EDISON

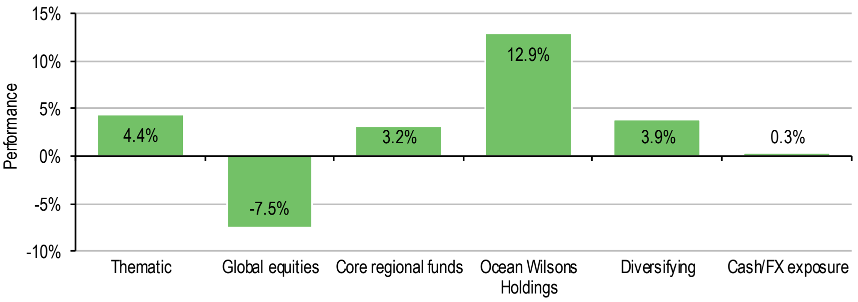
Hansa Trust

Finding opportunities away from the mainstream

Investment trusts
Global multi-asset

Hansa Trust (HAN/HANA) is arguably unique in its sector, with a portfolio made up of global equities, regional and thematic funds, diversifying (mainly hedge) funds and a large strategic position in Ocean Wilsons Holdings (OWHL), which in turn has a majority stake in Brazilian maritime services company Wilson Sons (WSON). Lead Manager Alec Letchfield's focus on capital preservation as well as growth has enabled the portfolio to outperform UK and global equity indices in the recent stock market volatility, with new holdings such as Selwood Asset Management Liquid Credit Strategy already having a positive impact. The trust has recently published proposals to redomicile to Bermuda (see Recent developments).

Hansa Trust benefiting from its diversified portfolio in volatile equity markets



Source: Hansa Trust, Edison Investment Research. 12-month total returns to 31 May 2019.

The market opportunity

Global equity markets continue to grind slowly upwards, albeit with sharper bouts of volatility than have been seen in recent years, and stand at close to peak levels. In such a late-cycle environment, while an allocation to equities ensures investors do not miss out on growth, a focus on capital preservation should provide an important source of support in any further market setbacks.

Why consider investing in Hansa Trust?

- Differentiated portfolio of hard-to-access investments.
- Substantial (although not guaranteed) scope for discount narrowing.
- Focus on capital preservation as well as growth, with defensive allocation recently showing its worth in more volatile equity markets.
- Strong alignment of interests between board, manager and shareholders.
- Proposed move to paying quarterly dividends as part of move to Bermuda.

Discount broadly stable at c 30%

At 11 July 2019, Hansa Trust's A-shares traded at a 31.8% discount to cum-income NAV, which is a little above the average discounts over one, three and five years. Because the strategic holding in Ocean Wilsons also trades below NAV, the look-through discount to NAV is higher, at 39.4%. Hansa Trust's discount is well above the average for its peer group, which could afford an element of downside protection to the share price in a market downturn, given it has rarely exceeded 35% even during periods of very poor sentiment towards equities.

12 July 2019

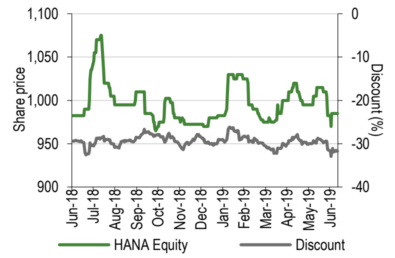
Price Ord.	**990.0p**
Price A-share	**985.0p**
Market cap	**£236.8m**
AUM	**£341.2m**

NAV*	1,443.7p
A-share discount to NAV	31.8%
Ordinary share discount to NAV	31.4%

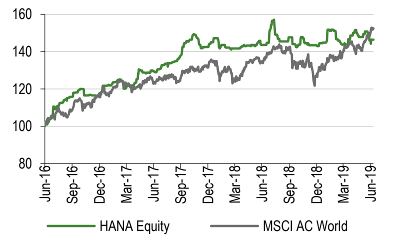
*Including income. As at 10 July 2019.

Yield	1.6%
Shares in issue	24.0m
Code Ord/A-shares	HAN/HANA
Primary exchange	LSE
AIC sector	Flexible Investment

Share price/discount performance



Three-year performance vs index



52-week high/low*	1,075.0p	965.0p
NAV** high/low	1,509.0p	1,341.3p

*A-shares. **Including income.

Gearing

Gross*	0.0%
Net cash*	1.5%

*As at 30 June 2019.

Analysts

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Edison profile page

Hansa Trust is a research client of Edison Investment Research Limited

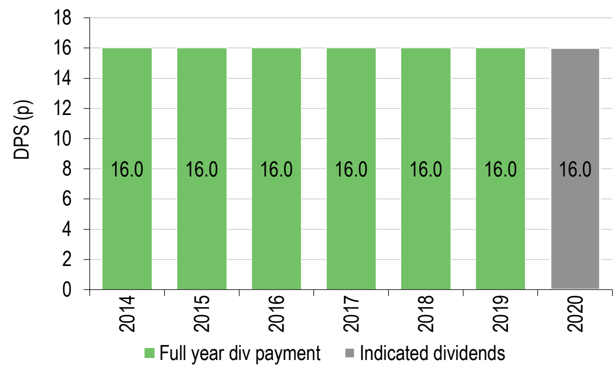
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Hansa Trust seeks to grow shareholder value by investing in a portfolio of quoted and unquoted investments, which may not normally be available to the general public. The trust combines a strategic stake in OWHL with a portfolio of global equities and predominantly third-party managed funds, giving access to primarily non-UK equities, along with more thematic and diversifying funds. Hansa Trust does not have a benchmark, but measures its performance against a number of key performance indicators (KPIs), including the MSCI AC World Index, the FTSE Gilts All Stocks Total Return Index, and the rate of UK CPI inflation.	■ 4 July 2019: Proposal to redomicile Hansa Trust to Bermuda, with associated changes to dividend policy and board of directors (see page 3). ■ 24 June 2019: Results for the 12 months ended 31 March. NAV total return of 5.6% (9.9% for OWHL), compared with 10.8% for the MSCI AC World Index, 3.7% for the FTSE Gilts All Stocks TR Index, and 1.9% for UK CPI inflation. Share price total return of 1.4% (A-shares) and 0.0% (ordinary shares). ■ 24 April 2019: Announcement of expected dividends for FY20 (to 31 March): two interim dividends of 8.0p to be paid, barring unforeseen circumstances.

