

Criteria for Selecting an Investment Advisor for the Nightingale Investment Trust

Driving through New Jersey, Nitze [asked] Dillon if he thought the market decline an omen of hard times ahead.... Dillon thought for a few minutes and replied, "I think it presages the end of an era." By this Dillon meant that what lay ahead was not merely a period of retrenchment, after which affairs would be conducted as before. Rather, the world was in for a major overhauling of institutions.

—Clarence Dillon and Paul Nitze in 1929¹

Purpose of Memorandum

The Nightingale Investment Trust (the "Trust") was created in 2002. The Trust has approximately \$4 million in liquid assets, invested primarily in cash and securities. Its sole beneficiary and co-trustee ("B-CT") is moving the Trust to a new corporate co-trustee and will choose a new Investment Advisor to manage the Trust's financial assets to commence in the new year, 2006.

The Investment Advisor will be chosen from a small group under consideration based on personal references. The selection will include a review of materials provided as well as a meeting in person with B-CT. With a beneficiary life expectancy of greater than 40 years, B-CT's wealth will be preserved and grow through what has the potential to be one of the most volatile times in history. This time calls for an Investment Advisor of powerful intellect, instinct, integrity and culture—a firm with the ability to navigate risk and to identify and realize opportunities that preserve and create financial wealth and the human and living wealth from which it flows.

The purpose of this document is to communicate the criteria used by B-CT to identify and assess potential Investment Advisors:

1. Alignment with B-CT Investment Objectives
2. Alignment with B-CT Investment Principles & Philosophy
3. Preference for One Advisor With Diversity of Investment Options
4. Excellence in Historical Portfolio Plans, Performance & References
5. Excellence in Portfolio Plan/Investment Policy Statement
6. Excellence in Working Relationship with B-CT
7. Excellence in Reporting and Communication
8. Compatible with Trust Legal Requirements
9. Compatible with Corporate Co-Trustee Procedures, Requirements and Trust Officers
10. Fees

¹ Robert Sobel, *The Life and Times of Dillon Read* (Dutton Adult, 1991)

Criteria #1: Alignment with B-CT Investment Objectives

The Trust assets are irreplaceable, representing B-CT's primary assets and expected source of income. Therefore, principle investment objectives are:

- Preservation of wealth: maintaining and augmenting absolute value, *i.e.*, the preservation of capital in inflation-adjusted terms² as well as in “decline of the dollar”-adjusted terms;³
- The maintenance of income: 4% of principle (adjusted on an annual basis for inflation) to provide for living expenses and separate asset management. Income need not come solely from yield, but may come from capital gains as well; and
- Growth of capital in a manner consistent with the first objectives.

Criteria #2: Alignment with B-CT Investment Principles & Philosophy

B-CT is keenly interested in the Trust's ability to generate income and capital gains over the long term and in a variety of future scenarios. This requires an understanding of the global economy at the deepest systemic levels, including:

The Distinctions and Interplay between Political and Fundamental Economies. Globalization has evolved within the traditional central banking-warfare economic model that has dominated the First World for centuries. As a result, we have reached a high degree of centralized management of economies through the financial system— particularly the central banking and insurance mechanisms. This degree of management has resulted in politically managed markets that are not in sync with the fundamental and more sustainable economics that would prevail if government spending was transparent, markets were more free and the rule of law prevailed. So, for example, values in the stock market or gold market are increasingly set by G8 and central bank policy and intervention as opposed to simply fundamental economics.

The Instability of the US Government and Federal Credit, and the Attendant Risks to the Global Economy and Global Financial Assets. As the primary financial mechanism behind global centralization, the US federal credit has assumed significant direct and indirect debt as well as on and off balance sheet contingent liabilities. Understanding the political and economic governance of these liabilities is part of appreciating the possibility of catastrophic warfare and failures (“Armageddon Scenario”) or loss over time (“Slow Burn Scenario”).⁴

² Not based on CPI or PPI: an inflation gauge would be agreed upon by IA and B-CT.

