



A suggested seven-step approach to
discretionary fund manager due diligence
2016

For professional advisers only

BM

BROOKS MACDONALD

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Important information

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Welcome

Welcome to the 2016 suggested seven step approach to discretionary fund manager (DFM) due diligence (6th edition!). As with previous editions, this guide is intended to help you efficiently create a meaningful shortlist of DFMs for possible recommendation to your clients. We believe its real value lies in the structure and approach it advocates. This year, we have adapted the focus to centre on the needs of the end clients and have included new functions to enable your selection process to be more specific and bespoke.

What is new in this edition?

The 2016 edition of the 'seven steps' centres on meeting the increasing Financial Conduct Authority (FCA) requirements of due diligence of DFMs. This edition allows you - the professional adviser - to adapt our suggested approach to suit the specific needs of your business and clients by customising the selection criteria and 'scoring' system.

The customised approach aims to meet the FCA's increasing oversight of firms' due diligence processes, in particular, the requirement to demonstrate how the process you introduce is designed to improve client outcomes.

Revised steps

- In order to demonstrate how the DFM service adds value to your clients, you must first identify the client segmentation and the current investment strategies you employ to meet the investment needs of each client.
- As such, the due diligence process begins by firstly marrying your business proposition with the relevant selection criteria (filters) that will be used throughout the selection process.

Custom scoring system

- The new edition explores possible ways to prioritise filters, so you can allocate certain filters a larger weighting of the scores. This is designed to ensure the DFM most aligned with your criteria receives the highest overall score.

