Witan Investment Trust

Strong absolute performance in 2021

Investment trusts
Global equities

Witan Investment Trust (WTAN) has used a multi-manager structure since 2004. However, it has continued to evolve as new opportunities and challenges emerge in investment markets. Performance was good in absolute terms through FY21 but lagged global markets, contributing to lower relative returns over the past five years. WTAN's relative performance is still ahead over 10 years and 2021 saw the 47th consecutive year of dividend increases. The trust's portfolio is well diversified and takes active positions versus stylistic, country and sector comparisons, so we believe there is scope for the recent underperformance to be reversed if the market direction becomes driven by a broader set of sector and geographical factors.

Recent Witan video with CEO Andrew Bell

Source: WTAN

The analyst's view

WTAN's diversified portfolio offers an effective 'one-stop shop' for global equities. The core portfolio provides long-term strategic and tactical asset allocation to a range of high-quality but differentiated global equity managers. The smaller specialist portfolio, which accounted for 25% of the portfolio at December 2021, provides diversification away from the core portfolio to more niche areas such as private equity, thematic investments and special situations. The fund's weighting to the UK has been a detractor to performance since the Brexit vote in 2016. However, the valuation differential between the US and UK markets is now marked and WTAN is well positioned for a recovery in the domestic market. ESG factors are fundamentally embedded into the portfolio, with WTAN committing to invest only in businesses that are sustainable from an ESG perspective by 2030. This should appeal to investors and marks out WTAN as a leader in this regard vs its peers. Investors have seen downward pressure on fees, while the current discount provides a potentially attractive entry point or opportunity to top up holdings.

Discount opportunity

WTAN's current 7.7% share price discount to cum-income NAV is wider than its three-, five- and 10-year averages of 5.4%, 4% and 4.8%, respectively. The widened discount is likely due to the recent underperformance, which in our view is backward looking and fails to capture the portfolio's potential for future outperformance.

NOT INTENDED FOR PERSONS IN THE EEA

24 March 2022

Price		**229p**
Market cap		**£1,665m**
AUM		**£1,955m**

NAV*		248.1p
Discount to NAV		7.7%
*Including income. As at 23 March 2022.		
Yield		2.5%
Ordinary shares in issue		726.7m
Code/ISIN		WTAN/GB00BJTRSD38
Primary exchange		LSE
AIC sector		Global
52-week high/low	257.0p	208.5p
NAV* high/low	276.4p	225.7p
*Including income		
Net gearing*		14%
*As at 23 March 2022.		

Fund objective

Witan Investment Trust (WTAN) aims to deliver long-term growth in income and capital through active multi-manager investment in global equities. Funds are allocated to 6 core 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

- Management fees are moderating.
- Integrated and forward looking ESG policy.
- Core and specialist sleeves cover all bases.

Bear points

- Recent underperformance versus benchmark.
- All in costs can add up.
- Bias to UK has hurt recently.

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

Asset allocation: Overall bias to quality growth

Equity markets have been weaker since Q321 as investors began to adjust to higher levels of inflation (UK RPI reached 7.8% in January 2022) with the associated expectations for interest rate rises. This firmly took the wind out of high-multiple growth stocks. Successive central banks signalled an end to the multi-year expansionary monetary policy, with the Bank of England becoming the first G7 central bank to raise interest rates at its meeting in December 2021, followed by a further 0.25% increase in early February 2022. The US Federal Reserve has also signalled that it plans to raise interest rates shortly.

In 2022 year to date, the global stock market has seen accelerated declines due to the geopolitical turmoil associated with the Russian invasion of Ukraine. The Ukrainian situation is unlikely to be resolved in the short term and, while this is a human tragedy, it is also increasing inflationary pressures and will continue to resonate through markets. However, it may delay the hand of central banks if they choose to let inflation persist rather than choke off the post-COVID recovery. If interest rates do not materially increase, this should be positive for equities and especially so for the modestly growth-biased WTAN portfolio (Exhibit 2). It is WTAN's expectation that markets will become less polarised over the coming year, with a broader cross-section of companies benefiting from the accelerated reopening of economies.

WTAN is managed by the board and the Witan executive team (Andrew Bell and James Hart), mainly through the selection of third-party managers who are aligned with WTAN's views on where the best long-term investment opportunities are to be found. The Witan executive team is not responsible for stock selection (with the exception of fund selection in the directly invested portfolio), but rather the overall strategic direction of the portfolio. WTAN's view is that quality, economically sensitive as well as growth companies able to compound reoccurring cash flows at high rates of return are best placed to perform in a post-pandemic reopening. There is also an increasing focus on companies set to benefit from the clean energy transition. Overall, the portfolio is overweight industrials, consumer staples and materials versus its benchmark (Exhibit 4). Geographically it is overweight UK and underweight US, reflecting the managers' views on the prospects for companies in these respective markets and the relative valuations.

Current portfolio positioning

The portfolio consists of a majority core sleeve, which is augmented by a smaller specialist sleeve (Exhibit 1). In FY21, there were no additions or removals from the core managers' roster (five global and one UK). Jennison, which was appointed with a small initial allocation in 2020, was increased over the year from 4.8% to 6% as its growth investment style underperformed. This underperformance created an opportunity to increase the size of this position. The weighting to Lansdowne Partners was reduced on several occasions and the proceeds used to increase the weighting to Lindsell Train, which lagged during 2021, and QGQ Global Emerging Markets (specialist sleeve). The specialist position in Matthews Asia was sold in April 2021 to reduce Asian exposure and so as not to double up on exposure to the region as the emerging market and global managers began to find more opportunities in Asia. Latitude was also sold from the specialist sleeve in favour of focusing on the core global managers' proposition within the portfolio. WTAN increased the weighting to specialist holding GMO Climate Change in May and October 2021 to take advantage of a pause in long-term outperformance. Below we take a closer look at three of the less well-known managers: Jennison, WCM and GMO, which together accounted for c 22% of the portfolio at February 2022.

