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Witan Investment Trust

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Investment trusts

Witan Investment Trust (WTAN) aims to achieve long-term capital growth and growing real income through investment in global equity markets. Using a multi-manager approach, Witan provides an appealing solution for investors seeking actively managed global exposure while maintaining expenses at a moderate level for this type of fund (total ongoing charge last year 0.97%). Performance has been ahead of the composite benchmark (and the FTSE All-Share index) over one, three and five years.

12 months ending	Total share price return (%)	Total NAV return (%)	Composite benchmark	MSCI World TR (£)	FTSE All Share TR (£)
31/12/10	18.9	18.8	15.3	15.9	14.5
31/12/11	(10.7)	(9.7)	(7.0)	(4.3)	(3.5)
31/12/12	14.7	15.1	13.0	11.4	12.3
31/12/13	36.7	28.5	20.7	25.0	20.8

Note: Twelve-month rolling discrete performance.

Investment strategy: Allocating among specialists

Witan has followed a multi-manager approach since 2004, normally selecting 10 to 12 managers that it believes are the best in each area, giving its investors access to global equity expertise. The trust has looked for a more active approach when changing its managers since Andrew Bell joined as CEO in 2010, ensuring that the portfolio does not inadvertently become a tracker through over-diversification. Each manager has a different approach (see page 6), but stylistically there is a quality bias across the portfolio. Several of the managers are characterised by low turnover and, similarly, Witan aims to take a long view although, reflecting the search for active management, one mandate has been added, a small one removed and four changed over the last 12 months.

Outlook: Risks, but growth continues

Global equities and Witan's own composite benchmark index (40% UK, 60% rest of world) have recorded a strong performance over the last 12 months, prompting concerns over valuation and the risk of correction. However, the economic recovery has been sustained, including surprisingly positive recent figures in the UK and resilient growth in the US.

Valuations in the equity market have risen, but have yet to move into obviously extended territory. Unless growth is knocked off course by the scaling back of QE or political developments, there could be scope for favourable earnings surprises helping alleviate valuation concerns. Witan is prepared to hold cash when it believes this is appropriate; current gearing of c 7% is consistent with a positive view on equities.

Valuation: Discount has narrowed

The discount has narrowed from its longer-term average of around 10% to c 6%, probably reflecting recent strong performance. The dividend yield of just over 2% is shy of the world index average of 2.4%, but the dividend has been increased every year since 1974, with compound growth of 5.0% over the last 10 years compared with consumer price inflation of 2.6%.

13 January 2014

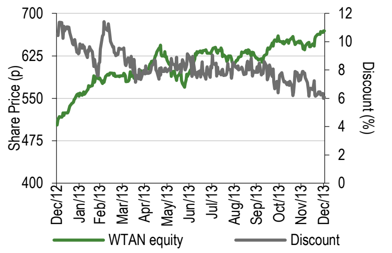
Price	**669p**
Market cap	**£1,267m**
AUM	**£1,494m**

NAV*	712.32p
Discount to NAV*	6.1%
NAV**	716.40p
Discount to NAV**	6.6%
Yield	2.1%

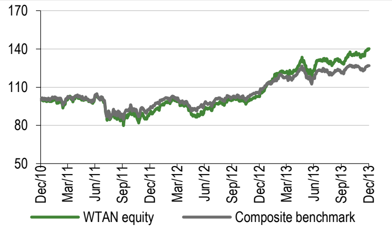
*Excluding income. **Including income.

Ordinary shares in issue	189.3m
Code	WTAN
Primary exchange	LSE
AIC sector	Global Growth

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	669p	514p
NAV* high/low	698.80p	530.80p

*Excluding income.

Gearing

Gross	8%
Net	7%

Analysts

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Edison profile page

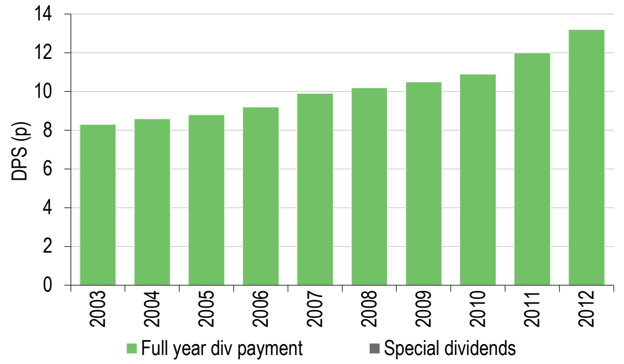
Witan Investment Trust is a research client of Edison Investment Research Limited

