EDISON

Lazard World Trust Fund

Global opportunities with new 6% dividend policy

Investment companies

Lazard World Trust Fund (WTR) is differentiated from the majority of peers by its focus on discounted assets. Its portfolio is a blend of closed-end funds, investment trusts and holding companies that trade at a discount to the value of their assets, and in particular those where the underlying assets are also undervalued. Manager Kun Deng and his Discounted Assets team at Lazard Asset Management are focused on opportunities wherever they arise, with a longstanding bias to Asian and emerging markets. A key part of the WTR strategy is to engage with the underlying holdings to help unlock value through initiatives such as higher dividend policies, and in the spirit of 'practising what they preach', the fund has announced a new 6% annual distribution, paid quarterly, which will make it one of the highest-yielding equity-focused investment companies.

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI AC World ex-USA (%)	Dividends declared (p)
31/05/14	(5.2)	(1.7)	6.4	4.0	0.0
31/05/15	27.2	27.5	16.1	9.4	0.5
31/05/16	(10.1)	(7.5)	(0.3)	(6.7)	3.9
31/05/17	43.8	37.9	33.2	33.9	10.5
31/05/18	16.3	5.5	9.1	6.9	18.085

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

Investment strategy: Focus on unlocking value

WTR invests actively in a portfolio of actively managed closed-end funds (CEFs), investment trusts and holding companies from around the world. The management team at Lazard Asset Management employs a four-stage process to identifying potential investments: screening the investment universe, undertaking macro and fundamental analysis, and identifying catalysts for revaluation. The team engages actively with holdings to help unlock the hidden value in the portfolio.

Market outlook: Tread carefully amid volatility

After a period of volatility earlier in 2018, global markets have largely resumed their upward trajectory. However, risks remain at the macro level, with new threats to EU integrity from political turmoil in Italy, continued uncertainty over relations between the US and both China and North Korea, and valuations in many markets still close to multi-year highs. Against such a backdrop, investors may wish to consider a strategy that focuses on accessing growth opportunities as cheaply as possible.

Valuation: Underlying discount opportunity remains

At 13 June 2018, WTR's shares traded at a 3.3% discount to cum-income NAV. This was narrower than both short- and long-term average discounts (7.8% over one year and c 11.5% over three, five and 10 years) and has the potential to narrow further with the introduction of the new 6% distribution policy. Applying the current WTR discount to the underlying portfolio discount of 24.8% at 30 April gives a 'double discount' of 27.3%, meaning each £1 invested buys exposure to £1.38 of assets.

15 June 2018

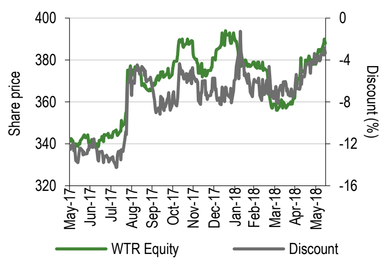
Price	**388.0p**
Market cap	**£141.2m**
AUM	**£145.4m**

NAV*	401.1p
Discount to NAV	3.3%

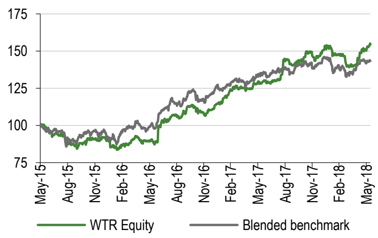
*Including income. As at 13 June 2018.

Yield (12m forward)	5.9%
Ordinary shares in issue	35.7m
Code	WTR
Primary exchange	LSE
AIC sector	Global
Benchmark	MSCI AC World ex-USA

Share price/discount performance



Three-year performance vs index



52-week high/low	394.0p	338.5p
NAV** high/low	424.2p	381.0p

**Including income.

Gearing

Gross*	0.0%
Net cash*	1.9%

*As at 30 April 2018.

