EDISON

Witan Pacific Investment Trust

Broad, managed Asian exposure

Witan Pacific Investment Trust (WPC) has followed a broad Asian multi-manager approach since 2005. It has outperformed its benchmark over this period and is now unique among Asia-Pacific investment trusts in retaining a mandate that includes Japan and Australia. Macro uncertainties have contributed to a market setback during the summer, but this may provide a more attractive entry point for investors in terms of market valuation and, for WPC, a wider than average discount.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI AC Asia-Pacific Free (%)	FTSE All-Share (%)	MSCI World (%)
30/09/11	(3.6)	(7.8)	(6.8)	(4.4)	(2.7)
30/09/12	11.8	13.6	7.6	17.2	18.0
30/09/13	18.2	10.3	15.8	18.9	20.6
30/09/14	0.1	3.2	3.9	6.1	12.7
30/09/15	(3.3)	(3.2)	(3.0)	(2.3)	2.1

Note: 12-month rolling discrete £-adjusted total return performance.

Investment strategy: Selected active managers

Witan Pacific has a multi-manager approach currently allocating funds to three active managers with strong Asia-Pacific expertise that follow differentiated, benchmark agnostic investment processes. Matthews and Aberdeen (46% and 43% of assets respectively) select stocks using bottom-up, fundamental analysis but are distinguished by a greater bias to large-cap stocks at Aberdeen and the dividend income element of the Matthews mandate. GaveKal, managing c 11% of the assets, adds a top-down overlay to its fundamental selection of growth stocks in favoured markets; it may hold bonds when this is deemed appropriate.

Market outlook: Uncertainty may give opportunity

Continuing concern about how much growth in China will slow and the impact of an eventual rise in US rates contributed to a sharp correction in Asian and world markets during the summer. The macro uncertainties seem likely to continue and growth forecasts have been trimmed, so there are risks for investors. However, Asia-Pacific markets trade on valuations that are historically moderate and compare well with other regions, with WPC's benchmark index trading on a prospective P/E of c 12x compared with the World index on 14x. Longer-term economic growth estimates also continue to point to significantly faster growth in the Asia-Pacific region, with the latest IMF forecast issued in October suggesting regional compound growth of 5.0% for 2015-20 vs 2.2% for the UK, for example.

Valuation: Discount wider than average

The discount to cum-income NAV at 14.6% compares with the three-year average of 12.7% and the maximum of 18.2%. Markets have staged a partial recovery since the summer and, if this is sustained, there should be scope for the discount to narrow significantly.

Investment trusts

20 October 2015

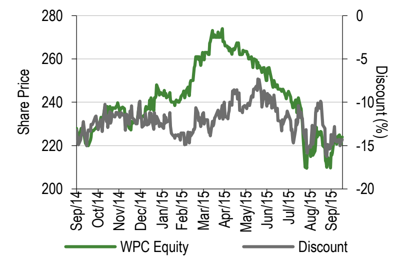
Price	**224p**
Market cap	**£147.6m**
AUM	**£171.5m**

NAV*	260.22p
Discount to NAV	13.9%
NAV**	262.38p
Discount to NAV	14.6%

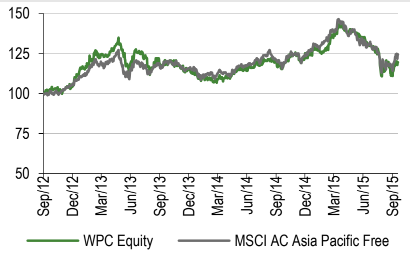
*Excluding income. **Including income. As at 16 October 2015.

Yield	2.1%
Ordinary shares in issue	65.9m
Code	WPC
Primary exchange	LSE
AIC sector	Asia Pacific – inc. Japan

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	274.0p	209.5p
NAV** high/low	311.2p	244.1p

**Including income.

Gearing

Net cash*	3.8%

*As at 30 September 2015.

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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 equity exposure in the Asia-Pacific region, including Japan. 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.

