



# HELPING TRUSTEES AVOID LIABILITY — THE DUTY OF PRUDENT ADMINISTRATION

Prudent administration of a trust requires the trustee to exercise reasonable care. Most significantly, the trustee must follow the Prudent Investor Act. It generally requires the trustee to evaluate the merits of any investment in light of the portfolio as a whole and prohibits high concentrations in a single investment. To comply with the duty of prudent administration, the trustee should:

- Analyze the beneficiaries' respective rights and needs to design the investment objectives.
- Determine what asset mix will best achieve the investment objectives.
- Make sure the trust assets are properly diversified, considering tax consequences of any sale.
- If the trust has a concentration of 10% or more in an investment, determine:
  - If the trust directs or permits the concentration.
  - If diversification is required despite the trust language.
  - The tax effects of diversifying versus the risk of retaining the concentration.
  - If the family has an emotional connection to the investment or asset.
- Keep beneficiaries informed of diversification plans and request court approval as necessary to avoid potential disputes.
- Set up procedures for investment monitoring and regular reviews.
- If unsure about an investment or other administrative task, seek legal advice.

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