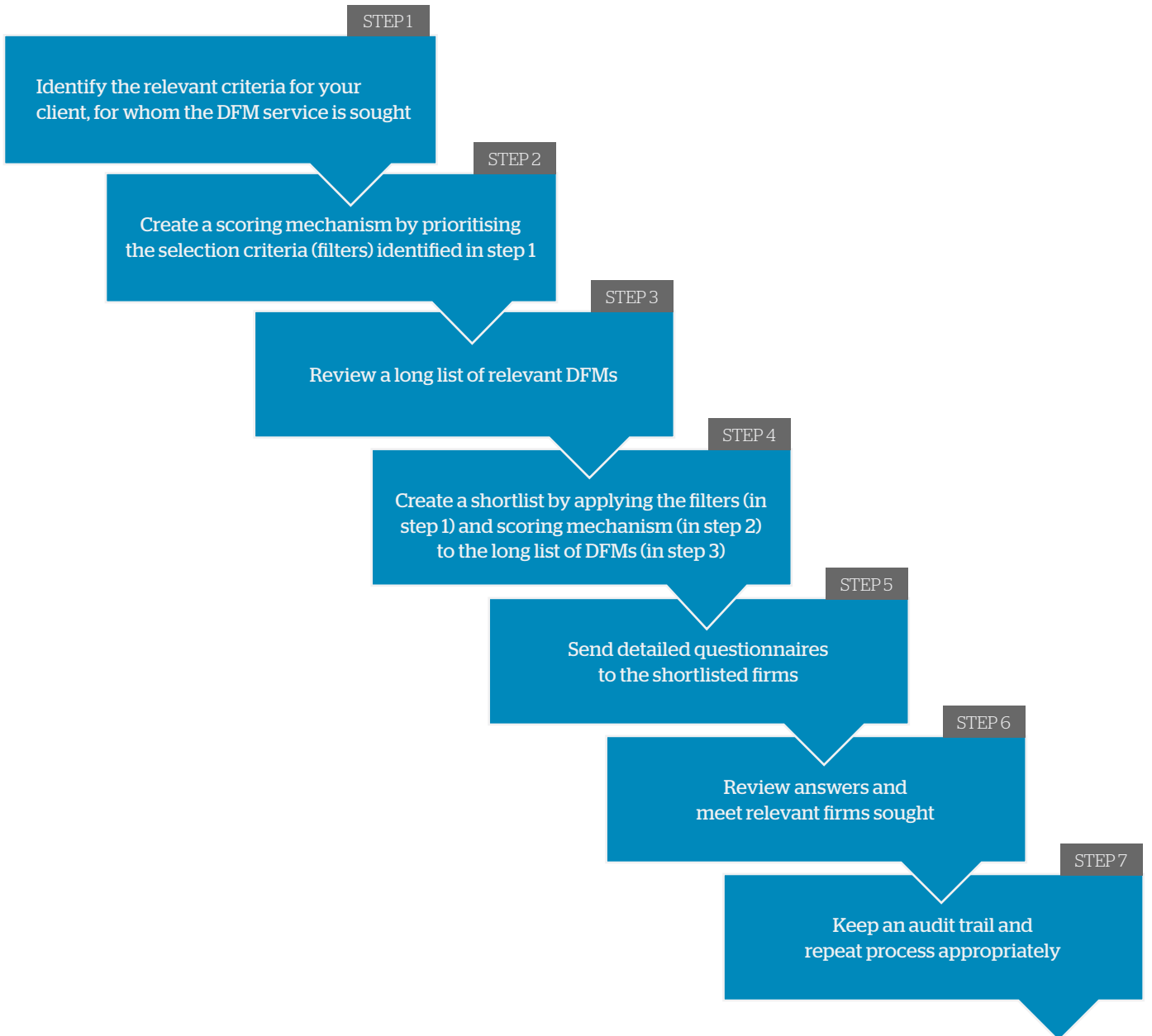
Updated data tables

- The data used within this document is updated as at 29 February 2016 from data published by the Defaqto Matrix.

Supporting MS Excel data sheet

- The MS Excel data sheet which accompanies this document has integrated capabilities to implement your own filters and alter the core weightings to illustrate your own personalised set of results. This 'seven-steps' document provides a worked example of how an adviser might choose to apply these filters.

The seven steps



1. Identify the relevant criteria for your client, for whom the DFM service is sought

In order to demonstrate that the due diligence process is designed to achieve the best possible outcome for each of your clients, you must first identify which criteria are applicable and how you intend, working in conjunction with a DFM, to service your clients.

Below is a list of the basic criteria we believe are needed to form the basis of a structure to select your DFM. The criteria covers five key topics:

The range of services available, financial strength and risk control, transparency, adviser-centric proposition and availability.

These criteria (filters) form the foundation on which the selection process will be based and we have provided a brief explanation as to why each filter has been chosen.

i. Range of services available

- Bespoke portfolio service
- Model portfolio service
- Multi-asset funds

It is important to initially identify the type of service applicable for your clients to enable you to efficiently identify the most relevant firms. For example, if you know that your clients seek a bespoke service, you can immediately filter out all firms that do not offer such a service.

ii. Financial strength and risk control

- threesixty review of back office and systems and controls
- Funds under management (FUM) > £2bn

The threesixty review of back office systems and controls provides detailed, independently conducted, questionnaires relating to the back office processes of a firm – this is particularly helpful when comparing firms 'below the water line' on a like for like basis. The threesixty review also demonstrates a willingness of firms to have their systems and controls scrutinised.

We regard firms with assets under management of over £2bn to be of benefit to professional advisers as it proves that the firm is experienced in managing a substantial amount of money.

iii. Transparency

- Is the DFM a contributor to Asset Risk Consultants' (ARC) Private Client Indices (PCI)?
- Is the company listed?

The ARC PCI was established to provide an insight into the actual client returns being generated by investment managers for their UK discretionary private clients. Contribution to private client indices demonstrates a commitment to performance transparency and for this reason we believe independent recognition of founder contributor status appropriate.

If a company is listed rather than privately owned they have to abide by stringent listing rules and therefore might potentially be more transparent than privately owned companies. Gaining access to the books of listed companies is at least easier because they are made publically available.

iv. Adviser-centric proposition

- Does the DFM integrate with back office / CRM systems to provide line-by-line portfolio valuation details?
- What percentage of their FUM is derived from advisers for both bespoke and model portfolios?

Integration of portfolio data with adviser back office IT systems is important to gain efficient access to daily updated client data via in-house CRM systems.

We have identified the percentage of funds introduced by professional advisers for both model and bespoke portfolios. This enables you to eliminate firms that you do not deem to receive sufficient introductions from the professional adviser community. As a benchmark, we have deemed any firm with at least 50% of business having been introduced by professional advisers as having achieved the necessary support to pass the filter.

v. Availability

- Are the DFM's services available via a panel of platform providers?