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Edison profile page

Lazard World Trust Fund is a research client of Edison Investment Research Limited

Exhibit 1: Fund at a glance

Investment objective and fund background

Lazard World Trust Fund (formerly The World Trust Fund) seeks to achieve long-term capital appreciation by investing primarily in companies whose shares trade at a discount to their underlying net asset value. The fund measures its performance against the MSCI AC World ex-USA index (since 1 April 2017), although the manager seeks to achieve the highest possible risk-adjusted returns, and asset allocation will normally diverge substantially from the index.

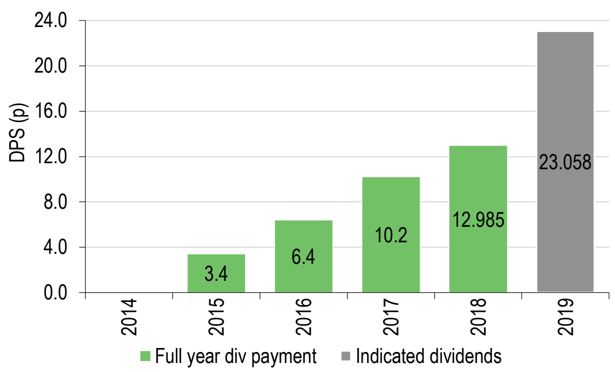
Recent developments

- 27 April 2018: Revised dividend policy, under which 6.0% of previous year-end NAV (previously 3.5%) will be paid out, quarterly rather than semi-annually, with effect from 1 April 2018 (FY19). Second dividend of 6.4925p (under the old policy) announced in respect of FY18.
- 5 December 2017: Results for the half-year ended 30 September. NAV TR +14.2% in USD and +6.4% in GBP, versus +12.3% and +4.7% for MSCI AC World ex-USA. Share price TR +22.0% in USD and +14.0% in GBP.

Forthcoming		Capital structure		Fund details	
AGM	September 2018	Ongoing charges	1.3% (31 March 2017)	Group	Lazard Asset Management
Annual results	July 2018	Net cash	1.9% (30 April 2018)	Manager	Kun Deng
Year end	31 March	Annual mgmt fee	0.75% of NAV	Address	30 Rockefeller Plaza, New York, NY10112, US
Dividend paid	Quarterly from FY19	Performance fee	See page 7		
Launch date	1991	Trust life	Indefinite, subject to vote	Phone	+1 212 632 6000
Continuation vote	Annual	Loan facilities	$25m with Citibank	Website	www.lazardworldtrustfund.com

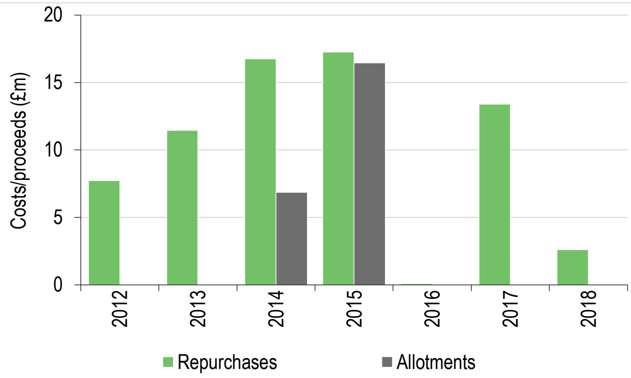
Dividend policy and history (financial years)

No dividends paid until FY15. For FY15 and FY16, the policy was to pay out substantially all of net income. For FY17 and FY18, a distribution of 3.5% of NAV at the end of the financial year was paid in two instalments (January and August). From FY19 (beginning 1 April 2018), the distribution has been increased to 6.0% of NAV at the start of the year and will be paid quarterly.

