Why Can't We Be friends?

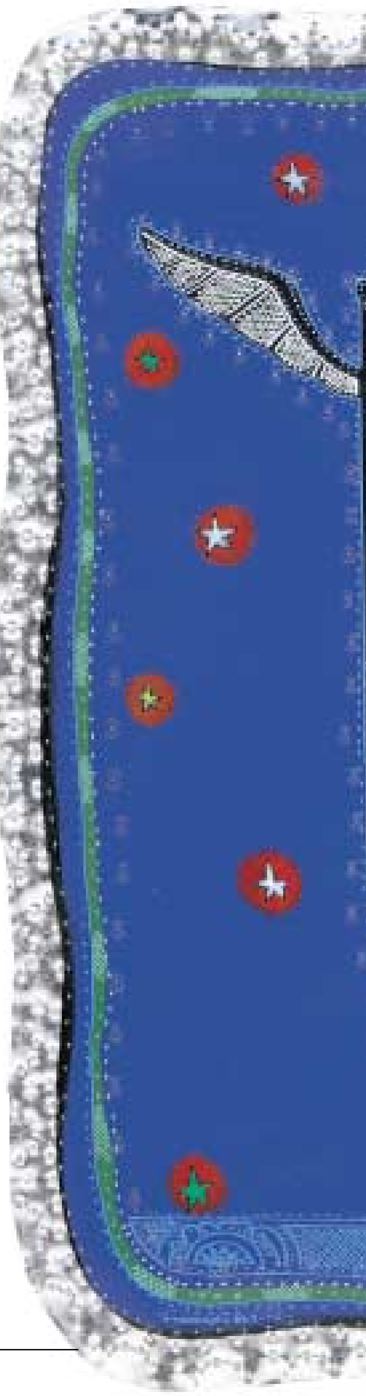
Recognizing that cooperation can be profitable, more and more independent trusts are looking to share customers—and fees—with advisers

BY GAYLE RONAN

Sooner or later a good many wealthy clients reach a point in their financial lives when they need trust services. This presents a dilemma for the independent financial adviser: he could offer the services himself, but becoming a trustee is a complex and expensive undertaking that puts him in another line of business altogether. The alternative, referring the client to a third-party trust company, can ultimately be even more costly.

ILLUSTRATIONS BY JOEL NAKAMURA

Typically, when most advisers refer clients to a trust company—especially the traditional providers of such services, bank trust departments—they can pretty much expect to say goodbye to the account. That's because most trust companies provide planning and investment-management services in-house and are unwilling to forgo or even share the associated client fees with outsiders.



But financial professionals like Robert Rikoon, chief executive officer at Rikoon-Carret Investment Advisors in Santa Fe, N.M., and author of *Managing Family Trusts* (Wiley), are questioning how this all-or-nothing approach benefits clients, as it doesn't typically lead to lower fees. Worse, the traditional route often leads to the implementation of cost-effective cookie-cutter investment approaches—such as investment in common trust funds. For clients used to working one-on-one in an established personal relationship, the switch to the less personal tag-team approach, in which the trust officer at the other end of the phone line keeps changing, can be jarring.

It's the desire to keep financial services personal that has led advisers like Rikoon to align themselves with those few trust companies willing to unbundle their services. Such adviser-friendly trust companies believe that the commingling of trust services and asset management is more than anything else a marriage of convenience for the trust companies, says William Russell, chief executive officer at TrustCorp America in Washington, D.C., an independent trust-services provider that cooperates with clients' financial advisers.

In a recent, though informal, survey of members of the Association of Independent Trust Cos., *Wealth Manager* found 23 adviser-friendly trust companies willing to work with outside advisers on behalf of some or all of their trust clients. Sure, the majority of trust companies still prefer to go it alone, but their ranks are eroding as some independents—and one bank—extend an olive branch toward advisers in their efforts to share clients.

