

Principles of Wealth Management For Private Wealth Holders And Related Parties

Introduction

Private wealth has always been vulnerable to economic chaos, fraud and institutional instability. As wealth and its service industry become global, contagions that can destroy private wealth may spread quickly and devastate individuals, families and guardians of significant wealth anywhere on earth. In the global community of private wealth, where men, women and families live, work and invest around the world and are connected to each other and their advisors by technology spanning borders and oceans, laws enacted country by country cannot alone insulate from misfortunes such as economic chaos, fraud, or failure of institutional infrastructure. Instead, protection lies in each wealth holder imposing sound process that remains constant and stable even in perilous times or under dangerous conditions. That protective process must ensure that best practices and fiduciary standards are always in place to insulate wealth from corruption wherever the wealth is located and by whomever it is controlled. Once adopted, those principles will allow significant private wealth to serve its purposes and give owners the freedom fully to lead their lives.

There follow Principles of sound wealth management appropriate for any private party and the wealth entities for which he or she is responsible. These principles form the basis of best practices for the individual owning wealth, the family office or trusted advisor managing the family wealth, the private philanthropic foundation, the private trust, and similar entities holding private wealth. These principles are implicit in any "fiduciary standards" imposed by law or regulatory or professional bodies but are not themselves intended to encompass all or be limited to "fiduciary standards." The Principles may represent the foundation for developing best practices and the tools for training those who aspire to be responsible wealth holders in the modern world.

Principles

1. The wealth holder, the Trustees of a Trust, or the Directors of a Foundation shall articulate purposes, goals, objectives, expectations, and risk tolerance with respect to the wealth and shall be ultimately responsible for maintaining the currency of that articulation.¹
2. With respect to a Family Office, a Trust, or a Foundation, the governance structure together with various governance roles and responsibilities shall be clearly set forth and shall include provision for the communication of those roles and responsibilities and assurance that they are understood and accepted.
3. Any Trust or Foundation and any Trustee or Director shall adhere to best fiduciary practices, and there shall be established process for monitoring the discharge of fiduciary duties by the Trust, Foundation, a Trustee or a Director.
4. Succession shall be set out where possible and shall be considered. For the wealth holder provisions shall be in existence for disposition of assets and management of affairs from and after death or in the event of incapacity. For the Family Office, Trust or Foundation, provision shall be made for succession of governance and management.
5. Each investment portfolio shall be diversified as completely as practical. There should be diversification of asset classes, investment managers, investment style, currencies, banking and brokerage exposure and geopolitical risks.

¹ Whenever used in the Principles, terms like "Trust", "Foundation", "Family Office", "Trustee", "Trustees", "Director" and "Directors" are intended to include not only entities and persons so designated but also similar entities and persons serving similar roles.

6. Every portfolio shall have an Investment Policy Statement, and every manager shall have a clearly articulated mandate; and the Investment Policy Statement and mandate shall be monitored.
7. Any investment portfolio shall be designed taking into account the assets, objectives, needs, and character of the owner and/or beneficiary and should be monitored with those in mind; and a Foundation shall have a process to determine whether the investment program reflects the values of its mission and its philanthropic grant program.
8. There shall be clear, disciplined and objective process for selecting, monitoring, removing and replacing investment managers, custodians, banks, trade execution, accounting and other professionals.
9. Any investment manager or specific fund to be used shall have a strategy and style which can be easily understood and explained to others by the wealth holder or by one of the trustees, directors, or staff members of the Trust, Foundation or Family Office. If no one other than the investment manager or the fund representative is able to explain the strategy and style, the manager or fund shall not be used.
10. Special scrutiny and limitations should be applied to any investment manager who does not provide complete transparency or whose portfolio is not liquid; such investments are not prohibited but should be limited in proportion to total portfolio investments.
11. Custody of assets, accounting for assets and investment management services shall each be performed independently and separately.
12. There shall be established process for managing and monitoring internal and external resources.
13. There shall be full transparency of fees and expenses.
14. Compensation and fees paid to staff, directors and governors of Family Offices, Foundations or Boards shall not be calculated on the basis of "investment return" of shorter duration than five years. Any salary, bonus or fee must be fully disclosed as to its amount and its calculation. Any direct or indirect payment to or for staff or governors other than a payment designated salary, bonus or fee (or similar designation) is prohibited.
15. Self-dealing by staff, trustees, or directors of any Family Office, Trust or Foundation is strictly prohibited. Investment portfolios of those parties shall be subject to strict disclosure rules which assure compliance with the prohibition against self-dealing. Any grant or payment to any agency or company in which such a party has any interest whatsoever should clearly reflect that interest in the deliberation relating to that grant or payment.

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