

Witan Investment Trust

Seasoned global multi-manager trust

Witan Investment Trust (WTAN) seeks to generate long-term growth in income and capital through active multi-manager investment in global equities. The trust provides a one-stop solution for investors seeking this exposure at a moderate cost (total ongoing charge FY14 0.96%). Last year, Witan recorded its 40th consecutive year of dividend growth and its 10th year following a multi-manager approach. While there is no guarantee of future performance, the track record on dividends and in terms of relative performance is encouraging.

12 months ending	Total share price return (%)	Total NAV return (%)	Composite benchmark (%)	MSCI World (%)	FTSE All Share (%)
31/03/11	10.1	9.6	8.5	7.9	8.7
31/03/12	(1.3)	(2.2)	(1.2)	1.5	1.4
31/03/13	23.3	20.9	17.2	18.4	16.8
31/03/14	18.7	11.3	7.7	9.0	8.8
31/03/15	20.8	14.9	13.6	19.7	6.6

Note: Twelve-month rolling discrete total return performance. Composite benchmark

Investment strategy: Active multi-manager approach

Witan follows a multi-manager approach to investing in global equities (UK c 40%), normally selecting between 10 and 15 managers with different styles and specialisations. Since Andrew Bell took over as CEO in 2010, changes in manager mandates have sought to ensure an active stance is taken, resulting in a more differentiated portfolio with higher conviction holdings. The diversification by manager mitigates the potential volatility that might otherwise arise from this approach. Witan looks for managers who will capture the longer-term growth benefits of equity investment rather than playing near-term momentum, and has a bias towards value/growth at the right price.

Outlook: Valuations high but earnings may surprise

After a relatively modest performance last year, Witan's composite benchmark has returned 7.7% in the first quarter of 2015. Market gains have left the prospective P/E for the world market standing at a 10-year high. Equities could therefore be vulnerable to negative economic or geopolitical developments but, against this, there is the potential for the positive effects of the lower oil price to produce favourable earnings surprises in the second half. Confirmation of a positive GDP trend could enhance the outlook for 2016. Reflecting a cautiously optimistic view Witan remains fully invested with gearing of around 11%.

Valuation: Shares trading close to NAV

Over five years, Witan shares have traded at an average discount of nearly 9%, but over the last year the average has fallen below 2%, probably a reflection of the strengthening of relative performance and a clearer focus on active management. Recently there have been periods when the shares have traded at a premium, with the trust issuing shares for the first time in more than 20 years. The dividend has been increased each year since 1974 and compound annual growth in dividends over the last 10 years of 6% has outpaced the 2.7% consumer price inflation rate.

Investment trusts

27 April 2015

Price 832.5p
Market cap £1,597m
AUM £1,754m

NAV* 832.3p
Discount to NAV* 0.0%
NAV** 827.5p
Premium to NAV** 0.6%
Yield 1.85%

*Debt at par excluding income. **Debt at fair value Including income. As at 23/4/15.

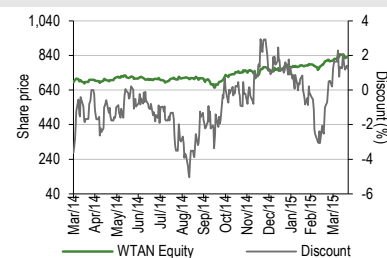
Ordinary shares in issue 191.8m

Code WTAN

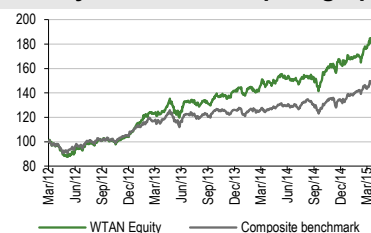
Primary exchange LSE

AIC sector Global Growth

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low 847.0p 655.0p

NAV* high/low 840.3p 679.3p

*Excluding income.