Exhibit 1: Schedule of managers, short- and longer-term performance

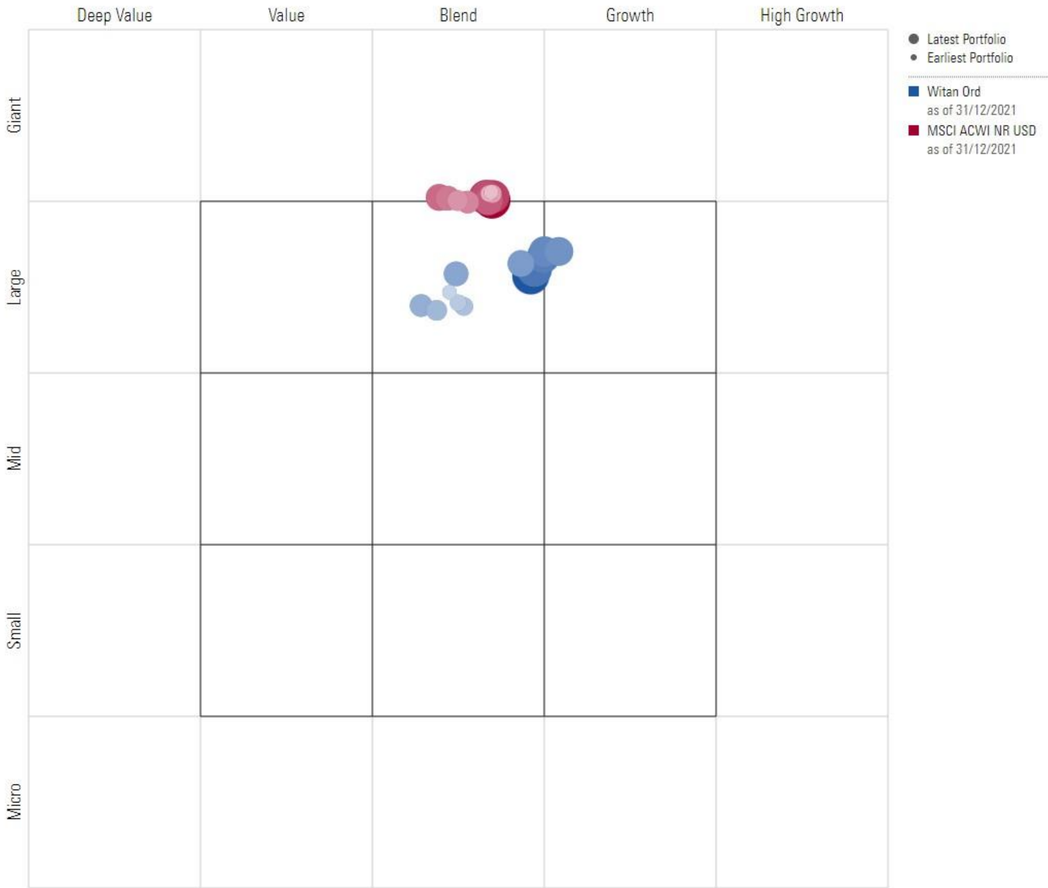
						FY21			Since appointment		
Investment manager	**Mandate**	**Benchmark (total return)**	**App't date**	**% of FUM at 31/12/21**	**Investment style**	**Sleeve perf**	**B'mark**	**Diff**	**Sleeve perf**	**B'mark**	**Diff**
Core											
Lansdowne Partners	Global	MSCI ACWI	14-12-12	19	Concentrated, benchmark-independent investment in developed markets	17.5	20.1	(2.6)	15.4	14.2	1.2
Veritas	Global	MSCI ACWI	11-11-10	19	Fundamental value, real return objective	17.1	20.1	(3.0)	14.0	12.4	1.6
Lindsell Train	Global	MSCI ACWI	31-12-19	15	Concentrated portfolio of exceptional companies demonstrating long-term durability in cash and profit generation	4.0	20.1	(16.1)	8.6	16.5	(7.9)
WCM Investment Management	Global	MSCI ACWI	31-08-20	12	High-quality businesses with growing economic moats, strong corporate cultures, and supported by durable global tailwinds	16.9	20.1	(3.2)	23.5	22.3	1.2
Jennison Associates	Global	MSCI ACWI	31-08-20	6	Market-leading companies with innovative business models, positively inflecting growth rates, and long-term competitive advantages	10.1	20.1	(10.0)	17.3	22.3	(5.0)
Artemis	UK	MSCI UK	06-05-08	6.1	Recovery/special situations	16.0	18.7	(2.7)	9.2	5.8	3.4
Specialist											
Witan's Executive Team	Specialist funds	WTAN's composite benchmark	19-03-10	11	Specialist collective funds	18.8	19.9	(1.1)	12.0	10.1	1.9
GQG Partners	Emerging markets	MSCI Emerging Markets	16-02-17	7	High-quality companies with attractively priced growth prospects	0.2	(1.3)	1.5	11.0	6.7	4.3
GMO	Climate change	MSCI ACWI	05-06-19	5	Climate change fund	13.0	20.1	(7.1)	24.3	16.6	7.7
Unquoted Growth	Specialist funds	WTAN's composite benchmark	02-07-21	2	Early-stage private equity	N/A	N/A	N/A	-5.2	6.9	(12.1)

Source: WTAN. Note: At December 2021

Within the specialist portfolio, two new positions were initiated last year: Lindenwood (£18m investment) and Lansdowne Opportunities (£20m). Lindenwood invests in early-stage unquoted technology companies, while the Lansdowne Opportunities fund also has a focus on mainly unquoted companies. These companies are typically involved with the intellectual property spun out from major UK universities. Its purchase was funded through a reduction in the Lansdowne Global strategy held within the core portfolio. Both Lindenwood and Lansdowne Opportunities are not able to be accessed by retail investors.

While the management of the portfolio at the stock level is outsourced to external managers, the overall investment focus has a bias to investing in good-quality, cash-generative growing companies. With the addition of WCM and Jennison in August 2020, the portfolio remains balanced, but has a tilt to quality growth companies (Exhibit 2), a conscious decision made by WTAN, which decides on asset allocation and manager selection.

Exhibit 2: Style tilt to quality growth



Source: Morningstar, at December 2021

Exhibit 3 shows the top 20 holdings as at 31 December 2021. New positions over the past 12 months include some cyclical reopening plays via the US trucking business Old Dominion Freight Line, packaging companies Smurfit Kappa and WestRock (which are set to benefit from the move away from single-use plastics), and UK pub company Mitchells & Butlers. The portfolio has long held quality growth companies such as Diageo and Unilever, but others such as Universal Music Group and Richemont were added to the portfolio over the year. Several banks including Bank of Ireland Group and AIB Group were added. The portfolio weighting to the GMO Climate Change Fund was increased and over the 12 months to November 2021 and this fund initiated new positions in US environmental infrastructure operator specialists such as Ameresco, US domestic solar-panel provider Sunrun and renewable natural gas provider Clean Energy Fuels.

Exhibit 3: Top 20 holdings (at 31 December 2021)

			Portfolio weight %			
Name	Country	Sector	Dec-21	Dec-20	WTAN BM (%)	Active weight (pp)
GMO Climate Change Investment A GBP Acc	Ireland	Fund	4.80	3.09	0.00	4.80
Apax Global Alpha Ord	Guernsey	Fund	3.10	2.78	0.00	3.10
Unilever PLC	UK	Consumer Defensive	1.90	1.74	0.85	1.05
Alphabet Inc Class A	USA	Communication Services	1.80	1.48	2.06	-0.26
Princess Private Equity Ord	Guernsey	Fund	1.70	1.77	0.00	1.70
BlackRock World Mining Trust Ord	UK	Fund	1.50	1.82	0.00	1.50
Taiwan Semiconductor Manufacturing	TW	Technology	1.50	1.29	0.66	0.84
Intuit Inc	USA	Technology	1.40	N/A	0.21	1.19
Diageo PLC	UK	Consumer Defensive	1.30	1.08	0.78	0.52
Charter Communications Inc Class A	USA	Communication Services	1.30	1.24	0.10	1.20
Syncona Ord	Guernsey	Fund	1.20	2.38	0.00	1.20
Heineken Holding NV	NLD	Consumer Defensive	1.20	1.07	0.04	1.16
Schroder Real Estate Invest Ord	Guernsey	Fund	1.10	N/A	0.00	1.10
CVS Health Corp	USA	Healthcare	1.10	N/A	0.16	0.94
BT Group PLC	UK	Communication Services	1.00	1.05	0.13	0.87
RELX PLC	UK	Communication Services	1.00	N/A	0.39	0.61
Nintendo Co Ltd	JPN	Communication Services	1.00	1.02	0.06	0.94
VH Glob Sustainable Energy Opp Ord	UK	Fund	1.00	N/A	0.00	1.00
Microsoft Corp	USA	Technology	1.00	N/A	2.9	-1.90
NatWest Group PLC	UK	Financial Services	1.00	N/A	0.11	0.89
Top 20 (% of holdings)			30.90	21.81		

Source: WTAN, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-December 2020 top 20.

