

The complaint

Mr D complains, through a representative, that AFH Independent Financial Services Limited (“AFH”) gave him unsuitable advice to invest £250,000 into an offshore bond.

What happened

Mr D had been a customer of AFH for a number of years. In August 2019, he met with an AFH adviser to discuss aspects of his financial planning. As a result of this meeting Mr D was advised over the coming months to invest £250,000 into an offshore bond with a firm I’ll call C, with the funds to be managed by AFH through its Discretionary Fund Management (DFM) offering.

He was also advised to switch some of his pension savings – which he’s also complained about. That advice is the subject of a separate complaint, this decision is solely concerned with the advice to take out the offshore bond.

AFH identified that Mr D’s estate would likely have a liability to inheritance tax of around £400,000. It recommended Mr D put £250,000 into a bond to be held in trust, which would gradually fall out of Mr D’s estate (doing so fully after seven years) while allowing Mr D to retain access to income from the bond should he need it. It also recommended Mr D take out a life policy to pay out a sum equal to his estate’s likely residual IHT liability when he died.

AFH recommended Mr D invest the money in the bond through its DFM service, on the basis of a risk rating of three on a one to five scale. Mr D took up AFH’s recommendation.

In 2023, Mr D spoke to a claims management company which complained to AFH on his behalf about the advice he’d been given. The CMC said the DFM was too high risk for Mr D and that future tax and income implications weren’t taken into account.

AFH didn’t uphold Mr D’s complaint. It said the advice it had given met Mr D’s objective to mitigate his IHT exposure, and was consistent with his circumstances and attitude to risk.

Mr D brought his complaint to our service where it was considered by one of our investigators.

The investigator thought making an investment into a bond, and gifting it into a trust, was suitable for Mr D given his estate’s likely IHT liability. He thought the investment recommended was affordable for Mr D and within his risk appetite. But he didn’t think it was suitable to recommend a DFM service, where the cost of that service would have eaten into the potential returns of his bond.

The investigator thought Mr D could have been given a cheaper portfolio of generic funds which aligned to his risk appetite and which could have equally supported his objectives. He recommended AFH compensate Mr D by comparing the performance of his bond to a benchmark, and paying him any difference.

Mr D accepted the investigator’s assessment, and AFH didn’t respond and so the complaint

has been passed to me to decide. I'm satisfied that our investigator's view was sent to an email address at which AFH had previously received correspondence, and so on balance it probably received the view.

I issued a provisional decision on the matter, in which I said:

Our investigator found much of the advice AFH gave Mr D to have been suitable, and neither party has provided arguments to the contrary. I agree with the investigator's findings here and for broadly the same reasons.

It was clear from the fact find that Mr D was in a reasonably comfortable financial position. He had an income of £37,850, in excess of his outgoings, from his pensions and rental properties. He didn't have a mortgage. He had around £750,000 in cash and liquid investments.

Mr D's estate was likely to face a large IHT bill, and Mr D had expressed a desire to manage his affairs in order to maximise how much he'd pass to his descendants. So I think it was reasonable for AFH to consider options for how Mr D could minimise his estate's liability to IHT.

I'm satisfied AFH, in its financial report, set out the various ways Mr D could reduce his estate's exposure, and the pros and cons of each. I think it was reasonable for AFH to, for example, discount an investment attracting Business Property Relief (which would have taken assets outside his estate sooner) because the investments would have attracted an unsuitably high level of risk.

Fundamentally I think taking £250,000 of Mr D's liquid assets and investing them through a trust was something suitable for AFH to suggest. Mr D was left with sufficient emergency funds and enough income to support his lifestyle.

The trust arrangement meant, should he need to, Mr D could still use the bond to draw an income later in life if that was necessary, retaining some flexibility.

I think it was also reasonable for it to have recommended the use of an offshore bond within the trust – the taxation of these bonds meant that the investments could benefit from "gross roll-up" and grow on a compounded basis with less drag on returns due to tax.

Where the intention was for this money to provide for Mr D's descendants the offshore bond could also be assigned in such a way that any tax impact on the beneficiaries was managed and mitigated.

I also don't think the investment recommendation within the bond was unsuitable. I'm satisfied, like our investigator, that AFH reasonably concluded Mr D was willing and able to take a medium level of risk. The time horizon for this investment was over the long term. AFH's DFM service was given as being *"designed to strike a balance between long-term capital protection and exposure to assets that have the potential to offer real rates of return."*

The portfolio's initial makeup was 60% in equities, 24% in fixed income securities, 2% in alternatives, 12% in commercial property and 2% in cash. I think it was reasonable for AFH to consider this had the potential to meet Mr D's objectives of inflation-beating growth over the long term, and was within the level of risk Mr D was willing and able to accept.

Where the investigator did take issue with the advice was the nature of the DFM proposition itself, and particularly its cost. He said that the 1% annual cost of the DFM service outweighed the potential benefits of having Mr D's funds actively managed, and was likely to slow the growth of his money enough to make the recommendation unsuitable.

Here I don't agree. It is recorded that Mr D didn't want to be involved in the management of his investment, and wanted to rely on AFH's expertise. Where Mr D's money was to be invested over the long term, I think it would have been reasonable for AFH to recommend that Mr D periodically had the portfolio reviewed in order to ensure it continued to meet his needs.

So even if AFH had recommended a set of investments which weren't to be managed on a discretionary basis, I think Mr D would still more likely than not have engaged some kind of ongoing advice service – which would in all likelihood have costs a similar amount to the DFM service, or at best 0.5% a year (based on the different services AFH offered).

It follows that I don't think the cost of the DFM service was as stark as the investigator suggested, compared to the alternatives AFH could suitably have recommended. This is different to if Mr D had come in with an existing investment arrangement which he was happy to continue with.

Where these were new investments being made, I think the marginal cost of the DFM would, on balance, have been worthwhile for the additional flexibility and ease offered by the DFM arrangement. So I don't find this aspect to have been an unreasonable thing for AFH to have recommended.

Taking all this into account I don't think it was unfair or unreasonable for AFH to have concluded the recommendations it gave Mr D were suitable. So I don't think it would be fair to require AFH to pay Mr D any compensation.

Neither party responded to my provisional decision before the deadline I'd set.

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.

As neither party has provided any evidence or arguments in response to my provisional decision, I see no reason to depart from my provisional findings. I therefore make those same findings and conclusions here, and make them final.

My final decision

For the reasons given here and in my provisional decision, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 1 October 2025.

Luke Gordon
Ombudsman