WEALTHADVISOR

THE VOICE OF THE FINANCIAL ADVISOR COMMUNITY

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THE WINNERS LIST

AMERICA'S MOST ADVISOR-FRIENDLY TRUST COMPANIES IN DELAWARE

Delaware 2019: The Top Trust Destination Keeps Getting Better

Modern money is on the move. Wealth circulates across jurisdictions in search of the best tax treatment, legal protections and privacy without respecting where the family lives or does business. Likewise, as an increasingly nomadic elite maintains domiciles around the country, a trust fund needs to be available wherever the scattered beneficiaries decide to go.

The family can and will live anywhere. The money needs to find the best environment that will nurture it for generations to come. Every advisor who wants to remain relevant in today's hypercompetitive marketplace needs to cultivate their ability to support clients across state lines.

As we'll see, that means being able to recommend when and where to set up a trust wherever conditions are most supportive. And it means being able to work with the right trust specialists in order to get the best dynastic outcomes for the people who want you to keep working with their money far into the future.

Not all trusts were created equal. Most are governed by state statutes that vary so widely that some jurisdictions are far more attractive than others, giving the companies that operate there an operational edge in terms of the protections they can provide, the structures they can support and ultimately the flexibility your clients will enjoy.

Few jurisdictions can match the allure of Delaware. Those who know the state's competitive advantages rarely need to be reminded why this enclave with barely 0.3% of the national population has attracted 26% of the nation's personal trust assets into its institutions, according to the latest IRS data. Year by year, the rules get even more attractive, with the 2018 Delaware Trust Act providing the most recent comprehensive set of enhancements designed to keep the state at the center of the national map.

However, those who know the state might not be willing not talk much at all. Unlike fans of other states, people who know Delaware rarely tout the state's blessings in the open. The tone is more need-to-know.

If your clients are worth institution-level care and attention, they'll probably be steered in this direction sooner or later.

Yes, trusts can cross state lines in pursuit of excellence. The home court can be yours. For every trust fund dollar held anywhere in the country, $0.26 is technically held somewhere within Delaware for a reason.

That said, these institutions are a little choosy. They don't advertise much. Like anyone else, they're happy to accept new accounts, but they're not necessarily eager to work with every dollar on the map.

If your clients want to work with them, I think the following pages will be enough to broker an introduction. To make things even easier, we had our readers rank some of the players. You can find the list on p. 8.

TRUSTS FOR BEGINNERS

A trust is a legal entity created to own assets transferred to it from one party (the grantor) and invest the capital to provide income to others (the beneficiaries). Its interests and objectives are clearly laid out in legal documents and one or more trustees are appointed to manage the assets. While the trustee can be an individual, modern best practice suggests that a corporate entity provides the required service more reliably and more efficiently.

SCOTT MARTIN
EDITOR-IN-CHIEF

They said tax reform would kill the trust industry but now as the baby boom pivots from retirement to es-tate planning, it's clear that the future is always a moving target. That's a win for everyone: the advisors who refer the accounts, the professional trustees willing to work with them, the wealthy clients looking to structure their legacies and ultimately the beneficiaries who reap the long-term rewards.

The secret was knowing more than the pundits. Old money had already watched the estate tax ebb and flow over the past century. These investors know no repeal would ever be truly "permanent" and that planning needs to keep up with the news. Even if they'd already done all the estate planning they could, locking in every tax break available for the long term, suddenly 2018 gave them the chance to do it all over.

And they said the trust industry was overdue a consolidation as copycats drop out and stronger players get bought out. That part is true. We're entering an era where people who want to do more than just sur-vive are layering value onto their service platforms . . . and advisors who partner with them will thrive.

In effect, all the trusts in place to date are only half of what the new rules make available. We're not ap-proaching the end of the trust boom. We're resetting the gauge to zero. The future is making sure your clients have access to everything they might want to achieve their dynastic ambitions. That's more than a tax break. It's why we love Delaware, where the trust landscape is as dynamic as the dynasties it serves.

All trusts fall within two main categories:

- Revocable trusts maintain the assets under the ownership of the grantor, often until death.
- Irrevocable trusts remove the assets permanently from the grantor's control and from the estate.

A variety of specialized trusts provide additional protection and flexibility. However, most trusts are created to serve the following financial goals:

- Estate planning
- Asset protection
- Tax reduction
- Probate avoidance
- Charity and philanthropy
- Supporting individuals with special needs (guardianships and conservatorships)

While corporate trustees have historically tried to take over the way trust assets are invested, effectively capturing those accounts away from the grantor's existing advisors, a new wave of trust companies are satisfied with charging a small fee for administration and leaving the money management (and the associated fees) to the experts. These trust companies are what we call "advisor friendly," because they'd rather cooperate than compete.

FINALLY A WIN-WIN-WIN SCENARIO

Investors are almost universally frustrated with raw investment performance as the basis for their advisory relationship. As we've seen, an automated computer program can match the market for a fraction of the cost — and matching the market may not always be terribly impressive in itself.

Working with trusts provides the kind of deeper, value-added relationship that keeps clients from drifting away. Assets held in trust can remain in place in perpetuity, allowing the accumulation of wealth across multiple generations and keeping the fees flowing for decades. It's no wonder banks and other institutions keep chasing these assets and never let them go when they get them.

Trusts are so attractive to the big institutions that even a complete and perpetual rollback of the federal estate tax won't eliminate them from the financial marketplace entirely. We may see different benefits of trust instruments emphasized now: freedom from probate, confidentiality, asset protection, the ability to structure inheritance across truly dynastic lines and nurture heirs "quietly" without ever letting them know how rich they are. Your wealthiest clients will still crave these benefits and seek out a provider who can make them happen.

Either way, while this area of the industry is practically essential to high-net-worth investors, only a minority of advisors has built the necessary network of relationships to help clients transfer their wealth into trusts. It takes a little time and effort to find the right partner. Moreover, with so many trust service organizations fighting for a place at the table, the cost of settling on the wrong partner is far too high.

Most trust service organizations are affiliated with banks or asset management firms that want to take over the way the money is invested. Many funnel the cash into proprietary products. Others simply exploit their access to your best clients in order to prospect a greater share of the overall assets away from legacy advisors and into their own books of business.

