EDISON

Witan Pacific Investment Trust

Broad Asian exposure from multi-managers

Investment trusts

Witan Pacific Investment Trust (WPC) offers broad exposure to Asian markets including Japan and Australia, adopting a multi-manager approach which tends to smooth the performance fluctuations of individual managers. Current managers Aberdeen, Matthews and Gavekal, all invest across the region pursuing distinct, unconstrained strategies. Although weaker over six months, NAV total returns have been largely consistent with the MSCI AC Asia Pacific Free index benchmark over three years and WPC has outperformed over 10 years. Fees are competitive versus peers, with the board aiming to contain ongoing charges at 1% of net assets per annum. WPC aims to grow annual dividends above the rate of UK inflation; the current dividend yield is 1.7%.

12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
30/11/12	13.8	17.2	11.0	12.1	12.2
30/11/13	15.5	8.3	14.5	19.8	24.3
30/11/14	6.7	5.9	6.4	4.7	14.5
30/11/15	(4.2)	(1.5)	0.1	0.6	3.9
30/11/16	27.2	25.7	27.5	9.8	25.0

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

Investment strategy: Multi-manager approach

WPC's three external managers are Aberdeen (42% of assets), Matthews (47%) and Gavekal (11%); all of which are unconstrained by the weightings of the benchmark. Aberdeen and Matthews are bottom-up investors – Aberdeen has a long-term growth and value approach and Matthews has a specific dividend bias, with larger small and mid-cap exposure than Aberdeen. Gavekal combines a top-down and bottom-up approach to construct a portfolio of equities, bonds and cash. Since their appointments to the interim results on 31 July 2016, all three managers had outperformed the benchmark. Given WPC's designation as a small UK AIFM, it does not employ gearing.

Asian market outlook: Valuations relatively attractive

Outside of Japan, economic growth in Asia is generally higher than the rest of the world; contributing factors include favourable demographics, low household debt and high infrastructure spending. However, valuations in the region remain relatively attractive. Although Asian equities have re-rated in 2016, helped by improving commodity prices, on a forward P/E basis they are still trading at a c 11% discount to world stocks. This may provide an opportunity for investors wishing to gain exposure to the region.

Valuation: Discount broadly below average

WPC's current 13.6% share price discount to cum-income NAV is narrower than the 14.4% average of the last 12 months, wider than the 13.2% three year average and narrower than the averages of the last five and 10 years of 13.8% and 14.9%, respectively. The board actively repurchases shares when they are trading at a substantial and anomalous discount to NAV. While a widening discount earlier in 2016 led to an acceleration in share repurchases, the discount has narrowed in recent months.

12 December 2016

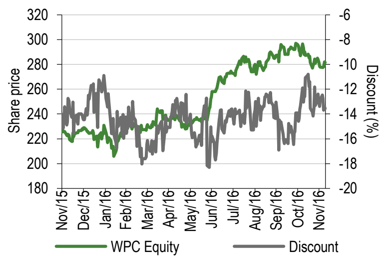
Price	**281.5p**
Market cap	**£183m**
AUM	**£210m**

NAV*	323.8p
Discount to NAV	13.1%
NAV**	325.7p
Discount to NAV	13.6%

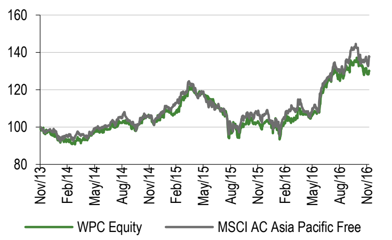
*Excluding income. **Including income. As at 8 December 2016.

Yield	1.7%
Ordinary shares in issue	65.1m
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	297.0p	206.0p
NAV** high/low	350.6p	244.1p

**Including income.

Gearing

Net cash*	2.5%

*As at 30 November 2016.

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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 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.

