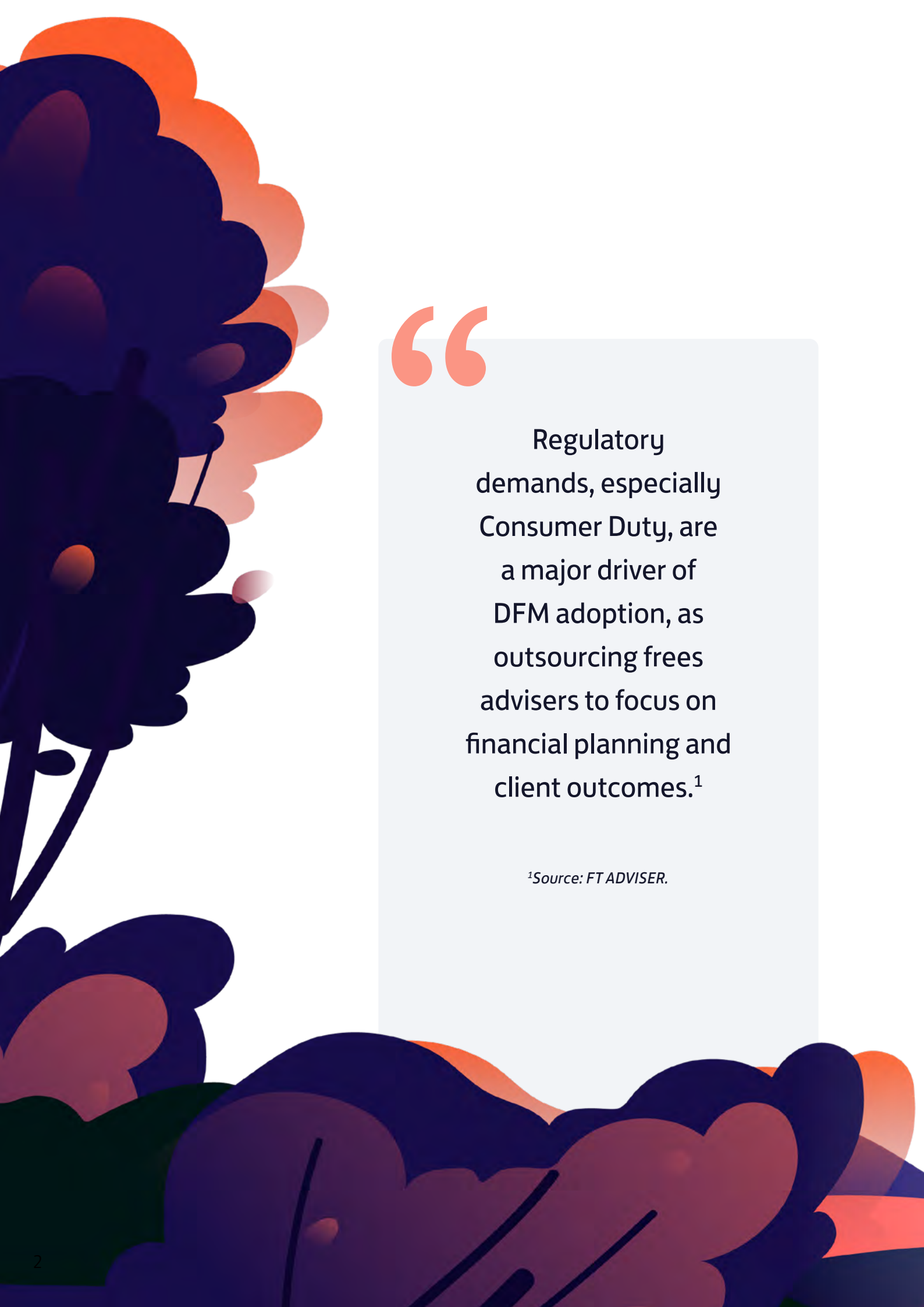


A GUIDE FOR FINANCIAL ADVISERS

Understanding Outsourcing to a Discretionary Fund Manager



BLACKFINCH
ASSET MANAGEMENT



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Regulatory demands, especially Consumer Duty, are a major driver of DFM adoption, as outsourcing frees advisers to focus on financial planning and client outcomes.¹

¹Source: FT ADVISER.

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Outsourcing to a **Discretionary Fund Manager (DFM)** is a strategic decision that can transform an advice firm's investment proposition, enhance client outcomes, and free up valuable time for advisers. But it is not without its complexities. For firms considering this route, understanding how DFM outsourcing works, what it offers, and how to choose the right partner is essential.

Mark Keogh,
Head of Asset Management



This guide is designed to help you

Understand what a DFM is and how it works.

Explore the benefits and potential challenges
of outsourcing.

