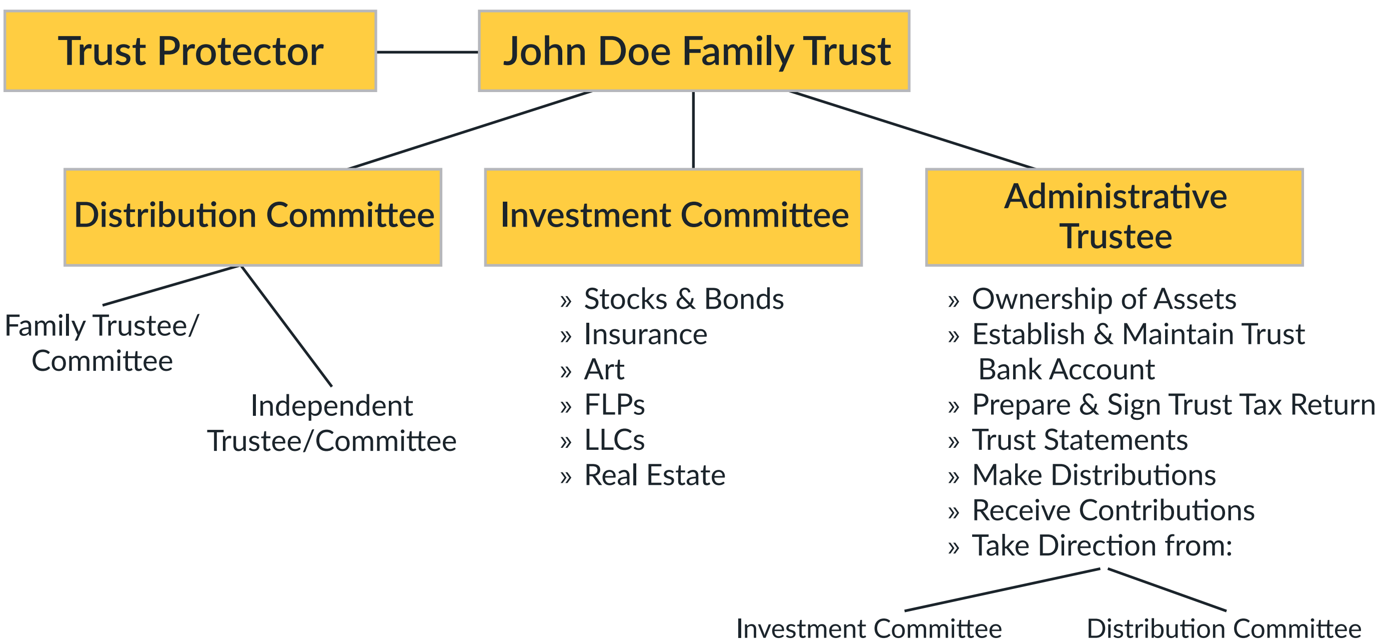
Directed Trusts

Directed Trusts, only available in a handful of states across the country, including South Dakota, have drastically changed the trust world by putting control back into the hands of settlors, beneficiaries, and their advisors. Through bifurcating liability, the directed trust model creates a legal framework allowing trustees and beneficiaries to work with asset managers and independent trust companies of their choosing.

> ***"Offering unbundled services provides great flexibility and lower fees for families and their advisors."***
>
> *- Joseph F. McDonald, III*

Typical Modern "Directed" Trust Structure



Directed Trusts

How Does a Directed Trust Work?

A directed trust generally utilizes the unique statutes of a state, such as South Dakota, to trifurcate the traditional role of a trustee into three distinct functions:

1. ***Investment Committee -*** Responsible for selecting outside investment advisors and managers to direct the trust's investments.
2. ***Distribution Committee -*** Responsible for determining when and how distributions should be made.
3. ***Administrative Trustee -*** Receives contributions, handles day-to-day responsibilities and the administration of the trust, and is directed by the committees/trustees to make investments and distributions.

The ***Investment Committee*** is typically comprised of the client's family members and/or advisors. The investment committee generally hires experts in the fields of: Investment Management, Insurance, Art, FLPs, LLCs, Real Estate, and Closely-Held Stock for the purpose of maintaining trust assets. The expertise, experience, and diverseness of this group of experts provides exceptional investment advice and asset diversification to the investment committee; which in turn directs the administrative trustee on how the trust will be invested, pursuant to the trust document and an Investment Policy Statement (IPS). The IPS is generally drafted taking into account the investment provisions in the trust document and the family's goals.

The ***Distribution Committee*** determines how and when trust distributions should be made. Typically, family members serve on this committee and determine all distributions of income and principal for "health, education, maintenance, and support" (HEMS). Additional distributions are generally considered tax sensitive and therefore require an independent trustee, advisor, or committee comprised of one or more of the following: CPA, Attorney, or another independent third party. Alternatively, Bridgeford Trust Company can serve this function alone.

Bridgeford Trust usually assumes the role of ***Administrative Trustee***. The Administrative Trustee's duties may include taking title and ownership of the trust assets, establishing and maintaining a trust bank account, preparing or signing the trust tax returns, preparing and sending trust statements, and making distributions and receiving contributions. The Administrative Trustee is also responsible for ensuring that the trust document is followed with respect to distributions, investment policy, and administration. Typically, the Administrative Trustee can fill in for the any of the committee functions of the Distribution Committee and the Investment Committee, if desired.