

Private Wealth Management Body of Knowledge

Revised: 14 August 2007

PREAMBLE

The Private Wealth Management Body of Knowledge™ describes the challenges facing wealth managers and their clients, and the knowledge and expertise needed to address them.

Wealth managers build relationships with clients to help them establish investment goals and objectives that are consistent with their risk tolerances, unique circumstances and needs. While maintaining high ethical standards and adhering to the fiduciary duty due the client, wealth managers use a holistic framework to consider a client's extended portfolio, which includes both financial and non-financial assets.

Key components in the wealth management process include investment management, an appreciation of the client's tax situation, asset protection needs, and wealth transfer goals.

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- I.** Ethics
 - A. Standards, ethics, and regulations (SER)
 - B. Fiduciary duty
 - C. Advocacy
 - D. Professional development and competence improvement

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- II. The Private Client Marketplace and Firm Management**
 - A. Global trends in wealth management and private banking
 - 1. Market
 - 2. Clients
 - 3. Products
 - 4. Competitors
 - 5. Adoption of an institution-like investment approach
 - 6. Strategic asset allocation
 - 7. Alternative investments
 - 8. Open architecture
 - B. Collaboration and investment teams
 - C. Employee management and remuneration
 - 1. Attracting, motivating, and retaining desirable employees
 - D. Service delivery platforms
 - 1. Discretionary portfolio management
 - a. Characteristics of mandate
 - (1) Relative return
 - (2) Absolute return
 - b. Suitable client profiles
 - c. Fee structures
 - 2. Nondiscretionary portfolio management
 - a. Characteristics of mandate
 - b. Suitable client profiles
 - c. Fee structures
 - E. Institutions serving the private client
 - 1. Family office
 - 2. Private bank
 - 3. Investment advisers
 - 4. Brokers
 - 5. Other
 - F. Communicating with a team of professionals
 - G. Attracting and retaining desirable clients
 - 1. Developing a client retention strategy
 - 2. Client referrals
 - 3. Using intermediaries to build a wealth management business

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III. Analysis of the Client

- A. Relationship management
 - 1. Personal characteristics of clients
 - 2. Understanding client needs
 - 3. Preparing for a client meeting
 - 4. Conducting client meetings
- B. Fact gathering and analysis
 - 1. The information-gathering process
 - 2. The extended client/family balance sheet
 - a. Asset identification
 - (1) Financial
 - (2) Nonfinancial
 - (3) Closely-held
 - (4) Location
 - (a) Taxable
 - (b) Tax-deferred
 - (5) Current arrangements for management
 - b. Liability identification
 - (1) Location
 - (2) Current arrangements for management
 - c. Contingent assets and liabilities
 - d. Analysis of net worth
 - 3. Analysis of income, expenses, and saving
 - a. Cash budgets
 - b. Employee benefits
 - 4. Lifestyle requirements and sources of income, wealth
 - 5. Sources of risk
 - a. Lifestyle/Income
 - b. Property
 - c. Longevity
 - d. Personal
 - e. Aspirational
 - 6. Analysis of tax situation for individual/family
 - 7. Analysis of liquidity requirements
 - 8. Analysis of special circumstances
 - 9. Analysis of family dynamics
 - a. Family members and other persons of concern
 - b. Bequest motives
 - c. Succession
 - (1) Closely held businesses
 - (2) Family leadership
 - (3) Cultural and religious factors
 - d. Behavioral concerns
 - (1) children
 - (2) wealth

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10. Analysis of philanthropic interests
 - a. Types of philanthropy
11. Ethical and religious sensitivities
 - a. Religious sensitivities
 - b. Socially responsible investing (SRI)
 - c. Environment, social, and governance investing (ESG)
- C. Application of Behavioral Finance to Wealth Management
 1. Definition and themes
 2. Psychological insights and foundations
 3. Loss aversion and mental accounting
 4. Behavioral finance insights into retirement plan design
- D. Analysis of Investor Psychology
 1. Factors
 - a. Personal
 - b. Cultural
 - c. Family
 - d. Emotional
 - e. Life cycle
 2. Lifestyle security
 3. Goal setting
- E. Risk Tolerance
 1. Definitions and issues
 2. Tools for evaluation
 - a. Monte Carlo simulation
 - b. Questionnaires
 - c. Personality typing
- F. Investment objectives and horizons
 1. Specific objectives
 - a. Lifestyle security
 - b. Retirement
 - c. Education
 - d. Support of family members
 - e. Bequest motives
 - f. Philanthropic motives
 2. Analysis of time horizons
 3. Implications for wealth management
 4. Interactions with advisers
 5. Defining the spending policy
 6. Establishing a feasible set of wealth structures

