

# Hansa Trust

Long-term view, flexible approach, wide discount

Hansa Trust's long-term, endowment-style approach to investing means it tends to have a bias towards equities, which on an underlying basis currently account for c 90% of the portfolio. Within this, the portfolio is differentiated through its access to funds not typically available to the retail market, its focus on UK special situations and a significant indirect holding in Wilson Sons, a quoted Brazilian maritime services business. The manager also has the ability to allocate to uncorrelated assets as the market cycle matures. The discount has narrowed modestly over the last year to c 21%, or 29% on a look-through basis, but there is still ample scope for this to contract further.

12 months ending	Share price	NAV	Absolute benchmark	FTSE All-Share	Bovespa
30/11/11	(8.6)	(2.6)	3.3	2.6	(20.6)
30/11/12	(12.5)	(5.0)	2.7	12.1	(15.2)
30/11/13	23.6	16.0	2.3	19.8	(19.3)
30/11/14	15.5	5.1	2.2	4.7	(1.3)

Note: All total return in % and in sterling terms.

## Investment strategy: New broader approach

The trust has broadened its investment strategy and now expects to allocate roughly equally between four silos: UK Equity Special Situations; Strategic (Wilson Sons); Eclectic and Diversifying assets (funds); and Core Regional funds. The investment approach disregards equity index weightings, is fundamentally based, long term and high conviction. A framework of asset class valuation measures and indicators is used to help provide a consistent basis for decision making. The manager believes long-term strategic allocations should be driven by valuation, while tactical adjustments will be made depending on a view of the economy's position in the business cycle.

Hansa Capital Partners is the family office of the Salomon family, whose trusts have a total holding of 52.3% in the ordinary voting shares of Hansa Trust. This means there is an alignment of interest between portfolio manager and shareholders, while the network and experience of the manager give access to third-party managers that would not generally be available to individual investors. There is also a natural emphasis on long-term wealth preservation, hence the equity bias.

## Outlook: Multi-asset capability adds flexibility

Equity markets have continued to make progress this year despite being challenged by both macroeconomic and geopolitical uncertainties. Risks persist on both fronts, but economic progress in the US in particular has been maintained and equity market valuations have arguably yet to reach a level that would itself prompt a major setback. A fund with Hansa's flexibility to allocate away from equities and long-term approach may represent an appealing option in these circumstances.

## Valuation: Scope for persistent discount to narrow

While the discount to NAV has narrowed to some extent, there is still significant potential for a further narrowing given the A shares trade on a c 21% discount, which is only slightly below the three-year average of 25.5%. On a look-through basis (see page 6) the discount is c 29%.

## Investment trusts

19 December 2014

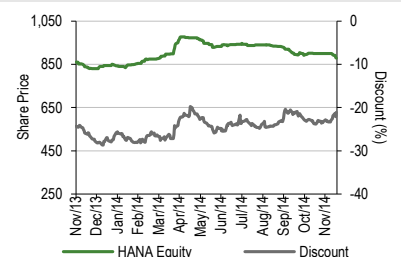
Price Ord	965p
Price A share	879p
Market cap	£218m
AUM	£269m

NAV*	1,105.41p
Discount to NAV (A shares)	20.5%
NAV**	1,114.28p
Discount to NAV (A shares)	21.1%
Yield	2.0%

\*Excluding income. \*\*Including income. NAV 17 December 2014.

Ord. voting shares in issue	8m
A shares in issue	16m
Code Ord/A shares	HAN/HANA
Primary exchange	LSE
AIC sector	Global

## Share price/discount performance\*



## Five-year cumulative perf. graph



52-week high/low	978p	831p
NAV* high/low	1,264.5p	1,114.3p

\*Including income.

