



The Public Trustee
Investment Services

Prudent Person Rule Manual
April 2020

Version 12.1

Contact Details:	Director, Investment and Taxation Services
Program Name:	Investment and Taxation Services
Document Status:	Final

Revision History

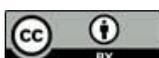
Revision Date	Version No.	Description of Change/Revision
4 Feb 2010	1.0	First draft
4 June 2010	1.3	Final for Deputy PT review
18 Aug 2010	2.2	Draft for PT review
14 Sep 2010	3.2	Audit comments
22 Dec 2010	4.0	Update contact details
18 Mar 2011	4.1	update with Under \$25,000 Strategy for PM and MINR activities
18 May 2011	4.2	further update for Under \$25,000 Strategy
25 Oct 2011	4.3	Updated for \$25,000 to \$50,000 Strategy
9 April 2012	4.4	Updated for \$50,000 to \$150,000 Strategy
22 Dec 2014	5.0	Updated for Primary Investment Strategy - \$0 to \$400,000
09 Dec 2015	6.0	Updated for Workflow Automation
07 Jan 2016	7.0	Updated commentary – Executive Director Investment Services & CFO
21 Oct 2016	8.0	Updated for changes to Life Interest Estates / minor wording changes
August 2017	9.0	Reviewed and updated wording / strategy
October 2018	10.0	Review and updated wording
September 2019	11.0	Update Risk Profiles used by External Financial Planning provider
December 2019	12.0	Review incorporating <i>Human Rights Act 2019</i>
April 2020	12.1	Update Morgans as stockbroker & registry services

Approved for Release

Position	Sign	Date
Director, Investment and Taxation Services	Final Signed	30/04/2020

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1 Background

The Public Trustee has had a legislative obligation to apply the *Prudent Person Rule* when making investments for clients since 3 February 2000 when the *Trusts (Investments) Amendment Act 1999* amended Part 3 of the *Trusts Act 1973*, removing the statutory list of investments Trustees could make¹.

The Public Trustee must demonstrate compliance with this rule when making investment decisions for its clients. This is a whole of office responsibility, which the Public Trustee has directed will be owned by the Investment Services Program.

2 Purpose

This manual details the measures we take to ensure compliance with the *Prudent Person Rule* and defines who does what to meet our obligations under Part 3 of the *Trusts Act 1973*, refer to Attachment 1. This manual isn't a standalone document; it is to be read in conjunction with relevant manuals of the Office which provides details of processes and procedures to be undertaken.

Prudence is a test of conduct not investment performance. It should be primarily measured by the process through which investment strategies are developed, implemented and monitored. Prudence is demonstrated by the process through which risk is managed, not the assessment of individual investments or products².

This means that it is important for appropriate systems, policies and procedures to be in place to demonstrate we have a prudential investment decision-making framework in place. This includes initial and ongoing training of the Public Trustee of Queensland (PTQ) staff. This manual will be the primary reference for staff training and maintained by Investment Services, which is the subject matter authority within the Office.

3 Definition of the Prudent Person Rule

The *Prudent Person Rule* applies when the Public Trustee makes investment decisions for estates under administration, including:

- a) Beneficiaries of a deceased estate under administration;³
- b) Beneficiaries of trusts, including life interest estates; and
- c) Clients in our capacity as their substituted decision-maker through a power of attorney or Queensland Civil and Administrative Tribunal (QCAT) appointment.

These elements of the Rule impact on the Public Trustee:

- a) Unless expressly forbidden by the trust instrument, a trustee may invest in any form of investment and may at any time vary or realise an investment and reinvest with the same degree of freedom⁴
- b) *'If the trustee's profession, business or employment is, or includes, acting as a trustee or investing money for other persons – exercise the care, diligence and skill a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons'*⁵

This means that there is a higher standard of care expected of a professional trustee than the ordinary businessperson, which acknowledges the higher standard imposed on the professional by the courts. That duty of care is the standard of a prudent person making investment decisions for the benefit of other people⁶

¹ Cockburn, T. *Trustee Investment Law reform – Trusts (Investments) Amendment Act 1999*. QLS Lunchtime Seminar 11 April 2000 at 1.1.

² Davis R L and Shaw G. 1997. *Trustee Investment: The Prudent Person Approach*. 2nd ed. Butterworths. Wellington at page 37.

³ *Public Trustee Act 1978* (QLD) s6.

⁴ *Trusts Act 1973* at s21.

⁵ *Trusts Act 1973* at s22(1)(a).

⁶ Clarkson, L. (2001). *Trusts and the Prudent Person Rule*. at p5.

- c) There is a requirement for an annual review of the performance individually and as a whole of trust investments. However, the annual review is a minimum requirement. There may be circumstances when the client's situation changes such that the failure to conduct an interim review would be regarded as imprudent and a breach of trust⁷
- d) The following fundamental duties of trustees apply:
- (a) To exercise their powers in the best interests of all present and future beneficiaries;
 - (b) To invest trust funds in investments that are not speculative or hazardous;
 - (c) To act impartially towards beneficiaries and between different classes of beneficiaries;
 - (d) To obtain advice.
- e) Where a trustee has a duty to obtain advice about the investment decision-making process then it may pay the cost of that advice out of trust funds. As an example, The Public Trustee may seek professional financial planning advice for individual clients. *The Prudent Person Rule* authorises the Public Trustee to pay for the cost of that advice out of trust funds. The Rule also allows the Public Trustee to seek independent and impartial advice for the investment or management of trust funds from a competent adviser and again to pay for that advice out of trust funds⁸
- f) The essence of the *Prudent Person Rule* is contained at s24 of the *Trusts Act 1973* and is reproduced below. These are matters that a trustee must consider when making investment decisions.
- “Without limiting the matters a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, have regard to the following matters:⁹*
- (a) *the purpose of the trust and the needs and circumstances of the beneficiaries;*
 - (b) *the desirability of diversifying trust investments;*
 - (c) *the nature of and risk associated with existing trust investments and other trust property;*
 - (d) *the need to maintain the real value of the capital or income of the trust;*
 - (e) *the risk of capital or income loss or depreciation;*
 - (f) *the potential for capital appreciation;*
 - (g) *the likely income return and the timing of income return;*
 - (h) *the length of the term of the proposed investment;*
 - (i) *the probable duration of the trust;*
 - (j) *the liquidity and marketability of the proposed investment during, and at the end of the term of the proposed investment;*
 - (k) *the total value of the trust estate;*
 - (l) *the effect of the proposed investment for the tax liability of the trust;*
 - (m) *the likelihood of inflation affecting the value of the proposed investment or other trust property;*
 - (n) *the cost (including commissions, fees, charges and duties payable) of making the proposed investment;*
 - (o) *the results of a review of existing trust investments.”*

⁷ Clarkson, L. (2001). *Trusts and the Prudent Person Rule*. at p6.

