

# Witan Pacific Investment Trust

## Multi-manager Asia-Pacific/Japan investment

Witan Pacific Investment Trust (WPC) has a multi-manager approach, aiming to generate capital and income growth from a diversified portfolio of primarily Asian equities, including Japan and Australia. WPC currently has three external managers: Aberdeen, GaveKal and Matthews; they follow different investment strategies but are all unconstrained versus the benchmark (MSCI AC Asia Pacific Free Index). WPC has a competitive fee structure and aims to generate real growth in annual dividends; its current dividend yield is 1.5%. In FY17, investment performance was strong in absolute terms but lagged the index and its peers. However, so far in FY18 all three external managers are outperforming the benchmark. Since adopting the multi-manager approach in 2005, WPC has outperformed in eight out of 12 financial years.

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
30/04/13	31.7	23.3	21.8	17.8	22.5
30/04/14	(14.5)	(11.9)	(8.5)	10.5	8.1
30/04/15	28.1	22.6	26.0	7.5	18.7
30/04/16	(10.6)	(5.5)	(7.7)	(5.7)	1.1
30/04/17	34.3	28.8	31.9	20.1	30.6

Source: Thomson Datastream. Note: All % on a total return basis in pounds sterling.

### Investment strategy: Unconstrained approach

WPC appoints external managers and allocates capital between them. The current three managers have the following strategies and percentage of assets under management at end-FY17 (January 2017): Matthews dividend bias – 46.4%; Aberdeen long-term growth and value – 43.4%; and GaveKal equities, bonds and cash – 10.2%. Matthews has a higher weighting to mid- and small-cap equities than Aberdeen; both managers are bottom-up investors. GaveKal combines a top-down and bottom-up approach to determine its asset allocation and stock selection. Employing a multi-manager strategy tends to smooth WPC's performance versus that of the underlying managers.

### Market outlook: Growth and attractive valuation

The International Monetary Fund's (IMF) forecast is for above-average economic growth in Asia versus the rest of the world over the medium term helped by a rising middle class. Although delivering strong absolute returns for a UK investor in 2016, enhanced by the weakness of sterling, Asian equities remain attractively valued versus world equities. For investors wanting exposure to the broader region, a fund offering an unconstrained, multi-manager approach may appeal.

### Valuation: Recent narrowing of the discount

WPC's current 12.0% share price discount to cum-income NAV is narrower than the averages of the last one, three, five and 10 years (range of 13.3% to 14.9%). The board has an active discount control policy, repurchasing shares when they are trading at a substantial and anomalous discount to NAV. In FY18 to date, 1.6m shares have been repurchased at a cost of £4.6m. The discount has been in a narrowing trend since mid-March 2017.

## Investment trusts

30 May 2017

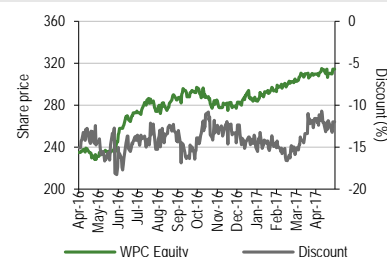
**Price** 314.5p  
**Market cap** £200m  
**AUM** £228m

NAV\* 355.4p  
Discount to NAV 11.5%  
NAV\*\* 357.3p  
Discount to NAV 12.0%

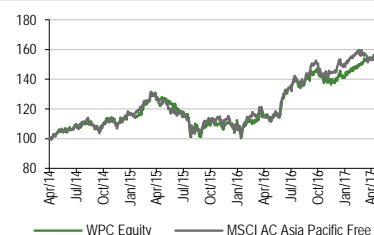
\*Excluding income. \*\*Including income. As at 25 May 2017.

Yield 1.5%  
Ordinary shares in issue 63.5m  
Code WPC  
Primary exchange LSE  
AIC sector Asia Pacific – including Japan  
Benchmark MSCI AC Asia Pacific Free

### Share price/discount performance



### Three-year performance graph



52-week high/low 314.9p 231.0p  
NAV\* high/low 362.6p 269.9p

\*Including income.

### Gearing

Net cash\* 2.0%

\*As at 30 April 2017.

