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Woodford Fund Suspension

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You may have noticed the press coverage of Neil Woodford's fund over the last week.

Woodford's £3.7bn Equity Income fund has been suspended after an acceleration of withdrawals, following persistent underperformance over the last two years. Woodford is undoubtedly the UK's highest profile fund manager, which explains the media frenzy.

The first point I'm sure you'd like me to clarify is that the Alpha Beta Portfolios are not invested and have never been invested in any of Woodford's funds.

It might seem cynical to pass judgement on the challenges Woodford is currently facing, but it is perhaps worth considering the recent history to see if any lessons can be learned.

The bigger they are, the harder they fall?

Prior to creating his own firm, Neil Woodford had spent 26 years at Invesco Perpetual over which time he became their brightest star. So, when Woodford Investment Management was launched 5 years ago, there was naturally a lot of industry and media attention.

It is difficult to know how a fund manager is going to perform if he or she moves to another firm, especially if that manager has spent most of their career at one institution. A firm's internal processes and work environment contribute significantly to a manager's track record. It is therefore likely that the manager will operate differently when moving from one firm to another.

In Neil Woodford's case, the firm was going to be brand new, he would be majority owner, and he would be the CEO, a role he had not performed before. Clearly this represents an entirely different environment and challenge to the one Woodford had become accustomed to. However, the dynamics are much more complex than simply a change of environment. How different must it be to manage a fund when, in theory at least, you have the ability to overrule committees and ignore criticism? How does this impact every decision?

It is fair to say that concerns have been building for some time. The fund peaked in size at £10.7bn in May 2017, so it has lost several billion over the last two years (part of the £7bn in fund shrinkage will have been due to negative performance). It would have been a challenge managing the inflows when the fund was launched, but a far greater challenge managing the outflows, especially when some holdings were not easy to sell.

In addition, the fund has been pushing the boundaries of its regulatory structure and sidestepping restrictions which are designed to protect investors. Some of the investments were transferred to another Woodford fund, and other holdings were hastily listed on the Guernsey stock exchange to satisfy liquidity rules.

Ultimately however, it is difficult to see how Woodford Investment Management can continue to function properly and within FCA regulations looking into the future.

Do let me know if you would like to discuss this or any other topic.

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