These trust service organizations may do a great job administering trusts, but from an advisor's point of view they're far from trustworthy. Anyone who refers clients to these de facto competitors is effectively giving a rival open license to take over the accounts. Instead of making those assets stickier, you're inviting them to migrate to a rival.

The good news, of course, is that states like Delaware have made room for a structure called the directed trust within their statutes. In these trusts, the trustee and other administrators explicitly step aside to let outside advisors remain responsible for investing the assets and capture the associated fees.

Trust companies that support directed trusts are happy to stick to their end of the relationship and earn their fee from administration, fiduciary services and other specialized functions, leaving the way the assets are managed to the advisors who introduce the accounts. Many have no in-house wealth management operations and would never interfere with that side of the relationship for any reason.

These companies have staked their future growth on their ability to work with advisors instead of against you. They like advisors. They know the culture and the strategic considerations you deal with every day. We call them "advisor friendly" because that's what they are.

Every year, we profile the companies that have demonstrated that they want to work with you. Some are massive, dominating their jurisdiction, while others work on a boutique scale. Many are specialists in various forms of trust or hard-to-place assets. Most provide various forms of support to help their partners market themselves as trust experts to clients who want this level of service and will get it from someone, one way or another.

WHERE TRUST BEGINS: THE DELAWARE EDGE

The Delaware trust code developed in tandem with the Diamond State's famous business-friendly corporate environment. The parallel is not accidental. This is truly the "home court" where modern trusts were born, giving the state's institutions an edge in terms of aggregate expertise. They've been doing it longer here than anywhere else on the planet. They've seen it all.

Just as nearly 60% of the Fortune 500 makes its home in Delaware, a number of prominent families have established the state as the place where their money resides. The names and exact numbers are confidential, of course, but this is unquestionably the heart of "high society" and new money alike.

Naturally, the banking system that grew up around that wealth is uniquely suited to serve its needs. These institutions aren't fussy or lost in some antique Gilded Age – if anything, they include some of the leanest, most pragmatic and technology-forward organizations in the industry – but they also how to provide service that is as close to flawless as it gets.

In a typical Delaware trust office, the side you see is a little formal. The experience is somewhere between old world grand hotel and a night at the opera. If that's what your clients expect, much less demand, they'll fit right in.

And in the meantime, the back office and the regulatory framework that support that experience have evolved to ensure that the outcomes those high-end clients receive can match what they'd get anywhere else.

Delaware was often among the first states to roll back restrictions on locally domiciled trusts. Local legislators started to chip away at the standing rule against perpetuities as early as 1933, eventually opening the door to truly long-lasting "dynastic" trusts in 1995. "Spendthrift" trusts that shield assets from nuisance lawsuits and other creditors followed, and at this point the state routinely places around the top of lists of destinations for families looking for the best long-term protection for their money.

Today, the state's lawmakers still work closely with the local trust community in order to ensure that the statutes remain competitive, regulation is strict without being onerous and the assets keep flowing.

It seems to be working. In 1986, Delaware had captured 3.6 times as many trust assets per capita a traditionally wealthy state like New York. More recently, the outperformance is something closer to $8 in Delaware for every $1 on the screens of Manhattan institutions.

Last year, the state filled in a few loopholes in the way it protects unborn beneficiaries, as well as how it handles trust mergers and lets living grantors modify the trust language to keep up with new developments. While the details are interesting to specialists, the real upshot is what's important. Delaware isn't stuck in the past. They're eager to keep their trusts as up-to-date as the families they serve.

WHAT FAMILY OFFICES WANT

The wealthiest people can go anywhere and naturally their advisors want to make sure their money remains where drag from state taxes, legal liability and the simple passage of time will be minimized.

Unfortunately, only a relative handful of U.S. states support all of the major types of trust that your clients may need, but anyone from any state can set up a trust in any jurisdiction. Many families and individuals have sent their representatives and their wealth across state borders, time zones and even oceans in order to find the best place to set up their trust.

After that point, of course, the trust creators and beneficiaries can go on living wherever they want.
But which states make the cut? The answer depends on what your clients may need, and on that basis, it can be useful to consider how a typical large family office that serves ultra-high-net-worth investors structures its search for a trust jurisdiction.

Many opt for maximum flexibility when the time comes to decide where to set up the new trust. The rationale is clear: even if the prospective trust grantor doesn't need a particular tax benefit or class of protection at the moment, circumstances change.

And since the goal is to make multiple generations part of the equation, the trust must be able to evolve with the family's needs, no matter how hypothetical or even unlikely a scenario may seem at present. Because of this, many advisors look for a combination of factors when searching for a trust company:

- **Perpetuities.** Conventional trusts can expire a few decades or maybe a century after the original grantor dies, but many states allow property to remain in trust for many generations longer than the standard state and in some cases forever. These perpetual trusts or dynasty trusts are a very popular technique for planners and clients today.
- **Favorable tax rules.** Avoiding state income or capital gains tax is another key objective for planners to achieve for their clients. A few states do not impose an income tax on trusts. Delaware goes a little farther to incentivize out-of-state trusts by waiving the tax on income or capital gains distributed to non-resident beneficiaries.
- **Asset protection.** Some states offer varying degrees of protection for locally domiciled trusts from the trust creator's creditors. While the language can be so vague as to be useless in court, jurisdictions like Delaware have a rich body of statutes in place designed to shield property from legal claims and, as importantly, the legal precedent to back them up.
- **Privacy.** Most states have methods for insuring that fiduciary matters will not be a matter of public record, although some are stronger than others. However, state laws differ on beneficiaries' entitlement to trust information and only a few states allow a trust instrument to delay or prohibit disclosure of trust information to future beneficiaries. Delaware leaves this up to the trust creator, allowing a wide range of flexibility while ensuring that matters of confidentiality are spelled out in the trust documents themselves.
- **Delegation and/or direction.** Needless to say, you want a trust provider that operates in a state that allows an outside advisor to manage the portfolio. But this is not quite as intuitive as it initially seems. Review state statutes permitting segregation of duties to make sure that the trustee will provide exactly the level of supervision you find comfortable -- neither more nor less.

THE 3 BEST-KEPT SECRETS IN WEALTH MANAGEMENT

While Delaware may naturally pass the test on all these points, it may be not necessarily be surprising that "only" 7.6% of the nation's personal trust assets are packed into the state's borders.

