

The complaint

Mr C has complained about the advisory services he received from Quilter Financial Services Ltd (Quilter) in relation to his investment into the Woodford Equity Income Fund (WEIF).

What happened

In 2016 Mr C was advised by his long-standing adviser from a business Quilter is now responsible for to invest a proportion of his defined benefit pension transfer monies into the WEIF as part of a wider investment portfolio.

At the time the WEIF was investing in larger companies providing equity and was a successful equity producing fund with a medium risk level.

However, as the years continued the fund's investment strategy changed with more investments being made in smaller companies which were unquoted and often had liquidity issues.

By 2019 the WEIF was in difficulty and in June 2019 the fund was suspended and was closed down permanently a few months later. As a result, many investors, including Mr C found their investments in the WEIF frozen or at best significantly reduced in value. Mr C has said that the change in the investment strategy was not communicated to him by Quilter at any point nor was he recommended to switch to alternatives during this time or at any of his annual reviews.

Mr C therefore feels the loss of around 50% in the value of his investment is due to failures on the part of Quilter.

When Quilter investigated the complaint it was satisfied that it had been proactive in its dealings with the WEIF. It stated the investment strategy was not regarded as being high risk. And given the fund managers past record it believed the strategy would be proved correct and so felt no need to make any changes to Mr C's portfolio.

Unhappy with this response Mr C brought his complaint to this Service where it was assessed by one of our investigators. He felt it couldn't be upheld for broadly the same reasons as Quilter.

Mr C didn't agree with the assessment. He remained of the view that he wasn't kept informed of the fund's changing strategy and that Quilter had a duty to tell him what was happening with the fund. He also stated that he had never wanted to take high levels of risk so when the fund was recategorised Quilter should have told him and allowed him to invest elsewhere.

As no agreement could be reached the complaint has been passed to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this case. I've taken into account relevant: law and regulations; regulatory rules; guidance and standards; codes of practice; and (where appropriate) what I consider to have been good industry practice at the relevant time.

Where the evidence is incomplete or inconclusive, I've reached my decision based on the balance of probabilities – in other words, on what I think is more likely than not to have happened given the available evidence and wider circumstances.

The advice to transfer into WEIF does not form part of this complaint. But it's worth noting that I see nothing wrong with WEIF being recommended to Mr C in 2016. At that point in time, it wasn't a high risk or volatile fund. It had been a very popular and successful income producing fund which didn't contain a high proportion of unlisted securities in 2016. It was used in many portfolios of clients wanting an income producing fund and for those who were happy to take a low to medium level of risk. However, by 2017 the fund started to underperform and didn't recover ultimately leading to its suspension in 2019. Further to this, the WEIF was recategorised in March 2018 to an *all companies fund* to reflect the decrease in the income the fund was producing. The fund also continued to invest more and more in unlisted securities from this time.

Mr C has said Quilter failed to keep him informed of the fund's changing strategy and what was happening with the fund. But the types of investments the fund made from around 2017 were permissible under the investment objective of the fund, as set out in the Authorised Corporate Director's prospectus. So, it isn't unreasonable that Quilter was not alarmed by this and didn't flag this up as a concern to Mr C or recommend he take any action.

Furthermore, while the performance of the fund fluctuated around this point in time, given the fund manager's previous record of successful investments along with the fact this fund recovered from significant dips in performance at least three times in the past, I don't think it was unreasonable that Quilter, along with many other advisers, felt the fund would recover.

The recategorisation of the fund in 2018 would have been due to the change in the risk levels of the fund but the increase in risk was slight. Nevertheless, Mr C didn't invest solely in the WEIF – his portfolio contained a number of different funds with differing risk profiles. So, the increase in risk of the WEIF, slight although it was, would have been balanced out by the other funds within his portfolio. And when assessing the level of risk of a portfolio it is only right to look at the portfolio *as whole* – as there will always be assets which are more towards the medium risk end of the risk spectrum, but these would be balanced out by those more towards the low/no risk end of the spectrum.

So, whilst the WEIF at the point of recategorisation would have been a higher risk than in 2016, if Quilter had felt this didn't push Mr C over his overall appetite for risk for the entirety of his portfolio it isn't unreasonable that it didn't suggest Mr C make any changes to his investments at the time.

It is easy to say with hindsight that Quilter should have done something different. But at the time this particular fund manager had such a good reputation that collapse of the fund wouldn't have been easily foreseeable. So it isn't unreasonable that Quilter didn't think there was anything to be concerned about.

My final decision

My final decision is that I don't uphold this complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 28 November 2023.

Ayshea Khan
Ombudsman