Case study: Investments

Overconcentrated Investment

Themes: Unsuitable investments, investment concentration, investor risk profiling, industry benchmarks

Mr and Mrs G invested £65,000 while they were clients of Financial Adviser Company A. Mr and Mrs G later moved to Financial Adviser Company B, in order to remain clients of their financial advisor who had taken on a position there. Mr and Mrs G were assigned the risk profile of 'Low/Moderate'

All of Mr and Mrs G's £65,000 was invested into a traded life policy investment fund. The fund was suspended following a statement made by the UK Financial Conduct Authority (FCA), which concluded that these types of funds were generally high-risk investments intended for sophisticated investors.

Mr and Mrs G complained to Financial Adviser Company B, saying that the fund was an unsuitable investment for them. Financial Adviser Company B did not uphold their complaint.

Notwithstanding the comments of the FCA, which appeared to relate to traded life policy investments generally, we did not consider that the specific fund in this case was an unsuitable investment at the time. Amongst other things, the historic returns had been consistent and stable, and industry benchmarks showed that it had been performing in accordance with a low to medium risk investment since its inception.

However, when we looked at a financial review conducted by Financial Adviser Company B shortly after Mr and Mrs G joined as clients, we found that this fund was the only investment Mr and Mrs G had made and that it represented 65% of their investable assets. We considered that Mr and Mrs G's portfolio lacked diversification, and that Financial Adviser Company B should have realised that the investment into the fund was overconcentrated.

We therefore used an industry benchmark to see how a more diversified portfolio would have performed in the same time period and asked Financial Adviser Company B to put Mr and Mrs G into the financial position they would have been in had their £65,000 been spread over an appropriate portfolio of investments. We considered that Financial Adviser

Company B should have done this when they completed the first financial review, and so we ran the benchmark from this date.

We also told Financial Adviser Company B to compensate Mr and Mrs G for the loss they had sustained on the overconcentrated portion of the investment. Because the fund was suspended and had the potential to release funds in the future, we told Financial Adviser Company B to calculate Mr and Mrs G's loss using the current valuation of the overconcentrated portion. In exchange for receiving their loss on the overconcentrated portion of their investment immediately, we asked Mr and Mrs G to transfer the overconcentrated portion of the holding in the fund back to Financial Adviser Company B.