

## Directed vs. Discretionary Trusts: What's the Difference and Why It Matters

### How Modern Trust Structures Adapt to Complex Families, Advisors, and Asset Classes

In today's wealth planning landscape, many clients require customized trust structures that reflect the complexity of their family dynamics, investment strategies, and cross-disciplinary advisory teams. The distinction between **directed** and **discretionary trusts**, sometimes referred to as Delegated Trusts) is central to building the right administrative framework—especially for high-net-worth families working with independent advisors.

Both models govern how trustees interact with outside advisors and how responsibility is divided, but they do so in very different ways. Understanding how these two types of trusts function is essential to selecting the right administrative strategy for a given estate plan.

### What Is a Discretionary Trust?

In a **Discretionary trust**, the trustee retains ultimate fiduciary responsibility for all aspects of trust administration, including investment oversight. However, the trustee **delegates investment management** to an outside advisor or investment professional. While the trustee doesn't manage the assets directly, they remain accountable for monitoring the Discretionary party and ensuring their ongoing suitability and performance.

This model provides flexibility while preserving the trustee's role as a centralized fiduciary. It's often used when families want to retain a trusted advisor but still need a single party to ensure holistic oversight.

### Key Features of Discretionary Trusts:

- Trustee holds fiduciary liability, even after delegating tasks.
- Investment responsibility is outsourced, but oversight remains with the trustee.
- Suitable for simpler structures or families seeking less direct involvement.
- Typically includes regular due diligence on investment advisors.
- Often preferred when trust assets are traditional and the trustee is expected to play a more active role.

### What Is a Directed Trust?

In a **directed trust**, responsibility is divided more formally. The trustee administers the trust but takes direction from one or more **designated advisors or committees**—such as an investment advisor, distribution committee, or family advisor—who hold authority over key decisions.

The trustee is not liable for those decisions so long as they follow the lawful direction of the designated party. This separation of roles allows greater customization and control, especially for complex family structures or unique assets.

### **Key Features of Directed Trusts:**

- Trustee follows instructions from legally appointed third-party advisors.
- Fiduciary responsibility for investment or distribution decisions lies with the directing party.
- Allows for flexible allocation of control among advisors, committees, or family members.
- Often used in complex or multi-generational trusts with illiquid or nontraditional assets.
- Requires a trust-friendly jurisdiction with modern directed trust statutes (e.g., South Dakota).

### **When to Use Each Structure**

The decision to use a Discretionary or directed trust depends on the goals of the client, the nature of the assets, and the desired level of control among advisors or family members.

A **Discretionary trust** may be sufficient for families with traditional portfolios, straightforward distribution needs, or a desire for a single point of fiduciary responsibility. Meanwhile, a **directed trust** can offer enhanced flexibility for families with private equity, family business interests, or multiple advisory relationships—allowing each expert to focus on their specialty without blurring lines of authority.

The **directed model** is especially powerful for clients who want to retain their existing financial advisor, while clearly separating trust administration from investment management.

### **Jurisdiction Matters: Why South Dakota Enhances Directed Trusts**

Directed trusts rely heavily on state law to enforce their structure and protect trustees from liability when following instructions. Not all jurisdictions provide modern statutes to support these roles. **South Dakota** is widely regarded as a leading jurisdiction for directed trusts, thanks to its:

- Explicit statutory protections for directed trustees
- Clear roles for trust protectors, advisors, and committees
- Privacy provisions and flexible modification options
- Industry-friendly courts with deep trust experience

Sterling Trustees, based in South Dakota, is ideally positioned to support directed trust arrangements. As an independent firm with no investment management business, Sterling focuses exclusively on trust administration—making it an ideal partner in both directed and Discretionary roles.

## Advantages of Working with an Independent Trustee

Whether a trust is directed or Discretionary, the choice of trustee remains critical. An **independent, non-investment trustee** like Sterling brings neutrality, avoids conflicts of interest, and supports the client's existing advisory team. In both models, Sterling works alongside RIAs, attorneys, accountants, and family offices to implement and administer trust structures with speed, transparency, and professionalism.

With a proprietary Salesforce-based platform, Sterling offers real-time reporting, same-day processing, and efficient collaboration with advisors—all while ensuring compliance with fiduciary responsibilities and evolving regulations.

## Summary: Directed vs. Discretionary At-a-Glance

Feature	Discretionary Trust	Directed Trust
Investment Authority	Discretionary to advisor; trustee retains oversight	Directed advisor holds authority; trustee follows instructions
Fiduciary Responsibility	Trustee remains fully liable	Fiduciary responsibility lies with directing party
Best For	Simpler portfolios and oversight needs	Complex structures, multiple advisors, special assets
Jurisdictional Support	Not required, but helpful	Critical — must be in a directed-trust-friendly state
Common Users	Traditional HNW families	UHNW families, business owners, global families

## Learn More

Sterling Trustees specializes in **conflict-free trust administration** under both Discretionary and directed models. We are chartered in South Dakota and partner closely with advisors and attorneys across the country.

To explore which structure is best for your client, contact us at [info@sterlingtrustees.com](mailto:info@sterlingtrustees.com) or [www.sterlingtrustees.com](http://www.sterlingtrustees.com).

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