Forthcoming		Capital structure		Fund details	
AGM	July 2019	Ongoing charges	1.3%	Group	Hansa Capital Partners
Interim results	November 2019	Net cash	1.5%	Manager	Alec Letchfield
Year end	31 March	Annual management fee	1.0%	Address	50 Curzon Street, London, W1J 7UW
Dividend paid	November, May	Performance fee	No		
Launch date	1912	Trust life	Indefinite	Phone	+44 (0) 20 7646 5750
Continuation vote	No	Loan facilities	£30m facility	Website	www.hansatrust.com

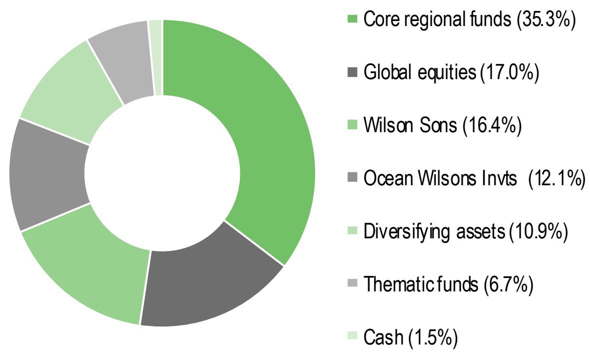
Dividend policy and history (financial years)

Two dividends of a similar size are paid each year, with the aim of achieving long-term income growth.

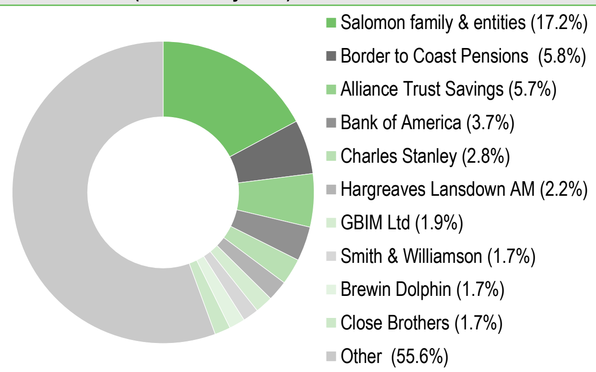


Hansa Trust portfolio by silo, at 30 June 2019

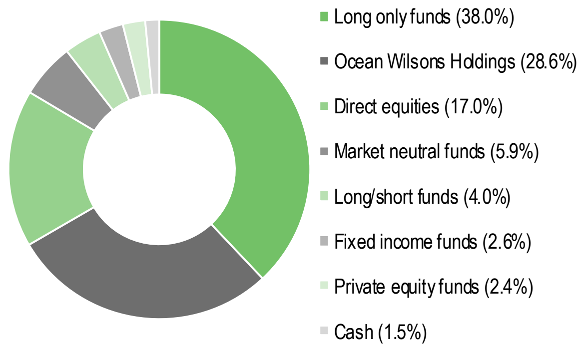
Note: Ocean Wilsons Investments may overlap with other categories.



Shareholder base (as at 31 May 2019)



Portfolio exposure by asset type (as at 30 June 2019)



Top 10 holdings (as at 30 June 2019)

Company	Country	Sector	Portfolio weight %	
			30 June 2019	30 June 2018*
Ocean Wilsons Holdings	Bermuda	Industrials	28.6	28.3
Findlay Park American Fund	US	US equity fund	5.9	5.2
GAM Star Technology Fund	Global	Technology sector fund	4.3	4.6
Select Equity Offshore	US	US equity fund	4.2	3.7
Vulcan Value Equity Fund	US	Value equity fund	4.2	4.0
Goodhart Partners Hanjo Fund	Japan	Japan equity fund	3.5	3.5
Adelphi European Select Equity Fund	Europe	Europe equity fund	3.0	2.8
BlackRock European Hedge Fund	Europe	Equity long/short hedge fund	2.9	1.7
Global Event Partners	Global	Global event-driven fund	2.4	2.4
Indus Japan Long Only Fund	Japan	Japan equity fund	2.4	2.8
Top 10 (% of holdings)			**61.3**	**60.7**

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

Recent developments: Proposed move to Bermuda

In November 2018, the board of Hansa Trust announced it was considering whether to move the trust's domicile away from the UK. As guided in the FY19 results (published in June), a further announcement on this matter was expected over the summer and detailed proposals (subject to approval by holders of both ordinary and A-shares) were published on 4 July. In brief, the rationale for and scope of the proposals are:

- Having become increasingly concerned about the instability and uncertainty arising from the current political climate in the UK, the board has concluded that the best way to protect Hansa Trust's business is to redomicile to an alternative jurisdiction. After considering several alternatives, and in consultation with shareholders, the board has concluded that a move to Bermuda would best enable Hansa Trust to offset UK political risk while mirroring its existing capital structure, portfolio and investment strategy.
- Under a scheme of arrangement in line with UK company law, Hansa Trust proposes to issue existing shareholders with shares in Hansa Investment Company Limited ('New Hansa').
- Both ordinary and A-share holders in Hansa Trust would receive five new ordinary or A-shares in New Hansa for every ordinary or A-share held at the date of the change. This five-for-one share split would reduce the share price from the current c £10 to c £2, facilitating regular saving and dividend reinvestment, and may also increase the liquidity of the shares.
- Shares in New Hansa would still be listed on the London Stock Exchange. However, shareholders who currently hold Hansa Trust shares in uncertificated form via CREST will be issued with New Hansa Depositary Interests.
- While total dividends for the year ending 31 March 2020 are expected to be in line with the 16p per (existing) share guided in Hansa Trust's FY19 results, New Hansa intends to pay dividends quarterly rather than twice a year. In future years the schedule is expected to be August, November, February and May (compared with November and May currently). However, given the timetable for the trust's reorganisation, it is proposed that three dividends will be paid in FY20, with effectively the first two quarterly dividends being paid in November (1.6p per share), followed by 0.8p per share in February and May. This amounts to 3.2p per New Hansa share, equivalent to one-fifth the 16.0p announced for Hansa Trust prior to the reorganisation and five-for-one share split. The Association of Investment Companies has noted that more than half of income-paying investment companies now pay quarterly dividends, so the move is generally in line with peers and may create an additional source of demand from investors seeking a more regular income.
- As a result of the reorganisation, it is proposed that New Hansa's board of directors will change. Jonathan Davie (an existing Hansa Trust director) will become chairman and William Salomon will remain a non-independent director. They will be joined by Richard Lightowler, Nadya Wells and Simona Heidempergher, in place of current chairman Alex Hammond-Chambers (appointed to the board in 2002) and directors Geoffrey Wood (1997) and Raymond Oxford (2013).
- The proposals will be voted on by shareholders at meetings on 29 July 2019 and, if approved, are expected to take effect on 29 August 2019.

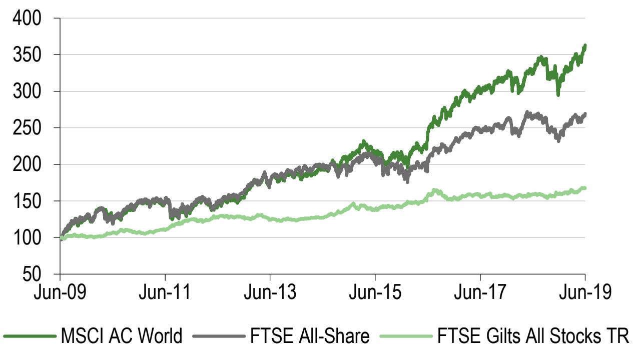
Market outlook: Investors focusing on the positive

Global equity markets began 2019 in a buoyant mood after the sharp sell-off of Q418, although some of the exuberance had arguably begun to wane as the mid-point of the year approached. While some of the factors that provoked fear towards the end of last year – notably the tightening of monetary policy in the US and elsewhere – have receded, others (such as Donald Trump's trade war) arguably have not. Indeed, in recent weeks the US president briefly threatened to extend trade tariffs to neighbouring Mexico, a key link in the supply chain of many US companies; meanwhile, a de-escalation of the US-China trade tensions seemed a distant prospect until the G20 conference at the end of June. In Europe, outgoing central bank chief Mario Draghi has vowed to continue to support the economy through loose monetary policy, which could be seen as a classic case of 'bad news is good news' – that is, investors are focusing on the 'positive' of continued policy support for markets, rather than on the poorer economic outlook that has made it necessary.

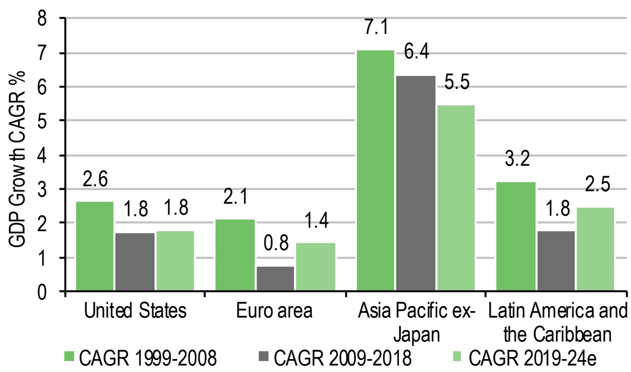
As shown in Exhibit 2 (left-hand chart), a decade of ultra-low interest rates has proved an important support for equity market returns, although in the UK at least, bond markets have been relatively flat in the latter third of the period. The weakness of the pound (particularly since the UK's EU referendum in 2016) has boosted sterling returns from global equity markets, although the magnitude of the outperformance of the MSCI AC World Index over the FTSE All-Share arguably has more to do with the c 55% exposure of the world index to the US, where equities have performed particularly strongly. A global portfolio also gives UK investors exposure to higher economic growth in other parts of the world (right-hand chart). The International Monetary Fund forecasts annual GDP growth for the UK of less than 1.5% over the next five years (albeit an improvement on c 1.3% a year for the last 10 years), which is bettered in every region shown except the euro area. The emerging markets of Asia and, to a lesser extent, Latin America are an important driver for world growth as a whole. And while economic growth and stock market performance may not be synchronised, growing economies generally translate into greater affluence at the state and individual level, boosting consumption and infrastructure spending, and thus the prospects of companies that are meeting these needs.

