EDISON

Witan Pacific Investment Trust

Board enthusiastic about revised manager line-up

Investment trusts

Witan Pacific Investment Trust (WPC) has outperformed its MSCI AC Asia Pacific Free benchmark since adopting a multi-manager strategy at end-May 2005. However, following a period of relative weakness (particularly since mid-2016), the board has changed the external manager line-up (effective from end-September 2017). It is enthusiastic about the two new managers: Dalton Investments and Robeco Institutional Asset Management (and has continued confidence in incumbent managers Aberdeen and Matthews). The board is hopeful that the new line-up can build on WPC's long-term record of outperformance. WPC aims to generate long-term growth in both capital and income, and the regular annual dividend has increased in each of the last 13 years.

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
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
30/04/18	7.2	9.7	12.8	8.2	6.9

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

Investment strategy: Multi-manager approach

WPC employs a multi-manager strategy, aiming to generate long-term growth in capital and income from a diversified portfolio of pan-Asian equities, which includes Japan, Australia and India. This approach aims to maximise returns while diversifying risk. At end-FY18 (January), the portfolio was split between four external managers: Aberdeen (25%), Dalton (10%), Matthews (40%) and Robeco (25%). They have a range of investment styles, offering a wide opportunity set. WPC is designated as a small UK AIFM, so it does not employ gearing; at end-March 2018 it had a net cash position of 3.2%.

Market outlook: Relative valuations attractive

Asian equities have outpaced world equities since late 2016, supported by improving corporate earnings, which have surpassed consensus earnings growth expectations. While Asian stock markets, in keeping with other global markets, have undergone a positive re-rating, on a forward P/E multiple basis the valuations of Asian equities remain relatively attractive. Coupled with above-average Asia Pacific economic growth prospects, alongside improving corporate governance, this region could continue to provide opportunities for investors.

Valuation: Discount wider than average

WPC's current 14.1% share price discount to cum-income NAV is wider than the averages of the last one, three and five years (range of 13.0% to 13.5%). The trust's board repurchases shares when they are trading at a substantial and anomalous discount. WPC has a progressive dividend policy; annual distributions have increased for the last 13 consecutive years. Its current dividend yield is 1.7%.

1 May 2018

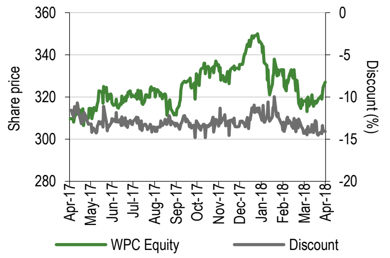
Price	**327.0p**
Market cap	**£207m**
AUM	**£238m**

NAV*	375.8p
Discount to NAV	13.0%
NAV**	380.7p
Discount to NAV	14.1%

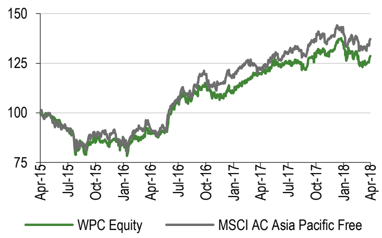
*Excluding income. **Including income. As at 30 April 2018.

Yield	1.7%
Ordinary shares in issue	63.2m
Code	WPC
Primary exchange	LSE
AIC sector	Asia Pacific – Including Japan
Benchmark	MSCI AC Asia Pacific Free

Share price/discount performance



Three-year performance vs index



52-week high/low	350.0p	306.5p
NAV** high/low	398.8p	349.5p

**Including income.

Gearing

Net cash*	3.2%

*As at 31 March 2018.

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Edison profile page

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

Exhibit 1: Trust at a glance

Investment objective and fund background

WPC's objective is to provide shareholders with equity exposure to the Asia Pacific region, including Japan, Australia and India. It aims to outperform the MSCI AC Asia Pacific Free index (£). It has a multi-manager approach, currently employing four complementary managers: Aberdeen Asset Managers, Dalton Investments, Matthews International Capital Management and Robeco Institutional Asset Management.

