

Matt Fleissig, Pathstone – Big Ideas and the Holy Grail, Part II

This transcript is from an [interview with Matt Fleissig](#), first published on August 2nd, 2022.

In this podcast, Matt Fleissig, CEO of Pathstone, and Mark Wickersham of AgilLink, discuss how Pathstone became successful, and specifically, how it develops and deploys technology to achieve its goals. Pathstone, The Modern Family Office™ is a wealth management firm with over \$22B in assets under management. The use of innovative technology in family offices helps the Pathstone team deliver the best customer experience possible — but it's not only technology that's responsible for Pathstone's success. The strategy behind the platform has deep roots, and Matt Fleissig discusses the logic behind key decisions involved in building this wildly successful company.

Interview Transcript:

Mark:

All right, Matt, I'm excited to have you on the show. Been looking forward to this conversation for a while now.

Let's talk about the innovation side for a little bit. I know technology is one of those things that you have a passion about. A self-described technology geek, as I would fall into that camp as well. Obviously, the tagline with Pathstone is the modern family office. Tell me about why technology's so important to Pathstone.

Matt:

To us, it's everything about scale and automation and what people can do. So you think about when we started the business, 10 years ago we were at \$1.4 to \$1.5 billion. As we stand today, we're somewhere between \$22 and \$23 billion. We like to say that we were living in the house while we were building it in the early stages.

A lot of it was out of necessity, because in the first couple of years we went from \$1.4 to \$1.5 to \$4 billion in a short period of time. As we were looking to grow and as we were bringing on more advisors, how do you handle that amount of clients? The only way to do it was through automation and scale on things that were traditionally done in a manual process, and it was some out of necessity.

I know, Mark, that you said that self-described technology geek. This is normally a secret, but I do have a computer science background and we have some incredible people around us including our CTO and our head of operations, and we really made this, I'll say, decision of do you build or do you buy? We think we found a marriage of the two of them together.

One of the reasons we've had such a successful relationship is because we may have developers in-house, and we can get into that a little bit later, but there's no way we're going to create a better multi-client bill pay and GL system like you have, there's no way we're going to be able to try and create a CRM like Salesforce. So, what we've chosen into this route in between all of these things was to essentially data warehouse all the data in between and then connect the systems. So, I think that's what's been unique.

I know we have mutual partners with our friends at Risclarity that have helped us to do many of those things, but to us, it's really been how do we increase capacity? I think where we've had proof points on it is as firms have joined us, advisors we've seen who have been managing let's say \$2 million of revenue. That's about all that they can do, because they're looking for tax lots and different trading things and opening accounts. With adding scale and automation, we've been able to have advisors manage more like five or \$6 million of revenue.

So that to me is where it's, one, was out of necessity, but the other part was the fact that the industry has yet to create tools and software to be able to do this. How do we do this, how do we scale and then how do we grow? That's been the mission and the plan.

Mark:

Yeah, I mean, we talked a little bit about this, is that terminal velocity at so many firms, those multi-family offices, they get stuck at that \$1 billion, some breakthrough to that \$5 billion, and that seems to be about it and they can't seem to grow. So, your feeling is that technology and automation is really that key to unlocking that next step in growth?

Matt:

If you have to make this decision ... I remember when we were at the size that we were at, and yes, I will admit we were building things in Excel with Visual Basic and providing automation in that way, but you eventually have to take this leap from trying to do that in-house to how do you build professional scalable software? How do you build the operations team to handle that? How do you insert the systems to do that?

It requires capital. Not just capital, it requires idea flow. As the firm gets bigger, it's even more so where how are you investing the same way for your clients? How are you providing the same services, the same tax services, same accounting services? So where that becomes bigger, again, is how do you build that?

Innovation is one of the core cultures, automation is an obsession at the firm, and so I do think we had the right tools in place, but to make that jump for someone to continue to grow past when they hit that couple billion dollar mark is not just an investment. You need to have the capital to make these investments in these tools, but you also need the idea flow and the know-how of how to do it. I think we've had that unique combination of those things, so again, building it in-house, and then getting to a point where we then partnered with the right developers.

We have two Salesforce developers in-house, we have I'd say one and a half database developers in-house, and then we also work with a firm, old friends of ours from My



CFO and I know friends of yours, Rick Higgins and Carl Knecht from Risclarity. How do you create that combination of inside and outside developers to create something that then can be scalable?

Mark:

Yeah, I mean, we love the folks over Risclarity and work really closely with them. I think the one thing that makes them somewhat unique is that they're really great at filling in those gaps and helping disparate systems talk to each other, or maybe there isn't a function between those two systems, but you need it and they create it. Rick and Carl are some of the best in the industry. It's been this interesting ability between Pathstone, Datafaction (*now AgilLink*) and Risclarity, how we've been able to work together to create a solution that's bigger than the sum of its parts, right?

Matt:

Yeah, I mean, I think in the past, where Brian Kleinman, the founder of Datafaction (*now AgilLink*), we're old friends, great friends. I feel like we built and created a lot of unique things together, but we always thought the Holy Grail of family office was how do you connect an investment performance reporting system to your GL?