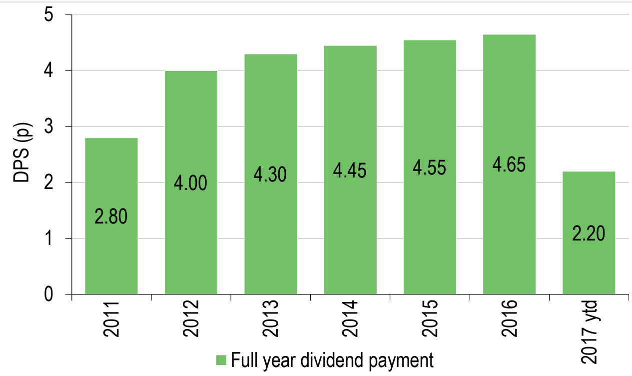
Recent developments

- 29 September 2016: Interim results to 31 July 2016. NAV TR +22.8% vs benchmark TR +22.0%, share price TR +19.5%. Interim dividend +2.3% to 2.20p.
- 22 April 2016: Full-year results to 31 January 2016. NAV TR -5.6% vs benchmark TR -5.9%, share price TR -3.5%. 2.5p final dividend proposed. FY16 total dividend +2.2% to 4.65p

Forthcoming		Capital structure		Fund details	
AGM	June 2017	Ongoing charges	1.05%	Group	Self-managed (Witan Inv. Services)
Final results	April 2017	Net cash	2.5%	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 81 80
Continuation vote	None	Loan facilities	None	Website	www.witanpacific.com

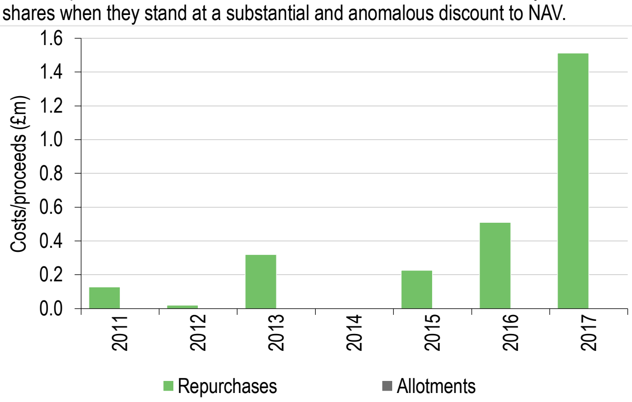
Dividend policy and history

The board aims to increase the dividend ahead of UK inflation rates. Interim and final dividends are paid in June and October.

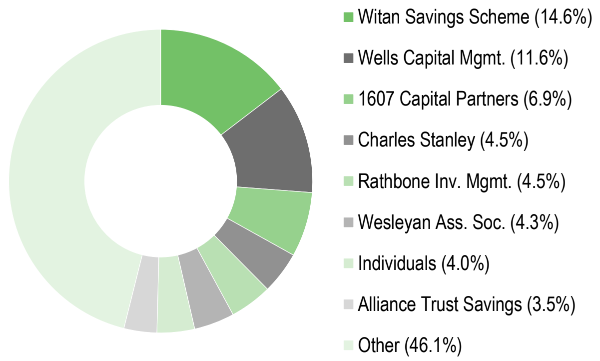


Share buyback policy and history (financial years)

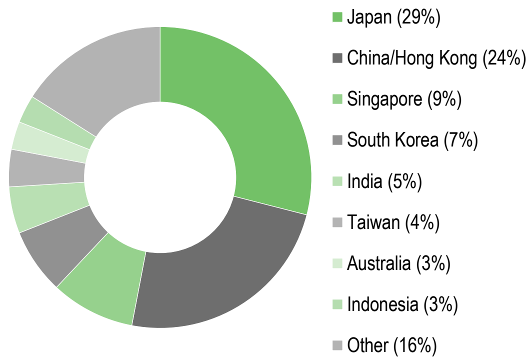
WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.



Shareholder base (as at 30 November 2016)



Portfolio exposure by geography (as at 30 November 2016)



Top 10 holdings (as at 30 November 2016)

			Portfolio weight %	
Company	**Country of listing**	**Sector**	**30 November 2016**	**30 November 2015***
Samsung Electronics	South Korea	Electronics	3.1	1.5
AIA Group	Hong Kong	Insurance	2.6	2.4
Taiwan Semiconductor	Taiwan	Semiconductor manufacturing	2.4	2.1
Japan Tobacco	Japan	Tobacco	2.2	2.8
Seven & I	Japan	Retail	2.0	N/A
United Overseas Bank	Singapore	Banks	2.0	N/A
Minth	Hong Kong	Manufacturing	1.9	N/A
China Mobile	China	Telecommunications	1.7	2.0
Shenzhou International	China	Manufacturing	1.6	1.5
Singapore Tech Engineering	Singapore	Industrials	1.5	N/A
Top 10			**21.0**	**18.2**

Source: Witan Pacific Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in October 2015 top 10.

