



**guidance | trust | confidence**



# NI Young Solicitors' Association & Navigator Financial Planning

Trust Investments  
13<sup>th</sup> December 2007



# Agenda

- Trustee Act (NI) 2001
- Investment issues

# Trustee Act (NI) 2001

- Overrides older legislation & trust wording
- Wider power of investment
  - Delegate
  - Professional trustees
- Professionalism

# Trustee Act issues

- Statutory duty of care
- General power of investment
- Obligations
  - Seek advice
  - Standard investment criteria
  - Diversify
  - Review
  - All beneficiaries

# Financial advice issues

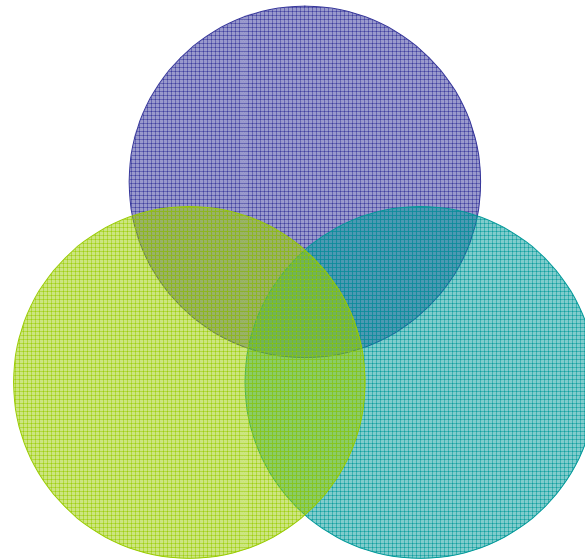
- Advice **MUST** be obtained
- Financial Planner as Permitted Third Party
  - Pass compliance risk
  - Keep notes & records
- Law Society rules
  - Adjunct to legal advice
  - Explanatory
  - Confirmative or negative
  - NOT alternative

# Choosing a PTP

- Financial Planner
- Fee-based
- Professionally qualified
  - Certified or Chartered
  - PI risk

