



DFMS

'Smaller DFMs need to offer something different'

Marius van der Merwe makes the case for boutique players in the industry.

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The CEO of Amity Investment Solutions, Marius van der Merwe, expects that a few big players will come to dominate the DFM industry in South Africa.

However, he also believes that there will remain a place for boutique firms with compelling propositions.

'To try to copy the big players would be a mistake in my opinion,' Van der Merwe told *Citywire South Africa* in an interview. 'Smaller DFMs need to offer something different. And I think the industry is big enough for both to have a place.'

Van der Merwe's firm is somewhat unusual among local DFMs in that its founders did not come from the investment industry. Rather, their background was in financial planning.

The business was launched as Amity Wealth in 2007 with the intention of providing wealth management solutions to other advisers.

‘We battled with the same things that most IFAs battle with every day,’ Van der Merwe said. ‘So our starting point was identifying the challenges that a typical IFA experiences – particularly the challenge of providing a wealth management value proposition to a client rather than just picking funds.’

‘This was long before DFMs started in South Africa. The idea was to help advisers get a wealth plan in place and support them with a fund of funds approach they could use to implement it.’

Changing tack

Amity launched its first CIS funds of funds in 2008 and this was the core of its business until 2015.

‘Around that time, we did some research in the UK, given that that market was well ahead of us in terms of implementing reforms like RDR. We went to visit some FSPs there to get a feel for what kind of things were changing in their lives and how these influenced what they offered clients.’

‘And we realised that we need to reposition ourselves. We decided to move away from fund of funds as the vehicle for implementing the investment strategy to model portfolios. This meant repositioning the business as a DFM.’

This shift took about four years to realise, as Van der Merwe and his team looked to establish themselves in the niche they had identified.

‘What we realised is that it’s no use just trying to copy what other guys do,’ he said. ‘We are a small player. So we needed to do something to differentiate ourselves. For us, that is goals-based investing.’

‘Because we come from a financial planning background, we realised that there is a little bit of a dislocation between investment solutions and the goals of the end client. For instance, investments are managed without any specific end date in mind. A unit trust doesn’t have a specific investment horizon.’

‘And one of the challenges we experienced as advisers ourselves was that you build a plan for a client, based on some required return, but that return isn’t necessarily there at the point that the client needs the money.’

Consistency

This is particularly true for strategies where returns are lumpy. As an extreme example, a deep value strategy may well produce a long-term return of CPI plus 7%, but there are points in the cycle when the return will be significantly below that. And if that’s when the client actually needs their money, the financial plan has failed.

‘For us, you must have the highest probability of consistently delivering the outcome over a specific investment horizon,’ Van der Merwe said. ‘And that must be delivered over rolling investment periods.’

‘If an adviser plans in January for a client to achieve a certain outcome in five-years’ time, and in September that year they invest another client with the same five-year investment horizon, those two clients must have an equally high chance of achieving the same outcome.’

‘At least you must offer the same specific range of outcomes so that you can reduce the uncertainty for clients. That enhances planning and the adviser’s ability to manage client expectations over time.’

Amity offers six models – three solutions for clients drawing an income, and three for those in the capital accumulation phase. All use a building block approach. The company also use the outcomes-based investment philosophy in its range of CIS funds.

The firm doesn’t design bespoke portfolios.

Optimal solutions

‘One of the key things that I have difficulty understanding is how you can manage 1,000 models and provide something that’s different,’ Van der Merwe said. ‘Because, for me, if you have an investment philosophy, and that results in an investment solution, you must have chosen the best funds for that solution.’

‘But if you then offer a bespoke model that adds in other funds, somewhere along the line you must be adding inefficiencies. That is why we have standard models.’

‘We will brand them individually for certain clients, but the holdings would be the same as our other models because we believe that is the optimal portfolio.’

And Van der Merwe believes that as transparency in the industry inevitably becomes more important, DFMs will be under more scrutiny with regards to the value they are adding.

‘That’s not necessarily delivering a higher return, but either it must be through lowering risk and improving consistency, or through added services like tools and systems. I think that is going to be key to building a sustainable DFM over the long term.’