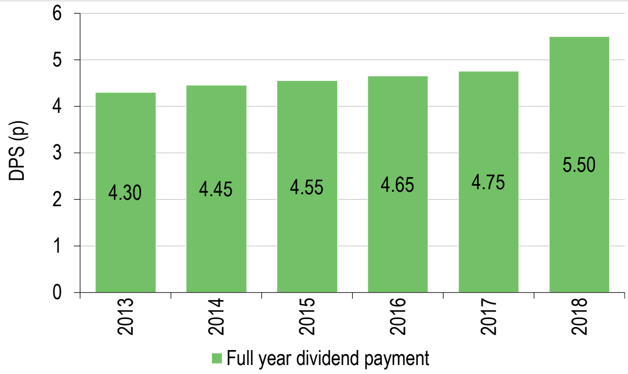
Recent developments

- 26 April 2018: 12-month report to 31 January 2018. NAV TR +17.3% versus benchmark TR +17.9 %. Share price TR +22.1%.
- 5 October 2017: Six-month report to 31 July 2017. NAV TR +10.5% versus benchmark TR +9.6%. Share price TR +12.8%.
- 2 October 2017: Completion of the transition to the new multi-manager line-up.

Forthcoming		Capital structure		Fund details	
AGM	June 2018	Ongoing charges	0.99%	Group	Self-managed (Witan Inv. Services)
Interim results	September 2018	Net cash	3.2%	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)		
Launch date	December 1907	Trust life	Indefinite	Phone	0800 082 8180
Continuation vote	No	Loan facilities	None	Website	www.witanpacific.com

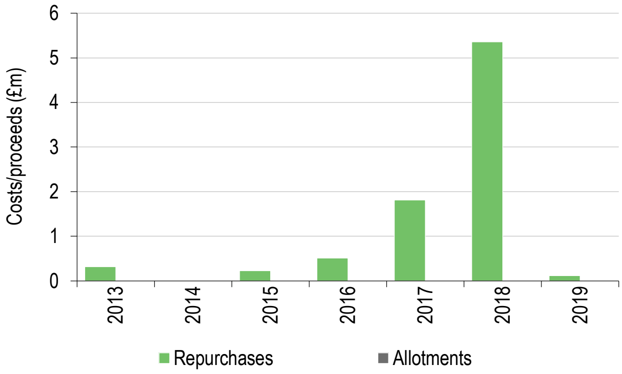
Dividend policy and history (financial years)

The board aims to increase the dividend in real terms over the long term. Interim and final dividends are paid in June and October.

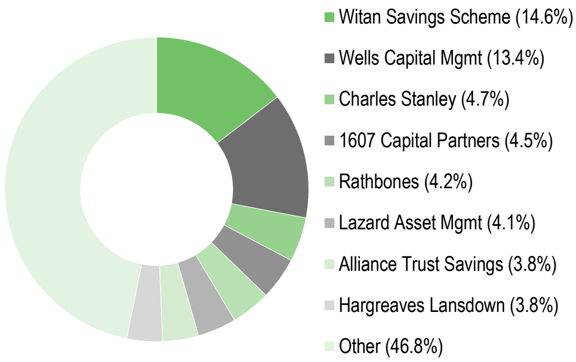


Share buyback policy and history (financial years)

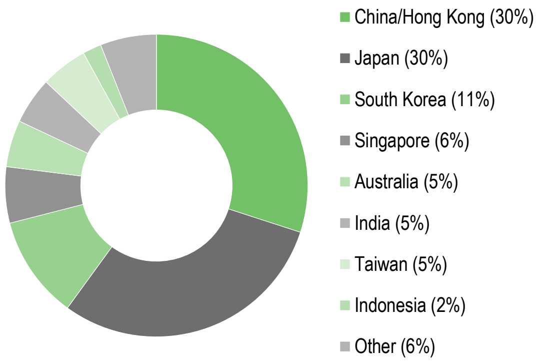
WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.



