

## **The complaint**

Mr and Mrs D complain that Fairstone Financial Management Limited didn't facilitate the rebalancing of their portfolios with Fidelity, and this caused them a financial loss.

## **What happened**

Mr and Mrs D's portfolios were overseen by an adviser I'll refer to as AS. This adviser became employed by Fairstone in February 2019, and Mr and Mrs D's accounts moved across to Fairstone at the same time. Fidelity confirmed to Fairstone that when this happens, clients automatically lose their link to any model portfolios in which they were invested under the original company. This meant that the rebalancing function that was a feature of their portfolios was removed.

I issued a jurisdiction decision in October 2023 confirming that Fairstone was responsible for this omission – and following that decision, one of our investigators looked into Mr and Mrs D's complaint and considered it should be upheld. In short, she said that the portfolios were not rebalanced as they should've been in April 2019 and April 2020, and therefore they should be compensated for any financial loss that resulted from that failure.

Fairstone did not respond to the investigator's assessment. Mr D agreed with the assessment, but also said that 'once rebalancing did restart it did so on an incorrect set of balances as a result of the failure and therefore all rebalances that have been undertaken from 2021/22 up until Fairstone pay redress [...] will need to be redone'.

## **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 previously addressed Fairstone's objections to being held responsible for the failure to rebalance Mr and Mrs D's portfolios. Although Fairstone has not provided any further comments or information following my decision, I've reconsidered whether this complaint is within this service's jurisdiction, and I'm satisfied it is.

I've also reconsidered whether the omission to rebalance the portfolio fell within Fairstone's responsibility, and I'm satisfied it did. This is because I've seen sufficient evidence that Mr and Mrs D's adviser was employed by Fairstone during the relevant period.

The omission in this case is the failure to have undertaken the necessary actions to ensure that Mr and Mrs D's portfolio continued to benefit from Fidelity's rebalancing function.

The rebalancing exercise is designed to ensure that a model portfolio continues to be invested in line with its asset allocation and therefore the risk the consumer has chosen – in other words, a failure to rebalance the portfolio could result in the portfolio no longer being suitable. It was therefore particularly important for Mr and Mrs D.

I'm satisfied that Fairstone was under a duty to ensure that Mr and Mrs D's portfolios

continued to be subject to Fidelity's rebalancing (or to otherwise cause that rebalancing to be carried out), and therefore any financial loss resulting from that omission ought to be put right.

### **Putting things right**

In putting things right, my objective is to put Mr and Mrs D as close as possible to the position they would've been in but for Fairstone's omission. In my view, the fair and reasonable way of doing this is to calculate whether any financial loss was caused to Mr and Mrs D's portfolio during the period in question – and if so, to pay that compensation as cash to them.

It isn't in dispute that Fidelity would've rebalanced Mr and Mrs D's portfolios between April 2019 and April 2021 had the change of agency been done correctly. Mr D has provided some detailed calculations for how he thinks the failure to rebalance has affected the values of his portfolio. Whilst I've considered that evidence, it isn't my role to review each individual investment and how many units it ought to have had at any given point in time. Instead, my role is to award compensation based on what I think is fair and reasonable.

In my view, if Fairstone had properly carried out the change in agency, Mr and Mrs D's portfolio would've been rebalanced by Fidelity between April 2019 and April 2021 – so that their investments matched the asset allocation of the model portfolios or benchmark they were invested in. The fair and reasonable way to put things right is therefore to calculate what, if any, financial loss resulted from that omission – and pay that plus 8% simple interest to Mr and Mrs D.

So Fairstone needs to calculate what the model portfolios (or the benchmark) Mr and Mrs D were invested in returned during that period (that is, April 2019 to April 2021 – the specific dates being whenever Fidelity would normally have carried out the rebalancing in each financial year) and compare it to Mr and Mrs D's portfolios and what they actually returned during that same period, using the same dates. I've chosen April 2021 as the end date because that's when AS moved to a new firm – and therefore responsibility ceased being Fairstone's.

If any financial loss arose in consequence of the failure to rebalance in those years, it needs to pay Mr and Mrs D that redress. It needs to add 8% per year simple on that sum from April 2021 to the date of settlement. And it needs to provide Mr and Mrs D with the detail of its calculation so as to enable them to see how Fairstone has calculated the compensation they are entitled to.

I understand that this calculation was already done by Fidelity and resulted in a total of £933.90. This was subject to an initial offer to settle the complaint by Fairstone – if this amount was paid to Mr and Mrs D, and after the calculation above this continues to be the sum total of the financial loss for the relevant period, then clearly nothing further is due.

I've considered Mr D's comments about requiring Fairstone to also redo subsequent rebalancing, but I'm not persuaded that's fair. From April 2021, the responsibility of ensuring that Fidelity rebalanced the portfolios passed to a different firm, and I'm not persuaded it would be fair and reasonable to hold Fairstone responsible for that.

If the rebalancing was carried out, it would mean that from April 2021 onwards the portfolios were aligned with the benchmark and the risk and objective Mr and Mrs D had been advised to take – and so the only financial loss would be any lost sum from the previous failure to rebalance, which I've awarded above.

If from April 2021 the rebalancing was not carried out as agreed, then such an omission would be the responsibility of their new firm and not Fairstone.

### **My final decision**

My final decision is that I uphold Mr and Mrs D's complaint and award the compensation I've outlined above. Fairstone Financial Management Limited must pay the compensation I've awarded within 28 days of when we tell it Mr and Mrs D have accepted this final decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D and Mr D to accept or reject my decision before 13 February 2024.

Alessandro Pulzone  
**Ombudsman**