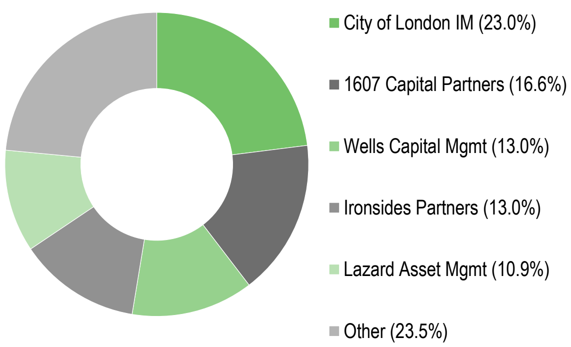


Share buyback policy and history (financial years)

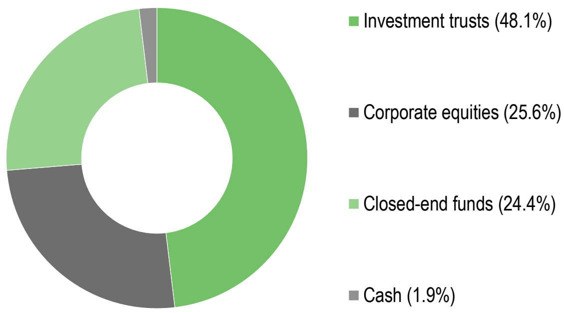
WTR is authorised to buy back up to 14.99% of its ordinary shares. The chart below includes buybacks via tender offers and issuance through exercise of warrants, the last of which were exercised at the start of FY15.



Shareholder base (as at 1 May 2018)



Portfolio exposure by company type (as at 30 April 2018)



Top 10 holdings (as at 30 April 2018)

		30 April 2018		30 April 2017	
Company	**Asset exposure**	**Portfolio weight %**	**Discount to NAV %**	**Portfolio weight %**	**Discount to NAV %**
Altaba	Global	6.2	32.4	N/A	N/A
Fidelity China Special Situations	China	6.1	11.8	5.7	12.9
JPMorgan Japanese	Japan	5.6	9.4	4.4	12.0
JPMorgan Japan Smaller Companies	Japan	5.2	13.0	4.2	13.9
VinaCapital Vietnam Opportunity Fund	Vietnam	4.9	17.5	4.3	20.7
JPMorgan Emerging Markets	Global	4.8	11.8	4.3	11.6
Morgan Stanley China A Shares	China	4.8	13.9	N/A	N/A
Fondul Proprietatea	Romania	4.5	28.2	N/A	N/A
Investor AB	Nordics	4.5	25.1	N/A	N/A
Naspers Ltd	Global	4.4	38.8	7.0	26.5
Top 10 (% of portfolio)/average discount of top 10		**51.0**	**20.2**	**48.7**	**20.7**

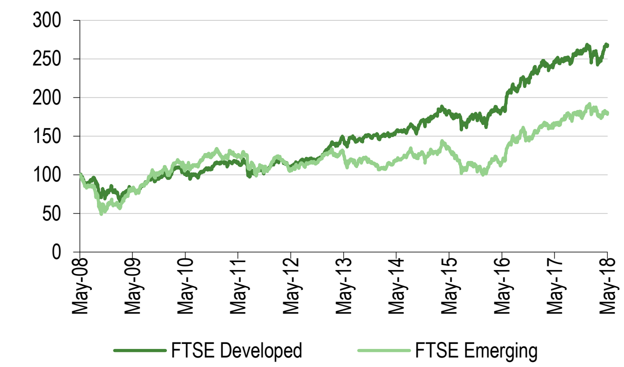
Source: Lazard World Trust Fund, Edison Investment Research, Bloomberg, Morningstar. Note: N/A where not in 30 April 2017 top 10.

Market outlook: Time for an emerging renaissance?

Global equity markets have performed strongly in the years since the financial crisis, and particularly so in the past two years, with the main US and UK indices hitting multiple all-time highs. While the recent spell of volatility may have brought 12-month forward P/E valuations back from extremely elevated levels, in aggregate they remain above long-term averages (Exhibit 2, right-hand table). However, while the US has led the global recovery, emerging markets – which arguably display better fundamentals, based on rising domestic demand and positive demographic factors – have lagged (left-hand chart). Against such a backdrop, a strategy that focuses on accessing emerging market growth at discounted prices could find favour with investors.

