

The complaint

Mr D complains that a Vanguard Asset Management Ltd fund hasn't made any income distributions since March 2013 and has performed poorly, whereas it should be reflecting the high inflation rate.

The complaint is brought on Mr D's behalf by a family member.

What happened

Mr D invested in the Vanguard Inflation-Linked Gilt Index Fund. He says the value of the fund should've reflected the high inflation rate in the UK, whereas it fell in value. And that the interest paid on the underlying gilts should've been passed on through distributions. He's now sold his holding in the fund.

Vanguard explained the technicalities of its treatment of income and, in summary, said that the underlying gilts hadn't generated enough real income since March 2013 to make a distribution to investors.

Our investigator didn't recommend that the complaint should be upheld. He thought the fund had tracked the index it was meant to. He was satisfied with Vanguard's explanation of why distributions hadn't been made and didn't think there was any obligation on it to make distributions.

Mr D didn't agree. His representative said, on his behalf and in summary, that:

- This service should compare the performance of the fund with other similar funds, which have performed better and paid dividends.
- He is voluntarily pursuing this complaint for the benefit of all investors in this fund.

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.

Having done so I find I have come to the same conclusion as our investigator for much the same reasons. Whilst I don't want to repeat too much of what's already been said, I'll summarise why I've arrived at that conclusion:

Mr D invested in the fund on an execution only basis. In other words, Vanguard didn't provide him with investment advice, so it didn't need to ensure that the fund was suitable for him. It was Mr D's responsibility to understand the fund and decide for himself if it was suitable for his circumstances and objectives. Vanguard provided him with the fund's "Key Investor Information" ("KII") document, with links to the fund's prospectus, which I'm satisfied gave him enough information to decide for himself if the fund was suitable for his circumstances and investment objectives.

The fund is a tracker fund and is passively managed. It aims to track the performance of the Bloomberg UK Government Inflation-Linked Float Adjusted Bond Index by investing in a representative sample of the index's component bonds.

I'm satisfied that Vanguard invested in a representative sample of the index's bonds and that consequently the performance of the fund has been in line with the index. There is no obligation on Vanguard to actively manage the fund, for example by selling underlying assets if their performance is poor. Its obligation is to ensure the fund's investments are such that they replicate the performance of the index and I'm satisfied it's met that obligation.

Mr D has asked us to compare the performance of the fund to other, similar, investments. But I don't find that to be necessary to decide on whether Vanguard has done anything wrong. Other similar investments may perform better because of various reasons including the underlying constituents of the fund, the costs of the fund, and so on. But I'm satisfied Vanguard's management of its fund is as set out in the fund's prospectus and KII document. The fund's performance has been impacted by rising interest rates which caused bond prices, including inflation-linked gilts, to fall. And the longer dated maturities of many of the underlying gilts in the fund were more sensitive to a rise in interest rates.

Mr D complained that the fund hadn't made any distributions since March 2013. The KII says that "*income from the fund will be paid out*". But I don't find there was an obligation on Vanguard to make any payments if there wasn't enough income to do so. It's explained to Mr D why its accounting obligations have resulted in a negative income balance. It's not my role to explain the complexities of accounting practice, or to check Vanguard's accounts. But I'm satisfied that Vanguard's explanation reflects its regulatory accounting obligations.

I understand the representative's strength of feeling on this matter. But, for the reasons I've explained, I don't find Vanguard has done anything wrong or treated Mr D unfairly or unreasonably.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 10 April 2024.

Elizabeth Dawes
Ombudsman