



NEIL  
WOODFORD  
UK



**Investor profile at InvestingByTheBooks:**  
**The book *The World's 99 Greatest Investors: The Secret of Success* provides a unique opportunity to learn from the most prominent investors globally. In the book they generously share their experiences, advice and insights and we are proud to present these excerpts. Magnus Angenfelt, previously a top ranked sell side analyst and hedge fund manager, will be presenting one investor per month. For those who cannot wait for the monthly columns, we strongly recommend you to buy the book. The investor himself writes the first section below and then Angenfelt describes the background of the investor and comments on his investment philosophy. Enjoy.**

Long term. Taking a long-term view is an increasingly unfashionable approach in today's environment. In recent years, average holding periods for equities have shortened dramatically, reflecting a trading rather than an investing mentality. For me, investing in a company is an ongoing process: it starts with meeting the management team and undertaking in depth research of the business and typically I will build a holding over a period of time. While clearly things can change, my intention is to be a long-term owner of that company; I am not simply seeking a quick return. Many of the companies that are in my portfolios have been there for more than ten years and they continue to deliver the earnings and dividend growth that attracted me to them at the outset. As I alluded to above,

markets can be driven by a number of things, and during those periods stocks can be mispriced for a considerable length of time. We saw this in the late 1990s with the TMT bubble and we have also seen it more recently in the postfinancial crisis period. However, sooner or later, markets return to valuing companies according to their fundamental characteristics, and so maintaining conviction during these times and focusing on the long-term is essential to fully participate in the returns that selected companies can provide.

Valuation. My second key element is fundamentals. Simply put, earnings and dividend growth drive share prices in the long term, and so these are the key metrics on which to focus. Dividends are one of the best ways to gauge the health of a business, as well as providing a good insight into the management's capital discipline and recognition of shareholder returns. Research also indicates that those companies with the strongest dividend growth provide the best capital returns in the long term. Therefore, a company's ability to consistently grow its earnings and dividends is a prime consideration in my investment approach. At the same time, a company fulfilling these requirements is not necessarily a good investment. Valuation is critical, and it is where I believe a company's growth potential is not reflected in its valuation that will I consider investing.

Risk. This brings us to the final core element of my investment approach, which is the management of risk. I have an unconstrained approach within the portfolios that I manage and so I do not view risk as being relative to a benchmark index. To me, risk is the permanent loss of capital, and in that sense I have an absolute return mentality. Risk can never be completely eliminated from equity market investment, but there are steps that can help to reduce it. Understanding risk means

understanding the underlying business: what it does, how it earns its profits, and how sustainable are those returns. Gaining this level of insight and knowledge of a company enables me to form an opinion on how that company should be valued. If the conclusion is that the company is undervalued then it represents a lower-risk investment—in other words, valuation is, in itself, an effective risk management tool.

**BORN** Berkshire, UK 1960.

**EDUCATION** Woodford holds a BA in Economics and Agricultural Economics from the University of Exeter; he later studied Finance at the London Business School.

**CAREER** He commenced his investment career in 1981 with the Dominion Insurance Company, and subsequently joined Eagle Star as a fund manager in 1987. One year later he joined Invesco Perpetual as a fund manager in the UK equities team, and is currently the company's head of investments. He recently announced his departure from Invesco Perpetual to take place in 2014.

**INVESTMENT PHILOSOPHY** Woodford is a fundamental long-term bottom-up stock market value investor. He invests mainly in the UK. As follows of his extensive description above, his preference is for resilient companies whose growth and earnings he sees as stable, yet are underappreciated by the market. Not surprisingly he shows the best relative performance in turbulent market conditions. Woodford is something of an activist, pressing managers at companies to pursue share buybacks when the intrinsic value of a company well exceeds its share price.

**OTHER** As head of investments at Invesco Perpetual, Woodford controls over £30 billion of assets. He has been awarded several prizes. His hobbies include wildlife and horses.

*Sources: Neil Woodford; Invesco Perpetual High Income Fund; Wikipedia.*