DRN-5379872

The complaint

Ms M has complained about the advice she received from Carbon Financial Partners Ltd to invest £40,000 into an investment wrapper in 2020, and then retain the investment.

What happened

I have previously issued a provisional decision regarding this complaint. The following represents excerpts from my provisional decision, outlining the background to this complaint and my provisional findings, and forms part of this final decision:

"*When Ms M met the Carbon adviser in 2020, she'd recently sold a rental flat and was looking to invest some of the proceeds. It was recorded that Mrs M's aim was to achieve capital growth initially, and later to use the investment to provide income.*

In November 2020 the adviser recommended that she put £40,000 into the Standard Life Wrap, a platform which allowed investment in a variety of different assets. Within this, £20,000 went into an ISA, and the remaining sum was placed in a personal portfolio and then moved into an ISA in a new tax year in June 2021. Carbon advised that based on Ms M's attitude to risk, the Wrap should be invested in an asset mix of 80% global fixed interest/bonds and 20% global equities, this being its Asset Mix 2.

Ms M agreed to take out the Wrap, and also to pay an ongoing fee for Carbon's portfolio review service, which was intended to assess at least once a year the suitability of the investments held.

In August 2023 Ms M complained to Carbon about the advice she'd received to invest in the Wrap. She said that Carbon had not explained to her the inverse relationship between bonds and interest rates, and she highlighted that the Wrap was valued at less than £33,000. Ms M expressed unhappiness with the charges applied to the Wrap, and she said the stress caused by its falling value had not helped her health.

Ms M said that bigger expenses she incurred generally had to be funded from her savings, and that the longer it took for her Wrap to show a positive return, the longer these savings needed to last. This was delaying when she could pay for home improvements or afford a holiday. Ms M said she'd expected the Wrap to be worth at least the initial investment amount after two years, and commented that she had no capacity to be able to absorb an investment loss.

In response Carbon commented that since Ms M had invested, higher inflation had led to higher interest rates, and it said this had reduced bond values. It acknowledged the inverse relationship between bond prices and interest rates, but said the poor performance of bond markets in 2022 was unusual compared to their performance over the last 30 years, and Carbon said it could not have predicted this. Carbon said its advice remained to stay invested in the portfolio it had recommended, on the basis that to encash the funds would crystallise the loss sustained.

Carbon said that it had made the charges applicable to the Wrap clear to Ms M, and that it had explained there was no guarantee about how the investments would perform. It stated it considered the advice it had given Ms M to invest in the Wrap was suitable based on her personal objectives, attitude to risk and capacity for loss.

Unhappy with Carbon's response, Ms M brought a complaint to this service. She said that she'd voiced misgivings about investing in the Wrap to the adviser when it was recommended, but she went ahead on the basis that this was expert advice, and also because Carbon was advising her on her pension plan. Ms M stated that when the falling value of the Wrap was discussed at review meetings, Carbon always advised her to continue to remain invested.

Ms M commented that having 80% invested in bonds was not as safe as it sounded, and that she had emphasised to Carbon that she wanted the safest of investments. She said that she considered Carbon knew about the inverse effect inflation has on bonds, but it was not taken into account with the advice given.

Our investigator did not uphold this complaint. His view was that the portfolio recommended to Ms M was suitable for her attitude to risk, and that Carbon had made her aware that its valuation might fluctuate. The investigator also concluded that the Wrap was suitable for Ms M's objectives at the time. He considered it was reasonable for Carbon to have recommended at annual reviews that Ms M continue to stay invested in the portfolio, rather than her crystallising losses.

Ms M disagreed with the investigator's findings. She stated that Carbon's assessment of her attitude to risk had been incorrect, and it had not taken into account her specific circumstances when making its recommendation to her. Ms M forwarded emails showing discussions that she had with the Carbon adviser in October 2020 and which she said showed she intended to use the money invested in the short term. She said she had a vague understanding that the Wrap would last ten years, but she did not understand this to mean that it would take ten years to provide a return. She said she'd not agreed to that, and had not indicated to the adviser that she could afford to wait ten years before seeing a return. Ms M also questioned the suitability of such a long term investment for someone of her age.

