

# Witan Investment Trust

Meaningful improvement in performance

Witan Investment Trust's (WTAN) investment director James Hart comments that 'the trust's Q120 performance was highly unusual and is now back on track'. It outperformed its composite benchmark in each month in H220 during a variety of market environments and this outperformance has continued into 2021. In 2020, WTAN's portfolio was restructured in a measured way as part of a long-term strategy to align the fund with worldwide investment opportunities. The trust's US weighting was increased (although it remains below that of the benchmark) and there is a lower structural exposure to deep-value stocks; Hart is confident that the fund is well positioned for the future.

## Recent WTAN video with CEO Andrew Bell



Source: Witan Investment Trust

## Why invest in global equities?

Investors should be encouraged by improvements in the global economy as countries move on from the negative effects of COVID-19 and the vaccine programme is rolled out extensively. While in aggregate, equity valuations look extended, there are areas where company fundamentals are improving, and which are trading on more reasonable earnings multiples.

## The analyst's view

WTAN offers investors a 'one-stop shop' for global equity investment. The multi-manager approach brings a range of exposures to core global and UK portfolios along with a selection of specialist funds, many of which are unavailable to the retail investor. WTAN's strategy means the manager line-up can change to take advantage of future opportunities. The external managers invest away from their respective benchmarks and are finding interesting high-growth and/or reasonably valued companies.

## Scope for a narrower discount

Following a period of tough relative performance in early 2020, WTAN's discount is towards the wider end of the range of historical averages. However, now that the trust's portfolio has been restructured and performance has improved there is potential for the discount to narrow.

## Investment trusts Global equities

11 March 2021

**Price** 226.5p  
**Market cap** £1,780m  
**AUM** £2,070m

NAV\* 241.1p  
Discount to NAV 6.1%  
NAV\*\* 241.1p  
Discount to NAV 6.1%

\*Excluding income. \*\*Including income. As at 9 March 2021.

Yield 2.4%  
Ordinary shares in issue 786.0m  
Code/ISIN WTAN/GB00BJTRSD38  
Primary exchange LSE  
AIC sector Global  
52-week high/low 237.5p 136.0p  
NAV\* high/low 251.3p 155.9p

\*Including income

Net gearing\* 12%

\*As at 28 February 2021.

## Fund objective

WTAN aims to deliver long-term growth in income and capital through active multi-manager investment in global equities. Funds are allocated to 10 external managers and c 25% is invested in specialist managers and funds. WTAN seeks external managers with the conviction to take views that diverge from benchmark weightings. The trust's composite benchmark with effect from 1 January 2020 is 15% UK and 85% World (including UK)

## Bull points

- 'One-stop shop' for global equity investment.
- Improving investment performance.
- Potential benefits from a multi-manager approach.

## Bear points

- WTAN's performance has lagged that of its peers.
- The FY20 dividend was uncovered.
- Global equity valuations are extended.

## Analysts

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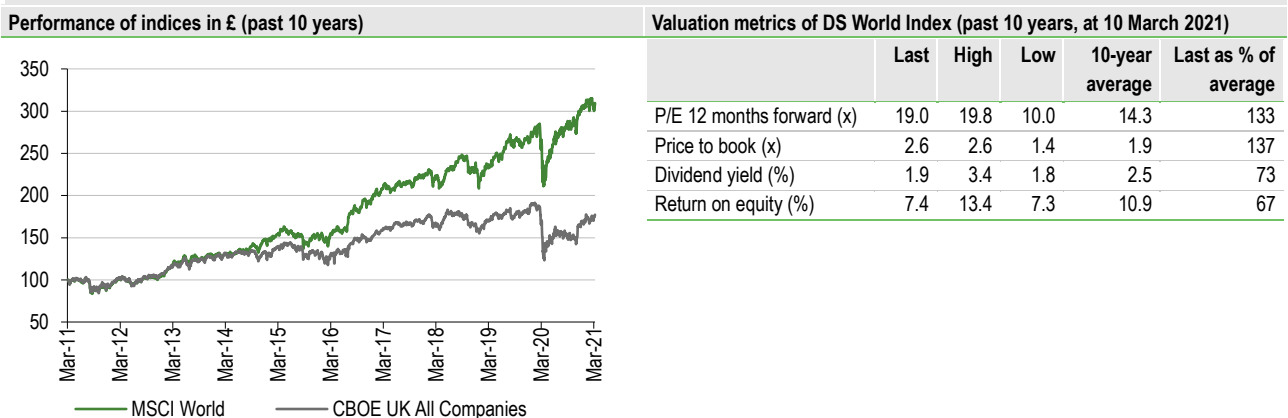
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**Witan Investment Trust is a research client of Edison Investment Research Limited**

## Market outlook: Fundamentals should win the day

Looking at the performance of indices in Exhibit 1 (LHS) – for global stocks in particular – one may wonder ‘healthcare pandemic, what healthcare pandemic?’ Share prices have rallied significantly due to unprecedented fiscal and monetary policies as authorities have done whatever they deem necessary to support their economies, and investors have been encouraged by positive news about COVID-19 vaccines, which commenced last November. In aggregate, equity valuations have re-rated meaningfully; the Datastream World Index is trading on a forward P/E multiple of 19.0x, which is very close to the high end of its 10-year range and a 33% premium to its average over this period. While investors can take heart from improving economic conditions, it may be that stocks have got ahead of themselves, which could lead to further periods of stock market volatility if there are concerns about higher inflation expectations/interest rates. During 2020, there was a wide divergence between the share price performances of perceived ‘COVID-winners’ and ‘COVID-losers’ and it would seem reasonable to expect market leadership to rotate this year as economies normalise. In this case, investors could benefit from an understanding of individual companies’ prospects, focusing on those that are reasonably priced with improving fundamentals.