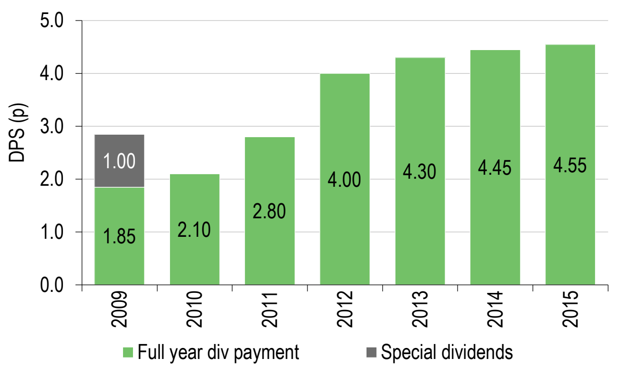
Recent developments

- 30 September 2015: Interim results to 31 July 2015. NAV total return +7.0% vs benchmark index +6.0%; interim dividend +2.4% to 2.15p.
- 23 April 2015: Full-year results to 31 January 2015 – NAV total return +17.6% vs benchmark index +17.1%; 2.45p final dividend proposed. FY15 total dividend +2.2% to 4.55p.
- April 2015: James Hart, formerly co-manager at The Cayenne Trust, joins Witan Investment Services investment team.

Forthcoming		Capital structure		Fund details	
AGM	June 2016	Ongoing charges	1.06% (1.12% incl. perf. fees)	Group	Self-managed (Witan Inv. Services)
Final results	April 2015	Net cash	3.8%	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	No	Loan facilities	None	Website	www.witanpacific.com

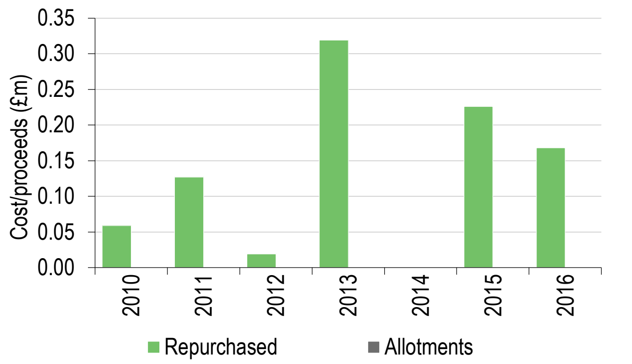
Dividend policy and history

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

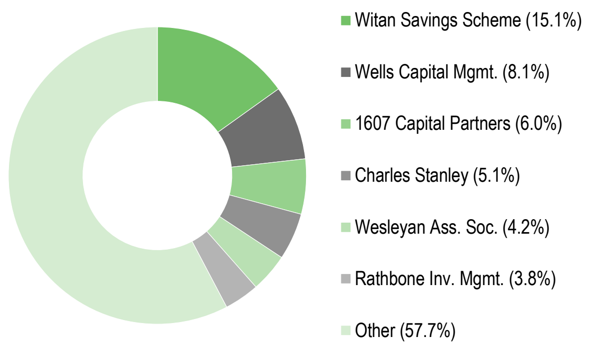


Share buyback policy and history (by financial year to end January)

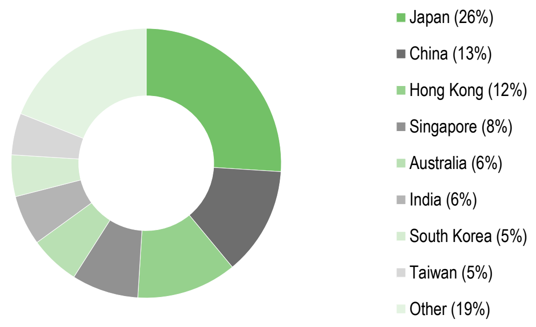
WPC has authority to repurchase up to 14.99% and allot up to 5% of issued share capital. The board believes it is in shareholders' interests to buy back shares when they stand at a substantial and anomalous discount to NAV.



