

The complaint

In 2020 Blue Square Financial Limited ('Blue Square') advised Mr K on the investment of £130,000 of his capital (subsequently topped up by £8,000). The *fund*, held on a third-party's platform, was split between a General Investment Account ('GIA') and an Individual Savings Account ('ISA'), with both invested in the same way. In 2022 Blue Square also advised him on the transfer of his pension to the same platform, but the pension was invested differently.

He says the fund has been mismanaged/misadvised since 2022, causing underperformance that contrasts with the growth of 14% in the pension over the same period. He has also questioned possible *churning* in reinvestment activities within the fund, and the charges incurred in it. Blue Square disputes all the allegations.

What happened

Mr K notes that the fund was already losing money between 2020 and 2022. He says around £20,000 was lost in this period, but he was told, and was prepared to accept, that the loss had resulted from the impacts of the pandemic on the markets. Thereafter, and for a while, he says the fund's ongoing performance was not clear enough to him, because the statements he received from the platform provider were always confusing.

Then came a point where he made additional effort to clarify its performance, following which he says he identified that it had still continued to underperform since 2022. He refers to reasons given by Blue Square, but says none of them explained why, despite facing the same overall market factors, the fund was underperforming but his pension had good growth.

Blue Square says the background to the fund is important in terms of understanding what has happened in Mr K's case.

Beginning with his objective for the fund, it says he had an unyielding income requirement which, for reasons arising from his personal circumstances, he could not compromise. In this respect, Blue Square refers to his required income of £650 per month (which defined the income focused approach for the fund), to notice given to him at the time of advice that the fund's historical performance showed income below his requirement (so outperformance was needed to meet his income needs), to bank interest rates being historically very low at the time (so a deposit arrangement was not a viable alternative), and to its advice (and his agreement) in 2021 to reduce his income withdrawal (to £500 per month) for sustainability reasons.

Blue Square highlights that in 2022, despite the adverse market effects of specific and well known socio-economical and geo-political events that happened that year, and despite those effects impacting Mr K's fund (which was already in need of outperformance from the outset), he still had to continue his income withdrawals, so that added pressure on performance.

It notes that a form of recovery began after December 2023, when Mr K reduced his income withdrawals to £250 month, because this was a more sustainable level of withdrawal which reduced the pressure on performance and allowed for more capital growth. This, it says, led to good growth in 2024.

Overall, Blue Square says the fund was suitable for Mr K and was suitably advised throughout, but the combination of his income withdrawals and wider market events – both of which were beyond its control – caused the level of performance that he is unhappy about.

In response, Mr K considers that the fund's inability to cope with his withdrawals illustrates how unsuitable it was (either at the outset or as its investments were being reviewed and advised over time). He believes it should, at the very least, have been generating enough annual growth to cover his annual withdrawals.

He suspects there were poor investment selections and cites, as an example, a specific underlying investment that had a below average score for returns and above average score for exposure to risks. He questions why this investment was used. Mr K is also convinced that the fees incurred in the fund were unreasonable and disproportionate to its performance, sometimes resulting in the need to cover those fees by liquidating investments that could have helped the fund's growth (including a specific investment which was partly sold without his consent). He believes strongly that the charges significantly contributed to and/or compounded the problems in the fund's performance.

Blue Square has addressed these points.

With regards to the investment questioned by Mr K, it mainly says "... *the Defaqto rating of the fund was a credible 4/5 diamonds and represented 4% of the value at the time*".

In terms of the partial investment sales he is unhappy with, it says they happened in June, August and November 2024 but they were not instructed by Blue Square. At the time of its complaint response last year it was still investigating, with the platform provider, how the sales happened. Nevertheless, it noted that at the time the relevant shares were trading at around half the price at which they were sold, so Mr K stood to make a gain if he repurchased them. To address the matter further, Blue Square offered him a refund of the sale related transaction fees (£22.50) and £100 in compensation for the inconvenience caused.

On the matter of fees, Blue Square says the total fees (covering its annual ongoing charge of 0.65%, the annual platform fee of 0.25%, and underlying fund charges) deducted from Mr K's fund for the five years period in question is around £7,000, and that all fees were fully disclosed to, and agreed by, him at the outset.

With regards to the contrast drawn against the pension's positive performance, it says the pension was invested with a different focus/strategy – growth (as this was his retirement objective for the pension) – hence the difference in performance.

