

# Witan Pacific Investment Trust

Diversified exposure to pan-Asian equities

Witan Pacific Investment Trust (WPC) offers investors broad exposure to Asian equities, including Japan. While global equities, and emerging markets in particular, have sold off in recent months, the trust's managers consider that this has created an attractive buying opportunity, and they remain very constructive on the outlook for WPC's holdings. They believe that there is a disconnect between Asian equity prices and corporate earnings, which continue to grow at a healthy pace. The managers are finding what they consider to be exciting investment opportunities in the region, including in Japan and China, where its stock market has suffered disproportionately due to concerns about global trade as a result of the US's 'America First' policy.

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
31/10/14	0.7	0.8	2.8	1.0	9.7
31/10/15	(1.0)	0.9	0.9	3.0	6.0
31/10/16	34.9	32.9	34.5	12.2	28.8
31/10/17	11.6	11.2	14.1	13.4	13.5
31/10/18	(8.3)	(6.2)	(5.0)	(1.5)	5.7

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

## Investment strategy: Multi-manager line-up

WPC has employed a multi-manager strategy since May 2005; aiming to maximise investment returns while diversifying risk. Its board actively reviews the manager line-up and asset allocation between the different investment teams. The latest change was in September 2017, with the addition of California-based Dalton Investments and Robeco in Hong Kong. WPC now has four external managers with a range of bottom-up investment styles, providing a broad opportunity set: Aberdeen (c 25% of assets under management), Dalton (c 9%), Matthews (c 41%) and Robeco (c 25%). The trust is designated as a small UK AIFM under the Alternative Investment Directive so does not employ gearing; at end September 2018, WPC had a net cash balance of 3.1%.

## Market outlook: Pullback offers opportunity

Asian stocks have underperformed the recent broad equity market sell-off, as investors have focused on escalating trade disputes and the threat to global growth, along with other macro issues such as a strong US dollar and rising interest rates. However, forecasts for economic growth in Asia remain considerably higher than for the global economy; hence, investors seeking exposure to the region may consider the recent Asian stock market pullback as a buying opportunity.

## Valuation: Discount wider than historical averages

WPC's shares are currently trading at a 15.1% discount to cum-income NAV, which is towards the wide end of the 7.3% to 18.4% range over the last five years. The board buys back shares when they are trading at a substantial and anomalous discount; the rate of share repurchases has increased in recent months. WPC has a progressive dividend policy, its annual distribution has increased for the last 13 consecutive years, and the trust currently offers a yield of 1.9%.

## Investment trusts

2 November 2018

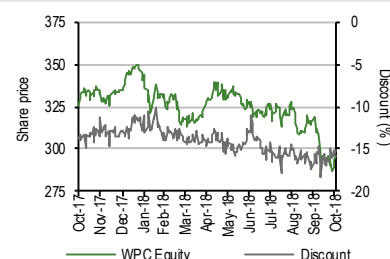
**Price** 296.0p  
**Market cap** £185m  
**AUM** £215m

NAV\* 344.1p  
Discount to NAV 14.0%  
NAV\*\* 348.6p  
Discount to NAV 15.1%

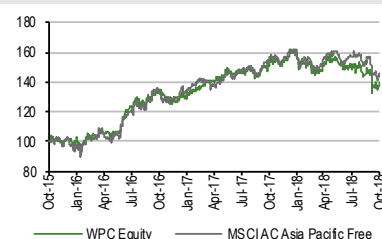
\*Excluding income. \*\*Including income. As at 31 October 2018.

Yield 1.9%  
Ordinary shares in issue 62.5m  
Code WPC  
Primary exchange LSE  
AIC sector Asia Pacific – Including Japan  
Benchmark MSCI AC Asia Pacific Free

## Share price/discount performance



## Three-year performance vs index



52-week high/low 350.0p 283.0p  
NAV\*\* high/low 398.8p 340.0p

\*\*Including income.

## Gearing

Net cash\* 3.1%

\*As at 30 September 2018.