**Exhibit 1: Market performance and valuation**



Source: Refinitiv, Edison Investment Research

## CEO and investment director: Andrew Bell, James Hart

### The investment director’s view: Economic improvement

When asked about his perspectives on the macro backdrop, Hart says that ‘there are signs of a rapid ‘V’-shaped recovery in economic fortunes’. He notes that 12-month rolling GDP forecasts for the major markets are showing a strong rebound across the globe. The investment director explains that the US and China are the main drivers of economic improvement and are in ‘rude health’. In the US, in aggregate, the Q420 earnings of S&P 500 companies were ahead of consensus expectations and are now up year-on-year (even when one excludes the positive effect of the five largest technology companies) despite the huge economic shock from the global healthcare pandemic. He notes that across the globe purchasing manager indices have recovered to their pre-pandemic levels and are continuing to rise, while central banks’ policies are supporting the economic recovery and the stock market.

The investment director suggests that a longer-term concern is the risk of higher inflation. He says that bond yields need to remain under control, but even if they continue to rise they will still be lower than long-term averages. Hart notes that some parts of the stock market are showing signs of stress and there has been some selling in areas that have done particularly well in the low interest rate environment such as technology stocks and bond proxies. In Q420, there was a rotation from

growth to cyclical stocks following positive news about coronavirus vaccines; this trend continued at the beginning of 2021.

Hart is quietly optimistic regarding the prospects for global equity returns given an improved economic outlook; however, he stresses the need to be selective. He comments that the appointment of two new global managers (Jennison Associates and WCM Investment Management) in 2020 is a reflection of the long-term confidence in the ability of stocks in higher-growth sectors and regions to outperform over the long term. Regarding the short-term outlook for equities, the investment director suggests that there is some concern about valuations. Therefore, the allocation to these higher-growth managers is being done at a measured pace. He says there is a see-saw effect between parts of the market that are recovering and where shares are still deeply undervalued and a slight pullback in highly rated stocks. Hart anticipates better performance from a wider number of specific companies rather than a small number of big growth stocks leading the market. When the UK government announced its timetable for reduced lockdown restrictions, there were sharp upward moves in the share prices of companies that have been most negatively affected such as airlines and restaurants. The investment director says that shares of some quality companies that were very undervalued due to the negative effects of Covid-19 are now performing better.

## Current portfolio positioning

**Exhibit 2: Witan portfolio analysis and performance by investment manager at 31 December 2020**

Investment manager	Equity mandate	Benchmark (total return)	Investment style	% of AUM at 31 Dec 2020*	Inception date	Performance (% pa, inception to end-Dec 20)		
						Witan	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	5.0	01-Sep-20	12.4	8.9	3.5
Lansdowne Partners	Global	MSCI ACWI	Concentrated, benchmark-independent investment in developed markets	20.4	14-Dec-12	15.1	13.5	1.6
Lindsell Train	Global	MSCI ACWI	Concentrated portfolio of exceptional companies demonstrating long-term durability in cash and profit generation	14.3	01-Jan-20	13.3	13.2	0.1
Veritas	Global	MSCI ACWI	Fundamental value, real return objective	19.5	11-Nov-10	13.7	11.6	2.1
WCM Investment Mgmt	Global	MSCI ACWI	High-quality businesses with growing economic moats, strong corporate cultures, and supported by durable global tailwinds	10.0	01-Sep-20	13.4	8.9	4.5
Artemis	UK	MSCI UK	Recovery/special situations	6.8	06-May-08	8.7	4.9	3.8
<b>Specialist</b>								
Matthews Int'l	Asia inc. Japan	MSCI Asia Pacific	Quality companies with dividend growth	6.0	20-Feb-13	11.0	9.6	1.4
GQG Partners	Emerging markets	MSCI Emerging Markets	High-quality companies with attractively priced growth prospects	6.5	16-Feb-17	14.0	8.9	5.1
Witan's Executive Team		Composite benchmark	Specialist collective funds	10.7	19-Mar-10	11.4	9.2	2.2
Latitude	Global	MSCI ACWI	High conviction, low volatility global fund	2.6	31-Mar-18	10.5	12.9	(2.4)
GMO	Global	MSCI ACWI	Climate change fund	3.1	05-Jun-19	32.0	14.4	17.6

Source: Witan Investment Trust. Note: \*Numbers subject to rounding.

