DRN-3453220

The complaint

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

What happened

In 2017 Mrs C was advised by a business, now the responsibility of Quilter, to invest a proportion of her pension 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 Mrs C found their investments in the WEIF frozen, or at best, significantly reduced in value.
Mrs C has said that the change in the investment strategy was not communicated to her by Quilter at any point nor was she recommended to switch to alternatives during this time or at any of her annual reviews.

She feels Quilter didn't handle its recommended investments well and didn't communicate properly with her to enable her to make changes if she wanted to. She feels Quilter knew the fund was no longer following the same investment strategy but failed to do anything about this to protect her. Mrs C therefore feels the significant loss her pension has suffered is due to Quilter's failures.

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 Mrs C's portfolio.

Unhappy with this response Mrs C brought her 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.

Mrs C didn't agree with the assessment. She remained of the view that she wasn't kept informed of the fund's changing strategy and that Quilter had a duty to tell her what was happening with the fund.

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 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.

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 Mrs C in 2017. 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 2017. 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. And in the middle of 2017 the fund was at the top of its sector and existing investors were experiencing good gains on their investments. However, by 2018 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.

Mrs C has said Quilter failed to keep her 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 onwards were permittable 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 Mrs C or recommend she 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.

As already mentioned, the fund was recategorised in 2018 due to the change in the risk levels of the fund. But the increase in risk was slight. And Mrs C didn't invest solely in the WEIF – the 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 the 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.

I know Mrs C feels that it was well documented in 2018 that the fund had started to make losses from July 2017 onwards and so Quilter should have acted upon this and communicated this fact with her. But a loss in the value of a fund doesn't always mean the fund will continue to drop – drops and increases in the value of investments are a part of investing. Also, it wouldn't have been wise to make any "knee jerk" reactions as a response to the drop in the value of the fund – and in fact Quilter could have been criticised if had it done this. And as I have said, it isn't unreasonable that Quilter didn't feel this was a significant problem given the past history of the fund.

So, I don't think Quilter actively deprived Mrs C of making changes it isn't unreasonable that it felt it didn't need to inform her of the movements at that point in time.

Ultimately all an advisory firm can do is make its decisions based on their knowledge and experience of the industry. No adviser can predict the future and ultimately losses are a part of investing.

In addition, while Mrs C has commented on Quilter's business practices and the robustness of the selection of funds and the retention process, it isn't for me to comment on this apart from that I see nothing wrong with the decisions Quilter made in relation to the WEIF.

Overall, therefore, 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 Mrs C to accept or reject my decision before 8 February 2024.

Ayshea Khan
Ombudsman