



# DART CAPITAL

## Views from the Monument

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### Woodford Investment Management Announcement

As you may have seen, Woodford Investment Management (IM) have suspended redemptions on the firm's flagship fund, Woodford Equity Income, which is managed by the firm's well renowned founder, Neil Woodford. These moves follow a period of very poor performance and a subsequent surge in redemptions, which have caused the fund's size to drop from £10bn at its peak two years ago to only £3.5bn at this time. The news is particularly noteworthy because the fund has been one of the most popular within the UK retail market since its launch in April 2014, with investors keen to follow Woodford after his very successful 25 year-long stewardship of the Invesco Perpetual Income and High Income funds, which were a combined £30bn in size prior to Woodford leaving Invesco to set up his own eponymous firm in 2013.

We were significant investors in the Invesco Perpetual High Income fund prior to Woodford's departure in 2013, however we chose not to follow him to his new firm whilst we also started to sell down exposure to the High Income fund following the announcement that he was leaving Invesco. When Neil was at Invesco, we were comfortable holding the fund because it provided a core exposure to blue chip, dividend paying UK-listed companies, with big weightings in established consumer and healthcare businesses, such as Reckitt Benckiser and GlaxoSmithKline, which tend to be fairly resilient to economic and market downturns. Whilst the fund did have some exposure to smaller companies, this was far outweighed by its holdings in established large-cap stocks. Furthermore, we still trusted Woodford's stock picking within the large-cap end of the market which saw him thrive during the torrid market environments of the dot-com bust of the early 2000s, and the financial crisis of 2008/09.

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Once Woodford launched the Equity Income fund at Woodford IM, it became clear early on that his new fund would be far more aggressive, with greater exposure to early stage, often unquoted, businesses within sectors such as biotechnology. These concerns were highlighted when we carried out some further analysis on the fund six months after its launch. One of the methods we used was a performance attribution tool supplied by one of our data providers, Morningstar, which identified that the fund's strong start was largely due to holdings in two small companies, Allied Minds and 4D Pharma, which had seen spectacular growth over that short period. This was a major red flag for us at the time, as we could see how important these more speculative stocks were in driving the fund's returns, whilst at the same time, it was not clear to us how such holdings fitted within an equity income fund which was being promoted by a number of heavyweight firms as a core holding within UK equities. These concerns have become more widely accepted over time, as Neil sold down much of his exposure to the aforementioned large-cap defensive stocks, and ramped up exposure to more cyclical businesses, most notably within sectors such as homebuilding and fin-tech.

Whilst the news from Woodford has understandably caused some to question active management more generally, we believe that the key takeaway is that due diligence on a fund must entail more than a simple performance assessment, and that an impartial, critical analysis is required before investing in an active fund.

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