

# THE MULTIPLIER EFFECT

HOW THE RIGHT DFM PARTNER  
CAN IMPACT YOUR BOTTOM LINE



# A POSITION PAPER BY INN8 INVEST.

NOTE: This guide is meant for financial advisers and wealth managers servicing South African clients. It does not constitute financial advice. At INN8 Invest we believe it is always prudent, when making financial decisions, to partner with a financial adviser that you trust.

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## 1. EXECUTIVE SUMMARY

The pros and cons of partnering with a financial adviser or wealth manager to manage clients' investments have been debated extensively for many years. With the advent of robo-advisers (around since 2008), along with DIY investment platforms gaining favour over the last few years, the true value that a trusted adviser partner could bring to the table is once again scrutinised.

In this document many of the advantages of partnering with the right wealth manager will be highlighted, building on research done over the years by various investment advisory houses and academic institutions. Then the case will be made for those invaluable adviser partners to further expand their ecosystem by finding expert fund managers who can provide nuanced and targeted investment management on behalf of the advisers' clients.



**“In the end, what it all boils down to, is time.”**

Investors who remain adamant that they can manage their own financial portfolios should ask themselves the honest question: Do you have the time to do it properly? And advisers who feel that they can pick, craft, and blend the best portfolios for each and every client, whilst providing bespoke, targeted and regulatory compliant advice, should do the same: Is there ever enough time in any day?

Finding the right discretionary fund manager (DFM), with the right investment philosophy and approach, could provide both adviser and client with the needed differentiator to achieve the results they are looking for. It could, indeed, provide a multiplier effect to elevate their return on investment.

## Key points:



The investment universe is expanding rapidly and volatility levels are climbing.



Financial markets are evolving and, with it, the regulations imposed to ensure customers are treated fairly. Ultimately, this means that financial advisers, planners and wealth managers need more time or support to ensure compliance.



For South Africa, the Retail Distribution Review by the Financial Services Conduct Authority and other proposed legislative bills, like Conduct of Financial Institutions (COFI), will increase the requirements that need to be in place, and necessitate a change in the approach, by financial advisers. These advisers are looking to find partners that can support them with the work required to ensure compliance and that customers are treated fairly.



Market volatility seems to be here to stay, if the CBOE Volatility Index levels (VIX) are analysed for the last couple of years. Advisers need to create steady ground for their clients while the whole world is wobbling.



Clients are changing. They demand agency and control and wealth managers realise that they need to learn more about behavioural finance and coaching to be successful in the future.



Within this context, discretionary fund management (DFM) brings investment expertise as an option for advisory practices who want to co-source some of the investment functions to a skilled partner. Advisers who choose the right DFM to join their advice ecosystem can unlock the full potential in their advisory practices.



Good DFMs will deliver the investment alpha that is required by adviser and client, unlock practice alpha by lowering costs and saving time, and enhance adviser alpha as wealth managers will now be able to provide the advice their clients deserve.



Unpacking the trifecta of alphas indicates that INN8 Invest could add as much as 2,9% net profit per annum to the bottom line of advisers, for the benefit of both client and adviser.

## 2. RUNNING OUT OF TIME: THE CURRENT ADVISER CONTEXT

Wealth managers and advisers all face the same problem – there isn't enough time in the day to get everything done.

They are facing volatile markets, in part due to unprecedented global events such as COVID-19 or brewing and erupting geo-political conflicts, that require focused investment management attention. On top of that, regulatory evolution demand real and true value addition from advisers to clients, increasing risk for the adviser. New, alternative investment options jostle for attention and further confuse clients who are looking to weather the storms. All this while individual investors not only deserve bespoke and tailor-made solutions unique to their own financial situation – they now also insist on it.

In this section we dive a little bit deeper into the reasons why time has become the most important asset a wealth manager has.

### Another Big Bang - the rapid evolution of the investment universe is adding unprecedented complexity.

There are hundreds of stock exchanges dotted all over the world. While most of the investment world focuses only on the 16-odd that have market capitalisation of more than US\$1 trillion each, the possible pool for investment becomes overwhelming if all emerging markets are included. Just on the African continent the Association of African Securities Exchanges boasts 32 members with the Egyptian Stock Exchange being the oldest, having been established in 1883<sup>1</sup>.

In this adventure park of possible investments, stock exchanges only represent one playground.

For each investment type, including the new alternatives, the individual playgrounds are filling up with new players at a rapid rate. Bonds, stocks, ETFs, CDs, money-market accounts and thousands of mutual funds function as the old guard, dishing up a choice of on- or offshore. Cryptocurrency and NFTs are the new kids on the block, and holding steady in the middle are non-stock favourites like real estate, private equity investments and even art and collectibles.

For an investor trying to go it alone, simply locating the entrance gate can be daunting. Finding someone to play on your behalf (keeping with the metaphor – we know investing is not a game) is also not easy.

Let's consider South Africa for a moment and only look at the Johannesburg Stock Exchange with its 307 (as at March 2022) listed companies and market capitalisation (as at 16 March 2022) of R11,65 billion. If you are not directly purchasing equities and would like to acquire units in a mutual fund the choices, once again, abound.

You can choose to directly buy a certain fund that is invested in the Top 40 from various different asset managers. Or you can determine, together with your adviser, your specific financial goals and risk profile and allow him or her to construct a portfolio to match.

Deep and detailed research into funds, equities, options, asset managers etc. can very quickly fill all the available hours of the day that advisers have.



Studies into how financial advisers spend their time has shown that a very small percentage of available time is dedicated to investment management and research.

A Kitces Report from 2018<sup>2</sup> puts it at 5,5 hours in a 53-hour work week, or 10,3%. Cerulli Associates' 2018 White Paper on Advisor Productivity<sup>3</sup> shows that only 20% of advisers' time was spent on client meetings, with 17% going towards investment research and trading.

