

## Link Fund Solutions Limited (“LFS”) Q & A in relation to the winding-up of the LF Equity Income Fund (the “Fund”)

### 1. Why did LFS suspend the Fund?

LFS as the Fund’s authorised corporate director, has responsibility for this decision. LFS discussed its decision with the Fund’s depositary, Northern Trust Global Services SE (UK Branch) (the “Depositary”), and have also been in close discussions throughout with the Financial Conduct Authority (the “FCA”).

As previously communicated to investors the decision to suspend dealings in the Fund was taken to protect all investors following an increased level of withdrawals.

The suspension was intended to give Woodford Investment Management Limited, (“Woodford”), the investment manager of the Fund, time to reposition the Fund’s portfolio into more liquid investments. This would have allowed the Fund, upon lifting of the suspension of dealings, to meet redemption requests, while reducing pressure to sell assets at low prices and therefore protecting the value of the Fund.

LFS had agreed with the Depositary and Woodford to seek to complete the repositioning by early December 2019, and that it would monitor progress to ensure that this date remained achievable.

Furthermore, it was agreed that it would not be possible to lift the suspension and re-open the Fund until the sale of the unlisted and less liquid assets was completed. Failure to fulfil this sale before the re-opening of the Fund would risk a further suspension and unequal treatment of investors, particularly for those who continued to remain invested in the Fund.

### 2. I thought the suspension was temporary, why have LFS now decided to wind-up the Fund? (Updated 10 January 2020)

Whilst progress has been made in relation to repositioning the Fund’s assets during the period of suspension, unfortunately this has not been sufficient to keep the Fund on track to re-open in December. Despite the progress made, it is uncertain when this repositioning would be fully achieved and LFS has therefore concluded that it is in the best interests of investors for the Fund to be wound up on the basis of an ‘orderly realisation’ of the Fund’s assets.

This will allow the return of money through interim payments to investors more quickly than if the Fund had remained suspended for a longer period of time. LFS has received formal permission from the FCA to take this action, and the winding-up of the Fund will commence on 18 January 2020, the last valuation point will therefore be 17 January 2020. It was not possible to commence the winding-up any earlier due to the need for three months' notice to be given to investors under the applicable European Directive implemented by FCA rules.

### 3. Why has the Fund fallen in value?

The net asset value of the Fund is published daily so investors can see how much their investment is worth. Any fall in the value of the Fund is a result of a fall in the value of the Fund's underlying assets, an investment risk which applies to any investor in any UCITS fund.

### 4. Why has LFS chosen to wind up the Fund, rather than, for example extending the period of suspension, appointing another investment manager and merging the Fund with another fund? What other alternatives were considered?

We have considered if any other options would be possible, including extending the period of suspension, appointing another investment manager and merging the Fund with another fund. However, we have concluded that they would not be in the best interests of investors or are not viable.

### 5. Why has BlackRock been appointed?

We have appointed BlackRock Advisors (UK) Limited ("BlackRock") as transition manager of a portfolio of the Fund's listed assets in preparation for the winding up of the Fund. BlackRock will seek to sell the assets in that portfolio and use the proceeds to purchase money market funds and FTSE 100 index instruments. This process will enable us to return part of investors' cash as soon as possible once the Fund begins the winding up process.

We believe that BlackRock is well placed to carry out this role due to its trading and capital markets expertise and experience. We believe that this will achieve a better outcome for investors.

### 6. Who are PJT Partners and what is their role?

During the period of suspension we appointed a third-party, PJT Partners as a specialist broker to assist in selling certain unquoted and less liquid assets. PJT will continue to work towards selling these assets.

**7. What is Woodford's involvement in the management of the Fund going forward?**

As of 15 October 2019, Woodford ceased to be the investment manager of the Fund.

**8. Why is Woodford no longer managing the Fund?**

We believe that BlackRock is well placed to carry out this role due to its trading and capital markets expertise and experience. We believe that this will achieve a better outcome for investors.