## Analysts

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## 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

- 5 October 2018: Six-month report to 31 July 2018. NAV TR -0.6% versus benchmark TR -0.1%. Share price TR -4.0%. Announcement of 2.50p interim dividend (+11.1% year-on-year).
- 26 April 2018: 12-month report to 31 January 2018. NAV TR +17.3% versus benchmark TR +17.9%. Share price TR +22.1%. Announcement of 3.25p final dividend (+27.5% year-on-year).

### Forthcoming

AGM	June 2019	Ongoing charges	0.99%
Final results	April 2019	Net cash	3.1%
Year end	31 January	Annual mgmt fee	Only paid to external managers
Dividend paid	June, October	Performance fee	Yes (see page 7)
Launch date	December 1907	Trust life	Indefinite
Continuation vote	No	Loan facilities	None

### Capital structure

### Fund details

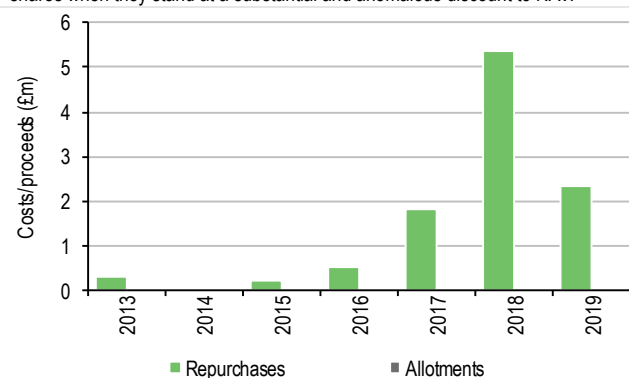
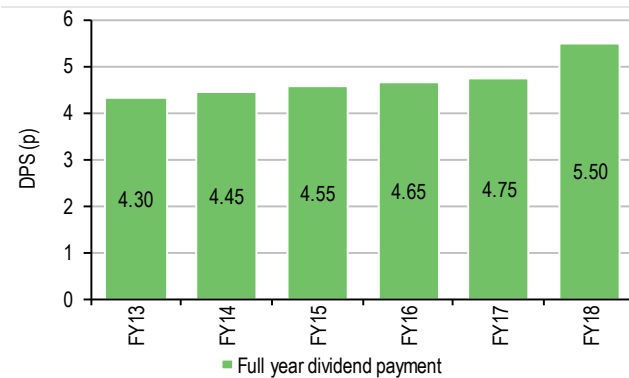
Group	Self-managed (Witan Inv. Services)
Manager	Team
Address	Beaufort House, 51 New North Road, Exeter, EX4 4EP
Phone	01392 477666
Website	<a href="http://www.witanpacific.com">www.witanpacific.com</a>

### Dividend policy and history (financial years)

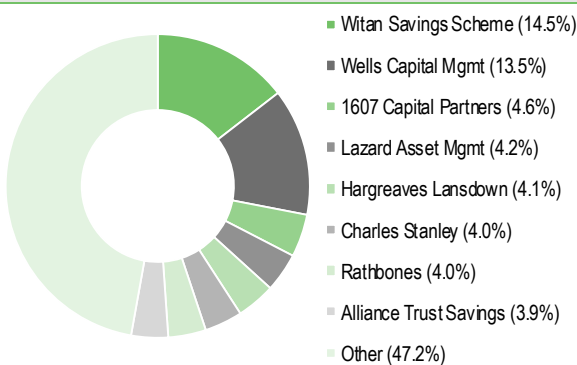
The board aims to increase the dividend in real terms over the long term. Interim and final dividends are paid in June and October.

### Share buyback policy and history (financial years)

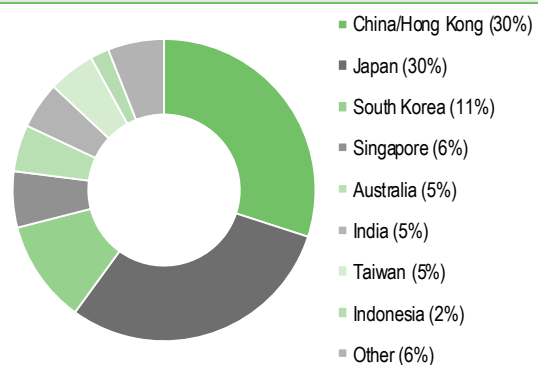
WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.