Most trust companies still prefer to go it alone, but their ranks are eroding

Why is this new breed of trust company so willing to unbundle services? Russell, for one, challenges the notion that the real profits in the trust business come from asset management. TrustCorp operates on the premise that it can earn substantial profits by specializing in administrative services only, leaving the asset management to outside experts.

Actually, a number of independents like TrustCorp. don't offer in-house investment-management services at all: if called upon to manage client assets, they hire a third party. Because they're set up operationally and philosophically to work with outsiders, these trust companies have no difficulty in accommodating and overseeing advisers chosen by clients. Another such firm, Poudre River Valley Trust Co. in Fort Collins, Colo., encourages trust clients to use their own advisers. "Where there is an existing adviser relationship, we just assume that client wouldn't be coming to us unless [we agree to let] their adviser stay involved," says Tom Atkinson, chief executive officer. In other words, reasons Atkinson, such clients are interested in accessing only services their own advisers don't offer. "Together we can serve the client more completely," he concludes.

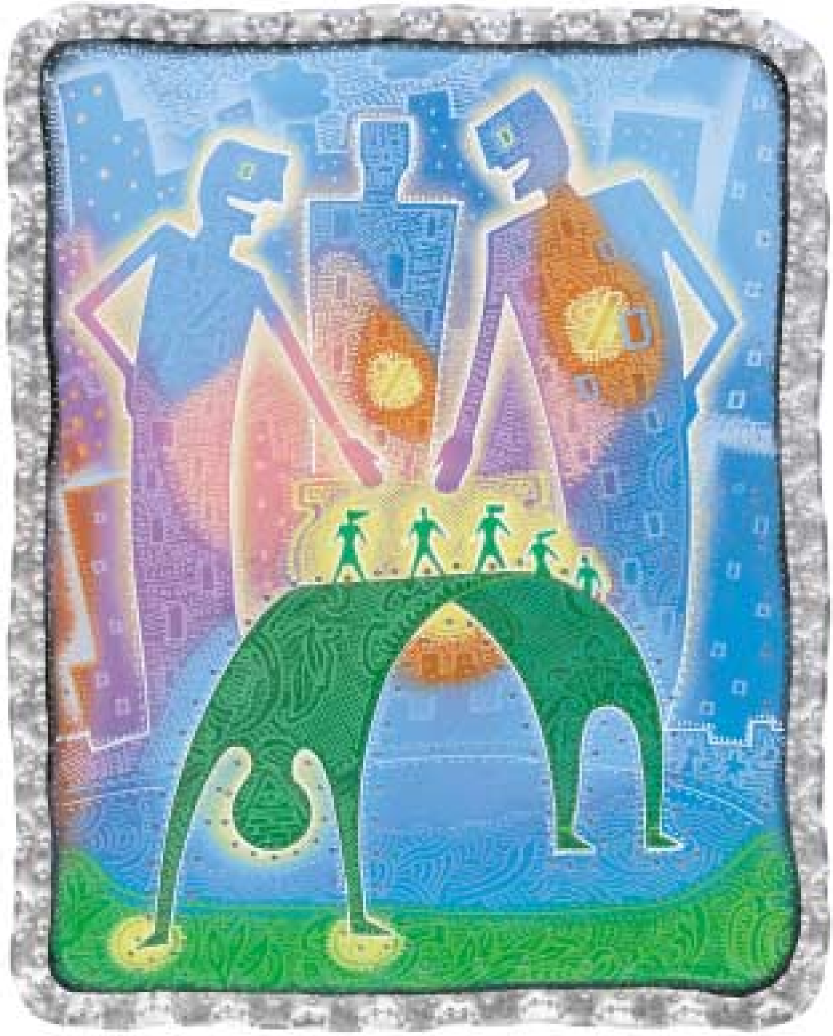
But firms that specialize exclusively in trust and administrative services aren't the only trust companies that will work with advisers. A second group offers full

