For professional intermediaries only

The value of discretionary fund management

Chapter 3: Who has performed better? Advisers who've adopted DFM or non-adopters?

Commissioned by Rathbones
Look forward

Research by CORE DATA research

Index

Sample of key findings

Cost and justifying fees, top adviser concerns

Top of the list of adviser barriers to entry comes perceptions about the cost of partnering with a discretionary fund manager **(76%)**, while adopters are also concerned about potential losses of fee income.

(for full details see page 6)

Performance increases following adoption

72% of adopting advisers confirm an uplift in client portfolio performance, while **66%** cite improvements in their clients' risk/return profile.

(for full details see page 7)

Effect of adoption on client relationships

55% of advisers commented that they feel their clients 'trust them more' following adoption. A greater number still **(63%)** believe that 'the quality of their client contact has improved'.

(for full details see page 8)

Comparison of adviser revenues

Despite adviser concerns that partnering with a discretionary fund manager creates risk with fees, research proves the contrary. Adopters enjoy higher annual revenues - and are able to charge an average of **£10** more per hour.

(for full details see page 10)

The impact of adoption on salaries

Research reveals that improved revenues have translated positively into adviser pay packets. Almost half of advisers admitted to a salary increase since adoption, with **12%** saying their salary had risen by **20%** or more.

(for full details see page 11)

Divergence of time investment post-adoption

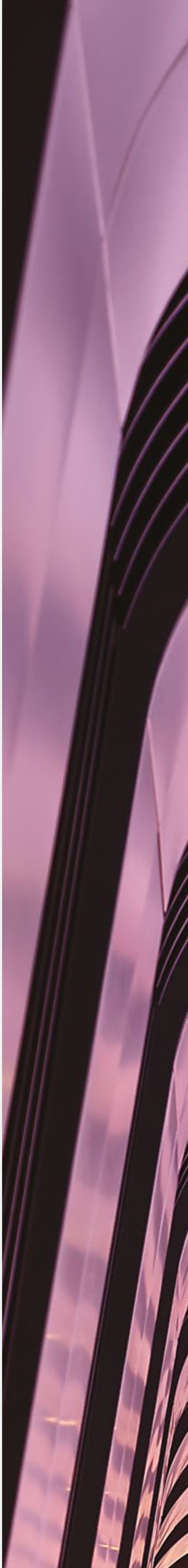
The research asked both groups to rank those activities which most resulted in revenue for their business. It then probed how much time each is now able to spend on each activity post-adoption.

(for full details see page 12/13)

The impact of time since adoption on results

Research demonstrates a positive correlation between client and adviser outcomes - and the length of time elapsed since adoption.

(for full details see page 14/15)



Introduction

Partnering with a Discretionary Fund Manager (DFM) has grown exponentially since its arrival in the UK 15 years ago. Two camps of advisers exist: those who have already adopted it with their end-clients, and a second group who have to date elected not to.

But, of the two groups, which has enjoyed the best business – and client outcomes? And in what ways? Despite the £multi-billion importance of these questions, little or no qualitative evidence has existed to answer this question. Until now.

As a leader in the DFM marketplace, we took it upon ourselves to commission (early 2018) independent research house CoreData to compare the fates of 'adopting' and 'non-adopting' advisers, against critical questions including client portfolio performance, relationships – and numbers overall. As well as how their revenues – and even salaries – have changed.

Of importance to us also was the need to understand to what extent the time elapsed since adoption has had on results – and performance. We ensured CoreData understood this by dividing adopter outcomes over time into two groups: early adopters (adopted for six years and over) and recent adopters (one to five years).

This report 'The value of discretionary fund management' is, therefore, one of the most significant examinations of DFM adviser outcomes that exists, replacing conjecture and perception with fact.

And while the first chapter focused on the impact on the adviser model and the second on the client relationship, this third and final chapter focuses on a direct comparison of how the performance of adopters and non-adopters has differed over time.

Industry recognition – and media coverage for the first two chapters – has been significant, this being the first time these questions have been robustly answered. This third chapter promises a similar level of industry interest.

If you would like to download the first two chapters, visit **rathbones.com/value-discretionary-fund-management**

Adviser barriers to partnering with a discretionary fund manager

While this third chapter focuses on comparing relative outcomes for adopting and non-adopting advisers, we first looked to understand - and rank - the primary reasons for non-adoption of DFM.

