



RAYMOND JAMES INVESTMENT SERVICES

The demise of Neil Woodford

Neil Woodford CBE was lauded by the BBC in 2015 as “The man who cannot stop making money”. Once Known as “Britain’s Warren Buffet”, his career now lies in tatters with his face strewn over the tabloids almost daily, accompanied by disparaging headlines.

WHAT HAPPENED?

Woodford’s flagship UK equity income fund, which was one of the largest, highest rated, most popular UK Equity funds, was suspended to investors on June 3rd for at least a month, but this will likely be many more. This means that, during this period, investors are completely unable to access their investment within it, causing a whole host of problems. The fund may even end up being wound up. Woodford’s Equity



Income fund was on the ‘Wealth 50’ list of Hargreaves Lansdown top picks and he was also the manager for a range of St James’ Place approved funds.

WHY DID IT HAPPEN?

Due to prolonged poor performance investors have been heavily withdrawing from the fund.

There are two issues here:

The first issue is that the fund has a lot of its assets in illiquid and unquoted securities. Woodford has been unable to sell these quickly enough to be able to keep within the regulators’ limits. As he sold off his more liquid assets to deal with redemptions, the unquoted, illiquid securities became a relatively higher percentage of the portfolio. The suspension should give him the time to dispose of these unquoted and illiquid investments, although a buyer has to be found for them. He will likely be selling these assets at a substantial discount which will further hurt performance.

The second issue is that because of the very large size of the fund, he was unable to sell down even its

liquid holdings without causing their prices to drop. This issue created a snowball effect of hurting performance by deflating the price of his portfolio holdings, which in turn caused more outflows and so on.

LESSONS TO LEARN

I would be very careful what you read about funds and their ratings, even if endorsed by the likes of SJP or Hargreaves Lansdown.

The problem with many highly rated funds is that they are very large which makes it hard to be nimble and gives them liquidity issues when redemptions are large.

It is also important to be aware of the shortcomings of open-ended funds in general. Because they have to sell out of underlying investments at time of outflows, they are often forced to sell their assets at the worst times.

We prefer to invest directly where possible rather than through funds. This allows us to reduce the tiers of fees, increase transparency and control and allows us to only invest in highly liquid investments that can be sold within seconds. ♦

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Risk Warning: With investing your capital is at risk.