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### Exhibit 1: Trust/company at a glance

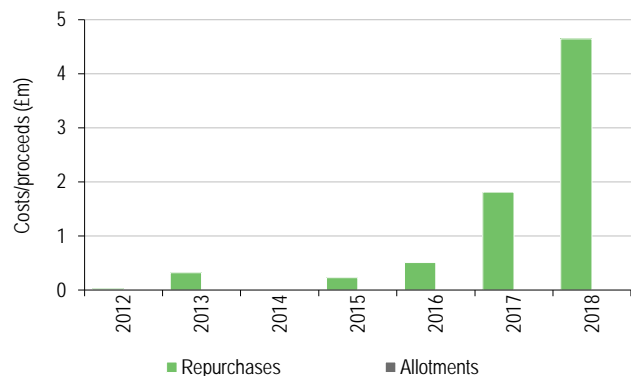
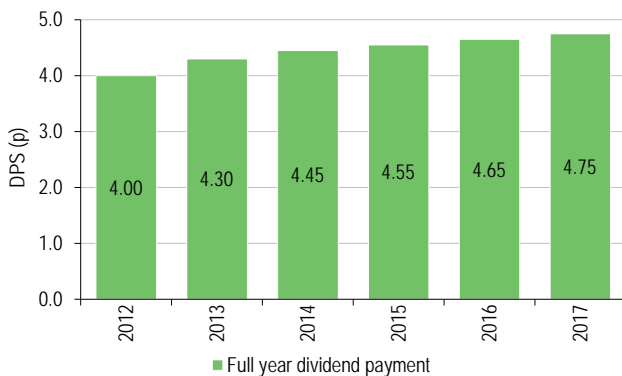
Investment objective and fund background	Recent developments
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WPC's objective is to provide shareholders with balanced, primarily equity, exposure in the Asia-Pacific region, including Japan and Australia. It aims to outperform the MSCI AC Asia Pacific Free index (£). It has a multi-manager approach, currently employing three complementary managers: Aberdeen Asset Managers, GaveKal Capital and Matthews International Capital Management.	<ul style="list-style-type: none"> <li>27 April 2017: 12-month report to 31 January. NAV TR +30.7% versus benchmark TR +35.3%, share price TR +26.1%. Final dividend up 2.0% to 2.55p.</li> <li>29 September 2016: Six-month report to 31 July. NAV TR +22.8% versus benchmark TR +22.0%, share price TR +19.5%. Interim dividend +2.3% to 2.20p.</li> </ul>
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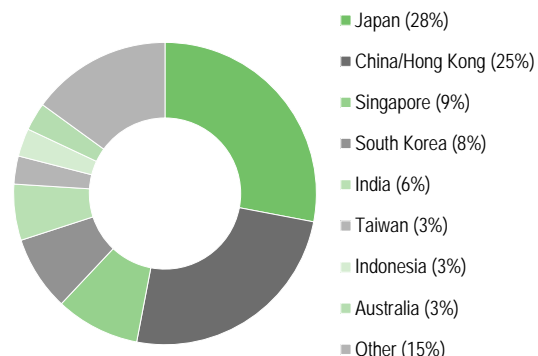
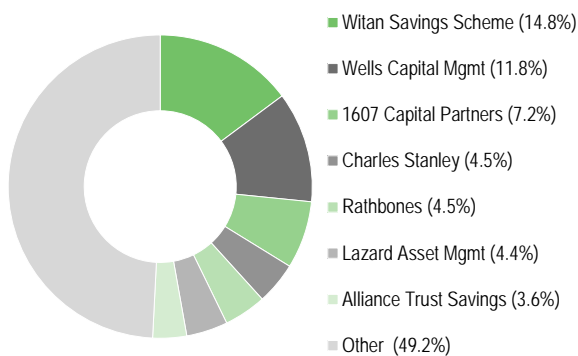
Forthcoming		Capital structure		Fund details	
AGM	June 2017	Ongoing charges	1.03%	Group	Self-managed (Witan Inv. Services)
Interim results	September 2017	Net cash	2.0%	Manager	Team
Year end	31 January	Annual mgmt fee	Only paid to external managers	Address	14 Queen Anne's Gate, London, SW1H 9AA
Dividend paid	June, October	Performance fee	Yes (see page 7)	Phone	0800 082 81 80
Launch date	December 1907	Trust life	Indefinite	Website	<a href="http://www.witanpacific.com">www.witanpacific.com</a>
Continuation vote	No	Loan facilities	None		

