

Matt Fleissig – Creating Value through Diversity and Innovation, Part I

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In this podcast, Matt Fleissig, CEO of Pathstone, and Mark Wickersham discuss how Pathstone adds value to its clients and how it differentiates itself from its competitors. Their focus on technology, diversity, and innovative technology for family offices helps the Pathstone team offer the best customer experience possible, and these elements are the keys to Pathstone's success.

Interview Transcript:

Mark:

Maybe we could kind of kick off, maybe you could just tell us a little bit about Pathstone and your role at Pathstone.

Matt:

Yeah, yeah. No, no, first, thanks for having us. We're super excited. I'm the president of Pathstone, and if you think about our history, Mark, Datafaction and City National's history and Pathstone are actually closely tied together. And I think when we had our firm's 10 year anniversary, I think that we had the 10 year anniversary of our relationship, which was this year. So certainly a great place to get started.

Mark:

I think this conversation's going to be really insightful. But Matt, tell me a little bit about Pathstone, especially, what makes Pathstone unique?

Matt:

So we like to consider us a single family office for multiple families. And I'd like to think that Pathstone is really a firm that you won't see anywhere else, where we do everything. I like to think that we don't say no for a living and that's really one of the tenets of what we do. And we effectively have a 10 page matrix of services of just stuff that we can do. And the idea behind the business model is that it's completely unbundled. So it's not a basis point, it's not a retainer, it's some combination of what makes sense in the right client situation. And so if someone is looking for accounting and someone is looking for taxes and someone is looking for investments or aggregated reporting, we can completely unbundle that and charge what a client needs. And I think the problem with the industry that you see, is that it's traditionally been a basis point game.



And so when you think about that, it's like, "I'm going to charge you basis points for investment management and please don't call for estate planning and please don't use our accounting because our margins drop." And I think the difference of what we've done is by thinking about our clients and catering towards the family office world, is that we actually can provide what a family wants and what a family needs. And having that deep bench in accounting, tax, investments, estate planning, aircraft management, household payroll. I joke that we'll do everything, but walk the dog. We will background check the dog walker and put them on payroll, but we won't actually walk the dog. And so really this incredibly large scope of services has been this differentiator for Pathstone since we started the business.

Mark:

I'm glad you brought up the pricing. It does seem like the industry, in terms of how the industry traditionally prices, is a bit broken. And I dabble in pricing, especially from a technology side and there's kind of three tenets on pricing. Pricing should be tied to value, pricing should be easy to understand and pricing should be predictable. And it's like when you look at AUM, BPS on AUM, it's really none of those, right?

Matt:

No, no. I think that's the older version of... You're seeing this word now thrown around, MFO or multi-family office, and anyone who has a pulse and is doing investments now calls themselves a multi-family office. And the reality is I actually think there's very few multi-family offices out there that are really providing this level of services.

Mark:

It does seem like it is like that catchphrase, everybody wants to be that wealth manager or multi-family office. And while they may want to be that, they may want to service clients. Who wouldn't want to service an client, are they capable of servicing a client like that, is the question, right?

Matt:

Yeah, well said.

Mark:

So tell me, innovation and diversity are really two key things that you're passionate about are two keystone within Pathstone. Before we get into the innovation piece, which I definitely want to dive into with you, tell me about diversity. What does diversity mean to you and why is it so important at Pathstone?



Matt:

Yeah, I mean think it's just been something that's been in our foundation is about finding the best people out there to do the best job. And you can look at statistics and all these other various things, but the reality is I think what Pathstone has done a great job at is being able to find diverse, interesting people to serve our very interesting clients. And it isn't a one size fits all. I think it even goes back to where our people are located. A lot of people ask us around, "Why do you have 11 offices? And is it that there was this specific vision that you wanted to be in Boston or DC and these other areas?" And the reality of it is it's really where our talented people are. And so it just so happens that Kelly, who's our chief advisory officer is in Boston and Alan, who's our Co-CEO is in Atlanta. And when clients come in, a lot of what we try and do is match what their needs are with the very diverse group of people that we have throughout the country. So it's almost a reverse, it's been almost a reverse strategy of office location is based on talent than it is office location on demographics of potentially clients.

Mark:

It seems like you're definitely ahead of a curve on that. I think more firms with the pandemic are going to be unshackled from where the talent is location wise and remote work, while it's certainly more acceptable, I think there's going to be a massive acceleration in that. I do think that that is a really great marriage that single family offices partnering with multifamily offices, you look at the breadth and depth of services that a single family office has to offer and the staff and the resources they have. They're obviously limited. So that partnership makes a lot of sense. But how do you add value to single family offices? And what do you see in terms of single family offices in terms of this? Why is there so much a lack of modernization around technology with those firms?