asset-management services in-house but will coexist with outside advisers if a client prefers it. Often, the trust company's willingness to cooperate depends on how "client-centric" it is. Louisville Trust Co., a small independent in Louisville, Ky., grew out of a 40-year-old advisory firm when the firm's clients began asking for trust services, says Nicole Jacobsen, vice president. Eventually the firm began looking beyond its own client base for prospective trust-services clients. Many of these prospects had preexisting adviser relationships, but "we felt accommodating those relationships would be better in the long run for all involved parties," says Jacobsen. "Maybe in bigger towns or at bigger trust companies it's harder to operate with the type of flexibility we do as a boutique shop. But we are happy just being able to join a client's team, regardless of the role we play."

Then there's a third breed of trust company willing to work with financial advisers: six firms included in our survey don't market their services directly to the public but instead pursue new accounts only through advisers. Because these adviser-only trust companies see the adviser as their 'client,' they focus on providing services and technical support that enhance the adviser's value to the ultimate client. This may include arranging for institutional brokerage services, providing access to hedge funds or private-equity placements, or offering career-enhancing seminars and opportunities for networking through conferences.

BECAUSE THESE ADVISER-ONLY TRUST COMPANIES regard the adviser as their client, they may be more flexible—depending, that is, on state law. Trust companies, as trustees, are required by most states (the exceptions being Delaware and South Dakota) to perform due diligence on any outside advisers who have been delegated investment-management responsibility. The depth of these requirements varies but at minimum includes a review of the adviser's Form ADV and written policy statement for each account—as well as regular reviews of all accounts to verify the policy is being followed and is still appropriate given the client's needs. In other words, a trustee's job, regardless of charter, is to look over an adviser's shoulder. Most trustees will go beyond the basic steps, but for those with a Delaware charter, the basics are often sufficient. That's because Delaware law allows the grantor of a trust to segregate investment-management responsibilities from administration responsibilities. If a client were to sue, the trustee most likely would not be held liable, but the adviser, who is a cofiduciary, would be. In less liberal states, trustees should feel compelled to take a harder look at advisers. Some may even require that the outside adviser's asset-management approach be similar to their own. Ultimately, however, most trust companies defer to the wishes of the client—and the trust companies in our survey report few encounters in which they felt obligated by their fiduciary duty to refuse to work with an adviser or interfere with an adviser's recommendations.

At first glance, perhaps the greatest advantage of using an adviser-only trust company would appear to be not to the client but to the adviser herself: firms that work exclusively with advisers present no competitive risk. But how real is the risk that any independent trustees offering asset



only the trust-services portion of fees than handle fewer accounts and receive full-service fees. "Technically, we do compete for new (or unattached) clients," says McPherson, acknowledging the overlap in services. But, he adds, clients seek his firm out more often for its fidu-ciary services, not its financial-planning skills. "People tend to start with planners and advisers, then graduate to the need for trust and fiduciary services," says McPherson. Cooperating, he believes, adds to everyone's business.

Nevertheless, in addition to whether or not they offer investment-management services—the key sticking point for suspicious advisers—independent trust companies differ in several ways. Some, for example, insist on handling custody in-house because of the nature of their accounting methods and internal technology constraints. Also, because in most states trustees are liable if anything happens to clients' assets, many trustees prefer to retain control of those assets. Most trustees, however, offer some limited custodial flexibility. For example, most can accommodate advisers who custody with Schwab or Fidelity. A handful of independents who have invested in state-of-the-art interface technology can accommodate any custodial arrangement the client requires.

