

**Expertise.**  
**Reinvented**

**From stagnation to innovation**

Stephen Lamacraft Fund Manager, Woodford Investment Management

July 2015

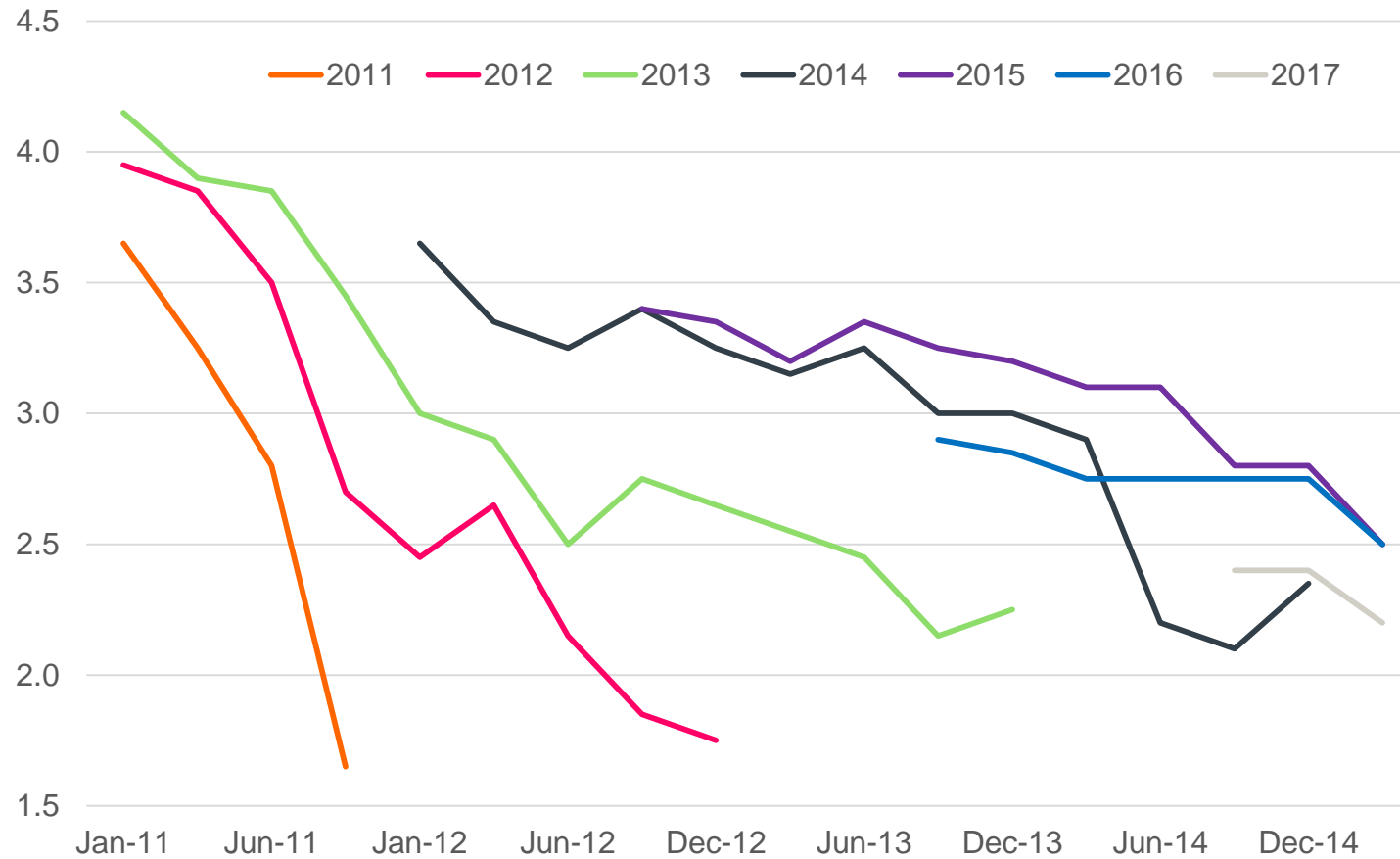
## A Responsible Investment Process...