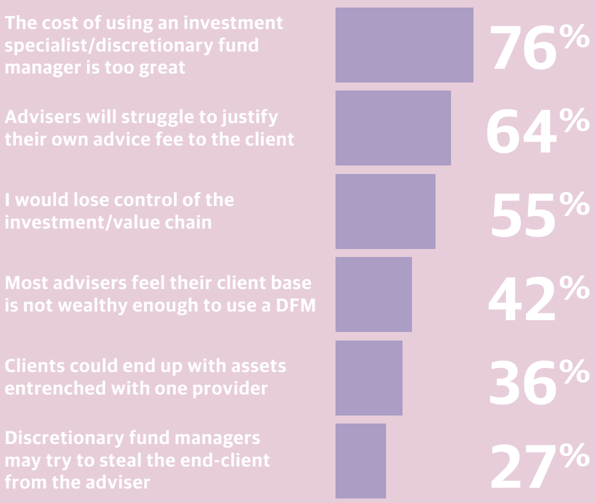
The most common single concern was that of cost, cited by 76% of non-adopters. Perceptions of cost, of course, need to be counter-balanced against value and performance, something the CoreData research explores in the following section.

Second to this was advisers' concerns that when partnering with a discretionary fund manager, they would struggle to justify their fees to clients, cited by 64% of non-adopters. While the concern must be taken at face value, this research later demonstrates the contrary is true. On page 10, Figure 6 shows that adopting advisers enjoyed significantly higher revenues than non-adopters.

Concerns about losing control of the investment/value chain was also an issue for 55% of advisers, perhaps perceiving that when partnering with a discretionary fund manager, clarity on shared end-client investment goals might be compromised.

And 42% of advisers felt that their client base wasn't wealthy enough to use a DFM. While research did not probe the definition of 'wealthy enough', this perception is interesting, given DFM investment can start at £100,000.

Figure 1: Primary barriers to use of third-party discretionary fund managers



Advisers report an uplift in client performance following adoption

A key litmus test for the overall value of partnering with a discretionary fund manager must surely be a correlation between its adoption and superior investment performance. The CoreData research revealed that this is a reality for 72% of adopting advisers.

In addition, 66% of advisers stated that their clients' risk/return profiles had positively changed since adoption.

Reasons for portfolio value and risk improvement will, of course, vary from case to case, but this may potentially be partly attributed to high levels of investment personalisation intrinsic to DFM. In fact, the research shows how almost a third (30%) of adopting advisers saw personalisation as a primary factor in choosing to partner with a discretionary fund manager.

Figure 2: Improvements in investment risk and return post-adoption

72%

The investment performance of my clients' portfolios has improved

66%

The risk/return profile of my clients has improved

30%

of users cited personalisation offered by DFM as a primary factor of use

How has adoption affected client relationships and contact?

Given the criticality of the client relationship to the development of both adviser business and revenues, the research then sought to understand if advisers' relationships had changed positively or negatively since adoption.

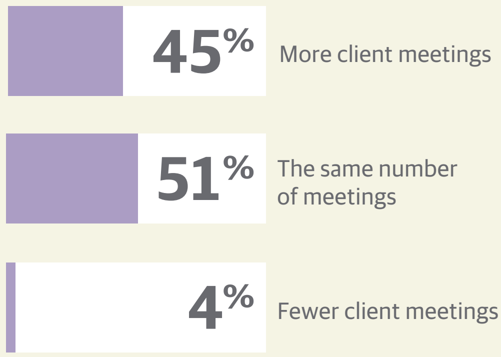
Despite some adviser concerns about loss of control, 55% of adopters affirmed "I feel my clients trust me more now".

The strength and calibre of relationship dynamics also appears to have improved post-adoption, with 63% of intermediaries now attesting that since adoption "the quality of my client contact has improved".

Figure 3: Positive changes in client trust and quality of contact

To explore quality of contact, we then sought to quantify how this fed into frequency of client meetings, from both a relationship and business/remuneration point of view. While 51% of adopters said they now held the same number of meetings, 45% confirmed meeting numbers had increased - with 4% saying that they had decreased.