As at 28 February 2020, in order of percentage of assets under management, WTAN's portfolio was split as follows (numbers subject to rounding): Lansdowne Partners (global, 21%); Veritas (global, 18%); Lindsell Train (global, 14%); direct holdings (11%); WCM Investment Management (global, 10%); GQG Partners (emerging markets, 7%); Artemis (UK, 6%); Jennison Associates (global, 5%); Matthews (Asia Pacific, 4%); GMO Climate Change Fund (global, 3%); and newly established manager Latitude (global, 2%). There have been measured additions to the allocations of the two new managers Jennison Associates and WCM Investment Management as their portfolios are more highly rated.

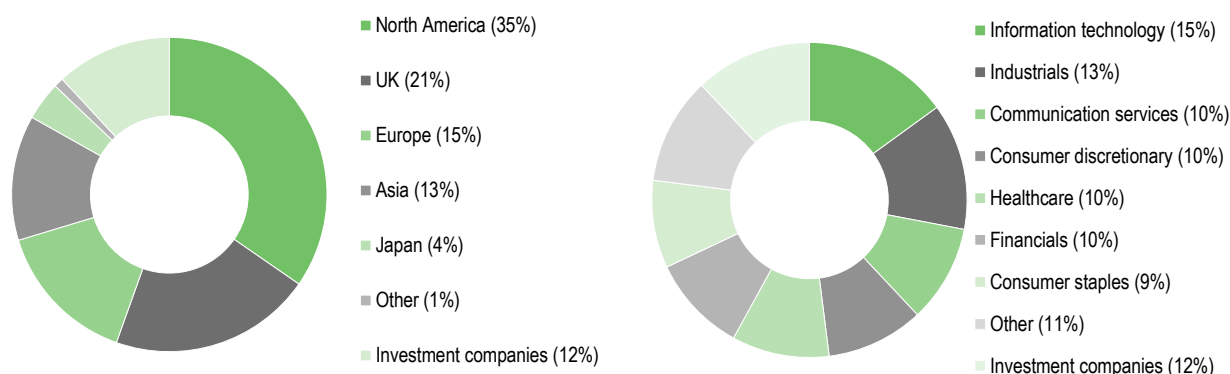
Hart explains that WTAN's managers are chosen to complement each other, not to cover all styles, and that none are structurally exposed to deep value. Some have adaptable mandates and are finding opportunities in parts of the market that sold off heavily due to COVID-19 shutdowns, such as UK banks, whose results have also been hurt by ultra-low interest rates, and travel and leisure companies with strong balance sheets that are expected to increase their market shares as weaker players exit the industry. The investment director says that while the portfolio retains significant exposure to companies with sustainable and growing cash flows, there are also interesting opportunities in companies benefiting from government infrastructure spending, such as materials businesses, as part of the broad green agenda; these projects should gain extra traction with Biden as US president. Hart comments that the new managers provide exposure to higher-growth businesses and, while they have exposure to the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google's parent, Alphabet), they are also finding many opportunities in 'next-generation winners' such as e-commerce companies Shopify (Canada) and Mercado Libre (Argentina). 'There are a lot of different and exciting ideas in the WTAN portfolio, which is the beauty of the multi-manager structure', he adds.

**Exhibit 3: Top 10 holdings (as at 28 February 2021)**

Company	Country	Sector	Portfolio weight %	
			28 February 2021	28 February 2020*
GMO Climate Change Fund**	UK	Fund	3.2	N/A
Apax Global Alpha**	UK	Investment company	3.1	2.1
Taiwan Semiconductor	Taiwan	Information technology	2.0	1.2
Syncona**	UK	Investment company	1.9	2.4
BlackRock World Mining Trust**	UK	Investment company	1.8	1.3
Princess Private Equity**	UK	Investment company	1.7	N/A
Alphabet	US	Communication services	1.6	1.4
Unilever	UK	Consumer staples	1.4	1.3
Charter Communications	US	Communication services	1.1	1.3
PayPal	US	Information technology	1.1	N/A
<b>Top 10 (% of portfolio)</b>			<b>18.9</b>	<b>21.4</b>

Source: WTAN, Edison Investment Research. Note \*N/A where not in end-February 2020 top 10. \*\*Direct fund investments.

WTAN's top 10 holdings are shown in Exhibit 3. At end-February 2020, they made up 18.9% of the portfolio, which was a lower concentration compared with 21.4% a year earlier; seven positions were common to both periods. Exhibit 4 illustrates that the trust is broadly diversified by geography and sector.

**Exhibit 4: Portfolio distribution by geography (left) and sector (right) as at 28 February 2021**


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

Discussing the trust's direct fund holdings, Hart says that 2020 was a year of two halves – they underperformed following the outbreak of the coronavirus pandemic as discounts widened, although underlying portfolios generally held up well. By the end of the year, the direct holdings portfolio had outperformed WTAN's benchmark, helped by the BlackRock World Mining Trust, which was a standout performer. The position has now been trimmed. The investment director says that

the resumption of economic growth and the move to a greener global economy is driving demand for materials such as copper and steel for wind turbines.