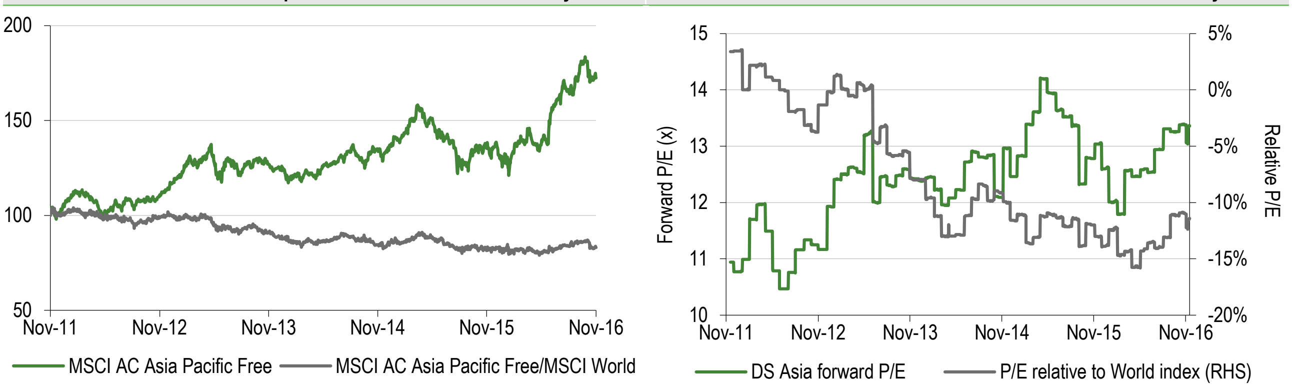
Market outlook: Valuation towards the low end of range

Exhibit 2 (left-hand side) shows the absolute and relative performance of Asian stock markets including Japan and Australia over the last five years. The underperformance versus world markets over this period can be partly ascribed to the strength of US equities in recent years. While economic growth forecasts for Japan remain depressed versus the rest of the world, estimates for other parts of Asia such as India and China are relatively higher. In its October 2016 World Economic Outlook, the International Monetary Fund forecasts growth in emerging and developing Asia of 6.5% and 6.3% for 2016 and 2017, which is 3.4pp and 2.9pp respectively ahead of estimates for world output. Factors for higher growth in Asia include favourable demographics including an expanding middle class, low household debt and robust infrastructure spending.

Although Asian equities have moved higher in 2016 as commodity prices have rallied and investors continue to seek yield in a low interest rate environment, valuations remain attractive. Exhibit 2 (right-hand side) shows Asia's absolute and relative forward P/E multiple over the last five years. On a relative basis, Asia's current 11.4% discount to the Datastream World index is towards the bottom end of the range (15.8% discount to 3.6% premium) and 3.8pp below the five-year average. The increasing interdependency of Asian economies may attract investors to a fund employing managers that take a broader regional investment approach.

Exhibit 2: Asian market performance and valuation vs world

MSCI AC Asia Pacific Free index performance and relative over 10 years | **DS Asia index forward P/E and relative to DS World index over five years**



Source: Thomson Datastream, Edison Investment Research

Fund profile: Asia Pacific multi-manager approach

WPC aims to generate long-term growth in capital and income from a diversified portfolio of Asia Pacific securities. Launched in 1907, it began life as General Investors and Trustees, which invested in a broad range of assets and in 1975 it merged with City and Gracechurch Investment Trust. In 1984, it was renamed F&C Pacific Investment Trust, reflecting a new Asia Pacific mandate. In 2005, Witan Investment Services (WIS, a subsidiary of Witan Investment Trust) took on the role of executive manager and a multi-manager approach was adopted; the trust was renamed Witan Pacific Investment Trust. Initially, funds were allocated equally between Aberdeen Asset Management and Nomura, and then in 2012, the Nomura funds were reallocated to Matthews International and Gavekal Capital. Matthews and Aberdeen adopt a bottom-up stock selection approach; Matthews has a dividend bias, while Gavekal employs a top-down approach allocating assets between equities, bonds and cash. At end-July 2016, assets were split 47%, 42% and 11% between Matthews, Aberdeen and Gavekal respectively. WPC has a broad Asia mandate; it is the only UK investment trust investing in the broader Asian region including Japan and Australia and its benchmark is the MSCI AC Asia Pacific Free index (sterling-adjusted).

