Witan Pacific Investment Trust

Commitment to improve performance

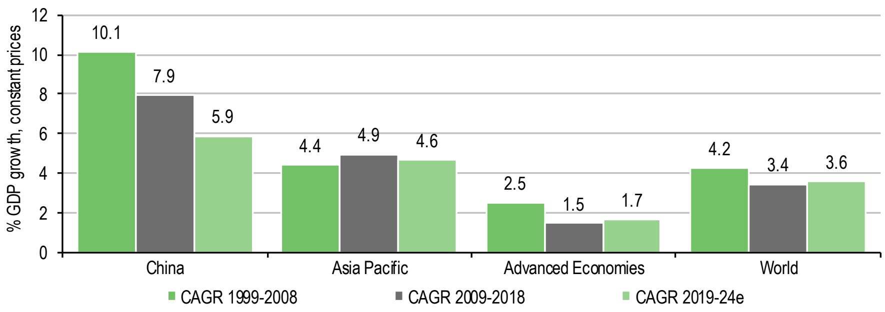
Investment trusts

Pan-Asian equities

30 April 2019

Witan Pacific Investment Trust (WPC) employs a multi-manager strategy, offering investors broad exposure to pan-Asian equities. The board recently announced a renewed commitment to improving the trust's investment performance. If WPC's NAV total return lags its benchmark over the period from 31 January 2019 to 31 January 2021, the board will put forward proposals that include a full cash exit at close to NAV. As a result, shareholders should enjoy NAV performance ahead of the benchmark or share price outperformance versus NAV as the discount is closed. In its recently released FY19 results, WPC proposed a meaningful 27.3% increase in its annual dividend; the fully covered 7.0p distribution, to be approved at the June 2019 AGM, equates to a 2.1% yield.

Superior growth prospects in Asia – led by China



Source: International Monetary Fund World Economic Outlook (April 2019), Edison Investment Research

The market opportunity

Recent research from the International Monetary Fund confirms superior Asian economic growth potential compared with advanced economies and the world. Factors contributing to this include favourable demographics and robust infrastructure spending. In addition, Asian equity valuations continue to look relatively attractive compared with global equities.

Why consider investing in WPC?

- Pan-Asian approach offers broader opportunity set to access Asian growth.
- Commitment to improve investment performance by end-January 2021, or a full return of shareholders' funds.
- Record of above-inflation dividend growth; higher distributions in each of the last 14 consecutive financial years.

Potential for further narrowing in the discount

WPC's current 11.0% share price discount to cum-income NAV is narrower than the historical average discounts (range of 13.5% to 14.5%) over the last one, three, five and 10 years. There is potential for the discount to narrow further given the board's commitment to share buybacks and returning capital if the company does not outperform. Based on the proposed higher dividend for FY19, the trust offers a 2.1% dividend yield.

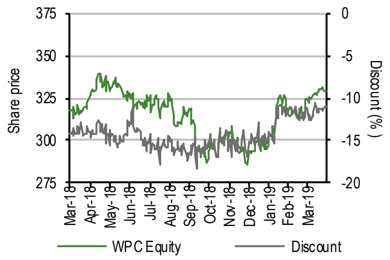
Price	**329.0p**
Market cap	**£204m**
AUM	**£230m**

NAV*	364.0p
Discount to NAV	9.6%
NAV**	369.8p
Discount to NAV	11.0%

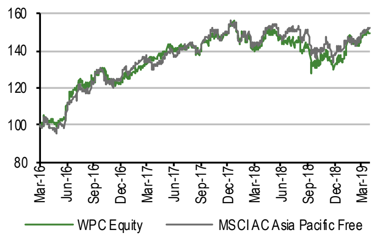
*Excluding income. **Including income. As at 26 April 2019.

