DRN-4609750

The complaint

Mr M complains about the “poor performance” of the Investment ISA he held with Hargreaves Lansdown Asset Management Limited trading as Hargreaves Lansdown (Hargreaves Lansdown). He says he lost nearly £500 in the time he held the investment and has also been charged for a management fee taken after he had already closed the investment. He would like the loss he’s incurred to be refunded as well as the “erroneous” management fee.

What happened

In April 2021 Mr M took out an ISA with Hargreaves Lansdown which was invested across three portfolio funds – which were actively managed funds. The application – for £20,000 – was made on an execution only basis which meant Mr M chose the investments himself and didn’t receive any advice or recommendation from Hargreaves Lansdown.

In March 2022 Mr M complained to Hargreaves Lansdown about the performance of one of the portfolio funds and in January 2023 he complained more generally about the performance of the whole investment.

In June 2023 Mr M sold his investment receiving proceeds of £19,520.27. A management fee was also deducted from his ISA to the value of £28.77. Mr M complained to Hargreaves Lansdown that he had suffered a financial loss on his investment over the two years he held it. He also complained about the management fee that had been taken from his account on withdrawal and felt it wasn’t justified.

Hargreaves Lansdown didn’t uphold the complaint. It said the investment was made as part of an execution only service – so it was for Mr M himself to choose funds in accordance with his goals and risk objectives. It said it was unable to offer any advice on what Mr M should do going forward. But it also explained the reasons behind the performance of the particular portfolio Mr M was invested in – citing difficult market conditions over the previous year in particular.

However, it said it was satisfied the funds were being actively managed and were designed to deliver their objectives over the longer term. Hargreaves Lansdown said it didn’t think that any fund “underperformance” was due to any errors on its part. But it refunded the management fee that had been applied on exit as a gesture of goodwill, although it noted the fee was payable under its terms and condition.

But Mr M remained unhappy about the loss he’d suffered so he brought his complaint to us where one of our investigators looked into the matter.

He didn’t think the complaint should be upheld because he didn’t think there was evidence of any negligence around the management of the funds in question. He said we wouldn’t normally uphold complaints solely about poor performance alone. He explained that investment performance can go up and down and good performance can’t be guaranteed in an investment. He also thought that Hargreaves Lansdown’s gesture of goodwill in returning the last management fee – which he thought it was entitled to collect – was fair and reasonable.

Mr M didn't agree. He didn't understand why the investigator thought he'd been treated fairly by Hargreaves Lansdown. He said he expected his money to have been invested "efficiently" but now believes he would have been better off "putting it under his mattress". He asked for his complaint to be referred to an ombudsman – so it's been passed to me to review.

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.

And having done so I've reached the same conclusion as the investigator, and broadly for the same reasons. I know this outcome will disappoint Mr M and I have some sympathy for his position here having lost some of his investment capital when he sold the ISA some two years or so after the initial application. But I don't think Hargreaves Lansdown has done anything wrong here – and I'll explain my reasoning.

<u>*The portfolio performance*</u>

Mr M says that Hargreaves Lansdown "*has not performed well in the management of my investment and not shown the level of financial competence that I could reasonably have expected from this company.*" So, if I understand Mr M's complaint correctly, although he fully understands and accepts that the value of investments can fall as well as rise, he doesn't believe that the value of his initial investment should have fallen.

Mr M is right to say that the value of investments can fall as well as rise – that's the very nature of how they work – dependent as they are on external market factors and pressures. And I note Hargreaves Lansdown made a number of references to this fact within the literature that was made available to Mr M when he took out his ISA.

It's terms and conditions stated that "*all investments and any income from them can fall and rise in value so you may get back less than you invest. Neither income nor capital are guaranteed."* This document also indicated that "*investing is not recommended for less than five years."*

So I think that was clear in so much as not only should Mr M expect fluctuations in the value of his investments over the years – and a term of at least five years was recommended – it was also possible that he might not get back his initial investment amount. So I can't reasonably say that Mr M wasn't aware of this possibility, and I think Hargreaves Lansdown did make Mr M aware of the risk of losing capital when investing.