During the period of suspension we appointed a third-party, PJT Partners as a specialist broker to assist in selling certain unquoted and less liquid assets.

**9. How will the Fund be managed**

The Fund's assets have been split into two parts, one comprised of listed assets ("Portfolio A") and one comprised of the unlisted and certain highly illiquid listed assets ("Portfolio B")

BlackRock will seek to sell the assets in Portfolio A and use the proceeds to purchase money market funds and FTSE 100 index instruments. This process will enable us to return part of investors' cash as soon as possible once the Fund begins the winding up process

During the period of the suspension LFS appointed PJT Partners (UK) Limited ("Park Hill") as a specialist broker to assist us in selling the assets in Portfolio B. Park Hill will continue in this role.

**10. What is an orderly realisation and what does it involve?**

An orderly realisation of the assets of the Fund will involve the sale of the Fund's assets over a reasonable period of time – the aim is to avoid a "fire sale" (i.e. a sale in the short term, even if this results in a lower value being realised), and to balance on the one hand the need to generate liquidity and on the other hand the need to secure a reasonable value of the assets.

Cash will be realised from the sale of the assets held by the Fund and, on an ongoing basis as and when sufficient cash becomes available in the Funds, all investors will receive a payment per share held. This means that cash will be returned to shareholders on a pro-rata basis, in proportion to the size of each shareholder's investment in the Fund. Capital distributions will continue until all the assets of the Fund have been realised.

**11. How are the managers balancing the need to return investors' money with the potential to wait longer to get a better price for the assets? (Added 15 November 2019)**

One of the objectives of the orderly realisation process is to maximise returns for investors. That means that it is important for the assets to be realised at a time when the sale will achieve an appropriate level of return. Selling the shares in the less liquid assets, on a "fire sale" basis would significantly reduce the value of these assets.

When the winding up of the Fund begins, any remaining less liquid assets of the Fund (including the unlisted assets) will continue to be sold over time in an orderly manner.

**12. How long will the winding up process take? (Updated 10 January 2020)**

One of the objectives of the orderly realisation process is to maximise returns for investors. That means that it is important for the assets to be realised at a time when the sale will achieve an appropriate level of return. Selling the shares in the less liquid assets, on a "fire sale" basis would significantly reduce the value of these assets.

In our letter to investors of 13 December 2019 we anticipated that the first capital distribution would be paid to investors on or around 20 January 2020, this date will now be on or around 30 January 2020. As stated in our letter to investors dated 10 January 2020 BlackRock has realised £1.9 billion of the fund assets. The cash realised from these sales has been re-invested in FTSE 100 index instruments, money market funds, government securities and commercial paper with short maturity date. This ensures that investors retain exposure to the equity market whilst maximising the liquidity of the underlying portfolio and that the Fund continues to meet its stated investment objective and policy, as disclosed in the Fund's prospectus. Although this value will fluctuate according to market movements this is the amount, together with the proceeds of any further sales of assets in Portfolio A between now and 17 January 2020, that we intend to distribute in the first capital repayment.

We will continue to provide regular updates in respect of the sale of the Fund's assets and the payment of further capital distributions until the completion of the winding up of the Fund.

**13. Why has the timetable for the first capital distribution been delayed? (Added 10 January 2020)**

This change to the timetable is required to ensure that investors retain exposure to the equity market for the entire period prior to the Fund being wound up as required by the regulations. This delay also allows a significant portion of the Fund's holdings in money market instruments to be liquidated in a way that minimises costs to the Fund.

**14. When are investors likely to hear further news? (Updated 10 January 2020)**

We will write to investors on or around 28 January 2020 to provide an update on the winding up and the amount they will receive as the first capital distribution.

**15. Will all investors be treated equally and get paid back at the same pace? (Added 15 November 2019)**

Yes all investors will be treated equally and receive, at the same time, a proportionate share of each capital repayment.