Shareholder base (as at 9 October 2015)



Portfolio distribution (as at 30 September 2015)



Top 10 holdings (as at 30 September 2015)

			Portfolio weight %	
Company	**Country**	**Sub-industry**	**30 September 2015**	**30 September 2014**
Japan Tobacco	Japan	Tobacco	2.5	2.7
China Mobile	China	Telecom carriers	2.2	1.8
Aia Group	Hong Kong	Insurance	2.1	1.4
Taiwan Semiconductor	Taiwan	Semiconductor mfg	2.1	2.2
Oversea-Chinese Banking Corp.	Singapore	Banks	1.7	2
Shenzhou International	Hong Kong	Apparel, Footwear & Acc Design	1.7	N/A
Seven & I Holdings Company	Japan	Retail	1.6	N/A
Singapore Tech. Engineering	Singapore	Transport support services	1.4	1.6
Bridgestone Corporation	Japan	Manufacturing	1.4	N/A
Suntory Beverage & Food	Japan	Beverage & food	1.4	N/A
Top 10			**18.1**	**18.9**

Source: Witan Pacific Investment Trust, Edison Investment Research. Note: Top 10 table – where N/A shown for 2014, not in top 10.

Market outlook: Uncertainty but long-term potential

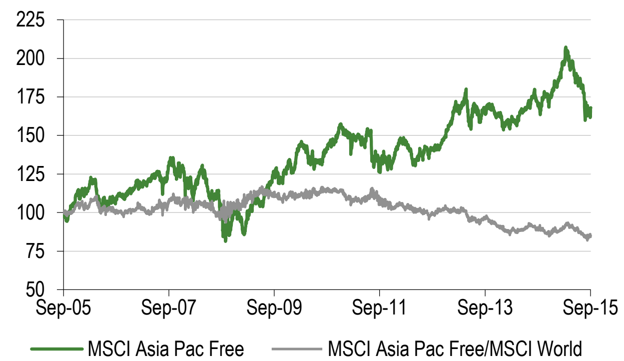
The dominant themes influencing the Asian and world markets over the last year have been fluctuating expectations concerning the slowdown in China's growth and the pace at which US interest rates will increase. This is likely to remain the case but, as Exhibit 2 illustrates, the market corrected over the summer, seemingly reflecting lower growth expectations and the further risk to emerging market/Asian fund flows once US rates do move.

The latest IMF forecasts have seen a further modest reduction with 2015 and 2016 world growth put at 3.1% and 3.6% respectively, and Asia-Pacific including Japan and Australia at 4.9% for both years. Looking further ahead, this premium is expected to be maintained with Asian growth for 2015-20 compounding at 5.0% per year compared with world growth of 3.8% (and UK 2.2%).

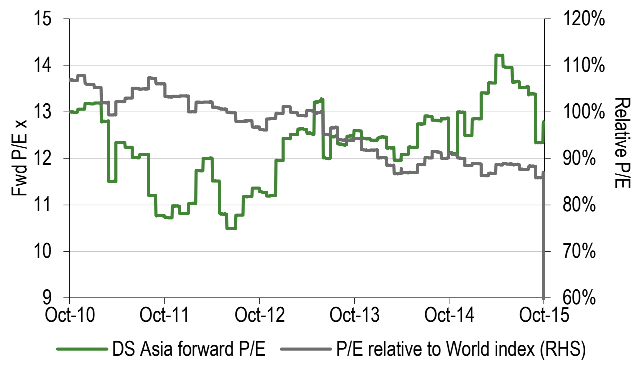
So the outlook is uncertain and forecasts are being trimmed, but how far has the market adjusted to this? In the three months to end-September, the MSCI AC Asia Pacific Free (£) index was down 11.3%, continuing a relative decline against the world market that has been underway since 2009 (see Exhibit 2). While the Asian market forward P/E had been moving up before the latest bout of weakness (Exhibit 3), it has also shown a downward trend relative to the world market. This has left the MSCI Asia Pacific index trading more cheaply than the World index with a forward P/E of just below 12x vs 14x and a price-to-book of 1.3x compared with 1.9x. This, combined with the prospect of superior long-term regional growth, suggests there is still merit in investors considering investment in Asia despite current uncertainties. A fund such as Witan Pacific provides this exposure while actively managing allocation within the broad Asia region.

