Witan Pacific Investment Trust

Pan-Asian selection

Investment trusts

Witan Pacific Investment Trust (WPC) aims to achieve long-term capital and real dividend growth primarily through equity investments in the Asia Pacific region (including Japan and Australia). This broad remit, implemented though a multi-manager approach, is a unique offering among UK closed-end funds and is likely to be of growing appeal as investors seek managed pan-Asian exposure following initial signs that Abenomics are gaining purchase in Japan. While modestly below its three-year average, the 11% discount could easily narrow further if investors warm to this theme.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI AC Asia Pacific Free	FTSE AllSh TR (£)	MSCI World TR (£)
31/12/10	29.7	26.3	19.7	14.5	15.9
31/12/11	(15.3)	(14.3)	(13.0)	(3.5)	(4.3)
31/12/12	18.8	17.6	9.6	12.3	11.4
31/12/13	9.0	3.0	16.2	20.8	25.0

Note: Twelve-month rolling discrete performance.

Investment strategy: Three specialists

Under its multi-manager approach, Witan Pacific Investment Trust allocates its funds between three managers with particular expertise in the Asia Pacific region. The current managers have distinctive investment processes and operate without benchmark constraints. Aberdeen (48% of assets) and Matthews (42%) both follow a bottom-up fundamental stock selection process. Aberdeen is particularly characterised by its long-term approach, while the Matthews mandate has a specific dividend bias. GaveKal (10%) has a strong top-down overlay in its allocation and stock selection.

Outlook: Premium growth, lower valuations

While equities both globally and in the Asia Pacific region have enjoyed a strong run over the last year (+24% and 20% respectively), the WPC benchmark index, MSCI Asia Pacific Free, has underperformed the world index over both the short and long term and valuation measures in the region are lower than global averages. This, combined with expected higher economic growth in the region, is a positive feature for equity investors prepared to look through any volatility generated by global or regional macroeconomic and political risks.

Valuation: Scope for the discount to narrow

The discount has narrowed to 11% from its three-year average of nearly 14%, but continuation of global and regional economic recovery and recognition of the relative valuation attractions in the region could readily drive this lower. The Datastream Asia Index has a forward P/E of 12.4x compared with 13.9x for the equivalent world index. WPC's dividend yield of 2% is below the world market average of 2.4%, but the trust targets growth above UK inflation; achieving this should be facilitated by maturing Asian economies and, within the trust, the contribution of Matthews dividend strategy.

8 January 2014

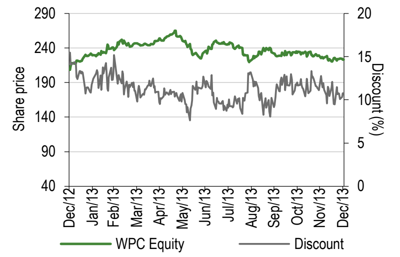
Price	**223.25p**
Market cap	**£148m**
AUM	**£173m**

NAV*	250.13p
Discount to NAV*	10.8%
NAV**	252.59p
Discount to NAV**	11.6%
Yield	2.0%

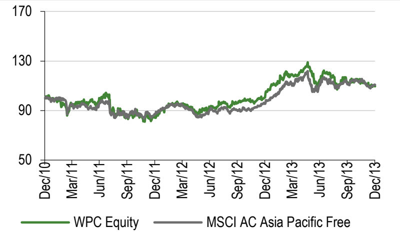
*Excluding income. **Including income.

Ordinary shares in issue	66.1m
Code	WPC
Primary exchange	LSE
AIC sector	Asia Pacific

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	265.00p	213.75p
NAV* high/low	296.32p	248.95p

*Excluding income.

Gearing

Gross	5%
Net	3%

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Edison profile page

Exhibit 1: Trust at a glance

Investment objective and fund background

Witan Pacific Investment Trust (WPC) has the objective of providing shareholders with balanced equity exposure in the Asia Pacific region, including Japan. It aims to outperform the MSCI AC Asia Pacific Free Index (£). It has a multi-manager approach, currently employing three complementary managers: Aberdeen Asset Managers, Matthews International Capital Management and GaveKal Capital. As well as accessing managers with a specific approach and expertise, the multi-manager structure allows investors to delegate the task of selection, allocation and monitoring to WPC.

Recent developments

26 Sept 2013: Half-yearly report to end July shows. NAV and share price total returns of +4.7% and 8.1% respectively vs benchmark +5.5%.

25 April 2013: Annual report published.

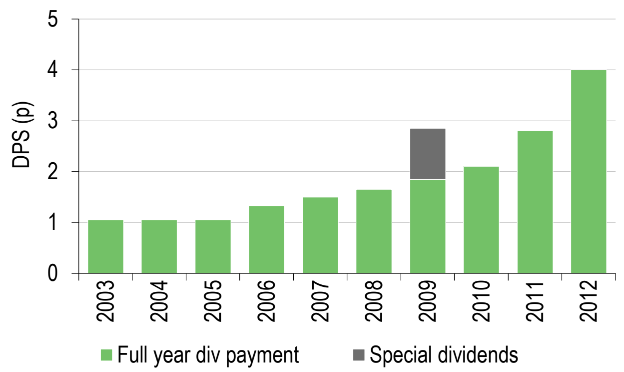
Forthcoming		Capital structure and fees		Fund details	
AGM	June 2014	Ongoing charges	0.98% ex perf fees 1.29% cum.	Group	Witan Inv. Services
Preliminary results	April 2014	Net gearing	3%	Managers	Team
Year end	31 January	Annual mgmt fee	Only multi-manager charges	Address	14 Queen Anne's Gate, London, SW1H 9AA
Dividend paid	June, October	Performance fee	Yes (see page 10)		
Launch date	December 1907	Trust life	Indefinite	Phone	0800 082 81 80
Continuation vote	No	Bank loan	£8.5m	Website	www.witanpacific.com

