

Investment Fund Advisory

LF Woodford Equity Income fund - 4th June 2019

A decision was made yesterday afternoon to suspend dealing in the shares of the LF Woodford Equity Income fund. Many investors hold units in Neil Woodford's Equity Income fund and Neil has been a top performing investor in the UK stock market over the last three decades.

Most of Neil's career was forged at Invesco Perpetual and he left there in 2014 and launched his own business, Woodford Investment Management, at that time.

Neil continued his primary investment thesis, which is built around active stock picking, combining rigorous fundamental analysis of companies with his overlay of the long term macro-economic outlook and how those variables affect potential holdings within his portfolios. Neil has always focused on the long term and fundamentals and has never been drawn in to investment fads over his long term career in managing money.

Neil has adopted an investment process focused on 'value' discovery. Neil and the team at Woodford believe inherently that financial markets are inefficient and through a disciplined and diligent analysis they are able to identify investment opportunities where market prices don't reflect the long term fundamental value of stock. This process has worked well for Neil over the last three decades, and most of his success in managing money has been generated through identifying long term attractive investments in the mid to large cap space.



Neil's value based contrarian style has been out of favour recently in a momentum and growth driven market.

Why has trading in the LF Woodford Equity Income fund been suspended?

The press have often incorrectly reported that Neil's attraction to various unlisted investments in his portfolio are a new idea for Neil. This is not the case, Neil and his team, both at Invesco and since launching Woodford in 2014, have recognised the unique attractive investment proposition of early stage companies and have been deploying long term patient capital to young businesses for well over a decade.



Neil has fundamentally believed that these opportunities will deliver attractive returns to investors over the long term. Clearly, investing in unlisted businesses does involve greater risk and can of course present liquidity problems if investors rush to realise investments in unlisted assets in the short term.

This is the principal reason for the fund being temporarily closed to trading. It is fundamentally to protect investors in the fund and avoid Neil having to liquidate unlisted holdings quickly at prices he would have little control over.

In recent years, value investing – Neil's fundamental investment style bias – has been out of favour as a more momentum and growth focused investment style has been in vogue. This has led to some relative under performance from Neil, which has been commented on in the press, particularly over the last few months in the Equity Income fund.

Neil runs a portfolio that is very domestically focused and one which Neil remains very confident will deliver good medium to long term returns for holders in his funds over the next multi-year period, and particularly in the period following our exit from the European Union.

A combination of the funds relatively poor performance over the last couple of years and the style bias has led to redemptions gathering pace recently, as investors become all too focused on short term outcomes.

Neil's problems have not been helped by the financial press in the UK, which have often misrepresented his own views, and indeed his fundamental strategy.

Woodford Equity Income remains focused on undervalued stocks woven into the fabric of the UK economy such as house builders and consumer stocks, which Neil views as being profoundly undervalued, and continue to offer the potential for significant long term returns.

The investor redemptions, which have gathered pace over the last month, have meant that the unlisted element of his portfolio has been pushing against the 10% regulatory limits on unlisted stocks. Neil has continued to sell down the easily sellable larger cap elements of the portfolio to meet the redemptions.

Neil does not want to damage the long term nature of his investment strategy by being forced into selling unlisted parts of his portfolio at fire sale prices and therefore a suspension of trading in the fund is a natural response to protect investors in the fund, and allow a more orderly reorganisation of the portfolio.

Our Views

Rosan Helmsley has supported Woodford and the Equity Income fund as part of a balanced approach to investing and our clients have benefited substantially from owning Neil's funds over the last three decades.

My experience is that all good fund managers have periods of under performance over time, and with Neil's very specific approach to value based investing, much of his relative performance since Q1 2017 can be explained.

The unlisted and illiquid element of the portfolio, during a period of significant investor redemptions, (being rather reflective of the short term reactive nature of investors generally in the modern era), has put significant pressure on the fund.



We are in regular contact with Woodford and our view remains that owning a relatively small proportion of early stage companies in a larger portfolio makes inherent sense and is likely to deliver attractive returns to investors over the long term.

In the short term, regulatory constraints and redemptions have put pressure on this strategy. We will of course keep investors updated regularly on the fund and developments over the coming weeks.

Having spoken to Neil this afternoon, I am confident that during the period through which the fund is suspended, the Woodford team are working on viable solutions that will enable the Equity Income fund to become a much more liquid entity. This will ultimately (as announced by Woodford in February this year), achieve the objective of reducing the unlisted element of the portfolio to zero.

You could be forgiven for concluding, reading the financial press and the extensive coverage that this suspension has generated, that Neil Woodford has become a bad investor. That is not our view. We remain committed to seeing Neil work through this period and develop positive and attractive returns to investors again.

It should be noted that investors in Neil's other two funds – the Patient Capital Investment Trust (which is a closed end structure) and the Income Focus fund (which does not hold any unlisted securities), will not be affected by the decision to temporarily suspend trading in the LF Woodford Equity Income fund.

We would urge any investors concerned about the current situation to contact their usual Rosan Helmsley contact point for any additional clarification, though we will be updating all investors in the fund with material information as it is disclosed by Woodford over the coming weeks.

Yours sincerely

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Date: 4th June 2019