

# Witan Investment Trust

A 'one-stop global equities shop' returning to form

Witan Investment Trust (WTAN) employs a multi-manager approach to invest in global equities, including varied and interesting strategies that may normally be unavailable to individual investors. WTAN's recently released results for the year ended December 2022 do not tell the whole story regarding the trust's current performance, however, as they mask an improvement in relative returns following a difficult first quarter. This improvement gathered momentum in the second half of 2022 and accelerated in the first two months of this year. In the six months to end February 2023, the trust returned 3.7% in NAV terms and 4.8% on a share price basis, outpacing the benchmark return of 0.9% considerably. While it is early days still, this suggests the portfolio's positioning in anticipation of improved economic and market conditions is beginning to pay off and should continue to reward investors as economic activity picks up over 2023 and beyond.

## NAV total return performance versus benchmark over three years



Source: Refinitiv, Edison Investment Research

## The analyst's view

- WTAN's broad exposure to global large and mid-cap stocks, across several managers, may appeal to investors seeking 'a one-stop shop', offering a long-term buy and hold strategy.
- Exposure to specialist strategies invested in private equity, real estate, climate change mitigation and life sciences may attract those seeking interesting opportunities beyond mainstream equity investment.
- The recent upturn in absolute and relative performance suggests the portfolio is well-positioned to benefit from further improvement in market conditions.
- WTAN's Responsible Investment strategy, which aims to ensure its portfolio consists entirely of sustainable businesses by 2030, will appeal to a range of investors looking for equity returns that are complemented by improving ESG characteristics over time.
- The trust's historically wide discount has scope to narrow, supported by regular share buybacks or a sustained improvement in performance. Meanwhile, the discount offers investors the chance to buy at a potentially attractive price.

Investment trusts  
Global equities

20 March 2023

**Price** 219.0p  
**Market cap** £1,464m  
**AUM** £1,861m

NAV\* 242.0p  
Discount to NAV 9.5%

\*Including income. As at 16 March 2023.

Yield 2.6%

Ordinary shares in issue 668.3m

Code/ISIN WTAN/GB00BJTRSD38

Primary exchange LSE

AIC sector Global

52-week high/low 236.5p 202.0p

NAV\* high/low 258.2p 221.5p

\*Including income

Net gearing\* 14.5%

\*As at 28 February 2023.

## Fund objective

Witan Investment Trust aims to achieve an investment total return exceeding that of its benchmark over the long term together with growth in the dividend ahead of inflation. The trust's composite benchmark with effect from 1 January 2020 is 15% UK and 85% world (including the UK).

## Bull points

- WTAN's recent performance has improved, and it has committed to maintaining its long track record of annual dividend increases.
- WTAN aims to ensure that its portfolio will consist entirely of sustainable businesses by 2030.
- The board is consistent in its efforts to limit the discount via regular share buybacks as required by market conditions.

## Bear points

- The use of investment trusts within the specialist portfolio may add discount risk.
- The underweight to the US has been a historical detractor to returns.
- Gearing will exacerbate losses in a falling market.

## Analyst

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## CEO Andrew Bell, investment director James Hart

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### The investment director's view: Fundamentally positive

WTAN's core portfolio of five global managers and one UK manager represents around 75% of assets under management (AUM). This part of the portfolio provides shareholders with access to a select, but diversified group of managers, which invest in high-quality, predominantly large and mid-sized global companies. The managers focus on companies with enduring cash flows and underappreciated growth prospects. Investments may also include undervalued, often cyclical businesses. In addition, WTAN's specialist portfolio, which represents the remaining 25% of its AUM, is intended to capture the many attractive investment opportunities that fall outside the remit of most mainstream fund managers due to their size, unlisted or specialist nature, but offer the prospect of superior returns over the long run. This part of WTAN's portfolio includes best-in-class managers investing in emerging markets, private equity, real estate, life sciences and climate change strategies (Exhibit 1).

James Hart, WTAN's investment director, believes that the trust's diversified, core plus offering makes it a 'cornerstone investment' for many of its shareholders, providing a 'one-stop shop for global equities'. This covers a significant percentage of the global large and mid-cap market, along with a wide variety of interesting opportunities in more niche areas, via a single investment.