Gearing

Net 11.0%

Analysts

Andrew Mitchell +44 (0)20 3681 2500

Gavin Wood +44 (0)20 3681 2503

investmenttrusts@edisongroup.com

[Edison profile page](#)

Exhibit 1: Trust at a glance

Investment objective and fund background

Witan Investment Trust (WTAN) aims to deliver long-term growth in income and capital through active multi-manager investment in global equities. Funds are currently allocated to 11 specialist managers and, to a limited extent, open-ended funds. Witan seeks managers with the conviction to take views that may diverge significantly from benchmark weightings.

Recent developments

10 April 2015: Announcement of fixed rate note borrowing totalling £75m (see page 7).
 11 March 2015: FY14 annual report. NAV total return +6.6%, share price TR +15.1% and dividend +6.9%.
 18 February 2015: Appointment to investment team of James Hart (previously Cayenne Asset Management) as investment director.

Forthcoming

AGM	30 April 2015
Interim results	August 2015
Year end	31 December
Dividend paid	Mar, Jun, Sep, Dec
Launch date	February 1909
Continuation vote	No

Capital structure and fees

Ongoing charges	0.74% (0.96% incl. perf. fees)
Net gearing	11.0%
Annual mgmt fee	Inv. management charges only paid to external managers
Performance fee	Yes (see page 7)
Trust life	Indefinite
Bonds, debt & prefs	£155m at 31 Dec 2014

Fund details

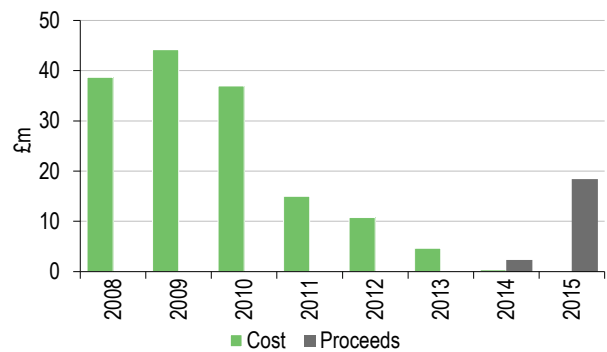
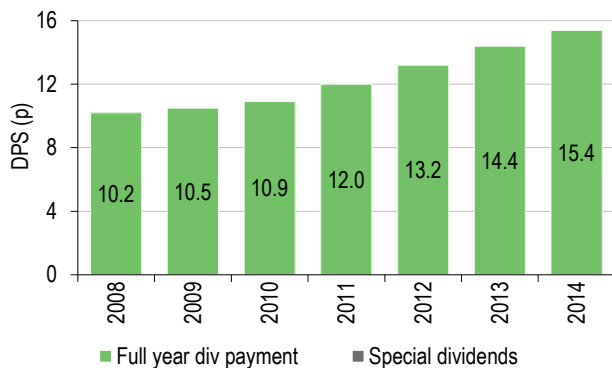
Group	Self-managed (Witan Inv. Services)
Managers	Andrew Bell (CEO)
Address	14 Queen Anne's Gate, London, SW1H 9AA
Phone	0800 082 8180
Website	www.witan.com

Dividend policy and history

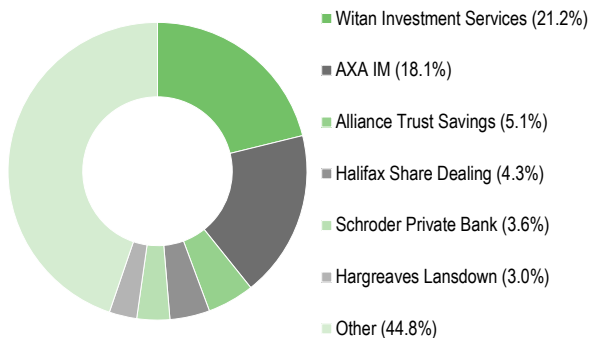
Quarterly dividends are paid, with the first three equivalent to a quarter of the previous year total and the final making up the full year payment. The board aims to increase the dividend in real terms.

