



Never put all your eggs in one basket...

Can we offer some words of caution; never put all your eggs in one basket!

I am sure you were as surprised and disappointed as I to read on Monday about the suspension of the LF Woodford Equity Income fund. The Fund managed by Neil Woodford (of Invesco Perpetual Income Fund fame) had, due to several reasons including concerns over recent performance, witnessed heightened investor redemptions of late. Assets under management had fallen from a peak of over ten billion pounds two years ago to less than four billion, with outflows reaching a crescendo and resulting yesterday in underlying liquidity issues within the fund.

The full reasons for the suspension, apart from the standard “best interests of all investors” statement, are yet to be released but one must assume it is due, in part, to the relatively illiquid small-capitalisation equity and unlisted securities held by the fund; notably the later can never exceed ten percent of the fund potentially making it more problematic to raise cash to meet redemptions through the sale of more realisable positions.

The suspension highlights two important factors we frequently cite when constructing our portfolios; due-diligence and diversification. Conducting research on each fund before you invest and during your investment term are vital to ensuring you fully understand the underlying exposures and risks specific to each fund; unfortunately, you cannot always rely on what is written on the label to tell you what is actually in the tin! Monitoring this over time to ensure there is no style-shift or for example in this case how the manager is coping with significant investor outflows is part of our mandate when building client portfolios.

Whilst we have never invested in the Woodford fund many institutional and retail clients have. Indeed, even after conducting their own due-diligence, Woodford appeared on many institutional approved or recommended fund lists.

This nicely brings us to diversification and the title of this note. It is an unfortunate fact that however much due-diligence you conduct, or how much you believe you understand all the risks an investment entails, you can still be surprised by risks and events you did not consider or fully appreciate the impact of. That is why we have always been proponents of strict diversification within our portfolios; in our Premier portfolios, for example, we have over sixteen individual holdings, with typically no more than 7.5% invested with any individual fund. This level of diversification allows us to both fully express our market view and align portfolios with our economic outlook and essentially ensure that should the unthinkable happen; damaged is contained.

I am sure the suspension of the Woodford fund will be lifted sooner rather than later and hope that none of the investors in the fund are caused any distress by being temporarily denied access to their money. We shall continue to manage our portfolios and monitor our fund investments, and as always, pay special attention to headline and underlying liquidity to ensure that when clients need access to their investments, for whatever reason, it is available.

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