

Investment Advice

Understanding the service you get from your investment manager



MHA have teamed up with Cazenove Charities to provide a short guide on understanding the jargon within investment manager services. This article aims to help you understand the types of services on offer and what to expect. It is written by James Brennan, Portfolio Director at Cazenove Charities, who is a well regarded and specialised in the Charities team at Cazenove.

James speaks to lots of charities and schools who often aren't sure what level of service they are getting from their investment manager. He looks at the three main levels of service and explores the key difference between them - whether you receive ongoing investment advice or not. First though, why is advice important?

Investment Advice

Let's look at the subject of advice and some of you will be aware of the Charity Commission's CC14 (Charities and investment matters: a guide for Trustees) which is recommended reading and clearly states that:

"In order to act within the law, Trustees must take advice from someone experienced in investment matters unless they have good reason for not doing so"

The most common options for Trustees are:

- To delegate this to a regulated investment manager or adviser (typically working under a Discretionary or Advisory agreement).
- If one of the Trustees has suitable financial experience and ability (I am personally involved with a Seafaring charity - although we still insist on a Discretionary agreement with our investment manager).

Discretionary Management

Discretionary Management is when an investment firm builds and manages a portfolio of investments on your behalf. They take into account how much you have to invest, the level of risk you are prepared to take, your financial objectives, time horizon, drawdown requirement and ethical criteria.

Once the portfolio has been built, the Discretionary Manager will make ongoing decisions about the portfolio using their own discretion (within agreed parameters) and it is incumbent upon the firm you select to ensure the suitability of every investment decision and indeed the ongoing overall suitability of your portfolio so it is an iterative and ongoing service.

Do not assume that because you are invested in a Charity Authorised Investment Fund or Common Investment Fund that this is under a discretionary management agreement and that you are getting advice - this is a common misconception and a question to ask your manager. Some managers offer an advice 'umbrella' and some offer an Execution Only agreement (more on that later).

Advisory Management

Advisory Management follows the same process as Discretionary Management however, the investment firm has to contact the client and obtain agreement before any changes are made to the portfolio and the firm is unable to make changes to a client's portfolio without prior agreement. As per Discretionary Management it is still incumbent upon the firm you select to ensure the suitability of every investment decision and indeed the ongoing suitability of your portfolio so it is an iterative and ongoing service.

Execution Only

Execution only is a transaction executed by a firm upon the specific instructions of a client where the firm does not give advice on investments relating to the merits of the transaction and in relation to which the rules on assessment of appropriateness (otherwise known as suitability) so you might expect to pay less for this service than a Discretionary or Advisory agreement.

Below is an anonymised extract from a large charity managers' application form for a multi-asset charity fund where the manager is not actually providing you with Discretionary Management or any form of investment advice to be clear - in fact they point you to someone else if you do require advice, so this is something that trustees and governors should be aware of.

"We understand that in the provision of this service, ABCD are executing the transaction on an execution-only basis and are not providing advice on the merits of the transaction and in relation to which the rules on assessment of appropriateness and suitability do not apply. Consequently investors do not benefit from the protection of rules on assessing appropriateness and suitability provided within the Regulatory Rules. You should consult an intermediary if you require investment advice."

If you would like to discuss any matters arising from this article, please contact James Brennan on james.brennan@cazenovecapital.com or your usual MHA contact.

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