*[see figure on the next page]*

## Adviser's time allocation, 2018

Source: Cerulli Associates 2018 White Paper on Advisor Productivity

### Core activities

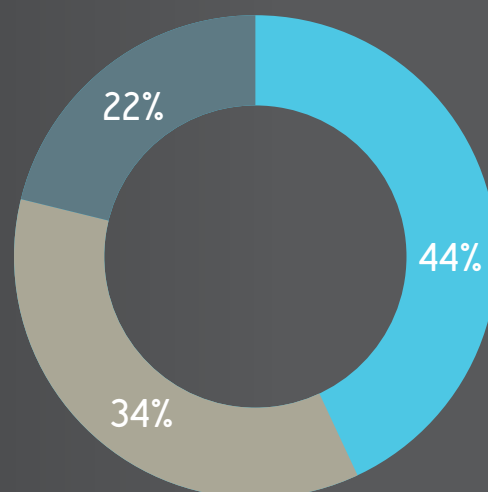
- 20% Client meetings
- 10% Preparing for client meetings
- 9% Prospecting for new clients
- 5% Professional development

### Process-dependent activities

- 17% Investment research and trading
- 9% Financial plan creation
- 7% Client service problems

### Managerial

- 10% Managing day-to-day operations and administration
- 7% Practice management (e.g., business planning, staff development, marketing)
- 5% Compliance and other



It is clear that co-sourcing some of the investment management functions could free up time that can then be dedicated to what the adviser should be doing, advising clients.

### What is co-sourcing?

Co-sourcing allows you to obtain an external expert resource, that becomes an integral part of your team, working side-by-side with your own personnel, without having to hire someone in-house.

## Regulatory upheaval while the COFI is still brewing

When the Financial Sector Conduct Authority (FSCA), then the Financial Services Board, first released 55 proposals on Retail Distribution Review (RDR) in 2014 <sup>4</sup>, the initial reaction was one of uncertainty and concern. Since then, however, most Financial Services Providers have proactively embraced some of the elements that were suggested, even while draft legislation for the investment sector is yet to emerge.

The phased consultation around RDR might feel protracted to some advisers who are (naturally) seeking clarity in order to understand the impact that the proposed regulations will have on their business models. The latest discussion document and status update released at the end of 2019, still does not offer any indication on the timeline for a transition or whether

a vested approach would be taken. What the document does show, is that industry input is carefully considered before final decisions are made. The FSCA's 2021 to 2025 regulatory strategy document, released last year, confirms that RDR is still very much a part of the regulator's vision under Strategic Priority 3 (A robust regulatory framework that promotes fair customer treatment) for the near future <sup>5</sup>.

It is therefore clearly inevitable (and necessary) that the South African financial advice industry will have to implement some, if not all, of the suggested changes in due time. This will place increased responsibility and a higher regulatory compliance burden on advisers with the ultimate goal of ensuring better advice, fair treatment of investors and increased transparency.

One key change that RDR brought when it was implemented in the United Kingdom, for example, was the requirement for advisers to have a centralised investment proposition (CIP) to reduce risk and ensure consistency of client outcomes. Locally, advisory practices should already determine what this would mean for their operations and choice of partners.

RDR is, of course, not the only regulatory development that is on the horizon for advisers.

The Conduct of Financial Institutions (COFI) Bill first saw the light in 2018 and later, in 2020, a revised Bill was

released for public comment <sup>6</sup>. According to the policy paper from the National Treasury <sup>7</sup>, the purpose of the bill is to put better regulation in place, improve conduct in the financial sector and, ultimately, ensure more financially resilient South Africans.

While the bill has not been tabled at Parliament and thus not yet enacted, it will provide a regulatory framework for the market conduct of financial intermediaries, highlighting the need for advisers and wealth managers to focus their energy on achieving best practice and compliance when dispensing advice.

## Black swans everywhere – increased volatility requires focus

On the 5th of October, 2021, a Bloomberg headline read: “The stock market hasn’t been this frenetic since early in the pandemic <sup>8</sup>.” In early 2022, more of the same grabbed the attention on Reuters and CNBC: “U.S. stock market liquidity abysmal, adding to volatility risk <sup>9</sup>” and “Markets are on a roller coaster ride. Here’s what to keep in mind as stocks whiplash. <sup>10</sup>”

Then, late in February 2022, Russian troops entered sovereign Ukrainian territory, cementing volatile times ahead with the advent of a geo-political crisis that will affect the whole world. <sup>11</sup>

Advisers face a tough time in periods of high volatility, such as the one we are experiencing currently. Investors who made emotional decisions when the pandemic hit the markets lost out on major gains when the markets recovered, whilst those who did remain now again question which direction is the correct one as the daily swings on global markets cause dizziness all around.

Volatility is part and parcel of long-term financial planning and advisers often add incredible value by being the voice of reason when knees itch to jerk.

Using the CBOE Volatility Index, or VIX as it is better known, could provide some insight into the actual

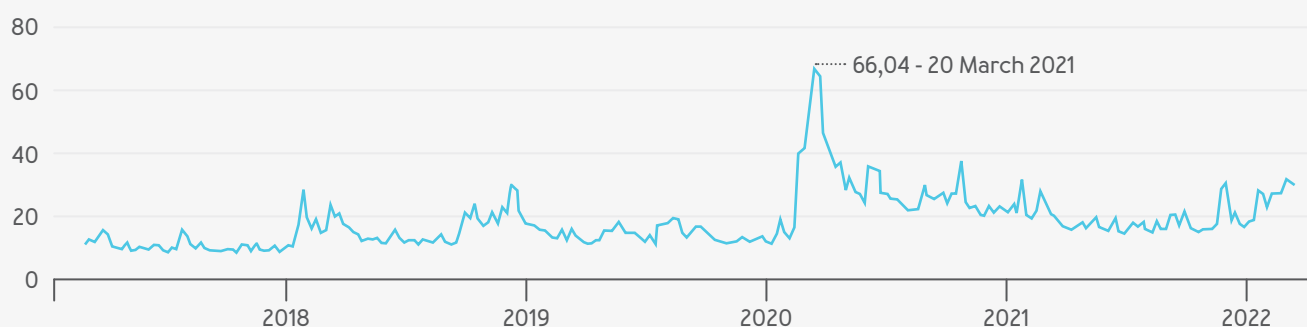
levels of volatility that we are currently seeing. The index attempts to measure the magnitude of S&P 500 movements. If the swings in price are more pronounced, the higher the level of volatility.

Introduced in 1993 the VIX index was at 32.31 on the 11th of February 2022 (its highest for the day, not its closing level). This is comfortably below the peak of 85.47 achieved on 18 March 2020. While it might feel like we’ve never experienced a rollercoaster ride quite like the one when the World Health Organisation declared COVID-19 a pandemic, the index was higher once before in its almost 30-year history – on the 24th of October 2008 when the world’s stock markets plummeted just over a month after Lehman Brothers was declared bankrupt <sup>12</sup>.