⁸ *Trusts Act 1973* at s24(2)(b)

⁹ *Trusts Act 1973* at s24(1)

3.1 Legal Framework

The matters which must be considered when making investment decisions are specified at s24 of the *Trusts Act 1973*. These apply to beneficiaries of trusts and deceased estates, as well as clients who have been appointed under a power of attorney or by the Queensland Civil Administrative Tribunal (QCAT).

Both s51, *Guardianship and Administration Act 2000* and s84, *Power of Attorney Act 1998* state that “administrators or attorneys may invest only in authorised investments which:

- a) means an investment which, if the investment were of trust funds by a trustee, would be an investment by the trustee exercising power of investment under the *Trusts Act 1973, Part 3*; or
- b) an investment approved by the tribunal¹⁰

3.2 Queensland Civil Administrative Tribunal (QCAT) View

QCAT strictly applies the *Prudent Person Rule* test when reviewing client financial plans. By way of example, in 2005 the Queensland Guardianship and Administration Tribunal, the tribunal prior to QCAT, applied the law stating that:

*‘The investment powers of administrators appointed under the Guardianship and Administration Act 2000 are subject to the same rules as those applying to trustees under Part 3 of the Trusts Act 1973; that is the prudent person rule’.*¹¹

The need to consider all the factors at s24 was highlighted by a case in 2009 where the Tribunal found that a trustee had failed to consider the client’s tax liability despite adequately addressing the other relevant factors. As a result, the trustee failed the Prudent Person test incurring an ongoing contingent liability for the life of the client because they failed to investigate properly an appropriate investment strategy for a permanently incapacitated client.

3.3 Human Rights Act 2019

The *Human Rights Act 2019* protects the human rights of every person in Queensland when they interact with the government, police, public hospitals, public schools and other organisations doing work for the Queensland Government. It puts people first by making sure that the public sector thinks about human rights when they make decisions and deliver services.

Human rights protect the dignity and worth of all human beings regardless of background, what you look like, what you think, what you believe or any other status or characteristic. The *Human Rights Act 2019* requires the Public Trustee as a government department and its employees to consider human rights in all decision making and interactions with the community.

The Public Trustee must act compatibly with the *Human Rights Act 2019* under Section 58(1) within the Public Trustees area of discretion, which encompasses a discretion to do any act or make any decision which is consistent with the client’s interests. However, the Public Trustee cannot act contrary to the clients’ interests because of Section 35 of the *Guardianship and Administration Act 2000* and Section 66 of the *Power of Attorney Act 1998*.

Under Section 58(2) of the *Human Rights Act 2019* the Public Trustee is not required to act compatibly with the human rights if it would mean that the Public Trustee would need to act contrary to the client’s interests. Notwithstanding, every client’s views, wishes and preferences is to be considered with decisions and outcomes being documented.

¹⁰ *Power of Attorney Act 1998*, s84(2)&(4); *GAAT Act 2000*, s51(2) and *Schedule 4 Dictionary*

¹¹ NM, Re [2005] QGAAT 55 (23 September 2005)

3.4 Working Definition Prudent Person Rule in Plain English

This document puts s24 of the *Trusts Act 1973* (the Act) into plain English to help you explain it to your clients when they ask you how the PTQ makes investment decisions.

When we make investment decisions for our clients, we must:

- Act in the interests of and be impartial towards all the current and future beneficiaries of the trust. This is particularly important when dealing with matters where there are two sets of beneficiaries with separate entitlements to income and capital, such as life interest estates.
- Not make speculative or hazardous investments. The use of investment products approved and supplied by our Investment Services Program or recommended by our approved financial planner are intended to minimise investment risk.
- Obtain independent and impartial advice from subject matter experts to ensure that the investment strategies and products we use are appropriate for our clients' needs.
- Conduct at least an annual review of our clients' investment strategies or more often if required.

Considerations when making investment decisions

There are a number of issues that should be considered when making investment decisions on behalf of our clients. These are listed below in groupings for ease of explanation:

- a) Client needs:** Identify the purposes of the trust and the needs and circumstances of the beneficiaries. Client needs are a factor of setting their risk profile, which in turn helps to determine their investment asset allocation. Matching the appropriate asset allocation to a client's needs is the key to successful investment decision-making.
- b) Diversification / risk associated with existing trust investments:** This means that we aim to spread our client funds across more than one asset class and use more than one investment product provider. This lowers the risk of a single asset class or manager underperforming in a given period. If we must invest in a single asset class because of the client's risk profile, we try not to invest in just one product. This is why we use diversified unit trusts.

This also means that when we assess a client's investment portfolio we should know what existing investment assets they hold and understand how those assets affect the client's total risk profile for their portfolio.
- c) Maintaining the real value of capital and or income / risk of capital or income loss / potential for capital appreciation / potential impact of inflation of the proposed investment's value:** These matters concern medium to long-term investments where there is a need to generate sufficient capital growth and income to meet the client needs. This suggests that for these clients we invest in a diversified portfolio, which aims to generate sufficient returns to outperform the eroding effects of inflation. This helps preserve client capital, which in turn preserves the ability to generate income streams.
- d) Likely income return and timing / term of proposed investments and probable duration of the trust:** Some clients need income rather than capital growth. However, the client's investment time horizon (ITH) may be medium to long-term. This means that the client will need some investments in growth assets to maintain real capital value to generate the income streams needed through the life of the investment. The ITH is a significant factor in developing asset allocation strategies for clients ranging from defensive to assertive risk profiles. As mentioned above, it is important the client's short, medium and long-term needs are matched to an appropriate asset allocation.

