

The complaint

Mrs M complains that Principle Financial Services Ltd, an appointed representative of New Leaf Distribution Limited (New Leaf), gave her unsuitable investment advice.

As New Leaf are responsible for those activities, this complaint is about it and for ease any reference to New Leaf in my decision includes Principle Financial Services Ltd.

What happened

Mrs M first met New Leaf in February 2021 to discuss investing money held in a cash ISA. New Leaf completed a fact-find and risk assessment with her which led to it recommending she invest £40,000, which at the time was held in a cash ISA, taking a 'high medium' level of risk across two investment funds through a stocks and shares ISA.

Shortly after the investment was implemented Mrs M became concerned with the level of performance she was seeing. She raised this with New Leaf who explained it was early into the investment and as she was investing for the long term – 6 to 10 years – it was too early to make reactive changes to her investments.

Again in 2023 Mrs M raised concerns with the performance of her investments which led to her making a complaint. She told New Leaf that she thought the advice it gave her hadn't been suitable as it had exposed her to a greater level of volatility than she was comfortable with. She later instructed New Leaf to surrender the investments within this ISA on 10 March 2025.

New Leaf considered her complaint but didn't think it should be upheld. In its view Mrs M's concerns were caused by the wider difficult period for the markets rather than the advice it gave, which it said was suitable.

Mrs M didn't agree and asked our service to look into what happened. One of our Investigators reviewed the matter and upheld it. In his view the investments New Leaf recommended exposed Mrs M to more risk than she was willing to take.

Our Investigator suggested New Leaf should compare the performance of Mrs M's investments to how they would've performed against a benchmark and to pay her £200 for the worry the losses she saw caused.

Disagreeing with our Investigator, the firm explained this investment was being considered jointly with her husband and to be treated as so, being in Mrs M's name only to take advantage of both parties ISA allowances. It explained this is also why her risk level was increased one level from what was recommended. The firm also raised concerns about whether the investment only being a short time into a longer term objective had been taken into account. New Leaf also explained the funds recommended were suitable for those looking to take the level of risk it considered suitable for Mrs M. It also noted that Mrs M hadn't asked to reduce her risk level in later advice meetings and had retained the investment since the complaint was made.

Our Investigator didn't see to change his view on the complaint and as an agreement wasn't reached, Mrs M's complaint was passed to me to decide. I issued a provisional decision as I thought a different benchmark should apply when calculating redress to what our Investigator thought.

In my provisional decision I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The facts of this matter are well known to both parties and my summary of the background intentionally doesn't include everything that has happened, or that's been said. I do so only for the sake of brevity and will focus my decision below on what I consider to be the key matters at hand to the outcome of the decision I intend to reach. I mean no disservice by doing so, it merely reflects the informal nature of our service, but I assure the parties I've reviewed everything put to me for consideration.

Having done so, I intend to say the advice New Leaf gave on this occasion was unsuitable because the risk Mrs M was exposed to were beyond what she was willing to take. I'll explain why.

When providing Mrs M with advice, the relevant rules as they were at the time – COBS 9A – in summary required New Leaf to ask Mrs M questions about her investment objectives, knowledge and experience of investing and her circumstances. It would then need to use that information in making a suitable recommendation to her about how to invest.

In collating the necessary information New Leaf completed a fact-find with Mrs M, jointly with her husband who it was also advising. The pertinent information recorded within that document about Mrs M was:

- *She was married with two children, one who was dependent on them.*
- *Employed with plans to retire at 60.*
- *Was in good health*
- *Received an annual income from a pension and through work of around £42,000.*
- *Had a joint monthly net disposable income of £4,191.33*
- *Investment objectives of capital growth – but no information about the level being sought.*
- *Had the following assets:*
 - *Joint ownership of her home, with that property being worth around £270,000 and under a mortgage.*
 - *£4,000 in jointly held current accounts.*
 - *£5,000 in solely held current accounts.*
 - *£40,000 in her cash ISA – the money to be advised on.*

A risk assessment was also completed, the questions she was asked and the answers given were as follows:

Question		Your responses
1	To achieve financial success, I would take financial risks	Neither agree nor disagree
2	I would take more financial risk if there was a chance I could make a lot of money	Neither agree nor disagree
3	I am the kind of person who takes financial risks	Neither agree nor disagree
4	I prefer certainty about the future value of my investments, even if it means making less money	Neither agree nor disagree
5	Rises and falls in the value of my investments would not worry me	Neither agree nor disagree
6	If the value of my investment fell, even for a short time, it would concern me	Agree
7	I would generally avoid investments whose values rise and fall over time	Agree
8	I would frequently choose investments offering a steady return rather than those which could rise a lot in value	Neither agree nor disagree
9	Missing an investment opportunity concerns me more than making a loss	Agree
10	I care more about avoiding losses than making money	Agree
11	Taking financial risks causes me a lot of stress	Neither agree nor disagree
12	I would regret deciding not to take a risky investment opportunity if it then performed well	Agree
13	When considering investing, I would describe myself as:	Cautiously optimistic
14	The term I most closely associate with financial risk is:	Opportunity
15	The statement about risk-taking that best describes me is:	I very rarely take risks

As far as her capacity for risk, the questionnaire completed for that had a question along the theme of how much she could afford to lose, which Mrs M answered as “I can’t afford any loss”. Taken together, New Leaf considered the result of this risk assessment was that she was someone who wanted to take a ‘Low Medium’ level of risk with her investments. Although after further discussion her risk level was elevated to “High Medium”. The reason given for this isn’t explained in the advice documents outside of a comment about there being a “detailed discussion”. In response to our Investigator’s view New Leaf explained this was done to match her husband’s assessed risk level as the money they were being advised on at the same time was being treated as if being invested together.

New Leaf says the following about its “High Medium” risk banding:

“A ‘high medium’ risk profile shows that your willingness and ability to accept investment risk is slightly above average. A portfolio that matches this risk profile is likely to experience some significant rises and falls in value. So while there is good potential for returns from your investment to match or go above the rate of inflation (in other words, the rate at which the prices of goods and services rise), you also need to accept that your investment is likely to fall in value from time to time, particularly in the short term.

A portfolio for this risk profile is most likely to contain mainly medium- and high-risk investments, including Sterling corporate bonds and global bonds including higher income types as well as Property and shares. The shares are expected to be held

mainly in the UK and other developed markets, but there is also likely to be some in higher-risk emerging markets. As a result, you should always check that you are comfortable with what's included."

I've thought about New Leaf's reasons for advising her to take more risk than initially assessed as. Having done so, I'm not persuaded it suitably advised her to take that risk in the circumstances. I say this taking into account the information it knew about Mrs M and what the firm says about those looking to take the "High Medium" level of risk it advised.

The answers Mrs M gave about her attitude and capacity for risk aren't in my view in line with someone who wanted to invest in a way that may "experience some significant rises and falls in value", that would be comfortable to invest in a portfolio which would "most likely contain mainly medium and high-risk investments" and was willing to accept an above average risk, as New Leaf's definition of that risk profile suggests. It also ought to have considered in light of her answering her risk capacity as not being able to afford a loss was a strong indicator she wasn't comfortable taking much risk with these investments. Taken together, regardless of how it advised her husband, it ought to have been aware advising Mrs M to invest in this way would be unsuitable for her. If there was some other agreement that would perhaps lend Mrs M to being an insistent client, then New Leaf ought to have clearly documented such discussions and confirmation, and I've not seen any evidence it did.

In my view it ought to have recognised and understood she was likely someone who wanted to take only a small exposure to risk in meeting her objectives. As it advised Mrs M to take more risk than I think she was likely willing and able to, my intention is to say that New Leaf didn't give her suitable advice when making this recommendation.