Yield	2.1%
Ordinary shares in issue	61.9m
Code	WPC
Primary exchange	LSE
AIC sector	Asia Pacific – Including Japan
Benchmark	MSCI Asia Pacific Free

Share price/discount performance



Three-year performance vs index



52-week high/low	340.0p	283.0p
NAV** high/low	395.0p	340.0p

**Including income.

Gearing

Net cash*	2.3%

*As at 31 March 2019.

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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.

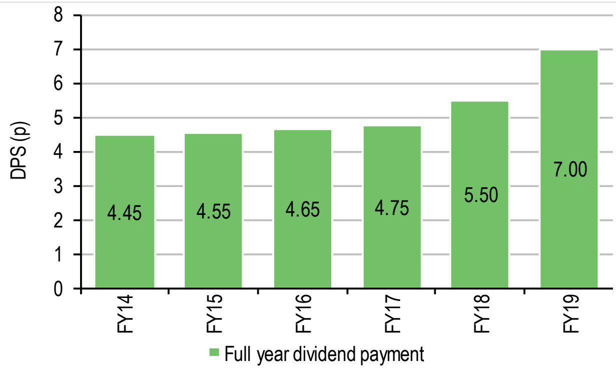
Recent developments

- 26 April 2019: annual results to 31 January 2019. NAV TR -7.4% versus benchmark TR -5.4%. Share price TR -10.3%. Announcement of 4.50p final dividend (+38.5% year-on-year).
- 11 February 2019: corporate update – if WPC does not outperform its benchmark between end-January 2019 and end-January 2021, the board will put forward proposals that include a full cash exit.

Forthcoming		Capital structure		Fund details	
AGM	June 2019	Ongoing charges	1.03%	Group	Self-managed (Witan Inv. Services)
Interim results	October 2019	Net cash	2.3%	Manager	Team
Year end	31 January	Annual mgmt fee	Only paid to external managers	Address	Beaufort House, 51 New North Road, Exeter, EX4 4EP
Dividend paid	October, June	Performance fee	Yes (see pages 7 and 8)		
Launch date	December 1907	Trust life	Indefinite, subject to performance	Phone	01392 477666
Continuation vote	No	Loan facilities	None	Website	www.witanpacific.com

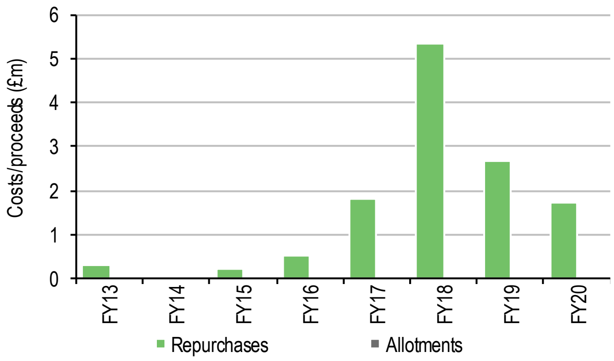
Dividend policy and history (financial years)

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

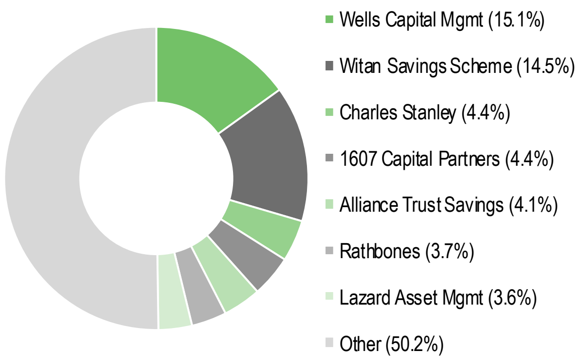


Share buyback policy and history (financial years)

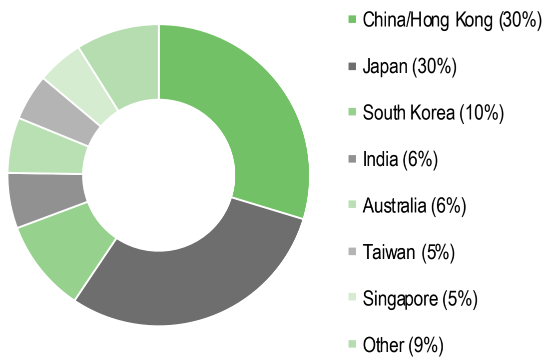
WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.



