Suitable for
professional clients.

Avoiding foreseeable harm

As Andy Miller explains, thanks to an evolving regulatory landscape and a changed investment outlook, the odds are increasingly stacked against advisers still building their own in-house investment portfolios.

The change from a world of low interest rates, low inflation, and muted geopolitical risks to a world of high interest rates, a cost-of-living crisis, and simmering international tensions has helped turn conventional investment approaches on their head in recent years.

Meanwhile, today's regulatory focus, which requires advisers to be more proactive in the pursuit of good customer outcomes, has made life increasingly difficult for those advisers still offering their own in-house portfolios.

This shifting backdrop means many advisers now need to evaluate their existing investment processes. They need to recognise where the risk lies in their businesses, and how to manage escalating costs, while still improving their profitability and delivering positive outcomes for their clients.

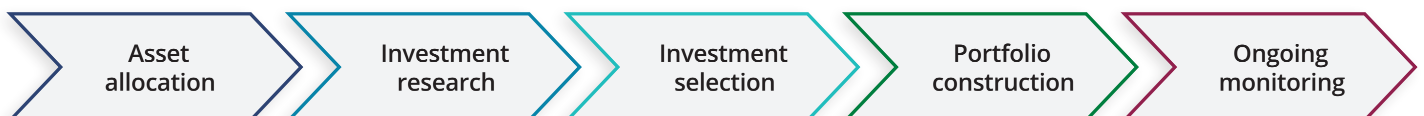
Creating an efficient investment process

If you are still managing client portfolios, your first step is establishing an appropriate long-term strategic asset allocation. This requires in-depth analysis, research, and specialist investment tools.

The strategic asset allocation is the bedrock for investment returns in any portfolio, so finding that optimal mix of asset classes and investment styles is key to success.

Once an appropriate investment mix has been decided, it then comes down to screening and selecting appropriate funds with which to populate each portfolio.

To withstand regulatory scrutiny, any investment process will need robust, repeatable practices in place to identify which funds, and which managers, are best-placed to contribute to your portfolio objectives. This is where due diligence will need to be evidenced as it's the only way to ensure that the wrong building blocks aren't selected.



Not being able to demonstrate an understanding of the funds in a portfolio can increase the chances of foreseeable harm for your clients. This is especially important in the context of the Consumer Duty.

Andy Miller, Lead Investment Director, Quilter

The next step is portfolio construction. This means assembling the right constituent parts of your portfolio and instigating a process for tactical overlays that enables you to exploit short-term market conditions or to refine the overall risk levels of the portfolios as market conditions evolve.

Monitoring and oversight

Once you've constructed your portfolios, the requirement to continuously monitor and manage them kicks in. This means identifying any changes to an underlying fund's management team, its investment process, or its style bias. It also means dedicated performance analysis and a whole host of operational investment and due diligence considerations.

If you offer your clients in-house portfolios, it comes down to managing two significant business risks:

1. Your clients not being in the right investment at the right time.
2. Being unable to demonstrate an understanding of the fund mechanics underpinning a portfolio.

Not being able to demonstrate an understanding of the funds in a portfolio can increase the chances of foreseeable harm for your clients. This is especially important in the context of the Consumer Duty.

Client reporting on advisory portfolios

Mrs Jones is invested in a portfolio of 20 funds. Her adviser typically places two switches per quarter.

- KIIDs
- Quarterly valuations
- Contract notes
- Cost benefit analyses
- Ex ante/ex post disclosures
- Suitability reports

Mrs Jones receives 180 pages of documents each year

The Consumer Duty challenge

The challenge for every adviser is to evidence that your business is actively looking to deliver the very best outcomes for your clients. From an investment perspective, this means detailing your investment process at a much more granular level than previously.

For example, the Consumer Duty requires advisers operating their own portfolios to detail and rationalise any funds that have been added to, or removed, in the last 12 months. It also requires full disclosure of the governance arrangements that are in place, including minutes from the meetings covering each fund going back 12 months.

For most advisers, this level of forensic investment analysis, continuous monitoring, and ongoing governance simply isn't possible due to the financial and time costs involved.

Outsource or build your own?

All of this points to only two realistic options for advisers operating their own portfolios:

1. Invest in a highly disciplined, well-resourced, in-house investment process, with appropriate fund research, due diligence, governance, and reporting capabilities.
2. Outsource your investment process, the regulatory risks, and the added costs it represents, to a recognised investment manager.

If you pursue the first option, ensuring that your investment process meets all Consumer Duty requirements, and that it remains aligned with an ever-evolving regulatory landscape, isn't an easy task. The pace of regulatory change has become relentless.

Ultimately, avoiding foreseeable harm isn't about predicting the future, it's about anticipating what could happen, and having the right procedures in place to act effectively, when things go wrong.

Important information

The value of investments and the income from them may go down as well as up and investors may not get back any of the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

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