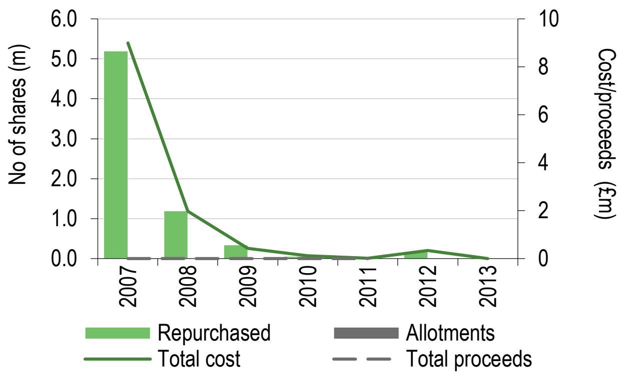
Dividend policy and history

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

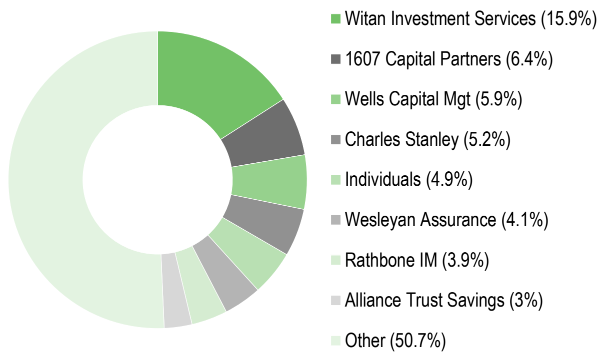
Share buyback policy and history

The board has a repurchase authority (14.99%), which will be used with the objective of maintaining a discount that is comparable to peers, reflecting the company's performance and taking into account market conditions.

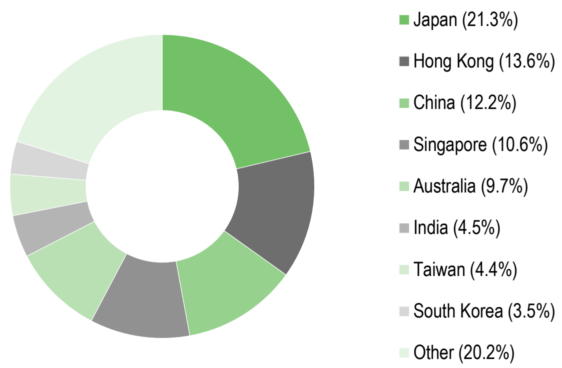




Shareholder base (as at 30 November 2013)



Geographical allocation of portfolio (as at 29 November 2013)



Top 10 holdings (as at 30 November 2013)

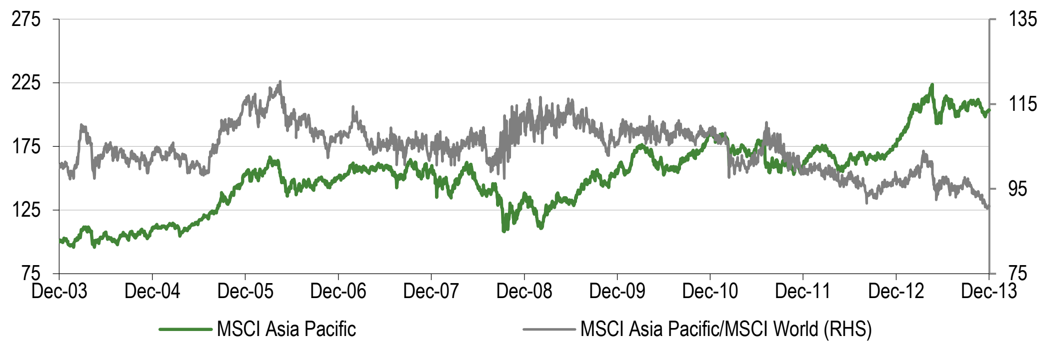
			Portfolio weight %	
Company	**Country**	**Sector**	**30 November 2013**	**29 November 2012***
HSBC	UK	Banks	2.9	3.1
China Mobile	Hong Kong	Telecom Carriers	2.6	2.6
Japan Tobacco	Japan	Tobacco	2.5	2.1
QBE Insurance	Australia	Property and Casualty insurance	2.3	2.0
Orix	Japan	Commercial Finance	2.2	N/A
Taiwan Semiconductor	Taiwan	Semiconductor Manufacturing	2.0	2.8
Oversea-Chinese Banking Corp.	Singapore	Banks	1.8	2.0
United Overseas Bank	Singapore	Banks	1.8	2.0
Itochu	Japan	Energy (general trading company)	1.7	N/A
Samsung Electronics	Korea	Communications Equipment	1.6	2.0
Top 10			**21.5**	

Source: Witan Pacific Investment Trust, Thomson Datastream, Edison Investment Research. Note: *Where no figure is shown for 2012 portfolio weight, the stock was not in the top 10.