Blue Square denies any allegation of churning and considers it baseless, as no fees were generated in reinvestment activities. It explained to him that "... *there are no additional charges for the reinvestment of dividends. There would be a transactional charge if we were buying and selling direct holdings, but this is not the case for reinvestment of dividends of funds on your account. The reason that these are reinvested is so any income not withdrawn can be re-invested immediately at regular intervals and achieve pound cost averaging*".

One of our investigators looked into the complaint and concluded that it should not be upheld.

She noted evidence showing that – Mr K had a balanced profile for the fund, he had the financial capacity for it and it did not mismatch the objective he had at the outset, so overall it was suitable for him at that point; it remained suitable for him up to 2022, when he was advised to reduce his income withdrawals, which he refused to do; by 2023 his circumstances had changed, but his balanced profile remained and he was advised to make no changes to the fund's investments; his withdrawals had reduced to £250 in 2023, that remained the case in 2024; and the fund was also rebalanced in 2024 (alongside a reallocation of £20,000 from the GIA to the ISA).

The investigator made further findings concerning the specific allegations in the complaint, but she reached conclusions broadly similar to those expressed by Blue Square in its responses to those allegations. Mr K disagreed with this outcome. He addressed some of the comments made by the investigator, and he maintained that, overall, there must have been a fundamental flaw in Blue Square's investment selections for the fund (with regards to their poor prospects and/or detrimental costs within them).

He disputes awareness that the fund required overperformance to meet his income needs and that associated costs would impact the fund annually by a total of 1.8% (in this respect he says information on fees was unclear, as they were quoted only as percentages) – both of which the investigator mentioned in her view. He says these aspects should have indicated to Blue Square that the arrangement was unsuitable for him, because the fund would have looked unlikely to meet his needs and, given the costs, there was bound to be limited room for returns. He explained further as follows –

“Initially I required £650 pounds a month from the portfolio to supplement a loss of income. I did realize that the fund investments may not be able to fully cover this. I was hoping that the funds would at least make 500 per month and I was willing to accept a small loss on this as I knew £650 was a lot of money. However had I been aware that the fund and other charges were taking away a lot of this then I would not have agreed to it.”

Furthermore, he had previously argued that a deposit based arrangement, which Blue Square discounted during its advice, was less favourable only temporarily whilst interest rates were at 0.1% in 2020, but two years later they were rising and they peaked shortly thereafter around 5%. Therefore, he believes a better alternative arrangement, in the form of a cash deposit, could have been recommended to him over time, but was not.

With regards to churning, as there has been no financial loss through charges associated with the relevant reinvestments, Mr K essentially withdrew the allegation. However, he points out that the level of trading in the fund sometimes left it without enough cash to pay fees, leading to liquidations in the fund's holdings for that purpose, which he would have preferred to avoid.

The matter was referred to an Ombudsman.

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.

Churning

There are provisions in the regulator's *Handbook* relevant to a churning allegation.

In the Conduct of Business Sourcebook ('COBS') section of the Handbook, there is the following guidance summarising what churning is –

“COBS 9.3.2 G

(1) A series of transactions that are each suitable when viewed in isolation may be unsuitable if the recommendation or the decisions to trade are made with a frequency that is not in the best interests of the client.

(2) A firm should have regard to the client's agreed investment strategy in determining the frequency of transactions. This would include, for example, the need to switch a client within or between packaged products.”

One of the Handbook's Principles for Businesses is –

“Principle 6 Customers' interests

A firm must pay due regard to the interests of its customers and treat them fairly.”

In a nutshell, a firm should not *churn* a customer's account, doing so is deemed contrary to the customer's best interests, and firms are reminded that the customer's interests are paramount.

The general idea is that frequent transactions and/or switches, by a firm, in a client's portfolio should be reasoned, in the context of the client's best interests. They ought not to be carried out only or mainly for the purpose of generating fees for the firm.

In a case like Mr K's, where there were no fees generated by Blue Square in the dividend reinvestments he has questioned (in which he suspected churning), the implication that follows is that it had no incentive to churn those transactions, and it generated no earning benefit from them. These facts point towards nullifying Mr K's suspicion that increases in the number and frequency of the reinvestments indicated churning, for fees, by Blue Square.

As stated earlier, he has essentially withdrawn this allegation, for broadly the same reasons as those stated above – being the same reasons why I have not found grounds to uphold it. I appreciate that suitability of the investments/reinvestments, as part of Blue Square's overall advice on the fund, still remains to be considered. This will be factored into my findings below on its advice to Mr K. However, in terms of the specific allegation of churning, the facts do not support it.