Figure 4: Client meetings rise since DFM adoption

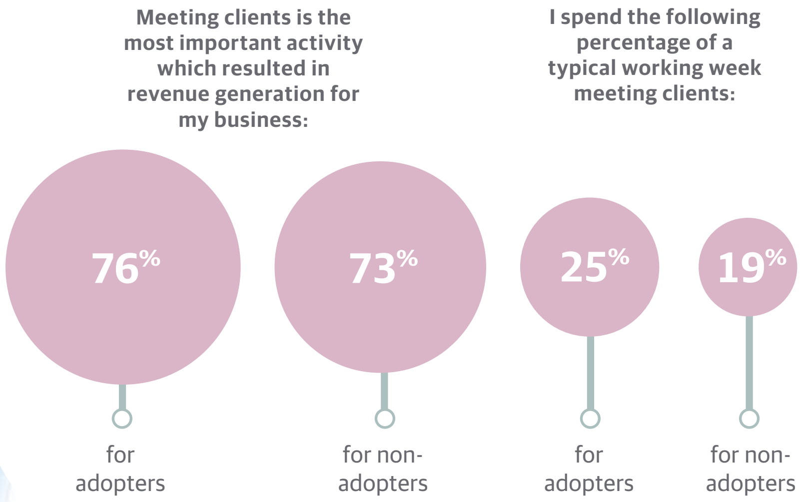


Both adopters and non-adopters agreed that meeting clients was the most important activity they undertook which resulted in revenue generation for their business (76% for adopters, 73% for non-adopters). Separately, we then asked them what percentage of a typical working week each group spent achieving this.

Results were pronounced, with adopters now spending 25% of a typical working week meeting clients, in relation to non-users 19%. This equates to a potential 2.5 incremental billable hours a week – not counting its less quantifiable impact on client relationships.

In the next section we explore if and how this translates into adviser revenues.

Figure 5: Adopters are able to spend more time on key revenue-generating activities



How do adviser revenues compare for adopters and non-adopters?

In this section, CoreData's researchers compared revenues and revenue growth for the two groups. Several factors affected outcomes here. We have already seen how adoption has led to an increase in billable client hours, with some 58% of adopters saying that 'revenues from my existing clients have increased as a result of me spending more time with them.'

In addition, comparing the two groups' average cost per hour, adopters were able to charge an additional £10 (£206 vs £196).

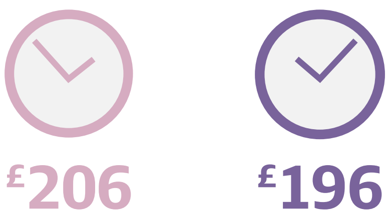
The chart below compares average adviser revenues for both groups for the last two available years, 2016 and 2017. In both, adopters have notably achieved significantly higher average revenues (£181,940 vs £155,545 for 2016 and £220,716 vs £186,606 for 2017).

Given revenues will be derived from both existing and new client wealth – we sought to understand how adoption has impacted on client numbers for both groups. Time liberated by partnering with a discretionary fund manager has seemingly contributed to advisers' capacity to manage a greater average number of clients per head – 172 vs 151.

Figure 6: Comparison of hourly fees, client numbers and revenues post-adoption

Hourly fee

Adopters detailed they were, on average, able to earn an hourly fee of £206 (against £196 for non-adopters).

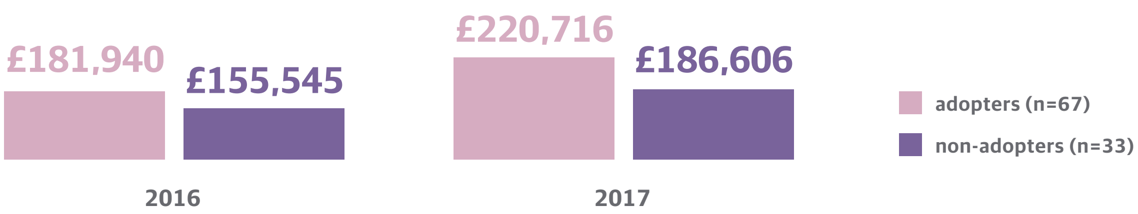


Client numbers

Adopting advisers reported they had, on average, 21 more clients than non-DFM users (172 vs 151).