Market outlook: Risks and recovery

The performance of the Asia Pacific market, as measured by Witan Pacific's benchmark index (MSCI Asia Pacific Free), is shown in Exhibit 2. In absolute terms the Asian market recovered strongly from the financial crisis but, as can be seen, the performance relative to the world market followed a broad downward trend from late 2009; indeed the index has underperformed over three, five and 10 years. Within these periods there have been phases of relative strength for Asia Pacific driven, for example, in H212 and H113 by the strength of the Japanese market as Abenomics gained credence. However, the strength of the US market (over 50% of the world index) has been a prominent feature contributing to Asia's underperformance, particularly over the last three years.

Exhibit 2: MSCI Asia Pacific index performance history



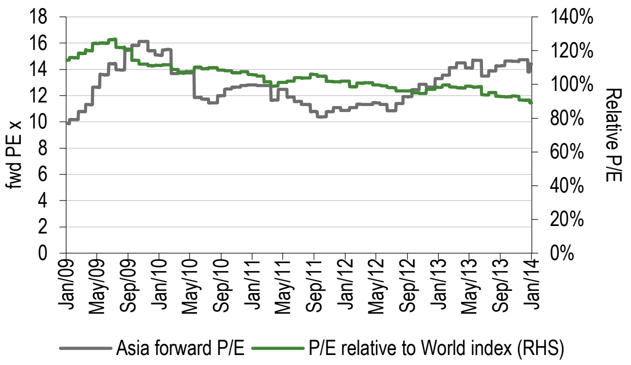
Source: Thomson Datastream. Note: Total return in £ terms.

There continue to be considerable uncertainties in the macroeconomic background globally and in the Asia Pacific region including the achievement of stable sustainable growth in China, the success of Abenomics in rekindling growth in Japan, avoidance of a major crisis in the eurozone and the successful management of QE tapering in the USA. In addition political risks and natural hazards could disrupt an otherwise benign environment (protests in Thailand, China's latest air defence zone moves and concerns over North Korea are presently in focus).

However, while commentary on prospective growth tends to be strongly hedged, forecasters generally expect recovery to continue. The IMF expects world growth to rise from 2.9% for 2013 to 4.0% in 2015. For Asia Pacific, growth is only expected to increase from 5.3% to 5.4% but this includes stable, c 7% growth in China and modest growth in Japan (c 1%). If delivered, Asian growth would still be at a significant premium to world and advanced country growth (2.5% estimated for 2015).

Without destabilising events, this should provide a relatively favourable background for Asian Pacific markets although experience suggests the linkage between economic developments and market trends is loose. As Exhibit 3 shows, the Datastream Asia index prospective P/E valuation multiple has expanded, but at 12.4x does not appear expensive compared with a 10-year average of 13.5x and range of 10.0-16.8x. Price to book and dividend yield measures are close to their average values (see Exhibit 4).

Exhibit 3: Datastream Asia index prospective P/E



Source: Thomson Datastream

Exhibit 4: Datastream Asia index 10-year metrics

	Last	High	Low	10-year average	Last % of average
P/E (12 mths fwd x)	12.4	16.8	10.0	13.5	91%
Price to book x	1.6	2.3	1.0	1.6	104%
Dividend yield %	2.2	4.1	1.4	2.1	103%
Return on equity %	11.1	13.2	3.8	10.6	107%

Source: Thomson Datastream

We would conclude that while there are risks, longer-term investors may be encouraged by these valuation measures and the prospect of faster than average growth in the Asia Pacific region. An actively managed fund, such as Witan Pacific, which aims to choose the most appropriate managers to navigate market developments, provides exposure to selected companies across the region.

Fund profile: Pan-Asia through three managers

The trust, launched in 1907, adopted an Asian focus in 1984, and was subsequently managed by F&C until May 2005 when Witan Investment Services, a subsidiary of Witan Investment Trust, took on an executive manager role advising the board on a multi-manager approach. Initially, funds were allocated equally to Aberdeen Asset Management and Nomura, and then in April 2012 the Nomura portion was reallocated to Matthews International and GaveKal. As at the end of October 2013, the asset split between Aberdeen, Matthews and GaveKal was 48%, 42% and 10% respectively. The three managers take distinctive unconstrained approaches with both Aberdeen and Matthews using a stock specific selection process and GaveKal employing a top-down overlay to allocate between equities, bonds and cash. Matthews seeks stocks with a blend of yield and growth potential. Witan Pacific is one of only two UK investment companies managed under a broad Asia Pacific including Japan mandate.

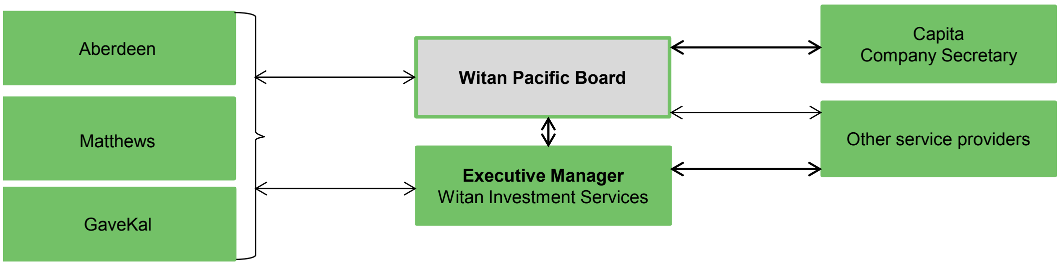
Managers: Aberdeen, Matthews and GaveKal

The managers' views: Varied but generally positive

The board is advised on the selection of managers by Witan Investment Services (WIS), the executive manager for the trust (see Exhibit 5). WIS implements the board's strategy and is responsible for monitoring and liaising with the investment managers (currently three), and the company's service providers (including custodian, fund accountant and company secretary). WIS also provides public and investor relations, and marketing services for Witan Pacific.