Exhibit 2: Market performance and economic growth forecasts

Equity and bond indices, total returns, in sterling



Historical and forecast GDP growth



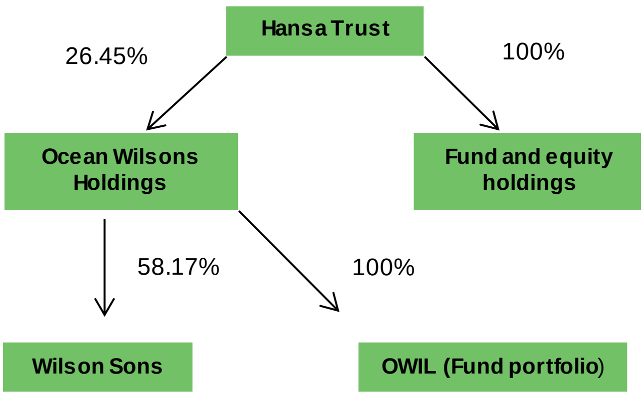
Source: Refinitiv, International Monetary Fund, Edison Investment Research

Fund profile: Family office vehicle with unique structure

Hansa Trust has its roots in the Scottish & Mercantile Investment Company, founded in 1912, which was one of several investment companies acquired by London-based merchant bank Rea Brothers in the 1950s. Rea Brothers was controlled by the Salomon banking family, who remain majority owners of Hansa Trust's 8m voting ordinary shares. William Salomon is the senior partner of Hansa Trust's investment manager, Hansa Capital Partners (the Salomon family office), and is also a director of the trust. Hansa Trust's lead portfolio manager, Alec Letchfield, joined Hansa Capital Partners as chief investment officer in late 2013 from HSBC Global Asset Management, and led a strategic review of the investment process, which resulted in the trust's reorganisation into a portfolio of regional, thematic and diversifying funds, alongside an allocation to global equities, with a large strategic position in Ocean Wilsons Holdings (OWHL).

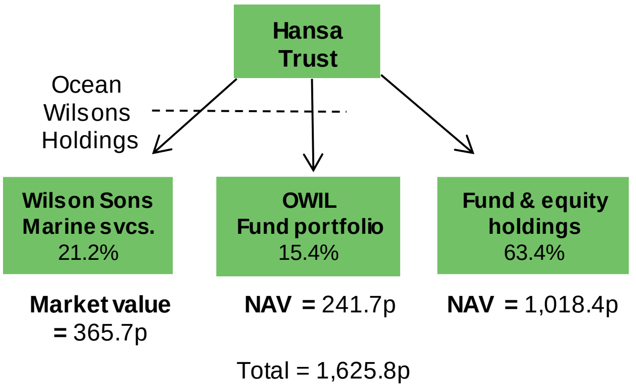
Hansa Trust owns 26.45% of OWHL (see Exhibit 3), which was acquired by Rea Brothers more than 60 years ago. OWHL is listed on the London Stock Exchange (its ticker is OCN), and owns a majority (58.17%) stake in Wilson Sons (a Brazilian maritime services company with listings in Sao Paulo and Luxembourg) alongside a portfolio of funds, Ocean Wilsons Investments (OWIL), which is also advised by Hansa Capital Partners. Hansa Trust's stakes in WSON and OWIL are illustrated in Exhibit 4. In common with many holding companies, OWHL's shares trade at a discount to the value of its underlying assets. Because Hansa Trust also trades at a discount to NAV, there is effectively a double discount, with the look-through NAV at 11 July 2019 being c 12.7% higher than Hansa Trust's reported cum-income NAV, which is based on OWHL's market value.

Exhibit 3: Hansa asset ownership structure



Source: Edison Investment Research

Exhibit 4: Hansa Trust look-through NAV exposure



Source: Edison Investment Research. Note: % figures based on look-through values. OWIL based on end-March 2019 value.

OWHL's strong long-term performance record is the principal reason that it is now such a large part of Hansa Trust's portfolio (c 28.6% at 30 June 2019, made up of 16.4% WSON and 12.1% OWIL). The OWIL portfolio can largely be viewed in the same light as the rest of Hansa Trust's investment holdings, which are made up of third-party funds and direct holdings in global equities. There is a degree of overlap between OWIL and Hansa Trust's fund portfolio, although OWIL has an additional allocation of around one-third of its assets to private equity and private debt funds that are not held directly by Hansa Trust. The trust's objective is to achieve long-term preservation and growth of capital from a portfolio of investments that individual investors would be unable or unlikely to access. Capital preservation is a key focus for most family offices, which look after the assets of groups of high-net-worth individuals who may have less need to generate an income from their investments.

Hansa Trust does not have an official benchmark, but measures its performance against a range of key performance indicators, including UK and global equity indices, UK government bonds and the annual rate of CPI inflation. The trust is a member of the Association of Investment Companies' Flexible Investment sector.

The fund manager: Alec Letchfield

The manager's view: Market cycle is extended, but not over yet

Letchfield says that following the sharp sell-off across asset markets in late 2018, he and his colleagues gave serious consideration to the possibility that the current market cycle – which has been long in duration but relatively modest in magnitude – was coming to an end. 'There were some real questions being asked in 2018,' he says. 'First, economic growth outside the US was clearly disappointing. IMF forecasts for Europe, China and emerging markets were all downgraded, and people started worrying the economic cycle was over. Second, China's growth in particular was weakening, and there was a trade war going on against a backdrop of policy measures dampening growth. Given the contribution of China to global growth, that was a real concern. Third, on the [US] monetary policy side, there were concerns about inflation, as unemployment is low, and [Federal Reserve Chairman Jerome] Powell was indicating that rates needed to rise further.'