Dividend policy and history (financial years)	Share buyback policy and history (financial years)
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The board aims to increase the dividend in real terms over the long term. Interim and final dividends are paid in June and October.	WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.
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Shareholder base (as at 31 March 2017)	Portfolio exposure by geography (as at 30 April 2017)
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Top 10 holdings (as at 30 April 2017)			Portfolio weight %	
Company	Country	Sector	30 April 2017	30 April 2016

Samsung Electronics	South Korea	Electronics	3.0	1.5
Taiwan Semiconductor	Taiwan	Semiconductor manufacturing	2.3	2.3
HSBC	Hong Kong	Banks	2.2	N/A
Japan Tobacco	Japan	Tobacco	2.1	3.1
Seven & I	Japan	Retail	1.9	1.8
Minth	Hong Kong	Manufacturing	1.9	1.6
China Mobile	China	Telecommunications	1.7	2.1
United Overseas Bank	Singapore	Banks	1.6	N/A
Itochu	Japan	Capital goods	1.5	N/A
Shenzhou International	China	Manufacturing	1.4	N/A
<b>Top 10</b>			<b>19.6</b>	<b>18.1</b>

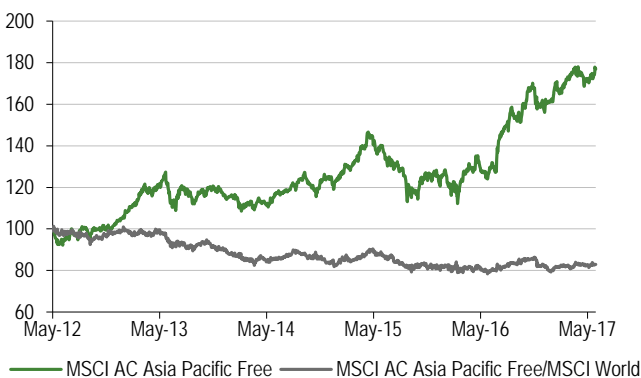
Source: Witan Pacific Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in April 2016 top 10.

## Market outlook: Relative valuation remains attractive

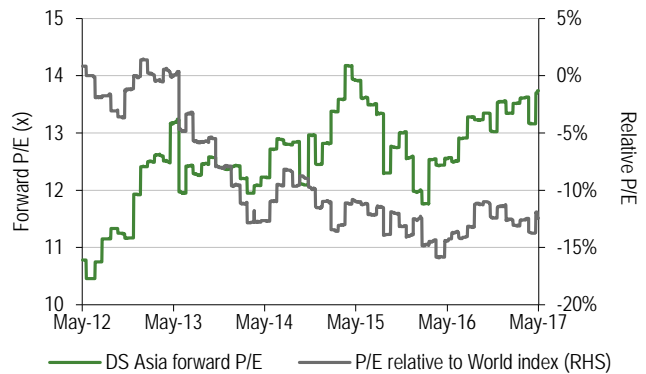
As shown in Exhibit 2 (right-hand side), the valuation of Asian equities remains attractive relative to global equities. The Datastream Asia Index forward P/E multiple of 13.7x is currently at a 12.4% discount to world equities, which is wider than the 9.0% average of the last five years. The IMF's forecast is for above-average economic growth in Asia over the medium term, driven by factors such as a high standard of education, a rising middle class and relatively low levels of debt. For investors wanting broader exposure to the region, a fund that has an unconstrained, multi-manager approach may be of interest.

**Exhibit 2: Asian market performance and valuation vs world**

MSCI AC Asia Pacific Free Index performance and relative over five years



DS Asia Index forward P/E and relative to DS World index over five years



Source: Thomson Datastream, Edison Investment Research

## Fund profile: Broad exposure to Asia-Pacific region

WPC was launched in 1907 as General Investors and Trustees, which invested in a broad range of assets. In 1975, it merged with City and Gracechurch Investment Trust, and in 1984 was renamed F&C Pacific Investment Trust, reflecting a new Asia-Pacific investment policy. In 2005, the trust adopted a multi-manager approach, Witan Investment Services (WIS, a subsidiary of Witan Investment Trust) took on an executive manager role reporting directly to the WPC board and the name of the trust was changed to Witan Pacific Investment Trust.