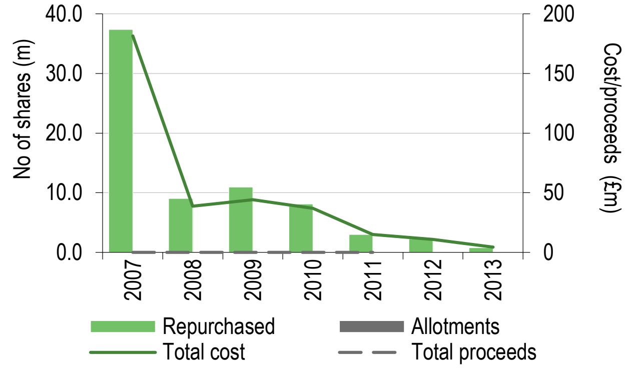
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Witan Investment Trust (WTAN) aims to be the preferred choice for wealth creation, delivering long-term capital growth and a growing real income to shareholders through investment in global equity markets. The trust follows a multi-manager approach, currently allocating funds to 11 specialist managers and, to a limited extent, open-ended funds. WTAN seeks managers with the conviction to take views that may diverge significantly from benchmark weightings.	2 December 2013: Appointment of Pzena, and Tweedy, Browne to manage global mandates totalling c £190m. 14 August 2013: Half-yearly report to end June shows NAV return of +16.7% vs benchmark +11.4%. 18 June 2013: Appointment of new UK manager, Heronbridge IM LLP, to manage £75m.

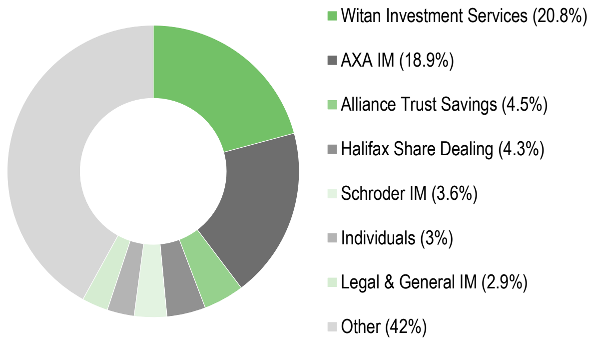
Forthcoming		Capital structure and fees		Fund details	
AGM	May 2014	Ongoing charges	0.69% ex perf fees 097% cum	Group	Self-managed (Witan Inv. Services)
Preliminary results	March 2014	Net gearing	7%	Managers	Andrew Bell (CEO)
Year end	31 December	Annual mgmt fee	Only multi-manager charges	Address	14 Queen Anne's Gate,
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	Yes (see page 9)		London, SW1H 9AA
Launch date	February 1909	Trust life	Indefinite	Phone	0800 082 8180
Continuation vote	No	Bonds, debt & prefs	£152m at end June	Website	www.witan.com

Dividend policy and history	Share buyback policy and history
Quarterly dividends are paid, with the first three equivalent to a quarter of the previous year total and the final making up the full year payment. The board aims to increase the dividend in real terms.	The board has a repurchase authority (14.99%), which will be used with the aim of moving the sustainable level of discount below 10% (see page 9).

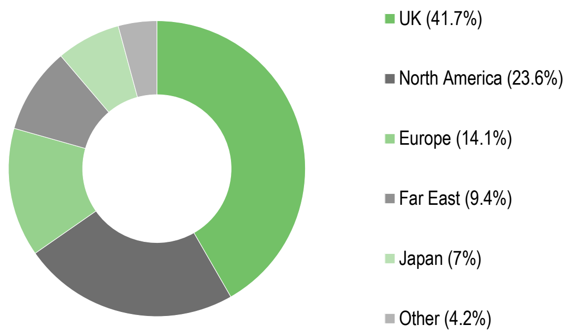




Shareholder base (as at 30 November 2013)



Geographical allocation of portfolio (as at 29 November 2013)



Top 10 holdings (as at 29 November 2013)

			Portfolio weight %	
Company	Country	Sector	29 November 2013	30 November 2012
Reed Elsevier	UK	Communications	1.9	1.4
Diageo	UK	Beverages	1.7	2.0
Electra Private Equity	UK	PE fund	1.6	2.7
BP	UK	Integrated oils	1.5	1.6
Daily Mail & General	UK	Local media	1.5	N/A
Unilever	UK	Household Prod. Manufacturing	1.3	1.6
London Stock Exchange	UK	Security & Commodity Exchanges	1.2	1.3
Pearson	UK	Communications	1.2	1.5
Google	US	Internet media	1.2	N/A
Princess Private Equity	UK	PE fund of funds	1.2	1.3
Top 10			**14.3**	

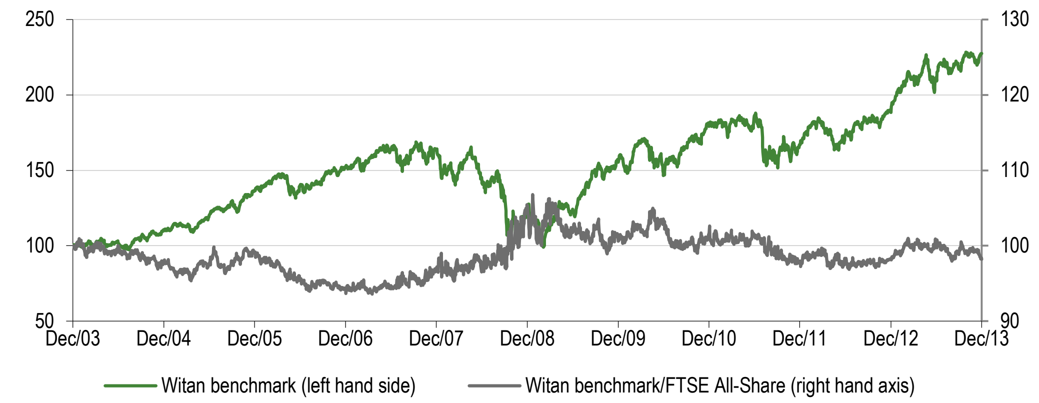
Source: Witan Investment Trust, Thomson Datastream, Edison Investment Research