Nevertheless, maintained levels in the high 20s and hovering for longer periods near 40 in the last two years confirms what many investors and advisers feel – this is next-level volatility.

Advisers need more time to sit with their clients, understanding and addressing their concerns and providing relevant and informed advice on how to navigate the uncertainty.

### CBOE Volatility Index





## Investor 2.0 - Agency and control are non-negotiable

Financial control of the globe is shifting. The richer silent generation and baby boomers are starting to share the ranks of the wealthy with millennials who have a different outlook on social and environmental issues and are very comfortable with digital competitors to traditional wealth planning and management. The attitudes of this new cohort of investors are even influencing those of the older generation.

An Accenture study <sup>13</sup> on the evolving customer and how financial services providers will have to adapt summarises it as follows: “Financial providers used to control the customer relationship, but now consumers do. Retail financial services are no longer “business-to-consumer” (B2C) - it has become “consumer-to-business” (C2B).”

This is a world where advisers need to show that they are committed to delivering great service, that they add value and that they meet the client where he or she finds themselves, in their unique situation, with their unique attitudes and financial needs.

In 2021 the Financial Planning Standards Board Ltd (FPSB) <sup>14</sup>, released the results of its Future of Financial Planning Practice research, a survey of 4 250 certified financial planners across 23 territories, including South Africa. It found that over half of all the Certified Financial Planner professionals reported that collaborating in setting financial goals and helping to facilitate decision-making is the greatest value they can provide to clients.

Financial planners admitted that they needed to learn more about behavioural finance and coaching to be successful in the future.

### 3. LET'S FREE UP SOME TIME: PARTNER WITH THE EXPERTS IN INVESTMENT MANAGEMENT ACTIVITIES

All advisers would admit that they want to future-proof their practice in this ever-changing world. Some are ready to step up to navigate these demands.

If you are a wealth manager, one way to free up time is to co-source some of the functions of your business, such as investment management, to an expert financial manager. Choosing the right discretionary fund manager (DFM) to form part of an advice ecosystem can unlock the full potential in an advisory practice.

Co-sourcing combines the benefit of both insourcing and outsourcing – the critical parts of the client relationship remain the adviser's to manage and grow, while the DFM brings collective investment experience, expertise, time and focus.

In this section we will quickly touch on the history and rise of DFMs and the performance that they deliver, before delving into the difference that can be achieved when you make the right choice.

#### Discretionary Fund Managers - the who, what, why and where

In South Africa, DFMs are regulated under the Financial Sector Conduct Authority as Category II license holders<sup>15</sup>. They are financial services providers that render intermediary services of a discretionary nature as it regards the choice of a particular financial product, without the bulking allowed by Linked Investment Providers (LISPs).

In essence this means a DFM is allowed to make decisions on behalf of the client, based on a mandate received. They have the ability to select and blend different asset managers according to that mandate to solve for a particular outcome or benchmark that was set by the client in consultation with his or her adviser.

Most times, a DFM uses a LISP to execute these investments, employing either best investment view or customized model portfolios, a wrapper fund or, even, a fund of funds.

DFMs have risen in popularity and use over the last decade, specifically because of the tremendous pressure advisers are experiencing due to increased investment complexity, regulatory reforms and clients' needs for individual and bespoke attention, fairness, and price transparency.

A really good DFM not only supports its adviser partner on the investment side but creates efficiencies in the practice as well by driving down costs, lightening the compliance burden, freeing up time and, if it achieves what it set out to achieve, increasing returns from the investment.

In the UK, DFMs have been around for many years but has shown especially robust growth over the last decade since the country implemented its Retail Distribution

Review in 2012, with the subsequent focus on centralised investment propositions (CIPs)<sup>16</sup>.

Hundreds of DFM options are now available to UK advisers who are looking to co-source.

As an example of the plethora of choice, you only have to look at the list on offer on some of the investment platforms. For example, Transact (one of the UK's top investment platforms used by advisers), lists 123 DFMs that can be accessed just on its platform.<sup>17</sup>

Research by Money Marketing<sup>18</sup> shows that the top 10 DFMs in the UK already had a combined amount of total Assets Under Management (AUM) of just under £160bn in 2019. The industry has developed to the extent where independent research organisation, Defaqto, surveys the market annually to determine adviser satisfaction with the available DFMs.<sup>19</sup>

Locally, in South Africa, the popularity of DFMs is also growing rapidly, with a number of key players emerging over the last few years. These include PortfolioMetrix, Fundhouse, Morningstar, Analytics and Boutique Investment Partners.

It is estimated that 25% of wealth managers in South Africa are already using DFM services, up from 5% only a few years ago. In the UK it has already surpassed 60% and was expected to grow to 70% by 2023.<sup>20</sup> Showing the massive growth potential of the industry locally. Some of that growth has come through in the last six years with assets under management (AUM) for South African DFMs increasing by 450% since 2014.

*(see figure on the next page)*

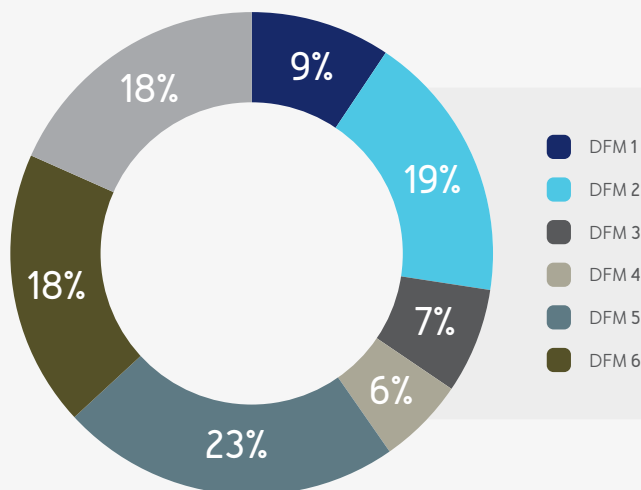
An NMG SA Retail Wealth Study<sup>21</sup>, conducted in October 2021 on behalf of STANLIB, show that South African advisers are also moving towards a CIP approach.

Where only 46% strongly agreed with the statement “We are creating a centralised investment proposition” in 2019, the percentage stood at 60% in 2021.