I have also considered how it invested her money, in case for example the assets it advised her were in fact in line with her likely risk tolerance. But I've not seen that to be the case here. I've reviewed the two funds New Leaf recommended for Mrs M, the Baillie Gifford Managed Fund and the Liontrust Sustainable Future Managed Fund. In my view how Mrs M was being advised to invest across those exposed her to more risk than I think she was willing to take, or likely would reasonably understand. I say this because both of these funds aim to achieve capital growth through a higher equity allocation, both following a minimum guide of 60%, with a high proportion of those assets being overseas, with lesser amounts within the UK, 20% for the Baillie Gifford fund and 30% of the Liontrust fund. Given these funds have a focus towards equities and in particular overseas holdings, I don't think the advice that Mrs M invested equally across both these assets was suitable for her given this allocation of assets involved more risk that I think she was willing and able to take or had sufficient experience of the risks involved to fairly understand them.

To be clear in saying that, I'm not saying New Leaf was wrong to recommend those funds if it had correctly considered Mrs M to be a "High Medium" risk investor. As I've said above I consider the level of risk Mrs M wanted to take was likely lower than New Leaf recommended, and that is what I've considered its advice to invest these two funds against.

New Leaf says the overall wealth of Mrs M's household, which includes cash and the value of her home, dilutes the level of risk she is exposed to in any event. I have my reservations about the accuracy of some the values New Leaf has recorded in Mrs M's fact-find for her household's assets held at the time. In particular it appears to have double counted around £20,000 where it looks to have been counted in both an ISA account and a current account. This appears to stem from the valuations for each of those being taken in different months. When read alongside the statements I've been

provided with, I think this shows New Leaf has, likely inadvertently, overstated Mrs M's household's resources.

But in any event, on balance even with the left over uninvested assets I consider Mrs M's household had, i.e. taking into account the double counted £20,000, I think it's likely the overall risk she was exposed to remained too high for what she was willing and able to take, and what she likely would've understood. It carries more weight in my view that she had no prior investment experience where any loss of those funds was said by her to be problematic and would likely have a significant detriment on the household finances. I understand the point New Leaf is making but in my view this is a case of the risk mandate from the outset being incorrect rather than say a reasonable risk assessment but investment of too much money being advised where its argument tends to be more applicable to.

It follows then my intention is to say that New Leaf advised Mrs M to take too much risk with the investment strategy it recommended than she was comfortable with or reasonably understood, and so the advice it gave was unsuitable. And in doing so may have caused Mrs M financial loss.

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Mrs M as close to the position she would probably now be in if she had not been given unsuitable advice.

I think Mrs M would have invested differently. It is not possible to say precisely what she would have done, but I am satisfied that what I have set out below is fair and reasonable given Mrs M's circumstances and objectives when she invested.

What should New Leaf do?

To compensate Mrs M fairly, New Leaf must:

- *Compare the performance of Mrs M's investment with that of the benchmark shown below and pay the difference between the fair value and the actual value of the investment. If the actual value is greater than the fair value, no compensation is payable.*
- *New Leaf should also add any interest set out below to the compensation payable.*
- *Pay Mrs M £200 for the upset and worry caused by seeing the value of her investments fall as they did.*

Income tax may be payable on any interest awarded.

<i>Portfolio name</i>	<i>Status</i>	<i>Benchmark</i>	<i>From ("start date")</i>	<i>To ("end date")</i>	<i>Additional interest</i>
<i>Portfolio</i>	<i>No longer in force</i>	<i>For half the investment: FTSE UK Private Investors Income Total Return Index; for the other half: average rate from fixed rate bonds</i>	<i>Date of investment</i>	<i>Date ceased to be held</i>	<i>8% simple per year on any loss from the end date to the date of settlement</i>

Actual value

This means the actual amount paid from the investment at the end date.

Fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark.

To arrive at the fair value when using the fixed rate bonds as the benchmark, New Leaf should use the monthly average rate for one-year fixed-rate bonds as published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis.

Any additional sum that Mrs M paid into the investment should be added to the fair value calculation at the point it was actually paid in.

Any withdrawal from the Portfolio should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if New Leaf totals all those payments and deducts that figure at the end to determine the fair value instead of deducting periodically.

Why is this remedy suitable?