Performance (in isolation)

We do not normally determine performance allegations in isolation. Generally speaking, investment performance is influenced by a range of factors, including suitability of advice, investment management, socioeconomic and geopolitical factors, and changing circumstances in the wider markets.

Blue Square has referred to some specific socioeconomic, geopolitical and wider market factors which it says affected Mr K's fund and were outside its control. I do not intend to conduct an analysis of these factors in relation to the fund. The fund did not exist in a vacuum. It was invested in the markets, so I am satisfied that the factors that have been mentioned – particularly those that arose in 2022 (with impacts continuing thereafter) –

probably affected Mr K and his fund in ways similar to how they affected markets, generally, at the time.

Whilst Blue Square cannot reasonably be blamed for such wider factors – because it neither caused nor controlled them – its responsibility for the suitability of the fund and its components, which it advised, remains. That responsibility is something we can deal with in this service, and I do so next.

Suitability of the fund (initially and ongoing)

This section aims to address the arguments both sides have made about the fund – excluding, for the reasons given above, those concerning its performance alone. The arguments mainly relate to the fund's suitability at the outset and throughout the ongoing/annual reviews Blue Square was engaged, and paid, to conduct for it. They fall into two main categories – the fund's capability to meet Mr K's needs (initially and ongoing), and the impact of costs in the arrangement. Before dealing with these issues, there are some specific arguments from him to note.

The first relates to his comparison between the fund and his pension. On balance, I do not consider it a fair comparison.

We have copies of the suitability reports issued by Blue Square in 2020 (focused on the fund), 2021 (review of the fund), 2022 (focused on the pension transfer), 2023 (review of the fund and the pension), and 2024 (review of the fund). The investments recommended for the fund were all income/distribution based. Those recommended for the pension were also income based in 2022, but the 2023 review changed them all to growth/accumulation based investments, which remained its theme thereafter.

Based on the reports – which I consider to be broadly reliable, given the absence of evidence that Mr K disputed them at the time – the objective for the fund began with a significant emphasis on the generation of income. This was pursued despite warning, in the 2020 report, that income withdrawals could lead to a drop in capital value. The coupling of income generation and growth, as objectives for the fund, was introduced in the 2021 report, but the report also makes clear that his portfolio was to remain geared towards income. The main difference appears to have been the allocation of part of the £8,000 added to the fund at the time to a single company investment with higher risks (for the prospects of higher growth).

The fund sought to generate dividend related income to meet Mr K's income requirement, its contents appear to have focused mainly on dividend prospects, distinct from growth prospects. Income was withdrawn from the fund. In contrast, no income was withdrawn from the pension, and from 2023 onwards it was focused completely on growth, including, in the accumulation funds, the automatic reinvestment of dividends in aid of compounding growth.

With these circumstances, I do not find it surprising that the fund and the pension behaved differently. I understand the point Mr K has made about Blue Square failing to take and apply learnings from the pension's performance to its approach towards the fund, but it did not have discretion to alter his objective for the fund. Unless the fund's objective changed to mirror the pension's objective, I am not persuaded that he could have reasonably expected what he has argued for. As a simple example – temporarily putting aside the fact that Blue Square could not have unilaterally changed Mr K's objective for the fund – if the fund's portfolio was fully geared for growth and accumulation, like the pension, the potential outcome was arguably little to no available income from it to meet his income requirements.

Overall, on balance and for the above reasons, I do not find merit in Mr K's argument that the fund should have been modelled on the pension.

The next argument, from him, I address is the comparison he has drawn between the fund and a cash deposit-based arrangement. He accepts that the comparison does not apply for the fund's first two years, but he says thereafter interest rates in such an arrangement would have served his best interests better than the fund's performance did. Therefore, his argument applies from 2022 onwards.

The analysis that follows considers only income generation, not growth. Broadly speaking, what I mean is that in a deposit-based arrangement Mr K would potentially have benefitted from interest income, but his capital would have remained the same, so the income element is what I will be looking into.

Information from the Bank of England's website shows that the base rate in 2022 rose between 0.25% and 3.5%, in 2023 it rose between 3.5% and 5.25%, and by the end of 2024 it dropped to 4.75%. There is commonly a spread between the base rate and rates available in the retail markets, depending on the product and the product provider, but without sufficient information and evidence on the specific type of products Mr K is referencing I consider these rates to be reliably indicative for the purpose of dealing with his comparison/argument.