## Gearing

Gross	0%
Net gearing	1%

## Analysts

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[Edison profile page](#)

**Exhibit 1: Trust at a glance**
**Investment objective and fund background**

Hansa Trust seeks to achieve growth of shareholder value through investing in a combination of quoted and unquoted special situations together with exposure to asset classes and geographies, primarily through investment in third-party managed funds. The Salomon family trusts have a majority holding in the ordinary (voting) shares of 52.3% and also exercise influence over the largest investment, Ocean Wilsons, through holdings collectively giving a shareholding of over 50%. Ocean Wilsons in turn owns 58.25% of Wilson Sons, a quoted Brazilian marine services company. Both Hansa Trust and Ocean Wilsons are run with a long-term view. The trust has an absolute benchmark: the rolling three-year average of a five-year UK government bond plus 2%, including interest invested semi-annually.

**Recent developments**

20 November: Half-yearly results to end September. NAV total return +1% versus benchmark +1.6%. Interim dividend 8p.

22 April 2014: Strategic update announced with the board deciding to broaden strategy intending to allocate the portfolio roughly evenly between four silos.

**Forthcoming**

AGM	July 2015
Preliminary results	June 2015
Year end	31 March
Dividends paid	November, May
Launch date	1912
Continuation vote	No

**Capital structure and fees**

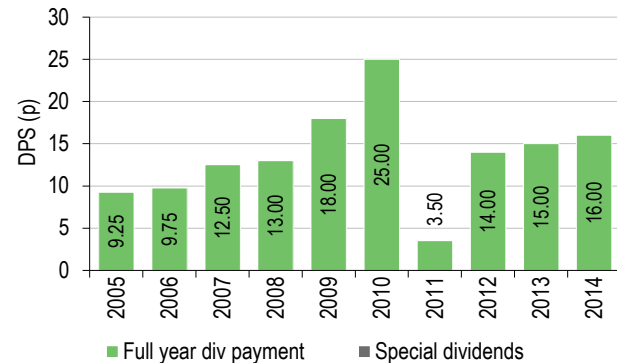
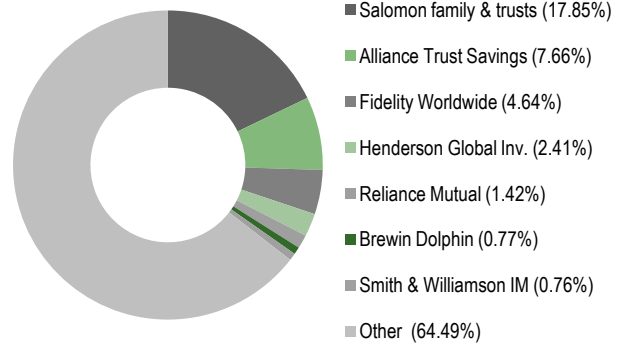
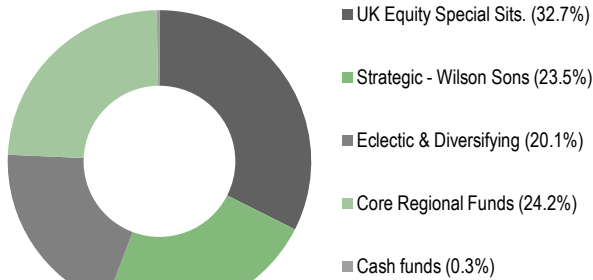
Ongoing charge	0.9%
Net cash	4%
Annual mgmt fee	1% of NAV ex Ocean Wilsons
Performance fee	None
Trust life	Indefinite
Loans, facilities	£30m facility

**Fund details**

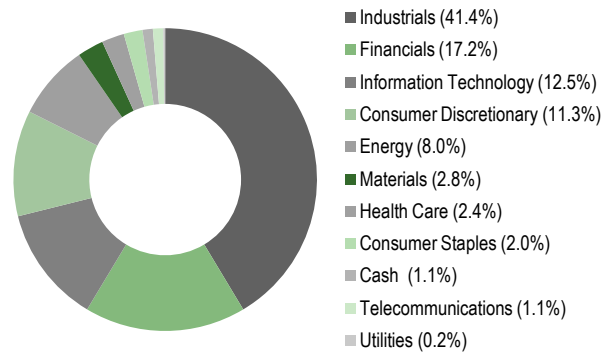
Group	Hanseatic Asset Management LBG
Manager	Hansa Capital Partners
Address	50 Curzon Street, London, W1J 7UW
Phone	+44 (0) 20 7647 5750
Website	<a href="http://www.hansatrust.com">www.hansatrust.com</a>

**Dividend policy and history**

The company aims to grow dividends over the long term, paying out earnings meaning that dividends can fluctuate, as in 2011.


