

The complaint

Mr Z complains that Hargreaves Lansdown Asset Management Limited (“HL”) gave him misleading information about an investment he bought from it. Mr Z said he’d now made a substantial financial loss as a result of this misleading information and would like compensation.

What happened

The investment Mr Z bought from HL was called the Woodford Equity Income Fund (WEIF) and was managed by Neil Woodford, who left Invesco Perpetual in 2013 to set up Woodford Investment Management (“WIM”). The WEIF was launched in May 2014, with a £1 per unit fixed offer price until 18 June 2014. The Authorised Corporate Director (ACD) of the fund was Capita Financial Managers, later known as Link Fund Solutions.

The WEIF broadly tracked the benchmarks (albeit whilst providing a greater return and experiencing some more volatility) until the second half of 2017, when there was a significant fall which was not experienced by the benchmarks. It began to significantly underperform benchmarks from early 2018 and that the performance followed a very different pattern to the benchmarks from early 2019 to the date of suspension.

Alongside this, the fund began to see significant outflows from mid-2017, falling from around £10bn of assets under management to around £3bn in around two years.

In June 2019 the extent of those outflows - and the portion of the WEIF’s assets which were not liquid - led Link to decide to suspend trading in the fund. Link removed WIM as the investment manager around this time.

The fund did not trade again. Later in 2019, Link decided to liquidate the fund. Investors have since received payments as and when the fund’s assets have been sold. A small amount remains invested in assets which are not liquid i.e. cannot currently be sold. A scheme of arrangement between investors and Link has now been sanctioned by the court and will conclude the wind up of the fund with further distributions being made to investors who held units in the fund at suspension.

HL’s communications relating to the WEIF

HL’s relationship with WIM and the WEIF began prior to the fund’s launch. HL met with WIM in early 2014 and decided to promote the WEIF to its customers and visitors to its website ahead of the fund’s launch.

The WEIF was the subject of, or featured in, many communications from HL over the period from the fund’s launch to its suspension. HL’s communications relating to the WEIF can be categorised broadly as follows:

- Promotion of the WEIF at its launch by letter and through website articles and emails.
- Ongoing promotion of the WEIF through website articles (and, in some instances, emails alerting the recipient to the article).

- Updates on the WEIF through website articles (and emails alerting the recipient to the article).
- The inclusion of the WEIF in “best buy” lists – called the Wealth 150 (which had a subset of discounted funds called the Wealth 150+) and, later, the Wealth 50 – both of which were shared on its website, through emails and via Wealth Reports, which were included in the Investment Times sent to its clients by post.

The Wealth List

HL published a list of what it considered, in its view, to be the “best” or “favourite” funds. This was initially called the Wealth 150 (and a subset of this, featuring discounted management charges for HL clients, the Wealth 150+) then later the Wealth 50 – I’ll refer to these generally as the Wealth List. The WEIF featured on the Wealth List from its launch until its suspension.

I understand the list was available on HL’s website to any visitor and also sent to all customers on its general mailing list who had elected to receive communications, alongside the bi-annual Wealth Reports published by HL. HL says the list was updated from time-to time with funds being added or removed as a result of the ongoing cycle of review, monitoring and analysis of funds by its investment team.

As part of its ongoing research HL met with WIM to discuss the WEIF on a number of occasions.

Mr Z’s dealings in the WEIF

Mr Z applied for a Stocks and Shares ISA with HL in April 2014 on a non-advice, execution-only basis. Mr Z purchased £10,000 worth of shares in the WEIF on 19 June 2014, and a further £15,000 worth on 11 May 2015. Further smaller investments were made until May 2019, and Mr Z remained invested at the point of suspension.

Mr Z’s complaint to HL and its response

In 2019, shortly after the suspension of the WEIF, Mr Z made a complaint to HL about its promotion of the WEIF and its communications around it, in particular its Wealth Lists. He also raised concerns around several senior employees at HL their shares in the WEIF, before the fund was suspended.