The first nine months of 2022 was particularly challenging for all investors. Markets were blindsided by Russia's invasion of Ukraine and the adverse knock-on effects this had for energy and commodity prices, which put further upward pressure on already elevated inflation. The unexpectedly aggressive response from central banks then added to market uncertainty and volatility. Market conditions improved somewhat, however, in the final quarter of 2022 and the early months of 2023.

Hart believes the worst of this turmoil is now behind us, and he is fundamentally positive on the outlook for global equity markets. One key reason for his optimism is that he believes inflation has most likely peaked, and although it may be slow to fall, a stabilisation of inflationary pressures will allow central banks to cease aggressive monetary tightening and hold interest rates steady while they assess the medium-term inflation outlook. This will come as a great relief to investors. China's re-opening after almost three years of stringent, economically crippling lockdowns is another reason why Hart is positive about the market outlook. As is the case with the prospect of stable to lower interest rates, a resurgent China removes a number of the uncertainties and risks that drove last year's market volatility, and has thus been warmly welcomed by financial markets.

The investment director is sceptical about the likelihood of a deep recession in the United States and the UK, but if recession does materialise, he expects it to be mild and shallow, and followed by a period of 'moderate but sustained growth'. He also views company fundamentals as 'generally good', corporate debt levels are low and valuations are not excessive across much of the market, all of which bodes well for an extension of the nascent market upturn.

Hart is careful to guard against complacency however, as there are always risks: both the so-called 'known unknowns' such as an unexpected deterioration in the UK economy or policy mistakes such as last year's misguided UK fiscal package, and the 'unknown unknowns', unanticipated shocks such as the pandemic or the recent collapse of Silicon Valley Bank in the US. Any of these could trigger a change in view, as well as the need to reposition the portfolio and adjust gearing. So, WTAN will be remaining vigilant for any hint that events are deviating from their anticipated path.

Unexpected and unwelcome market developments are not the only risks on which Hart and his colleagues are focused. Companies are also exposed to potentially adverse developments related to ESG issues. WTAN already integrates the assessment of environmental, social and governance

risks into its investment process (see our [September 2022 note](#) for further detail). However, in the past year, WTAN has made major progress in its efforts to better identify, monitor and, where possible, mitigate ESG risks. To this end, in early 2022, a Responsible Investment strategy was adopted to ensure that WTAN's portfolio will consist entirely of sustainable businesses by 2030.

WTAN defines the characteristics of a sustainable company as:

- **Prosperity:** possessing sustainable cash flows, exhibiting good corporate behaviour, strong stakeholder engagement and respect for its shareholders.
- **People:** having a strong and experienced management team (and board) with an inclusive and diverse culture that respects the wellbeing of its customers and others in the organisation, its value chain and its community.
- **Planet:** following a clear strategy to minimise its environmental impact and, wherever possible, transition towards net zero by 2050. Additionally, it should be positioned to help accelerate the energy transition and carbon reduction.
- **Partnership:** collaborating and engaging with all stakeholders and participating in industry initiatives to promote good practices.

Hart has led the trust's efforts to ensure its 2030 sustainability target is successfully implemented. The first step in this process has been to establish a proprietary, in-house framework and baseline ESG ratings for each of the companies held by WTAN's managers, in order to assess their current position relative to WTAN's sustainability objective. Using a methodology devised by WTAN, each manager was asked to rate each portfolio holding across the four pillars outlined above – prosperity, people, planet and partnership – which together characterise a 'sustainable business'. This data was converted by WTAN to a numerical score, with each holding receiving a rating between 1 and 100. A total of nearly 300 companies across the core and specialist portfolios were assessed, with the weighted average assessment of sustainability being 80 out of a possible 100. This means that, on average, the companies held by WTAN's managers are already 80% aligned with sustainable practices.

While there is still work to be done to realise WTAN's 2030 target, most companies are on a 'positive sustainable trajectory', and Hart is pleased with the work done to date to establish WTAN's Responsible Investment strategy, which he believes will help the trust 'set the agenda for the years ahead'. WTAN conducts annual ESG review meetings with all its managers, and their progress on these matters will be monitored and discussed, with particular focus on situations where progress stalls or persistently falls short on multiple issues.