### Shareholder base (as at 31 August 2018)



### Portfolio exposure by geography (ex-cash as at 30 September 2018)



### Top 10 holdings (as at 30 September 2018)

Company	Country	Sector	Portfolio weight %	
			30 September 2018	30 September 2017*
Taiwan Semiconductor	Taiwan	Semiconductors	2.5	2.0
Seven & I	Japan	Broadline retailers	2.0	1.5
Samsung Electronics	South Korea	Consumer electronics	1.8	3.3
Sinopec	China	Integrated oil & gas	1.8	1.2
Shenzhou International	China	Clothing & accessories	1.6	1.3
Japan Tobacco	Japan	Tobacco	1.5	1.6
Minth	Hong Kong	Auto parts	1.5	1.9
China Mobile	China	Telecommunications	1.2	N/A
Sumitomo Mitsui Financial Group	Japan	Banks	1.2	N/A
Hyundai Mobis	South Korea	Auto parts	1.2	N/A
<b>Top 10 (% of holdings)</b>			<b>16.3</b>	<b>17.4</b>

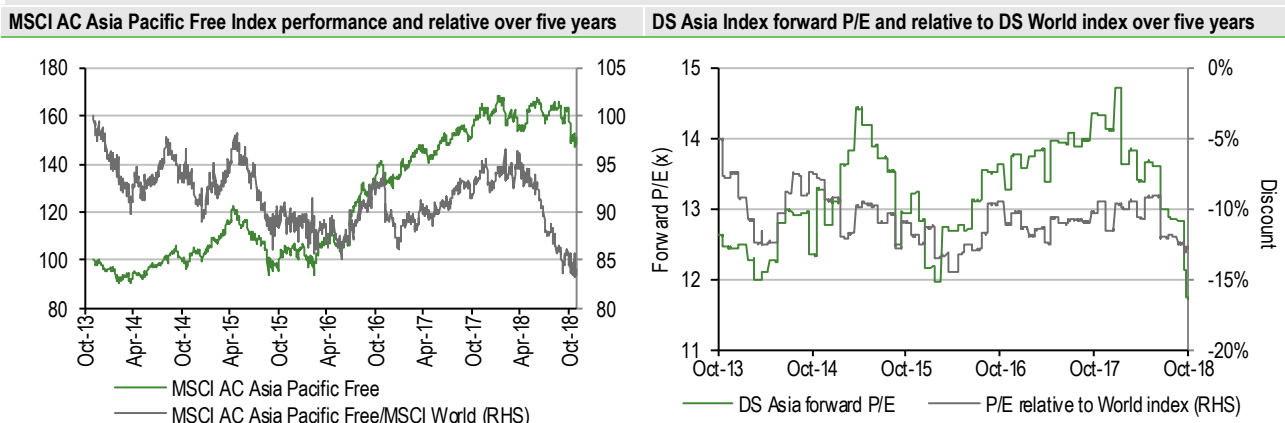
Source: Witan Pacific Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in end-September 2017 top 10.

## Market outlook: Potential opportunity following sell-off

Exhibit 2 (LHS) highlights the significant underperformance of Asian equities compared to global shares in recent months. Emerging market equities (including Asian), have been particularly affected by negative investor sentiment; concerns include US dollar strength and risks to global trade due to President Trump's protectionist policies. Looking at forward P/E valuations (Exhibit 2, RHS), in absolute terms, Asian equities are currently trading on a multiple of 11.7x, which is c 11% cheaper than the 13.2x five-year average. In relative terms, Asian equities are trading at a 12.8% discount to the world market, which is c 2pp wider than the 10.7% five-year average discount.

In its October 2018 World Economic Outlook, the International Monetary Fund continues to forecast above-average growth in the emerging and developing Asian region compared with the global economy (6.5% versus 3.7% respectively for 2018, and 6.3% versus 3.7% in 2019). Factors supporting higher growth in Asia include rising disposable income, improving workforce education levels and robust infrastructure spending. Investors seeking exposure to the region may view the recent relative pullback in Asian equities as an attractive buying opportunity.

**Exhibit 2: Market performance and valuation**



Source: Thomson Datastream, Edison Investment Research. Note: Valuation data as at 31 October 2018.