Market outlook: Fuller valuations, recovery sustained

The broad global mandate followed by Witan (composite benchmark 40% FTSE All-Share, 20% FTSE All-World North America, 20% FTSE AW Europe and 20% FTSE AW Asia-Pacific) means that the trust is exposed to trends across the world economy with geographical and stock diversification moderating the impact of any sharp fluctuation in a specific region. The efforts to ensure a genuinely active management approach, despite the diversity, mean that specific manager investment choices may result in Witan deviating from index trends; in recent periods its relative performance has been positive.

To provide context, Exhibit 2 shows the historical performance of the Witan composite benchmark and its performance relative to the FTSE All-Share Index. The performance of the benchmark has not diverged substantially from either the UK or world indices, but, as Exhibit 2 shows, the broader benchmark outperformed the FTSE All-Share during the financial crisis, subsequently underperforming, but was broadly in line over the whole 10-year period shown.

Exhibit 2: Witan benchmark index performance history

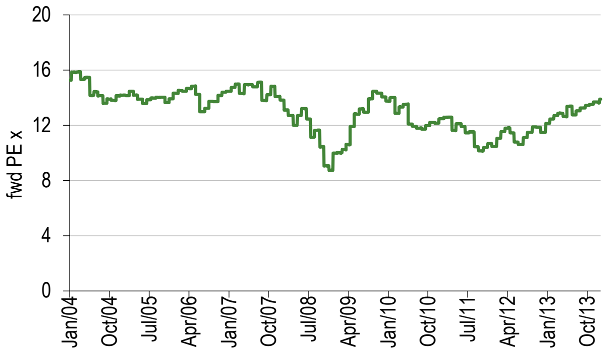


Source: Thomson Datastream. Note: Total return in £ terms.

The continued economic/corporate earnings recovery and supportive monetary policy has helped equity markets maintain an uptrend following the financial crisis. Prospectively, economic forecasters, while recognising risks to estimates, project an improving trend in GDP with the IMF, for example, looking for advanced economies' growth to increase from an estimated 1.2% in 2013 to 2.5% in 2015, with world growth expected to rise from 2.9% to 4.0%. Monetary policy is set to normalise in due course, but Fed actions suggest great sensitivity to the need to balance this process carefully to avoid damaging the recovery.

Without destabilising events, this should provide a relatively favourable background for equities particularly compared with bonds but, from a valuation perspective, some observers are concerned that the rise in markets has priced in a lot of the good news already. As Exhibit 3 shows, the Datastream world index prospective P/E valuation multiple has expanded, but at 13.9x does not appear obviously extended compared with a 10-year average of 13.0x and range of 8.7-15.9x. Similarly (see Exhibit 4) price to book and dividend yield measures are close to their average values. Arguably, the below average return on equity of 11.2% can be seen as suggesting potential upside in returns as economic recovery continues.

Exhibit 3: Datastream world index prospective P/E



Source: Thomson Datastream

Exhibit 4: Datastream world index 10-year metrics

	Last	High	Low	10-year average	Last % of average
P/E (12 months forward)	13.9	15.9	8.7	13.0	107%
Price to book	2.0	2.5	1.1	1.9	106%
Dividend yield	2.4	4.6	1.9	2.5	97%
Return on equity	11.2	16.8	4.7	12.4	90%

Source: Thomson Datastream

Our conclusion is that while there are risks to the prospective level of economic growth, and market sentiment is sensitive to changing views about the impact of tapering quantitative easing, longer-term investors, not focused on timing markets, could take some comfort from these valuation measures and the broad global diversification that a trust like Witan provides.

Fund profile: Global coverage through active managers

Witan was founded in 1909 to manage the Henderson family estate, listed on the London Stock Exchange in 1924 and became self-managed in 2004, adopting its current multi-manager approach. The current CEO, Andrew Bell, was appointed in February 2010. The trust aims to deliver long-term capital growth through investment in global equity markets. The blended benchmark includes 40% UK exposure, with 20% each for the US, Europe and Asia-Pacific ensuring broad geographical diversification. Mandates normally are allocated to between 10 and 12 managers with specific expertise and track records. Witan aims to select managers that implement distinctive views resulting in differentiation from the benchmark, ensuring the overall portfolio avoids inadvertently tracking indices through over-diversification.

CEO: Andrew Bell

The manager’s view: Increasing conviction, active positions

Although Witan’s multi-manager approach was already in place, it has evolved since Andrew Bell took over responsibility as CEO in 2010, with moves made towards a higher level of active management. This initially involved closing two indexed mandates, which were replaced by active managers (Lindsell Train and NewSmith) increasing the percentage of active management. Several of the subsequent manager changes have furthered the idea of ensuring a more active approach and accepting more risk to this end.

An example of this was the global mandate awarded to Lansdowne Partners at the end of 2012. Known as a hedge fund manager, the managers at Lansdowne had previously been leading managers at Mercury Asset Management. Apart from their track record, Andrew Bell highlights that Witan was attracted to the very fluid approach adopted, with the managers not being wedded to existing positions and running a very concentrated portfolio of about 20 stocks.

