

Mitchell Fraser-Jones, 1 March 2019

The views expressed in this article are those of the author at the date of publication and not necessarily those of Woodford Investment Management Ltd.



We wanted to let you know that the LF Woodford Equity Income Fund (the fund) has transferred some of the portfolio's individual unquoted stocks to Woodford Patient Capital Trust (the trust) in exchange for shares in the trust. This step signals the start of a strategy to switch the fund's unquoted exposure from individual unquoted holdings to shares in the trust.

Which unquoted positions have moved across?

Atom Bank, Carrick Therapeutics, Cell Medica, RateSetter and Spin Memory have transferred from the fund to the trust. All of them are existing positions within the trust portfolio. The combined value of these assets is £72.9m. A further £6.0m in cash has also transferred from the fund to the trust, to meet the anticipated capital requirements of these assets over the next twelve months.

Why have you chosen these particular stocks?

We have selected from a list of positions in which the trust already has a holding, and have avoided stocks where we believe there is a known likelihood of an imminent milestone being reached that would trigger a near-term valuation change. Indeed, an additional valuation report was commissioned by the trust's board which, as required under the Companies Act, independently verified the reasonableness of the valuations of the five stocks transferred.

Furthermore, several of the larger unquoted positions within the fund are also already well-represented within the trust portfolio. As these businesses are typically at a more mature stage of their growth cycle, other forms of corporate activity could arise in the short-to-medium term that would further reduce the fund's aggregate exposure to unquoted securities. Evidence of this was provided yesterday by Proton Partners International, which has listed on London's NEX Exchange Growth Market. The acquisition of the selected assets allows the trust to increase its position to companies that the board views as the "the second-wave of global disruptors".

How has the transfer taken place?

The trust has acquired this portfolio of assets for £78.9m (including the cash element) through the issuance of 81,639,238 new ordinary shares. The shares have been issued to the fund at a price of 96.67 pence per share which is equal to the net asset value (NAV) per share as at 27 February 2019, plus the costs associated with the transaction.

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In buying the shares at the trust's NAV, the fund is buying its stake in the trust at a premium to the prevailing share price. We have explored how much it would cost the fund to purchase the equivalent position in the secondary market and our analysis suggests it would cost considerably more and take significantly longer, than buying at NAV in this way. The fund is paying what the trust's assets are actually worth and we are doing this with the belief that the assets will significantly appreciate over the medium-to-long term.

Why have we transferred these unquoted holdings?

This step signals the start of a strategy to switch the fund's unquoted exposure from individual unquoted holdings to shares in the trust. Neil is as passionate on the unquoted asset class as ever but having listened to feedback from clients we believe that moving the exposure to the asset class via a collective fund rather than individual unquoted stocks makes sense – both operationally and from an investor view.

Furthermore, in making this move, which coincides with the LF Woodford Income Focus Fund moving from the IA Specialist sector to the IA UK Equity Income sector, we believe we have a more clearly defined product set, making investor choices easier to make:

- [Woodford Patient Capital Trust](#): for investors looking to benefit from a higher exposure to early-stage companies
- [LF Woodford Equity Income Fund](#): for investors looking for long-term, total returns bolstered by investing in companies with sustainable dividend growth
- [LF Woodford Income Focus Fund](#): for investors looking for a high income, predominantly from UK companies

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 annual management charge 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.

TRANSFER OF UNQUOTED ASSETS

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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.

Woodford Patient Capital Trust plc is incorporated in England and Wales, company number 09405653. Registered as an investment company under section 833 of the Companies Act 2006. Registered address Beaufort House, 51 New North Road, Exeter, EX4 4EP.

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