# The 3-legged stool

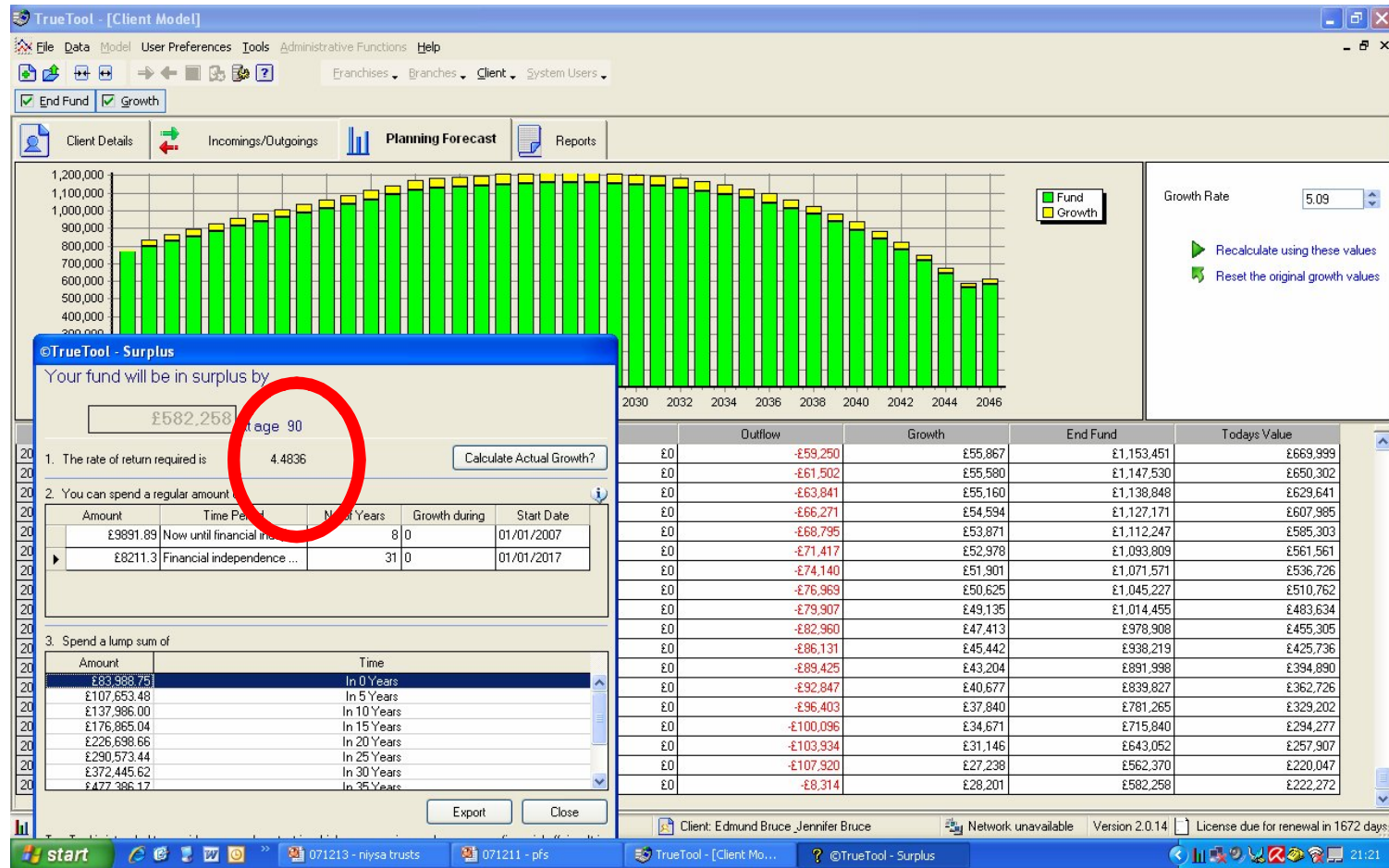
Objectives



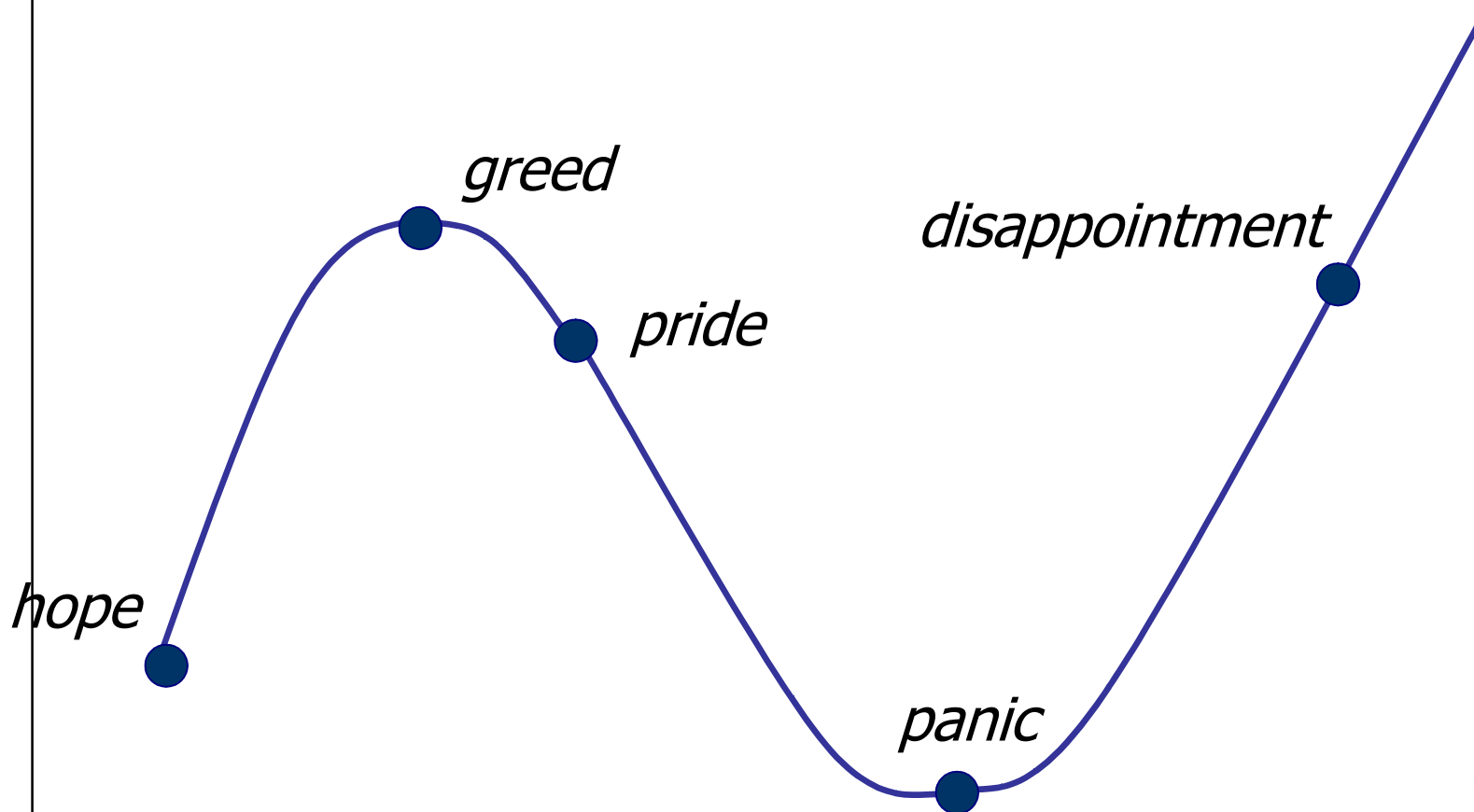