## SA market growth



- Total AUA about R220bn
- DFM 5 is largest in the market
- “Top 6” make up >80% of AUA

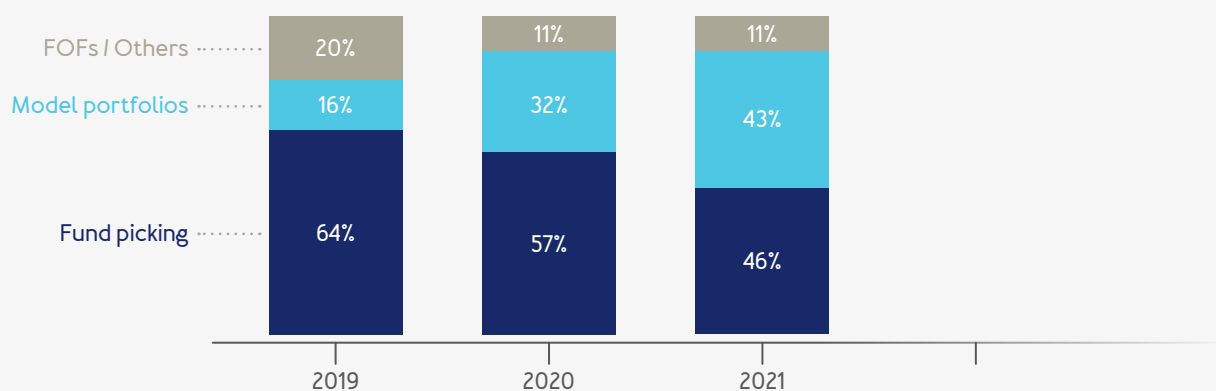


The shift is possibly best seen in the below chart where independent financial advisers (IFAs) show the percentage of assets by investment approach. In 2019, 20% were in funds of funds, down to 11% in 2020 and staying steady in 2021.

However, the shift from fund picking (57% in 2020, 46% in 2021) to using model portfolios from DFMs (32% in 2020, 43% in 2021) is quite pronounced.

## Assets by investment approach

IFAs intending to shift further (32% net increase to models, 34% net decrease to fund picking).



Source: NMG SA Retail Wealth Study, October 2021.



## The performance speaks for itself

Independent research conducted by CoreData for Rathbones<sup>22</sup> showed that 72% of surveyed advisers said that the investment performance of their clients' portfolios improved since adopting a DFM to manage those portfolios.

A total of 66% indicated that the risk/return profile improved.

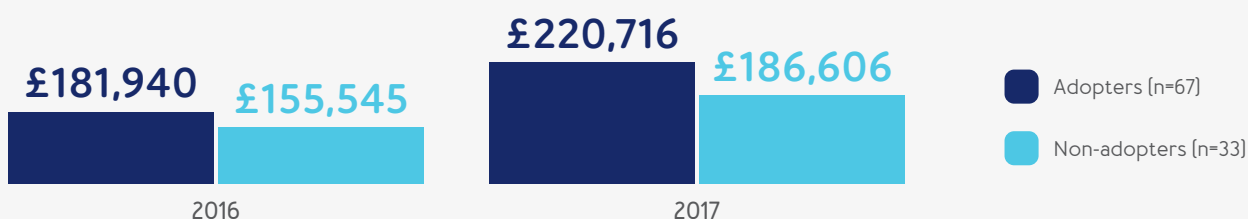
What is important to note is that 63% of the respondents also felt that the quality of their client contact has improved with 41% stating that they now have more time for client meetings.

The study showed that the adoption of a DFM led to an increase in billable client hours with 58% of DFM adopters saying that their revenues from existing clients increased because they had more time to spend with them (2.5 more client hours per week).

The figure below shows the difference in revenue for the adviser between the group of DFM adopters and those who did not use a DFM.

### Client revenue

Time liberated by employing a third-party discretionary fund manager meant that 58% of advisers were able to generate more paid time from existing clients. Users enjoyed annual average revenues of £181,940 vs £155,545 in 2016 and £220,716 vs £186,606 for non DFM users in 2017 - 18.3% more.



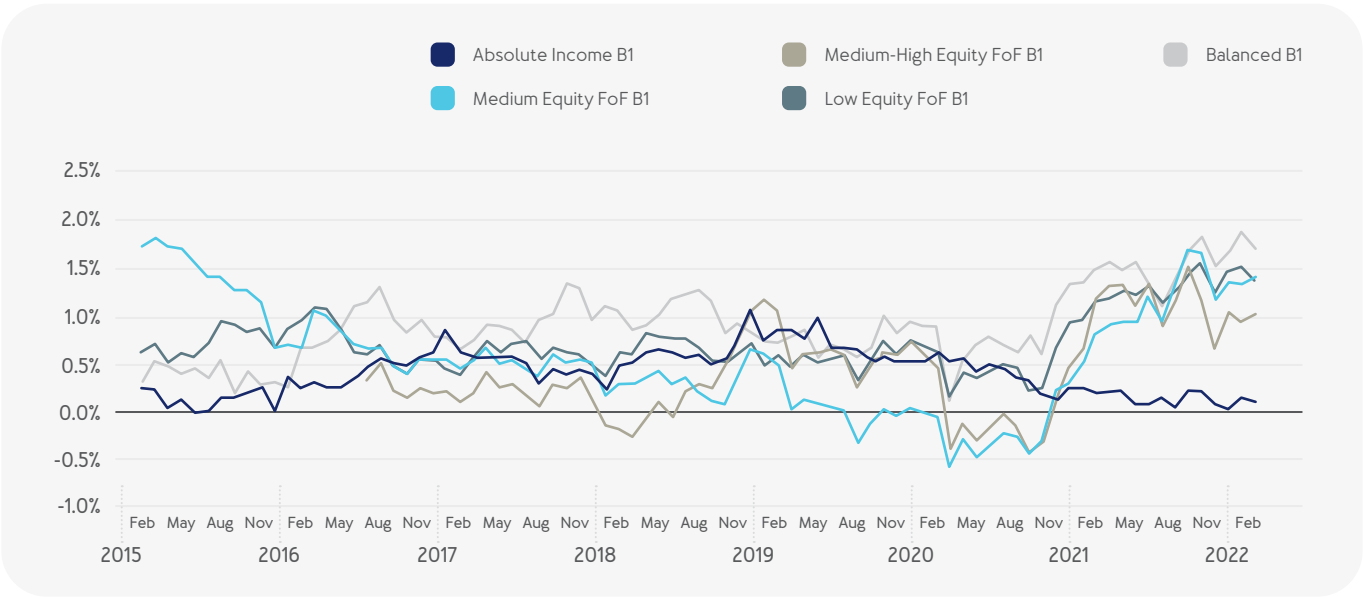
Source: *The Value of discretionary fund management*. Rathbones.