While stock/sector selection within the trust is largely dictated by the managers and regional exposures tend to be relatively stable, the increase in the trust’s exposure to Japan over the last 12 months is an example of the board taking a macro view that it should move from its relatively low exposure. This reflected the feeling that the long-running bear market was becoming long in the tooth and this was then supported by government/central bank actions. The view on Japan was implemented through a combination of a change in manager with the appointment of Matthews International to run an Asia cum-Japan mandate. The trust also purchased Japanese equity index futures and holdings in Polar Japan Growth and Alpha funds. This helped to push exposure to the current level of just over 7%.

The latest changes, announced in December 2013, were the appointments of Pzena Investment Management and Tweedy, Browne to replace global mandates run by Thomas White International and Southeastern Asset Management. Together the new mandates will account for c 13% of the Witan portfolio split approximately 75/25 between Pzena and Tweedy, Browne respectively. While Witan does not target particular styles of manager, both are value managers and the change increases the portfolio's exposure to this style. Andrew Bell has commented that after a strong market performance in 2013 it is expected that returns in 2014 are more likely to be influenced by stock selection and this has encouraged the trust to make these manager changes.

Asset allocation

Investment process: Selecting among specialist managers

Until 2004 Witan was managed by Henderson Administration (founded by the trust) but then became self-managed under a multi-manager approach. At the outset of the new approach UK and US markets were addressed through index funds on the grounds that it was more difficult to be differentiated in those markets. As noted above, the approach has evolved since then, with the indexed mandates being replaced by active managers.

When Witan engages in a search for a new manager input is sought from directors, advisers and consultants. This results in a long list, which is narrowed down to a short list, of which three are asked to present to the Witan board. Once a manager is on board, performance is monitored regularly with an expectation that the manager should outperform a relevant index over time. As most funds are managed on a segregated basis, Witan is able to look through to the underlying portfolios and measure exposures. The managers are, however, not micromanaged or second-guessed on their selections.

The hope is that managers will remain in place for a significant time and it is recognised that a fund is unlikely to outperform every year. While the approach to managers is therefore long-term, contract terms mean that mandates can be ended on one month's notice reducing the cost of change when this is required. Catalysts for change are more likely to include evidence of style drift or mission creep rather than a period of weaker performance, although this would be a cause for concern if it could not be explained with reference to the manager's stated investment process.

Exhibit 5 sets out the current roster of managers as reported at the half year stage. Each manager has a specific approach but, as a generalisation, there is a bias to value and Witan seeks to find managers with well-supported high-conviction, differentiated views. Allocations typically range between 8% and 12%. Those below this level reflect positions that are being built up (Heronbridge, for example) and in the case of the former UK smaller company mandate the fact that the other UK mandates have the ability to invest in smaller cap names as well.

Exhibit 5: Witan portfolio by investment manager

Equity mandate	Investment manager	Benchmark (total return)	Investment style	% of FUM
UK	Artemis Investment Management	FTSE All-Share	Recovery/special situations	9.8
UK	Lindsell Train	FTSE All-Share	Long-term growth from undervalued brands	12.8
UK	Heronbridge Investment Management	FTSE All-Share	Bottom up fundamental research; value orientation	5.6
Global	MFS International	FTSE All-World	Growth at an attractive price	8.7
Global	Pzena	FTSE All-World	Disciplined value	10.0
Global	Tweedy, Browne	FTSE All-World	Value, based on intrinsic value	3.0
Global	Veritas Asset Management	MSCI All-World	Fundamental value, real return objective	11.8
Global	Lansdowne Partners	DJ Global Titans	Concentrated, benchmark-independent investment in global developed markets	5.8
Pan-European	Marathon Asset Management	FTSE All-World Developed Europe	Capital cycles	8
Asia Pacific (cum Japan)	Matthews Intl. Capital Management	MSCI Asia Pacific Free	Investment in companies with attractive and growing dividend yields	9
Emerging Markets	Trilogy Global Advisors	MSCI Emerging Markets	Fundamental, growth orientated	3.6
Directly held investments	Witan Executive team	Witan's composite benchmark	Collective funds invested in mispriced assets, recovery situations or specialist assets	6.7

Source: Witan Investment Trust as at end September 2013, * adjusted for the appointment of Pzena and Tweedy, Browne Dec 2013 managing c £145m and £45m respectively, together representing c13% of the Witan portfolio.

The following comments provide an additional indication of the approach taken by some of the managers.

- Artemis: Derek Stuart follows a contrarian approach focusing on stocks that are out of favour and have turnaround potential.
- Lindsell Train aims to construct a portfolio of companies it believes have truly sustainable business models or established strong brands that should generate long-term cash flows.
- Heronbridge, appointed in June, follows a benchmark unaware, value-biased approach, investing with a focus on underlying earnings power, dividends and net assets.
- MFS emphasises the global collaborative approach it takes to research with the inclusion of credit analysts in the sector teams providing additional insight.
- Pzena follows a disciplined value-driven strategy focusing on what the manager assesses to be the 20% of the market offering the best value and selling holdings if the valuation moves above the market average.
- Tweedy, Browne is another value investor employing bottom up fundamental research using the concept of intrinsic value and safety margin originated by Ben Graham.
- Marathon's approach centres on assessing where companies/sectors are in the 'capital cycle', seeking to invest where capital is not excessive: essentially a contrarian approach.
- Matthews Asia has a fundamental bottom-up process, identifying companies with sustainable long-term growth prospects on reasonable valuations.
- Trilogy Global Advisors is also fundamental and growth focused in its approach, using quantitative and qualitative screens, looking to identify growth companies that will outperform their peers.