management and other overlapping services will undermine a relationship to steal business? "It isn't the best 'steal' we could make," says Julie Higgins, partner at the Trust Co. of Toledo in Ohio, which offers full advisory services but also works with outside advisers. Going after all the client's business would be bound to alienate the client, she says, and that would very likely lead to a removal of her company as trustee. "Where's the gain in that?" she asks. In fact, most of the trust companies *Wealth Manager* spoke with for this article said they would include noncompete clauses in written contracts if they were asked to do so. And although bank trust departments and other large firms operating in multiple markets may be comfortable taking on the risk of alienating clients as well as advisers by going back on their promise not to compete, independents, which tend to be much smaller, can't afford to compromise their reputations. "Clearly if we were to raid adviser-referred accounts, there would be no additional referral business from anyone," says Herb McPherson, chief executive officer of Investors Independent Trust Co. in Boulder, Colo. McPherson says his company would rather handle more accounts and receive

Cost is another area of variance among these firms. Some

Larger firms may be comfortable going back on their promise not to compete, but independents can't afford to compromise their reputations

employ a fixed fee schedule for trust services only. Advisers working with these firms would arrange their fee with the client. Other firms charge a single fee to the client and negotiate a split with the adviser. The rule of thumb regarding costs, according to Rikoon, is that the charges for trust and advisory services should together be competitive with what a traditional bank trust department charges for bundled

Just **How Friendly** Are They?

A directory of independent trust companies that work exclusively—or are willing to cooperate—with independent financial advisers

ADVISER-ONLY TRUSTS

AMERICAN GUARANTY & TRUST CO., WILMINGTON, DE

Year founded 1914
Website www.amgtrust.com
On-line account access yes
Assets under administration $800 million
Ownership one of the Sentinel companies
Custody flexible
Fee structure substantially discounted fee schedule for assets invested in preferred-provider products that have an automated interface
Vital information fees and commissions pass through to client's adviser or broker. Can accommodate interests in closely held businesses or personal property but there are restrictions; prefers not to accept personal residences as trust assets.

CAPITAL TRUST CO. OF DELAWARE, WILMINGTON, DE

Year founded 1999
Website www.ctcdelaware.com
On-line account access yes
Assets under administration $400 million
Ownership management and outside investors; voting stock controlled by Corporation Service Co.
Custody prefers outside custody
Fee structure preferential fees are given to accounts where there's an established electronic interface; advisers receive fees or commissions
Vital information doesn't offer in-house advisory services or proprietary products. When given investment authority, uses one or more of 12 to 15 third parties it has contracted with to provide investment management and other specialized services.

COMMONWEALTH TRUST CO., WILMINGTON, DE

Year founded 1931
Website www.comtrst.com
On-line account access yes
Assets under administration more than $3 billion
Ownership officers, directors, and employees
Custody unrestricted
Fee structure charges for administrative services
Vital information doesn't provide investment-management services or proprietary products but offers planning services. Can accommodate families with limited-partnership interests or interests in closely held businesses. Frequently works with asset-protection and dynasty trusts.

SANTA FE TRUST, SANTA FE, NM

Year founded 1997
Website www.santafetrust.com
On-line account access restricted to advisers
Assets under administration $200 million
Ownership privately funded by individual investors
Custody unrestricted
Fee structure graduated based on account size beginning at 65 basis points with a $2,400 per year minimum; $700 a year for Crummey trusts
Vital information provides no investment-advisory services or products. Has developed alliances with brokers but is nonexclusive. The RIA remains the relationship manager.

SECURITY TRUST CO., PHOENIX

Year founded 1991
Website www.securitytrustco.com
On-line account access yes
Assets under administration $8 billion
Ownership wholly owned subsidiary of CCM, a financial-services company
Custody unrestricted
Fee structure standard schedule subject to discounts
Vital Information no investment-advisory services or proprietary products. Advisers have complete discretion regarding investment and management of accounts. No account minimum.

TRUSTCORP AMERICA, WASHINGTON, DC

Year founded 1995
Website www.yourtrustee.com
On-line account access yes
Assets under administration $237 million
Ownership 35 percent by regional brokerage firm, 65 percent by private individuals and management
Custody can accommodate preexisting relationships
Fee structure 50 basis points for accounts under $4 million
Vital information although partly owned by the full-service regional brokerage firm, Ferris, Baker Watts—which doesn't manage money—not controlled by it. Offers no investment-advisory services or products. Clients without advisers, about 10 to 15 percent of total, are given a list of third-party advisers.