Exhibit 4: Portfolio sector exposure versus the WTAN benchmark (% unless stated)

	Dec-21	Dec-20	Change (pp)	BM	Active weight
Information technology	14.6	15.0	-0.4	19.8	(5.2)
Industrials	13.2	13.2	0.0	10.1	3.1
Consumer staples	10.5	11.9	-1.4	8.2	2.3
Investment companies	11.3	10.5	0.8	0.0	11.3
Consumer discretionary	8.7	10.0	-1.3	11.7	(3.0)
Healthcare	10.7	9.8	0.9	11.3	(0.6)
Communication services	9.7	9.6	0.1	7.9	1.8
Financials	9.1	9.5	-0.4	15.1	(6.0)
Materials	7.4	7.6	-0.2	5.6	1.8
Energy	1.7	0.0	1.7	4.6	(2.9)
Unquoted funds	1.7	0.0	1.7	0.0	0.0
Utilities	1.1	0.0	1.1	2.8	(1.7)
Real estate	0.3	0.0	0.3	2.7	(2.1)
Other	0.0	3.0	-3.0	0.0	0.0

Source: WTAN, Edison Investment Research, Bloomberg, Morningstar. Note: Benchmark is WTAN composite benchmark.

The country allocation (Exhibit 5) is largely a by-product of the managers' stock selection with the main change over recent years being the lower weighting to the UK and an increased allocation to the US. In recognition of the global opportunity set, the funds benchmark has migrated over time away from a significant overweight UK weighting to a more modest position. The December 2021 20% weighting still constitutes a significant overweight versus the MSCI ACWI index, which is at c 4%. However, the managers believe that the UK still offers considerable value relative to other markets, especially versus the US market.

Exhibit 5: Portfolio geographic exposure versus WTAN benchmark (% unless stated)

	Dec-21	Dec-20	Change (pp)	BM	Active weight
North America	38	34	4	50.0	(12.0)
United Kingdom	20	19	1	18.2	1.8
Europe	17	17	0	13.0	4.0
Asia Pac ex Japan	5	12	-7	9.7	(4.7)
Japan	3	5	-2	4.8	(1.8)
Investment companies/Other	15	13	2	4.3	10.7
Unquoted	2	0	2	0.0	2.0

Source: WTAN, Edison Investment Research, Bloomberg, Morningstar. Note: Benchmark is WTAN composite benchmark.

WCM, Jennison and GMO Climate Change Fund

US-based WCM and Jennison form part of the core portfolio and were added in August 2020 to augment the quality growth characteristics within the portfolio. Of the two, Jennison exhibits the higher level of growth characteristics, which complements the more balanced WCM and is reflected in the respective position sizes, with WCM forming a larger position relative to Jennison. The difference in terms of geographic, sector and market cap positioning results in relatively little (16% at December 2021) overlap between these two portfolios. These three strategies are clearly active in terms of tracking error and have modest correlation to global equities (Exhibit 6). In addition, all three have very high active share (the difference between the fund and the index with 0% indicating 100% commonality and 100% zero commonality): GMO 98%, WCM 95% and Jennison 82%.

Exhibit 6: High level portfolio characteristics

	SD	Corr	TE	Average market cap (£m)	# of stock holdings	% in top 10	Morningstar style box	P/E (x)	ROIC (%)	Moat		
										Narrow (%)	None (%)	Wide (%)
GMO Climate Change	21.5	0.81	13.3	4,458	112	34	Mid blend	14.1	8.6	10.8	13.4	1.7
WCM	15.3	0.84	8.3	52,084	39	38	Large growth	41.4	18.5	24.8	13.5	45.7
Jennison	21.8	0.76	14.5	173,379	34	51	Large growth	40.7	15.5	34.0	0.0	59.1
Global equities	13.6	1.00	0.0	79,177	2,954	16	Large blend	17.5	18.0	33.0	12.8	38.7

Source: Morningstar. Note: Jennison as at January 2022, WCM October 2021, GMO November 2021. Annualised three-year returns in pounds sterling. SD = standard deviation, Corr = correlation, TE = tracking error, ROIC = return on invested capital. A moat may indicate a company's enduring competitive advantage, such as a patent that can be a barrier to entry for competitors. Wide moats indicate higher barriers to entry and lower moats the inverse.

The sector and regional positioning outlined in Exhibits 7 and 8 illustrate the very different approaches taken, even between two US-based growth managers (WCM and Jennison). This diversification is crucial in allowing the portfolio to perform in a variety of market conditions.

Exhibit 7: Sector positioning (%)

	Basic materials	Communication services	Consumer cyclicals	Consumer defensive	Healthcare	Industrial	Real estate	Tech	Energy	Financial	Utilities
GMO Climate Change	22.6	0.0	3.5	7.9	0.0	33.6	0.0	14.1	6.4	0.0	8.7
WCM	4.1	0.0	17.8	6.2	22.0	10.0	0.0	26.3	0.0	10.8	0.0
Jennison	1.8	6.2	39.5	8.5	5.8	2.5	0.0	33.7	0.0	0.0	0.0
Global equities	4.8	8.6	11.4	7.2	11.7	9.5	2.7	21.1	4.2	16.0	2.7

Source: Morningstar. Note: Jennison as at January 2022, WCM October 2021, GMO November 2021.

Exhibit 8: Regional positioning

(%)	Greater Asia	Greater Europe	Europe	Japan	UK	US
GMO Climate Change	15.4	18.0	12.5	4.7	2.0	50.7
WCM	10.4	17.7	17.7	2.2	0.0	61.5
Jennison	6.9	37.8	37.8	0.0	0.0	46.7
Global equities	17.6	18.1	12.4	5.6	4.0	60.2

Source: Morningstar. Note: Jennison as at January 2022, WCM October 2021, GMO November 2021.

WCM

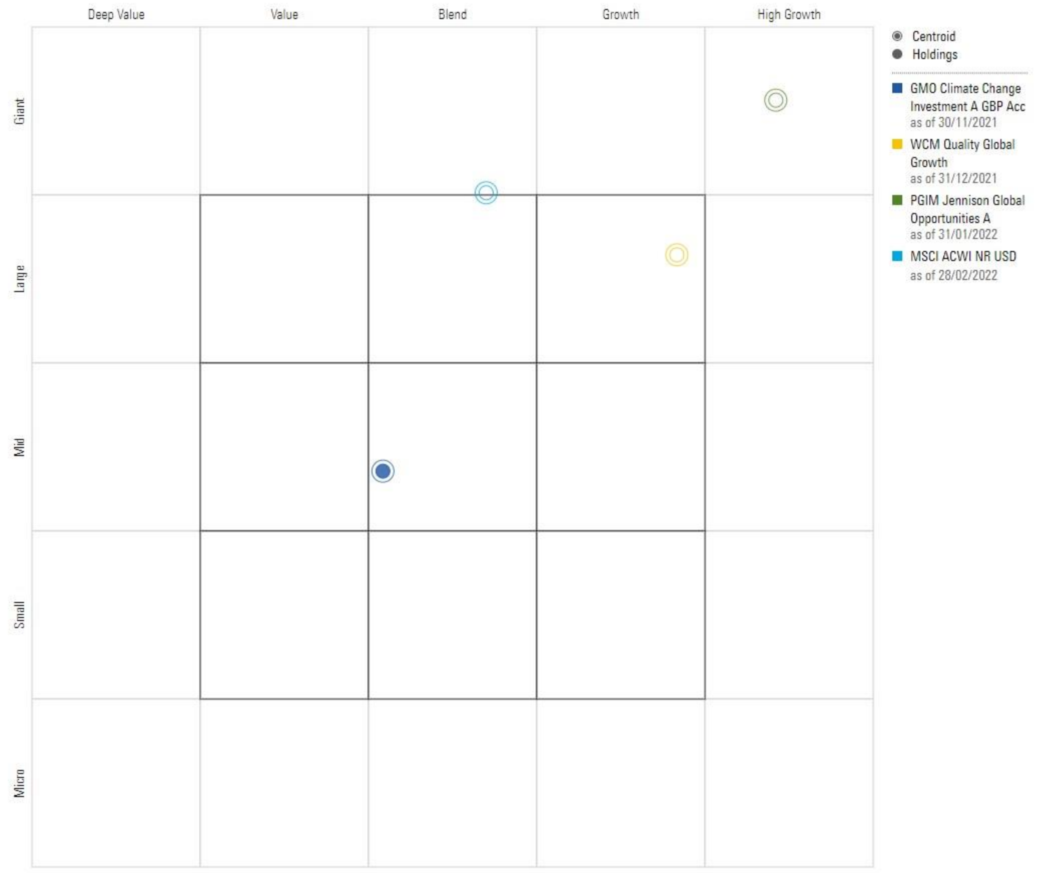
The WCM Quality Global Growth strategy has been part of the WTAN portfolio since September 2020 and accounted for 11.6% at December 2021 (December 2020: 9.4%). The fund aims to invest in global equities of all sizes, and compared with Jennison the average market cap of portfolio companies is some £120bn less at £52bn. WCM is based in California and for this mandate is looking for 'quality', which it defines as transparent business models, persistent competitive advantages, companies operating in structural growth markets with secular tail winds, and high return on invested capital (ROIC). The portfolio has a higher ROIC than the index, suggesting investment in better-quality businesses. Interestingly it has found that growing moats are more important than the size of the current advantage and are more correlated to long-term shareholder returns. This focus helps steer it away from value traps and ex-growth businesses such as Nokia, which are at risk of long-term decline. Culture is also hugely important for its process, and it ideally wishes to own companies for the very long term, which is reflected in a low turnover ratio.

