

Witan Investment Trust

Adding to its record of outperformance

Witan Investment Trust (WTAN) has employed an active multi-manager strategy since 2004, offering investors diverse exposure to global equities. In 2017, the trust delivered another year of outperformance versus its composite benchmark, which it has surpassed over the last one, three, five and 10 years. WTAN's investment director, James Hart, believes that equities can continue to offer attractive returns for the patient investor, although he notes that stock market volatility is now higher than the benign levels experienced in 2017. In this environment, he believes that active stock picking, rather than blanket equity exposure, should produce better returns for investors. WTAN has a progressive dividend policy; its annual distribution has increased for the last 43 consecutive years.

12 months ending	Share price (%)	NAV (%)	Composite benchmark* (%)	MSCI World (%)	FTSE All-Share (%)	FTSE AW North America (%)
30/04/14	18.9	9.8	7.1	8.1	10.5	10.6
30/04/15	19.6	17.0	14.3	18.7	7.5	23.0
30/04/16	(7.1)	(1.4)	(3.6)	1.1	(5.7)	4.8
30/04/17	35.3	30.7	27.2	30.6	20.1	33.1
30/04/18	10.6	8.9	8.8	6.9	8.2	6.3

Source: Thomson Datastream. Note: All % on a total return basis in £. *See Fund profile section on page 3. Since 1 January 2017, 30% All-Share, 25% All-World North America, 20% All-World Asia Pacific, 20% All-World Europe (ex-UK) and 5% Emerging Markets.

Investment strategy: Focused external managers

In adopting a multi-manager strategy, alongside select direct investments in specialist funds and smaller, niche managers, WTAN aims to generate the highest returns possible, with lower volatility than may occur from exposure to a single manager. The current level of 10 external managers is made up of three UK, three global, two European, one Asia Pacific (including Japan) and one emerging market specialist. All are selected for their high-conviction, long-term approaches to investment. Corporate level gearing of up to 20% of NAV is permitted.

Market outlook: More selectivity needed

Equities have been supported by robust corporate earnings growth, but have also undergone a period of valuation multiple expansion. Based on a forward P/E multiple and price-to-book bases, global equities are trading at a more than 10% and 20% premium to their respective averages over the last 10 years. In this environment, investors may be rewarded by considering exposure to managers that employ a high-conviction, fundamental approach to stock selection.

Valuation: Trading close to NAV

WTAN's board actively manages the discount, aiming for its shares to trade close to NAV. In 2017, WTAN repurchased c 1.5% of its shares at discounts between 1.5% and 6.0% (the trust has been buying back shares at lower discounts than in recent years). Its current 0.8% share price discount to cum-income NAV is narrower than the averages of the last one, three, five and 10 years (range of 2.0% to 7.5%). WTAN has a distinguished dividend history; it has increased the annual payout for 43 consecutive years, its current yield is 2.0%.

Investment trusts

21 May 2018

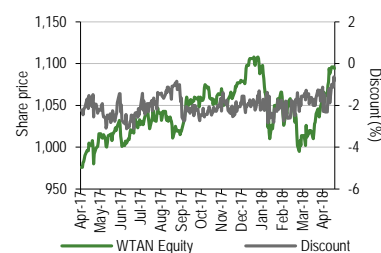
Price 1,094.0p
Market cap £1,950m
AUM £2,188m

NAV* 1,110.5p
Discount to NAV 1.5%
NAV** 1,102.9p
Discount to NAV 0.8%

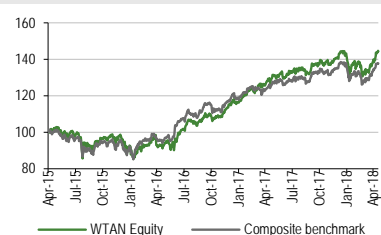
*Excluding income. **Including income. As at 17 May 2018.

