

The complaint

Mr H's complaint is about the poor investment decisions made by Rathbones Investment Management Limited in managing his Self-Invested Personal Pension (SIPP) and Individual Savings Account (ISA). He is particularly concerned about decisions made about a specific investment that has resulted in significant losses.

What happened

Mr H's complaint was considered by one of our investigators. He sent his assessment of the complaint to both parties on 5 June 2023. The background and circumstances to the complaint and the reasons why the investigator didn't recommend that it should be upheld were set out in his assessment. So I won't repeat it all here. However in brief, Mr H had an existing relationship with Rathbones and contacted it March 2021 to discuss his SIPP. The SIPP was invested 100% in equity holdings. The SIPP was subsequently transferred with the investments being managed on a discretionary basis by Rathbones going forward.

Mr H had been recorded as being an 'Upper Medium' or 'Risk Level 4' investor. The Rathbones description of Strategy 4 included:

The portfolio may therefore include a substantial exposure to shares. This type of approach can be suitable for investors with a medium time horizon who can tolerate a temporary or sometime permanent capital loss.

Mr H subsequently became concerned about the performance of his investments - in particular with the investment in Chrysalis. He raised his concerns on more than one occasion over a period of time, however Rathbones re-assured Mr H that it had faith in its approach. Following several more conversations where Mr H expressed concerns Mr H complained to Rathbones. Rathbones didn't uphold the complaint and it was subsequently referred to us.

Our investigator didn't recommend that the complaint should be upheld. He noted Mr H had been invested 100% in equities prior to Rathbones taking over the management of the SIPP. The investigator thought Rathbones had rightly taken steps to reduce Mr H's exposure to equities given his recorded risk profile. And he also thought it was reasonable for the Chrysalis fund (as well as some other investments Mr H was concerned about) to form part of the overall portfolio.

The investigator said whilst he appreciated that Mr H had concerns about Chrysalis and other investments, Rathbones was managing the investments on a discretionary basis, and so had the powers to remain invested in funds if it chose to do so. The investigator acknowledged that other funds may have fared better during the volatility seen over the period in question. However he said this didn't necessarily mean the Chrysalis fund and other investments Mr H was concerned about were unsuitable.

Ultimately, the investigator thought that Rathbones had invested in a manner in keeping with Mr H's attitude to risk.

Mr H didn't agree with the investigator's findings. He said, in summary, that he didn't think the investigator had taken into account the change in nature of the Chrysalis Investments. He said when they were originally selected they may well have been within the scope of the investment mandate. But he thought it became apparent, particularly after a major asset revaluation, that it was far from a medium risk investment that might grow in the longer term. He said it was in fact a very high-risk fund with constituents that were over valued and illiquid. M H said this exposure led to steep drops in the market price which formed the basis of his concerns expressed to Rathbones. He provided a graph showing the depth of the decline in the Chrysalis share price and the points in time at which he'd expressed concerns about the fund.

The investigator replied to say that whilst he understood Mr H's concerns and that the Chrysalis fund may have been high risk this was balanced by it being part of a broad medium risk approach. He thought Rathbones had acted appropriately.

Mr H responded saying he didn't think sufficient weight had been given to the change in understanding of the high-risk nature of Chrysalis together with his expressions of concerns about it. He said if Rathbones had been aware of the underlying nature of the structure of the fund it would certainly not have invested in it. He said its subsequent attitude had been there was no point in selling now – to wait and hope it recovered. Mr H said the release of capital by way of a 'performance reward' to the then managers changed the balance of the fund and made it almost exclusively high risk with a large holding of unlisted securities. He said Rathbones were naively reassured by positive feedback from brokers which it used to reassure him and justify its decision to remain invested. He thought this had been negligence on Rathbones part as investment experts in whom he placed his trust.

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.

As the investigator has said, Rathbones was managing Mr H's investments under a discretionary investment agreement. They had full authority to buy or sell investments and other assets on Mr H's behalf, but had to do so in line with the investment mandate that had been agreed with Mr H.

I've considered the make-up of the assets/investments underlying the SIPP and ISA against the suggested asset allocations for the risk level strategies described in Rathbones' Investment Strategy literature. Having done so, I'm satisfied both the SIPP and ISA were invested broadly in line with the indicative asset class allocations for the risk strategy Mr H had agreed to take over time. There were periods where they were slightly overweight in 'diversifiers'. But I don't think this materially increased the degree of risk presented by the portfolios as some of the 'diversifiers' themselves were invested in different asset classes.

I appreciate that Mr H is particularly concerned about the decisions made in relation to the the holdings in Chrysalis Investments. I don't think it's in dispute that it presented higher risks. However it only made up a small percentage of Mr H's SIPP and ISA (Mr H has said initially 3 and 4% respectively). I don't think it was inappropriate to have some higher risk investments in Mr H's SIPP and ISA given the risk strategies he was adopting. This was consistent with the approach being described as *"suitable for investors with a medium time horizon who can tolerate a temporary or sometime permanent capital loss."*

Mr H has said he thinks Rathbones was negligent in its decisions relating to Chrysalis as I've set out above. Whilst I understand Mr H's position on this, particularly as he expressed a number of concerns about it over time, having considered the underlying nature of the fund I

haven't seen any 'red flags' or that its structure is unusual in relation to other investments of this type.

The fund also invests in unquoted companies, and I accept that in itself means its risks aren't easy to assess. However some of the companies are quite well-known names. And it was managed by a reputable firm. Whilst it's clear that the value of Chrysalis declined sharply after Mr H had invested in it and, as I've said, Mr H himself expressed concerns about it, different professionals can have different reasonable opinions about the future direction in the price of a particular investment/fund or asset. I don't think a decision not to sell could only have been made by the negligent.

Mr H did lose a significant proportion of the money he'd invested in Chrysalis. However that is the nature of a higher risk investment, but it has still retained a material value. Its price has increased somewhat lately – I accept not to anywhere near the levels that Mr H bought it at, but a material increase from the price it had been trading at. I think that suggests in itself that there are other market participants who share the view that the fund has a positive outlook – albeit I accept that is in the context of the prevailing price.

Taking everything into account however, for the reasons I've outlined above and by the investigator, I'm not persuaded that Rathbones managed Mr H's investments inappropriately in the particular circumstances.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 4 April 2024.

David Ashley
Ombudsman