HL looked into Mr Z’s complaint but didn’t think it had done anything wrong. In short it said that the Wealth Lists were “tools for clients to use in making decisions when choosing from the full range of funds available on our platform”. It acknowledged the WEIF had experienced a “difficult period of performance” but emphasised that although it had a reasonably held conviction in the prospects of the WEIF outperforming its benchmark, it provided an “execution-only service”, which meant that it was not providing investment advice or making personal recommendations.

It said that the information it provided about the WEIF on its Wealth Lists or in other communications were not designed to be taken as a personal recommendation to deal in a fund, and was provided to them in order to help investors decide whether or not to invest.

HL also clarified that the senior employees Mr Z had referred to had sold shares in HL rather than in the WEIF.

Mr Z remained unhappy and so the complaint was referred to this service.

One of our investigators looked into the complaint but didn't consider it should be upheld. In short, they concluded that HL's communications met its regulatory obligations and were clear, fair and not misleading.

Mr Z didn't agree and asked for an ombudsman's decision. In summary he said he wasn't made aware of anything being wrong with the WEIF. He says he was told on a phone call with HL not to worry about his investment as Neil Woodford was a proven investor.

As an 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.

I think the following regulatory requirements are of particular relevance to my assessment of whether HL acted fairly and reasonably in its dealings in this case.

The Principles for Businesses, which are set out in the FCA's handbook "are a general statement of the fundamental obligations of firms under the regulatory system" (PRIN 1.1.2G). I consider that Principles 6 and 7 are of particular relevance to this complaint. They say:

- Principle 6 – Customers' interests – A firm must pay due regard to the interests of its customers and treat them fairly.
- Principle 7 - Communications with clients – A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

I have also taken into account the FCA rules for firms carrying on investment related business set out in the Conduct of Business Sourcebook (COBS). In particular, COBS 4.2.1R, which sets out the requirements on authorised firms, like HL, when communicating with clients. COBS 4.2.1R(1) says:

"A firm must ensure that a communication or a financial promotion is fair, clear and not misleading."

COBS 2.1.1R (1) (the client's best interests rule) is also relevant to this complaint. It says:

"A firm must act honestly, fairly and professionally in accordance with the best interests of its client (the client's best interests rule)."

My findings

I hope Mr Z doesn't take it as a discourtesy that I won't be responding to each submission or every point he has raised. The purpose of my decision isn't to do that, but rather to explain my findings on what I consider to be the key issues in the complaint. I understand that the crux of Mr Z's complaint is ultimately, that HL knew that there were issues with the WEIF which it failed to communicate to him. In reaching my decision, I will focus only on the key communications provided to Mr Z whilst he was invested with HL and whether those communications, knowing what HL did at the relevant time, paid due regard to his information needs and whether the information included was clear, fair and not misleading.

I'm also aware that Mr Z has raised concerns around employees of HL selling their shares prior to the WEIF being suspended. I think it's helpful to explain that our service has no

regulatory or disciplinary powers. We provide an informal dispute resolution service and each case is considered on its own particular facts. Any wider concerns about the actions of individuals at HL would be a matter for the FCA. My decision will instead focus on HL's conduct in relation Mr Z's complaint.

HL has told us that its customers at the launch of the WEIF, including Mr Z, were put into three categories (which were based on a customer's history of investing in Neil Woodford managed funds), and one of three packs was then sent to them, depending on which category they fell into.

Around the same time HL's website was updated to include a page which was dedicated to the launch of the WEIF, in which HL's Head of Research again said he was investing and "I urge you to consider this opportunity".

HL also sent a number of general emails to its customers around this time, inviting the recipients to ask for a free research report on the fund, and highlighting the "exclusive low annual charge" and the "last chance to apply".

