

The complaint

Mr and Mrs C complain that Hargreaves Lansdown Advisory Services Limited (HLAS) will not explain to them exactly how much of their own indirect investment in the Woodford Equity Income Fund (WEIF) has been returned to the portfolios they were invested in.

What happened

Mr and Mrs C received advice from HLAS in October 2012, and as a result of its recommendations, they invested in a Portfolio Management Service (PMS) – specifically the “*Portfolio for Income & Growth 5*”. The portfolio invested in a number of Hargreaves Lansdown (HL) Multi-Manager funds, and Hargreaves Lansdown Asset Management (HLAM) was responsible for its active management.

Mr and Mrs C had an ongoing advisory arrangement with HLAS which included regular reviews of their circumstances to ensure the PMS they were invested in remained suitable.

Through their portfolio, Mr and Mrs C had some exposure to the WEIF – about 5.88% by May 2019. This meant they did not own shares in the WEIF – they were invested in a number of HL funds, which held shares in the WEIF.

In June 2019 the WEIF was suspended, and later a decision was taken to liquidate it. A series of payments were made out of the WEIF, but as Mr and Mrs C were not directly invested in it, they received no money in their HL account. Instead, that money was paid into the individual funds which their portfolio was invested in and reinvested in line with those individual fund’s objectives and mandate. Their overall portfolio benefited indirectly from these payments.

In November 2021 Mr and Mrs C made enquiries with HLAS about the situation involving the WEIF, and what it meant for their investments. They were given some background by HLAS at the time in relation to the WEIF, and in particular their exposure to it and why they’d not received any payments following its liquidation.

In August 2022 Mr and Mrs C asked for a “*full up to date breakdown, both in monetary terms as well as the percentages*” regarding their exposure to the WEIF. This was due to Mr and Mrs C moving their portfolios away from HLAS and them wanting this information “*for their records*”. Ultimately Mr and Mrs C had calculated their exposure to the WEIF was around £40,000 and as such, they wanted to know “*what monetary sum from the £40,216 was recovered and when it was reinvested within our portfolio and finally, following our move to a new provider, what remains outstanding regards the former [WEIF]*”.

In response, Mr and Mrs C were told that the reason this breakdown could not be provided was because “*the breakdown of your portfolio would need to be considered at each point there was a distribution from Link Fund Solutions and this is before we consider whether the distributions were then invested and the performance of those investments*”. It said that ultimately the key figure was that their portfolio had risen by 11.82% during the period in question, and would’ve risen by an additional 1.29% if the WEIF had not varied in price at all.

Mr and Mrs C remained unhappy and there was some further correspondence, after which they raised a complaint. HLAS looked into their complaint but didn't think it had done anything wrong. In short, it said that it could not provide Mr and Mrs C *"with a calculation of the overall impact on your portfolio as a result of the liquidation of the WEIF"*. It explained that it could not provide *"a breakdown of the capital distributions on an individual client basis"* and this was because those distributions were *"received into the appropriate Multi-Manager Funds and the MMF fund managers made sure the proceeds were re-invested in line with each Multi-Manager Fund's investment objective"*.

Mr and Mrs C referred their complaint to this service. One of our investigators looked into their complaint but wasn't persuaded to uphold it. She didn't think HLAS would be able to provide the information they were after and agreed with the reasons it had previously given.

HLAS agreed with the investigator but made some additional comments in response:

- It said the complaint should be set up against HLAM and not HLAS, on the basis that it was responsible for managing the PMS portfolio that Mr and Mrs C were complaining about. It said that Mr and Mrs C weren't complaining about the advice they had received from HLAS, but instead appeared to be complaining *"about the inclusion in their PMS portfolio of MMFs with an exposure to the WEIF and about the clarity of responses subsequently given to them about queries they raised after the WEIF was suspended"*.
- It had complied with the applicable regulations in terms of the information it needed to provide to Mr and Mrs C, and HLAM also provided Mr and Mrs C with quarterly Investment Reports about their portfolio. These reports enabled Mr and Mrs C to understand the performance of their portfolio, with reference to the portfolio's underlying investments, and included all the information they required. However, it agreed with the investigator that the rules did not require it to provide Mr and Mrs C with *"a personalised breakdown [...] about specific losses arising from underlying individual investments to which the MMFs had an exposure"*.

Mr and Mrs C didn't agree with the investigator. They said:

- They had no experience in direct investments and therefore held units in HLs Multi-Manager funds. They said they relied on HL's expertise to look after their investments and for that they paid fees for their management, advisory and investment services.
- They didn't understand the jargon they'd been given in previous responses and didn't consider previous explanations had been satisfactory *"of what happened to the proportion of their investments that were within WEIF"*.
- They said they believed HL *"knew at all times what [their] exposure to the WEIF was"* and therefore HL had a responsibility to find out *"how much of the monies recovered through Link Fund Solutions were returned"*.