## Fund profile: Broad Asian exposure via four managers

WPC is a well-established fund with a long history (launched in 1907). It aims to generate capital and income growth from a diversified portfolio of Asian equities. Given its focus on Japan, alongside other countries in the region, WPC could be considered as a 'one-stop-shop' for investment in Asia. The trust aims to outperform the MSCI AC Asia Pacific Free index (in sterling terms) over the long term, while growing the annual dividend at a higher rate than UK inflation (the dividend has increased in each of the last 13 consecutive financial years, compounding at an annual rate of 13.6%). WPC's board also aims to control costs; aiming to keep ongoing charges (excluding the performance fee) below 1.0% pa.

The trust has employed a multi-manager investment approach since 31 May 2005, when Witan Investment Services (WIS) was appointed as executive manager, reporting directly to the WPC board. There are currently four external managers: Aberdeen Asset Management (c 25% of assets), Dalton Investments (c 9%), Matthews International (c 41%) and Robeco Institutional Asset Management (c 25%). Dalton and Robeco were added to the line-up in September 2017 with the aim of improving investment returns and increase exposure to smaller or lesser-known companies.

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## Managers: Aberdeen, Dalton, Matthews and Robeco

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### The director's view: Macro issues making 2018 a tough year

We met with WIS's investment director James Hart, who says that 2018 has been a difficult year for stock markets and particularly for emerging markets (including Asia), where investor concerns have centred on a strong US dollar, rising bond yields and trade disputes. However, Hart believes that inflation remains in check, and bond yields have not yet reached a level that puts equity valuations under pressure. The investment director comments that while the US is ahead of the rest of the world in terms of normalising its monetary policy, the Federal Reserve should be mindful that the US economy needs to be robust enough to withstand higher interest rates; and if higher rates are impeding economic progress, the central bank will adopt a more dovish stance. He says that although global economic growth as a whole is mediocre, it is still positive, and this is reinforced by the fact that interest rates are rising.

Ongoing trade concerns have affected investor sentiment towards Asian equities in particular. Hart says that President Trump's boorish tactics appear to be an unorthodox negotiating strategy, which has tended to produce an agreed settlement, such as the recently resolved trade deals between the US and Canada and Mexico. There is no signal yet as to whether these positive outcomes will extend to a trade deal with China, which is a cause of investor uncertainty. Hart notes that there is a poison pill in the new North American treaties, aimed at restricting the parties' ability to enter unilateral negotiations with countries such as China. The investment director also says that Asian economies have suffered from higher energy prices. Yet again, President Trump has had an influence, as the US's U-turn on a nuclear deal/sanctions with Iran is leading to a supply constraint and, as a consequence, higher oil prices.

Hart says that, on a more positive note, corporate earnings continue to grow, although there are fewer positive estimate revisions compared with those experienced over the last 12 to 24 months. He notes that 12-month forward consensus earnings estimates are in high single-digit territory, which is "still pretty healthy compared to history" and compares favourably with the very low government bond yields prevailing in Japan and Europe. Hart also says that Asian equities are attractively valued compared with those in other regions, especially the US, and barring a further step up in the oil price or the imposition of draconian tariffs on Chinese exports, the Asian stock market has potential to perform relatively well.

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## Asset allocation

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### Investment process: Multi-manager strategy

WPC is the only UK investment trust offering exposure across the whole Asia Pacific region. Hart explains the benefits of investing in Japan, as well as in the rest of the Asia. For example, some Japanese companies operate in high-growth areas, which are under-represented elsewhere in the region and may play into the theme of increasing productivity. These include WPC holdings Fanuc (robotics) and ROHM Semiconductor (specialist manufacturer, supplying markets such as high-end audio/visual products and semi-autonomous driving). The investment director says that over the last five years the Japanese stock market has generated similar returns to the Asia ex-Japan index, but the Asia (including-Japan) benchmark has experienced lower levels of annualised volatility (11.3% versus 13.5% respectively – source: WIS). Hart also highlights economic reforms in Japan and a higher focus on corporate governance.