**Shareholder base (Ordinary and A non-voting Ord. as at 30 Nov 2014)**

**Hansa Trust portfolio by silo (as at 30 November 2014)**


Note: Commitments & financing -0.8%

**Hansa Trust portfolio by sector**

**Top 10 holdings in Hansa Trust portfolio**

Company	Country/ domicile	Sector	Industry	Portfolio weight %	
				30 November 2014	30 November 2013*
Ocean Wilsons Holding	Bermuda	Industrials	Transportation and logistics	34.9	35.0
Findlay Park American Fund	US	US equity fund		4.3	N/A
NCC Group	London	Technology	Software	3.8	4.6
GAM Star Technology	Ireland	Technology sector fund		3.4	N/A
DV4	London	Financials	Unquoted property fund	3.3	N/A
Vulcan Value Equity Fund	US	US equity fund		2.8	N/A
Select Equity Offshore	US	US equity fund		2.7	N/A
Hansteen Holdings	London	Financials	REIT	2.6	3.0
Adelphi European Select Equity	London	European equity fund		2.6	N/A
JOHCM Japan Fund	London	Japanese equity fund		2.6	N/A
<b>Top 10 companies</b>				<b>63.1</b>	<b>66.9</b>

Source: Hansa Trust, Bloomberg, Edison Investment Research. Note: \*Top 10 table – where N/A shown for 2013, not in top 10.

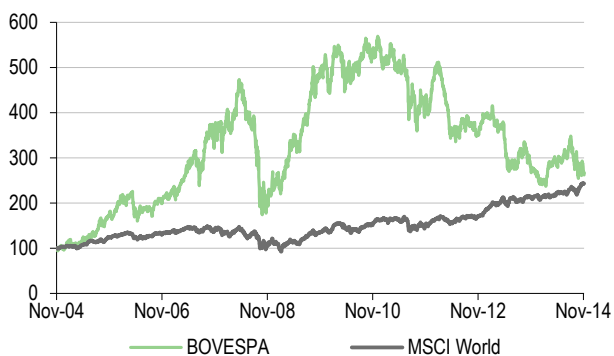
## Market outlook: Markets could still climb despite risks

Hansa Trust has three main geographical portfolio exposures: the UK, just below 40%; Latin America, 25%; and North America, approaching 20%. The majority of the portfolio investments (c 90%) are in quoted equities on an underlying basis, either held directly or through third-party funds. Given the wide economic exposure of the portfolio companies themselves this means the trust has a diversified macroeconomic exposure, albeit through a differentiated portfolio.

In the face of concerns over geopolitical developments and softening economic growth expectations, global equity markets have continued to make progress this year, with the MSCI World market index recording a total return of over 12% to the end of November. Within this the Brazilian market has been weak (-1.7%) reflecting a muted economic outlook and the re-election of Dilma Rousseff as president. These moves (see Exhibit 2) have left some developed market forward P/Es above their 10-year averages; emerging markets, though less so Brazil, are more modestly valued (Exhibit 3). Prospectively, although GDP estimates have been reduced, there is still an expectation that global growth will continue to improve and monetary policy is either being set to avoid derailing this or to support growth. In this context, while there are risks, there is scope for markets to make further progress.

Against this backdrop, Hansa's anti-benchmark, absolute return approach, and its ability to switch allocations between different asset classes, could appeal to investors, particularly when available at a relatively wide discount.

**Exhibit 2: World and Brazilian equity indices**



Source: Thomson Datastream. Note: Total return £ terms.