Managers: Matthews, Aberdeen and Gavekal

The managers' views: Unconstrained investment strategies

We met with James Hart from executive manager WIS shortly following the result of the US election; he suggested that it is too early to tell the effects a Trump win will have on emerging markets, including Asia. There could be a positive outcome if Trump appoints a good team and heeds their advice. Hart expects US interest rates to move higher and suggests that already rising bond yields indicate improvement in the US economy.

Within Asia, Japan is leading the way in monetary policy experiments; and is now targeting the yield curve rather than the monetary base as part of its quantitative easing (QE) programme. The Bank of Japan introduced negative interest rates in January 2016, but so far there are few signs of a positive impact on economic growth. Regarding the performance of the Japanese stock market, Hart comments that in sterling terms, since mid-2013 to end-November 2016, Japanese stocks have actually outperformed other Asian equities by c 10%. However, investors are still focusing on the 20 years of underperformance of Japanese equities from 1990 to 2010.

Matthews – the manager is comfortable with its Asian exposure and considers the region attractively valued versus the rest of the world. Matthews is confident about Asian consumers and a large part of its exposure is to companies benefitting from growing local demand. Matthews' portfolio has higher Chinese exposure than the other managers, but this is company-specific, for example it does not hold any state-owned enterprises.

Aberdeen – the manager considers that Asia and other emerging markets are better positioned now than when bond yields moved higher during the 'taper-tantrum' in 2013 as they have lower external debt and stronger current accounts and fiscal balances. Aberdeen has delivered stronger relative performance in 2016, with some of its long-term holdings in resource stocks such as BHP Billiton and Rio Tinto rallying on the back of firming commodity prices.

Gavekal – the manager has revised its macro views recently; having been very pessimistic following the Brexit vote, but now more sanguine. Nonetheless, Gavekal is concerned that a meaningful increase in bond yields would be negative for equities, so is running a higher cash position than normal. Gavekal suggests that bonds could be repriced as they are being influenced by abnormal factors such as QE, rather than being priced off traditional metrics.

Asset allocation

Investment process: Broad exposure to Asian equities

Exhibit 3: Manager strategies

Investment manager	Inception date	% of WPC funds under management*	Strategy
Aberdeen	31 May 2005	42.4 versus 43.3	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.
Matthews	30 April 2012	47.0 versus 46.0	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.
Gavekal	24 April 2012	10.6 versus 10.7	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.

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: *Manager % of FUM at end-July 2016 versus end-July 2015.

WPC focuses on both capital and income growth; the board considers that income growth is a very important part of total return given that WPC has a high percentage of individual shareholders. The current three managers have distinctive strategies (Exhibit 3) and established performance track records. The board is responsible for hiring and monitoring external managers and also reallocating capital between managers. Every two to three years, board members visit Asia to meet both the incumbent and potential new managers; the next trip is in February 2017. There have been no manager changes or reallocations since 2012; any moves are more likely to be made if a manager undergoes structural changes or if their portfolio actions deviate from their mandates, rather than if they go through a period of underperformance versus the benchmark.

Current portfolio positioning

At end-November 2016, the top 10 underlying holdings accounted for 21.0% of WPC's portfolio; this was a modest increase in concentration from 18.2% at end-November 2015. The largest position is Samsung Electronics; within the portfolio, the common and preference shares are now combined to give a better measure of WPC's exposure. Samsung has been a long-term holding at Aberdeen and was purchased recently by Matthews during a period of weakness following the recall of the Galaxy Note 7 smartphone. Samsung has swiftly addressed this issue and the manager expects that there should be no long-lasting reputational damage. The company also has strong market positions in other high-growth areas such as organic light-emitting diodes (OLEDs). During a recently held strategic update call for investors, the company committed to returning half of its 2016 and 2017 free cash flow to shareholders via dividends and share repurchases as well as reviewing whether to split into two separate firms to highlight the value of its underlying businesses.

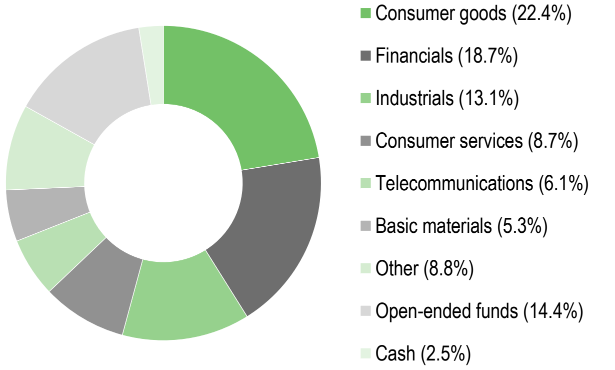
Comparing WPC versus the benchmark, it has higher forecast earnings and dividend growth. The forecast earnings growth of the WPC portfolio is 9.5-10.0% compared to 8-10% for the benchmark and the forecast dividend growth is 7.7% versus 5.0% for the benchmark.