A new position has been initiated this year in VH Global Sustainable Energy Opportunities Trust, which was launched on 2 February 2021. It invests in a mix of stable-yielding sustainable energy infrastructure projects that are in operation, in construction or 'ready-to-build', but will not invest in those that are under development or are in pre-consent stages. The fund is aiming for a NAV total return in excess of 10% pa and a 5% dividend yield. Hart says that this investment is adding to the theme of climate change along with the holding in the GMO Climate Change Fund. He believes that investors can generate significant returns from accessing the technology addressing the threats from climate change; 'it will be an important theme for this and coming years', he opines.

## Performance: Regaining lost ground

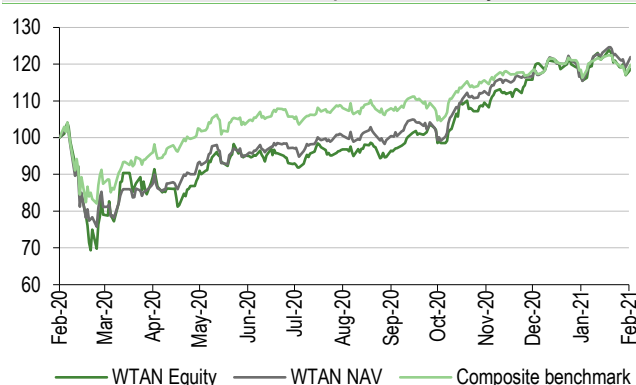
**Exhibit 5: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	Composite benchmark* (%)	MSCI World (%)	CBOE UK All Companies (%)
28/02/17	32.2	31.9	31.3	36.6	23.7
28/02/18	14.6	11.5	8.9	6.6	4.4
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	19.2	17.2	18.8	2.8

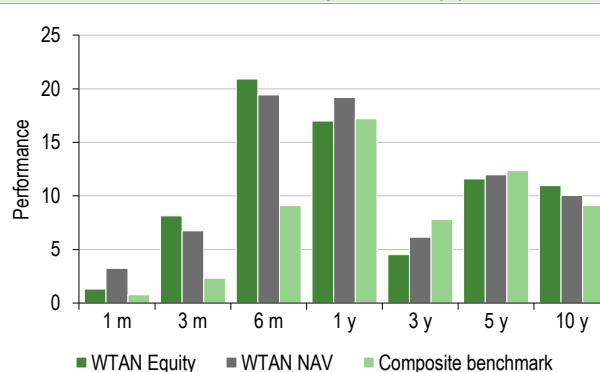
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*From 1 January 2017 to 31 December 2019, 30% UK, 25% North America, 20% Asia-Pacific, 20% Europe (ex-UK) and 5% Emerging Markets; and from 1 January 2020, 15% UK and 85% world (including UK).

**Exhibit 6: Investment trust performance to 28 February 2021**

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

In FY20 (ending 31 December), WTAN's NAV and share price total returns of +4.2% and +2.7% respectively trailed the benchmark's +9.5% total return; gearing detracted by 0.4% (0.8% including interest costs). We covered the reasons for the trust's underperformance in H120 in some detail in our October 2020 [note](#), and as shown in the exhibits below WTAN's performance has since improved considerably.

Six out of nine managers, who were in place throughout 2020, outperformed their benchmarks. Jennison Associates and WCM Investment Management also outperformed over the short period since their appointment on 1 September 2020. However, among the core managers in place for the full year, only Artemis outperformed by a wide margin (+11.9%). Veritas lagged the performance of the world market by 2.2%, while the Lindsell Train global portfolio was only marginally ahead. Lansdowne Partners underperformed its benchmark by 13.0%, despite a strong recovery in the second half of the year. The specialist managers performed somewhat better: GMO was ahead of

its benchmark by 24.2%; GQG Partners by 16.6%; Matthews International by 9.9%; and WTAN's direct holdings by 3.9%. Newly established manager Latitude trailed its benchmark by 6.3%.

**Exhibit 7: Share price and NAV total return performance, relative to indices (%)**

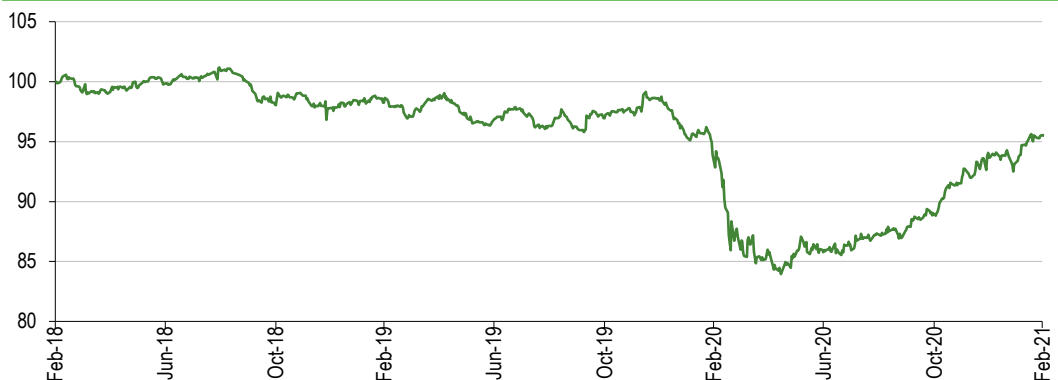
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to composite benchmark	0.5	5.7	10.8	(0.2)	(8.9)	(3.4)	17.9
NAV relative to composite benchmark	2.5	4.3	9.5	1.7	(4.5)	(1.7)	8.6
Price relative to MSCI World	0.5	6.9	12.8	(1.5)	(16.1)	(12.7)	(6.5)
NAV relative to MSCI World	2.5	5.5	11.4	0.4	(12.1)	(11.2)	(14.0)
Price relative to CBOE UK All Companies	(0.8)	3.3	7.9	13.8	11.7	31.1	66.1
NAV relative to CBOE UK All Companies	1.1	1.9	6.6	16.0	17.0	33.4	52.9