Yield 2.0%
Ordinary shares in issue 178.2m
Code WTAN
Primary exchange LSE
AIC sector Global
Benchmark Composite benchmark

Share price/discount performance



Three-year performance vs index



52-week high/low 1,108.0p 992.0p
NAV** high/low 1,129.6p 1,011.5p

**Including income.

Gearing

Net* 10%

*As at 30 April 2018.

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Exhibit 1: Trust at a glance

Investment objective and fund background

WTAN aims to deliver long-term growth in income and capital through active multi-manager investment in global equities. Funds are currently allocated to 10 external managers and up to 12.5% is directly invested in specialist funds and smaller, niche managers. Witan seeks external managers with the conviction to take views that may diverge from benchmark weightings.

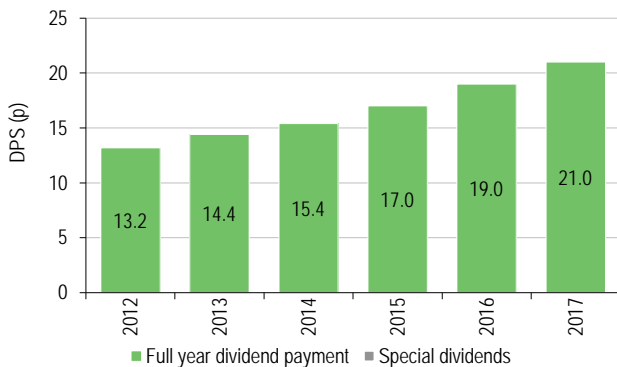
Recent developments

- 3 May 2018: Appointment of Paul Yates as a non-executive director, with immediate effect.
- 2 May 2018: Declaration of 5.25p first interim dividend (+10.5% year-on-year).
- 13 March 2018: Annual report ending 31 December 2017. NAV TR +19.0% versus benchmark TR +15.1%. Share price TR +22.1%.
- 7 February 2018: Declaration of 6.75p fourth interim dividend (+8.0% year-on-year).

Forthcoming		Capital structure		Fund details	
AGM	May 2019	Ongoing charges	0.76% (0.78% incl. perf. fees)	Group	Self-managed (Witan Inv. Services)
Interim results	August 2018	Net gearing	10%	Manager	Andrew Bell (CEO), James Hart (investment director)
Year end	31 December	Annual mgmt fee	See page 7	Address	14, Queen Anne's Gate, London, SW1H 9AA
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	Yes (see page 7)	Phone	0800 082 8180
Launch date	February 1909	Trust life	Indefinite	Website	www.witan.com
Continuation vote	No	Loan facilities	See page 7		

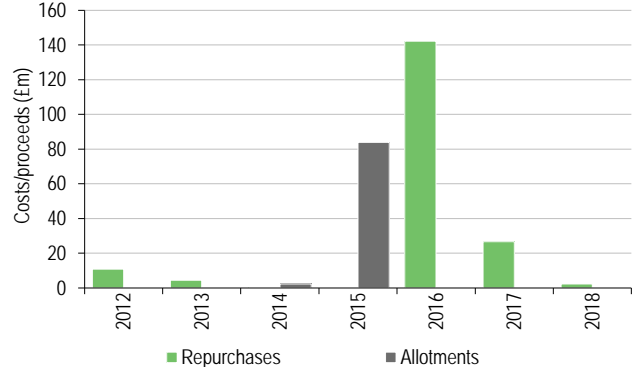
Dividend policy and history (financial years)

Quarterly dividends are paid, with the first three equivalent to a quarter of the previous year's total and the final making up the full-year payment. There have been 43 years of consecutive annual dividend increases.

