

The complaint

Mr S has complained that Invesco Fund Managers Limited (Invesco) failed to properly supervise the investment strategy of the Invesco High Income Fund (“the fund”) over a number of years resulting in Mr S’ investment suffering financial loss.

What happened

Mr S had been invested in the fund for over twenty-six years. He’s said that the value of the fund deteriorated over recent years and between October 2017 and April 2020 his investment in the fund dropped by around 40%.

Mr S feels this happened because Invesco failed to properly supervise the fund and allowed the fund manager to invest in small cap, illiquid companies. He feels Invesco should not have allowed this type of strategy and failed to adhere to its fiduciary duties.

In response to the complaint Invesco stated that the fund had always been managed in line with its objectives and the investment decisions of the fund manager had at all times been appropriately supported and challenged.

Mr S wasn’t satisfied with Invesco’s response and so referred the complaint to this Service where it was assessed by one of our investigators. He was of the view that the drop in the fund value was due mainly to the fluctuations in the market rather than due to anything Invesco did wrong.

Mr S didn’t agree with the assessment and remained of the view that Invesco didn’t exercise proper control over the management of the fund. He said Invesco allowed the fund manager to purchase stocks outside of the terms of reference of the fund – specifically illiquid small caps and unquoted companies. And that Invesco should have known what was happening with the fund and intervened sooner.

The investigator considered Mr S’ comments but wasn’t persuaded to change his assessment.

As no agreement could be reached 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.

I’ve taken into account relevant: law and regulations; regulatory rules; guidance and standards; codes of practice; and (where appropriate) what I consider to have been good industry practice at the relevant time.

Where the evidence is incomplete or inconclusive, I’ve reached my decision based on the balance of probabilities – in other words, on what I think is more likely than not to have happened given the available evidence and wider circumstances.

I can appreciate why Mr S is disappointed with the drop in value of the fund. It has certainly struggled to perform over the years. However, for me to uphold this complaint and ask Invesco to redress Mr S in the amount he feels his investment has lost I need to be able to safely conclude that Invesco is wholly responsible for this. And given the information provided I cannot do that.

In my view the specific investments Mr S has highlighted as being problematic were permitted within the investment objectives of the fund. It can be seen the Invesco Omnibus Prospectus – issued 29 May 2020 at page 100 the Invesco High Income Fund (UK)'s Investment Objective and Policy explicitly includes a reference to private/ unlisted companies within the Investment Objective and Policy. It states:

“In pursuing the Fund's investment objective, the fund manager may consider it appropriate to also invest in other transferable securities (including private and unlisted equities and non UK companies), money-market instruments, collective investment schemes (including funds managed by the Invesco group), deposits and cash.”

Furthermore, the Key Investor Information Document (issued 29 May 2020) refers to private and unlisted equities within the “Objectives and Investment Policy” and the associated risk warning within the section entitled “Other Risks” on the first page. And the factsheet for Invesco High Income Fund (covering the month of May 2020) in the table entitled “Quoted/Unquoted breakdown” a risk warning regarding investment in private and unlisted equities within the section entitled “Investment Risks” was included.

So, while the investment strategy did change slightly – focusing more and more on unlisted companies – it seems from the information above this diversion was allowed so it isn't unreasonable that Invesco was not alarmed by this or that it felt no need to take any action for a time.

It's also worth pointing out that it would have been unwise for Invesco to take any hasty action or make any significant changes to the fund without making a considered assessment of all relevant factors. Any changes to the fund prescribed by Invesco would have had a significant impact on Invesco's client so a robust decision making and oversight process would have been required to ensure that the actions were taken in the best interest of Invesco's clients. And this isn't something that could have been done quickly or as a “knee jerk” reaction to the fluctuations in the fund. This could have been just as harmful for the fund as taking no action at all.

So, it isn't unreasonable to me that Invesco took some time to intervene. However, having said that, I know that Invesco did continuously monitor the fund through its risk function. It also intervened in the investment strategy sometime after 2019 and pushed through the decision to dispose of unquoted assets within the fund in order to re-deploy capital raised to publicly quoted assets.

From this information, along everything thing else I have reviewed I am satisfied that Invesco took action when it felt it was necessary to stabilise the fund and that it acted appropriately in relation to its oversight of the fund.

Ultimately any investment will fluctuate over time – that is the nature of investing and poor performance isn't necessarily an indicator of negligent fund management. However I agree the fund's value has suffered more than some other funds over the years but I would say this was due to the unstable economic and political climate which naturally has a knock-on effect on the investment market. It's also likely the fund suffered as a result of the controversy surrounding its previous fund manager. Given what happened to the fund this individual was

managing at the time it's very likely that many investors decided to withdraw from the this fund purely because of its association with this individual.

So while I appreciate Mr S' concerns over the value of the fund, it seems to me that Invesco has taken action it felt was appropriate over the course of the last few years. I therefore can't safely conclude that Invesco has failed in its duties which effected the performance of the fund. And I think a number of factors have impacted the fund rather than this being down to anything Invesco has done.

My final decision

My final decision is that I don't uphold this complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 17 November 2023.

Ayshea Khan
Ombudsman