THE INVESTMENT OF TRUST FUNDS pdf

1: Investment of Funds for Trustee Clients | The NSW Trustee and Guardian

The Grantor: This is the person who establishes the trust fund, donates the property (such as cash, stocks, bonds, real estate, mutual funds, art, a private business, or anything else of value) to the fund, and who decides the terms upon which it must be managed.

February 15, Retirement Plans Introduction As the retirement plan industry has evolved, so has the structure of investment vehicles used in k plans. Collective Investment Trust funds CITs have been available for decades first launched in and were offered in very early k plans. However, the early versions of CITs provided investors little access to underlying holdings data and were valued infrequently, typically only once per quarter. As a result, CITs were quickly overshadowed as mutual funds, with daily valuations and greater transparency, became the more popular option. In fact, more than half However, given the recent focus on retirement plan fees and full disclosure, and in light of technological advances, CITs may be gaining market share. This paper defines CITs, discusses how they are structured, and illustrates how they compare and contrast with mutual funds. A bank or trust company exercises authority over all the administration, management, and investment decisions for the trust. CITs are bank products. CITs at state chartered banks and trust companies are regulated by their respective state authorities and may also be subject to oversight by the Federal Reserve Board or the Federal Deposit Insurance Corporation. As defined in the Code of Federal Regulations - Title Banks and Banking i. The first is authorized under section 9. For purposes of this discussion, we refer strictly to A2 Funds or CITs associated with qualified retirement plans. CITs are similar to mutual funds or other pooled investments in that qualified investors with similar objectives merge their assets into a single portfolio. The portfolio manager or sub-advisor hired by the bank then invests the assets according to the set investment objectives. Despite being offered by banks, CITs assume the same investment risk as other investments and are not guaranteed by the bank or by the Federal Deposit Insurance Corporation FDIC , the independent agency of the federal government that insures deposits in banks and thrift institutions. As previously mentioned, investment in CITs is limited to certain types of retirement plans. See the table that follows for a comparison of plan types that are eligible versus plan types that are not. In fact, they have been a preferred option for many defined benefit plans since Congress amended the Internal Revenue Code in to provide tax-exempt status to certain bank CITs. A later development further increased their popularity, when in the Federal Reserve authorized banks to combine funds from pensions, profit sharing and stock bonus plans, and the IRS determined that such funds could be exempt from tax. As a result, CITs became the popular choice for defined benefit plans and remained so for many decades. The first CITs were pools of securities that were traded manually and typically valued only once per calendar quarter. In addition, they were limited to a few investment objectives, primarily concentrated in Stable Value. Since early CITs were unique to each bank and portfolio manager, information was not publicly available. When k plans were developed in the s, CITs were an option in many of the early plans; however, given the operational constraints of CITs and their lack of widely available information, mutual funds soon became the preferred vehicle in most k plans. Mutual funds offered many of the features that CITs lacked. They provided a wider array of investment objectives, were traded and valued daily, were marketed to retail and institutional investors, and were easily followed in the news media. In recent years, many employers have frozen their defined benefit plans as k and other defined contribution plans have grown to become the primary retirement savings vehicles. Given that popularity, the structure and cost of k plans has come under greater scrutiny. As a result, many plan sponsors are once again considering CITs as investment alternatives. Growth in CITs Assets in the defined contribution market are invested in a variety of vehicles, including mutual funds, separate accounts, CITs, annuities, exchange traded funds, and company stock. To date, mutual funds have captured the majority of the assets but market data indicates that the demand and usage of CITs has notably increased. The increase in demand for CITs can be attributed to multiple factors. First, since defined contribution plans have become the primary employer-sponsored retirement savings vehicle, employers are now considering multiple investment solutions, including mutual funds, CITs, and other vehicles. In addition, institutional-favored options providing lower cost solutions, like CITs, are in greater demand as lower cost solutions typically outperform higher cost alternatives all else being equal and participants have become increasingly more results driven. Recent scrutiny of plan costs and regulation regarding disclosure of investment fees have also added to the popularity of CITs as alternatives. Furthermore, CITs can often provide greater flexibility when compared to mutual funds with regard to what they can invest in and how they can be priced. Finally, as previously mentioned, technology has played a major role in making CITs easier to use through both trading on standard platforms and publishing information through widely available databases and media. All of the above have added to the allure of the more institutionally constructed CITs. Additional characteristics of CITS are discussed in the section that follows. Features of Collective Investment Trust Funds Like other pooled investment vehicles, CITs are designed to streamline management and mitigate risk by combining assets from multiple accounts with similar investment objectives. As such, CITs and mutual funds share a number of similarities. For example, both are pooled investments with professional management, which are subject to some form of regulation. Each are governed by a controlling document a declaration of trust for CITs and a prospectus for mutual funds that provides the basis for investment objectives and how they will be operated and managed. As previously mentioned, the universe of CITs has expanded, and a wide variety of investment objectives can now be found in either vehicle. Data is more widely available today than in the past for CITs, and fact sheets now tend to be readily available for both vehicles. The most obvious difference between CITs and mutual funds is how they are regulated. Being exempt from SEC registration also allows CITs to avoid the costs associated with other activities the SEC requires of mutual funds, such as creating and delivering proxies, prospectuses, and Statements of Additional Information. Furthermore, given their exemption, CITs may be quicker and less expensive to create, and may provide more flexiblity with regard to pricing than mutual funds, as CIT fees may be negotiable in some cases, especially for larger institutional investors. Investment expense is typically the largest expense of a retirement plan; thus, the lower expenses of CITs provide potentially considerable savings that can be passed on to plan fiduciaries and participants. Specifically, mutual funds generally do not have eligibility restrictions and can usually be purchased by most investors i. For that reason, mutual funds market to a larger base of investors and have broader distribution outlets e. In contrast, CITs are restricted to certain retirement plans and, therefore, have limited marketing and distribution needs and expenses. The final distinction to be made between CITs and mutual funds lies within their respective operations, namely availability and reporting. While data is more readily available now than it has been historically for CITs, there are still some limitations on what the average investor can find on a CIT as compared to the information that can be obtained on mutual funds. While CITs have grown with regard to investment objectives available, there is still a much larger selection of investment styles available via mutual funds. Making a Decision on the Investment Vehicle When it comes to retirement plans, fiduciaries are charged with selecting an appropriate number of investment options as well as a suitable mix of investment objectives so that participants have access to the right balance of choices to create an appropriate asset allocation design. However, as investment platforms continue to add mutual funds, CITs, separate accounts, and other investments to the mix of options available to retirement plans, fiduciaries have the added responsibility of selecting the vehicle type. As a result, CITs and mutual funds should both be considered whenever possible. In addition, when selecting options for a participant directed retirement plan, plan fiduciaries need to consider many factors, not just cost. Given the multiple variables, there is generally not one option that will necessarily be a better choice; although in some situations, a plan may not be eligible to use CITs, making mutual funds the only alternative. Regardless of which vehicle is selected, plan fiduciaries must act in the best interest of plan participants and their beneficiaries, and make decisions utilizing a prudent decision making process that is well documented. Therefore, it is always important for plan fiduciaries to fully understand all the available options and any other factors involved when selecting investments for their retirement plans. The Collectives are available only for use within certain qualified employee benefit plans. The information contained herein: Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