Share buyback policy and history

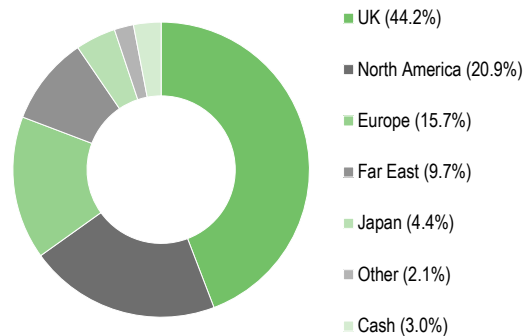
Renewed annually, the board has authority both to repurchase (14.99%) and allot (10%) ordinary shares. Shares may be held in treasury for re-sale.



Shareholder base (as at 31 March 2015)



Geographical allocation of portfolio (at end March 2015)



Top 10 holdings

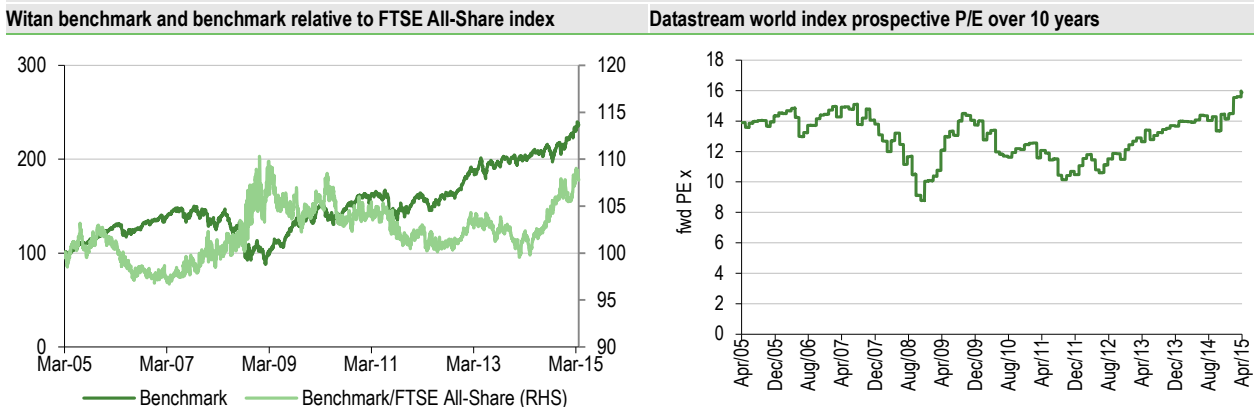
Company	Country	Sector	Portfolio weight %	
			End March 2015	End March 2014
Reed Elsevier	UK	Media	1.7	1.8
London Stock Exchange	UK	Financial services	1.5	1.4
Diageo	UK	Beverages	1.3	1.6
Unilever	UK	Food producers	1.3	1.3
Comcast	US	Media	1.3	0.8*
Princess Private Equity	UK	Private equity	1.2	1.1
Pearson	UK	Media	1.2	1.0
Daily Mail & General	UK	Media	1.1	1.3
BT	US	Fixed line telecoms	1.1	0.8*
NB Distressed Debt	UK	Equity investment instrument	1.1	0.9*
Top 10			12.8	13.2

Source: Witan Investment Trust, Thomson Datastream, Edison Investment Research. Note: *Where not in top 10 end March 2014. The top 10 analysis excludes a collective investment used to invest in emerging markets, two Japan equity funds and an exchange traded equity fund.

Market outlook: Earnings needed to underpin valuation

After a relatively subdued advance in 2014 (+5.5% total return) Witan's composite global benchmark (see note to Exhibit 2, below) continued to make progress in the first quarter of the current year (+7.7%). The left hand chart in Exhibit 2 illustrates this and also shows the recent outperformance of the benchmark against the UK market as measured by the FTSE All-Share index. This has left the prospective world P/E at the upper end of its 10-year range (right hand chart) raising questions over how much further it can go and to what extent earnings will match or exceed expectations to underpin this valuation.

