

## The complaint

Mr F complains about Link Fund Solutions Limited's role as Authorised Corporate Director (ACD). In particular, he complains that its actions or inactions in relation to another investment it was ACD for, directly caused his investment losses in the Woodford Income Focus Fund (WIFF).

## What happened

In April 2017 Mr F invested £10,500 in the WIFF via a broker I'll refer to as HL. Link (Capita Financial Managers Limited at the time, later acquired by Link and hereafter referred to as Link) was the nominated ACD of the WIFF, and consequently responsible for overseeing how the fund was managed by the appointed investment manager – Woodford Investment Management (WIM).

At the time of the launch of the WIFF both WIM and Link were responsible for managing another equity fund, called the Woodford Equity Income Fund (WEIF). This had been launched in 2014. There was a degree of overlap between the WIFF and the WEIF in terms of underlying assets, but there were also some important distinctions – chief among these was the WIFF's purpose to deliver a higher yield than average, with no appreciable exposure to unlisted securities.

The performance of both WIFF and WEIF was disappointing from 2018 onwards, and in June 2019 Link took the decision to suspend dealings in the WEIF due to concerns about the liquidity of the fund and its ability to meet ever rising redemptions.

In October 2019, after Link's decision to close the WEIF and begin its liquidation, WIM resigned as investment manager of the WIFF – so Link took the decision to briefly suspend dealings in the WIFF between October 2019 and February 2020, and the fund was reopened with a new investment manager.

In December 2020 Mr F complained about Link's actions. In short his complaint was that Link's actions in relation to the WEIF, and in particular its decision to suspend the WEIF, caused a knock on effect on the value of the WIFF – and consequently this caused him a financial loss. Link didn't uphold Mr F's complaint, and so he referred it to this service.

One of our investigators looked into Mr F's complaint, but didn't think it should be upheld. In summary he said:

- The liquidity issues that led to the WEIF being suspended were not present in the WIFF, because it was entirely invested in listed securities.

There were therefore no issues in the WIFF's ability to meet redemption requests.

- Link's management of the WEIF was not within the scope of this complaint.
- The performance of Mr F's investment in the WIFF was based on the securities that the WIFF was invested in – and there was a significant degree of overlap between

the securities the WEIF invested in and the securities the WIFF invested in, even though they were not invested in each other. This meant that the performance of both investments had commonalities.

- However, the regulator didn't prohibit a fund manager investing in similar securities in separate funds, and consequently Link's decision to allow this to happen was not unfair or unreasonable.
- Although the WEIF clearly had some impact on the value of the securities it and the WIFF invested in, it wasn't the only market participant and so it wouldn't be fair and reasonable to conclude that the issues to do with the WEIF were the only reason certain securities dropped in value. And given that the WEIF and the WIFF were not directly invested in each other, it would not be fair and reasonable to conclude that the performance of one fund had a direct impact on the other.
- The investigator acknowledged that with the benefit of hindsight it was clear that WIM's choice of securities did not generate the profit or growth that was intended. However, this didn't automatically mean that the fund had been mismanaged or that Link had done something wrong.

The investigator therefore concluded that Link's role in the management of the WEIF did not cause Mr F's losses in the WIFF, and he didn't think Link needed to pay him any compensation.

Mr F didn't agree and provided detailed comments in response. He said:

- Link's role had already been criticised within the management of the WEIF, and in particular the WEIF's level of unquoted assets, and this is what led to the collapse of the WEIF.
- If the WEIF had not been suspended and then closed, '*the WIFF would still have been active*'. He said that he couldn't see how '*the closure of the WEIF did not adversely affect the WIFF*' and given that the Financial Conduct Authority (FCA) was looking into Link's role in the management of the WEIF, it ought to be held accountable for the failure of the WIFF.
- Although the investigator said that the investment decisions between the WEIF and the WIFF were different, '*the reputational damage to Woodford caused the value of the other funds to drop*'. He said that although the investigator was right that the WIFF was eventually reopened under a new investment manager, at that point it had lost half its value.
- Mr F said he found it '*extremely difficult to believe that the closure of the WEIF did not result in the subsequent devaluation of the WIFF*', and consequently felt that '*had Link been more diligent in their oversight of Woodford this distressing situation would not have occurred*'.
- Mr F concluded by saying that he and his wife had lost considerable money from the WIFF's poor performance, and that '*had the WEIF not collapsed then the WIFF would still have been a good investment*'.