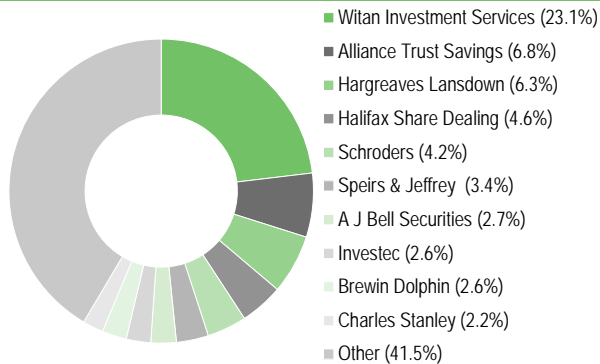


Share buyback policy and history (financial years)

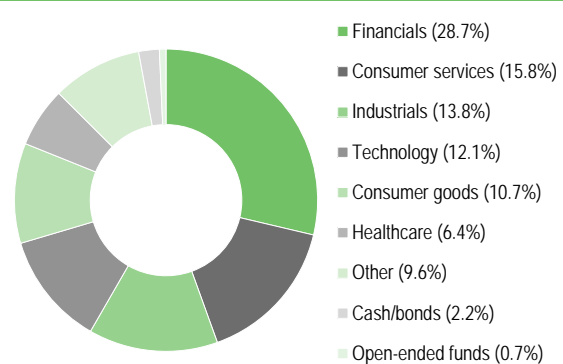
Renewed annually, the board has authority both to repurchase at a discount (14.99%) and allot at a premium (10%) ordinary shares. 2016 includes repurchase from Aviva.



Shareholder base (as at 16 May 2018)



Portfolio exposure by sector (as at 30 April 2018)



Top 10 holdings (on a look-through basis as at 30 April 2018)

Company	Country	Sector	Portfolio weight %	
			30 April 2018	30 April 2017*
Vonovia	Germany	Real estate	1.8	N/A
Apax Global Alpha**	UK	Investment company	1.8	1.5
Syncona**	UK	Investment company	1.7	1.4
BlackRock World Mining Trust**	UK	Investment company	1.6	1.5
London Stock Exchange	UK	Financial services	1.4	1.5
Lloyds Banking Group	UK	Banks	1.3	1.4
JP Morgan	US	Banks	1.3	1.5
Unilever	UK	Personal goods	1.2	N/A
Alphabet***	US	Internet media	1.2	1.4
Taiwan Semiconductor Manufacturing	Taiwan	Technology hardware & equipment	1.2	N/A
Top 10			14.5	15.1

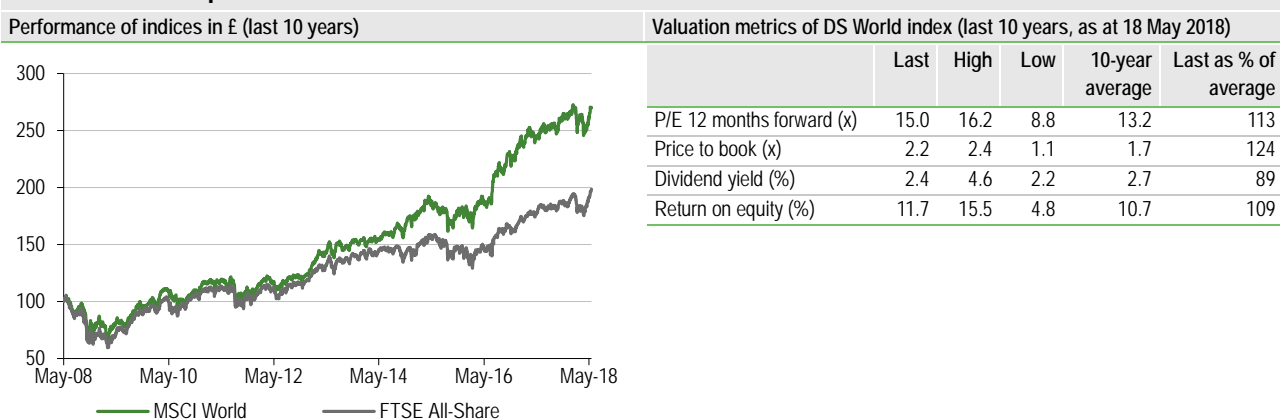
Source: Witan Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in April 2017 top 10.