Jennison

The Jennison Global Opportunities strategy has been part of the portfolio since August 2020 and accounted for 6.4% of Witan's portfolio at December 2021 (December 2020: 4.8%). Jennison has been managing pure growth equity strategies for over 50 years. The fund seeks companies that have innovative technology that is disruptive to incumbents and that are driving through change, taking market share, and generating good margins and strong profits growth. It has two criteria to its process:

- Its highest conviction ideas are the biggest positions (top 10 holdings c 51% at January 2022). It does not wish to be overly diversified (c 40 stocks).
- It is agnostic to region and sector, with the focus on stock specifics and as such the strategy has a high tracking error and low correlation with global equities. Examples of areas of focus include D2C e-commerce operators such as Amazon, MercadoLibre and Shopify.

Exhibit 9: Stylistic positioning of WCM, Jennison & GMO Climate Change Fund



Source: Morningstar

GMO Climate Change Fund

The GMO Climate Change Fund has been part of the portfolio since June 2019 and accounted for 4.7% of assets under management (AUM) as at December 2021 (December 2020: 3.1%). WTAN's management has been incrementally adding to this strategy over recent years. The fund seeks to deliver high total returns by investing primarily in equities of companies that it believes are positioned to benefit, directly or indirectly, from efforts to curb or mitigate the long-term effects of global climate change, to address the environmental challenges presented by global climate change, or to improve the efficiency of resource consumption. The opportunity set is broad, with GMO estimating the investable universe to be around 300–400 companies with a $3tn market cap in aggregate. The aim is to capture the long-term secular tail winds of capital investment in the area. DNV (an assurance and risk management expert) has estimated that $700bn is invested in global power today, with this estimated to increase to $2tn by 2050, with the majority of this in renewables.

There are two important areas addressed within the portfolio:

- Mitigating the effect of climate change impact within companies. This includes investment in clean energy such as solar, biofuels and wind with batteries and storage to harness this sometimes irregular source of energy. Energy efficiency and energy transformation provide a wide opportunity set, including raw material producers involved with lithium and copper extraction, which are critical materials required for decarbonisation.
- Adaption, which is a nod to practicality and involves investment in improving the efficiency and productivity of agriculture, water treatment and recycling.

The strategy adds diversification within the portfolio compared with the other global strategies and has the potential for inflation protection through exposure to materials, agriculture and infrastructure. The process leads to a portfolio that is cheaper on a P/E, P/B and P/FCF basis than the MSCI ACWI while at the same time exhibiting higher growth characteristics. Performance has been strong over the longer term significantly outperforming the benchmark since appointment in June 2019. However, the fund did lag the index in 2021, with relative performance given up in the market reversal in Q321, as the short-term sell-off in renewable energy companies outweighed the positive returns seen elsewhere in the fund. The fund has subsequently outperformed, especially since the Russian invasion of Ukraine, which has led to strong demand for clean energy and materials companies. It should be noted that the process draws the managers to undervalued companies with quality revenues and strong cash flow-generative companies, not pre-profit, more speculative areas of this market. The fund now sits on the widest valuation discount to its MSCI ACWI benchmark on a P/E basis since 2017, which is in the region of 60%.

Performance: Relative underperformance

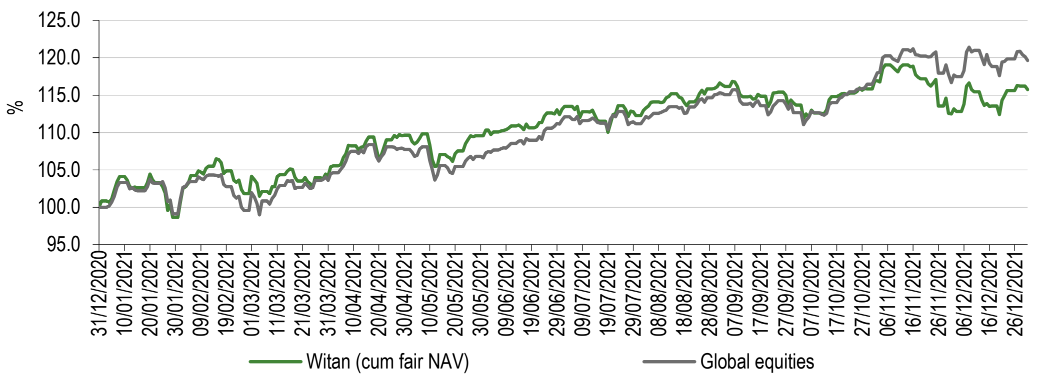
Exhibit 10 Five-year discrete performance data (%)

12 months ending	Total share price return	Total NAV return	Composite benchmark	MSCI World	CBOE UK All Companies	US Equities
28/02/18	14.6	11.5	8.9	6.6	4.4	7.8
28/02/19	(1.4)	(1.0)	0.7	4.6	1.6	3.3
29/02/20	(1.1)	1.5	6.2	9.6	(2.1)	8.8
28/02/21	17.0	19.1	17.2	18.8	2.8	19.6
28/02/22	4.5	4.7	13.5	15.9	16.7	12.8

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. WTAN composite benchmark: 15% UK and 85% world (including UK).

For FY21 (ending 31 December) WTAN returned 15.8% in NAV terms versus the benchmark return of 19.9%. Share price performance was 11.9% due to the fund's derating through this period to stand at a discount of 5.8% at the year end. The company's NAV performance was ahead through much of the year, until late 2021 (Exhibit 11) to leave its performance behind the MSCI ACWI overall for the year.

