

# CAN TRUSTS HELP SECURE GENERATIONAL WEALTH?

AS the famous saying goes, the rich will always get richer.

Throughout history, The Rockefellers, The Hiltons and the Tata Group are some of the world-renowned family business conglomerates that have witnessed the passing of generational wealth for periods exceeding a century.

However, it's never easy for wealth to be passed down through the next generations. In fact, it's beyond impossible for everything to go smooth sailing, and disputes between heirs and other family members are definitely inevitable. This further exemplifies the importance of having a comprehensive estate plan.

## Personalised and efficient solution with a Trust

The biggest concern that arises when enormous wealth is passed down to the rightful heirs is that they will wither the fortune away within a short period of time.

Or what if they fall victim to fraud or scams that are increasingly common nowadays. Worse still, the inherited wealth may also dissipate due to a divorce or even insolvency issues arising from mismanagement of the family business.

One way of circumventing the above concerns is by using a Trust as a tool for estate planning. Setting up a Trust ensures any inherited wealth will be managed across generations and distributed according to the Settlor's (person who sets up the Trust) intentions.

A Trust enables the protection of assets and is also used for the distribution of a lifetime of income to any desired beneficiaries, especially those with extravagant spending habits.

Most Malaysians commonly use wills for their estate planning. However, upon a person's demise, all his or her assets will be frozen, which can only be unlocked via the application of Grant of Probate at the courts.

Areca Capital estimates that the time taken for wills to go through probate — a review process — is between three and six months. If the will is contested, it can take even longer, with some cases dragging on for years and even decades.

Over a period, it is also possible for a will to be misplaced or accidentally destroyed. This could lead to an unfortunate situation where it will be perceived as if there is no will.

Having a Trust can alleviate waiting time as it can distribute wealth without restrictions. Trusts do not have to go through probate after the Settlor's



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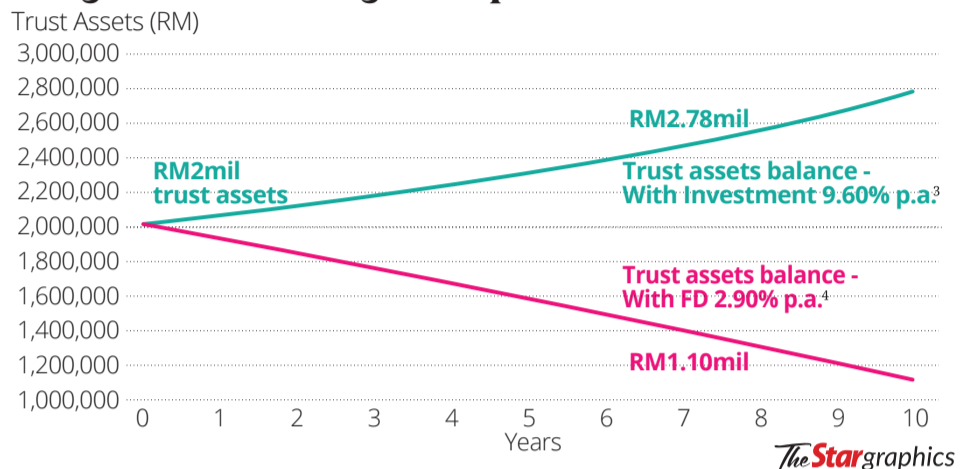
CEO and Executive Director  
of Areca Capital



Areca Capital is a Private Wealth Management company focusing on fund management and wealth advisory. Incepted in 2006, we are licensed and registered with the Securities Commission Malaysia and Federation of Investment Managers Malaysia. Areca Capital is currently managing RM5.09 bil (asset under management as of June 2024) worth of assets for our clients, who range from individuals to corporates, family and private trusts, foundations and other institution.

We are currently offering trust services via ArecaCapital Trustees Berhad, a registered trustee under the Trust Companies Act 1949 which provides a Private Wealth Solution, by combining our investment expertise to grow client's wealth with a comprehensive Wealth Distribution for their loved ones and generations to come.

## Why Sustainability is important?



Notes:

1. Assume 1% of trust assets will be paid out as fees
2. Fees and annual distributions of RM120,000 will be paid out at the end of each investment period (annually)
3. Source: Lipper. Based on the average rolling three-year annualised return period from 2012 to 2024 for top 10 funds under the Equity Malaysia – Non Islamic category (as at April 2024)
4. Source: Bank Negara Malaysia. Average of 12-month deposit rates from 2010 to April 2024.
5. Past performance is not an indicative of future performance.

demise and are difficult to be contested.

As a comparison, a will goes into effect only after the testator's demise while a Trust becomes effective as soon as it is created. This means wealth can be immediately distributed prior to the Settlor's demise, especially in situations where the Settlor is mentally or physically incapacitated or immobilised.

## The importance of sustainability in wealth succession planning

In order to achieve the financial objective of preservation and distribution of family wealth over several generations, the wealth definitely cannot be invested and managed with a short-term lens.

Preferably, the investing strategy should move like a well-oiled machine and be managed with a big-picture view.

A good Trust should always be complemented with the services of a professional fund manager.

With vast experience in managing and growing wealth for its esteemed clients over the past 17 years, Areca Capital currently offers Trust services via ArecaCapital Trustees. This Private Wealth Solution combines our investment expertise to grow client's wealth with a comprehensive Wealth Distribution for their loved ones and generations to come.

