a single, consolidated report.

Why family offices trust Gravity Software to maintain and grow their wealth

Gravity's cloud-based, multi-entity accounting software makes it easy to manage transactions, approvals and reporting for multiple companies within a single system. Family offices can monitor performance for the entire organization at a glance or provide personalized financial statements to specific individuals.

Managing approvals is as easy as setting up automated workflows for specific companies, individuals, dollar amounts or transactions.

Built on the Microsoft Power Platform, Gravity meets the highest standards of security with predefined user roles, a complete audit trail and superior data protection.

Family office accountants can maintain a separate ledger for each entity while keeping all financial and vendor data within the same chart of accounts. Individual family members can also manage different types of investments in a separate subledger that makes it easy to track purchases, sales, gains and losses.

Gravity also uses the latest AI technology to improve efficiency for standard processes, such as accounts payable. It uses Microsoft Cognitive Services to extra data from invoices and create vouchers, significantly reducing data entry while improving accuracy.

To keep up with the challenges of the digital world and bridge generational gaps, family offices need to invest in innovative technology solutions that enable greater efficiency and transparency.

See why more family offices trust Gravity to protect and grow their wealth.

Just Say GO!
GoGravity.com

SCHEDULE A DEMO