For professional advisers only

Five-minute guide to discretionary fund management

Rathbones
Look forward

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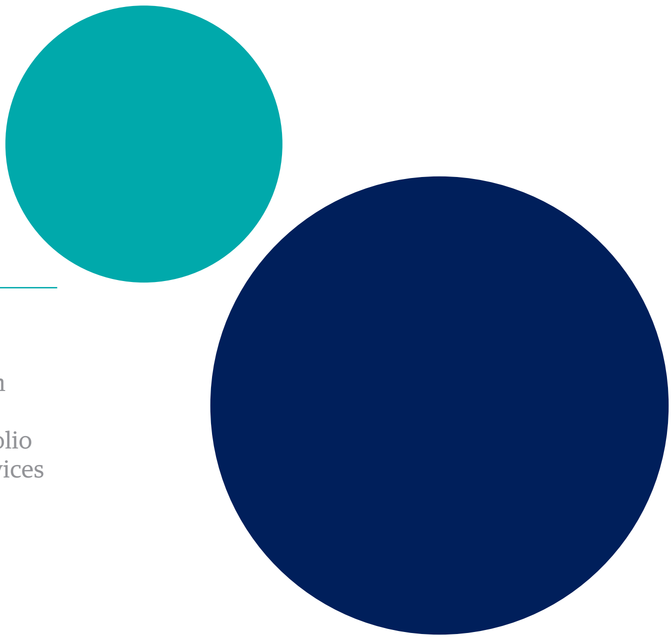
Introduction

Your time is precious, and under more pressure than ever. You're bombarded with information – just think how many investment publications there are, how many hundreds of emails you're sent each day and the demands of social media.

In this environment, you may not have had time to give discretionary fund management the serious attention it deserves. The irony is that it could save you time and help you build your business.

Because we understand the challenges facing advisers, and respect their time, we have pulled together the most important information you need into a guide you can absorb in just five minutes.

The growing UK market



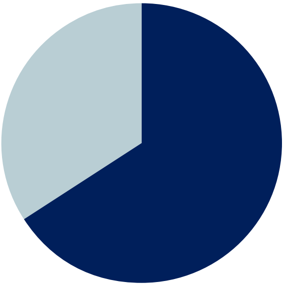
£52bn

In 2014 £52 billion was held in outsourced portfolio management services

£141bn

By the end of 2016 more than £141 billion is expected to be held in outsourced portfolio management

Source: Skandia (now part of Old Mutual)



66%

of financial advisers say they expect to use an outsourced portfolio management service in the next few years

49%

of advisers believe the investment expertise of a third-party provider is the most important factor when outsourcing

54%

of advisers say reducing risk is a key benefit of outsourcing

Source: Skandia (now part of Old Mutual)

"The regulatory burden continues to grow in anticipation of RDR. We don't have the time or resources to manage client portfolios as well as a bigger, specialist firm can. That's why – like many others – we chose to outsource this important function."

Benefits for advisers

Sleep soundly – lower business risk

Focus on your strengths

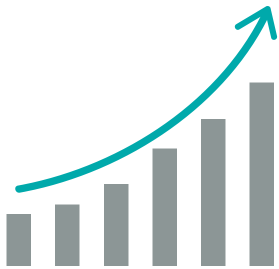
Most advisers tell us they got into the business because they enjoy building relationships with clients, understanding their needs and finding solutions.

Reduced compliance burden

Once you have understood your client's risk profile, you hand the responsibility for tailoring an investment portfolio and demonstrating its compliance to experts.

Improved portfolio reporting

The discretionary fund manager takes care of portfolio reporting tailoring its delivery to your exact requirements, often offering secure online access.



Time for more clients – grow your business

Reduced costs and improved profitability

Freed from the burden of investment management and much of the regulatory costs around it, you can concentrate on building more client relationships.

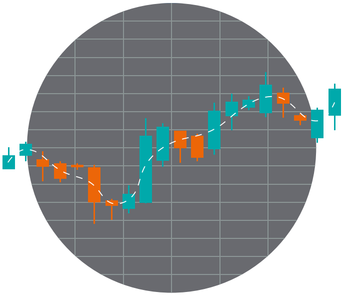
Flexibility over degree of client contact

The discretionary manager may attend client meetings alongside you, and only communicate with your client to the degree you choose.

Investment options for each tier of client

A discretionary manager may offer anything from basic centralised portfolios to a fully bespoke service, widening the range of clients you can serve.

Benefits for clients



Have a specialist investment expert running your money

Active, timely and decisive portfolio management

A discretionary manager is able to make rapid adjustments to a client's portfolio in the event of market shifts.

Access to institutional investor products

A discretionary manager will have access to many products normally only available to institutions and can often negotiate attractive terms.

Enhanced portfolio reporting and tax documentation

A discretionary manager can offer full transparency and real-time overview of a client's investment picture.

“Outsourcing investment management has helped grow my business as I don’t have the time or resources to manage client portfolios. I use an outsourcing service for clients who wish to invest over £100,000. The relationship between myself, my DFM and my clients is excellent.

The online offering to clients and advisers is impressive. I can get comprehensive information about client portfolios at any time. I am pleased with the performance of clients’ portfolios and the fees are reasonable. What is most important however is the quality of the overall service they provide to our business. I would recommend any adviser to consider an outsourcing investment management proposition.”