Exhibit 2: Witan benchmark performance and Datastream world index prospective P/E



Source: Thomson Datastream. Note: Witan benchmark is a composite of four indices – FTSE All-Share 40% and FTSE AW North America, FTSE AW Europe (ex UK) and FTSE AW Asia Pacific 20% each.

There are risks in both the macroeconomic and the geopolitical background that might prejudice earnings prospects, including uncertainties over the pace of US and Chinese growth. Nevertheless, most forecasts still point to GDP growth making some progress this year and next. An apparent slackening in US activity recently may be primarily seasonal, and prospectively there is the potential for lower oil prices to generate positive earnings surprises. High average market valuations do constitute a potential limitation on market performance, but within this there are sector and stock opportunities for actively managed funds to exploit. In addition, the fact that the return on equity for the world index is still below its 10-year average gives encouragement on the potential for earnings upside.

Fund profile: Global multi-manager

Witan, founded in 1909, was listed on the London Stock Exchange in 1924 and became self-managed in 2004, adopting its current multi-manager approach. The trust invests in global equity markets with the objective of generating long-term capital growth together with real income growth. The blended benchmark includes 40% UK exposure, with 20% each for the US, Europe and Asia-Pacific ensuring broad geographical diversification. Mandates are normally allocated to between 10 and 15 managers with specific expertise and track records. Witan aims to select managers that implement distinctive views resulting in differentiation from the benchmark, ensuring the overall portfolio avoids inadvertently tracking indices through over-diversification. CEO Andrew Bell, appointed in February 2010, moved the trust towards a more active stance through closing two indexed mandates in 2010 and making a number of manager changes between 2010 and 2013.

CEO: Andrew Bell

The manager's view: Possible positive surprise ahead

Andrew Bell saw 2014 as a period of transition following a very strong year in 2013 for global stock markets as they factored in further economic recovery and corporate earnings growth. The reality last year was more mixed, with growth expectations trimmed progressively and market sentiment dented by geopolitical developments. Even so, thanks to continued strength in the US, Witan's global benchmark recorded a positive return of 5.5% (compared with over 20% in 2013). Witan remained fully invested through last year and even edged up gearing from 7.3% to 10.1% to take advantage of opportunities during market weakness.

For 2015 Witan has so far maintained its gearing level and retains a cautiously positive stance on the equity market. Bell recognises that markets have moved onto higher valuations and could be unsettled by disappointing economic growth and international and domestic political developments. Nevertheless, he still sees the prospects for economic growth as being reasonable. While the market may have recognised the near-term downside of lower oil prices for oil-related stocks in the near-term, it has not fully factored in the possibility of positive earnings surprises in the second half of the year, as the benefits, "a bonanza", in the form of increased retail spending and investment in other sectors, start to flow through. Bell believes equity investors should be rewarded as the market then looks forward to a more positive background in 2016 with earnings starting to underpin valuations.

Asset allocation

Investment process: Active multi-manager approach

Witan has been managed using a multi-manager approach for over 10 years. The approach evolved following the appointment of Andrew Bell as CEO in 2010, as he has introduced a higher level of active management to avoid unintentional indexation.

Witan seeks managers who can capture the longer-term growth rewards from equity investment by focusing on fundamental values rather than short-term momentum. Funds are allocated to managers employing a range of styles, including value and growth, with the diversification helping to mitigate the volatility that might arise with a single active manager. Witan typically uses between 10 and 15 investment managers. Catalysts for a change in manager are more likely to include style drift than weak performance in isolation. Selection of a new manager draws on the knowledge and experience of the directors, advisers and consultants with a short list of managers invited to present to the Witan board prior to a decision being made. In addition to allocating mandates, Witan's board and management are responsible for adjusting asset allocation as opportunities arise, the appropriate use of borrowings and managing direct investments. To help in developing, implementing and communicating the executive team's strategy, Witan has appointed James Hart (formerly co-manager at Cayenne Trust) as investment director, who joined the team on 20 April.

Up to 10% of the portfolio (at the time of investment) may be invested directly in collective funds selected by the CEO in areas seen as undervalued or as attractive longer-term generators of superior returns. Witan also seeks to add to performance by adjusting gearing, selectively using exchange-traded derivatives to alter asset allocation and using specialist funds to gain exposure to areas underrepresented in the rest of the portfolio.