2: The Re-Emergence of Collective Investment Trust Funds | Library | Insights | Manning & Napier

A trustee holds title of the trust property for the benefit of others and has a duty to manage the property with care and in good faith. This duty extends to the proper investment of trust funds under the Act, and the trustee direction is to invest as a prudent investor accounting for all known trust circumstances.

Objectives The investment objective for the Trust Funds is the preservation of capital while taking into consideration the erosive impacts of inflation. Recognizing that there are risks inherent in any investment, reviews and oversight of the management of the Trust Funds will seek to ensure that principal is protected. Investment review will encompass, but not be limited to, the parameters set forth in this IPS. Investments will be made with the intent of the investment being held long-term at least 1 year. In the case of common trusts, the portfolio of investments shall be managed on a collective basis all common trusts sharing common investments in order to minimize costs and maximize efficiency. The Trustees seek to attain a rate of return on Trust Fund investments consistent with the constraints imposed by this IPS, cash flow considerations and state laws that restrict the placement of Trust Funds. The Trustees shall act responsibly as custodians of the public trust. The Trustees shall have full power and authority to manage, invest, and reinvest all Trust Funds assets. Furthermore, the Trustees shall have full power and authority to employ, retain or engage the services of such custodians, trustees, fiscal agents, investment advisors, and other professional personnel as it shall deem necessary or desirable. In the event of any conflict between this IPS and any of the above statutory provisions including the interpretation or application of this IPS, the statute shall control and the Policy shall be deemed to have been revised or amended to conform to the statute. Investment Authority Management responsibility for the investment program is herby delegated to the Trustees who shall make investments in accordance with this IPS. The Trustees shall establish such procedures necessary to implement this investment policy. No person, except the Trustees, may engage in an investment transaction. The Trustees shall be responsible for all transactions undertaken and establish a system of reviews to ensure compliance with this IPS. All investments require advance approval of the Trustees. The Trustees should subordinate their personal investment transactions to those of the Trust Funds. Internal Controls The Trustees shall establish a system of internal controls, to be documented in writing. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the Town. Reporting The Trustees shall submit an investment report that summarizes the portfolio cost, market value, and performance of investments. Investment Instruments Collective investment assets and capital reserve fund assets of the Trust Funds may be invested in: Investment Criteria The following investment criteria reflect the variables needed to be met for each category of investment in order for purchases to be made of a specific investment. Depositories Deposits in savings banks or in the savings department of a national bank or trust company or shares of a building and loan association, cooperative bank, a federal savings and loan association or CDs shall be made only if the following criteria are met by the financial institution: Corporate Stocks and Bonds The purchase of stocks and bonds shall be made only if the company meets the following criteria: The majority of ratios for the company under consideration should compare favorably to other companies in the industry to which it belongs. Shares in Mutual Funds The purchase of shares in a mutual fund shall be made only in the fund meets the following criteria: Holding Period There shall be no set policy for the holding period for specific securities. The Trustees shall determine, based on a quarterly review, whether any holdings have appreciated beyond their fair value providing an advantageous opportunity for the sale of the security. Diversification It is the policy of the Trustees to diversify the investment portfolio. Common Trust assets held in common investments shall be diversified to eliminate the risks associated with the over concentration of assets in a specific maturity, industry or issuer. Risk The Trustees recognize that there are various risks associated with investing including issuer defaults, fluctuations in market prices or various technical complications that result in a temporary loss in liquidity. Portfolio diversification is to be employed as a means to control risk. The Trustees are expected to use prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the specific issuer. The Trustees shall review and, if appropriate, proceed to liquidate any securities having comparable credit risks. Safekeeping and Custody To protect against potential fraud and embezzlement and to provide central accounting and efficiency, all investment assets of the Trust Funds shall be held in a brokerage account for safekeeping, or by other financial institutions that meet or exceed industry guidelines for insurance protection standards. The Trustees shall review the security procedures of the brokerage firm to assure the safety of Trust Fund assets. The Treasurer is authorized to take advantage of computerized purchase and sales methods in order to realize any