As it is, barely 1 in 10 Wealth Advisor readers consider Delaware the top place to send their clients when it's time to create a trust.

This tells me that there's room here for advisors to differentiate themselves by building a few relationships with Delaware-based trust companies that 90% of your competitors currently ignore.

Go against the consensus and differentiate yourself! That's the most important thing any wealth manager in this ultra-competitive environment can do.

You don't have to direct your clients to these institutions. All you have to do is demonstrate that you've cut through the chatter to make a thorough search of the top vendors in the top jurisdictions — and these are the names that make the deep cut. After that, it really becomes a question of introductions and figuring out where the best relationship can develop.

Obviously, that's competitive clear. Once you've differentiated yourself, you'll find that you're a better fit for some prospects than you are for the others. Likewise, your clients will appreciate that you went the distance to find the best match for them as individuals. Wherever they end up, they'll remember that. You're the special person here.

Along those lines, a lot of advisors are reluctant to partner with a traditional trust company because there's a sense that a full-service institution will end up usurping the wealth management function and then stealing the assets themselves from your oversight.

It's a valid concern. But plenty of trust companies eliminate what amounts to a conflict of interest by catering to directed and delegated trusts. In these vehicles, the trust creator can either assign a third-party advisor to handle the way the trust assets are invested or else allow the trustee to delegate the job to an advisor.

Delegation and direction can be set up in advance, ensuring that no advisor ever has to surrender fee-generating AUM simply because the client needed to set up a trust. That's Secret No. 3: there are cooperative outcomes if you keep your eyes open.

And clearly the 10% of advisors working with Delaware trust companies to get those outcomes are demonstrating that the strategy works. Not one dollar of those assets packed into this little state got here on its own. This is where the elite money goes. Once it gets here, this is where it stays.

NY PRIVATE TRUST: THE TOP PLAYER IN THE TOP 10%

Of course, once you know which jurisdiction makes sense to investigate further, you still need to find the right potential partner. Delaware is densely populated with trust companies eager and willing to provide custody and administration services for out-of-state wealth. But how do you know which is best for your clients?

Other people will tell you that there's no one-size-fits-all answer to that question. While that's true, it's important to know what other advisors are looking for when they put their lists together and start making calls. So we polled the Wealth Advisor audience to see what they want from a trust company and who they like in Delaware. You don't have to use it as your playbook, but it probably helps rank the calls in terms of priority. We then asked readers to rank independent trust companies according to these criteria and it turns out New York Private Trust rose to the top of the pack.

On the surface, it's an interesting choice because the company isn't exactly named for Delaware. Much of its business is conducted in elegant offices in Manhattan that reek of old Social Register money. But let's see what went into the scoring:

Reputation remains the top thing advisors are looking for. If a trust company can't provide references to other professionals who are working happily and successfully with them, you probably don't want to be the pioneer who blazes the trail. This is a conservative business. Decisions you make now can have a huge impact on your clients' lives and your own professional posterity for generations. The absence of testimonials should be a big red flag.

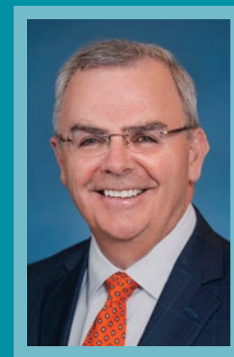
Years of experience are a key factor when it comes to establishing that track record. The firm itself may be relatively new, but if the executive team can draw on several decades if not centuries of expertise, it should be better positioned to navigate the decades or centuries your clients' trusts will remain active. Besides, survival demonstrates skill. If these people weren't good at their jobs, they would be gone.

A **dedicated trust officer** comes next. Your clients are paying for concierge-level service from you, so handing their wealth to a less bespoke arrangement is asking for trouble. If anything, the beneficiaries will probably make higher demands than the trust grantors on the trust company's professional resources. Start the relationship on the right foot now.

Alternative assets are rapidly becoming a major "must-have" item on the list, and this may actually become the kingmaker as the industry evolves. A top-tier trust company in the right state may have legendary people on the payroll, offer exquisite white-glove service and still only have the processes in place to accept vanilla stocks and bonds. If your client wants to transfer income-generating property, private equity or any other "non-traditional" wealth into a trust, you'll still have to look elsewhere. Make sure your partners know how to work with the assets you have.

Jurisdiction rates high in Wealth Advisor readers' criteria for whether a trust company is worth contacting. We've already covered that one. The fact that you're reading this indicates that you're at least considering Delaware. Any institution with a Delaware charter can

NEW YORK PRIVATE TRUST



Timothy Carroll
Chief Executive Officer

The ability for clients to bifurcate the investment and administration function even in states that do not have a directed trust statute has really taken off in the past year. I find this development very exciting.Some of our competitors lose clients by providing poor service. That is the number-one complaint we hear from prospective clients.

For this reason, our primary edge remains our service model. We assign a specific trust officer to a client relationship. The trust officer provides a high level of responsive and attentive service. We are also very comfortable working with non-U.S. clients and delegating investment management to third-party advisors.

	SALE IN DELAWARE TRUST	SALE IN CALIFORNIA TRUST
SALE PROCEEDS	$5,000,000	$5,000,000
TAX COST	$0	$0
GAIN ON SALE	$5,000,000	$5,000,000
STATE INCOME TAX	$0	$665,000
FEDERAL INCOME TAX	$1,190,000	$1,190,000
PROCEEDS NET OF TAX	**$3,810,000**	**$3,145,000**
DELAWARE BENEFIT=	$665,000	

provide the specialized types of trust protection that many advisors and their clients now demand.

Finally, your fellow advisors demand **independence** from in-house wealth managers. It's great to know that a trust administrator has specialized expertise in dealing with exotic assets or rarefied situations if your clients need outside-the-box assistance, but in general, you really just want to be left alone to do what you do best.

Now what made New York Private Trust so special? Obviously the company has plenty of human resources to make each client feel special, along with hundreds of years of collective experience to smooth relationship wrinkles when they emerge.

The Delaware operation provides the advantages of a presence in the state, checking the "jurisdiction" box. Meanwhile, the Manhattan office ensures that the team is already thinking of leveraging that jurisdictional edge across state lines. To paraphrase the song lyric, if you can run money in New York, you can run it anywhere. This is already a destination for ultra-high-net-worth old money and well-heeled tourists alike. And on the "alternative assets" side of the argument, the NYPT team has plenty of success stories to draw on about how they accepted the transfer of privately operated businesses and working property. They've done this before. They're happy to do it again.