Current portfolio positioning

The 11-strong list of external managers is detailed in Exhibit 3, including three UK and five global mandates along with pan-European, Asia-Pacific and emerging market specialists.

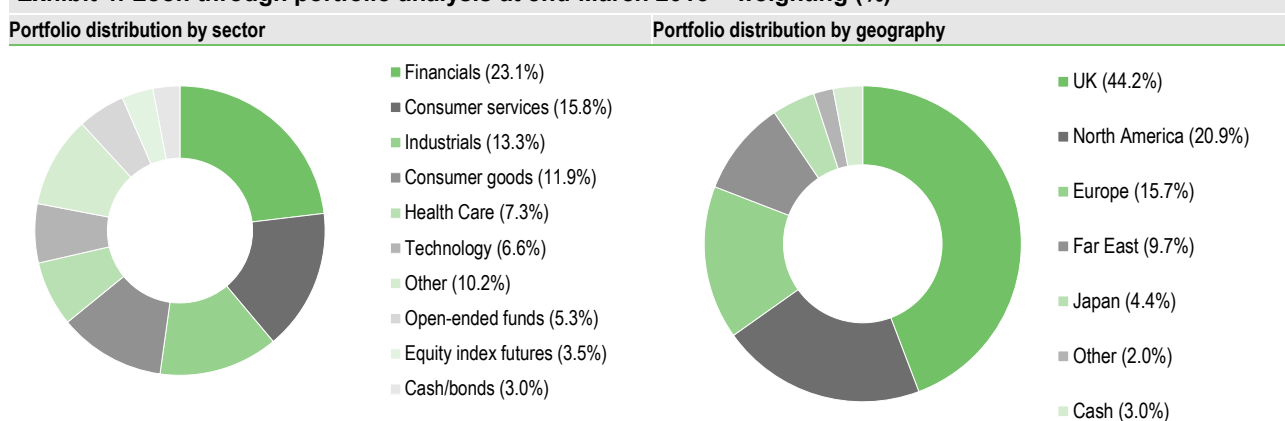
Exhibit 3: Witan portfolio analysis and performance by investment manager

Equity mandate	Investment manager	Benchmark (total return)	Investment style	% of FUM at 31/12/14*	Inception date	2014 Performance	
						Witan	Benchmark
UK	Artemis	FTSE All-Share	Recovery/special situations	9.6	06-May-08	2.9	1.2
UK	Heronbridge	FTSE All-Share	Intrinsic value growth	6.6	17-Jun-13	1.2	1.2
UK	Lindsell Train	FTSE All-Share	Long-term growth from undervalued brands	11.8	01-Sep-10	7.4	1.2
Global	Lansdowne	DJ Global Titans	Concentrated, benchmark-independent investment in developed markets	9.5	14-Dec-12	17.5	11.1
Global	MFS Intl.	FTSE All-World	Growth at an attractive price	8.7	30-Sep-04	12.0	11.3
Global	Pzena	FTSE All-World	Systematic value	9.8	02-Dec-13	8.4	11.3
Global	Tweedy, Browne	FTSE All-World	Fundamental value	3.2	02-Dec-13	8.1	11.3
Global	Veritas	FTSE All-World	Fundamental value, real return objective	12.6	11-Nov-10	13.9	11.2
Pan-European	Marathon	FTSE All-World Developed Europe	Capital cycles	7.3	23-Jul-10	1.9	0.3
Asia Pacific (incl. Japan)	Matthews Intl.	MSCI Asia Pacific Free	Quality companies with dividend growth	9.7	20-Feb-13	5.9	6.5
Emerging Markets	Trilogy Global Advisors	MSCI Emerging Markets	Fundamental, growth orientated	3.3	09-Dec-10	3.7	4.3
Directly held investments	Witan Executive team	Witan's composite benchmark	Collective funds invested in mispriced assets, recovery situations or specialist assets	6.7	19-Mar-10	5.3	5.5

Source: Witan Investment Trust. Note: *Excludes Polar Japan open-ended funds (£19.8m, 1.2% of assets) and central cash balances.

