Bringing institutional standards to funeral trust investment strategies, advice and implementation

Cartwright is passionate about producing better investment outcomes for our clients. We believe that Funeral Trusts have been overlooked in the investment world. Typically, Funeral Trusts receive limited investment advice and are invested alongside individuals and high-net-worth clients in the retail space. As the sector becomes more highly regulated, we think all Funeral Trusts from the smallest to the largest, deserve access to a quality institutional investment offering instead.

Investors are often described as being either 'institutional' or 'retail'. What difference does that categorisation make and what issues should Funeral Trusts consider in this area to help them meet their fiduciary duty?

What do we mean by 'retail' and 'institutional' investors?

Institutional investors are typically large organisations, investing on behalf of others with professional expertise. Entities such as pension funds, mutual funds, hedge funds, insurance companies and sovereign wealth funds would generally be included in this category. Retail investors on the other hand, would usually include individual investors and smaller businesses that make their own investment decisions about their own assets. The category would also include investors and high-net-worth clients who invest via a wealth management firm, typically using individual pooled funds or model portfolios.

In our experience, we've seen many Funeral Trusts fall into the 'retail' camp, investing through wealth management firms.

Institutional advantages

The scale that institutional investors have typically gives them advantages in terms of the variety of assets they can access and the lower levels of cost they can secure for their investments. Due to their importance in the market, they are also likely to have better access to information and the management of companies they invest in or third-party investment managers.

Institutional investors may also have access to a wider array of investment strategies whereas a retail investor might be limited to a single or reduced range of off-the-shelf pooled funds. Typically, a Funeral Trust might have to choose a model portfolio from a small range. Such a portfolio might take account of an overall risk tolerance but may not match the organisation's needs well in terms of cashflow or ESG preferences. The underlying funds in this portfolio are also likely to have higher management charges, as they are share classes designed for smaller retail customers.

An institutional service should include more comprehensive modelling of the Trust's liabilities alongside the assets of the Trust to better understand the likely risks to the future solvency of the Trust. For a Funeral Trust in particular, the service should take careful account of the liabilities of the Trust in terms of any inflation-linked guarantees or potential discretionary increases to funeral plan values.

This is crucially important under the new FCA regulation and the annual requirement to produce a Solvency Assessment Report and rectify any underfunding. Cashflow requirements can also be included in such modelling.

An institutional service should also offer more bespoke investment strategies that can be tailored to the Funeral Trust's individual needs, utilising a wider range of products. Innovative asset classes such as Structured Equity, and even Bitcoin, might have a useful place in an investment strategy for a Funeral Trust. But these are areas that need professional advice and could only be accessed effectively and efficiently through institutional channels.

In summary an institutional approach will enable a bespoke investment strategy that takes into account the Funeral Trust's liabilities and cashflow requirements. It can also reduce cost by accessing institutional share classes with lower investment management charges.

Client categorisation

Funeral Trusts can vary dramatically in terms of size and the level of financial expertise they have internally. For the last decade or so regulations have required a financial adviser to assess and categorise clients as professional or non-professional (retail) and to disclose to each client how they are being categorised. It is important that trustees are aware of this categorisation and the implications.

If categorised as professional, trustees have a responsibility to ensure they have adequate expertise capable of making investment decisions and lose some FCA protections. The Funeral Trust can benefit however from an institutional investment relationship. This includes lower costs, more bespoke investment strategies and access to wider investments as mentioned above.

New era

Pension funds have similar considerations to Funeral Trusts but for decades have received much higher attention in terms of regulation, advice and investment products. Regulation has now arrived in the Funeral Trust space and we believe it is time that the investment advice and provision improve too.

Cartwright Funeral Trusts is an experienced actuarial, administrative and investment consultancy that deals only with professional clients. Please contact us if you would like to discuss how Cartwright's institutional quality investment offering can benefit your Funeral Trust.