Client revenues

Time liberated by employing a third-party discretionary fund manager meant that 58% of advisers were able to generate more paid time from existing clients. Users enjoyed annual average revenues of £181,940 vs £155,545 in 2016 and £220,716 vs £186,606 for non-DFM users in 2017 – 18.3% more.

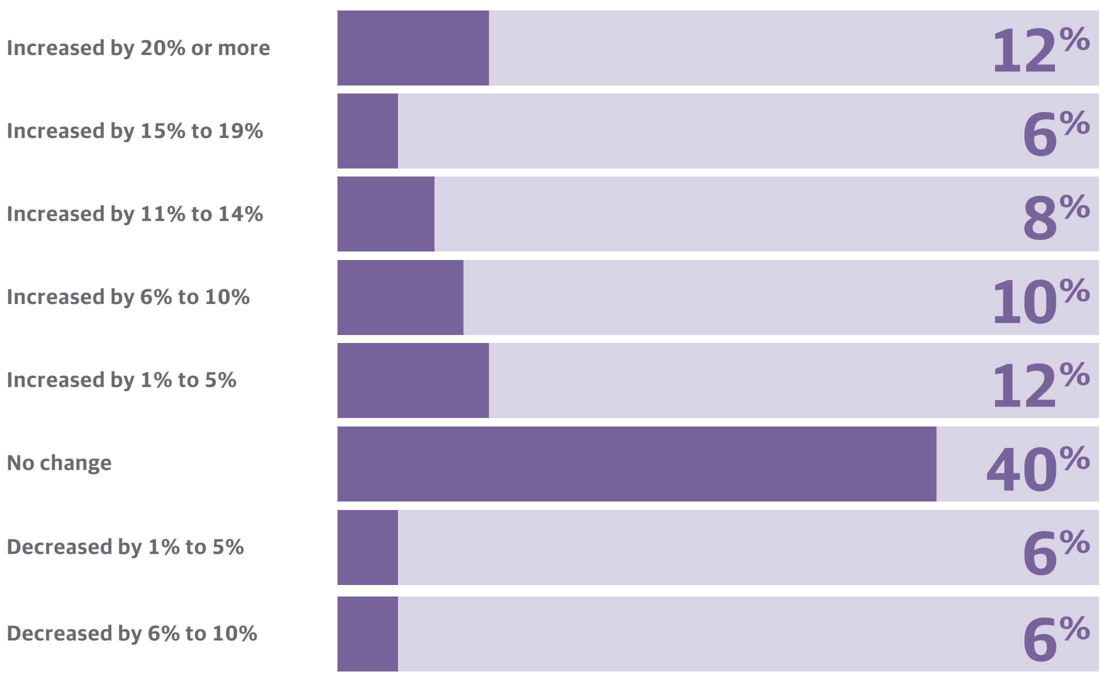


Has adoption impacted on salaries?

The CoreData research then probed to what extent increments in client numbers, cost per hour and time with client, had led to shifts in their salary and remuneration.

While 40% reported no change, almost half (48%) confirmed an improvement in salary, with 26% of adopters detailing this was more than 10%.

Figure 7: Increases in adviser salary following adoption of discretionary fund management



n=67

What are the primary differences in how the two groups invest their time?

Undeniably, outsourcing the requirement (and time involved) of in-house investment management alters the structure, make-up and goals of an adviser's week. With time being indelibly tied to revenue, our research sought to understand two key dynamics.