Direct fund investments. *Parent of Google.

Market outlook: Favouring a more selective approach

Global stock markets enjoyed a period of particularly low volatility in 2017, but have been choppy so far in 2018 due to macroeconomic considerations, including the potential for more restrictive global trade and an environment of higher interest rates. Along with robust corporate earnings growth in recent years, share prices have re-rated higher and are now above long-term averages, which has led to above-average equity returns (Exhibit 2, left-hand side). On a forward P/E multiple basis, global equities, illustrated by the DS World index, are trading towards the high end of the 10-year range and are more than 10% higher rated than the average over the last decade (Exhibit 2, right-hand side). Given this backdrop, and the potential for more restrained equity returns, investors may be rewarded by considering managers with a high-conviction, stock picking approach.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research

Fund profile: Enhanced multi-manager approach

WTAN was launched in 1909 and is listed on the Main Market of the London Stock Exchange. The trust aims to generate long-term growth in capital and to grow income faster than the pace of UK inflation. At end-April 2018, the trust had c £2bn in gross assets. WTAN adopted a multi-manager strategy in 2004, aiming to maximise returns, while reducing the performance volatility risk arising from the dependence on a single manager. At that time, the trust became self-managed and appointed its first chief executive. WTAN typically employs around 10 external managers, investing in both developed and emerging markets. Managers are selected for their high-conviction, unconstrained approaches. Up to 10% of WTAN's portfolio may be invested directly by its executive team into specialist funds, and a further 2.5% may be invested with newly established or niche investment managers. The use of derivatives is permitted and in recent years, exchange-traded index futures have been used to allow rapid changes in asset allocation, without interfering with the strategies of the external managers. Gearing of up to 20% of net assets is permitted and over the last five years has typically been in a range of 5% to 15% (a small cash position may be held when appropriate); at end-April 2018, gearing was 10%. WTAN's benchmark has evolved over time, reflecting where its board and executive team believe the opportunities lie for a global investor. There is a relatively high UK weighting of c 30% (down from 60% in 2003), although many UK index constituents provide global exposure.

The composite benchmark comprises FTSE indices: from 1 September 2004 to 30 September 2007, 50% All-Share and 50% World (ex-UK); from 1 October 2007 to 31 December 2016, 40% All-Share, 20% All-World North America, 20% All-World Asia Pacific and 20% All-World Europe (ex-UK); and since 1 January 2017, 30% All-Share, 25% All-World North America, 20% All-World Asia Pacific, 20% All-World Europe (ex-UK) and 5% Emerging Markets.

CEO and investment director: Andrew Bell, James Hart

The director's view: Still positive on the outlook for equities

We met with WTAN's investment director James Hart. While remaining constructive on the outlook for equity returns, he acknowledges that the period of low stock market volatility witnessed in 2017 is behind us. He says that while there has been a broad-based economic improvement over the last couple of years, it has not been a runaway boom (that could be followed by a bust); he is encouraged that the global population is slowly becoming more prosperous, and higher consumption is driving corporate earnings growth, which is supportive for equity returns.

While fears of higher inflation in early-February 2018 caused a wobble in global stock markets, Hart says that concerns have died down, and 2018 inflation expectations are only modestly higher than 2017 inflation levels. He says that while US government bond yields have increased, the current 10-year level of c 3% is not high enough to put significant pressure on equity valuation multiples. Given the positive revaluation of equities in recent quarters, Hart believes that equity returns will be driven primarily by corporate earnings growth rather than further multiple expansion.

While there are macroeconomic considerations, such as President Trump's protectionist rhetoric, Hart believes that there will not be an out-and-out global trade war, as this is not in anyone's best interests. He says that there is a risk of a slowdown in world economic growth, but so far growth remains acceptable. In his view, if economic growth were to stall, this would likely reduce concerns about inflation and higher interest rates. In addition, he considers that central banks are unlikely to rein in quantitative easing if growth starts to wane.