---

- Search for undervalued assets to be held for the long term
- Valuation/Growth not dependent on a cyclical recovery
- Absolute return potential paramount

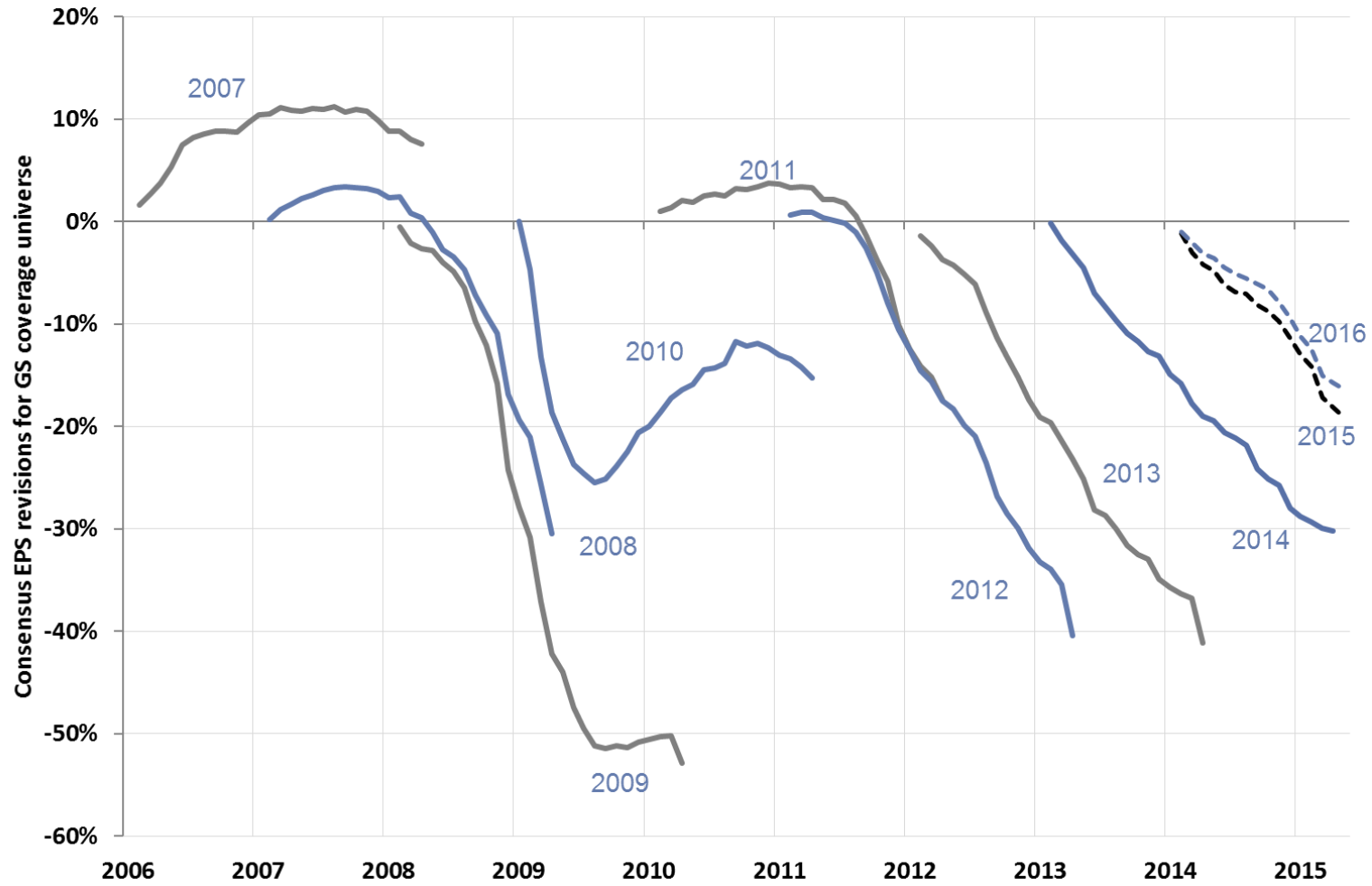
...given serial optimism hasn't worked at the macro level...

## FOMC GDP forecasts



Source: Minack Advisers

...leading to disappointment at the company level...



Source: Goldman Sachs

## ...and we see no reason for a rebound

---

	Resolved?
• Financial crisis has prompted prolonged period of balance sheet repair	X
• Lack of productivity growth	X
• Global economy is over-supplied with several key commodities including labour	X
• Deficiency of aggregate demand	X

