

HOW DFMS ASSIST ADVISERS IN GETTING BETTER OUTCOMES FOR CLIENTS

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 is taking up a significant portion of advisers' time. Add to that the average age of the industry is 57 years old and the younger advisers aren't 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).

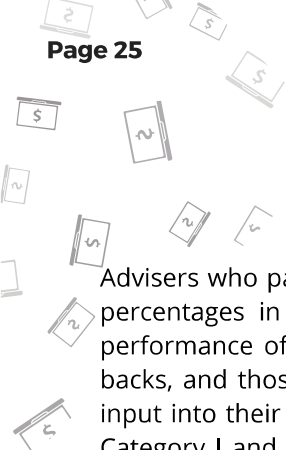
Practice management is essential regardless of where an adviser is on their journey. Whether looking to retire, solving for a succession plan, considering joining a network, selling a practice or merely building assets, there is no doubt that having an efficient practice will open up more opportunities and increase the value of a financial adviser's business.



Florbela Yates, head of Equilibrium

But selecting the right DFM is also a process as not all DFMs offer the same services. The relationship between an adviser and a DFM should essentially lead to a long-term partnership. And advisers should make a list of the issues they are solving for and then ensure that the DFM actually 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) actually solve for what they are trying to achieve for their clients over the time horizon that 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. Our research shows that the main reason investors don't meet their investment outcomes is because of their switching behaviour and not because of the funds that they picked. Platform statistics show that investors who remain invested for the full investment horizon will have outcomes more than twice those of investors who switched during periods of volatility¹. This is true, regardless of the actual underlying fund, provided it's a reputable fund with a solid track record.



Advisers who partner with us, get access to 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. I believe that with the proposed licensing changes for Category I and II financial services providers, this is one of the biggest reasons that we now see so many advisers appointing DFMs to ensure that they maintain these licenses.

Advisers looking to merge their books with other advisers, join a network, sell their book, planning for succession or wanting to grow assets can also benefit from appointing a DFM to ensure that 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 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 licenses. If you find yourself at this junction, we also offer supervisory services (at no cost) to help you achieve the goals that you have set for your business. **1 Momentum Wealth IRR analysis, 2019**