The manager explains that at Hansa Capital Partners' January asset allocation meeting, the team looked closely at all the above issues, and concluded that a global recession – the one key factor that might prompt a significant increase in Hansa Trust's defensive allocation – seemed unlikely. This view has been supported by the rapid recovery in markets since the turn of the year, as the Fed's outlook moved from tightening to easing, and China took steps to stimulate its economy. 'We were surprised by the degree of the bounce – we think it was due to people who were out of the market rushing back in,' says Letchfield. He explains that while Hansa Trust will always be equity-biased, its allocation to defensive assets reflects the view that the cycle is maturing. 'We will lean in to adding to the defensives through time, with the caveat that it is never going to be as much as 50% in defensives,' he adds. 'We want to capture a proportion of the upside and, where possible, limit the downside.'

The manager says that while he has been thinking a lot about the defensive allocation, what has concerned him most is how to find investments 'that are genuinely defensive when you need them to be' in a low interest rate, low return environment. The new allocation to the Selwood Asset Management Liquid Credit Strategy (see Current portfolio positioning) is a good example of this, argues Letchfield, as the strategy typically produces a consistent return profile that is uncorrelated with equity markets.

Asset allocation

Investment process: All-weather portfolio of funds and equities

Hansa Trust aims to adapt to changing market conditions by blending higher risk with more defensive assets, alongside its strategic investment in Wilson Sons (via Ocean Wilsons). The current portfolio structure was progressively implemented following the strategic review in March 2014 by portfolio manager Alec Letchfield, whose background at HSBC was in multi-asset portfolios. The manager classifies the portfolio into a number of 'silos' – global equities (managed by Rob Royle); core regional funds; thematic funds (focusing on areas such as technology and healthcare); and diversifying assets; currently these are principally hedge funds, which are designed to offer downside protection in times of market stress, but the allocation also includes some bonds. The intention is to maintain a portfolio of funds that are not generally available to or widely owned by retail investors. Letchfield seeks to achieve this by investing with third-party managers that share Hansa Trust's focus on capital preservation, have robust investment processes and an alignment of interests, especially boutique fund management groups from around the world, where the founders have significant amounts of their own wealth invested in the funds they manage.

While the proportion of assets in OWHL is set and fluctuates only in terms of the value of the underlying investments, regional and asset class allocations across the rest of the portfolio are determined by the top-down views of Hansa Capital Partners' asset allocation committee. Within this framework, individual fund and equity investments are chosen on a bottom-up basis as a result of fundamental analysis and detailed due diligence. For the global equity portfolio, Royle looks for cash-generative businesses whose improving prospects are not reflected by their current share price. Letchfield's fund selections are also biased towards equities (which have provided the best mix of capital preservation and growth over the long term), although the diversifying 'silo' contains credit and property funds alongside the investments in hedge funds (which themselves may be equity-based or focused on other assets or strategies). Risk is viewed from the perspective of permanent loss of capital, rather than short-term volatility.

Current portfolio positioning

Current portfolio positioning

Hansa Trust's portfolio contains between c 50 and c 60 funds and equities (not including underlying funds in the OWIL portfolio that are not also held by Hansa Trust). As well as the strategic holding in OWHL/WSON, the portfolio at 30 June 2019 included 23 direct equity holdings, 16 core regional funds, 12 diversifying funds and four thematic funds. The top 10 holdings at 30 June 2019 made up 61.3% of total assets (of which 28.6pp was accounted for by OWHL), compared with 60.7% (28.3pp for OWHL) a year previously.

Exhibit 5: Portfolio breakdown by sector

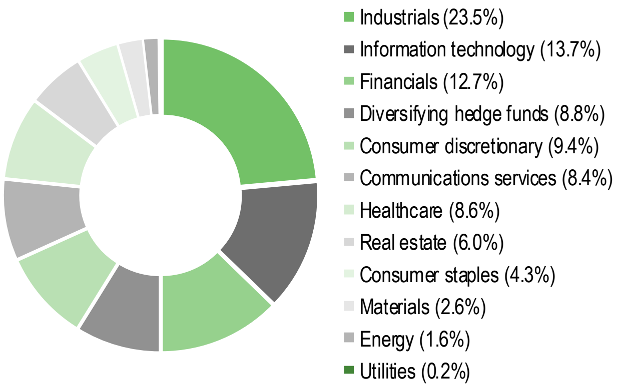
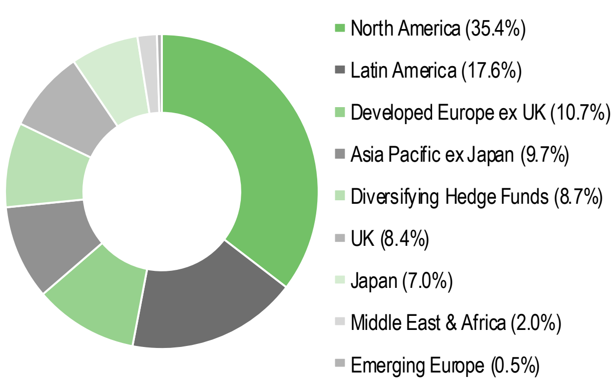


Exhibit 6: Portfolio breakdown by geography



Source: Hansa Trust, Edison Investment Research. Note: Data at 30 June 2019.

