

The complaint

Mr and Mrs K had an investment portfolio with LGT Wealth Management UK LLP (“LGT”). They say money earmarked for use to buy and renovate a new property was unsuitably invested at risk by LGT. They also say they were advised to borrow funds to use for property renovation and to invest those funds within their portfolio until they were needed. Mr and Mrs K say the advice from LGT and the way it has managed their portfolio was unsuitable and has caused them loss.

What happened

Between June 2016 and April 2022 LGT was called LGT Vestra LLP. Although that was its name at the time of the events this complaint is about, I will refer to it as LGT throughout for convenience.

Mr and Mrs K had been clients of LGT between 2012 and 2018. They dealt with a person I will refer to as the investment manager.

In February 2020 Mr and Mrs K were in touch with LGT again. They completed an “Investment and Risk Profile Questionnaire”. This recorded a number of points about Mr and Mrs K including:

- They had around £200,000 they wanted LGT to manage from investable assets listed at £350,000 and total net worth (excluding the value of their home) of over £1 million (which included other property assets and the estimated value of their business).
- Their investment objective was capital growth.
- They intended to invest for five to ten years.
- They had some previous investment experience (which included fixed interest securities and equities) but did not consider they had a good understanding of the various asset classes they had invested in.
- They didn’t mind taking some risk with their capital but were uncomfortable with large fluctuations in value.
- They could accept a small amount of loss. In extreme circumstances, a drop of up to 20% in the value of their portfolio would not have a material impact on their overall financial position.
- Their risk profile was recorded as medium. This was defined as:
 - *“You wish to appreciate the capital value of your portfolio in excess of the rate of inflation but limit fluctuations in the value by investing in a diverse portfolio of assets. A medium risk portfolio is likely to be invested in cash, bonds, equities and other higher risk assets. We would suggest a minimum investment period of 5 years for this type of risk profile.”*

A pie chart showing LGT’s typical asset allocation for this risk profile showed the following:

<i>Equity</i>	50%
<i>Fixed interest</i>	35%
<i>Other</i>	15%
<i>Cash/equivalents</i>	0%

Mr and Mrs K went ahead with a new portfolio arrangement with LGT in April 2020. They dealt with the same investment manager with whom they seem to have had a good relationship.

Mr and Mrs K held a number of accounts with LGT: a joint pension account relating to their business, and sole ISA and general investment accounts. The accounts seem to have been administered jointly and managed on the same basis. The group of accounts has generally been referred to as the portfolio by the parties. Mr K took the lead in dealing with LGT but Mr and Mrs K seem to have largely regarded their dealings with LGT, and their funds with it, as a joint arrangement and they have submitted their complaint jointly. I will proceed on that basis even if strictly speaking some matters were dealt with in Mr K's sole name.

When Mr and Mrs K asked LGT about the likely performance of the portfolio the investment manager said he expected between 5-8% net for a medium risk allocation. He went on to say:

“Everything we invest in is liquid so can be removed at very short notice. There is no cost or penalty for doing this.”

In late March 2020 the investment manager reminded Mr and Mrs K that time was short if they wanted to use their ISA allowance. Mr K said because of the worrying times being experienced he thought it would be best to wait for things to subside and look to invest later. (The first UK covid lockdown had been announced a few days earlier.)

The investment manager replied:

“Even if you don't want to invest we should use your ISA allowance, if you don't subscribe we will lose it.

The best investment returns come in times of crisis. When things look more certain prices will reflect this.

I understand your nervousness though!”

In April 2021 Mr and Mrs K deposited a further £1.5 million with LGT following the sale of their home. They say they made it clear the money was for buying and renovating their new home. LGT held the money in a cash account.

LGT says Mr and Mrs K told it in June 2021 that the renovation costs on their new home would be around £300,000.

On 16 June 2021 funds held by LGT were transferred from the cash account and money paid to Mr and Mrs K solicitors for the new property purchase.

In July 2021 Mr K transferred existing investments of around £400,000 to LGT.

In late July 2021 a loan arrangement was set up to provide funds to pay for the renovation of the new property which Mr and Mrs K could draw down when needed. The loan was secured on the investment portfolio. The arrangement was referred to as a Lombard loan. As I understand it, interest was not charged on the loan until funds were drawn down.

Mr and Mrs K say they were advised to invest those funds in the short term with the intention of obtaining a better return on the money than the interest being charged on the loan. They say they were told this was a good way to make money.