Matt:

Yeah, I mean as we look at it, I do smile when you see it, but the reality is that the amount of business there has not really demanded something to be developed that was to handle this for everybody. So I think it's really been a lack of just quantity that we've seen that's out there, which has been the benefit of, I think of what we've been building. When you look at the family offices, the trends that we see is that typically you're seeing the patriarchs of the single family office may be aging. The staff of those single family offices are typically the same ages as the patriarchs. And you either have gen two coming in thinking about what to do with this family office. And a lot of the times, and this is where it's incredible, is a lot of times these families are in Excel and they're in Microsoft Excel, things are being typed in, private equity cap calls, distributions.

They're being... We've seen some really neat spreadsheets where we're seeing where modified Dietz is being put in Excel spreadsheets and you're seeing really advanced things there, but it's not scalable and it doesn't work for the next gen. It's probably not



working for the current generation. And when Pathstone's able to come in and show infrastructure where we're able, and also on top of just how you're recording it, you have it's around approval rights. A lot of the times you're seeing the staff in a single family office signing checks without checks and balances and executing trades without a reconciliation process. And so where Pathstone's success has come in the single family office space is really where we're able to come in and all of a sudden you can have your single family office staff, Pathstone's not trying to replace anybody, but we're able to come in and add infrastructure where we can provide systems where people can place trades, they can place wires, they can do bill pay and they have reconciliation, they have rules, they have approval rights, you name it.

And that sometimes we even provide access to our investment platform or are doing the investments on top of this and third party aggregate reporting. And I'll tell you, when we are showing families that are Excel based, what we've developed it's literally they think we've invented fire. And it's been an incredible growth story. If you look in SEPs from 2017, 2018 and 2019, Pathstone went from about 10 to 16 billion organically, really from this space of large single family offices joining Pathstone, us adding infrastructure and providing this very wide breadth scope of services that they know that it can expand over time.

Mark:

Yeah, it seems like a great marriage. I mean they're able to get that infrastructure yet keep the relationships with those key personnel within that single family office that they trust and have known for so long. And I mean, too many family offices that Excel and QuickBooks abuse that goes on is almost criminal neglect. And Excel has no auditability. Studies have shown that almost every Excel spreadsheet has some sort of significant error in it. You're copying over a calculation or maybe you calculate over data instead of a calculation and next thing know, your performance return you think was 10% every year is actually 1%.

Matt:

Hopefully not.

Mark:

What is one thing that people should know about Datafaction that they might not know about?

Matt:

Yeah, I think, and we've been talking to Brian about this for years and I've mentioned it to Verna, I know that in the business manager world that you guys have a phenomenal presence and a true value add. And the business managers that we work with, it's always a commonality, which is fantastic. But I think the family office business is a place



we'd love to see you expand. We love what you do with Pathstone. But I would say that that is an area that I think people, once they see what you can do and what it can do for the business, I'd love to see you guys expand there. And then obviously, in a selfish way, continue to spend more money in the development on the family office focus in addition to the business managers. But to me that's an area... That's a blue sky for AgilLink and Datafaction and would love to see increased exposure there.

Mark:

Yeah, a hundred percent agree. I mean, it's the reason why I'm at Datafaction, I know from the family office background and what attracted me to Datafaction was that they had this kind of rich heritage, this pedigree and solving this really hard problem around multi-client bill pay for ultra-high-net-worth individuals that business managers are doing. But that problem obviously exists within the family office space and that we can take that pedigree, we can take that deep institutional knowledge and transfer it over to the family wealth space. Obviously the roadmap needs to be adjusted, but that core functionality, that core problem we solve on the business manager side certainly applies to the family as well side. And I'm excited about our opportunity there. I think it is a blue ocean opportunity for Datafaction. When you look at the marketplace and in terms of just a small business, not industry specific solutions around that problem that I think we can offer a lot of value. Tell me bill payment, obviously you guys have been doing it for a long time, but it does seem like it is becoming more in vogue in the family well side. Why is that, and what are some of the benefits that you get by offering bill payment to your clients?

Matt:

We've done it from the start. So part of when a large family comes to us and they have five homes, mail is coming to five homes, we've always had this service where we're able to aggregate your mail, sort the mail, send back personal things and handle. But I think the reason you're seeing it in vogue is this, and I receive a lot of phone calls on this from other industry participants, is I think you're seeing folks trying to add services. And because the regular investment management business you're seeing has been somewhat commoditized. And so if creating setting up ETFs or active managers and fixed income is commoditized, what else can we do to attract or retain clients? And a lot of times people look to do services. But unless you're really committed to building that, it becomes hard to do. And so I think something that you are seeing is essentially is bill pay is something that's introduced.

So you're seeing other players, obviously, I'm not going to start naming your competitors like bill.com and others that you're seeing pop up, but how are you going to do it with the right approval rights? How are you going to set up, how are you going to staff to do that? It's a different level of a commitment that you have to do to and what type of professionals do you have? And I'm very proud that if you look at the accounting



team at Pathstone, it's a qualified polished group that really knows how to handle this. So I think it's one of the areas that you're just seeing expanded services come throughout the industry, but if you're going to do it, it's really commitment to staffing it. And I think that you guys have created a platform that helps us go from there, but it is a bigger commitment than just saying, "We're going to do bill pay."

