

The complaint

Mr C complains about Aviva Life & Pensions UK Limited's management of his pension funds. He was used to seeing them rise and fall in line with the changes in the FTSE-100 index. But the value of his pension dropped from £81,206 on 8 September 2021 to £76,297 on 6 October 2021, during which time the FTSE started and ended at about 7,050 points.

As he isn't happy with Aviva's response, he referred the complaint to this service.

What our investigator said

In his initial view on the complaint, the investigator said that it was reasonable to expect that funds which were linked to the stock market would fluctuate in value, as they should be considered to be long-term investments.

The funds Mr C had invested in were spread across UK and overseas shares, commercial property, bonds and cash, whereas the FTSE-100 only represented the largest 100 companies listed on the London Stock Exchange. So Mr C's funds were not meant to mirror the composition of the FTSE-100 and he could not therefore expect them to always follow that index.

The investigator was also satisfied that there was nothing to show Aviva had mismanaged the funds in such a way that led to their underperformance. The funds had been invested in assets which were in line with their published aims and objectives. And their individual performance was broadly in line with the performance of the relevant sector during the period Mr C was interested in.

Mr C didn't agree with the investigator. He didn't think it could be a coincidence that his funds had always mirrored the changes in the FTSE-100 before the events of this complaint. He added that his pension's value had fallen by a further £6,000, so he had decided to switch the funds he was invested in.

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've taken everything Mr C has said into account. But I've decided not to uphold this complaint, for much the same reasons as the investigator.

On an individual level, the funds Mr C has invested in are incapable of showing performance that exactly matches rises in falls in the FTSE-100 index. For a start, one of the funds invests in bonds that are issued by companies or governments. None of this type of asset features in the FTSE-100 index at all. Another is referred to as a mixed investment (20-60% shares) which means that it cannot have a component of shares exceeding 60% and therefore this, too, will have most of the remaining assets invested in bonds. A third fund (European Growth) invests substantially in shares that are traded on European stock markets, whereas the FTSE-100 is companies trading on the London Stock Exchange.

Global stock markets tend to follow one another, so I'm not surprised if Mr C saw in the past that the FTSE-100 had risen or fallen and then his pension rose or fell overall too. But bond prices and share prices are less well correlated to each other and that's precisely why people typically spread their investments across both shares and bonds (and one of Mr C's funds contains an even split between both). It helps ensure that when stock markets are not doing so well, Mr C still has some prospect of weathering the storm in bonds and vice versa.

That is not to say that there have been some periods in recent history when *both* shares and bonds have performed badly. I'm sure Mr C will be aware of some of the turbulent events that have affected the world and therefore stock markets over the past few years. And during the particular one month period Mr C has complained about, the unit prices of *all* his funds fell. That can happen sometimes, but stock markets fluctuate frequently and I can see that several of the funds rebounded again very shortly afterwards.

I know Mr C is surprised by this, but if he considered his funds always matched changes in the FTSE-100, this really can only have been a coincidence - given that the assets they held barely resembled the top 100 UK listed companies at all.

Like the investigator, I've looked at the fact sheets Aviva sent Mr C for the five funds he's invested in – and in particular the performance graphs. Each fund is benchmarked against a sector average published externally from Aviva, which links funds with similar criteria together using benchmarks set by the Association of British Insurers (ABI). All of Mr C's funds show long-term performance that exceeds the benchmark. And during the period he's complained about, all of the funds' benchmarks fell at the same time as the funds fell.

This falls very short of demonstrating that there is a fundamental problem with the way Mr C's funds were being managed. No fund manager is able to forecast exactly how individual company shares or bonds will perform. They can only pick the stocks that they think have the best potential, and some judgements they make will prove with hindsight to have been better than others.

I noticed that two of Mr C's funds dropped down by a bit more than the benchmark did during the particular month he's complained about. However in the longer term these were the funds that actually outperformed the benchmark the most. I think it's notable that they are ethically-invested funds – meaning the fund manager will screen out investments that are potentially damaging to society or the world, such as tobacco and oil companies.

This does have the effect of meaning they may fluctuate more than the benchmark in some market conditions, because they are more specialised than the benchmark. Aviva has mentioned that there were rallies in oil and gas prices in particular, which would have buoyed up the benchmark at a time when Mr C's ethical funds were not benefiting from that growth. I'm satisfied that it will be possible to find this, and similar, explanations for these slight differences.

I'm pleased that this experience has led Mr C to review the funds he's invested in because it's important that he's happy with the investment decisions he's made. But I'm not able to uphold his complaint as Aviva hasn't done anything wrong.

My final decision

I do not uphold Mr C's complaint and make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 19 January 2023.

Gideon Moore
Ombudsman