Shareholder base (as at 12 March 2019)



Portfolio exposure by geography (ex-cash as at 31 March 2019)



Top 10 holdings (as at 31 March 2019)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 March 2019**	**31 March 2018***
Taiwan Semiconductor	Taiwan	Semiconductors	2.5	2.4
China Mobile	China	Telecommunications	1.6	N/A
Samsung Electronics	South Korea	Consumer electronics	1.5	2.3
Shenzhou International	China	Clothing & accessories	1.5	1.5
China Construction Bank	China	Banks	1.5	2.1
Minth	Hong Kong	Auto parts	1.4	1.6
LG Chemical	South Korea	Chemicals	1.2	N/A
Japan Tobacco	Japan	Tobacco	1.2	N/A
Hyundai Mobis	South Korea	Auto parts	1.2	1.4
BGF Retail Company	South Korea	Food & beverage retail	1.2	N/A
Top 10 (% of holdings)			**14.8**	**17.2**

Source: Witan Pacific Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-March 2018 top 10.

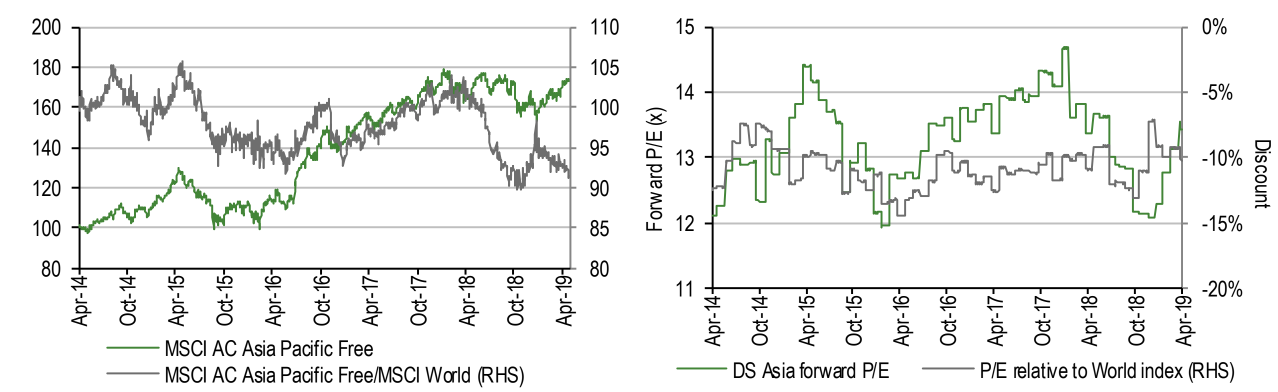
Market outlook: Reasons to be optimistic

Exhibit 2 (LHS) shows the absolute and relative performance of Asian equities over the last five years. They have underperformed the global market since early 2018, largely due to the outperformance of the US, which constitutes more than 60% of the MSCI World index. However, there are reasons to be optimistic about the prospects for Asian equities. In its April 2019 World Economic Outlook, the International Monetary Fund continues to forecast higher-than-average economic growth in the region (see chart on page 1). Factors contributing to higher growth include a rapidly rising middle class with increasing levels of disposable income.

The valuation backdrop is also supportive (Exhibit 2, RHS). The Datastream Asia index is trading on a 13.4x forward earnings multiple, which is a c 10% discount to the Datastream World index (this is broadly in line with the c 11% average discount over the last five years). With above-average growth prospects and relatively attractive valuations, Asian equities may appeal to investors as part of a diversified global portfolio.

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: Refinitiv, Edison Investment Research. Note: Valuation data as at 29 April 2019.