Manager allocation has been broadly stable since the appointment of Matthews and GaveKal in April 2012. In the three months to end October 2013 the trust moved approximately 4% of assets from Aberdeen to Matthews.

Exhibit 5: Witan Pacific organisational structure



Source: Witan Pacific Investment Trust

Aberdeen's approach has been consistent over the years, reflecting its long-term approach and focus on bottom-up stock selection rather than near-term macro developments. In its recent commentary it does note that growth slowed in Asia in 2013 with the choppiness of markets reflecting this and uncertainty over QE tapering in the US. In this environment the manager has not made substantial changes, continuing to focus on the quality of companies held.

Matthews highlight a positive take on rising wages in some Asian countries. The manager sees this as encouraging as it will further the trend towards development of domestic demand. The growth in consumer wealth in the region is expected to increase the importance of brands and encourage the growth of the service sector. From a country perspective the manager is only moderately optimistic on Japan given the risks to fully successful implementation of the government's reflationary policy. In comparison the view on China is more positive given productivity gains that are being recorded and substantial evolution that is underway in the economy towards domestic consumption.

As befits its macroeconomic expertise, GaveKal has broad ranging macroeconomic views from which we would distil the following portfolio related views: the US market is seen as mildly overvalued and in this context Asia is seen as offering a relatively attractive value with cheaper currencies, higher bond yields than previously, and relatively low P/Es. Within the region GaveKal focuses on those countries that are not dependent on external liquidity and therefore favours the Japan, China and Hong Kong markets. As a balance, the manager also cites risks relating to the potential knock on effects were there a US equity market sell-off and the possible impacts of tapering.

Asset allocation

Investment process: Three active, unconstrained managers

When Witan Pacific engages in a search for a new manager the board undertakes a formal process, reviewing a broad range of potential managers drawing on its own knowledge, advice from WIS and input from specialist consultants. In the case of the selection of Matthews and GaveKal, bfinance, a specialist fund selection consultant was employed to help in the process.

The intention at appointment is that managers will remain in place for a significant time and it is recognised that a portfolio 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. WIS monitors performance and questions are more likely to be raised by evidence of style drift than a short period of underperformance.

In terms of the number of managers, the current three are seen as providing well-diversified and balanced exposure to the Asia Pacific region while maintaining an active stance. Appointing additional managers could be inefficient from a cost perspective.

Next, we summarise the approach and background of each of the managers in turn (the percentage of assets shown for each manager is as reported at the end of July).

1) Aberdeen Asset Management (48% of assets, appointed 31 May 2005)

Aberdeen the UK, quoted, independent fund manager had £200bn[1] of funds under management at the end of September 2013 of which £37bn were in Asian equities (and £38bn in emerging markets). Aberdeen Asia was established in 1992 and now has offices across the region with 65 investment professionals.

Aberdeen has a fundamental bottom-up process, identifying individual companies with sustainable long-term growth prospects on reasonable valuations. It has an emphasis on selecting high quality companies with characteristics that include financial strength and sound management. Corporate governance and the alignment of management with shareholders' interests are also important factors in Aberdeen's assessment. Company meetings are a key part of the Aberdeen process and the team will typically meet companies three or four times a year including attendance at AGMs to establish contact with a range of managers and directors. All this forms part of the long-term approach with Aberdeen aiming to invest in portfolio companies through the economic cycle rather than attempting to engage in market timing.

2) Matthews International (42% of assets, appointed 30 April 2012)

Matthews International is an independent, privately owned asset manager founded in 1996 and focused entirely on investing in Asia. Matthews is based in San Francisco and has over 100 employees. Matthews had $25bn of assets under management at the end of September 2013. The Asia Dividend strategy, under which Witan Pacific's funds are invested, was initiated in 2006.

The investment approach is a fundamental, bottom-up one selecting companies with sustainable long-term growth prospects, strong business models, good quality management teams and reasonable valuations. The strategy invests across the market cap range and has significant exposure to small and mid-cap stocks. The Matthews approach has much in common with the Aberdeen process with the most obvious difference being the explicit dividend bias in the strategy. This involves a focus on dividends and their potential growth and has the benefit of: (1) emphasising a means of extracting value from investments; (2) selecting companies that have the discipline of returning cash to shareholders through dividends; (3) encouraging rotation in the portfolio to companies and markets offering better value; and (4) acting as a corporate governance filter, as Matthews believes that companies with a dividend culture are more likely to demonstrate respect towards all of their shareholders. We note that the former lead manager, Jesper Madsen retired at the end of October but co-manager Yu Zhang (who joined Matthews in 2007) remains in place and Robert Horrocks, the Chief Investment Officer of Matthews, shares management responsibility.

