

The complaint

Mr R complains that HBOS Investment Fund Managers Limited failed to move his investments into the best share class available to him.

What happened

Mr R opened an ISA account with HBOS in 2004. Within his ISA, he was invested into the following four funds in which he was charged an ongoing Annual Management Charge (“AMC”):

- International Growth Fund (Class F Accumulation) with an AMC of 1.25%
- Special Situations Fund (Class F Accumulation) with an AMC of 1.25%
- UK Growth Fund (Class F Accumulation) with an AMC of 1.25%
- UK FTSE All-share Index Tracking Fund (Class F Accumulation) with an AMC of 1%

In April 2017, HBOS wrote to Mr R to inform him that the AMC on his four funds had been reduced and the top-up payments he had made between 1 October 2012 and 19 February 2017 had been backdated and it anticipated that it would increase the number of shares he held to reflect this by 30 June 2017. It also explained that it had created new share classes with a lower AMC for these as follows:

- International Growth Fund (Class Q Accumulation) with an AMC of 0.75%
- Special Situations Fund (Class Q Accumulation) with an AMC of 0.75%
- UK Growth Fund (Class Q Accumulation) with an AMC of 0.75%
- UK FTSE All-share Index Tracking Fund (Class P Accumulation) with an AMC of 0.5%

HBOS wrote to Mr R again in June 2017 to confirm his new share classes for his top-up investments and the additional shares it had reimbursed him. This explained that his share classes were as follows:

- International Growth Fund (Class Q Accumulation) with an AMC of 0.75%
- Special Situations Fund (Class Q Accumulation) with an AMC of 0.75%
- UK Growth Fund (Class Q Accumulation) with an AMC of 0.75%
- UK FTSE All-share Index Tracking Fund (Class P Accumulation) with an AMC of 0.5%

In December 2022, HBOS wrote to Mr R to inform him that it had introduced a minimum contribution entry level to some of its funds’ share classes with the lower AMCs. It had identified that Mr R’s total contributions to his ISA were over £75,00 and as such, one or more of his funds’ share classes met the minimum contribution and so it let him know that it would be converting his holding in one or more of these funds to a cheaper share class. I understand the following changes were made:

- International Growth Fund (Class G Accumulation) with an AMC of 0.75%
- Special Situations Fund (Class G Accumulation) with an AMC of 0.75%

- UK Growth Fund (Class G Accumulation) with an AMC of 0.75%
- UK FTSE All-share Index Tracking Fund (Class G Accumulation) with an AMC of 0.5%

HBOS has explained that on 16 April 2021 all shares in the UK FTSE All-share Index Tracking Fund in share class G were merged to share class C and share classes F and G were closed. Also that in quarter two of 2022, the UK FTSE All-share Index Tracking Fund was renamed to the UK Equity Tracker Fund and in March 2023 the share class C was converted to share class P.

On 14 August 2023, Mr R contacted HBOS in relation to which share class of funds his policy was invested in. Mr R was concerned that his policy was invested in the G share class rather than the R share class. I understand all of his shares were then converted to share class R with AMCs charged at 0.5%.

Mr R then raised a complaint regarding the lack of information given to him about the new, lower cost share classes being available.

HBOS issued its final response letter to Mr R in August 2023. In summary, it said:

- When it advised Mr R on his initial investment, it didn't charge him an initial advice fee. Rather, it charged an ongoing AMC which was set at a level which allowed HBOS to recover the cost of providing advice over the lifetime of his investment.
- In 2012, HBOS's advice service was withdrawn, and it introduced lower charged share classes for customers investing new money into funds – reflecting that HBOS hadn't incurred the cost of providing advice to its customers.
- Mr R benefited from the provision of advice and the AMC he was paying reflected the cost of HBOS providing that advice.
- It was never its intention to transform its offering by moving existing investments into the lower charged share classes.
- It informs customers of the lower charged share classes when an increment or fund switch is initiated but has not proactively communicated the option of switching to a lower charged share class by letter or via its website.
- This means customers whose investments were set-up and remained unchanged from when the initial advice was provided, continue to pay for that advice over the lifetime of their investments.
- As Mr R has increased his regular investment since the change in HBOS's charging structure, the amount that he has increased his regular investment by has been invested in the new lower charged share class, while the remainder has been invested in the share class subject to the AMC.

Mr R remained unhappy with HBOS's response and raised further issues in September 2023. These included:

- Since the point in which he had invested £75,000 into his investment in December 2017, he believed that his shares would be in the best available share class.
- He was never informed that he would have to manually move a proportion of his shares himself to achieve this and in the 13 years prior, he had never needed to do this as it was automatically changed for him.
- He believed his shares were eligible to be in the best class of shares with an AMC of 0.5% but didn't realise he needed to allocate his shares into this share class himself.
- In December 2022, his UK Equity Tracker fund sent him a letter saying that as he had invested over £75,000, his shares in this fund were automatically being moved to the best share class with an AMC of 0.5% and he questioned why this didn't

happened for his other three funds.