Finally, where I think NYPT really had the edge over its rivals in Delaware — fine companies, by the way — is its commitment to helping advisors and estate planners educate their own clients on how trusts work and why they're important.

If you've ever fought with a client over why appointing one child as trustee over their brothers' and sisters' accounts, you know how hard it can be. NYPT has done that. They already have the educational materials that make the case quickly and elegantly. Likewise, they can help when the time comes to suggest decanting an existing trust or converting a trust into a directed or delegated arrangement.

SURVEY RESULTS

1. **New York Trust Private Trust Company**
2. Commonwealth Trust Company
3. U.S. Bank Trust National Association
4. Wilmington Trust Company
5. RBC Trust Company (Delaware) Limited
6. BMO Delaware Trust Company
7. First State Trust Company Delaware
8. Reliance Trust Company of Delaware
9. The Bryn Mawr Trust Company of Delaware
10. CIBC Delaware Trust Company
11. PGB Trust and Investments of Delaware
12. Evercore Trust Company

SURVEY METHODOLOGY: TheWealthAdvisor.Com commissioned an independent survey of its 260,000 registered subscribers in April 2019. The survey was designed to uncover advisor's preferences and attitudes towards trust companies in Delaware. The findings presented are based on aggregated responses of over 100+ respondents. Specifically respondents were asked to rank their experiences with each trust company and identify the top three factors for selecting a trust company to work with.

They understand that their role is to make your life easier, not more complicated. And I think that shows up clearly in their spot at the top of our Delaware list, and incidentally speaks to their reputation in the industry better than anything else.

BRINGING TRUST INTO YOUR PRACTICE

Every advisor needs an edge. You're all on the hunt for the same wealthy clients looking to provide the best perception of value. Today's wealthy families are not willing to settle for someone who will simply manage their portfolios or give them a template for a financial plan. They've learned to use the Internet and they know there are all-in-one firms that can give them tax advice, insurance, estate planning, philanthropy, wealth transfers to future generations and more.

Your clients want a holistic approach with specialized expertise. They demand a financial advisor who will not only act as a go-between to the markets but as a guardian of every aspect of their financial lives.

And as it happens, one of the top items on their wish list is the ability to create and use trusts. While an individual can run a trust, the complexity and fiduciary burden make it difficult —even unwise — for an advisor to do so. At this point, the SEC has ruled that any advisor who wants to serve as trustee or trust administrator will face expensive and onerous audits. As a result, a third party needs to be identified to serve as trustee.

Given the complexity of the task, this will often be a specialized corporate entity, a trust company or bank trust department. Once again, as far as the trust and its creators are concerned, this can be a terrific solution. The corporate trustee has the resources and the expertise to manage the paperwork, meet the filing deadlines and bear the fiduciary burden —but in the past, the advisor almost always got squeezed out of the relationship.

To be considered advisor-friendly, a trust company needs to be able to pledge that it will cooperate with you, not compete against you. Unlike captive trust departments that exist to give their corporate parents — usually wealth managers or banks — access to your clients, these companies have unbundled their wealth management offering and can simply sell trust administration as a separate service.

The difference is vast. Conflicts of interest are eliminated. Very few of these companies could take over active management of your clients' trust assets if they wanted to, so you're able to stay right where you are: carrying the ball and earning the glory.

Today's trust industry is still full of companies that compete directly with advisors for control of the assets, but thankfully their dominance is nowhere near as complete as it was. Progressive trust companies recognize that investment advisors are the best people to handle the investments and that the running the trust is enough of a challenge in its own right.

	DELAWARE DYNASTY TRUST TRANSFERS IN TRUST TO NEXT GENERATION EVERY 25 YEARS	**TAXABLE OUTRIGHT** TRANSFERS TO NEXT GENERATION EVERY 25 YEARS
YEAR 1	$11,400,000	$11,400,000
YEAR 25 VALUE	$38,604,446	$38,604,446
TRANSFER TAX	–	$15,387,578
YEAR 50 VALUE	$130,728,357	$78,620,555
TRANSFER TAX	–	$31,394,022
YEAR 75 VALUE	$442,692,619	$159,925,803
TRANSFER TAX	–	$63,916,121
ENDING VALUE	**$442,692,619**	**$96,009,682**
DELAWARE BENEFIT=	$346,682,937	

Much like independent advisors, these companies are not beholden to outside corporate interests. They rarely if ever have proprietary investment products to sell or commissions to capture. Very few will insist on taking custody of the trust assets, although many will do so if the trust creator or his or her advisor wants.

A trust company that wants to make the Wealth Advisor rankings needs to go the extra mile to not only stay out of your business but also help you build that business. It's no longer enough to passively do no harm. They have to actively support your efforts to differentiate yourself as the advisor high-net-worth families consult when they want to open a trust, integrate it into their long-term financial plan or simply squeeze better investment performance out of an existing trust fund.

Time after time, we see that marketing support makes the difference between success and failure when advisors add trust services to their service platform. The closer your administration partner can take you to offering your clients a "plug and play" solution, the faster you will see concrete results in term of client retention and your own marketing efforts.

Sure, you can always educate yourself and prepare your own client materials, but that's a significant investment of in-house resources that may not pay off for months or even years. So go ahead and lean on your trust company partner — assuming, of course, that they're up to the challenge.

PROGRESSIVE TRUST COMPANIES RECOGNIZE THAT INVESTMENT ADVISORS ARE THE BEST PEOPLE TO HANDLE THE INVESTMENTS AND THAT THE RUNNING THE TRUST IS ENOUGH OF A CHALLENGE IN ITS OWN RIGHT.

YOU'RE THE CENTER OF INFLUENCE

With the right partner, your core role in introducing trust to your clients is as a center of influence. You don't have to be the expert on a technical level. The trust company will handle all the detail anyway. All you need to do is start the conversation: "are you familiar with what a trust can do for you?"

Keep it simple. Get copies of potential trust partners' marketing materials when you start talking about a relationship and lean on those materials to feed the discussion. They should have PowerPoint or the ability to construct a presentation for you.