We recognise the benefit of platform portfolios for advisers and have included filters for the following platforms: 7IM, Aegon, Ascentric, Aviva, Axa, Fusion, James Hay, Novia, Nucleus, Praemium, Standard Life, Succession, Transact, Zurich.

In this step, you can filter any of the above that are not deemed applicable / important, so enabling the customisation of the process to suit the variety of clients being served.

Please note that, aside from the listed status of DFMs featuring, all of the data used in the filtering and scoring steps in this document comes from the Defaqto Matrix database. Listed information has been researched and sourced by Brooks Macdonald.

Top nine DFMs using no filters or score weightings

Listed below are the top nine firms from the aforementioned process if equal weightings (notional score of '1') were applied to all previously mentioned filters.

	Company	Score
1	Brooks Macdonald	21
2	Seven Investment Management	19
3	Vestra Wealth	19
4	Thesis Asset Management	17
5	Bordier & Cie (UK) PLC	16
6	Brewin Dolphin	16
7	Charles Stanley & Co Ltd	16
8	Ingenious Asset Management	16
9	Quilter Cheviot	16

See Appendix (page 20) for the full list and a breakdown of the scores.

Example: ABC Independent Financial Advisers (ABC)

ABC is a firm of independent financial advisers. Post the Retail Distribution Review (RDR), ABC has decided to transition their clients' investment solutions from the firm's own advisory investment services to an outsourced discretionary service. ABC are currently seeking to identify a new DFM partner who will work with them to deliver the high level of service their clients have come to expect from their existing service.

ABC segment their clients based on portfolio size.

£250,000+	£20,000-£250,000	£1,000-£50,000
Premium Service	Gold Service	Standard Service
125 households	250 households	400 households
Bespoke portfolio	Model portfolio	Multi-asset funds

ABC would like to select a DFM that offers all three segments, making it easier and more cost effective for clients to transition between services as their needs change over time. They would also feel it appropriate to eliminate all firms with FUM of under £2bn.

Suppose firm ABC has a client segment where the use of platforms is appropriate and the firm also values transparency and financial strength within a DFM. They will select the relevant filters as appropriate.

[In other occasions the platform score may be irrelevant since the firm seeks a bespoke service for their clients. In such circumstances, you could award a bespoke service 3 points and 0 points to all platforms.]

The filtering function will:

- Remove firms that do not offer all three services.
- Remove all firms with FUM <£2bn.
- Retain all firms that can be used with platforms.
- Retain other criteria which can be 'scored' in section two.

2. Create a scoring mechanism by prioritising the selection criteria (filters) for each client segment (articulated in step 1)

A scoring system is applied so that the DFMs most relevant can be identified, by affording priority to the filters that are most important / relevant to the specific client circumstances. For each filter, we recommend a scoring system of 0-3.

The scoring function will:

- Enable you to prioritise your criteria
- Create a more granular, bespoke solution

Example: ABC Independent Financial Advisers (ABC)

The table below lists the business requirements ABC have identified as important in order to align the DFM with ABC's business proposition (by applying weighting to certain filters from step 1).

ABC prides itself on providing the highest level of integrity, knowledge and level of service to their clients. For this reason, if a DFM subscribes to analysis by threesixty they will reward it two points. In recognition of the early support of transparent performance measurement, firms that are founder contributors to ARC's PCI are also awarded two points.

ABC also uses a platform for a segment of their clients, making use of the discretionary managed portfolios available on the platform. It transpires that most clients are invested via the Novia platform. Therefore, DFMs who are accessible through Novia will get two points. For additional client segments, ABC is an occasional user of the Aviva and Standard Life platforms and so they are awarded one point each. All other platforms receive zero points since ABC do not use any other platforms. This will increase the score weighting of DFMs available on Novia (and Aviva and Standard Life) over other DFMs.

Please note that ABC have used filters on the range of services available and the FUM, so all companies will receive the same score for these fields. If you decide not to use those filters, you can apply the scoring mechanism as appropriate for relative weightings.