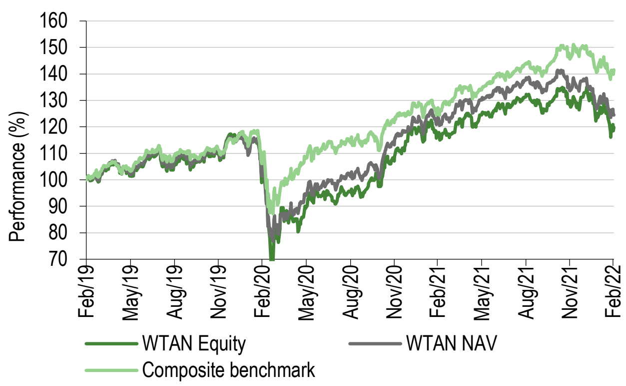
Exhibit 11: 2021 performance tailed off relative to global equities late in 2021



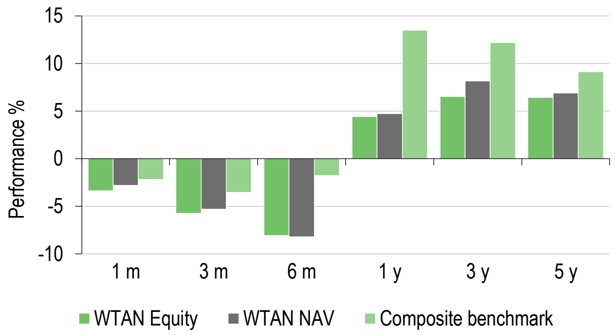
Source: Morningstar

Exhibit 12: WTAN performance to end February 2022

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

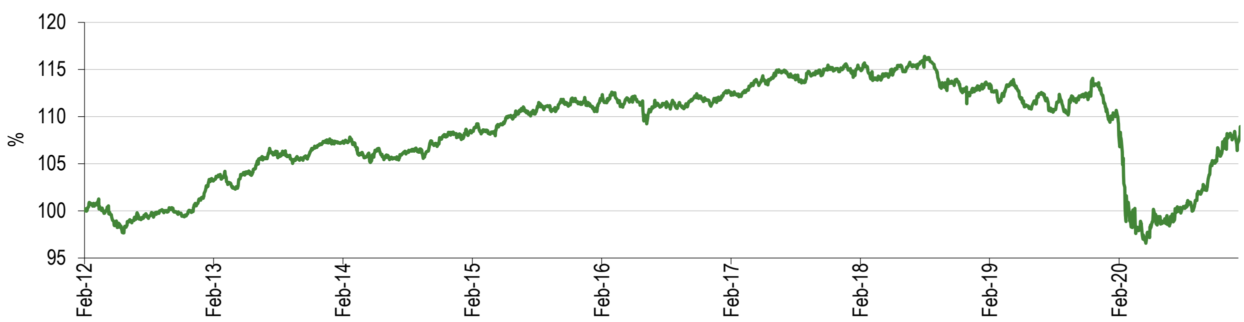


Price, NAV and benchmark total return performance (%)



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

Exhibit 13: NAV performance versus blended benchmark over 10 years to end February 2022



Source: Refinitiv, Edison Investment Research

Exhibit 14: Cumulative relative share price and NAV performance to end of February 2022

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to Composite benchmark	(1.2)	(2.3)	(6.4)	(8.0)	(14.4)	(11.7)	8.3
NAV relative to Composite benchmark	(0.6)	(1.8)	(6.5)	(7.7)	(10.4)	(9.8)	1.3
Price relative to MSCI World	(0.9)	(0.8)	(6.2)	(9.9)	(19.8)	(18.7)	(15.1)
NAV relative to MSCI World	(0.3)	(0.3)	(6.3)	(9.6)	(16.0)	(16.9)	(20.6)
Price relative to CBOE UK All Companies	(3.3)	(9.7)	(10.6)	(10.5)	3.0	9.7	51.6
NAV relative to CBOE UK All Companies	(2.7)	(9.3)	(10.7)	(10.3)	7.8	12.1	41.8
Price relative to US equities	(0.8)	(0.8)	(5.6)	(7.4)	(17.6)	(16.3)	(7.8)
NAV relative to US equities	(0.2)	(0.4)	(5.7)	(7.2)	(13.7)	(14.5)	(13.7)
Price relative to European equities	(0.5)	(0.1)	(7.1)	(12.6)	(26.0)	(26.8)	(33.3)
NAV relative to European equities	0.1	0.4	(7.2)	(12.3)	(22.5)	(25.2)	(37.6)

Source: Refinitiv

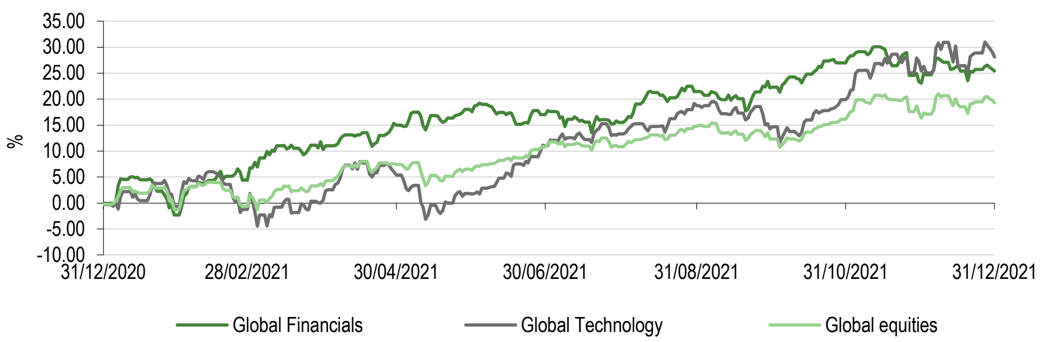
FY21 review of the core portfolio

As illustrated in Exhibit 1, the core portfolio lagged with none of the external six core managers outperforming their respective benchmarks over FY21, which is highly unusual. Performance was affected by swings in sentiment over the year, which meant that market leadership was quite narrowly focused at various times on technology or financials (Exhibit 15). The portfolio is particularly underweight technology (Exhibit 4) and financials, including a small underweight to banks, which performed especially strongly over the year as expectations for rising inflation took hold. Looking over the longer term (Exhibit 1), only Lindsell Train (appointed in December 2019) and Jennison (appointed in August 2020) of the core managers have underperformed their benchmarks over the short period since appointment.

Lindsell Train has been a successful investment for the fund over nine years in its previous guise of a UK-orientated mandate. Since the appointment of a global iteration of the strategy, its focus on steady compounders has fallen between the market's oscillating demand for high-growth US technology and deeper-value cyclicals depending on the perceived impacts of COVID-19 or interest rate rises. They manage a concentrated portfolio of c 20 stocks, have a very long-term investment horizon and have delivered long-term (10-year) relative and risk-adjusted returns that are highly competitive.

Jennison is a very high-growth mandate and until sentiment changed towards these types of companies as higher than expected inflation arose in Q321, it was outperforming broad-based global indices. Over the year it was a curious combination of mainly technology and financials (Exhibit 15) that outperformed global indices, as the major but polar beneficiaries of the continuation of risk-on growth investing and value-based reinflation investment themes.

Exhibit 15: Financials and technology outperformed over 2021



Source: Morningstar

FY21 review of the specialist portfolio

Within the specialist element of the portfolio, GQG outperformed its MSCI Emerging Markets benchmark (as it has done since appointment in February 2017), albeit with only a modest positive return.

The direct holdings are managed by the WTAN executive team of Andrew Bell and James Hart and account for 11% of AUM at December 2021. This sleeve was the strongest performing element of the portfolio returning 18.8% versus the company's benchmark return of 19.9% and MSCI ACWI return of 20.1%.

- Private equity had a good year with over half of the directly managed portfolio invested in this area. Apax Global Alpha and Princess Private Equity outperformed global indices, while Electra Private Equity was especially strong returning 56.7% over the year. Subsequently Electra has split into Hostmore and Unbound.
- Schroder Real Estate was the beneficiary of economic reopening within the UK economy and performed strongly in capital and dividend terms, while BlackRock World Mining (BRWM) was volatile, returning 17.5% over the year. The managers were active in taking profits and reinvesting at lower levels during the summer in BRWM. Unsurprisingly, since the end of FY21 this fund has performed strongly given the geopolitical instability surrounding Ukraine leading to an uplift in commodity prices benefiting the mining sector.
- Syncona, which had performed well in 2020, was weaker over 2021, but not before the management had significantly reduced the weighting at higher levels. This performance was a share price derating, rather than a substantial reduction in NAV, and the company demonstrated the quality of the portfolio through the sale of Gyroscope at a realised internal rate of return of 55%.