Don't forget to remind your client that most other advisors are skittish about suggesting a trust even when it's obviously in an investor's best long-term interest, simply because it represents a sacrifice in terms of assets under management and possibly lost revenue. Barely 10% of advisors work with trusts. It should impress any client to know that you're in that top decile right away, provided of course that you let them know.

Remember, the more trusts you direct toward a trust company, the more fee income they generate. A truly serious partner will feed every affiliate with plenty of training materials, consultation and even branding support to help you establish yourself in the trust field.

And in most cases, this material will keep you at the center. The trust company functions behind the scenes, so far back in the back office that they might actually be working several states away. Reports and communications can route through you and carry your logo and letterhead. Your clients may not even know the trust officer doesn't work for you.

Either way, top-tier trust companies are seeing advisors step up their cooperative efforts with other professionals who have a voice in wealthy families' finances. Attorneys and accountants play critical roles in the trust creation process and need to bring in advisors to manage the investments. You can play quarterback on the accounts you bring to the game, but having a team on your side goes a long way toward mutual success.

DIRECTED, DELEGATED OR OTHERWISE: SHARING THE JOB

As you interview potential fits for your clients, make sure to get a sense of whether they support directed trusts, delegated trusts, both or neither.

A directed trust is an arrangement that allows you, the advisor, to hand off the responsibility and burden of administering a trust to an outside corporate trustee but retain control over how the assets are invested. A delegated trust allows the trustee to hand off the portfolio to an outside wealth manager. In an ideal world, it will be you.

Obviously for most advisors, finding the right trust firm to partner with may not be a simple task. For most advisors, finding the right directed trust relationship is the "sweet spot" between spending to run a trust business in-house and turning the business away.

The breakthrough came in the 1990s, when some states altered the rules to allow the creators of a trust to direct the trust company to follow the investment choices of an outside advisor.

As far as the portfolio is concerned, the advisor (you) is boss. The advisor earns the management fees. The trust company earns its own fee for handling everything else: accounting, custody (if required), reporting and payments to the beneficiaries.

If the IRS needs to inspect the books, the trust company handles it. If one of the people named in the trust documents has a special request, the trust company handles it.

Since both trustee and investment advisor are thus free to do what they do best, this aligns the interest of all service providers with the grantors and beneficiaries themselves.

ATTORNEYS AND ACCOUNTANTS PLAY CRITICAL ROLES IN THE TRUST CREATION PROCESS AND NEED TO BRING IN ADVISORS TO MANAGE THE INVESTMENTS.

Some states welcome both directed and delegated trusts. Others only support one or the other. While the words look similar, the nuances are important.

The creator of a directed trust takes the job of managing the assets from the trustee and assigns it to someone else. This generally lets the existing wealth manager keep on doing what he or she is doing, while releasing the trustee from all but the most basic responsibilities over how the money is invested. Delegated trusts give the trustee the power to decide who will manage all or some of the assets. In this kind of relationship, the trustee remains responsible for overall performance and will monitor the outside manager's activities to ensure that all parties meet their fiduciary obligations.

While many advisors naturally prefer to have the trust creator direct management powers to them, some clients may prefer to leave the ability to delegate with an independent trust company, which then chooses the advisor and monitors investment decisions.

After all, an advisor who is willing to let the trust company keep tabs on performance — or risk being fired — demonstrates that the client's long-term interests come first. A confident professional has nothing to hide and little to gain from insisting on locking in control of the assets even if his or her competence is questioned.

And directed advisors can be removed in extremis, so insisting on direction does not necessarily buy anyone additional security.

Review the difference with your clients and ask them which arrangement they prefer. Emphasize that you can work with their decision in any event.

SPLIT RESPONSIBILITY, SHARED REWARDS

A true directed trust arrangement is created when the person who is initially transferring the assets decides to require or "direct" the trustee to delegate the investment responsibilities to a registered investment advisor, stockbroker, financial planner or other family advisor.

In these cases, the trustee's fiduciary responsibility for the investments is formally reduced to the point where he or she is exonerated from all liability except in circumstances involving willful misconduct. Some states have slightly stricter requirements that force directed trustees to double-check that the advisor's decisions are truly suitable, while others take a more laissez-faire approach.

For most practical purposes, while the trustee retains some continuing liability for investment performance, in a directed trust arrangement, it is close to zero.
Directed trust statutes formally define the separate duties and responsibilities of trustee and advisor. Both are appointed as fiduciaries, even if the advisor is not normally engaged in a fiduciary role. This separation of duties is called "bifurcation" in industry marketing jargon.

When a wealthy individual decides to use a directed approach for his or her trust, he or she generally appoints an existing advisor or advisory firm in the controlling document.

Remember, some states also allow the trustee to delegate the investment function to an outside advisor regardless of the trust creator's stated wishes. In these relationships, the trust essentially serves as an institutional client in a normal advisory practice.

Such "client" partners can be extremely attractive from a strategic perspective, since they provide both current fee income and referrals to additional clients — a win for everyone, and the exact opposite of the historical trust/advisor dynamic!

A GOOD PARTNER IS MORE THAN A UTILITY

Plenty of would-be advisor-friendly firms operate on a commodity basis, relying on technology and standardization to ensure good service for more-or-less generic trusts. These trust companies generally offer low all-in pricing but can become inflexible as trusts get more complex or require special outside-the-box handling.

In the meantime, your best clients demand service and flexibility. The trust company you recommend to them reflects on you and the overall experience you provide. Look for a corporate trust company that can provide evidence of:

- Years of experience in administering trusts
- Specialization in trust administration, custody, and fiduciary tax reporting services
- Knowledge of changes in the directed trust space and the trust environment
- Dedication to fiduciary responsibility
- Insurance coverage against fiduciary errors and omissions
- Staff continuity
- Examination by internal auditors and external regulators
- Focus on the best interest of all beneficiaries, both current and future, while implementing trust provisions
- An aversion to "interpreting" or adding to the trust documents in order to divine the wishes of the creator
- State-of-the-art technology

- A reporting and accounting platform that supports both your custody platform and all assets that will go into the trust
- Established partnership relationships with multiple team members

Once you have your criteria in place, start interviewing trust companies with the above criteria in mind. Remember, you want a partner that keeps its in-house investment unit — if any — away from your clients. They should not be trying to sell your clients proprietary investment products, but they should have the capability to support any investments that you might recommend, now or in the future. If they're not "friendly," it doesn't really matter how nimble their operation is or how in-depth the services they offer.