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IV. Wealth Management Planning and Instruments

A. Wealth Management Process

1. Components of a financial plan
2. Compensation relationships
3. Defining the annual review process
4. Importance of a well-defined wealth transfer strategy
 - a. Primary objectives
 - (1) Disposition of client assets
 - (2) Tax and expense minimization
 - b. Multicountry probate
 - c. Considerations of multiple passports and citizenships
5. Identifying and addressing tax and estate planning issues
6. Types of trust and insurance structures
 - a. Degrees of control
 - b. Levels of transfer cost reduction
7. The wealth life cycle
 - a. Accumulation
 - b. Preservation
 - c. Transfer

B. Asset protection and risk management

1. Insurance
 - a. Property exposures
 - b. Liability exposures
 - c. Importance of insurance strategies
 - d. Human life values
 - e. Morbidity risk
 - f. Longevity risk
 - g. Life insurance
 - (1) Term
 - (2) Permanent
 - (a) Whole
 - (b) Universal
 - (c) Variable
 - h. Income tax benefits of insurance strategies
 - i. Private placement life insurance
 - j. Insurance needs evaluation and analysis
 - (1) Life insurance ownership planning
 - k. Insurance and estates
 - (1) Insurance planning for estate strategies
 - l. Insurance protection
 - m. Survivorship life insurance
 - n. Disability insurance and planning
 - o. Investment risk
 - (1) Asset/liability framework
 - (2) Benefits of diversification

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- p. Taxes and risk management
- q. Techniques for measuring risks
- 2. Trusts
 - a. History of trusts
 - (1) Early trusts
 - (2) Evolution of trusts
 - (3) Modern trust structures
 - b. Reasons for setting up trusts
 - (1) Creditor protection
 - (2) Divorce and other family issues
 - (3) Probate avoidance
 - (4) Forced heirship rules
 - (5) Managing political risk
 - (6) Business succession
 - (7) Philanthropy
 - c. Fiduciary duties and responsibilities
 - (1) Importance and implications
 - (2) Manager liability as agent
 - (3) Talking to upper generation
 - (4) Control issues
- C. Income Tax Planning
 - 1. Fundamental concepts
 - 2. Tax systems
 - 3. Representative strategy types
 - 4. Impact of new legislation
 - 5. Onshore versus offshore centers
 - a. Benefits and risks
 - b. Regulatory considerations
 - 6. Role of tax timing in tax planning
 - 7. Tax-saving structures
 - a. Identifying suitable and appropriate tax-efficient investments
 - b. Criteria for identification and selection
 - c. Determining the feasibility and practicality of implementing identified tax-efficient investments
 - 8. Factors affecting tax efficiency
 - a. Portfolio turnover
 - b. Inflows versus withdrawals
 - c. Dividend yield versus capital gains
- D. Education Planning
 - 1. Tax advantages
 - a. Planning for beneficiaries *inter vivos*
 - b. *Inter vivos* asset transfer
 - 2. Time horizon

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3. Understanding the needs of clients' children
 - a. Current generation
 - b. Next generations
 - c. Cash flow planning for a college account
4. Impact on financial aid
5. Education funding alternatives
- E. Retirement Planning and Employee Benefits
 1. Managing retirement assets
 2. Saving for retirement
 - a. Retirement needs analysis
 - b. Primer on types of plans
 - (1) Government retirement plans
 - (2) Defined benefit, defined contribution
 - (3) Country-specific private retirement vehicles
 - c. Asset location in retirement accounts
 3. Management and spending policy
 - a. Encroachment versus capital preservation
 - b. Regulatory and other considerations
 - (1) Distributions
 - (2) Required minimum distributions
 - (3) Time constraints on taking disbursements
 - (4) Required minimum distributions
 - c. Rollovers
 - d. Shortfall risks
 4. Protecting retirement plan assets
 5. Tax-efficient withdrawal strategies
- F. Wealth Transfer
 1. Estate planning
 - a. Family governance and wealth transfer
 - b. Family limited partnerships
 - c. Creating a will, trusts, and other related instruments
 - d. Purchasing one or more types of insurance
 - e. Importance of a well-defined estate planning strategy
 - f. Charitable planning and estates
 - g. Developing a strategy for making lifetime and charitable gifts
 - (1) Financial security needs
 - (2) Family circumstances
 - (3) Personal philosophy and motives for giving
 - (4) Residual investment risk
 - h. Developing an estate plan
 - (1) Estate planning process
 - (a) Client profiling, proposed solutions, agreement and implementation, review
 - (2) Titling client assets
 - (a) Jointly held property, tenants in common, community property

