EDISON

The World Trust Fund

Harvesting value from NAV discounts

Investment companies

The World Trust Fund (WTR) aims to achieve long-term capital appreciation by investing primarily in a diversified portfolio of closed-end investment and holding companies whose shares trade at a discount to the underlying net asset value. The focus on identifying unwarranted discounts and detailed work validating the quality of assets and managers makes for a differentiated offering. The underlying average discount of portfolio holdings is over 19% compared with an average discount for UK investment trusts of under 4%, suggesting scope to crystallise value over time through corporate action or shifts in market sentiment.

12 months ending	Share price (%)	NAV (%)	MSCI AC World (%)	MSCI World ex US (%)	DS World Inv. Cos (%)
30/11/11	(8.4)	(9.5)	(0.8)	(6.4)	(1.8)
30/11/12	8.9	11.0	11.8	10.1	16.4
30/11/13	23.5	21.6	21.4	16.2	8.8
30/11/14	3.6	8.1	13.6	5.7	9.3

Note: All total returns in £ terms.

Investment strategy: Selecting attractive discounts

Manager Kun Deng and the Lazard Asset Management Discounted Assets Strategies team follow a discount strategy, seeking to identify investment and holding companies where there is the prospect of a catalyst allowing the realisation of value. When assessing potential investments, the manager considers two levels of discount: the discount to NAV of the investment/holding company itself and whether the assets it holds are unduly discounted. The manager believes the resources on which the team is able to draw enable it to carry out detailed work assessing individual investments, which differentiates it from other managers operating in this area. The process is bottom up with macro perspectives used to gauge the background for individual investments, not to allocate between markets and sectors. The result is that WTR is likely to have significantly different weightings from its benchmark (MSCI AC World Index).

Outlook: Valuations have risen, but still opportunities

Average discounts for closed-end funds and investment trusts have contracted substantially from crisis levels, but within the averages the range of discounts remains wide, providing good opportunities for the manager to sift for value. The manager sees the potential for further market volatility: while this could mean short-term market corrections, it would also provide additional opportunities for the fund to exploit.

Valuation: Double discount

WTR's discount to NAV is similar to its three-year average at 12% versus 11.5% and has recently traded within a relatively narrow range. Taking the current discount, together with average underlying discount of portfolio holdings of 19.8% (at end June), gives a combined discount of 29% or, as the manager puts it, a $1 investment buys $1.42 in assets.

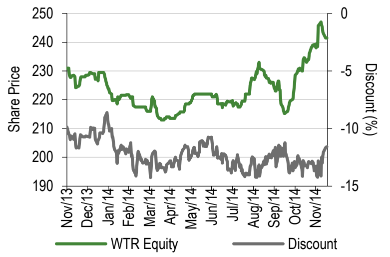
19 December 2014

Price	**241.5p**
Market cap	**£97.7m**
AUM	**£110m**
NAV*	274.4p
Discount to NAV	12.0%
Yield	Nil

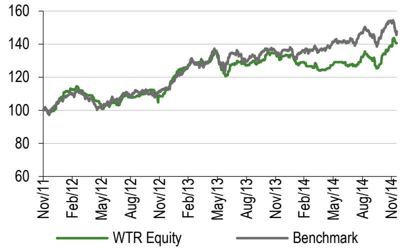
*Including income, 17 December 2014.

Ordinary shares in issue	40.5m
Code	WTR
Primary exchange	LSE
AIC sector	Global

Share price/discount performance*



Three-year cumulative perf. graph



52-week high/low	247.0p	213.0p
NAV* high/low	286.8p	241.7p

*Including income.

Gearing

Gross	0.4%
Net	0.4%

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Edison profile page

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Exhibit 1: Fund at a glance

Investment objective and fund background

The World Trust Fund (WTR) seeks to achieve long-term capital appreciation by investing primarily in a diversified portfolio of companies whose shares trade at a discount to the underlying net asset value. The fund measures its performance against the MSCI AC World Index.

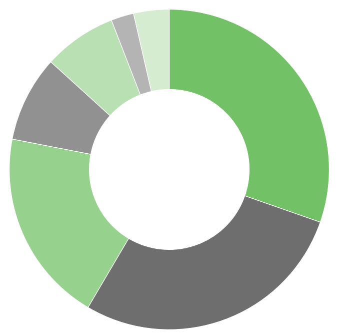
Recent developments

26 November 2014: Half yearly report released. Diluted NAV +2.8%% versus MSCI AC World ex-US +2.4% (£ terms). Dividend of 0.5p declared.
19 August 2014: Tony Morrongiello appointed to board.

