DRN-4983527

## The complaint

Mr H's complaint, in essence, is that fees Hargreaves Lansdown Asset Management Limited has charged on the managed half of his portfolio aren't justified by the performance achieved by that management.

He says this bearing in mind the managed half of his portfolio grew more than the unmanaged half, but almost all the return was taken up by charges which far exceeded the gain left to him – making him worse off than without management.

## What happened

In February 2019 Hargreaves Lansdown told Mr H he would no longer be able to use its portfolio management service, due to his move from the UK.

Hargreaves Lansdown offered him alternatives. He chose to move half his portfolio to a Hargreaves Lansdown managed portfolio and the other half he kept without management.

Broadly, the managed portfolio invested in a number of Hargreaves Lansdown funds that themselves invested in various funds managed by other managers. The managed portfolio itself also had a bi-annual rebalancing of the portfolio fund mix. There was no specific charge for this rebalancing – the portfolio charges were the charges for the underlying funds plus the platform fee. The rebalancing was particular to the managed portfolio and stopped when that portfolio was withdrawn by Hargreaves Lansdown in November 2023.

In October 2023, as the managed portfolio was due to be withdrawn, Mr H took that moment to compare the performance of the two halves of his portfolio. He saw the managed portfolio had made 7% since the start - but before accounting for charges - and the other half of his portfolio, without management, had made 4.7% over that period.

But Mr H says charges on the managed portfolio, averaging £83 a month, took £5200 of his gain and left him only £110 – so his profit was 47 times less than the charges and he says his profit works out as 0.084%. All this was over a period of around four and a half years.

In Mr H's view, Hargreaves Lansdown's management of the managed portfolio was negligent given it failed to match or exceed the results his investments made without that management. Also the charges significantly eroded the gain and left him worse off in comparison, so the managed portfolio approach and its rebalancing provided no overall benefit to him. As such Mr H's view was that Hargreaves Lansdown should either justify the charges or refund them in full.

In response Hargreaves Lansdown said the managed portfolio had underperformed its benchmark over the period because it carried more UK equities which had underperformed global equities in the period. It also said Mr H's selection of the managed portfolio was made by him on an execution only basis – meaning it wasn't the result of a personal recommendation or advice from Hargreaves Lansdown.

When rejecting Hargreaves Lansdown's response, Mr H asked also why he was still being charged a monthly fee even after the managed portfolio service had been withdrawn.

Our investigator thought the charges on the managed portfolio were in line with the terms and conditions. On this basis our investigator didn't think Mr H's complaint should be upheld.

Mr H rejected our investigator's assessment. In brief summary, he pointed out he hadn't said Hargreaves Lansdown hadn't managed his managed portfolio fairly, or said his complaint was about the ending of his advisory service in 2019. Rather he emphasised that he was asking for a justification of the managed portfolio's fees, given the underperformance of the portfolio and the result net of fees being worse than the alternative of doing nothing at all.

Mr H asked for the matter to be passed for an ombudsman for consideration so, as the matter couldn't be resolved informally, it 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.

Having done so I've decided not to uphold Mr H's complaint. I'll explain why.

Mr H's complaint isn't about investment advice Hargreaves Lansdown gave or didn't give him. His decision to invest in the managed portfolio, and to put half of his portfolio into it, was made of his own accord, on an execution only basis. In hindsight his decision to put only half his portfolio into it was a good one, based on the performance figures he has highlighted.

Mr H's central point is that the charges made on the managed portfolio weren't justified. In saying this he isn't suggesting the charges weren't ones Hargreaves Lansdown's terms permitted (but he has questioned monthly fees taken after the managed portfolio ended in November 2023). Rather his point is that the results achieved by the fees don't justify them.

But when offering the managed portfolio, Hargreaves Lansdown didn't guarantee that the portfolio rebalancing would be bound to enhance returns - nor did it guarantee that any extra return would outweigh any extra cost the managed portfolio had compared to alternatives. The return figures Mr H has provided suggest the cost of the extra management provided outweighed its benefits in terms of increased returns. But this doesn't mean Hargreaves Lansdown is at fault - nor does it mean it acted negligently.

Investment performance can't be guaranteed and Hargreaves Lansdown's entitlement to make its charges on the portfolio wasn't dependent on its management increasing the net returns to Mr H after charges – or on the portfolio not underperforming its benchmark.

Mr H was charged a platform charge of 0.45% (for the first £250,000) on the portfolio. On top of this were the costs of the managed portfolio itself, being the dealing and management costs of the portfolio's underlying funds. These would vary a little with factors such as how often underlying holdings were bought and sold, but Hargreaves Lansdown says this cost was 1.17% (known as the total expense ratio) in August 2023.

Cheaper services may have been available, but I don't see that this level of charges, when made to a portfolio like Mr H's, meant the portfolio couldn't produce a worthwhile return after charges. Also looking at these figures, and bearing in mind they were charged each year, I see no reason to doubt Mr H's calculation that over nearly five years they wiped out what would otherwise have been a 7% gain. If growth is low, charges erode returns significantly.

The deductions Mr H has highlighted appear broadly in line with what might be expected given the charges I've detailed above. So what Mr H has highlighted doesn't make me think the Hargreaves Lansdown has done something wrong or acted negligently.

Hargreaves Lansdown says the portfolio underperformed its benchmark. If UK equities had performed positively compared to other markets, this might have been different. I don't see that this is evidence of negligence. The relative performance of different equity markets is not something Hargreaves Lansdown could anticipate precisely. It is in the nature of things that some funds and portfolios will outperform their benchmarks and some will underperform. But this doesn't in itself mean there has been negligent investment management.

I appreciate that as the investment underperformed, it may be galling for Mr H that the investment charges are still payable and far exceed his own return. But this doesn't mean there are grounds for me to say charges should be refunded – just as if the portfolio had outperformed it wouldn't be grounds for saying Mr H should pay extra. Mr H says that in his case the funds that he left alone without management did better. I accept what he says, but this doesn't mean this was bound to happen or that Hargreaves Lansdown was wrong to offer Mr H the managed portfolio service it offered or to charge him for it in the way it did.

Mr H has questioned monthly fees he says were deducted after the November 2023 closure of the managed portfolio service. The charges for the managed portfolio were the platform charge and the charges of the underlying funds – there wasn't a charge for the portfolio rebalancing specifically. So if once the managed portfolio stopped Mr H still held similar funds on the same platform, it wouldn't be surprising if charges continued in a similar way.

That said, this last point is one Mr H raised after Hargreaves Lansdown sent him its final response and I can't see that Hargreaves Lansdown has replied to it yet. If Mr H still has concerns about charges paid after the managed portfolio ended, we can look into these as a separate complaint - but our first step would usually be to ask Hargreaves Lansdown to reply to Mr H's concerns before considering them as a separate complaint.

Returning to the present complaint, I apologise if what I've said covers ground of which Mr H is no doubt already aware. But in the absence of a duty on Hargreaves Lansdown to ensure Mr H's profit exceeded its charges, or to ensure its management led to better returns than without management, the fact these things didn't happen doesn't provide grounds for me to uphold Mr H's complaint or provide evidence that Hargreaves Lansdown did anything wrong.

So, having considered all Mr H has said and with all the above in mind, I don't find grounds to uphold the complaint.

I'm grateful to Mr H for the courteous and prompt responses he has given us throughout the course of our consideration of his complaint. I appreciate my conclusions will disappoint him.

## My final decision

For the reasons I've given and in light of all I've said above, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 March 2025.

Richard Sheridan
**Ombudsman**