As shown in Exhibit 5, Hansa Trust's portfolio is broadly diversified by sector. The industrials weighting is largely accounted for by WSON (16.4% of the portfolio at 30 June 2019); excluding that, the largest weighting is in information technology, although this has fallen somewhat from c 17.2% a year ago to 13.7%. Geographically (Exhibit 6), the largest exposure is to North America, both via funds such as Findlay Park American (the biggest position excluding OWHL at 30 June 2019), and direct equity holdings such as Alphabet (parent of Google) and Berkshire Hathaway. The Latin American exposure (17.6%) is almost all accounted for by WSON. The silo exposure (see Exhibit 1, Hansa Trust portfolio by silo) is virtually unchanged over the past year, with all weightings at 30 June 2019 being within c 1.2pp of the 30 June 2018 figures.

Portfolio activity has been somewhat higher than usual in recent months. Following on from the purchases of Apollo Total Return Bond Fund and BioPharma Credit towards the end of 2018 (covered in our last note), both of which are in the diversifying category, Letchfield has recently bought into the Selwood Asset Management Liquid Credit Strategy (diversifying) and BB Biotech (thematic). The Selwood strategy is built around short positions in credit default swaps (CDS). Letchfield explains: 'If I am a pension fund with a credit portfolio and I am worried about the cycle, I can buy protection from Selwood and get some insurance in the case of a rise in defaults. If I am Selwood, assuming that my protection isn't called through rising defaults, I collect my premium and generate a return. There is a supply/demand imbalance – there are very few people shorting CDSs – and the inequality works in their favour.' Selwood avoids first-loss tranches and also hedge out individual company risk. While institutional investors with credit portfolios can use the strategy to provide downside protection in the event of defaults, Letchfield points out that as an investment in its own right, it has produced compelling returns of 10–15% a year, while remaining low risk. 'It is a really interesting, specialist segment of the market, and importantly the strategy generated some its highest returns during the global financial crisis despite rising default rates,' he says. The position was funded by reductions in the holdings in Schroder GAIA BlueTrend and GAM Systematic Core Macro, which Letchfield explains had been more volatile than he had hoped, and were having a disproportionate effect on the performance of the diversifying portfolio. The manager has also topped up the long-standing holding in BlackRock European Hedge Fund, which now appears in the top 10 positions.

The new position in BB Biotech (BION) was effectively a straight swap with the longstanding stake in Biotech Growth Trust (BIOG). Letchfield says that although BIOG's manager, OrbiMed Advisors, has produced good results with its private equity investments (held in other Hansa Capital portfolios), BIOG has suffered a long period of disappointing performance, and he wanted to find an alternative that offered greater differentiation from the index. Domiciled in Switzerland and listed on the SIX exchange, BION has a very concentrated (c 25–30 stock) portfolio of companies that Letchfield describes as operating 'in an area above the very early drug development stage but not in the big-cap arena'. It has a strong long-term performance record (see our most recent note on BION) and offers a c 5% yield (funded from capital), which acts to smooth out volatility of NAV returns.

Performance: Benefiting from all areas of the portfolio

Exhibit 7: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	FTSE All-Share (%)	FTSE Gilts All Stocks TR (%)	UK CPI (%)
30/06/15	(8.8)	(5.0)	10.1	2.6	8.9	(0.0)
30/06/16	(13.5)	(5.9)	13.9	2.2	13.5	0.5
30/06/17	29.5	24.0	22.9	18.1	(0.9)	2.6
30/06/18	10.9	6.7	9.5	9.0	1.9	2.4
30/06/19	1.6	4.1	10.3	0.6	4.9	2.0

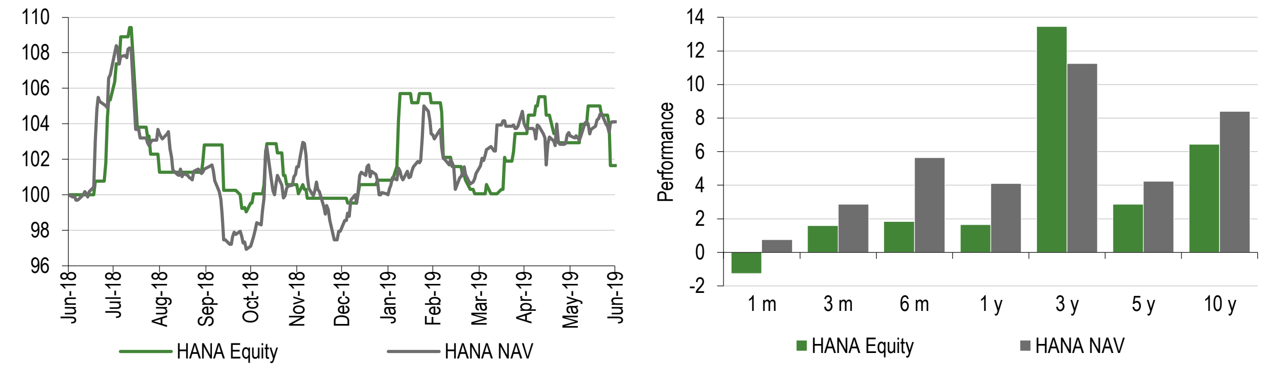
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Hansa Trust's investment strategy aims to capture some of the upside in rising equity markets and to limit the downside in falling markets, providing a less volatile experience for investors than they would have with a pure equity portfolio. The trust does not have a performance benchmark, but instead has a series of key performance indicators (KPIs) that investors can use as a reference. These cover global and UK equity markets (the latter is a useful guide when assessing longer-term performance, as until recent years the equity part of the portfolio was invested in predominantly UK companies), as well as UK government bonds (a proxy for 'risk free' returns), and the rate of UK CPI inflation, a proxy for 'real' returns. Because of the trust's allocation to defensive assets (designed to provide an element of capital protection), it is to be expected that the portfolio will underperform the equity indices in periods of stock market strength, such as the bull market conditions that have persisted over the majority of the past 10 years. However, the portfolio remains equity-biased, allowing it to participate in much of the market upside.

