DRN-4259045

The complaint

Mr C complains that Hargreaves Lansdown Asset Management Limited (HLAM) caused him a loss by virtue of the exposure to the Woodford Equity Income Fund (WEIF) within his portfolio. He also claims that he was promised regular portfolio benchmarking so that he could see how his portfolio was performing, but this hasn't happened to date.

What happened

Mr C transferred investments over to HLAM in July 2018 and invested in HLAM's 'Portfolio+' service in July 2018 through a Stocks & Shares ISA. The Portfolio+ offered HLAM's clients the ability to 'choose a portfolio' based on their goals and risk level, and regularly check that they remained appropriate. Consumers could choose individual portfolios, which themselves were then invested in HL's Multi-Manager funds according to the portfolio's stated aims, objectives and risk.

Mr C chose the Portfolio+ Balanced Growth portfolio. Mr C's investment in the portfolio was split as follows:

- £16,608.01 in HL Multi-Manager Strategic Bond
- £42,706.31 in HL Multi-Manager Special Situations
- £35,588.60 in HL Multi-Manager Balanced Managed.

In July 2018 around 5.16% of the HL Multi-Manager Balanced Managed fund was invested in the Woodford Equity Income Fund (WEIF) and 5.74% of the HL Multi-Manager Special Situations fund. By May 2019 this had reduced to 4.44% and 4.86% respectively, and later to virtually no exposure at all.

The factsheet of the portfolio Mr C chose said:

- It would invest 45% in the HL Multi-Manager Special Situations fund
- 37.5% in the HL Multi-Manager Balanced Managed fund
- 17.5% in the HL Multi-Manager Strategic Bond fund.

It said that it tracked its performance against three Investment Association benchmarks, to reflect the benchmark of the underlying Multi-Manager funds.

It gave an overview of the geographical split of its holdings, as well as the asset split which was 69.8% equities, 22.6% fixed income and the remainder in cash or other types of assets.

It warned Mr C that investments and any income from them can fall and rise in value, and neither income nor capital was guaranteed. It said that investment was recommended for no less than 5 years, and the portfolio may also 'invest in funds with exposure to overseas markets, including emerging markets, smaller companies and high yield bonds'. In terms of its objectives, the portfolio was designed to hold ‘a broad spread of investments, aiming for capital growth’. It was intended to be a ‘multi-asset portfolio holding a mixture of shares, bonds and total return funds’. It said it also intended to be ‘less volatile than more adventurous options’.

Following the suspension of the WEIF in 2019, Mr C made a number of complaints to HLAM about the portfolio he was invested in and the losses the WEIF had caused him and his wife. He claimed £1,647 in lost investment returns – this amounted to the total loss of both his and his wife’s portfolios.

HLAM looked into Mr C’s complaint but didn’t agree it should be upheld. In summary, it said that Mr C was an execution only client and made his own decisions to invest in the portfolio. It said that it carefully chose investments for its Wealth lists and Multi-Manager funds, and explained that Mr C was not directly invested in the WEIF and his exposure to it, via the Portfolio+, was relatively small.

Mr C didn’t agree and referred his complaint to this service. One of our investigators looked into his complaint but didn’t think it should be upheld. He said that the loss Mr C was claiming was isolated and did not take into account his portfolio overall. He said the WEIF was part of a mix of investments contained in the portfolio, and given that Mr C was an execution only investor, it was his choice to invest. He said that the WEIF itself was in line with the relevant Multi-Manager funds’ objectives and aims, and in any event was never as illiquid as Mr C had suggested in his complaint.

Mr C didn’t agree and provided detailed comments. In summary he said:

- The WEIF changed its investment strategy and it became riskier as a result;

- HLAM was aware of the liquidity problems with the WEIF, and the change in the makeup of the fund. Mr C said his complaint was that HLAM failed to recognise this change, and failed to evaluate the impact and risk and then failed to act accordingly by divesting all or part of the WEIF holding.

