

Nucleus platform user guide

Discretionary fund manager (DFM) service

Edition 15

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Introduction

Partnering with a discretionary fund management (DFM) service allows you to harness specialist investment skills, expertise, research and resource that you may not have available within your business. This can substantially reduce the time, risk, cost and regulatory burden of managing investment portfolios yourself and lead to better, more bespoke customer outcomes

Our service lets you appoint third party DFMs to manage client investments on the platform, on your behalf. You can receive a recurring investment management fee which is payable from the client's cash account.

This helpful guide details the actions you need to take to make sure DFM services are set up correctly. It's important you read the following information carefully and take the relevant actions, to avoid any delays to rebalance instructions or issues caused by unpaid investment management fees.



How the DFM service works

All client assets are held on our platform and the appointed DFM manages the portfolios. This simplifies the traditional DFM model considerably as the administration for clients' assets is centralised on our platform.

- As the adviser, you manage the new business and servicing of the client.
- The DFM is accountable for the investment management of the selected model portfolios.

Both you, as the adviser and the DFM can be paid fees directly from the client's cash account, and these are shown clearly as transactions on the platform.



The benefits of the DFM service

For you:

- Investment management is outsourced to an established and respected specialist investment management company.
- Helping you to address the compliance burden of Mifid II and PROD.
- You retain control of the client on the platform including control over your fees.
- The ability to easily switch between DFMs.
- You have more time to spend with clients.

For DFMs:

- Appointed firms can manage multiple clients using a single model portfolio structure.
- Receive direct remuneration via a transparent fee.

For clients:

- An efficient way to work with a best-of-breed adviser and DFM service.
- Having increased quality time with their adviser.

Getting started

Using a DFM – your responsibilities

As you complete your financial planning process with your client and have decided on a model portfolio to meet their objectives, it's important you complete each stage of our DFM process, which is a mix of documentation and keying instructions on the platform. The stages are:

- DFM training module
- Choosing a DFM (including required documentation)
- Aligning a DFM to a client

DFM service training

If you're new to our DFM service, we've developed a helpful and easy-to complete training module to help you understand the necessary actions to align a DFM and set up a model portfolio. You must complete the training module before you can do this – remember, we want to support you in making sure your clients are always in the right financial position and pay the correct fee.

And don't worry, your regional account manager will contact you at the right time (usually when platform agreements have been signed) to discuss your training needs.

Choosing a DFM

If you've decided on the DFM you'd like to align to your client(s) then please contact the DFM to satisfy yourself their services are suitable for your client proposition. After formal selection, the DFM firm will provide us with a DFM access form. We'll process this and let you know the DFM firm's model portfolio is available for you to assign to your clients.

If the DFM firm you've chosen isn't on our platform then please let us know the details and we'll begin the process of establishing a relationship with the DFM as soon as possible.



The documentation you'll need

DFM access form

Your chosen DFM will send this to us, which will give us the authority to make their model portfolios available to you.

DFM client authority form (0494)

Clients will need to sign a DFM client authority form, which is then returned to us. This form gives us the authority to deduct the DFM fee from the client's cash account and enables the DFM to include the client's account in a rebalance.

Model portfolios - your responsibilities

It's your responsibility to determine which model portfolio is appropriate for your client and to link them to that model once they've given their authority. You must also key the details of the initial rebalance into the model for an existing client. For new clients, please select the model portfolio as part of the new business process.

Assets the DFM fee is calculated on

The DFM fee is calculated on all assets held within the linked account, including cash. If there's an asset within the account that you've marked 'exclude from rebalance' e.g. a monthly traded fund, a fee will be taken on that holding also.

When you link a DFM to your client's account, please consider opening an additional account to hold any assets outside the model portfolio. The assets held in this account will be ring-fenced to ensure they're not subject to the DFM fee.

Aligning a DFM to your client's account

To let us align a DFM, we need your client's authority(ies). Please log in to the general section of the library for a [DFM client authority form \(0494\)](#) and arrange to have it completed and signed. A copy of the form can be sent to us which means we can begin the process of aligning the DFM firm.

Please ensure you confirm the full and correct name of the DFM firm (e.g. Tatton Bespoke Portfolio Services).

If known, the DFM outlet can also be included for completeness. All DFM outlets begin with "D" and can be found in the DFM and model portfolio reports on the platform.

For new clients

Link the chosen DFM's model portfolio to the client's account as part of the new business application. Once linked, please arrange for the client authority form to be completed and sent to us with the new business paperwork. We'll then align the DFM to the client account.

