

entitled to the income for the intervening period, as the case may be. The cardinal principle must necessarily be the safety of the funds, and to ensure this object the Legislature both here and elsewhere has wisely restricted the classes of investments which, in the absence of specific provision to the contrary in the trust instrument, a trustee may select. Except where the trust instrument contains special provision as to investments, a trustee must be careful not to endanger the security of funds in an endeavour to obtain a higher return.

As I pointed out in my report for last year, the range of authorized securities has been considerably amplified in recent years, but the scope must always remain very restricted. Pressure is liable to be exercised upon trustees by persons interested in the income of trust funds to invest in, to renew, or retain more hazardous securities yielding a higher return than those authorized by statute. On no account whatever should a trustee permit himself to be induced, either by the solicitations of beneficiaries or by the allurements of what appears an exceptionally fine investment, to disregard the instructions contained in the instrument under which he is acting and the limitations which the law has from experience seen fit to impose.

It is important to stress this, for trustees are frequently adversely criticized for not employing investments which, though unauthorized, return a large revenue, and are considered by prudent investors to be quite safe. Speculation or hazard must be eliminated in trust operations, for this is a field where they are undoubtedly not justified. The law reports show how disastrous to a trustee and his beneficiaries may be the consequences of the departure by him from the powers bestowed upon him by the trust instrument or by the law. Nevertheless, no matter how careful and prudent a trustee may be, or how closely he adheres to his restricted powers, he may incur a loss of trust funds as a result of circumstances beyond his control, or the development of which could not have been foreseen and provided for by ordinary human prudence. In America one large trust institution has caused widespread interest through its action in creating out of its reserves a special reserve fund of 2,000,000 dollars for the protection of beneficiaries receiving income from trust investments arranged by it. The plan, in effect, subject to certain limitations defined in a declaration of trust, pledges the trust company to absorb to the extent of the fund any losses in payment of interest or depreciation of principal where trust investments are purchased by the institution as trustee. Thus to honesty, capacity, and experience there is added a definite, tangible undertaking.

In the case of the Public Trust Office of New Zealand a still wider and more extensive guarantee of the security of investments of the trust funds is provided by the Common Fund scheme. This scheme has been in force for thirty-three years, and was established in its present form as a result of a recommendation of the Royal Commission of 1891. The principal advantage under this mode of investment is the State guarantee for the payment of principal and the punctual payment of interest throughout the term of investment. This form of investment is very freely availed of by testators, settlors, and other clients of the Office, for, in addition to the more extensive guarantee, it offers other advantages beyond those which this American scheme confers. For example, when the Common Fund is chosen for investment, interest begins at once and runs continuously—there is never any broken period—and there is no interval between the falling-in of an investment and the finding of a new one. Interest is paid on the daily balance, and it can be made payable weekly, monthly, quarterly, or half-yearly on the appointed days anywhere in the Dominion, free of deductions, including exchange. Where the interest is not required to be utilized for estate purposes or to be paid to beneficiaries it is capitalized at regular intervals and thus becomes interest-bearing.

The principal, either wholly or in part, is available immediately it is required, for the money is always liquid. If part is withdrawn interest continues on the balance, and any addition to the capital begins at once to earn interest. Finally, no charge whatever is made for the Public Trustee's services in connection with investment in the Common Fund.

There is no doubt that in the range of investments for trust funds there is nothing more simple than the Common Fund, and it is interesting to note how much greater are the benefits which it affords than are available in the case of one of the