Resources

Risk

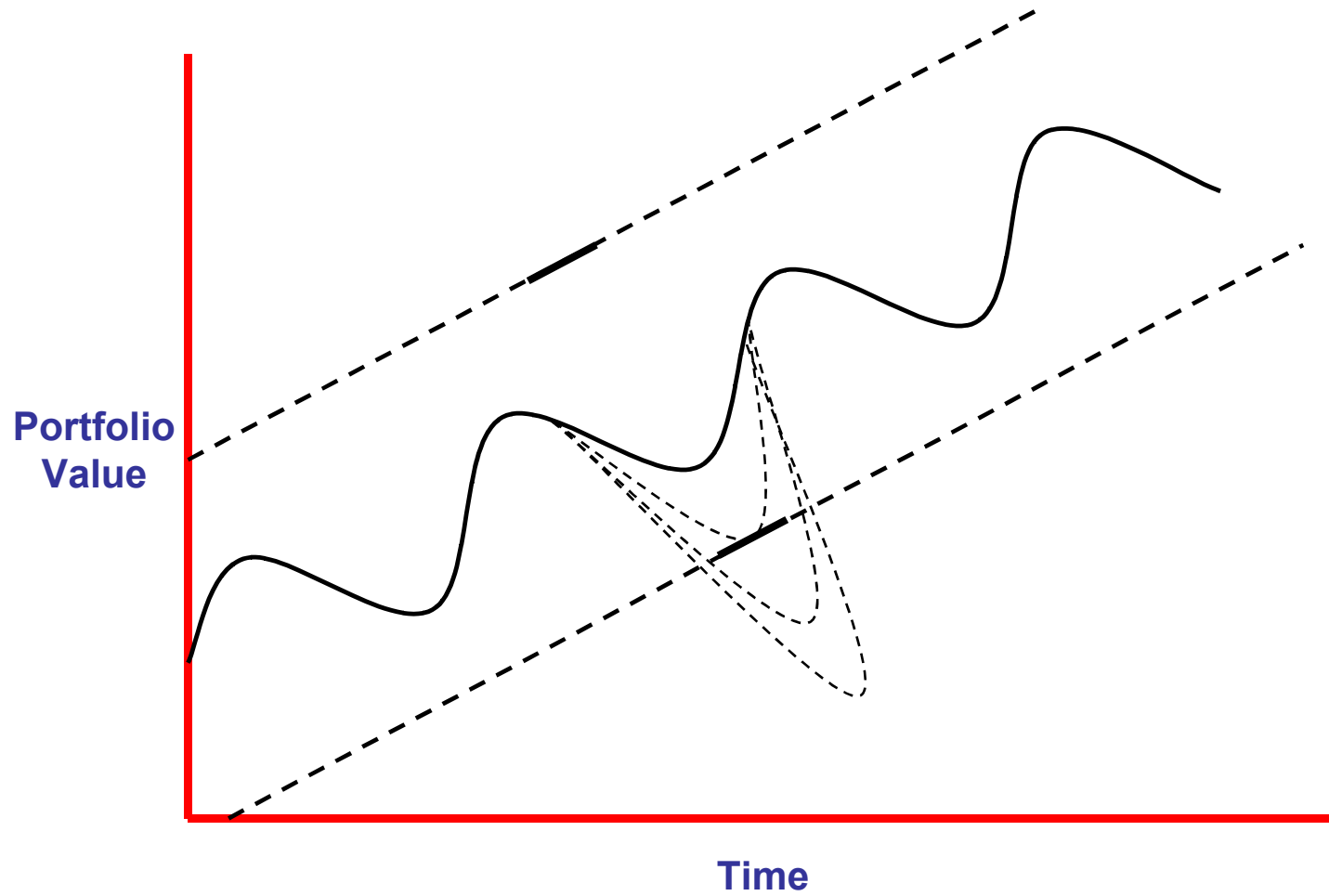
# Cashflow modelling



# Typical investor