

The complaint

Mr A complains that Hargreaves Lansdown Asset Management Limited (“HL”) gave him misleading information about an investment he transferred to it. Mr A 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 A transferred to 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 A’s dealings in the WEIF

Mr A transferred his accounts to HL in January 2018 from another provider. At the time of the transfer, he had £1,654.79 shares in WEIF in his HL stocks and shares ISA. He also had £5,797.52 shares in WEIF in his HL Fund and Share account. He remained invested in the fund until it was suspended.

Mr A’s complaint to HL and its response

In July 2019, Mr A made a complaint to HL about its promotion of the WEIF and its communications around it, in particular its Wealth Lists. He felt that HL had been aware of issues with the WEIF from as early as November 2017 but it failed to communicate this to investors.

HL looked into Mr A’s complaint but didn’t think it had done anything wrong. In short it said that it acknowledged the WEIF had experienced a “difficult period of performance” but emphasised that it had a reasonably held conviction in the prospects of the WEIF outperforming its benchmark. It said it has provided regular information to its clients prior to the suspension, including references to a proportion of smaller and unquoted companies held within the WEIF.

HL also said that in 2019 it had stated in an article on its website that it had urged Woodford to reduce the Fund’s exposure to unquoted stocks. It also said its views on any of the funds that might form part of an advised portfolio are formulated after significant and dedicated research, including meeting the fund manager on a regular basis.

Mr A 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 A didn't agree and asked for an ombudsman's decision. In summary he said:

- By not sharing all of its concerns and by continuing to promote the WEIF (up to the day of its suspension), HL cannot be seen to have treated its customers fairly.

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 A 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 A'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 A 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've reviewed HL's communications from 2018 onwards, following Mr A 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 2018 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 A 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. Having done so, I believe it was for Mr A to decide for himself whether, in light of that information, the risks as described as well as the ongoing period of under-performance, holding the WEIF remained suitable for him.

I appreciate my conclusions will be disappointing to Mr A 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 A 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 A's complaint.

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

Ben Waites
Ombudsman