

Craig Newman, 3 April 2016

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From 1 April, investment research costs are being paid by Woodford, rather than by the fund with no increase to the existing annual management fee. We also commit to greater transparency on the total cost of investing, with all transaction costs to be disclosed monthly on our website.

When we launched the CF Woodford Equity Income Fund in 2014, we worked hard to keep our costs low and our pricing structure simple. We have always recognised, however, that there is more to be done on fees and today we are pleased to announce the next step in our drive towards fee transparency.

Although the ongoing charges figure (OCF) goes some way to explaining and capturing the costs that investors face, there has always been one thorny issue which it hasn't managed to include – that of transaction costs. This is an issue that regulators and other industry bodies have been grappling with for some time, to try to come up with a way of explaining the cost of transacting to investors. There is one theme that runs through all papers on this issue – there isn't an easy solution.

The cost of transacting is wrapped up in the cost of buying or selling assets within a fund – they are an inevitable part of investing. All stock market investors, whether fund managers or DIY investors, face these costs, which come in the form of commission and, when buying shares, Stamp Duty.

From 1 April, one element of the cost of transacting – that of research costs – are being paid by Woodford, rather than by the fund. Importantly, we are not increasing our fees to cover this additional cost. Investors are, in effect therefore, getting a price cut, which will immediately benefit the future performance of the fund.

There are various elements to transaction costs which are not particularly visible to end investors and, when they are disclosed, the information isn't presented in a very user-friendly way. We have defined and isolated these different costs below, in an effort to help you understand them. We commit to disclosing this information on our website each month on a rolling 12-month basis.

We hope the numbers below make sense and are laid out and explained in an understandable way. Ultimately, we are disclosing this information to help you better understand the total, true cost of investing. If you have any ideas which would simplify this information still further, please do let us know by [commenting below](#), or you can [give us your feedback in a short digital survey](#).

Performance

[Fund performance](#) (C share class, after all costs and charges have been deducted) 16.19%

Breakdown of costs (% per annum of NAV)

<a href="#">Ongoing charges figure</a>	0.75%
<a href="#">Research costs</a>	0.02%
<a href="#">Execution costs</a>	0.02%
<a href="#">Transaction taxes</a>	0.03%
<a href="#">Spread</a>	0.02%
<b>Total cost of investing</b>	<b>0.84%</b>

Source: Woodford, with costs calculated against average fund size in 2015.

Execution costs, research costs, transaction taxes and spread figures are net of dilution adjustment.

Performance data source: Morningstar on a total return, net of fees basis over 1 year to 31 December 2015. Performance of the fund since inception (19 June 2014) is 18.73%, as at 29 February 2016.

Past performance cannot be relied upon as a guide to future performance.

## YOUR FUND'S COSTS EXPLAINED

**WE HAVE TAKEN RESEARCH FEES OUT OF THE BASKET OF COSTS AND CHARGES THAT ARE DEDUCTED FROM YOUR FUND'S RETURN. AS OF THIS MONTH THESE COSTS ARE BEING PAID BY WOODFORD RATHER THAN BY THE FUND. HOWEVER, THERE ARE OTHER NECESSARY COSTS AND WE COMMIT TO GREATER TRANSPARENCY ON THE TOTAL COST OF INVESTING, WITH ALL TRANSACTION COSTS BEING DISCLOSED MONTHLY ON OUR WEBSITE.**

CF Woodford Equity Income Fund in 2015	
<b>Performance</b>	
Fund performance (C share class, after all costs and charges have been deducted)	16.19%
<b>Breakdown of costs</b>	
Ongoing charges figure	0.75%
Execution costs	0.02%
Research costs	0.02%
Transaction taxes	0.03%
Spread	0.02%
<b>Total cost of investing</b>	<b>0.84%</b>

\* Source: Woodford, with costs calculated against average fund size in 2015.

**1. Ongoing charges figure**  
The OCF is made up of several fees. The biggest part of it tends to be the fund management company's AMC (annual management charge) but it will also include several other charges, such as administration, custody, auditor and depositary fees.