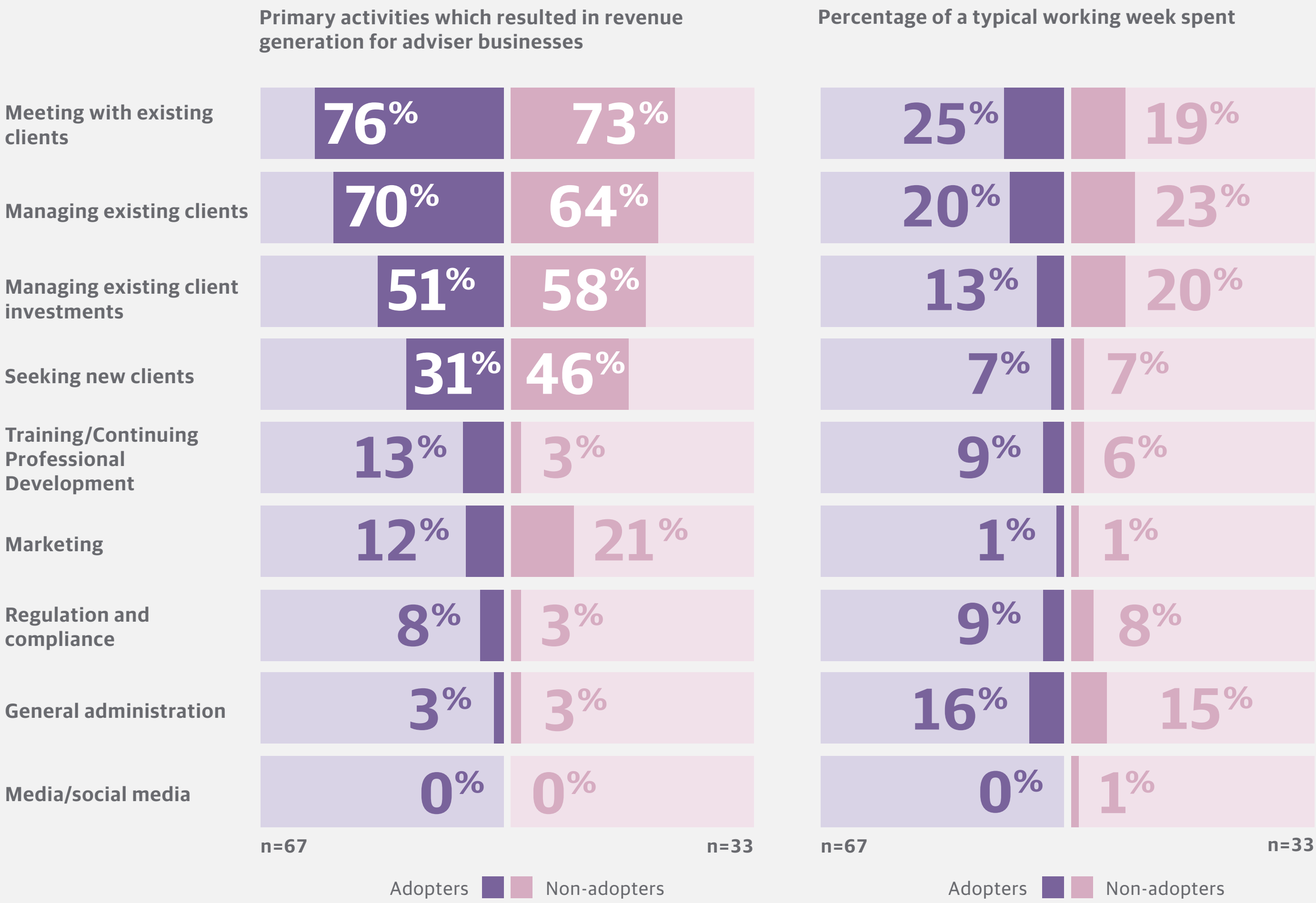
We first asked both groups to rank those activities which most resulted in revenue generation for their business. Meeting with clients was most important for both groups (76% vs 73%). There was a marked difference, however, in other priorities. Seeking new business is considerably more important to non-adopters (46% vs 31%), perhaps driven by the need for growth given the smaller average number of clients notable above.