Forthcoming		Capital structure		Fund details	
AGM	August 2015	Ongoing charge	1.47% (FY14)	Management Group	Lazard Asset Management LLC
Full year results	July 2015	Net gearing	0.4%	Manager	Kun Deng
Year end	31 March	Annual mgmt fee	0.75% of NAV	Address	30 Rockefeller Plaza, New York, NY 10112 USA
Dividend paid	See page 11	Performance fee	See page 11		
Launch date	1991	Fund life	Indefinite (annual cont. vote)	Phone	+1212 632 6000
Continuation vote	Annual	Loan facilities	Annual facility	Website	www.theworldtrustfund.com

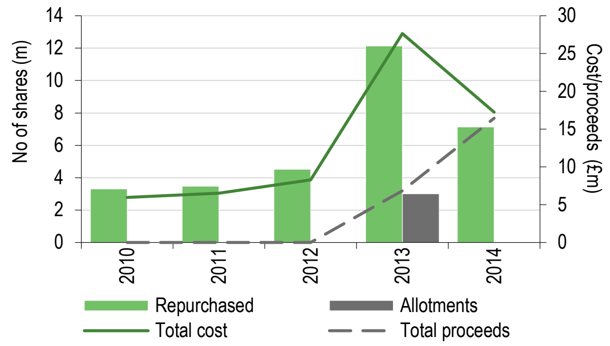
Regional exposure (30 November 2014 – net exposures)

Net exposures totalled 100.2% - analysed below as a percentage of 100%

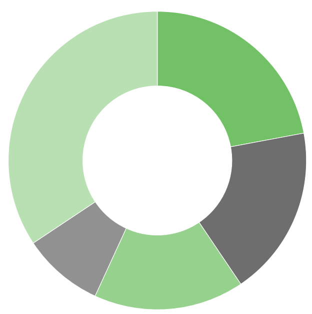


Share buyback policy and history

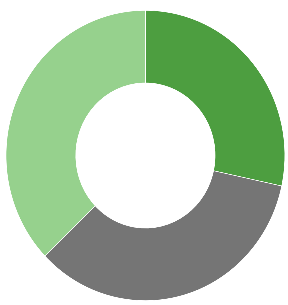
WTR is authorised to repurchase up to 14.99% of its ordinary shares.



Shareholder base (as at 18 December 2014)



Portfolio by company type (as at 30 November 2014)



Top 10 holdings (as at 30 November 2014)

	Portfolio weight % November 2014	Discount % November 2014	Portfolio weight % November 2013	Discount % November 2013
Citic Securities	7.6	7.4	6.7	0.1
BB Biotech	6.8	24.8	4.4	21.5
First Pacific Co.	6.3	35.5	7.0	28.8
General American Investors	6.0	13.7	6.0	14.4
Eurazeo	5.6	19.8	5.7	10.1
JPMorgan European Smaller Cos.	4.9	14.3	5.9	7.6
Tri Continental	4.5	14.2	4.2	14.6
JPMorgan Emerging Markets	4.3	9.0	4.2	8.2
JPMorgan Japanese	3.7	12.1	4.2	8.1
Adams Express	3.6	13.9	N/A	N/A
Top 10 weight/wtd average	**52.3**	**19.4**	**52.5**	

Source: The World Trust Fund, Thomson Datastream, Edison Investment Research. Note: N/A where stock not in top 10 last year. Rounding errors may mean that some percentages do not sum to 100%.

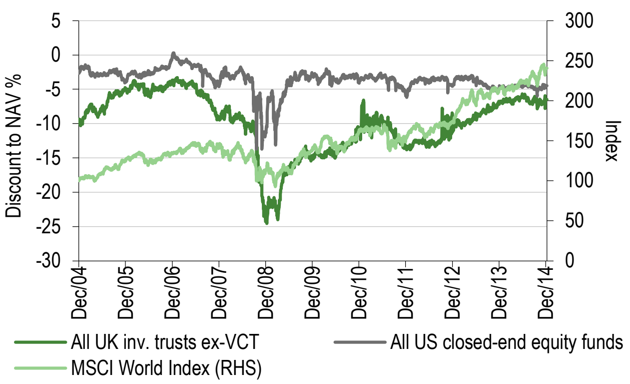
Discounted asset outlook: Still opportunities

The World Trust Fund manager follows an investment process focused on identifying securities trading on unduly wide discounts to NAV where a catalyst is identified to realise this value (see page 5). To provide a starting point for assessing the outlook for this kind of strategy we look at trends in the level of closed-end fund discounts to NAV and consider the broad backdrop for equity markets, also likely to be a significant influence on the fund's performance.