## Current portfolio positioning

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WTAN did not make any major changes to the portfolio during 2022, as it was already positioned to perform well as and when economic conditions and investor sentiment improved. There was no change to its six core managers over the year (Exhibit 1), although there were some small shifts in allocations in both the core and specialist portfolios. Most notably, the team took advantage of last year's sharp sell-off in growth stocks to modestly increase its position in Jennison Associates, a growth-oriented manager. This position has increased to 6% of WTAN's AUM, from 4% at appointment in 2020, and the investment director expects the size of this holding to continue to increase slowly over time. It also added a new investment in S&P Biotechnology ETF, a life sciences specialist. Hart is excited about the growth prospects of this sector, which he believes is overlooked and undervalued by many investors. In mid-2022, exposure to Victory Hill (VH) Global Sustainable Energy Opportunities Fund was increased on short-term weakness and this position is now ranked among WTAN's top 10 holdings (Exhibit 2). This fund currently invests in global sustainable energy infrastructure assets including clean fuels, solar and other clean energy in the

US, UK, Brazil and Australia and the WTAN team believes it is well-placed to benefit from the transition to net zero carbon emissions.

**Exhibit 1: Witan portfolio analysis and performance by investment manager at 31 December 2022**

| Investment manager        | Equity mandate   | Benchmark (total return) | Investment style  | % of AUM at 31 Dec 2022* | Inception date | Performance (% pa, inception to end-Dec 22) |        |        |
|---------------------------|------------------|--------------------------|---|--------------------------|----------------|---|--------|--------|
|                           |                  |                          |   |                          |                | Manager                                     | B'mark | Diff   |
| <b>Core</b>               |                  |                          |   |                          |                |   |        |        |
| Jennison Associates       | Global           | MSCI ACWI                | Market-leading companies with innovative business models, positively inflecting growth rates and long-term competitive advantages | 6                        | 01-Sep-20      | (6.6)                                       | 8.4    | (15.0) |
| Lansdowne Partners        | Global           | MSCI ACW                 | Concentrated, benchmark-independent investment in developed markets   | 17                       | 14-Dec-12      | 13.0  | 11.8   | 1.2    |
| Lindsell Train            | Global           | MSCI ACWI                | Concentrated portfolio of exceptional companies demonstrating long-term durability in cash and profit generation                  | 17                       | 01-Jan-20      | 3.8   | 7.8    | (4.0)  |
| Veritas                   | Global           | MSCI ACWI                | Fundamental value, real return objective  | 18                       | 11-Nov-10      | 11.7  | 10.6   | 1.1    |
| WCM Investment Management | Global           | MSCI ACWI                | High-quality businesses with growing economic moats, strong corporate cultures, and supported by durable global tailwinds         | 11                       | 01-Sep-20      | 1.7   | 8.4    | (6.7)  |
| Artemis                   | UK               | MSCI UK                  | Recovery/special situations   | 7                        | 06-May-08      | 7.8   | 5.5    | 2.3    |
| <b>Specialist</b>         |                  |                          |   |                          |                |   |        |        |
| GMO                       | Climate change   | MSCI ACWI                | Companies positioned to benefit from climate change mitigation/adaptation efforts   | 6                        | 05-Jun-19      | 17.1  | 9.3    | 7.8    |
| GQG Partners              | Emerging markets | MSCI Emerging Markets    | High-quality companies with attractively priced growth prospects  | 6                        | 16-Feb-17      | 7.0   | 3.7    | 3.3    |
| Witan's Direct Holdings   | Specialist funds | Composite benchmark      | Specialist collective funds   | 11                       | 19-Mar-10      | 9.6   | 8.7    | 0.9    |
| Unquoted growth           | Specialist funds | Composite benchmark      | Specialist collective funds   | 2                        | 02-Jul-21      | (7.8)                                       | 0.0    | (7.8)  |

Source: Witan Investment Trust, Edison Investment Research. Note: \*Excludes 1% in new manager Greenoaks Capital Partners (emerging technology) and 2% in S&P 500 ETF (US).

After taking some profits on a position in GMO Climate Change Fund (WTAN's largest holding) following significant outperformance earlier in the year, WTAN added to this position on subsequent weakness; this is an example of the investment team's flexibility to change exposure quickly in response to market developments.