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2021. Geometric calculation.

Hart explains that WTAN's relative performance hit a low point in May 2020 at a time when the portfolio had been partially refocused with increased exposure to growth stocks and a reduced weighting to value names. The trust outperformed its benchmark in each subsequent month in 2020, in a variety of market environments, helped by market leadership broadening out, with less reliance on large-cap growth stocks. WTAN's overweight Asian exposure was positive for the trust's performance in 2020, especially in the second half of the year. The investment director reports that towards the end of the year WTAN's cyclical exposure was beneficial and the performances of global manager Lansdowne Partners and UK manager Artemis improved having suffered earlier in the year. The trust's direct investments positively contributed to its performance in H220 as discounts narrowed. Hart suggests that the trust's portfolio is 'nicely spread between various opportunities and styles.'

After a tricky period of performance in early 2020, WTAN's NAV is now ahead of its benchmark over the past 12 months and shorter periods (as is its share price). The trust has also outperformed its benchmark over the past decade in both NAV and share price terms. WTAN has significantly outpaced the performance of the broad UK market over one, three, five and 10 years, illustrating the potential benefits of investing overseas.

**Exhibit 8: NAV total return performance versus benchmark over three years**



Source: Refinitiv, Edison Investment Research

## Peer group comparison

WTAN is one of the largest funds in the 16-strong AIC Global sector. The trust's NAV total returns are below average over the periods shown below as the results from some of its former multi-managers were disappointing, ranking eighth over the past 12 months, 13th over the past three and five years and 10th over the past decade. WTAN's discount is currently wider than the sector average, and broadly in line with what Hart believes are its closest peers: Alliance Trust (another fund employing a multi-manager strategy) and F&C Investment Trust; although he comments that 'at Witan we do things differently.' The investment director says that several of the other funds in the

sector offer investors a particular style whereas he considers WTAN to be 'style-agnostic' and more of a 'core' fund than many of its peers. WTAN's ongoing charge is modestly above average and one of its external managers (representing 6% of the portfolio) is eligible for a performance fee. The trust currently has the highest level of gearing in the sector and it has an above-average dividend yield, ranking fourth.

**Exhibit 9: AIC Global sector at 10 March 2021\***

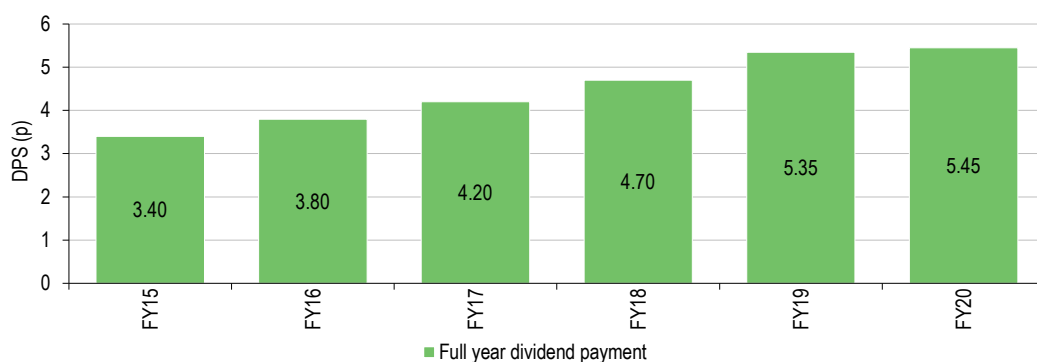
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee**	Net gearing	Dividend yield
Witan	1,780.3	30.7	19.6	74.9	160.0	(6.1)	0.8	Yes	112	2.4
Alliance Trust	2,912.0	38.7	30.7	95.2	174.0	(5.9)	0.6	No	106	1.6
AVI Global Trust	975.2	45.1	32.2	113.6	130.1	(7.2)	0.9	No	106	1.8
Bankers	1,418.4	27.1	29.8	97.9	184.4	1.7	0.5	No	102	2.0
Brunner	377.4	29.2	26.1	83.1	157.8	(13.8)	0.6	No	106	2.3
EP Global Opportunities	107.2	13.6	(1.1)	41.4	88.9	(7.7)	1.0	No	100	2.1
F&C Investment Trust	4,228.0	35.3	31.3	94.9	192.6	(6.5)	0.5	No	110	1.5
JPMorgan Elect Managed Growth	267.3	32.2	29.4	81.6	169.3	(4.9)	0.5	No	100	1.8
Keystone Positive Change Inv	181.7	(1.5)	(17.3)	(7.0)	62.7	0.7	0.5	No	100	3.8
Lindsell Train	267.0	20.3	66.7	199.6	574.3	14.3	0.8	Yes	100	3.1
Manchester & London	237.9	11.0	38.9	130.9	88.5	(4.3)	0.8	Yes	100	2.4
Martin Currie Global Portfolio	304.0	29.8	49.3	112.0	214.9	1.9	0.6	No	108	1.2
Mid Wynd International Inv Trust	410.3	36.2	45.0	118.3	205.5	2.7	0.7	No	102	0.9
Monks	3,171.0	63.9	65.5	187.5	244.1	3.7	0.5	No	100	0.2
Scottish Investment Trust	487.0	10.7	2.4	44.2	92.7	(13.7)	0.5	No	107	3.2
Scottish Mortgage	16,233.7	110.6	146.9	373.0	715.4	(2.0)	0.4	No	105	0.3
<b>Simple average</b>	<b>2,084.9</b>	<b>33.3</b>	<b>37.2</b>	<b>115.1</b>	<b>216.0</b>	<b>(2.9)</b>	<b>0.7</b>		<b>104</b>	<b>1.9</b>
<b>WTAN rank in group (16 trusts)</b>	<b>5</b>	<b>8</b>	<b>13</b>	<b>13</b>	<b>10</b>	<b>11</b>	<b>3</b>		<b>1</b>	<b>4</b>