The differentiation factor between Areca Capital and other service providers is our unique proposition in achieving the seamless combination between both Investment Management and Trust Planning.

By incorporating both elements, family wealth can be extended beyond the current generation by leveraging on Areca Capital's award-winning investment capability.

## Democratised Trust solution for wider reach

The biggest misconception among most people is that Trust planning is only reserved for the ultra high net worth individuals but, in fact, we have been assisting our clients to set up family trust with assets amounting from RM1 million onwards.

Our qualified private wealth managers are also equipped to provide ongoing review services in ensuring the estates of our clients are managed in a proper and professional manner, in accordance with the wishes of the clients.

The concept of Trust planning may be a luxury to many in the past but as time goes by, it will truly become a tool of necessity for most Malaysians to share their legacy with their loved ones. So, what are you waiting for?

*Disclaimer: The article is for educational or information purposes only; it is not intended to be a substitute for qualified professional advice. Investors are advised to read and understand the contents of disclosure documents for respective fund before making any investment decision. The article is produced based on material and information compiled from reliable sources at the time of writing. Areca does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statements by anyone shall give rise to any claims whatsoever against Areca.*

# INVESTMENT PLANNING KEY TO SUSTAIN A TRUST

SIMPLY put, before Phileas Fogg embarks on his world expedition in Jules Verne's novel "Around the World in 80 Days", he must ensure that initial logistics, such as food and water, are sufficient and feasible from the start. It is unlikely he could carry enough supplies to last the entire journey, but with careful planning, he can arrange for a steady supply along his route.

The same principle applies to a well-structured Trust, particularly one designed to uphold the Settlor's or family's wishes in providing for their future generations. It is essential to establish the Trust and fund it adequately with sufficient assets to ensure it can achieve its objectives.

But what comes next? Can the initial 'x' amount sustain future generations or even beyond? What if the assets deplete much sooner than anticipated?

Thus, we believe that investment planning can be a valuable addition to the Trust, and here's why:

## 1. A sustainable growth

Trusts can typically be structured to extend up to 80 years to provide funds to the beneficiaries. An appropriate investment allocation can help to achieve a potentially higher rate of return on its Trust assets. Hence, investments into growth-oriented or capital appreciation assets such as equity should not be overlooked.

In many cases, the assets of these Trusts may be managed in a conservative manner, which may not be in congruence with their long-term objectives. Trustees may prefer a more cautious approach towards their commitment in preserving assets, especially in situations where investments may not be their forte.

Similarly, settlors may follow their own risk profiles and become risk-averse, potentially leading to a mismatch in risk appetite. Ideally, the risk appetite should align with the Trust's needs and distribution requirements, rather than solely considering the settlor's preferences.

In short, a sustainable trust requires assets to be planned with a necessary long-term perspective in mind.

The importance of achieving sustainable returns for the Trust should not be taken lightly, as demonstrated by the potential increase of RM1.68mil, or 84%, for an actively-managed Trust investment (see illustration).

## 2. An adequate diversification

Risk is a rather subjective concept. Conventionally, one may think about



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A Trust with actively managed investment returns of 9.60% p.a.<sup>5</sup>

With yearly Trust distribution of RM120,000

Your Total Trust:  
**RM2 million**  
Year 1

Your Total Trust:  
**RM2.78 million**  
Year 10

VS

A passively managed Trust with returns of 2.90% p.a.<sup>4</sup>

With yearly Trust distribution of RM120,000

Your Total Trust:  
**RM2 million**  
Year 1

Your Total Trust:  
**RM1.10 million**  
Year 10

Notes:

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price volatility risk but in truth, the often-underestimated inflation risk can have a bigger impact on expenses related to medical care, education and living costs.

For example, in a 4% inflationary environment, what currently costs RM10,000 will cost RM14,800 in 10 years' time.

To mitigate inflation risk, it's advisable for a portion of the Trust assets to be allocated to growth investments that can potentially keep pace with rising inflation rates.

The remaining investments can be diversified across other asset classes such as fixed income, REITs, dividend-yielding equities, or even real estate properties.

## 3. Well-preparedness for liquidity

Though it is important for the Trust to 'sweat' the assets as much as it can to maximise the returns, there may be times when significant redemptions are required to be paid to its intended beneficiaries.

Therefore, it is not prudent for the managers to lock-in all the Trust assets at seemingly great returns through illiquid investments, without considering liquidity needs to meet its financial commitments when required.

Firstly, you would not want to be forced to sell assets at unfavourable prices, particularly during unfavourable market conditions.

Secondly, having some predictable sources of income can help stabilise the portfolio in case the outlook for growth-oriented assets like equities becomes more challenging.

Striking a good balance is key here, not only between generating income and pursuing growth, but also in meeting the liquidity needs of the

Trust's investments.

There are no hard and fast rules for fixed allocations as it boils down to the objectives and distribution requirements of a Trust as per the Settlor's wishes.

## Conclusion

In summary, some of the issues may potentially stem from insufficient understanding of the financial markets or influenced by emotions such as greed and fear.

At the end of the day, financial objectives can be achieved with proper and prudent investing with effectively managed risks — not just investing when "the coast is clear".

A Trust can be structured with a trustee and benefit from the guidance of a licensed Fund Manager or financial planner. Together, they can advise on and manage investments in accordance with the objectives of the Trust or Settlor.

The appropriate, well-diversified investment portfolio can be put in place right from the start, combined with regular reviews throughout the lifetime of the Trust to ensure alignment with its goals.

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