
Press information

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Strong growth in adviser use of DFMs highlights need for stronger scrutiny of outsourcing risks, according to Nucleus

Almost half of advice firms will increase their use of discretionary fund managers (DFMs) in the next 12 months, emphasising a stronger need for adviser scrutiny to ensure DFMs are fulfilling their clients' needs, according to wrap platform Nucleus.

47% of advisers say they will increase their use of third party DFMs over the next year according to Nucleus's census which surveyed around 200 of its users and is published in full today. This shift towards greater use of DFMs and more clients' assets being placed with these companies highlights how advisers must hold DFMs to account to make sure they are the best choice for a particular client in order to justify the advisers' proposition and fees.

Nucleus surveys its adviser users every year for its census, which is designed to provide a definitive record of Nucleus users as they progress each year. The census asks a series of questions about advisers' businesses, clients, and their views on the industry and future to gauge how they are progressing and what keeps them up at night.

As well as the increased trend towards outsourcing investment propositions, more advisers are considering holding discretionary permissions in the future (22%) compared with last year (16%), according to the census.

Barry Neilson, business development director at Nucleus said while much of the recent regulatory and market commentary on due diligence has focused on platforms, it is important for advisers to extend this to all major outsourcing projects.

'Increasing transparency around fees post-RDR means that many advisory firms will need to widen their client propositions, or risk coming under price pressure. With this in mind, the relationship between the adviser and the client has the potential to be more fragile from a remuneration point of view. It is therefore essential that firms ensure they don't have weaknesses in any major elements of their propositions, so we would encourage advisers to carefully consider the risks attached to all significant forms of outsourcing.

'Our census suggests advisers are planning to make more use of DFMs in the future, but, to date, due diligence has focused more on other parts of the value chain, such as platforms. The FCA is taking a growing interest in this area, not least through the guidance it issued recently on suitability in the form of [TR16/1](#). Firms need to look beyond DFM performance and consider investment companies' wider infrastructure and, more to the point, each DFM's ability to address risks which could emerge in future.'

Nucleus included many of the points that should be considered in a white paper: 'DFM due diligence: the questions to ask' to help firms select the appropriate solutions for their clients.

Gillian Hepburn, director, Discus said: 'Since the release of its recent thematic review, the regulator is clearly focusing on best practice with respect to due diligence and, in particular, are looking at platform selection, product selection and overall DFM selection.

'In practical terms, the starting point for any adviser is to understand their centralised investment proposition and how this fits with client segmentation. After all, just because a client has a certain level of assets to invest, it doesn't necessarily mean that they require a bespoke portfolio.

‘Ultimately, advisers must be clearer as to when this might be offered. For example, if the client doesn’t require specific inclusions or exclusions in their portfolio or to have their income and CGT managed, it may be more appropriate to offer a model portfolio either on or off platform. Transparency over this kind of decision making needs to form a important part of advisers’ scrutiny of DFMs.’

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About Nucleus

Nucleus is a wrap platform founded in 2006 by advisers committed to altering the balance of power in the industry by putting the client centre stage.

Since then, Nucleus has established itself as a major force for change. It is now one of the UK’s fastest-growing platforms and the meeting point for more than 900 adviser firms in total seeking to create better customer outcomes.

As at 30th April 2016, assets under administration on the platform were £9.7bn.

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