Exhibit 16: Differing characteristics of the directly invested portfolio

Name	Portfolio weighing (Dec 21, %)	Standard deviation	Max drawdown (%)	Beta (%)	Correlation with global equities (%)	Market cap (£m)	Total return (%)
Apax Global Alpha	3.1	13.5	-5.6	0.3	0.3	1,021.5	21.9
Princess Private Equity	1.7	11.3	-11.6	0.6	0.7	716.9	15.0
BlackRock World Mining Trust	1.5	25.4	-27.9	1.1	0.6	1,380.5	25.6
Syncona	1.2	16.0	-19.8	0.2	0.1	1,166.7	1.2
Schroder Real Estate Invest	1.1	8.9	-13.9	0.0	0.1	270.5	4.1
VH Global Sustainable Energy Opps	1.0	N/A	N/A	N/A	N/A	345.8	N/A
Hostmore	0.9	N/A	N/A	N/A	N/A	103.4	N/A
NB Distressed Debt	0.3	19.8	-34.5	0.3	0.2	8.5	-4.1
Biotech Growth	0.2	28.40	39.60	1.12	0.54	378.6	6.59
Unbound	0.1	78.71	92.30	1.99	0.30	23.6	-48.40
MSCI ACWI		13.6	-16.0	1.0	1.0	N/A	13.1

Source: Morningstar. Note: As at February 2022. Standard deviation, maximum drawdown, correlation and total return are all three-year annualised (pounds sterling).

The directly invested specialist portfolio is a differentiating element to the portfolio that has performed well since its inception in March 2010, with an annualised 1.9% outperformance of the benchmark. It helps diversify the core element of the portfolio and used judiciously plays to the strengths of CEO Andrew Bell and Investment Director James Hart's in-depth knowledge of closed-ended specialist areas of investment. It also highlights the one-stop shop nature of WTAN in that it provides balanced but active exposure to both core and specialised parts of the market, something that would be difficult to replicate by an individual investor alone. Exhibit 16 above illustrates the characteristics that some of the direct holdings bring to the portfolio in terms of less correlated assets and different drivers of returns.

Peer group comparison

The Association of Investment Companies (AIC) Global peer group is home to some of the oldest and best-known investment trusts. It is a large heterogeneous group of 17 companies encompassing a range of investment approaches and objectives. WTAN is one of the bigger companies within this group in terms of assets and provides a core investment solution for investors. There are a number of very divergent companies in this group in terms of style and investment approach, which is reflected in the range of performance seen across the peer group in Exhibit 17.

WTAN's performance has lagged over the last five years due to its historical bias to UK equities, which have underperformed. This bias has, however, supported a higher-than-average current yield of 2.5% and with 47 years of consecutive dividend growth, investors can take comfort in the priority given to this element of overall returns by the board. For a company with attractive characteristics, the current discount of 7.7% could present investors an opportunity to buy into a portfolio of good-quality assets on an attractive discount.

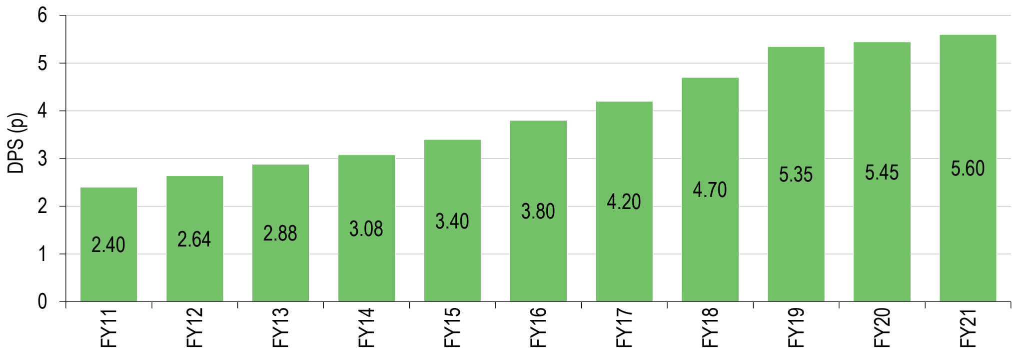
Exhibit 17: Selected peer group at end of February 2022*

	Latest market cap (£m)	1yr NAV TR (%)	3yr NAV TR (%)	5yr NAV TR (%)	10yr NAV TR (%)	Discount (cum fair - %)	OGC ex PF (%)	Performance fee	Net gearing	Yield (%)
Witan	**1,645**	**0.3**	**22.5**	**34.7**	**169.7**	**(7.2)**	**0.8**	**Yes***	**113**	**2.5**
Alliance Trust	2,918	5.7	36.4	53.5	183.6	(6.8)	0.7	No	106	2.0
AVI Global Trust	956	5.7	38.7	49.8	164.6	(9.0)	0.8	No	101	1.7
Bankers	1,410	4.7	36.9	55.0	196.5	(4.4)	0.5	No	107	2.0
Blue Planet	6.7	(52.9)	(47.1)	(51.1)		(31.6)	4.3	No	144	3.9
Brunner	439	10.1	41.7	52.6	169.4	(8.2)	0.6	No	106	2.0
EP Global Opportunities	105	10.0	8.7	16.1	114.3	(12.1)	1.0	No	69	2.1
F&C Investment Trust	4,424	8.8	40.1	57.7	213.1	(8.6)	0.5	No	110	1.4
JPM Elect Managed Growth	269	5.0	32.6	48.7	182.2	(3.9)	0.5	No	97	1.7
Keystone Positive Change	140	(17.4)	(21.9)	(23.4)	34.9	(10.8)	0.5	No	108	4.9
Lindsell Train	236	(4.8)	39.3	117.8	490.7	6.5	0.8	Yes	97	4.2
Manchester & London	188	(13.9)	20.4	60.1	92.0	(15.8)	0.8	Yes	42	3.0
Martin Currie Global	287	(5.1)	37.3	53.7	196.9	(1.8)	0.6	No	108	1.3
Mid Wynd International	485	7.9	55.5	79.4	239.9	0.8	0.6	No	103	0.8
Monks	2,498	(16.3)	44.0	75.9	205.7	(7.1)	0.4	No	104	0.2
Scottish Investment Trust	577	15.0	12.0	16.7	110.1	(2.5)	0.6	No	100	2.8
Scottish Mortgage	14,253	(20.9)	107.0	191.0	601.3	(1.4)	0.3	No	112	0.4
Simple average	**1,814**	**(3.4)**	**29.7**	**52.2**	**210.3**	**(7.3)**	**0.8**		**102**	**2.2**
Weighted average		**(8.4)**	**69.0**	**118.1**	**382.3**	**(4.3)**	**0.5**		**109**	**1.1**
Rank	**5**	**10**	**12**	**13**	**10**	**10**	**5**		**2**	**6**
Count	**17**	**17**	**17**	**17**	**16**	**17**	**17**	**3 / 17**	**17**	**17**
Median	**485**	**4.7**	**36.9**	**53.5**	**182.9**	**(7.1)**	**0.6**		**106**	**2.0**

Source: Morningstar, Edison Investment Research. Note: *Performance as at end of February 2022 based on ex-par NAV. TR = total return. OGC = ongoing charges. Net gearing is total assets less cash and equivalents as a percentage of net assets. Dividends: *only one of WTANs managers, which accounts for c 6% of AUM, has a performance fee.

WTAN's objective in part is to achieve growth in its dividend ahead of inflation over the longer term. For FY21 a dividend of 5.60p (FY20: 5.45p) was declared on earnings of 3.59p (FY20: 3.08p), representing an increase of 2.8% and the 47th year of consecutive dividend increases paid by the company. It is one of only 11 members of the AIC with a record of consecutively increasing dividends for over 45 years. To part fund the dividend payment the company utilised £14.6m (FY20: £19.0m) of revenue reserves in FY21. After the payment of the final dividend the company will have retained revenue reserves of £48.6m or c 6.7p per share, which represents c 1.2 years at the current dividend rate. The company is also permitted to use capital reserves if required. The environment for dividends has improved since the depths of the COVID-19 pandemic in early 2020 and the board expects that WTAN's dividend cover will incrementally improve year by year. As part of a progressive dividend policy, the board is committed to growing the dividend each year as it has done over the last 47 years.