discounts offered. Capital Gains, Dividends and Interest Both short and long term capital gains or losses shall be accounted for as increases or decreases, respectively, of the principal of the trusts and shall be distributed to the individual trust at least quarterly, prorated based on the beginning principal position of the underlying funds. All dividends and interest shall be considered an increase to the accumulated income of the underlying funds and shall be distributed to the individual funds at least quarterly, prorated based on the beginning principal and accumulated interest position of the underlying funds. Updated NH Statutes with May policy review. Any person who directly or indirectly receives any such trust funds for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the town depositing or investing such funds. Only securities defined by the bank commissioner, as provided by rules adopted pursuant to RSA The funds shall be invested only in deposits in any federally or state-chartered bank or association authorized to engage in a banking business in this state, or in deposits in any credit union in this state, or in state, county, town, city, school district, water and sewer district bonds and the notes of towns or cities in this state; and such stocks and bonds as are legal for investment by any bank or association chartered by this state to engage in a banking business; and in participation units in the public deposit investment pool established pursuant to RSA The obligations may be held directly or in the form of securities of or other interests in any open-end or closed-end management-type investment company or investment trust registered under 15 U. Deposits in a federally or state-chartered bank or association or credit union shall be made in the name of the town which holds the same as a trust, and it shall appear upon the books thereof as a trust fund. The trustees may retain investments as received from donors, until the maturity thereof. The trustees shall formally adopt an investment policy for all investments made by them or by their agents for any trust funds in their custody in conformance with the provisions of applicable statutes. Such investment policy shall be reviewed and confirmed at least annually. A copy of the investment policy shall be filed with the attorney general. The assets of such funds may be pooled in order to invest in a broader range of investments to maximize growth and mitigate risk. Said capital reserve funds shall be invested only in deposits in any federally or state-chartered bank or association authorized to engage in a banking business in this state, or in bonds or notes of this state, in such stocks and bonds as are legal for investment by banks and associations chartered by this state to engage in a banking business, or in participation units in the public deposit investment pool established pursuant to RSA When so invested the trustees hereinafter named shall not be liable for the loss thereof. Any interest earned or capital gains realized on the moneys so invested shall accrue to and become a part of the individual funds on a pro rata basis. Deposits in federally or state-chartered banks and associations shall be made in the name of the town, district, or county which holds the same as a reserve, and it shall appear upon the books thereof that the same is a capital reserve fund. Any person who directly or indirectly receives any such capital reserve funds for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the town, school district, village district, or county depositing or investing such funds. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA The trustees shall review and confirm the investment policy at least annually. The provisions of RSA This section is intended only to provide help to trustees covered by this subdivision by enabling them to have professional banking and brokerage assistance in the performance of their duties as trustees. Such firm may or may not be associated with a brokerage firm as defined in paragraph II-a. Any trustee or trustees of trust funds authorized by this chapter may hire or employ the trust department or departments of a bank or banks or a brokerage firm to assist in the management and investment of trust fund resources or to provide bookkeeping services in connection therewith or to do both. They may also place securities in the nominee name of a trust department or departments or a brokerage firm to facilitate transfers for such securities. Trust fund records maintained by any bank or brokerage firm must be available at all times for examination by local auditors, by independent accountants or auditors retained by a municipality, or by the auditors of the department of revenue administration; and such records shall be municipal records and property. In employing such trust departments, portfolio management departments, or investment advisors, the trustees may enter into contracts or agreements delegating the management of such trust funds to those departments subject to investment guidelines adopted by the trustees under applicable statutes and subject to at least quarterly review and approval of such management by the trustees. Any expenses incurred pursuant to paragraph III of this section by a trustee or trustees of trust funds authorized by this chapter shall be charges against the trust funds involved and shall be identified and reported in the annual report of the trustee or trustees as expenditures out of trust funds made pursuant to RSA July 23, ;

