

The complaint

Mrs P complains about the investment service she's received from Skipton Building Society. She says it has left her in a poorly performing fund, resulting in disappointing returns on her investments.

What happened

Mrs P got some investment advice from Skipton in 2009. It recommended she invest £40,000 across two funds, which formed part of its Monitored Informed Investing (MII) service. This service involved, amongst other things, sending regular reports on the performance of Mrs P's holdings. The MII service involved a set of "core funds" which Skipton described as funds it felt held prospects of good returns for investors at various levels of risk appetite. It said from time to time, it may remove funds from this core range and add others to it, at its discretion. When it did so, it could offer investors the chance to switch between funds.

In 2020 Mrs P received a letter from Skipton offering her the opportunity to switch from one of her funds into another fund, which I'll call Fund A, run by a fund manager I'll call F. Mrs P accepted this offer and made the change to her portfolio.

Over the next few years, Fund A didn't perform particularly well by comparison to its peers (other funds invested in similar asset classes). After some correspondence with Skipton, Mrs P complained. She said Skipton ought to have offered more fund switches due to the poor performance of Fund A, and her investment returns had suffered as a result of this negligence. She also said Skipton hadn't made it easy for her to communicate with her adviser or gain information about her investments or Skipton's decisions.

Skipton responded to say it didn't think it had done anything wrong, and that it remained of the view Fund A was a reasonable fund for Mrs P to have been invested in, and for it to have remained on Skipton's core fund list.

Mrs P brought her complaint to our service where it was looked into by one of our investigators. He concluded it shouldn't be upheld. While he acknowledged Fund A hadn't returned what Mrs P hoped, he didn't think Skipton had failed to provide the service it said it would, or unreasonably failed to suggest Mrs P switch to a different fund. He was also satisfied Skipton had offered appropriate contact and access to advisers and representatives when Mrs P had wanted or needed it.

Mrs P didn't agree with our investigator and asked for an ombudsman to decide the matter. She reiterated that a fundamental feature of the MII service was offering free fund switches when an investment performed poorly, and in her opinion Fund A had clearly performed poorly for some time. She said leaving her in this fund had also failed to give her the diversification Skipton had promised when it advised her back in 2009.

She noted that Skipton had recently partnered with F where F would now be providing the platform for Skipton's clients' investments. She said this presented a clear conflict where Skipton was incentivised to promote F's funds even when it was to their clients' detriment.

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.

At the outset I'd like to say that I've summarised events in far less detail than the parties have, and that my decision won't address each and every point raised in the course of this complaint. This isn't meant as a discourtesy, but the purpose of my decision is to explain my overall conclusions on what I consider to be fair and reasonable in all the circumstances, and my reasons for reaching those conclusions.

In reaching my decision I've had regard, amongst other things, for the terms of the MII service, as well as Skipton's obligations under the FCA's Principles for Businesses. In particular, I've borne in mind Skipton needed to comply with Principle 2 – "*A firm must conduct its business with due skill, care and diligence.*", Principle 6 – "*A firm must pay due regard to the interests of its customers and treat them fairly.*" and Principle 8 – "*A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.*"

Mrs P received advice on an initial two funds to invest in, and more broadly to take up Skipton's MII offering, in 2009. She's not complained about that initial advice, but it is instead the way Skipton has provided that service, and in particular the decision not to offer a switch out of Fund A, that Mrs P is unhappy about.

I have some sympathy for Mrs P here. She has invested on Skipton's advice, and taken it up on an offer to reinvest into a fund it said it thought had good prospects. That fund has then performed poorly – both in bare terms in the sense it fell in value while Mrs P was invested, and by comparison to similar funds. This will of course be disappointing and frustrating, but I'm not persuaded Skipton has acted unfairly or unreasonably or that it should pay Mrs P any compensation here, and I'll explain why.

The nature of the MII service was such that it *didn't* provide for Skipton to give Mrs P further advice – she has noted she'd have had to pay extra for that, which she's of course entitled not to do, but it doesn't alter the nature of the service she *did* pay for and that Skipton said it would provide.