Mark:

Yeah.

Matt:

In 2017, when we together were actually finally able to do that, that to me was the turning point on the technology side, that all of a sudden all the work that you're doing on the tax side can be done through the GL, through AgilLink and Datafaction of what we've done. That just vaulted what Pathstone was doing forward at an exponential rate.

Mark:

It's great to hear. I mean, you see that in so many firms, the investment side and the financial side, never the two really meet. Obviously you can provide much better reporting, more holistic advice, tax prep by combining that information and certainly having your financial information be investment-aware, right?

Matt:

Yeah, I mean, I like to think data is the new oil. I still will never forget, Brian Kleinman will kill me for saying this, but we spent two or three days designing a chart of accounts. I mean, you'd never think you'd have to do something like that. Not that I didn't love those two or three days, but they are burned in my memory pretty deeply.

But designing that's essentially where we married the investment systems. Not just that, but even where we prepared it for a trust accounting system on top of what was there today, it really just kind of created the footholds of how everything's designed. We even just added an idea around asset inventory, around art inventory and collectibles and

building that. So yes, the foundation of these things helped, but I will say a lot was the expertise that you helped deliver in those early days that have helped us catapult some of our platform items forward.

Mark:

That's great. We've continued to obviously build on that and with clients' inputs. Inputs like Pathstone's is invaluable to our product development cycle. With COVID and what's impacted the technology landscape, how is that or has it not impacted your technology roadmap?

I know you have a long-term vision, you've been working down on this Holy Grail for a long time. As you know in technology, technology is never done. You never say, "Oh, okay, we're done," and you walk away and the project's over. But how has technology affected or not affected your roadmap from the pandemic?

Matt:

So, I think what it's allowed us to do is actually accelerate it. It was interesting. March hit, Pathstone was doing great. We had a great January, great February, the pandemic hits and all of a sudden you start stress testing the business, you look at the budget, you're having board meetings, you're saying what does this mean for the financials?

The interesting part about Pathstone is a lot of our business is actually fixed fees, so we tend to have less of an impact on financial markets, but you're still running all the stress tests and what does this mean? We actually came out of our board meeting, and I credit one of our independent board members, Ron Cordes on it, where he came to us and said, "Guys, let's grow through the pandemic."

There was a phenomenal, phenomenal firm that we were talking to in the Pacific Northwest at the time, there was a phenomenal, phenomenal firm that we were talking to on the inorganic side in Austin, Texas. We went back to both of those individuals and said, "Hey guys, I know we're in the pandemic, but we really like you and let's push this forward." Then on the technology side, we actually doubled the budget.

Mark:

Okay.

Matt:

So, it was very intentional growth through the situation. Obviously we want to make sure everyone was healthy, everyone was safe, we had the right protocols in place, but we really made this intentional decision to do that. They were items that we were planning, one of them which you guys know about was creating automated financial reports alongside an automated financial reporting that we were actively building. We accelerated that timeline. I expect us to have our first data in the next 15 days at the end of the year. That to me is another line to kind of draw in the technology development that we've been building and doing.

But then it came into September and we actually went back and decided to triple the technology budget for the year. So, we went back to our outside developers and we said, "Hey guys, do you have the capacity? We're going to go build this." We created tighter plans in what we were trying to do. Our internal system we call ARROW, which stands for accounting, reporting, rebalancing, optimization and workflow.

That's been something that the Risclarity guys have been helping us extensively to build, you guys have been helping us to build, and it's allowing us to connect, again, essentially all of our systems together in one place. We've been launching tools to the firm of polished software that has been unbelievable. So in some weird way, COVID has allowed us to triple down on what we were doing on the innovation and the technology platform.

I think we're going to accelerate plans of things that we were going to build through, that we were hoping get done by the end of '21, that'll get done a lot of them by the end of this year. I'll say another big line of our development plans of formally launching our integrated performance and financial reporting together sometime in the first or second quarter of this year.

Mark:

That's great. Yeah, you talk about the K recovery in a lot of different ways, and you're seeing it I think with firms. Especially around technology, you're seeing some firms that are using this to accelerate their plans or using it to increase their budgets, even just to keep even, because they know other firms are doing the same. Then you're seeing some firms that are trying to hold pat, but they're going to lose 12, 16, 18 months. When they come out of this, it's going to be this has and has-nots from a technology standpoint.

Matt:

Yeah.

Mark:

I think it's great that you guys aren't letting a crisis go to waste, right? It gives you impetus to move things forward, and there are certain opportunities that can present itself, but we see a microcosm within our client base. Half is on our cloud platform, half is not. The half that were on AgilLink, our cloud-based solution, transitioned pretty easily. I mean, you remember back in March, it was one of those situations, you're in the office Friday and then Monday, you couldn't go into the office.

Matt:

Right.

Mark:

That they were on the cloud and they could print and all those other things were great. Then our on premise software clients were struggling. They couldn't access the office,



they can't access mail, they can't print, can't print from home, they don't have VPN access. So, I was hoping that this would be used as that impetus to say, hey, that this is our wakeup call that we need to accelerate our cloud adoption and modernize technology.

