Why partnering with a DFM makes sense

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Financial advisers are continuously partnering with discretionary fund managers (DFM) for a variety of reasons, with one of the main reasons being the lack of time. South Africa has one of the most regulated investment industries, which means advisers are spending more time on compliance and less on doing what matters most: spending time with their clients and giving advice.

By recognising that their value rests in evaluating clients' personal circumstances and determining their unique needs, advisers 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 adviser 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 construction and optimisation, as well as consolidated reporting. We take care of everything to do with investments for our advisers.

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

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We become their personal investment team – taking on all the investment functions, from constructing portfolios, getting them loaded on their preferred platforms, managing the portfolios, doing the quarterly and ad-hoc rebalancing and ensuring compliance to legislation, 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 licenses will soon be over.

One of the most pleasing trends we have seen is how our clients have remained invested and have not de-risked, despite the volatility in markets. A concern is that advisers in general are using too many LISP platforms. It makes sense to partner with one or two platforms. Advisers are then able 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 adviser industry, both locally and globally, especially in the UK. I believe that using more than three platforms is a disadvantage. For advisers with smaller assets, it makes sense to limit to one or maximum of two platforms.

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 advisers.

As an adviser, it is important that you truly buy into the right partnership that 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.

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