Fund profile: Pan-Asian equity specialist

WPC was launched in 1907 as General Investors and Trustees, which invested in a broad range of assets. In 1984, the company was renamed F&C Pacific Investment Trust, reflecting a new Asia-Pacific investment strategy. In 2005 it adopted a new multi-manager strategy and its current name, with the appointment of Witan Investment Services (WIS) as executive manager. The trust aims to generate capital and income growth over the long term from a diversified portfolio of pan-Asian equities, which includes Japan, India and Australia. Given its broad exposure, WPC positions itself as a 'one-stop-shop' for investment in Asia. The trust is benchmarked against the MSCI AC Asia Pacific Free index (in sterling terms). It aims to grow the annual dividend at a higher rate than UK inflation, and to ensure ongoing charges (excluding the performance fee) do not exceed 1.0% pa.

The multi-manager line-up has evolved and there are now 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%). The latest change to the line-up occurred in September 2017, when Dalton and Robeco were added and allocations rebalanced, aiming to improve investment returns and increase exposure to smaller or lesser-known companies. WPC's board is disappointed with the trust's investment performance in recent years; however, it remains optimistic about the multi-manager structure, believing it is an efficient way to invest across the Asian region. The board has a fiduciary duty to shareholders, so if performance does not improve, it believes investors should be able to realise their holding at a level close to NAV; hence the recent

February 2019 announcement. If WPC does not outperform its benchmark in the two years ending 31 January 2021, it would mark more than three years since the last change in the manager line-up; an appropriate period to adequately evaluate the trust's performance since the appointment of the two most recently appointed managers, Dalton and Robeco.

Managers: Aberdeen, Dalton, Matthews and Robeco

The director's view: Benefits of Asia plus Japan

We met James Hart, WIS's investment director; he commented on events in 2018, saying that Asia was more negatively affected than the rest of the world by the ongoing trade dispute between the US and China. Last year was also characterised by a strong dollar and higher global interest rates, which were growth headwinds for Asia, while the region was not immune from the sell-off in world markets in Q418, fuelled by concerns of a slowdown in the global economy. Hart suggests that at the beginning of 2018, investors were overoptimistic but soon began to fear tighter monetary policy and rising inflation, followed by subsequent growth concerns and by the end of the year, markets were more than discounting many of the macro risks. This overly pessimistic sentiment has reversed in 2019 and global markets have rebounded strongly. Economic growth has undoubtedly slowed, but corporate earnings growth remains positive (the 2019 consensus for the FTSE All-World index is c +6% versus high-single digit growth in 2018). The investment director says that this backdrop of corporate earnings growth, along with relatively attractive Asian equity valuations means he remains positive on the prospects for Asian markets this year. Hart explains that Asian stock markets bottomed on Christmas Day 2018, with China particularly weak last year on trade concerns and a slowdown in the domestic economy. Investors are now gaining confidence there will be a resolution to the US-China trade dispute, and that government policies will be effective in maintaining the pace of China's economic growth.

Hart highlights the benefits of investing in Japan alongside other stock markets in Asia. He notes there are certain attractive Japanese business sectors available, such as industrial automation, which are less well represented in the rest of the region, and these should perform strongly regardless of the strength of the Japanese economy. Hart says Japan's economic performance has improved in recent years and helped generate competitive stock market returns relative to the rest of Asia (although 2018 was a disappointment, in part due to a series of natural disasters). He also notes Japan's expansionary policies and improving corporate governance culture, which adds to the appeal of Japanese equities. In addition, investment in Asia plus Japan has lower-risk characteristics than Asia ex-Japan – WPC's benchmark has an 11.9% annual five-year volatility, which is meaningfully lower than the 13.5% annual five-year volatility for the MSCI AC Asia Pacific ex-Japan index.

