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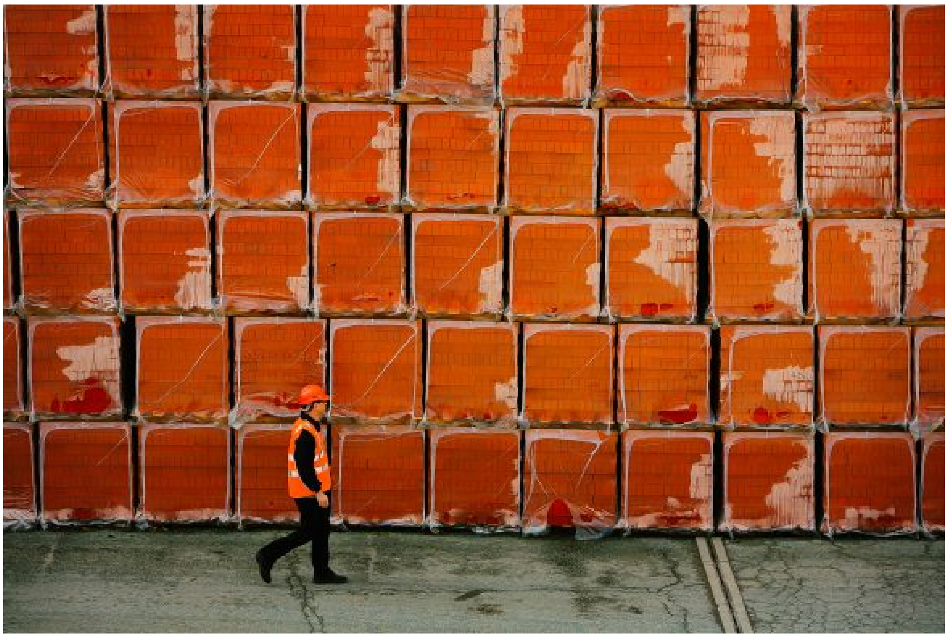
BUDGET 2017: 'SHREWD AND APPROPRIATE'

Neil Woodford, 22 November 2017



Having listened into today's Budget from Chancellor Hammond, I thought I would share some quick initial thoughts with you. Overall, I thought this was an interesting and thoughtful Budget. There's always a temptation to believe that a Chancellor can be radical and pluck proverbial rabbits out of hats – but the reality is, they are always very constrained by the economic and political context of the time. Within those constraints, however, I believe Hammond has delivered a politically shrewd and economically appropriate Budget.

What the Budget means for the portfolios

- More support for housing / construction
- More support for young knowledge-intensive businesses
- More government spending on infrastructure / investment
- From a broader strategy perspective, we have a more positive view on UK economic growth outcome than what is embedded in this Budget

Lower economic forecasts

The Office for Budget Responsibility (OBR) has lowered its forecasts for UK economic growth going forward. Without dwelling on the detail, this reflects a more cautious perspective on productivity which has been widely flagged in advance of this Budget.

The OBR has been wrong on productivity over past five years, and as far as I can see, there's no reason to believe that they will get it right over the next five years. Indeed, productivity actually went up in the last quarter so, although one data point doesn't necessarily point to ongoing improvements, it is entirely plausible that the OBR has made this change at precisely the wrong time.

The OBR now appears to be forecasting a sustainable growth rate for the UK economy of c. 1.5% over its forecasting horizon. As well as the explicit caution in its assumptions around productivity, there is also appears to be some implicit caution around the impact of Brexit on the UK economy.

My own belief is that the UK economy can do better than what has been forecast by the OBR – I expect UK economic growth to be in the region of 2% per annum over the next three-to-five years.

Investment spending

Within the detail of the Budget, it is very clear to me that this government is stepping up its investment spending activities, which is undoubtedly a positive. A good example is the proposal to invest in the Cambridge / Oxford / Milton Keynes corridor, to help it to achieve its potential and stimulate growth. Projects like this demonstrate a clear commitment from government to invest more to deliver growth immediately and in the future.

Living wage

With respect to the near-term slings and arrows of the economy, one of the most important announcements is the 4.4% increase in the living wage, which will provide an additional £40 per month after tax to living wage earners.

This underwrites my belief that we will see the economy return to real wage growth next year – this will be a product of more wage growth and less inflation. Couple this with the credit growth that I expect to continue to see and increased government spending on investment, combined with better export performance, and you have the ingredients for a decent growth outcome from the UK economy in the years ahead. Something the consensus is not expecting.

Housing

The government has pledged to build 300,000 new homes a year by the middle of the next decade. I'm not convinced this is achievable – the private sector will step up and deliver additional volume, in my view, but I think the target is too ambitious.

Nevertheless, this is supportive for the UK housebuilders and for the construction industry more broadly, as are the other initiatives announced today. An additional £10bn has been pledged to the Help-to-Buy scheme, which I expect to continue towards the end of the next decade and to be slightly tweaked so it can be targeted towards the individuals and regions that need it most. Meanwhile, the immediate abolition of stamp duty for first-time-buyers on houses worth up to £300,000 is another material positive. The cost of buying and owning a new home has come down significantly today, which is great news for young people trying to get on the housing ladder and a good thing for the economy more broadly.

Patient Capital

I am absolutely delighted about the announcement of a £2.5bn investment fund, to help young, knowledge-based British businesses access scale-up capital. I genuinely believe this will be transformational for Britain's long-term economic future. The ability to access capital is profoundly important and the significant improvement in the amount of it availability of this capital will help young, knowledge-intensive British businesses scale-up and fulfil their long-term potential.

Conclusion

Given the constraints, this is a very sensible Budget. From an economic point of view, the long-term initiatives we can see on investment spending, the knowledge economy and housing are very encouraging. I believe this Budget is supportive of the more positive outcome for the UK economy that the funds are positioned for.

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.

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