Within INN8’s parent group, STANLIB Multi-Manager has been providing DFM services for the last 11 years.

The performance of the available model portfolios shows consistent outperformance to the chosen benchmarks. In a later section this paper will delve into

the reasons for the achievement of this investment alpha.

One thing, however, remains clear – when you choose the right DFM, such as INN8 Invest, the proof is in the performance as can be seen from the below graph.



The team behind INN8 Invest has delivered performance that outstrips the peer categories, consistently for the last decade, achieving 100% in consistency in the case of three model portfolios and above 80% for the remaining two.



Consistency of rolling 3-year outperformance

Absolute Income B1	100%
Low Equity FoF B1	100%
Medium Equity FoF B1	86%
Balanced B1	100%
Medium-High Equity FoF B1	81%



## 4. THE DFM MULTIPLIER EFFECT



INN8 Invest is an independent discretionary fund manager for the wealth manager of the future. Partnering with us unleashes the DFM Multiplier Effect, as it combines the partnership between us and you, the adviser, with the power of the relationship between you, the adviser, and your client. Through this, additional value is delivered to all parties.

In this section we unpack the three elements that contribute to the DFM Multiplier Effect and, using illustrative research, indicate what it does to your advisory practice's bottom line.

In essence, INN8 Invest:

- Delivers Investment Alpha (the expected net-of-fee outperformance relative to its peers over time);
- Unlocks Practice Alpha (the increase in practice profitability via higher revenues and lower direct costs);
- And once these two are impacting your business, enhances the Adviser Alpha that our adviser partners bring to the table (the additional advice alpha generated by having more time to service existing clients better);

All of this, while lowering the risk to the adviser.

Combining these three in a powerful trifecta, INN8 Invest's DFM Multiplier Effect is more than an alpha, it is the key that unlocks the potential in an adviser's practice.

### Quantifying the Trifecta

#### Investment Alpha

What it is:

In 1967 the term "alpha" to show investment returns above the expected was first used by Michael Jensen<sup>23</sup>. In the finance world Investment Alpha is now commonly used to describe the ability of an investment strategy to beat the market or outperform peers. When working from the premise that markets are inherently efficient, it has sometimes been equated to an "abnormal rate of return".

To achieve this outperformance, or the goal of above normal returns, time is required to carefully select the underlying investments in a portfolio.

Partnering with a discretionary fund manager could provide an advisory practice with this expertise. Partnering with an excellent discretionary fund manager that delivers the DFM Multiplier Effect means so much more than just fund picking.



## Addressing risk:

Apart from the provision on an investment alpha, INN8 Invest's approach of Enhanced Diversification ensures that solutions are optimally constructed to minimize risk per unit of expected return (see below section on Enhanced Diversification for more detail). Model portfolios are constructed across asset classes (local and offshore), managers (large and boutique) and mandates (active, passive, Regulation 28-compliant and flexible). A style-neutral approach minimises style beta risk.

## The DFM Multiplier effect:

INN8 Invest believes that with our demonstrable track record of managing money we can add 0,75% per annum under Investment Alpha to your bottom line:

- 0,75% <sup>24</sup>: Through our careful asset allocation, fund selection and nuanced and blended portfolio construction, INN8 Invest can outperform the benchmark.
- 0,25%: Size does matter. INN8 Invest can negotiate better fee classes for your investments due to the size and scale of our assets under management.
- -0,25%: Using a DFM comes at a cost, but the cost is cancelled out by the benefit brought from our negotiating size.

**Total: 0,75%**

## Practice Alpha

### What it is:

INN8 Invest believes that there are two sources of practice alpha.

1. Partnering with a DFM can lead to direct savings as the adviser practice has to spend less on certain activities.
2. The time savings gained through a DFM partnership can now go towards prospecting new clients and therefore increases revenue.

Both of these elements of practice alpha can have an impact on the bottom line of the adviser's practice, but to illustrate this, we need to translate the assumption of cost saving into a measurement in basis points that can be added to the other two building blocks that make up the DFM Multiplier Effect.

### Illustrative research and methodology:

While both Investment Alpha (previous section) and Adviser Alpha (see next section) can be interpreted as the additional value generated per rand invested in a model portfolio, some work was required in order for the Practice Alpha to also be defined as the additional value per rand invested.

INN8 Invest had to determine the impact of cost saving on an adviser's net profit margin and deduce a basis point impact from there. For this, we needed to determine the percentage of total cost that were being spent on elements that could be taken over by the DFM, thus saving the adviser money. We also needed to understand the number of hours an adviser was spending client-facing, actively servicing clients and growing his book, which could thus have an impact on increased AUM and increased revenue.

To get to the facts behind the theory a survey was distributed, containing a few simple questions. The responses from the survey were then fed into our illustrative model to determine how extra hours, saved by partnering with a DFM, could be translated into additional client revenue from fees and how costs could be lowered. The model then shows an estimate of the increase in net profit that could be achieved, per rand invested in the model portfolios.

This research is still very preliminary and would need further data and analysis to categorically determine an accurate number. It is not sufficient to craft a scientific, mathematically-tested model, but is used for the purposes of this position paper to estimate the impact that could be possible.

## The DFM Multiplier effect:

We estimate, based on the preliminary results from the survey, that INN8 Invest can add practice alpha of 0,8% - which means that for every rand invested in our model portfolios, the adviser's net profit can increase by 0,8% per annum.

## Adviser Alpha

### Existing research:

Many firms have built models over the years to quantify the benefit or estimated value from various financial planning activities <sup>25</sup>.