Another such example is WTAN's brief but profitable foray into UK gilts in September and October last year, when the Truss government's unfunded budget measures threw the market into such turmoil that the Bank of England (BoE) had to intervene to stabilise trading conditions. WTAN does not usually invest in bonds, but the very swift and steep rise in gilt yields prompted the purchase of gilts that closely matched the maturity of WTAN's long-term fixed-rate debt. These bonds offered a yield of c 5%, significantly above the average yield of 3% that WTAN is paying on its fixed-rate debt, thus delivering a risk-free source of income until a sharp rally following the BoE's intervention allowed the trust to realise a rapid profit. The directors took further advantage of another similar opportunity that arose shortly thereafter, with gains on the two investments totalling £4.3m.

Acquisitions made over the year were financed by profit-taking to reduce exposure to two of WTAN's largest managers, Veritas and Lansdowne. WTAN also trimmed profitable positions in Apax Global Alpha, Blackrock World Mining (both top 10 holdings) and Schroders Real Estate, although it has subsequently added back to the Schroders position on weakness generated by the sharp rise in UK gilt yields.

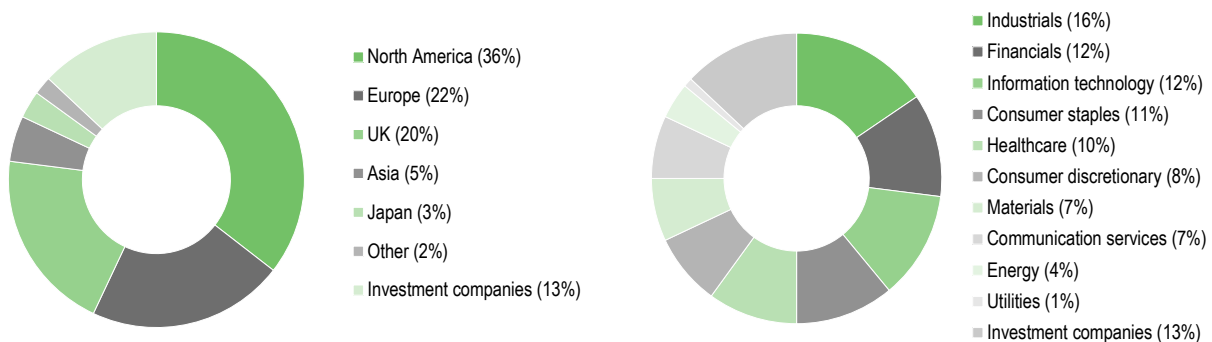
At the regional level, the investment director expects the UK market to continue its recent outperformance of US equities, which he believes are still expensive relative to other markets. This view is manifested in WTAN's portfolio, where bottom-up stock selection has produced a notable underweight to the United States, and its overweight to the UK. The portfolio is also overweight Europe, as WTAN's managers are finding more attractive opportunities in these markets.

**Exhibit 2: Top 10 holdings (as at 28 February 2023)**

| Company                      | Country  | Sector                 | Portfolio weight, % |                  |
|------------------------------|----------|------------------------|---------------------|------------------|
|                              |          |                        | 28 February 2023    | 28 February 2022 |
| GMO Climate Change Fund*     | Ireland  | Fund                   | 6.1                 | 5.1              |
| Apax Global Alpha*           | Guernsey | Investment company     | 2.7                 | 2.8              |
| NatWest                      | UK       | Financials             | 1.9                 | 1.1              |
| Princess Private Equity*     | Guernsey | Investment company     | 1.9                 | 1.7              |
| BP                           | UK       | Energy                 | 1.8                 | 0.2              |
| Unilever                     | UK       | Consumer staples       | 1.8                 | 1.9              |
| Microsoft                    | US       | Information technology | 1.5                 | 1.1              |
| BlackRock World Mining*      | UK       | Investment company     | 1.5                 | 2.0              |
| VH Global Sustainable Energy | UK       | Investment company     | 1.5                 | 1.0              |
| AIB                          | UK       | Investment company     | 1.4                 | 0.6              |
| <b>(% of portfolio)</b>      |          |                        | <b>22.1</b>         | <b>17.5</b>      |

Source: WTAN, Edison Investment Research. \*Direct fund investments.

