IGNITES EUROPE

Print | Close Window

Hargreaves funds face 'pain' amid Woodford fallout

By Ed Moisson 12 June 2019

The suspension of the Woodford Equity Income fund is bound to have spillover effects on Hargreaves Lansdown's multi-manager funds, experts say.

Six of Hargreaves Lansdown's 10 multi-manager funds invest more than £600m (€674m) in the suspended Woodford fund, including the £2.9bn HL Multi-Manager Income & Growth fund.

Hargreaves' multi-manager funds investing in the gated Woodford fund had net outflows of some £37m over the past week, according to estimates from Morningstar and Bloomberg.

Last week's outflows are more than the total over the first five months of the year, Morningstar data show.

Although experts say Hargreaves Lansdown's multi-manager funds do not face immediate liquidity issues, the firm's investment team may still need to sell assets to meet the heightened level of redemptions.

Mark Northway, investment manager at Sparrows Capital, a wealth manager, says: "[Hargreaves] undoubtedly stuck with [Mr Woodford] beyond the sensible exit point, and the fallout from that decision will be a loss of confidence in HL's multi-manager funds and a knock-on effect on HL's share price.

"There will be some pain, but we don't expect the impact on HL to be on the same scale as the damage to Woodford's business."

Hargreaves' investment team will need to take steps to mitigate the impact of the suspension on their multi-manager funds.

Jonathan Miller, director, UK manager research ratings at Morningstar, says: "If the HL portfolios are seeing some outflows, they will need to use cash or sell some holdings to meet redemptions.

"As they can't sell the Woodford fund they hold, it would naturally become a bigger percentage of the portfolio.

"It's down to the scale of redemptions and how diversified the funds are in terms of holdings and portfolio concentration as to the impact this has," Mr Miller says.

Richard Philbin, chief investment officer at Wellian Investment Solutions, says all fund of funds managers "need to make sure the portfolio [they] build has liquidity to be able to manage inflows and outflows".

Mr Philbin adds: "Liquidity is a two-way street. Being able to buy easily in size doesn't mean you can sell as easily.

"When you are not in control of the flows, you can get caught out, even when it isn't by your own design."

Bella Caridade-Ferreira, chief executive officer of consultancy Fundscape, says: "Woodford was the poster child for the industry and so retail investors could well be rattled."

But Ms Caridade-Ferreira doubts the problem will spread, saying: “I expect there to be a dip, but eventually sales will settle down. Hargreaves Lansdown is very good at managing this kind of thing.”

Hargreaves says it has seen “minimal” outflows from its multi-manager portfolios, which it describes as being “in line with normal trading fluctuations”.

“Any redemption requests for our multi-manager portfolios would be easily met through cash first and then through taking profit from positions that have done well,” Emma Wall, head of investment analysis at the firm, adds.

However, Hargreaves Lansdown is considering removing Mr Woodford’s Equity Income fund from its multi-manager funds, according to the *Financial Times*.

The firm says it reviews the fund range “constantly” and that “special attention will be triggered by events, such as a period of underperformance, change in manager, or a liquidity issue such as gating”.

Lee Gardhouse, Hargreaves’ CIO, says: “The situation with Woodford Equity Income is clearly deeply unsatisfactory.

“We share the disappointment and frustration investors in Woodford Equity Income feel at this time and would like to apologise to all clients who have been impacted by the recent problems.”

Hargreaves will not lower its management fees
Hargreaves Lansdown’s multi-manager fund range will not be waiving any of its management fees, despite calling on Neil Woodford to do so for his suspended fund. Approximately 9 per cent of Hargreaves’ six multi-manager funds’ assets are invested in the £3.7bn (€4.2bn) Woodford Equity Income fund. Emma Wall, head of investment analysis at Hargreaves Lansdown, says: “We are not waiving the fee of the multi-manager portfolios as they can be traded on the platform as usual.” However, Helen Pridham, a UK fund sales specialist, says the firm should waive a portion of the multi-manager funds’ fees. Ms Pridham says: “I think this would be a good PR move to help keep investors happy and show that HL is taking responsibility for its mistakes.” Meanwhile Hargreaves has said Woodford IM should waive the management fee on its suspended fund. “We have been in communication with Woodford IM to explain why we think this is the right thing to do and have put pressure on them to do the same,” Ms Wall says. Woodford IM has refused to waive its fee as the fund continues to be actively managed while the firm looks to restructure the portfolio. Woodford IM generates management fees of some £100,000 a day for running its Equity Income fund. Hargreaves’ six affected multi-manager funds have fees and expenses borne by investors of some £350,000 a day. However, Hargreaves is waiving the 45 basis-point platform fee for direct holders of the fund while it is suspended as it cannot be traded. Ms Wall says: “We do not think it is fair to charge when we are not able to offer the [platform] service.”