- HLAM continued to ‘recommend’ the fund in its Wealth 50 lists, and he gave a quote from that report from June 2019.

- HLAM did not follow its own regularly repeated guidance, was ‘acutely aware of the fund’s significant underperformance’, was aware since 2017 of the fund’s very poor liquidity and showed what he called ‘poor governance and judgement’.

- The figure of £901 was something HLAM had calculated when responding to his complaint, and said that this figure had been ‘calculated specifically by HLAM to be the loss directly attributable to their failure to divest the illiquid WEIF’. He said the combined loss of his and his wife’s investment in the Portfolio+ was £1,647.

- The overall loss or gain on their holdings was not part of the complaint. He said the complaint ‘focussed solely on HLAM’s failure to heed their own standards and protocols as detailed in the six subpoints above’.

- He acknowledged it was their choice to invest in the Portfolio+ Balanced Growth, but they were ‘entitled to expect HLAM to be highly professional in their management of that Fund’. He confirmed that neither he nor his wife had sold any of their holdings.

- He said that he couldn’t judge the investigator’s comment about the level of illiquidity in the fund. However he said that ‘the end result is that the WEIF failed spectacularly'. He said that HLAM claimed to have all the relevant skills and expertise to manage their Portfolio+ Funds to the 'highest standards' – but they 'failed to do so'. He restated his claim for £1,647 was compensation.

- He repeated his complaint about the lack of benchmarking to his portfolio, and asked that this service 'instruct HLAM to implement routine quarterly performance comparison, both percent and pound value, of our Fund against their chosen benchmark both historically and going forward'.

There were some further communications between the investigator and Mr C, largely covering the points above. 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 Mr C for his detailed comments in response to the investigator's assessment. I have read all of his submissions, and fully understand his dissatisfaction and why he has felt the need to make his complaint. However, I hope that he doesn't take it as a discourtesy that I've not addressed every point he has made in my decision. The purpose of my decision is to focus on the key issues in this complaint and provide my reasons.

In this case, there are two key issues – Mr C's complaint about the inclusion of the WEIF in the Multi-Manager funds his portfolio was invested in, and Mr C's belief that he is entitled to regular reports that outline his portfolio's performance versus the benchmark's HLAM uses to assess performance. I've dealt with each of these complaints in turn.

The Portfolio+ Balanced Growth

I understand why Mr C believes that HLAM owes him compensation for the loss in relation to the WEIF. However, I'm not persuaded that would be fair and reasonable.

Mr C has made numerous points about what HLAM knew or didn't know about the WEIF, but I'm not persuaded by his submissions. The key consideration when looking at Mr C's portfolio is whether or not the assets that it held were consistent with what he was told the Portfolio would be invested in – including the spread of assets, the individual split between funds and any other relevant information involving risk.

In looking at the information Mr C was given, it's clear to me that the portfolio was invested in line with the factsheet and what he was told at the outset. The three multi-manager funds that the portfolio held were aligned with the split that was described in the factsheet – and I'm satisfied each fund's objectives, and holdings, were also consistent with the particular portfolio Mr C had chosen.

I appreciate Mr C disagrees, but I'm not persuaded it would be fair and reasonable to therefore look at the WEIF in complete isolation.

Whilst there's no doubt the performance of the WEIF was disappointing, and its eventual suspension and ongoing liquidation was unfortunate, the reality is that these are performance considerations that could apply to almost any collective investment predominantly invested in equities. I'm not persuaded it would be fair and reasonable to hold HLAM responsible for not foreseeing the suspension and subsequent liquidation of a fund it had no involvement in managing.

I should also make clear, as HLAM has already done, that decisions to invest in the WEIF were made by HL Fund Managers, not by it. That said, I've commented on this because I do think it's relevant in explaining to Mr C my approach to his complaint that the WEIF was inconsistent with the individual funds.