The loan agreement seems to have been in Mr K's sole name and a "*general deed of pledge and assignment*" was signed by Mr K in August 2021. The loan facility of up to £250,000 was secured on Mr K's existing investments.

Funds were drawn down in February 2022. Some or all of the funds were invested pending the payment of the renovation costs on the new property.

Almost as soon as the money was drawn down in February 2022 Mr and Mrs K's portfolio went down in value and Mr and Mrs K became concerned about their situation. For example, in an email of 25 February 2022, which seems to have been prompted by the invasion of Ukraine the day before, Mr K said the money invested was:

"...simply an alternative to having it in the bank but with the expectation of a rise in value, even if it were a nominal increase."

Mr K said it was difficult to watch their investments continue to fall with approximately £550K needed between then and September.

The investment manager said the last quarter had been very difficult – perhaps the worst for decades (other than during the covid pandemic) and urged them not to encash their investments but rather to hold on in the hope of a recovery.

Mr K said he didn't think he was:

"investor material as one has to accept the losses as well as the gains."

The investment manager said:

"...the whole point of the loan is so you don't need to worry about short term performance. You do not need to sell anything."

Mr and Mrs K remained concerned. They spoke with the investment manager and emailed him a number of times. The investment manager continued to urge Mr and Mrs K to continue with their investment.

2022 was a period of economic and political instability in the UK. War in Ukraine had an adverse financial impact. In July 2022 the UK government was in crisis and many members of the government resigned including the Chancellor of the Exchequer. Soon after the Prime Minister announced his resignation and a new Prime Minister was appointed in September 2022. In mid-October the Chancellor of the Exchequer changed again following reaction to what has come to be known as the "mini budget" on 23 September 2022. During this time there had been instability in financial markets also, with inflation and interest rates rising, and gilt prices and the pound falling.

It was during this time, on 14 October 2022, that Mr K wrote to LGT as follows:

"It would seem very evident to me that my money is in the wrong place and with the country in turmoil I think I have lost sufficiently enough. I agree that everything rebounds but that's fine when you don't need the money that's invested but I do. I still have a lot to pay and rather than see further drops then withdrawing all together I think it is in my best interest. I can ask for your opinion but no one has a crystal ball

and it's unfortunate that I've invested at a time when I shouldn't have done. Not sure what else to do or say."

The investment manager wrote back:

"... I think we should sell the core portfolio and pay off the Lombard loan. We can then put the balance in gilts until you need it for the property development...."

In late 2022 Mr K gave instructions to repay the Lombard Loan and move £100,000 to a cash fund with instant access. Approximately £255,000 was paid to repay the loan in early January 2023. Mr K considered that he had suffered a loss of around £35,000 at this point. Not all of the £100,000 was available in non-ISA accounts. In January 2023 it was agreed that only around £90,000 would be transferred to cash. Mr K said they would require the ISA monies in the coming weeks.

On 6 July 2023 Mr K emailed LGT:

"As you know I wanted to withdraw all funds, as per my email of a week ago, and now seeing the markets fall further, I'm no doubt in a worse position. I wish I was not so easily influenced since I am the one who suffers. The house/investment has caused much stress over the last year/18 months and I hate to think the amount I have lost. It was a bad time to invest and that strategy remains the same..."

Also in July 2023 there was a discussion between Mr and Mrs K and LGT about a further £20,000 that Mr and Mrs K needed. They had asked about raising it from their pension held with LGT but that was not possible. LGT suggested it be obtained from their ISAs.

In March 2024 Mr K made a complaint to LGT. He made a number of points including:

- He understands investments are generally for the medium to long term.
- In April 2021 he placed significant funds with LGT following the sale of the family home. He made it clear this was to be for the short term and that all the funds would be needed to buy and renovate their new home.
- In addition, £250,000 was borrowed using the Lombard loan. This was taken out with the aim that returns from the investment would outweigh the interest on the loan.
- The money was invested on a medium risk strategy, as with their previous investments.
- It was known that the money would be needed in the short term. The investments went down in value, and he was told that if he withdrew the money his losses would be greater.
- Although LGT provided a route to the funds they should not have been invested on a medium risk strategy on a short term basis.
- He was misadvised and should be compensated for the losses he has suffered as a result.