Hart believes that the current investment backdrop lends itself to stock picking, rather than to blanket equity exposure. He notes the rise in WTAN's active share from 70% to 77%, on a look-through basis, over the course of 2017 (active share is a measure of how a portfolio differs from its benchmark, with 0% representing full index replication and 100% no commonality with the index). Hart comments that stock market leadership has been narrow, and some of the large technology companies are 'priced for perfection', which means they are at risk of valuation multiple compression if their earnings fall short of consensus estimates.

Asset allocation

Investment process: Active multi-manager selection

WTAN has employed a multi-manager approach since 2004. It typically allocates the majority of its portfolio to around 10 external managers, who are selected for their active, high-conviction approaches, where stock-specific factors, rather than any particular style bias such as growth or value, are more likely to influence returns over the long term. At end-March 2018, there were 10 external managers: three UK (22% of the portfolio), three global (42%), two European (10%), one Asia Pacific including Japan (12%) and one emerging markets (4%). The managers are reviewed by the board at least once a year and more frequently by the executive team. They are more likely to be replaced if there are significant changes at the management company (including to key personnel), or if they drift away from their investment mandates, rather than for short-term underperformance versus their respective benchmarks. WTAN's board and executive team are also responsible for asset allocation and the use of gearing. Up to 12.5% of WTAN's portfolio may be in investments selected by the executive team (previously 10.0%), with up to 10% in specialist collective funds and (new in 2018) up to 2.5% in smaller mandates to third-party managers that are newly established or running niche investment strategies. In April 2018, WTAN made a small investment into a global equity strategy run by Latitude Investment Management. The manager is Freddie Lait who, prior to setting up his own company, worked at Odey Asset Management.

Current portfolio positioning

Exhibit 3 shows WTAN's current multi-manager line-up. There were a number of changes made during 2017. In February, GQG Partners was appointed to increase the trust's emerging market exposure. In May, WTAN's global exposure was consolidated as the relatively small MFS and Tweedy, Browne global portfolios were liquidated, with the proceeds reallocated to the remaining three global managers: Lansdowne Partners, Pzena and Veritas. In October, WTAN increased its exposure to Europe by liquidating the pan-European portfolio managed by Marathon and committing additional cash resources to two new continental European managers: CRUX and S.W. Mitchell. The number of positions held by each of the external managers ranges from 15 to 70, with active shares between 73% and 97%. During 2017, WTAN's overall portfolio moved from c 550 holdings and a 70% active share to c 350 holdings with a 77% active share.

Exhibit 3: Witan portfolio analysis and performance by investment manager

Equity mandate	Investment manager	Benchmark (total return)	Investment style	% of AUM at 31 Mar 2018*	Inception date	2017 performance (%)		
						Witan	B'mark	Diff.
UK	Artemis	FTSE All-Share	Recovery/special situations	8	06-May-08	7.7	13.1	(5.4)
UK	Heronbridge	FTSE All-Share	Intrinsic value growth	6	17-Jun-13	12.0	13.1	(1.1)
UK	Lindsell Train	FTSE All-Share	Long-term growth from undervalued brands	8	01-Sep-10	21.8	13.1	8.7
Global	Lansdowne Partners	DJ Global Titans	Concentrated, benchmark-independent investment in developed markets	15	14-Dec-12	19.1	11.6	7.5
Global	Pzena	FTSE All-World	Systematic value	14	02-Dec-13	14.0	13.8	0.2
Global	Veritas	FTSE All-World	Fundamental value, real return objective	13	11-Nov-10	17.1	13.8	3.3
Europe	CRUX	FTSE Europe ex-UK	High-quality companies at attractive valuations	5	27-Oct-17	N/A	N/A	N/A
Europe	S.W. Mitchell	FTSE Europe ex-UK	Unrecognised value with an unconstrained, concentrated and long-term investment approach	5	27-Oct-17	N/A	N/A	N/A
Asia Pacific (incl. Japan)	Mathews Int'l	MSCI Asia Pacific Free	Quality companies with dividend growth	12	20-Feb-13	21.5	20.6	0.9
Emerging Markets	GQG Partners	MSCI Emerging Markets	High-quality companies with attractively priced growth prospects	4	16-Feb-17	N/A	N/A	N/A
Directly held investments	Witan's Executive Team	Witan's composite benchmark	Collective funds invested in mispriced assets, recovery situations or specialist assets	10	19-Mar-10	27.2	15.1	12.1