experience



# Risk management



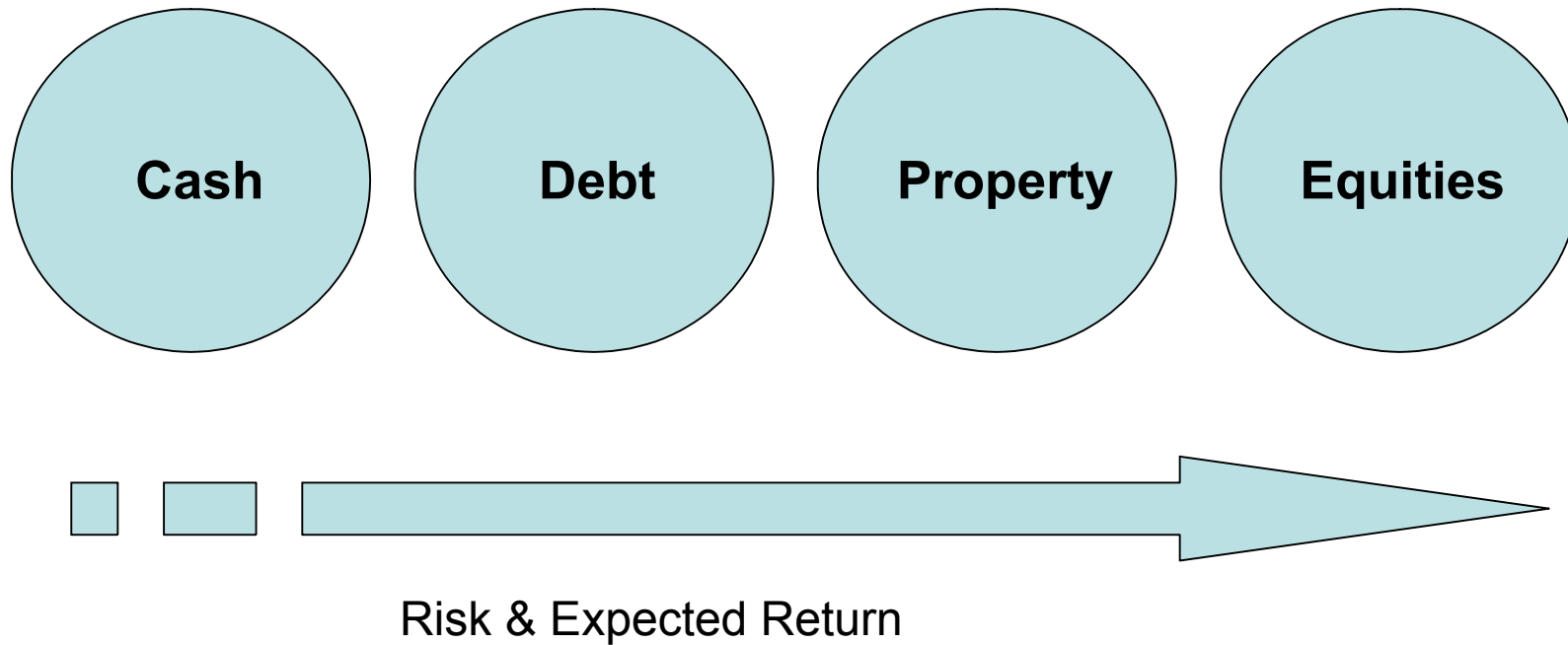
# Modern Portfolio Theory (plus)