LGT did not uphold Mr K's complaint. In May 2024 it made a number of points including the following:

- Mr and Mrs K opened an investment portfolio with it in February 2020. The objective was capital growth, with a medium risk approach with investments to be over a five to ten year period. Capacity for loss had been discussed and Mr and Mrs K confirmed a drop of 20% or less in the value of their portfolio would not have a material effect on their overall financial position.

- LGT said the further monies paid to it in April 2021 from the sale of the family home were held in a cash account and paid back out in June 2021 in accordance with instructions.
- The Lombard loan facility was set up in June 2021 with draw down from the facility in February 2022. The purpose of the loan was to cover the renovation and development costs of the property Mr and Mrs K bought so that the original assets in their portfolio could remain invested.
- Money from the loan was invested in bond assets pending withdrawal for further house development expenses.
- Mr K has said he was told this was a good way of making additional money. It is difficult to rely on recollections from some years ago when deciding what was and what was not said and the documentation should be relied on. LGT had seen nothing in its investigation that was *“provided to [Mr K] as an express guarantee as to what rate of return he would receive on part of the strategy employed.”*
- 2022 was a poor year in the financial markets and LGT understands Mr K’s frustration and disappointment that the value of his investments may not have grown as he hoped or expected.
- The portfolio was managed appropriately and the account manager advised Mr K to hold the original assets within the portfolio which gives the best opportunity for positive outcomes over the long term.

In July 2024 Mr K referred his complaint to the Financial Ombudsman Service. It was considered by one of our investigators. He thought the complaint should be upheld. LGT did not agree with the investigator and made a number of points in response including the following:

- In June 2021 Mr and Mrs K said the renovation works on their new property would cost around £300,000. This estimate was subsequently exceeded by some margin which should be kept in mind when considering the root cause of the complaint.
- Mr and Mrs K engaged LGT as discretionary investment managers. The investment manager was acting within his remit in exercising his judgment as to how to invest the funds. The investment manager was acting reasonably in reassuring the clients when they were concerned about short term volatility given their longer term investment objective.
- The portfolio has not been managed outside LGT’s asset allocation limits for the chosen risk profile and has been managed to suit Mr and Mrs K’s shorter term (the need to access funds for house renovations) and long term objectives as per the investment policy statements.
- Before and after the Lombard loan was taken out the asset allocation of Mr and Mrs K’s portfolio was as follows:

date	Equities	Bonds/fixed interest	Hedge funds/Target absolute return funds	Cash products	cash
29.12.2022	59.65%	20.74%	9.18%	2.64%	7.79%
08.02.2022	56.94%	38.63%	1.60%	-	2.83%

which shows the proportion of fixed interest holdings increased because the

investment manager knew the clients would be withdrawing funds for house renovations.

- Gilt and bond funds are considered lower risk investments than equity based investments. It is commonplace for investment managers to use them in a mixed asset strategy. However, in 2021 and 2022 funds that target returns based on gilt and bond investments were unusually volatile with many suffering significant losses. This was due to unforeseen global events such as the war in Ukraine and the economic impact of covid 19 as well as the mini budget in 2022. These low probability events negatively impacted the value of gilt based investment funds and it's unfortunate Mr and Mrs K came to be invested at the turn of the market in 2021.
- It's not reasonable to hold LGT responsible for such market shocks which affected a significant number of investors and are outside LGT's control. It was reasonable for LGT not to foresee these exceptional events. The investigator relies too much on hindsight.
- The Lombard loan was not leveraged with the purpose of increasing investment returns. The loan allowed Mr and Mrs K to keep their investments and finance the renovations of their home.
- LGT feels the complaint is about investment performance. While disappointment with performance is understandable it does not mean the portfolio was mismanaged. A suitable mandate was agreed and the portfolio was managed in line with that mandate.

Mr and Mrs K have repeated that the Lombard loan was LGT's recommendation and that they were not looking to take out any loan, secured or unsecured, as they had funds available from the sale of their former home.