**5. Spread**  
The dealing 'spread' is the difference between the prices at which the underlying investments are bought and sold in the market. In many ways, it's the same as paying a little extra when buying a foreign currency and getting less back when any unused currency is sold back.

**3. Research costs**  
Fund managers consume research from various sources (economists, strategists, analysts) and in various forms (face-to-face meetings, phone calls, research reports). This research helps to inform and shape the overall investment strategy as well as investment decisions at the stock-specific level.  
**These are no longer included in the Woodford basket of costs**

**4. Transaction taxes**  
Some assets, such as shares, are subject to Stamp Duty in the UK at the point of purchase, which is 0.5% of the trade value. All funds that invest in UK equities will be subject to this transaction tax but the amount will vary, depending on whether a fund is growing or shrinking.

**2. Execution costs**  
Nearly all trades that fund managers undertake on behalf of our investors will be subject to a small execution commission, which is added to the cost of that trade and paid to the market counterparty who dealt the trade.

\* Execution costs, research costs, transaction taxes and spread figures are net of dilution adjustment. Performance data source: Morningstar on a total return, net of fees basis over 1 year to 31 December 2015. Performance of the fund since inception (19 June 2014) is 18.73%, as at 29 February 2016. Past performance cannot be relied upon as a guide to future performance.

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## Definitions

### Fund performance

The actual performance that investors (in the C accumulation share class) experienced during 2015, after all costs had been deducted. [□](#)

### Portfolio turnover

Portfolio turnover will be an important influence on the level of execution cost that a fund is exposed to. If a fund manager deploys a short-term trading strategy, portfolio turnover will tend to be high and, with it, execution costs could be significant. This doesn't necessarily mean worse performance but high turnover inevitably increases the level of friction cost.

There are different methodologies for calculating portfolio turnover. Here, we have used the methodology defined by the US Securities and Exchange Commission (SEC) which uses the lesser of buys and sells (thereby ignoring the impact of inflows and outflows for an open-ended fund) divided by the average fund size.

In 2015, portfolio turnover for the CF Woodford Equity Income Fund was 15.3%, representing an average holding period of 6.5 years. Turnover is, however, variable and will be dependent on how much activity is required to ensure the portfolio continues to reflect our desired investment strategy. There will be years when it is lower than it was in 2015, and there will be years when it is higher. However, we believe that our long-term investment approach will mean that execution costs tend to be significantly lower than average. [□](#)

### Ongoing charges figure

The OCF is a basket of different charges. The biggest part of it tends to be the fund management company's AMC (annual management charge) but it will also include several other charges, such as administration, custody, auditor and depositary fees. Typically, fund management companies have added these additional fees to their own AMC, meaning that the OCF tends to be a higher number. When we launched the CF Woodford Equity Income Fund, we took the decision to include all of these extra charges within the AMC – which means that the fund's AMC equals its OCF. [□](#)

### Research costs

Dealing commissions for fund investors have historically had two components: the cost of researching the investment decision and the cost of executing it. In recent years, regulation has increasingly sought to separate the two. Fund managers consume research from various sources (economists, investment strategists, analysts) and in various forms (face-to-face meetings, telephone conversations, stock specific and bespoke research reports). This research helps to inform and shape the overall investment strategy as well as investment decisions at the stock specific level.

From 1 April, research costs are being paid by Woodford, rather than by the fund. Importantly, we are not increasing our fees to cover this additional cost. Investors are, in effect therefore, getting a price cut, which will immediately benefit the future performance of the fund.

In 2015, research costs represented a cost of 0.02% of the fund's net asset value to fund investors, based on the fund's average size during the year. This number will slowly reduce over the next 12 months, and will disappear completely by April 2017. [□](#)

### Execution costs

Dealing commissions for fund investors have historically had two components: the cost of researching the investment decision and the cost of executing it. In recent years, regulation has increasingly sought to separate the two. Nearly all trades that we undertake on behalf of our investors will be subject to a small execution commission, which is added to the cost of that trade and paid to the market counterparty with whom we deal for that specific trade. In total, 'execution' represented a cost of 0.02% of the fund's net asset value in 2015, based on the fund's average size during the year.

