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The following information relates to Question 1-6.

Wilson Macharia, CFA, a lawyer specializing in trusts and estate planning, acts as a professional trustee on behalf of several pension funds who require legal expertise. He also provides inputs on the investment process and monitoring of the performance of the funds. Macharia often carries out training seminars to discuss pertinent issues concerning trust law and trustee responsibilities.

During a recent training session with trustees of a pension fund Macharia outlined what he thought were the most important parameters of the new Prudent Investor Rule:

Parameter 1: Diversification is only required if appropriate to achieve the fund's objectives.
Parameter 2: Trustees must consider fees, costs and other expenses when making investment decisions.
Parameter 3: Trustees no longer need to balance current income and growth when making investment judgments.

Macharia went on to discuss the differences between the old Prudent Man Rule and the new Prudent Investor Rule as shown in Exhibit 1.

Exhibit 1 Changes in Prudent Rules		
Features	**Old Prudent Man Rule**	**New Prudent Investor Rule**
A	Each investment within a portfolio must meet the prudence test	Prudence test is on the whole portfolio
B	A trustee is required to perform duties personally	A trustee may delegate duties to others
C	Investments in mutual funds or index funds are seen as improper	All investments are allowed as long as they are actively managed

Macharia subsequently highlighted the following case study:

> A very large pension fund with no current exposure to the real estate market wanted to develop a commercial building to house its administration department and to rent the remaining space to third parties. The trustees estimated the commercial building would earn an investment return higher than the fund's historical 10-year return. The trustees recognized that while commercial real estate is riskier than other portfolio assets, it has also displayed very low correlations with other portfolio assets.

The Trustees, with no real estate interests of their own, consulted with real estate experts to determine the safety of real capital value and the likelihood of competitive total investment returns. They also confirmed with pension consultants to ensure the investment would be a suitable investment given the fund's objectives, risk tolerances and the interests of all the beneficiaries.

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One of the new trustees, a qualified civil engineer who has been employed by developers in the past, suspected costs would rise considerably due to poor estimates provided by the potential developers. He didn't mention his concerns because this was his first appointment as a trustee. The Trustees approved the project and appointed one of the developers that had bid for the project to build the commercial building.

At the end of the seminar, Macharia received the following questions from the audience:

Question 1: "I'm a trustee for a pension fund. The Board of Trustees is planning to replace our current no-load balanced unit trust with a unit trust with a 2% front-end load with the same objectives and risk. The underlying investments giving current income streams and growth opportunities are almost identical in each of the unit trusts. A former employee of the pension fund just started managing money so we want to support him by moving 100% of our investment portfolio to his balanced unit trust. Our current manager has been in business for many years and consistently has a top quadrant performance history. By switching would we be in violation of the new Prudent Investor Rule?"

Question 2: "I am a trustee for a trust with a remainder beneficiary. The remainder man is suing me on the basis that the trust suffered a significant loss during the global financial crisis. While I am experienced in asset management, I delegated the asset management to a well-established asset manager, as I do not have the time to undertake this role. I appointed the manager after a thorough due diligence process to determine skills and historical performance. The fund has always met the objectives and risk profile of the trust, considering both the interests of the income beneficiary and the remainder man. In my quarterly meetings with the asset manager I can see he continues to consistently outperform other funds and at lower fees. Have I done anything wrong?

Question 3: "If the beneficiary of a trust is employed in a highly paid job do I as a trustee still need to consider the key factors of liquidity and regularity of income?"

1. Which of Macharia's parameters most accurately reflects one of the principles of the new Prudent Investor Rule?

   A. Parameter 1.
   B. Parameter 2.
   C. Parameter 3.

2. Which feature in Exhibit 1 least likely identifies the differences between the old and new Prudent Rules?

   A. Feature A.
   B. Feature B.
   C. Feature C.

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3. In the case study, which General Fiduciary Standard was most likely violated?

   A. Care.
   B. Skill.
   C. Caution.

4. Macharia's most appropriate response to Question 1 is: "Yes, the trustees have not complied with the duty:

   A. to avoid fees."
   B. of delegation."
   C. of impartiality."

5. With regard to General Fiduciary Standards, what is Macharia's most appropriate answer to Question 2 from the audience?

   A. Yes.
   B. No, trustees have a duty to delegate.
   C. No, compliance with trustee duties is not judged on hindsight.

6. Macharia's most appropriate answer to Question 3 is:

   A. Yes.
   B. No, with regard to liquidity.
   C. No, with regard to regularity of income.