Ms M said that when Carbon recommended the Wrap, her monthly disposable income was extremely limited, and she'd also lost rental income due to her property sale. She said she'd understood that investing in bonds made her money more secure, but in her view Carbon did not take into account the impact rising inflation might have on these assets. Ms M commented that some of her spending that Carbon categorised as non essential - such as property and car insurance, and the replacement of white goods and clothing - was in fact essential. She also said that any return achieved on the Wrap had been absorbed by charges.

Ms M explained that in one of Carbon's newsletters, it had told investors to "be brave and don't be a wimp." She said that she'd found this comment both offensive and intimidating in relation to remaining invested when a portfolio was dropping in value. Ms M confirmed that her pension plan has a guarantee that provides a minimum level of income for life, as long as she doesn't take out more than a specified limit from the plan. She said this guarantee is important to her, but it also restricts her ability to use the pension fund as capital.

Ms M asked that her complaint be passed to an ombudsman for review. Responding to Ms M's submissions relating to the investigator's assessment of the complaint, Carbon forwarded a longer version of the October 2020 email exchange Ms M had provided.

What I've provisionally 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.

Ms M met with a Carbon adviser in June 2019, with a fact find detailing her financial circumstances being completed, and this was updated in July 2020 when Ms M met with a different adviser who ultimately recommended the Wrap. At this later meeting Ms M was aged 71, retired and it was recorded that she was in good health.

Ms M's objectives were noted as being to continue funding her "basic lifestyle through state pension, [private] pension, and rental flat proceeds when these are received." It was stated that she wanted to consider how best to use the flat proceeds to provide an income, essentially replacing the rental income she'd previously had. It was also noted that Ms M would "potentially undertake repairs on [her] house." It was recorded that Ms M agreed with the statement: "I have previously invested in investment or pension products – I have some knowledge of investments and how they work". My understanding is that part of Ms M's experience related to her pension plan, which was invested in a drawdown account and also provided her with part of her income. It was also recorded that where Ms M had seen financial products she had fluctuate in value, she'd been comfortable with that.

In terms of investing the flat proceeds, the fact find stated that this had a 'time horizon' of ten years or more, and that Ms M was seeking growth above inflation. Ms M was said to have "very little capacity for loss." There was discussion of the level of income Ms M was taking from her pension drawdown plan, and I understand that at this time it was agreed she would reduce this income amount. This pension plan was invested in Carbon's Asset Mix 4, which was noted as having 60% exposure to equities. Based on the evidence provided, it seems that Ms M was comfortable with this level of investment risk for her pension, and it was recorded that this asset mix had been used for the pension plan for the previous seven years.

The fact find recorded that Ms M was receiving a state pension of around £9,500 a year plus about £6,000 a year from the drawdown plan, but this was to be reduced to about £4,000. Her expenditure was shown as £800 a month and so her income exceeded this, but it was noted expenditure was low partly because of Covid related lockdown restrictions. It was recorded that she was reducing her drawdown income in light of these lower expenses.

As explained above, Ms M has provided email correspondence she had with the adviser in October 2020, some months after the July 2020 meeting. Carbon has forwarded a longer version of this email chain which extends into November 2020. In October 2020, Ms M emailed the adviser to confirm that she'd now received proceeds from the flat sale of £50,000. She said she was planning to retain just under £14,000 for personal use and to augment her income, in light of the reduction she'd made to her drawdown income, and because she was no longer receiving rental income. She asked for advice about what to do with the sale proceeds, and said "I want to be as safe as possible".

