A Which? Money investigation has found financial advisers from the UK's biggest provider failing to comply with transparency rules on the disclosure of charges. Our 12 undercover meetings with advisers from St James's Place (SJP) also found some advisers misleading potential customers about the nature of their services, which are limited compared to those offered by independent financial advisers.

Which?

What is St James's Place?

SJP is a FTSE 100 company, and its 570,000 clients have £75.3 billion invested through the business. It has grown so rapidly that its 3,400-strong network of advisers now accounts for one-in-eight professional advisers in the UK, according to estimates from the Association of Professional Financial Advisers.

It's quite likely that you have friends and family who are clients, even if you aren't yourself. SJP puts its success down to strong customer satisfaction and a "unique proposition".

The problem is that SJP is extremely expensive – 5% upfront costs are typical, 40% higher than you'd typically pay for the advice of an IFA. And it's a highly profitable formula – last year, SJP paid out £280 million in dividends to shareholders, equivalent to £490 from each client.

The more we investigated SJP, the more we wondered who the beneficiaries of its "unique proposition" are – the customers, or the advisers and shareholders?

Our investigation

We sent a team of undercover researchers to speak to 12 SJP advisers, under the guise that they were looking for independent advice on around £100,000 of investible assets. When they approached the 12 arbitrarily chosen SJP advisers, they said they were looking for independent financial advice, would like to know what it would cost, and what they'd get in return.

All were offered free introductory meetings, so they could hear what SJP had to offer, and so the advisers could size them up. We were particularly interested in two issues

- what SJP's advisers said about charges
- how clear they were about the fact that they aren't independent financial advisers, which means they'll only recommend products where they get paid a fee – even if cheaper, more suitable options are freely available.

SJP's expensive up-front fees…

Search its website and you'll see that SJP keeps its cards very close to its chest when describing its charges. The figures may all be there – but you need to know exactly where to look and have the patience to dig around to work out the actual fees on its investments.

When our investigators met SJP's advisers, we found that most were relatively forthcoming with information about their fees – but four of the 12 failed to talk in detail about the likely costs at all.

This is directly against the FCA's guidelines for advisers, which state that they are supposed to tell clients both verbally and in writing about the cost of their services. Even where advisers did provide information, there were discrepancies in the information we were given. Some said there were initial charges of 4.5% of the money invested – that's £2,250 on a £50,000 investment, while others put the up-front cost at £2,500 (5%).

… and the ongoing charges they forgot to mention

On top of that, SJP levies annual fees, which pay for both the advice and the cost of the investments it recommends. Only seven of the 12 advisers mentioned these – and their estimates ranged from 1.25% to 2.3% – a difference of £525 a year on a £50,000 investment.

There are legitimate reasons why costs might vary – SJP's recommended funds have different charges, so the actual fees will depend on which funds you end up with. But we found that even where SJP did disclose these charges, estimates tended to be on the low side.

We looked at the actual charges on SJP's funds, and the fund splits suggested in their marketing literature that suggested SJP customers pay 1.59% a year in charges (plus the initial 5%) for a low-risk portfolio of funds, rising to more than 2% for more adventurous portfolios.

There were also questionable claims from some advisers. One described SJP's charges by saying 'there're no charges, there're no fees, the only thing is, if you do anything, that's when I would get paid.' This is nonsense, as if you're a customer the fees still ultimately come out of your pocket.

What does SJP say about its fees?

SJP has told us some advisers may have been quoting advice fees, which are 4.5% of the initial investment, while others quoted 5%, which includes other fees.

It also said that the discrepancies for ongoing charges may have been because some advisers quoted the annual management charge, while others quoted an estimate for all charges.

In our view, these inconsistent explanations aren't acceptable. If a customer asks about investment costs, they should expect to be told all of them by default. SJP added that it expects its advisers to provide documentation detailing costs and services at the first significant meeting – which everyone we approached did. But the regulation is clear – advisers should both provide written disclosure and a verbal explanation on the costs involved – and four of the 12 advisers we met with didn't.

SJP advisers aren't IFAs – but why does that matter?

In the UK, there are two kinds of professional investment adviser. The first group, independent financial advisers (or IFAs) have to consider all the financial products and services in the market, and then make recommendations that are best for you, in terms of risk, potential reward, and costs. Then there's the other kind, like SJP. These 'restricted' advisers aren't obliged to consider all the options in the market to make an impartial assessment of the most suitable, best value products for you.

They're allowed to receive pay that's linked to the amount you invest in their funds and they'll only recommend funds where they can earn these fees – even if that works out substantially more expensive for you. This is a huge difference – and if you're buying financial advice it's crucial to work out which kind you're getting.

Only with an independent adviser can you be sure that they are putting your interests first rather than chasing payments for themselves. (There is another type of restricted adviser – those that only advise on a specialist area, such as pensions or mortgages. There's nothing wrong with that type of restriction, but it's not what we're talking about here.)

Under rules introduced in 2012, financial advisers in the UK need to explain whether they offer restricted or independent advice, yet one in four of the SJP advisers we met with didn't. That's even more shocking considering our researchers' initial enquiries were for *independent* financial advice – something that SJP can't provide.