Source: Witan Investment Trust. Note: *Percentage of Witan's assets managed, excluding central cash balances. Performance data for CRUX, S W Mitchell and GQG Partners are unavailable as the managers were hired during 2017.

WTAN has increased its European (ex-UK) exposure over the last 12 months. Economic growth in the region had been slower than other developed markets, such as the US, leading to relatively weak corporate earnings growth. There were also ongoing political issues. However, in recent quarters, there has been an earnings pick-up in Europe and the political landscape has improved.

Exhibit 4: Portfolio geographic exposure vs FTSE All-World Index (% unless stated)

	Portfolio end-April 2018	Portfolio end-April 2017	Change (pp)	FTSE All World end-April 2017	Active weight vs index (pp)	Trust weight/index weight (x)
UK*	35	39	(4)	6	29	5.8
Europe	23	23	0	16	7	1.5
North America	21	17	4	54	(33)	0.4
Far East	15	13	2	9	6	1.6
Japan	5	5	0	9	(4)	0.6
Other	1	3	(2)	6	(5)	0.2
	100	100		100		

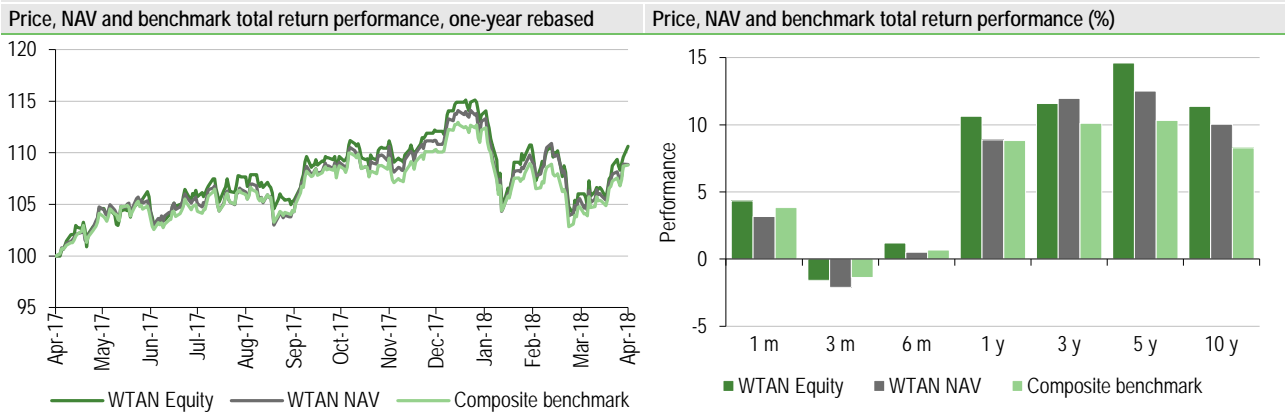
Source: Witan Investment Trust, Edison Investment Research, FTSE Russell. Note: Excluding cash, rebased to 100. *Includes funds listed in the UK but invested internationally.