In response the adviser said that rates on NS&I products (where the capital is not at risk) had been cut, and there were no other "attractive options in the cash market right now". He said there was a risk that placing funds in cash might not keep pace with inflation. The adviser suggested a 'blended approach' where Ms M retained £24,000 in cash for 'unexpected expenses' and invested £40,000 in a 'low risk' way. The adviser said he agreed with Ms M's preference for safety, and he suggested a lower risk approach than the pension plan's use of Asset Mix 4, instead proposing Asset Mix 2. He described the 80% investment in bonds as being defensive, and the 20% in equities as being for growth.

Ms M responded that she had some concerns about having to invest for five years to see a reasonable return, but also said that she "must treat the £50,000 from the flat as money to be used since I am very short of income." The adviser replied that as an alternative option, Ms M could retain half of the £50,000 in cash to supplement income for the next few years, and in later years start to top up income from the Asset Mix 2 investment. He added that he didn't not want to push Ms M into investing, and he said this revision took into account her preference for capital security in the short term.

In terms of this revised suggestion, Ms M said that her continuing doubts related to still having a sum of money "earning nothing at all…which is disappointing to say the least. The Asset mix 2 plan would work if I could find somewhere to put the rest of the cash meanwhile." The adviser responded that the 20% held in shares within Asset Mix 2 should produce a return when stock markets are rising, and that the 80% in bonds should generate "a higher return [than] cash over the long run, so I would expect this element of Asset Mix 2 to beat cash rates as well."

Whilst making her decision about the investment, Ms M asked the adviser to confirm the ongoing charges once the setting up fee had been paid. The adviser said ongoing costs were around 1.6% pa, covering Carbon's ongoing advice fee, the product cost and the underlying investment fund charges. At this point Ms M raised the possibility of taking out fixed term savings bonds maturing within the next ten years, although she recognised that rates from high street banks at this time were very low. She also asked for an explanation of global fixed interest funds, and the adviser replied that these were considered defensive assets with a lower risk profile than shares.

In terms of the rates available for cash deposits, the adviser said it would be a good idea to check for the best rates at banks. He suggested the cash should be split between instant access/one year/two year accounts so that money was regularly becoming available, but in the meantime attractive interest rates were being obtained. The adviser commented that the danger of opening fixed rate accounts for 5-10 years was that, at that time, the rates offered were very low and would lock money into accounts that grew at less than inflation. The adviser then provided Ms M with a report showing interest on cash accounts of 1-2 years duration.

In response Ms M said that because she'd come to the conclusion "that there is nothing on offer at the moment which is giving anything like a 'good' return I would like to invest £40,000 in your Asset Mix 2". In terms of the rates available on cash, she said that 0.6% for a year was "not very exciting". Ms M clarified that after making the Wrap investment, she would have just over £19,000 cash in the bank and just over £11,000 in premium bonds.

Based on the email exchanges in October/November 2020, my view is that Ms M was clearly concerned about her £40,000 investment fluctuating in value. At the same time, I consider she recognised a need to place this money in assets that had the potential to grow her capital for her future income. The adviser explained that interest on longer term fixed rate cash accounts was comparatively low, and provided examples of the rates available. He confirmed that he did not want to push Ms M into investing, and also suggested reducing the Wrap investment to £25,000. I acknowledge that Ms M's position was not straightforward, as she was balancing trying to protect her funds with an objective to achieve some sort of return on them. But overall my view is that the Carbon adviser gave Ms M a clear explanation in the email exchanges that to achieve some level of return above inflation, she would need to take some risk with any investment she made.

The adviser followed up the email exchanges with two documents that he gave to Ms M. The document 'What you should do' recommended placing £20,000 within the Wrap into an ISA and £19,550.50 into a personal portfolio, both being invested in Asset Mix 2. An amount of

£449.50 was left in cash to cover the £400 initial fee and future ongoing fees. The document highlighted key risks that the growth rate for Asset Mix 2 could not be guaranteed, and costs would reduce investment returns. Costs were confirmed as being 1% of the amount placed in the Wrap to cover the initial advice fee, and then yearly charges of 1% for ongoing advice from Carbon, 0.32% platform charges, and 0.26% fund charges (a total yearly charge of 1.58%).