WORDS TO WATCH

As you put together a short list of trust companies that may be a good fit for your clients, remember that diversification is key. Just as every one of your clients is different and has unique needs, many of the best providers are generalists who excel in a niche or two or are outright specialists.

Learn to recognize the jargon that differentiates one trust company from another so you can build a balanced team of potential partners. Some are geared toward self-directed IRAs and other pure hands-off custody and administration: Others shine when it comes to classic directed trust where trust officers and advisors work more closely together.

Some of your clients will want to create trusts that favor one group or the other. If possible, cultivate relationships with at least a few from either side of the bench to give your clients the best pool of options to work with.

Advisors seeking a trust company for a directed trust that does not contain discretionary provisions can focus on the easy questions:

- Is a dedicated trust officer responsible for each account?
- How are income or principal requests handled? What are the turnaround times and payment methods?
- How are communications with the beneficiary handled?
- How quickly can the trust company respond to document review, interpretation and explanation requests from a client or financial advisor?
- Finally, when trustee discretion is an issue, the process of finding the right fit can become more difficult and chemistry becomes more important.

THE FINE POINTS OF THE RIGHT FIT

While most of the high-profile lists of top trust destinations focus on a few of the key criteria that drive family office decisions, true due diligence will reveal several other nuances that can make or break a trustee/advisor/client relationship.

Look for a state and a trust company that embraces total return trusts. In these arrangements, the trustee or associated advisor with investment powers can employ a total return approach instead of allocating income and principal according to a previously mandated schedule.

This is a natural value generator over the long term as it aligns the interests of current beneficiaries who need current income now with those of the grantor and future generations. Letting the trustee determine whether distributions are made out of current income or principal helps to minimize ongoing tax liabilities. Meanwhile, the portfolio itself can be managed according to modern portfolio theory to seek maximum returns and not fixed income targets.

Look to alternative assets. Does a trust company accept working real estate, hedge fund shares, private equity and other illiquid or unique assets as part of a trust? These assets may be difficult or expensive to manage effectively, but a real world-class institution should be able to work with you to make a home for wealth that goes beyond conventional stocks and bonds.

In Delaware, for example, trusts can invest in any of the limited partnership and LLC vehicles the state famously supports. These closely held entities are especially appealing to entrepreneurs, professionals and other wealthy individuals who desire a certain level of privacy and a layer of legal separation from their assets. A trust holding a partnership or LLC enhances this separation, making it more difficult to trace ultimate ownership.

Know where incomplete gifts are supported and where they are under fire. The IRS has given a green light to incomplete non-grantor (ING) trusts created under Delaware law, making the "DING" a generic term of art for estate planners around the country. Other states are not quite so lucky.

In effect, the DING structure transfers the assets into trust but considers it "incomplete" while the grantor is alive, making it a form of revocable trust. This ensures that the assets themselves are available for the grantor's use while offering some protection from potential creditors. Investment income builds up in the trust free from state income tax, provided of course that the trust is in a state where no such tax applies.

Are there enough options? Some states are great trust jurisdictions but a limited list of trust companies makes it difficult to ensure that your clients are really making the right choice. Try to look at as many possible partners as you can in a given jurisdiction so you can appreciate their strengths and weaknesses. Gauge institutional capability as well as operational risk. Your best clients demand a long-term relationship that will not falter in their lifetime, much less the lifetimes of what could become generations of their heirs.

A viable trust company referral should have the financial backing to survive for the long term. As we have learned over the last decade, poorly capitalized or overleveraged institutions can fail disastrously. Investigate at least as thoroughly as you would research an investment manager. Is the operation robust enough to remain viable in any conceivable scenario? If not, keep looking.

Convenience counts. It may seem a little frivolous, but time zone and location count when you are looking at a relationship that will ideally endure for centuries. Hours of phone tag or long plane trips add up, and neither your nor your clients will get that time back.

INSIST ON ALTERNATIVES

While investors are increasingly eager to expand their universe, most trust companies still focus on a relatively limited range of asset classes. The problem is that private equity, real estate or pure commodity exposure require a little more due diligence to work with than vanilla stocks and bonds.

And even if a traditional trust company's platform supports them at all, it probably doesn't provide much in the way of active educational and marketing support. The farther outside the vanilla-style box clients want to go, the higher the organizational barrier to entry becomes and the narrower the list of viable partners gets.

In many cases, even specialized "alternative" custodians need to tap third- party specialists in order to prepare statements that counterparties can understand and regulators will accept.

Without a clear incentive to cultivate that level of expertise internally or via partnerships, it becomes extremely expensive for a brokerage firm to conduct that level of due diligence on its own, whether it puts these products on the shelf or not.

And unless affiliates get firm guidelines on which products are suitable for a given client, selling alternatives into client accounts can become extremely expensive in terms of career costs.

Failing to notice that "enhanced" credit products were faltering even though they still looked good on paper almost doomed Securities America and several smaller firms several years ago.

Reps jumped from those organizations when they could, bleeding AUM and professional reputation. Some left the industry entirely. Others were pushed. Either way, the example demonstrates that the more exotic an investment is, the more difficult it will be for non-specialists to work with under normal circumstances.

Even if the alternative assets are simply held in the equivalent of a "white envelope" alongside the conventional investments, the best practice entails everyone in the chain of responsibility — from custodian to advisor to client — knowing what's actually in the envelope at all times.

A trust company that can open all of its "white envelopes" in a format that an external auditor can digest and evaluate is going to have an easier time keeping everything both compliant and actively transparent. That means clearer reporting, better portfolio-level oversight and even enhanced value for the advisor and the ultimate investor.

After all, the "alternative" slice of the portfolio is rarely the bulk of the underlying investment pool, so most accounts will only run into the alternative space across 5 percent to 10 percent of the AUM, at most.

If bringing on that extra 5 percent to 10 percent of the assets represents more than 5 percent to 10 percent of the sunk costs of handling the account, at what point is the business even worthwhile?

And every family is different. Some have concentrated wealth locked up in illiquid holdings like unique businesses, real estate and other cash-generating assets that are difficult to evaluate and almost impossible to sell at a good price.

Alternative investments are complex. It's not like adding new stocks or a few ETFs to the platform. Advisors who go to trust companies that come at the problem with that idea in mind are likely to get burned. Stick to those who know this space. Ask for concrete examples of how their trust officers would approach situations like the ones you know your clients face.

