



Syllabus



STEP Advanced Certificate in Trustees' Duties: Investment and Management of the Trust Fund



Introduction

This document contains the detailed syllabus for the **STEP Advanced Certificate in Trustees' Duties: Investment and Management of the Trust Fund**.

For more information about the course and how to apply, please visit the [course page](#) on the CLTI website.



Module 1

TRUSTEE INVESTMENT AND MANAGEMENT OF THE TRUST FUND – LAW AND PRACTICE

The purpose of this module is to:

- trace the historical evolution of the law and practice relating to a trustee's power of investment in England, and to illustrate how such powers were traditionally exercised;
- examine typical offshore legislation conferring upon trustees implied investment powers that operate in default of any express provisions to the contrary;
- review how express powers of investment conferred by the trust instrument modify the trustee's statutory powers;
- consider the standard of care that trustees must observe when exercising their powers of investment and management of the trust fund
- analyse the restrictions that apply at common law to reduce a trustee's ability to delegate part of their investment function to agents
- summarise modern provisions that limit the liability of a trustee who appoints an agent
- consider the importance of monitoring investments.

Module 1

TRUSTEE INVESTMENT AND MANAGEMENT OF THE TRUST FUND – LAW AND PRACTICE CONTINUED

By the end of this module you should be able to:

- understand how trustees' powers of investment have evolved
- appreciate that express investment powers may be conferred upon trustees by the trust instrument and how statutory powers of investment conferred by modern legislation apply in default
- superficially comply with the standard of care expected of professional trustees when exercising their investment powers
- appreciate why it is necessary to obtain advice from investment advisers and managers, or to delegate your discretion to invest to investment advisers and managers
- understand that, having properly delegated the investment function, you are duly protected from liability for loss suffered by the trust fund arising from the negligence or other default of the investment manager or adviser
- understand the requirement for trustees to monitor investment performance.

Module 2

ASSET ALLOCATION

The purpose of this module is to:

- explain the concepts of risk and return
- explore the theory of diversification
- help you establish a suitable and appropriate investment policy for a trust under administration and draft an investment policy statement
- enable you to construct a suitable and appropriate asset allocation.

By the end of this module you should be able to:

- understand and calculate the **historic** total return of a security (and a portfolio of securities)
- understand and calculate the **expected** total return of a security (and a portfolio of securities)
- appreciate the meaning of risk, how it can be measured and its relationship with return
- identify sources of risk
- explain how a prudent investor can invest for the best return but lowest risk
- establish an investment policy for a trustee of a given trust
- understand the components of, and be able to establish, an asset allocation for a trustee of a given trust.

Module 3

INVESTING IN CASH AND ON THE MONEY MARKETS

The purpose of this module is to:

- review a trustee's options when investing trust funds in cash or liquid assets
- describe some of the common types of accounts used for holding cash and consider why cash is necessary
- introduce the money markets
- analyse the money market securities market
- explain how a trustee may gain access to the money markets.

By the end of this module you should be able to:

- appreciate the options available to trustees when investing trust funds in cash or an equivalent liquid security, including bank accounts and various ways of investing on the money markets
- identify the salient features of some of the common types of account used for holding cash and know why these features make them suitable for use by trustees
- understand the features of the main money market securities, namely T-bills, negotiable CDs and CP
- appreciate how to gain exposure to the money markets by engaging money market brokers, opening a money market sweep account and/or investing in a money market fund.

Module 4

BONDS

The purpose of this module is to:

- introduce the concept of debt
- define bonds and analyse their general characteristics
- review the primary and secondary bond markets
- analyse the behaviour of bond prices and identify factors that influence the price of a bond in the secondary market
- calculate yields, looking at the different ways in which bondholders obtain value from their bonds
- explain how credit ratings are used to assess risk and ascertain an appropriate yield
- describe the investment characteristics of different types of bond
- explain how to construct, manage and monitor a portfolio of bonds.

