

A VIEW FROM THE BRIDGE

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We have recently announced the appointment of Peter Thomson as Chief Executive. Peter joined Taylor Young in 2004 as the Chief Investment Officer and will continue in this capacity, leading the Investment Team and research functions in addition to this new role. Philip Todd, who has been Managing Director for the last three years will retain a key role within Taylor Young. He will remain on the Executive Committee as a Director and will continue to focus on his investment management clients as well as leading the charity side of the business.

Economists are not always written about in glowing terms and so it is right and proper that we acknowledge the significant contribution that J K Galbraith made to the economic thinking throughout much of the twentieth century. It is contribution of a different kind that is the focus of our second article. The US still has a reputation as a trend setter and whilst some are best ignored the resurgence of philanthropy is a trend to be cherished.

Budgets always spring surprises but the proposed changes to the taxation of a variety of trusts, particularly Accumulation and Maintenance and Interest in Possessions trusts was a bolt from the blue. Representations are being made and we must await the final outcome but whatever the changes, the role of trustees is becoming increasingly important. This requires the trustees to keep up-to-date with change and our third article revisits some of the responsibilities that trustees have.

We are proposing to organise trustee workshops and seminars in the autumn in order to address some of the responsibilities that various trustees face and if you would like to attend a seminar of this nature then we would invite you to register your interest at this stage. Please could you contact us at trusteeseminars@tyim.co.uk via e-mail or Lorraine Denbigh on 020 7378 4526.

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J K Galbraith and ‘The Conventional Wisdom’

Following the recent death of J K Galbraith at the age of 97, there have been numerous articles in the media setting out his contribution to post-war political and economic science. One of his best known ideas was his concept of ‘the conventional wisdom’ - a view which it is unwise to question for fear of being termed unconventional. Cynics have likened this phrase to the concept of ‘consensus’, which Margaret Thatcher notably described as a view which nobody entirely believes but with which nobody is prepared to argue.

When asked how he assessed a man’s character, Napoleon replied that he could infallibly assess a man’s outlook on life provided he knew what was happening in the world at around the man’s 20th birthday. Undoubtedly, Galbraith’s outlook on political and economic issues was tempered by his experience of the Wall Street Crash of 1929 and subsequent large scale depression in the United States during the 1930’s. This led him to believe that the

unfettered action of the free market needed to be constrained and managed by government in order to deal with the imbalances that occurred from time to time. He thus became a strong follower of Keynes, believing that a new economic approach was necessary for the transition from the pre-market mercantilist values of the Victorian age to what he termed ‘an Age of Affluence’, which he believed would develop later in the twentieth century. Some of his critics took issue with his occasionally lofty and patrician style of speaking and attitudes towards his fellow man, but his views had some resonance in the UK, most typically expressed by the Fabian Douglas Jay (father of the former ambassador to the USA and BBC economics correspondent Peter Jay), in his book *The Socialist Case*, published in 1937: ‘In the case of nutrition and health, just as in the case of education, the gentleman in Whitehall really does know better what is good for the people than the people know themselves’.

The heyday of traditional Keynesian wisdom was the thirty-year period between the signing of the Bretton

Woods agreements in July 1944 - which set up a system of rules and procedures to regulate the international monetary system - and the appearance of high levels of inflation in the global economy in the dark days of 1974, following the first major OPEC oil price rise. Thereafter, it became clear to many commentators and economists that a new approach to macro-economic management was necessary and for this many turned to the teachings of Milton Friedman and the Monetarist School of Economists based in Chicago. Peter Jay himself claims the credit for having first introduced Margaret Thatcher to monetarism: he likens himself to the geography teacher who first showed a map of the world to Genghis Khan. One further ironic twist is that the mantle for title of 'Grand Old Man' of economic and political science in the world today passes from Galbraith to Friedman, who celebrates his 94th birthday in July this year.

For those who, somewhat cynically perhaps, hold that 'the conventional wisdom' is generally incorrect, the case of the open letter written by 364 economists twenty-fives years ago this March is often cited as a prime example. In the depths of the recession of the early 80s, these leading UK economists signed a letter condemning the economic policy of the first Thatcher government, and predicting that it would end in disaster and, as a consequence, produce levels of economic distress and unemployment last seen in the 1930s. A very interesting paper published recently by the Institute of Economic Affairs entitled '**Were 364 economists all wrong?**' examines this very question. The 'unconventional' conventional wisdom is that the economists were indeed wrong and that the UK economy was at the time turning a corner in terms of economic activity. It thereafter never looked back, as the inflation rate, together with interest rates, fell and the economy grew ever stronger throughout the 1980s on a wave of substantial reforms, including the extension of owner-occupation and the privatisation of most of the UK nationalised industries. In fact, to be fair to co-authors of the letter, unemployment continued rising for a number of years after 1981 and did not start to fall until at least four years later so, in some ways, their Cassandra-like attitude was vindicated. However, overall, it is hard to deny that the break with the consensus of the past thirty years and the raising of taxes during recession did mark a key turning point in the national fortunes of the UK.