³ Although Americans who do not travel or plan to live abroad will be affected, the decline of the dollar will not impact them as it will impact those who do. The decline of the value of the dollar compared to other currencies and gold will affect B-CT, so it is important that an awareness of the erosion of the purchasing power of the dollar worldwide be part of day-to-day management philosophy.

⁴ An Armageddon Scenario is the 21st century version of 1929 and/or WWII – where the centralized political economy adjusts to fundamental material economic trends in rapid and violent ways. A Slow Burn Scenario is

Managing investment risk in this environment necessitates an awareness and monitoring of trends which could cause economic disruptions and may indicate niche opportunities for wealth creation, including:

- Peaking global oil production;⁵
- Deterioration of the US dollar through mounting and uncontrollable national and consumer debt and trade imbalances;
- Continued degradation of vital ecosystems;
- Climate change and severe weather;
- Extended use of and economic dependency on military force worldwide; and
- Deterioration in the rule of law and the emergence of organized crime as a dominant global economic power.

Significant opportunities and creative responses can and do arise from deep structural shifts—significant value can be created and profits can be realized. It is essential that potential risks are recognized so that responses can be anticipated, alternative scenarios implemented – and yesterday’s sound investment exited at a full price and tomorrow’s sound investment opportunity identified while its price is still attractive.⁶

In that “wealth [not to be confused with money and paper securities]... is... a command over real resources and over the means to a continued income to be derived from these resources,”⁷ a shift in value from abstract (paper) to concrete (hard) assets is to be understood. This includes the role of human capital (great management and learning culture) and intellectual capital (knowledge tools, technology and practical application) in the management of hard assets to create real wealth. Openness to the notion of value lying outside of the world of finance is to be encouraged, *i.e.*, land, a healthy environment and the ability to produce food may at some point be of more value than owning large-cap stocks.

For example, when paper currencies are seen as uncertain, gold and silver are not only commodities, but resume historical roles as forms of monetary exchange without a government, and therefore can be used interchangeably with cash instruments, as a fixed-income allocation and, in the event of a currency crisis, as the ultimate insurance. As precious metals are in the early stages of a secular bull market in hard assets,⁸ gold and silver are real money and represent a sound holding as fiat currencies deteriorate. Therefore, B-CT would want a significant portion of assets in bullion and/or stocks associated with precious metals and

one where the adjustments are slower and politically managed as insiders globally cooperate to extract value from outsiders through a combination of tactics, including inflation, implementation of new technology and economic and military warfare.

⁵ “The first half of the oil age now closes. It lasted 150 years and saw the rapid expansion of industry, transport, trade, agriculture and financial capital, allowing the population to expand six-fold. The second half now dawns, and will be marked by the decline of oil and all that depends on it, including financial capital.” Colin Campbell, *The Association for the Study of Peak Oil*

⁶ “There is an old Bahamian expression: ‘never mind the noise in the market, pay attention to the price of the fish.’” Nicholas F. Brady, 68th Secretary of the Treasury

⁷ Sage Capital, *Our Investment Policy*, September, 2004, p. 1 at www.sagecapital.com

⁸ “The place to be over the next five to eight years is hard assets. This is a major, major secular trend that happens once every two generations. You get on it and just stay with it.” Wayne W. Murdy, CEO, Newmont Mining Corporation

related management and technology, with the understanding that more assets may be shifted into precious metals if future scenarios warrant it.

The asset allocation model used to manage the Trust's assets need not be formulaic. B-CT is not comfortable with the academic models based on market efficiency during times such as these. Fundamental and technical analyses can't provide a complete picture and shouldn't be the only beacons followed. Whether we are in an Armageddon or Slow Burn Scenario—or a more positive scenario in which we transform to a sustainable global economy in a more civilized manner—flexibility, adaptability and the ability to move in and out of markets, sectors and securities will be seen as positives.

A diversified global perspective, as opposed to a US-centric model, is encouraged, as well as an emphasis on value and entrepreneurial small- and mid-cap companies with sales not dependent on government contracts or credit, and positions sensitive to trends in the politics of inflation and deflation. The short sale of securities and sectors is acceptable.