3: Unit Investment Trust Fund (UITF) - Philippine National Bank

A trust fund is comprised of a variety of assets established by a grantor to provide financial security to an individual, most often a child or grandchild or organizations.

The Investment of Trust Funds by Mary Frazier ; Updated July 27, State law determines how trustees may invest trust funds, and state law varies from state to state. Unless the trust agreement governing the trust contains language restricting the purchase of certain types of investments, investment guidance to the trustee is from state statutes. Total Return A trustee holds title of the trust property for the benefit of others and has a duty to manage the property with care and in good faith. This duty extends to the proper investment of trust funds under the Act, and the trustee direction is to invest as a prudent investor accounting for all known trust circumstances. Under the Act, management of the trust fund is a concept known as total return. Under total return, the trustee manages the portfolio as a whole with an overall strategy for investments that provide the best total return to the trust. Trust Fund Investment Considerations The trustee takes into account many pieces of information when selecting an investment strategy for the trust that include economic conditions, tax consequences, total return expected and trust income needs. In developing the investment strategy, a trustee must also consider the level of market risk that is appropriate for the trust, and the resources of the trust beneficiaries. For example, an elderly pensioner that needs the trust income to survive will have a much lower risk tolerance than a successful businessman beneficiary with his own wealth and resources. Video of the Day Brought to you by Sapling Brought to you by Sapling Diversification and Risk The Act requires that trustees look at all circumstances known when investing trust funds and, in most trusts, there are two competing types of beneficiaries. There is the current beneficiary who wants the trust invested to provide current income, and the beneficiary who will receive the trust some time in the future that wants the trust invested for growth. Prudent trustees invest to diversify across asset classes in order to provide adequate diversification and lower the inherent risk that comes with investing. This provides a mix of growth and income that is appropriate for the two beneficiary classes and the trust fund as a whole. A trustee does not have any type of requirement to meet or beat market returns and is acting properly as long as there is a standard of care and prudence in selecting the trust fund investments. Trust Investment Restrictions Trust law of old contained long lists of restricted assets not allowed for purchase by a trust fund. These types of restrictions did not keep pace with economic times and modern investment theory, particularly the effects of inflation. Even with the ups and downs of the stock market, utilization of a certain amount of growth in trust funds is required in order to keep pace with inflation, even if the inflation rate is minimal. Some states may still have residual laws on their books with trust fund investment restrictions, so it is always sensible to review the state law of the principal place of trust administration for restrictions, and also to see if modification of the Act was enacted by the state legislature. References "Uniform Prudent Investor Act"; National Conference of Commissioners on Uniform State Laws; About the Author Mary Frazier began writing in for various websites and has over 20 years of experience as a bank vice president and senior trust officer. Cite this Article A tool to create a citation to reference this article Cite this Article.