**Exhibit 3: Selected valuation measures**

P/E (forward)	Last	High	Low	10-year average	Last % of average
World	13.8	15.1	8.8	12.9	107%
UK	13.4	14.2	7.4	11.6	116%
US	16.0	16.7	9.3	14.1	114%
Brazil	10.8	13.3	6.1	10.2	106%
Emerging markets	10.4	15.6	7.7	11.3	92%
<b>Price to book</b>					
World	2.1	2.5	1.1	1.9	111%
UK	1.9	2.7	1.2	2.0	95%
US	2.9	3.1	1.3	2.4	122%
Latam	2.1	2.7	1.4	2.1	103%
Emerging markets	1.8	2.8	1.1	1.9	98%

Source: Thomson Datastream as at 5 December 2014

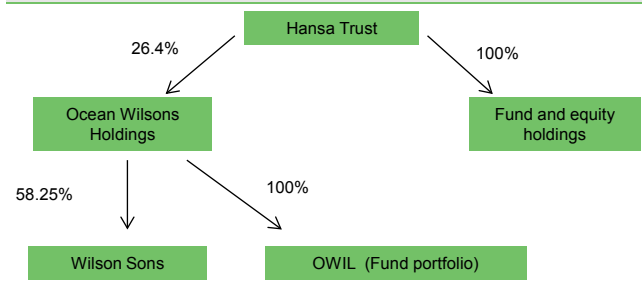
## Fund profile: Differentiated multi-asset approach

Launched in 1912, Hansa Trust has Salomon family trusts as majority, 52.3%, shareholders of the ordinary voting shares (these account for 8m out of a total of 24m shares in issue). In 2003 the trust adopted an absolute benchmark and put the whole of the investment process under the management of Hansa Capital Partners. The investment approach is characterised by a long-term view, investment in core regional and diversifying funds that would not otherwise be easy for individual investors to access, a portfolio of special situation UK equities and a significant exposure to one investment, Ocean Wilsons<sup>1</sup> (and hence, indirectly, Wilson Sons, a quoted Brazilian maritime services company). Portfolio allocation is moving towards approximately 25% in each of four silos: Strategic (Wilson Sons), UK Equity Special Situations, Eclectic and Diversifying assets, and Core Regional funds. The evolution in approach has broadened the asset class and

<sup>1</sup> Further discussion of Ocean Wilsons Holdings and Wilson Sons can be found in the Edison research notes [Oceans of potential](#), published on 31 January 2014, and [Higher cash flow drives increased payout](#), published on 14 May 2014.

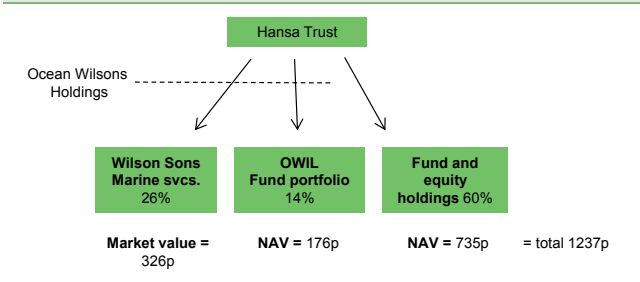
geographical exposure of the trust and included a greater emphasis on consistency of process. The absolute, rather than equity index, benchmark reflects a focus on wealth protection/creation. The benchmark used is the rolling three-year average of a five-year UK government bond plus 2% (including interest earned semi-annually). Exhibits 4 and 5 set out the ownership structure of Hansa Trust/Ocean Wilsons and an indication of the current underlying NAV exposures. The Ocean Wilsons fund portfolio (OWIL), accounting for c 14% underlying NAV, is managed with a long-term outlook and a bias towards global and emerging market equities and private assets. It is categorised in Hansa Trust's Eclectic and Diversifying silo.

**Exhibit 4: Hansa asset ownership structure**



Source: Edison Investment Research

**Exhibit 5: Hansa Trust look-through NAV exposure**



Source: Edison Investment Research. Note: % figures based on look-through values. OWIL based on end-October 2014 value.

## Fund manager view: Reallocation largely in place

Hansa Capital Partners' CIO Alec Letchfield highlights that the April 2014 decision to broaden the portfolio allocation has now been largely implemented. This envisages a roughly even split between the four silos. The UK special situation equities portion still accounts for just over 30% of the total, but this represents a significant reallocation from the 54% exposure in March 2014 and, over time, the manager expects a further reduction.