Module 4

BONDS CONTINUED

By the end of this module you should be able to:

- understand the differences between debt and equity, and the different rights of creditors and shareholders
- explain what a bond is and describe the main features and investment characteristics of these debt instruments
- appreciate the main features of the primary and the secondary bond markets and how bonds are traded on them
- understand why bond prices move inversely to interest rates and appreciate other factors that affect secondary market prices
- establish the 'clean price', 'accrued interest' and 'the spread'
- calculate the yield from bonds and distinguish coupon interest, current annual yield and yield to maturity
- use the credit rating systems (e.g. Standard and Poor's, Moody's, and Fitch) as a guide to assessing risk when investing trust funds
- appreciate the investment characteristics of different types of bonds
- create and monitor a portfolio of bonds by reference to the spread over Treasuries, or a bond index.

Module 5

STOCKS AND SHARES

The purpose of this module is to:

- introduce the concept of equity finance
- summarise the regulation of, and the practices and procedures common to, most of the world's major primary equity markets
- summarise the common practices and procedures of the world's major secondary equity markets
- review types of stock according to general characteristics
- describe how to put together a portfolio of stocks to minimise risks
- provide guidance on how a trustee should monitor risk and the performance of a stock portfolio.

By the end of this module you should be able to:

- understand the differences between equity finance and debt
- explain the regulation, practices and procedures of the primary equity markets
- explain the common practices and procedures of the secondary equity markets when investors trade shares on an exchange
- appreciate some of the common characteristics of stocks according to industry and sector, size or capitalisation, and stage of the issuer's life cycle
- understand how to assemble a portfolio of stocks to achieve the maximum return and the minimum risk
- comply with a trustee's duty of supervision and oversight by conducting periodic investment reviews.

Module 6

DERIVATIVES, OPTIONS

The purpose of this module is to:

- introduce derivatives; define the product known as an option and review the standard terms of options contracts
- review stock options and ascertain typical rights acquired
- explore how stock options may be used by trustees to hedge or speculate
- explain the different values of components of an option to ascertain whether the premium sought by option writers is fair
- review index options and establish how they can be used by trustees to reduce risk.

By the end of this module you should be able to:

- appreciate the character of derivatives and know who invests in them, where and with what objectives
- understand stock options and appreciate typical rights acquired by purchasing call and put options
- determine when and in what circumstances an option should be abandoned, exercised or traded
- understand how option premiums are priced and be able to break down the value of an option into an intrinsic value and a time value to establish which of the various options to acquire
- use stock index options to hedge against adverse, or speculate upon anticipated, movements in the market as a whole.

Module 7

INVESTMENT FUNDS

The purpose of this module is to:

- introduce collective investment as an alternative to direct investment in stocks, bonds or other securities;
- identify the advantages of investing in funds;
- Review some of the investment strategies that may be followed by a fund manager of a retail fund;
- explain how to buy shares in a collective investment company and how to monitor performance;
- consider the merits of an exchange traded fund; and
- introduce alternative investment (hedge) funds.

By the end of this module you should be able to:

- understand the concept of collective investment vehicles
- explain the advantages of collective investment for retail investors and trustees
- understand the different structures adopted by collective investment companies – open-ended and closed-ended funds
- interpret investment strategies published by investment fund managers
- appreciate how to buy and sell shares in an investment fund
- use published information to monitor the performance of a typical investment fund
- understand the essential features of ETFs and how they differ from index funds
- appreciate how and in what circumstances sophisticated-investor hedge funds may be used by a trustee with trust funds to invest.

Module 8

STRUCTURED INVESTMENT PRODUCTS

The purpose of this module is to:

- introduce and attempt to define structured investment products
- review some typical investment characteristics
- examine the primary market to establish how investors buy structured products
- explore examples from the vast range of structured products.

By the end of this module you should be able to:

- understand the broad characteristics of structured products;
- know how to invest in such product;
- understand how to interpret a Term Sheet
- draft, and explain the meaning of, a payoff diagram.

Module 9

PRIVATE EQUITY

The purpose of this module is to:

- introduce the asset class of private equity
- investigate the subcategories of private equity and review their investment characteristics
- explain how a client invests in private equity
- review a typical partnership agreement and offering memorandum.

By the end of this module you should be able to:

- understand what is meant by private equity
- determine risks associated with different types of private equity according to the stage in the lifecycle of the investee
- appreciate how to invest in private equity by joining a limited partnership as a limited partner
- interpret the critical clauses of a limited partnership agreement and offering document
- comply with market regulations that restrict who can invest in private equity investment.