- e) **Liquidity and marketability of proposed investments:** Clients usually need ready access to cash for planned or unexpected needs. This means that some part of the portfolio will be invested in the cash sector. The amount needed is calculated by the creation of a budget and is reviewed annually. If client exceed their cash reserves, then we risk crystallising unplanned capital gains tax events.
- f) **Total value of the trust estate and the cost of making the investment:** The value of the investable assets is relevant when determining an appropriate amount of risk and diversification. Small amounts may not be able to absorb a significant fall in capital value or the cost of diversifying in more expensive growth style assets.
- In any case, the cost of getting and implementing investment advice should be less than the value created by that advice. That is why we segment our advice and only send matters to the financial planners above a certain dollar value or when their client's needs are complex.
- g) **Effect of tax liability:** Tax should be considered to the extent that it will impact upon the ability to meet investment objectives. Where clients are likely to be subject to significant tax consequences as a means of achieving investment outcomes then strategies should be considered in order to mitigate unnecessary adverse effects.
- h) **Results of review of existing investments:** The Act requires us to perform annual reviews of investments and strategy. However, where there has been a material change in the client's circumstances that may impact on their financial position a review should be conducted before the anniversary of the initial financial plan.

4 Application to the Public Trustee

The following table details how the elements of the *Prudent Person Rule* relates to various programs in the Public Trustee:

Table 1 Actions taken by the Public Trustee to satisfy elements of the *Prudent Person Rule*

	Requirement	Actions	Delivered by
a)	Follow direction of Trust Deeds.	<ul style="list-style-type: none"> Client Experience & Delivery implement investment directions contained in deeds. Where required, Client Experience & Delivery request assistance from Investment Services for financial planning advice that can include investment recommendations prepared taking into consideration the factors detailed at s24. Investment recommendations are actioned following the business rules embedded in Client Experience & Delivery processes or by the financial planners. All officers should apply the standards and procedures detailed in the relevant manuals and Office policies. 	Client Experience & Delivery Investments Services Client Experience & Delivery All programs
b)	Standard of care that of a professional trustee	PTQ is in the business of trusteeship, which means that there is a higher standard of professional conduct expected from PTQ, than from someone who is not in the trustee business.	All programs

	Requirement	Actions	Delivered by
c)	<p>To act in best interests of all current and future beneficiaries.</p> <p>Investments that are not speculative or hazardous.</p>	<ul style="list-style-type: none"> This applies to beneficiaries of trusts, deceased estates and clients for whom we make decisions under a power of attorney or QCAT order. PTQ practices, procedures and office directives must be followed to ensure these obligations are met. <p>Financial planning providers must meet their obligations under the <i>Prudent Person Rule</i> and the <i>Corporations Act 2001</i>. Investment Services use strategies and products that balance the risk/return trade off, are diversified across asset classes, managers and economies to reduce risk of underperformance in any one asset, class, segment or management style. These strategies and products are delivered by qualified and competent technical specialists.</p>	<p>Client Experience & Delivery</p> <p>Investments Services</p> <p>Financial Planners</p>
d)	<p>Impartiality towards all beneficiaries.</p>	<p>Demonstrated by consistently following processes and procedures including those developed to support investment decision-making:</p> <ul style="list-style-type: none"> External Statements of Advice (SOAs) are prepared by financial planning providers based on information provided by Trust Officers. Sufficient information about all beneficiaries should be supplied to enable the financial planner to address needs of all beneficiaries. Trust Officers demonstrate that we meet the 'Reasonable Basis for Advice' requirements for provision of financial planning advice for these clients. Complex RSOA/SOA are reviewed by Investment Services for compliance with these obligations. SOA reviewed by Trust Officers and Supervisors. Our financial planners produce SOA's. <p>Investment advice and strategies for Life Interest Estates matters balance the conflicting needs for life tenants to obtain income whilst preserving the capital for remaindermen beneficiaries.</p>	<p>Client Experience & Delivery</p> <p>Investments Services</p> <p>Investments Services</p> <p>Investments Services</p> <p>Client Experience & Delivery</p> <p>Investments Services</p>

e)	Duty to obtain advice. Ability to pay for advice.	The Public Trustee obtains advice from specialists to assist with the development of investment strategies, products and services, including QIC Ltd, Morgans Financial Limited, Lambda Investing Consulting, Mercer Investment Consulting, and PricewaterhouseCoopers. Financial planning fees on account of individual clients are paid from funds held in trust.	Investments Services Client Experience & Delivery
f)	Adhere to the investment principles outlined in s24	<ul style="list-style-type: none"> Financial planning providers adhere to ASIC guidelines and the <i>Prudent Person Rule</i> when preparing External and Complex SOA for our clients. Public Trustee investment products are developed in conjunction with QIC Ltd following sound investment management practice and under direction of the Director, Investment and Taxation Services. SOAs produced in accordance with guidelines developed by Investments in conjunction with appropriate technical specialists. Complex SOAs are reviewed by Investment Services for appropriateness and compliance with the Prudent Person Rule. Internal Audit conducts random checks of client files for compliance with Office procedures. 	Financial Planners Investments Services Investments Services Internal Audit

5 Investment Services Activities

Investment Services takes the following measures to comply with the *Prudent Person Rule*.

5.1.1 Client Activities – Financial Management (FM), Minor Trusts (MINR), Power of Attorney Matters (AGPF), Contingent Beneficiaries (CBEN) and Other Matters (TRST)

The Office treats all clients with the same level of respect and service. However, to ensure appropriate advice and investment products are delivered to clients at a reasonable cost, we segment investment strategies according to the quantum and type of investable assets held by our clients, as detailed at Table 2.1:

a) **Between \$0 and \$450,000 - Primary Investment Strategy:**

An update to the \$0 to \$150,000 Strategy for **new** and existing PM, MINR and AGPF activities with \$150,000 to \$400,000 was approved on 12 April 2013. The adoption of the same strategy for new and existing CBEN clients was approved by the Public Trustee on 29 November 2013. The strategy was furthermore extended to include other trust matters with selected sub-types it was approved by the Public Trustee on 17 October 2014. This strategy was further extended on 15 March 2017 to include clients with funds under management up to \$450,000 with the inclusion of a minimum of 12.5% kept in cash for these matters. The Primary Investment Strategy continues to focus on a wealth preservation outcome for clients, with the combination of cash and Term Investment Account and the Growth Trust to maintain the capital value of the client's investment.

