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by momentum

Choosing a Discretionary Fund Manager (and platform)

Advisors are continuously partnering with discretionary fund managers (DFMs) for a variety of reasons. The main reason cited by advisors being the lack of time. South Africa has one of the most regulated investment industries, which means advisors are spending more time on compliance and less on doing what matters most – giving advice and spending time with their clients. By recognising that their value rests in evaluating clients' personal circumstances and determining their unique needs, advisors are increasingly partnering with investment experts to ensure that their clients' investment needs are consistently met. The partnership with a DFM not only saves the advisor an enormous amount of time, but also ensures that all the investment considerations are met.

At Equilibrium, our range of services includes strategic and tactical asset allocation, strategy optimisation, risk management, manager research, fund and mandate design, portfolio optimisation, as well as consolidated reporting. We take care of everything to do with investments for our advisor partners. By using

our consolidated monthly fact sheets and quarterly investment reports advisors can speak with conviction about the performance and expected returns from the various portfolios. Essentially, we become an extension of their advice practice.

Advisors often cite the fact that we save them time as one of the key advantages of using a DFM. This is because we essentially become their personal investment team – taking on all the investment functions, from constructing portfolios, getting them loaded on their preferred platforms, managing both the rebalancing and compliance, as well as running the investment committees. The industry has a huge shortage of key individuals (KIs), and this is one of the biggest challenges that the regulator is facing with the proposed licensing requirements under the Retail Distribution Review (RDR). To have full oversight, KIs cannot be “rented” out. They need to have sufficient time to ensure that they really can provide oversight. Therefore, the days of a KI on multiple licences will soon be over. At Equilibrium, we are delighted to be able to contribute to the industry as a whole by offering supervision for other Category II businesses who want to get their own licences. Does this mean we are growing competitors? Yes, it does. But in our experience, these Category II advisors do not always have the full set of capabilities necessary to cater for their client needs. They benefit from being able to use their own Category II licence to create certain efficiencies (for example moving from model portfolios to funds, or fund of funds, to specifically address their CGT issues) and other investment needs.

One of the most pleasing trends that we have seen, is how our clients have remained invested and have not de-risked despite the volatility in markets. But still a concern is that advisors in general are using too many LISP platforms. Partnering with a DFM may simplify their practices to a certain extent, but unless they consolidate the number of platforms on which they load their solutions, they will battle to harness the benefits that come from partnerships. The two key issues being advisors' ability to access better platform pricing and to ensure that the platforms they use deliver on their clients' objectives.

As an independent DFM, we are available on nine platforms – Glacier, Allan Gray, Momentum Wealth, Ninety One, Stanlib, INN8, Old Mutual, PPS and AIMS. There are others on our watch list, and we would consider adding them provided they meet two main criteria: the first is our ability to execute effectively and the second is the demand for that platform from independent financial advisors.

The open architecture platforms (like Glacier, Stanlib and Momentum Wealth) give us access to a larger range of funds,

making it easier to add additional funds that we want to use, which is essential to our function as a DFM. Being part of a larger group allows us to approach Momentum Collective Investments (the group MANCO) to package solutions for us that are not available to the average retail investor. Having said this, we have great relationships with some of the more closed platforms, like Allan Gray and Ninety One, who load our preferred funds.

But from an advisor perspective, it makes sense to partner with one or two platforms. Advisors are then in a position to negotiate better fees and limit the complexity that comes with different constructs and fee classes across platforms. We have recently seen another bout of consolidation across the advisor industry both locally and globally, especially in the UK. Advisors who use fewer platforms are getting higher multiples on the sale of their practices. I believe that using more than three platforms is a disadvantage. For advisors with smaller assets, it makes sense to limit to one or a maximum of two platforms.

It is also important to ensure that the platform strategy aligns with the advisor's strategy. Succession planning is important not only for the advisor's practice but for future generations of investors. How is your chosen platform positioned for the future, and to be future-proof? Is their technology built in-house or have they partnered with external technology experts, and can

the technology cater for your needs and future scalability? Ninety One and Allan Gray are examples of platforms building technology themselves, whereas Momentum Wealth have partnered with a leading global wealth management provider, FNZ.

I recently asked Hymne Landman, head of Momentum Wealth and Momentum Wealth International, why they chose to partner with FNZ. The main reason is to leave the commoditised functions of a platform to the experts like FNZ, and rather focus on the additional value that Momentum Wealth can add to the lives of our advisors and DFMs, now and in the future. This allows us to focus on understanding and meeting the ever-changing needs of advisors and their practices, and doing this exceptionally well, says Landman. Combine this with international best practice and you have a winning formula.

Regardless of which platform or DFM you choose, as an advisor it is important that you truly buy into the partnership and that it is going to be sustainable. Make sure that your partners have the tools available to help you keep your clients invested, offer competitive pricing and the level of reporting that meets your needs. ■

We take care of everything to do with investments for our advisor partners.