The investment director says that there is a genuine focus on improving environmental, social and governance (ESG) standards in Asia. He cites China Resources Power, which is predominantly a coal-fuelled power generator and has committed to achieving up to 40% renewables capacity over the next five years, while Huaneng Power International is aiming to cut emissions intensity by 25% by 2020. Hart says that the 'scale and speed of evolution in China is phenomenal when companies are encouraged to change'.

Asset allocation

Investment process: Multi-manager approach since 2005

WPC has employed a multi-manager strategy since 2005; the number of external managers has evolved from two to four. The approach aims to generate long-term growth in capital and income, while allowing access to strategies that may not be available to individual shareholders. WPC's board is responsible for hiring and monitoring the external managers, as well as allocating capital between them. The directors travel to Asia every two years to meet existing and potential new managers. The most recent visit was in February this year; the directors spent time with the investment and operations teams at all four external managers. Each has a dedicated ESG team, whose research is considered to be a growing part of the bottom-up stock selection processes (there is an evolving belief that companies going through a positive ESG change can generate above-average returns).

WPC's multi-manager line-up is shown in Exhibit 3. The managers run high-conviction portfolios with active shares between 81% and 99%, which combine to 73% for WPC – active share is a measure of portfolio deviation from the benchmark, with 0% representing full index replication and 100% no commonality. Each manager may hold up to 10% of their portfolio in any one company, although in practice WPC is unlikely to have more than 5% exposure to a single company.

Exhibit 3: Manager strategies and performance (before costs)

Investment manager	Inception date	Strategy	% of WPC FUM at end-January 2019*	FY19 perf. (%)	FY19 perf. vs benchmark (pp)	Annualised perf. vs benchmark** (pp)
Matthews	30 April 2012	Matthews follows a bottom-up approach, but there is an explicit dividend (but not high-yield) bias in the strategy and the manager invests across the market cap range with significant small- and mid-cap exposure.	40.6 versus 40.6	(5.3)	0.1	1.7
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.	25.3 versus 24.9	(6.2)	(0.8)	1.6
Robeco	28 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.	25.0 versus 25.1	(7.2)	(1.8)	(1.1)
Dalton	28 Sep 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.	9.1 versus 9.4	(12.5)	(7.1)	(9.5)

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: *% of funds under management at end-January 2019 vs end-July 2018. **Since inception date.

Current portfolio positioning

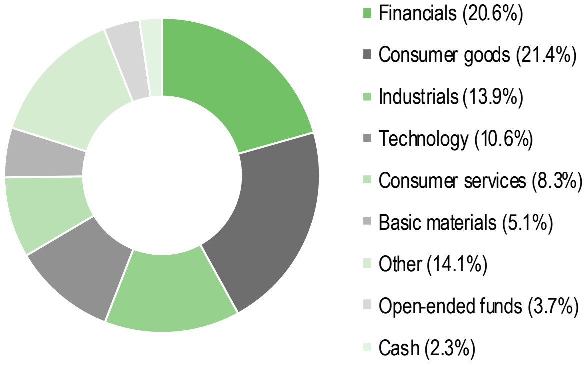
At end-March 2019, WPC's top 10 holdings made up 14.8% of the portfolio compared with 17.2% at end-March 2018; six positions were common to both periods (Exhibit 1).

Exhibit 4: Witan Pacific country weights

% unless stated	31 March 2019	31 March 2018	B'mark	Active weight (pp)
China/Hong Kong	30	30	26	4
Japan	30	30	37	(7)
South Korea	10	11	8	2
India	6	5	5	1
Australia	6	5	11	(5)
Taiwan	5	5	7	(2)
Singapore	5	6	2	3
Other	9	8	5	4
	100	**100**	**100**	

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: Excludes cash. Numbers subject to rounding.

