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Woodford Investment Management

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New funds will allow long-term investments without Woodford-like liquidity problems

A new type of fund will be launched this week that aims to avoid the sort of crisis that has embroiled Neil Woodford's flagship fund.

The Investment Association will reveal plans for the "long-term asset fund" on Wednesday, the Sunday Times reported.

READ: Hargreaves directors offer to defer bonuses as Woodford fund suspension seen dragging on
This will be a new asset class that will aim to address the liquidity issues faced by many open-ended funds such as the Woodford Equity Income fund (WEIF).

Open-ended funds, or unit trusts, are currently able to hold up to 10% of their assets in unquoted stocks, while property, private equity and debt funds are also on the less liquid side.

This can lead to liquidity issues for the fund managers if there is rush of investor redemptions, as the open-ended fund structure means they need to give the cash back immediately to departing investors and, if there isn't any, they need sell some investments to generate the money.

In an investment trust, or closed-ended fund, the price of the trust is based on investors buying and selling the shares, so there is no need for the manager to sell assets.

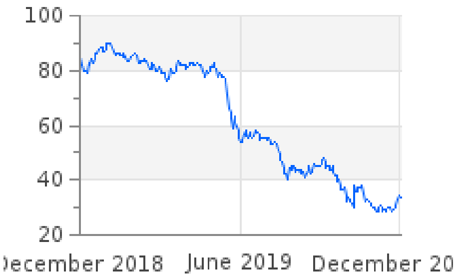
READ: Woodford's can of worms: what next for investors, the funds and the industry?
The Investment Association's proposed new long-term asset fund would allow investors to only pull out money during certain windows such as monthly or quarterly, and therefore allow managers to focus on illiquid investments such as unquoted businesses, property and infrastructure projects, private equity and debt.

Withdrawals from the WEIF were suspended earlier this month after investors withdrew around £560mln from the fund over the preceding four weeks due to concerns about its unlisted investments and the poor performance of many of its stocks.

Price: 33.6

Market Cap: £305.3 m

1 Year Share Price Graph



Share Information

Code:		WPCT
Listing:		LSE
52 week	**High**	**Low**
	91	**28.05**
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.

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The gating of the fund is to allow Woodford tries to drum up cash and swap his illiquid investments for more liquid listed companies.

WEIF investors are likely to have to wait a few months to get access to their money again, as some of the positions the fund holds in unquoted stocks are very large and will not be easy to sell quickly.

Resetting investor expectations
"If there is one thing the industry can learn from the suspension of the Woodford Equity Income fund it is that there is a

mismatch between the daily liquidity funds currently offer customers and the actual liquidity in the underlying assets," said Ryan Hughes, head of active portfolios at AJ Bell.

"Whilst fund suspensions are very rare and we shouldn't get carried away, it sounds like report due out from the Investment Association could be incredibly well timed."

In recent years it has become the norm for funds to offer daily trading and Hughes said one of the industry's challenges would be "resetting customer expectations" to not expect to sell their investments immediately.

He said the industry might provide education for investors around why longer notice period for selling investments could offer a degree of customer protection when investing in certain asset types.

"People accept it for certain savings accounts in return for a higher interest rate, so it is certainly possible for investments too."

He added that moving away from daily traded funds would allow fund managers to make genuine long term investments because they will have much greater visibility of when they might need to sell underlying assets to meet customer redemptions.

"This has long been discussed for property funds but would suit all kinds of investments such as unquoted businesses, small cap stocks, infrastructure projects and fixed interest, especially high yield bonds."

The Woodford effect

Since the WEIF was frozen, investors have withdrawn £123mln from Hargreaves Lansdown's multi-manager funds, six of which hold the Woodford fund.

Investors have been pulling out around £15mln a day on average from the fund range, according to Morningstar estimates.

The Hargreaves funds had an aggregate stake of £627mln at the end of March, with the £2.9bn Multi-Manager Income & Growth fund having been hit with £62mln of withdrawals in the past eight trading days and the £1.8bn Special Situations fund having suffered £24.5mln of outflows, according to Morningstar.

Around 300,000 Hargreaves customers still have £1.6bn locked in the gated WEIF, of which Hargreaves was a big supporter over many years.

Hargreaves chief executive Chris Hill said last week that the company has "urged Woodford to consider alternative ways to release capital so that investors can get access to their money as soon as possible, while balancing the need to get a fair price for assets".

It was reported that one suggestion was that Woodford divides the WEIF into a "good fund" of more liquid assets, from which investors could make withdrawals, and a "bad fund" of illiquid unlisted shares that would remain shuttered for longer.

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