Mark:

Yeah. Yeah. I think a lot of firms really kind of struggle with it. We call it.. They get into bill accidental bill payment, do it for a couple clients, and how they do it for those couple clients may work with Excel and some of the other products out there, but then when they try to scale that offering, they find out that it doesn't work. What are some of the common mistakes that you see firms make when they try to offer bill pay?

Matt:

The biggest one we see, and this is just from on the M&A side of us trying to find like-minded partners, is the most common thing we see is where accounts are set up and essentially the advisory firm is essentially going into the client's JP accounts or their Fidelity accounts and trying to pay the bills through online bill pay systems that you see at various custodians or banks. And that is something, when we see it, I will tell you, we cringe. I do think there's a separate compliance issue when you see that as what, but approvals, who you signing in as? Are you signing in as the client, which you really shouldn't be doing. That is the most common thing I'd say we've seen. I know it sounds surprising when you see it, is that that is something that happens and then a lot of times you see where people are trying to cut a lot of checks or pay bills from brokerage accounts. And that's also very difficult. And it's why I think what we've done is we've separated from a reporting standpoint, you can send a wire from anywhere and it shows up properly in the accounting system, but we tend to create with City National Bank, operating accounts that the clients don't use. And obviously your Fidelity, your Pershings, your Schwab accounts, those are your investment accounts.

So this, I'd say the thing we have not seen, which I think we've done effectively is create this bifurcation of investment in operating accounts and then even on the operating account sides, we'll open pocket accounts for clients or they'll keep their own accounts for themselves, but not to commingle personal banking with operating and bill pay accounts. We've seen that issue. There's ways we've gone around it by maybe making checks, a couple thousand checks away from the ones that we're sending, but really trying to bifurcate investment and operating accounts then having this operating account solely for your bill pay transactions.

Mark:

Yeah, I think that's great advice. Having that segregated operating account that you can have control over, how much cash it's going to be in there when you're paying those



bills would be definitely be one. Tell me a little bit about family offices overreliance on checks and how they feel. I feel like there's this illusion of control around checks and they sign it every Friday. And tell me a little bit about how you see checks and where that kind of falls down.

Matt:

I mean, in the early days of Pathstone, there were a lot of checks floating around. Even in the early days, we even used to more commonly say that we'll do bill pay from whichever account you have and something that, this is again, Datafaction... Not to not compare it to the Quicken days when I remember sitting with my father when he was doing bills and it was on the dot matrix printer printing out the checks with the tabs on both sides. But we used to cut checks from whether it was Bank America, wherever it was with the right routing numbers. But by centralizing all of our banking through City National, we've pretty much, I'd say we're very, very, very few checks being cut at this point. A lot of it is EPAY or ACH or wires, and even when we have to do a check, we try and find ways around it. Relying on mail is not always the best idea. Checks can get lost. So we have gone, there's been a steady scale of check reliance, almost no check reliance as we stand today with the amount of EPAY that has been set up.

Mark:

And then obviously the pandemic's changed so many people's lives and it has been a difficult process for so many people, but there has also been some pleasant surprises in terms of being home with the family. Is there maybe a pleasant surprise seen here?

Matt:

I mean, there's a lot, there's bad things going on and it's serious and health, but you've seen some positives and I think you've seen even our client base. I think one of the most uplifting things I've seen was that there was a family that had a factory that was more in the construction space... Doors, windows for new construction in homes and early on into credit and the network and credit with the network that he had with YPO, he actually converted the factory from doors and windows to essentially making PPE. And we connected through the Pathstone network. This is where it was just incredible. We were able to connect as he was looking to pivot the factory. We had clients in the medical device community and also in a couple different related industries. And we actually connected a number of clients together that then connected to a number of hospital systems together. And so not only did you have production of PPE that we were able to help facilitate, we also had a hundred people in a factory that were probably going to lose their jobs that staffed up to two or 300 people.

So there was, yes, there's the family stuff, there's the business side, but there were some pretty unique special things that I think people did when they rallied together. And it was neat seeing the Pathstone client-base come together from medical device



professionals to connections in the hospital systems to connections in some of our factories that we have to help do some good during a very challenging and tough time.

Mark:

I love that. Hopefully one of the things that stays post-pandemic is this kind of resiliency that people have created, this adaptability that people have and that skill gets held onto and that we don't lose it too fast. Matt, this has been a pleasure. Really had a lot of fun with this conversation. Thank you so much for taking the time today.

Matt:

Thanks, Mark. We're huge fans of what you guys do. Keep doing what you're doing and look forward to what we can build together in the future.

Mark:

Awesome.

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