Business requirement	Filter	Score (priority)
Range of services available	Bespoke service	1
	Managed direct	1
	Managed platform	1
	Multi-asset funds (unitised)	1
Financial strength and risk control	threesixty review of back office systems and controls	2
	FUM > £2.0bn	1
	Founder contributor to ARC's PCI	2
	Subsequent contributor to ARC's PCI	1
	Is the company listed?	1 (listed)
Adviser-centric proposition	Integration with back office / CRM systems to provide line-by-line portfolio valuation details	1
	Percentage of bespoke FUM derived from advisers > 50%	1
	Percentage of model FUM derived from advisers > 50%	1
Availability	Platform partners for model portfolios	
	- 7IM	0
	- Aegon	0
	- Ascentric	0
	- Aviva	1
	- Axa	0
	- Fusion	0
	- James Hay	0
	- Novia	2
	- Nucleus	0
	- Praemium	0
	- Standard Life	1
	- Succession	0
	- Transact	0
- Zurich	0	

3. Review a long list of DFMs

To identify a long list of firms, we have used the firms that contribute to the Defaqto Matrix database - see table below.

We appreciate you may prefer to filter out firms with low FUM or firms that do not deal regularly with professional advisers, but initially it should be helpful for you to see the entire list of the database.

	Company (part of Defaqto Matrix database)	FUM (£bn) *
1	Brewin Dolphin	26.20
2	Rathbone Investment Management	26.20
3	Cazenove Capital Management	22.25
4	Investec Wealth & Investment Limited	21.6
5	Quilter Cheviot	15.7
6	Smith & Williamson	12.2
7	Thesis Asset Management	9.95
8	Charles Stanley & Co Ltd	8.90
9	Morningstar Investment Management Europe	8.20
10	Close Brothers Asset Management	8.00
11	Brooks Macdonald	7.41
12	Standard Life Wealth	6.42
13	Tilney	5.70
14	JM Finn & Co	5.28
15	Canaccord Genuity Wealth Management	4.88
16	Waverton Investment Management Ltd	4.60
17	Hargreave Hale	4.00
18	Vestra Wealth	4.00
19	Brown Shipley	3.40
20	GAM London Limited	3.10
21	Kleinwort Benson	3.00
22	Thomas Miller Investment Ltd	2.90
23	Seven Investment Management	2.86
24	Sarasin & Partners	2.50
25	Psigma Investment Management	2.42
26	London and Capital	2.38
27	Sanlam Private Wealth	2.30
28	Heartwood Investment Management	2.14
29	King & Shaxson Capital Limited	1.95
30	Ingenious Asset Management	1.85
31	Parmenion Capital Partners LLP	1.83
32	Tatton Investment Management	1.80
33	Old Mutual Wealth	1.40
34	Octopus Investments	1.32
35	James Hambro & Partners LLP	1.20
36	McInroy & Wood	1.11
37	European Investment Management Ltd	1.00
38	Bordier & Cie (UK) PLC	0.97

*Defaqto Matrix database, 29 February 2016

39	Redmayne-Bentley	0.90
40	Walker Crips	0.86
41	W H Ireland	0.83
42	Sanlam FOUR Investments UK Limited	0.78
43	Arbuthnot Latham & Co Ltd	0.70
44	Church House Investment Management	0.70
45	Cornelian Asset Managers Ltd	0.67
46	Rowan Dartington & Co Limited	0.52
47	Saltus Investment Managers	0.50
48	IPS Capital LLP	0.43
49	City Asset Management	0.42
50	Apollo Multi Asset Management	0.40
51	Newscape Capital Group	0.35
52	Hawksmoor Investment Management Limited	0.34
53	Premier Asset Management	0.34
54	Whitechurch Securities Ltd	0.34
55	EQ Investors	0.30
56	GHC Capital Markets	0.29
57	Nedbank Private Wealth	0.27
58	Vertem Asset Management	0.26
59	Liontrust Investment Solutions Ltd	0.25
60	TAM Asset Management	0.23
61	OCM Asset Management	0.21
62	Wellian Investment Solutions	0.18
63	James Brearley & Sons	0.18
64	Beaufort Investment Management	0.16
65	Prospect Wealth Management	0.15
66	Richmond House Investment Services Ltd	0.15
67	RC Brown Investment Management Plc	0.15
68	Clarion Investment Management Limited	0.13
69	Price Bailey	0.12
70	Quartet Capital Partners LLP	0.10
71	Alpha Portfolio Management	0.09
72	Mountstone Partners Ltd	0.08
73	Myddleton Croft	0.07
74	Arjent Limited	0.04
75	Novia Financial plc	0.04
76	Shipman Investment Managers	0.04
77	Groupe Financiere Hottinger & Co Ltd	n/s
78	MitonOptimal Portfolio Management (CI)	n/s
79	Pilling & Co Stockbrokers Ltd	n/s
80	Ruffer LLP	n/s
81	S C Davies & Co	n/s
82	Tavistock Wealth	n/s
83	Albert E Sharp	n/s
84	Fieldings	n/s

n/s (not supplied) represents companies that did not provide Defaqto with details of their FUM.