I have chosen this method of compensation because:

- Mrs M wanted Capital growth with a small risk to her capital.*
- The average rate for the fixed rate bonds would be a fair measure for someone who wanted to achieve a reasonable return without risk to her capital.*
- The FTSE UK Private Investors Income **Total Return** index (prior to 1 March 2017, the FTSE WMA Stock Market Income total return index) is a mix of diversified indices representing different asset classes, mainly equities and government bonds. It would be a fair measure for someone who was prepared to take some risk to get a higher return.*

- *I consider that Mrs M's risk profile was in between, in the sense that she was prepared to take a small level of risk to attain her investment objectives. So, the 50/50 combination would reasonably put Mrs M into that position. It does not mean that Mrs M would have invested 50% of her money in a fixed rate bond and 50% in some kind of index tracker fund. Rather, I consider this a reasonable compromise that broadly reflects the sort of return Mrs M could have obtained from investments suited to her objective and risk attitude.*

Our Investigator recommended the loss was to be calculated fully through the FTSE UK Private Investors Income Total Return Index. I've reached a different conclusion, that this should be calculated half in that index and the other half against the average rate from fixed rate bonds. This is because I think that's likely more reflective of sort of return someone of Mrs M's risk tolerance would be looking to take with her investments as a first-time investor than using the FTSE UK Private Investors Income Total Return Index alone, which would tend to be more appropriate for considering those with a higher risk outlook than Mrs M."

Mrs M accepted the outcome I reached in my provisional decision. New Leaf didn't and submitted a detailed response to explain why, which in summary said:

- There were factual misunderstandings and the weight of evidence had been misapplied.
- It insisted the advice was suitable and that the risk profile applied was correct and had been validated by the tools it used.
- Mrs M had signed to confirm her understanding of risk, potential loss and the objectives.
- Her conduct, remaining invested across multiple reviews and expressing confidence in her adviser, evidences she understood this.
- Comments I made in my provisional decision about the risk assessment tools it uses were inconsistent.

As both parties have responded to my provisional decision the complaint was passed back to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having reviewed this matter again, including New Leaf's submission in response to my provisional decision, while I understand the firm's concerns and position I've not seen to change the conclusions I reached.

New Leaf remain of the position it was reasonable to recommend Mrs M to take the level of risk it advised, that she understood this and agreed to it. While I don't dispute she agreed to New Leaf's recommendations, my concerns about this part of the advice remain that I think it's likely she wouldn't have had sufficient experience and knowledge of investing, given she had no experience, to properly understand and appreciate the risks she was being advised to take. And that the course being advised exposed her to more risk than she wanted to take or could understand for the same reasons I've already explained in my provisional decision.

As I referred to in my provisional decision New Leaf says there had been detailed discussions around increasing the level of risk being advised. But crucially it hasn't provided

any evidence documenting what it told her about this, how this was portrayed and what Mrs M would've understood. If New Leaf is relying on reasoning it raised that it was advising Mrs M jointly with her husband, I'm not persuaded that would be fair reason in the circumstances here to recommend she take a higher risk level than I consider she was comfortable with. While I've considered the advice was given on a joint basis, given it was advising Mrs M to invest through an ISA in her sole name, it would still need to what it was recommending was suitable for her.

Important to understanding Mrs M's attitude to risk is the information New Leaf took from her during the fact-finding. I understand New Leaf object to how I've interpreted the risk assessment it completed with her, but it wasn't and isn't either unreasonable or inconsistent for me to do so. And while I've read its comments about that I would remind New Leaf that it didn't follow the recommendation that tool came to – that she was a “low-medium” investor, but instead recommended a higher risk based on those conversations which I've not seen evidence of the detail and portrayal of. As I explained in my provisional decision her answers to those questions were insightful when considered against the rest of the information New Leaf had taken about her. In my view when consider all of that as a whole I think it's likely the level of risk she was advised to take exposed her to more risk than would've been suitable for her for the reasons I've explained.