The trust aims to generate long-term growth in capital and income from a broad range of Asian assets (primarily equities). Under the multi-manager strategy, funds were initially allocated equally to Aberdeen Asset Management and Nomura. In April 2012, the Nomura funds were reallocated to Matthews International and GaveKal Capital. WPC is the only UK investment trust with a broad Asia-Pacific mandate that includes Japan and Australia; it is benchmarked against the MSCI AC Asia Pacific Free Index (sterling-adjusted).

## Managers: Matthews, Aberdeen and GaveKal

### The manager's view: Insights from visit to Asia

We met with manager James Hart from WPC's executive manager WIS, who shared his views on the current macro environment and key messages that he and the board gleaned from their visit to Asia in February 2017. Hart observes that investors often focus on political events, which can create stock market volatility, especially in Asia, but that long-term returns are driven by economic growth and corporate earnings. He does, however, point to positive political developments in South Korea, where Moon Jae-in was recently elected as president after the impeachment of his

predecessor. Moon wants to tackle corruption at the state and government level and address the chaebols' (family-owned conglomerates) business dominance. He also wishes to implement corporate reforms and protection for the rights of shareholders.

Hart considers that Asian equities are attractively valued and views Asia as a more attractive investment opportunity than many Western equity markets. He notes that Asian corporate earnings are starting to recover after a lean period and that there has been a small increase in positive estimate revisions. If economic growth picks up, Hart believes that it will be positive for equities, unless there is dislocation in the bond market.

Regarding Japan, Hart suggests there are signs of life in the country following unprecedented fiscal stimulus. He says that there are indications of a slight improvement in GDP along with some signs of inflation, which is essential for a sustained recovery. Although there have been false starts in the past, this time round Hart suggests that there is a growing feeling that Japan could be starting to turn the corner after nearly three decades in the wilderness, and is no longer the "sick man of Asia". He says that investors need to be selective when picking stocks in Japan as no two companies will benefit equally from any economic recovery. Matthews is buying Japanese banks, having not owned them for a while, as it believes that there is normalisation in the economic environment.

## Asset allocation

### Investment process: Broad Asian exposure

WPC employs a multi-manager strategy, seeking to generate capital and income and to diversify risk, while outperforming the benchmark MSCI AC Asia Pacific Free Index. The managers are able to invest across the Asian region including Japan and Australia. The board considers that income growth is very important given WPC's high percentage of individual shareholders. It is responsible for hiring and monitoring external managers as well as reallocating capital between managers. The board visits Asia regularly (every two to three years) to meet with existing and potential new managers (the most recent trip was February 2017). There have been no manager changes or asset reallocations since 2012, but the line-up is under constant review; any change in manager is more likely to be the result of structural changes, rather than due to a period of underperformance.

All three managers are benchmark agnostic. They have active shares of between 80% and 90%, which combines to 75% for WPC. (Active share is a measure of how far a portfolio deviates from the benchmark, with 0% representing full replication of the index and 100% representing no commonality between the portfolio and the benchmark.) Each manager holds between 5% and 30% of their portfolios in non-index stocks.

**Exhibit 3: Manager strategies and performance**

Investment manager	Inception date	Strategy	% of WPC FUM*	FY17 perf. (%)	FY17 perf. vs b'mark (pp)	Annualised perf. vs b'mark** (pp)
Aberdeen	31 May 2005	Follows a fundamental bottom-up strategy seeking companies with sustainable long-term growth potential and a sound balance sheet. A long-term view and relatively low portfolio turnover are key characteristics.	43.4 vs 41.1	39.2	3.9	2.1
Matthews	30 April 2012	Like Aberdeen, Matthews follows a bottom-up approach, but there is an explicit dividend bias in the strategy and the manager invests across the market cap range with significant small- and mid-cap exposure, in contrast to Aberdeen's larger-cap bias.	46.4 vs 47.9	28.4	(6.9)	2.0
GaveKal	24 April 2012	GaveKal combines a bottom-up growth strategy with a top-down macro-driven country theme approach with a willingness to move up to 70% in bonds/cash if market circumstances appear unfavourable, unlike the equity-based strategies of Aberdeen and Matthews.	10.2 vs 11.0	22.3	(13.0)	(1.4)

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: \*Manager % of funds under management at end-January 2017 versus end-January 2016. \*\*Since inception date.