When looking at investment losses arising from holdings in a portfolio, it isn't usually fair and reasonable to focus on the one holding that's suffered a loss, ignoring the remainder of the portfolio. This is especially true of a portfolio like Mr C's, which contained three different funds, which themselves held a multitude of different assets. Instead, it's important that I take into account both the asset itself, as I've done above, and the extent to which a portfolio was invested in it. The same is true when looking at whether the description of a particular fund is fair, clear and not misleading, compared to what it actually invests in.

Of the three funds Mr C held in his portfolio, only two of them had any exposure to the WEIF, and neither had more than 5% by 2019 when the WEIF was suspended. When Mr C decided to invest in the portfolio, the exposure was only marginally larger.

This is relevant because even if I thought that the WEIF itself was a riskier asset, compared to what the fund said it would normally invest in, I'd need to consider how it affected the fund overall. However, in terms of the makeup of the WEIF, I'm not persuaded it was entirely inconsistent with, for example, the HL Multi-Manager Balanced fund. The factsheet for this fund says that:

'The Fund may invest, either directly or indirectly via other collective investment schemes and exchange traded funds, in a range of equities and/or floating and fixed interest securities. The Fund may have exposure to smaller companies and overseas markets, as well as UK and overseas Government, Corporate or high yield bonds.'

Under the risk reward profile of the fund, among other matters, it says the Fund 'may invest in smaller companies, which are more volatile and sometimes more difficult to trade than larger companies'.

In my view, the WEIF largely matched the above – to varying degrees which I'm not persuaded I need to look into further here. I say this because given how little was actually invested in the WEIF, and the fact the WEIF broadly invested in the same types of assets, it wouldn't be fair and reasonable to conclude that the fund itself was therefore no longer consistent with what it said it would do by virtue of its investment in the WEIF. And it follows, therefore, that the Portfolio itself was unaffected by the fund's small exposure to the WEIF.

These same considerations apply to the other Multi-Manager fund with limited exposure to the WEIF.

For all these reasons, I'm therefore satisfied that the portfolio Mr C invested in remained consistent with its stated aims, objectives and declared asset mix, despite the performance issues suffered by the WEIF.

Benchmarking the portfolio

I'm afraid that on this point, I have very little to add to what the investigator has already said. In 2019, the Financial Conduct Authority (FCA) set out the rules around the information that investments firms needed to provide its clients in the Conduct of Business rules (COBS). COBS 16A said:

COBS 16A.2 – General client reporting and record keeping requirements

COBS 16A.2.1

(1) A firm must provide a client with adequate reports on the service provided in a durable medium.

(2) The reports must include:

   a. Periodic communications to the client, taking into account the type and the complexity of the financial instruments or insurance-based investment products involved and the nature of the service provided to the client; and

   b. Where applicable, the costs associated with the transactions and services undertaken on behalf of the client.

These are the rules which HLAM needed to comply with when writing to Mr C about his investment. I've seen the investment reports which are sent to Mr C monthly, and I'm satisfied they comply with HLAM's regulatory obligations. Furthermore, I'm not persuaded HLAM ever said he'd be sent ongoing comparisons with suitable benchmarks – he was merely told that this is how the portfolio, and the funds within it, would be assessed in terms of performance. That information is available to him online if he wants it – although as HLAM has explained, it won't perfectly match his investment given the difference in dates.

However, the investment report allows Mr C to see, clearly, how his portfolio has performed, and in particular, how the funds his portfolio is invested in have performed. This allows him to gauge for himself the returns in his portfolio, and whether the charges he pays HLAM are worth the performance of it. Whilst I can understand why Mr C would like me to direct HLAM to do something different, it isn't my role to dictate to a firm how it should report to its clients – that is a regulatory matter. I'm satisfied HLAM is complying with its reporting requirements, and I'm unfortunately unable to uphold this aspect of Mr C's complaint either.

My final decision

For the reasons I've given, I don't uphold Mr C's complaint.

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

Alessandro Pulzone
Ombudsman