The investment director's confidence in the near-term economic and market outlook is reflected in overweights to several cyclical sectors, most notably industrials, communication services and materials. The portfolio's current level of gearing, which stood at 14.5% at end February 2023, is further evidence of the team's optimism regarding the market's long-term prospects, although this level has been reduced from around 15% at the turn of the new year, following the portfolio's strong gains at the beginning of this year (see the Performance section for further discussion).

**Exhibit 3: Portfolio distribution by geography (left) and sector (right) as at 28 February 2023**


Source: Witan Investment Trust, Edison Investment Research. Note: Numbers subject to rounding.

## Performance: Recent uptick after a disappointing FY22

**Exhibit 4: Five-year discrete performance data**

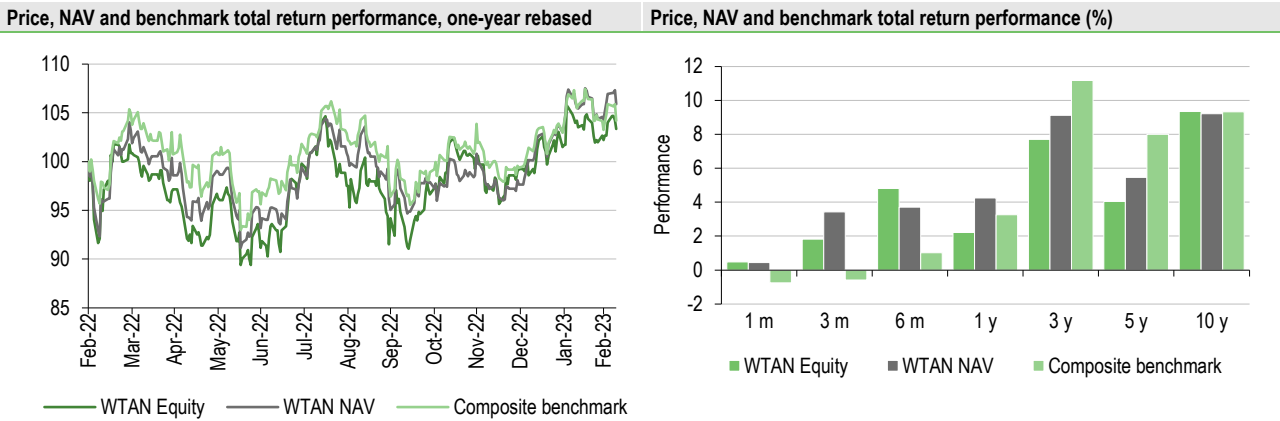
| 12 months ending | Share price (%) | NAV (%) | Composite benchmark* (%) | MSCI World (%) | CBOE UK All Companies (%) |
|------------------|-----------------|---------|--------------------------|----------------|---------------------------|
| 28/02/19         | (1.4)           | (1.0)   | 0.7                      | 4.6            | 1.6                       |
| 29/02/20         | (1.1)           | 1.5     | 6.2                      | 9.6            | (2.1)                     |
| 28/02/21         | 17.0            | 19.1    | 17.2                     | 18.8           | 2.8                       |
| 28/02/22         | 4.5             | 4.6     | 13.5                     | 15.9           | 16.7                      |
| 28/02/23         | 2.2             | 4.3     | 3.3                      | 3.2            | 8.2                       |

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*From 1 January 2017 to 31 December 2019, 30% UK, 25% North America, 20% Asia-Pacific, 20% Europe (ex-UK) and 5% Emerging Markets; and from 1 January 2020, 15% UK and 85% world (including UK).

Although there was an uptick in market performance during the closing months of 2022, this was not sufficient to offset losses sustained in the first nine months of the year, so global equity markets closed the calendar year in negative territory. WTAN's benchmark (a composite of 85% MSCI All Country World Index and 15% MSCI UK IMI Index), closed the year down 6.2%. WTAN underperformed, returning -10.3% in NAV terms and -9.8% on a share price basis over the year.

