



It's the Only Family You Have!

Let's Keep Everybody Happy

**Using Good Governance and Planning to Promote Cohesive
Investment Decision Making**

By Kelly Westfall, CPA, CFA



Collaborating as a family office to set and implement investment policy depends on achieving consensus, trust and reliability of multiple stakeholders. Planning and maintenance of key structures go a long way toward ensuring cohesiveness among all parties and success in achieving investment objectives. Whereas an Individual's Investment Policy Statement details their investment goals, objectives, and strategy; institutional investors typically have more extensive directives which appear in formation documents and investment policy.

Whereas strategic asset management from the perspective of an institution or family investment office involves the same considerations as asset management for individuals, an added focus on certain steps in the wealth management process related to planning and governance will minimize conflicts and ensure cohesiveness between family members and other stakeholders; ensuring that everybody is on board.

Investment Policy Statement

The Investment Policy Statement is an important blueprint which enables investors to properly plan and implement their investment program. The IPS can also document pre-established guidelines to help investors navigate periods of capital market downturns and asset market disruptions. ISC assists its investor Clients in developing and maintaining a robust written Investment Policy Statement which enables them to effectively supervise, monitor and evaluate their investment portfolio.

Delineation of Responsibilities and Separation of Duties

Many investment professionals hear the term “segregation of duties” and think “ugh!” Either they are a relatively small office; or they have grown up from a smaller operation and want to keep the same atmosphere. But even small investment offices are benefited by ensuring conflicts are eliminated on the front end. This protects the Office as a whole and each individual. In addition to risks related to proper authorizations, conflict often ensues when members of the team are stepping on each other. It is important to lay out key functions and ensure that it is clear which member is responsible for each area of responsibility; and that results are not tainted by potential conflicts which may exist.

Accountability and Decision Making

Individual investors have clear lines of accountability and authority. It is not as easy for a family or small investment office. It is important to clearly define the process for decision making, and the related responsibilities, before those decisions affect other family members and the business. In the absence of proper planning, unanticipated “grey areas” can be exposed over what had previously seemed to be straightforward roles. Imagine decision making in times of extreme market stress. And imagine the fallout when losses occur. Questioning decisions after the fact very rarely goes well. Or, on the good side, it is important to know when and where to give credit when credit is due. Tenuous situations can evolve when assets are not managed to the satisfaction of all stakeholders, especially when losses occur.

Internal Control Diagrams and Cross Functional Planning

ISC has a systematic, proprietary way of laying out functions and responsibilities incorporating team members, owners, employees and third party service providers. Each role is separate, but interacts with each of the other roles. Third party service providers require specific contact persons and will only respond to authorized individuals. Those authorized persons should be both independent of roles which may create conflicts and be available to make decisions when they need to be made to avoid bottlenecks. Entity wide cash management is a critical role requiring daily attention. This role should ultimately reside outside of the investment management function; however, necessary planning on the part of portfolio managers is of course required. There are many ways in which functionalities and how they interact can become confused. So laying them out as part of planning is key.

How Can We Help?

ISC recognizes that the operational risk of an investment office is directly affected by its governance framework. We work with newly formed and established investment institutions of all sizes to create and implement a robust governance system including not just investment policy, but also crucial planning steps which provide for clear lines of accountability, authority and decision making. Let us help you set your operations up properly on the front end; ensuring cohesiveness and “buy in” for everybody.



Kelly Westfall, CPA, CFA is the Founder of Investment Strategy Consulting LLC and the Co-Founder and General Partner of Archer Avenue Partners. Her expertise includes analysis of equity and alternative asset managers and products, and allocation recommendations as well as other types of specialized investment analysis. She has extensive experience in the United States and Europe conducting due diligence and consulting on portfolio allocations to investment managers, alternative investments, public funds and other complex investment products and advises on their use in the design and implementation of investment strategies.

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