These costs will inevitably be linked to the rate of portfolio turnover – the cost of execution will be higher for a fund which trades regularly, and lower for a fund which is managed with a long-term investment perspective. We deploy a very long-term investment approach, so execution costs will tend to be low. They are variable, however, and in some years, they will be lower than they were in 2015 and in some years they will be higher. [□](#)

### Transaction taxes

Some assets, such as shares, are subject to Stamp Duty in the UK at the point of purchase. UK Stamp Duty is 0.5% of the trade value. All funds that invest in UK equities will be subject to this transaction tax but the amount paid will vary, depending on whether a fund is growing or shrinking. The level of transaction taxes is likely to be higher for a fund that is experiencing inflows than it is for a fund that is experiencing redemptions, because the growing fund will tend to be buying more shares than it is selling.

In order to protect existing investors, single-priced funds will ensure that new investors bear the cost of this tax, by using a 'swing price' policy or dilution levy. If a fund is seeing consistent inflows, the price of the fund will swing to the 'offer price'. The offer price includes the costs of investing the new capital, including these transaction taxes.

In 2015, a period during which the fund saw consistent inflows, transaction taxes represented a cost of 0.03% of the fund's net asset value, based on the fund's average size during the year. [□](#)

## Spread

For equities, there is a difference between the price you can buy any asset (known as the 'offer' or 'ask' price), and the price at which you can sell it (known as the 'bid' price). This is known as the spread.

The spread of individual assets will depend on several variables, including liquidity (how often that particular asset tends to trade) and the prevailing market conditions. The liquid shares of large companies that represent the biggest positions in the CF Woodford Equity Income Fund will tend to have a very narrow spread – there is only a small difference between the price at which you can buy or sell those shares. The less frequently traded shares of smaller companies, will tend to have a wider spread.

In this context, the spread represents an approximation of the difference between the bid and offer prices of all shares held by the fund. It is assessed and updated quarterly to ensure that it remains at an appropriate level.

When an open-ended fund is experiencing inflows and outflows, the level of trading activity will be greater than it would be for a closed-ended fund. As with transaction taxes, therefore, existing investors are protected through the use of a 'swing price' policy. If a fund is seeing consistent inflows, for example, the price of the fund will generally swing to the 'offer price', which includes the costs of investing the new capital, including the spread.

In 2015, a period during which the fund saw consistent inflows, the spread represented a cost of 0.02% of the fund's net asset value, based on the fund's average size during the year. [□](#)

## Dilution adjustment

Open-ended funds are normally either growing or shrinking. Due to the cost involved with investing new capital, or selling stock to meet redemptions, funds typically adopt a swing pricing policy or a dilution levy, where investors that are entering or leaving the fund bear the cost of the transactions at the point of their activity. For our fund, this takes place through a mechanism known as a 'dilution adjustment' which protects the fund's remaining investors from potential dilution.

The dilution adjustment represents an estimate of the cost of trading activity related to flow in the form of execution costs, the spread between the cost of buying and selling shares and transaction taxes, such as Stamp Duty (which is only paid on asset purchases, not on sales).



Because the cost of transacting to invest new capital or meet redemptions is met by the investors that are entering or leaving the fund, they have been excluded from our published figures. These 'net' figures therefore differ from the 'gross' numbers published in the fund's report and accounts, which include the cost of flow-related transactions. [□](#)

	31/12/10 to 31/12/11	31/12/11 to 31/12/12	31/12/12 to 31/12/13	31/12/13 to 31/12/14	31/12/14 to 31/12/15
CF Woodford Equity Income Fund (C Acc)	-	-	-	-	16.19
FTSE All Share index	-3.46	12.30	20.81	1.18	0.98

#### 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 annual management charge 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
  - The fund may invest in overseas securities and be exposed to currencies other than pound sterling
  - The fund may invest in unquoted securities, which may be less liquid and more difficult to realise than publicly traded securities

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.

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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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