The broader problem we found in this area was that SJP's advisers were highly skilled at saying just enough to be within the rules, but using carefully selected facts to give a very misleading picture – that their restricted advice would be better, or cheaper, than independent advice. For example, advisers hyped up the quality of their funds, calling them 'best in breed', which is explicitly against the FCA's guidance.

Another, astonishingly and inaccurately, said that he personally didn't need to be independent, because SJP is, giving the impression that the difference is about the size of operation, not nature of the service.

SJP told us that it 'does not believe that being restricted is in any way inferior to being independent,' but the paperwork provided by its advisers tells a different story, noting independent advisers have an obligation to make recommendations 'based on a comprehensive and fair analysis of the market' – while there's no similar obligation for providers of restricted advice. It added that its advisers were attempting to explain their 'distinct approach to investment management' – and that if advisers' explanations appeared to dismiss the value of independent advice 'it is regrettable'.

Hyped up performance

Given SJP's advisers had to convince our researchers to invest to get paid, it's not surprising that some painted a rosy picture of the potential investment returns on offer.

Our investigators generally said they had quite a cautious attitude to risk – which, to be fair, the advisers recognised, suggesting relatively cautious portfolios and keeping a cash reserve for emergencies, which is sound advice.

Over the long term, these sorts of investments might generate returns of 3-5% a year, but three advisers didn't mention this, instead focusing on recent double-digit gains. This isn't appropriate, as those returns were driven by a tumbling pound and they're unlikely to be repeated.

These sorts of claims would never be allowed in an advert – and it's telling that they don't appear in the investment literature provided by the SJP advisers. By highlighting them out of context in sales pitches, SJP advisers risk misleading customers and setting them up for a huge disappointment.

When we put this to SJP, its spokesperson agreed that past performance is no indicator of future performance – but it stood by its recent figures.

How good is SJP's performance, really?

The returns from SJP funds sound impressive, but if you look at what you could have earned elsewhere, SJP's performance is nothing special. In fact, 11 of 25 funds that we reviewed actually underperformed against their benchmarks, according to data from investment analyst, Lipper.

SJP tells us that its client portfolios have consistently outperformed comparable funds – though we have not been able to test this. From the performance figures we looked at, SJP's Asia Pacific Fund undershot its benchmark by almost half, delivering gains of 50.3% in the last five years, while its benchmark rocketed 97%. Elsewhere, its money market fund delivered gains of 0.41% over the past five years – nowhere near enough to cover the initial 5% charge.

SJP makes a big song and dance about the quality of its fund managers, who tend to manage white-labelled versions of the funds they manage for their main employers under the SJP brand.

But in reality, investors can often hire their skills for less by going direct. For example, SJP's Allshare Income Fund, managed by George Luckraft, costs 5% up front and 1.86% a year.

Buy the same fund via an IFA and you'd pay perhaps 3% upfront for the advice, and 1.2% a year for the fund and the account that holds it – saving £1,000 upfront and £340 a year afterwards on £50,000.

One SJP adviser told our undercover researcher that high charges 'don't matter' if the performance justifies it. But in the three years investors who went to Mr Luckraft direct received returns of 8.8% a year, compared with 7.7% for those who took the more expensive SJP route.

Empty guarantees?

Five of the 12 advisers we investigated also made big claims about SJP's 'unique guarantee' – but in our opinion it's not worth much to customers. It simply ensures that if an SJP adviser gives unsuitable advice, the company will provide redress – but any professional adviser giving unsuitable advice would be forced to provide redress by the regulatory system.

In reality, the only time the SJP Guarantee would be worth anything would be if the individual adviser went bust, or ceased trading. The guarantee is far more valuable to the adviser than the customer, as it essentially protects them, as one explained to one of our investigators: [The advice] "is guaranteed to be correct and right for you… which is why I work for SJP really. Everything that I recommend gets double checked by them." Researcher: "Yeah, that is good. Otherwise you'd get sued, I guess." Adviser: "This is it."

SJP says its guarantee is different to the protections for investors offered by the FCA and FOS. It says the regulator doesn't offer a guarantee – which is technically correct but misses the point that it can force companies to make amends if their recommendations were not suitable.

Which? Money says

Many SJP customers are happy with the service they get – but our investigation raises serious questions about whether they can make an informed decision about what they get, what they pay, and what they might get elsewhere.

Their initial charges alone are £2,500 on a £50,000. An IFA doing a similar job might charge £1,500 according to unbiased.co.uk, and the latter would be compelled to look at the whole market and consider fund charges when making recommendations.

SJP's expensive alternative pushes customers into a closed market where they can sell expensive funds as advisers are free to ignore cheaper or better alternatives.

We were shocked that a quarter of the advisers we saw didn't admit they weren't IFAs. With several advisers not telling people what they'd charge – and in other cases providing low estimates, our investigation suggests it's near impossible to make an informed decision when comparing your local SJP adviser to alternative options.

We have shared our findings with the FCA.