Exhibit 2: Market performance and valuation

Developed vs emerging market equities over 10 years



12-month forward P/E ratios (x, as at 1 June 2018)

	Last	High	Low	10-year average	Last as % of average
World	14.9	16.2	8.8	13.2	112
Developed	15.4	16.9	9.0	13.7	112
Emerging	12.5	13.5	7.8	11.3	111

Source: Thomson Datastream, Edison Investment Research. Total returns in sterling. Note: Valuations using Datastream indices.

Fund profile: Discounted assets with new 6% dividend

WTR was launched in 1991 as The World Trust Fund, taking on its current name in May 2016. It is incorporated in Luxembourg, listed on the London Stock Exchange and managed by the New York-based Discounted Assets team at Lazard Asset Management. Its shares are denominated in sterling and its financial reports are in US dollars and sterling. The fund aims to achieve capital growth from a portfolio of CEFs and holding companies that the managers believe are trading at unjustifiably wide discounts to the value of their underlying assets, and where the assets themselves are also undervalued. It has a particular focus on Asian and emerging markets, and uses the MSCI AC World ex-USA index as a benchmark, reflecting its general lack of US exposure. Having begun paying dividends in 2014, WTR adopted a higher distribution policy in 2016, whereby it paid out 3.0% of its year-end NAV in two instalments. This has recently been revised to 6.0% paid quarterly (the first tranche payable in August 2018), which the board and managers hope will help the strategy stand out in a rising interest rate environment.

The fund manager: Kun Deng

The manager's view: Practise what we preach

WTR's management team has a long-standing bias towards funds or companies investing in emerging rather than developed markets. This is partly informed by the pace of change in developing markets, where the greater growth opportunities are likely to be less well understood by mainstream investors, leading to valuation anomalies. However, even where investors are 'up with events' – as seen in the rapid growth of Chinese internet companies such as Tencent and Alibaba – WTR's strategy has allowed it to gain exposure at a discount through holding companies such as

Naspers, which has a large stake in Tencent; **Altaba**, a Yahoo! spinout with a significant investment in Alibaba; and Fidelity China Special Situations. Deng points out that while Altaba (currently WTR's largest holding) still trades at a large discount to the value of its stake in Alibaba, the main purpose of spinning it out of Yahoo! was to eliminate this discount as fast as possible, so there could be significant near-term upside in the Altaba share price. Altaba's discount widened by 500bp in the market volatility earlier in 2018, providing an opportunity for Deng to add to the holding.

The fund also has exposure to China through **Morgan Stanley China A Share**, a US CEF. While the team sees little attraction in investing in the domestic US stock market, which is currently highly valued, holding US CEFs is a good way to keep up a flow of income into the WTR portfolio, as CEFs must pay out 90% of their investment income and 98% of realised gains to shareholders. The flow of income and capital distributions from these funds is an important support for WTR's own higher distribution policy. Deng says that having spent the past five years encouraging WTR's portfolio holdings to introduce or increase distributions to create shareholder value, it made sense for the fund itself to follow suit. "WTR is a total return fund capitalising on opportunities around the world, with a fairly aggressive, high-dividend policy," he adds.

Asset allocation

Investment process: Finding value with catalysts

WTR invests in listed funds or holding companies that offer capital growth potential but are trading at a discount to NAV or sum-of-the-parts valuation, and whose assets are also undervalued. The strategy is opportunity-based, with the managers taking a flexible approach to portfolio construction according to where they see the best return potential (either short- or long-term) at the most attractive valuations. The Discounted Assets team at Lazard Asset Management, led by Kun Deng in New York, runs WTR alongside other portfolios and is solely focused on this area of opportunity. The four portfolio manager/analysts, supported by a client portfolio manager and a dedicated trader, can also draw on the wider macro and industry views of the Lazard Asset Management group.

