

11 June 2019

Letter to investors in LF Woodford Equity Income Fund

You will have no doubt read about the suspension of investor trading in LF Woodford Equity Income Fund last week. I realise this will be concerning and frustrating to you and I am sorry for putting you in this situation. I would like to explain why this difficult decision has been reached.

The performance of the fund has been disappointing for some time. This under-performance has, in part, been the product of some company specific issues within the portfolio, but I have also been battling against a momentum-driven market, where a narrow band of stocks in which I have chosen not to invest have driven market returns in a largely valuation-insensitive manner. These market conditions have persisted for far longer than I had expected and, as a result, the fund has not captured the benefits of a steadily rising market.

Many investors have responded to the fund's under-performance by redeeming their investments. This has intensified in recent weeks, to the extent that we have become increasingly concerned the prices that we would be able to achieve in order to meet redemptions would be disadvantageous to investors.

As a result and following discussions with us, Link Fund Solutions, the fund's Authorised Corporate Director, decided to suspend investor trading in the fund on Monday 3 June 2019. It is not a decision that has been taken lightly, and we fully understand the concern and frustration this will no doubt have caused you. However, we believe that it is in the best interests of investors in the fund, for Link to have taken this step.

Prior to the suspension being instigated, I had already announced an intention to implement a shift within the fund's portfolio, away from unquoted and less liquid holdings, towards a portfolio consisting of larger, more liquid stocks. That shift started in February and further carefully-managed activity is anticipated in the weeks and months ahead to execute the rest of this shift. The suspension affords me time and space to execute this in a way that ensures I can achieve the best possible outcomes for you, our investors.

When the fund re-opens, you will see a much more liquid portfolio, but one which reflects the same investment strategy. It will continue to demonstrate a strong and selective bias towards undervalued companies that are exposed to the UK economy. The global economy is evidently slowing and this represents a considerable near-term challenge for equity markets. The UK is one of the few regional economies that has enough internal momentum to withstand the growing global headwinds. At the same time, many companies that generate most of their revenues from the UK economy are as cheap as I can ever remember.

In my view, every position within the portfolio will continue to be united by one thing: under-valuation. Every asset in the portfolio has a fundamental value that significantly exceeds its share price. In some cases, in my judgement, the gap between value and price is as wide as I have ever seen in more than 30 years of public equity market investing.

The fund's challenges have arisen because of performance and I now have a window in which I need to deliver to retain your confidence. Once again, I sincerely apologise for the anxiety that the suspension has caused you and I will keep you regularly updated via our website as we progress through the shift outlined above.

Regards,



Neil Woodford
Head of Investment

* Authorised Corporate Directors have the legal and regulatory responsibility for the funds and appoint fund managers such as ourselves to manage the assets of the fund.

Woodford Investment Management Ltd
9400 Garsington Road Oxford OX4 2HN
+44 (0)1865 809 000
info@woodfordfunds.com
woodfordfunds.com

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Incorporated in England and Wales, company number 10118169
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