Since the strategic review that saw Hansa Trust's portfolio reorganised into the four broad areas of strategic (Ocean Wilsons Holdings, including Wilson Sons), core regional/thematic funds, diversifying funds and global equities, performance has benefited from the combination of upside potential and downside protection. As shown in the chart on the front page, almost all the elements of the portfolio contributed positively to performance in the 12 months to 31 May 2019, although in a period that included significant equity market volatility, the return on the global equities portfolio in aggregate was negative. The principal contributors to positive performance included the thematic holding GAM Star Technology, and regional funds Findlay Park American, Select Equity Offshore, Vulcan Value Equity and Pershing Square, all of which are heavily biased to the US. While more than half of the stocks in the global equity portfolio (by number) lost money over the period, positive contributions came from names such as Iridium (a US satellite communications company), US retailer Dollar General, Alphabet (parent of Google) and Warren Buffett's Berkshire Hathaway. However, these were not sufficient to offset declines from the likes of Bayer (whose shares sold off following its acquisition of Monsanto), Samsung and Interactive Brokers. In the diversifying portfolio (which aims to act as a hedge in case of market declines), notable gains came from Global Event Partners and Hudson Bay, while Schroder GAIA BlueTrend, CZ Absolute Alpha and GAM Systematic Core Macro detracted. The largest individual contribution (perhaps unsurprisingly, as it is by far the largest holding) came from OWHL.

Exhibit 8: Investment trust performance to 30 June 2019

Price and NAV total return performance, one-year rebased | Price and NAV total return performance (%)



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

As shown in Exhibit 8 (right-hand side), Hansa Trust has produced solid absolute returns over three and 10 years to 30 June 2019, with NAV total returns of c 8–11% a year over these periods. Tougher conditions around the time of the strategic review in 2014/15, with the OWHL stake under pressure in a difficult period for emerging markets, have translated into lower returns over five years, over which period the trust has seen lower returns than both its equity and bond-based key performance indicators (Exhibit 9), although it has still produced a positive return exceeding the rate of inflation. It is noteworthy that, while both Hansa Trust's NAV and share price total returns were marginally negative in May 2019, the trust outperformed the UK and global equity indices over the month, in a period characterised by increasing investor uncertainty as a result of worsening trade war rhetoric and global economic data.

Exhibit 9: Share price and NAV total return performance, relative to KPIs (%, all in £)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to UK CPI	(1.3)	0.7	1.1	(0.4)	36.2	7.0	50.0
NAV relative to UK CPI	0.8	2.0	4.8	2.0	28.4	14.2	79.8
Price relative to FTSE Gilts All Stocks TR	(1.4)	0.3	(2.8)	(3.1)	37.8	(12.0)	12.0
NAV relative to FTSE Gilts All Stocks TR	0.6	1.5	0.9	(0.8)	29.9	(6.0)	34.2
Price relative to MSCI AC World	(6.5)	(4.4)	(12.7)	(7.8)	(1.6)	(38.1)	(47.9)
NAV relative to MSCI AC World	(4.6)	(3.2)	(9.5)	(5.6)	(7.2)	(33.9)	(37.6)
Price relative to FTSE All-Share	(4.8)	(1.6)	(9.8)	1.1	12.8	(15.2)	(30.1)
NAV relative to FTSE All-Share	(2.8)	(0.4)	(6.5)	3.5	6.3	(9.4)	(16.2)

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

Discount: Fairly stable with significant scope to narrow

At 11 July 2019, Hansa Trust's A-shares traded at a 31.8% discount to cum-income NAV, while its ordinary shares stood at a 31.4% discount. Although wide both in absolute terms and relative to peers, the discount has remained broadly in the 25–30% range over the past two years, having previously been in the 30–35% range (Exhibit 10). The current A-share discount to NAV is marginally wider than both short- and medium-term averages, which are between 29.4% and 30.5% over one, three and five years.

While the board has the authority to buy back shares in order to manage a discount, it chooses not to do so in the belief that any repurchases would in effect exacerbate the factors that arguably underlie the persistent discount. The large holding in OWHL would increase as a proportion of total assets, as buybacks would need to be funded by the sale of more liquid investments; the high level of Salomon family ownership would also increase, as the family is unlikely to participate in any buybacks; and the relative illiquidity of the shares would not improve if there were fewer shares in issue. The current uncertainty pending the outcome of the board's review of Hansa Trust's domicile may also have put a brake on any discount narrowing in recent months. However, the board remains committed to narrowing the discount through active marketing and investor education. Any progress on WSON's strategic review (which could result in the divestment of a material part of the business, thus reducing the size of the holding as a proportion of Hansa Trust's assets) could support the trust's discount to NAV narrowing substantially.