The directly held investments that account for c 7% of the portfolio comprise selected collective funds invested in assets that Witan's CEO believes are undervalued: this has mainly consisted of private equity and related companies together with funds expected to benefit from UK recovery and two sector funds.

Overview

The 11-strong list of external managers is shown above in Exhibit 5, including four UK and five global mandates together with pan-European, Asia Pacific and emerging market specialists. There were two manager changes in the first half with Matthews International (Asia) and Heronbridge (UK) awarded mandates. Compared with a typical directly invested global portfolio the individual stock exposure is widely diversified, with the managers together holding a total of just under 500 companies: this is at the upper end of the range the trust would feel comfortable with given its desire to avoid closet indexing.

Current portfolio positioning

As Exhibit 6 shows, the principal underlying exposures are in the financials, consumer services, consumer goods and industrials sectors. Changes over the last year to note are increases in consumer goods and services with reductions in 'other', financials, technology and cash.

Exhibit 6: Look-through sector analysis – weighting (%)

	End November 2013	End November 2012	Change in weight
Financials	21.4	23.2	-1.8
Consumer Services	15.7	14.4	1.3
Consumer Goods	12.5	11.3	1.2
Industrials	12.4	13.2	-0.8
Health Care	7.4	6.9	0.5
Technology	6.9	7.8	-0.9
Other	11.6	16.9	-5.3
Open Ended Funds	8.0	4.9	3.1
Equity Index Futures	2.4	-1.2	3.6
Cash/Bonds	1.7	2.6	-0.9
	100.0	**100.0**	

Source: Witan Investment Trust, Edison Investment Research

The geographical exposure in terms of the look-through investments is shown in Exhibit 7. The variations from the benchmark balance (UK 40% and North America, Europe and Asia 20% each) are generally modest with the exception of Europe where the trust has below 15% of its assets. For reference we have shown how the exposure compares with the weightings in the FTSE All-World index with the main feature being the structural overweight for the UK and underweight US, reflecting the original decision to temper US exposure when the benchmark was established. From the perspective of individual UK investors, who account for the majority of Witan holders, this is probably a favourable feature in view of both the international nature of the UK market and the moderation of currency exposure that this entails.

Exhibit 7: Look-through geographical breakdown (%)

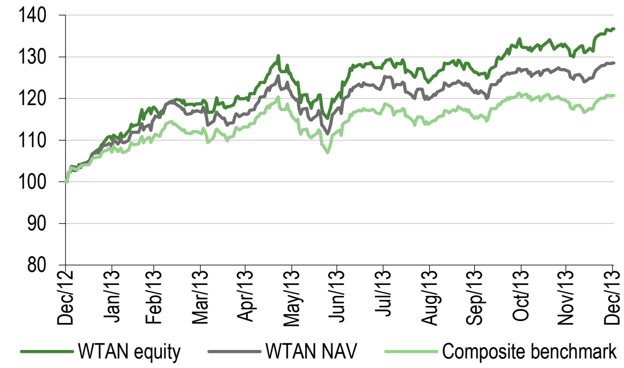
	End November 2013	End November 2012	Change from 2012	FTSE All-World end Nov 2013	Difference vs FTSE All-World
UK	41.7	45.1	-3.4	8.1	33.6
North America	23.6	18.4	5.2	51.0	-27.4
Europe	14.1	15.6	-1.5	17.5	-3.4
Far East	9.4	11.2	-1.8	11.8	-2.4
Japan	7.0	2.4	4.6	8.5	-1.5
Other	4.2	7.3	-3.1	3.2	1.0
	100.0	**100.0**	**0.0**	**100.0**	**0.0**

Source: Witan Investment Trust, Edison Investment Research

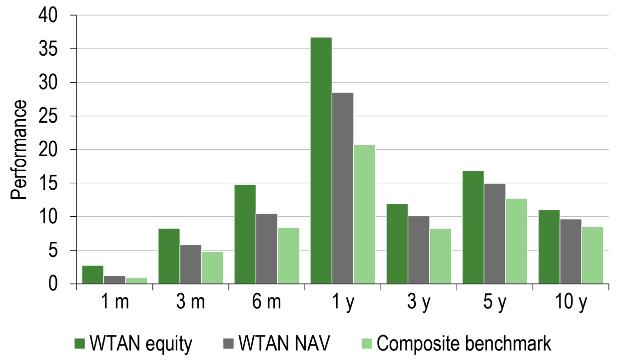
Performance: Ahead of benchmark

Exhibit 8: Investment trust performance

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



Price, NAV and benchmark total return performance (%)