Mr M seems to suggest that he expected more of a company like Hargreaves Lansdown due to its size and reputation, but I don't think those factors are particularly material when it comes to fund performance.
By way of background here Hargreaves Lansdown tried to explain to Mr M that the investment landscape during the time he remained invested was particularly difficult. And I think it's fair to say that 2022 was a difficult time for investments in bond funds – which was one of the three funds he held during that time. The combination of higher interest rates and inflation meant these types of funds saw dramatic falls in many cases.

But this is only by way of offering Mr M some explanation for what happened with his ISA portfolio, it's not to say that the funds were mismanaged or performed in a different way to other similar funds on the market. I've seen no evidence that either of those things happened and all the evidence would suggest that the unfortunate losses Mr M suffered came about because of market losses in the areas he was invested in.

This is of course little comfort to Mr M who clearly didn't expect to suffer a loss to his initial capital investment. But there's no evidence to suggest that Hargreaves Lansdown didn't manage the portfolio as it said it would or that the funds weren't managed in line with their overall objectives. I haven't seen anything to support the claim that Hargreaves Lansdown did anything wrong here except that its funds were subjected to market forces that led to them falling in value during this period. And I think Hargreaves Lansdown made it clear from the outset that there was no guarantee to what returns Mr M might achieve and even that his initial capital investment was at risk.

Our normal approach is not to uphold complaints solely on the basis of poor investment performance – we would need to see that something had gone wrong, or the investment didn't align with how it was described by the business. As I've said previously the nature of investing is that equity funds can fluctuate in value at any time. But we can look at poor fund performance in conjunction with the suitability of an investment recommendation – so I've looked whether that possibility might apply here.

The issue of suitability

If the poor performance of Mr M's ISA arose from an unsuitable recommendation I could consider if that recommendation led directly to financial losses that were Hargreaves Lansdown's responsibility. But I don't think that situation arises here because Hargreaves Lansdown has said that Mr M took out his ISA by way of an execution only transaction. It explains this service within its terms and conditions as, "*the provision of Hargreaves Lansdown's share dealing account service is on an 'execution only' basis, We will not advise you about the merits of any transaction and when using the service you agree that you are not expecting such advice and are dealing on an 'execution only' basis.*

I've also seen two further references within other documents to demonstrate how this "execution only" service doesn't provide any initial or ongoing advice. And Mr M hasn't disputed that this was the basis on which he took out his ISA. So, the question of unsuitable advice – in respect of whether it caused poor investment performance – doesn't arise here as Hargreaves Lansdown clearly didn't give Mr M any advice on the funds he should invest in.

The "erroneous" management charge when the ISA was sold

Mr M says that a management charge was applied to his account when he eventually sold his ISA portfolio and received the proceeds. He didn't think it was fair that a charge was applied after the account closure and also didn't feel the fee was justified in light of the loss he suffered and "overall poor management" of his portfolio.

I haven't been provided with any evidence to show whether the charge was applicable (it may have been charged in arrears for example), although Hargreaves Lansdown has said that the charge was applied correctly. But in any case, Hargreaves Lansdown has refunded the charge as gesture of goodwill, so I think it's satisfied that part of Mr M's complaint.
And although Mr M is unhappy with how his plan was managed because of the losses he suffered I haven't seen anything to support the idea that previous management charges weren't applied in line with the terms and conditions and for the management of the portfolio.

Simply because Mr M isn't happy with the result of Hargreaves Lansdown's management doesn't mean that it didn't carry out the work it was supposed to do in order to justify the fees, even if the resulting fund performance didn’t meet Mr M’s expectations. So I don’t think Hargreaves Lansdown needs to refund any further charges here.

My final decision

For the reasons that I’ve given I don’t uphold Mr M’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr M to accept or reject my decision before 11 April 2024.

Keith Lawrence
Ombudsman