The original strategy was approved on the 12 April 2013. An excerpt of the approved recommendation is below:

“The Public Trustee of Queensland adopts a primary investment strategy for clients (Minors, Financial Management and Enduring Powers of Attorney) with non-complex investable assets of up to \$450,000, as follows:”

For matters less than \$450,000 funds will be invested:

- Greater of \$50,000 OR 12.5% of investable assets OR 5 years budget deficit to be held in cash (plus any future capital expenses). Cash is to be rebalanced to \$5,000
- Balance to be invested in The Public Trustee Growth Trust (dependent on the investment time horizon (ITH) and minimum buy / sell rules.(see below exception)
- If total balance is <\$50,000 or a client or matter has an investment time horizon [ITH] of less than 6 years, funds will remain in cash/TIA.

Clients invested in the strategy will be exited from the investment strategy into a pure cash strategy as the trust reaches maturity using the following exit or ‘glide’ path strategy:-*

Years to maturity	Cash	Growth Trust
1	100%	0%
2	100%	0%
3	Max (\$50,000, 3 years cash requirements) i.e. minimum 67% of investable assets	Balance of investable assets i.e. maximum allocation 33%
4	Max (\$50,000, 4 years cash requirements) i.e. minimum 67% of investable assets	Balance of investable assets i.e. maximum allocation 33%
5	Max (\$50,000, 5 years cash requirements) i.e. minimum 33% of investable assets	Balance of investable assets i.e. maximum allocation 67%
6	Max (\$50,000, 5 years cash requirements) i.e. minimum 33% of investable assets	Balance of investable assets i.e. maximum allocation 67%
7+	Max (\$50,000, 5 years cash requirements) i.e. minimum 12.5% of investable assets	Balance of investable assets i.e. maximum allocation 87.5%

* The glide path is intended to gradually reduce clients’ exposure to equities in order to mitigate against single year equity shocks

Welcome letters are sent to all new clients. An RSOA or SOA is only required for initial clients or clients transitioning to the Client Investment Strategy. The financial planner will take into account all assets when considering the strategy and will provide recommendations (if appropriate) to transition existing clients to the new Primary Investment Strategy.

If a client is within the glide path parameters, no Growth Trust buys will be permitted due to the short investment timeframe.

Investment Services is responsible for the implementation of all client SOA’s in this category.

- b) **Over \$450,000 to \$999,999 or with a financial product requiring personal advice:**
An RSOA is sent to the financial planner for advice. External SOAs are prepared by external financial planners who must adhere to the *Prudent Person Rule* and compliance standards based on the *Corporations Act 2001*, ASIC Regulatory Guidelines and the Financial Planning Association’s Code of Professional Practice.

Members of the financial planning panel are subject to regular compliance checks by their own compliance teams and audits by ASIC. Investment options include Growth Trust, TIA, PT Cash Account and products selected from the financial planner's Recommended Product List (RPL).

- c) **Over \$1,000,000 in PT investable assets / \$100,000 non-PT assets or with complex issues:** An external SOA is prepared by the financial planner who must adhere to the *Prudent Person Rule* and compliance standards based on the *Corporations Act 2001*, ASIC Regulatory Guidelines and the Financial Planning Association's Code of Professional Practice. Members of the financial planning panel are subject to regular compliance checks by their own compliance teams and audits by ASIC. Investment options include Growth Trust, TIA, PT Cash Account and products selected from the financial planner's Recommended Product List (RPL).

These matters are referred to our financial planners for preparation of a Complex SOA. Given the quantum of investable assets and potential risk to the Office, Investment Services review both the RSOA and the draft SOA to ensure clients receive appropriate advice, meeting our obligations under the Prudent Person Rule. The Director Investment and Taxation Services endorses the final draft for production for clients with over one million in funds under management.

The Client Investment Strategy conforms with our obligations at s22(1)(a) to exercise a duty of care towards our clients and at s24 to take into consideration a range of factors, including the costs of making investments.

Table 2.1 Client Activities - Thresholds and Investment Strategies – Financial Management (FM), Minor Trusts (MINR) Power of Attorney Matters (AGPF), Contingent Beneficiaries (CBEN) and Other Matters (TRST)

Investment Assets	Investment Strategy – PM, MINR, AGPF, CBEN and Other Matters (TRST)	Products Used
\$0 to \$450,000	<p>Clients whose assets are not complex (i.e. Cash, Term Investment Account (TIA) and Growth Trust)</p> <ul style="list-style-type: none"> • Greater of \$50,000 or 12.5% of investable assets or 5 year budget deficit to be held in cash, plus any future capital expenses <ul style="list-style-type: none"> ○ \$5,000.00 in the cash account ○ \$45,000 Minimum or calculated amount to be invested in TIA ○ Balance to be invested in the Public Trustee Growth Trust (unless a client has less than 6 years Investment Time Horizon (ITH), then the whole amount will be placed in cash) • Preserve capital in event of unexpected expenses • Initial and annual reviews are processed, authorised in the regions and implemented by the Investments Team 	<p>Cash Account TIA Growth Trust</p>

