

Woodford Investment Management

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Neil Woodford's fall from grace: Where it went wrong for the famed stock-picker

Star stock-picker Neil Woodford had his day in the sun but a series of poor investment decisions has led to a wave of investor redemptions at its flagship fund.

Woodford announced on Monday that he had suspended trading in his Woodford Equity Income Fund to prevent investors from pulling their cash for at least 28 days.

READ: Neil Woodford suspends trading in flagship fund after investor withdrawals
 However, investors are still reportedly having to pay fees of up to 1.7%.

Woodford took the decision to temporarily suspend the fund after a slew of investors started to pull their cash.

Investors have taken out about £560m from the fund over the past four weeks. In May alone, investors pulled out £187m. The redemptions contributed to a £600m slump in the value of the fund last month.

Poor decisions

Following the move to suspend the fund and still charge investors fees, clients could be forgiven for losing their faith in Woodford, particularly given some of the questionable investment calls he has made recently.

Among the fund's worst performing investments are Provident Financial PLC (LON:PFG), Capita PLC (LON:CPI), Circassia Pharmaceuticals PLC (LON:CIR) and Allied Minds PLC (LON:CIR).

On Monday, the value of Woodford's 20% stake in Kier Group PLC (LON:KIE) plunged after the construction and services firm issued a profit warning.

Purplebricks Group PLC (LON:PURP) has been another terrible performer for Woodford. The online estate agent's shares have plummeted 72% in value over the past year as it has exited Australia and scaled back investment in the US after failing to replicate its UK success in those markets.

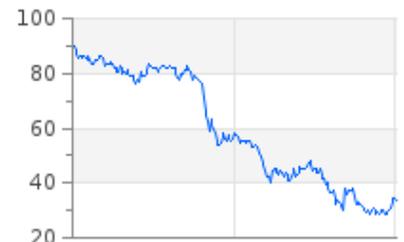
The Equity Income Fund outperformed the UK equity income sector in the first four years of its existence but has underperformed since early 2018.

The fund has seen the value of its assets fall to £3.7bn from its peak of £10.2bn in 2017, according to financial services and research firm Morningstar.

Woodford has also potentially unnerved investors by taking stakes in unquoted stocks.

In March, he transferred holdings in five unquoted stocks from Woodford Equity Income Fund to Woodford Patient Capital in a complex shares-for-assets swap worth £73m.

1 Year Share Price Graph



January 2019 July 2019 December 20

Share Information

Code: WPCT
Listing: LSE
Sector: Financial Services
Website: woodfordfunds.com

Company Synopsis:

Established in 2014, Woodford Investment Management is the opportunity for Neil Woodford, one of the UK's most highly-regarded fund managers, to distil his 30 years of experience and learning into a business founded on his own principles. Our business is grounded in the belief that core principles are fundamental to how we manage money and behave as a business.

action@proactiveinvestors.com

The Equity Income Fund had come close to breaching a 10% regulatory ceiling on the proportion of the fund allowed to be invested in unquoted securities. The share-for-assets swap brought the proportion back below 8%.

Unquoted holdings could prove problematic, says analyst

"The fund today is very different to where it was three years ago, with much of the unquoted holdings transferred to Patient Capital," said Dzmitry Lipski, investment analyst at Interactive Investor.

"But clearly when there is a run for the door, any unquoted holdings are going to be problematic."

With a number of investments in illiquid and unquoted holdings, the Equity Income Fund was having to sell its more liquid holdings to fund the redemptions.

In a statement, Woodford said the suspension was intended to protect investors by allowing the fund "time to reposition the element of the fund's portfolio invested in unquoted and less liquid stocks, in to more liquid investments".

Lipski said it would be a good time for investors to take a "hard look at their diversification".

However, he said: "Investors shouldn't panic - the best thing to do is to sit it out and wait for Woodford to provide further clarity as to how the fund will be managed going forward and how he is planning to resolve the issues".

News of the suspension of the Equity Income Fund sent shares in Woodford's Patient Capital Trust down as much as 20% in early Tuesday trading before recovering to trade 10% lower.

Woodford's key backers Hargreaves and St James Place stung

Hargreaves Lansdown, one of Woodford's biggest supporters, was also stung by the announcement with its shares falling by 6% in early trading.

The fund supermarket, which advises retail investors on what stocks to invest in, removed both the suspended Woodford Equity Income Fund and the Income Focus Fund from its Wealth 50 list of favourite funds on Monday.

Hargreaves faces a potential client backlash over its heavy support of Woodford but it is not alone.

St James Place is another key backer of Woodford. The wealth manager's clients have contributed about a third of Woodford's total assets under management.

On Tuesday morning, shares in St James Place fell 2%.

A once stellar reputation

With Hargreaves and St James Place backing, Woodford had once built a stellar reputation for delivering decent returns.

During his 26 years at Invesco Perpetual, the value of his assets rose to £33bn before he left in 2013 to set up his own investment house, Woodford Investment Management, based in Oxford.

The fund delivered an 18% return to investors in its first year, compared to an average rise of 2% on the London Stock Exchange.

But Woodford has recently fallen from grace and faces a tough road ahead in trying to regain investors trust.

Neil Wilson, chief market analyst at Markets.com, said: "It's been a tough few years for Woodford and things look like they will get worse still."

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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