The trust's exposure to higher-quality, growth-focused names, which fared especially poorly during the 2022 market rout, detracted from returns. For example, at the individual manager level, the principal underperformer was Jennison, due to its exposure to long-term growth companies. WCM also had an adverse impact on returns for similar reasons.

**Exhibit 5: Investment trust performance to 28 February 2023**



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

The directly held investments in WTAN's specialist portfolio also detracted from relative performance. WTAN's exposure to Princess Private Equity (PEYS) hurt relative returns after it unexpectedly cancelled a dividend payment, which had a severely negative impact on its share price, even though its NAV was almost unchanged in pounds sterling terms. Despite dissatisfaction with PEYS's decision, WTAN has retained its position as it is expected that dividends will be restored this year and performance will recover. The investment director notes that even though discounts have widened across the listed private equity sector, in many cases NAVs have held up well so a recovery in share prices is expected as market volatility subsides.

On the positive side, in addition to the profit arising from WTAN's UK gilt investments, three of WTAN's external managers – GMO Climate Change, Lansdowne and Lindsell Train – outperformed over the year, although only GMO delivered a positive outright gain. Within the Specialist portfolio, WTAN took profits on a proportion of its holding in Blackrock World Mining Trust early in the year, and the remaining position continued to enhance performance, returning an impressive 26% for 2022 as a whole. Gearing detracted during 2022 as a whole, although it had a positive effect on returns in the second half of the year as the market recovered.

It is important to note that WTAN's full-year results for 2022 do not tell the entire story of the trust's recent performance, because they mask an improvement in relative performance, which gathered momentum in the second half of 2022 and accelerated in the first two months of 2023. In the six months to end February 2023, the trust returned 3.7% in NAV terms and 4.8% on a share price basis, significantly outpacing the benchmark return of 0.9%. Although it is still early days, this uptick in returns suggests WTAN's positioning in anticipation of improved economic and market conditions is already paying off and should continue to reward patient investors as economic activity picks up during 2023 and beyond. Such an outcome would mark a return to form for WTAN; the trust has made an average annual return of 9.2% in NAV terms and 9.3% on a share price basis over the 10 years to end February 2023, closely in line with the benchmark.

**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   | 1.2       | 2.4          | 3.7        | (1.0)    | (9.1)       | (17.0)     | 0.1      |
| NAV relative to composite benchmark     | 1.2       | 4.0          | 2.7        | 1.0      | (5.4)       | (11.2)     | (1.0)    |
| Price relative to MSCI World            | 1.2       | 3.3          | 4.6        | (1.0)    | (12.1)      | (25.2)     | (20.4)   |
| NAV relative to MSCI World              | 1.2       | 5.0          | 3.5        | 1.0      | (8.5)       | (19.9)     | (21.3)   |
| Price relative to CBOE UK All Companies | (1.2)     | (2.7)        | (4.2)      | (5.5)    | (3.8)       | (5.6)      | 32.3     |
| NAV relative to CBOE UK All Companies   | (1.3)     | (1.2)        | (5.2)      | (3.7)    | 0.1         | 1.0        | 30.9     |

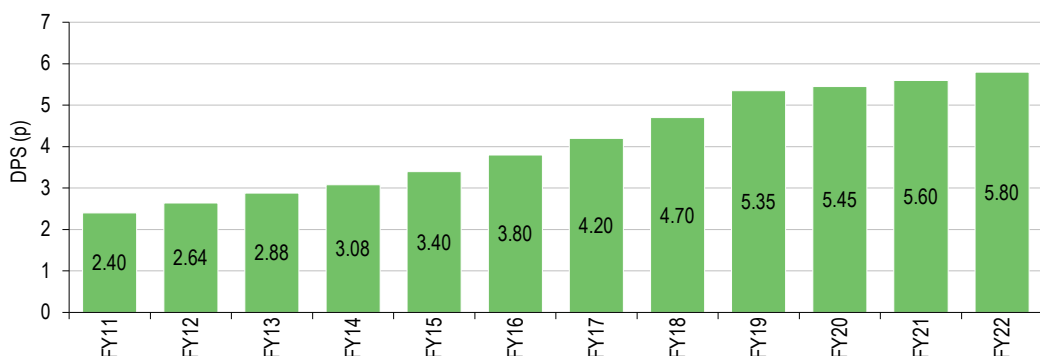
Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2023. Geometric calculation.