4. Create a shortlist by applying the scoring mechanism (in step 2) to the long list of DFMs (in step 3)

In this step, the whole process comes to life. At the end of this step you should expect to arrive at a shortlist of five-to-ten firms which best suit your needs and your client's needs. You will also be able to quantify the reasons why particular firms appear in your shortlist.

Example: ABC Independent Financial Advisers (ABC)

Below is a list of the top eight firms that meet the needs of ABC independent financial advisers and their associated scores (using the scoring mechanism in step 2).

We used the filtering function (in step 1) to remove all firms with FUM under £2bn and all firms that do not offer a bespoke, managed and multi-asset portfolio service.

Note how the table differs to the table presented in page 5 when the scores were 1 for each filter. This table represents firms most relevant to ABC.

	Company	Score
1	Brooks Macdonald	18
2	Quilter Cheviot	14
3	Seven Investment Management	14
4	Thesis Asset Management	14
5	Standard Life Wealth	14
6	Close Brothers Asset Management	13
7	GAM London Limited	13
8	Canaccord Genuity Wealth Management	12

Please refer to step 2 for scoring options. The scores applied in the example above were as follows:

Business requirement	Filter	Score (priority)
Range of services available	Bespoke service	1
	Managed direct	1
	Managed platform	1
	Multi-asset funds (unitised)	1
Financial strength and risk control	threesixty review of back office systems and controls	2
	FUM > £2.0bn	1
	Founder contributor to ARC's PCI	2
	Subsequent contributor to ARC's PCI	1
	Is the company listed?	1
Adviser-centric proposition	Does the DFM integrate with back office / CRM systems to provide line-by-line portfolio valuation details?	1
	Percentage of bespoke FUM derived from advisers >50%	1
	Percentage of model FUM derived from advisers >50%	1
Availability	Platform partners for model portfolios	
	- Aviva	1
	- Novia	2
	- Standard Life	1

5. Send detailed questionnaires to the shortlisted firms

Once you have selected your shortlist, you will need to deep-dive to establish more specific detail about each firm. This is your opportunity to question them about all aspects of their operation to ensure you are happy / comfortable recommending their services to your clients.

You can draft your own questions, perhaps using some of the below examples as a starting point. You can also engage with firms that specialise in due diligence questionnaires such as threesixty or ARC Suggestus. Using third parties provides the additional benefit of ease of comparison. These firms usually require DFMs to answer their questions in a similar format, which results in more efficient and effective comparisons.

Sample questionnaire

Section 1: Corporate information

1.1 Basic details

Company name:

Head office address:

Primary contact:

Telephone number:

Facsimile number:

Email:

Bank:

Website:

Custodian:

Company Secretary:

Address of regional offices:

Section 2: Company background

2.1 Please describe your organisation, including its history and description of its ownership structure.

2.2 Please highlight the major partnerships and relationships that you currently rely upon.

2.3 Please provide information on your total funds under management.

2.4 What percentage of assets under management have been introduced by professional advisers?

2.5 What percentage of new business has been introduced by professional advisers?

2.6 How many years have you been involved in receiving client introductions from professional advisers?

2.7 What are your core asset management services?

2.8 Do you provide any other services in addition to your core services outlined above to similar clients?

2.9 Please detail any awards received in the past two years.

Section 3: Personnel

- 3.1 Please list key executives and client management team members, their overall investment experience and their length of tenure. Please also detail responsibility for day-to-day client contact and the expertise / qualifications of these employees. Please explain the role of relationship managers, where applicable.
- 3.2 What is the ratio of clients to investment managers? What is the maximum level of assets managed per investment manager?
- 3.3 How do you recruit and retain quality investment staff?
- 3.4 Please advise how many investment managers have left the business in the last five years?
- 3.5 Please provide key personnel biographies.