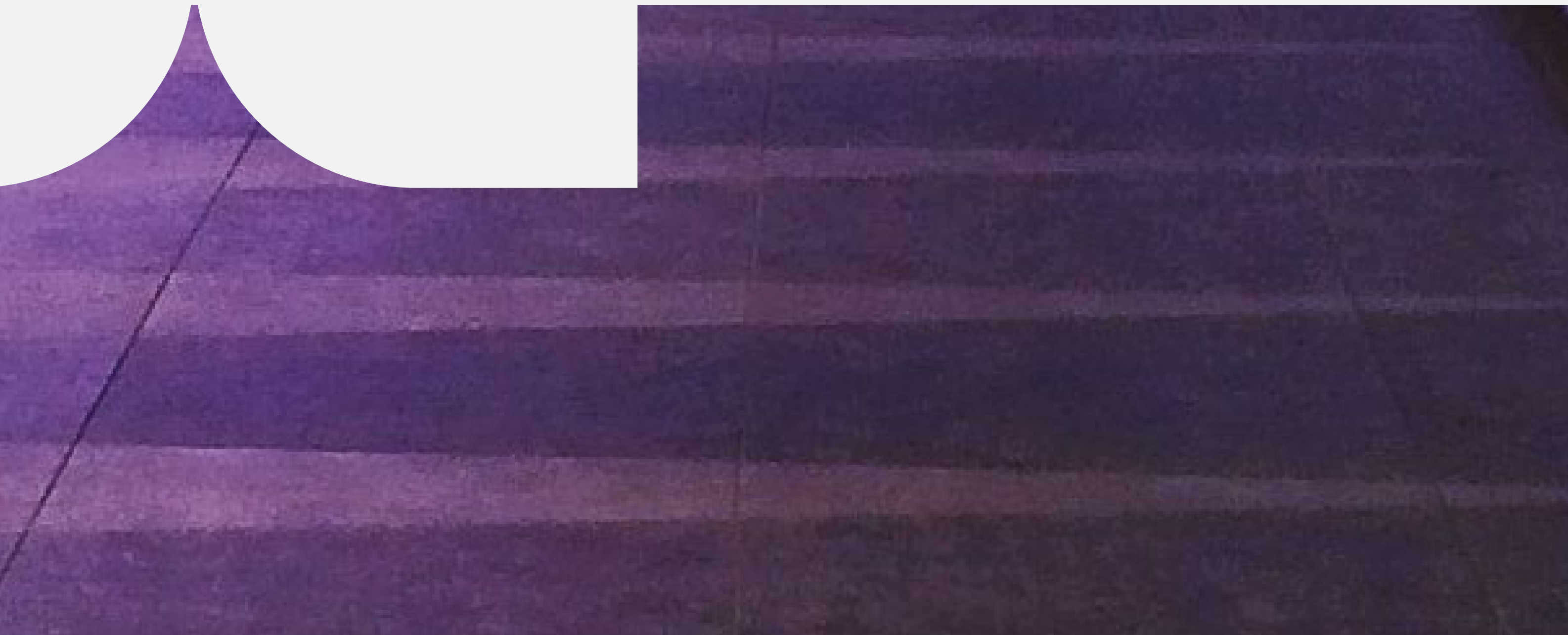
This is perhaps also reflected in that managing existing clients is seemingly of greater import to adopters compared to non-adopters (70% vs 64%).

Having understood the relative importance each group places on specific activities to generate revenue, we then drilled deeper and probed the actual percentage of their week, adopters and non-adopters were able to devote to them.

While meeting with existing clients was the main revenue-earning activity for each, adopters were able to spend more time each week on it (25% vs 19%) – approximately 2.5 hours per week. Managing existing client investments is more 'financially important' for non-adopters who focus more time each week doing it (20% vs 13%). And while seeking new clients is 50% 'more important for revenue' for non-adopters, they appear only able to dedicate the same amount of time to this (7%) as adopters.

Figure 8: Activities which are the biggest revenue generators for advisers – and the time each group spends on them





The impact of adoption over time

While in the course of this chapter, the research identifies those areas where advisers have benefited following adoption, we also wanted to understand at what pace the benefits of adoption take place. To understand this, we divided our adopter interviewees into two groups: recent adopters (one to five years) and early adopters (five years plus).

The first finding was that, across all measures, advisers – and their clients – who adopted 'early' have seen greater benefits than their recent adopter 'cousins'.