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- (3) Importance of wills
 - i. Divorce / marriage planning
 - 2. Trusts
 - a. Trust techniques
 - (1) Unlimited marital deduction
 - (2) Unified credit
 - (3) Lifetime gifts
 - (4) Irrevocable life insurance trusts
 - (5) Zero-tax estate plan
 - (6) Intentionally defective grantor trust
 - (7) Grantor Retained Annuity Trust (GRAT)
 - (8) Delaware dynasty trust
 - b. Trust basics
 - (1) Offshore trusts
 - (2) Interest in possession trusts
 - (3) *Inter vivos*/testamentary
 - (4) Revocable/irrevocable
 - (5) Discretionary trusts
 - (6) Immigration trusts
 - c. Personal trust services
 - d. Choosing a professional corporate trustee
 - e. Corporate trustee guidelines
 - f. Protecting family assets
 - (1) Risks to family assets
 - (2) Beneficiaries versus benefactors
 - (3) Sensitivities involved
 - (4) Disclosure versus confidentiality
 - g. Planning for incapacity
 - h. Tax considerations
 - (1) Minimizing estate taxes
 - 3. Business valuation of a privately owned business
 - a. Mergers and acquisitions for privately held firms
 - b. Valuation techniques
 - 4. Business succession planning
 - a. Importance of succession planning
 - b. Wealth management succession planning
 - (1) Goals
 - (2) Role of investments
 - (3) After-exit estate planning issues
 - 5. Philanthropy
- G. Investment Policy Statement (IPS)
- 1. Dynamics of the IPS and reasons for its evolution
 - a. Strategic versus tactical asset allocation

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2. Determining goals and objectives
 - a. Advanced concepts of risk
 - (1) Nontraditional risk concepts
 - (2) Developing a questionnaire
 - (3) Managing investor expectations
 - b. Quantifying aspirations
3. Creating a comprehensive Investment Policy Statement
 - a. Family
 - b. Foundations
- H. Developing a wealth management plan
 1. Combining the investment plan and estate plan
 2. Characteristics and consequences of types of entities
 3. Proprietorship, partnerships, family limited partnerships, limited liability companies, trusts, offshore vehicles
 4. Offshoring investment
 5. Risk tolerance and return requirements
 6. Cash flow planning
 7. Financial goal analysis
 8. Estate analysis
 9. Stock option analysis
 10. Multigenerational view
 11. Multiple citizenship families

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- V. Portfolio Management for Taxable Investors
 - A. Asset allocation for the taxable investor
 - 1. Capital market expectations
 - a. Forward-looking return expectations, volatility, and stress loss estimates
 - b. Establishing after-tax risk and return assumptions
 - c. Tax-efficiency and return characteristics of various asset classes
 - d. Expectations based on fundamentals
 - e. Expectations based on behavior
 - f. Equilibrium expectations
 - g. Integrated expectations
 - 2. Evaluating relative opportunities and risk premiums across strategies/asset classes
 - 3. Use of quantitative historical macro-analysis
 - 4. Scenarios analysis
 - 5. Using knowledge of current environment and analysis of historical scenarios
 - 6. Types of asset allocation
 - a. Strategic asset allocation
 - b. Tactical asset allocation
 - c. Single currency, multi-asset model
 - d. Multicurrency multi-asset model
 - 7. Techniques of asset allocation
 - a. Combining return requirements with risk appetite
 - b. Efficient frontier analysis in a taxable environment
 - (1) Establishing after-tax risk and return assumptions
 - (2) Tax-efficiency and return characteristics of various asset classes
 - c. After-tax mean-variance optimization (MVO)
 - (1) Asset allocation and behavioral finance
 - (2) Absolute return strategies
 - (3) Issues in classical finance relating to markets
 - (4) Modern portfolio theory beyond its sell-by date
 - d. Asset allocation incorporating illiquid assets
 - (1) Unique risks of illiquid assets in private investor portfolios
 - (2) Analysis of illiquid assets
 - (3) Considerations when structuring portfolios
 - (4) Specific strategies and techniques
 - 8. Asset location, protection and transfer
 - a. Location: ownership, access to property, taxation
 - b. Choice of favorable locations
 - c. Tax qualified accounts
 - (1) Credit shelter trusts
 - (2) Marital trusts
 - (3) Generation-skipping tax trusts
 - (4) Retirement accounts
 - d. Dynamic location issues
 - e. Changes in withdrawal strategy and optimal asset location

