The complaint

Mr M has complained about the management of his pension fund by Hargreaves Lansdown Asset Management Limited. He considers it didn't take action to protect his capital or income, particularly during a period of market volatility. In effect, he considers it didn't 'manage' his pension fund at all, despite being paid significant fees to do so.

What happened

Mr M has raised a number of concerns about his pension with Hargreaves Lansdown over a period of time. This decision only considers the complaint I have outlined above. I haven't considered the issues raised about whether the portfolio was mis-sold, and the issues surrounding investment in the Woodford Fund – they have been raised with the firm separately.

Mr M's complaint was considered by one of our investigators. He didn't recommend that the complaint should be upheld. In summary, he said Mr M had invested his pension in one of Hargreaves Lansdown's Multi Manager Portfolios in 2018 – the HL Portfolio+ Balanced Income portfolio. This was split across three holdings: the 'Equity & Bond Trust', 'Income & Growth Trust' and 'Strategic Bond Trust'.

In May 2020 Hargreaves Lansdown contacted investors in the portfolio to say that due to the coronavirus pandemic it was going to cut the income payments from it. It provided a breakdown on the income currently being paid and what it expected would be paid going forwards.

The investigator said that as the portfolio was invested in different funds, it could only pay out an income from the returns obtained from the shares and bonds the funds were invested into. So it could only pay out an income based on what it received from those funds. The investigator thought Hargreaves Lansdown's decision to cut the income was a legitimate exercise of its commercial judgement.

Mr M had said that Hargreaves Lansdown could have sold his shares in order to buy them back at a lower price. However the investigator said that as the portfolio's objective was to achieve income and capital growth over the medium to longer term, if Hargreaves Lansdown had started selling its holdings during the period of high volatility it wouldn't have been following the portfolio's objectives. He said it wasn't possible to predict what was going to happen, and investors could miss out on potential growth if markets started to rise again.

The investigator said Hargreaves Lansdown had provided one-off advice to set up the portfolio of investments, and it was Mr M's responsibility for the wider investment planning strategy and withdrawals. He said Hargreaves Lansdown's managers were responsible for managing the funds on a long-term basis – including re-balancing the funds every six months to make sure they were aligned to its objectives. But he didn't think Hargreaves Lansdown's managers could be held responsible for the performance or selling of shares due to market turbulence. And if Mr M was looking for short term gain, it was his responsibility to sell specific shares to achieve this.

Mr M didn't agree with the investigator's findings. He said, in summary, that the investigator had misread the nature of the complaint. He said the reduction in income was a symptom of the mismanagement of the fund, but was only part of the problem. He said Hargreaves Lansdown did nothing to protect the income or the capital invested despite exorbitant charges to do just that. He said the six-monthly re-balancing wasn't Hargreaves Lansdown's only responsibility. This was part of the management fees and it was required to manage the fund on a daily basis. However it did nothing on a daily basis. If it had, it would have sold the shares/funds when it was clear that there would be a massive downward trend during lockdown.

Mr M referred to the high fees he was paying and had paid for the original financial advice. He said that he was 'forced' into the portfolio. Although the investigator had said that he had the opportunity to sell the fund – which would have been at a loss as it started losing money from day one – he was told during the financial advice that he needed to do nothing unless his personal circumstances changed. And he said the investigator hadn't mentioned the 'shocking' Woodford Fund.

The investigator responded to say, in summary, that he didn't think Hargreaves Lansdown was responsible for buying and selling of the investments for short term gain. He said the aim of the portfolio was to achieve capital growth over the medium to longer term, and it was the fund managers' responsibility to make day to day decisions with that long-term goal in mind. The investigator said that he was only looking at a complaint about mismanagement. He wasn't considering a complaint about whether the portfolio was mis-sold, or about the Woodford Fund.

Mr M subsequently said, in summary, that the investigation had only focused on one aspect of the complaint – the reduction in income. But this was incorrect. He said the difference between a managed portfolio and a managed fund had been misunderstood. And he said the investigator had failed to take into account that he was effectively forced down the line of buying the funds during the financial advice process.

As an agreement couldn't be reached, the complaint has been 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.

As I said above, I haven't considered whether the portfolio was mis-sold in this complaint. That issue has been raised with the firm separately. Whether or not Mr M was 'forced' into the portfolio will form part of that complaint – in effect – should he have been in the portfolio in the first place. What I have considered here is whether, once in that portfolio, it was managed appropriately.