I issued a provisional decision on 7 August in which I explained why I thought Mr and Mrs K's complaint should be upheld, and what I thought LGT should do to put things right. Mr and Mrs K accepted my provisional decision. LGT did not. It made a number of points in response including the following:

- Mr and Mrs K were experienced investors and property renovators with a prior relationship with LGT. Their investment objective was capital growth over a medium to long term period. There was nothing in their on-boarding or subsequent reviews that indicated Mr and Mrs K were uncomfortable with leveraging investments for flexibility – something they were already familiar with. They did not ask for the renovation funds to be held exclusively in cash as they had with the sale proceeds.
- Throughout the period from April 2021 onwards the cash position, loan headroom, and investment allocation were managed to maintain high liquidity and flexibility. The renovation estimate was treated as a working baseline and funds were made available for drawings as needed. At no time were Mr and Mrs K unable to access funds to meet renovation payments.
- The Lombard loan was used as a liquidity tool, not to create investment leverage for speculative gain. It allowed Mr and Mrs K to avoid premature realisation of longer-term investments. Mr and Mrs K understood and agreed to this. Investment markets have recovered strongly since 2022 and it was sensible advice to stay invested.
- All investment carries risk but the speed and depth of losses in Q3 and Q4 of 2022 particularly following the mini budget were beyond the range considered in any standard risk disclosure or suitability assessment. The extent of the losses were unforeseeable and unprecedented.

- Mr and Mrs K's loss was only crystallised when they decided to liquidate their investments during a period of market turmoil contrary to LGT's written and oral advice. The decision was driven by stress from unexpected market movements and higher than expected renovation costs and not by deficiencies in suitability processes or communication of risk on the part of LGT.
- LGT's advice and management was based on robust client engagement and processes consistent with regulatory requirements, standard market practice and Mr and Mrs K's understanding. The adverse outcome was due to historically extreme and unforeseeable market events and Mr and Mrs K's decisions.
- The proposed redress methodology (if the complaint is upheld) should be to compare the actual outcomes with a hypothetical cash deposit interest rate not an investment benchmark.

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've considered all the points made by the parties. I have not however responded to all of them below; I have concentrated on what I consider to be the main issues.

I'm required to determine this complaint by reference to what I consider to be fair and reasonable in all the circumstances of the case. When considering what is fair and reasonable in the circumstances, I need to take account of relevant law and regulations, regulator's rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the relevant time.

In my view the events in this complaint fall into two parts: the periods before and after the purchase of the second property in June 2021. Although there is some overlap between those two parts, it is convenient to deal with them in that way.

The period before the purchase of the second property:

In my view the focus of Mr and Mrs K's complaint is the investment of funds raised from the sale of their home in April 2021 and the Lombard loan. I do not think they have any issue with the reestablishment of their relationship with LGT in 2020 or the management of their portfolio in broad terms and in particular in the period up to the sale of their home in April 2021.

Mr K was happy with things up to July 2021 when he decided to transfer additional investments worth around £400,000 to LGT for it to manage.

Mr and Mrs K became disappointed with the performance of their investments but I do not read their complaint as meaning that they think the portfolio was invested in a way that was outside their medium risk rating or their five-to-ten-year investment objective. Generally, they seem to feel the timing of their investment has been unfortunate, but I think they largely accept that this was because of circumstances outside their control and outside the control of LGT.

I consider that a medium risk profile and the five-to-ten-year investment period were reasonable for Mr and Mrs K in their circumstances including their answers to questions in the Investment and Risk Profile Questionnaire and given Mr and Mrs K's previous investment experience and the fact they were using a discretionary investment manager to

manage their portfolio. I therefore consider that the basis on which the portfolio was set up and managed (in this first period) was suitable.

To the extent that Mr and Mrs K may complain about advice not to encash the investments made in this period in response to market conditions later, I consider that continuing to hold the investments was a reasonable strategy given the agreed medium risk attitude and the agreed five to ten year investment period.

I do not therefore consider that LGT was at fault in the period up to the sale of the property in April 2021. Or for later continuing to hold the investments made in this period.

Mr and Mrs K say they told LGT the April 2021 sale proceeds would be needed to buy and renovate a new property. LGT does not dispute this. It says it held those funds in a cash account accordingly and that does seem to be the case.

I do not therefore consider LGT was at fault in the management of these funds in the period from the sale of the first property to the purchase of the second property in June 2021.

The period from the purchase of the second property:

In LGT's final response to the complaint dated 17 May 2024 it said:

"In your letter you refer to the funds received in April 2021 from the sale of your family home and that these were for short term investment designated to purchase a new property and cover the associated renovation costs. Having reviewed the account activity at the time I can see the funds received in April 2021 were placed into a cash fund and were subsequently paid out two months later in June 2021. As such these funds were managed in accordance with your instruction and recognised as a short term investment hence being invested into a cash fund for the short period before they were subsequently paid out."