- Since January 2013, he had invested a further £92,000 (up to August 2023) into his ISA and yet a large amount of his shares were still in the share class subject to the higher AMC.
- If HBOS was entitled to make a certain amount of money for the lifetime of his ISA, then it should have made this clear to him and he also shouldn't have been allowed to move his shares manually at all. He believed that HBOS had acted in a way in which it hoped he wouldn't immediately notice and therefore continue to take a higher AMC from his investment.

HBOS issued another response to Mr R in November 2023. In summary, it said:

- Certain share classes have been ringfenced, which means that a customer needs to have paid in £75,000 in order to be eligible for that that share class.
- All of Mr R's shares were eligible to be in this share class but only one was moved. It explained that this was an administrative oversight which it apologised for and the conversion was completed.
- Mr R's remaining funds were not converted at the time as there was no ringfenced share class.
- A best price deal had been carried out and it noted that if Mr R's direct debit had been updated at the time he would have received 85.459 shares but he actually received 88.337 shares so it felt he hadn't lost out as a result.
- Mr R is able to convert between old and new share classes in the same fund, but he is required to request this himself.
- When HBOS stopped providing its advice service in 2012, all customers were written to and all available options were provided to them.

Mr R remained unhappy and so he referred his complaint to this service for an independent review.

One of our investigators considered the complaint but didn't uphold it. In summary, they said:

- When Mr R opened the investment, advice was provided to him and this pre-RDR (Retail Distribution Review). At this time, he did not pay for an initial advice fee and instead an AMC was in place so that HBOS would receive the cost of the advice over the lifetime of the investment.
- In 2012 HBOS ceased to offer advice to its customers and so it introduced a lower charging share class for customers investing new money. This lower cost reflected that no advice had been given.
- HBOS has confirmed that investments clients made prior to 2012 would not be moved nor would it offer clients to move their investments into the lower share class. This was because Mr R benefited from advice and the charge he was paying reflected the fact advice had been given.
- HBOS has explained that certain share classes had been ring fenced meaning a customer needed to have paid in over £75,000 to be eligible.
- HBOS acknowledged that Mr R's shares were eligible and due to an administrative error not all of the shares were moved. HBOS did convert these and has confirmed that a best deal was carried out and that Mr R in fact benefited from this. Had the direct debit been updated then he would have received 85.459 shares, but he actually received 88.337 so the investigator felt he wasn't financially disadvantaged.

Mr R didn't accept the investigator's findings and so the complaint has been passed 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 done so, I've reached the same conclusion as the investigator. I'll explain why.

The crux of Mr R's complaint is that HBOS ought to have ensured that the funds he was invested in within his ISA were in the best available share classes with the lowest AMCs. However, having considered the Financial Conduct Authority's rules and regulations, whilst there are obligations around disclosure of fees, I'm not persuaded there is a regulatory requirement for HBOS to inform Mr R of the best (i.e. lowest AMC) share class available for him. I appreciate HBOS has, throughout the life of his investments written, to Mr R to inform him of it automatically converting particular funds into different share classes, however, there are no rules which oblige HBOS to do this. Ultimately, Mr R has the right to request a conversion from one share class to another within the same fund, but Mr R is responsible for exercising this right. I must also add that this isn't an absolute right, and HBOS could refuse this if certain conditions within the share class are not met.

As the investigator explained, Mr R opened his investment with HBOS pre-ADR, meaning that he did not pay for an initial advice fee and instead an AMC was in place so that HBOS would receive the cost of the advice over the lifetime of the investment. I understand that Mr R has invested further money into his ISA post-ADR and HBOS has explained that the amount that he has increased his regular investment by has been invested in the new lower charged share class, while the remainder has been invested in the share class subject to the AMC. As such, I don't think it has acted unfairly by treating the post-ADR payments differently but leaving the existing funds in the previously agreed share class.

I note that HBOS has acknowledged that some of Mr R's share holding was not ringfenced to the correct share class, however I'm satisfied the correct conversion was made and that HBOS's best deal calculation found he hadn't been disadvantaged as a result.

Overall, whilst I appreciate that Mr R believes, with the benefit of hindsight, that other share classes were available to him throughout the life of his ISA investments, I'm not persuaded HBOS has acted unfairly by not automatically converting Mr R's investments into these. Whilst HBOS has, on occasions, proactively converted his investments into lower charging share classes, I'm satisfied it was under no obligation to do so and ultimately, it was Mr R's responsibility to make any such conversion requests if he felt he ought to be in a different share class.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 4 December 2025.

Ben Waites
Ombudsman