## Dividends

WTAN aims to grow its dividend each year, at a rate above inflation over the longer term. The fourth interim dividend of 1.6p was declared in February 2023, and paid in March. This takes the dividend for the financial year ended 31 December 2022 (FY22) to 5.8p, a 3.6% increase over the 5.6p dividend paid in respect of FY21. This is the 48th successive year of dividend increases, starting in 1974. Although last year's dividend growth does not match the UK's current exceptionally high inflation rate, which peaked at 10.5% at end December 2022, it has outpaced inflation significantly over the past five years and the longer term. Over the 10 years to end December 2022, dividend growth has averaged 8.2% pa.

Even though the inflation rate may have peaked, and is likely to slow over time, its trajectory over the coming years remains unclear. WTAN intends to maintain its track record of steady, above-inflation dividend growth. The dividend for FY22 was 84% covered by 2022 revenues, up from coverage of 65% in 2021. The board expects portfolio dividend receipts to continue to recover in coming years, and it intends to continue to use the trust's ample reserves to increase annual dividend payments until full cover is restored. (As at end December 2022, revenue reserves stood at £42.3m, representing 1.09x the FY22 full year dividend.)

The board has announced that the first three quarterly dividend payments for 2023 – to be made in June, September and December 2023 – are expected to be paid at a rate of 1.45p per share, in the absence of unforeseen circumstances. This compares with three quarterly dividends of 1.4p/share in 2022. The fourth payment, due in March 2024, is yet to be determined, but it will need to be higher than 1.45p to maintain WTAN's record of consistent annual dividend growth. Based on the FY22 full year dividend and the current share price, WTAN's current yield is 2.6%.

**Exhibit 7: Dividend history since FY11**


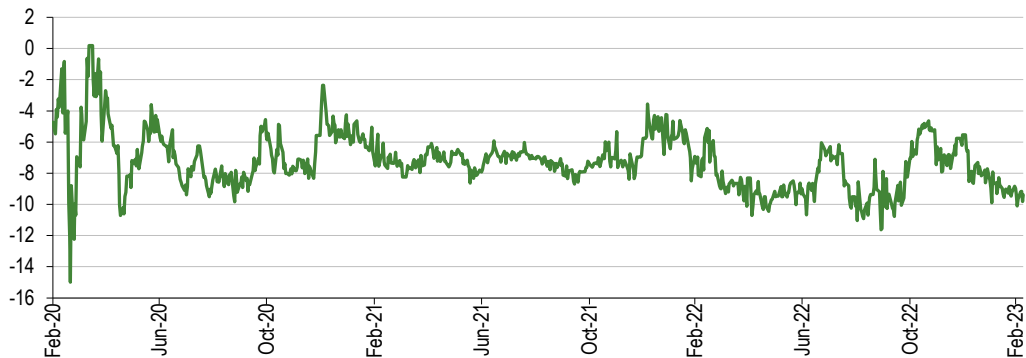
Source: Bloomberg, Edison Investment Research

## Discount: Share price supported by regular buybacks

WTAN's share price has traded at a modest discount to its NAV over the long term. However, like many of its investment company peers, WTAN's discount has widened over the past couple of years, to c 8%, compared to its long-term average of around 4%.

The board seems keen to see the share price trade closer to the NAV and, to this end, it actively manages the discount via the use of consistent share buybacks. In FY22, it purchased a total of 58.2m shares. Since then, the trust has re-purchased a further 11.4m shares (as at 17 March 2023). WTAN considers share buybacks to be beneficial to shareholders, as purchases at a discount are accretive to the value of remaining shares. For example, buybacks in 2022 produced an uplift to the NAV equal to nearly £11m. This sum offsets the majority of WTAN's ongoing costs. These resolute efforts should support the share price over time, as would continued improvement in WTAN's absolute and relative performance. In the meantime, the trust's current, wider than average discount may provide an opportunity for investors to acquire or increase their exposure to WTAN, at an attractive price.

**Exhibit 8: Discount over three years**



Source: Bloomberg, Edison Investment Research

For further detail on WTAN's fund profile and investment process, please see Edison's [September 2022 update note](#).



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