## The reality - Investing in a VUCA world

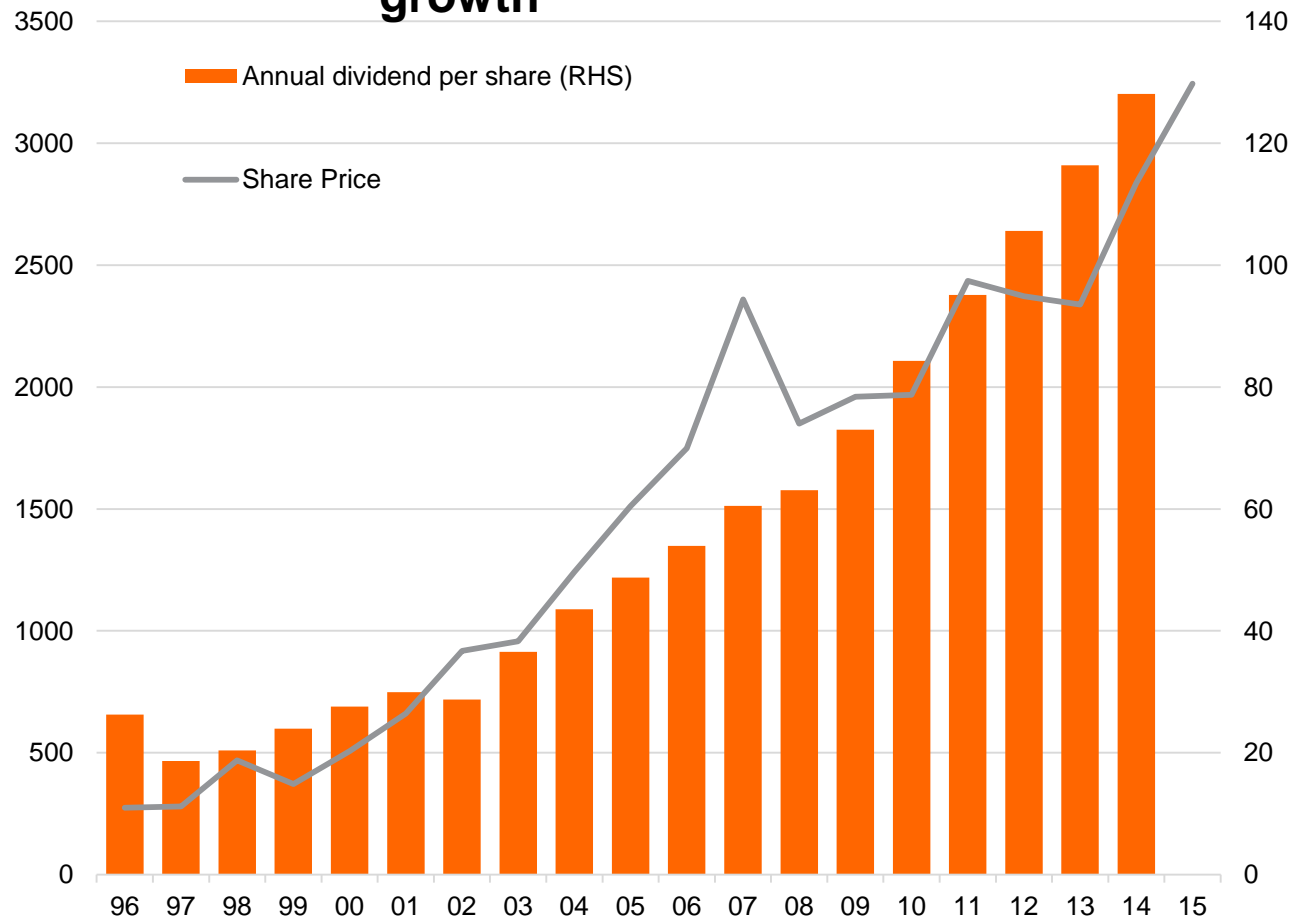
---

- We live in a challenging world
    - *Volatile*
    - *Uncertain*
    - *Complex*
    - *Ambiguous*
  - We aim to cope with these challenges by focusing on dependable characteristics
    - *Pricing power*
    - *Structural growth*
    - *Barriers to entry*
    - *Intellectual property*
- } Valuation

*“Some companies can thrive even in these challenging conditions.  
It is our job to find them and invest in them at the right price.”*