For existing clients

The model portfolio should be added to the account from the dropdown menu in the 'model portfolio details' section of the client account. Select the desired model and tick the 'rebalance today' box to make the initial buy into the DFM model portfolio. As soon as the model portfolio is selected, you must send us the completed DFM client authority form via Jira. On receipt of the form we will link the DFM to your client's account.

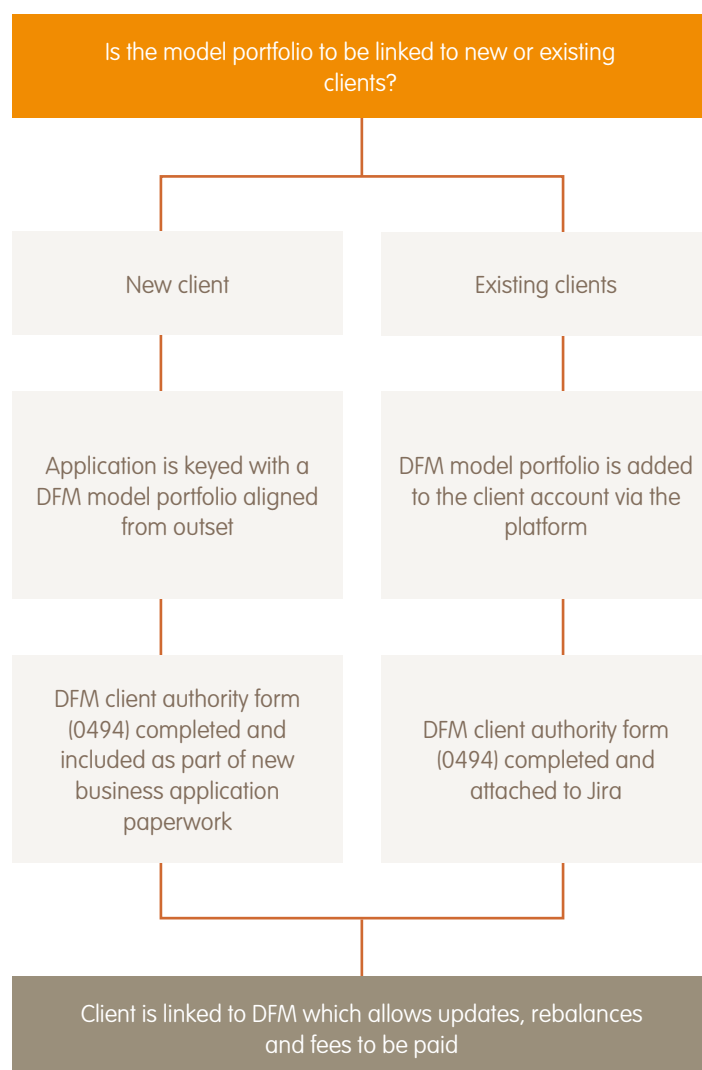
To help us efficiently link the model portfolio to the client account, please make sure the DFM name on the authority form matches the model portfolio to be linked to the account. The form should also contain the client account number, wrapper type and correct fee amount. Finally, please make sure the form is signed and dated by the client. Incomplete or incorrect forms could result in the wrong fees being deducted or the DFM service not being available.

Important

Your clients won't receive the DFM service until we've received the client authority form.

The correctly completed client authority form is critical to this process. It's only after it's processed that a DFM will be able to rebalance the model portfolio aligned to the account. Additionally, you must check that the form is completed correctly and sent to us before any fees can be paid.

The following diagram shows the process to follow when aligning a new DFM to your client's account.



Viewing, changing and removing a model portfolio and DFM

View clients using a DFM

Select 'discretionary fund manager' in the reports section of the platform to show your list of clients who have a DFM aligned to their account.

Change of DFM

To let us make the 'new' model portfolios available to your clients, you must contact the DFM to provide us with a DFM access form. Until we receive this, the new model portfolios will be unavailable.

Your client(s) must also complete a new DFM client authority form for the appointment. This should be returned to us via Jira. Doing this will make sure the aligned model portfolio is included in any future rebalances and the fee is paid to the new DFM. The form should state the date the change is to be effective from. Within the model portfolio details section of your client's account you'll need to reassign the client to the new DFM model portfolio and instruct the initial rebalance to align the holdings to the asset allocation of the new DFM.