From a macro perspective, Letchfield believes the background for the equity market remains positive, with economic growth in the US and UK looking quite well established and central banks taking a measured approach to monetary policy normalisation. Volatility may rise, but as long-term investors Hansa Capital Partners' management would be inclined to look through this. While equity valuations in the main developed markets have moved up to higher levels, Letchfield does not see this as an immediate warning. He believes valuations are more of a driver of markets near high or low points in the cycle and sees the current position as maturing but not yet close to the end of the cycle.

Although still positive on equity markets, the manager, with an eye on the future, is starting to consider uncorrelated investments to help protect against a future downturn. Letchfield acknowledges the difficulty of identifying where to go. He agrees with the general observation that government bonds look very expensive on historical comparison while private equity valuations have also become more expensive. The manager is looking more actively at genuinely differentiated macro funds. There is a risk here that managers who deliver seemingly uncorrelated returns still suffer in the event of a major correction. However, the experience of the Hansa Capital Partners team and its access to a range of funds not generally available should help in this search.

Following the disposal of most of the large-cap names in the UK equity portfolio, managed by John Alexander, this is now largely a selection of special situations. Among these are NCC Group (provider of escrow, assurance and domain services), which is held for its double-digit revenue growth, decent visibility and good cash flow; Great Portland Estates, where a successful development track record, harvesting of cyclical gains and rental growth in London's West End are attractions; and Goals Soccer Centres, which is serving the fast-growing five-a-side soccer market

and stands to benefit from adding to its 44 centres and the launch of its own app to improve usage and average spend, helping boost returns on capital.

## Asset allocation

### Investment process: Long-term, multi-asset perspective

Hansa Capital Partners follows an investment process based on a number of core beliefs/characteristics: a focus on long-term returns, a belief in fundamental analysis, conviction investing (not over-diversifying), exclusivity (relating to fund holdings, which are not generally available to retail investors), benchmark unaware, alignment (directors and investment managers invested alongside other shareholders) and a global, multi-asset class view.

Implementation follows a disciplined approach from asset allocation through equity and fund selection to portfolio construction. The long-term investment horizon means there is a natural bias to equities, but strategic allocations are driven by valuations and tactical positions by the business cycle, with a willingness to move between asset classes as these change.

UK equity selection is typically of special situations and outside the mega-cap stocks. For the core regional fund investments the manager seeks to identify third-party managers capable of providing compound growth over many periods taking into account a range of factors including performance, manager experience, process, fund structure, fees, liquidity and key man risk. The manager also looks out for differentiated investments that may include sector funds giving specific exposure, undervalued investment trusts and non-correlated investments such as macro funds or real assets.

### Current and pro forma portfolio positioning

The end-October portfolio by silo is illustrated in the third column in Exhibit 6, with UK Equity Special Situations (33.3%) now sharply reduced from the March level of 54.1% and the broadening in strategy also evident in the increase in Core Regional funds to 23.5%. As already highlighted, under the new strategy each silo (excluding cash funds) will account for broadly a quarter of the portfolio; while not entirely in line with this allocation the portfolio is much closer and additions to the Eclectic and Diversifying segment over time are likely. The sector and geographical analyses highlight the influence of Wilson Sons on the sector prominence of industrials and the contribution from Latin America geographically.

**Exhibit 6: Portfolio analysis by sector, geography and investment silo (30 November except where shown)**

Sector	%	Geography	%	By Silo	%	By Silo 31 March 2014	%
Industrials	41.4	UK	38.9	UK Equity Special Sits.	32.7	UK Equity Special Sits.	54.1
Financials	17.2	Latin America	25.2	Strategic – Wilson Sons	23.5	Strategic – Wilson Sons	24.3
Information Technology	12.5	North America	18.6	Eclectic & Diversifying	20.1	Eclectic & Diversifying	15.4
Consumer Discretionary	11.3	Asia Pacific	6.5	Core Regional Funds	24.2	Core Regional Funds	7.4
Energy	8.0	Japan	4.8	Cash funds	0.3	Cash funds	4.6
Materials	2.8	Developed Europe	4.3	Commitments/financing	-0.8	Commitments/financing	-5.7
Healthcare	2.4	Middle East & Africa	1.1				
Consumer Staples	2.0	Emerging Europe	0.5				
Cash	1.1	Other	0.1				
Telecommunications	1.1						
Utilities	0.2						
	<b>100.0</b>		<b>100.0</b>		<b>100.0</b>		<b>100.0</b>