## Current portfolio positioning

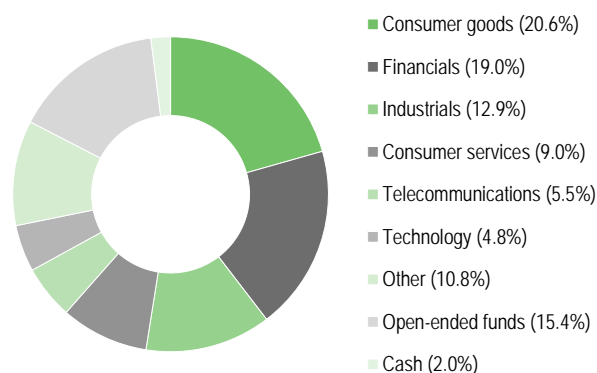
At end-April 2017, WPC's top 10 positions comprised 19.6% of the portfolio (Exhibit 1), a modest increase in concentration versus 18.1% at end-April 2016. The structure of the portfolio on a geographic basis (Exhibit 4) remains similar to our [last published note](#) in December 2016. WPC has significant underweight exposure to Japan and Australia, with meaningful overweight exposure to Singapore. Sector weights (Exhibit 5) are also broadly comparable to six months ago. Earnings growth in WPC's portfolio is modestly higher than in the wider Asian region. Consensus earnings growth for the portfolio is running in the low- to mid-teens, which is higher than in November 2016 (9.5-10.0%). The manager says that forecast dividend growth of 9% is also higher than it has been for some time and is above the market's dividend growth.

**Exhibit 4: Witan Pacific country weights**

	30 April 2017	30 April 2016	Benchmark	Active weight
Japan	28	28	39	(11)
China/Hong Kong	25	24	21	4
Singapore	9	8	2	7
South Korea	8	6	8	0
India	6	5	5	1
Taiwan	3	5	7	(4)
Indonesia	3	N/A	1	2
Australia	3	5	12	(9)
Other*	15	19	5	10
	100	100	100	

Source: Witan Pacific Investment Trust. Note: \*Other = 10% exposure to GaveKal and 5% in other smaller countries.

**Exhibit 5: Witan Pacific sector weights at 30 April 2017**



Source: Witan Pacific Investment Trust

Hart highlights a couple of the major holdings in the portfolio: HSBC and Minth. HSBC (trading on a price-to-book multiple of 1.1x) is the third largest holding and is owned by two of the managers, who view the investment as a way to benefit from a pick-up in regional activity and global growth. WPC's overall exposure to banks has increased recently as fears of a deflationary environment have diminished. The managers consider that the banking sector is still trading on an attractive valuation despite bank share price recoveries in late 2016.