**16. What can investors expect to get back?**

The amount you receive will depend on the Fund's value and the amount raised by selling the Fund's assets. The Fund's value fluctuates in line with the market values of its underlying assets. If assets are sold for lower prices, you will receive less from the winding-up process and this also may be less than you originally invested.

**17. What proportion (the range) of the fund can investors expect to have returned as cash in January? (Updated 10 January 2020)**

As stated in our investor communication of 10 January 2020, since its appointment, BlackRock has realised £1.9 billion, representing 90% of the value of Portfolio A and 63% of the value of the Fund. The cash realised from these sales has been re-invested in FTSE 100 index instruments, money market funds, government securities and commercial paper with short maturity date. This ensures that investors retain exposure to the equity market whilst maximising the liquidity of the underlying portfolio and that the Fund continues to meet its stated investment objective and policy, as disclosed in the Fund's prospectus. Although this value will fluctuate according to market movements this is the amount, together with the proceeds of any further sales of assets in Portfolio A between now and 17 January 2020, that we intend to distribute to investors on or around 30 January 2020.

**18. How will capital distributions from the Fund be taxed?**

The receipt of proceeds from the wind-up will be deemed a disposal of your shares in the Fund for capital gains tax purposes and may give rise to a capital gains tax liability. This will, of course, depend upon your individual circumstances. If you are in any doubt as to the taxation consequences of this action you should contact your professional adviser.

**19. Does the winding-up of the Fund affect investors/my SIPP or ISA status?**

Investors will need to seek professional advice for specific tax advice.

**20. Can investors sell or exchange shares in the Funds?**

As we have taken the decision not to re-open the Fund dealings in the Fund remain suspended. Therefore, investors will not be able to buy or sell shares before or during the winding up period.

**21. Will you continue to apply the Periodic Charge. (Updated 15 November 2019)**

In the period leading up to the commencement of the winding up of the Fund, there will be no change to the amount of the periodic charge paid by the Fund to LFS . Out of the periodic charge we will pay BlackRock's fees for its services, as well as the fees of the Fund's Depositary, administrator, custodian and auditor, the fees that are typically included as part of the Ongoing Charges Figure ("OCF") /Total Expense Ratio ("TER"). Unlike a typical OCF/TER the 'periodic charge' for the Fund is fixed. We will not continue to take our fee for acting as ACD from the point of suspension and therefore if there is a surplus after paying all other fees we will return this to the Fund. Brokerage and legal costs, including the costs of Park Hill, will continue to be borne by the Fund.

These costs will be greater during this period than they were typically in previous periods due to the requirement to sell all of the Fund's assets.

Once the winding up of the Fund commences, the periodic charge will no longer be taken. However, we anticipate there will be costs payable by the Fund associated with the sale of the Fund's assets after the winding up commences, including the fees of BlackRock and Park Hill. We will write to update you nearer the time to provide further information on these costs.

**22. Can you provide any further information on the likely costs of transitioning the portfolio and the expected costs of winding up the Fund. (Updated 10 January 2020)**

As stated in our letter to investors dated 10 January 2020, we will write to investors on 28 January 2020, to inform them of the amounts they will receive as a result of the first capital payment and provide further details on the costs associated with the transitioning of the portfolio and expected winding up costs.

**23. Given that some of the assets have started to perform well, how are you comfortable that closing the fund was really in the best interests of investors? (Added 15 November 2019)**

The original decision to suspend dealings in the Fund was taken to protect all investors in the Fund following an increased level of redemptions.

The suspension was therefore intended to give Woodford Investment Management Limited, the investment manager of the Fund, time to reposition the Fund's portfolio into more liquid investments.

Whilst progress has been made in relation to repositioning the Fund's portfolio, this has unfortunately not been sufficient to allow reasonable certainty as to when the repositioning would be fully achieved, and the Fund could be re-opened.

We have therefore concluded that it is now in the best interests of all investors for the Fund to be wound up by way of an orderly realisation of the Fund's assets.