4: Funds vs. Investment Trusts | Morningstar

To maximize the return of the trust, a trustee also has a duty to avoid unnecessary costs, including investment expenses and inflation risk, and to consider the tax consequences of any transaction. Under common law, trust funds had to be strictly segregated from other trust funds.

Fund governance Constitution and terminology[edit] Collective investment vehicles may be formed under company law , by legal trust or by statute. The nature of the vehicle and its limitations are often linked to its constitutional nature and the associated tax rules for the type of structure within a given jurisdiction. A fund manager or investment manager who manages the investment decisions. A fund administrator who manages the trading, reconciliations, valuation and unit pricing. A board of directors or trustees who safeguard the assets and ensure compliance with laws, regulations and rules. The shareholders or unitholders who own or have rights to the assets and associated income. Please see below for general information on specific forms of vehicles in different jurisdictions. The method for calculating this varies between vehicle types and jurisdiction and can be subject to complex regulation. Each time money is invested, new shares or units are created to match the prevailing share price; each time shares are redeemed, the assets sold match the prevailing share price. In this way there is no supply or demand created for shares and they remain a direct reflection of the underlying assets. Closed-end fund[edit] A closed-end fund issues a limited number of shares or units in an initial public offering or IPO or through private placement. If shares are issued through an IPO,[citation needed] they are then traded on an exchange or directly through the fund manager to create a secondary market subject to market forces. If demand for the shares is high, they may trade at a premium to net asset value. If demand is low they may trade at a discount to net asset value. Further share or unit offerings may be made by the vehicle if demand is high although this may affect the share price. For listed funds, the added element of market forces tends to amplify the performance of the fund increasing investment risk through increased volatility. Gearing and leverage[edit] Some collective investment vehicles have the power to borrow money to make further investments; a process known as gearing or leverage. If markets are growing rapidly this can allow the vehicle to take advantage of the growth to a greater extent than if only the subscribed contributions were invested. However this premise only works if the cost of the borrowing is less than the increased growth achieved. If the borrowing costs are more than the growth achieved a net loss is achieved. This can greatly increase the investment risk of the fund by increased volatility and exposure to increased capital risk. Gearing was a major contributory factor in the collapse of the split capital investment trust debacle in the UK in Public-availability vehiclesâ€"are available to most investors within the jurisdiction they are offered. Some restrictions on age and size of investment may be imposed. Private-availability vehiclesâ€"may be limited to family members or whomever set up the fund. They are not publicly traded and may be arranged for tax- or estate-planning purposes. Limited duration[edit] Some vehicles are designed to have a limited term with enforced redemption of shares or units on a specified date. Unit or share class[edit] Many collective investment vehicles split the fund into multiple classes of shares or units. These differences are supposed to reflect different costs involved in servicing investors in various classes; for example: One class may be sold through a stockbroker or financial adviser with an initial commission front-end load and might be called retail shares. Another class may be sold with no commission load direct to the public called direct shares. Still a third class might have a high minimum investment limit and only be open to financial institutions, and called institutional shares. In some cases, by aggregating regular investments by many individuals, a retirement plan such as a k plan may qualify to purchase "institutional" shares and gain the benefit of their typically lower expense ratios[citation needed] even though no members of the plan would qualify individually. These also include Unit Trusts. Generic informationâ€"advantages[edit] Diversity and risk[edit] One of the main advantages of collective investment is the reduction in investment risk capital risk by diversification. An investment in a single equity may do well, but it may collapse for investment or other reasons e. If your money is invested in such a failed holding you could lose your capital. By investing in a range of equities or other securities the capital risk is reduced. The more diversified your capital, the lower the capital risk. This investment principle is often referred to as spreading risk. Collective investments by their nature tend to invest in a range of individual securities. However, if the securities are all in a similar type of asset class or market sector then there is a systematic risk that all the shares could be affected by adverse market changes. To avoid this systematic risk investment managers may diversify into different non-perfectly-correlated asset classes. For example, investors might hold their assets in equal parts in equities and fixed income securities. Reduced dealing costs[edit] If one investor had to buy a large number of direct investments, the amount this person would be able to invest in each holding is likely to be small. Dealing costs are normally based on the number and size of each transaction, therefore the overall dealing costs would take a large chunk out of the capital affecting future profits. Costs[edit] The fund manager managing the investment