

Mitchell Fraser-Jones, 29 July 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.



## Suspension extension

Link Fund Solutions Limited, the Authorised Corporate Director of the LF Woodford Equity Income Fund ("the fund") has formally reviewed the suspension and announced that it remains in the best interests of investors for the suspension to continue and that the suspension of dealing is likely to last until early December.

[Read the announcement](#)

The decision to continue with the suspension of investor dealing in the fund is to ensure investors' interests are protected. It affords Neil and the team the required time to execute the changes to the portfolio that we have outlined previously, in order to deliver the best possible outcomes for you, our investors.

When the fund reopens, you will see a much more liquid portfolio, but one that reflects the same investment strategy. The portfolio will continue to be focused on undervalued companies, but the majority of them will be FTSE 100 and FTSE 250 index constituents.

It is important to note that, because the fund is suspended, there are no redemptions and the Woodford team is not forced to sell assets at distressed prices. During the closed period, we will be selling these assets in a timely and orderly way through a variety of processes across a broad buyer base to ensure the best price can be obtained for the assets, and the best interests of investors are upheld.

In March 2019, we had already [announced our intention](#) to implement a shift within the fund's portfolio, away from unquoted holdings (private companies), towards a portfolio consisting of larger, more liquid stocks. Neil and the team have already made positive progress in selling parts of the less liquid quoted exposure from the portfolio.

The primary focus is on maximising value and delivering the best outcomes for Equity Income Fund investors and a number of options are being pursued to achieve this. It is important to reiterate that Woodford Patient Capital Trust's strategy is unaffected, and it remains a long-term investor in the companies in its portfolio.

The suspension will be lifted when the fund's repositioning is complete, with less exposure to illiquid stocks. Until then, we are committed to operating the fund in a way that continues to protect the value of your savings, both for those who wish to remain invested and for others who will seek to withdraw from the fund.

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## Statement from Neil

In discussion with Link, we can now confirm that we anticipate the fund re-opening in early December as we navigate through the changes to the portfolio previously articulated.

I understand the frustration, inconvenience and anxiety the continued suspension of the fund will be causing you and I am extremely sorry for putting you in this situation. Since our last update a month ago, we have made progress with our strategy to reduce our exposure to unquoted and less liquid stocks with our primary focus being on delivering the best possible outcomes for investors in the fund.

We commenced the process of reducing the fund's exposure to unquoted and less liquid assets in February. I'm afraid we cannot share details of exactly what has changed with you just yet.

What you will see when the fund re-opens, is a portfolio with more FTSE 100 and FTSE 250 companies (80% of the proceeds from share sales since suspension have been reinvested in FTSE 100 companies), but still reflecting the same investment strategy. To reiterate, that strategy is founded on a belief that the global economic environment is not as robust as equity markets are implying.

Macroeconomic data is increasingly supportive of this thesis, with growth starting to falter in the US, parts of Europe barely growing at all, and further evidence of problems in emerging market economies. Profit warnings have been a regular feature of the second quarter earnings season that recently commenced, and we would expect to see more of these, particularly from global-facing and industrial companies.

We will continue to focus the fund's portfolio towards the few areas of the market which continue to offer valuation appeal and to the economic regions that appear to have enough internal momentum to withstand the growing global headwinds. This results in a meaningful exposure to domestically-focused businesses which I believe, even among the FTSE 100 and FTSE 250 constituents, represent the most attractively valued stocks in the investment universe.

Admittedly, this strategy has not delivered the returns we had anticipated over the past couple of years which is why the fund is in the situation it is today. The suspension itself did appear to have had a further immediate impact on performance in the short term, but we are of the view that the worst is now past. The suspension and the circumstances that led to it, may have had an impact on the price of some of the fund's assets, but they have not had an impact on the value of those assets.

Identifying situations where price and value diverge has been at the centre of my disciplined investment approach for more than thirty years, and is still determining an investment strategy that I believe is appropriate for the economic and market environment that confronts us.

Thank you for your patience.

## Questions & answers

### **Delistings from The International Stock Exchange: what does it mean for the fund?**

The 'unquoted limit' is a UCITS restriction on the maximum (10%) the fund is allowed to invest in securities not listed on or to be admitted to an eligible exchange. Benevolent AI and Industrial Heat announced their delisting from The International Stock Exchange (TISE), meaning an inadvertent passive breach of the fund's 10% limit will occur. The FCA's guidance, as for all UCITS limits, is that funds should be brought back into compliance following an inadvertent passive breach in a manner that is in the clients' best interests and within six months of the date of discovering the relevant breach.

The companies held in the LF Woodford Equity Income Fund that are, or have been, listed on TISE have always been classified as illiquid and valued by Link in line with its Fair Value Pricing policy (which is also adopted for valuing the fund's unquoted stocks). This continues to be the case.

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Following the inadvertent passive breach, action to bring the fund back into compliance is already underway. On 3 May, we informed investors that the fund's exposure to unquoted securities would be significantly reduced – including those listed on exchanges where there is currently little or no trading activity. The decision by Benevolent AI and Industrial Heat to delist from TISE will have no impact in how the assets are managed within the fund

### Will you continue to charge a management fee?

The company will continue to charge a management fee as we focus on repositioning the portfolio, to cover the infrastructure and resource costs associated with running an actively managed fund.

### Have you skin in the game?

Neil is often asked if he has skin in the game and as he said recently in a video on the equity income fund suspension, all of his financial investments are held in Woodford funds. During the period of suspension, Neil will not be paid any income or dividends. Neil has recently sold some of his shares in WPCT to meet personal financial obligations, including a tax liability. Neil remains invested in WPCT and completely committed to the early-stage asset class and its long-term investment potential.

### Will you still be able to run the fund?

We intentionally set up with a scalable cost structure when we started Woodford five years ago. This means that our cost base is predominantly variable and can flex with changes in revenue. As you'd expect, given recent challenges, we've also looked at the remaining fixed costs and taken steps to reduce these too.

There are many funds available in the market place that are viable with a fraction of the size of Woodford's AUM.

### Are transfers between platforms allowed?

Transfers between platforms across all share classes, but not share class conversions, are now allowed (as of 10 July 2019). This includes where the receiving platform does not currently have access to the share class being transferred (they will be able to open a new account in that class to support the transfer). This is intended to facilitate cross-platform transfers where there is no change to the beneficial owner. This supports investors by providing them with the freedom to move their investments between platforms.

**Important note:** the total cost of owning the fund can vary between platforms, even where two platforms offer the same share class. You may wish to consider the different platform fees and any potential discounts on offer before deciding to transfer. Please contact your platform or your IFA for further details.

### Is the fund still pricing daily?

We will be publishing [price data for information purposes](#), during the period in which investor trading in the fund is suspended. The last price at which the fund traded was as at midday Friday, 31 May 2019. Any orders placed after that dealing cut-off point have been rejected. All affected investors have been informed accordingly. When the suspension is lifted, investors will be required to submit their new dealing instructions.

### Is Neil a forced seller?

No. While investor trading in the fund is suspended, Neil has the time and space to deliver on his strategy to place the unquoted parts of the portfolio with interested buyers.

### What are the risks?

- The value of the fund and any income from it 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 fund may be higher but capital growth may be restricted or capital may be eroded
- The fund may invest in other transferable securities, money market instruments, warrants, collective investment schemes and deposits – some of these security types could increase the fund's volatility and increase the level of indirect charges to which the fund is exposed

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- The fund 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 investments to decrease or increase
- The fund 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

**Important information**

Before investing, you should read the Key Investor Information Document (KIID) for the fund, 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 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](http://www.fundinfo.com).

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