3) GaveKal (10% of assets, appointed 24 April 2012)

GaveKal was founded in 2001 by Charles Gave, Anatole Kaletsky and Louis-Vincent Gave. The Asian Opportunities UCITS fund in which Witan Pacific is invested was founded in 2006 and for a period was run through a joint venture with Marshall Wace. The JV was unwound in 2013 with all staff associated with the Asian Opportunities fund remaining with GaveKal. The fund has over $600m under management, is long-only and does not employ leverage. GaveKal has a strong capability in macroeconomic analysis with more than 25 researchers in this area. Managers of the fund are Louis-Vincent Gave (responsible for asset allocation) and Alfred Ho (responsible for equities).

[1] Not including the recently announced Scottish Widows Investment Partnership acquisition that is due to complete in Q114.

The managers see two main challenges when investing in Asia: first, significant individual company risks and second, the potential for abrupt changes in government policies where processes differ substantially from those that prevail in the West. As a consequence they regard either a bottom-up growth or a top-down strategy, focusing on high beta stocks in high growth markets as being capable of delivering better risk-adjusted returns than the benchmark. The Asian Opportunities fund combines both with a bottom-up growth segment and a thematic, country element with a growth bias; there is also a fixed-income/cash component that provides some stability to balance the high-beta exposure within the fund.

The three managers therefore have distinctive approaches to managing assets in the region providing investors in Witan Pacific with a managed exposure to these processes. In the following section we show the underlying exposures that the three managers' selections produce by geography and sector.

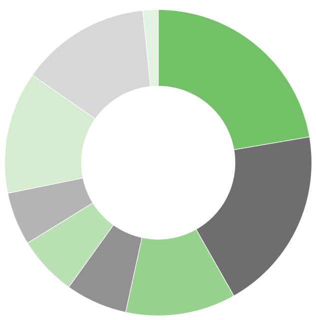
Overview

As described, Witan Pacific has three managers under its multi-manager process investing across the broad Asia Pacific region. The number of underlying holdings is not specified but concentration as measured by the percentage of assets accounted for by the top 10 holdings is somewhat lower than the average for the two Asian sectors at 22% versus 34%. Despite this, the portfolio has distinctive active positions compared with its benchmark that are outlined in the following section (see geographical analysis, Exhibit 8, for example).

Current portfolio positioning

As Exhibit 6 shows, the principal underlying exposures are in the financials, consumer services and industrials sectors. Not shown here, but the most noticeable change over the prior year was an increase in consumer goods balanced by reductions in 'other', and basic materials.

Exhibit 6: WPC sector weights November 2013



Source: WPC – on a look-through basis

Exhibit 7: WPC sector weights July 2013/12

Sector	July 2013	July 2012	Bench-mark	Active weight
Consumer Staples	13.0	12.0	7.0	+6.0
Other	9.0	10.0	3.0	+6.0
Health Care	5.0	4.0	4.0	+1.0
Telecom Services	7.0	7.0	6.0	+1.0
Consumer Discretionary	12.0	9.0	13.0	-1.0
Energy	3.0	5.0	4.0	-1.0
Materials	7.0	7.0	8.0	-1.0
Industrials	9.0	9.0	12.0	-3.0
Financials	28.0	28.0	31.0	-3.0
Information Technology	7.0	9.0	12.0	-5.0
	100.0	**100.0**	**100.0**	**0.0**

Source: WPC. Note: Benchmark and active weight, July 2013.

Sector weights (Exhibits 6 and 7) on a look-through basis showed active weights of between +6% and -5% at the half year end in July 2013 with the larger positions being an overweight position in Consumer Staples and an underweight in Information Technology. The changes between July 2012 and 2013 are within +/-3 percentage points with the larger changes being lower percentages for Information Technology and Energy and an increase for Consumer Discretionary. Given the approach of the managers, the changes reflect stock selection and performance rather than allocation decisions.

The same is predominantly true of the geographical exposure but, with approximately 10% of assets, GaveKal's approach applies a top-down overlay to its stock selection. The geographical analysis (Exhibits 8 and 9) shows a more marked variance from benchmark weightings (+8 to -19 percentage points). The underweight position in Japan is the strongest feature and is replicated at all three managers. The largest overweights are in Hong Kong and Singapore (which are home to companies with broad regional reach). The analysis by manager illustrates that stock selection and macro allocation (in the case of GaveKal) have produced significantly different active positions which are moderated at the portfolio level. The 13% cash holding shown for GaveKal in Exhibit 8 reflects its fixed income/cash allocation

Exhibit 8: Look-through geographical breakdown (%)

Country	End November 2013	End November 2012	Benchmark end November 2013	Active weight vs benchmark	Change from November 2012
Hong Kong	13.6	16.1	5.6	8.0	-2.5
Singapore	10.6	12.9	2.9	7.7	-2.3
India	4.5	4.8	3.4	1.1	-0.3
China	12.2	9.2	11.5	0.7	3.0
Taiwan	4.4	N/A	6.4	-2.0	N/A
Australia	9.7	7.9	14.9	-5.2	1.8
South Korea	3.5	3.7	9.2	-5.7	-0.2
Japan	21.3	20.0	40.6	-19.3	1.3
Other	18.6	24.8	5.5	13.1	N/A
Cash	1.6	0.6		1.6	1.0
	100.0	100.0	100.0		

