DRN-4778338

The complaint

Mr C complains Hargreaves Lansdown Asset Management Limited (HL) failed to provide sufficient information about a fund he invested in through its Multi-Manager Income & Growth fund. He says he relied on information when investing and has now suffered losses.

What happened

The fund relevant to Mr C's complaint, which he had exposure to through his investment in a HL multi-manager fund (MMF) was called the Woodford Equity Income Fund (WEIF). This 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 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 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.

HLs MMFs also invested in the WEIF as a proportion of the make-up of the various funds. The MMFs invest in a wide range of underlying investments. They are managed in accordance with an investment mandate and seek diversification by investing in a collection of other funds, effectively acting as pooled investments. This means investors didn’t have direct exposure to the WEIF, but rather an indirect exposure through holdings in the relevant MMFs.

Mr C’s exposure to the WEIF

Mr C made several investments into the WEIF, both directly and indirectly through the MMFs. This complaint relates to the exposure to the WEIF through the investments he made into one of HL’s MMFs. He originally purchased units of the HL Multi-Manager Income & Growth Trust in his ISA in 2004. After the WEIF was launched, this MMF held a proportion of its assets in this fund. Mr C continued to purchase further units in the MMF over the following years and over this period his investments in the MMF had a proportion invested in the WEIF.

HL has confirmed on 31 May 2019, just prior to the suspension, the HL Multi-Manager Income & Growth Trust had a 12.81% exposure to the WEIF. By March 2024 the WEIF exposure had dropped to 0.02%.

Mr C’s complaint to HL

Following the suspension of the WEIF in 2019, Mr C raised a complaint with HL about the losses he had suffered. The complaint was referred to this service. As part of this complaint a decision was issued in respect of the direct investments Mr C had made into the WEIF. Through our investigations it was established that Mr C also wanted to raise a complaint about the exposure he had to the WEIF through a MMF. This service informed HL that a separate complaint would be set up to consider this issue.

One of our investigators looked into the complaint but didn’t consider it should be upheld. In summary he said:

- The MMFs invest in a range of different investments to make up a diversified portfolio. HL had a mandate to buy and sell units in underlying funds at its own discretion using the common pool of investors’ funds. Its obligations to those investors were to ensure it did so within the agreed parameters, and to ensure the information it provided was clear, fair and not misleading.

- The fact that the WEIF ultimately did not perform as HL expected does not mean HL acted incorrectly by investing in it within the MMF. HL, like its investors, had an interest in the MMFs performing well and it believed on balance that the fund was likely to offer returns in the long-term. In that sense, it did not differ from the other funds invested in by the Multi-Manager fund.

- Shortly prior to the suspension of the WEIF the MMF Mr C invested in had exposure of 12.81%. It's not possible to isolate the effect of the WEIF being suspended, but it's important to note that – similar to his direct investment in the WEIF – redemption payments were fed back into the MMF investment pools and potentially used to buy units elsewhere.

- Fund managers rebalance the underlying investments within the MMFs. So, if a particular investment is underperforming, the fund manager will reduce the exposure of that investment within the fund. HL fund managers did this, as by October 2021, the WEIF made up 0.59% of the Income & Growth Trust. MMFs appeal to investors in part because they invest in a range of funds which limits the impact of a single fund performing badly (as was the case here).

- HL didn't make any guarantees about the MMFs performance. Our service has considered the communications about WEIF over time on Mr C's other complaint, which concluded that information provided by HL was clear, fair and not misleading.

Mr C didn't agree and asked for an ombudsman's decision. He reiterated his concerns about the information provided to him by HL about the WEIF. In summary he said:

- Misleading financial information supplied by HL was the reason he kept his investments connected with the Woodford Funds.

- HL's relationship with Neil Woodford was not healthy in a business sense as they were too close. HL constantly championed and promoted him as he was on the Wealth List right up to when his funds were suspended. If HL had removed him from the Wealth List, he would have immediately sold his investments. HL knew something untoward was going to happen with the WEIF and did not pass the information to its clients.

- HL had a conflict of interest regarding the WEIF. Its own MMF (income fund) had a large percentage (around 30%) was made up of WEIF shares. If it had informed its clients to sell there would have been a share price drop which would have affected the HL MMFs. It was however, noted that HL was quietly reducing the stake in the fund just prior to its suspension.

- The communication he received from HL was watered down and still presented with a positive slant that things would get better, but this was not the case.

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 C's strength of feeling on the complaint and why he considers HL is responsible for the losses he has suffered due to his exposure to the WEIF in a HL MMF. However, for the reasons I set out below, I'm not persuaded he was misled into remaining invested in the MMF that had exposure to the WEIF – and consequently, I'm satisfied the issues arose due to the poor performance of the investment and its underlying holdings, which HL had no responsibility for.

To be clear, I will not be revisiting the points Mr C has raised in relation to HL's wider communications on the WEIF. These have already been considered as part of a previous complaint and a final decision has been issued by another ombudsman on this subject.

So, I'm only considering Mr C's exposure to the WEIF through the units he purchased in the HL Multi-Manager Income & Growth Trust. I acknowledge he has suffered an impact from the suspension and demise of the WEIF through this indirect exposure.

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 HL Fund Managers (HLF). 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. I think it is also worth noting, that decisions to invest in the WEIF were made by HLF, not by HL Asset Management (who this complaint is about). Each MMF has specific investment objectives and an investment policy which the fund manager follows by selecting funds to invest in to achieve the objective.

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 HL responsible for not foreseeing the suspension and subsequent liquidation of a fund it had no involvement in managing.

When Mr C first invested in the MMF, the WEIF had yet to be launched. But after its launch and overtime the Income and Growth Trust MMF did hold a proportion in the WEIF (and at the time of suspension this was around 13%). I understand the fund was to be invested in a core list of favoured UK equity income funds. And it was possible the fund may invest in smaller companies, which are more volatile and sometimes more difficult to trade.

Considering the level of exposure before suspension, this doesn't raise concerns about the MMF being managed outside of the mandate. 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. In this case the MMF Mr C is complaining about contained a multitude of different assets. And unlike the direct investments Mr C made, when the WEIF was suspended, he could still trade in the MMF and access his investments. For all these reasons, I'm therefore satisfied that the MMF Mr C invested in remained consistent with the stated aims, objectives and declared asset mix, despite the performance issues suffered by the WEIF.

Mr C says there is a conflict of interest due to the large percentage of the MMF that was made up of WEIF shares. He says had it informed its clients to sell there would have been a share price drop which would have affected the MMFs. I have not seen sufficient evidence to show HL's decision to continue to promote the WEIF (i.e. by continuing to include it on the Wealth List) was not acting in its customers best interests. From the evidence, HL was upfront about the challenges relating to the WEIF – including its performance. And it took the decision to continue to promote the WEIF having challenged Woodford and received reassurances for the potential recovery in performance. I'm satisfied from the evidence available it was considering what was best for its clients when doing so. I also don't find that it is reasonable to expect HL to inform investors every time there was a change in exposure to a specific fund within a MMF. These decisions would be taken by HLF, and as explained above, this would be on the basis of maintaining the relevant MMF was meeting its objectives and mandate.

I acknowledge the further points Mr C makes about the Wealth List and HLs wider communications on the WEIF. These points were covered in his other complaint, so as I've previously explained, I won't be considering these again.

I appreciate my conclusions will be disappointing to Mr C and I understand why he feels HL 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 HL did or didn't do or because it misled him in anyway. 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 MMF).

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 3 October 2024.

Daniel Little
Ombudsman