**Exhibit 3: Manager strategies and performance (before costs)**

Investment manager	Inception date	Strategy	% of WPC FUM at end-July 2018*	H119 perf. (%)	H119 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.	24.9 vs 25.1	(1.5)	(1.4)	1.6
Dalton	28 September 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.	9.4 vs 9.6	(2.7)	(2.6)	(8.5)
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.	40.6 vs 40.2	1.4	1.3	2.2
Robeco	28 September 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.	25.1 vs 25.1	(0.4)	(0.3)	0.0

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

The board is responsible for hiring and monitoring WPC's external managers, as well as allocating capital between them. It aims to generate long-term growth in capital and income from a diverse portfolio of Asian equities; the multi-manager strategy aims to maximise total returns from a broad opportunity set, while diversifying risk. WPC's directors travel to Asia every two years to meet with existing and potential new managers; the last trip was in early-2017, with the next planned for February 2019.

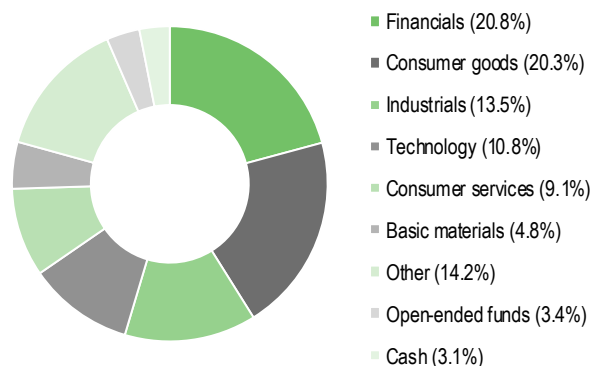
WPC's current four multi-manager line-up is highlighted in Exhibit 3. They all run high-conviction, benchmark-agnostic portfolios, with a bottom-up approach to stock selection. Their individual portfolios have high active shares (a measure of how a fund deviates from an index – 0% is full index replication, while 100% is zero commonality) ranging from c 80% to c 100%, which combine to a 73% active share for WPC. A maximum 10% of WPC's portfolio may be held in a single company, although in practice the trust's top 10 holdings will tend to be much smaller (Exhibit 1).

## Current portfolio positioning

**Exhibit 4: Witan Pacific country weights**

% unless stated	30 September 2018	30 September 2017	B'mark	Active weight (pp)
Japan	33	32	39	(6)
China/Hong Kong	29	28	23	6
South Korea	10	11	8	2
Taiwan	5	4	7	(2)
India	5	5	5	0
Australia	5	5	11	(6)
Singapore	5	7	2	3
Indonesia	2	2	1	1
Other	6	6	4	2
	<b>100</b>	<b>100</b>		

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

**Exhibit 5: Witan Pacific sector weights at 30 Sept 2018**


Source: Witan Pacific Investment Trust, Edison Investment Research

WPC's current portfolio breakdowns by geography and sector are shown in Exhibits 4 and 5; these are the result of the bottom-up stock selection process. At end-September 2018, the trust's top 10 holdings made up 16.3% of the portfolio. This was a modest decrease in concentration from 17.4%

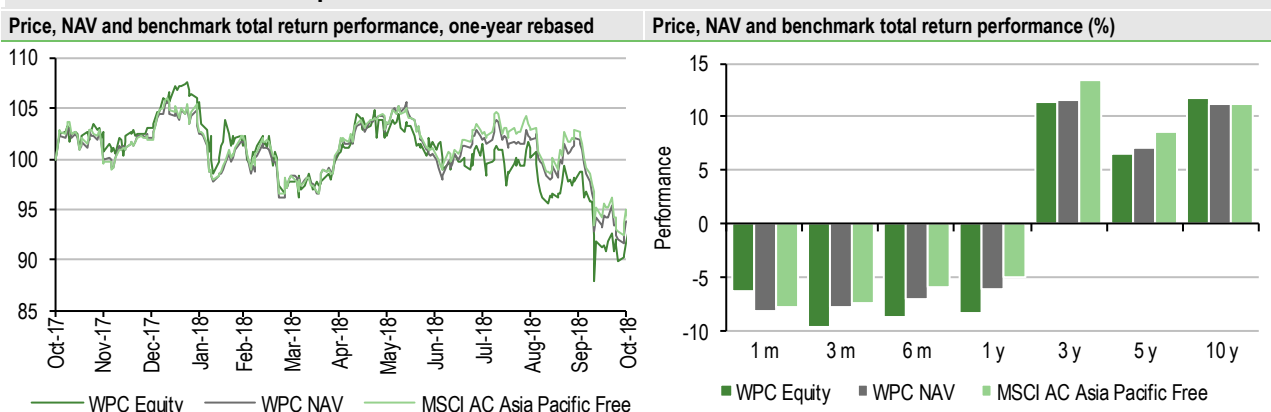
a year earlier, with seven positions common to both periods. WPC has just over 200 holdings spread across its four managers, who each hold between c 25 and c 70 stocks in their respective portfolios.