Source: Witan Pacific Investment Trust, Edison Investment Research

Exhibit 9: Geographical exposure by manager – active weights July 2013 (%)

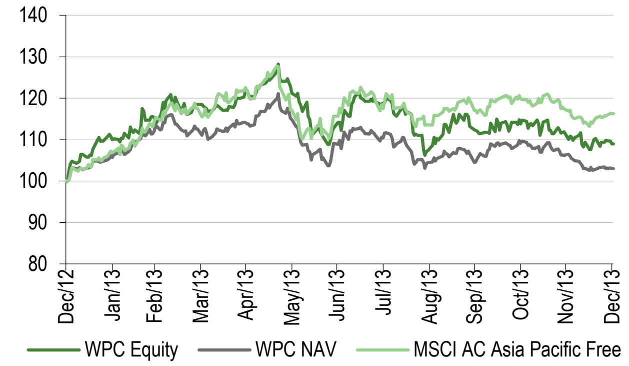
Country	Weight	Active weight	Active weight	Active weight	Active weight
	Portfolio	Aberdeen	Matthews	GaveKal	Portfolio
Hong Kong	17	14	6	14	11
Singapore	13	13	6	6	10
Thailand	3	3	1	-1	2
China	12	-6	9	7	1
India	5	4	-3	0	1
Indonesia	3	0	4	-1	1
Malaysia	3	0	1	4	1
The Philipinnes	2	0	0	10	1
Taiwan	5	-2	0	-7	-2
Australia	10	-4	-3	-14	-4
South Korea	3	-5	-4	-7	-5
Japan	24	-17	-19	-22	-17
Cash		1	2	13	
	100	**1**	**0**	**2**	**0**

Source: Witan Pacific Investment Trust, Edison Investment Research

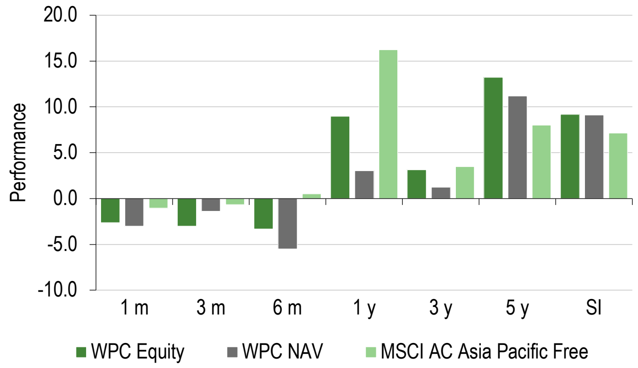
Performance: Ahead of benchmark over five years

Exhibit 10: 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 SI figures are annualised.

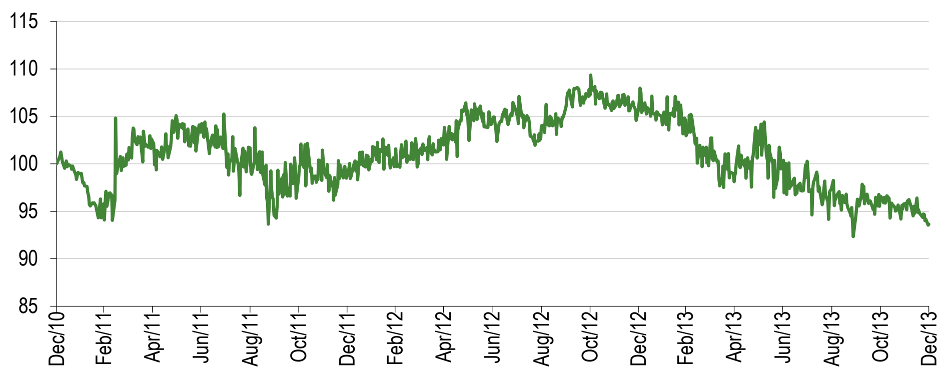
Exhibit 11: Share price and NAV total return performance, difference versus market indices (percentage points)

	1 month	3 months	6 months	1 year	3 y	5 y	SI
Price versus MSCI AC Asia Pacific Free	(1.6)	(2.3)	(3.8)	(7.3)	(1.2)	39.3	31.9
NAV versus MSCI AC Asia Pacific Free	(2.0)	(0.7)	(6.0)	(13.2)	(7.0)	23.1	30.6
Price versus FTSE All-Share	(4.5)	(8.5)	(14.7)	(11.8)	(21.3)	(8.9)	17.0
NAV versus FTSE All-Share	(4.9)	(6.8)	(16.9)	(17.8)	(27.2)	(25.2)	15.6
Price versus MSCI World	(3.6)	(8.7)	(10.5)	(16.0)	(23.6)	6.4	12.6
NAV versus MSCI World	(4.0)	(7.1)	(12.7)	(22.0)	(29.5)	(9.8)	11.2

Source: Thomson Datastream, Edison Investment Research. Notes: Data to end December 2013. MSCI Asia Pacific Free is the WPC benchmark. All indices total return and in sterling terms. SI = since multi-manager approach adopted 31 May 2005.

The trust's NAV total return performance has been below its benchmark (and the MSCI World and FTSE All-Share indices) over one and three years but ahead of benchmark over five years and all three indices since the current strategy was adopted (see Exhibits 10 and 11). The underperformance has been most marked over the last year with a negative differential in NAV performance of 13.2 percentage points compared with the benchmark: we assume that a large part of this can be attributed to Witan Pacific's underweight position in Japan. The risk adjusted returns, as measured by Sharpe ratio, have outperformed the combined Asian sector average over one year and been modestly below average over three and five years (see Peer group comparison).