Shareholder base (as at 31 March 2018)



Portfolio exposure by geography ex cash (as at 31 March 2018)



Top 10 holdings (on a look-through basis, as at 31 March 2018)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 March 2018**	**31 March 2017***
Taiwan Semiconductor	Taiwan	Semiconductors	2.4	2.3
Samsung Electronics	South Korea	Consumer electronics	2.3	3.0
China Construction Bank	China	Banks	2.1	N/A
HSBC	Hong Kong	Banks	1.7	2.1
Minth	Hong Kong	Auto parts	1.6	2.1
Shenzhou International	China	Clothing & accessories	1.5	N/A
Seven & I	Japan	Broadline retailers	1.5	2.0
Sinopec	China	Integrated oil & gas	1.4	N/A
Hyundai Mobis	South Korea	Auto parts	1.4	N/A
ROHM Semiconductor	Japan	Semiconductors	1.3	N/A
Top 10			**17.2**	**20.0**

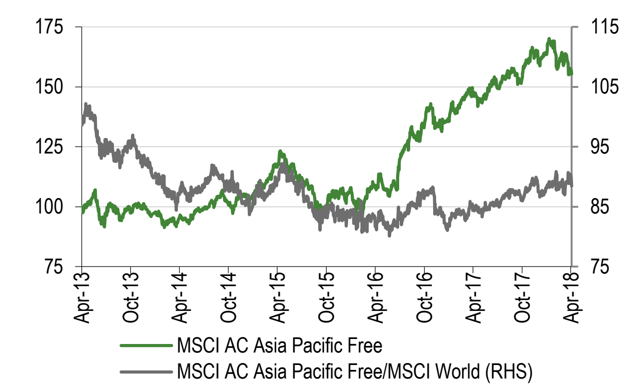
Source: Witan Pacific Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in March 2017 top 10.

Market outlook: Asia still relatively attractive valued

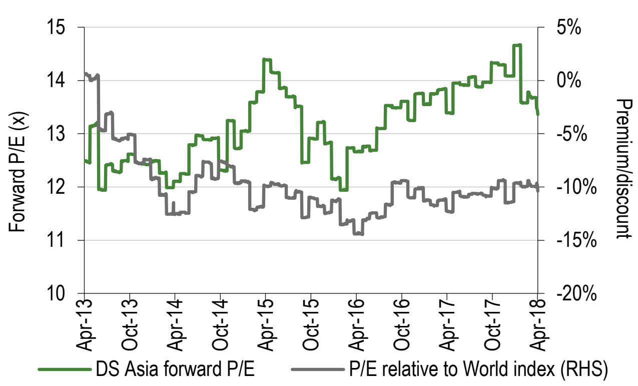
In an environment of robust corporate earnings growth and positive estimate revisions, Asian equities have outperformed world equities since late 2016 (Exhibit 2, LHS). However, while the forward P/E multiple of Asian stocks has increased, on a relative basis they continue to trade at a discount to world equities (Exhibit 2, RHS). The current c 10% discount is broadly in line with the average over the past five years and wider than the c 1% average discount over the past 10 years. Asia Pacific economic growth forecasts continue to outpace estimates for both world and developed markets' output and there are an increasing number of Asian companies with improving corporate governance track records; these factors may continue to encourage positive fund flows into Asia.

Exhibit 2: Market performance and valuation

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: Pan-Asian equity exposure

WPC was launched in 1907 and aims to generate capital and income growth from a diversified portfolio of Asian (including Japanese and Australian) equities. The trust is benchmarked against the MSCI AC Asia Pacific Free index (sterling-adjusted). At end-May 2005, WPC adopted a multi-manager strategy and Witan Investment Services (WIS, a subsidiary of Witan Investment Trust) took on an executive manager role, reporting to WPC's board. From end-May 2005 to end-January 2018, WPC generated NAV and share price average annual total returns of 10.3% and 10.5%, respectively, compared with 10.0% for the benchmark (source: WPC).

The initial external managers were Aberdeen Asset Management (50% of assets) and Nomura (50%). In April 2012, the Nomura assets were reallocated between Matthews International and Gavekal Capital. The line-up was changed in 2017, aiming to improve investment performance and to increase exposure to smaller cap or lesser-known companies. The Gavekal portfolio was liquidated and two new managers, Dalton Investments and Robeco Institutional Asset Management were appointed. At end-January 2018, WPC's portfolio was split: Aberdeen (25%), Dalton (10%), Matthews (40%) and Robeco (25%). The trust also seeks to increase its dividend in real terms over the long term and to control costs, aiming to maintain ongoing charges below 1%.

