Wealth Planning Update

Show Me the Meaning: Values-Based Investment Considerations

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Lisa Bianculli Hutter
Senior Director of Planning
Wells Fargo Private Bank

Jane Marie Petty
Director of Consulting
Social Impact Investing
Wells Fargo Private Bank

In this Wealth Planning Update:

- *Many wealthy families take the time to address their finances, their tax impact, their estate plans and their investments.*
- *Studies show that all too often these same families aren't spending the time they should on the most important conversations of all – legacy, vision and values.*
- *When a family has identified their values not only can they reflect on and define their legacy and mission statement but they can also establish a framework for other financial decisions.*
- *The four steps described in this report may help you to overcome common hurdles and move your family forward to reach common goals.*

Values, Legacy, and Family Vision

How often do you discuss values with your children? Your loved ones? Your spouse? In this hectic world where we are constantly on the go, there are seldom moments to slow down and reflect on who we are and where we came from. Many wealthy families take the time to address their finances, their tax impact, their estate plans and their investments. Studies show that all too often these same families aren't spending the time they should on the most important conversations of all – legacy, vision and values.

A field study conducted from 1985 to 2005 showed that 95 percent of estate plans fail not because of technical deficiencies but rather due to a lack of communication, trust, mission and preparedness.[1] At the heart of these topics is speaking with your family about the values you share and the origins of your success while integrating that with the legacy your family will leave for future generations and the rest of the world.

[1] *"Post Estate Transfer Failure Causes"* – Roy Williams and Vic Pressier of the Williams Group

Step one: Defining your family values

Sometimes we believe that our family's values are the same as ours. We may think that since we lead our family's affairs our values reflect theirs, or that our children's values match ours because of the way in which they were taught to think from a young age. Shared values are not always the case and this assumption can lead to a breakdown in trust or communication. To prevent such a breakdown, it is important to have regular conversations with your children about family values. Such conversations could be as simple as asking each member of the family to share three words that reflect what it means to be a member of your family. You may find these words are similar or perhaps there is one that stands out. This often leads to further conversation about why one word is more commonly used than another. The goal is often to settle on words about which you all agree.

Each year it is a good idea to revisit this exercise. Has anything changed? Is there a word missing? If so, what can be done to bring that word back into the fold? If service is an important element to your family values but it is missing one year, perhaps engaging in a family service activity will help to resurrect it. Maybe it was missing because something more important or more fitting replaced it or perhaps it is because you just didn't have a chance to truly commit to service as a family this year. Whatever the case, the ongoing conversations are a critical element to ensuring your accomplishments as a family and the creation of one cohesive legacy.

Step 2: Creating a lasting legacy

You may think of legacy as something that has been left by prior generations. It is a way of life, or a way of doing business; it may also be a more formal philanthropic endeavor or institute. While it is important to reflect on such a legacy, it is equally important to define your own legacy. At times this is a challenging endeavor. For example, when a business has been in the family for multiple generations, the current controlling members may find themselves unwittingly defining their legacy based on the values of their parents or their grandparents. It is important to take a step back and be true to the current family members. While it may be difficult to critically review the legacy left by prior generations, you may take comfort in knowing that who you are today is a result of their influence and how they helped shape who you have become.

When we work with families, we identify the importance of history. Knowing how family wealth was created helps us to appreciate it and make a distinctive connection to those who came before us. Think about when you receive a gift from a loved one. It is appreciated but how much more meaning is attached when you tell the story of how you selected it? I (Lisa) recently gave my mother-in-law a gorgeous silk scarf for her birthday. She loves scarves so when she first opened it, she was very happy with the gift. I then shared with her that it was made by hand, that I purchased it several months earlier in a Santa Fe shop owned by a Native American and that it was the very last batch of scarves made by these women artisans as the loom they used had since been decommissioned. After hearing the details behind the gift she exclaimed "I think this is the most beautiful scarf I have ever owned." If telling a story with a gift makes it so much more special, think of how powerful the story of your wealth would be to your family and how sharing that story would inspire their gratitude.

Step 3: Creating a family mission statement

When we pull together values and legacy, we can create a family mission statement. One that tells anyone who reads it an inordinate amount of information about our family. A mission statement shares what your family represents, what they strive to contribute to society, their heritage and aspiration. A mission statement can also be an anchor from which you can construct a vision for your family and the family wealth.

When you have defined your family mission statement, you may want to take a fresh look at your financial decisions, including investment decisions, to confirm that they reflect your aspirations for family values and legacy.

Step 4: Including your investment decisions

Many families tend to compartmentalize investment decisions, making them into their own planning activity. As a result, discussions often focus on financial topics such as preserving principal, asset allocation, and generating returns. These money related discussions are often separate and distinct from conversations about legacy, philanthropy and family values. By pursuing a more integrated approach to wealth management, families have an opportunity to better align their investment decisions with their family values. For example; recently, the Social Impact Investing Team met with a family who was in the process of transitioning much of their family foundation's investment decision making authority to their young adult daughter, a passionate environmental sustainability advocate. This transition resulted in a discussion about how the family's values drive how they choose to live, and how their mission statement has helped focus their philanthropy. Prior to their daughter's involvement, the foundation's investments did not reflect the family's philanthropic goals. At her request, we introduced the family to social impact investing and discussed ways in which her family could invest with the same values they were applying to their philanthropic pursuits and "double" the impact they were making by including their environmental sustainability focus for their foundation's investment portfolio.

Responsible investing is known by many names including socially conscious investing, ethical investing, mission-related investing, green investing, sustainable investing, impact investing and environmental, social, governance (ESG), to name a few. What all responsible investors share is an interest in better aligning their investments to their personal values. Responsible investing achieves this type of alignment by adding non-traditional financial criteria into the investment decision-making process. This investment criteria may include evaluating a company's environmental sustainability policies and practices and assessing whether the company is having a harmful or beneficial impact on the environment. Responsible investing may also involve excluding companies from an investment portfolio that are inconsistent with a family's values.

Environmental concerns are just one example of the many values and concerns families choose to focus on for their philanthropic pursuits and when investing responsibly. Others include faith-based criteria and animal welfare. Just as there are many different types of family missions, there are many types of responsible investment strategies. Whatever one's values are, responsible investing can help families strengthen their family mission by including their investments into the family's values-based discussions. A quote in the *Economist Magazine* made by philanthropist Liesel Pritzker Simmons nicely captures the power of responsible investing, "Our philanthropy becomes far more efficient if we don't need to undo damage done in our investment management."[2]

Pulling it all together

When a family has identified their values not only can they reflect on and define their legacy and mission statement but they can also establish a framework for other financial decisions. When we work with clients who have unsigned documents or documents in draft form, so often the cause is not the attorney or his or her drafting expertise but family dynamics. The four steps that we've described in this report may help you to overcome such impediments and move your family forward to reach common goals.

[2] The Economist, *"Sustainable Investment Joins the Mainstream",* November 25, 2017

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