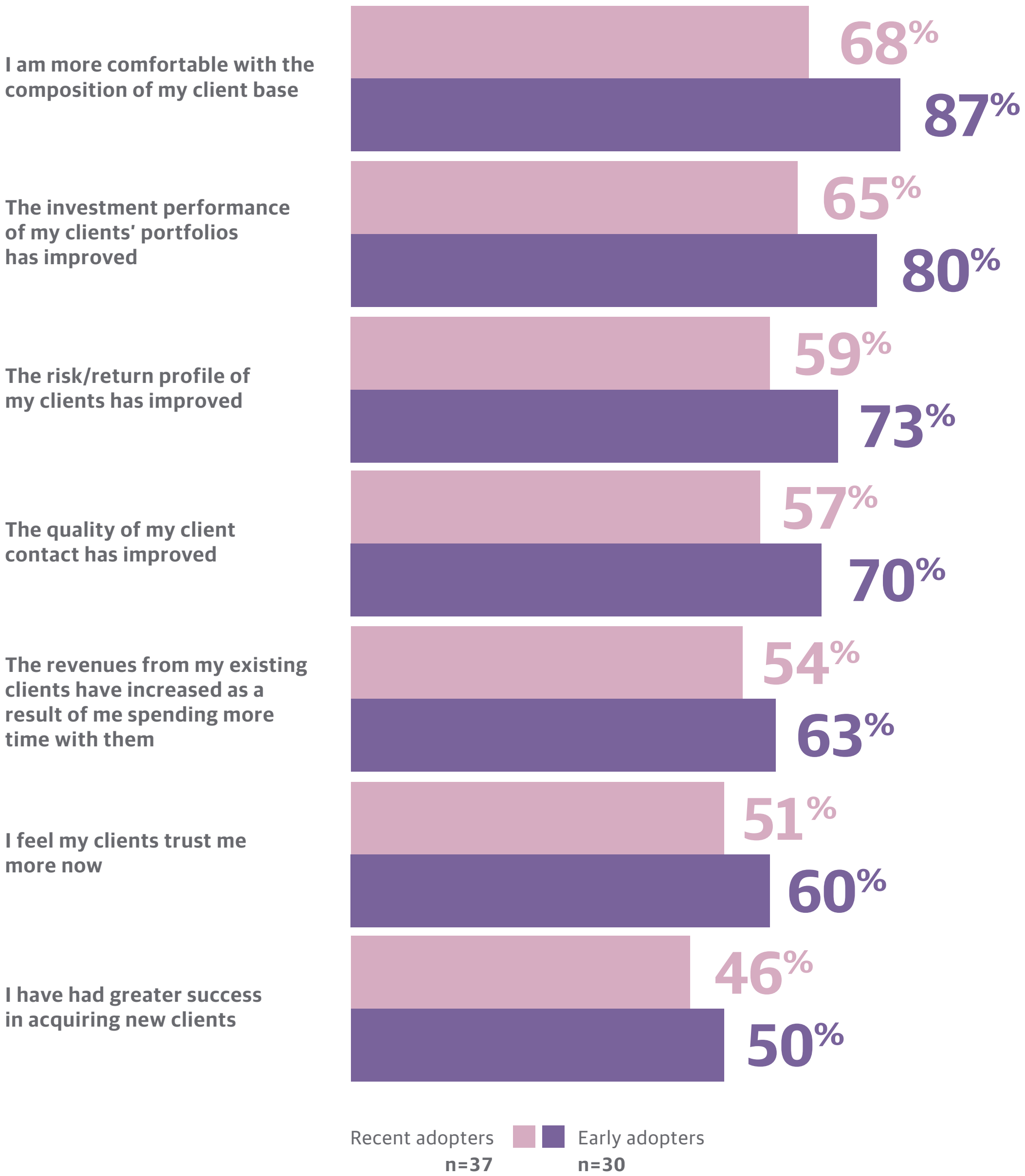
Client portfolio improvement: 65% (one to five year group), 80% (five years plus)

Improvement in client risk/return profiles: 59% (one to five year group), 73% (five years plus)

Increase in client trust: 51% (one to five year group), 60% (five years plus)

Client revenue increases following more time spent with them: 54% (one to five year group), 63% (five years plus)

Figure 9: The impact of adoption of discretionary fund management over time: comparison of recent vs early adopters



Includes those who said 'strongly agree' and 'agree'

How to get the previous chapters of The value of discretionary fund management

Chapters one and two are available to read or download at
rathbones.com/value-discretionary-fund-management

Chapter 1: 'The impact on the adviser model'

- Key drivers for advisers deciding to employ DFM
- Time monetisation and the impact on advisers' salaries
- Changes in client bank numbers post-adoption
- The comparative make-up of client banks post-adoption

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Chapter 2: 'The impact on the client relationship'

- Introducing a third-party investment to clients
- The impact of adoption on performance
- Has DFM increased advisers' time with clients?
- The effect of DFM on client relationships

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