Model portfolio changed in error

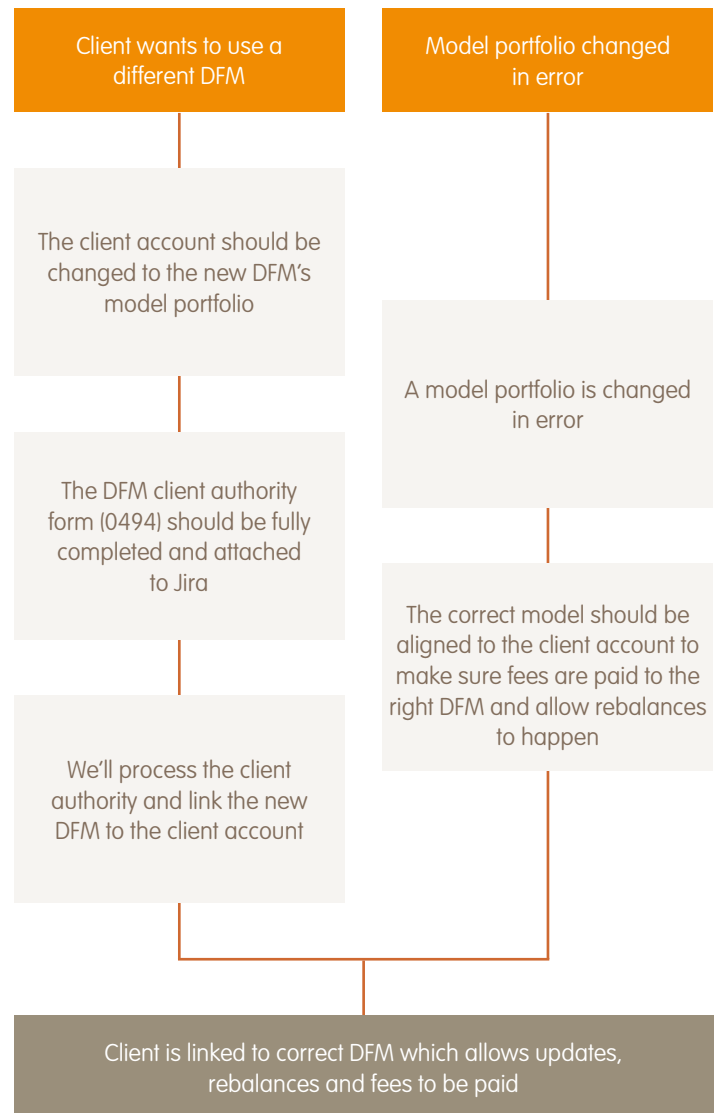
Changing a model portfolio in error could result in fees being paid to the wrong DFM and the client account being excluded from future rebalances. To correct this, simply align the client account to the correct model.

Moving monies from a Nucleus Pension account to drawdown

If there's an existing DFM aligned to the client's Nucleus Pension account, this link will automatically move to the drawdown account. However, you must make sure the correct model portfolio is added to the drawdown account once crystallisation completes.

If you do not want the DFM to be linked to the drawdown account, please notify us via Jira and we'll remove the DFM link from our records.

The following diagram shows the process to follow on the platform if you wish to change DFM, or you've changed the model portfolio to a different DFM in error.



Important

If we don't receive a completed DFM client authority form, the client account won't be included in rebalances and the fee will continue to be paid to the previous DFM.

Additionally, incomplete or incorrect forms could result in your client paying the wrong fee or not receiving their service.

Changing the model portfolio under the same DFM

In the model portfolio details section of your client's account, you can simply select another model portfolio and tick the 'rebalance today' box to make the change. We don't need any additional paperwork to do this. However, if you also want to change the DFM your client is using, we will need a fully completed DFM client authority form from you. Please refer to the 'Change of DFM' process above if this is the case.

Removing a client from the DFM service

To remove a client from the DFM service, please raise a Jira request with details of the account to be removed and the date this is to be effective from. You'll also need to update the model portfolio section of the client account to remove the DFM.

