AJBell Investcentre

Fundamentals with Russ Mould

June 2017

Welcome to the latest edition of Fundamentals. This time around I'm going to look at a fund that has only just launched this year but has attracted plenty of attention, not least because of who is behind it – namely Woodford Income Focus.

[CAPTION - Woodford Income Focus Fund C (Acc) ISIN - GB00BD9X6D51 SEDOL – BD9X6D5]

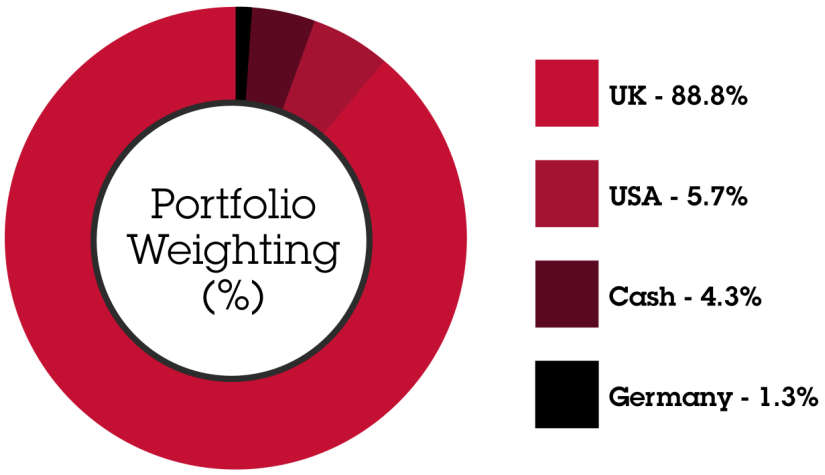
The fund's mandate is to provide sustainable income for advisers and clients over the long term – which is defined as a period of at least three to five years – and provide modest income growth over time.

Fund manager Neil Woodford, very well known from his long and successful period running equity income funds at Invesco Perpetual and now at his own company, will seek to provide this income by building a portfolio of quoted stocks with no geographic limits.

The initial goal is to provide an income of 5p per share a year – the offer price was 100p so the initial yield was 5%, although the net asset value per share of the fund is now around 104p to 105p.

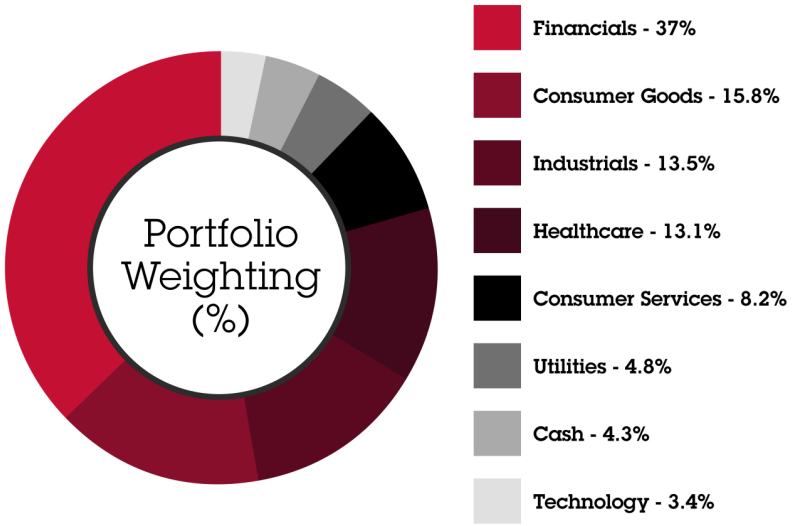
The fund is the third launched by Woodford under his own name. The first two were the Woodford Patient Capital Investment Trust – where the mandate is to generate long-term capital growth by investing in quoted and unquoted early-stage growth companies – and Woodford Equity Income. The latter should not be confused with the Woodford Income Focus fund which we are discussing here – Woodford Income Focus has a greater focus on total returns from capital gains and dividends so it has a different mandate and has a different portfolio as a result.

For all that Woodford Income Focus has no geographic limits, the first-ever portfolio update and fact sheet reveal a strong leaning toward the UK: some 89% of the assets are invested domestically, with 6% in the US, 1% in Germany and the other 4% in cash, as we can see here:



Source: Woodford fact sheet

By sector, the key overweights are financials, healthcare, technology and utilities, which represent around 60% of the portfolio. The key underweights are telecoms, oil and gas and mining – Woodford Income Focus has no exposure here at all.



Source: Woodford fact sheet

In terms of stocks, Woodford is maintaining his personal drive for greater transparency in the fund management industry by listing not just the top 10 holdings in the fund on his website, but their entire portfolio. This currently comes to 50 stocks.

The largest positions as of the end of April are UK pharmaceuticals giant AstraZeneca, FTSE 100 life insurer Legal & General, tobacco firm Imperial Brands, sub-prime lender and FTSE 100 member Provident Financial and US-listed drug developer Abbvie. Other top 10 holdings include Lloyds bank and British housebuilders Taylor Wimpey and Barratt Developments.

The portfolio therefore clearly reflects Woodford's loudly-stated view that analysts are too bearish about the UK economy and that domestically-focused sectors like financials, property and construction offer value, even as the broader UK stock market trades at all-time highs.

Woodford Income Focus fund is eligible for SIPPs, ISAs and dealing accounts and comes with an ongoing charge figure of 0.75%. Advisers and clients can choose between income units – where dividends are paid out – and accumulation units, where dividends are reinvested automatically.

So - those are the mechanics. The question to address next is why could advisers and clients consider this fund for portfolio inclusion today?

Well, I think there may be three possible reasons:

- The first is the income on offer. An initial yield of 5% will have caught the eye of many a patient, long-term income seeker, whether they are looking to build their pot or going into pension drawdown, for example.
- The second is Woodford's value-driven approach, where the focus is on capital preservation as much as it is generating positive long-term returns.
- And the third is you may agree with Woodford's view that companies which derive the bulk of their business from the UK have been oversold amid broader fears over what Brexit might mean once it comes into effect in 2019, with or without a deal with the EU.

This is not to say Woodford Income Focus will suit every adviser or client's overall strategy, target returns, time horizon and appetite for risk.

- The targeted 5p a share dividend is that – a target and not a guarantee
- The value of the fund could go down as well as up, despite all of Neil Woodford's best efforts
- • You may prefer capital growth to income, depending upon your personal circumstances
- And you may disagree with Mr Woodford's relatively sanguine view of the UK's economic prospects on both a pre- and post-Brexit basis

These are questions to which only advisers and their clients can know the answers and everyone should do their own research before deciding whether to put any capital to work or not.

Thank you for watching and I look forward to seeing you next time.

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