When assessing potential investments, the managers look for catalysts for revaluation, not just for the fund or company itself but also its underlying investments. They also seek to reduce discounts proactively, such as encouraging the payment of a higher dividend or returning capital to shareholders, or, occasionally, a change of manager or strategy. The managers describe this engagement as quiet, behind-the-scenes activity, not high-profile public 'activism'. The overall aim is to build a diversified but high-conviction portfolio with the potential to outperform WTR's benchmark (MSCI AC World ex-USA) and peers in both rising and falling markets.

The investment process broadly has four stages:

- **Screening:** the investment universe of CEFs, investment trusts and holding companies is constantly monitored to identify those that are trading at anomalously wide discounts relative to peers or their own history. The team seeks to understand if the discount is due to temporary or external factors, or if it is indicative of deeper structural issues.
- **Macro analysis:** is the country or sector in which the fund or company invests undervalued, and do market and economic conditions favour a narrowing of the discount?
- **Fundamental analysis:** the team assesses the management and governance of potential investments, as well as the competitive landscape. Due diligence and research aims to validate and understand the reasons for the discount, both at the fund/company and the underlying asset level, as well as the potential catalysts for a narrowing of the discount.
- **Portfolio construction:** while stock selection is opportunity-based, portfolio construction is conviction-based, dependent on return potential and the time horizon for a revaluation event. Investments are normally made with the expectation of a catalyst occurring within 12 months, although many investments remain in the portfolio for much longer.

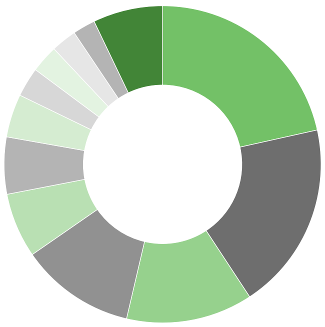
WTR may take short positions in equity markets or hedge its currency exposure. There were no short positions or hedges in place at 30 April 2018.

Current portfolio positioning: Focus on China and technology

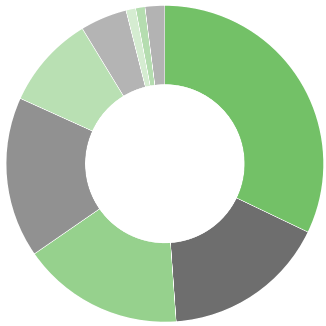
At 30 April 2018, there were 33 holdings in the WTR portfolio, the same number as at the end of FY17 (31 March 2017). The top 10 holdings made up 50.9% of the portfolio, compared with 48.7% a year earlier, and the average discount to NAV for the top 10 holdings was 19.5% (30 April 2017: 20.7%). There were no short positions at either 30 April 2018 or 30 April 2017, and net cash stood at 2.0% compared with 0.6% a year earlier. There have been relatively few changes to the portfolio in FY18. Four new holdings – **Templeton Dragon**, **Altaba**, **Wendel** and **Softbank** – were added in H118, while **General American Investors** and **Liberty All Star Equity** (both US funds) were sold. The Templeton Dragon purchase was a tactical move to access a capital distribution (the fund was bought at a discount but the distribution was effectively at NAV), and the position was subsequently sold in H218. There were no other new investments or complete exits in H218.

Exhibit 3: Portfolio analysis

Look-through sector exposure (adjusted for cash) at 31 March 2018



Regional exposure by fund focus at 30 April 2018



Source: Thomson Datastream, Edison Investment Research

The two major themes in the portfolio are technology (the largest look-through sector exposure at 21.5%) and China (also 21.5% at end-March 2018). These themes come together in new holdings Softbank (a Japanese holding company) and Altaba (a spinout from Yahoo!), both of which offer discounted exposure to Chinese e-commerce giant Alibaba, in the same way that previous largest holding Naspers is a proxy for the Chinese internet stock Tencent. Deng comments that China's take-up of mobile payments is far higher than in the West, with Alibaba "at the forefront of creating a cashless society". Altaba owns 15% of Alibaba (among other assets), a stake worth $75bn based on Alibaba's 24 May share price, yet Altaba's own market capitalisation is only c $62bn.