Link also provided detailed comments in response. In summary it said:

- Link's management of the WEIF was not within the scope of this particular complaint.
- Link did not accept that the suspension and subsequent winding up of the WEIF had any impact on the value of Mr F's investment in the WEIFF. In particular;
  - It said that there was no evidence, where there was overlap between the two funds' assets, that such overlap was detrimental to investors. It said that given both funds shared the same investment manager, a degree of overlap was to be expected and was not against any relevant rules at the time.
  - The WIFF was comprised of a large number of listed securities, each of which fluctuated in value in accordance with supply and demand in the market. So there were multiple factors that could've affected the value of a given security.
  - When the investment manager was changed following the WIFF's suspension, '*no assets were sold at a material undervalue during the repositioning process*'. The start of the pandemic had a far bigger impact on the value of the WIFF than its suspension and change of manager.
  - Furthermore, it said that the WIFF was not suspended due to any liquidity issues, and was entirely invested in listed assets.
- Any loss to Mr F was purely attributable to the performance of the fund for which Link was not responsible. It said that looking at the performance of the WIFF and the WEIF, the WIFF declined in value between January 2018 and June 2019 from 105p a share to 86p a share. This showed that the decline in the value of the WIFF was down to the performance of individual stocks. There was no evidence that the further more limited decline was due to anything that happened with the WEIF. Link reiterated that as ACD it was not responsible for deciding which assets to buy and sell, and so there was no basis for asking it to compensate Mr F. Mr F could've sold his stake in the WIFF at any point but chose not to do so.

As agreement couldn't be reached, the case was 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'd like to thank both parties for their detailed submissions, which I've carefully considered in their entirety before reaching my decision. I hope neither party takes it as a discourtesy that I've only summarised their submissions above, and that I don't intend to respond or acknowledge each individual point that has been made. That's not because I've not given each point due consideration, it simply reflects the informal nature of this service. My role is to focus on the key issues in this complaint and provide my reasons.

The key issue in this complaint is that Mr F strongly believes that Link's alleged failures in overseeing the WEIF were material to the WIFF's underperformance, and therefore the loss in the value of his stake in the WIFF.

I should be clear that what follows will not attempt to determine or comment on Link's role in how the WEIF was managed. As the investigator has said, and I agree, that is not within the scope of this complaint.

This complaint is only about Link's actions in relation to the WIFF.

It follows therefore that in my view, it wouldn't be fair and reasonable to uphold the crux of Mr F's complaint, without a proper investigation of how Link discharged its obligations in relation to the WEIF. But even if Link's actions in relation to the WEIF did have a knock on effect on the WIFF (and to be clear, I'm not making this finding), I don't agree this means that Link would be required to pay Mr F compensation.

The key issue in this case is that Link was required to discharge its obligations in relation to each fund paying the utmost regard *to the best interests of the investors in that specific fund*. Link wasn't required to oversee the management of the WEIF, with an eye on what might happen on the WIFF. They were two separate funds, with two separate mandates, different objectives and largely different purposes – and launched at different times.

Whatever its reasons for suspending the WEIF in June 2019, it would not have been a relevant consideration how that suspension might've affected another of WIM's funds – because that would mean taking into account the best interests of other investors who may not have been invested in the WEIF. That would've been contrary to its obligations.

So the key question is how Link discharged its obligations in relation to the WIFF, and I'm satisfied that there's insufficient evidence to conclude that it didn't act fairly and reasonably, and with due regard to the relevant obligations. I say this because:

- Its decision to briefly suspend the WIFF in October 2019, at a time when the investment manager was changing, was not unreasonable and in my view within the range of reasonable actions it was entitled to take in order to safeguard the interests of investors in the WIFF.
- The evidence I've seen shows that it lifted that suspension as soon as it could, charged no fees for its services during that period, and the performance of the fund was largely unaffected.
- I agree that the largest shock to the value of the fund was caused by the pandemic, and this was not something Link had any control over.

It's also important to underscore that, in my view, what was largely an attraction to investing in the WIFF at the time, was also a risk – namely Woodford's track record. Mr F invested in both WEIF and WIFF, and whilst he's not explained in detail his rationale for investing in both funds, I'm aware that Woodford's track record, and the performance of the WEIF in 2017 when the WIFF was launched, were all positive indicators that the WIFF would be a profitable investment.

However it's equally clear to me that one risk of investing in two funds managed by the same fund manager is the possibility of some of the same stocks and assets being picked – and consequently performance, whether good or bad, being replicated across both funds. As the investigator has explained, and I agree, Link's role wasn't to limit the extent to which this happened – its role was to ensure that the WIFF continued to be managed in line with the mandate and what investors were told at inception. I've seen insufficient evidence that the WIFF was managed in a way that was inconsistent with those aims.

Whilst I understand Mr F's profound disagreement with the outcome the investigator reached, in my view his losses in the WIFF were caused by market performance and are not attributable to something Link did or didn't do. There were risks in investing in the WIFF, and unfortunately poor performance of the fund was one of them. I'm therefore satisfied that Link needn't do anything further to put things right, and no compensation is payable.

Whilst I understand Mr F will be disappointed with my decision, I hope he can understand my reasons for reaching it.

**My final decision**

My final decision is that I don't uphold Mr F's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 27 March 2024.

Alessandro Pulzone  
**Ombudsman**