decisions on behalf of the investors will of course expect remuneration. This is often taken directly from the fund assets as a fixed percentage each year or sometimes a variable performance based fee. If the investor managed their own investments, this cost would be avoided. Often the cost of advice given by a stockbroker or financial adviser is built into the vehicle. Often referred to as commission or load in the U. While this cost will diminish your returns it could be argued that it reflects a separate payment for an advice service rather than a detrimental feature of collective investment vehicles. Indeed, it is often possible to purchase units or shares directly from the providers without bearing this cost. Lack of choice[edit] Although the investor can choose the type of fund to invest in, they have no control over the choice of individual holdings that make up the fund. Investors in a collective investment vehicle often have none of the rights connected with individual investments within the fund. Style[edit] Investment aims and benchmarking[edit] Each fund has a defined investment goal to describe the remit of the investment manager and to help investors decide if the fund is right for them. The investment aims will typically fall into the broad categories of Income value investment or Growth investment. Income or value based investment tends to select stocks with strong income streams, often more established businesses. Growth investment selects stocks that tend to reinvest their income to generate growth. Each strategy has its critics and proponents; some prefer a blend approach using aspects of each. Funds are often distinguished by asset-based categories such as equity, bonds, property, etc. Also, perhaps most commonly funds are divided by their geographic markets or themes. Examples The largest marketsâ€” U. Themed fundsâ€”Technology, Healthcare, Socially responsible funds. In most instances whatever the investment aim the fund manager will select an appropriate index or combination of indices to measure its performance against; e. This becomes the benchmark to measure success or failure against. Active or passive management[edit] The aim of most funds is to make money by investing in assets to obtain a real return i. Active management â€”Active managers seek to outperform the market as a whole, by selectively holding securities according to an investment strategy. Therefore, they employ dynamic portfolio strategies, buying and selling investments with changing market conditions, based on their belief that particular individual holdings or sections of the market will perform better than others. Passive management â€”Passive managers stick to a portfolio strategy determined at outset of the fund and not varied thereafter, aiming to minimize the ongoing costs of maintaining the portfolio. Many passive funds are index funds , which attempt to replicate the performance of a market index by holding securities proportionally to their value in the market as a whole. Another example of passive management is the " buy and hold " method used by many traditional unit investment trusts where the portfolio is fixed from outset. Additionally, some funds use a hybrid management strategy of enhanced indexing , in which the manager minimizes costs by broadly following a passive indexing strategy, but has the discretion to actively deviate from the index in the hopes of earning modestly higher returns. These statistical measures are often reduced to a single figure representing an aspect of past performance: Alpha investment strategies tend to favour stock selection methods to achieve growth. Beta represents an estimate of how much the fund will move if its benchmark moves by 1 unit. Beta investment strategies tend to favour asset allocation models to achieve outperformance. R-squared is a measure of the association between a fund and its benchmark. Values are between 0 and 1. Perfect correlation is indicated by 1, and 0 indicates no correlation. This measure is useful in determining if the fund manager is adding value in their investment choices or acting as a closet tracker mirroring the market and making little difference. High historical volatility may indicate high future volatility, and therefore increased investment risk in a fund. A common concern with any investment is that you may lose the money you investâ€”your capital. This risk is therefore often referred to as capital risk. If the assets you invest in are held in another currency there is a risk that currency movements alone may affect the value. This is referred to as currency risk. Many forms of investment may not be readily salable on the open market e. Assets that are easily sold are termed liquid therefore this type of risk is termed liquidity risk. Charging structures and fees[edit] Fee types[edit] For an open-end fund, there may be an initial charge levied on the purchase of units or shares this covers dealing costs, and commissions paid to intermediaries or salespeople. Typically this fee is a percentage of the investment. Some vehicles waive the initial charge and apply an exit charge instead. This may be gradually disappearing after a number of years. Closed-end funds traded on an exchange are subject to brokerage commissions , in the same manner as a stock trade. The vehicle will charge an annual management charge or AMC to cover the cost of administering the vehicle and remunerating the investment manager. This may be a flat rate based on the value of the assets or a performance related fee based on a predefined target being achieved. Pricing models[edit] Open-ended vehicles are either dual priced or single priced. Dual priced vehicles have a buying offer price and selling or bid price. The buying price is higher than the selling price, this difference is known as the spread or bid-offer spread. The difference between the buying and selling price includes initial charge for entering the fund.