ADVISER-FRIENDLY TRUSTS

EAST BROAD TRUST CO., GREENVILLE, SC

Year founded 2000
Website www.eastbroadtrustcompany.com
On-line account access yes
Assets under administration $15 million
Ownership privately funded
Custody Schwab and Northern Trust Co.
Fee structure financial advisers receive between 30 and 100 basis points; East Broad receives 50 to 75 basis points
Vital information limited in-house investment-management capabilities, no proprietary products. When it has discretion, hires outside managers appropriate to each client's needs. Provides trust services to several local money managers.

FIDELITY PERSONAL TRUST CO., BOSTON

Year founded 1993
Website www.ibg.fidelity.com
On-line account access yes
Assets under administration not available
Ownership wholly owned subsidiary of Fidelity Investments
Custody in-house
Fee structure varies
Vital information Fidelity's Administrative Trustee Services program is currently up and running on a pilot basis. But the plan is to make trustee services available soon to all RIAs who custody with Fidelity. The program is based on the existing adviser platform, giving advisers easy access to trust services.

FOUNDERS TRUST CO., BIRMINGHAM, AL

Year founded 1999
Website www.founderstrustco.com
On-line account access yes
Assets under administration $410 million
Ownership privately funded
Custody prefers in-house custody but can accommodate Schwab, Fidelity, and some others
Fee structure graduated fees based on total assets under advisers' control
Vital information uses outside managers exclusively; sees little difference between working with a manager of its selection or one selected by the client. No proprietary products.

GENESEE VALLEY TRUST CO., PITTSFORD, NY

Year founded 1994
Website www.gvtco.com
On-line account access yes
Assets under administration $265 million
Ownership local private investors
Custody unrestricted
Fee structure pays one-time referral fee if planner or accountant has no ongoing role; splits fee with active advisers based on services rendered
Vital information has no proprietary products. Takes manager-of-managers approach. Will give independent adviser access to its outside investment specialists—like international portfolio specialists or hedge fund managers. Firm is "comfortable performing as part of a team," says James D'Amico, chief executive officer.

GTRUST, TOPEKA, KS

Year founded 1991
Website www.gtrust.com
On-line account access yes
Assets under administration $220 million
Ownership employees
Custody flexible
Fee structure roughly 50 percent of full-service fee; will negotiate
Vital information full line of investment services offered. No proprietary products. To date, only 10 of GTrust's 1,000 accounts have appointed outside advisers, but some of these accounts are sizable. Prior to agreeing to such an arrangement, GTrust insists on having a conversation about investment strategy and philosophy with the outside adviser.

HERITAGE TRUST CO. OF NEW MEXICO, TAOS, NM

Year founded 1994
Website www.htrust.com
On-line account access yes
Assets under administration $17 million
Ownership family-owned

Custody Schwab Institutional
Fee structure negotiates split with adviser according to split of account responsibilities
Vital information has affiliation with Peoples National Bank & Trust in Ottawa, Kan., to accommodate trusts requiring a national charter or other services it doesn't offer. Grew out of a local CPA firm because no local trust companies, banks, or others existed in its market. Aims to serve as virtual back office for outside advisers. No proprietary products.

INDEPENDENCE TRUST CO., FRANKLIN, TN

Year founded 1997
Website www.independencetrust.com
On-line account access yes
Assets under administration $320 million
Ownership local private investors
Custody prefers in-house custody
Fee structure percentage of assets under management
Vital information has in-house investment-management capabilities, but more than 60 percent of business involves outside advisers. No proprietary products.

