

The complaint

Mr C complains that Hargreaves Lansdown Advisory Services Limited (HLAS) gave him unsuitable advice to invest in the Woodford Equity Income Fund (WEIF), and then didn't signpost issues with the fund later on.

What happened

In January 2016 Mr and Mrs C received investment advice from HLAS. Although this particular decision concerns Mr C's complaint, as the advice was given to both of them and he is representing Mrs C on her complaint (which is the subject of a separate decision), I will refer to both where relevant.

HLAS set out Mr and Mrs C's circumstances in recommendations letter, in summary:

- Mr C was reinvesting around £61,880 of investments he already held with Hargreaves Lansdown (HL), and was also going to be making an additional contribution to his ISA worth £15,240 from the sale proceeds of some funds from Mrs C's share account, and a further reinvestment of £15,240 in the new tax year.
- Mrs C would reinvest around £77,300 of investments she held with HL, as well as making a contribution to her ISA of £15,240 using the proceeds of the sale of some of her investments. The adviser recommended that she should reinvest the balance of her HL share account of around £118,460, alongside another £100,000 in cash, in the recommended portfolio.
- Mr and Mrs C were looking for ways to preserve their capital for the future, in order to be able to cater for unexpected expenditure. Their overall circumstances were that they were both retired, had recently sold a property for around £97,000, and weren't looking to hold any more money as cash given that their pension income was sufficient to meet their regular expenditure. They had previously been pleased with advice from HLAS, and were looking for advice to invest this additional £100,000 as they didn't feel confident doing so without it.
- Both Mr and Mrs C were comfortable taking some risk, as they had held stock market-based investment for a long time, they didn't feel confident choosing their own investments. They had capacity to bear some losses, and understood they needed to expose their capital to some risk in order to achieve their long-term aims.
- However, their deal asset allocation showed that they were now looking to reduce the risk to their investment, by investing a greater proportion in fixed interest investments (between 35% to 40%) than they had at the time (around 17.3%).
- The adviser acknowledged their reasons for looking to reduce their risk overall, whilst also emphasising that clearly the £100,000 that was currently in cash would be exposed to more risk as it would be invested – however Mr and Mrs C understood

this and were 'quite comfortable with this' as they wanted 'the money to have the potential to increase in value in real terms over time'.

The adviser therefore recommended, in summary, a portfolio of 14 funds of which some were retained from Mr and Mrs C's previous advice. Broadly, this consisted of around 30% in UK equity funds (3 predominantly large or mega cap funds and 2 small cap) 5% in a European equity fund (large and mega cap), 10% in Japan (large and mega cap) and the US (a tracker fund tracking the performance of the FTSE USA Index, which broadly consisted of large and mega cap US companies) and 7.5% in a global equity fund (predominantly large cap). The remainder was invested in corporate bond funds and two total return funds.

It's important to note that in 2016 almost half the WEIF was invested in large or mega cap UK companies.

Mr and Mrs C accepted the recommendation and carried out the investments as agreed. However, in relation to the WEIF, Mr C sold his units in the WEIF in November 2016 at a profit of around £71. Mrs C sold her units in the WEIF in March 2018 at a loss of around £317.

HLAS looked into Mr and Mrs C's complaint, but didn't agree it should be upheld. In short, it said that the recommendations for Mr and Mrs C were suitable, and it wasn't responsible for providing them with ongoing advice. It offered them some compensation for some administrative issues to do with their desire to switch away from the HL but didn't agree it was liable for any financial losses resulting from the WEIF.

Mr and Mrs C remained unhappy and referred the complaint to this service. One of our investigators looked into the complaint, but didn't think it should be upheld. He considered that Mr and Mrs C were provided with suitable recommendations in line with the Financial Conduct Authority's Conduct of Business Rules, and he didn't consider it would be fair and reasonable to look at the recommendation to invest in the WEIF in isolation.

Mr and Mrs C didn't agree and asked for an ombudsman's decision.

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.