Performance: Consistent outperformance

As shown in Exhibit 3, in 2017, the majority of WTAN's managers outperformed their respective benchmarks. The exceptions were two UK managers, who underperformed for Brexit-related and stock-specific reasons. Hart says that there is a lot of bad news priced into UK companies with domestic operations, and any positive news on Brexit progress should be well received. The trust's

directly held investments performed particularly strongly in 2017, led by specialist life science fund Syncona, which generated a 52% total return during the year. The longstanding position in Princess Private Equity was also a positive contributor, led by a positive NAV performance and a narrowing in its discount.

Exhibit 5: Investment trust performance to 30 April 2018



Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. The benchmark comprises FTSE indices. 1 Sep 2004 to 30 Sep 2007: 50% All-Share and 50% World (ex-UK). 1 Oct 2007 to 31 Dec 2016: 40% All-Share, 20% All-World North America, 20% All-World Asia Pacific and 20% All-World Europe (ex-UK). Since 1 Jan 2017: 30% All-Share, 25% All-World North America, 20% All-World Asia Pacific, 20% All-World Europe (ex-UK) and 5% Emerging Markets.

WTAN's relative returns are shown in Exhibit 6; it has outperformed its composite benchmark in both NAV and share price terms over one, three, five and 10 years. It is interesting to note the significant outperformance of the trust compared to the FTSE All-Share over both long and shorter time periods, illustrating the benefits that may be gained from global investing.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to composite benchmark	0.5	(0.2)	0.5	1.7	4.1	20.9	32.4
NAV relative to composite benchmark	(0.6)	(0.8)	(0.2)	0.1	5.2	10.3	17.4
Price relative to MSCI World	1.2	0.3	1.2	3.5	(1.6)	9.2	13.0
NAV relative to MSCI World	0.1	(0.2)	0.5	1.8	(0.6)	(0.4)	0.2
Price relative to FTSE All-Share	(2.0)	(2.6)	(0.9)	2.3	13.4	35.8	53.6
NAV relative to FTSE All-Share	(3.1)	(3.1)	(1.6)	0.7	14.5	23.8	36.2

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2017. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years



Source: Thomson Datastream, Edison Investment Research

Discount: Trading in a narrow range

Over the past year, WTAN's shares have traded in a narrow discount range around 2%. This compares to the average share price discounts to cum-income NAV over the last one, three, five

and 10 years of 2.0%, 3.0%, 3.5% and 7.5% respectively. The board actively manages the discount, aiming for its shares to trade close to NAV, and has bought back shares at narrower discounts in recent years. It has the authority, renewed annually, to repurchase up to 14.99% and allot 10% of its outstanding shares. During 2017, 2.8m shares were repurchased (1.5% of shares outstanding) at discounts between 1.5% and 6.0%, which added £0.9m to NAV (0.05%).

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

WTAN is a conventional investment trust, with one class of shares in issue. There are currently 178.2m ordinary shares outstanding. Following the issuance of a £30m, 2.74%, 37-year private placement note in August 2017, the trust's average interest payable on its £170m structural debt decreased from 4.6% to 4.3%, which compares to 7.0% in 2014. WTAN manages its gearing at a corporate level and the external managers may hold cash, but are not allowed to employ gearing. At end-April 2018, net gearing was 10%, which compares with a range of 5-15% over the last five years. After taking borrowing costs into account, in 2017, average gearing of 10.5% added 1.7% to NAV. Management fees are levied by the external managers. At end-December 2017, the base fees ranged from 0.25% to 0.80% pa and the weighted average base fee was 0.52%, compared with 0.49% at end-December 2016. Two managers are entitled to a performance fee, compared with four at end-December 2016, but these two have lower base fees than the other managers. The majority of the managers' base fees incorporate a taper, meaning as their portfolios increase in size, their fee rate is reduced. WTAN's ongoing charges in 2017 were 0.76%, which was marginally higher than 0.75% in 2016. Including performance fees, the ongoing charge increased to 0.78% from 0.65% in 2016 (the fees including performance fees were lower due to the underperformance of some of the external managers during that year).