Carbon's 'What you should know' document set out the adviser's recommendations. He stated that Ms M was seeking to target a return that maintained the purchasing power of her money. He said Ms M's 'basic lifestyle' cost about £9,600 a year, and she wanted to build a fund to cover discretionary expenditure. Non-essential spending was to be paid for the next 2-3 years from cash savings, and it was confirmed that Ms M had some potential house repairs to be carried out.

The adviser reiterated that Ms M had some knowledge of investments, and said she was "comfortable with fluctuations in the value of your investments in the past, and understand investing is a long term discipline." He said the worst return over the last 29 years for the asset mix Ms M was investing in was -3.3%, which he said would reduce the Wrap value to £38,293. The adviser provided figures showing the volatility of the asset mix, applying this to its performance over the last 29 years, but he repeated that returns were not guaranteed. The use of an asset mix with a lower risk profile than that being used by Ms M for her drawdown pension was also noted. A section of the document then showed how costs would affect the return Ms M achieved on her portfolio. Carbon said that it would review the portfolio on an ongoing basis and meet with Ms M at least once a year to revisit her objectives.

In making a recommendation to Ms M about how she might invest the proceeds of the flat sale, Carbon needed to ensure the proposal it made was suitable for Ms M's attitude to investment risk, and satisfied the identified objectives that she had. As I indicated above, a difficulty was that Ms M was seeking growth above inflation whilst at the same time wanting some security for any capital she invested. Ms M did say in her initial email to the adviser that she wanted to be as safe as possible. But based on the content of the email correspondence she had with the adviser after that, it seems to me that Ms M was willing to take an element of risk with the part of the flat proceeds that she invested. And as I explained above, I consider the adviser made it clear to Ms M that in seeking to achieve her objectives, she would need to take some risk with her investment.

Based on the make up of Carbon's Asset Mix 2, Ms M's experience of its Asset Mix 4 for her pension, and the content of her emails to the adviser in October/November 2020, on balance I consider the Wrap fund recommended was suitable for Ms M's attitude to risk. Recommending a fund that was predominantly invested in bonds reasonably exposed the investment to a lower risk than a fund based more in equities. In my view, the 80%/20% split between bonds/equities fairly aligned to Ms M's investment risk profile, taking into account that she was aiming to achieve some element of return on her money.

Ms M has said that Carbon did not properly explain to her the risk of investing mostly in bonds, and in particular the link between the performance of bonds and inflation. Whilst I acknowledge what Ms M has said, I consider Carbon did make it clear to Ms M via its recommendation report that there was a risk the Wrap's value could fall below the amount invested. At the same time, based on the previous performance of the asset mix, the adviser provided figures showing the potential positive returns that the Wrap could achieve.

It is unfortunately the case that for Ms M's portfolio, she actually saw significant reductions in the value of her funds within the first few years of investment. Carbon has stated that this was due to bond prices being adversely affected by higher inflation, and it has provided Ms

M with some commentary around this. Whilst the fall in the value of the Wrap has clearly caused Ms M real concerns, my view is that Carbon did alert her to this possibility. In addition, clearly Carbon is not liable for the general performance of the bond markets.

With regard to the length of time that the Wrap was intended to stay invested, Ms M has said that she did not expect that this would mean she would need to wait up to ten years to see a return on the sum paid in. The fact find recorded that investing the flat proceeds had a 'time horizon' of ten years or more. At the same time, the adviser clearly envisaged that Ms M might need to access some of the money from the Wrap earlier than that. The email correspondence noted above included the adviser's suggestion that having used cash reserves to supplement income in the early years, Ms M could then drip feed income from the Wrap instead.