Hart says that there have been marginal increases in exposure to frontier countries such as Vietnam, which he says is very well positioned to take advantage of the trade issues between the US and China. The trust currently has three holdings in Vietnamese companies (Vinamilk, the country's largest dairy company; Vinh Hoan, an industrial fish farmer; and Thien Long, a stationery manufacturer that is benefiting from a growing level of education and a rising middle class in Vietnam).

## Performance: Solid long-term record

In H119 (ending 31 July 2018), WPC's NAV and share price total returns of -0.6% and -4.0% respectively, lagged the benchmark's -0.1% total return. The relative performance of each individual manager was as follows: Matthews +1.3pp, Robeco -0.3pp, Aberdeen -1.4pp and Dalton -2.6pp. Positive contributors to WPC's results in H119 included Chinese companies Shenzhou International (textile manufacturer) and Hua Hong Semiconductor, and Japanese companies Pigeon (baby products) and Anritsu (electronics and communications). Detractors included Chinese auto-parts manufacturer Minth group and Japanese semiconductor company ROHM.

**Exhibit 6: Investment trust performance to 31 October 2018**



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

**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	1.6	(2.4)	(3.0)	(3.5)	(5.2)	(8.9)	5.6
NAV relative to MSCI AC Asia Pacific Free	(0.4)	(0.5)	(1.2)	(1.2)	(4.8)	(6.6)	0.2
Price relative to FTSE All-Share	(1.0)	(2.7)	(5.4)	(7.0)	10.1	5.5	18.5
NAV relative to FTSE All-Share	(3.0)	(0.7)	(3.6)	(4.8)	10.6	8.2	12.5
Price relative to MSCI World	(0.8)	(6.8)	(13.7)	(13.3)	(10.6)	(23.4)	(12.6)
NAV relative to MSCI World	(2.8)	(4.9)	(12.1)	(11.2)	(10.2)	(21.5)	(17.0)

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

WPC's relative returns are shown in Exhibit 7. The trust has outperformed the benchmark in NAV and share price terms over the last 10 years, while lagging over shorter periods, when growth rather than value stocks have led the market. While acknowledging that performance has been disappointing, Hart believes that given the changes in the multi-manager line-up in September 2017, WPC's relative investment performance will improve over time. For UK investors, it is worth noting the trust's outperformance versus the FTSE All-Share index in NAV and share price terms over three, five and 10 years.



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



Source: Thomson Datastream, Edison Investment Research

## Discount: Trading towards wide end of historical range

WPC is currently trading at a 15.1% discount to cum-income NAV. This is wider than the historical average discounts of the last one, three, five and 10 years (range of 13.4% to 14.8%). The board repurchases shares when they are trading at a substantial and anomalous discount. So far in FY19, 1.2% of the end FY18 share count has been repurchased (0.7m shares at a cost of £2.3m – see Exhibit 1). Global stock markets are currently experiencing a period of weakness due to heightened investor risk aversion, suggesting that there is scope for WPC's discount to narrow when risk appetite improves. As shown in Exhibit 9, over the last three years there have been periods when WPC has traded at a discount approaching 10%.