Dividend policy and record

WTAN aims to generate long-term growth in both income and capital, seeking to grow the annual dividend at a rate higher than UK inflation. Dividends are paid quarterly in March, June, September and December. Typically, the first three interim dividends are a quarter of the prior years' total distribution, followed by a higher fourth interim dividend. The FY17 dividend of 21p was 10.5% higher than 19p in FY16 and double the FY09 distribution, marking 43 years of consecutive annual dividend increases. Over the last five years, dividends have compounded at an annual rate of c 10%, which is far above the 1.3% average annual CPI rate over this period. End-FY17 revenue reserves of £60m (after allowing for the fourth interim payment) are equivalent to more than 1.5x the annual dividend, and can be drawn on during periods of lower income.

Peer group comparison

In Exhibit 9 we show the members of the AIC Global sector with market caps over £600m. WTAN's NAV total returns are above average over 10 years, while lagging over one, three and five years, although the averages are skewed by the significant outperformance of the largest trust Scottish Mortgage. WTAN trades on a narrower discount than Alliance Trust, which is the only other trust in the sector with a fully multi-manager investment strategy. The trust's ongoing charge is above average, and it is the only fund with a performance fee element. WTAN's level of gearing is the second highest in the selected peer group. It has a higher dividend growth rate than its peers, and a dividend yield that is 0.4pp higher than average, ranking fifth out of 11 trusts.

Exhibit 9: Selected peer group as at 17 May 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee**	Net gearing	Dividend yield
Witan	1,953.4	9.6	45.2	77.8	160.3	(1.2)	0.8	Yes	110	2.0
Alliance Trust	2,524.3	9.4	49.0	69.2	128.7	(5.6)	0.6	No	104	1.8
Bankers	1,087.5	11.6	45.8	77.0	138.9	0.0	0.4	No	104	2.2
British Empire	856.1	9.8	49.1	59.2	102.2	(10.3)	0.9	No	104	1.6
Caledonia Investments	1,483.0	3.5	27.0	61.7	82.5	(18.9)	1.1	No	100	2.1
F&C Global Smaller Companies	839.2	11.0	48.8	89.1	249.0	0.1	0.6	No	104	0.9
Foreign & Colonial	3,708.5	12.2	51.5	82.6	139.2	(0.7)	0.5	No	109	1.5
Law Debenture Corporation	727.9	8.6	33.8	66.1	145.0	(13.2)	0.4	No	114	2.8
Monks	1,784.9	16.9	72.4	97.1	109.9	3.1	0.6	No	100	0.2
Scottish Investment Trust	672.2	9.5	44.7	62.7	111.7	(12.1)	0.5	No	104	2.3
Scottish Mortgage	7,061.7	29.5	93.4	184.2	261.4	4.1	0.4	No	106	0.6
Average	2,063.5	12.0	51.0	84.2	148.1	(5.0)	0.6		105	1.6
WTAN rank in group (11 trusts)	4	7	8	5	3	6	3		2	5

Source: Morningstar, Edison Investment Research. Note: *Performance data to 16 May 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. **Two of WTAN's managers are eligible for performance fees.

The board

Two directors stood down at the 2 May 2018 AGM: Robert Boyle (who had served since 2007) and Catherine Claydon (since 2009). Paul Yates was appointed on 3 May 2018. This means that there are now eight directors on WTAN's board. Seven of the board members are non-executive and independent of the manager. Andrew Bell, CEO of WTAN, is considered non-independent and was appointed in 2010. The board is chaired by Harry Henderson, who was appointed in 1988 and assumed his current role in 2003. Tony Watson was appointed in 2006, Richard Oldfield in 2011, Suzy Neubert in 2012, Ben Rogoff in 2016, and Jack Perry in 2017. Recently appointed Yates has 37 years' investment experience. He is chairman of the advisory board of 33 St James's and is a non-executive director of Aberdeen Diversified Income and Growth Trust, Fidelity European Values and The Merchants Trust. Previously, he was CEO of UBS Global Asset Management (UK).

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