Having taken the Wrap out in 2020, Ms M saw a significant negative return on it in its first few years. Carbon had explained at outset that there was no guarantee of the portfolio's performance, and it has provided a commentary about why bond markets fell not long after Ms M invested. I note that in her discussions with the adviser in 2020, Ms M asked about taking out fixed term savings accounts maturing within the next ten years, so it appears that she was willing to consider products with a ten year duration. Even taking into account Ms M's age at the time of the advice, on balance it does not unreasonable to me that Carbon recommended a product with a potential investment term of ten years, or even more, if income could be taken out of it when required.

Ms M has said that charges applied to the Wrap have impacted its performance. However in my view Carbon provided clear information about these costs before the investment was made. In the email correspondence the adviser confirmed charges. These were also outlined in the 'What you should do' recommendation document, and it was explained that costs would reduce investment returns. The 'What you should know' document gave further details about this. Overall I am satisfied that Carbon made the costs sufficiently clear.

As part of the agreement between Ms M and Carbon, it was arranged that there would be yearly reviews of the portfolio by Carbon, paid for via an annual charge of 1% of the portfolio value. Ms M has expressed dissatisfaction that at these reviews Carbon always advised her to continue to stay invested, even though the Wrap was falling in value. She has also mentioned a comment made in one of Carbon's newsletters telling investors to "be brave and don't be a wimp", saying she found this offensive and intimidating when faced with a falling portfolio value.

I recognise Ms M's concerns about the comments made by Carbon in its newsletter, but I'm mindful that this was a general update to Carbon's customers, rather than being directed at any specific investor. I understand that Carbon's general point is that it's not necessarily advisable to cash in an investment when it's showing a loss. In terms of the specific advice that Carbon gave Ms M about her Wrap investment before Ms M raised her complaint, review meetings occurred in May 2021, May 2022 and June 2023.

In May 2021 the fact find noted that Ms M was looking to carry out work on her property with an estimated cost of £5,000 to £8,000. The adviser recorded that after paying this, Ms M would still have a minimum of £20,000 left in cash, and he described this as being sufficient. At this review the Wrap was valued at just over £39,000, and the adviser indicated that Ms M was content with the performance.

In May 2022 the value of the Wrap had fallen to around £36,400. The adviser said that Ms M was disappointed with what was going on in the markets. Ms M's expenditure was said to be comparatively low still due to the pandemic, but she was considering she'd soon be doing more. It was stated that Ms M used her cash savings for infrequent costs, and that she could *maintain this approach for a few more years before needing to access funds from the Wrap. I understand that the adviser's recommendation was to remain invested in Asset Mix 2 within the Wrap at this time. Although Ms M was clearly disappointed with the fall in the Wrap's value, having been invested for a comparatively short period of 18 months, and in light of Ms M's recorded circumstances not having significantly changed at this time, my view is that it was reasonable for Carbon to advise that Ms M remain invested.*

By the time of the next review meeting in June 2023, the Wrap's value had fallen further to around £33,800. I appreciate why Ms M was concerned by this continuing fall in value, and I note that it was not long after this that she complained to Carbon about the advice she'd received. However, despite this reduction in value, bearing in mind that the Wrap had still been in place for less than three years, overall I don't consider it was unreasonable for Carbon to recommend that Ms M leave her funds in the investment. Carbon has explained why it considers investments in fixed interest assets, such as the portfolio Ms M holds, have experienced losses over the period Ms M has had the Wrap in place. It has continued to recommend that Ms M retains the investment rather than cashing it in and crystallising a loss because its view is that the portfolio will recover in value. My view is that it is reasonable for Carbon to have provided that advice.

Ms M has said that when assessing her financial position, within her non essential spending Carbon included items such as property and car insurance. I would agree with her that these are not non essential – car insurance is essential, and home insurance is at the very least advisable. I would also agree that replacing clothing and non-functioning white goods would generally be considered a necessity. Carbon's fact finds do not contain detailed breakdowns of Ms M's expenditure, and I acknowledge what Ms M has said about her disposable income being extremely limited.