Exhibit 12: Witan Pacific performance relative to MSCI Asia Pacific Free



Source: Thomson Datastream, Edison Investment Research

The following table shows the performance by investment manager for the first half of the year to end January 2014 and since inception. For the first half, Matthews was the only manager to outperform but did so by a comfortable margin. Although covering a very short period, the differential in first half performance is illustrative of the potential benefits of allocating to complementary managers with a diversity of approach. In particular Matthews, while following a broadly similar approach to Aberdeen but with an income bias, has recorded a notably strong relative performance since its appointment in April 2012.

Exhibit 13: Witan performance by manager

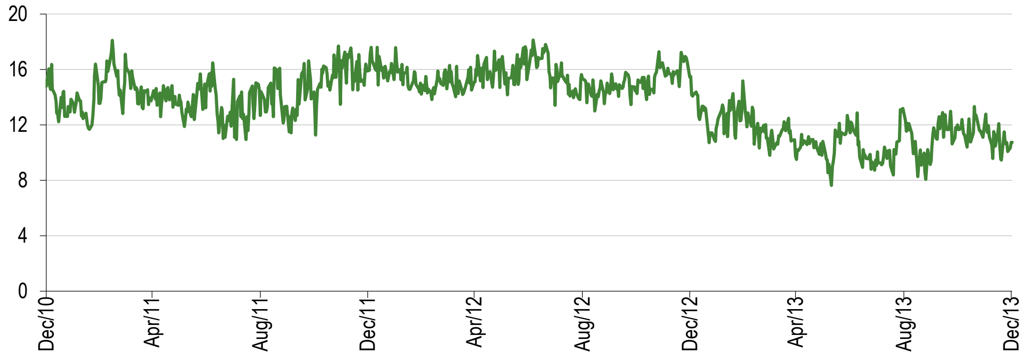
Investment manager	Inception date	% of WPC funds under management	Performance (%)			
			1 February 2013 to 31 July 2013		Since inception	
			WPC	Benchmark	WPC	Benchmark
Aberdeen	31.05.05	52.1	2.0	5.5	12.8	8.8
Matthews	30.04.12	38.3	11.2	5.5	22.6	13.6
GaveKal	24.04.12	9.6	0.4	5.5	12.1	14.4

Source: Witan Pacific Investment Trust. Note: Performance gross of manager fees and annualised.

Discount: Modestly below three-year average

Over the last three years the discount (on NAV ex-income) has averaged 13.6%, but the discount has contracted somewhat over the last year moving into single figures (see Exhibit 14) before rising to the current level of approximately 11%. The narrowing of discount from late 2012 coincided with a period of strong performance for Asian markets while the subsequent flattening and increase in discount coincided with weakness in emerging markets and then broadly flat performance of Witan Pacific's benchmark. The general environment in the Asian market and Witan Pacific's relative performance are likely to determine whether the discount stays below its recent average.

Exhibit 14: Discount over three years (NAV at par ex-income)



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

Capital structure and fees

Witan Pacific has 66m ordinary shares in issue. The company is authorised to buy back up to c 14.99% of the issued share capital; the board has stated that it believes it is in shareholders' interests to buy back shares when they are standing at a substantial and anomalous discount to their NAV. The objective of share buybacks would be a discount that is comparable to peers and reflects investment performance, taking into account market conditions.

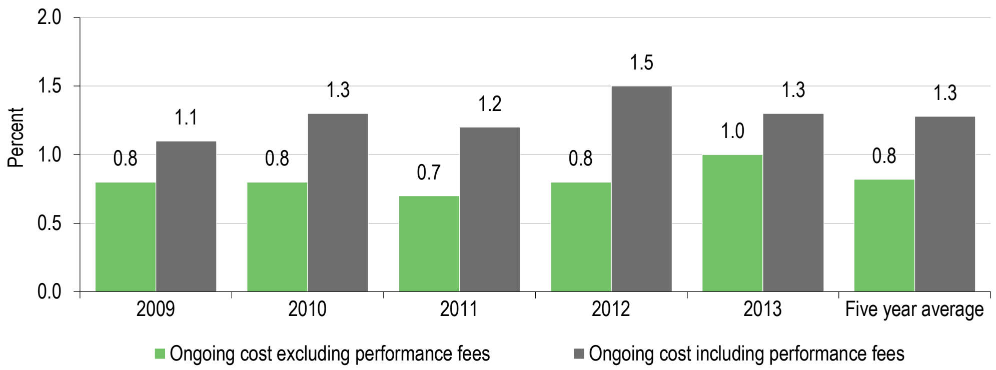
The company has the power under its articles to borrow up to 100% of the adjusted total of capital and reserves. At the end of July 2013 the trust had a bank loan of £8.5m outstanding and cash and deposits of £2.9m compared with shareholders funds of £180.3m. Net gearing[2] stood at 3% at the end of November and at the last five financial year ends has been between 4.2% and net cash of 1.6%. In practice therefore the board has implemented a modest policy in terms of gearing and the manager indicates that a level in the range of 3.5% to 5% as being normal.