Different elements from the following list are added, or left off, depending on the model used:

- Client assessment: The highest estimate comes from Russell Investments at 85 basis points.
- Asset allocation: The estimate is from Von Gaudecker at 50 basis points and Morningstar at 45 basis points
- Behavioural coaching: Here Barber et al shoots the lights out with a calculation of 400 basis points.
- Tax management: Envestnet puts it at 100 basis points.
- Goal-relative optimisation: Only Morningstar includes this element at 12 basis points.
- Product allocation: Envestnet again estimates its higher than its peers at between 82 and 85 basis points.
- Savings and withdrawal guidance: A total of 110 basis points estimated by Vanguard.
- Rebalancing: Between 30 and 44 basis points.

Only four asset management companies and advisory networks have completed a full model to put a number next to the alpha an adviser can provide, the other researchers only touched on one element from the full equation.

- Russell Investments = 390 to 420 basis points
- Envestnet = >304 basis points
- Morningstar's Gamma™ = 260 basis points
- Vanguard's Adviser Alpha™ = 370 basis points

For our calculation we use the two more widely used – Morningstar's Gamma™ and Vanguard's Adviser Alpha™.

### Estimated value from various financial planning activities (in basis points)

Steps	Value-creating activities	Vanguard	Morningstar	Envestnet	Russel Investments	Marsden et al	Hackett et al	VonGaudecker	Morningstar	Barber et al	Dalbar	Geddes et al	Blanchett
Understanding your life	Client assessment			>50	85	60							
	Asset allocation		45	28			19	50					
Your financial strategy	Behavioral coaching	150			200-220				100	400	352		
	Tax management	0-75		100	50							190	
	Goal-relative optimization		12										165
	Product allocation		33	82-85	25-35								
	Savings and withdrawal guidance	110	70										
Staying on track	Rebalancing	35		44	30								
Total estimated value added		370	160	>304	390 - 420	NA	NA	NA	NA	NA	NA	NA	NA

Source: Morningstar

## Addressing risk:

Again, apart from the alphas that INN8 Invest's Multiplier Effect can unlock, we also address risk in an adviser's practice. For both advice and practice risk (combined here) we bring a significant reduction in regulatory and compliance risk, which ensures that the adviser's practice remains a going concern.

For the considerations of the Retail Distribution Review, for example, all funds go through a thorough due diligence process on an ongoing basis with supporting documentation provided. Portfolios are constructed using a well-defined, repeatable and documented investment process.

For Treating Customers Fairly require that clients with similar risk profiles and return requirements should receive similar outcomes. Our model portfolio execution enables this.

## The DFM Multiplier effect:

For INN8 Invest's equation Adviser Alpha measures the additional advice alpha that can be generated once an adviser has partnered with a DFM and has more time to focus on the relationship-focused elements of his or her job.

Our assumption is that the value of the different adviser alpha calculations represented in the above visual represent the upper end of the benefit of having an adviser and would be achieved through a partnership with a DFM.

We also make the assumption that without a DFM, advisers would only be able to achieve an average level of adviser alpha as their time is taken up by activities that could have been co-sources to expert investment managers. Once the DFM has then freed up extra time, it is possible for advisers to achieve peak adviser alpha for their clients.

The DFM Multiplier Effect's Adviser Alpha is therefore the difference between the upper end and the average.



Vanguard's Adviser Alpha is estimated at 3.7%. However, this includes the impact of rebalancing, which is now outsourced to the DFM. The advice-specific value can be calculated by adding just the advice components as follows:

Behavioural coaching	1.50%
Tax management	0.75%
Savings and withdrawal guidance	1.10%

**Total: 3.35%**

This represents the upper end.  
The average level is therefore **1.68%**.

Adviser alpha with respect to our definition is therefore **1.67%** (3.35% - 1.68%).



The Morningstar Gamma estimate is 2.6%. However, this includes asset allocation and goal-relative optimization which is now outsourced to the DFM. The advice-specific value can be calculated by adding just the advice components as follows:

Behavioural coaching	1.00%
Product allocation	0.33%
Savings and withdrawal guidance	0.70%

**Total: 2.03%**

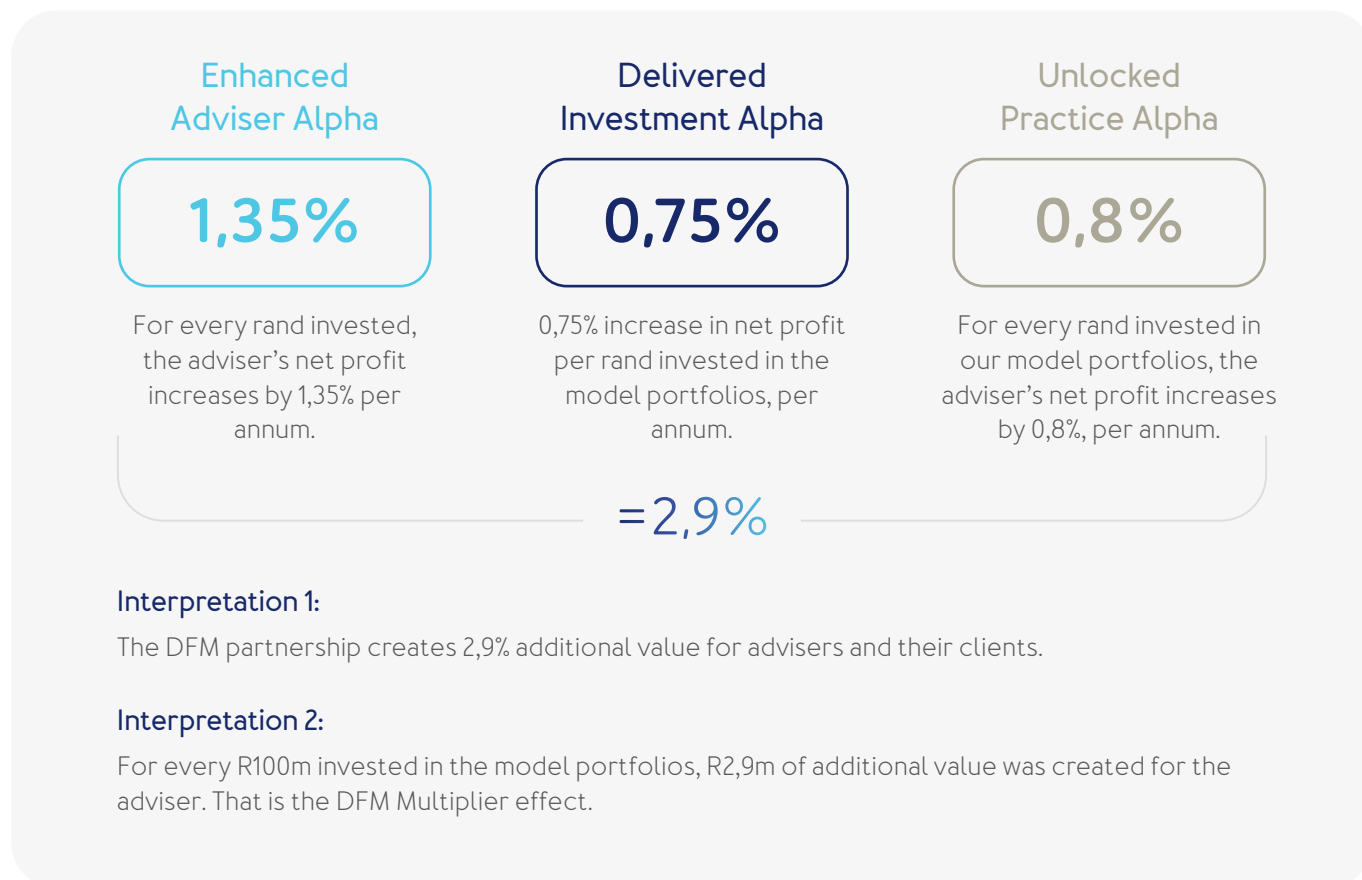
This, again, represents the upper end.  
The average level is therefore **1.02%**.