Exhibit 5: Witan Pacific sector weights at 31 Mar 2019



Source: Witan Pacific Investment Trust, Edison Investment Research

The trust's geographic and sector weightings, shown in Exhibits 4 and 5, are a result of bottom-up stock selection. WPC has underweight exposure to some of the higher-growth stocks in the region, such as Alibaba, Baidu, Ctrip.com, JD.com and Tencent, as the managers have reservations about the companies' quality and valuations. The trust's Indian exposure has increased recently; lacklustre stock market performance in the country in 2018 provided some good investment opportunities for WPC's specialist managers, particularly in smaller companies that are often overlooked by generalist investors. Vietnamese exposure is now up to 3% (zero weighting in the index), with four holdings, including the most recent purchase of beer producer Sabeco.

Performance: Solid medium- and longer-term returns

Exhibit 6: Five-year discrete performance data

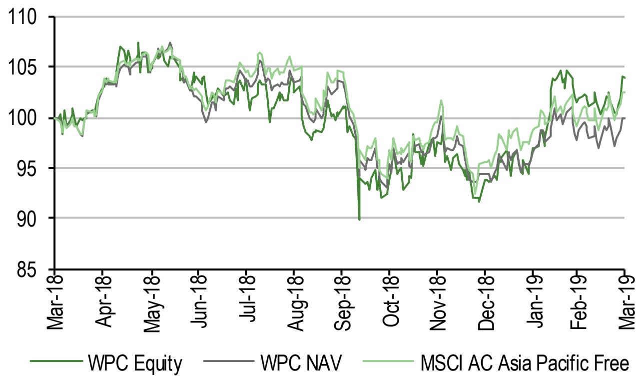
12 months ending	Share price (%)	NAV (%)	MSCI AC Asia Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
31/03/15	26.2	20.9	22.3	6.6	19.7
31/03/16	(10.1)	(5.0)	(6.4)	(3.9)	0.3
31/03/17	33.2	31.2	34.6	22.0	32.7
31/03/18	6.6	5.5	7.5	1.2	1.8
31/03/19	4.1	(0.1)	2.4	6.4	12.6

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

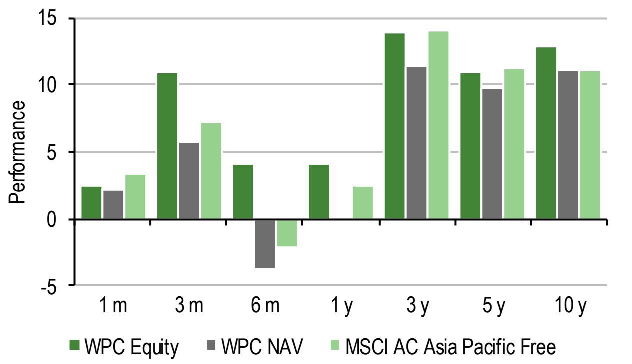
In FY19, WPC's NAV and share price total returns of -7.4% and -10.3% respectively, trailed the benchmark's -5.4% total return. As highlighted in Exhibit 3, three of the external managers underperformed the benchmark: Aberdeen (-0.8pp), Robeco (-1.8pp) and Dalton (-7.1pp), whereas Matthews was modestly ahead (+0.1pp). Although the newest managers Dalton and Robeco have underperformed since inception, the board has confidence in the potential of their value-based strategies to be successful over the longer term.

Exhibit 7: Investment trust performance to 31 March 2019

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



Price, NAV and benchmark total return performance (%)



