A DFM can't help you with your hair but can help with investing

How many people do you know who cut their own hair or service their own car? Very few people that I know do this themselves. Instead, they tend to go to a professional. But, for some reason many people still believe that they are better at running their own investment portfolios than a portfolio manager is.

I am always amazed to hear discussions about what someone's financial advisor suggested but how they chose to put their investments elsewhere. The choice is often made either due to the chosen fund having a well-known brand or because someone else (ie not the professional advisor that they have appointed) suggested it.

The other area of general confusion among investors is where their money is invested. I often find myself explaining the difference between an investment platform (more commonly known as Linked Investment Service Providers or LISPs) and an asset manager. The platform performs all the administrative functions, including receiving the investment amounts, paying them into the underlying unit trusts, tracking cashflows in and out of the portfolios, calculating returns and providing quarterly statements. Whereas the chosen portfolio or unit trust into which the investor's money is invested is the vehicle into which their investment is held.

However, there is often confusion as to what the investor is invested with. For example, if they have chosen the Momentum Wealth platform as their "administrator" but invested in the ABC Balanced Fund, then they are invested in the ABC Balanced Fund and not a Momentum fund. Momentum Wealth is the platform that facilitates their transactions and supplies the investment statements. To say they are invested with Momentum is a misnomer.

Momentum Wealth facilitates the investment, tracks its performance and reports back to clients. But since the statements are issued by the Momentum Wealth platform, clients often perceive this to be their asset manager. To avoid confusion, one would need to read through the investment statement to see what underlying investments are and then determine who the asset manager or managers are that you are invested in.

When choosing a LISP platform, investors will be faced with the decision around an open-architecture platform (ie an independent platform that offers a wide range of underlying funds) or a more closed-architecture platform (that restricts the number of underlying funds you can invest in). The latter is often associated with its own asset management business and may provide better fees for access to its own group-managed funds or place restrictions on which funds you can invest in. For example, they may force you to use a money market unit trust that is managed by an asset manager which forms part of the same group.

While the open-architecture platforms are more flexible and typically don't have different fees just because they have an asset manager in the group, investors should ultimately ensure that the platform they chose is able to facilitate investments into the most suitable funds for them and that the platform has invested in technology that assists them to provide accurate and regular information about their underlying portfolios. Some of the criteria to consider in selecting a platform are efficiency, service, pricing, reporting and compliance monitoring.

On the other hand, when selecting an asset manager, you may want to focus on a consistent performance track record, what is the link between their benchmark and your investment needs, as well as evidence of how the fund performs in different markets.

With the increase in the number of unit trusts available and the recent changes to Regulation 28 allowing asset managers to invest 45% of their portfolio outside of South Africa, it's important that investors understand how this affects their investment journey.

So, while it makes sense for you to cut your hair at a hair salon or barber and get your car serviced at a mechanic, it also makes sense to employ the services of a discretionary fund manager (DFM).

A DFM has a good understanding of the investment market and can help investors and financial advisors to navigate the level of complexity.

They can assist in deciphering risk, investment time horizons and the appropriate benchmark to help you help your clients meet their individual investment objectives.

A DFM can also help you navigate the complexities around the local and offshore investing options, the differences between funds in a particular peer group and show you what to expect from different funds. ■

Visit **eqinvest.co.za** to find out how a DFM can help your advice practice.

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