Matt:

Yeah, you guys, through this situation, we were scheduled to go to AgilLink the beginning of the year and first clients went in March. I was to this day, and I give credit to our accounting and reporting team, our AFR team, but it was one of the smoothest transitions I've seen.

We've all done reporting transitions and normally that's a nightmare, but I'll tell you, we had clients queued up in March, April, May, and by June it was done. To give you guys credit on that, it was unbelievable that we went through a transition of that size on over 600 bank accounts. Truly was amazing during when everything else was going on.

Mark:

Yeah, we're thankful to have clients like you to stay with us and stay on board the schedule like that. Even from a new logo perspective, we were thankful for those clients that were still staying on the program. I also think that one of the things that helps make those transitions smoother is obviously having the right resources on the client side, right? Having an executive sponsor, having a champion, having kind of a PMO function within the office. I see a lot of firms, you can pick the right technology, but if you don't have the support and staff in place, and then we're going to struggle, right?

Matt:

Yep.

Mark:

So Datafaction (*now AgilLink*), let's kind of pivot here a little bit in terms of tell me what problem Datafaction (*now AgilLink*) solves for your firm and how you use us.

Matt:

Yeah, I mean, I think where you guys have, I won't say the monopoly on it, but having imaging together with the GL, with multi-client bill pay, with custom rules by vendor with repetitives that are set up, even the way the credit cards are handled automatically in the GL, where if you notice that something is named something and it goes to the wrong place, you change it once and the system knows where it goes from then on.

Then even the handling of what we've now done where our investment data flows in automatically into the GL, with the exception of a couple suspense accounts items that not sure where to go to. Everything that we're talking about on this call say about scale and leverage is part of what you guys have helped us to do. So, I think we're heavy users. We may be a little bit annoying pressing with Verna Grace and Brian on advancements.



There's a street rumor, I'll say it here now to add the pressure on in adding partnership accounting to the system, but hopefully, I don't know what they say, complaining clients make you better at times.

Mark:

Squeaky wheel, yeah.

Matt:

Yeah. So yeah, I heard that's in the roadmap, but no, I mean, I think you hit the nail on the head. So when you think about it, so last year Pathstone paid somewhere in the neighborhood of 55,000 or 60,000 bills for clients. When you hear something like that, it makes you sound like there's this giant bullpen of people with green visors on with a ledger and signing checks. That's not the case, because of the partnership that we have together.

Mark:

From a marketing standpoint, couldn't say it better, so thank you Matt for that, really kind of succinctly summing up our value statement. What is one thing that people should know about Datafaction (*now AgilLink*) that they might not know about?

Matt:

Yeah, 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. 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. 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 you increase exposure there.

Mark:

Yeah, 100% agree. I mean, it's the reason why I'm at Datafaction (*now AgilLink*) is from the family office background. 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 were 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 well 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 well side.



I'm really excited about our opportunity there. I think it is a blue ocean opportunity for Datafaction. When you look at the marketplace in terms of just these small business, not industry-specific solutions around that problem, that I think we can offer a lot of value.

So just kind of wrapping up here a little bit, Matt, just wanted to turn a little bit more personal. Obviously you've been very successful in your career, but if you could go back and talk to your younger self, what career advice would you give yourself?

Matt:

That's a great question. I think something that I've been very, very lucky and fortunate with in my career is always having a mentor. From meeting Steve Braverman when I joined My CFO with him and Allan Zachariah, there was a gentleman named Tom Pfeifer when I was at Lord Abbett. I think I've always had these mentors who've been helping to push. I think from all the experience, and we all made some mistakes when we were younger, but I think I got all those mistakes out of my life before I met Steve Braverman about 15 or 16 years ago.

The only thing I'd say would enhance would be we would've focused on some of the scale and platform stuff even sooner than we did. Where we did it certainly has allowed us to grow, but from the start, even in the My CFO days, I remember we joined and the technology still looked like I think what it was when we joined in '06, '07 like it was in 2000, and we were building some things ourselves internally. So, I probably would've started some of the automation things sooner.

Mark:

Yeah.

Matt:

It wasn't until we started Pathstone and had our own white sheet of paper, where we were then able to really take off on the ideal platform that we wanted to build for the future.

Mark:

Then obviously the pandemic has 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 a pleasant surprise or favorite show that you've been binge watching?

Matt:

I did get into Lucifer. Lucifer was a fun show on Netflix, and then the new chess show on Netflix was great.

Mark:

Oh yeah, the Queen's Gambit?



Matt:

Queen's Gambit. The Queen's Gambit.

Mark:

Yeah, The Queen's Gambit's been great.

Matt:

That was fantastic.

Mark:

It's been a blessing to have my daughters home and I've enjoyed that time with them. We've been catching up on a few different shows trying to run through whole series, but one of the things that we've really enjoyed is a show called I'm Sorry. It was on TruTV, there's only two episodes of it. It's not family-friendly, so if people are watching this, but extremely hilarious. So, that would be my recommendation if somebody's looking for a quick binge.

Matt:

Yeah.

Mark:

Matt, this has been a pleasure. Really, I 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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