- Markets are efficient
- Risk & return are related
- Diversification is essential
- Asset allocation explains performance
- Costs & tax matter

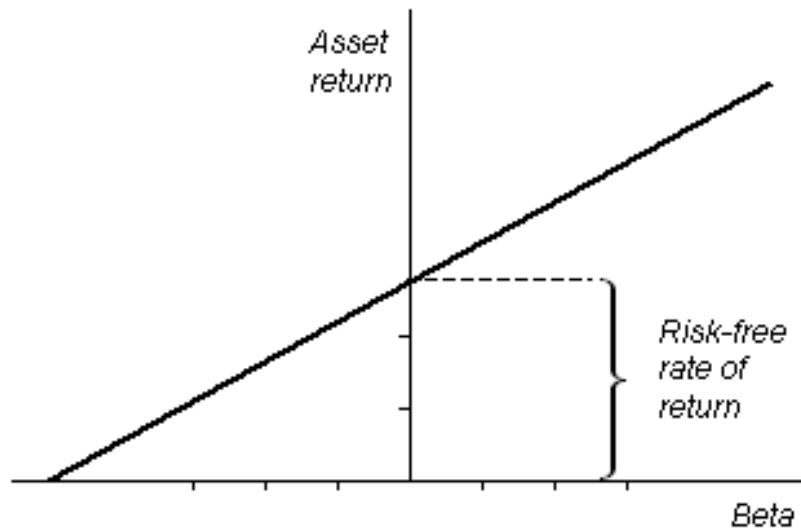
# Markets work

- Natural resources
- Intellectual capital
- Labour
- Financial capital

# Risk & return and Asset allocation



# Capital Asset Pricing Model



- $\alpha$  = asset return in excess of expected return
- $\beta$  = risk taken, which investors should be rewarded for