5: Unit Investment Trust (UIT)

Any corporation, association, or person handling or investing trust funds as a fiduciary shall be governed in the handling and investment of such funds as in this chapter specified. A fiduciary who invests and manages trust assets owes a duty to the beneficiaries of the trust to comply with requirements of this chapter.

The board will typically delegate responsibility to a professional fund manager to invest in the stocks and shares of a wide range of companies more than most people could practically invest in themselves. The investment trust often has no employees, only a board of directors comprising only non-executive directors. Investment trust shares are traded on stock exchanges, like those of other public companies. The share price does not always reflect the underlying value of the share portfolio held by the investment trust. In such cases, the investment trust is referred to as trading at a discount or premium to NAV net asset value. UCITS funds are not permitted to gear for investment purposes. The investment trust sector, in particular split capital investment trusts, suffered somewhat from around to after which creation of a compensation scheme resolved some problems. Moreover the investment objectives growth, income, capital preservation According to such factors, investment trusts are classified into sectors by the industry body, the Association of Investment Companies. Split Capital Investment Trusts[edit] Main article: Split capital investment trust Most investment trusts issue only one type of share ordinary shares and have an unlimited life. Split capital investment trusts are investment trusts with more than one type of share, such as zero dividend preference shares, income shares and capital shares. However, the number of split capital trusts has fallen dramatically since the split capital investment trust crisis and there were only 12 split capital investment trusts left in existence by Each of these 12 has only two classes of share: Some split capital trusts have a limited life determined at launch known as the wind-up date. Typically the life of a split capital trust is five to ten years. However, this life can be extended by shareholder vote. In the heyday of split capital trusts, splits were more complicated and could have share classes such as the following in order of typical priority and increasing risk: Zero Dividend Preference shares: If the Split has acquired any debt, debentures or loan stock, then this is paid out first, before any shareholders. Next in line to be repaid are Zero Dividend Preference shares, followed by any Income shares and then Capital. Although this order of priority is the most common way shares are paid out at the wind-up date, it may alter slightly from trust to trust. Splits may also issue Packaged Units combining certain classes of share, usually reflecting the share classes in the trust usually in the same ratio. This makes them essentially the same investment as an ordinary share in a conventional Investment Trust.

6: Trust Funds | University of Wisconsin System

Investment or distribution of funds held in fiduciary capacity â€” Deposit in other departments authorized â€" Collateral security required, exception. Court may permit deviation from terms of trust instrument.