Managers: Aberdeen, Dalton, Matthews and Robeco

The director's view: Constructive on Asian equity returns

WIS's investment director James Hart remains constructive on the outlook for Asian equity returns. Aggregate corporate earnings growth across Asian markets in 2017 was c 9% and the consensus estimate for 2018 is for growth of a similar magnitude. Dividend increases are running ahead of earnings growth, as Asian companies are returning more cash to shareholders than historically, both as dividends and via share repurchases. While the strong performance of Asian equities over the past two years has closed the valuation gap somewhat, Hart still views them as attractively valued compared to developed market equities. Due to the positive re-rating, he expects that further Asian equity gains will be driven by earnings growth, rather than by earnings multiple expansion. However, he suggests that if there is a further broad-based positive revaluation of global equities, Asian equity multiples could expand by more than other developed markets, given their lower absolute starting point.

Hart explains that there some regional issues to consider. These include the Asian political environment, which has been pretty benign compared to the US and Europe in recent years. In Japan, despite recently winning a snap election, Prime Minister Shinzō Abe's approval rating has declined and there are calls for him to stand down due to scandal surrounding a heavily-discounted sale of state-owned land to someone with ties to his wife. Hart also notes the construction of WPC's benchmark with its heavy technology bias. Following a period of strong relative performance, the top four index constituents (Tencent, Samsung Electronics, Alibaba and Taiwan Semiconductor), now make up c 10% of the MSCI Asia Pacific index; hence, if there is a shift in investor focus from growth to value, these large companies could undergo a period of meaningful underperformance.

Hart reports that all of WPC's external managers are finding attractive investment opportunities in the region. This includes Japan, which remains relatively attractively valued compared to some other Asian countries. He says that there are a lot of innovative Japanese companies with global operations, and the country is improving its corporate governance track record. China is the economic powerhouse in Asia, so it is important that its growth is maintained as the country transitions from a low-cost manufacturer to a provider of higher-quality goods and services.

Asset allocation

Investment process: Four external managers

WPC employs a multi-manager approach, aiming to generate capital and income growth from a portfolio of Asia Pacific equities, while diversifying risk. It is the only UK investment trust focusing on the entire region, which includes Japan, Australia and India.

Exhibit 3: Manager strategies and performance (before costs)

Investment manager	Inception date	Strategy	% of WPC FUM at end-January 2018*	FY18 perf. (%)	FY18 perf. vs benchmark (pp)	Annualised perf. vs benchmark** (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.	25 versus 43	16.8	(1.1)	1.8
Dalton	30 Sept 2017	Combines a strict value investing discipline with a focus on alignment of interest between management and shareholders. Portfolio tends to tilt towards smaller companies, where valuations are lower, access to management better and market research coverage is poor, offering mispricing opportunities.	10 versus 0	N/A	N/A	N/A
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.	40 versus 47	20.2	2.3	2.1
Robeco	30 Sept 2017	Long-term investment horizon with a focus on value. Awareness of price momentum, which aims to take advantage of the 'short-term focus' of many investors in Asian markets.	25 versus 0	N/A	N/A	N/A

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: *Manager's % of funds under management at end-January 2018 versus end-July 2017. **Since inception date.

The board is responsible for hiring and monitoring the external managers, as well as allocating capital between them. WPC's directors visit Asia every two to three years, meeting existing and potential new managers. As shown in Exhibit 3, since end-September 2017, WPC has employed four managers, adopting a variety of investment styles, which offers a wide set of investment opportunities. Hart comments that the two new managers, Dalton and Robeco, are now fully bedded in. They both have a value bias, with Dalton running a concentrated portfolio of c 20 stocks, while Robeco runs a more diversified portfolio of c 70 stocks. All four managers are benchmark-agnostic and adopt a bottom-up approach to stock selection. Their portfolios have active shares between 80% and 98%, which combines to 72% for WPC. (Active share is a measure of how far a portfolio deviates from the benchmark, with 0% representing full index replication and 100% representing no commonality.) Each manager may hold up to 10% of their portfolio in any one company, while in practice WPC is unlikely to have more than 5% in a single company.