This environment calls for an understanding of the total economic return of investments for purposes of identifying opportunities and further mitigating risk. This means weighing the impact of investments on natural planetary ecosystems and human society as part of the investment analytics, and looking for the opportunity to lean toward a Solari-like investment model⁹ which will contribute to—rather than deplete—community life whether natural or human. Indeed, good will is a proven strategy for attracting and generating capital gains and sustainable income. A long-term goal is that the future good will not be sacrificed for present gain.

In summary, B-CT's investment principles are:

- Invest in significant research and understanding of the real economy;
- Anticipate risks and opportunities;
- Take advantage of the shift from financial to real assets;
- Develop strategies for a variety of future scenarios;
- Have a portion of the portfolio prepared to weather the storm in the worst case;
- Promote decentralization of economic resources as a way to reduce risk and ensure diversification;
- Look for opportunities to profit from supporting entrepreneurs leading the shift to sustainable economics.
- Avoid companies who behave in an irresponsible manner
- Be flexible—do not depend on hard and fast formulas.

⁹ See: Financial Sense NewsHour interview with Catherine Austin Fitts at www.financialsense.com and “Navigate the Housing Bubble” at www.solari.com

Criteria #3: Preference for One Advisor with Diversity of Investment Options

The Investment Advisor is aware of wealth preservation options and has the capacity to:

- Do precious metals bullion depository offshore;
- Optimize Trust options in the event of US capital controls;
- Assess and execute both onshore and offshore; and
- Assess and identify opportunities both local and global.

Criteria #4: Excellence in Historical Portfolio Plans, Performance & References

This includes experience and a sufficiently “deep bench” in the Investment Advisor team, network and custodial/clearing partners to ensure safety and soundness in a worst-case scenario. Therefore, a team and network with experience of down markets and an ability to anticipate and successfully navigate and identify opportunities within the deeper trends in the politics and economics of the globe are essential.

Historical portfolio plans, performance and references will be requested and reviewed.

Criteria #5: Excellence in Portfolio Plan/Investment Policy Statement

Prior to selection of an Investment Advisor, a suggested portfolio plan that will provide a sense of the Investment Advisor’s investment style and approach in B-CT’s particular circumstances will be requested.

A portfolio plan and/or Investment Policy Statement that both Investment Advisor and B-CT agree upon will be required before implementation.

Criteria #6: Excellence in Working Relationship with B-CT

Because wealth is a personal matter – a tool for having a joyous life and achieving goals – an Investment Advisor/client relationship can entail discussions of personal feelings (hopes, fears, dreams, values) more often than in other professional relationships. As a co-trustee, it is particularly important to B-CT to be able to integrate her day-to-day understanding of what is happening in our world and the risks implied, with her understanding of the strategies being used to manage Trust assets. A successful working relationship will help B-CT manage her fiduciary responsibilities as co-trustee and head of household with ease, elegance and speed.

Criteria #7: Excellence in Reporting and Communication

Excellence in reporting and communication are the basis of a successful and economic relationship. This includes:

- Monthly statements and quarterly discussions which address outlook, deeper trends, strategies and portfolio performance;
- Discussions by phone and Internet as necessary; and
- At least one annual face-to-face meeting.

In this regard, a sound portfolio plan and the flow of regularly scheduled reporting and communication from the Investment Advisor team should go far in supporting a mutually energizing relationship for both parties.

Criteria #8: Compatible with Trust Legal Requirements

This includes compliance with accredited investor issues.

Criteria #9: Compatible with Corporate Co-Trustee Procedures, Requirements and Trust Officers

The Trust will be moving to a new trust company at or about the time that the new Investment Advisor is retained. Hence, a smooth three-way working relationship—Trust Company, Investment Advisor and B-CT—is desired.

Criteria #10: Fees

The combined Trustee and Investment Advisor fees are to be no more than 1% per annum.

Summary

Thank you for taking the time to review the selection criteria for an Investment Advisor for the Nightingale Investment Trust. Thoughts and input on these criteria are welcome.