# Stand out from the crowd – a unique approach
# Sole use of Discretionary Fund Managers

Prepared by Gilt Edge Investment Consultancy

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## Discretionary Fund Manager Use

In a recent survey it was found that 9 out of 10 financial advisers use a Discretionary Fund Manager (DFM) as the core element of their Central Investment Proposition.

Further research suggests that many are misguided, believing that using a DFM lessens their firm's risk. However, determining the clients risk and ensuring that the DFM meets the ongoing risk is a fundamental part to using this type of proposition. The review also found that many advisers do not regularly communicate with their chosen DFMs with the majority asking for information once a year, coinciding with a client's annual review. In this time many elements of the investment could have changed including, asset allocation, risk, return profiles and underlying holdings. As with any chosen portfolio, reports should be produced regularly, ideally quarterly.

The DFM survey showed 87% of IFAs do not lower their charges, although they outsource. We would highlight this as a risk which the Regulator will be reviewing shortly.

Recently, charging structures have been spotlighted as a major influence in an advisers chosen proposition. Many in the industry have provided their thoughts on the issue, with costs headlining many articles. These will continue to be in the headlines as returns become harder to generate and cost reduction throughout the industry will provide extra returns for all.

Outsourcing investment work can be beneficial for a firm. Specialist Consultancy allows for investment clarity, informed decisions, and discipline. However, blanket use of a proposition is falling short of regulatory rules and is in risk of 'shoe-horning' clients into a proposition which is of benefit to the IFA and potentially not the client.

### Should a client be charged less by their adviser?

In practice, many clients are being charged by the DFM and their adviser. The same can be seen with the use of multi-manager funds. As the charges for investment advice are within the fund, should an IFA charge a fee for the 'ongoing servicing' of these types of proposition? We would argue not at the same level as an 'in-house' model. A model allows an IFA to charge across a spectrum, due to increase in workload.

### Does using a DFM reduce your risk exposure?

In short, no it does not. Advisers are still responsible for ascertaining and maintaining client contact regarding their risk. In addition, reporting requirements do not lessen for the firm in terms of client contact. This is more pertinent for use of DFM model portfolio services as the client is still under the adviser and not the DFM.

### Should these types of investment be used?

As an Investment Consultancy, we believe the use of DFMs and Multi-Managers are an integral part of a CIP but not as the only element. These types of propositions work well for


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some clients but it are not a ‘one size fits all’ approach. A  CIP should have access to a variety of elements and all should have a proportionate cost. Where more detailed work is required, a greater charge can be applied. The use of a range of options at the correct cost is a benefit to both adviser and client.

IFAs should remember that outsourcing does not mean reducing client risk. Any proposition utilised within a CIP should be researched, evaluated and changed where appropriate. The regulator will be hot on the heels of any practice which is not fully conforming to the changing landscape and we believe a firm without a comprehensive CIP and rigorous evaluative process of this will be a target for the FCA.

## Why use an expert?

Our expertise is in consultation, review and evaluation of a CIP. We have experience dealing with a wide range of advisers and the review of their CIP including the evaluation of DFMs, Model Portfolios and Multi-Manager/Multi Asset ranges.

For further information, please contact us.

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