In Exhibit 2 we have compared the level of discount to NAV for Morningstar indices of UK investment trusts and US closed-end funds: we also show the MSCI World index over the same period. We would highlight three features from this comparison.

1. Discounts have moved over a wide range during this 10-year period, but most of the volatility has been focused around the financial crisis.
2. While discounts in the US and UK both widened dramatically during the crisis their recovery followed a different path, with the US bouncing much more sharply and the UK companies on average moving to a narrower discount over the last two years.
3. The level of UK discount pre- and post-crisis has loosely reflected the trends in the global equity index, while the closed-end fund discount in the US has appeared to hit a floor at around 5%.

Exhibit 2: Closed-end fund discount history



Source: Morningstar, Thomson Datastream

Exhibit 3: Investment company sector discounts

	Discount Dec 17 2014 (%)	10 year average discount (%)
All investment trusts ex-VCT	2.0	6.9
Asia Pacific	9.9	3.7
European	3.3	9.1
European smaller companies	10.5	10.5
Emerging markets	7.2	12.1
Private equity	18.3	0.9

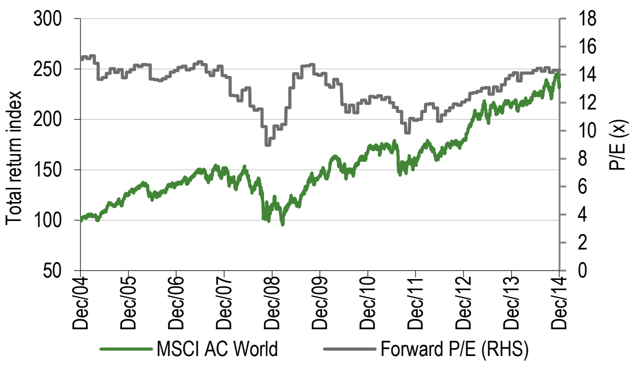
Source: Morningstar, Edison Investment Research

Within the overall index averages there is a significant range of discounts and this is illustrated in part by Exhibit 3, which shows the discounts to NAV for selected regional and private equity peer group indices; these range between 2.0% for all investment trusts to 18.3% for private equity. Notably, private equity and Asia-Pacific trust indices are trading at discounts significantly above 10-year averages, while the other indices shown are either in line (European smaller companies) or noticeably below their historical averages. At the individual stock level, where The World Trust Fund is applying its investment process, the differences are even more marked and, taking the UK private equity sector as an example, discounts range between 61% and 4% (excluding 3i which trades on a premium of c 22%). This begins to illustrate the potential for a manager to sift the investment opportunities within the closed-end fund markets globally. Similar arguments would apply in the holding company arena.

The fund's diversified portfolio gives it broad global exposures, primarily to equity markets. The discount for closed-end funds tends to contract and expand with significant moves up and down in markets (see Exhibit 2), so it is relevant to consider the outlook for equity markets in general. Exhibit 4 reminds us how strong the recovery of world markets has been following the financial crisis. Even after recent volatility this has left many markets at multiples that are above 10-year averages; for example the MSCI AC World Index trades on a prospective P/E multiple of 14.3x compared with its 10-year average of 13.0x.

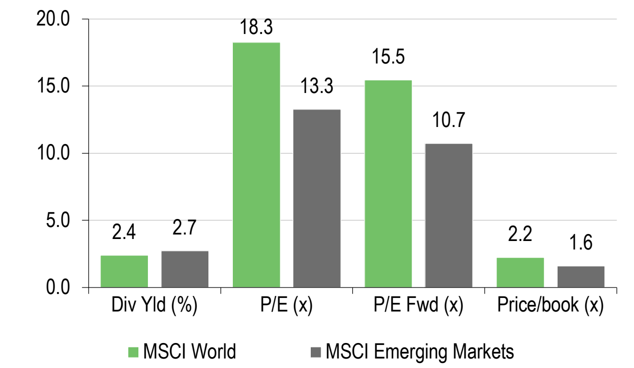
While for some commentators this is something of a warning indicator, it should be remembered that the multiple remains below its 10-year high of 15.3x and there are significant variations in valuation between markets, let alone individual stocks. Exhibit 5 provides one example of this differentiation, comparing yield, P/Es and price to book for the MSCI World and Emerging Market indices. This is pertinent for the fund, which has a substantial overweight position in emerging markets.

