How a DFM can help build a successful financial advisory firm

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It is becoming increasingly difficult and costly for financial advisers to keep abreast of all the changes to legislation that affect their practices. Compliance and reporting are taking up a significant portion of an adviser's time. Add to that the average age of the industry of 57 years – with younger advisers not yet experienced enough to take over their practices – and you soon realise why so many experienced advisers are choosing to partner with a discretionary fund manager (DFM).

The relationship between an adviser and a DFM should essentially lead to a long-term partnership. However, not all DFMs offer the same services, and selecting the right one is a process. Advisers should make a list of the issues they want solved and then ensure that the DFM has the skills and capacity to solve them.

At Equilibrium, we spend time getting to know our adviser partners and to understand the challenges facing their practices. For those who are looking for assistance with their portfolio management, we build portfolios that align to their advice process, ensuring that the outcomes (or benchmarks) solve for what they are trying to achieve for their clients over the time horizon they have agreed with clients. By understanding the risk tolerance of their clients, we can allocate our risk budget appropriately to ensure that clients remain invested and don't opt out at the first sign of market volatility.

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Advisers who partner with us receive monthly consolidated investment reports showing the look-through into percentages in all their underlying funds, the combined asset allocation at the portfolio level, and the overall performance of the portfolio versus the benchmark over regular periods. They also participate in quarterly report backs, and those advisers with bespoke portfolios participate in quarterly investment committees where they have input into their portfolio construction and manager selection. With the proposed licensing changes for Category I and II financial services providers, this is one of the biggest reasons we now see so many advisers appointing DFMs to ensure they maintain these licenses.

Advisers looking to sell or merge their books with other advisers, looking to join a network, planning for succession, or wanting to grow assets can also benefit from appointing a DFM to ensure the offering across various books or their underlying clients is streamlined. By having fewer underlying funds and more overlap between clients, advisers can segment their clients more easily, get access to preferential fees (both with underlying fund managers and platform providers), better reporting and reduced compliance burden on the practice, allowing them to spend more time with their clients.

Other benefits of partnering with a DFM include bulk switching capability across all clients simultaneously, and access to institutional and segregated mandates, as well as alternative asset classes, which are not usually available to retail advisers.

At Equilibrium, we partner with advisers throughout their journey. We've also seen a recent increase in advisers applying for their Category II licences. If you find yourself at this junction, we also offer supervisory services to help you achieve the goals you have set for your business.