Witan

Update
15 April 2019

Summary

Witan follows a highly active 'manager of managers' approach, using a range of third-party managers to gain exposure to global equity markets. Currently, the company consists of ten managers, who run a collection of concentrated portfolios under the overall asset allocation plan set by CEO Andrew Bell and the management team. Alongside this, the executive team runs up to 12.5% of the portfolio, investing in specialist collective funds and smaller managers that could be constituents in the future.

The trust's objective is to generate long-term NAV growth and to deliver income at a rate greater than inflation. Since adopting the multi-manager approach in 2004, the trust has performed strongly. Over five and ten-year periods, to the end of 2018, Witan has delivered an NAV total return of 52.1% and 207.1% respectively, compared with the benchmark's 44.6% and 163.4%. For most of 2018, Witan's returns were positive and ahead of the benchmark. However, Q4 hit the trust particularly hard and the macro and political uncertainty, coupled with the trust's gearing, meant the trust ended in negative territory.

Alongside capital appreciation, the trust offers investors a decent income stream. The trust has an enviable track record of 44 years of dividend increases, and the 2018 dividend of 23.5p was 11.9% greater than the 21p paid in 2017 and once again greater than the rate of inflation and fully funded by earnings. As of the most recent annual report (December 2018), the trust has revenue reserves that cover the dividend by 1.5x, adding further reassurance to income dependent investors.

Over the past few years, the discount has narrowed significantly. After trading on a discount of close to 10% to NAV in 2016, the trust now trades at a discount of 2.5%. The board places a high degree of importance on creating sustainable liquidity at or near to asset value and has buyback authority which it continues to use as necessary.

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Portfolio

Since 2004, Witan has employed a multi-manager approach, employing third party managers to invest in concentrated portfolios of their best ideas. The managers follow specific mandates set by the board, ultimately forming a differentiated portfolio with a combination of different investment approaches and geographical exposures. The general activities of the managers are overseen by the executive team, led by Andrew Bell, which also leads the selection process. The team look for managers who are expected to outperform their relevant benchmarks through focusing on fundamental value drivers rather than short-term trends. The executive team do not have any input on individual stocks that the managers invest in but are constantly watching for any short-term opportunities/inefficiencies in the markets. The portfolio will consist of eight to twelve investment managers at any given time.

The executive team take long-term views on the managers, however those that underperform are monitored closely. No changes were made to the managers over 2018, and the latest additions being the two European managers in October 2017.

Additional to the external managers, up to 12.5% of Witan's portfolio may be invested directly by Witan's executive team and board. This is a key aspect of differentiating the trust from its competitors. The team can invest up to 10% in specialist collective funds and up to 2.5% in smaller mandates with third-party managers that are newly established or running niche investment strategies. This allows the managers to get to know new managers better and decide if they might be 'one for the future'.

Breakdown Of Manager Allocations

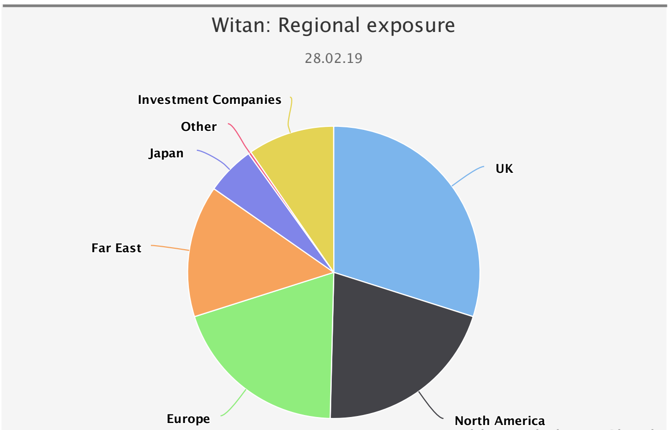
EQUITY MANDATE	INVESTMENT MANAGER	% OF FUND
Direct Holdings	Witan Investment Services	10.00%
UK	Artemis	7.50%
Global	Lansdowne Partners	15.00%
Asia Pacific in Japan	Matthews Asia	11.80%
Europe ex-UK	Crux Asset Management	4.60%
UK	Heronbridge	6.10%
Global	Pzena Investment Management	13.70%
Emerging	GQG Partners	4.80%
Europe ex-UK	S.W. Mitchell Capital	4.20%
UK	Lindsell Train	8.70%
Global	Veritas Asset Management	14.60%

Source: Witan

The trust uses a composite benchmark, which is weighted by the board and includes the main investment geographies. The regional breakdown of the portfolio is not a result of these weightings but instead the stock-picking by the managers. The benchmark consists of 30% UK, 25% North America, 20% Europe ex-UK, 20% Asia Pacific and 5% Emerging Markets.