Exhibit 4: Witan Pacific country weights

	November 2016*	November 2015	B'mark	Active weight
Japan	29	27	41	-12
China/Hong Kong	24	24	21	3
Singapore	9	8	2	7
South Korea	7	5	8	-1
India	5	5	4	1
Taiwan	4	5	7	-3
Australia	3	5	12	-9
Indonesia	3	0	1	2
Other	16	21	4	12
	100	**100**	**100**	

Source: Witan Pacific Investment Trust. Note: *Other = 11% exposure to Gavekal and 5% in other smaller countries.

Exhibit 5: Witan Pacific sector weights November 2016



Source: Witan Pacific Investment Trust

On a geographic basis, WPC's largest exposure remains in Japan, but it is still significantly underweight versus the benchmark. Australian exposure also remains meaningfully underweight. The largest overweight exposures are Singapore and China/Hong Kong, although the managers stress that stock selection is the key determinant of both geographic and sector exposure.

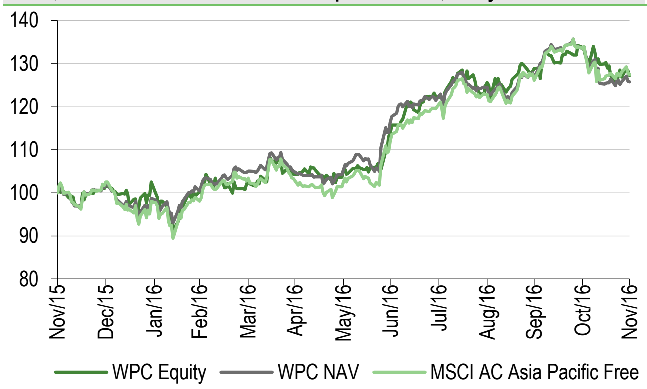
Managers Matthews and Aberdeen both asked the WPC board for permission to invest in China 'A' shares (China-based companies quoted on the Shanghai and Shenzhen stock exchanges). The 'A' share market has been volatile over the last 18-24 months, but provides opportunities to invest in companies that offer exposure to businesses unavailable elsewhere. Exposure is expected to be relatively small; Matthews will invest directly and Aberdeen may invest via the Aberdeen China 'A' share fund. Gavekal already has the ability to invest in China 'A' shares via its UCITS fund.

Performance: Outperformance over the long term

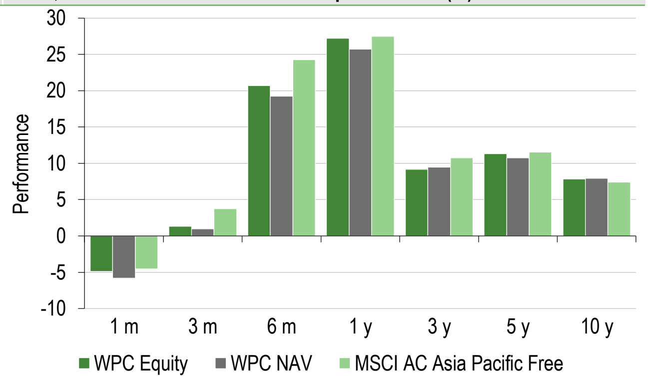
WIS notes that the multi-manager approach tends to smooth performance fluctuations of the individual managers; as at the interim results on 31 July 2016, all three managers had outperformed the benchmark since they were appointed (both before and after fees). Since WPC adopted its multi-manager strategy in May 2005, until end-July 2016 its NAV total return of 176.8% is 21.6pp ahead of the benchmark; it has outperformed in eight of the 11 individual years. Exhibit 6 (right-hand side) shows that WPC's absolute returns have been very strong over six months (although weaker over one month). Its share price and NAV total returns of 20.7% and 19.3% respectively have been enhanced by the weakness of sterling. WPC's share price and NAV total returns have outperformed the benchmark over 10 years, but have lagged over shorter periods (Exhibit 7). Of interest to UK investors, WPC's share price and NAV total returns have meaningfully outperformed the FTSE All-Share over one, three, five and 10 years (partly due to the recent weakness of sterling).