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- B. Portfolio construction and strategy
 - 1. Executing the asset mix as specified in the investment policy
 - 2. Developing tracking error and tolerance bands
 - 3. Blended benchmark construction for performance analysis
 - 4. Integrating nonfinancial and nontraditional assets into the asset allocation process
 - 5. Integrating insurance into the asset allocation process
 - 6. Integrating privately owned businesses into the asset allocation process
 - 7. Evolution of core-satellite approach
 - a. Core-satellite investing description
 - b. Core-satellite investing within a portfolio context
 - c. Using active management in core-satellite investing
 - (1) Passive versus active management
 - d. Appropriate core-satellite investing for individuals
 - (1) Comparison to institutional
 - e. Using exchange-traded funds for core asset allocation
 - f. Optimal allocation of a taxable core and satellite portfolio structure
 - 8. Traditional investments
 - a. Cash and money market instruments
 - b. Equity
 - c. Fixed income
 - (1) Laddered bonds
 - d. Currency overlay
 - 9. Closely held businesses
 - 10. Structured products and alternative investments
 - a. Structured products and derivatives
 - b. Alternative investments
 - (1) Hedge funds
 - (2) Private equity
 - (3) Real estate
 - (4) Commodities
 - 11. Art as an investment
 - 12. Appropriate use of other asset classes
 - 13. Liquidity considerations
 - 14. Management of concentrated positions
 - a. Low-basis securities
 - b. Company stock options
 - c. Restricted stock
 - d. Evaluating the rationale for diversification
 - e. Cost of diversification
 - f. Strategies for diversifying
 - 15. Tax-deferred diversification of low-basis securities
 - a. Impact of vehicle or wrapper (mutual funds, limited partnerships, annuities, exchange-traded funds)
 - b. Derivative-based strategies (variable pre-paid forwards, collars, monetization)
 - 16. Indexing

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17. Tax management strategies
 - a. Tax-efficient equity strategies
 - b. Tax-efficient fixed income strategies
 - c. Structuring capital gains and losses as a long-term tax management strategy
 - d. Shifting a percentage of funds into municipal bonds (For U.S. residents)
 - e. Turnover minimization
 - f. Tax loss harvesting and warehousing
 - g. Tax deferral of unrealized gains
 - h. Step-up in basis
 - i. Donating appreciated assets
 - j. Income shifting
 - k. Income splitting
 - l. Avoiding wash sales
18. Structuring tax-efficient portfolios
 - a. Structures
 - b. Construction models
 - c. Optimizing asset allocation among various entities
 - d. The use of derivatives
 - e. Portfolio implications of fundamental market shifts
 - f. Costs of rebalancing/not rebalancing
 - g. Tax efficiency of alternative investments included in portfolios
- C. Implementation
 1. Coordinating investment managers
 - a. Investment vehicles
 - (1) Ways of holding assets
 - (a) Commingled funds
 - (b) Separate accounts
 - (2) Policy implementation and asset location
 - (3) Investment funds
 - (4) Multimanager funds
 - (5) Exchange-traded funds
 - (6) Hedge funds and private equity funds
 - (7) Fund selection techniques
 - b. Manager structure and selection
 - (1) Characteristics of good investment manager
 - (2) Expertise in managing portfolios for individuals
 - (3) The importance of process
 - (4) The importance of risk management
 - (5) Building multimanager, multistyle, multistrategy portfolios and the limits of these approaches
 - (6) How to manage security overlap or client-imposed restrictions and customizations
 - (a) Firm policy on accepting customizations and minimum account size
 - (7) Alternative investment managers
 - (a) Asset classes employed
 - (b) Impact on risk, return and taxes

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- (8) Selection and evaluation of investment managers
 - (a) Developing a universe of suitable manager candidates
 - (b) Defining the parameters
 - (c) Criteria for screening the universe of appropriate managers
 - (d) The predictive power of past performance
 - (e) Fee structures
 - (f) Due diligence methods
- (9) Investment manager questionnaire
 - (a) Manager structure in a multi-manager portfolio
 - (b) Style analysis/style diversification in taxable environment
- (10) Styles definitions
 - (a) Returns-based style analysis
 - (b) Client communications
 - (c) Limits of these strategies
- c. Deciding to fire a manager
- D. Monitoring and rebalancing
- E. Performance evaluation
 - 1. Risk and return
 - a. Importance of risk adjusted returns
 - b. Benchmarks
 - c. Vintage year concept
 - 2. Performance ratios and their implications
 - a. Sharpe ratios
 - b. Information ratios
 - 3. Performance evaluation in a taxable setting
 - a. Computing after-tax returns
 - b. Measurement
 - c. Attribution
 - d. Appraisal
 - e. After-tax performance evaluation
 - 4. Global Investment Presentation Standards (GIPS)
 - 5. Performance part of review meeting
 - a. Managing client expectations
 - b. Monitoring and rebalancing process
 - c. Benchmark review and evaluation
 - d. Benchmark revision decision
 - e. Working with the client's team of professionals