As can be seen below, the portfolio is naturally well diversified by region and investment sector. The UK has the largest exposure (29.9%), followed by North America (20.5%) and Europe (19.7%). The diversity across regions is a key part of the risk management approach and enables

Fig.1: Regional Exposure

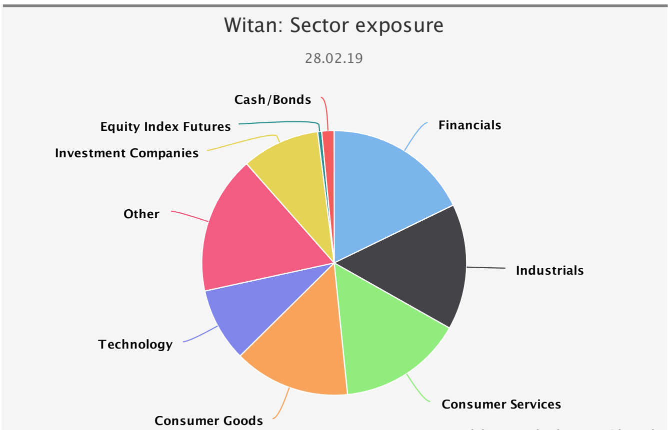


Source: Witan

the trust to avoid undue concentration of risks arising from local economic and political risks. We note that the benchmark is considerably overweight the UK and underweight the US – these countries make up 5.9% and 62.1% respectively of developed world equity markets. There is considerable "home bias" which might appeal to an investor whose costs are in sterling, although it brings along with it a propensity to underperform global equities when the US is outperforming.

The sector exposure is equally well diversified. As can be seen below, financials (17.8%), industrials (15.4%) and consumer services (15.2%) make up the largest weightings. With this said, it is important to reiterate that the fund managers within the portfolio are active stock pickers, and the biases towards certain industries are the result of finding stock-specific opportunities rather than taking macro/sector bets. The sector weightings have fallen more closely to the weights in the MSCI World, however.

Fig.2: Sector Exposure



Source: Witan

Gearing

Witan employs structural gearing to enhance returns for shareholders, worth around 11% of NAV as 12 April 2019 (JPMorgan Cazenove). It is the board's longstanding policy not to allow gearing to rise to more than 20%, other than temporarily in exceptional circumstances.

Over 2018 the gearing averaged 10%, however this detracted from returns. Before borrowing costs, the contribution was -0.8%, but -1.2% when including interest costs. The company has both fixed and flexible rate borrowings. Below one can see the four fixed-rate bonds and notes, equating to £170.4m.

The flexible facility is a £125m one-year borrowing, providing additional flexibility and the ability to borrow in currencies other than sterling.

BORROWING	AMOUNT
Secured Bonds - 2025 6.125%	£64m
Secured Notes - 2035 3.29%	£21m
Secured Notes - 2045 3.47%	£54m
Secured Notes - 2054 2.74%	£30m

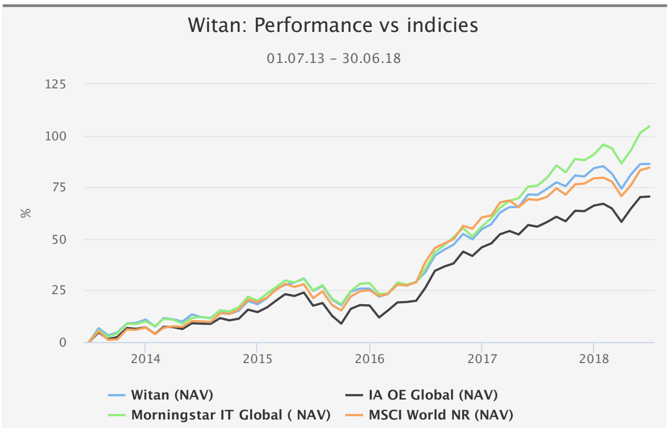
Source: Witan

Performance

Since the change in strategy in 2004, the company has beaten the returns of its composite benchmark and raised the dividend significantly faster than the rate of inflation. Witan's benchmark consists of 30% UK, 25% North America, 20% Europe ex-UK, 20% Asia Pacific and 5% Emerging Markets. The company chooses to use a composite benchmark, as the board believes that long-term returns are likely to stem from the changing opportunities as economies evolve, as opposed to relative market capitalisation.