I accept what Mr M has said in that the portfolio service provided for both the management of the overall portfolio, in terms of it being re-balanced to reflect its pre-determined objectives, and for the underlying funds themselves to be managed on a 'daily' basis. The portfolio is promoted as having a dedicated team of experts managing a diversified portfolio with a mix of different funds and managers. Mr M was invested in a mix of funds that presented different levels of risk – some presenting significant risk. And ultimately that means there is a performance risk – there's no guarantee of success.

The portfolio's overall aim was to provide income and capital growth. The portfolio was invested in three trusts which themselves were invested in a series of funds. Each fund had its own individual investment mandate. It was the responsibility of each individual fund's managers to manage the day to day running of each fund in line with its objectives, including decisions about buying and selling assets.

Fund management isn't an exact science. Different investment managers will have different reasonable opinions, both about the general market direction as well as future individual asset prices. Shares listed on recognised stock markets need buyers in order that they can be sold. So the very mechanism by which shares are traded means that there are both buyers and sellers at the same time – reflecting different views on their future value. The same can be said about other assets.

Mr M has questioned what the 'managers' were doing day-to-day to react to changing market conditions. Hargreaves Lansdown said the underlying fund managers were 'tweaking' their funds when making day-to-day decisions about the underlying assets. It has said changes were made to the funds making up the multi manager portfolio, increasing exposure to some areas that had not suffered dividend cuts to the same extent as UK-oriented funds, and also increasing exposure to other funds with higher yields.

Mr M however has said the managers did nothing when they could have sold shares/funds when it was clear that there would only be a massive downward trend during lockdown. And he said they could then have bought them back at a lower price. However whilst some fund managers may have decided to move funds out of certain assets, it doesn't necessarily follow that those that didn't were negligent, or weren't managing their funds appropriately.

At any particular point in time a fund manager will have a view on the future value of a particular asset – but won't *know* its future price. If assets had been sold as Mr M has suggested, it may have turned out, as he said, that they could have been bought back at a lower price. But selling could also have crystalised a loss, and the assets could have increased in price after they had been sold. Whether or not any sales or purchases of assets are successful is only seen with the benefit of hindsight.

In its correspondence to Mr M dated 4 August 2020 Hargreaves Lansdown said:

"…the Multi-Manager investment philosophy is to invest for the long term. While some investors may consider jumping out of the market and selling everything during high volatility, the problem with this is you could miss out if markets suddenly rise again. There's no signal once we've reached the bottom, and recoveries can sometimes happen quickly. On the other hand, you could re-enter the market thinking a recovery has begun, only to find out it's a 'false dawn' and markets fall again. By staying focused on the long term, you avoid making potentially costly mistakes by getting your decisions or timing wrong."

As I said above, different professionals will have different reasonable opinions about investments and investment strategies. The longer-term philosophy outlined by Hargreaves Lansdown above is consistent with a lot of other investment managers. Investment managers have a fairly wide discretion to manage their portfolios/funds how they see fit, but within the investment mandate that the governs the fund. I think it's generally accepted within the industry that it's difficult to time the markets, albeit some do so, and are successful in some circumstances. But it doesn't necessarily follow that those funds which remained invested were mismanaged. There are issues surrounding the Woodford Fund that formed part of the overall portfolio. However, concerns about the Woodford Fund have been raised with the firm separately.

The more recent market volatility demonstrates how fund performance needs to be judged over time. Some of the best returning funds during the pandemic have more recently suffered significant underperformance. Only time shows which investment decisions were right. However once a risk-based investment is made, it is just that - exposed to risk, and the possibility of losses or poor performance.

Mr M was initially advised to invest in the portfolio and the adviser had an obligation to ensure it was suitable for Mr M's circumstances at that time. Unless Mr M's circumstance and requirements changed (or the objective of the portfolio changed – which it didn't) it would generally remain suitable – albeit regular reviews are usually encouraged as circumstances do change over time. Hargreaves Lansdown was obliged to manage the portfolio in accordance with the portfolio's aims and objectives. And the fund managers in line with the individual objectives of each fund. So on the one hand, I don't think Mr M had a responsibility to buy and sell individual shares or funds as such.

But if Mr M didn't think the portfolio itself was meeting his requirements, either in terms of the income it was paying, its performance, or the risks it presented, it was his decision whether to stay with it, or switch to another portfolio/fund(s). As I've said above, whether or not the portfolio was mis-sold and Mr M should have been in it in the first place is the subject of a separate complaint.

Overall, I don't think the firm's decision to cut the dividend was unreasonable – it reflected the outlook for the income generated by the portfolio and its performance at that time. And I've seen no persuasive evidence that the portfolio or underlying funds were mis-managed.

My final decision

My final decision is that 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 15 July 2022.

David Ashley
Ombudsman