

A NEW APPROACH TO
TRUST MANAGEMENT



FIDUCIARY TRUST COMPANY
THE INVESTMENT COUNSEL TRUST COMPANY
11 PEMBERTON SQUARE
BOSTON

THE FIDUCIARY TRUST COMPANY



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JOHN F. PERKINS, *Vice-President*
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THE FIDUCIARY TRUST COMPANY



BOSTON TRUSTEE OFFICES

Boston trustee offices have been notable institutions. Instead of appointing trust companies as their trustees — the general practice in many other cities — Bostonians have largely left their property to personal trustees, men who devoted their whole lives to the business of handling trusts, acting as fiduciary agent, and dealing with the personal problems of their beneficiaries. This practice is presumably due to an early decision in the Supreme Court of Massachusetts — *Harvard College v. Pickering* — which instead of narrowly limiting the scope of trustee investments, as is done by statute in some states, laid down the rule that "He (the trustee) is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested." This rule made it possible for trust property to be managed with discretion and intelligence instead of in a stereotyped fashion. It enabled a man to leave his property to a personal trustee who would not only invest the property shrewdly, but would also advise the family wisely in regard to any personal matters concerning which they needed help.

THEIR LIMITATIONS

This type of trusteeship has many advantages but under present conditions it has certain limitations.

In the first place it lacks permanence. The business has often been handed down from father to son, but there can be no assurance that this will be possible. Secondly, the investment problem has grown so large that it is beyond the capacity of any but a very large organization to deal with it competently. Formerly Boston trust funds were largely invested in New England industries, and a trustee either by his own observation or through intimate acquaintances could maintain a substantially accurate knowledge of what was going on. This situation has entirely disappeared. A vast, infinitely complex, closely interrelated, and constantly changing industrial system has developed in this country, and trust funds, instead of being invested in New England industries, must now be invested in corporations in every part of the United States. To do this intelligently presents an immense and very difficult problem.

THE DEMAND FOR PERSONAL TRUSTEES

Realizing these limitations Mr. R. H. Gardiner, the head of one of the oldest and best known trustee offices, made a careful study of the problem. For over forty years his father and he had been handling the investments and affairs of many Boston people, and from his study and his own personal experience, he became assured that the need for the personal type of trustee is not only as pressing as ever but is growing

rapidly. With the increasing prosperity of the country, there is a corresponding growth in the number of people with invested capital. More and more men are anxious to arrange matters so that their wives and families will not only have their investments properly looked after, but will also have a wise and disinterested advisor to whom they can turn when personal problems arise. The complexity of our social organization, and the tendency toward specialization in particular activities also add to the number of people who wish to be relieved of the management of their property and who need advice on matters outside their special province.

THE ELIMINATION OF EXISTING DEFECTS

This being the case, was it possible to preserve the advantages of the personal trustee office and to remove its limitations? Could this be done without adding other disadvantages? To become a mere adjunct of a large commercial bank, or of an investment banking house clearly would be an unsatisfactory solution of the problem. The essence of trusteeship is that the trustee shall serve the beneficiary with complete singleness of purpose, and an institution that has diverse activities naturally devotes its best abilities and energies to the branch of the business that offers the greatest opportunity for profit. Its interests are not completely identified with those of the beneficiary.

It is well known that a trustee must have no interest of his own which conflicts with that of the beneficiary, for if he has, whether he is unscrupulous or overscrupulous, he can rarely be impartial. But the

trustee who devotes himself wholeheartedly to the service of his beneficiaries is not content with an absence of conflict. He wants a complete identity of interest. Outside interests must be eliminated. And he places himself in a position where he can benefit only by serving his beneficiaries well, by securing additional accounts through the confidence he has earned.

THE FORMATION OF THE FIDUCIARY TRUST CO.

Mr. Gardiner decided that the first step in the solution of the problem was to incorporate his office as a trust company; not for the purpose of creating a bank, but a corporate trustee. Such banking as might be done would be merely incidental to the duties of trusteeship. This would secure permanence. If he could get the right type of men to become stockholders and directors, the continuity of his trustee office would not be dependent on the lives of himself and his associates, because it would have its roots thrust deep into the community. He discussed his idea with a number of leading Boston men, and was met with immediate and sympathetic response. They were ready to support his plan with their money and their time. Accordingly the Fiduciary Trust Company was incorporated in April, 1928. The directors were selected for their knowledge of investments and of fiduciary problems, but care was taken to make sure that not one of them was engaged directly or indirectly in the merchandising of securities. Furthermore, to preclude the possibility of outside interests buying control, and changing the character of the directorate, it was pro-

vided that the transfer of the stock of the company should be limited to persons approved by the Board of Directors.

THE INVESTMENT PROBLEM

This was the first step. The next lay in the solution of the investment problem. The Gardiner office had forty years of investment experience. It had accumulated a wide familiarity with securities, and the general investment situation. It had trusts and agencies larger in amount than many of the banks and trust companies in Boston. Should it increase its own research department, or secure its investment information from some outside organization that devoted itself exclusively to this work? Did not forty years experience in the management of property provide a fund of knowledge which it would be difficult for another and younger organization to duplicate?