The impression is given that there is no issue in relation to investment of the proceeds of the property sale in April 2021 and that the only remaining issue is the Lombard loan. In LGT's response to the investigator's opinion letter it set out a timeline of events and seemed to suggest that the £1.5 million sale proceeds were paid out since it says instructions were given on 15 June 2021 to release the £1.5 million. And nothing is said to suggest those instructions were not followed to the letter.

An impression can be gained that Mr and Mrs K used all the proceeds of sale of the old house to buy the new house and that rather than encash existing investments to pay for the renovation they borrowed funds for that purpose under the Lombard loan facility. This impression is also given when LGT said:

"... the Lombard loan was a reasonable suggestion to make as it allowed the clients to borrow the funding they required without having to sell down any assets. To have sold assets to cover the costs of the renovations would mean that there was no opportunity to see how the assets performed in the market. It could not be guaranteed that being in the market during the period was going to be more advantageous for Mr and Mrs K but that is the overarching risk of investing funds in the stock market."

But looking at the figures LGT has provided, rather than commentary based on them, the picture seems slightly different to the way LGT seems to be describing things. A Net Position spreadsheet shows a cash receipt of £1.5 million on 16 April 2022 while payments totalling only £1,256,500 were paid to Mr and Mrs K's solicitors. And this makes sense if the

sale proceeds of the first property were to be used to buy *and* renovate the new property. If that was the case, as Mr and Mrs K said, and LGT does not dispute, not all of the money would be used up in the purchase price paid over to the solicitors. Some of the money was kept back from the sale of the first property for renovation costs that would be incurred later on the second property.

So it seems Mr and Mrs K had approximately £250,000 available for the renovation costs which, up to mid-June 2021, was held in a cash fund. It was not exposed to market risk.

Mr and Mrs K's position, that they had the funds to renovate the new property from the sale of the old property, does therefore seem to be correct. In saying this I do not forget that the estimated renovation cost was £300,000, before over runs, not £250,000, but the approximately £250,000 is a very sizeable proportion of that estimated figure. Also the money was not needed all in one lump sum, and Mr and Mrs K had sizeable incomes and access to other funds. In short, the further £50,000 could have been found when needed without the *need* to borrow funds to cover that shortfall.

LGT says it has a file note dated 5 July 2021 which says:

"Performance pleasing and [Mr K] has decided to invest a further 400K and open a Lombard loan arrangement to fund the development of his property. No income is needed."

Nothing was recorded in this note that suggests the renovation/development costs were estimated to be any greater than the £300,000 estimate LGT had previously noted in June 2021.

So, on or around 11 July 2021 Mr and Mrs K changed from their original plan to use the remaining £250,000 from the proceeds of sale in April 2021 for the property renovation to not using that money and investing it instead. And to borrowing an additional £250,000 under the Lombard loan arrangement to finance the renovation instead.

Mr and Mrs K have said they were also advised to invest this borrowed money pending its use for renovation costs. They say they were told it was a good way to make money. LGT says there is nothing in the documentation to show such advice. That does appear to be the case, but it is clear from the documentation that LGT was aware that the Lombard loan was to provide funds for the renovation costs and that the funds were put under the control of the investment manager for investing in the short term.

There is nothing to indicate LGT recommended Mr and Mrs K use their existing cash fund of approximately £250,000 as they had originally planned and were given instructions to the contrary.

It can also be seen from the various emails that the investment manager had a fairly bullish and optimistic approach to investment at that time.

In my view it seems more likely than not that Mr and Mrs K were, as they say, advised to invest the existing cash fund of almost £250,000 left over from the first sale and to take out the Lombard loan to fund the renovation costs in the short term. And to invest those borrowed funds in the short term pending the need to spend them on the renovations.

A number of points are, in my view relevant to the suitability of that advice and subsequent management of those funds, including:

- Mr and Mrs K were classified as medium risk investors with an investment time

period of five-to-ten-years. That assessment of their attitude to risk did not change when Mr and Mrs K sold their first home in 2021 but it is clear their objectives for some of their funds did change. LGT understood this and held the proceeds of sale in a cash fund accordingly. This seems reasonable in the circumstances.