Throughout 2014, HL published a number of articles on its website giving its view of the WEIF fund. This included positive commentary such as, "We believe the prospect of Neil Woodford starting with a clean sheet of paper presents a rare and exciting opportunity for investors. His track record is exemplary, and he has every incentive to perform. The fund remains on the Wealth 150 list of our favoured funds across the major sectors." But HL also caveated this with comments such as, "Historically, this high conviction approach had been a key factor behind his success and he has tended to get the big calls right more often than not. Please remember, however, that this approach increases risk and there is no guarantee he will be able to repeat his previous successes".

Having considered all of these communications, they clearly show HL was enthusiastic about the WEIF at, and following, its launch and went to some lengths to encourage customers to consider investing. They also show the WEIF was presented as something which might be used as a core investment holding, which was suitable for most investors and would invest in larger companies which paid a sustainable or rising income (although not exclusively so).

Given what was known about Neil Woodford and the WEIF at this time, I do not think this was unreasonable. If HL wished to promote the fund heavily that was a decision it was free to make. And, given what was known about the WEIF and Neil Woodford at this time, I do not think it would be fair and reasonable to say the communications HL made at this time were inconsistent with its regulatory obligations. So, I do not think it would be fair and reasonable to say HL had done anything wrong at this time.

HL frequently promoted the WEIF to its customers and visitors to its website in 2015. HL included commentary on the fund in its "most popular fund" lists and including it in spotlight type articles on its website. I think doing this was a decision HL was free to make, and I have not seen sufficient evidence to conclude the communications it sent were inconsistent with its regulatory obligations.

There is nothing to suggest HL had any concerns about the fund at this time, and HL remained of the view – which it was entitled to come to – that the fund represented a good investment. Its communications reflected that view. So I do not think it would be fair and reasonable to say HL had done anything wrong at this time.

HL continued to frequently promote the fund to its customers and visitors to its website during 2016 but in the second half of 2016, some of HL's communications began to include

comments on how the WEIF was changing.

In December 2016, HL said on its website that the WEIF was “not a typical equity income fund” and said that, unlike most equity income funds which were exposed to large high-yielding companies, “only around 50%” of the WEIF was invested in this area. The remainder was “invested in small and medium sized companies, or those not listed on the stock market”. So I think it’s fair to say that Mr Z ought to have known that the WEIF had certain risks associated with its investment strategy.

HL was explicit that the fund had a “significant bias to smaller companies relative to the FTSE All Share Index which adds risk, and also has more invested in medium sized companies than the index”. Ultimately, HL’s view was that this approach would “add significant value for investors able to withstand the additional risk and volatility that comes from investing in smaller and unquoted companies”.

Having reviewed the evidence of HL’s meetings with WIM in 2016, I’m satisfied HL was aware that the WEIF was no longer a typical equity income fund. I can also see that it knew there had been a shift towards small cap and growth stocks which it had not expected, and it recognised that in the event of significant outflows, that proportion would increase and potentially affect WIM’s ability to invest further. HL’s overall view at the time was that it should continue to include the WEIF on the Wealth List, despite the changes, but HL was also aware that its customers might not know how the fund had changed and it agreed to take steps to address this. It’s clear to me that the December 2016 update above was designed to draw these concerns to its investors’ attention.

Despite these recognised changes, it’s clear from these meetings that HL continued to hold the view that the WEIF was still an investment that would add value for investors. I’m satisfied it held that view internally and so it was clear, fair and not misleading to have continued to say that in its updates. It was for Mr Z, having received the update, to decide for himself whether the risks and the features of the WEIF which HL was describing were right for his investments and his circumstances.

I acknowledge that in 2017 the WEIF began to underperform its benchmark, but I’m satisfied that HL’s continuing communications about the fund remained balanced. It continued to describe the WEIF as not “a typical equity income fund” and viewed the WEIF as a long-term investment.

HL explained in its June 2017 update that Woodford had “a long history of making big stock or sector bets, and while these decisions have at times taken time to come to fruition, they have added significant value for investors over the long term”.

In an article it published in September 2017 on its website, it explained that “judging a fund manager over a time period of a few months is folly, especially one with such a long and distinguished track record”. This article explained that Woodford had experienced poor performance in the past, and that it was “quite right to question any fund manager on their performance” which HL said it had done. But it explained that his approach involved seeking out undervalued companies and this strategy had “seen his investors well-rewarded over the long term”.