Each manager has a specific approach but, as a generalisation, there is a bias to value/growth at a reasonable price (GARP). The allocations at the 2014 year end ranged between 3.2% and 12.6% (Tweedy Brown and Veritas global mandates). The directly held investments that accounted for 6.7% of the portfolio comprise selected collective funds invested in assets that Witan's CEO believes are undervalued: this mainly consisted of private equity funds and funds giving exposure to domestic recovery and specific sectors (insurance, mining and environmental). After four changes during 2013 there were no changes in mandate in 2014.

Exhibit 3 also shows performance by investment manager in 2014. Seven of the managers matched or exceeded their benchmarks in the year and (not shown) eight have done so since inception. Among the managers, particularly strong relative performance has been achieved by Lansdowne Partners and Lindsell Train, both last year and since inception.

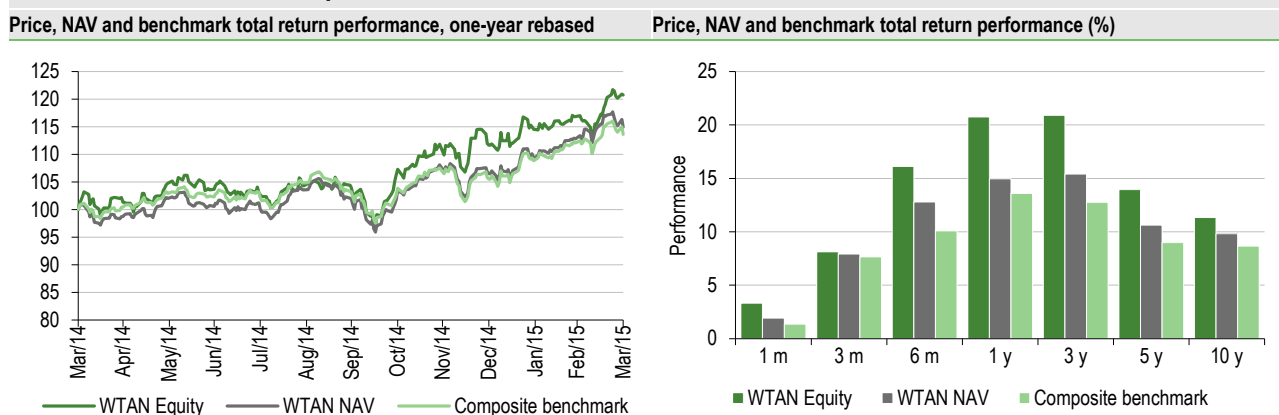
Exhibit 4: Look-through portfolio analysis at end-March 2015 – weighting (%)


Source: Witan Investment Trust, Edison Investment Research

As Exhibit 4 shows, the principal underlying exposures are in the financials, consumer services, industrials and consumer goods sectors. The main changes over the last year include a 2.8 percentage point increase in financials and reductions in the 'other' and open-ended categories. Underlying geographical exposure shows generally modest variations from the benchmark balance (UK 40% and North America, Europe and Asia 20% each), with the exception of Europe where the trust has c 16% of its assets. Apart from a 2.5 percentage point increase in cash there has been little change since last year.

Performance: Ahead of benchmark

Exhibit 5: Investment trust performance



Source: Thomson Datastream, Edison Investment Research. Note: Three-year, five-year and 10-year figures are annualised.