- Mr and Mrs K continued to have a medium attitude to risk and a five to ten year objective for their portfolio generally but not for the funds needed for renovation costs. These funds would be needed over the next year or so. To continue to hold those funds in cash would therefore have been appropriate unless there was some material change in circumstances that would change that.
- Investing money in a way that exposed it to market risk when it is required in the short term would generally be considered a higher risk strategy.
- Borrowing so that funds held in cash can then be invested is in effect borrowing to invest. Borrowing to invest is generally considered a higher risk strategy.
- Further, LGT knew from the outset the funds from the Lombard loan were to be used in the short term to pay renovation costs as the costs were incurred. The investment manager considered it appropriate to invest the Lombard loan funds in, or largely in, gilt and bond funds to reflect the short term need for the funds.
- As LGT has said, gilt and bond funds are generally less volatile than other asset classes but they are considered low risk not no risk investments. The price of gilts and bonds and funds linked to them do fluctuate.
- It *is* possible to lose money investing in gilt or bond funds. This is particularly the case if the investor has to sell because of a short term need and is unable to wait for a better time to sell.
- There was no reassessment of attitude to risk and/or agreement that Mr and Mrs K were anything other than medium risk investors within a five to ten year investment context. There is nothing to indicate that their appetite for, or acceptance of, risk had increased.
- There was no other material change in circumstance to suggest that funds required in the short term should be invested at risk rather than held in a cash fund.

LGT has argued that Mr and Mrs K knew what they were doing and agreed to it. That is usually the case when a client follows advice but in and of itself that does not make advice suitable. Clients do tend to follow the advice of trusted advisers, and it is incumbent on an adviser to give advice that is suitable for their client taking into account things such as their needs and objectives and attitude to risk. And it is clear that Mr and Mrs K's affairs were involved. In particular they had both five to ten year objectives for some of their portfolio and short term objectives for other money. There is however nothing to show that their attitude to risk was different for the different parts of their portfolio. In particular there is nothing to indicate that they wished to take a greater level of risk with the funds they needed for the renovation costs.

It is correct to say that Mr and Mrs K went from holding approximately £250,000 in cash to allowing those funds to be invested and taking out the Lombard loan but it is also clear from their comments at the time (or rather very shortly afterwards) that they understood the loan funds to be used in a way that was comparable to a bank account. This perception of things was also consistent with the way the investment manager was referring to things at the time:

"...the whole point of the loan is so you don't need to worry about short term performance. You do not need to sell anything."

LGT argues that Mr and Mrs K are really complaining about investment performance, and that 2022 was a particularly difficult year. It says it should not be held responsible for circumstances that are out of its control. It says things should not be assessed on the basis of hindsight. And that the loss was caused by Mr and Mrs K's decisions at the time.

I do not however consider any of the points I have made above to be based on hindsight. They are all points LGT was aware of at the time. It recommended an approach that might have worked if circumstances had been different but that does not mean the approach either was or might otherwise have been suitable. Further, the turn of events and the loss suffered were of a type that was reasonably foreseeable at the time even if the precise events or the full extent of the losses that would result, were not. Mr and Mrs K had a short term need for funds and so were always likely to need to encash the investments in the short term. And as mentioned gilt funds can fall in price. This is a foreseeable possibility. And this situation can arise when interest rates rise.

Rising interest rates are not exceptional market fluctuations. And Bank of England base rate was at historically low levels in 2021 and early 2022. In June/July 2021 it was only 0.10%. There was clearly little scope for further falls. The rate was raised from 0.1% to 0.25% on 16 December 2021 and to 0.5% on 3 February 2022 i.e. before Mr and Mrs K drew down the Lombard loan funds.

The possibility of further rate increases cannot have been considered unforeseeable or even unlikely in June/July 2021. And a possible upward trend had begun by the time the Lombard loan funds were drawn down and the funds invested in gilt and bond funds by the investment manager. So losses on the sale of gilt and bond funds in the short term was a realistic possibility and not something that could only happen in unforeseeable circumstances.

Choosing to invest in gilt and bond funds exposed Mr and Mrs K to the real risk that some of the money borrowed to pay for renovations would be lost when Mr and Mrs K needed that money to pay for the renovations.

It is my view that this risk was not properly understood and accepted by Mr and Mrs K or that they properly understood this overall strategy compared to their original plan of using the proceeds of sale of the first property to pay for the purchase price *and* renovation cost of the second property.

It is my view that Mr and Mrs M were given unsuitable advice by LGT and that LGT unsuitably managed part of Mr and Mrs K's portfolio accordingly from the time the second property was purchased.