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. \*Performance data to 9 March 2021 based on ex-par NAV. \*\*One of WTAN's managers is eligible for a performance fee.

## Dividends

WTAN pays quarterly dividends in March, June, September and December. In the absence of unforeseen events, the first three interim payments are equivalent to one quarter of the prior year's annual dividend, while the fourth payment is a balancing amount. The FY20 dividend of 5.45p per share is 1.9% higher year-on-year (compared with a UK inflation rate of 0.6%) and is the 46th consecutive annual increase. Over the past decade WTAN's dividends have compounded at an annual rate of 9.6%.

**Exhibit 10: Dividend history since FY15**



Source: Bloomberg, Edison Investment Research

In FY20, WTAN's revenue earnings per share declined by c 50% to 3.1p per share primarily due to portfolio dividend cuts in response to the global healthcare pandemic. Last year's changes in the external manager line-up also contributed to a lower portfolio yield, although dividend growth prospects are now higher. However, WTAN was able to add to its revenue reserves in nine out of

the 10 years between 2009 and used c £19m of the available c £71m to supplement the trust's income, enabling another higher dividend in FY20. The last time that the board drew on the trust's revenue reserves was 2010. Distributions can also be made from capital reserves if necessary but has not happened so far. Hart comments that it is likely to be a few years before WTAN's dividend is fully covered and revenue reserves can be rebuilt, adding that the board would only use capital reserves in the short term if necessary to grow the dividend 'if it could see light at the end of the tunnel'; it would not use capital reserves indefinitely.

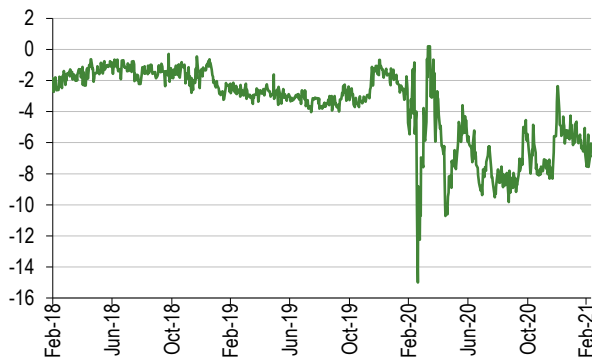
Based on its current share price, WTAN offers a 2.4% dividend yield.

## Discount: Wider than average

Hart comments that WTAN's discount has been wider than average following the coronavirus-led market selloff in early 2020. He suggests that this is in part due to a drop in demand following the trust's poor relative performance during this period and that 'it takes time for hiccups to fall away from investors' memories.' The investment director likens the discount to an opinion poll, 'which are not always right, as the subsequent recovery in investment performance suggests.'

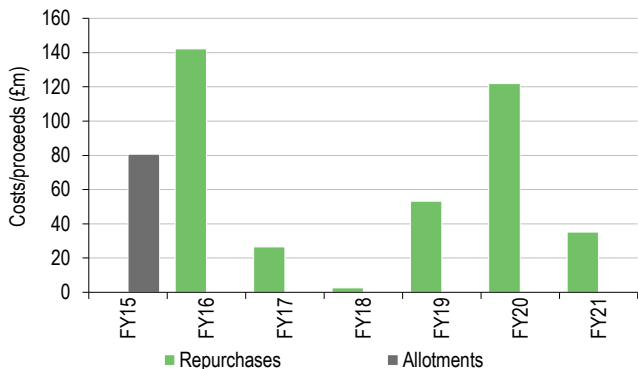
WTAN's current 6.1% discount to cum-income NAV compares with average discounts of 6.5%, 3.7%, 3.9% and 5.3% over the past one, three, five and 10 years respectively. The board actively repurchases shares; in FY20, 64.3m shares were bought back (7.4% of the share base) at an average discount of 7.4%, which added 11p to NAV.