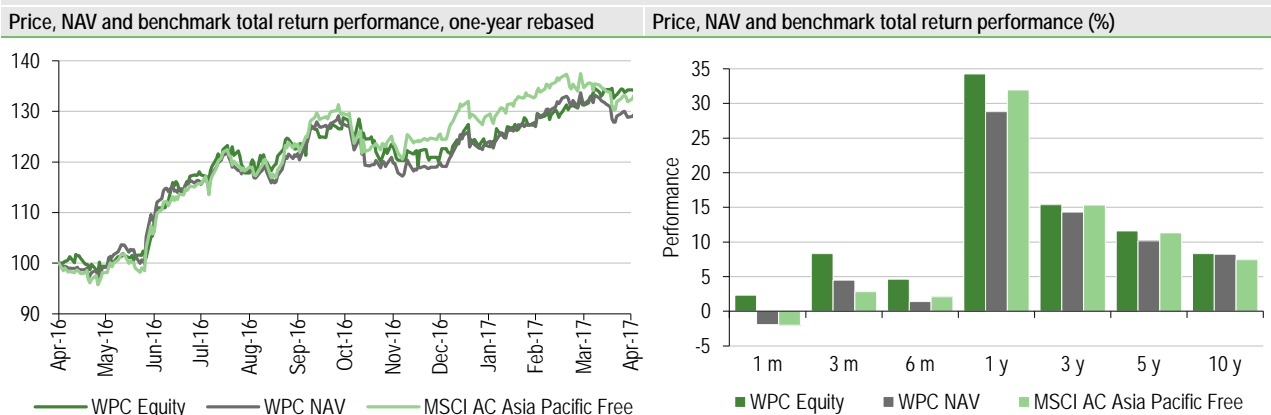
Minth is WPC's sixth largest holding. It is a Chinese auto parts manufacturer; core products include trims, decorative parts and body structural parts. More than 60% of Minth's revenues are generated in the domestic market, although it supplies 80% of global auto manufacturers. In 2016, 24m cars were purchased in China, which was an 18% increase versus the prior year; almost all were produced locally. Consensus estimates for Minth's 2017 revenue and earnings growth are 18% and 19%, respectively, and it is trading on a forward P/E multiple of c 14x. Its share price pulled back following recent concerns about US protectionism and the board restructuring, but has since rallied.

## Performance: Improving over the near term

In FY17 (to end-January 2017), WPC's NAV total return of 30.7% compared to the benchmark total return of 35.3% (the decline in sterling, particularly following the result of the UK's European referendum, significantly boosted absolute returns for sterling-based investors). The managers outperformed the benchmark in H117, but H217 performance was affected by major sentiment shifts in global stock markets on the back of macro events, such as the election of US President Trump; cyclical and value stocks led the market, while quality growth stocks underperformed. However, Hart points out that much of this volatility has already subsided and notes that WPC has outperformed the benchmark in eight out of 12 financial years since adopting a multi-manager approach. Its NAV total return over this period is 195.8%, which compares to 183.1% for the

benchmark. Hart comments that so far in FY18, all three external managers are outperforming the benchmark.

**Exhibit 6: Investment trust performance to 30 April 2017**



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

As shown in Exhibit 7, WPC's NAV total return is ahead of the benchmark over 10 years, but lower over one, three and five years, while its share price total return is ahead over all periods. Of interest to UK investors, both WPC's share price and NAV total returns are ahead of the FTSE ALL-Share Index over one, three, five and 10 years.

**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 MSCI AC Asia Pacific Free	4.4	5.3	2.5	1.8	0.2	1.3	8.5
NAV relative to MSCI AC Asia Pacific Free	0.1	1.6	(0.7)	(2.4)	(2.6)	(5.1)	7.4
Price relative to FTSE All-Share	2.7	4.2	(2.3)	11.8	26.2	9.2	31.9
NAV relative to FTSE All-Share	(1.6)	0.5	(5.3)	7.2	22.7	2.3	30.6
Price relative to MSCI World	4.3	5.5	(1.4)	2.8	(1.9)	(16.5)	(7.3)
NAV relative to MSCI World	(0.1)	1.8	(4.4)	(1.3)	(4.6)	(21.8)	(8.2)

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

**Exhibit 8: NAV total return performance relative to benchmark over 10 years**



Source: Thomson Datastream, Edison Investment Research

## Discount: Increased pace of share repurchases

WPC's current 12.0% share price discount to cum-income NAV is narrower than the 14.1% average discount of the last 12 months (range of 10.7% to 18.3%). It is also narrower than the averages of the last three, five and 10 years of 13.3%, 13.5% and 14.9%, respectively.

The board considers it is in shareholders' interest to repurchase shares when they are trading at a substantial and anomalous discount to NAV. During FY17, WPC repurchased 0.7m shares at a cost

of £1.8m. Repurchases have since accelerated (see Exhibit 1); in FY18 to date, 1.6m shares have been repurchased at a cost of £4.6m (average price of 299.8p); this represents 2.4% of the shares outstanding at end-FY17. Given WPC's high absolute NAV return in FY17, which was boosted by the weakness of sterling, the higher pace of share repurchases has not reduced WPC's asset base to a meaningful extent.

**Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

WPC is a conventional investment trust with one class of share in issue. There are currently 63.5m ordinary shares outstanding. The trust is registered with the FCA as a small UK AIFM under the Alternative Investment Directive; as a result it does not employ gearing. WPC's board regularly reviews this status in terms of costs versus the potential benefits of gearing. The manager suggests that if employed in the future, gearing should be in a range of 5-10% to be meaningful. He notes that while it is currently possible to borrow money cheaply, this benefit must be considered against the inherent risk of volatility in Asian stock markets and if employed should therefore not be excessive. One of the trust's objectives is to contain ongoing charges at 1.0% of net assets pa (excluding performance fees). In FY17, ongoing charges were 1.03%, which was a 2bp decrease versus the prior year (no performance fee has been paid since FY15). Management fees paid to the external managers and WIS were 0.65%. Aberdeen charges a lower base fee than the other managers, but is eligible for a performance fee based on performance relative to the benchmark.

## Dividend policy and record

The external managers have no specific income targets (although Matthews has a dividend mandate), but WPC pays regular dividends twice a year in June and October. The board aims to grow the annual dividend at a rate higher than the rate of UK inflation. Over the last five years, WPC's dividend has compounded at an annual rate of 3.5% and ordinary annual dividends have increased for 12 consecutive years. The FY17 annual dividend of 4.75p was a 2.2% increase versus the prior year; it was 93% covered by revenue. The trust has a remaining revenue reserve of £10.7m, which is c 3.5x the FY17 annual dividend payment.

## Peer group comparison

WPC is the only company in the AIC Asia Pacific including Japan sector so in Exhibit 10 we compare it to the weighted average of the AIC Asia Pacific excluding Japan sector. Historical peers

such as Martin Currie Asia Unconstrained (formerly Martin Currie Pacific) no longer invest in Japan. WPC's NAV total returns have lagged over the periods shown; a contributing factor to its weaker longer-term performance has been its significant exposure to Japan, which underperformed the Asia ex-Japan region from 1990 to 2010. WPC has a wider discount than the Asia Pacific ex-Japan sector average, a meaningfully lower ongoing charge and a lower dividend yield. We also compare WPC to open-ended funds in the IA Asia Pacific including Japan sector; its NAV total returns have lagged the sector averages over the periods shown.

**Exhibit 10: Selected peer group as at 26 May 2017\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Performance fee	Net gearing	Dividend yield (%)
Witan Pacific	199.6	37.1	51.5	76.7	123.4	(12.0)	1.03	Yes	100	1.5
Asia Pacific ex-Jpn weighted avg		44.1	53.4	89.4	185.3	(6.4)	1.17		104	2.2
<b>Open-ended peers</b>										
Aberdeen Asia Pacific and Japan	136.6	39.0	38.9	59.8	125.5					
Baillie Gifford Developed Asia Pac	119.6	31.1	66.8							
GAM Star Asia-Pacific Equity	21.2	41.7	48.1	85.9	49.0					
Invesco Perpetual Pacific	268.6	45.7	59.8	116.3	177.8					
JPM Pacific Equity	482.2	48.1	73.6	111.4	127.5					
Matthews Asia Funds Asia Dividend	339.0	35.0	58.6	93.4						
S&W Far Eastern Income & Growth	36.8	35.2	58.6	100.2	144.5					
Open-ended weighted average		41.7	62.6	101.4	140.4					

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 25 May 2017. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

There are five members on the board of WPC, all of whom are non-executive and independent of the manager. Chairman Sarah Bates was appointed in January 2004 and assumed her current role in June 2014. She has announced her intention to retire at the June 2017 AGM and will be replaced by Susan Platts-Martin (appointed July 2014), who has a background in investment including several years as head of investment trusts at Fidelity International. Platts-Martin is currently on the board of BlackRock Smaller Companies Trust and the Targeted Return Fund. The other board members are: Dermot McMeekin, senior independent director, appointed in May 2012; Diane Seymour-Williams, appointed in June 2010; and Andrew Robson, appointed in July 2014. The board is in the process of recruiting another director.

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