He had £130,000 capital, from which he initially needed £650 income per month. This amounts to £7,800 annual income, but I have noted that the research and income profile reports initially issued to him refer to an annual income figure of £6,500. Using both figures and the full available capital, he needed, at the outset, returns at an annual rate between 5% and 6%. As he concedes, interest rates were nowhere near these levels in 2020, so a deposit-based arrangement was not a viable alternative for him back then.

By 2022 his income requirement had reduced to £500 per month. As of January 2022, the fund's total value was around £127,000 (rounded up). If this value was switched to a deposit-based arrangement at the time, he would have needed an annual return of around 4.7% from such arrangement. Using the 2022 base rates above as a reliable indicator, it was unlikely for him to have found a deposit-based arrangement to meet his income needs.

Those needs remained at the £500 per month level in 2023, until the change to £250 per month in December that year. As of January 2023, the fund's total value was around £114,400 (rounded up). A switch of this value to a deposit-based arrangement, with the £500 per month income requirement, would have created the need for an annual return of around 5.2%. According to the Bank of England's website, the base rate did not rise to 5% until June that year and it did not rise to 5.35% until August that year.

The fund's review happened around April that year, when the base rate was 4.25% and the fund's total value had dropped to £111,011 (creating a slightly increased annual return requirement of 5.4%). In these circumstances, I am not persuaded that a switch would have been an obvious and/or attractive alternative. Mr K has complained about invested capital in the fund being eroded by liquidations and deductions (for fee payments and withdrawals) around this time, but such erosion would have happened (for withdrawals) in a deposit-based arrangement that provided around 4.25% income where 5.4% was needed.

At the time of the July 2024 review, the fund's total value was around £112,000, and Mr K continued to withdraw £250 per month from it, so he needed an annual return on the capital value of around 2.7%. At this point the base rate was 5.25%, so he could argue that a switch would have been a viable alternative. Overall and in principle, I agree, but the outcome does not show that he would have been better off. Considering, briefly and specifically, the matter

of performance, available evidence shows that the fund was entering a period of positive growth around the time. Between January 2024 and January 2025, it recorded returns of 7.64% (including dividends and after charges), more than the 5.25% base rate. Therefore, if the argument is taken to its logical conclusion, there would be no loss for Mr K to claim. A deposit-based arrangement would probably have provided less in returns than the fund provided during this period.

For all the above reasons, I am not persuaded by Mr K's argument that a deposit-based arrangement should have been recommended to him as an alternative to the fund.

Another specific matter he has raised is about the investment he says was partly sold without his consent.

There seems to be some common ground in the matter, but also something of a loose end. It is not disputed that Mr K neither instructed nor consented to the partial sales (which, as stated above, happened in June, August and November 2024). Blue Square has also confirmed that it did not instruct the sale, but the loose end I refer to is that there seems to be no definitive and accepted explanation about how it happened.

In any case, available evidence is that as of May 2025, when Blue Square addressed the matter, he was informed that the relevant shares were trading at roughly around half their sale prices. He was therefore in a position to mitigate and more – in the sense that, if he wished, he could have considered repurchasing and reinstating the shares that were sold, and if he did that he would have made a gain between the higher sale prices and the lower repurchase price. In addition, Blue Square offered to refund the transaction fees for the sales and to pay him £100 compensation for the trouble the matter had caused.

In the above circumstances, I am not persuaded that this is a complaint matter to uphold. It appears to have resolved itself, in terms of the opportunity Mr K had to reinstate the shares with a gain, plus he was offered compensation to cover the costs of and trouble from the erroneous sales.

I now deal with the general suitability of the fund, in terms of its capability to meet Mr K's objective (and profile), and its costs.

There appears to be agreement between the parties on his overall profile(s) at the outset and thereafter, so I do not find a need to go into details in this respect. Furthermore, some aspects of his profile relate to highly personal and sensitive matters, which I do not wish to mention where there is no need to do so.

The income generation focus of the fund matched his need for income throughout. That need was scaled back over time, in terms of the income withdrawal reductions, but, as I mentioned earlier, it remained the fund's primary purpose at all times, even after capital growth was added as a secondary objective.