TECHNOLOGY MATTERS

Once upon a time, dealing with paperwork was the primary objective of every trust organization in the business. Even today, some trust officers are still content to fill out and file all the necessary forms it takes to keep a trust running and compliant with all applicable regulations.

However, some firms have embraced technology that makes it possible for them to take their trusts out of the late 19th Century.

A VIABLE TRUST COMPANY REFERRAL SHOULD HAVE THE FINANCIAL BACKING TO SURVIVE FOR THE LONG TERM.

The right accounting platform can interface with the modern state-of-the-art portfolio management tools that directed and delegated advisors use today while incorporating your best tax optimization and rebalancing strategies. The investment architecture can now be truly open, working with any third-party or in-house alternative assets your platform supports.

Integrated multi-custodian data feeds allow the administrators of large trusts to track thousands of open investment positions, report market values and attribute performance with a minimum of delay and errors. This functionality, in turn, is what makes the very existence of smaller trusts possible.

A modern trust administrator may be able to share data with your customer relationship management system and provide other integration benefits. If this kind of efficiency matters to you, it's important to ask a potential partner whether you can get it.

But the primary advantage technology is bringing to the trust business is the elimination of paper. Moving the forms into secure paperless environments has been essential for a new generation of trust officers who can now give beneficiaries, grantors and investment advisors alike access to all necessary documents.

Forms can be sent out for fast electronic signature and then stored electronically as well for instant access. The faster the signature fields are populated, the faster distributions and other complex processes can move.

Ask about technology when you have a conversation with a potential trust partner. You may not require them to have a completely cutting-edge solution, but you may not want an old system of filing cards and ledgers either.

ADD UP THE COSTS

Naturally, corporate trustees need to charge for their service. While regulators are pushing for greater transparency here, this fee is often all-inclusive or bundled in such a way that beneficiaries and their advisors have a hard time determining where their money goes.

Traditional all-in-one trust companies further obscured the cash flows by charging a fee that compensates them for their investment management services, fiduciary risk and other "soft non-value-added services" provided to clients.

Directed trusts, on the other hand, generally separate the investment advisory fee from the corporate trustee fee. As a result, clients receive much clearer insight into what they are paying -and often a lower total fee as well.

In general, fee schedules for directed trust companies fall in a range from 0.50% to 0.75% on the first $1 million and then drop according to varying breakpoints thereafter. Minimum annual fees range from $4,000 regardless of asset level, although some types of trust start in the $1,500 range. A few vendors will charge a flat fee for any amount of assets.

Additional fees may apply for real estate held in trust, estate settlement and termination fees, tax preparation and/or filing, or miscellaneous extraordinary services.

Note: *The IRS has ruled that all corporate trustees are required to separately account for investment and administration fees. This is intended to remove the tax advantage of a "unitary" trust in which the entire trustee fee can be deducted, as opposed to a trust that charges separate fees and only allows partial deductibility of fees. Directed trusts already break out the fees in this way, but because this is a relatively new development, it gives you a good "talking point" in your negotiations with trust companies.*

HOW A TRUST COMPANY EARNS ITS FEES

The trustee is the person or corporate entity that manages the trust's affairs in order to ensure that it achieves the goals set by its creators. Trust administration issues, deadlines and procedures can strangle otherwise financially sophisticated people in red tape.

This is a fiduciary role, and as such the penalties for failure are clear-cut and severe. Your clients already know what you do to manage their money, but the trustee relationship is likely to be new and somewhat outside their experience.

Because you will want to remain the primary point of contact between clients and the trust company, you must have a basic understanding of the primary duties of the corporate trustee and any trust officers assigned to your clients' accounts.

Non-discretionary tasks are not optional. These include making income payments monthly, quarterly, annually or as otherwise directed by the trust. Trustees must also pay out principal as set forth in the trust and attend to all other matters the trust directs. Tax and other filing deadlines must be met in full. Any additional duties or instructions explicitly called for in the trust documents must be carried out.

Discretionary tasks give the trustee more room for personal interpretation. If the trust is silent on an issue, the trustee's fiduciary duty may require him or her to make discretionary decisions. For example, a trust may

TRUST ADMINISTRATION ISSUES, DEADLINES AND PROCEDURES CAN STRANGLE OTHERWISE FINANCIALLY SOPHISTICATED PEOPLE IN RED TAPE.

indicate that the trustee can make principal payments "after considering other sources of income available to the beneficiary," in which case the trustee should demand extensive documentation from the beneficiary before making a decision.

Many trust officers also perform miscellaneous activities on behalf of the beneficiaries as part of their overall ethic of service, even if these tasks are not explicitly mandated in the trust itself.

IT'S NEVER TOO LATE: DECANTING, MERGERS AND MODIFICATIONS

Even an "irrevocable" trust can be modified or moved via a technique known as decanting. This is essentially the process of distributing the assets of an old trust into a new vehicle, which may for example be situated in a more desirable jurisdiction or take advantage of provisions that direct or delegate the investment management.

Decanting is generally easier to accomplish than traditional reformation, modification, merger or division processes, and tends to be much more discreet than a formal judicial petition that makes the trust a matter of public record.

This is recognized as a valid estate planning technique by approximately 20 state statutes as well as the IRS. Generally, only the trustee has the power to decant, but modern trusts may extend this power to trust protectors. Delaware, significantly, now allows living grantors to modify even "irrevocable" trusts to keep up with favorable changes in the statutes.

To decant, a receiving trust must be drafted. The trustee should create a declaration that they have made the distribution to the receiving trust. A new account should be opened with the trust's custodian in the name of the receiving trust to receive the trust's assets and the distributing trust account should be closed.

Beneficiaries are not usually required to consent to a decanting, although several state statutes require that notice of the decanting be provided to all parties interested in the distributing trust.

Skilled trust counsel must design any decanting plan to assure its effectiveness and to avoid any negative tax consequences.

And of course trusts retain their other functions in any event. We're seeing asset protection and dynastic structures take a more prominent role as grantors take an interest in exercising control over areas of life that were previously left to chance. Dynastic trusts ensure that the family ethos remains married to the ability to inherit, giving deceased grantors the opportunity to influence the education and activities of generations of heirs they will never even meet. Strong asset protection minimizes the impact of life's most expensive accidents: lawsuits, bankruptcy and divorce.