Current portfolio positioning

At end-March 2018, WPC's top 10 holdings made up 17.2% of the portfolio. This was a modest decrease in concentration compared to 20.0% at end-March 2017, and five positions were common to both periods.

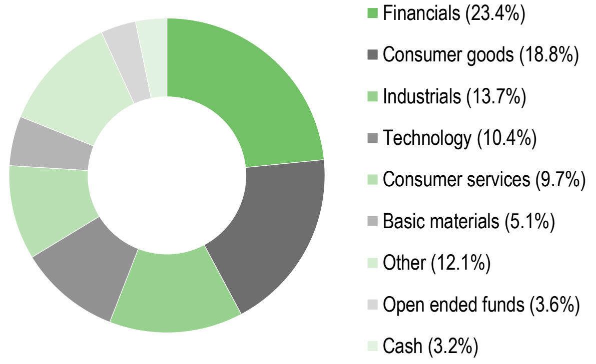
Hart highlights a couple of the trust's top 20 positions: Japanese companies Nitori Holdings and ROHM Semiconductor. Nitori is a manufacturer and retailer of home furnishings with a rapid store expansion policy, which includes China and the US. Its long-term goals are 1,000 stores by 2022 and 3,000 by 2032, which compares with the current c 500. ROHM primarily manufactures high-quality integrated circuits and discrete semiconductor devices. It has a broad customer base including consumer, automotive, technology and industrial end-markets. The company is a potential beneficiary of the development of electric and autonomous vehicles.

Exhibit 4: Witan Pacific country weights

	31 March 2018	31 March 2017	B'mark	Active weight
China/Hong Kong	30	25	23	7
Japan	30	26	39	(9)
South Korea	11	8	9	2
Singapore	6	10	2	4
Australia	5	3	10	(5)
India	5	7	5	0
Taiwan	5	3	7	(2)
Indonesia	2	3	1	1
Other	6	15	4	2
	100	**100**		

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: Excludes cash.

Exhibit 5: Witan Pacific sector weights at 31 Mar 2018



Source: Witan Pacific Investment Trust, Edison Investment Research

Exhibits 4 and 5 show WPC's geographic and sector exposures, which are a function of bottom-up stock selection, rather than being driven by benchmark allocations. The Qualified Foreign Institutional Investor (QFII) scheme allows overseas institutional investors to purchase shares in China's 'A' share market (those that are traded on the two mainland Chinese stock exchanges in renminbi). Three of WPC's managers hold a QFII licence, and the fourth is in the process of obtaining one. Over the past 12 months, the three QFII qualified managers have made carefully selected investments in China, while remaining mindful that valuations can be unattractive and there can be uncertainties about the quality of some Chinese companies. WPC also has selected holdings in frontier markets, such as Vietnam, which is developing at a rapid rate; positions include Vinamilk, which is the largest dairy company in the country. The trust has a holding in Canadian-listed mining company Turquoise Hill, whose principal asset is the Oyu Tolgoi project in Mongolia.

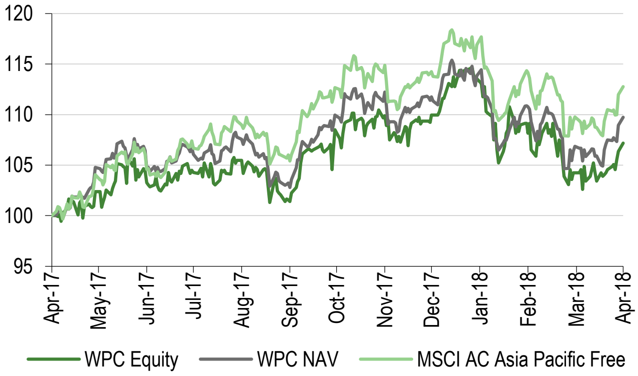
This position illustrates that the board seeks managers that can provide differentiated investment opportunities that may not be on the radar screens of managers running larger mandates.