INVESTORS INDEPENDENT TRUST CO., BOULDER, CO

Year founded 1996
Website www.trustalliance.net
On-line account access yes
Assets under administration $220 million
Ownership privately owned
Custody unrestricted
Fee structure discounts fee when third-party adviser is involved
Vital information provides in-house investment-management services but doesn't compete with advisers who have preexisting relationships with clients. Will sign nonsolicitation agreements with advisers. No proprietary products.

INVESTRUST, OKLAHOMA CITY

Year founded 1999
Website www.investrustonline.com
On-line account access yes
Assets under administration $1.9 billion
Ownership privately owned, locally funded
Custody prefers in-house custody but is flexible
Fee structure standard fee schedule
Vital information provides in-house investment-management services but doesn't compete with advisers who have pre-existing relationship with clients. No proprietary products.

LOUISVILLE TRUST CO., LOUISVILLE, KY

Year founded 1999
Website www.louisvilletrust.com
On-line account access a function of custody
Assets under administration $60 million
Ownership family owned
Custody depends on adviser and client
Fee structure splits fee up to 50 percent
Vital information offers full line of investment services but will work with trust clients with preexisting relationships with outside brokers and advisers. No proprietary products.

POUDRE RIVER VALLEY TRUST CO., FORT COLLINS, CO

Year founded 2001
Website www.prvtrust.com
On-line account access yes
Assets under administration $70 million
Ownership local investors
Custody flexible
Fee structure roughly 50 percent of managed fee
Vital information contracts with third parties to provide investment services but encourages clients to use their own advisers. Will agree to a noncompete clause within adviser agreements concerning overlapping service areas. No proprietary products.

SEI TRUST CO., SEI PRIVATE TRUST CO., OAKS, PA

Founded SEI Trust 1989, SEI Private Trust 2001
Website www.seic.com
On-line account access yes
Assets under administration SEI Trust, $7.8 billion; SEI Private Trust, $86.1 billion
Ownership both are wholly owned subsidiaries of SEI Investments
Custody flexible
Fee structure fees can be flat, asset based, transaction based, shared, or separate
Vital information Pennsylvania-chartered SEI Trust provides trustee, custody, and administrative services to collective investment trust assets. SEI Private Trust, which has a federal charter, provides trustee, custody, and administrative services, including personal-trust services, to individuals and institutions.

SMITHFIELD TRUST CO., PITTSBURGH

Year founded 1996
Website www.smithfieldtrust.com
On-line account access yes
Assets under administration $325 million
Ownership local private investors
Custody Smithfield's depository trust company account
Fee structure negotiates fair split
Vital information does pure trust work—all the reporting, taxes, etcetera. Takes manager-of-managers approach to investment management. Uses common trust funds for some accounts. Will work with client-appointed advisers but evaluates independent advisers in the same manner used to choose managers.

TRUST CO. OF TOLEDO, HOLLAND, OH

Year founded 1990
Website www.the-trust-company.com
On-line account access yes (real-time access available)
Assets under administration $1.5 billion
Ownership privately owned, locally funded
Custody prefers to handle custody
Fee structure negotiable
Vital information serves Ohio, Michigan, Indiana, and Florida. Has investment discretion over about 60 percent of its accounts, for which it employs manager-of-managers approach. Will work with advisers appointed by clients.

OTHER MODELS OF SERVICE

WACHOVIA CORP., CHARLOTTE, NC

Year founded 1879
Website www.wachovia.com
On-line account access yes
Assets under administration $70 billion
Ownership publicly held company
Custody restricted
Fee structure unbundled; fee based on clients' requirements
Vital information can accommodate any trust structure, including asset-protection and offshore trusts. Developed a working-partnership program to accommodate its own 8,000 broker advisers, which is also available to nonaffiliated advisers.