After some further correspondence between the investigator and Mr and Mrs C, they made some additional comments. They said:

- Although the investigator stated they didn't have any direct shares in the WEIF, their understanding of their portfolio differed. The investment reports they received from HLAM showed WEIF in the portfolio's top 10 underlying holdings as a percentage,

until it disappeared, and this showed they did have holdings in the WEIF – “*as such they would have a monetary value*” within their portfolio.

- They maintained that they wanted a specific answer to what exactly happened to their own individual exposure to the WEIF after it was suspended, and what reinvestment occurred following Link distributions. They claimed there had to be an audit trail of what their individual holding in the WEIF was sold for and how much their holding attracted in terms of distributions from Link – and this is what they wanted to see and had been asking for since 2019.

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.

HLAS has said that this complaint ought to be properly set up against HLAM. This is because it was the part of HL that was responsible for managing the portfolio and providing information in relation to it.

In their letter of complaint to HLAS, Mr and Mrs C said that they had raised their queries with two advisers from HLAS, “*but the response emails have not given us a clear explanation or understanding to the questions raised*”. They explained that their adviser, who had since left HLAS, had explained in November 2021 that 5.88% of their portfolio “*was indirectly invested into the WEIF*” and that by October 2021 this had reduced to 0.23%. But they explained that the adviser hadn't told them “*anything regarding distributions that involved our investments*”.

When Mr and Mrs C raised the matter again in August 2022, they found out their previous adviser had left but the new one didn't provide satisfactory responses to their questions either. These enquiries were all made to HLAS. Having pursued the matter via a complaint, and having received a response from HLAS, it's clear to me that Mr and Mrs C remained dissatisfied with HLAS's response because of their pre-existing advisory relationship with it – and this is the reason they've raised a complaint against it.

I agree that HLAM was responsible for managing the PMS, and therefore for providing information that was related to it – so Mr and Mrs C's complaint could also have been made against it. However, HLAS was responsible for how it communicated with its clients and what it told them – and I'm satisfied Mr and Mrs C's complaint is about *that* communication even if, as I explain below, I don't consider HLAS has done anything wrong.

I'm therefore satisfied this complaint is correctly set-up against the right respondent.

My findings

I'm sorry to disappoint Mr and Mrs C, but I don't have much to add to what the investigator has already told them. Unfortunately, they are looking for an explanation or an answer that cannot be given to them in the way they seek.

I should be clear that Mr and Mrs C were not shareholders in the WEIF – therefore once they moved their portfolios away from HL, they ceased to have any exposure to the WEIF at all. This would not have been possible had they held any direct holdings in the WEIF.

I've seen copies of the investment reports that Mr and Mrs C were receiving from HLAM at the time. These reports show their direct holdings in the various Multi-Manager funds which they held units in – and this was broken down exactly as Mr and Mrs C are describing.

From the information in this section of the report, Mr and Mrs C knew how well their portfolio overall had performed, as well as how the individual Multi-Manager funds they were directly invested in had performed, in addition to information about charges and fees.

In the section on portfolio allocation and holdings, it clearly explained that “*PMS portfolios hold funds run by Hargreaves Lansdown Fund Managers*”. It then gave information about the portfolio's top 10 “*underlying holdings*”. And further pages show a number of transactions, none of which feature any of the “*underlying holdings*” but instead show transactions from the various Multi-Manager funds. Taking this all together, it's clear in my view what Mr and Mrs C were directly invested in.

As I've said above, reporting to Mr and Mrs C was HLAM's responsibility, not HLAS's. But I recognise that Mr and Mrs C had asked questions of HLAS for which they believed they were entitled to a response.

Having looked at the information HLAS has provided to Mr and Mrs C, I'm satisfied it has been fair and reasonable in the information it has given to them, and in the reasons it has provided for why it cannot be more precise in establishing how their exposure to the WEIF was affected by Link's distribution payments.

Furthermore, if the purpose of these enquiries is to better understand the overall performance of their portfolios, or at most the individual funds they were invested in, I'm not persuaded this information would help.

They already know their portfolio showed a positive return over the period in question. They've even been told how that performance was affected by the WEIF's underperformance, although with the caveat that this could not be entirely precise.

Information of the type Mr and Mrs C are after wouldn't be accurate, because the payments out of the WEIF are not refunded to Mr and Mrs C in a way that would show a profit or loss – they were simply reinvested, by the relevant fund managers, in other assets, which themselves contribute to the overall return of the managed funds Mr and Mrs C had at the time as part of the portfolio. It is then the overall return of these managed funds that Mr and Mrs C need to know in order to understand how their portfolio performed overall – and this is information they already have.

Whilst I understand why Mr and Mrs C have felt the need to raise their complaint, I'm persuaded HLAS has acted fairly and reasonably and attempted to answer their queries as comprehensively as possible.

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 Mrs C and Mr C to

accept or reject my decision before 3 April 2024.

Alessandro Pulzone
Ombudsman