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 over five years



Source: Thomson Datastream, Edison Investment Research. Note: Index performance in sterling terms.

Fund profile: Pan-Asia multi-manager approach

The trust launched in 1907, adopted an Asian focus in 1984, and was subsequently managed by F&C until May 2005 when Witan Investment Services, a subsidiary of Witan Investment Trust, took on an executive manager role advising the board on a multi-manager approach. Initially, funds were allocated equally to Aberdeen Asset Management and Nomura, and in April 2012 the Nomura portion was reallocated to Matthews International and GaveKal. At the end of July 2015, the asset split between Matthews, Aberdeen and GaveKal was 46.0%, 43.3% and 10.7% respectively. The three managers take distinctive unconstrained approaches, with both Aberdeen and Matthews using a stock-specific selection process and GaveKal employing a top-down overlay to allocate between equities, bonds and cash. Matthews seeks stocks with a blend of yield and growth potential. Witan Pacific is the only UK investment company managed under a broad Asia-Pacific mandate, including Japan and Australia.

Managers: Matthews, Aberdeen, GaveKal

The managers' views: On balance, positive

For **Matthews,** Robert Horrocks notes that while he cannot predict near-term market moves, the summer weakness left price-to-book valuations at unambiguously cheap levels while P/Es at close to average levels are unsurprising following a period of slowing growth that will have held back earnings. There are still risks relating to US monetary tightening but Matthews does not expect substantial GDP deceleration and believes the basis for long-term Asian growth remains in place.

The team at **Aberdeen** share this confidence in the long-term growth story, retaining its focus on prospective growth in the consumer sector driven by rising middle classes in the less mature economies. It continues to identify well-run companies with healthy balance sheets available at reasonable valuations.

GaveKal highlights that it managed to outperform the market decline in August because of a conservative positioning in terms of both sector and asset allocation (including a fixed income component). The team sees Asian equities as very attractively valued and has cited portfolio holding Manila Electric Company as one of the kinds of stock it seeks; it has defensive qualities, an attractive yield and very strong medium-term growth prospects.

Asset allocation

Investment process: Three active, differentiated managers

Witan Investment Services (WIS), the executive manager for the trust, advises the board on the selection of managers. WIS implements the board's strategy and is responsible for monitoring and liaising with the investment managers (currently three), and the company's service providers (including custodian, fund accountant and company secretary). WIS also provides public and investor relations, and marketing services for Witan Pacific.

When Witan Pacific engages in a search for a new manager, the board undertakes a formal process, reviewing a broad range of candidates drawing on its own knowledge, advice from WIS and input from specialist consultants. WIS regards three managers as sufficient to provide a balance of styles without diluting the active approach each takes or incurring unnecessary costs for shareholders. Following appointment, WIS and the board monitor manager performance and in March 2015 the board visited all three managers for face-to-face meetings, receiving updates on investment and organisational matters including risk control and team development as well as the slowdown in China. The board also met other managers to understand their views and approach, to provide context and to establish contact if a decision is eventually made to change a manager.

The current managers have been in place for more than three years in the case of Matthews and GaveKal, and over 10 years for Aberdeen. The intention is that managers will be in place for the long term but notice periods are one month, reducing the cost if a change is deemed appropriate. The most obvious reason for a change of manager would be any indication of style drift rather than a short period of underperformance, which can be explained by reference to the manager's investment approach.

Exhibit 3 gives a summary of the approaches taken by each manager. Aberdeen and Matthews share a fundamental, quality-biased process but they are differentiated by the dividend requirement of the Matthews mandate and its propensity to hold a significant level of mid- and small-cap companies. GaveKal contrasts with Aberdeen and Matthews given its macro/growth approach and willingness to move substantially into cash and bonds when this is deemed appropriate.