Exhibit 6: Share price and NAV total return performance relative to benchmark (geometric calculation)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to composite benchmark	2.0	0.4	5.5	6.3	23.2	25.0	27.5
NAV relative to composite benchmark	0.6	0.2	2.5	1.2	7.2	7.9	11.1
Price relative to MSCI World	0.8	0.5	2.6	0.9	14.3	13.5	17.2
NAV relative to MSCI World	(0.6)	0.3	(0.3)	(4.0)	(0.6)	(2.0)	2.1
Price relative to FTSE AllShare	5.1	3.3	10.3	13.3	30.5	28.7	38.8
NAV relative to FTSE AllShare	3.6	3.1	7.1	7.9	13.5	11.1	20.9

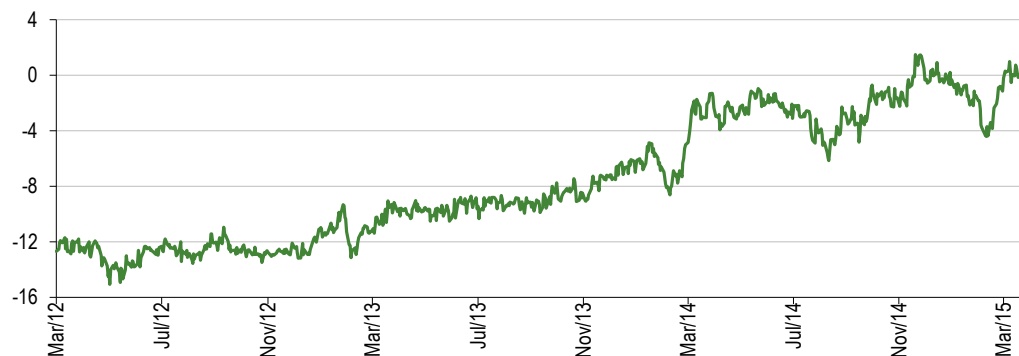
Source: Thomson Datastream, Edison Investment Research. Note: Data to end March 2015. All indices total return and £ adjusted.

Witan's share price and NAV total returns have outperformed its composite benchmark over all the periods shown in Exhibit 6. NAV performance has been more significantly ahead of the FTSE All Share and generally similar to that of the MSCI World index. As shown in Exhibit 3, the majority of Witan's external managers outperformed in FY14, and while the direct holdings were marginally behind their benchmark, they still achieved a positive performance of over 5% despite the disappointing performance of an investment in BlackRock World Mining Trust. This holding has subsequently been increased as the underlying rationale, to increase the portfolio's limited mining exposure, remains valid.

Discount: Narrowed further over last 12 months

Witan has authority to buy back up to 14.99% of the issued share capital with the objective of achieving a sustainable discount of 10% or less. However, as shown in Exhibit 7, the discount has continued to narrow over the last year and at times the shares have traded at a premium, prompting the board to make use of its ability to issue shares at NAV or above, for the first time in more than 20 years. So far the issuance has raised over £20m and can be seen as a reflection of the appeal of the performance and dividend record and the trust's offering of an all-in-one global equity solution.

While there is clearly the risk of the discount widening in a softer equity market, the shares do appear to have established a lower habitual level with a 1.4% discount average over one year and 6.8% over three years.

Exhibit 7: Discount over three years (NAV with debt at fair value incl. income)


Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Witan has c 192m ordinary shares and a total of 2.6m preference shares in issue. In addition to the preference shares, structural gearing (£110.7m at end December 2014) includes an 8.5% 2016 debenture (£44.6m) and 6.125% 2025 secured bonds (£63.3m). Witan also has a £70m one-year multi-currency debt facility, of which £45m was drawn at the end of December. The company announced in April that it had agreed to issue £75m in long-term private placement debt (£21m at 3.29% for 20 years, £54m at 3.47% for 30 years). In the near-term, this will be used to repay short-term borrowings as well as for general corporate purposes. The new debt issue has also been made in anticipation of the scheduled repayment of the 2016 Debenture in October. Allowing for the long position in Nikkei futures net gearing at the end of March was 11%.

Board policy is to use gearing actively to manage risk and take advantage of investment opportunities. The external managers are not allowed to employ gearing but may hold cash. The board's policy is not to allow gearing to rise above 20%; in the last five years it has generally been between 5% and 15% and where appropriate Witan may hold a small net cash position.

The trust is self-managed in terms of allocating assets to external managers and the ongoing charge of 0.96% with performance fees and 0.74% without, captures Witan's costs and the underlying charges associated with the manager mandates. Base management fees average 0.48% with performance fees, where they apply, averaging 6% of outperformance.