Exhibit 10: A-share price discount to NAV (including income) over three years (%)

Source: Refinitiv, Edison Investment Research

Capital structure and fees

Hansa Trust has two classes of shares in issue: 8m ordinary shares with voting rights and 16m non-voting A-shares. The majority of the ordinary shares are owned by or on behalf of members of the Salomon family, who also have some interests in the A-shares. The board has the authority to repurchase up to 14.99% of the trust's shares each year in order to help manage a discount to NAV, although in practice this power is not used (see Discount section). Gearing is available via a £30m short-term loan with BNP Paribas, which, if fully drawn, would equate to c 8.8% of net assets. The purpose of the borrowing facility is to give the manager flexibility over the timing of investments, rather than to increase market exposure on an ongoing basis. Hansa Trust had a small net cash position (1.5%) at 30 June 2019, and the loan facility remained undrawn during FY19.

Hansa Trust pays Hansa Capital Partners an annual management fee of 1.0% of net assets, after deducting the value of the OWHL holding, on which no fee is payable. There is no performance fee. For FY19, ongoing charges were 1.30%, an increase of 22bp compared with 1.08% in FY18.

As noted in the Recent developments section, the trust has proposed changing its domicile from the UK to Bermuda (although maintaining its stock market listing in London), thus becoming an investment company rather than an investment trust, and undertaking a five-for-one share split for both the ordinary and A-shares.

Dividend policy and record

Hansa Trust pays two dividends a year, in November and May. (As noted in the Recent developments section, as part of the planned move to Bermuda, this is proposed to move to a quarterly schedule.) Total dividends have been maintained at 16.0p per share (paid in equal instalments of 8.0p) for the last six years, and the board has guided that the FY20 dividend will be at the same level, barring unforeseen circumstances. However, there remains a commitment to growing the dividend over the longer term. Dividends have been partly funded out of capital and income reserves in each of the last five years, broadly covering the period since the reorganisation of the portfolio, which resulted in a fall in exposure to higher-yielding UK equities. For FY19 the total return per share was 75.4p, made up of 9.2p in revenue income and 66.4p in capital gains. Based on the latest two dividends and the current share prices, the A-shares and the ordinary shares both have a yield of 1.6%.

Peer group comparison

Although now a member of the Association of Investment Companies' Flexible Investment sector, until 2018, Hansa Trust was classified in the AIC Global sector. Below in Exhibit 11, we show the peer group of funds that Hansa Trust's board considers to be the most comparable. Five of them (Caledonia Investments, Capital Gearing, Henderson Alternative Strategies Trust, RIT Capital Partners and Ruffer Investment Company) are also in the Flexible Investment sector, while two (AVI Global (formerly British Empire) and Witan) are drawn from the Global sector. The peer funds follow a range of strategies, but all have a broadly multi-asset and/or multi-manager approach. However, Hansa Trust's large strategic holding in OWHL/WSON sets it apart from all the peers. The trust's NAV total return performance has been a little below average over one year, above average over three years, below average over five years and moderately below average over 10 years, although in absolute terms, annualised returns over both three and 10 years have been very respectable at c 8–11%. Ongoing charges are above the average, although there is no performance fee. In spite of having performed broadly in line with the peer group mean over most time periods shown, Hansa Trust trades at the widest discount to NAV by some margin, which may be attributable to its somewhat unusual structure. The trust's dividend yield is a little above the peer group average.

Exhibit 11: Selected peer group as at 8 July 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Hansa Trust A	**157.6**	**4.8**	**37.3**	**22.0**	**124.3**	**1.3**	**No**	**(31.7)**	**100**	**1.6**
Hansa Trust Ord	**79.2**	**4.8**	**37.3**	**22.0**	**124.3**	**1.3**	**No**	**(31.0)**	**100**	**1.6**
AVI Global Trust	856.2	7.5	55.6	64.2	172.4	0.9	No	(10.2)	104	1.7
Caledonia Investments	1,708.0	10.8	33.7	64.1	177.4	0.9	No	(14.9)	100	1.9
Capital Gearing	373.2	7.1	22.6	38.7	112.0	0.7	No	2.2	100	0.5
Henderson Alternative Strategies Trust	111.0	4.0	29.7	27.9	41.3	0.9	No	(17.3)	100	1.7
RIT Capital Partners	3,262.4	3.7	22.0	48.8	146.2	0.7	Yes	10.9	112	1.6
Ruffer Investment Company	398.6	0.4	10.1	18.0	72.6	1.2	No	(2.8)	100	0.8
Witan	1,917.6	6.0	45.3	73.1	259.7	0.8	Yes	(3.2)	109	2.3
Peer group average (9 funds)	**984.9**	**5.5**	**32.6**	**42.1**	**136.7**	**1.0**		**(10.9)**	**103**	**1.5**
HANA rank in peer group	**7**	**5**	**3**	**7**	**5**	**1**		**9**	**4**	**5=**

Source: Morningstar, Edison Investment Research. Note: *Performance to 5 July 2019 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

There are five directors on the current board of Hansa Trust, four of whom are considered independent of the manager. Alex Hammond-Chambers joined the board in 2002 and has served as chairman since 2004. The longest-serving director, Geoffrey Wood, was appointed in 1997. Jonathan Davie, chairman of the audit committee, and Raymond (Lord) Oxford both joined the board in 2013. William Salomon was appointed in 1999 and is deemed non-independent owing to his roles as the senior partner of Hansa Capital Partners and deputy chairman of Ocean Wilsons Holdings and Wilson Sons. The directors have professional backgrounds in investment management, academia (economics) and the diplomatic service. The proposed board of New Hansa will retain Davie (as chairman) and Salomon from the current board; they will be joined by three new directors (see Recent developments).

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