Section 4: Investment process

- 4.1 Describe the philosophy behind your investment process.
- 4.2 Describe your investment process.
- 4.3 Describe your research capability.
- 4.4 Describe your process for selecting top performing third-party fund managers.
- 4.5 Why do you think your research resources can identify the best investment managers and can do so more consistently than your competitors?
- 4.6 Do you have the capacity to tailor your solution according to various risk-profiled asset allocations?
- 4.7 Please describe the capabilities and tools that are available for you to identify the optimal strategic asset class mixes and what these decisions are based upon.
- 4.8 To what extent are in-house collectives (funds) used?
- 4.9 Do you manage client portfolios taking into account capital gains tax? Are you able to utilise a client's allowance at year end?

Section 5: Portfolio management and monitoring

- 5.1 What risk monitoring system do you employ to ensure that client portfolios remain within their risk parameters?
- 5.2 What benchmarks would you propose for client portfolios?
- 5.3 Would you be able to provide a benchmark based on peer group performance?
- 5.4 To what extent would you be able to adapt the selection of investments for different portfolios within a specific asset class, e.g. a different selection of hedge funds depending on the risk profile?
- 5.5 Would you advocate the use of retail or institutional funds?

Section 6: Suitability assessment

- 6.1 What is your approach to suitability assessment? Do you provide this service?

Section 7: Communication

7.1 How often would portfolio managers typically meet with clients and their professional advisers to review portfolios?

7.2 Do you have an online service, with access to portfolio valuation reports?

7.3 How often are portfolio valuations sent to clients?

Section 8: Compliance

8.1 Do you have a separate compliance team?

8.2 What policies / procedures are in place to ensure sufficient compliance, monitoring and control with regulatory issues?

8.3 What do you consider to be the key compliance issues facing discretionary fund managers?

8.4 To what extent is there an independent check (i.e. outside the nominated portfolio manager(s) and client contact) in relation to client and in-house guidelines?

8.5 Who is responsible for monitoring and controlling compliance of the securities in which the portfolio manager invests?

Section 9: Fees and other costs

9.1 What are your fees and charges for the Bespoke Portfolio Service?

9.2 Please state your Total Expense Ratio (TER) for the Bespoke Portfolio Service.

9.3 What are your fees and charges for the AIM Portfolio Service?

9.4 What are your fees and charges for the Managed Portfolio Service?

9.5 Please provide the TER for the Managed Portfolio Service.

9.6 What are your fees and charges for the Multi-Asset Funds?

9.7 Please provide the TER for the Multi-Asset Funds.

6. Review answers and meet relevant firms

In evaluating the answers, rank each firm according to its ability to meet your specific business needs. If you are happy with the answers, it will be prudent to meet the shortlisted firms and ascertain whether they will be a good cultural fit for you, your firm and most importantly your clients. This is your chance to examine some of the tangible outputs such as quality of valuation reports and people that your clients will receive / meet.

7. Keep an audit trail and repeat process appropriately

The due diligence process forms part of your compliance file, therefore all records should be kept in a safe place in the event that you will be required to demonstrate the due diligence process employed in reaching your conclusions.

In the event that there is a change to your business proposition, or as part of your ongoing monitoring, the due diligence process should be repeated at a time interval most suited to you. This means you should re-send the questionnaire to be updated periodically.

Working in partnership with professional advisers

1. Suitability roles

Since the introduction of the Retail Distribution Review (RDR) the subject of 'suitability' has been at the forefront of the financial services industry.

By 'suitability' we mean the regulatory obligation to ensure that advice or personal recommendations (including the decision to engage the services of a DFM) are suitable having regard to the investment objectives, risk profile and circumstances of a client.

We believe that both professional advisers and DFMs have different, yet complementary roles with regard to suitability responsibilities, as illustrated in the diagram below.

Demarcation of suitability responsibilities



The importance of the professional adviser's role is demonstrated to the client through the responsibility they take for the overall financial plan. Crucially this includes both financial advice and suitability assessment and is instrumental in establishing and justifying the annual adviser charge.