Dividend policy

Witan is managed to deliver total returns but within this, where possible, its policy is to provide real dividend growth, measured against the UK consumer price index. Dividends have been increased in each of the last 40 years and, over the last 10 years, 6.0% compound annual growth in dividends has outpaced the 2.7% consumer price inflation rate. The trust pays quarterly dividends with the first three payments expected to be made at the rate of one quarter of each of the full year dividend for the previous year: for 2015 this would be 3.85p. The final payment is then set to give the full year dividend.

The investment manager mandates do not include yield targets as the board believes this could constrain manager choices. The range of managers and diversification of underlying investments should reduce the chances of sharp fluctuations in portfolio income. In addition, the year-end revenue reserve equivalent to 29.1p per share or 1.9x the last full year dividend provides scope to maintain the longstanding dividend payment record even if there were a near-term shortfall in revenue earnings.

Peer group comparison

Witan is classified within the 37-strong AIC Global sector, and in Exhibit 8 we show the sector trusts with market caps above £600m. These peers have a diversity of approaches and exposures and Witan is unique in having a full multi-manager approach. Another differentiator is Witan's c 45% UK allocation compared with the 8% to 69% range for the companies shown and an average of 28%. Witan's NAV total return ranks it ahead of the weighted averages for the sector and selected peers over three and five years. It is also ahead of the unweighted averages over one year (not shown). In terms of risk-adjusted returns, Witan's Sharpe ratio over three years is similar to the peer group and sector averages. Witan's ongoing charge and dividend yield are both in line with peer group averages.

Exhibit 8: Global Growth sector closed-end funds – selected peers and average as at 22 April 2015

Fund Name	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf fee	Net gearing	Dividend yield (%)
Alliance Trust	2,846	20.1	47.4	53.9	2.2	1.3	(12.9)	0.7	No	109.0	2.0
Bankers	722	22.4	56.9	70.1	2.3	1.4	(5.2)	0.5	No	102.0	2.3
British Empire Securities	753	10.3	39.6	37.1	1.4	1.1	(9.9)	0.9	No	99.0	1.9
Caledonia Investments	1,331	17.9	63.5	54.8	1.8	1.8	(17.9)	1.0	No	95.0	2.0
F&C Investment Trust	2,517	24.0	54.8	67.2	2.8	1.5	(11.0)	0.9	No	108.0	2.1
Law Debenture Corporation	609	12.1	60.5	95.1	0.9	1.5	2.4	0.5	No	105.0	3.1
Monks	963	15.9	32.7	37.3	1.1	0.9	(9.1)	0.6	No	103.0	0.9
Personal Assets	614	9.2	11.5	35.4	1.3	0.4	(0.6)	0.9	No	73.0	1.6
RIT Capital Partners	2,461	20.4	43.5	47.1	2.5	1.6	(1.0)	1.3	Yes	116.0	1.9
Scottish Investment Trust	706	17.7	46.7	55.6	1.4	1.1	(10.1)	0.7	No	104.0	1.8
Scottish Mortgage	3,450	34.6	87.4	107.6	1.9	1.4	2.5	0.5	No	113.0	1.1
Witan	1,593	20.2	62.5	68.3	1.7	1.3	0.4	0.8	Yes	110.0	1.9
Weighted average		22.0	56.3	66.0	2.0	1.4	(5.8)	0.8		107.1	1.8
Sector weighted average		21.1	55.0	65.2	1.9	1.3	(5.8)	0.8		106.0	1.7

Source: Morningstar. Note: TR=total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

There are eight board members of whom seven are independent and non-executive. The directors, with year of appointment as director in brackets, are as follows: Harry Henderson (appointed 1988 and chairman from March 2003), Andrew Bell (CEO from February 2010), Robert Boyle (2007), James Bevan (2007), Catherine Claydon (2009), Suzy Neubert (2012), Richard Oldfield (2011) and Tony Watson (2006, senior independent director from February 2008).

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