In 2016 the rules that related to HLAS's providing investment were set out in COBS 9 – Suitability. Broadly speaking, in providing investment advice to Mr and Mrs C, HLAS needed to ensure that the advice it gave:

- Met the investment objectives Mr and Mrs C had for their investment.
- Was such that Mr and Mrs C could financially bear the investment related risks consistent with their investment objectives;
- Was consistent with Mr and Mrs C's knowledge and experience of investing, so that they could understand the risks involved in the advice being given.

It's important to note that my role isn't to replace HL's advice or substitute its advice with my own. My role is to consider what's fair and reasonable in all the circumstances of this case, and decide whether the recommendations HLAS made were consistent with the rules it was

required to follow, bearing in mind the information HLAS had about Mr and Mrs C.

The investigator has correctly identified that looking at the sale of the WEIF in isolation wouldn't be fair and reasonable. I'm satisfied the adviser was taking into account a broader range of circumstances and investments when they decided to recommend an investment in the WEIF, and as such it is important that I take this into account when deciding whether he acted fairly and reasonably.

And so I've taken a step back and looked at the overall mix of investments which Mr and Mrs C were advised to invest in. As I've noted above, it's clear that they were looking to decrease the risk of their portfolio by reducing the equity based content in order to have a greater proportion of fixed interest investments. The adviser's recommendations were consistent with this, and over 37% of the portfolio was invested in investment grade bonds BBB or higher, with the exception of one fund. The Royal London fixed interest fund in my view was likely not a lower risk fund, considering the types of debt instruments it invested in – but I'm satisfied it was included precisely for this reason. The recommendation addresses this fund by explaining that it 'is biased towards higher risk, high yield bonds' and 'unrated bonds' whilst focusing on bonds secured against 'assets or cash flows'. In my view, the objective of investing more in fixed interest than was previously the case was already achieved via the two others funds (amounting to around 25% of the portfolio), and given what the adviser said and Mr and Mrs C's circumstances, it was fair and reasonable to consider an alternative and potential higher risk fixed interest fund to complement an already diversified portfolio.

The remaining equity investments were predominantly funds that focused on large or mega cap companies, mainly in the UK, and in mainstream markets in Europe, Japan and the USA. Within this, the exposure of the WEIF was relatively small at 6% - and as I've noted in the background section of this decision, in 2016 the WEIF was predominantly invested in large or mega cap companies as well. It was therefore consistent with the aims of the portfolio and what Mr and Mrs C were looking to achieve.

Taking all this into account, I'm persuaded that HLAS's recommendations were consistent with Mr and Mrs C's investment objectives, which included reducing some of their risk overall whilst retaining the ability of their money to increase in real terms. It's clear to me that Mr and Mrs C understood the relationship between risk and reward, and the adviser took great steps to ensure that his recommendations aligned as much as possible to Mr and Mrs C's dual aim of increasing the value of their capital without taking unnecessarily high risks. Taking Mr and Mrs C's circumstances into account, I'm satisfied it was fair and reasonable for the adviser to have concluded that spreading the portfolio between 14 different funds, all predominantly focused on large or very large companies, was suitable for Mr and Mrs C.

In my view, the recommendation to invest in the WEIF was in line with the above – particularly given its make-up in 2016. I note that Mr and Mrs C have complained about HL's failure to have communicated with them about the WEIF in subsequent years – but this isn't something HLAS was obliged to do as they were not receiving ongoing investment advice. In any event, HL did provide updates and communications on its website about the WEIF and provided information about the WEIF's performance, as well as its rationale for keeping it on the wealth lists. And I note that Mr and Mrs C proceeded to dispose their holdings in the WEIF of their own accord.

Overall, for the reasons I've given, I'm satisfied HLAS has acted fairly and reasonably in this case, and I'm satisfied it need do anything further. I note that it has offered Mr and Mrs C £300 for some issues that were experienced unrelated to this complaint. Whilst I'm not making this award, I would hope that HLAS consider paying it regardless, if it hasn't already done so.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 12 February 2024.

Alessandro Pulzone
Ombudsman