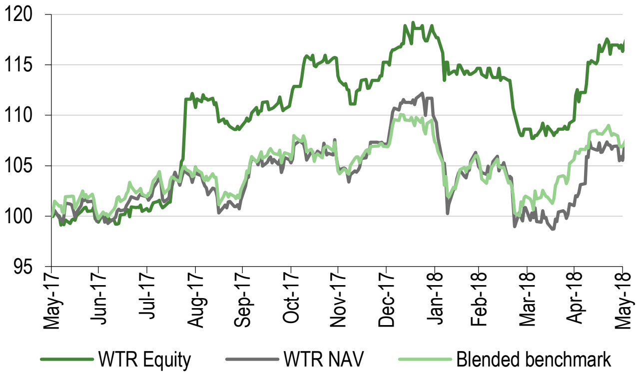
The majority of the top 10 stocks have a focus on Asian and emerging markets, with three of the largest (Altaba, **Fidelity China Special Situations** and **Morgan Stanley China A Share**) being mainly exposed to China. Deng comments that a period of volatility sparked by fears of a US/China trade war caused discounts to widen, presenting an opportunity to add to holdings at lower valuations. Compared with the benchmark, WTR is very overweight emerging Asia (including Vietnam and India as well as China), and very underweight developed Europe. The managers took profits in **Eurazeo**, previously a top 10 holding, after the discount narrowed substantially (reflecting a greater market appreciation of Eurazeo's investment business), and topped up the holdings in **Investor AB** (where the discount widened on Swedish krona weakness) and French holding company Wendel.

Following the sale of General American Investors and Liberty All Star Equity, there is no explicit exposure to the US; however, on a look-through basis there are some US stocks in underlying funds such as **International Biotechnology Trust**, reflecting the fact that most of the biotech investment universe is US-listed.

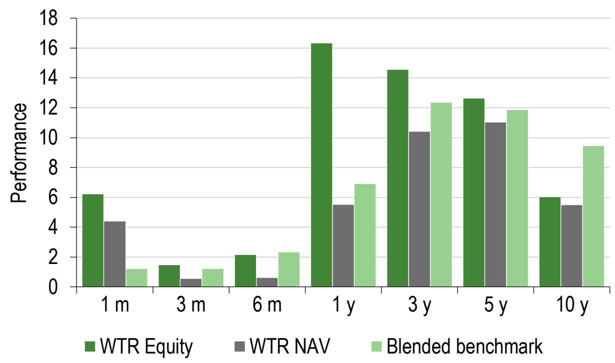
Performance: Recovering after recent volatility

Exhibit 4: Investment company performance to 31 May 2018

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



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. Blended benchmark is MSCI World index until 31 March 2010, MSCI AC World index from 1 April 2010 to 31 March 2016, and MSCI AC World ex-USA index thereafter.

WTR's share price has posted strong gains over 12 months to 31 May 2018 (Exhibit 4), with a total return of 16.3% versus 6.9% for the benchmark MSCI AC World ex-USA index. However, the 5.5% NAV total return lagged the benchmark. The shares have also outperformed the blended benchmark over three and five years, while the NAV total return is behind the blended benchmark (including the US until 31 March 2016) over these periods, but ahead of the current ex-US benchmark (Exhibit 5). Over one year to 30 April 2018, the top contributors to NAV returns (adding a total of 5.7pp) were **Naspers**, **Fidelity China Special Situations** (FCSS) and **Eurazeo**. The top detractors (costing 1.8pp) were **First Pacific**, **GP Investment** and **Jardine Strategic**. More recent periods have been less positive in both relative and absolute terms, although there was an upturn in April. Year-to-date (to 30 April 2018), the top contributors (**Fondul Proprietatea**, FCSS and **Morgan Stanley China A Share**) added 0.8pp to returns, which was outweighed by a negative contribution of 1.7pp from the top three detractors, First Pacific, **Wendel** and **Naspers**. (Figures from WTR in US dollar terms.)