Prudent Investment of Trust Assets A trustee has 2 significant duties with respect to investments: In a typical arrangement, the remainderman received the property after the holders of the life estate of the same property had died. However, because most trusts today are funded with intangible assets such as stocks, bonds, pension plans, and bank accounts, the primary duty of the trustee is to manage the fund. If the trustee is a corporation, then investments must be approved by the trust investment committee. Using Modern Portfolio Theory to Optimize Portfolio Risk and Return Generally, a trust makes investments to enhance the principal and to provide income to the beneficiaries. Traditionally, the trustee was limited to investment-grade investmentsâ€"to make only investments that a prudent man would make with his own property. Indeed, many states provided statutory lists of investments that trustees were permitted to make to shield the trustee from liability from investment losses. Even if the settlor expressly authorized any investment, by giving the trustee complete or absolute discretion, the trustee was still not totally immune for improper investments, especially if the trustee acted in bad faith or recklessly made the investment decision. Modern Portfolio Theory has shown that returns can be maximized and risk reduced by selecting assets that have no or a negative correlation with the other assets in the portfolio, even if some of those assets, by themselves, are risky. Hence, the modern trend has been to assess the total portfolio return compared to the total portfolio risk rather than the return and risk of individual assets. However, the degree of diversification required is fact sensitiveâ€"dependent on the purpose of the trust and the particular investments. Modern portfolio theory also provides tools to quantify the risk and return trade-off of an investmentâ€"to determine whether the return is worth the risk. A compensated risk, which is a risk that offers a higher potential return commensurate with the risk, is deemed to be an acceptable risk, while uncompensated risk, which does not have a corresponding potential of return, is deemed unacceptable. Consequently, the trustee can avoid liability for investment losses only for taking compensated risks. Professional and corporate trustees are generally held to a higher standard of care and investing due to their presumed expertise. Specifically, the UPIA provides: A trustee shall invest and manage trust assets like a prudent investor â€" by exercising reasonable care, skill, and caution â€" with regard to trust objectives by considering: A trustee shall reasonably verify facts relevant to the investment and management of trust assets. Duty to Review and Evaluate Inception Assets Under the UPIA, the trustee has a duty to review the trust assets at the inception of the trust so that the trust property can be administered to comport with the purpose, terms, and distribution requirements of the trust. However, the law tends to favor the retention of inception assets, thus, providing exceptions to the duty to diversify: Many jurisdictions hold the trustee harmless if he retained trust assets which initially funded the trust or that the settlor recommended the trustee retain. Nonetheless, the trustee still has a general fiduciary duty of prudent administration. If uncertainty or the lack of action may cause losses to the trust, the trustee may even have a duty to petition the court for authorization to take action, especially if 1 or more beneficiaries, or even a co-trustee, objects to the proposed action. Duty to Lower Expenses and Avoid Unnecessary Costs To maximize the return of the trust, a trustee also has a duty to avoid unnecessary costs, including investment expenses and inflation risk, and to consider the tax consequences of any transaction. Under common law, trust funds had to be strictly segregated from other trust funds. However, small trusts incur larger transaction costs, so the modern trend has been to allow trusteesâ€"especially corporate trustees, such as banks and trust companiesâ€"to merge small trust funds to lower transaction costs and to allow greater diversification of the merged portfolio. Delegation of Investment Management to Professionals The trustee has a duty to delegate for financial assistance in making investment decisions if the trustee is not competent to make investment decisions himself. In return, the agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation and must submit to the jurisdiction of the state in which the trust is located. Impartiality Allocating Principal and Income Among Beneficiaries Generally, life beneficiaries of the trust are entitled to trust income while the remaindermen are entitled to trust principal. Under the Principal and Income Act , income was considered interest, rent, cash dividends in stock, net profit from business, and a fraction of royalties. Principal was considered trust property, including sales proceeds, insurance proceeds, and stocks splits and dividends because they had to be retained to maintain the same proportion of ownership in the company. If the trustee was given discretion, then he has a duty to make inquiries necessary to carry out trust objectives. So if a trustee is required to disburse benefits based on the needs of the beneficiaries, for instance, then he has a duty to periodically inquire into the needs of each beneficiary so that the trust objective can be accomplished. Another problem arises in trying to maintain impartiality between the income beneficiaries and the remaindermen. The trustee may not be able to select the best investment opportunities because of the concern of providing adequate income to the income beneficiaries while maintaining the safety of principal for the remaindermen. Historically, the trustee had a duty to invest property so that it produced an income for the income beneficiaries while protecting the principal for the remaindermen. Investments that generate a large income tend to be risky while safe investments generate little income. Hence, beneficiaries holding a present interest in the trust generally wanted higher income over safety of principal, while remaindermen wanted the protection of principal so that there was something left when their future interest became possessory. To give the trustee the maximum flexibility to invest trust assets so as to maximize returns, UPIA gives the trustee the discretionâ€”unless the settlor provided otherwiseâ€”to allocate the total return of the trust to income and principal without regard to whether the return was traditionally defined as income or principal, and the trustee has a duty to re-allocate the investment return if it would be fairer to the beneficiaries. For instance, if growth property has appreciated significantly but has generated little income, then, upon its sale, the trustee has a duty to reallocate some of the sale proceeds to income, especially if the principal appreciation is much greater than the income that it generated, to compensate the income beneficiaries. Conversely, if income property is losing value, the trustee must sell it quickly; otherwise the remainderman would be entitled to some of the income to compensate for their loss of principal. The trustee who fails to withhold income generated during the delay may be liable for the difference. Allocating a Set Percentage of Trust Principal to Income Beneficiaries A unitrust is a special type of mandatory trust that simplifies the allocation of income and principal by giving the income beneficiaries a specified percentage of the value of the trust principal every year. This allows the trustee to invest the income to maximize the total return of the trust without worrying about impartiality between the income and principal beneficiaries. Because the trust principal can vary during the life of the trust, a common solution to quantify the principal is to use a 3-year moving average of the trust principal and multiply it by the unitrust percentage rate to calculate the actual income that will be paid to the income beneficiaries. At least 45 states and the District of Columbia have adopted all or portions of the UPIA, with its adjustment power and stated goal of harmonizing principal and income accounting with prudent investing. Most states also have statutes that allow a trust to be converted to a unitrust as a means of serving the same principle.

7: Investments and Reports | Trust Funds

An investment trust is a form of collective investment found mostly in the United Kingdom. Investment trusts are closed-end funds and are constituted as public limited companies. In many respects, the investment trust was the progenitor of the investment company in the U.S.

8: Fund of Investment Trust Shares - M&G Investments

A trust fund is set up by a person known as a grantor, for the benefit of another person, known as a beneficiary. A trust fund can contain cash, investments, real estate, and other assets, and can.

9: Prudent Investment Of Trust Assets

THE INVESTMENT OF TRUST FUNDS pdf

"The investment trust showed a remarkable return over the last five years, but the current year showed that they might need to make some changes to the portfolio.

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