Module 10

THE SETTLOR'S PRIVATE OPERATING COMPANY

The purpose of this module is to:

- review some of the reasons why a prospective settlor may wish to transfer the shares of their private operating company into trust
- establish the standard of care owed by trustees to monitor the affairs of a private operating company (whose shares are held in trust) and to supervise the actions of its directors
- consider ways in which trustees can assess whether action is required to protect the trust assets and the value of their shares
- review some of the ways in which a trust may be established to protect the trustees by modifying their duty to monitor the affairs of the underlying operating company
- consider estate planning options for the continued good management of the private operating company after the settlor's death
- review some of the dispositive provisions that may be included in a trust comprising shares in a private operating company, and related issues.

Module 10

THE SETTLOR'S PRIVATE OPERATING COMPANY CONTINUED

By the end of this module you should be able to:

- appreciate the reasons why a settlor may wish to transfer the shares in their private business to trustees
- comply with a trustee's standard of care to monitor the affairs of an operating business (held in trust) and supervise the actions of its directors
- keep informed of the company's business activities and know how to act in circumstances when you determine that action is required to protect the trust assets
- appreciate when and in what circumstances the *Bartlett* duty (to supervise management and monitor the affairs of the company) may be removed, modified or avoided by:
 - anti-*Bartlett* clauses
 - obtaining a release from the beneficiaries and an indemnity from the settlor
 - the use of a purpose trust
 - the use of a private trust company
 - utilising jurisdiction-specific trust legislation.
- discuss estate planning options with a settlor for the continued good management of the company after their death, including:
 - family succession to management
 - non-family succession to management
 - public flotation IPO
 - a sale of the business as a going concern.

Module 11

REAL ESTATE

The purpose of this module is to:

- compare and contrast the management requirements of real estate and a portfolio of stocks to illustrate that ownership of real estate involves more onerous and time-consuming responsibilities
- illustrate how trustees establish the investment objectives of a trust that comprises real estate
- review how and why it may be necessary for trustees to appoint a property investment manager and/or a managing agent in respect of real estate held in trust
- examine how to set a benchmark to measure the performance of real property
- review how a real estate portfolio is created by the acquisition (and subsequent letting) of different types of property
- emphasise the importance of periodically monitoring the performance of a real estate portfolio.

Module 11

REAL ESTATE CONTINUED

By the end of this module you should be able to:

- appreciate the reasons why ownership of real estate can be more complex and time consuming than ownership of a portfolio of stocks
- establish the investment objectives of a trust that includes real estate, whether for capital growth, rental income or low-risk investment, or indeed for non-investment purposes
- decide whether it is necessary (and, if so, how) to appoint a property investment manager and/or a managing agent
- set a benchmark to compare the investment performance of real property
- understand how a real estate portfolio is created by the acquisition (and subsequent letting) of commercial, agricultural and/or residential property
- measure the investment performance of real estate held by trustees in terms of both net rental income and capital appreciation.

Module 12

MOVEABLE CHATTELS

The purpose of this module is to:

- review a trustee's duties in relation to, and some of the procedures involved in, accepting moveable chattels into trust
- discuss whether a trustee is empowered to invest in the purchase of chattels and consider whether it is prudent to do so
- suggest ways to minimise risk when purchasing and transporting chattels
- discuss the acquisition of chattels for the purpose of enjoyment by a beneficiary
- consider some of a trustee's special duties in relation to chattels held in trust.

By the end of this module you should be able to:

- appreciate the extent of a trustee's duty and the procedural mechanics involved in accepting moveable chattels into trust or otherwise acquiring them by way of voluntary transfer and/or purchase
- establish whether you, as trustee, have the power to invest in the purchase of chattels and consider whether it is prudent to do so
- minimise the risks inherent in purchasing chattels and transporting works of art and antiquities across borders by checking that a seller is the true owner and ensuring that appropriate export licences are obtained
- establish when and in what circumstances a trustee may acquire chattels for the purpose of enjoyment by a beneficiary
- comply with a trustee's special duties in relation to chattels, including:
 - the duty to prepare an inventory
 - the duty to protect the chattels and keep them safe
 - the duty to insure.