Exhibit 5: Share price and NAV total return performance in sterling, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC World	2.4	(1.1)	(1.6)	6.7	3.7	1.2	(29.4)
NAV relative to MSCI AC World	0.7	(2.0)	(3.0)	(3.3)	(7.1)	(5.8)	(32.8)
Price relative to MSCI AC World ex USA	4.9	0.2	(0.2)	8.8	12.5	19.3	(3.9)
NAV relative to MSCI AC World ex USA	3.2	(0.7)	(1.7)	(1.3)	0.7	11.0	(8.6)
Price relative to MSCI World	1.9	(1.8)	(1.7)	6.9	3.3	(1.3)	(32.4)
NAV relative to MSCI World	0.2	(2.7)	(3.2)	(3.0)	(7.5)	(8.1)	(35.7)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2018. Geometric calculation.

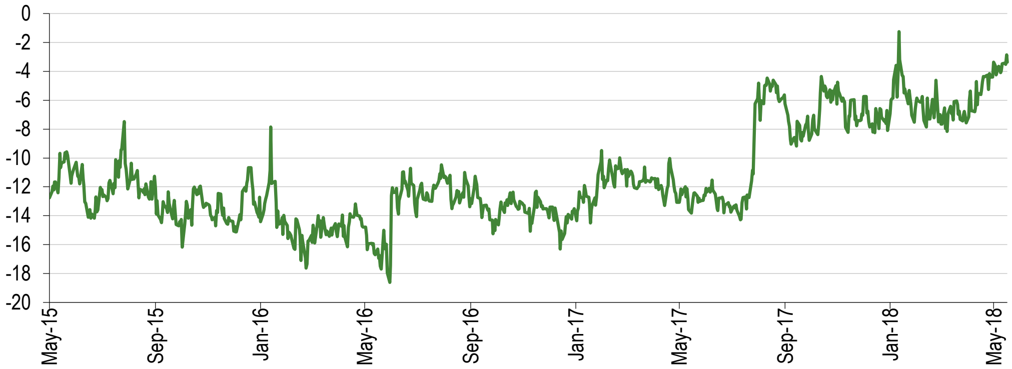
Exhibit 6: NAV total return performance relative to blended benchmark over five years

Source: Thomson Datastream, Edison Investment Research

Discount: Potential to settle at narrower level

At 13 June 2018, WTR's shares traded at a 3.3% discount to cum-income NAV. This was appreciably narrower than the average discounts over one, three, five and 10 years (7.8%, 11.3%, 11.6% and 11.4%, respectively), and follows a marked rerating since the latest continuation vote in August 2017. While this means the 'double discount' is lower than it has been, WTR's managers stress that the primary opportunity is in owning discounted assets at the portfolio level. The discount may narrow further following implementation of the new 6.0% distribution policy, which the board and managers argue is a fairer way of returning cash to shareholders than periodic tender offers.

Exhibit 7: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

WTR is a Luxembourg-incorporated CEF (SICAF), listed on the London Stock Exchange. It has 35.7m ordinary shares in issue, with a further 10.9m in treasury. There is a continuation vote at the AGM each August. WTR only narrowly passed the 2017 vote, but the board and managers hope the revised dividend policy will be sufficiently well received by investors to ensure the fund's future at the 2018 vote. A tender offer may also be proposed as a means of managing the discount to NAV and providing an exit opportunity at a predetermined price; the last tender was in 2016, since when the discount has narrowed substantially. Gearing is available via a $25m loan facility (c 12% of NAV based on 22 May exchange rates). However, the facility is currently undrawn and WTR has a small net cash position. Lazard is paid an annual management fee of 0.75%, and a performance fee may be paid on a sliding scale of between 5% and 20% of outperformance of the benchmark, measured over two years. No performance fee was paid in respect of FY17 or FY16.