In the circumstances, it seems to me that there was a balance which needed to be determined between how much of the flat sale proceeds would be kept available as cash to fund Ms M's necessary spending, and how much could be invested with the aim of growing a fund to cover future expenses. Ms M says that she has had to fund larger expenses from her savings. Her savings have then had to last longer as she has waited for the Wrap to show a positive return.

I appreciate why Ms M is so disappointed with the performance she's witnessed with the Wrap since its inception, and I am sorry to learn that she has felt the need to delay some spending, such as for home improvements. But my view is that when advising Ms M, Carbon did consider in some detail how much of her funds should remain in savings accounts to cover expenses that could not be met by her income. I note that during the email exchanges of October/November 2020, the adviser suggested retaining half of the £50,000 flat proceeds in cash to further supplement income for several years. Although my view is that Carbon does not seem to have had as detailed an overview of Ms M's expenditure as it could have had, it seems to me that it did act reasonably when assessing how much of the flat proceeds should be placed in the Wrap.

In summary, my provisional view is that the advice Carbon provided to invest in the Wrap in 2020 was reasonable, based on Ms M's circumstances and objectives at the time. I also consider that it was appropriate for Carbon to recommend that Ms M should remain invested at the annual review meetings that took place, on the basis that the portfolio was still suitable for her objective to achieve capital growth to supplement her income in the future. I am sorry to learn about the levels of stress that Ms M has experienced as a result of seeing the Wrap drop in value since taking it out, and the impact this has had on her health. However, my current view is that Carbon has acted reasonably when providing Ms M with the advice that it has."

Responses to my provisional decision

Ms M said that she was disappointed with my provisional findings. She commented that the adviser was determined to sell her the Wrap, and that she had impressed on him that she needed the investment to show a positive return in the relatively short term. When she left the meeting with the adviser, Ms M said that he had commented to give the investment two years, and she was comfortable with that. But she said that instead, the Wrap's value fell almost from inception.

Regarding what I had said in the provisional decision about Ms M seeming to be willing to consider products with a ten year duration in light of her enquiry to the adviser about fixed term savings accounts, she said that she'd been considering accounts maturing over "*2,4,6 years etc so that the investment stretched over ten years, not that I intended to wait 10 years before accessing any money.*" Ms M said that because of her age and income, a ten year term was unthinkable.

Ms M said that if Carbon had looked at her credit card and bank statement, it would have had a more accurate view of her finances. She described Carbon's risk assessment as being ludicrous. Ms M also compared the performance of the Wrap to her premium bonds, suggesting the Wrap's features were much less favourable. She also confirmed her view that the adviser had not taken into account the link between bonds and inflation, which she described as the crux of the matter.

Carbon did not make any further submissions following my provisional decision.

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 have carefully considered what Ms M has said about the length of time she was aiming to leave her money invested before she thought she would need to access it, and how long she was willing to wait for it to provide a positive return. I note what she has said about not being in a position to invest for ten years due to her circumstances. However as I outlined in my provisional decision, based on the correspondence between Ms M and the adviser at the point of sale, on balance it seems that the adviser understood Ms M might need access to her money before it had been invested for ten years. For this reason he suggested that after using cash reserves in the early years to supplement income, Ms M could then drip feed income from the Wrap.

I remain of the opinion that Carbon could have obtained a better understanding of Ms M's finances, in particular in relation to her expenses. And the performance of the Wrap was clearly adversely impacted by the impact of inflation on bond prices. But in my view, Carbon did make it clear to Ms M that the value of the Wrap could fall, and that a return was not guaranteed. Overall, although I appreciate that Ms M will be disappointed with my conclusions, in light of the findings I reached in my provisional decision my view remains that the advice Carbon gave to invest in the Wrap, and remain in it at subsequent reviews, was reasonable based on Ms M's circumstances and objectives.

My final decision

My final decision is that I do not uphold this complaint, and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 11 April 2025.

John Swain
Ombudsman