It is my view that Mr and Mrs K should not have been advised to invest at risk the funds that were needed in the short term. They should have been advised to continue to invest their original funds and the additional £400,000 invested in July 2021 in accordance with the existing mandate but continue to hold the approximately £250,000 remaining from the first house sale in the cash fund so it was available to pay the renovation costs of the second property.

It is my view that investing borrowed money with a known short-term purpose was not consistent with Mr and Mrs K's agreed medium risk profile notwithstanding the point that they had sufficient wealth to cover any likely losses.

I note LGT's point that the extent of the conditions experienced in 2022 were unforeseeable, but LGT put Mr and Mrs K in the position where losses of that *type* could foreseeably be suffered when it should not have done so. Further, I do not consider that Mr and Mrs K acted unreasonably in the circumstances in giving instructions to encash their investments when

they did. While this may have crystallised losses that might not have been suffered if encashment had been later, it was nevertheless reasonable for them to want to end matters when they did. The value of their investments were falling and they wanted their money for the renovation costs. Watching their renovation funds lose value was clearly causing them a great deal of concern and worry. Their conduct was reasonable in the circumstances.

I consider that in the circumstances it is fair and reasonable that LGT compensate Mr and Mrs K for the full extent of the losses they suffered.

It is clear from the exchanges between Mr and Mrs K and the investment manager that Mr and Mrs K have found matters relating to the investment of monies ear marked for renovation costs very worrying and stressful. That said, I'm sure that property buying and renovation in the period following the covid epidemic of 2020-2021 and in a period of increasing inflation was stressful in any event. Also investment conditions were extreme and the rest of Mr and Mrs K's portfolio was reasonably exposed to those conditions. What I mean is that not all the anxiety evident in the email exchanges was caused by the wrong on the part of LGT that I have found. It was however a significant contributing factor.

Putting things right

My aim is to put Mr and Mrs K into the position they would have been in but for the unsuitable advice and investment management by LGT.

To put things right LGT should make a comparison between Mr and Mrs K's actual position as a result of investing the (approximately) £250,000 remaining April 2021 sale proceeds and taking out and investing the Lombard loan funds and the position they would have been in if they had not taken out the loan and had left the £250,000 in the cash fund and drawn against it for the renovation costs as and when needed.

This comparison should be made as at the date Mr and Mrs K closed their portfolio with LGT.

LGT should provide details of that calculation to Mr and Mrs K in a simple and easy to follow format.

LGT provisionally carried out such a comparison in response to my provisional decision and calculated the loss to be around £32,000. It is not however clear that its calculation also included any loss suffered in respect of the Lombard Loan. (LGT will need to check its calculations and provide details to Mr and Mrs K.)

In my provisional decision I said that if there was a loss as at the date Mr and Mrs K closed their portfolio that loss figure should be further adjusted to reflect the point that Mr and Mrs K have not had the use of that lost money since they closed their LGT portfolio. I said that as the renovation cost overran Mr and Mrs K will have used money that was invested to go towards the renovation cost instead of that lost money that was not available to them. While it is the case that that lost money could (in effect) have been invested, on further considering the evidence I see that in 2023 Mr and Mrs K withdrew funds from LGT prior to completely ending their relationship with it. And at that time Mr and Mrs K seemed to have a need for all their available funds and so on reflection it is not clear that they would have invested the lost money or just held it in a deposit account. As it is not clear how Mr and Mrs K would have used that money had it been available to them, I will award interest on that some in accordance with our normal published policy where a consumer has been deprived of the use of their money.

I therefore consider that interest at the rate of 8% simple interest per year should be paid on the loss from the date Mr and Mrs K closed their portfolio with LGT to the date of this decision. This interest may be subject to tax and if LGT pays it net of tax it should provide a tax deduction certificate to Mr and Mrs K.

I also consider that LGT's error in relation to the investment funds originally earmarked for renovation and the Lombard loan funds has caused Mr and Mrs K much worry and stress and I consider that a total payment of £500 is appropriate compensation for that distress caused by LGT. LGT should therefore pay this sum to Mr and Mrs K also.

The redress due under my final decision should be paid within 28 days of LGT being notified of Mr and Mrs K's acceptance of this final decision. If it is not interest is to be paid on the redress payable at the rate of 8% simple interest per year from the date of my final decision to the date of payment.

My final decision

For the reasons I have given above, I consider that Mr and Mrs K's complaint should be upheld and that LGT Wealth Management UK LLP should pay redress to Mr and Mrs K as set out above.

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

Philip Roberts
Ombudsman