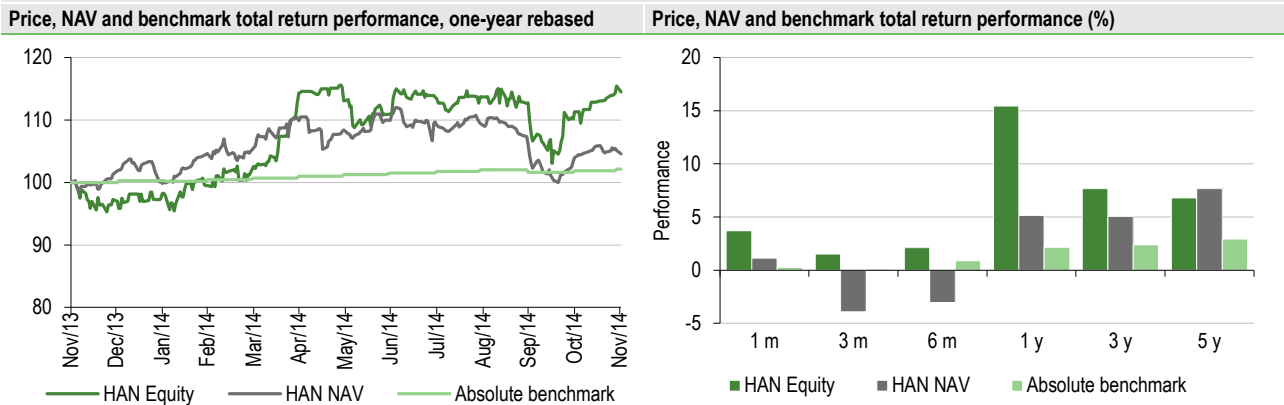
Source: Hansa Trust. Note: Eclectic & Diversifying includes Ocean Wilsons Investments with a weighting of just below 11%. Rounding differences mean totals may not reconcile.

### Performance: Long-term benchmark outperformance

The Trust's NAV total return performance has been ahead of its absolute benchmark over one, three, five and 10 years. The NAV has kept pace with the FTSE All-Share over one year and, while

it has lagged over three and five years, it has outperformed over 10 years. It has also outperformed the MSCI World Index over 10 years, but lagged more markedly over shorter periods, probably reflecting the weighting to the UK and Brazil (via the indirect holding in Wilson Sons) rather than the more buoyant US equity market.

### Exhibit 7: Investment trust performance



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

### Exhibit 8: Share price and NAV total return relative performance (geometric calculation)

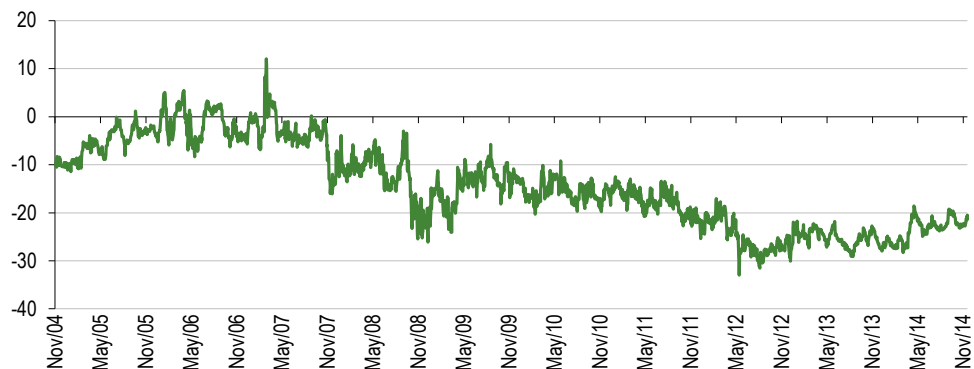
	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Absolute benchmark	1.4	1.2	13.0	16.3	20.4	64.4
NAV relative to Absolute benchmark	(4.0)	(3.9)	2.9	8.0	25.3	74.1
Price relative to FTSE All Sh £	2.2	2.2	10.3	(11.2)	(13.6)	16.5
NAV relative to FTSE All Sh £	(3.3)	(3.0)	0.4	(17.6)	(10.0)	23.4
Price relative to Bovespa £	23.6	2.6	17.0	84.9	140.0	(9.7)
NAV relative to Bovespa £	16.9	(2.5)	6.5	71.7	149.9	(4.4)
Price relative to MSCI World £	(4.3)	(6.9)	0.8	(21.8)	(23.2)	3.6
NAV relative to MSCI World £	(9.4)	(11.6)	(8.2)	(27.4)	(20.1)	9.7

