INCREASING UK FOCUS

Mitchell Fraser-Jones, 10 October 2017

Our regular website visitors may recall that Neil wrote an article, 'Local vs global' a couple of years ago, which looked at the Equity Income Fund's geographic exposure by analysing the revenues of the portfolio's underlying holdings. In light of the recent changes to the portfolio strategy, we thought it would be interesting to take another look at this analysis to see how it has evolved.

The task isn't as easy as it sounds, because practically every single company in which the fund is invested reports its geographic exposures in a subtly different way. But it is an interesting task and the result allows investors to look at the fund's geographical exposure in a different light.

Over 80% of the fund's assets are invested in the UK. However, as the chart below shows, the underlying revenues paint a different picture of the fund's geographical exposure than the one investors would see by just looking at the exposure by country of listing.

Equity Income Fund's geographical exposure based on underlying revenues
Source: Bloomberg, Woodford (as at 30th September 2017)

Given the recent portfolio changes, which have been designed to capture a contrarian opportunity that has emerged in domestic cyclical companies where valuations are too low and future growth expectations far too modest, the portfolio has an increased bias towards UK revenues. Back in September 2015, we estimated that 41.9% of the portfolio's revenues came from the UK. Now that number has risen to 55.5%. However, we think it is important to remind investors that the UK stock market, dominated as it is by some very large global-facing businesses, has a relatively low exposure to UK revenues – most analysts suggest that somewhere between a quarter and a third of FTSE All Share index revenues are derived in the UK.

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Therefore, while the Equity Income Fund does have a significant UK bias, the fund retains a decent amount of global diversification as well, with almost a quarter of revenues coming from the US, and another quarter from other regions. This global exposure continues to be focused more towards attractively valued, dependable growth companies, reflecting our continued caution about the global economic environment, particularly when compared to an increasingly complacent consensus.

With the Income Focus Fund now up and running, we repeated the analysis for that portfolio as well, with the results below.

Income Focus Fund's geographical exposure based on underlying revenues
Source: Bloomberg, Woodford (as at 30th September 2017)

As the chart above illustrates, you can see an even greater exposure to the UK economy. This is slightly ironic, given the extra flexibility that this fund has to invest overseas in pursuit of income opportunities. The abundance of attractive, high quality income streams on the UK stock market currently explains why we haven't needed to utilise this extra flexibility (yet!), and it also explains why the Income Focus Fund is more biased towards the UK than its older brother.

Both funds are positioned to capture the contrarian long-term opportunity that has opened up in select UK-focused stocks. The UK economy has thus far defied expectations of a Brexit-induced slowdown and, regardless of how the ongoing negotiations with the EU conclude, we remain confident in its long-term economic prospects.

What are the risks?

- The value of investments and any income from them may go down as well as up, so you may get back less than you invested
- Past performance cannot be relied upon as a guide to future performance
- The ongoing charges figure is charged to capital, so the income of the funds may be higher but capital growth may be restricted or capital may be eroded
- The funds may invest in other transferable securities, money market instruments, warrants, collective investment schemes and deposits – some of these security types could increase the funds' volatility and increase the level of indirect charges to which the funds are exposed
- The funds and trust may invest in overseas securities and be exposed to currencies other than pound sterling – as a result, exchange rate movements may cause the sterling value of these investments and the income from them, to fluctuate
- The LF Woodford Income Focus Fund will be invested in a concentrated portfolio of securities – the fund is not restricted by reference to any geographical region, sector or market capitalisation
- The LF Woodford Equity Income Fund and the Woodford Patient Capital Trust may invest in unquoted securities, which may be less liquid and more difficult to value, because they are generally not publicly traded – the lack of an open market may also make it more difficult to establish fair value
- The price of shares in the Woodford Patient Capital Trust is determined by market supply and demand, and this may be different to the net asset value of the trust. This means the price may be volatile in response to changes in demand
- Long-term outcomes are more binary – extremely attractive rewards for success but some businesses will inevitably fail to fulfil their potential and this may expose investors to the

risk of capital losses

- Young businesses have a different risk profile to mature blue-chip companies – risks are much more stock-specific, which implies a lower correlation with equity markets and the wider economy – it can take years for young businesses to fulfil their potential, this investment requires patience

Important information

Before investing, you should read the Key Investor Information Document (KIID) for the fund – or Key Information Document (KID) for the trust – and the Prospectus which, along with our terms and conditions, can be obtained from the downloads page or from our registered office. If you have a financial adviser, you should seek their advice before investing. Woodford Investment Management Ltd is not authorised to provide investment advice.

The Woodford Patient Capital Trust currently intends to conduct its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

The Woodford Funds (Ireland) ICAV (the "Fund") has appointed as Swiss Representative Oligo Swiss Fund Services SA, Av. Villamont 17, 1005 Lausanne, Switzerland. The Fund's Swiss paying agent is Neue Helvetische Bank AG. All fund documentation including, Prospectus, Key Investor Information Documents, Instrument of Incorporation and financial reports may be obtained free of charge from the Swiss Representative in Lausanne. The place of performance and jurisdiction for all shares distributed in or from Switzerland is at the registered office of the Swiss Representative. Fund prices can be found at www.fundinfo.com.

Woodford Investment Management Ltd is authorised and regulated by the Financial Conduct Authority (firm reference number 745433). Incorporated in England and Wales, company number 10118169. Registered address 9400 Garsington Road, Oxford OX4 2HN.

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