Exhibit 3: Manager strategies

Investment manager	Inception date	% of Witan Pacific funds under management	Strategy
Aberdeen	31 May 2005	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	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	10.7	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, Edison Investment Research. Note: Manager % of FUM at end July 2015.

Current portfolio positioning

Witan Pacific's broad geographical remit is immediately evident in the country exposures (Exhibit 4) with Japan featuring as the largest exposure, slightly ahead of the combined China/Hong Kong weighting. In comparison with the benchmark index, Japan is also the largest underweight reflecting in large part the lack of attractive individual opportunities identified by Aberdeen and Matthews in this market. Nevertheless, the exposure has increased by just over 4 percentage points over 12 months, reflecting the emergence of an improving governance environment, including more favourable dividend policies. There are overweights of 5-6 percentage points to Hong Kong and Singapore.

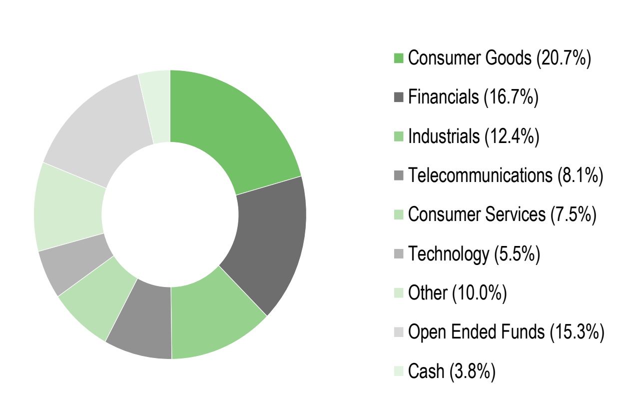
On a sector view, the two consumer sectors account for the largest portion of the portfolio at 28.4%, in tune with the secular growth in consumption expected as middle classes with discretionary spending power continue to develop in the region. Financials are the next largest sector albeit below the index weighting (c 30%), reflecting quality and value considerations on the part of the managers.

Exhibit 4: Witan Pacific country weights

	September 2015	September 2014	Benchmark	Active weight
Japan	26	23	43	-17
China	13	11	13	0
Hong Kong	12	13	6	6
Singapore	8	11	2	6
Australia	6	7	12	-6
India	6	5	5	1
Taiwan	5		7	-2
South Korea	5		8	-3
Other	19	30	4	15
	100	**100**	**100**	**0**

Source: Witan Pacific. Note: 'Other' includes GaveKal and, for 2014, South Korea and Taiwan.

Exhibit 5: Witan Pacific sector weights Sep 2015



Source: Witan Pacific

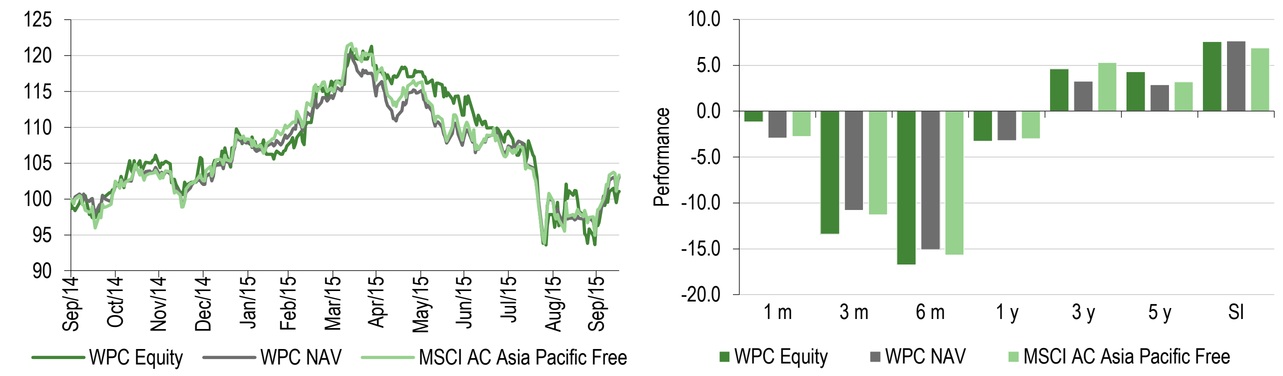
Performance: Ahead of index over 10 years