**24. Given that some investors wanted to remain invested, how are you comfortable that closing the fund was really in the best interests of all investors? (Added 15 November 2019)**

Whilst some investors may have wanted to remain in the Fund it was agreed with the Depositary when the Fund was originally suspended that it would not be possible to lift the suspension and re-open the Fund until the sale of its unlisted and less liquid listed assets was completed. Failure to do so before the re-opening of the Fund would risk a further suspension and unequal treatment of investors, particularly for those who chose to continue to remain invested in the Fund.

Whilst progress has been made in relation to repositioning the Fund's portfolio, this has unfortunately not been sufficient to allow reasonable certainty as to when the repositioning would be fully achieved and the Fund could be re-opened.

We have therefore concluded that it is now in the best interests of all investors for the Fund to be wound up by way of an orderly realisation of the Fund's assets and cash to be returned to investors by way of capital distributions.

**25. Will investors continue to be paid an income prior to the fund closure? When can the final dividend payment be expected? (Updated 10 January 2020)**

Investors will be entitled to receive dividend payments until the winding up of the Fund starts, on 18 January 2020. Income received by the Fund after the winding up process has started will be returned to investors as part of the capital repayments. The payment date for the final dividend payment will be 17 March 2020.

**26. How much of the fund is still in illiquid / unquoted stocks, what is the estimated timeframe for selling these? (Updated 10 January 2020)**

In order to continue to protect the portfolio, and as such investors, we are not disclosing this information at this time. Our letter to investors, dated 10 January 2020, provided further information on how much of the portfolio had been realised from the liquid assets (Portfolio A) and what that represented as a percentage of the Fund at that time.

**27. Are Transfers between platforms still allowed? (Updated 16 January 2020)**

To facilitate the winding-up of the Fund the final date for transfers that do not change the beneficial owner of an existing holding was 15 January 2020. Transfers can continue, however to avoid reconciliation issues there will be a change freeze for a short period. Non beneficial transfers are suspended from COB on 15th January until after the 1st Capital Distribution has been paid. Non beneficial transfers will then re-commence on 5th February.

**28. A significant drop in the value of the Fund was noted from Friday 17th January 2020. Why was that when markets have generally been healthy? (Added 21 January 2020)**

An adjustment was made in relation to valuation of the unquoted assets of the Fund's portfolio which impacted the Net Asset Value of the Fund. Link Fund Solutions Ltd ("LFS") in its capacity as Authorised Corporate Director to the Fund is responsible for the valuation of the assets of the Fund, and its Fair Value Pricing Committee is responsible for ensuring the fair value of the unquoted assets held by the Fund. In accordance with its ongoing responsibility to keep the value of the unquoted assets in the Fund under review the Committee made an adjustment to the unquoted portion of the Fund to reflect its view of market information and circumstances.

**29. Can you provide details of the assets whose values were adjusted and by how much? (Added 21 January 2020)**

For confidentiality reasons and also to safeguard the investors' interests in the Fund, LFS does not provide such information relating to individual assets.

**30. Will that affect the distribution being made to the fund investors? (Added 21 January 2020)**

The first capital distribution which is planned for the end of the month will be based on the amount realised on the quoted assets so last Friday's adjustment will have no impact on the amount of the first capital distribution.

**31. What about the Financial Services Compensation Scheme?**

Broadly speaking, the Financial Services Compensation Scheme assists consumers when financial services firms which owe money to them are unable to pay (e.g. because the firms are insolvent or have ceased trading).

If investors want further information about the FSCS, they should refer to the information given to them at the time they invested in the Funds, or to the FSCS website ([www.fscs.org.uk](http://www.fscs.org.uk)), for additional details about the compensation scheme and the circumstances in which compensation is payable.

Investors who invested in the Funds through an IFA should also consider speaking to their IFA for further information in the first instance.

**32. Who can investors or IFAs contact if they have any other questions?**

Investors or IFAs can contact LFS on 0333 300 0381 or you can email us at [equityincome@linkgroup.co.uk](mailto:equityincome@linkgroup.co.uk).