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

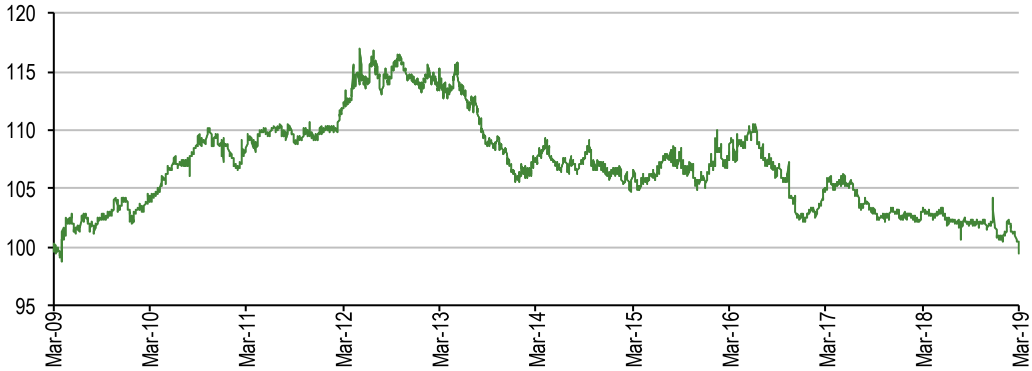
Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC Asia Pacific Free	(0.8)	3.4	6.4	1.6	(0.2)	(1.1)	18.2
NAV relative to MSCI AC Asia Pacific Free	(1.2)	(1.4)	(1.6)	(2.5)	(6.8)	(6.4)	0.5
Price relative to FTSE All-Share	(0.1)	1.4	6.0	(2.1)	12.6	24.7	17.1
NAV relative to FTSE All-Share	(0.5)	(3.3)	(2.0)	(6.1)	5.2	18.1	(0.5)
Price relative to MSCI World	(0.9)	0.7	6.5	(7.6)	(2.8)	(8.2)	(10.2)
NAV relative to MSCI World	(1.3)	(4.0)	(1.5)	(11.3)	(9.1)	(13.1)	(23.6)

Source: Refinitiv, Edison Investment Research. Note: Data to end-March 2019. Geometric calculation.

WPC's NAV total return has marginally outperformed the benchmark over the last decade while underperforming over the shorter periods shown in Exhibit 8. However, in absolute terms, the trust has generated solid total returns over three, five and 10 years, with NAV gains between 9.7% and 11.4% pa and share price appreciation between 10.9% and 13.9% pa over these periods.

Exhibit 9: NAV total return performance relative to benchmark over 10 years

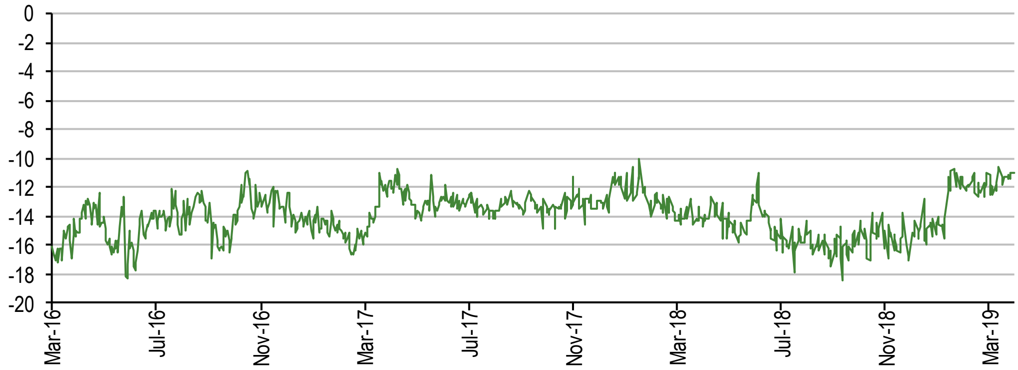


Source: Refinitiv, Edison Investment Research

Discount: Recent narrowing

WPC's current 11.0% share price discount to cum-income NAV compares with the 10.5% to 18.4% range of discounts over the last 12 months. In February 2019, the discount narrowed in response to the board's announcement to potentially return cash to shareholders in the event of NAV underperformance versus the benchmark between end-FY19 and end-FY21. The current discount is narrower than the 13.5% to 14.5% range of average discounts over the last one, three, five and 10 years. The board repurchases shares when they are trading at a substantial and anomalous discount. During FY19, 0.9m shares were repurchased (1.3% of the end-FY18 share base) at discounts between 12% and 18%, for a cost of £2.7m; this added 0.2% to NAV.