In its November 2017 Wealth Report HL said that performance “over the past year has been disappointing relative to the FTSE All Share Index” and that some of Woodford’s stock selections had under-performed. But HL continued to have “faith in his abilities to deliver for investors”.

In December 2017, HL highlighted on its website that around 9.5% of the fund was in

unquoted companies and that “small and unquoted businesses are typically considered higher-risk because their shares are difficult to sell”. And it concluded that Woodford’s approach would “result in periods of poor performance” but it was “premature to write Neil Woodford off”.

Having reviewed the evidence of HL’s meetings with WIM in 2017, it’s my view that HL was entitled to continue to believe in the long-term prospects of the WEIF – and I’m not persuaded it was misleading for it to communicate its view that, over the long term, the WEIF would still be a good investment. I’m not persuaded that this belief, and its communication of it, was inconsistent with the obligations I’ve set out above.

It’s clear to me that none of these updates differed significantly from the concerns HL had expressed to Woodford throughout the year and from its internally held view that, whilst the fund was suffering from a period of poor performance, HL remained of the view that over the long term the investment would come good. The evidence shows that HL was aware of the WEIF nearing the 10% limit on assets invested in unquoted companies and was clearly aware of the poor performance of the fund. However, I’ve seen evidence that it robustly challenged WIM when necessary, and was also reassured by WIM’s responses to those concerns – in particular in relation to the levels of unquoted stock.

I’m satisfied that HL’s updates in 2017 clearly, fairly and not misleadingly conveyed the message that the fund was higher risk. Its communications conveyed that a “significant portion” of the WEIF was invested in “higher risk smaller companies” and that the WEIF was not a typical equity income fund. And that it had 9.5% of its assets – close to the limit – invested in unquoted companies, which were higher risk. So it’s clear to me that Mr Z had sufficient information from these updates to know that the WEIF was not a typical equity investment – and that there were specific risks in the way the WEIF was managed that he needed to be comfortable with.

Ultimately, HL continued to believe that periods of poor performance were temporary, and that whilst it was important to ensure it was open about the nature of the WEIF and how it had changed, it continued to believe it was a good investment for the long term. And I don’t agree that this message was misleading because HL believed that to be the case – and was entitled to that reasonably held belief.

I’ve reviewed HL’s communications from 2018 onwards, following Mr Z transferring his shares in the WEIF to HL. And in doing so, I’m satisfied these were equally clear, fair and not misleading. In March 2018, for example, HL published an update following WEIF’s change of sector. It clearly explained how almost “40% of the fund is invested in small and mid-sized lower-yielding companies” with “an additional 10% invested in companies not yet listed on the stock market”. And the same update was clear that HL accepted Woodford’s approach would “lead to tough periods of performance” but that it remained “comfortable with the inclusion of unquoted companies”, although it did not “want to see them increase as a proportion of the fund from here”. It reminded investors to “ensure they are comfortable with the investment approach and risks”.

The evidence I’ve seen of HL’s internal views and the meetings it had with WIM during 2018 show that HL was largely reassured that WIM had taken onboard its feedback, particularly in relation to continued investment in unquoted stock. And this is clearly reflected in the communication above. Internally it continued to believe that the fund would come good in the long term, but it acknowledged that it needed to ensure clients were aware of the nature of the fund, the need to diversify and the strategy WIM was following. In my view, the update I’ve quoted above achieves this in a clear, fair and not misleading way.