Exhibit 18: Dividend history since FY11

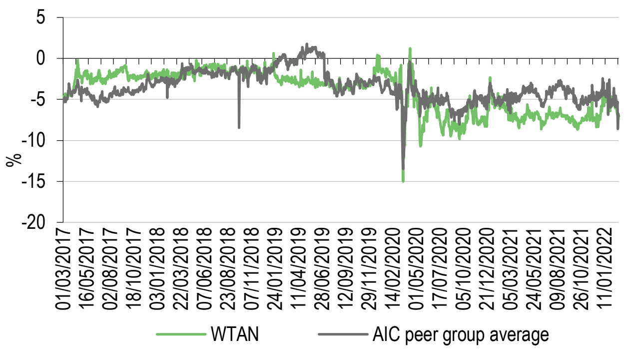


Source: Bloomberg, Edison Investment Research

Discount: A factor of recent performance

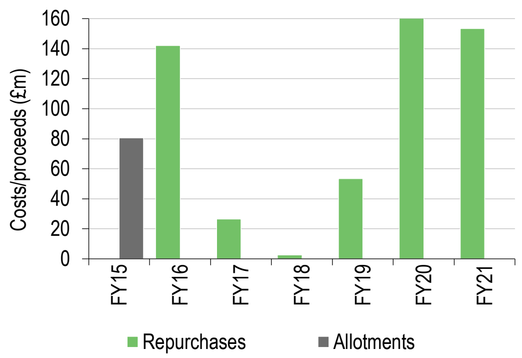
WTAN's discount ended FY21 at 5.8% (end of FY20: 2.4%), which compares to a cum-income discount through the year of 3.1% to 8.7%. WTAN's average discount was 6.7% over the year compared with the AIC peer group simple average of 4.6%. Widening discounts were a feature of some peers also, but recent performance has likely specifically affected WTAN. The company closely monitors the discount and is active in managing the supply and demand for its shares, to minimise discount volatility and maintain a discount close to NAV. In FY21 the company repurchased 63.7m shares or 8% of the shares in issue (into treasury) at an average discount of 7% to NAV. The resultant NAV uplift was £10.7m or 1.4p per share, which exceeds the fees (including performance fees) paid to external managers, which totalled £9.7m for FY21. The scale of the buybacks illustrates the importance to the board of managing the discount.

Exhibit 19: Discount over five years



Source: Morningstar, Edison Investment Research

Exhibit 20: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Ongoing evolution

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 and the board. 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.

Investment process: A blend between core and satellite

WTAN's investment approach primarily uses external managers. As shown in Exhibit 1, around 75% of its assets are in its core manager line-up (five global and one UK). Global is 65% of the portfolio (±10%) and the UK is 10% (±5%). The balance of the portfolio is made up of specialist managers and funds including dedicated emerging markets and climate change funds. WTAN's 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 make their own decisions in terms of regional asset allocation within their portfolios, and run high-conviction funds, helping to ensure WTAN's combined portfolio is not overdiversified.

External managers have between 20 and 60 holdings in their portfolios and in aggregate the trust has c 270 positions at the end of December 2021 with an active share of 79%. Exchange-traded index futures and ETFs are used occasionally 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 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 are characterised by long-term growth in sustainable cash flows and the integration of ESG principles.
- Performance – potential for material outperformance over the long term, after fees.

ESG: Commitment to solely sustainable investments by 2030

The managers believe that investing in well-managed companies with sustainable long-term cash flows is the foundation for achieving good returns for investors; put simply, without due care and attention to ESG factors, sustainable long term cash flows are at risk. Failure to take ESG considerations seriously is a substantial and existential risk to the businesses and as such an assessment of a company's ESG credentials is an increasingly important part of the investment process.

There is movement at pace within the investment industry with regards to ESG, but what is not in doubt is that these considerations will become ever more central to investment culture and process. WTAN is not a 'green' fund, nor does it currently exclude any industries except controversial weapons. However, it does insist that its managers engage where relevant, as this is arguably the most effective way to influence positive change in investee companies and, in turn, to have a more meaningful and positive impact. A recent important development has been that WTAN became a signatory to the Net Zero Asset Managers initiative (NZAMI) in early 2022 and in addition half of WTAN's managers have also signed up to NZAMI. This is a commitment by 236 asset managers with $57tn of assets under management to work with all parties within the investment supply chain to reduce greenhouse gas emissions to net zero by 2050, which is in line with global efforts to limit global warming to 1.5˚C by 2050 or sooner. WTAN will be setting out further detail on these commitments throughout 2022. Other initiatives that WTAN has been engaged with include becoming a supporter of the Transition Pathway Initiative in 2021 and ahead of COP 2021 supporting The Investor Agenda's 2021 Global Investment Statement to Governments on the Climate Crisis.

Within this context it is pleasing to see that Witan has been awarded a low carbon designation by Sustainalytics, as have the strategies managed by Jennison, Lindsell Train, Veritas, WCM and Artemis. At end-FY21, WTAN was assessed as having 71.4% invested in low carbon risk companies with only 1.6% invested in what Sustainalytics considers high carbon risk and 4% of the fund was involved in the fossil fuel extraction, production or generation of power using fossil fuels. On all of these measures, the portfolio is less polluting than the MSCI ACWI Index.

In addition, WTAN will also create and execute a strategy whereby the entire portfolio will be only invested in sustainable businesses by 2030. WTAN defines a sustainable company as:

- **Prosperity:** focus on companies with sustainable cash flows, exhibiting good corporate behaviour, strong stakeholder engagement and respect for their shareholders.
- **People:** investee companies should have 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:** investee companies must have a clear strategy to minimise its environmental impact and wherever possible, transition towards net zero by 2050. Additionally, companies which is positioned to help accelerate the energy transition and carbon reduction.
- **Partnership:** investee companies must collaborate and engage with all stakeholders and participate in industry initiatives to promote good practices.

WTAN is also ensuring its own operations are consistent with a sustainable business via strong corporate governance, a minimalised carbon footprint and an inclusive and diverse corporate culture. It has put initiatives in place such as only using recycled paper, removing plastic from client presentations, installing energy efficient lighting and phasing out single-use materials.

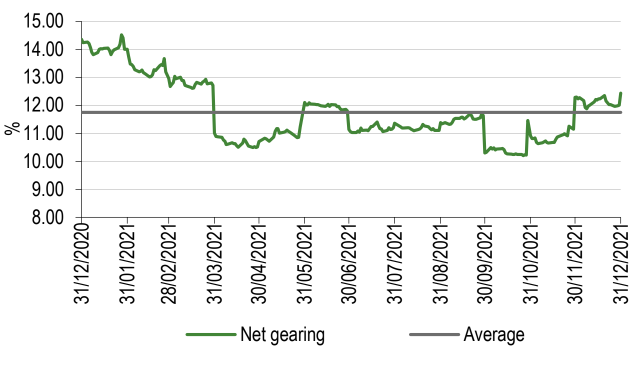
WTAN and all of its managers have ESG policies and are signed up to the United Nations-Principles for Responsible Investment, which were launched in 2006 and are seen as a code of best practice on ESG issues. They aim to spot opportunities and minimise exposure to companies that are at risk of disruption, 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 regular ESG meetings; this process is a high priority for WTAN's board.