The company aims to control costs, seeking to maintain ongoing charges (excluding performance fees of less than 1%). As explained earlier, Witan Investment Services acts as Executive Manager and there are currently three investment managers. Base management fees are between 0.2% and 0.75% per annum of assets under management. Aberdeen, which has a low base fee, is entitled to a 15% performance fee based on outperformance of the benchmark over a rolling three year period. The fee is subject to a cap.

The ongoing charge therefore captures the costs associated with both Witan Investment Services and the investment manager mandates. Exhibit 15 summarises the recent history for ongoing charges and the five-year averages. The ex-performance ongoing charge shows a modest upward trend over the last three years partly reflecting the April 2012 reallocation of the Nomura mandate, which paid particularly low fees. The ex-performance charge has averaged 0.8% and cum-performance charge 1.3% over the 2009-13 period. The average ongoing charge for Asian investment companies was 1.1% (see Exhibit 16).

[2] Calculated as the difference between total assets less cash and net assets as a percentage of net assets).

Exhibit 15: Ongoing charges with and without performance fees, as % of average net assets



Source: Witan Pacific Investment Trust. Note: Financial years to end January

Dividend policy

Witan Pacific's investment objective is to provide capital growth and real growth in dividends over time, subject to the underlying trend in the company's net income. Over the last 10 years, the compound annual growth in dividends of 15% has substantially outpaced the rate of UK retail price inflation of 3%.

At the half year end in July 2013, revenue reserves stood at £11.1m after adjusting for the interim dividend payment; this is equivalent to 16.8p per share or nearly four times the dividend for FY2013. The chairman indicated that revenue earnings had been lower than expected in the period, reflecting lower economic growth and adverse currency movements, but that if there were to be a need to draw on reserves this would follow seven years in which reserves had increased. The interim dividend was increase by 2.5%.

At the 2013 AGM the company secured permission to distribute capital as dividends ensuring further flexibility in deciding on dividends. Nevertheless, we note that this appears unlikely to be required in the near term while on a medium-term view the company's policy is that dividends should be funded from revenues.

The strategies of two of the fund managers, Aberdeen and GaveKal (c 62% of assets under management) have no explicit income component and, in the case of GaveKal, a growth bias. Matthews (c 38% of assets) does run a strategy focused on growing dividend income. The average yield in the Asian region is about 2.2% (Datastream Asia index as at end December) but markets such as China, Singapore and Hong Kong have yields significantly above this level (4.4%, 3.4% and 2.8% respectively). In contrast the average market yield in Japan, where the Witan Pacific portfolio is underweight, is 1.6%.

Peer group comparison

As an Asia Pacific trust, including Japan, Witan Pacific only has one direct investment company peer: Martin Currie Pacific. In the peer group comparison (Exhibit 16) we show the two investment companies and also the weighted average for the combined Asia Pacific cum- and ex-Japan AIC investment company sectors (including a total of 17 companies). As an additional comparison we show the performance data for a selection of open-ended Asia Pacific funds.

Comparing NAV total return performance, Witan Pacific has outperformed the combined sector average over one year and its direct peer over three and five years. Among the combined 16 investment companies with performance data it ranks tenth, tenth and fourteenth over one, three and five years respectively. If placed among the open-ended funds Witan Pacific would rank sixth, fifth and fifth in the periods shown.

On a risk-adjusted basis, as represented by the Sharpe ratio, Witan Pacific is ahead of the combined sector average for one year and modestly below the average over three and five years (Witan Pacific: 0.6, 0.3 and 0.9, versus sector averages of 0.4, 0.5 and 1.1 over one, three and five years respectively).

The discount to NAV at 10.8% was noticeably above the combined sector average of 5.0% but similar to the Martin Currie Pacific level.

Exhibit 16: Asian sector investment trusts and funds – selected peers and average

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Yield (%)
Investment companies											
Martin Currie Pacific	117	3.3	2.5	48.3	0.6	0.3	(13.2)	1.3	No	103.0	2.2
Witan Pacific	149	2.9	3.6	69.7	0.6	0.3	(10.8)	0.9	Yes	98.0	1.9
Asian Sectors wtd average		1.5	12.7	128.2	0.4	0.5	(5.0)	1.1		102.5	2.3
Minimum	44	(8.0)	(14.1)	48.3	(0.2)	(0.1)	(13.2)	0.8		93.0	0.5
Maximum	475	12.9	39.1	246.4	1.1	0.9	3.1	1.6		111.0	6.0
Witan Pacific rank	11	10	10	14	3	8	12	14		13	7
Number in group	17	16	16	16	16	16	17	16		17	15
Open-ended funds											
Aberdeen Asia Pac. & Japan		(2.6)	0.2	81.6							
Baillie Gifford Dev. Asia Pac.		10.4	6.7	62.9							
GAM Star Asia Pacific Equity		17.0	2.3	27.8							
Invesco Perp. Pacific		22.8	13.5	94.4							
JPM Pacific Equity A		14.2	7.6	55.8							
SJP Far East		(2.9)	(1.1)	75.5							
S&W Far East. Inc. & Grwth.		15.7	6.0	93.1							

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 five directors, all of whom are independent and non-executive. The directors, with year of appointment in brackets, are as follows: Gillian Nott, OBE (appointed 1999 and chairman from June 2006), Sarah Bates (2004, senior independent director), Alan Barber (2007), Diane Seymour-Williams (2010) and Dermot McMeekin (2012).

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