Performance: Outperformance over the long term

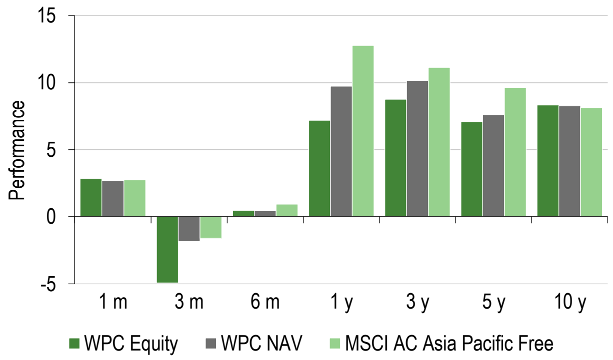
In FY18 (ending 31 January 2018), WPC's NAV total return of 17.3% was narrowly behind the benchmark's 17.9% total return. Its share price total return was 22.1%, reflected by a narrowing of the discount over the period. Positive contributors to performance were broad based, while the trust suffered from underweight exposure to internet stocks Baidu, Alibaba and Tencent, which performed very strongly. WPC has positions in Tencent and Baidu, but the managers were reluctant to invest heavily in these companies when valuations were high and corporate governance records were poor.

Exhibit 6: Investment trust performance to 30 April 2018

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



Price, NAV and benchmark total return performance (%)



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

WPC has modestly outperformed the benchmark over 10 years, while lagging over one, three and five years. The board is enthusiastic about the changes to the trust's multi-manager line-up, and is hopeful that WPC's investment track record will improve as a result.

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	0.1	(3.4)	(0.5)	(4.9)	(6.3)	(11.0)	1.8
NAV relative to MSCI AC Asia Pacific Free	(0.1)	(0.2)	(0.5)	(2.7)	(2.6)	(8.8)	1.5
Price relative to FTSE All-Share	(3.4)	(5.9)	(1.6)	(0.9)	4.9	(3.2)	16.5
NAV relative to FTSE All-Share	(3.5)	(2.9)	(1.7)	1.5	9.1	(0.8)	16.1
Price relative to MSCI World	(0.2)	(3.1)	0.5	0.2	(8.9)	(22.2)	(14.3)
NAV relative to MSCI World	(0.4)	0.1	0.5	2.6	(5.3)	(20.2)	(14.6)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2018. Geometric calculation.

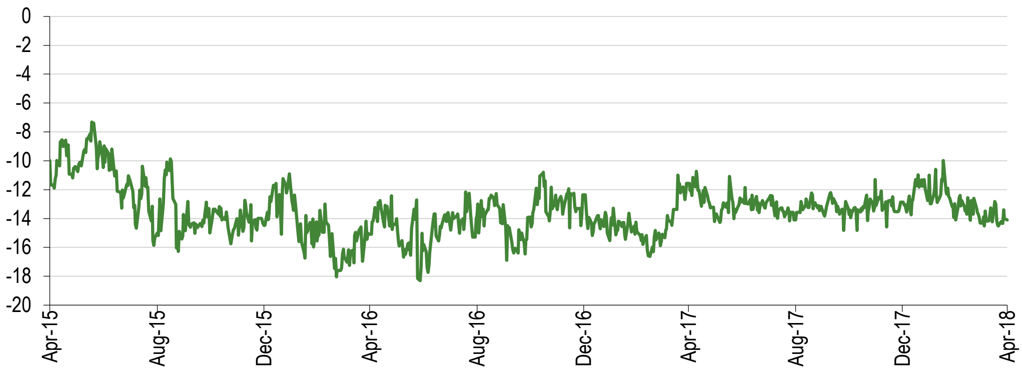
Exhibit 8: NAV total return performance relative to benchmark over 10 years

Source: Thomson Datastream, Edison Investment Research

Discount: Wider than historical averages

WPC's current 14.1% share price discount to cum-income NAV is towards the high end of the range over the past 12 months (range of 10.0% to 14.8%). It is modestly wider than the averages of the past one, three and five years of 13.0%, 13.5% and 13.0%, respectively. The trust's board repurchases shares when they are trading at a substantial and anomalous discount. During FY18, 1.8m shares (c 3% of shares outstanding) were repurchased at discounts between 11% and 17%. This added 1.53p per share to NAV.

