# STRONG GROWTH IN DFM MARKET

## – WHAT'S NEXT?

asks Leigh Kohler

INN8 INVEST

**The Discretionary Fund Management (DFM) industry in SA finds itself at a very interesting juncture.**

The industry is roughly about 10-15 years old now. The latest DFM Survey conducted by the Collaborative Exchange puts total assets managed by DFMs at approximately R400 billion – R450 billion.

## SO, WHAT'S NEXT?

### TRANSPARENCY IS KEY TO RAISE THE BAR

Despite the maturity of the DFM industry, we still have major transparency issues – it's hard to believe!

#### 'Show us the numbers'

The drive for transparency in the investment performance of DFMs is crucial to the integrity of the industry – because not all DFMs have an actual, established track record of managing money. Fortunately, our business has been managing client money for more than 2 decades with a published track record in our unit trust funds – free for all to see. Most DFMs have only managed model portfolios on LISPs and verifying the history of those track records can be difficult. However not impossible. I would therefore implore that the DFM industry come together to resolve this. Surely increased transparency can only lead to better client outcomes.

#### Becoming more institutionalised... requires opening up

When you start scratching the surface, it's not surprising to find that DFMs do not have the same investment and operational capabilities – which can and probably will result in performance differences over time. Investment pedigree and team size will eventually become more and more important as a DFM selection criteria for advisors. With more than 1500 local funds and tens of thousands of global funds, doing fund research and portfolio construction at an acceptable standard is very difficult. Fortunately at INN8 Invest, we have a 20 plus investment team in JHB, CT, Jersey and London along with global fund research partnerships.

#### Participating in performance surveys can only assist the adviser

Sadly, we still have DFMs that are reluctant to participate in performance surveys. This is particularly important now that the number of DFM choices for advisors have exploded over the last 3 – 5 years as mentioned below. Like when selecting fund managers, DFMs should be put under the same scrutiny of due diligence which would include both qualitative aspects like investment philosophy, process and team as well as quantitative research of which understand performance is crucial.

### CONSOLIDATION ON THE CARDS

While there is definitely space for boutique DFM outfits with differentiated value propositions, some LISPs are reporting up to 60 DFMs running money on their platforms! With approximately 70%-80% of the total DFM assets being concentrated with the largest 5-6 DFMs, it will be very difficult for smaller DFMs to sustain themselves indefinitely on what is generally quite thin DFM margins, which is worrisome in that more competition can only be healthy for the industry and keep the big players on their toes.

With large institutional players moving into the market, DFM value propositions will come under tremendous pressure, particularly around the ability to access more competitive fee rates with asset managers.

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