In January 2019, HL issued an update in which it explained it had had a recent catch-up with Woodford. It said that although it had been a long-term supporter of Woodford, “his funds have recently performed poorly” and so it had been “an uncomfortable time to hold the fund and our own conviction has been tested”. The update then went on to explain why it continued to keep the fund on its Wealth 50 and provided a detailed explanation of how the WEIF had changed since its launch, and some of the inherent risks of Woodford’s approach to investing. And it said it was clear that some of Woodford’s investments hadn’t “paid off” and importantly highlighted to investors “the importance of having a diversified portfolio, spreading your investments amongst managers that invest differently”. It concluded by saying that it was “understandable that some investors are getting impatient with Woodford” and that it had also “been disappointed with recent performance”. But it said that its approach was to back proven managers for the long-term and “as part of a diversified portfolio, we still think Woodford has a place”.

Crucially, it said:

“We could be wrong. If we are we’ll put our hands up. It might be tempting to change our opinion now to be rid of the current discomfort, but we don’t think it would be the right thing to do”.

Further updates in March 2019 highlighted that Woodford was experiencing “his worst spell of performance” and the fact that HL had been urging Woodford to “address the weighting [of unquoted] stocks in his portfolio” – and overall it said that Woodford had “shown an ability to make the big calls right, and when he does, investors profit”.

During this period, the evidence shows that HL was in regular contact with Woodford in a bid to understand the challenges he was facing in managing the fund and to ensure that its faith in his ability to turn things around wasn’t mis-placed. The suspension of three stocks on the Guernsey exchange was a significant cause for concern – but this suspension was only temporary. Furthermore, although it discussed whether the time had now come to remove the WEIF from its Wealth List, it’s clear that internally it also considered the likelihood that the WEIF would recover. It had been reassured by WIM that it would deal with the level of unquoted stock in the portfolio – and HL told its clients this. I’m satisfied at this point, HL was clearly finding a way to balance communicating the risks and its concerns to consumers, while at the same time being open that it continued to believe that the WEIF would recover in the longer term.

Having considered the updates HL provided, I think it’s clear that there were risks in remaining invested in the WEIF, and the performance had now been disappointing for some time. But it was entitled to tell its clients that it believed the fund would recover – because that is what it believed internally at the time, for reasons which it gave in its updates.

Overall, it’s clear that there were periods between 2016 and 2019 when HL raised concerns with WIM, for example around the level of unquoted stock in the WEIF. However, HL clearly explained these concerns in its public updates or Wealth Lists. At the same time, HL held the view that, whilst there were some concerns in the short term, over the long term the WEIF would end up being a good investment for its clients. HL was entitled to hold that view, and I’ve seen insufficient evidence that it came to that conclusion unreasonably or in a way that was not genuinely based on its assessment of the WEIF and its future prospects. Whilst I appreciate HL’s view has turned out to be wrong, largely as a result of the liquidation of the fund, which was not something it had anticipated, I don’t consider that means its communications were not clear, fair and not misleading. I’m also persuaded that HL’s actions were made with its obligations to treat customers fairly in mind.

I understand Mr Z feels strongly that HL withheld information from him, but in my view, I'm satisfied HL clearly explained the risks of the fund, the areas where it had concerns and the reasons why it thought it was still worthwhile to hold it as part of a diversified portfolio.

I appreciate Mr Z says he didn't see these regular updates from HL, however, I believe it was Mr Z's responsibility to manage his investments and to consider whether in light of the information made available to him by HL, the risks as described as well as the ongoing period of under-performance, holding the WEIF remained suitable for him.

I also note Mr Z's comments regarding a phone call he had with HL not long before the fund was suspended. However, HL has no record of Mr Z contacting it about the WEIF prior to its suspension. Regardless I'm satisfied clear, fair and not misleading information was provided to him elsewhere.

I appreciate my conclusions will be disappointing to Mr Z and I understand why he feels HL ought to be responsible for his investment losses, but I'm satisfied that the financial loss he's experienced was not caused by something HL did or didn't do or because it misled Mr Z in anyway. I'm satisfied those losses were caused by the performance of the underlying investments in the WEIF, and its subsequent liquidation by the authorised corporate director.

My final decision

For the reasons I've given, I don't uphold Mr Z's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Z to accept or reject my decision before 22 July 2024.

Ben Waites
Ombudsman