Exhibit 9: Share price 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 63.2m 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. It also aims to control costs, containing ongoing charges below 1% (excluding performance fees). In FY18, ongoing charges were 0.99%, which was a 4bp decrease versus FY17. Management fees paid to the external managers and WIS were 0.63% compared with 0.65% in FY17. External managers are paid a fee ranging between 0.20% and 0.85% of assets under management. Aberdeen charges a lower base fee, but is eligible for a performance fee based on performance relative to the benchmark (although none have been paid since FY15). With effect from 1 February 2017, management fees are charged 75% to the capital account and 25% to the revenue account, rather than 100% to revenue. This reflects the board's expectation for the long-term split of WPC's returns between capital and income.

Dividend policy and record

Although Matthews has a dividend bias, WPC's external managers have no specific income targets. However, the board aims to grow the annual distribution over the long term at a rate higher than UK inflation. Regular dividends are paid twice a year in June and October. The 5.50p FY18 dividend is 15.8% higher than 4.75p paid out in FY17, and growing much faster than the 5.1% five-year compound annual growth rate. The larger FY18 dividend was due to higher dividend payments from portfolio companies, and was helped by the change in the allocation of management fees highlighted above. In FY18, the dividend was more than covered by income and, at end-January 2018, the trust had a revenue reserve of £11.8m, which is more than three times the FY18 annual dividend payment. WPC's regular annual dividend has now increased for 13 consecutive years. Its current yield is 1.7%.

Peer group comparison

WPC is the only trust in the AIC Asia Pacific – Including Japan sector, so in Exhibit 10, we compare it to the AIC Asia Pacific – Excluding Japan sector averages. Its NAV total returns lag these averages over the periods shown. We also compare WPC to open-ended funds in the IA Asia Pacific including Japan sector. Its NAV total returns are behind the averages shown, which may reflect an underlying value bias. WPC has a competitive cost structure, with ongoing charges now below 1.0%, which is meaningfully lower than the averages of both the closed- and open-ended funds shown.

Exhibit 10: Selected peer group as at 24 April 2018*

% unless stated	Market cap/ fund size £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Witan Pacific	202.6	7.2	26.9	42.6	118.7	(13.1)	0.99	Yes	97	1.7
Asia Pacific ex-Japan average	**348.5**	**9.8**	**28.7**	**57.6**	**168.6**	**11.0**	**1.37**		**103**	**2.0**
Open-ended peers										
Aberdeen Asia Pacific and Japan	131.2	7.1	21.4	31.3	120.2		1.95	No		0.1
Baillie Gifford Developed Asia Pacific	138.0	11.6	41.1				0.69	No		0.0
GAM Star Asia-Pacific Equity	21.4	9.1	25.7	52.1	61.7		1.94	No		0.7
Invesco Perpetual Pacific Income	314.5	14.1	40.6	77.3	182.7		1.71	No		0.4
JPM Pacific Equity	573.9	13.4	44.1	73.2	125.1		1.81	No		0.0
Matthews Asia Funds Asia Dividend	402.2	8.7	32.9	54.1			1.73	No		2.7
S&W Far Eastern Income & Growth	43.4	16.1	48.7	63.8	164.6		1.62	No		2.0
Open-ended average	**232.1**	**11.4**	**36.4**	**58.7**	**130.9**		**1.64**			**0.8**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 23 April 2018. 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 WPC's board; all are non-executive and independent of the manager. Chairman Susan Platts-Martin was appointed in July 2014 and assumed her current role in June 2017. The other four directors and their dates of appointment are: Diane Seymour-Williams (June 2010), Dermot McMeekin (May 2012), Andrew Robson (July 2014) and Chris Ralph (July 2017).

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