NATIONAL ADVISORS TRUST CO., OVERLAND PARK, KS

Year founded 2001
Website www.nationaladvisorstrust.com
On-line account access yes
Assets under administration $300 million
Ownership shareholders include 82 investment-advisory firms, which collectively have $20 billion in assets under management
Custody restricted
Fee structure 25 basis points a year
Vital information opened its doors in October 2001 exclusively to investment advisers who are shareholders in the trust company. It plans to add between 30 and 40 advisory firms from a waiting list of futures shareholders between August and October. Has limited investment-management capabilities.

NATIONAL INDEPENDENT TRUST CO., RUSTON, LA

Year founded 2000
Website www.nitco.org
On-line account access yes
Assets under administration $1 billion
Ownership staff and directors
Custody restricted
Fee structure preferential rates for custodied in-house accounts; charges for administrative services
Vital information NITC is a consortium of advisory firms that have converted into trust companies and it assists other advisers that want to do the same thing. Each firm is considered a division. The divisions include Allen Trust Co., Portland, Ore., www.AllenTrust.com; Argent Trust, Ruston, La., www.argentmoney.com; Balliett Financial Services and & Trust Co., Winter Park, Fla., www.balliettfs.com; Carlson Capital Management, Northfield, Minn., www.ccm.us.com; Kanawha Investment & Trust Co., Charleston, W.Va., www.kanawhatrust.com; Premier Trust Co., Memphis; and Vigil Trust & Financial Advocacy, Wausau, Wis., www.trustvigil.com. Through its main offices, NITC provides trust operations to divisions, which are free to concentrate on providing advice. Divisions work with outside advisers.

services. But ideally, says Rikoon, the total cost should be less than what a large bank charges.

JUST ABOUT ALL OF THE TRUST COMPANIES SURVEYED have or will soon have a Website and offer on-line account access for both clients and advisers. The sophistication of these sites varies, but all are aiming to provide real-time account access. All of the firms listed on pages 60 and 61 can accommodate nearly every type of trust structure—domestic asset-protection trusts being the key exception. These trusts—creatures of Delaware, Alaska, and South Dakota law—are most widely used by the Delaware-chartered companies; however, Wachovia Corp., the lone bank on the list, and Balliett Financial Services & Trust Co. can also accommodate this structure.

Some independents insist on handling custody in-house because of internal **technology constraints**

All but two of the listed companies—American Guaranty & Trust Co. and Commonwealth Trust Co.—were founded within the past 12 years, a period that coincides with a heavy wave of merger and acquisition activity in banking. In fact, a number of the firms were founded by former bank trust officers. The Trust Co. of Toledo, for example, was founded in 1990 by a group of individuals from the trust department of a newly merged bank, says Higgins. "We were frustrated by being the stepchild of the bank," she says. Because they had no control and lacked the resources to provide the services they felt clients needed, the former bank trust employees left to form an independent trust responsive to clients' needs. Former bank trust department executives with decades of experience are also prevalent among shareholders of virtually all the listed companies.

None of these former bankers claim to have any interest in returning to the institutionalized environment from which they escaped—something that may be a comfort to advisers concerned that the small independent trust company they're working with will eventually merge into a larger organization as their founders retire and sell out. Many of the principals we spoke with also claim to have succession plans in place designed to keep their firms independent indefinitely.

One final point: Most of the independents on our list are privately capitalized (capital requirements are set by the appropriate regulatory authority), and owned by private investors. Six are corporate owned or controlled: American Guaranty & Trust Co., Capital Trust Co. of Delaware, Fidelity Personal Trust Co., Security Trust Co., SEI Investments, and Wachovia Corp.

Of course, the firms with corporate investors are likely to have deeper pockets than the privately owned firms. But in the end, the most important feature of an independent trust company is its responsiveness to clients' needs. Very often this means letting an adviser with intimate knowledge of the client's investment needs continue to work with the client. Letting an adviser stay involved with a trust client is a friendly gesture. But letting the adviser continue to manage assets is the truer measure of just how friendly they really are.

Gayle Ronan, a former bank trust investment officer and private investment manager, writes frequently about financial-planning and banking issues.