Five myths busted about discretionary fund management

Myth 1:
"They will steal my client."

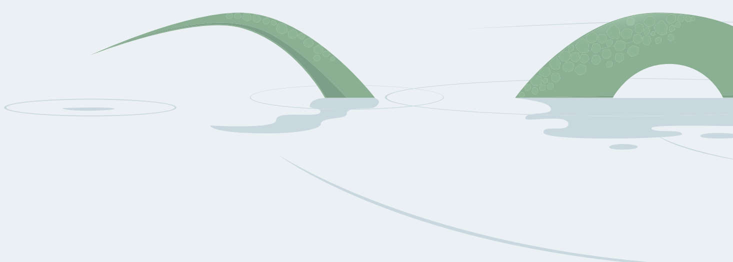
Myth 2:
"I can't justify my fee if I am outsourcing investment management."

Myth 3:
"It's expensive."

Myth busted:
You should only work with someone you trust. But there is nothing to gain from cutting an adviser out, and it's bad for the investment manager's reputation to behave badly.

Myth busted:
Clients pay for your overall service offering, and are more likely to quit if they are worried about their money. You sit alongside them monitoring the performance and suitability of the chosen DFM to meeting the client's needs.

Myth busted:
The key consideration should be value, not price. If this service better helps the client meet their investment goals then experience shows it's a cost they find worth paying. Remember, collective buying power and a focus on direct securities also reduce the underlying costs to your clients.

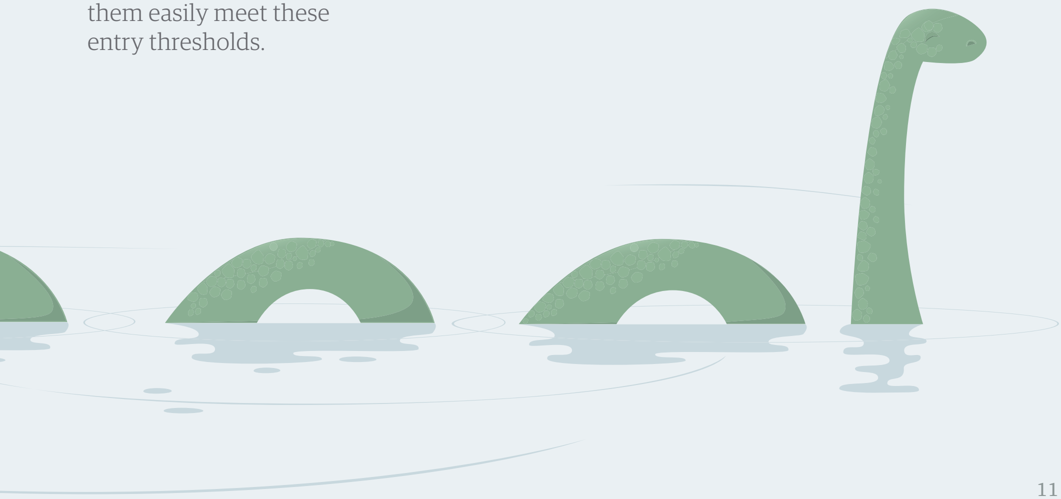


Myth 4:
"My clients aren't wealthy enough."

Myth 5:
"Once a client is with a discretionary manager it is impossible to move them back."

Myth busted:
Fully tailored discretionary portfolios start at £100,000. Consolidation of previous years' ISAs or clients' pension pots can often see them easily meet these entry thresholds.

Myth busted:
In-specie transfer means there is no need for a client to sell their existing portfolio. And there are no exit barriers.



Issues to consider when choosing a DFM

The DFM

- [x] Minimum investment levels required?
- [x] Suitable service for your client?
- [x] Acceptable charges – value for money?
- [x] Your influence in guiding the investment mandate?
- [x] Research capacity of the firm?
- [x] Access to the whole of market?
- [x] Historic performance? Use ARC or Defaqto data to filter a shortlist
- [x] Financial strength and stability?
- [x] Investment approach – active or passive? Funds or direct equities and bonds? Mix?
- [x] Key personnel – depth, breadth and stability?
- [x] Will they attend client meetings?
- [x] Can you meet your clients at their offices?
- [x] Can they provide good references from other advisers they currently work with?

Intangible factors

- [x] Do I like the people?
- [x] Am I comfortable inviting them to meetings with my clients?
- [x] Is their culture compatible with that of my firm?
- [x] Can I work with them?



Nature of the agreement

- [x] Are we clear over my responsibilities and what responsibilities the DFM will take on?
- [x] Who is responsible for risk profiling?
- [x] Who is responsible for KYC data?
- [x] Have I the due diligence information I need about them for my records?

What next?

You do not have to make a decision for all of your client base. If you are in any doubt, try with one client first.

This is a crowded market with lots of consolidation – half of discretionary firms have assets under management of less than £0.5bn.

Rathbones has nearly £35.8 billion under management*, and has been in business since 1742. Visit www.rathbones.com to learn more about the scale of our research capacity and investment expertise.

Call us and begin a longer conversation.

Contact us

Please call our intermediary services desk on
0207 399 0399 or email ifaservices@rathbones.com

*as at 5th April 2017. This figure includes funds managed by Rathbone Unit Trust Management.

Important information

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