Over the past five years, to the end of 2018, Witan has delivered an NAV total return of 52.1%, compared with the benchmark's 44.6% return over the same period. The trust has also outperformed the open-ended global peer group by close to 6% but has trailed the AIC Global peer group by around 17% - due to the structural underweight to the US. During the ten-year period, the trust has delivered an NAV total return of 207.1%, compared with the benchmark's return of 163.4%. This is over 50% greater than the open-ended global peer group, however, 19% less than the AIC Global peers.

Fig.3: Performance



Source: Morningstar

After several years of strong performance, the trust underperformed in a challenging 2018 environment. For most of the year Witan's returns were positive, and ahead of their benchmark, however Q4 hit the portfolio particularly hard and the NAV total return was 1.9% behind the benchmark's total return of -6.5%. As can be seen below, in the breakdown of the 2018 performance, the portfolio actually outperformed, but costs and gearing in a bear market meant the return was below the benchmark.

Investment Managers' Performance

Net Asset Value Total Return	**-8.4%**	**Portfolio Total Return (Gross)**	**-6.3%**	
Benchmark total return	**-6.5%**	Benchmark total return	**-6.5%**	
		Relative investment performance	**+0.2%**	
		Investment management costs	**-0.6%**	
		Investment contribution		**-0.4%**
		Gearing impact	**-0.8%**	
		Borrowing costs	**-0.4%**	
		Gearing contribution		**-1.2%**
		Effect of changed fair value of debt	**+0.2%**	
		Share buybacks	**+0.0%**	
		Other contributors		**+0.2%**
		Other operating costs and tax	**-0.5%**	
				-0.5%
Relative performance	**-1.9%**			**-1.9%**

Source: Witan

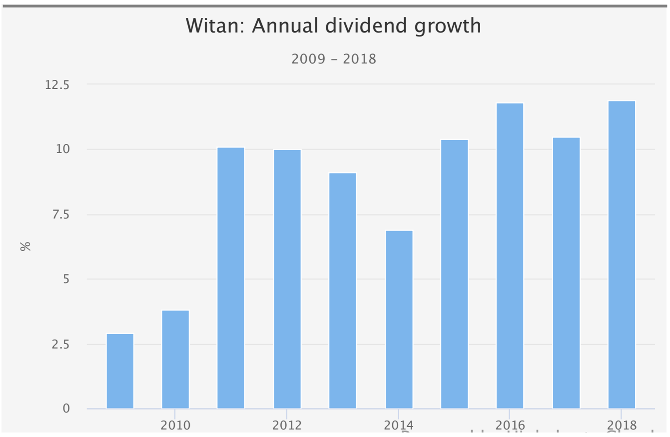
On an individual manager basis, over 2018 four of the ten external managers outperformed their relative benchmarks. Lindsell Train outperformed the UK market by 9.5%, while Veritas and Matthews outperformed their respective benchmarks by 4.6% and 2.3%. GQG also outperformed the emerging market benchmark (0.1%). The direct holdings portfolio run by Witan also had a strong year relative to its benchmark, outperforming by 5.1%. The strong relative returns were driven by Syncona (+34%) and the NB Distressed Debt Investment Fund (+7.7%). Across the ten external managers, only Veritas delivered a positive absolute return (+1.2%).

So far in 2019 (to early April) we have seen equities recover from the Q4 setback late last year. The trust has delivered NAV total returns of 6.3%, relative to the AIC peer group return of 8%, and the open-ended peer group return of 7.9%.

Dividend

It is the board's policy each year to grow the dividend ahead of inflation. According to JPMorgan Cazenove, over the past five years Witan's dividend per share has increased by 10.3% on an annualised basis, over triple the weighted average for the global sector and considerably more than the 12-month CPI annual rate of 1.8% . The dividend is paid quarterly (in March, June, September and December).

