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What on earth is a Discretionary Fund Manager?

Although 'Discretionary Fund Manager' (DFM) has come to be a relatively established term in the industry it seems that there remains confusion as to what a DFM does or should be doing. This naturally leads on to the roles of accountability it assumes or should be assuming, or worse, is assuming but that is not fully understood by the parties concerned. Even supposed DFMs in the industry are quite confused as to what discretionary fund management is. I could not help but chuckle when an industry player claiming to be a DFM was quoted as saying "we do all that a DFM does except discretionary management". If that is the case and you can still be classified as a DFM, what on earth is a DFM?

For some a DFM is just another layer of fees in the value chain, created to minimise compliance risk, a form of tax if you will. I have sympathy for this because several players in the industry would have difficulty disproving this of their propositions. For others it is a potential source of information that can be used or not i.e., it is at the buyer's discretion to make use of the DFM's discretion when it suits. The problem with all this confusion, however, is that it becomes very difficult to assess one DFM against another; especially when DFMs aren't doing *discretionary fund management*. When it is in the name surely this is something that you should be doing?

So, what then is discretionary fund management? We can break it down to two terms: fund management and discretion. I prompted ChatGPT to explain fund management to me in 30 words, it gave me the following: *Fund management involves professionally managing investment funds, making strategic decisions to maximize returns, minimize risks, and achieve financial goals on behalf of investors within a specified investment strategy.* This seems accurate enough to me. If I do the same for the term discretion (as it relates to investment management) it provides the following: *Discretion refers to the authority granted to portfolio managers to make independent decisions on buying, selling, and managing assets within the framework of established investment objectives and guidelines.*

So Discretionary Fund Management seems to entail an objective, a mandate, and the DFM's discretion in finding the best way of achieving this. It really is this simple. Then it should be very easy to assess DFMs because theoretically the value of their discretion within fund management should bear out in their performance. The problem is that many DFMs don't have performance to show because they do not exercise their discretion in fund management, yet they are classified as DFMs.

A DFM to me can be used interchangeably with asset manager, fund manager, investment manager, portfolio manager or multi-manager. They are all one of the same things because at the core they are all trying to do the same thing. They are all exercising their discretion to meet the objectives of their clients subject to the constraints imposed on them by their mandate. They should also be accountable for the outcomes because their decision making has direct bearing on the results. If this cannot be established, then whatever someone is purporting to be it is not *Discretionary Fund Management*.