**Exhibit 11: Discount over three years**



Source: Refinitiv, Edison Investment Research

**Exhibit 12: Buybacks and issuance**



Source: Morningstar, Edison Investment Research

## Fund profile: 'One-stop shop' for global investment

Launched in 1909, WTAN has been listed on the London Stock Exchange since 1924; it offers many thousands of investors a 'one-stop shop' for global investment. The trust is managed by the executive team of Witan Investment Services (WIS), which acts as its Alternative Investment Fund Manager. In 2004, WTAN became self-managed, appointed its first chief executive and adopted a multi-manager strategy, aiming to maximise returns while reducing the performance volatility risk arising from dependence on a single manager. The trust aims to generate a total return above that of its composite benchmark, while growing its dividend at a rate ahead of UK inflation. WTAN's composite benchmark with effect from 1 January 2020 is 15% UK and 85% world (including UK), meaning the effective UK percentage is 19%. It has evolved to reflect the board's growing belief that the best opportunities are available from a more global (combined with thematic) approach as opposed to a regional one.



WTAN's annual dividend has increased for the past 46 consecutive years and the board is committed to adding to this record. To mitigate risk, its portfolio is diversified by geography, sector and at the individual company level. Gearing of up to 20% of net assets is permitted (typically in a range of 5–15%, while a small cash position may be held when deemed appropriate); at 28 February 2021, net gearing was 12%.

## Investment process: Primarily external managers

WTAN's investment approach primarily uses external managers. As shown in Exhibit 2, around 75% of its assets are in its core manager line-up (five global and one UK). Global is 65% of the portfolio ( $\pm 5\%$ ) and the UK is 10% ( $\pm 5\%$ ). The balance of the portfolio is made up of specialist managers and funds: Asia (including Japan), emerging markets, the GMO Climate Change Fund, newly established global manager Latitude, with c 10% in investment companies. Hart explains that the specialist managers tend to invest in companies (or regions) with superior long-term growth prospects, which may otherwise be underrepresented in global portfolios due to the specialist knowledge required to research and monitor these investments.

The benefits of a multi-manager strategy include access to a broad range of opportunities, many of which are not available to the retail investor; the potential to smooth volatility in returns; and WIS's executive team can adjust manager allocations and portfolio exposure. The individual managers run high-conviction portfolios, helping to ensure WTAN's combined portfolio is not overdiversified.

The external managers have between 20 and 60 holdings in their portfolios and in aggregate the trust has c 300 positions. WTAN's active share remains at 75%. This is a measure of how a fund differs from its benchmark, with 0% representing full index replication and 100% no commonality.

Exchange-traded index futures are used to make inexpensive tactical adjustments to the trust's regional exposure or to vary the level of gearing without interfering with the strategies of the third-party managers, who are not permitted to use derivatives or employ gearing, but who may hold cash when deemed appropriate. WTAN currently has no exchange-traded index futures but they were actively used in 2020 to tilt the trust's asset allocation and alter its level of gearing. Its US exposure was increased, and UK/European weightings reduced ahead of the appointment of the two new global managers (Jennison Associates and WCM Investment Management) and WTAN's level of gearing was reduced. The use of exchange-traded index futures generated a profit of £5m during 2020.

WTAN has four 'Ps' when considering the selection of its global managers:

- People – talented and accountable investment leadership, committed to serving their clients' interests.
- Process – high-conviction portfolio construction, using clear and simple processes, with analysis taking account of secular change.
- Portfolio – investments characterised by long-term growth in sustainable cash flows and the integration of environmental, social and governance (ESG) principles.
- Performance – potential for material outperformance over the long term, after fees.

## WTAN's approach to ESG

WIS believes that investing in well-managed companies with sustainable long-term cash flows is the foundation for achieving good returns for investors. Hart says an assessment of a company's ESG credentials is an increasingly important part of the investment process. WTAN and all of its managers have signed up to the United Nations-supported Principles for Responsible Investment, which is seen as a code of best practice on ESG issues. They aim to spot opportunities and minimise exposure to companies that are at risk of disruption, litigation, regulation or loss of

business due to poor ESG practices. Where negative issues arise, the managers are expected to engage with the company concerned, encourage positive change and vote their shares accordingly. WIS monitors WTAN's portfolio to identify any ESG risks that may arise and scrutinises the policies of its external managers. It focuses on understanding how ESG is integrated into their investment processes and ensures that its managers adhere to what they say they do via annual ESG meetings; this process is a high priority for WTAN's board.