Dividend policy and record

The board of WTR recently revised the fund's dividend policy for the second time in two years, in recognition of the attractiveness to investors of a high regular income. Under the previous policy (in place since FY17), a distribution equal to 3.5% of the previous year-end NAV was paid in two equal instalments. With effect from 1 April 2018 (the start of FY19), the distribution has been increased to 6.0% of NAV at the start of the financial year, paid in equal quarterly instalments. A second dividend of 6.4925p was paid on 8 June, bringing the total distribution for the year to 12.985p. It is intended the new quarterly dividends will be paid in August, November, February and May. While the first dividend for FY19 has not yet been declared, we anticipate (based on the 2 April NAV of 384.3p) that it will be c 5.7645p, being one-quarter of 23.058p, which is 6.0% of the opening NAV for FY19. Based on the current share price and the FY18 dividends, WTR yields 3.3%. The prospective yield under the new policy is 5.9%, which would make WTR one of the highest-yielding equity investment companies in the AIC universe. The current average dividend yield across all AIC sectors is 3.2%. Dividends may be partly funded from capital, although WTR's managers point to a high level of distributions (either through dividends or share buybacks) from underlying holdings, meaning that the 3.5% dividend has been largely covered by income.

Peer group comparison

WTR is a member of the AIC Global sector; however, increasingly investment companies that follow a comparable strategy of investing in other CEFs are to be found in the Flexible Investment sector, launched at the beginning of 2016. Exhibit 8 below includes funds of funds from both sectors. WTR, British Empire and JPMorgan Elect Managed Growth are in the Global sector, while F&C Managed Portfolio Growth, Henderson Alternative Strategies, Miton Global Opportunities and Seneca Global Income & Growth are in the Flexible Investment sector. Within the group, WTR's NAV total returns are broadly in line with the average over one and three years, ahead over five years and behind over 10 years. The discount to NAV and the level of gearing are also broadly average. Ongoing charges are higher than peers, and WTR also has a performance fee. The dividend yield is the second-highest in the group, and will be the highest by some margin under the new dividend policy.

Exhibit 8: Selected peer group as at 4 June 2018*

% 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 (ex-par)	Net gearing	Dividend yield
Lazard World Trust Fund	**140.1**	**7.7**	**37.8**	**78.1**	**75.4**	**1.4**	**Yes**	**(5.2)**	**100**	**3.4**
British Empire	847.0	8.9	48.1	59.7	106.9	0.9	No	(10.0)	105	1.6
F&C Managed Portfolio Growth	73.9	11.2	33.8	66.0	108.3	1.0	Yes	0.8	100	0.0
Henderson Alternative Strategies Trust	107.3	4.2	21.1	22.0	(15.6)	1.1	No	(17.1)	100	1.7
JPMorgan Elect Managed Growth	272.4	12.4	38.3	78.3	156.7	0.6	No	(1.8)	100	1.5
Miton Global Opportunities	76.9	8.6	53.1	74.0	93.5	1.3	No	0.4	100	0.0
Seneca Global Income & Growth Trust	83.7	3.7	25.8	49.0	81.6	1.6	No	1.4	102	3.8
Peer group average	**252.9**	**8.8**	**38.7**	**63.0**	**87.6**	**1.0**		**(5.5)**	**101**	**1.4**
WTR rank in peer group	**3**	**5**	**4**	**2**	**6**	**2**		**5**	**3**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 1 June 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

WTR has five non-executive directors, all independent of the manager. The chairman (since 2010), Philip R McLoughlin, joined the board at the fund's launch in 1991. Duncan Budge was appointed in 2006 and James Cave became a director in 2008. Howard Myles joined the board in 2011 and is chairman of the audit committee. The newest director, Tony Morrongiello, was appointed in 2014. The directors all have backgrounds in investment management.

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