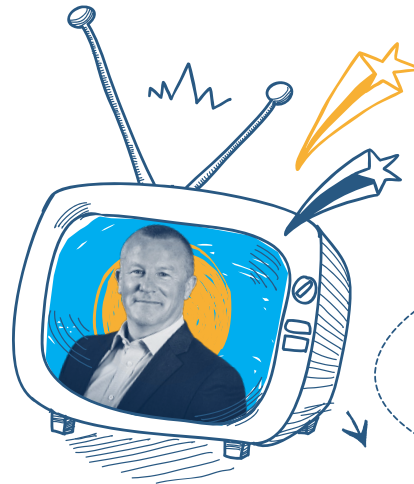


Neil Woodford, Head of Investment, Woodford Investment Management talks transparency, doing things differently and equestrian sports with Richard Romer-Lee, Square Mile.



TALKING WITH

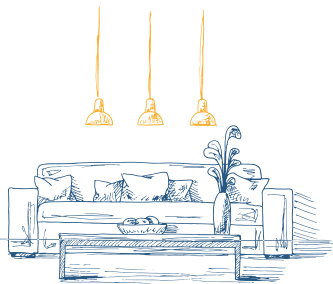
Neil Woodford



Neil Woodford,
Head of Investment,
Woodford Investment
Management

HOW DID YOU GET INTO FUND MANAGEMENT?

Not by design, it was an accident. When I graduated I didn't really know what I wanted to do and the economy was in recession. I ended up sleeping on my brother's floor. He had a job in the City which is how I first discovered what the City did. My economics degree didn't teach me anything about how the economy worked. I got a couple of temporary jobs and then in 1981 found my way into fund management as an assistant to a fund manager.



HOW CHALLENGING IS IT TO BE A CONTRARIAN INVESTOR?

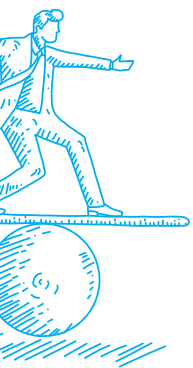
When you go through a period as I have in recent months, it really doesn't surprise me that very few people do active management. It is an intensely uncomfortable and difficult place to be. Obviously it's difficult for the clients that backed you and the advisers that supported you when you go through a period of underperformance. Also, it isn't just uncomfortable for me, it's been uncomfortable for the business around me and for everybody that supports me at work.



But my methodology has worked very well for more than 30 years and I believe it to be the right way to do this job. You've got to back your judgement and just take the flack, live through it and come out of the other side. In coming out the other side, having not been swayed by the market, you can add huge value to your client's portfolios.

WHAT MAKES A GOOD FUND MANAGER?

You might imagine that one way to answer this would be to say that you need somebody that has a CFA, certain level of numeracy, certain qualifications, a first class degree from a top university and so on. I would discount all that stuff. Of course, those things help you open doors and on to the interview list. But successful active fund management is about a human equilibrium between arrogance and humility. You need to be sufficiently arrogant to believe in yourself and in your hypothesis driven by thorough analysis of the facts. That should be balanced with a certain amount of humility, you always have to think that you could be wrong, and you always have to challenge your hypothesis.



DO YOU GET FRUSTRATED WITH THE STRENGTH OF THE VOICE AGAINST YOU OR PERHAPS THE SHORT-TERMISM IN MARKETS?

I accept that it is a part of the job but it is very frustrating and I think it's got worse. The short-term obsession of our culture within the stock market cripples our economy in many ways. These are structural disadvantages that we have to fight against. They don't serve the interest of the economy. They are almost an illness that we have to be conscious of and fight as it is damaging, frankly. Our failure to think long-term is a major disadvantage in an increasingly competitive world economy.



WHAT SUSTAINS YOUR DRIVE FOR INVESTING?

I'm constantly fascinated by the challenges of fund management. It is something that I have always enjoyed as a profession. It's endlessly interesting and challenging. I am a pretty competitive sort of person and found myself in a profession that suited my personality and intellect. That is why I've enjoyed it - and still do. Despite being through the most difficult part of my career in the last 18 months, I enjoy this job more now than I have ever done.



WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING OUT IN FUND MANAGEMENT?

