



# rosan helmsley

WEALTH MANAGEMENT

## Investment Fund Advisory

### UPDATE : LF Woodford Equity Income fund - 1st July 2019

This note follows our commentary on the 4th June, the day after Woodford Investment Management suspended trading in the LF Woodford Equity Income OEIC.

On Tuesday last week (25th June) we held a meeting with Neil Woodford and Neil provided an update on the situation regarding the Equity Income fund.

The fund was suspended on 3rd June to allow Woodford Investment Management time to arrange an orderly sale of the unlisted and illiquid fund holdings within Equity Income, which were breaching the regulatory limits as a percentage of the fund assets, post a period of very significant redemptions from the fund.

By way of recap, the Woodford investment style, which is value based, has been out of favour during the last two years with the UK stock market focussed on momentum and growth. Momentum and growth strategies are not fundamental parts of Neil's investment style. Poor performance over the period since June 2017 coupled with a growing level of negative press comment has not helped redemptions from the fund, particularly over the last few months.

The fundamental purpose of Tuesday's meeting was to seek an update from Neil on how he and his team are dealing with the disposal of the unlisted and illiquid holdings within Equity Income during the period the fund is closed to reduce these to zero before the fund reopens.

At the time of the fund's suspension, approximately £600m of the £3.7bn of assets in the fund were in these types of investments, and since 4th June Woodford has sold over £125m of these investments.

Neil confirmed that there had been significant interest in the assets within the fund that he is now needing to sell. Interest has come from over 30 institutional parties, which include groups such as Sovereign Wealth funds, family offices, ultra-high net worth individuals, Chinese Sovereigns, private equity and secondary buyout firms.

Contrary to press speculation, Woodford confirmed there is significant interest in these assets and in many cases these institutions want Woodford to manage the assets in segregated private mandates. Encouragingly, this means there is not the perceived pricing disadvantage in selling the assets that might have been expected. Neil confirmed that many of the interested parties are prepared to pay a premium to the share prices of these assets for sale to secure these investments.

Whereas we can't put a time on how long the fund is likely to be closed, Neil indicated in the meeting that this is likely to be a period of around 3-4 months to enable him time to dispose of the assets in an orderly way.

### Investment commentary and outlook

Neil provided an outlook on the fund holdings that he maintains, and the Woodford Equity Income portfolio remains positioned for a stronger performing UK economy. Market behaviour currently is in direct contradiction to what is unfolding economically in the UK.



Despite immense gloom and forecasts of an inevitable recession at the time, the UK economy has performed robustly since the EU referendum in 2016. At that time, the Bank of England inflation report forecast GDP growth at 0.8%. The outcome 18 months later was 1.7% and the latest figures from Q4 2018 are at 1.4%.

Mark Carney's report of August 2016 forecast unemployment at 5.6%. Today it is at 3.9%. In November 2016 post the referendum the OBR forecast the public finance deficit at £58.3bn. The latest report, March 2019, reports £24.7bn.

Woodford's outlook for the UK economy is increasingly optimistic against a consensus which is much more pessimistic. Macro data has consistently supported a more upbeat view on the domestic economy. There was an increase of 450,000 people in employment in 2018, with disposable income increasing 4.6% in 2018. We also saw a £19bn increase in UK retail sales during 2018.

The Woodford position is that the UK economy is doing better than the Bank of England and OBR offices anticipated, and Neil's portfolio is positioned to benefit from this in the years ahead. We will continue to monitor the Woodford strategy through this period closely and update all our investors as any material news unfolds. Understandably, individual views are likely to be influenced through the lens of the financial press, which continues to report with a negative bent.

## Summary

There is no doubt that to witness an open-ended fund having to close in this manner is a very negative outcome, both for Woodford Investment Management and of course the industry at a wider level. Much press comment is now directed at illiquid holdings within open ended structures and rightly there will be a closer look at the appropriateness of this type of fund structure for illiquid holdings, both nationally and internationally, going forward.

Our appraisal of the meeting with Neil Woodford last Tuesday is that the company is engaged in a sensible and considered strategy for dealing with the sale of the unlisted and illiquid assets and that the fund will not reopen until it is in a position to meet further redemptions and this is likely to be the outcome, given the ongoing negative press commentary. We will post further updates in the weeks ahead, post our regular contact with Woodford Investment Management.

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