In situations where the professional adviser does not wish to perform the suitability assessment, this regulatory requirement falls onto another adviser or the DFM, both of whom may only have a partial picture of the client's financial position. This could lead to a limited suitability assessment, increasing potential risk. In addition, the DFM may need to increase their fees due to the additional work involved in assessing and monitoring suitability - something that we, personally, do not wish to do.

We firmly believe that the professional adviser is best placed and should always take responsibility for assessing suitability when using a DFM. This arrangement allows both parties to work together in delivering the best possible service for clients, removing any doubt over each other's roles and the ownership of client relationships.

2. Adviser fee justification

To help advisers demonstrate the value in researching and monitoring their panels of DFMs, we outlined the time a professional adviser might spend on activities related to monitoring DFMs and individual clients' portfolios.

Task	Frequency	Hours p.a.
Ongoing suitability meetings with the DFM	Semi-annually	6
Regular review of the client's requirements and circumstances	Quarterly	10
Updating spreadsheets to track managed and non-managed assets	Weekly	10
Ongoing review and analysis of portfolio performance	Monthly	6
Comparative analysis of client's portfolio. Ongoing evaluation of continued suitability of existing DFM	Monthly	6
Regular discussions with the DFM about the client and the client's portfolio	Fortnightly	6
Face-to-face meeting with the DFM about the client's portfolio and investment requirements	Quarterly	8
Regular auditing of the DFM service and reports	Quarterly	4
	Total	56

Total time spent: 56 hours per annum (which on a charge of 0.75% per annum equates to £134 per hour for a £1 million portfolio). This excludes all tax planning and any additional work undertaken.

On the following pages we have provided two sample documents that an adviser may wish to use to explain the initial research and ongoing monitoring processes to a client.

- Example of initial and ongoing research undertaken by an adviser as demonstrated to a client.
- Summary of work undertaken by the adviser on an annual basis.

Please note that a client review letter and portfolio review summary are available upon request.

3. Example of initial research undertaken by a professional adviser in order to recommend a DFM

Following the decision for ABC Independent Financial Advisers to concentrate on the delivery of holistic financial advice, extensive research was carried out in order to select a panel of third-party DFMs to take over responsibility for the day-to-day management of their clients' investment portfolios.

Listed below are some of the research functions and due diligence that was carried out prior to selecting a shortlist of DFMs.

Research of the general investment marketplace

- Overview and research into the investment management marketplace considering the benefits of each of the different approaches.
- Evaluation of geopolitics and global economics.
- Overview of financial services.
- Platforms.
- Products.
- Rule / law changes.

DFM evaluation

- Initial analysis of the role and positioning of DFMs in the marketplace.
- Analysis of DFM strategies in different market conditions.
- Consideration of the investment universe.
- Adaptability of DFMs to new products.
- Custody of cash and assets.
- Ownership and corporate governance structures.

Review of investment approach (DFM perspective)

- Breadth of asset allocation.
- Choice and use of different investment vehicles.

Review of investment services provided by DFM

- Rates on cash.
- Availability of new products.
- Ability to critique an existing portfolio.
- Additional services.

FCA and regulatory concerns

- Review of DFM's compliance policies.
- Review of DFM's standards on treating customers fairly (TCF).
- Review of DFM's position following the Retail Distribution Review (RDR).

Performance

- Analysis of DFM's performance against recognised benchmarks.
- Analysis of DFM's performance against peers.
- Analysis of DFM's performance relative to the wider market.

Administration

- Quality and standard of administration.
- Quality of and access to reports.
- Functionality of online reporting systems.
- Availability of investment managers.
- Flow of generic market information to the client.

4. Summary of work undertaken by a professional adviser on an annual basis

This section suggests a form of words that an adviser may wish to use to demonstrate the work undertaken on behalf of their clients over the course of the continuous monitoring of DFMs.

Fund / portfolio performance - monthly reviews

The performance of each model is monitored and reported to ABC Independent Financial Advisers board on a monthly basis. This includes a comparison of the performance against each model's respective benchmark.

Attribution analysis is also undertaken on a monthly basis in order to highlight which asset classes / funds added value and which detracted from performance.

Any periods of prolonged underperformance compared to their benchmark would result in further close investigation including, if necessary, a meeting with the managers.

Monitoring of transaction analysis such as portfolio turnover is also undertaken.