Exhibit 6: Investment trust performance to 30 November 2016

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



Price, NAV and benchmark total return performance (%)



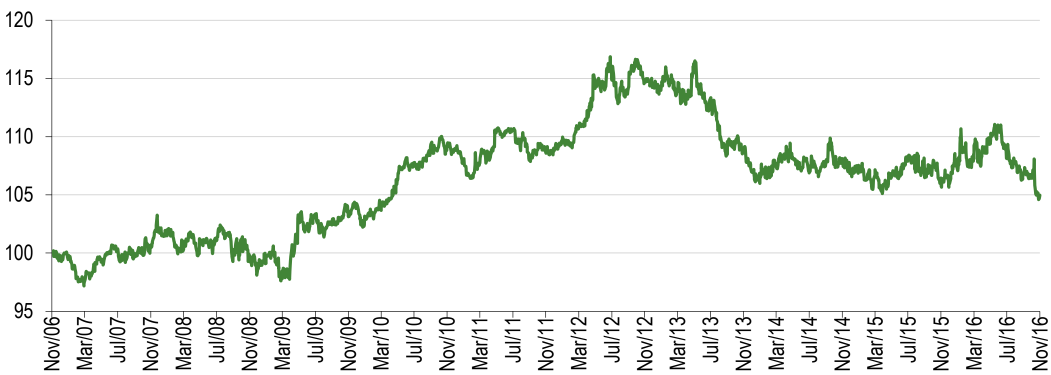
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

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	(0.4)	(2.4)	(2.9)	(0.2)	(4.2)	(0.9)	4.0
NAV relative to MSCI AC Asia Pacific Free	(1.4)	(2.7)	(4.0)	(1.4)	(3.3)	(3.4)	5.0
Price relative to FTSE All-Share	(3.3)	0.7	10.1	15.9	12.4	10.0	25.6
NAV relative to FTSE All-Share	(4.3)	0.4	8.8	14.5	13.4	7.2	26.8
Price relative to MSCI World	(4.1)	(3.5)	0.2	1.8	(12.5)	(17.6)	(12.1)
NAV relative to MSCI World	(5.0)	(3.8)	(1.0)	0.6	(11.8)	(19.7)	(11.3)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-November 2016. Geometric calculation.

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



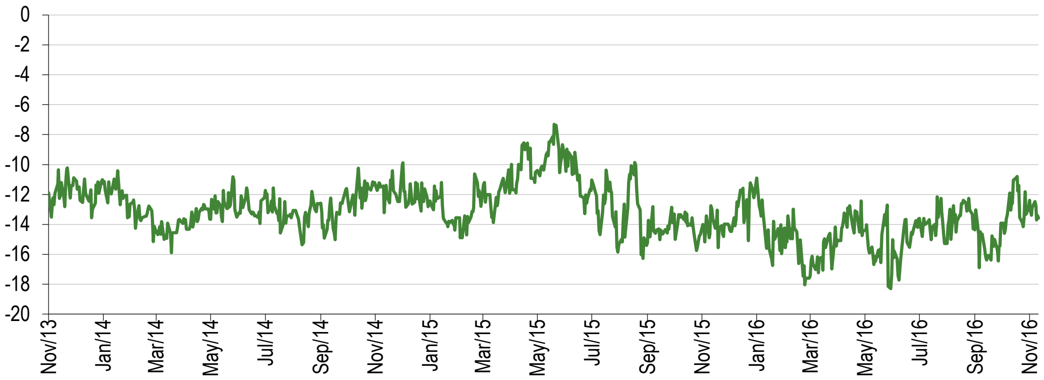
Source: Thomson Datastream, Edison Investment Research

Discount: Acceleration in share repurchases in FY17

WPC's current 13.6% share price discount to cum-income NAV is narrower than the 14.4% average of the last 12 months (range of 10.8% to 18.3%). It is wider than the 13.2% average of the last three years and below the averages of five and 10 years of 13.8% and 14.9%, respectively.

The board considers that it is in the interests of shareholders to repurchase shares when they are trading at a substantial and anomalous discount to NAV. The pace of share repurchases has increased in FY17 to date (see Exhibit 1) in response to a widening discount (shares have been purchased at discounts between 12% and 18%), although the discount has narrowed in recent months. WPC's board is mindful of the size of the trust and does not want to shrink the asset base; boosted by the fall in sterling, the trust is now meaningfully larger than at the end of FY16 (WPC's NAV is now c 25% higher).