Learn how to evaluate DFM providers.

Discover why Blackfinch Asset Management
is a trusted partner for advisory firms.



What is a Discretionary Fund Manager?

A Discretionary Fund Manager (DFM) is an investment professional or team that manages client portfolios on your behalf. As the term "discretionary" suggests, they have the authority to make day-to-day investment decisions without needing your approval for each trade. This means they can respond quickly to market opportunities and risks.

DFMs typically provide:



1 - Strategic Asset Allocation (long-term investment planning)

2 - Tactical Asset Allocation (short-term adjustments)

3 - Fund selection and monitoring

4 - Regular performance reporting

5 - Client-facing literature, sometimes including the option of your firm branding

Why Firms Choose to **Outsource**

Firms choose to outsource their investment management to a DFM for a variety of reasons:

TIME EFFICIENCY

With investment decisions managed by experts, advisers can focus on client relationships and financial planning.

REGULATORY COMPLIANCE

DFMs support Consumer Duty obligations by providing clear, compliant client reporting and suitability checks.

SCALABILITY

As your client base grows, managing portfolios in-house can become time-consuming and complex. DFMs offer scalable solutions.

ACCESS TO EXPERTISE

DFMs bring professional investment knowledge, often including multi-asset strategies, market analysis, and risk management.

However, successful outsourcing requires careful consideration. It's not just about handing over responsibility—**it's about finding a partner who aligns with your firm's values and objectives.**

DFM services can be delivered through a Model Portfolio Service (MPS), where portfolios are standardised, or through a Tailored Portfolio Service (TPS), which is customised to your firm's needs and client profiles.

It's worth noting that not every DFM offers a TPS.



Evaluating a DFM: Key Questions to Ask

When exploring DFM options, consider the following questions:

What is their investment philosophy?
Does it align with your firm's values?

Can they provide branded client communications?

What reporting options are available, and
how frequently will you receive updates?

Do they offer both Model Portfolio Services (MPS)
and Tailored Portfolio Services (TPS)?

How transparent are their fees?

How do they support regulatory
compliance (e.g., Consumer Duty)?

Every question you ask now protects a future client experience. The firms that get this right are the ones that build DFM relationships around outcomes, not just operations.

Integrating an Outsourced DFM Solution into Your Business

Successfully integrating an outsourced DFM solution into your business requires more than just signing an agreement—it's about ensuring that the partnership aligns seamlessly with your client service model, regulatory obligations, and operational processes.

1. Define Your Client Segmentation Strategy

Begin by identifying which clients are best suited for a DFM solution, are these retail clients who are afforded the most protection? Or more professional with complex needs? This demonstrates strong alignment with the principles of Consumer Duty.

2. Establish Clear Communication Protocols

Ensure your DFM partner understands your firm's communication style, tone, and frequency. Agree practical things like if they will provide branded client reports or if they will handle client queries directly.

3. Align Compliance and Suitability Processes

Work with the DFM to ensure that investment recommendations align with your firm's risk profiling and suitability standards. This helps maintain regulatory compliance, especially under Consumer Duty.

5. Manage Costs Transparently

Discuss and agree the fee structures with your DFM. For example: Will fees be absorbed by the firm, or passed on to clients? Ensure that cost transparency is maintained and that you can demonstrate value to the client.

6. Train Your Team

Ensure your advisers and client support team understand the DFM's role, how portfolios are managed, and how to explain the DFM solution to clients effectively. Provide clear communications before the change helps to smooth the transition by managing expectations, resulting in fewer queries or concerns.

7. Regularly Review the Partnership

Finally, maintain an ongoing dialogue with your DFM provider. Schedule annual or semi-annual reviews to ensure that the partnership remains aligned with your firm's goals and client needs.

A step-by-step approach to support your DFM planning.

4. Streamline Reporting and Performance Reviews

Decide how often you will review portfolio performance with your DFM. In line with Consumer Duty requirements, it as an important exercise to hold your DFM to account when considering performance. Be sure to agree how your client outcomes will be monitored and communicated.

8. Ongoing Due Diligence

When selecting your DFM partner, you will need to review your chosen partner on an annual basis to make sure they are delivering in line with your own requirements, this can include, performance, cost and service.

The Blackfinch Advantage

At Blackfinch Asset Management, we offer a range of DFM services designed to support advisory firms at every stage of their journey:

Direct access to the investment management team

An open and transparent relationship, with the team on hand to discuss your portfolios or markets.

Adviser & Regulatory Support

Helping you meet Consumer Duty and other compliance obligations.

Tailored Pricing

Clear, competitive fees that match your business model.

Access to the wider Blackfinch Group specialist investment teams

Tailored investment insight to inform adviser decisions.