Regular meeting with the chosen DFMs on the panel

Over the last 12 months, ABC Independent Financial Advisers management met each DFM at least quarterly, and these meetings will continue in the future.

An annual review was also undertaken, which considered other important aspects in addition to performance measurement such as administration support, new products and services, local support of regional teams, investment approach (checking cash rates paid and other small, but important points) together with in-depth analysis of their systems. Finally, each DFM completed a questionnaire providing an analysis of performance of segregated portfolios against recognised benchmarks.

Administration monitoring

- Quality and standard of general administration.
- Quality of, and access to, reports.
- Functionality of online reporting systems.
- Availability of investment managers.
- Flow of market update information to the client.

Financial press

The financial press is continuously monitored for articles regarding each of the DFMs and these are reported to ABC Independent Financial Advisers board on a monthly basis. Should there be any negative press, this would be picked up immediately with the relevant DFM and if applicable, explanations sought.

Financial strength

Each DFM's annual report and accounts are reviewed along with any other financial reports and updates.

London Stock Exchange (LSE) listing

It is also worth noting that where the DFM is a listed company, they will have to abide by the LSE requirements as well as those of Companies House. Where applicable, ABC Independent Financial Advisers will also monitor the activities of any parent company.

Ongoing review of portfolios

In addition to the regular reviews of product providers and specific investment managers on our panel, we undertake regular evaluations of each client's portfolio. We provide annual reports with a confirmation of the contribution the portfolio makes to the overall financial plan.

- Regular reviews of product providers and specific investment managers.
- Regular evaluations of model and bespoke portfolios.
- For bespoke portfolios, annual reports include an evaluation of the contribution the portfolio makes to the overall financial plan. The report includes the following areas:
 - confirmation of agreed benchmark.
 - timeframe being considered.
 - confirmation of objective and risk profile.
 - benchmark performance.
 - portfolio performance.
 - investment manager approach.

Appendix

Please see below the full list of the Defaqto Matrix database ranked with a scoring of 1 for each filter (as at 29 February 2016).

Company (part of Defaqto Matrix database)	Range of services available				Financial strength and risk control		Transparency			Adviser-centric proposition			Platform partners for model portfolios															Total		
	Bespoke service	Managed direct	Managed platform	Multi-asset	FUM >£2bn	threesixty review of back office systems and controls	Founder contributor to ARC PCI	Contributor to ARC PCI	Is the company listed?	Integration of back office systems	% of bespoke FUM derived from advisers >50	% of model FUM derived from advisers >50	7IM	Aegon	Ascentric	Aviva	Axa	Fusion	James Hay	Novia	Nucleus	Praemium	Standard Life	Succession	Transact	Zurich	Platform total			
1 Brooks Macdonald	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	9	21
2 Seven Investment Management	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	10	19
3 Vestra Wealth	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	13	19
4 Thesis Asset Management	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	7	17
5 Quilter Cheviot	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	16
6 Bordier & Cie (UK) PLC	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	9	16
7 Charles Stanley & Co Ltd	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	9	16
8 Brewin Dolphin	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	10	16
9 Ingenious Asset Management	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	10	16
10 Canaccord Genuity Wealth Management	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	15
11 Rowan Dartington & Co Limited	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	9	15
12 London and Capital	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	10	15
13 Kleinwort Benson	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	7	14
14 Waverton Investment Management Ltd	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	9	14

68	Nedbank Private Wealth	1	1																							0	3	
69	Prospect Wealth Management	1	1								1																0	3
70	Vertem Asset Management	1									1	1															0	3
71	WH Ireland	1									1	1															0	3
72	Redmayne Bentley	1									1												1				1	3
73	Shipman Investment Managers									1															1		1	3
74	Hargreave Hale	1									1																0	2
75	McInroy & Wood	1									1																0	2
76	Pilling & Co Stockbrokers Ltd	1	1																								0	2
77	Ruffer LLP	1									1	n/s															0	2
78	Tavistock Wealth									1	1	n/s															0	2
79	EQ Investors									1															1		1	2
80	Fieldings	1																									0	1
81	Groupe Financiere Hottinger & Co Ltd	1																									0	1
82	Miton Optimal Portfolio Management (CI)	1																									0	1
83	Mountstone Partners Ltd	1																									0	1
84	SC Davies & Co	1																									0	1

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