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

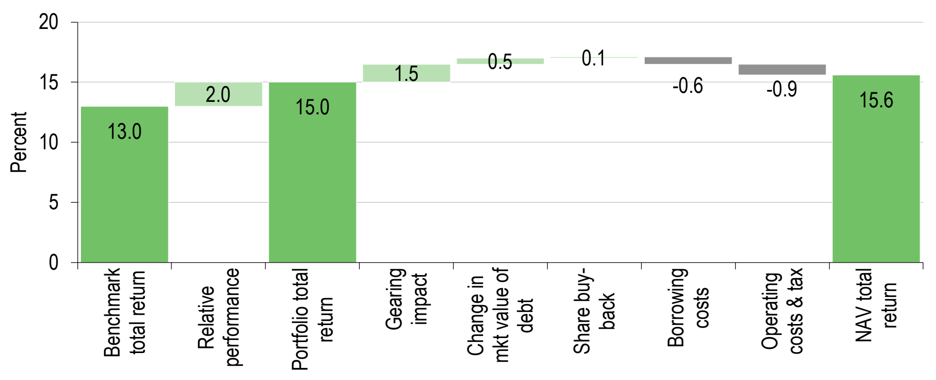
Exhibit 9: Share price and NAV total return performance, difference versus benchmarks (percentage points)

	One month	Three months	Six months	One year	Three years	Five years
Price versus composite benchmark	1.9	3.5	6.4	16.0	13.2	35.5
NAV versus composite benchmark	0.3	1.0	2.0	7.8	6.6	18.2
Price versus MSCI World TR £	1.7	2.6	7.6	11.7	6.9	37.8
NAV versus MSCI World TR £	0.2	0.1	3.2	3.5	0.3	20.6
Price versus FTSE AllSh TR £	0.9	2.8	3.4	15.9	9.2	22.5
NAV versus FTSE AllSh TR £	(0.6)	0.4	(0.9)	7.7	2.6	5.2

Source: Thomson Datastream, Edison Investment Research. Note: Data to end December 2013. All indices total return and in sterling terms.

The trust's NAV total return performance has been ahead of its composite benchmark, the MSCI World index and the FTSE All-Share index over one, three, five and 10 years (see Exhibits 8 and 9).The outperformance has been most marked over the last year with a positive differential in NAV performance of 7.8 percentage points compared with the benchmark. The risk adjusted returns, as measured by Sharpe ratios, has outperformed the trust's peer group average over one, three and five years (see Peer group comparison, page 11).

Exhibit 10: Performance attribution for year to 31 December 2012



Source: Witan Investment Trust

The attribution of Witan's performance for 2012 is shown in Exhibit 10 highlighting a 2% portfolio outperformance, with the positive gearing and movement in fair value of debt of 2% partly offset by costs.

The following table shows the performance by the investment manager for the first half of 2013 and since inception. Most of the external managers outperformed their benchmark both over the short six-month period (eight out of 10) and, more importantly, since the start of their mandates (10 out of

12). Not shown here, for calendar year 2012 only six out of 11 mandates outperformed their benchmarks, but, as a whole, the portfolio still outperformed by two percentage points, as shown in Exhibit 10 above.

Exhibit 11: Witan performance by manager

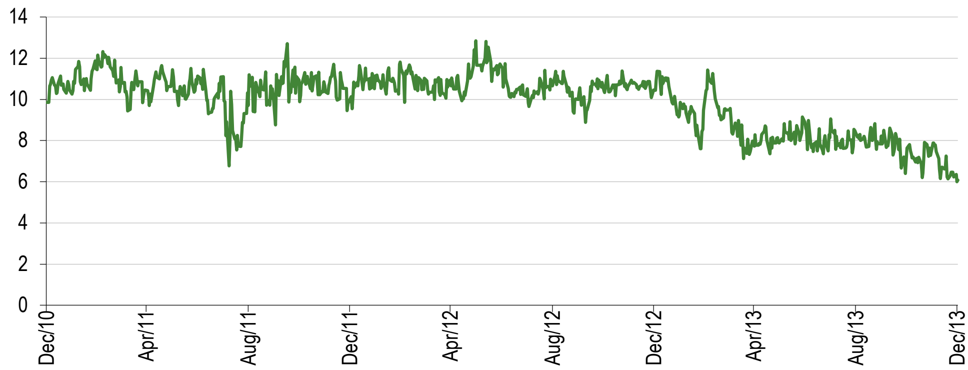
Investment manager	Inception date	% of Witan funds under management	Performance			
			1 January 2013 to 30 June 2013		Since inception	
			Witan	Benchmark	Witan	Benchmark
Artemis Management	06.05.08	9.2	14.5	8.5	10.6	4.5
Lindsell Train	01.09.10	12.4	18.5	8.5	21.0	11.1
Heronbridge	17.06.13	5.3	N/A	N/A	-0.4	-1.6
Henderson Investors	31.08.04	1.9	14.9	13.2	14.3	12.2
MFS International	30.09.04	8.8	18.2	13.9	12.3	9.1
Pzena	02.12.13	*	N/A	N/A	N/A	N/A
Tweedy, Browne	02.12.13	*	N/A	N/A	N/A	N/A
Veritas Asset Mgt.	11.11.10	12.1	17.0	14.0	13.0	9.3
Lansdowne Partners	14.12.12	4.8	29.6	14.8	29.9	14.3
Marathon Asset Mgt.	23.07.10	7.7	13.4	9.9	10.5	8.3
Matthews Intl. Capital Mgt.	20.02.13	9.5	N/A	N/A	4.4	-1.4
Trilogy Global Advisors	09.12.10	3.7	-5.2	-2.9	-6.4	-2.3
Witan Direct Holdings	19.03.10	7.8	20.7	11.4	8.7	7.0
Japan (open ended funds)	21.05.13	1.4	N/A	N/A	-10.5	-7.9

