

The [Bolt Burdon](#) Private Client Bulletin – 3 March 2006

Tried and Trusted

It is now almost four years since the Trustee Act became law and heralded a new era in trust investment, unfettered by the archaic restrictions which had applied since 1961. Now, trustees are permitted the same investment opportunities as if they were investing their own money; and the same principle has also been extended to Scottish trusts.

Unsurprisingly, the extended powers are accompanied by additional responsibilities, and the legislation lays down four main requirements:

- Investments must be suitable in terms of their risk profile and their tax-efficiency
- In order to spread risk, they must be diversified to include holdings from across a range of sectors and markets and even managers
- The trustees *must* take investment advice if they are not themselves investment experts
- Trust investment portfolios *must* be kept under regular review.

These requirements are having a major impact on the construction of investment portfolios for trusts. Traditionally, most trusts have been invested in individual shares on the recommendation of stockbrokers, but increasingly it is being recognised that packaged investment products may be more suitable. They are more tax-efficient (and hence less expensive to administer); and they are much better diversified. The Financial Times has commented, "*for most investors, collective funds are the most sensible option*".

For larger trusts, a balanced portfolio of funds is likely to commend itself. For smaller trusts, an all-in-one solution such as fund of funds or a distribution fund might be the best way of achieving the twin objectives of suitability and diversification.

Funds of funds are the fastest growing type of collective investment and present the ultimate form of diversification, because rather than investing in individual securities, they invest in carefully selected combinations of other funds. Distribution funds, by contrast, concentrate on producing an attractive level of income from a portfolio of shares and fixed interest securities.

If you have any queries you can phone or email Glenn Smyth or Rod Smith on glennsmyth@boltburdon.co.uk or rodsmith@boltburdon.co.uk or phone 020 7288 4700. Our full range of services includes Financial Planning, Trusts Wills & Probate, Property, Matrimonial and Family Law, Commercial Law, Commercial Dispute Resolution, Debt Collection, Compensation Claim Litigation. Visit our web site at www.boltburdon.co.uk Regulated by the Law Society. Authorised and regulated by the Financial Services Authority. To stop receiving this bulletin, reply stating 'unsubscribe'.