The absolute weakness in the market over the summer period is apparent in Exhibit 6, while Exhibits 7 and 8 make clear that Witan Pacific's NAV total return has maintained performance close to the index over periods up to one year. On a longer view, since the multi-manager approach was adopted in May 2005, the NAV has outperformed despite a period of relative underperformance in 2013 when the portfolio's underweight to Japan hurt at a time of strong revival in that market.

Subsequent relative performance has stabilised helped recently by the balance provided by the three investment managers. In the half year to end-July, the Aberdeen portfolio recorded performance of -3.1%, GaveKal -0.7% and Matthews +4.5% compared with the benchmark -1.1%.

Exhibit 6: Investment trust performance to 30 September 2015

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-year, five-year and SI performance figures annualised.

Exhibit 7: Share price and NAV total return performance, versus indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to MSCI AC Asia Pacific Free	1.6	(2.4)	(1.3)	(0.3)	(2.0)	5.3	6.9
NAV relative to MSCI AC Asia Pacific Free	(0.2)	0.6	0.7	(0.2)	(5.7)	(1.6)	7.7
Price relative to FTSE All Share	1.6	(8.2)	(10.3)	(1.0)	(7.2)	(10.8)	10.4
NAV relative to FTSE All Share	(0.2)	(5.4)	(8.5)	(0.9)	(10.7)	(16.6)	11.2
Price relative to MSCI World	1.0	(9.0)	(7.8)	(5.3)	(17.5)	(22.6)	(2.5)
NAV relative to MSCI World	(0.8)	(6.3)	(5.9)	(5.2)	(20.6)	(27.6)	(1.8)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-September 2015. Geometric calculation. SI = since multi-manager approach adopted on 31 May 2005.

Exhibit 8: NAV performance relative to benchmark over 10 years

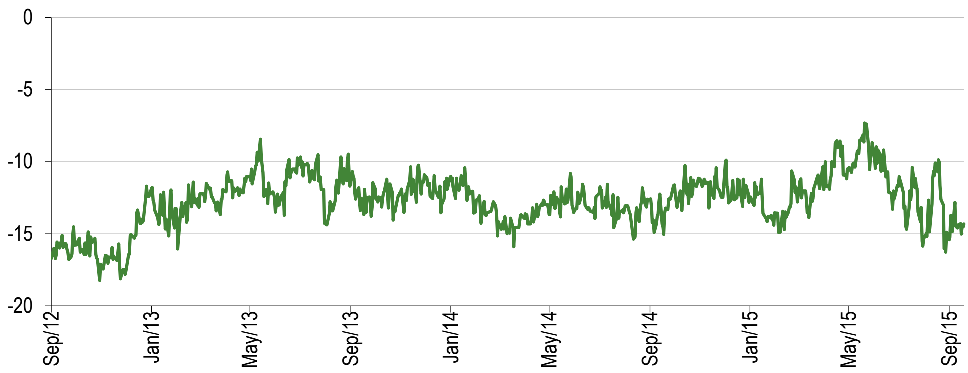
Source: Thomson Datastream, Edison Investment Research.

Discount: Somewhat greater volatility mirrors market

The company has authority to buy back up to c 14.99% of the issued share capital. Subject to market conditions, the board's view is that it is in shareholders' interests to buy back shares if they are trading at an anomalously wide discount, with the intention also being to avoid excessive fluctuations in discount. For FY15 and year to date combined, purchases have been equivalent to c 0.3% of outstanding shares in issue absorbing £0.4m.