Since the 1980s, the influence of the monetarists has grown, while those in the Keynesian camp have seen their previous status eroded. Nevertheless, the

relevance of a number of Galbraith's observations in terms of the imbalances between what he termed 'Private Affluence and Public Squalor' are still obvious today. The perceived shabbiness of some of our inner city areas, the infrastructure issues that bedevil public transport and major projects - and even the prospect of standpipes appearing in the south-east of England if another hot summer materialises - contrast vividly with the private affluence seen in many parts of the UK, currently the fourth largest economy in the world. It is these parts of Galbraith's heritage that will continue to feature in the years to come. He was undoubtedly a giant of our times and his influence may be gauged by the fact that when his famous book *The Great Crash 1929* appeared for the first time in 1954, there was a sharp fall on Wall Street that day. It is hard to think of a economist today whose publications would have the same effect.

'We make a living by what we get, but we make a life by what we give'
Winston Churchill

The propensity to save and to spend are important economic forces widely scrutinised by economic forecasters. But changes in saving and expenditure patterns are also closely monitored by the charity world, which is not only concerned about the proportion of the nation's wealth that ends up with charitable causes but whether the money has come as a legacy or as 'giving' during a person's lifetime. In the United Kingdom there has been a tradition of legacies - even Aberdonians, renowned for their lifetime canniness, being in a position to be, and being, very generous when they depart this world.

However, the tradition is changing. More and more people have more money than they want to leave to their children, who may be wealthy in their own right, and it is becoming more fashionable to give money away. The paragon of American philanthropy, Andrew Carnegie, believed that 'the man who dies rich dies disgraced', and disposed of 90 per cent of his vast fortune by the end of his life. Carnegie and John Rockefeller were the giants of what now seems a golden age of philanthropy, as the nineteenth century gave way to the twentieth century.

But inequality is a friend of philanthropy and once again large fortunes are encouraging individual generosity. Bill and Melinda Gates of Microsoft, Pierre Omidyar of eBay, the two founders of Google, Sergey Brin and Larry Page and Bono, the activist



rock star, are perhaps the Carnegies of today - successful entrepreneurs who are re-branding themselves as imaginative philanthropists. Closer to home, Dame Anita Roddick, founder of the Body Shop, has announced she will give away £51 million, and Tom Hunter, a well-known Scottish businessman, has pledged £100 million to charity. Whilst the giving of millions catches the headlines, there is evidence that more and more ordinary people are being philanthropic and making use of organisations such as Community Foundations. These are well-established charitable trusts that support local community causes and they are much more innovative in the way they go about helping or advising the donor, whether it is to build an endowment or to distribute or spend the 'giving'.

It is this 'investing in solutions to underlying problems' that perhaps distinguishes philanthropy from charity, which is more simply defined as the easing of distress. There is a Chinese Proverb, also used by Christian Aid that says 'Give a man a fish and you feed him for a day, teach a man to fish and you feed him for a lifetime'. Helping people to help themselves can sometimes seem rather condescending, but if philanthropic giving is to retain attractive tax breaks it must be seen as entrepreneurial and business-like.

There are some people in the UK who are wealthy but not necessarily cash rich, with their wealth tied up in investments which have been built up over a period of years. For them, the gift-aid scheme, which allows tax relief at the payer's top rate of tax, can make charitable donations attractive. Sponsorship forms from colleagues and friends raising money for charity require a name and address so that the charity can claim basic-rate tax (those paying 40 per cent tax need to remember to claim the additional tax relief on their income tax returns) and charities often try and persuade tax payers to think of the contributions at the after-tax income level, so that a £1,000 gift actually translates into £1,667 for the charity.

In addition to cash gifts, relief is also available where shares, securities or land are given to charity. Relief against income tax, based on the current market value, is available for all shares and securities that are listed on all recognised stock exchanges, including AIM shares, and also units in Unit Trusts, shares in Open-Ended Investment Companies, interests in offshore funds and UK land and buildings. Any such gifts are also exempt for capital gains purposes, so neither a chargeable gain nor an allowable loss will arise.