Source: Thomson Datastream, Hansa Trust, Edison Investment Research. Note: To end November 2014, cumulative performance.

## Discount: Narrower, but still wide

The board's discount policy is based on ensuring the company has an investment policy that is likely to produce above-average returns over the long term and promoting the company so as to encourage demand for the shares. The board is empowered to buy back shares under certain circumstances but will do so only when it is advantageous to all shareholders and does not prejudice the make-up of the portfolio; it would not seek to minimise the discount by operating a buyback programme.

### Exhibit 9: Discount over 10 years (NAV ex-income)



Source: Datastream, Edison Investment Research. Note: Negative values indicate a discount.

In addition to the discount to stated NAV, investors are likely to consider the level of discount to the look-through NAV (this includes the market value of Wilson Sons and the NAV of the OWIL portfolio rather than the market price of Ocean Wilsons). Currently, the look-through discount is c 29% for the A shares versus a stated cum-income NAV discount of 21%. This compares with 34% and 25% respectively when we published our initiation note [Patient investor, wide discount](#) on Hansa Trust on 8 October 2013. Given Wilson Sons' long-term record of outperforming the Bovespa index and the possibility that the Brazilian market has already factored in lower expectations following Rousseff's re-election, both stated and look-through discounts could well narrow further.

## Capital structure and fees

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Hansa Trust has 8m ordinary shares and 16m 'A' non-voting shares and is authorised to repurchase up to 14.99% of its A non-voting ordinary shares. The trust may employ gearing and has a borrowing facility of £30m, which has not been drawn on significantly in recent periods. The trust has an unlimited life.

Hansa Trust pays a flat portfolio management fee of 1% per year of the NAV, excluding the value of Ocean Wilsons. There is no performance fee. The ongoing charge for the last financial year was 0.9%.

## Dividend policy

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Following the adoption of the revised investment strategy, the Hansa Trust portfolio includes increased fund holdings, some of which may earn but not distribute dividends suggesting a potential reduction in cash income. This may be offset in whole or in part by the fact that Wilson Sons has completed a large investment cycle and has increased its dividend payout ratio from 25% to 50% of earnings, which feeds through to the Ocean Wilsons dividend (Ocean Wilsons pays out the full dividend it receives from Wilson Sons plus a percentage of the assets employed in the investment portfolio).

The company has previously paid out most of its earnings as dividends, which means that payments fluctuated according to income. The board has said it wishes to provide greater certainty by declaring annually a minimum level of dividend the company expects to pay by way of two interim dividends. This year, an 8p first interim has been paid at the end of November and the company expects to pay a second 8p interim dividend in May 2015. In some circumstances an extra, final dividend may be paid. The company aims to increase dividends over the long term, is prepared to look through near-term cash income shortfalls and has shareholders' approval to pay dividends from capital reserves.

## Peer group comparison

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Hansa's absolute mandate, its strategic holding in Wilson Sons and its broad asset allocation approach mean any comparison of Hansa Trust with other investment companies in its Global AIC category must be qualified. In Exhibit 10 we have selected trusts with absolute/real growth/multi-manager approaches from the Global sector and show, for reference, the average for the whole Global sector. Over the one-, three- and five-year periods Hansa has underperformed both the averages for the selected comparators and the Global sector, but is ahead over 10 years.