The key to the MII service is, in my view, reflected in its name. Skipton would *monitor* and *inform* clients such as Mrs P, in order for them to take decisions about their investments. This included having a range of core funds which, for a given risk profile, included funds Skipton thought could provide good returns for investors. The service did also provide for Skipton to suggest switches to funds where its view on a fund's overall prospects changed, and a fund had comparatively underperformed for a period of time. But crucially, this decision to offer such a switch was at Skipton's discretion. And it's relevant that Skipton wasn't offering switches for Mrs P alone when it did so, but was taking decisions about its fund range having regard for all its customers and investors.

So I've borne the above in mind when considering Skipton's actions here. But it is equally the case that while Skipton had a wide discretion when it came to the MII service's fund switches and its core fund range, it was also bound by the regulatory Principles I set out above. So when considering the exercise of Skipton's discretion – which here involved, in effect, its decision not to switch Fund A out of its core range or suggest to investors to move to another fund – I've thought carefully about whether it has done so with due skill, care and diligence, and with the appropriate regard for its customers' interests and the fair management of any conflicts.

Having done so, I'm not persuaded Skipton has acted unfairly or unreasonably. I've taken into account that it had analysed the performance of Fund A internally, and also sought the view of an external fund analysis firm. I'm satisfied it carefully considered the prospects of Fund A in light of its customers' interests in remaining invested in it. And I can see that Skipton weren't universally positive on Fund A – it isn't in dispute that the fund hadn't had a good period, and was performing below the level of its peers. I think it's reasonable for Skipton to have weighed this up against its overall view of the fund manager and the longer term prospects of the fund when deciding whether to keep it in its core range and/or to propose a fund switch to investors. I note this balance was reflected in Skipton's quarterly report in November 2022, which said:

"Yet frustratingly, the team have also made decisions which have further added to the Fund's struggles. It isn't unusual for active managers to get it wrong from time-to-time, so this factor isn't overly concerning. What remains important though, is the Fund's core philosophy. The team are still sticking to what we believe they're good at. And, despite its recent performance, the Fund's core philosophy remaining intact and unchanged is ultimately the key to long-term success".

Taking all this into account I don't think Skipton acted unfairly towards Mrs P by failing to offer her a switch out of Fund A. I'm satisfied that Skipton's analysis of Fund A was carried out with due skill and care, and that it wasn't unreasonable for Skipton to consider Fund A remained an appropriate investment for its clients. Ultimately Skipton felt Fund A had a good chance of reversing its underperformance, and whether that decision proved correct or not, I'm not persuaded it was so unreasonable a conclusion to draw that it constituted a failing on Skipton's part. Like the fund managers themselves, Skipton's view of these funds was also allowed to be wrong from time-to-time, and I don't think Skipton ever guaranteed the performance of the funds in its core range.

I've also considered Mrs F's points about the commercial relationship between Skipton and F. While I agree that this gave rise to the potential for a conflict of interest, I'm not persuaded the evidence shows that any such conflict was managed in an unfair way to her detriment. I've taken into account that Fund A was one of a number of funds in Skipton's core range, and many other fund managers other than F handled the funds within that range. And as I've noted above, I'm satisfied that Skipton's rationale for retaining Fund A fairly took into account its customers' interests – whether or not its retention also suited Skipton's commercial interests – I therefore find that it was fair and reasonable for Skipton to have taken the decision it did with regard to Fund A.

I appreciate this decision will come as a disappointment to Mrs P, and I acknowledge her strength of feeling on the matter. The service she paid for hasn't provided her with the level of return she hoped for, and I understand she feels Skipton ought, with hindsight, to have acted sooner with regard to Fund A. But for the reasons I've given, I'm of the view that Skipton provided the MII service as it said it would, and that where it had discretion to make changes to its fund range and offer switches to clients, it did so fairly and in line with its obligations under the regulator's Principles. It is of course unfortunate that with this particular fund, for the period Mrs P was invested the fund performed poorly, but I don't think it would be fair and reasonable for Skipton to be held responsible for that. It follows that I don't think Skipton needs to do anything in order to settle this complaint.

My final decision

For the reasons I've given I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 29 November 2024.

Luke Gordon
Ombudsman