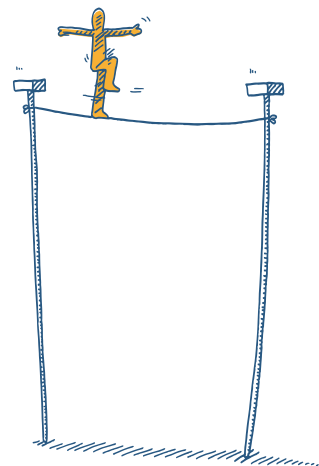
You've got to develop a strong character and have confidence in your own ability. Don't raise your head above the parapet too early. Young fund managers need to develop their reputation. I would encourage those who want to carve out an active fund management career not to be like sheep and do what everyone else is doing.



WHAT CHALLENGES DOES THE INDUSTRY FACE?

There are lots of challenges – including regulation, charges and transparency. We have got to be fairer with customers. We've also got to get back to genuinely loving and believing in active management. The industry has increasingly become challenged by the rise of passives. The reaction by the industry to those challenges has diluted the underlying philosophy of active management.

We need to build a better relationship with the regulator as an industry.



WHAT'S THE BEST PIECE OF ADVICE YOU'VE BEEN GIVEN?

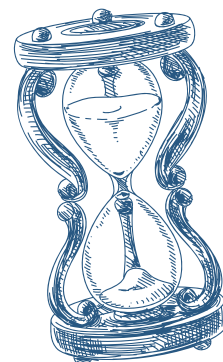
I've not had any particular mentor that has taken me under their wing and said, "this is how you should do it". Yet Stephen Whittaker was a really important influence on me as a young fund manager. He was an incredibly smart and talented fund manager. Also, Ed Burke who I worked with later at Invesco Perpetual was an incredibly talented and insightful investment professional. The only person who I would hold up as someone who I have consistently respected and admired through my entire career would be Warren Buffet. He's genuinely sagelike in his insights.



WHAT'S YOUR VIEW ON PUBLIC EQUITY MARKETS?

Lots of investors these days would struggle to understand or even comprehend the basics of what the stock market is there to do because it's been hijacked by all the short-term players that see the stock market as a venue for a betting game. That's what drives a lot of short-term behaviour and as a result the market has become detached from its daily fundamental roles. Too many private investors are being seduced by the short-termism and forgetting that it's a venue in which they should build long-term savings.

Having been through a very odd period where markets have become detached from fundamentals, we are now in a transition phase where markets are going to correct to a more rational basis.



WHAT HAVE BEEN THE MAIN BENEFITS IN SETTING UP WOODFORD?

In a small organisation you can be in charge of your own destiny. It wouldn't have been possible to do this without Craig Newman, who along with me had the vision to do this. He runs the business and I run the funds. It's our shared vision and culture is absolutely paramount in how we structure the business and how we take it forward. To be able to plan our culture, ambitions and goals without fear or without constraint is a great privilege to have.

We have an iconoclastic view of the world. We've led the way in openness and transparency and on remuneration.

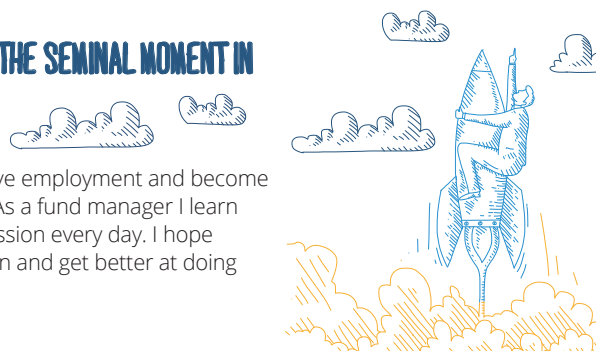


WHAT DO YOU DO TO RELAX?

It's important and healthy to relax. You need to be a healthy and balanced human being to be a good fund manager. Apart from my hobbies and my young family, which keep me well entertained and grounded, I have a number of pursuits. One of which is an equestrian sport which I really enjoy - and it takes me away from all of this. I have a very good horse and he looks after me.

WHAT HAS BEEN THE SEMINAL MOMENT IN YOUR CAREER?

My decision to leave employment and become an entrepreneur. As a fund manager I learn more of this profession every day. I hope to continue to learn and get better at doing this job.



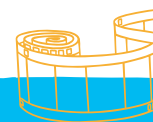
MOST VALUABLE LESSON YOU'VE LEARNT?

The fundamental thing I have relied upon and believed in throughout my career is that the market gets stuff wrong. The default position for everybody most of the time is that share prices must be telling you about businesses and the economy. The market gives you an intelligent insight into what is going on in the world. But you have to believe, as an active manager, that the market can get it wrong from time to time.

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