Investment Assets	Investment Strategy – PM, MINR, AGPF, CBEN and Other Matters (TRST)	Products Used
<p>\$450,001 to \$999,999 (Including Complex Assets)</p> <p>Deals with clients holding assets identified at Financial <i>Management Manual</i>, s28.</p>	<p>External Statements of Advice</p> <ul style="list-style-type: none"> • Also includes clients who hold complex assets under \$450,000 • Trust Officer refers RSOA to Manager to review. Investments also review RSOA for completeness. If complete, Annual Review RSOA sent to Investments to review then financial planners • Financial planners develop strategy and investment recommendations taking into consideration client investment time horizon, needs and resources • Financial Planning and Technical Support Team liaises with financial planning panel members if required • SOAs are individually prepared for clients and planners must document that they have considered superannuation in all cases but especially when assets are over \$450,000 or income is in excess of \$35,000 • SOA implemented by Investment Services (Operations Team) 	<p>Cash Account TIA Growth Trust Planner RPL</p>
<p>\$1,000,000 and over or \$100,000 and over in non-Growth Trust</p>	<p>Complex Statements of Advice</p> <ul style="list-style-type: none"> • Trust Officer refers RSOA to Manager to review. Investments also review both Initial and Annual Review RSOA who check it for completeness and forward to Investments then onto financial planner • SOAs are individually prepared for each client • Financial planner selects investment products they consider appropriate. They may select PT investment products and products from their own RPL • Draft SOA reviewed by FP&TS work group. Where recommendations are not substantiated or staff have other queries SOA's are returned to the planner for re-work • Once satisfied, Director, Investment and Taxation Services will endorse the SOA authorising production of final SOA by the financial planner for clients with funds over one million dollars • SOA implemented by Investment Services (Operations Team) 	<p>Cash Account TIA Growth Trust Planner RPL</p>

5.1.2 Client Activities – Testamentary Trusts – Life Interest Matters (TRES/LIFE)

The Office treats all clients with the same level of respect and service. However, to ensure appropriate advice and investment products are delivered to clients at a reasonable cost, we segment investment strategies according to the quantum and type of investable assets held by our clients, as detailed at Table 2.2:

- a) **Between \$0 and \$12,500:** Funds retained in the PT Cash Account
- b) **Between \$12,500 and \$50,000:** Life Interest Estates which hold no property assets and have a time horizon greater than five years and investable assets between \$12,500 and \$50,000 have an investment strategy of 80% Public Trustee of Queensland Growth Trust (“Growth Trust”) and 20% cash, where appropriate. An Internal Investment Plan (Life Interest Plan) is sent to Investment Services for review and Implementation.
- c) **Over \$50,000 or with a financial product requiring specialist advice:** External SOA’s are prepared by our financial planners who must adhere to compliance standards based on the *Corporations Act 2001*, ASIC Regulatory Guidelines and the Financial Planning Association’s Code of Professional Practice. Members of the financial planning panel are subject to regular compliance checks by their own compliance teams and audits by ASIC. Investment options include Growth Trust, TIA, PT Cash Account and products selected from the financial planner’s Recommended Product List (RPL).
- d) Life Interest Estates that hold property assets have an investment strategy comprising of an asset allocation of at least 52% growth assets and 48% defensive assets; if property is less than 52% a sufficient allocation will be made to Public Trustee Growth Trust (“Growth Trust”) to increase allocation to growth assets to 52%
- e) **Over \$1,000,000 in PT investable assets / \$100,000 non-PT assets or with complex issues:** These matters are referred to our financial planners for preparation of a Complex SOA. Given the quantum of investable assets and potential risk to the Office, Investment Services review both the RSOA prepared by Trust Officers and the draft SOA to ensure clients get appropriate advice meeting our obligations under the Prudent Person Rule. Director, Investment and Taxation Services endorses the final draft for production and presentation to clients for client with more than one million dollars in assets.

The Client Investment Strategy conforms with our obligations at s22(1)(a) to exercise a duty of care towards our clients and at s24 to take into consideration a range of factors, including the costs of making investments.

Table 2.2 Client Activities - Thresholds and Investment Strategies – Testamentary Trusts – Life Interest Matters

Investment Assets	Investment Strategy	Products Used
\$0 to \$12,499	<ul style="list-style-type: none"> • Provide security of capital • Review annually 	Cash Account
\$12,500 to \$49,999	<ul style="list-style-type: none"> • Clients whose assets are not complex • Preserve capital in event of unexpected expenses • Request for Investment Plan (Life Interest Plan) reviewed by the Investment Services. • Product recommendation determined by client's Investment Time Horizon (ITH): <ul style="list-style-type: none"> • ITH based upon life expectancy of beneficiary less than five years => invested in Cash • ITH based upon life expectancy of beneficiary greater than five years =>80% invested in Growth Trust & 20% invested in Cash • Life Interest Estates that hold property assets have an investment strategy comprising of an asset allocation of at least 52% growth assets and 48% defensive assets; if property is less than 52%, a sufficient allocation will be made to the Public Trustee Growth Trust ("Growth Trust") to increase the allocation to growth assets to 	TIA Growth Trust
\$50,000 and above (plus complex assets)	<ul style="list-style-type: none"> • Preserve capital in event of unexpected expenses • Request for Life Investment Plan (Life Interest Plan) sent to Financial Planners for preparation of SOA • Product recommendation determined by beneficiaries life expectancy - Investment Time Horizon (ITH): <ul style="list-style-type: none"> • ITH less than five years => invested in Cash • ITH greater than five years =>80% invested in Growth Trust & 20% invested in Cash • Life Interest Estates that hold property assets have an investment strategy comprising of an asset allocation of at least 52% growth assets and 48% defensive assets; if property is less than 52%, a sufficient allocation will be made to the Public Trustee Growth Trust ("Growth Trust") to increase the allocation to growth assets to 52% 	TIA Growth Trust

5.2 Life Interest Estates

Life Interest Estates SOAs are processed outside the CIS Workflow. Life Interest Estates with investable assets up to \$450,000 are implemented by Investment Services by applying the approved strategy for Life Interest matters. See 5.1.2 of this Manual.

Matters over the \$450,000 threshold are forwarded to our financial planning provider.

5.3 Risk Profiles

Clients with investable assets less than \$50,000 are placed in the PT Cash Account or TIA, as shown in Table 2.1. The intention is to reduce the likelihood of investment volatility reducing their financial assets in the short term when these funds are most likely to be needed. Both these PT investments are covered by a Queensland Government guarantee on both capital invested and interest earned as they form part of the PT Common Fund¹³.

Clients with more than \$450,000 in investable assets are referred to the financial planner who considers the client's investment time horizon, as well as other factors, when developing strategies and investment recommendations.

Clients with \$50,000 to \$450,000 of investable funds will be reviewed under the Client Investment Strategy. The financial planner will take into account the Client Investment Strategy in preparing the SOA recommendations.