Source: Witan Investment Trust. * At time of appointment Pzena and Tweedy, Browne allocation c.13%

Discount: Trading close to NAV

Over the last three years the discount (on NAV ex-income) has averaged approaching 10% (similar to the 10-year average), but this has contracted over the last year (see Exhibit 12), standing currently at approximately 6% and seemingly establishing a new "habitual" level below 10%. This probably reflects a drying up of wealth manager sellers (reported by the company) together with the favourable performance record described in the previous section. If the market environment remains broadly neutral to favourable, there would seem good scope for the discount to narrow further.

Exhibit 12: Discount over three years (NAV at fair ex-income)



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

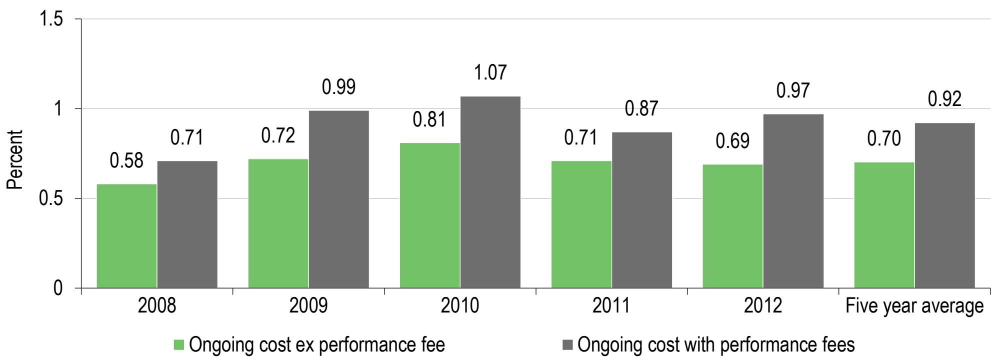
Capital structure and fees

Witan has189.3m ordinary shares in issue. The company is authorised to buy back up to c 14.99% of the issued share capital; in 2004 the board announced that it intended to buy back shares to maintain an appropriate discount, with the aim of moving the sustainable level below 10%, without setting a specific target level. Shares will only be purchased when this will enhance the NAV. Buy backs have fallen significantly since 2009 (see Exhibit 1), probably a reflection of a pick-up in performance.

The board may also buy back 2.7% and 3.4% preference shares (up to 0.5m and 2.1m shares respectively). These form part of the structural gearing of £110.4m (end June 2013, equivalent to 8.8% of net assets) most of which is accounted for by an 8.5% 2016 debenture (£44.6m) and 6.125% 2025 secured bonds (£63.2m). In addition the company has a short-term multi-currency debt facility of £50m, of which £42m was drawn at the end of June. Allowing for the face value of equity index futures and netting off cash the end September figure for gearing was 10%.[1] The board's policy on gearing is to use this actively to manage risk and to take advantage of any opportunities outside the mandates assigned to external managers. The external managers are not allowed to employ gearing but may hold cash. The trust is willing to hold net cash but would expect to hold at least 80% of assets in equities. At the other end of the scale the maximum level of gearing at time of borrowing would be 15% with this allowed to rise to 20% in certain circumstances. In practice the range is likely to be between 5% cash and 15% gearing.

The trust is self-managed in terms of the allocation of mandates to the external managers, with executive management services provided by Witan Investment Services, which is a wholly owned subsidiary of the trust: it also provides this service to the Witan Pacific trust. The ongoing charge therefore captures the costs associated with Witan Investment Services together with the underlying charges associated with the manager mandates. These average between 37 and 38 basis points (bp) with performance fees averaging 10-11% of outperformance; as an illustration, if the managers with performance fees were to outperform by 3% then the fee would comprise the c 38bp base fee plus 30bp performance fee. Not all the managers have performance fees and where they apply there is either a high-water mark or a three-year rolling mechanism in place. Exhibit 13 summarises the recent history for ongoing charges with the five year averages. This shows a relatively stable figure excluding performance fees with recent reductions driven by increasing asset levels, while the incidence of performance fees gives an average, including performance fees of 0.92%.

Exhibit 13: Ongoing charges with and without performance fees, as % of average net assets



Source: Witan Investment Trust

Dividend policy

Witan's investment objective is to provide capital growth paired with real growth in dividends. Dividends have been increased in each of the last 38 years and, taking the last 10 years, the compound annual growth in dividends of 5.0% has outpaced the rate of consumer price inflation of

[1] The difference between shareholders' funds and the total market value of the investments (including the face value of futures positions) expressed as a percentage of shareholders' funds.