# Cost matters

## Multifactor Analysis

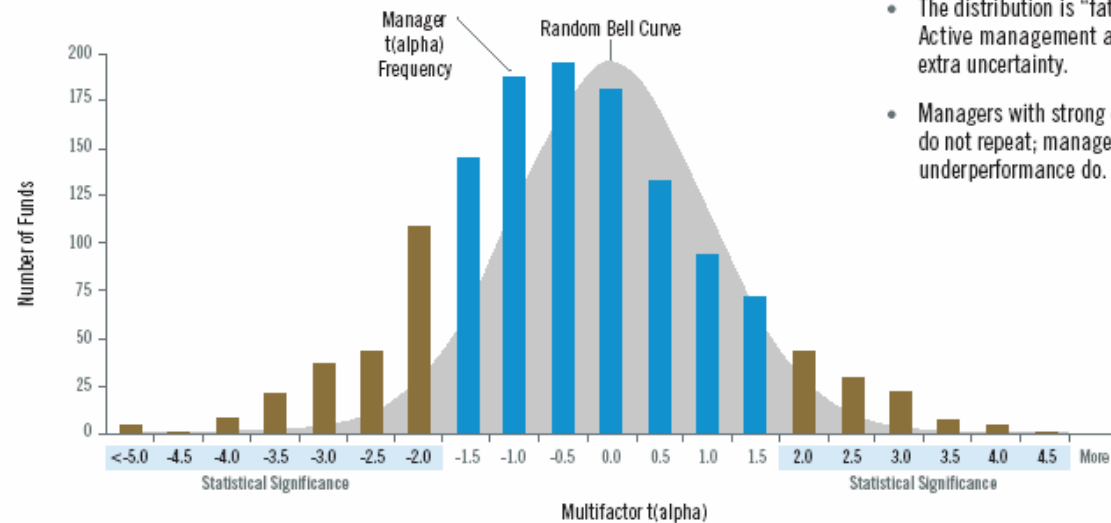


### Value Added of Active Management vs. Chance

Distribution of Multifactor  $t(\alpha)$

1,302 Manager

1962-1995



- Manager added value is similar to randomness minus expenses.
- The distribution is “fat-tailed”: Active management adds extra uncertainty.
- Managers with strong outperformance do not repeat; managers with strong underperformance do.

Source: Carhart, Mark, "On Persistence in Mutual Fund Performance", Journal of Finance, Vol. 52 No. 1, March 1997

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# Diversification

Performance  
Monthly: 01/1973 - 12/2002

| Data Series         | Annualized Return (%) | Total Return (%) | Growth of Wealth | Annualized Standard Deviation* (%) |
|---------------------|-----------------------|------------------|------------------|------------------------------------|
| 100% FTSE           | 12.49                 | 3,317.20         | 34.17            | 21.68                              |
| 50% FTSE:50% T-bill | 11.69                 | 2,659.18         | 27.59            | 10.87                              |

•Diversification “free lunch”