**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 62.5m ordinary shares outstanding. The trust is registered with the FCA as a small UK AIFM under the Alternative Investment Directive, and as a result it does not employ gearing (at end-September 2018, it held 3.1% of the portfolio in cash). WPC's board periodically reviews the trust's status to assess the costs versus the potential benefit that gearing could add. It also aims to control costs, seeking to maintain ongoing charges below 1% (excluding performance fees). In FY18, ongoing charges were 0.99% of net assets, which was 4bp lower than 1.03% in FY17. Management fees paid to the external managers and WIS totalled 0.63% of net assets compared with 0.65% in FY17 (external managers are paid a management fee 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 (none have been paid since FY15). Effective 1 February 2017, management fees are charged 75:25 to the capital and revenue accounts respectively (historically 100% to the revenue account) reflecting the board's expectation for the long-term split of WPC's returns between capital and income.

## Dividend policy and record

Distributions are paid twice a year, in June and October, and WPC's board aims to grow the annual dividend at a rate higher than UK inflation; the regular dividend has increased for the last 13 consecutive years (above inflation). The 5.50p total dividend paid out in respect of FY18 was 15.8% higher than 4.75p in the prior financial year (and was more than covered by income). The c 16% increase is considerably higher than the 5.1% compound annual growth rate over the last five years, due to higher dividend receipts from portfolio companies as well as the change in the allocation of management fees. In H119 (to July 2018), revenue earnings were 4.71p per share, +36.1% year-on-year, and at the period end, the revenue reserve was £12.7m (equivalent to more than 3.5x the last annual dividend) providing considerable scope to smooth dividend payments in years when income is lower. Based on its current share price, WPC offers a dividend yield of 1.9%.

## Peer group comparison

WPC is the sole trust in the AIC Asia Pacific – Including Japan sector, so to enable a comparison, in Exhibit 10, we show the averages of the AIC Asia Pacific – Excluding Japan sector, along with the open-ended funds in the IA Asia Pacific Including Japan sector. The trust's NAV total return is above the average of the closed-ended Asia Pacific ex-Japan funds over one year, while lagging over three, five and 10 years. WPC's NAV total returns are below the average total returns of the open-ended funds over all periods shown; generally ranking between the Aberdeen and Matthews funds. WPC has a competitive ongoing charge, although a performance fee could become payable. Its dividend yield is lower than the average of the closed-end funds, but is nearly double the average of the open-ended funds.

Exhibit 10: Selected peer group as at 1 November 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 (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Witan Pacific	185.0	(6.4)	38.0	40.6	190.0	(15.1)	0.99	Yes	100	1.9
<b>Asia Pacific ex-Japan average</b>	<b>319.9</b>	<b>(9.4)</b>	<b>39.1</b>	<b>42.3</b>	<b>307.5</b>	<b>4.4</b>	<b>2.28</b>		<b>105</b>	<b>2.4</b>
<b>Open-ended peers</b>										
Aberdeen Asia Pacific and Japan	119.4	(9.5)	31.8	26.7	170.8		1.89	No		0.2
Baillie Gifford Developed Asia Pacific	149.2	0.9	49.4	68.9			0.59	No		0.0
GAM Star Asia-Pacific Equity	15.4	(4.9)	38.0	41.2	105.2		1.94	No		0.6
Invesco Perpetual Pacific Income	342.9	(4.5)	53.5	62.7	258.4		1.71	No		0.4
JPM Pacific Equity	546.9	(6.3)	56.4	59.7	207.5		1.81	No		0.0
Matthews Asia Funds Asia Dividend	356.1	(6.6)	41.6	50.0			1.79	No		3.4
S&W Far Eastern Income & Growth	37.7	(10.7)	44.5	50.7	262.5		1.62	No		2.3
<b>Open-ended average</b>	<b>223.9</b>	<b>(5.9)</b>	<b>45.0</b>	<b>51.4</b>	<b>200.9</b>		<b>1.62</b>			<b>1.0</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 31 October 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

WPC has five board directors; all of whom are non-executive and independent of the manager. The chairman is Susan Platts-Martin, who was appointed as a director in July 2014 and assumed her current role in June 2017, following the retirement of Sarah Bates. Dermot McMeekin is senior



independent director and chairman of the nomination and remuneration committee; he joined the board in May 2012. Andrew Robson is chairman of the audit committee; he was appointed as a director in July 2014. The other two directors and their dates of appointment are: Diane Seymour Williams (June 2010) and Chris Ralph (July 2017).

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