Adviser alpha with respect to our definition is therefore **1.01%** (2.03% - 1.02%).

INN8 Invest's estimate of the additional adviser alpha that can be achieved as part of the DFM Multiplier Effect is the average of the two **=1,35%**

## The DFM Multiplier Effect quantified

To show a hypothetical impact on the practice bottom line you can either combine the trifacta's values to show the DFM Multiplier Effect, or you can quantify the impact that additional time would theoretically have on revenue generation.



## 5. ABOUT INN8

INN8 is the adviser's partner, inspired by the wealth manager of the future to provide the required technological proficiency through our Purpose Built Investment Platform and the investment edge your clients expect and deserve with our Future Focused, Engaged Investing DFM capability – INN8 Invest.

Together this means our advisers are able to deliver exceptional service to their clients.

### INN8 Invest and Enhanced Diversification

As a proposition of INN8, INN8 Invest is an independent discretionary fund manager (DFM) for the wealth manager of the future that places global, best-in-class expertise at your fingertips.

We aim to inspire adviser confidence, grow client portfolios, and facilitate business growth.

We understand that solutions should be designed to meet the ever-changing investment needs of South African investors. By putting the adviser at the centre of our process, we make sure that we not only build future

focused investments designed to deliver superior client outcomes, but that you, the adviser, are part of that investment process.

By partnering with INN8 Invest, your time is freed up to spend more time doing what you do best: advising clients. Whilst you take care of your client relationship, we take care of their investment, on your behalf.

INN8 Invest understands that solutions should be designed to meet the ever-changing investment needs of South African investors, no matter what phase of life

they find themselves in. Partnering with INN8 Invest gives advisers the power to create customized and co-branded investment solutions – always keeping the client’s investment goals in mind.

In a world where complexity has gone next level, our belief is that diversification had to follow suit.

We provide Enhanced Diversification.



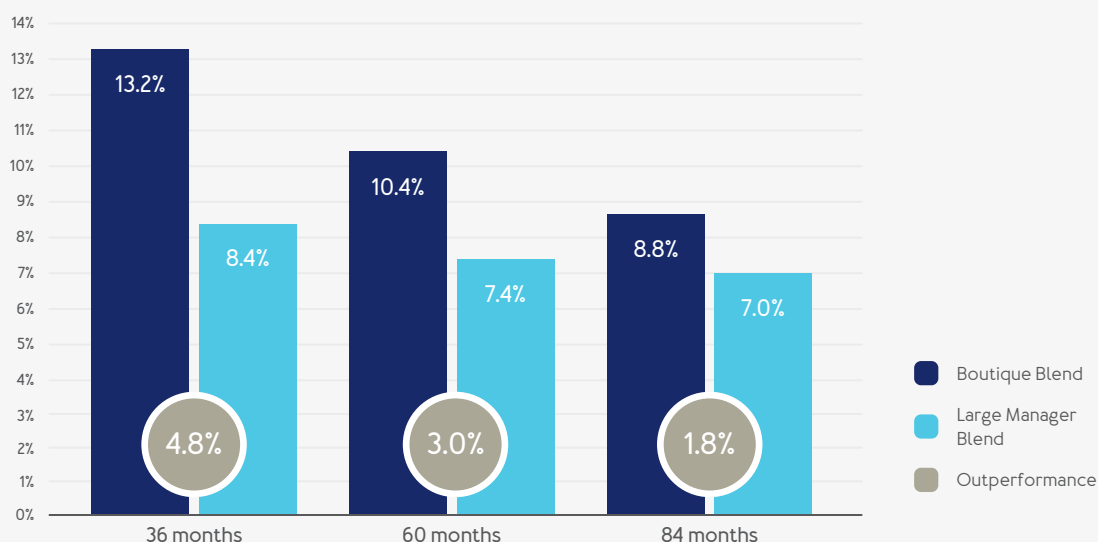
## Enhanced diversification in our local models

To ensure enhanced diversification in our Local model portfolios, we provide three ingredients:

### Boutiques

We believe asset manager diversification is crucial. Our breadth and depth of manager research allows us to look for the best and most skilled managers which include small- to medium-sized boutiques. We combine the skill and nimbleness of boutique managers with the strength and stability of large managers to form a unique portfolio blend.

#### Nominal returns to date from June 2011 to May 2021



### Flexibility

Asset manager flexibility is crucial to successfully navigate volatile markets. We prefer that our managers are able to express their best views and exploit all available opportunities without the constraints of restrictive mandates.