New Leaf say I haven't placed enough weight on Mrs M's signed acknowledgement of the level of risk she was prepared to take and her understanding of it. To be clear I had considered this when forming the conclusions in my provisional decision. But in my view the fact-finding evidence carried more weight that Mrs M had no prior investment experience and the way she answered the risk assessment more likely demonstrated she lacked sufficient understanding or appreciation of the risk she was being advised, than her signing the declaration New Leaf relies on.

I've read New Leaf's comments that being an inexperienced investor wouldn't preclude it from advising Mrs M to invest in the funds it did. But I don't agree, the combination of Mrs M's lower than advised risk tolerance along with her experience are in my view important factors that New Leaf needed to consider more than it did. And for the reasons already explained in my provisional decision I don't find it fairly matched her with suitable funds.

I'm also not persuaded that her continuing with the investment following annual reviews or positive prior comments she may have made about her adviser mean the advice could be considered to be suitable. She had instructed an ongoing advisory relationship and so it wasn't unreasonable she considered her adviser was providing her with suitable advice. Her inaction once that advice was implemented doesn't in my view constitute her acceptance and understanding of what I remain to consider to be unsuitable advice.

Lastly neither party has objected to my change of benchmark and I remain of the view how I set out this complaint should be settled is as I set out in my provisional decision. For the avoidance of doubt that is as follows.

Putting things right

In assessing what would be fair compensation, I consider that my aim should be to put Mrs M as close to the position she would probably now be in if she had not been given unsuitable advice.

I take the view that Mrs M would have invested differently. It is not possible to say *precisely* what she would have done differently. But I am satisfied that what I have set out below is fair and reasonable given Mrs M's circumstances and objectives when she invested.

What must New Leaf do?

To compensate Mrs M fairly, New Leaf must:

- Compare the performance of Mrs M's investment with that of the benchmark shown below and pay the difference between the *fair value* and the *actual value* of the investments. If the *actual value* is greater than the *fair value*, no compensation is payable.
- New Leaf should also add any interest set out below to the compensation payable.
- Pay to Mrs M £200 for the upset and worry caused by seeing the value of her investments fall as they did.

Income tax may be payable on any interest awarded.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
ISA Portfolio	No longer in force	For half the investment: FTSE UK Private Investors Income Total Return Index; for the other half: average rate from fixed rate bonds	Date of investment	Date ceased to be held	8% simple per year on any loss from the end date to the date of settlement

Actual value

This means the actual amount paid from the investment at the end date.

Fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark.

To arrive at the *fair value* when using the fixed rate bonds as the benchmark, New Leaf should use the monthly average rate for one-year fixed-rate bonds as published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis.

Any additional sum paid into the investment should be added to the *fair value* calculation from the point in time when it was actually paid in.

Any withdrawal from the New Leaf should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if New Leaf totals all those payments and deducts that figure at the end to determine the fair value instead of deducting periodically.

Why is this remedy suitable?

I have decided on this method of compensation because:

- Mrs M wanted Capital growth with a small risk to her capital.
- The average rate for the fixed rate bonds would be a fair measure for someone who wanted to achieve a reasonable return without risk to her capital.
- The FTSE UK Private Investors Income **Total Return** index (prior to 1 March 2017, the FTSE WMA Stock Market Income total return index) is a mix of diversified indices representing different asset classes, mainly UK equities and government bonds. It would be a fair measure for someone who was prepared to take some risk to get a higher return.
- I consider that Mrs M's risk profile was in between, in the sense that she was prepared to take a small level of risk to attain her investment objectives. So, the 50/50 combination would reasonably put Mrs M into that position. It does not mean that Mrs M would have invested 50% of her money in a fixed rate bond and 50% in some kind of index tracker fund. Rather, I consider this a reasonable compromise that broadly reflects the sort of return Mrs M could have obtained from investments suited to her objective and risk attitude.

My final decision

I uphold the complaint. My decision is that New Leaf Distribution Limited should pay the amount calculated as set out above.

New Leaf Distribution Limited should provide details of its calculation to Mrs M in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 26 November 2025.

Ken Roberts
Ombudsman