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

WPC is a conventional investment trust with one class of share in issue. There are 61.9m 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 (at end-March 2019 it held a 2.3% net cash position). 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 FY19, ongoing charges were 1.03%, 4bp higher than 0.99% in FY18. Management fees paid to the external managers and WIS were 0.69%, 6bp higher year-on-year.

External managers are paid a fee between 0.20% and 0.85% of assets under management. Aberdeen charges a lower base fee, but is eligible for an incentive fee based on performance relative to the benchmark (none paid since FY15). Effective from 1 February 2017, management fees are charged 75% to the capital account and 25% to the revenue account, reflecting the board's expectation for the long-term split of returns between capital and income.

Dividend policy and record

WPC's external managers have no specific income targets, although Matthews does have a dividend bias to its investment approach. However, the board aims to grow WPC's annual dividend in real terms (above the rate of UK inflation) over the long term. Regular dividends are paid twice a year in October and June. Typically, dividends are funded from revenue, but since 2013, payments may be made from capital if required. WPC has a high level of revenue reserves (£13.1m at end-FY19, excluding the final dividend, which is equivalent to c 3.0x the proposed FY19 distribution of 7.0p per share).

The 7.0p dividend proposed for FY19 (1.1x covered) is a 27.3% increase compared with the 5.5p distribution in FY18; this is significantly higher than the 1.8% rise in the UK Consumer Price Index over the period. While helped by weakness in sterling over the financial year, WPC's higher level of revenue in FY19 was primarily due to portfolio companies paying increased dividends (supported by earnings growth), along with higher payout ratios.

WPC's annual distributions have increased each year for the last 14 consecutive financial years. Over the last five years, WPC's dividend has compounded at an annual rate of 9.5%. Based on its current share price, the trust offers a 2.1% dividend yield.

Peer group comparison

WPC is unique in that it is the only trust in the AIC Asia Pacific – Including Japan sector. To enable a comparison, in Exhibit 11 we show the AIC Asia Pacific – Excluding Japan sector averages; WPC's 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. The trust's NAV total returns are behind the sector averages shown, which may partly reflect its relatively low exposure to high-growth internet stocks. WPC has a competitive dividend yield, in line with the average of the closed-end funds, and more than double the average of the open-ended funds.

Exhibit 11: Selected peer group as at 29 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 (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Witan Pacific	203.5	0.7	38.4	60.1	173.2	(11.3)	1.03	Yes	100	2.1
Asia Pacific ex-Japan average	**378.2**	**6.8**	**56.8**	**76.6**	**263.8**	**(5.6)**	**1.00**		**103**	**2.1**
Open-ended peers										
Aberdeen Asia Pacific and Japan	110.4	4.5	42.9	51.4	173.9		1.59	No		0.2
Baillie Gifford Developed Asia Pacific	152.1	6.3	48.4	100.0			0.60	No		0.0
GAM Star Asia-Pacific Equity	15.2	2.2	47.2	63.5	100.0		1.89	No		0.6
Invesco Perpetual Pacific Income	311.5	2.1	55.5	79.3	205.3		1.71	No		0.6
JPM Pacific Equity	602.2	8.0	64.7	100.2	194.8		1.81	No		0.0
Matthews Asia Funds Asia Dividend	342.3	1.0	39.1	73.8			1.79	No		3.2
S&W Far Eastern Income & Growth	39.4	(0.2)	43.8	73.6	214.0		1.62	No		2.4
Open-ended average	**224.7**	**3.4**	**48.8**	**77.4**	**177.6**		**1.57**			**1.0**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 26 April 2018 based on ex-par NAV. 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. Susan Platts-Martin joined the board in July 2014 and assumed the role of chairman in June 2017. The other four directors and their dates of appointment are: Dermot McMeekin (senior independent director, May 2012); Diane Seymour-Williams (June 2010); Andrew Robson (July 2014); and Chris Ralph (July 2017). Seymour-Williams will not be seeking re-election at the June 2019 AGM as she will have completed nine years of service. So far, there have been no plans announced regarding the search for a new director.

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