2.6%. Recognising the potential income requirement of prospective shareholders, the trust has moved to quarterly dividend payments in the current year. The first three quarterly payments, in the absence of unforeseen circumstances, are to be made at the rate of one quarter of the full year dividend for the previous year. The final payment is then to be set to give the full year dividend.

The fund manager mandates do not include revenue targets as the board believes this could constrain manager choices and it is keen to encourage high-conviction investment selection. However, given the range of managers and underlying investments, portfolio income is less likely to experience simultaneous volatility. In addition, with a year-end revenue reserve equivalent to 22.8p per share or 1.7x the last full year dividend, there is scope to maintain the longstanding dividend payment record even if there were a near-term shortfall in revenue earnings.

Peer group comparison

Witan falls within the 35-strong Global Growth sector of investment companies, the largest sector. In Exhibit 14 we show the sector trusts with market caps above £0.5bn. Unsurprisingly there is a diversity of approaches and exposures within this relatively large sector. Among the group, nine trusts have 60% or more of their assets invested in funds or managed externally but only two of these have market caps of over £1bn: Witan itself and RIT Capital Partners (which has c 60% allocated to funds). Witan is unique among investment trusts in having a full multi-manager approach, largely implemented with segregated mandates. One of the more obvious differentiators among the sector comparators is the geographical exposure, with UK exposure, for example, ranging from zero to 70%. Witan has a c 40% UK allocation compared with the peer group average of c 30%, balanced by below peer average US and European percentages. Our comparative table also includes four relatively large open ended funds with global mandates.

Comparing NAV total performance, Witan has outperformed the investment company sector average over one, three and five years and ranks seventh, ninth and 11th respectively over this period. On a risk-adjusted basis, as represented by the Sharpe ratio, Witan has also been ahead of the sector average with figures of 2.0, 0.9 and 1.0, again over one, three and five years (sector average 1.7, 0.7 and 0.9), respectively.

On the fee comparison the ongoing charge at Witan (0.69% before performance fee) is in line with the sector average and below the average for trusts with a strategy of investing through funds or externally managed mandates (1%). As noted earlier the ongoing charge including performance fee was 0.97% for 2012.

The discount (ex-income at fair value) to NAV at 6.1% is modestly below the sector average of 6.8%.

Exhibit 14: Global Growth sector investment trusts - selected peers and average

Fund Name	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (fair-ex)	Ongoing charge	Perf fee	Net gearing	Yield (%)
Investment companies											
Alliance Trust	2,508	18.3	22.8	72.6	1.6	0.7	(12.3)	0.7	No	111.0	2.1
Bankers	655	25.4	32.6	88.9	2.1	0.9	0.6	0.5	Yes	101.0	2.5
British Empire Securities	735	9.8	10.7	67.1	0.8	0.4	(12.1)	0.8	Yes	101.0	2.2
Caledonia Investments	1,049	18.7	14.5	59.0	2.3	0.5	(19.8)	1.1	No	102.0	2.5
F&C Investment Trust	2,157	20.8	29.9	82.7	1.7	0.9	(10.4)	0.6	No	109.0	2.4
Law Debenture Corp.	623	30.3	53.6	165.8	2.5	1.3	13.4	0.5	No	105.0	2.7
Monks	880	23.0	11.3	84.3	2.2	0.5	(12.0)	0.6	No	104.0	1.0
Personal Assets	560	(2.2)	11.4	49.9	(0.4)	0.5	(1.3)	1.0	No	95.0	1.7
RIT Capital Partners	1,968	17.9	14.1	45.1	1.9	0.7	(8.4)	0.6	Yes	105.0	2.2
Scottish Investment Trust	653	20.7	25.7	72.8	1.4	0.8	(9.6)	0.8	No	95.0	2.3
Scottish Mortgage	2,563	31.6	40.7	170.7	1.7	0.8	0.1	0.5	No	110.0	1.4
Witan	**1,261**	**28.6**	**33.7**	**100.5**	**2.0**	**0.9**	**(6.1)**	**0.7**	**Yes**	**106.0**	**2.0**
Sector average	**542**	**21.6**	**25.7**	**91.1**	**1.7**	**0.7**	**(6.8)**	**0.7**		**104.9**	**1.6**
Rank	5	7	9	11	11	10	18	24		11	14
Number in Group	35	35	35	35	35	35	35	35		35	28
Open-ended funds											
Fidelity Wealthbuilder	864	21.6	21.2	75.0				1.8			0.8
Invesco Perp. Glob. Equity	1,364	30.4	36.1	103.2				1.7			0.6
Jupiter Merlin Growth Port.	816	14.7	10.8	61.9				2.6			3.7
M&G Dividend	8,893	23.3	33.8	105.3				1.7			0.2
Open-ended average	**2,984**	**23.4**	**31.5**	**99.9**				**1.7**			**0.5**

Source: Morningstar 2 January 2014. 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 shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

The board comprises eight directors of whom seven are independent and non-executive. The directors, with year of appointment as director in brackets, are as follows: Harry Henderson (appointed 1988 and chairman from March 2003), Andrew Bell (CEO from February 2010), James Bevan (2007), Robert Boyle (2007), Catherine Claydon (2009), Suzy Neubert (2012), Richard Oldfield (2011) and Tony Watson (2006, senior independent director from 2008).