The investments selected for the fund's portfolio were all geared towards the generation of income. 11 managed funds were selected in 2020, and Blue Square's research report shows that their Defaqto ratings were used to give Mr K insight into them. The report included this explanation –

“Diamond Ratings give managed funds an independent rating of 1 to 5 based on a detailed and well-structured scoring process allowing advisers and their clients to see where they sit in the market in terms of fund performance and competitiveness in other key areas such as cost, scale, access and manager longevity. 1 indicates the lowest rating across the characteristics and features while 5 is the highest.”

10 investments had '5' ratings, and one (which constituted 4% of the fund) had a '4' rating. The latter is the investment Mr K questioned. Overall, I have not seen anything that made any of these investments unsuitable for his income generating objective, his balanced risk profile (in which he knowingly acknowledged and accepted the need for exposure to risks for the correlating prospects of gains) and diversification within the fund.

All 11 of them were income/distribution based in their profiles, they were managed by mainstream managers/providers, they had ratings that suggested relatively good overall investment prospects, they were diversified over eight different fund providers, their allocations in the portfolio also aided diversification (two at 15% each, one at 13%, one at 12%, one at 10%, two at 8% each, one at 7%, and three at 4% each), and across their contents the underlying asset class exposures were also relatively diversified, including fixed interest securities, equities, property and alternative investments.

The analysis at the time of advice did highlight the possibility, based on historical performance, that income generated in the portfolio could fall short of Mr K's needs. In other words, some outperformance was likely to be needed from the outset. However, on balance, I consider that this fitted within the balanced level of risk he was prepared to take. The arrangement was agreed with no performance guarantee given to him, he knew he faced investment risks, he accepted them and had the profile to match, and part of that risk was the likely need for outperformance.

I have considered whether (or not) the gap (between the historical performance data and his income requirement) which gave rise to the likely need for outperformance was enough to call suitability into question. On balance, I do not consider it was. Based on the report, the annual shortfall in the comparison appears to have amounted to less than £100. I do not find this sufficient to question suitability in this respect.

I have looked into the portfolio's contents over the relevant years after its initial construction, during which there were some changes. Nothing stands out as being of meaningful concern and/or unsuitable for Mr K over that period.

He withdrew from the fund the sums he needed and/or wished to. I understand his dissatisfaction with those withdrawals sometimes being derived from capital, instead of dividends, but the advice and analysis he received at the beginning essentially forewarned of this possibility. In the main, there was no performance guarantee and the venture came with risks that he accepted and that were not unsuitable for his profile/objective. There was always a risk that performance might not match withdrawals – which the suitability report warned about – and in those circumstances the withdrawals were bound to erode the capital.

I also understand his views about the fund's performance, but I have not found a basis on which to say the level of performance was caused by unsuitable advice from Blue Square.

With regards to his concern about the costs within the fund hindering its performance, the outlook on this was also known to him. The initial and ongoing advice and analysis/illustrations he received included information about fees (Blue Square's fees, the platform's fees and the underlying investments' costs) and about their impacts on performance. The illustrations included notice that product and investment charges could reduce annual growth by 1% and that all costs could reduce annual growth by 1.8%.

With regards to the costs themselves, I have not seen enough evidence or reason to question the suitability of any particular fee in the arrangement, given the prevailing circumstances as they were in Mr K's case. With regards to Blue Square's charges, the regulator's December 2020 evaluation report on the impact of the Retail Distribution Review

and on service charges in the financial services sector included the following about advice fees –

“Our research shows the average charges are 2.4% of the amount invested for the initial advice and 0.8% per annum for ongoing advice.”

Blue Square’s fee rate for its initial advice in 2020 was 1%, and for its ongoing advice it was 0.65%, neither is above the respective average rates in the quote.

Indeed it strikes me that Mr K’s issue might not be about any particular or specific fee – other than those associated with the partial sales issue, which I have already addressed. Instead, it appears to be about the costs overall and the facts that they had an impact on performance and that the rate of growth did not surpass them sufficiently to cater for his income needs and to generate good capital growth over time.

The fees/charges/costs associated with investments and their impacts on performance are not uncommon factors in investments, and I repeat, he was made aware of that. I have not seen a reason why Mr K would have expected his fund to be any different. With regards to how total growth sometimes did not manage to match and/or eclipse those costs, in the absence of any unsuitability issues – which I have not found – the matter becomes one purely about investment performance. As I explained earlier, this is not a matter we would address in isolation.

My final decision

For the reasons given above, I do not uphold Mr K’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr K to accept or reject my decision before 12 March 2026.

Roy Kuku
Ombudsman