The following risk profile matrices are used as a guide to asset allocation recommendations made by financial planning providers when preparing External and Complex SOAs.

Table 3 Risk Profile for Minors (External and Complex matters only)

If a new Minor has less than 6 years until age of majority (i.e. in "glide path"), no funds are invested into the Growth Trust, and are retained in a combination of Cash / Term Investment Account.

Existing Minors have assets rebalanced in a combination of cash and growth assets as per the below table.

Years to maturity	Cash	Growth Trust
1	100%	0%
2	100%	0%
3	Max (\$50,000, 3 years cash requirements) i.e. minimum 67% of investable assets	Balance of investable assets i.e. maximum allocation 33%
4	Max (\$50,000, 4 years cash requirements) i.e. minimum 67% of investable assets	Balance of investable assets i.e. maximum allocation 33%
5	Max (\$50,000, 5 years cash requirements) i.e. minimum 33% of investable assets	Balance of investable assets i.e. maximum allocation 67%
6	Max (\$50,000, 5 years cash requirements) i.e. minimum 33% of investable assets	Balance of investable assets i.e. maximum allocation 67%
7+	Max (\$50,000, 5 years cash requirements) i.e. minimum 12.5% of investable assets	Balance of investable assets i.e. maximum allocation 87.5%

* The glide path is intended to gradually reduce clients' exposure to equities in order to mitigate against single year equity shocks

¹³ Public Trustee Act 1978 at s23

Table 4 Risk Profile for Financial Management & Active EPA Clients (External and Complex matters only)

Where our clients are under financial administration, we base our risk profiles on life expectancy unless moderated by some lifestyle consideration as requested by the Trust Officer.

Age	Risk Profile	Consideration of
18 - 45	Assertive	PT Growth Trust
45 - 65	Growth	PT Growth Trust
65 - 80	Conservative	PT Growth Trust (reduced allocation)
80 +	Very Low Risk	PT Term Investment Account

The client's risk profile is largely determined by client's life expectancy (ITH) and client's budgetary requirements. Information about the client's personal and financial situation is documented in the RSOA which initiates the SOA process. This demonstrates that the Office and the financial planner have a reasonable basis for advice. This is also consistent with our obligation to exercise the care, diligence and skills that a prudent person engaged in our business should exercise.

Trust Officers are expected to apply their professional skills and knowledge in order to identify other factors deemed relevant in the fact-finding process.

The risk profiles determine appropriate investment recommendations and ensure that clients are placed in asset allocations appropriate for their age, life expectancy or investment time horizon and budgetary requirements. These profiles are reviewed by our financial planning providers every three years to ensure they remain relevant and appropriate.

The risk profiles shown at Tables 3 and 4 are built into the Client Investment Strategy Workflow and are applied when Trust Officers generate an external RSOA. For External and Complex SOA, we expect our financial planners to apply the risk profile definitions when they develop strategies and recommendations.

5.4 Investment Return Projections Developed by External Asset Consultants

The projections used to prepare financial advice are based on QIC's Return Forecasts of Income/Growth, which are based on long-term forecasts of the Growth Trust performance. These are reviewed and updated regularly meaning that the investment products used by the Public Trustee and our panel of approved financial planners have consistent return forecasts based on research by a reputable investment consultant.

5.5 Client Investment Strategies

On a yearly basis, the Client Investment Strategy is reviewed to ensure it continues to meet objectives.

It should be noted; that the Client Investment Strategies are to be the primary investment option for non-complex clients, and that clients with more complex administrations will continue to be referred annually to the external financial planner.

5.6 Financial Advice Process

Trust Officers perform the first step in the Public Trustee financial planning process when they gather information about the client's personal and financial position using the Financial Management Plan. The information collected in this document completes the RSOA, which initiates the SOA production process.

Once the SOA is produced by the financial planners, the final copy is sent to the client, their guardian, or their carer by the Trust Officer. The recommendations in the SOA are then implemented on behalf of the client by the Operations Team in Investment Services Program.

The FP&TS work group in Investment Services provides technical support on financial planning issues to staff of the Office. The team monitors production of Complex SOA's to ensure timely completion, and reviews all Complex RSOA and SOAs to ensure the advice and product recommendations provided, meet our obligations under the Prudent Person Rule.

5.7 Task Management System

The Office meets the obligation to conduct annual reviews by scheduling an annual review on the anniversary of the initial SOA in the Task Management System.¹⁴

The task "*Implement Client Investment Strategy*" generates a workflow stage 30 days prior to the annual review date. This workflow task is started in advance, in order to meet the due date for simple matters (internal matter) and have the RSOA sent to the financial planner prior to the due date for complex matters (external SOA's).

5.8 Technical References

The Public Trustee maintains a series of manuals relating to investment management and financial planning. The Office's technical manuals are currently maintained by the Knowledge Management Unit within Client Services based on technical advice from Investment Services.

5.9 Public Trustee Investment Products

In addition to the Public Trustee Investment Fund – Growth Trust, which is covered in the next section, Clients Moneys are held in the Public Trustee Common Fund as detailed below:

Public Trustee Common Fund: A capital guaranteed fund that provides competitive rates of return for client's short-term liabilities. Interest rates are reviewed monthly to ensure clients receive fair and reasonable interest rates when compared to similar products in the market. The asset allocation and liability profile of the Public Trustee Common Fund is reviewed annually and both the capital and interest is guaranteed by the *Public Trustee Act 1978*, pursuant to s23.

Interest rates payable on moneys held in the Public Trustee Common Fund are prescribed by Regulation. All clients have a PT cash account in the Public Trustee Common Fund. Funds that are not required to meet the short term liabilities of an estate are held in a Term Investment Account within Public Trustee Common Fund.

- a) **PT Cash Account:** Cash is held in the Public Trustee Common Fund Cash Account for as long as necessary to meet short-term liabilities. This is monitored by both Trust Officers and Investment Services so that amounts not needed for estate administration or short term needs can be invested in higher yielding TIA or external term deposits where appropriate.
- b) **Term Investment Account:** Is a rolling one month account whose interest rate is set against the mode of 30 day term deposit rate of the four major banks. Unlike retail term deposits, it is not set for a fixed term and can be redeemed without penalty when required to fund short-term needs. The TIA offers clients the opportunity to hold cash in a term deposit-like product with similar liquidity than that of the PT Cash Account.