Furthermore all gifts to charity are exempt from inheritance tax.

If the desire to be philanthropic exists, the act of giving, or even creating a personal charity of say £250,000, may be less painful than one first imagines. There are of course practical issues to consider, in that one probably does not want to end up being dependent on the charity of others - once money is given to charity you cannot get it back - but for those who can afford to give money away, there are a number of options. Increasingly people are taking more of an interest in how the money is spent and over what time-frame. A charitable investment portfolio can be structured so that the capital is invested and the income distributed, and may therefore have an infinite life. Or the capital can be invested with a specific aim of being drawn down and spent over a specified period. Retaining an involvement can be very fulfilling, allowing the settlor or donor to contribute to and participate in the 'utility' of their own philanthropy.

'To give away money is an easy matter and in any man's power. But to decide to whom to give it and how much and when, and for what purpose and how, is neither in every man's power - nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.' Aristotle

Trusts and Trustees

Notwithstanding the proposed changes to the taxation of a variety of trusts announced in the recent Budget, we consider the role of trustees and their specific responsibilities.

At its most basic, a trust is a legal arrangement that allows someone to give away some assets, such as property, shares, cash or similar, in a controlled and often tax efficient way. These assets are then held in trust for the benefit of nominated persons and therefore, instead of assets being passed directly to an intended beneficiary, they are transferred to and held by trustees.

The Charity Commission estimates that over a million adults of all ages, social backgrounds and walks of life become trustees in the UK. These same trustees are subject to escalating responsibilities across the complete range of their resulting duties.

There are a wide variety of trusts in existence, some result from basic financial planning, perhaps designed

to speed up the payment of a claim under a life assurance policy, or to meet a liability to inheritance tax. More complex trusts exist principally in the pensions and charity arena, whilst families also frequently use trusts for social reasons such as to protect and provide for succeeding generations whilst seeking to ensure that individuals become financially responsible.

A trustee's duties include the general responsibilities of acting within a legal framework as well as the specific trust deed and any additional fund rules (such as explicit pension fund rules). Perhaps it goes without saying that trustees are expected to act prudently, conscientiously, honestly and in the best interests of beneficiaries (and members - where a pension fund is concerned).

It is often a challenge to strike the appropriate balance between the interests of the different categories of trust beneficiary. In complex pension funds there are many different parties involved such as the contributing members, pensioners, dependants, deferred pensioners, divorced spouses arising from pension sharing orders, and the employers. Legal advice can often be required where trustees cannot collectively agree a policy or strategy.

A trustee's exact powers and duties will depend on the detail of a particular trust agreement but in general, a trustee will be the legal owner (or one of the legal owners) of the trust assets (and as such, the trustees are responsible for the administration of the trust and the property contained within it), they will invest the assets, distribute the trust's income and, at an appropriate time, the capital to beneficiaries (thus trustees will decide when it is appropriate to distribute trust funds to beneficiaries such as when a beneficiary reaches a precise age or on the occurrence of a definite event), they will take tax decisions concerning the trust, keep accounts and records, complete tax returns, provide accurate statements and liaise with the various beneficiaries.

There is a need for trustees to maintain a high level of knowledge and potentially to delegate specific responsibilities, perhaps to sub-committees of trustees, to administrators and/or to investment managers. Trustees have a personal liability for loss resulting from a breach of trust whilst duties imposed on trustees by law include the duty to preserve the assets of the trust.

Making the most of trust investments for all beneficiaries is important: looking at what needs to be considered when appointing an investment manager, setting investment strategies, and generating income are areas requiring particular consideration. The setting of objectives is a fundamental part of drawing up a statement of investment principles.

The selection of an investment manager (or indeed of more than one manager) is a key issue. One would hope that a prospective manager's past performance and their fees are reasonably transparent issues (although this is not always the case) but past performance is no guarantee of future performance and fees can vary significantly. A manager's experience in trust matters coupled with the confidence of trustees in an investment team are virtues that take time to develop. The chemistry between trustees and their advisors is crucial in what is a progressive environment. The investment philosophy and values of an investment manager and his/her firm should therefore be carefully considered.

A high level of interaction between trustees and their advisors is to be encouraged in order to ensure that best practices are adopted and to ensure that obligations are suitably met in a professional and efficient manner. As one can immediately observe, if not already apparent, being a trustee imposes an assortment of obligations and these have been amplified by the **Trustee Act 2000** and the revised accounting rules, **SORP 2005 (Statement of Recommended Practice)**. Balancing the issues of various beneficiaries can be challenging but also very rewarding particularly when executed efficiently and well.

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