

Why outsourcing investment management adoption is growing

Adviser and client needs are evolving

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For Financial Advisors and their Clients

Outsourcing investment management has become very popular among financial advisers. Faced with the complexity of financial markets and clients' needs, it makes sense to standardise investment solutions. We are seeing an increase in the outsourcing of investment management to discretionary fund managers (DFM's) to ensure that client's portfolios are well looked after and managed with the same investment philosophy across an adviser's book.

What are some of the reasons model portfolio adoption is growing?

Reason #1: Time efficiency

Many advisers spend considerable amounts of time on portfolio construction. It's estimated that, on average, time spent managing portfolios comprises nearly 15% of an adviser's time, translating to more than 300 total hours per year.

When you consider the administrative tasks associated with portfolio management — such as making sure portfolios sit inside mandated targets and ensuring restructures are implemented across client portfolios (to name a few) — the numbers could be much higher.

While some advisers enjoy researching underlying funds and staying on top of markets, having portfolio management as your value proposition can hinder the future growth of your business. Managing and monitoring assets reduce the time advisers could spend with clients to create a holistic, all-encompassing and long-term wealth strategy. This is a key reason advisers could benefit from DFM solutions - ensuring a consistent investment approach is applied to all client portfolios and that these portfolios are actively managed by a dedicated global investment team.

Reason #2: Growing demand for financial coaching

A sports coach's goals extend far beyond just winning a game. They must understand the players, what makes them tick, and how they can work together, and then use these insights to map out a durable, winning strategy for the team. The same is true for financial coaches.

Behavioural science has long revealed the [value of advisers as financial coaches](#). Advisers can show significant value by engaging with their clients on goals-based planning and improving investor behaviour. Of course, the challenge of a coaching model is that it requires the adviser to spend more time with clients, necessitating the streamlining of the business model to reduce operational costs and free up an adviser's time.

Such a business model is naturally aligned with a managed portfolio service of a DFM where both the investment decisions and the execution are undertaken by the DFM on a discretionary basis. Although advisers lose the benefits of presenting their own portfolios to clients, they gain

efficiencies and can demonstrate value by critically appraising the work of the managed portfolio provider. This allows advisers to focus on the financial goals and behaviour of their clients.

Reason #3: Adviser specialisation

With seemingly more client prospects per adviser than before, advisers are increasingly focusing on certain segments - some as retirement specialists, others are focused on the healthcare or legal professions, etc. For advisers who focus on younger investors, early investor education and coaching will require additional time investment.

Adviser specialisation is a multi-decade trend that is changing the nature of the advice process away from broad-brush solutions and into higher-quality suitability reports. This is also fuelling the move to outsourced investment management, as adviser skills continue to be honed to meet the needs of niche groups.

Reason #4: Time and resources

Insourcing is getting expensive for the average adviser — especially in a world where personalisation at scale is key. Having an in-house team responsible for research, due diligence and portfolio management is becoming very expensive, especially for smaller advisory firms. Advisers want and need to spend more time with clients, but the harsh reality is that the time available to spend with clients is decreasing.

Compliance is an obvious area taking time, but the long list of administrative tasks isn't magically going away. The requirements for advisers are becoming increasingly extreme, where they are expected to know every aspect of a client's life in order to fully assess what is best for them.

Standards continue to rise, which is a positive and should improve investor outcomes. However, the expectations that sit with advisers mean that they have to work smarter just to survive the record keeping. We see our role as a DFM as providing support from an investment solution perspective as well as providing technology and content services that aim to streamline their business.

Reason #5: Disciplined portfolio monitoring

Rebalancing is a critical element when it comes to delivering a great investment experience. An investment portfolio can morph into something totally different if left unchecked. For example, if a client was invested into a standard 60%-equity/40%-bond portfolio in 2007 and never rebalanced, they would have ridden a roller coaster over the next decade

As Burton Malkiel said, "We all wish some genie could tell us when the stock market tops out so we could sell. Rebalancing is the closest technique available to do that."

Consistent rebalancing is a critical step in delivering strong client outcomes but it can also take a considerable amount of time. While many advisers have embraced creating portfolios for clients, the implementation can be more troublesome. Most South African advisers need to seek

permission for each portfolio change from every client. This requires considerable administrative work, which may hinder an adviser from taking action resulting in client portfolios becoming misaligned over time. This is another reason why sometimes, it's better to outsource to a third party.

Reason #6: Increased demand from clients wanting to invest offshore

Financial markets are increasingly complex, and the range of investment opportunities continues to grow. Just look at the number of South African funds available to invest in. In 2010 financial advisers had just over 1700 funds available for sale in South Africa to choose from, in 2024 there are more than 8 600 funds. This does not include the vast amount of investment opportunities when we broaden the universe to offshore markets.

Imagine the amount of time necessary to scrutinize 8 600 funds before drawing up an investment proposal for a client. It's a huge challenge (and responsibility) to evaluate all of these options and assess their suitability for clients. Partnering with a DFM with a truly global investment and research team enables advisers to recommend offshore investment opportunities that have been screened through a global and local lens.

Morningstar brings together local investment management experience and global resources to deliver long-term investment results to clients and end-investors around the world. We have over 400+ Investment and research professionals worldwide and their proven track record has resulted in global assets under management exceeding \$264 billion.

This comprehensive global investment process brings together our strengths in proprietary research, patented methodologies, investment techniques and manager selection. It provides the framework we use to create solutions that address the challenges our clients encounter and the varying goals and risks investors face over a lifetime.

Our investment professionals share an international perspective that is informed by local market knowledge and guided by consistent global principles to craft solutions that cater to the unique needs of their markets.

In conclusion

The list above is not intended to be all-encompassing. There are many other reasons to outsource investment management, but all these ideas centre around a key concept: free up adviser time to focus on clients.

Model portfolios offer financial advisers the ability to scale their practice by incorporating third-party asset management and providing the foundation for a tailored portfolio. Morningstar's Managed Portfolios product offering allows advisers to easily integrate models into their investment management process.

At Morningstar Investment Management South Africa, our mission is to empower investor success, and we're pleased to offer these resources to help you and your clients reach their financial goals. ■■■

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