Client Cash Held in Portfolio Services: Clients with investments held in 'Morgans Financial Limited' *Wealth+* investment administration service, hold a cash account to cover expenses and investments planned for the coming quarter. The Financial Planning and Technical Support work group in Investment Services ensure that any surplus cash not required for these purposes is swept back into The Public Trustee's Term Investment Account, which usually offers a better interest rate, reduced fees within *Wealth+* and quicker access to client funds at short notice.

¹⁴ *Trusts Act 1973* at s22(3).

5.10 Process Improvement

Investment Services develops an operational plan on an annual basis which identifies and implements changes to investment infrastructure and service delivery. More information on the implementation of this plan can be obtained from the Director, Investment and Taxation Services.

5.11 Systems

The Office uses several systems to ensure consistent delivery of financial planning and investment advice to staff and clients of the office. The key attributes of these systems and their relationship to the Prudent Person Rule are summarised at Table 5 below.

Table 5 Systems which support the Prudent Person Rule at The Public Trustee

System	Description	Purpose
Client Information Management System (CIMS)	A database of information about clients of the Office	<ul style="list-style-type: none"> • Manage client's affairs • Asset and Liability register • Holds all documentation relating to the client including RSOA, SOA and client correspondence • Accept data feed from BDO to update Growth Trust information for each client
CIS Workflow	Workflow extracting data from CIMS to generate SOA. This process was developed in-house with advice from external specialists and applies the factors outlined in s24, <i>Trusts Act 1973</i> for production of SOA's up to \$450,000. (Originally referred to as SOA Workflow.)	<ul style="list-style-type: none"> • Produce RSOA • Implement recommendations to buy/sell Public Trustee investment products • Enhance efficiency and effectiveness • Automatically Implements internal Client Investment Reviews
Task Management System (TMS)	A management system allowing Trust Officers to manage their work and set future routine and one-off tasks.	<ul style="list-style-type: none"> • TMS enables Officers to consistently deal with client files and remind them of coming activities, such as the annual financial review which is a requirement of the Prudent Person Rule.
Mercer	On line product which allows the Public Trustee to compare and analyse the performance of a wide universe of investment managers	<ul style="list-style-type: none"> • Investment performance research providing independent benchmarking of Growth Trust performance against the peer group of funds.
Morgans Financial Limited <i>wealth+</i>	A custodial service which, holds client's investments in managed funds and direct shares under one administrative platform for ease of administration, reporting and management.	<ul style="list-style-type: none"> • Manage large client portfolios holding non-Growth Trust investments such as managed funds and direct shares recommended by Morgans Financial Limited for higher value External and Complex matters.
Morgans Financial Limited	Stock broker and registry services	<ul style="list-style-type: none"> • Hold and manage listed securities as broker sponsor and assist with the administration of deceased estates

5.12 Further Reading

A Reference List cites the references used in compiling this manual, copies of which are available from Investment Services.

6 Public Trustee Investment Fund – Growth Trust

6.1 Background

There may be a perception that the Public Trustee prefers its clients to be invested in its own products. This conflict is experienced by any financial services provider offering financial planning advice and their own investment products.

We acknowledge there is a conflict and note that this has been approved by Queensland Supreme Court decision No 5391 of 1996 dated 15 July 1996.

Applying the Rule ensures that Public Trustee makes prudent investment decisions taking into account all of the factors listed at s24 of the *Trusts Act 1973*.

6.2 Financial Planning Advice

We use the services of an external financial planning firm independent of the Office to make investment recommendations for External and Complex clients, i.e. those with investable assets over \$450,000 or have complex assets. In order for our financial planning panel to recommend the Growth Trust, it must be held on their RPL. The Public Trustee provides the financial planners with sufficient information to satisfy their investment committee's requirements to do this, including:

- Quarterly funds management reports from QIC;
- Quarterly peer group investment performance reports provided by Mercer Investment Consulting;
- Attendance at Fund Manager presentations every six months.

Where appropriate, the financial planner may recommend non-Growth Trust products where they believe these products offer similar or better performance outcomes at a reasonable cost whilst achieving a prudent level of diversification of asset classes and managers.¹⁵

We do not direct the financial planner to the use Growth Trust and understand that there are investment thresholds beyond which it is prudent to use other investment products to achieve diversification in managers, asset classes and sectors not offered by the Growth Trust. We also understand that for high net-worth clients the cost structure of the Growth Trust may be in the client's best interest.¹⁶

6.3 Asset Allocation Underlies Performance, not Product Selection

Third party research and investment theory tells us that approximately 90% of returns come from asset allocation and the remainder from stock selection. This means that investment portfolios with similar asset allocations should have a similar performance outcome over the long-term.

6.4 Independent Monitoring

Investment Services monitor the performance of the Growth Trust through Mercer and Morgans Financial Limited. The purpose is to ensure that the Growth Trust is consistently achieving acceptable returns at an appropriate risk level compared with its peer group.

¹⁵ *Trusts Act 1973* at ss23(2)(d); 23(4);24(b)(n)

¹⁶ *Trusts Act 1973* at s24(n)

6.5 Investment Management Style

The funds are managed by QIC and QIC engage specialists for the various assets classes.

6.6 Fees Subject to Regular Review

Public Trustee management fees and rebates are reviewed every two years to maintain parity with similar wholesale products based on information provided by our independent research. The Public Trustee reviewed the fee structure of the Growth Trust and the new fee structure was implemented on the 1 June 2012. The fees will be reviewed every three years in conjunction with the triennial product design to ensure fees stay within market range.

6.7 Distribution Policy

The distribution policy accordance was reviewed in June 2010 by a specialist consultant to ensure conformance with prevailing industry practice and standards. As a result, the distribution policy was changed, so that taxable income is now matched to distribution income. Previously capital losses had to be offset before a distribution could be paid. During the Global Financial Crisis this meant that on several occasions no distributions were paid to clients. The new policy means that capital gains are offset by capital losses, which can be carried forward and that income will be paid as distribution when it is earned.