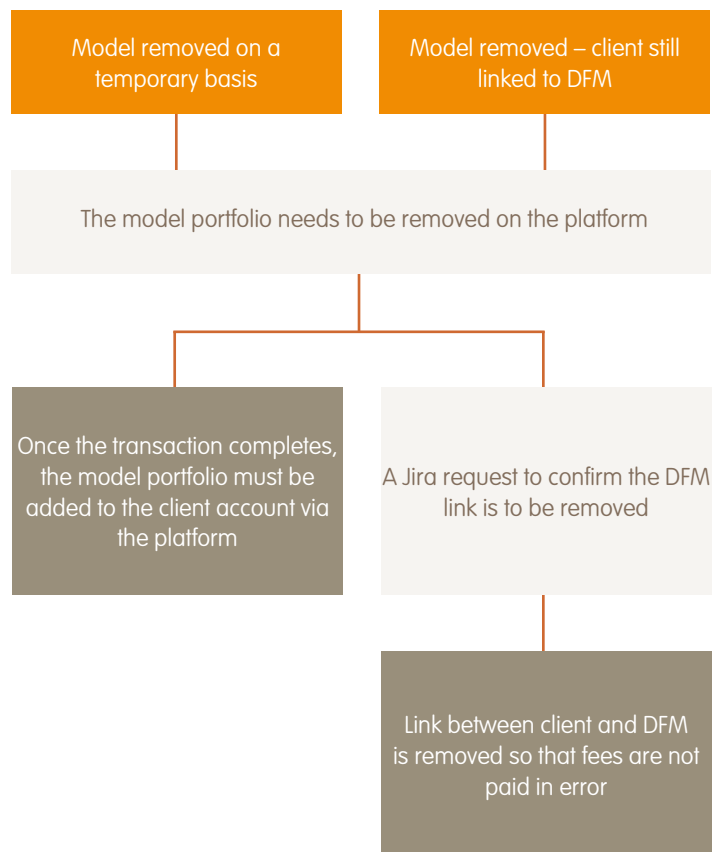
Important

If you remove a model without raising a Jira, the client will be charged a fee but won't be included in the rebalance.

Where a model has been removed but the client is still linked to the DFM

If you remove a client from a model portfolio, for example to avoid a rebalance or to delay a withdrawal, the fee will continue to be paid to the DFM and future rebalances will not be picked up until you put the client back in the model. If you wish to permanently remove the DFM, remember you still need to raise a Jira request to confirm the DFM is no longer linked to the client's account.

The following diagram shows the platform process to follow when removing a model from a client account.



Fees

Payment of DFM fees

You'll need to make sure there's sufficient cash in the client account to pay fees or fund regular withdrawals. Model portfolios should contain at least two per cent cash, however if more cash is needed any sell-downs should be done in line with the model portfolio, to maintain the required asset allocation.

Fees for this service

We don't apply charges for this service. The DFM agrees a fee (inclusive of VAT where applicable) for their service with you, as the adviser. This can be taken from your client's cash account monthly, under the narrative 'Investment management fee', once we're in receipt of the DFM client authority form. Alternatively, you can arrange a separate agreement for the payment of this fee where it's not taken directly from the platform.

Deduction of DFM fees

Where the DFM fee is taken from the platform, it's calculated daily and will be taken from your client's account on the first Thursday of the month in arrears. It's paid by BACS and will reach the DFM bank account the following Monday.

Rebalancing

Unless you're changing your client's portfolio, as covered in the previous section, the DFM will be responsible for rebalancing portfolios.

The account will rebalance once you've made the initial buy into the model portfolio, the DFM will decide when it's appropriate to make any changes to the model or to rebalance back to target weightings. No action or approval is required from you or your client for this.

It's worth noting that you need to remain linked to the model portfolio for the rebalance to take place. If you unlink from the model, the rebalance won't happen.

Some DFMs will have scheduled rebalances and others will rebalance as they feel necessary. This will be covered in your service agreement with the DFM.

Excluding assets from rebalance

If the client has any 'non-core' assets within a wrapper to be retained, you must ensure that the 'exclude from rebalance' box is ticked on the client's account to avoid the asset being sold and rebalanced into the DFM's model portfolio. The DFM fee is calculated on all assets held in the linked account, including cash.

Bulk switches and bulk rebalancing

The bulk switch tool allows DFMs to replace one asset with another asset(s) across client accounts. Likewise, the bulk rebalancing tool allows DFMs to rebalance model portfolios across all client accounts which are associated with those model portfolios.

Always remember investment returns aren't guaranteed. The value of an investment can go down as well as up and may be less than the amount paid in.



If you've any questions on our DFM service, please don't hesitate to contact your regional account manager or check out our contact us page:

<https://www.nucleusfinancial.com/contact>

For literature in alternative formats, such as Braille, large print, audio or E-text, please call us on 0131 226 9535, or via the Relay UK service on 18001 0131 226 9535.



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