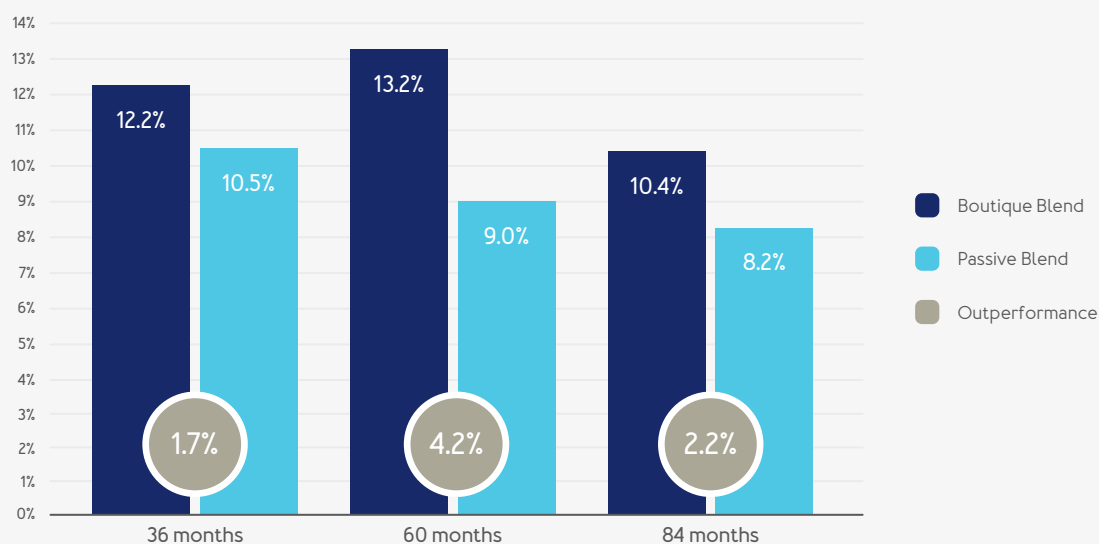
### Performance measure

	3 Years p.a.		5 Years p.a.		7 Years p.a.	
	Boutique Flexible Fund blend	Large Manager Balanced Fund blend	Boutique Flexible Fund blend	Large Manager Balanced Fund blend	Boutique Flexible Fund blend	Large Manager Balanced Fund blend
Annualised return	13.2%	8.4%	10.4%	7.4%	8.8%	7.0%
Maximum monthly drawdown	-10.7%	-14.0%	-10.7%	-14.0%	-10.7%	-14.0%
Upside deviation	9.1%	8.5%	8.2%	7.6%	7.8%	7.0%
Downside deviation	6.1%	7.7%	6.0%	6.8%	5.9%	6.2%

## Let's get (more) active

While a passive approach in any DFM investment philosophy plays an important role, we believe that good active investment management can outperform good passive investment over time. We identify skilful managers through our rigorous and integrated approach of both quantitative and qualitative manager research.

### Nominal returns p.a. (to end May 2021)



## Enhanced diversification in our global models

With our global model portfolios, we enhance diversification with:

### Global Giants

These are the large, established, and well-resourced global asset managers that have breadth and depth in their research capabilities. These managers generally follow a team-based portfolio management approach, generating consistent outperformance over time. These businesses also tend to be leaders in their environmental, social and governance (ESG) integration.

### Global Gems

Our global reach allows us to access specialist, unique and rare mandates from smaller, but highly skilful global managers with multi-decade experience. There is generally a strong alignment of interests between clients and these owner-managed firms.

### SA Stars

These are South African managers with either world class investment capabilities or who have partnered with high quality global asset managers.



## 6. WHY PARTNER WITH US?

When you partner with INN8 Invest, we provide you with the pedigree required, the power needed and the partnership you deserve.

### Pedigree

- By choosing INN8 Invest, you gain access to best-in-class discretionary fund management expertise, successfully managing peer-relative and outcomes-based solutions for more than two decades.
- We leverage the Group's scale and skill, bringing you breadth and depth of manager research capability both locally and globally, with the ability to execute using either a multi-asset approach or building block approach – or a blend of both.
- We ensure an independent investment process – in both manager research and portfolio construction – and our global investment team is based in Johannesburg, Cape Town, Jersey, and London.

### Power

- Size and scale counts when it means that, by extension of partnering with us, you have access to institutional priced funds in the retail market.
- We offer you the comfort and security of a large balance sheet, ensuring longevity and business sustainability, while empowering us to remain future focused with our finger on the pulse of ESG and technology innovations.
- In keeping up with the latest innovations that drive efficiencies, we always consider how we can use them to support and grow your business, continually enhancing our adviser, investment and trading technology.

### Partnership

- To efficiently navigate the future of wealth management, advisers need a strategic partner by their side, driven by long-term performance to create the best local and global investment solutions and industry partnerships, to help their clients achieve their investment needs.
- We strive to understand your business and your client needs, mapping our business to your way of doing things and creating solutions that fit your advice process.
- We also value our local, global, and group partnerships which allow us to leverage insights and provide deep understanding, enabling us to create relevant solutions for you and your clients.

## 7. REFERENCES

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- Page 5: <sup>4</sup>[KPMG](#) - Accessed on 20 November 2021.  
<sup>5</sup>[FSCA.co.za](#) - Accessed on 10 March 2022.
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<sup>7</sup>[Treasury.gov.za](#) - Accessed on 11 November 2021.  
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<sup>12</sup>VIX levels found [here](#).
- Page 7: <sup>13</sup>[Accenture.com](#) - Accessed on 23 August 2021.  
<sup>14</sup>[PR Newswire.com](#) - Accessed on 15 October 2021.
- Page 8: <sup>15</sup>View FSCA PDF [here](#).  
<sup>16</sup>CIPs in the UK context refer to a standardised approach to providing investment advice, portfolio advice services (recommending a portfolio of investments that is designed to meet a target asset allocation) and discretionary investment/fund management, either in-house or referred to a third party where the adviser has some say in the investment strategy adopted. View FCA.org.uk PDF [here](#).  
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<sup>20</sup>Abbie Knight presentation. Based on CoreData and Defaqto data from 2019.
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- Page 12: <sup>23</sup>[SSRN.com](#).
- Page 13: <sup>24</sup>This is the estimate based on the long-term track record of INN8 Invest's asset management team across various peer-relative solutions.
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## AS A WEALTH MANAGER OF THE FUTURE, WE NEED TO TALK.

For more information on how INN8 Invest can help transform your business and clients' investment portfolios, please contact your business development manager or send us an email.

[WWW.INN8.CO.ZA](http://WWW.INN8.CO.ZA)

[HELLO@INN8.CO.ZA](mailto:HELLO@INN8.CO.ZA)

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