

KFR – DEFINING THE INVESTMENT POLICY

Step One

The trustee, in conjunction with the beneficiary where appropriate, completes the KFR Questionnaire Defining the Investment Policy and returns the completed questionnaire to KFR.

Step Two

KFR will analyse the responses to the question, attributing weighted scoring in order to clarify the overall risk/reward attitudes and longer term objectives. From these results KFR will prepare a formal Investment Policy Statement which is returned to the trustee.

Step Three

The trustee agrees the written Investment Policy Statement with the beneficiary and the Investment Manager.

Step Four

The final statement is sent by the trustee to the Investment Manager, who signs a copy, returning it to the trustee as the agreed basis on which the Investment Manager will operate the portfolio.

This note is given on the basis that no liability is accepted for any errors of fact or opinion and that professional advice must be obtained before applying the information to particular circumstances.

KFR – PORTFOLIO ANALYSIS AND PERFORMANCE REPORTING

Step One

The trustee provides KFR with two prior years' Portfolio Valuation Reports – either scanning and sending the detail by email, or sending photocopies – so that KFR can establish a database of historic information.

Step Two

KFR reviews the client history and inputs the data to establish criteria on which current performance can be evaluated. KFR will also consider and establish an appropriate benchmark based on the historic portfolio and the relevant needs, aims and objectives of the beneficiaries.

Step Three

The trustee sends the next valuation to KFR for evaluation of the performance, risk, return and asset allocation against the Investment Policy Statement and the benchmark.

Step Four

KFR delivers its independent report to the trustee, allowing the trustee to consider what, if any, action is needed in the light of the comments made by the report, as well as giving the trustee evidence that it has discharged its duty of care.

More Information

For more information, or to discuss how the expertise of Key Financial Reporting can assist you, please contact Daniel Reynolds at the address details below or by email: daniel.reynolds@key-trust.com



Living with Fiduciary Responsibility

Key Financial Reporting Limited PO Box 116 Jersey Channel Islands JE4 8SU

Telephone: +44 1534 630500 Facsimile: +44 1534 639669 Website: www.key-trust.com

Key Trust Company Limited is licensed by the Jersey Financial Services Commission to undertake Trust Company business.

Setting the Investment Policy and Monitoring Portfolio Management

Trust Law requires a trustee to exercise reasonable skill and care in the management and administration of assets held in trust. Normal prudence is not sufficient for a professional trustee; a higher level of expertise is required, particularly with regard to the suitability of a portfolio of investments.

Increasingly, claims are being made against trustees because of the poor performance of investments, even when the trustee has delegated the investment work to an independent Investment Manager. When there is an investment loss, the challenge made against the trustee questions his management of the assets:-

- Was an appropriate Investment Manager appointed?
- Was there a written Investment Policy Statement?
- Did the Investment Manager follow the guidelines?
- Did the trustee review and monitor the investment performance?

In the UK, the Trustee Act 2000, which came into force on 1 February 2001, sets out a number of specific requirements – for example: that trustees must meet standard investment criteria (section 4 of the Act); that the appointment of an Investment Manager is accompanied by a written Policy Statement (section 15); and that the trustee shall monitor the results of the Investment Manager, ensuring he/she follows the Investment Policy and produces acceptable performance.

Trustees in other jurisdictions also have these responsibilities and the UK Trustee Act now establishes a standard that beneficiaries can point to as the minimum expected of a professional trustee.

A trustee has always had this duty of care, but statute makes it even more important that the trustee maintains clear evidence that they have done their duty and have taken adequate care.

These requirements of duty and law require trustees to have strong investment skills, analytical expertise and access to third party reporting systems, so that they may undertake proper evaluation of the Investment Manager. Without external sources of information to supplement the Investment Manager's reports, the trustee will not be in a position to demonstrate adequate supervision if challenged by a beneficiary who is disappointed with investment performance.

Trustees are now expected to maintain evidence that they have maintained comprehensive portfolio monitoring, including taking into consideration asset allocation, diversification, performance against benchmarks, the quality of holdings, together with the volatility and risk taken to achieve results. Evaluating these elements is a specialist activity. It requires access not only to historic data, but also to specialist external data on market results, sector and peer group information, which needs to be drawn from sources such as Bloomberg, Standard and Poor's, and FTSE.

The best protection for a trustee is to get expert assistance in the writing of the initial Investment Policy Statement, together with ongoing support for an independent professional review of the portfolio. Key Financial Reporting Limited (KFR) provides a comprehensive service giving trustees a formal Investment Policy Statement that ensures the Investment Manager has a clear understanding of what he is to do in the best interests of the trust. Also, KFR provides a comprehensive performance evaluation service that gives trustees and beneficiaries an objective analysis of the Investment Manager's results.

Our service compares those results against the benchmark of the Policy Statement, together with external benchmarks, looking at the risk taken to achieve the returns. The KFR Report gives:-

- Independent performance evaluation.
- Comparison with appropriate benchmarks.
- Analysis summary.
- Commentary and review points.
- A common platform enabling a comparison of several Investment Managers.

For the trustee, this gives the benefit of proactive rather than reactive management, clear evidence of professional supervision and informed decision-making, together with value added for the clients.

THE PRUDENT TRUSTEE'S ACTION PLAN

Analyse the current position:-

- Check the Trust Deed to ascertain if there are any constraints on investment matters.
- Check with the beneficiaries for relevant needs, aims and objectives.
- Use the KFR Investment Policy Questionnaire to clarify objectives, establish constraints, define risk profile, benchmarks and reporting.

Define the Investment Policy

The KFR Investment Policy Questionnaire will establish for the trustee:-

- The acceptable level of risk.
- The appropriate time horizon.
- The expected return on investments.
- The frequency of reporting arrangements.
- Any constraints on investment choices.

Completing the KFR Investment Policy Questionnaire and returning it to KFR enables us to analyse the answers, applying appropriate weighting in order to write for the trustee a specific Investment Policy Statement that is totally relevant to each Trust.

The statement is then returned to the trustee who can fine tune the statement with the beneficiaries and the Investment Manager to produce the optimum statement.

Monitor and Supervise the Portfolio

Periodic reviews of the portfolio and of the Investment Manager's result are essential. They are a fundamental part of the trustee's duties. KFR provides a full investment monitoring service.

In conjunction with each report produced by the Investment Manager, KFR will supplement it with a full performance analysis against benchmarks, peer groups, policy statements, overall objectives and asset allocation.

The KFR Report will review both the performance in its historical context and any changes made in the period to the overall allocation. The report will also provide commentary on the results.

The KFR Report aims to protect the trustee by providing evidence that an independent evaluation has been made, allowing trustee and beneficiaries to exercise effective monitoring of the Investment Manager. For the trustee it has the added advantage that the KFR Report, by using standard criteria, allows direct comparison to be made between several Investment Managers and thus can expose any Investment Manager who is not achieving adequate results.