

## The complaint

Mr H complains about the decisions made by Hargreaves Lansdown Fund Managers Limited (HLFM) in respect of investments he held in Multi-Manager Funds (MMF) which it managed on his behalf. He is concerned about losses he made in a specific fund and believes HLFM should be held responsible for its management decision to expose him to this fund.

## What happened

In 2008, Mr H received advice from Hargreaves Lansdown Advisory Services Limited (HLAS) to invest in a Portfolio Management Service (PMS), and within that, recommended the Portfolio for Growth. Within this portfolio, Mr H's funds were invested in a range of MMFs.

The design of HLs MMFs mean that investors are able to diversify their investments by spreading their monies across a number of different funds that are managed on a discretionary basis by HLFM.

The fund relevant to Mr H's complaint that he had exposure to through the MMFs was a specific fund called the Woodford Equity Income Fund (WEIF). Following the launch in 2014 and over the following years a number of HLs MMFs invested in the WEIF as part of their overall make up.

In early 2019, Mr H told HL that he had moved abroad and was no longer resident in the UK. This meant he was unable to continue with the advisory service he had been receiving on his portfolio. In April 2019, Mr H gave an instruction for his funds to be transferred out of the PMS account into two execution only accounts.

In April 2019, Mr H's portfolio was invested in the following funds:

- HL MM Balanced Managed Trust.
- HL MM Income & Growth Trust
- HL MM Special Situations Trust
- HL MM Strategic Bond Trust
- HL Multi-Manager Asia & Emerging Markets
- HL Multi-Manager Strategic Assets

By 1 May 2019, the portfolio still had a percentage invested in the WEIF – spread between a number of MMFs including the HL MM Income & Growth, HL MM Balanced Managed, HL MM Strategic Assets and HL MM Special Situations.

In October 2019, Mr H raised a complaint with HL. His complaint centred around his exposure to the WEIF. Relevant to this complaint he was unhappy with the decisions made by HLFM to include exposure to the WEIF in the MMFs he held in his portfolio.

HL responded to the complaint. Within its responses it said the following about the fund selection decisions made by HLFM:

- The funds that feature in the MMFs, are selected by its investment research team.

Before the WEIF was included in these funds, the investment research team undertook extensive research across a large number of funds, focused (in part) on fund managers who had added value in the long-term through reputable skill rather than market movements or thematic biases.

- The MMFs invest in a wide range of underlying investments, meaning that the negative impact of one of their investments underperforming or (as in the case of the WEIF) being suspended, should be limited. The MMFs Mr H invested in have been managed in accordance with the mandate of the fund, including each fund being sufficiently diversified.

Mr H didn't agree with the response, so referred his complaint to this service for an independent review.

As part of our investigation Mr H's complaint was split into three as different parts of the HL group were responsible for the issues he had raised. This complaint relates to the responsibilities of HLFM in respect of the decision it made to include the WEIF in the MMFs held in Mr H's portfolio. The advice he received to invest in the PMS and the complaint points about the information provided about his exposure to the WEIF have been dealt with under separate complaints by this service.

One of our investigators considered the complaint points about the actions of HLFM. She didn't think the complaint should be upheld. In summary she said it was reasonable to include the WEIF in the four MMFs as the WEIF fell broadly in line with the aims of each fund, and its composition meant that it was consistent with how each fund manager wanted to achieve their objectives.

Mr H didn't accept the investigators findings, and requested an ombudsman reach a decision on the complaint.

### **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 understand Mr H's strength of feeling on the complaint and why he considers HLFM is responsible for the losses he has suffered due to his exposure to the WEIF through the MMFs. However, for the reasons I set out below, I'm not persuaded an error by HLFM caused the losses he is claiming due to his exposure to the WEIF – and consequently, I'm satisfied the issues arose due to the poor performance of underlying holdings, which HLFM had no responsibility for.

To be clear, I will not be revisiting the issues Mr H has raised in relation to the information provided to him about his exposure to the WEIF or the investment advice he received from HL. These have been considered as separate complaints.

Mr H's exposure to the WEIF was as a result of the investments he made through HLFM PMS. He had indirect exposure to the WEIF through a number of MMFs that had a proportion of their assets held in the fund. The design of HLFM MMFs mean that investors are able to diversify their investments by spreading their monies across a number of different funds that are managed on a discretionary basis by HLFM. A key benefit to investing in this type of fund of funds is that you are not overly exposed to one particular fund should something go wrong, like it did with the WEIF.

The decisions to invest in the WEIF were made by HLFM. Each MMF has specific investment objectives and an investment mandate which the fund manager follows by selecting funds to invest in to achieve the objective.

I've considered the investment objectives and mandates for the relevant MMFs that exposed Mr H to the WEIF. These set out the overall strategy (for example for the Balanced Managed Trust this was to provide 'long term capital growth'). It also stated the types of asset classes including how much equity exposure and size of companies it would invest in. Also, the regions the funds would invest in including the overseas markets that the funds would be exposed to.

I haven't found anything within these that would indicate the MMFs Mr H invested in have been managed outside of the mandates by the decisions HLFM took by investing in the WEIF. While the level of exposure varied over time and was different for each of the four MMFs Mr H invested in, I haven't seen at any point the level of exposure would indicate an error by HLFM.

HLFM has confirmed the WEIF was retained in these MMFs because the Investment Team managing the MMFs had confidence in the ability of Woodford to deliver strong performance over the long term to support delivery of the relevant investment objectives. It says the Investment Team's confidence in the WEIFs ability to deliver performance over the long term was tested at points. But ultimately the fund managers retained confidence in Woodford and Woodford Investment Management, leading to retaining exposures within the relevant MMFs.

Whilst clearly the performance of the WEIF was disappointing, and its eventual suspension and 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 HLFM responsible for not foreseeing the suspension and subsequent liquidation of a fund it had no involvement in managing.

When looking at investment losses arising from holdings in MMFs (which contain a combination of a number of funds), it isn't usually fair and reasonable to focus on the one holding that's suffered a loss, ignoring the remainder of the funds. I'm therefore satisfied that the MMFs Mr H invested in remained consistent with the relevant parameters, despite the performance issues suffered by the WEIF.

I appreciate my conclusions will be disappointing to Mr H and I understand why he feels HLFM ought to be responsible for declines in the value of his investments. But I'm satisfied that any losses he has experienced were not caused by something HLFM did or didn't do when making decision on the management of the MMFs. I'm satisfied the losses he is concerned about were caused by the performance of the underlying investments in the WEIF (which he was exposed to through the MMFs).

### **My final decision**

For the reasons I've given, 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 10 October 2024.

Daniel Little  
**Ombudsman**