# Expected return

- Risk-free Rate
- Plus Risk Premium
  
- Standard Deviation
  - Historically more stable

# Diversification

## Randomness of Returns

Annual: 01/1988 - 12/2002

|   | 12/1988       | 12/1989 | 12/1990 | 12/1991 | 12/1992 | 12/1993 | 12/1994 | 12/1995 | 12/1996 | 12/1997 | 12/1998 | 12/1999 | 12/2000 | 12/2001 | 12/2002 |
|---|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Highest Return                            | 46.22         | 86.21   | 17.97   | 64.77   | 37.69   | 78.90   | 5.24    | 23.79   | 17.79   | 26.39   | 24.24   | 71.41   | 15.66   | 7.44    | 13.21   |
|   | 34.72         | 41.81   | 15.59   | 29.75   | 26.46   | 50.57   | 2.06    | 23.33   | 16.68   | 23.54   | 15.31   | 65.83   | 10.14   | 5.04    | 3.95    |
|   | 32.61         | 41.46   | -9.29   | 22.96   | 23.19   | 39.42   | 0.72    | 22.83   | 13.26   | 20.38   | 13.77   | 33.66   | 6.54    | 3.02    | -15.03  |
|   | 30.97         | 36.08   | -9.75   | 20.73   | 20.48   | 37.42   | -1.17   | 22.41   | 11.89   | 20.15   | 10.71   | 30.63   | 6.00    | 0.19    | -19.01  |
|   | 15.20         | 33.05   | -20.08  | 20.41   | 19.86   | 33.32   | -1.78   | 18.47   | 6.03    | 10.29   | 7.38    | 26.25   | -4.79   | -12.61  | -22.67  |
|   | 13.12         | 31.84   | -25.57  | 19.72   | 17.69   | 28.44   | -2.92   | 17.73   | 2.79    | 9.84    | 2.97    | 24.21   | -5.12   | -13.28  | -23.88  |
|   | 11.54         | 15.90   | -29.54  | 17.80   | 13.89   | 25.82   | -4.10   | 17.09   | 2.63    | 6.79    | 1.90    | 21.04   | -5.91   | -14.62  | -27.75  |
|   | 10.53         | 14.70   | -32.39  | 11.89   | 9.54    | 15.41   | -5.86   | 6.61    | 1.83    | 6.05    | -7.30   | 5.30    | -6.05   | -16.24  | -27.79  |
|   | 10.26         | 10.62   | -32.54  | 0.91    | 8.89    | 5.72    | -12.33  | -4.34   | -4.12   | -7.89   | -26.16  | 4.29    | -24.96  | -16.62  | -30.84  |
|   | Lowest Return | 10.26   | 10.62   | -32.54  | 0.91    | 8.89    | 5.72    | -12.33  | -4.34   | -4.12   | -7.89   | -26.16  | 4.29    | -24.96  | -16.62  |
|   | 12/1988       | 12/1989 | 12/1990 | 12/1991 | 12/1992 | 12/1993 | 12/1994 | 12/1995 | 12/1996 | 12/1997 | 12/1998 | 12/1999 | 12/2000 | 12/2001 | 12/2002 |
| FTSE All-Share Index                      | 11.54         | 36.08   | -9.75   | 20.73   | 20.48   | 28.44   | -5.86   | 23.79   | 16.68   | 23.54   | 13.77   | 24.21   | -5.91   | -13.28  | -22.67  |
| UK One-Month Treasury Bills               | 10.53         | 14.70   | 15.59   | 11.89   | 9.54    | 5.72    | 5.24    | 6.61    | 6.03    | 6.79    | 7.38    | 5.30    | 6.00    | 5.04    | 3.95    |
| Dimensional UK Small Cap Index            | 13.12         | 10.62   | -20.08  | 17.80   | 8.89    | 39.42   | -4.10   | 18.47   | 17.79   | 10.29   | -7.30   | 65.83   | -4.79   | -16.24  | -23.88  |
| Fama/French UK Value Index                | 15.20         | 41.81   | -9.29   | 0.91    | 23.19   | 50.57   | -1.78   | 23.33   | 13.26   | 26.39   | 1.90    | 26.25   | 15.66   | -16.62  | -30.84  |
| MSCI World ex UK Index (gross div.)       | 30.97         | 31.84   | -32.54  | 22.96   | 17.69   | 25.82   | 0.72    | 22.41   | 1.83    | 20.38   | 24.24   | 30.63   | -6.05   | -14.62  | -27.75  |
| MSCI World ex UK Value Index (gross div.) | 34.72         | 33.05   | -32.39  | 19.72   | 19.86   | 33.32   | 2.06    | 22.83   | 2.63    | 20.15   | 15.31   | 21.04   | 10.14   | -12.61  | -27.79  |
| International Small ex UK (with US)       | 32.61         | 41.46   | -29.54  | 29.75   | 26.46   | 37.42   | -1.17   | 17.73   | 2.79    | 6.05    | 2.97    | 33.66   | -5.12   | 3.02    | -19.01  |
| MSCI Emerging Markets Index (gross div.)  | 46.22         | 86.21   | -25.57  | 64.77   | 37.69   | 78.90   | -12.33  | -4.34   | -4.12   | -7.89   | -26.16  | 71.41   | -24.96  | 0.19    | -15.03  |
| Dimensional Global Short-Dated Bond Index | 10.26         | 15.90   | 17.97   | 20.41   | 13.89   | 15.41   | -2.92   | 17.09   | 11.89   | 9.84    | 10.71   | 4.29    | 6.54    | 7.44    | 13.21   |

# Solutions

- Stay invested
- Strategic asset allocation
- Passive investing
- Objective investment criteria



# Review

- Review against asset class
  - Return
  - Risk

# Choosing trustees

- Conflicts of interest
  - Disclose
  - Manage
- Understand the trust
- Use permitted investments
- Accounting
- Act jointly
- Work for nothing (unless professional)
- Are family members the best trustees?



# Contact details

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- He has assisted the NI Courts in matters of matrimonial ancillary relief, pensions disputes, bad advice in financial services, and non-payment claims against life insurance companies.
- He writes occasionally for the NI and national trade press, and has done so in national newspapers. He is currently writing a regular financial column for NI4Kids.



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