Fig.4: Dividends



Source: Witan

The 2018 dividend of 23.5p was 11.9% greater than the 21p paid in 2017, increasing the consecutive annual dividend increases to 44 years. As of the most recent annual report (December 2018), the trust has revenue reserves of c.£60m, which is the equivalent of 1.5x the dividend. At the current share price, the trust yields 2.3% and as can be seen below, has one of the top ten strongest track records for dividends.

Management

Witan is internally managed and is headed by Andrew Bell, who became CEO in 2010. There are multiple benefits to this, including the alignment of interests. There is no question of an investment decision being influenced by what is better for a management company which may be investing in the same or similar assets elsewhere. Supporting this further is the independent board at Witan. Alongside this, the employees are wholly focused on the portfolio at Witan, as opposed to other investment houses where analysts could be working for multiple managers.

Witan has a multi-manager approach, using a range of third-party managers investing in concentrated portfolios. Changes are expected to be relatively infrequent and as of the March 2019, there were ten managers.

Managers are reviewed at least once a year and even more often by the executive team. They are unlikely to be replaced due to short-term performance relative to their benchmarks; rather, this is more likely to happen in cases of investment mandate changes or changes at the management company. The breadth of the nine board members also facilities this process, with diverse skills being brought to the table from the likes of Ben Rogoff (current Polar Capital Technology fund manager) and Paul Yates (ex-CEO of UBS Global Asset Management UK).

Witan is able to use its large size (total assets of £2.167bn) to negotiate fees with the managers it has selected. Up to 12.5% of the portfolio may be invested by the executive team, of which up to 10% may be invested in specialist collective funds. These funds may represent undervalued asset categories or funds viewed as longer-term generators of superior returns. Up to 2.5% may be allocated in smaller mandates to third party managers with strong potential to add value, which the team view as possible managers for the future.

Investment Managers

UK	ARTEMIS, HERONBRIDGE, LINDSELL TRAIN
Global	**Lansdowne, Pzena, Veritas**
Europe	**CRUX, SW Mitchell**
Asia/Emerging	**Matthews, GQG**

Artemis

The fund from Artemis is run by Derek Stuart, manager of Artemis's UK Special Situations strategy. Through recovery/ special situations style investing the manager looks to achieve superior long-term growth by looking for unrecognised growth potential in companies. The strategy has a tilt towards smaller and medium-sized companies, especially those that are out of favour and need new management, refinancing or are suffering from investor indifference. The portfolio typically has fewer than 50 holdings.

Heronbridge

The portfolio from Heronbridge is run by two managers, Benoit Bouchaud and Bevis Comer, investing solely in UK equities. Their style is described as 'intrinsic value growth', searching for good companies at fair prices. The result is a contrarian and high conviction portfolio based on their desired investment qualities, as opposed to a stock's size in a particular market index. The managers aim to outperform the FTSE All-Share and inflation over time.

Lindsell Train

Lindsell Train, run by Nick Train, is a high-conviction portfolio of around 15 stocks which he likes to describe as "rare and beautiful assets". The manager has a single-minded focus on investment excellence, guided by four beliefs: investors undervalue durable, cash-generative business franchises; concentration can reduce risk; transaction costs are a 'tax' on returns; and dividends matter even more than you think. The result is a bias towards three sectors: Consumer Brands, Media & Digital Technology and Financial Services. Alongside a unique investment perspective, the utilisation of a long term buy-and-hold strategy is synonymous with Lindsell Train, highlighted by a portfolio turnover rate of less than 10% per annum.

Lansdowne

Although Lansdowne is well known as a hedge fund manager, its Long Only Developed Markets Strategy, managed by Peter Davies and Jonathon Regis, has gained a large amount of attention since launching in 2012. The managers have a high conviction and unconstrained approach, with the portfolio holding around 20 stocks. Fundamental and well detailed research is at the core of the investment process, and holdings are subject to detailed company-specific analysis, allied with an investigation to global thematic developments.

Pzena

Pzena is another trust within the portfolio that has is committed to finding deep value opportunities. The manager, John Goetz, searches for high quality companies at low valuations, concentrating entirely on companies that are underachieving relative to their demonstrated historical earnings power. This type of value investing means finding companies before the stock price reflects signs of business improvement and relies on investors avoiding businesses that are experiencing problems. The Global Value portfolio contains close to 65 stocks across the world.