As shown in Exhibit 9, the discount to NAV has mostly remained between 10% and 15% over the last three years. Perhaps unsurprisingly, the level of discount volatility has increased somewhat in 2015 against the backdrop of sharp swings in the Chinese market and the macro uncertainties that fed into market weakness during the summer. The discount now stands at the wider end of its range and for longer-term investors this could be seen as an opportunity to invest in a portfolio with a broad Asian remit allocated to managers with substantial regional experience.

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



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

Witan Pacific has a straightforward capital structure with c 65.9m ordinary shares in issue.

The company is registered with the FCA as a small UK AIFM under the Alternative Investment Managers Directive. As such it cannot employ gearing. Historically, the company only employed modest gearing but the board will periodically review the costs and potential benefits of reinstating the capacity to borrow.

In the last financial year the ongoing charge was 1.06% and 1.12% excluding and including performance fees, respectively. Management fees paid to the external managers and Witan Investment Services accounted for 0.64 percentage points of this charge. Aberdeen charges a lower base fee than the other managers but is eligible for a performance fee based on performance relative to the benchmark.

Dividend policy

The company aims to increase its dividend in real terms over time subject to the underlying trend in net income. Over the last 10 years dividends have grown at a compound rate of 15.8% compared with UK retail price inflation of 3.1%. The substantial level of dividend reserves (at the half year end equivalent to 17.2p per share or 3.8x the FY15 dividend) and the company's (as yet unemployed) ability to distribute capital gives the board flexibility to smooth fluctuations in dividend income arising from temporary earnings weakness or adverse currency moves. The dividend was modestly uncovered in the last two financial years but was covered in the first half of the current year, supporting the board's hope that dividend cover will be progressively rebuilt given favourable prospects for long-term underlying portfolio dividend growth.

Peer group comparison

Witan Pacific is now unique among investment trusts in having an Asia-Pacific mandate that includes Japan. This follows the change at Martin Currie Pacific (now Martin Currie Asia Unconstrained) to an ex-Japan brief. Our peer-group table therefore includes figures for the Asia ex-Japan sector for reference but also a selection of open-ended Asia Pacific funds. Compared with the ex-Japan investment company sector, Witan Pacific has outperformed over one and three years but lagged over longer periods. Comparison with the average for the open-ended funds shows only the three-year period falling short and outperformance for one, five and 10 years for Witan Pacific.

Exhibit 10: Peer comparison at 9 October 2015

% unless stated	Market Cap/Fund size £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	**145.6**	**1.8**	**13.7**	**19.5**	**94.5**	**(0.2)**	**0.3**	**(14.8)**	**0.93**	**Yes**	**96**	**2.1**
Asia ex-Japan sector wtd ave		(3.3)	11.6	27.2	172.9	(0.6)	0.2	(0.7)	1.24		102	2.4
Open-ended funds												
Aberdeen Asia Pac. & Japan		(5.0)	4.0	10.4	97.3							
Baillie Gifford Dev. Asia Pac.		6.2	28.3	32.4								
GAM Star Asia Pacific Equity		2.5	23.8	13.1	31.9							
Invesco Perp. Pacific		(0.9)	39.7	29.4	137.6							
JPM Pacific Equity A		1.8	23.9	20.2	60.1							
Matthews Asia Dividend A		3.8	22.0									
S&W Far East. Inc. & growth		3.8	24.9	23.4	128.4							
SJP Far East		(4.3)	4.5	10.5	96.2							
Open-ended average		**1.0**	**21.4**	**17.4**	**68.9**							

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

The board comprises five non-executive directors, all of whom are independent. Sarah Bates (appointed 2004) took over the role of chairman and Dermot McMeekin (appointed 2012) became senior independent director in June 2014. Diane Seymour-Williams was appointed in 2010 with Susan Platts-Martin and Andrew Robson joining in July 2014. Andrew Robson took on the chairmanship of the Audit and Management Engagement committee following Alan Barber's retirement from the board in June 2015. Collectively, the board members have a broad range of experience encompassing investment companies, Asian business, investment management, corporate finance and accounting.

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