

## The Byrne Report

### Blind Trust

By [Peter Byrne](#)

THE NORTH BAY has never been a political stronghold for Gov. Arnold Schwarzenegger, and it is even less so now in the wake of his immoderate State of the State speech in January, in which he proposed to explode government programs that benefit women, children, the elderly and the disabled. Statewide, the tide of public opinion is slowly starting to turn against the movie star whose trademark veneer of political moderation and reform has worn thin, revealing nothing less than Gray Davis on steroids.

Once again, public policy is for sale.

Davis, however, had no real personal wealth. Schwarzenegger is so rich, he's confronted by a personal conflict of interest just about every time he opens his mouth. The key to understanding the truth of that statement is the structure of the governor's phony blind trust.

To shield wealthy government officials from being paralyzed by possible conflicts of interest, the state's three-decade old Political Reform Act allows them to place assets in a blind trust managed by a "disinterested party." The theory is that, after a time, the official will no longer know what he owns. The trustee is supposed to have little or no contact with the official. He is empowered to liquidate the original portfolio and to buy new assets, which are unknown to the official.

When he set up his blind trust in 2003, Schwarzenegger designated as trustee his close friend and financial adviser Paul D. Wachter. "We've been friends for 25 years and been in business together for less than 15 years," Wachter told me about his relationship with Schwarzenegger. "I am his main person in the whole business, financial, legal area--and, obviously, a close confidant. As the blind trustee, I manage all his money."

It doesn't take a doctorate in ethics to see that Wachter is exactly the wrong person to serve as the disinterested trustee. "'Disinterested party' excludes family and business associates," says Tracy Westen, CEO of the nonpartisan Center for Governmental Studies in Los Angeles. "The word 'blind' means that the trust is not being run by someone with whom you interact on an intimate or a daily basis. If the beneficiary of a blind trust were to get some sense of how the trust is being invested through a casual remark, or a deliberate remark, that

might affect a governmental decision. If a longtime business partner is handling the trust, I would certainly question whether it was truly blind."

Last March Schwarzenegger appointed his friend, Wachter, to a state jobs commission. In May 2004, Schwarzenegger took his personal financial adviser, Wachter, on a trip to Israel, Jordan and Iraq to look for business opportunities. In July Schwarzenegger appointed his blind trustee, Wachter, to the Board of Regents of the University of California, which controls billions in state money.

Furthermore, Wachter is anything but disinterested in the link between the governor's political and financial success. He is in charge of building Schwarzenegger's international business brand and securing lucrative television commercials for the superstar in Asia. Wachter's Main Street Advisors Inc. has long managed much of the Schwarzenegger fortune. The economic disclosure statement that Wachter filed when he became a Regent shows that he and Schwarzenegger are linked by millions of dollars' worth of partnership investments.

A comparison of the disclosure statements indicates that at the time Schwarzenegger's blind trust was created, he and Wachter were jointly invested in 10 partnerships: Acacia Partners (invests in publicly traded stocks); SEG Partners (public stocks); Alson Signature Fund (stocks); Tar Heel I Investors / Tar Heel II Investors (invested in the Platform Inc., a software company); Angel Investors II (venture capital); Apollo Investment Fund IV (leveraged buyouts); MSA Real Estate Investors (holds an interest in a Goldman Sachs real estate partnership); Venice Venture (venture capital); and Pinpoint Investors (owns stock in Cell Guide Ltd., which develops cell phone technology).

Wachter has every financial incentive to influence policy on taxation and government regulation of any number of industries, including, say cell phones, in ways to benefit himself and his client.

"We are not trying to create a blind trust which says the governor and I never met," Wachter says. "Or that I sold all his assets and he does not know anything in his portfolio. Instead, as of the date of his inauguration, he has no involvement with anything in the portfolio.

"You don't have to liquidate everything," Wachter says. "The key point of a blind trust is that the governor is supposed to be kept away from real and apparent conflicts of interest. You do not want people even to feel like there might be a conflict of interest."

See how you feel about our leader's built-in conflicts by visiting [Schwarzenegger.com](http://Schwarzenegger.com) and experiencing the synergy between his movie-star, muscle-man and political brands. Or his donor list of billionaires with whom he shares investments. It would be amusing, it if wasn't a confirmation that we are trapped inside a plutocracy.