Through 2021, WTAN's managers voted on over 97% of proposals put forward by its investee companies with 4.3% cast against the resolutions. Most of the dissenting votes cast were on compensation, directors and capital management, but there were increasingly more votes cast against management on issues in 2021, albeit they accounted for only 8.4% of the dissenting votes versus 6.3% in 2020. It should be highlighted that few companies table environmental and social resolutions, so there is less opportunity to vote on these issues relative to governance issues.

Gearing: Accretive to investor returns

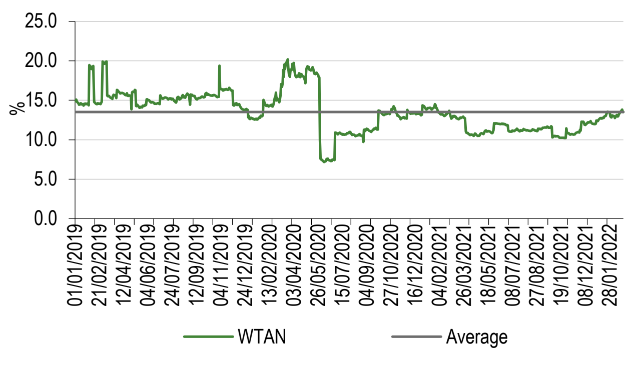
At end-FY21, WTAN had £158m of fixed rate borrowings (including £2.6m of preference shares), which have tiered redemption dates from 2035 to 2054 with a 3% average interest rate. In addition, there is a multi-currency flexible facility of £150m, of which £98m was drawn down at the end of December 2021. Overall, the average rate of interest across all facilities is 2.1%. Gearing is used tactically depending on the prevailing opportunities and market conditions and cash can be used to offset leverage. The underlying managers are not permitted to use gearing but can hold cash. In FY21, gearing contributed 1.5% net of costs to performance. Longer term, its use has been accretive to returns in eight out of the last 10 years. Net gearing has averaged a little over 11% throughout the period.

Exhibit 21: Gearing through 2021



Source: Morningstar

Exhibit 22: Longer-term gearing perspective



Source: Morningstar

Fees and charges: Declining at the margin

WTAN's external managers are paid base fees ranging from 0.30% to 0.60% pa of their assets under management, with a single manager whose management fee is commensurately lower than for the other managers, eligible for a performance fee. Three-quarters of the investment management fees and finance costs are deducted from capital with the remainder taken from revenues. In FY21, the weighted average fee for WTAN's managers was 0.47% (FY20: 0.51%). Added to this, there are costs associated with the running of the company, which amount to 0.24% (FY20: 0.28%). These two costs together with 0.02% of performance fees in aggregate equate to the ongoing charges (inclusive of performance fees) figure of 0.73% for FY21 (FY20: 0.82%). The service that WTAN provides to predominantly retail clients is attractive as it blends together core global equity exposure with considered allocation to more specialised diversifying assets. WTAN's ongoing charge is competitive for access to strategic asset allocation and a range of underlying quality active managers that are largely unavailable to retail investors.

Exhibit 23: AIC Global Growth sector annual report ongoing charges

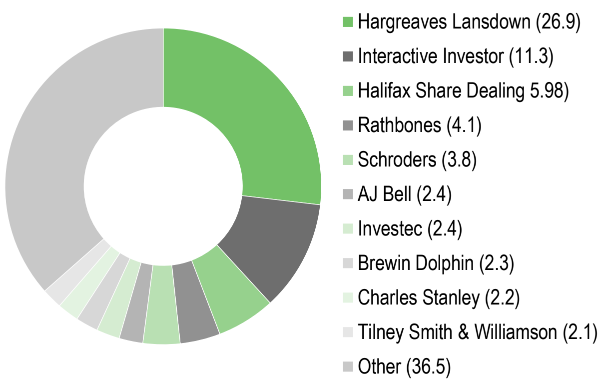
Name	Annual report ongoing charge (%)
Scottish Mortgage	0.34
Monks	0.43
Bankers	0.50
Keystone Positive Change Investment	0.51
JPMorgan Elect Managed Growth	0.54
Scottish Investment Trust	0.56
Martin Currie Global Portfolio	0.58
F&C Investment Trust	0.59
Mid Wynd International	0.60
Brunner	0.63
Alliance Trust	0.64
Witan	**0.73**
Lindsell Train	0.75
Manchester & London	0.78
Average	**0.82**
AVI Global	0.83
EP Global Opportunities	1.00
Blue Planet	4.50

Source: Morningstar

Capital structure

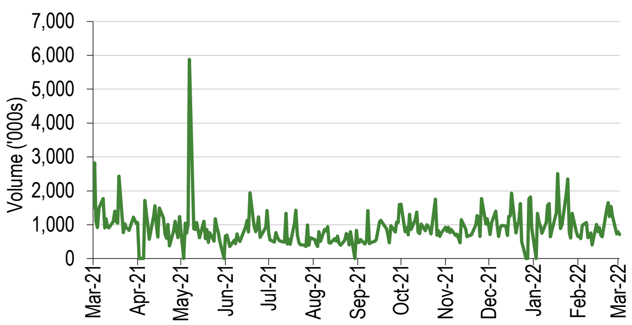
WTAN is a conventional investment trust with one class of share; there are currently 726.7m ordinary shares in issue. Its average daily trading volume over the last 12 months is c 930k shares.

Exhibit 24: Major shareholders



Source: Bloomberg, at 22 December 2021

Exhibit 25: Average daily volume



Source: Refinitiv. Note 12 months to 3 March 2022.

The board: Extensive, with the requisite expertise

Exhibit 26: WTAN's board of directors

Board member	Date of appointment	Remuneration in FY21 (£)	Shareholdings at end-FY21
Andrew Ross (chairman)	May-19	68,583	250,000
Jack Perry (audit)	Jan-17	45,000	82,498
Suzy Neubert (SID)	Apr-12	40,115	53,996
Andrew Bell (CEO)	Feb-10	457,820	850,000
Rachel Beagles	Jul-20	36,000	42,073
Gabrielle Boyle	Aug-19	36,000	28,683
Ben Rogoff	Oct-16	36,000	42,740
Paul Yates	May-18	42,000	25,245

Source: WTAN

WTAN's board is larger than might be expected for most investment companies due to the self-managed nature of the company. While CEO Bell is considered non independent, the remaining seven are independent with varying tenures. Given the nature of WTAN's board's role, the 10-year stint of Suzy Neubert is less of a concern than it may be with a more conventional outsourced investment arrangement. The board of eight directors have an average tenure of over five years and is made up of five men and three women. All of them are quite substantial shareholders, which is a welcome alignment of interest with shareholders. The board has a wide range of appropriate skills, encompassing equity research, marketing, portfolio management and manager selection as well as corporate operations, that they can utilise for the benefit of all stakeholders.

Chairman Andrew Ross has extensive experience in retail asset management via his senior leadership roles in wealth management at HSBC, Cazenove and Schroders. Jack Perry has held senior roles at E&Y and served on the boards of a range of large UK companies and is audit committee chairman. Andrew Bell has substantial research experience having been head of research at Rensburg Sheppards, and co-head of investment trusts at Barclays de Zoete Wedd BZW and Credit Suisse First Boston. He is a former chairman of the AIC. Rachel Beagles is the newest appointment and has significant experience in investment trusts and equity research while at Deutsche Bank and is also a former chair of the AIC from 2018 to 2021. Gabrielle Boyle is currently senior fund manager and head of research at Troy Asset Management, where she is involved with managing global mandates. She has over 30 years' investment experience and through her current position is well placed to scrutinise external managers. Suzy Neubert is the senior independent director and has sales, marketing, distribution and research experience built over 30 years within the investment industry. Ben Rogoff is well known as a longstanding technology fund manager at Polar Capital and so is uniquely placed to advise about the impact and trajectory of this crucial sector. His insights are also salient for the in-depth questioning of external managers. Paul Yates was previously CEO at UBS Global Asset Management and has investment trust board experience.

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