THE VALUE OF EXPERIENCE AND THE IMPORTANCE OF RESEARCH

Probably there are few words used more loosely than the word "experience". Experience brings perspective and balanced judgment, and where the subject matter remains relatively constant it brings knowledge as well. But where the subject matter is constantly changing, unless kept informed of the changes, perspective and balanced judgment are almost valueless. They cannot function in the absence of essential facts.

A good illustration of the value of experience is furnished by the different activities of a trustee. In the

management of property, the interpretation of trust instruments, the solution of trust problems, and personal problems, probate accounting, in dealing with the intricacies of income taxes, and all the troublesome details involved in the handling of securities, experience in addition to judgment brings knowledge and skill. It is of great value, because in this field changes are infrequent, and come gradually. In the field of investment, however, the situation is entirely different. To select industries which are prosperous and likely to remain so, and from these industries to select the best companies is in itself a difficult task; but constantly to study these industries, and to appraise the quality of the management and the prospects of many different companies is an immense problem, and calls for a very large research department devoting all its time to the gathering and appraising of facts. Investments are merely aspects of our economic life, which is changing with extraordinary rapidity, and unless the trustee is kept informed of these changes, and supplied with the necessary facts, the maturity of his judgment, which experience has given him, is of little value. If he is properly informed, it becomes of great value.

HOW TO GET A RESEARCH ORGANIZATION

Obviously if the Fiduciary Trust Company was to get the full benefit of the experience of its officers and directors, it must secure the services of a really competent research organization.

To develop such an organization of its own might take years; for not only is the building of such an

organization a slow process, but also it involves an expense that is justified only when it can be distributed over so large a volume of accounts that the cost to each will be small; and to secure such a large volume of accounts as this would require cannot be done quickly. If, on the other hand, the services of such an organization could be hired on a percentage basis, each account in the Fiduciary Trust Company would immediately get the benefit of its research in return for the payment of a reasonable fee.

ADVANTAGES OF DEALING WITH AN INDEPENDENT RESEARCH ORGANIZATION

All these reasons militated in favor of an arrangement with some outside existing organization which had demonstrated its capacity, and which in respect to its personnel, methods and reputation, should be of the highest standing. The finally deciding factor, however, was more fundamental.

Experienced trustees themselves, what the Directors wanted was a reliable source upon which they could draw for detailed and up-to-date information.

Reflection and discussion led them irresistibly to the conclusion that their position would be stronger if the source drawn upon was in no way dependent upon them or their company, but an organization dependent for its success simply and solely on the value of the information it could furnish, and the soundness of the advice with which such information might be accompanied.

In this way, the Trust Company would constantly be kept alert by exchange of views with an outsider,

and occupying the position of client, could firmly insist that it receive its money's worth, and to that end that the service rendered be kept at the highest standard. Furthermore, with attention focused by positive recommendations from an outside organization, the evils resulting from inertia would be impossible, and as the fee paid would be a fixed percentage, all temptation to reduce expenses by cutting down research would be eliminated. In this way too each party would be acting in the special field wherein it was expert.

THE TRUSTEE'S FEES

Clearly an external rather than an internal research organization was desirable. But just as clearly it could not be paid for from the usual trustee's fees. As it is, these are barely adequate to take care of the routine duties of a trustee. Perhaps when a trustee could readily follow investments, when changes were few, transfers simple, and income and inheritance taxes did not exist, his remuneration was reasonable. But with the multiplication of details, of the questions that arise, and the complexity of the investment problem, he is now insufficiently paid. An additional fee must be charged if the Fiduciary Trust Company was to secure the type of investment information which is essential to wise management of investments. Was such a charge justified?

What is the situation? A man accumulates property and wishes to preserve it for the benefit of his wife and children. This has been the purpose for which he has saved. So he leaves it to a trustee. Whether the purpose for which he has worked will be realized or not

depends on the ability of the trustee; and the ability of the trustee cannot be effective unless he is supplied with adequate information. There are few fields in which results are so dependent on skill of management as in the field of investment. It is not what one pays the trustee that counts. It is the results that he gets.

In the selection of a trustee to manage his property for his wife and children, a man makes one of the important decisions of his life. He should assume nothing. He should make a most careful investigation of methods employed, and results obtained. And if it is possible he should try out his proposed trustee, while he himself is still alive to see for himself the character of work that he can expect for his wife and children. If he can assure himself that he has the right trustee, the amount of the fee is insignificant.

The Fiduciary Trust Company found no escape from the obvious conclusion. It determined that it would set for itself the highest standard possible, and charge what was necessary to maintain it; for it believed that in the long run results would count, and that people would realize that it is folly to jeopardize the safety of their property by the payment of an inadequate fee.

In recapitulation, the Fiduciary Trust Company, although incorporated less than two years ago, is in essentials an organization over forty years old, and with more than forty years' experience in the management of investments as trustee and fiduciary agent, and in dealing with the personal problems of clients and beneficiaries.

Its sole purpose and activity is the care and management of property entrusted to it.

It has secured for the benefit of its clients and beneficiaries what it believes to be the best investment research and advice that is available.

Its permanence is assured by its corporate form, by the ownership of its stock, and by the provision that its

stock can only be transferred with the consent of the Board of Directors.

None of its officers, directors, nor its investment counsel is engaged directly or indirectly in the merchandising of securities.

It acts as trustee, fiduciary agent, and custodian; and as executor and administrator. Its officers will be glad to go into the subject in detail with any one who is interested in securing its services in any of these capacities.