Hart highlights WTAN's holding in Tesco, which historically had a poor ESG track record. The company launched a turnaround plan in 2015 to regain competitiveness and rebuild trust with a focus on strong corporate governance. It set out a list of notable targets including to achieve zero wastage of food safe for human consumption, reduce excess packaging and lower its carbon emissions by 60% by 2025 and 100% by 2050. WTAN's managers have monitored Tesco's performance against its targets via regular engagement with the company. The firm is successfully working towards these: staff, customer and supplier satisfaction levels have increased materially over the past five years, while Tesco's financial position has improved considerably.

Another of WTAN's holdings South Korean petrochemical company LG Chem's businesses include energy storage solutions, electric vehicle batteries and OLED screens, which are all critical to the transition to a low-carbon economy. In May 2020, the company had three health and safety incidents at plants in India and South Korea. WTAN's external manager engaged with LG Chem numerous times in 2020 either directly or coordinated with other investors and was satisfied that the company has taken steps to address its safety issues.

## Gearing

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At end-FY20 WTAN had £155m of fixed-rate borrowings at an average interest rate of 3.0%, made up as follows: £21m 3.29% secured notes maturing in 2035; £54m 3.47% secured notes 2045; £50m 2.39% secured notes 2051; and £30m 2.74% secured notes 2054. The trust also has a £125m one-year borrowing facility, which, if fully drawn, reduces the average interest rate on WTAN's borrowings to c 2.0%.

Gearing is used tactically; it was reduced to 4% during the 2020 market selloff, ranging from 4% to 15% over the course of the year (with an average of 10%). At the end of February 2021, net gearing was 12%, reflecting a positive view on the outlook for global equities.

## Fees & charges

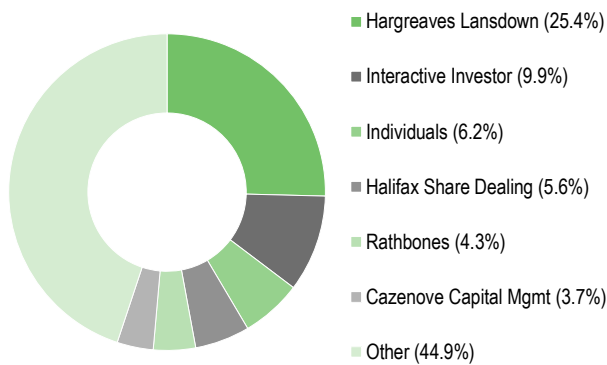
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WTAN's external managers are paid base fees in a range from 0.30–0.65% pa of their assets under management. At end-December 2020, the weighted average fee was 0.51%, 2bp lower year-on-year. Only one manager, accounting for 6% of WTAN's assets, is eligible for a performance fee and they receive the lowest base fee, while the majority of the managers' fee structures taper, with lower rates paid on a higher level of assets under management. In FY20, WTAN's ongoing charges were 0.78% (0.82% including performance fees) versus 0.79% and 0.87% respectively in FY19.

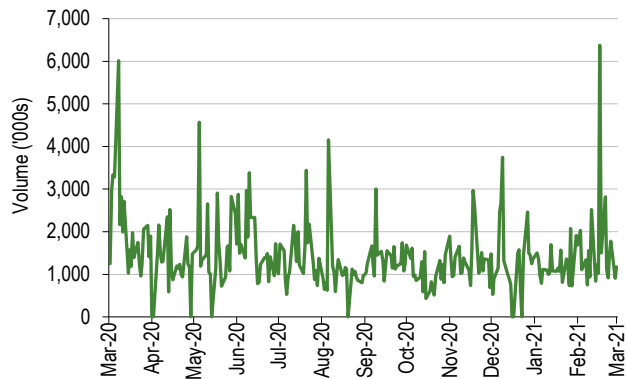
## Capital structure

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WTAN is a conventional investment trust with one class of share; there are currently 786.0m ordinary shares in issue and its average daily trading volume is c 1.5m shares.

**Exhibit 13: Major shareholders**


Source: WTAN, as at 28 February 2021

**Exhibit 14: Average daily volume**


Source: Refinitiv. Note: 12 months to 10 March 2021.

## The board

**Exhibit 15: WTAN's board of directors**

Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-FY20
Andrew Ross (chairman since 2020)	May 2019	£56,600	250,000
Tony Watson	February 2006	£40,600	125,105
Andrew Bell	February 2010	£0	850,000
Suzy Neubert	April 2012	£34,900	52,793
Ben Rogoff	October 2016	£34,900	42,740
Jack Perry	January 2017	£43,500	79,760
Paul Yates	May 2018	£38,900	35,245
Gabrielle Boyle	August 2019	£34,900	28,683
Rachel Beagles	July 2020	£18,000	42,077

Source: WTAN

WTAN's board's four primary responsibilities are governance, risk management, selecting the third-party managers and assessing the trust's performance. As Andrew Bell is WTAN's CEO, he is considered to be a non-independent director. Tony Watson, senior independent director (since 2008), is standing down at the April 2021 AGM; Suzy Neubert will become WTAN's new senior independent director.

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