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 outstanding; there are 65.1m ordinary shares in issue after the repurchase of 0.6m shares (0.9% of issued capital) in FY17 to date. It is registered with the FCA as a small UK AIFM under the Alternative Investment Directive; as a result it does not employ gearing. This position is periodically reviewed by the board to assess the costs versus the potential benefit that gearing could add. Excluding performance fees, the board seeks to contain ongoing charges at 1.0% of net assets pa. In FY16 (ended January 2016) there was no performance fee; ongoing charges were 1.05%, of which 0.62% was management fees. This compares to 1.06% in FY15 (1.12% including performance fees).

Dividend policy and record

Although Matthews has a dividend bias, WPC's external managers have no specific income remits. Dividends are paid twice a year in June and October, with the board aiming to increase the annual dividend ahead of the rate of UK inflation. Over the last five years, dividends have compounded at an average annual rate of 10.7% with a c 43% increase in 2012; more recently, growth has been more modest (the FY16 annual dividend of 4.65p per share was a 2.2% increase versus the prior year). However, it should be noted that ordinary annual dividends have increased for 11 consecutive years. The FY16 dividend was 93% covered by revenue. At H117 (July 2016), the £11.2m revenue reserve was equivalent to 3.7x the last annual dividend. In the future, the board aims to have a fully covered dividend given the potential for long-term portfolio dividend growth.

Peer group comparison

WPC is the only trust in the AIC Asia Pacific including Japan sector; historical peers such as Martin Currie Asia Unconstrained (formerly Martin Currie Pacific) no longer invest in Japan. Exhibit 10 shows a comparison of WPC with the weighted averages of the AIC Asia Pacific excluding Japan sector. WPC's NAV total returns have lagged over the periods shown and its risk-adjusted returns as measured by the Sharpe ratio are lower over one year and modestly lower over three years. Although WPC is underweight versus the benchmark, it has significant exposure to Japanese equities, which have significantly underperformed other Asian equities over 10 years, which has weighed on WPC's longer-term performance. WPC has a competitive fee structure; its ongoing charge of 1.05% is meaningfully lower than the weighted average of the Asia Pacific ex-Japan peers. Its discount is wider than average and its dividend yield is lower than average, although this sector contains some funds with a high-yield strategy. We have also compared WPC with open-ended funds in the IA Asia Pacific including Japan sector. WPC's NAV total returns have lagged the weighted averages over the periods shown. It is worth noting that the performance of the Aberdeen Asia Pacific and Japan fund (following the same Aberdeen mandate as for WPC) relative to open-ended peers has improved over one year, having trailed peers over three and five years.

Exhibit 10: Selected peer group as at 9 December 2016

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Witan Pacific	183.3	28.7	33.3	63.4	114.1	0.5	0.1	(12.7)	1.05	Yes	100	1.7
Asia Pac ex-Japan weighted avg		**33.3**	**37.9**	**75.9**	**195.4**	**0.8**	**0.2**	**(7.0)**	**1.24**		**104**	**2.2**
Open-ended peers												
Aberdeen Asia Pacific and Japan	132.8	27.7	23.7	44.9	114.2							
Baillie Gifford Developed Asia Pac	110.1	29.8	53.6									
GAM Star Asia Pacific Equity	23.1	28.2	34.2	69.2	53.4							
Invesco Perpetual Pacific	258.5	33.1	40.9	90.2	167.2							
JPM Pacific Equity	423.2	29.3	37.3	77.5	108.7							
Matthews Asia Dividend	309.1	28.9	39.5	81.1								
S&W Far Eastern Income & Growth	33.7	25.9	38.5	74.9	138.3							
Open-ended weighted average		**29.7**	**38.5**	**77.3**	**126.6**							

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are five directors on the board at WPC; all are non-executive and independent of the manager. Chairman, Sarah Bates has announced her intention to retire at the June 2017 AGM after more than 13 years' service, three of which as chairman; she will be succeeded by Susan Platts-Martin, who joined the board in July 2014. The other directors and their dates of appointment are: Diane Seymour-Williams (June 2010), Dermot McMeekin (May 2012) and Andrew Robson (July 2014). The board is looking to recruit another director.

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