

Outsourcing investment

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# 1 Why the outsourcing option shines out

In this chapter, advisers explain why they outsource their investment to discretionary fund managers and how this strategy fits in with their business



**DAVID SANDHAM**

What are advisers' reasons for outsourcing investment, and what do they seek to gain from the change?

It is clear that a catalyst has been the retail distribution review (RDR), which comes into effect in January 2013. Many advisers have moved to a client proposition that emphasises detailed financial planning rather than investment. So outsourcing investment to a discretionary fund manager (DFM) can seem an attractive solution.

Carl Lamb, managing director of Norwich-based Almary Green, which has £250 million under management, says he decided to outsource because 'we are not fund managers; we are good at managing client relationships'.

Kendal-based Financial Management Bureau (FMB), which has a similar amount under management, decided to outsource investment four years ago, as part of its work on treating customers fairly. 'Our ethos is to outsource wherever possible,' says Richard Hancock, Research Analyst at FMB. 'We add value as a financial planner.' For FMB, outsourcing is appropriate to its profile as a financial planner and not an asset manager, asset allocator or fund picker.

Gianpaolo Mantini, Managing Partner at Higgins Fairbairn Advisory, the Mayfair-based chartered financial planners, puts the difference between financial planning and investment management clearly: 'My relationship with the client is about strategy,' he says. 'A DFM's job is to manage the money and that's their only job.'

**Frustrating delays**

But RDR-readiness and clarity of the client proposition are not the only reasons for outsourcing. Gary Lucas, a director at London-based Burlington Associates,

pointed to an administrative reason: the 'difficulty and time delay' the firm experienced, before it outsourced, in trying to make fund switches. They decided that it was more cost effective to use a DFM. Also, outsourcing meant that some portfolios could be more closely monitored.

Lucas' point about administration was echoed by David Oliver, director of Glasgow-based Intelligent Capital Group, who was getting fed up with the delays and costs involved in providing its clients with an advisory investment service. They would have to write to hundreds of clients requesting a switch.

'The delays between assessing a fund switch, recommending replacements to clients and then implementing the fund switch could in many cases take weeks,' he says. He gave the example of a husband and wife they wrote to, where the wife replied within days but the husband left the request on top of a pile of papers and went away on business, not replying for weeks.

The delays in aggregate mean that every switch was costing Intelligent Capital thousands of pounds in staff hours, and it also meant that by the time client approvals were received, the original reason for recommending the switch had disappeared. By then 'the market had changed,' he says. 'We did not feel that we could be investment experts,' he says. 'We are financial planners not product salesmen.'

Suzanne Allen of Newbury, Berkshire-based Heritage Financial Advisers, took the decision to outsource, because a 'major switching issue' arose with Heritage's use of the platform on which she was running portfolios. Nowadays Heritage uses a DFM.

**Three-way deal**

Lamb was clear that his firm's selection of a DFM had to go hand in hand with picking a technology platform. He says that some advisers tend to select a DFM having already picked their platform, but Lamb feels it was important that the two should work well together.

In fact, Almary Green decided that this was so important that it structured a three-way agreement between itself, the DFM, and the platform technology provider.

The agreement 'clearly defines who is responsible for what,' Lamb says. Things that could go wrong would be missing a crucial day, 'or you might press a button and it doesn't work,' he says.

**'We are not fund managers; we are good at managing client relationships'**



**Carl Lamb**  
Almary Green