Client-Centric Communications

Branded factsheets, market updates, and reports.

Proactive, direct input into your asset allocation – including tactical overlay

Insight and expertise delivered through consultations and CPD.

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With decades of experience, a client-first approach, and a commitment to transparency, Blackfinch is a trusted partner for firms seeking to enhance their CIP.

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MARK KEOGH
HEAD OF ASSET MANAGEMENT

How to Successfully Onboard a DFM Provider

Answer 10 questions to assess your firm's DFM readiness and receive your personalised score and insights.

Tick the option that best reflects your current position, scoring 0 points for "Not yet", 5 points for "Partially aligned", and 10 points for "Fully aligned". Add up your points to calculate your total readiness score.

ESTABLISH PRICING ALIGNMENT:

Have you defined the overall pricing for your chosen service or Is the pricing of your chosen Investment Partner in line with your own charging structure.

Fully aligned

Partially aligned

Not yet

Points

DEFINE YOUR STRATEGIC GOALS:

What do you want to achieve by outsourcing?
Is it efficiency, improved client outcomes, regulatory support, or all of the above?

Fully aligned

Partially aligned

Not yet

Points

CONDUCT DUE DILIGENCE:

Research potential DFM partners. Evaluate their track record, investment philosophy, fees, service levels, and reputation.

Fully aligned

Partially aligned

Not yet

Points

ENGAGE WITH KEY STAKEHOLDERS:

Ensure your team, including advisers and compliance officers, understands the benefits and responsibilities of using a DFM.

Fully aligned

Partially aligned

Not yet

Points

AGREE ON SERVICE SCOPE:

Clarify what the DFM will be responsible for—portfolio design, client reporting, risk management, and rebalancing.

Fully aligned

Partially aligned

Not yet

Points

ESTABLISH CLEAR REPORTING LINES:

Decide how often you will receive performance reports and how clients will be kept informed.

Fully aligned

Partially aligned

Not yet

Points

CUSTOMISE CLIENT COMMUNICATIONS:

Ensure all client-facing materials reflect your brand and tone, even if they are prepared by the DFM.

Fully aligned

Partially aligned

Not yet

Points

**IMPLEMENT TRAINING
FOR YOUR TEAM:**

Make sure advisers understand how the DFM process works and how to communicate it to clients.

Fully aligned
Partially aligned
Not yet

Points

MONITOR PERFORMANCE REGULARLY:

Schedule quarterly reviews with the DFM to discuss performance, strategy, and client feedback.

Fully aligned
Partially aligned
Not yet

Points

ADAPT AS NEEDED:

Be prepared to refine the arrangement as your firm's needs or market conditions change.

Fully aligned
Partially aligned
Not yet

Points

TOTAL POINTS

Add up your points to calculate your total readiness score out of 100, then use the scoring guide to interpret your result and next steps.

Your DFM Partnership Score Explained



EMERGING

Your DFM journey is at the early stage, with foundational work still to do on strategy, team alignment, and compliance.

0–40 Points



DEVELOPING

Your firm has made good progress, with some processes in place. Focusing on reporting, team training, and communication will strengthen your readiness.

41–70 Points



OPTIMISED

You are well-prepared for DFM success, with strong strategy, compliance, and internal engagement. Focus on continuous improvement to stay ahead.

71–100 Points



EMERGING

WHAT THIS MEANS:

- You are at the early stages of DFM readiness.
- Strategy, processes, and team alignment are still developing.
- There is higher risk of compliance gaps and limited ability to demonstrate value to clients.

RECOMMENDED NEXT STEPS:

- Define your DFM strategy and client segmentation
- Begin formal due diligence on potential DFM partners
- Train advisers and compliance teams on the DFM process
- Establish basic reporting and communication structures



DEVELOPING

WHAT THIS MEANS:

- You have some elements in place for a DFM partnership.
- Core strategy and compliance processes are partially developed, but gaps remain.
- Your firm is moving in the right direction, but process consistency and communication need strengthening.

RECOMMENDED NEXT STEPS:

- Formalise reporting schedules and client communication plans
- Ensure all team members can explain and support the DFM process
- Conduct annual legal reviews for compliance under Consumer Duty
- Document clear DFM responsibilities and KPIs to track performance



OPTIMISED

WHAT THIS MEANS:

- Your firm is highly prepared for a DFM partnership.
- You have clear strategy, strong compliance, and internal alignment.
- Processes are in place to maintain client confidence and regulatory standards.

RECOMMENDED NEXT STEPS:

- Focus on continuous improvement and monitoring
- Consider automating client reporting for efficiency
- Schedule regular strategic reviews to stay ahead of regulatory and market changes
- Maintain ongoing due diligence to ensure the partnership continues to deliver value

IMPORTANT INFORMATION

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