Veritas

The aim of the company is to generate excellent real returns and minimise the risk of permanent capital loss. The manager, Andy Headley, has a 'fundamental value approach', putting companies through a highly selective and rigorous investment process. The team are extremely disciplined when it comes to valuations in 'quality' mid to large capitalisation companies, and potential investments are analysed on an absolute basis rather than relative to a benchmark. Typically, the portfolio will be comprised of 30 stocks or fewer, with a clear focus on a handful of investment themes.

CRUX

Established in 2014, CRUX is a UK-based fund management company founded by Richard Pease. Richard, supported by long term colleague James Milne, has constructed a more concentrated version of their European Special Situations fund for Witan's fund. The manager has a bottom-up and truly active approach to stock picking, centred around finding companies with four key characteristics: high-quality businesses, with proven management, which are sensibly capitalised and trading at a discount to CRUX's assessment of intrinsic value. Whilst the 40–50-stock portfolio contains some large and small-cap businesses, CRUX tends to concentrate on opportunities in the medium-sized range.

S.W. Mitchell

S.W. Mitchell Capital is a specialist European equities investment boutique. Freedom of thought, detailed research and insulation from the market distractions are at the heart of the company, trying to avoid some of the pitfalls of larger investment firms. The portfolio, run by Stuart Mitchell, takes an alternative view on value investing, looking for misunderstood and hence undervalued quality growth businesses. The manager utilises a bottom up approach, with management engagement at the heart of the investment process. The portfolio is completely unconstrained and benchmark agnostic. The portfolio is high conviction, with only 25-stocks in the portfolio.

Matthews

Matthews is an Asia-only investment specialist based in the USA. The largest of its kind, the 46-person investment team, travels extensively across Asia uncovering investment opportunities. Matthews' has an active, long-term investment approach and uses bottom up, stock-specific research to build a portfolio of companies with strong business models and quality management at reasonable valuations. The Asia Dividend strategy, managed by Yu Zhang, pays particular attention to the payment of dividends and sees them as an important signal for a company's capital allocation, business quality and corporate governance.

GQG

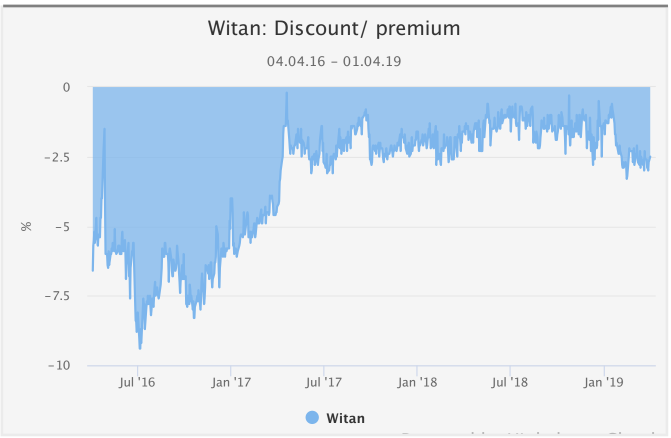
GQG Partners' Emerging Markets Equity strategy aims to participate in the growth of emerging market economies, while mitigating some of the risks through diversifying across countries and stocks within their investment universe. Rajiv Jain is at the helm of the portfolio, employing a fundamentals -driven investment process to find high-quality, large-cap companies with attractively priced future growth prospects.

Discount

The discount has been narrowing steadily over the past few years, largely due to strong performance relative to the benchmark and the rest of the sector. The average discount over 2018 was -1.6%, 1.2% narrower than in 2017. This has since slipped slightly, and currently the trust is trading on a discount of -2.5%.

The board places a great emphasis on the importance of liquidity of the shares. As such, it closely watches for discount-related issues and over the past few years has made significant use of share buybacks. During 2018, Witan bought 240,221 shares into treasury, at an average discount of -1.7%.

Fig.5: Discount



Source: Morningstar

Charges

In 2018, the ongoing charges excluding performance fees were 0.75%, in line with the peer group average of 0.72%. Two of the managers in the portfolio charge a performance fee, one of which significantly outperformed over 2018, and including these costs the OCF rises to 0.83%. The trust has a KID RIY of 1.9% which includes interest and transaction costs, relative to the sector average of 1.37%.

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