A good trust company partner should already know what's essential in the news flow coming out of Washington and will have a framework in place to help you and your clients plan the long term across all likely scenarios. That's what the truly wealthy really want, and it's something you can give them.

	BMO Delaware Trust Company	CIBC Delaware Trust Company	Commonwealth Trust Company	Evercore Trust Company, N.A.
	20 Montchanin Road, Suite 240 Greenville, DE 19807 302-652-4980	1 Righter Parkway, Suite 180 Wilmington, DE 19803 302-478-4050	29 Bancroft Mills Road, Wilmington, DE 19806 302-658-7214	300 Delaware Avenue Suite 1225 Wilmington, DE 19801
HIGHLIGHTS				
New Business Contact and Phone/Email	Douglas Lundblad, Director, Fiduciary Advisory Services 302-652-4980 douglas.lundblad@bmo.com	Carolyn Donnelly Carolyn.donnelly@cibc.com 404-881-3417	Connor Mishaw cmishaw@comtrst.com	Darlene Marchesani (302) 304-7361 Darlene.Marchesani@ Evercore.com
Average Account Size	$5 million	$45,608,442	not provided	$12.8MM
Total Assets Under Administration	$2 billion	$319,259,095	Over $10 billion	$6.9BB
Custodians Supported	No	BMO/Harris	All	SEI
Number of Relationships with Advisors	None	13	not provided	425
In-House Experts	Douglas Lundblad	Numerous	6 attorneys (4 with LLM and 1 with TEP designation), 6 trust administrators, 2 certified public accountants, 1 certified business counselors, 2 certified trust financial advisors, 1 certified mergers & acquisitions advisor, 1 IRS enrolled agent)	Staff of 50 fiduciary professionals JD – 9, LLM - 2 MBA – 4, CFIRS – 2 CTFA – 4, CRCM – 1 CFP – 6, AIF – 1 CPA – 2, Tax - 1
Trust Accounting System	SEI	TrustDesk	Accutrust	SEI
Supports Directed Trust	Yes	Yes	Yes	Yes
Supports Delegated Trust	Yes	Yes	No	Yes, from affiliated advisor
Accepts Foreign Account Holders	No	Not disclosed	Yes	Yes
Timeframe for Acceptance of New Trust	3 to 6 weeks	2 weeks	7-14 days	7-10 business days

	First State Trust Company Delaware	PGB Trust and Investments of Delaware	RBC Trust Company (Delaware) Limited	Reliance Trust Company of Delaware
	One Righter Parkway Suite 120 Wilmington, DE 19806 (302)573-5816	20 Montchanin Road, Suite 210 Greenville, DE 19807 302-255-1506	4550 Linden Hill Road, Suite 200, Wilmington, Delaware 19808; 1-800-441-7698	2751 Centerville Road, Suite 400 Wilmington, DE 19808 www.reliance-trust.com
HIGHLIGHTS				
New Business Contact and Phone/Email	Kelly Brockstedt, Head of Business Development Ph: (302)573-5963 kbrockstedt@fs-trust.com orinquiry@fs-trust.com Jacqui Jenkins, Chief Fiduciary OfficerPh: (302)573-5973 JJenkins@fs-trust.com	Lisa Berry, l.berry@pgbank.com 302-255-1506; p.wallburg@pgbank.com 908-719-3306	Tony Nardo, National Client Development Manager, 302-892-6924; tony.nardo@cnb.com	Gregg Homan Senior Vice President, National Sales Director 404-291-4374 gregg.homan@fisglobal.com
Average Account Size	$6 million	$6.2 million	$4 million	$2.1 million
Total Assets Under Administration	$13 billion (As of March 2019)	$361 Million	$4.2 billion	$7 billion
Custodians Supported	Works with any custodian (with required data transmission feed)	Most Major custodians	All with electronic data feed	Works with all
Number of Relationships with Advisors	700	15	500+	1,000 +
In-House Experts	Yes	5	10	65
Trust Accounting System	TrustPortal	SEI	SEI	SunGard
Supports Directed Trust	Yes	Yes	Yes	Yes
Supports Delegated Trust	Yes	No	Yes	Yes
Accepts Foreign Account Holders	Yes	Subject to Risk Review	Yes	Yes
Timeframe for Acceptance of New Trust	Within 72 hours	7-10 business days	2-4 business days	72 hours

	The Bryn Mawr Trust Company of Delaware	**New York Private Trust Company**	**U.S. Bank Trust National Association**	**Wilmington Trust Corporation**
	20 Montchanin Road, Suite 100 Greenville, DE 19807 302-798-1792	200 Bellevue Parkway, Suite 500 Wilmington, DE 19809 302-792-4737	300 Delaware Avenue, Suite 901 Wilmington, DE 19801 302-576-3703	2710 Centerville Road, Suite 101 Wilmington, DE 19808 800.258.6334
HIGHLIGHTS				
New Business Contact and Phone/Email	Robert W. Eaddy, President 302-798-1792 readdy@bmtc.com	Damian Gallagher, Business Development 302-792-4737 dgallagher@nyptrust.com	Dawn McGill, Trust Relationship Manager 302-576-3727 dawn.mcgill@usbank.com	Michael Ingraham Vice President and Managing Director 302.636.8531 mingraham@ wilmingtontrust.com
Average Account Size	Varies / No minimum for Direction Trusts	$5.4 million	Not disclosed	$2.2 million
Total Assets Under Administration	$6.8 Billion as of 12/31/18	$5.1 billion	Not disclosed	$ 4.1 billion with advisors as of 12/2015
Custodians Supported	Works with all	Works with all	Works will all	Alliance relationship driven
Number of Relationships with Advisors	500+	900+	Not disclosed	800+
In-House Experts	15 + with expertise in working with RIA's of all sizes and third party custodians	14	10+	40+ including CTFAs and JDs
Trust Accounting System	Sunguard AddVantage	TrustPortal	SEI	SEI
Supports Directed Trust	Yes	Yes	Yes	Yes
Supports Delegated Trust	Yes	Yes	Yes	Yes
Accepts Foreign Account Holders	Yes	Yes	Not disclosed	No
Timeframe for Acceptance of New Trust	Within 48 hours	10 business days	2-7 days	7 – 10 days

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