

## PRIVATE CLIENT SERVICE UPDATE – SUMMER 2011



I hope that you have all enjoyed the summer so far, and are looking forward to some time away from the office. That late Spring warmth does seem to be a long time ago.

In this edition, we take a step back, and look at whether the way that some discretionary investment firms operate actually creates issues for Financial Advisers and their clients. As always, we are very grateful to those who have already introduced us to your clients, and are keen to develop new relationships with those who have yet to use us.

**Bob Brown (Chairman)**

## FEATURE ARTICLE – Do DFMs help or hinder an IFA?

When it comes to choosing a Discretionary firm to manage your client portfolios, it is relatively easy to measure their assets under management and historic performance, but what about how they will treat you and your client once they have the money invested? I'm not talking about whether they still answer your calls or take you to lunch etc, but more about the hidden aspects to managing portfolios and what it ultimately costs your client.

For example, many DFMs have tiered services where lower value portfolios tend to be all in managed funds and larger ones include direct holdings in UK equities/bonds. But how easy is it to transition between the two and is it always right for a client to move from a managed funds portfolio to one with direct holdings?

Much depends on what the client wants, and many prefer to retain the greater diversification of investing solely through funds. Others may choose to have a directly invested element to their portfolio only if safe in the knowledge that, should their circumstances change again, they can go back to an all managed funds approach. What's important is for clients to know their investment manager can be flexible and there is no obligation to change just because their assets under management go up.

In recent years, to attain economies of scale, larger DFMs have created model portfolios for each risk category of their Managed Funds proposition, (where each client with the same risk profile

will get the same portfolio), and then have wrapped these portfolios within an OEIC structure. Whilst it does make managing the portfolios far easier, and therefore more cost effective for the DFM, it isn't necessarily the same for the client. For example, let's say that a client has £100,000 invested in a balanced risk Managed Funds portfolio (that is wrapped within an OEIC), the client then sells a house/business and wishes to add £200,000 to the portfolio, keeping the same risk profile.

This takes the portfolio value into the Bespoke/Direct territory, and the DFM will no doubt suggest changes. Whilst the advice from the DFM might be absolutely correct, there is a difficulty that isn't always made clear to the IFA & client – cost.

You would hope that the asset allocation structure of a Bespoke 'balanced risk' portfolio would be the same as (or at least very similar to) that of a Managed Funds 'balanced risk' portfolio, and that there would be some similarity in the underlying holdings. Therefore if a client was to move between the two, the underlying holding would only need to be tweaked. Unfortunately this is not always the case.

By putting the client into an OEIC structure, the DFM has to sell the complete portfolio (they can't just sell the underlying funds that need adjustment for an individual portfolio), and may then end up buying back some of the same funds to rebuild the overseas exposure, but this time on a direct basis.

Not only does this seem pointless, it also exposes the client to potentially being out of the market for a period, and will incur additional trading costs. Whereas, under our system, although there are some inescapable trading costs, we do not charge any transaction or custody fees.

Furthermore, if the underlying holdings in Bespoke and Managed Funds portfolios are dramatically different (and therefore completely selling one would not be an issue), you need to ask yourself "why does the DFM believe that one Fund is better for higher value portfolios than lower ones?" Surely the Fund strategy should be right for both, if the risk profile is the same?

When putting our Managed Funds service together, we purposely decided not to put client portfolios in an OEIC structure, so that we have the freedom to make small adjustments, rather than wholesale changes. This not only makes the ongoing portfolio management less volatile, but can also keep costs down for the client.

In addition, we have a single schedule of fees, so that it doesn't cost the client any more for us to manage a Bespoke portfolio than it does a Managed Funds one. And with no transaction charges we can do what is right for the client rather than the client being influenced by the cost to change.

**Glenn Meyer**  
Head of Managed Funds

## HOW TO DO BUSINESS WITH US

### Our services

Managed Fund Portfolios  
(Min £25,000)

Direct/Bespoke Portfolios  
(min £250,000)

Ethical Portfolios  
(min £250,000)

We have a clear & transparent charging structure:

- a. Our fees already include transaction and custody charges
- b. We purchase 'institutional' units (where available), and pass on 100% of any rebates we receive
- c. Tiered fee structure dependent on the value of the portfolio
- d. IFA remuneration is disclosed and levied separately to our own charges

### ISAs, Bonds & SIPPs

We have our own ISA (at no additional cost), and our portfolio services can also be used through a range of Bond and SIPP wrappers, including but not limited to those offered by:

**Canada Life**    **LV=**  
**Hornbuckle Mitchell**    **Sanlam Investments & Pensions** (formerly Merchant Investors)  
**James Hay**    **Suffolk Life**

Where you have an existing relationship with a provider not listed above, we are happy to contact them to discuss arrangements to do so.

### Funds

We also manage two of the funds in the Marlborough Fund Managers Ltd range:

#### **The Marlborough UK Primary Opportunities Fund**

The Marlborough UK Primary Opportunities Fund seeks growth for investors by purchasing holdings in quality companies at a discount in the 'wholesale' market – principally through new issues and placings. Using this distinctive approach to invest in a concentrated portfolio of companies carefully selected from the full range listed on the London Stock Exchange, the fund seeks to outperform the FTSE All-Share Index.

#### **The Marlborough Ethical Fund**

The Marlborough Ethical Fund recognises the growing appetite for social responsibility by investing for long-term capital growth in companies whose products or services are beneficial to humankind and have a minimal harmful impact. The fund's performance in the UK All Companies sector demonstrates that ethical investment need not come at the cost of strong returns.

For further details of our Private Client services, and to discuss how we might assist you/your clients, please contact:

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## WHO WE ARE



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