6.8 Corporate Governance

The Public Trustee implemented a thorough corporate governance regime consisting of separation of duties between research and implementation, use of independent research and consultancies to supplement in house technical skills, and constant communication with senior management in our financial planning provider. In terms of s21 of the *Public Trustee Act 1978*, the Public Trust Office Investment Board (PTOIB) is responsible for the control and management of the investments of the Common Fund. The PTOIB has also agreed to provide advice to The Public Trustee on the investment management of the Growth Trust. Performance is reviewed by the PTOIB quarterly. In terms of the *Public Trustee Act 1978*, PTOIB will consist of at least three members, one of whom is the Public Trustee of Queensland and one of who is an officer of the department administered by the Treasurer.

6.9 Product Design Reviews

Growth Trust design is reviewed every three years by the Public Trustee in consultation with QIC.

6.10 Regular Investment Reviews

Growth Trust asset allocations are reviewed regularly using Mercer software, which compares performance benchmarks and provides an analysis of peers. We also receive the Mercer Independent Review on a quarterly basis, which enables regular tracking of performance against the market and our peers.

Glossary

Term	Meaning
AGPF	Enduring Power of Attorney clients and Power of Attorney Matters
CBEN	Contingent Beneficiary
Complex SOA	SOA prepared for clients with investable assets above \$1,000,000, non-Growth Trust assets in excess of \$100,000 or complex matters requiring a high level of financial planner expertise.
CIS Workflow	A workflow enabling Trust Officers to prepare SOAs in-house or prepare them for production by our financial planning panel.
DIST	Director, Investment and Taxation Services
External SOA	SOA prepared for clients with investable assets above \$50,000 or non-Growth Trust financial products that require financial planner expertise.
Financial Planner/s	An external financial planner appointed to the financial planning panel. Morgans Financial Limited is currently the only provider appointed to the panel.
FM	Financial Management client
FP&TS	Financial Planning and Technical Support workgroup
FSO	Financial Services Officer in the Financial Planning and Technical Support work group in Investment Services.
GAAT	<i>Guardianship and Administration Act 2000</i>
Growth Trust	Public Trustee Investment Fund (PTIF) / Public Trustee of Queensland Growth Trust
ITH	<p>Investment Time Horizon is the period that funds can be invested, before they are needed. In the retail investment environment this can be equated to these time frame:</p> <ul style="list-style-type: none"> • Short-term: one to two years • Medium-term: three to five years • Long-term: five to seven years and beyond. <p>In the Public Trustee environment, ITH tends to be driven by life expectancy, or a contingent event such as attaining Majority.</p>
MFR	Managed Fund Rebate
MINR	Minors Matters
PSMC	Public Sector Management Committee
PTOIB	Public Trust Office Investment Board

Term	Meaning
PTQ	The Public Trustee of Queensland
QCAT	Queensland civil Administrative Tribunal
RPL	Recommended Product List. Those investment products that financial planners are authorised by their dealerships to recommend in SOA.
RSOA	Request for Statement of Advice: the document that captures sufficient information about the client needs to initiate the SOA planning process.
SOA	Statement of Advice
The Office	The Public Trustee of Queensland and staff
TRES	Testamentary Trusts
TRST	Trust Matters

Attachments

- 1 The Prudent Person Rule, Excerpt from Part 3, *The Trusts Act 1973*
- 2 Risk Profiles used by our Financial Planning Provider

Duties of trustee in relation to power of investment

22(1) A trustee must, in exercising a power of investment -

- a) If the trustee's profession, business or employment is, or includes, acting as a trustee or investing money for other persons - exercise the care, diligence and skill a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons; or
 - b) If the trustee's profession, business or employment is not, or does not include, acting as a trustee or investing money for other persons - exercise the care, diligence and skill a prudent person of business would exercise in managing the affairs of other persons.
- (2)** A trustee must, in exercising a power of investment, comply with a provision of the instrument creating the trust that is binding on the trustee and requires the obtaining of a consent or approval or compliance with a direction for trust investments.
- (3)** A trustee must, at least once in each year, review the performance, individually and as a whole, of trust investments.

Law and equity preserved

23(1) A rule or principle of law or equity imposing a duty on a trustee exercising a power of investment continues to apply except so far as it is inconsistent with this or another Act or the instrument creating the trust.

- (2)** Without limiting the rules or principles mentioned in subsection (1), they include a rule or principle imposing -
- a) a duty to exercise the powers of a trustee in the best interests of all present and future beneficiaries of the trust; and
 - b) a duty to invest trust funds in investments that are not speculative or hazardous; and
 - c) a duty to act impartially towards beneficiaries and between different classes of beneficiaries; and
 - d) a duty to obtain advice.
- (3)** A rule or principle of law or equity relating to a provision in an instrument creating a trust that purports to exempt, limit the liability of, or indemnify a trustee in relation to a breach of trust, continues to apply.
- (4)** If a trustee is under a duty to obtain advice, the reasonable cost of obtaining the advice is payable out of trust funds.

Matters to which trustee must have regard in exercising power of investment

24.1(1) Without limiting the matters a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, have regard to the following matters:

- (a) the purposes of the trust and the needs and circumstances of the beneficiaries;
- (b) the desirability of diversifying trust instruments;
- (c) the nature of and risk associated with existing trust investments and other trust property;
- (d) the need to maintain the real value of the capital or income of the trust;
- (e) the risk of capital or income loss or depreciation;
- (f) the potential for capital appreciation;
- (g) the likely income return and the timing of income return;
- (h) the length of the term of the proposed investment;
- (i) the probable duration of the trust;
- (j) the liquidity and marketability of the proposed investment during, and at the end of, the term of the proposed investment;
- (k) the total value of the trust estate;
- (l) the effect of the proposed investment for the tax liability of the trust;
- (m) the likelihood of inflation affecting the value of the proposed investment or other trust property;
- (n) the cost (including commissions, fees, charges and duties payable) of making the proposed investment;
- (o) the results of a review of existing trust investments.

(2) A trustee:

- (a) may obtain, and if obtained must consider, independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice; and
- (b) may pay out of trust funds the reasonable costs of obtaining the advice.

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