As noted earlier, the discount has narrowed noticeably over the last year, but at over 15% it is the widest among the selected list and significantly above the average. This could be attributed to the majority holding of the Salomon family in the ordinary shares, the exposure to Brazil, which is currently out of favour, and the unusual makeup of the portfolio. Against this is the strong alignment

of interests between the family and other shareholders, while the broadening in the investment approach may be beginning to widen the appeal of the shares holding out the prospect of a further significant narrowing of the discount.

#### Exhibit 10: Hansa Trust peer group comparisons

	Mkt cap £m	NAV TR 1 Year	NAV TR 3 Years	NAV TR 5 Years	NAV TR 10 Years	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (cum fair)	Ongoing Charge	Perf Fee	Net Gearing	Yield (%)
British Empire Securities	716.2	6.1	36.3	40.1	133.0	0.3	0.8	-10.1	0.9	No	100	2.0
EP Global Opportunities	107.9	1.5	48.7	45.1	137.5	0.4	1.3	-2.2	1.0	No	93	1.2
Establishment Inv Trust	36.4	3.7	19.2	35.3	122.7		0.6	-15.0	1.3	Yes	85	2.6
<b>Hansa Trust</b>	<b>228.5</b>	<b>1.0</b>	<b>14.1</b>	<b>39.6</b>	<b>149.8</b>	<b>0.6</b>	<b>0.2</b>	<b>-15.5</b>	<b>1.0</b>	<b>No</b>	<b>101</b>	<b>1.7</b>
Independent	167.0	8.8	50.7	71.0	130.6	0.7	1.1	-5.4	0.4	No	93	1.7
Lindsell Train	76.0	13.5	64.6	106.1	252.3	1.5	1.9	9.4	1.1	Yes	102	1.8
Personal Assets	598.5	6.1	8.9	36.5	85.5	0.0	0.4	1.5	0.9	No	77	1.6
RIT Capital Partners	2185.8	6.2	31.8	43.8	134.6	1.5	1.3	-1.1	1.3	Yes	121	2.1
Ruffer Investment Co.	327.3	1.6	14.3	33.6	134.7	-0.6	0.7	0.8	1.2	No	93	1.6
Witan	1408.5	6.8	59.0	68.8	145.4	0.7	1.3	1.6	0.7	Yes	112	2.1
<b>Selected average</b>	<b>585.2</b>	<b>5.5</b>	<b>34.8</b>	<b>52.0</b>	<b>142.6</b>	<b>0.6</b>	<b>0.9</b>	<b>-3.6</b>	<b>1.0</b>		<b>98</b>	<b>1.8</b>
<b>Global sector average</b>	<b>545.2</b>	<b>5.9</b>	<b>40.1</b>	<b>55.1</b>	<b>136.5</b>	<b>0.5</b>	<b>0.9</b>	<b>-6.0</b>	<b>1.0</b>		<b>101</b>	<b>1.8</b>

Source: Morningstar. Notes: TR=total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show 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/cash equivalents as a percentage of shareholders' funds. As at 18 December 2014.

## The board

The board comprises five directors, all non-executive and, with the exception of William Salomon, independent of the manager. With year of appointment to the board in brackets, they are Alex Hammond-Chambers (chairman, 2002), William Salomon (the senior partner of Hansa Capital Partners LLP: the investment manager and company secretary), Jonathan Davie (2013), Lord Oxford (2013) and Geoffrey Wood (1997).

While William Salomon is a director of both Ocean Wilsons and its subsidiary Wilson Sons, the board takes care to fulfil its responsibility for independent oversight of the significant investment in Ocean Wilsons. To facilitate this it visits Wilson Sons' facilities in Brazil every two or three years, gaining a better insight into the prospects and market background for the company. The board has reported (in the interim report) that, following its latest visit in September, it came away encouraged about the company's longer-term prospects.

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