## Case study: Imperial Tobacco

### Imperial Tobacco: dependable dividend growth

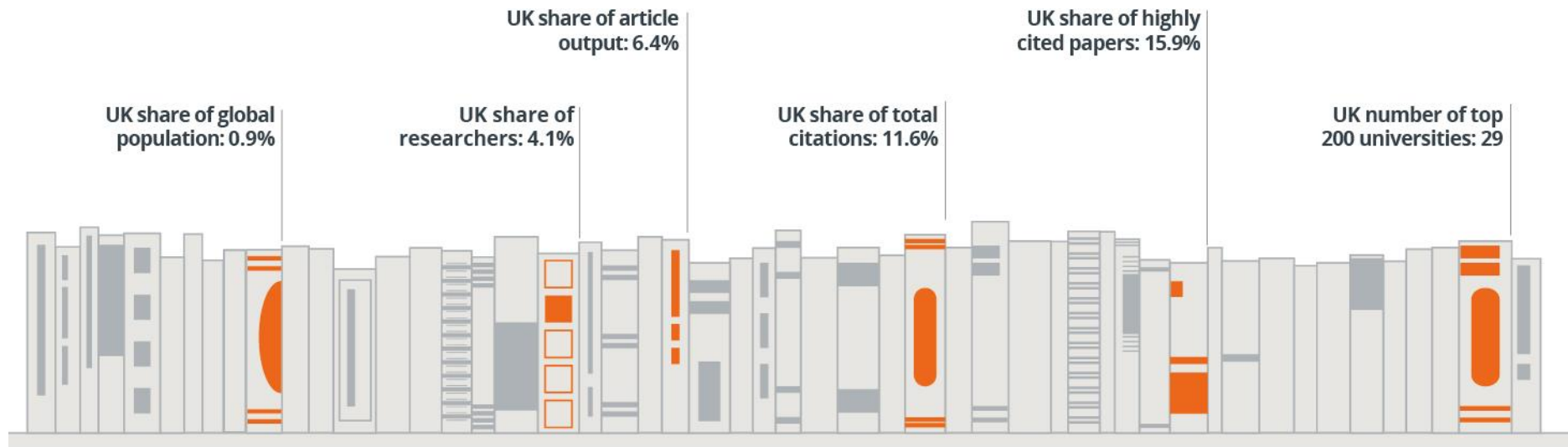


Source: Bloomberg

- Since demerging from Hanson in 1996, Imperial Tobacco has paid nearly 4x its opening share price in dividends
- Management currently committed to delivering dividend growth of at least 10% per annum over the medium-term
- If successful, that could deliver current share price back in dividends within 12 years

## Beyond secular stagnation

- Difficult to be positive about the economic outlook until repair process complete
- Unlocking productivity is key
  - *Productivity is driven by technology and innovation in the long run*
  - *In turn, therefore, technology & innovation drive economic growth*
- UK well placed to benefit
- But link between academia & business needs strengthening



Source: BIS report - International comparative performance of the UK research base 2013, Times Higher Education Supplement university rankings 2014/15.



# The early-stage investment opportunity

## The problem

- The UK has world-leading universities
- Generators of great ideas
- But fail to convert into commercial success

## Why?

- A lack of patient capital
- Demand is high, supply is low

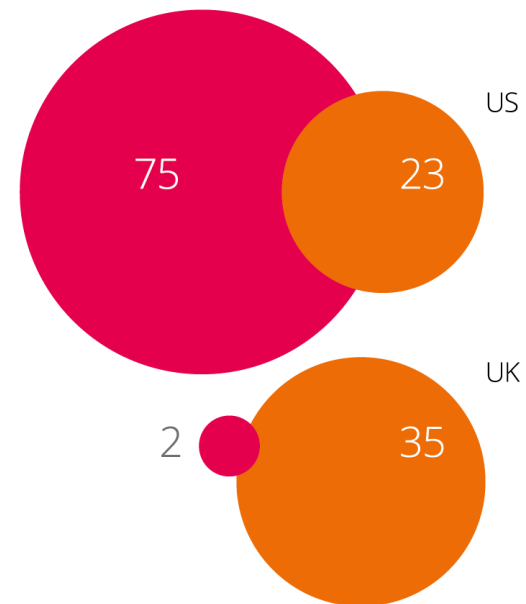
## The opportunity

- Attractive long-term returns
- Potential wider economic benefits

### Example:

US has 75 biotechnology companies valued between \$1-20bn  
– average age 23 yrs

UK has 2 biotechnology companies in the same market cap  
bracket (Hikma Pharmaceuticals & BTG) average age 35 yrs



Source: Syncona Partners / Bloomberg as at October 2014.

## Case study: Oxford Nanopore

- Next generation DNA sequencing
- Spun out of Oxford University in 2005
- Impressive management team
- Extraordinary technology - allows significant improvements in simplicity, efficiency & scalability of sequencing devices
- Minion currently in beta-testing – USB stick-sized device, significantly cheaper than existing solutions with much faster result read-out times
- Broad commercial opportunity
  - *Scientific research*
  - *Personalised medicine*
  - *Security & defence*



## Summary

---

- Medium-term economic outlook is challenging globally
  - *But some businesses can still thrive*
- Longer-term outlook is more positive
  - *Productivity through innovation*
- Combination of dependable growth companies and disruptive early-stage businesses
  - *A compelling proposition for attractive long-term returns*

**What are the risks?**

- The value of the fund and the income from it may go down as well as up, so you may get back less than you invested
- Past performance is not a guide to future returns
- The annual management charge is charged to capital, so the income of the fund may be higher but capital growth may be restricted or capital may be eroded

For professional clients only – not to be distributed to retail clients.

Woodford Investment Management LLP is authorised and regulated by the Financial Conduct Authority

The registered office is 9400 Garsington Road, Oxford OX4 2HN.