Exhibit 4: World market index and P/E



Source: Thomson Datastream, Edison Investment Research

Exhibit 5: World and emerging market valuations



Source: MSCI as at end-Nov. 2014, Edison Investment Research

While macroeconomic and geopolitical risks for equity markets remain a feature (tapering, faltering European growth, negative effects from the oil price collapse and Middle Eastern conflict, for example), economic trends are tentatively supportive with estimates for world output (IMF, October update) showing growth increasing from 3.3% in 2014 to 3.8% in 2015. Even after a downward adjustment to forecasts, growth for emerging markets is expected to increase from 4.4% to 5.0% over the same period.

Drawing these strands together, we have an environment in which discounts in closed-end funds have generally contracted, but there are still areas where wider discounts persist; equity market valuations are mostly above historical averages but not at peak levels; and the economic background has material risks, but growth is still on a broadly positive trend. Within this setting a selective discount-focused process has the potential to identify assets that have yet to be revalued and to moderate downside risks through the emphasis on tangible assets.

Fund profile: Identifying unwarranted discounts

Launched in July 1991, The World Trust Fund is an investment company incorporated in Luxembourg and quoted on the London Stock Exchange (LSE). The fund aims to achieve long-term capital appreciation through investing in a portfolio of companies trading at a discount to net asset value. The manager since launch, Lazard Asset Management, follows a process that is focused on identifying these discounted assets and confirming that the apparent value is real and that there is a prospect of this value being recognised. The fund invests in closed-end funds, investment trusts, holding companies or companies with similar characteristics. Since 2009 the fund benchmark has been the MSCI AC World Index. This was changed from the MSCI World Index to reflect the emerging market component of the fund’s portfolio. In the current year the company introduced the MSCI AC World ex-US Index as an additional reference index given the sustained and significant underweight position of the fund in the US relative to its benchmark. There has been no change in investment approach linked to these benchmark considerations.

The fund manager: Kun Deng

The manager's view: Tangible assets a sound starting point

Manager Kun Deng underlines the differentiation of the investment process used to manage WTR's assets with tangible assets providing a relatively stable starting point for assessing value and discounts (see next section for details). He also emphasises that while the macro environment for a stock is assessed, as a manager he is not looking to allocate assets to a particular geography or sector on a top-down basis. The portfolio's underweight to the US and overweight in emerging markets therefore arise from bottom-up selections.

The key driver of the c 30% exposure to emerging markets is the level of discounts available with portfolio holdings in emerging market companies having an average discount to NAV of 26.3% at end March compared with 14.4% for developed market holdings. Having said this, Deng also makes the broader case for emerging market investments referencing relatively attractive macroeconomic fundamentals, improving corporate earnings and more favourable equity valuations. He expects emerging markets to outperform and looks for fund flows to return, providing substantial upward pressure on share prices in these markets.

The manager highlights the regular flow of corporate actions among portfolio holdings (often supported by WTR) that contribute to value realisation. During the last financial year there were six tender offers and one partial liquidation. As an example of the tender offers, Swiss Helvetia tendered for 15% of its shares at 95% of NAV, enabling WTR to realise 24% of its shares at a reduced discount as not all shareholders participated. The liquidation involved Tau Capital, which returned 30% of NAV to shareholders, again allowing WTR to crystallise part of the value of its holding.

Looking at the current market background, Deng sees an increase in the general level of volatility as likely given the geopolitical and economic uncertainties that prevail. While potentially negative for markets in the near term, he expects this to provide increased opportunities for the fund to acquire undervalued assets.

Asset allocation

Investment process: Discount and asset value are key

The investment process employed by the Lazard Asset Management Discounted Assets Strategies team consists of four main steps.

1. Screening the universe to identify potential opportunities offering attractive discounts.
2. Macro analysis to check that the environment for the potential investment is favourable.
3. Fundamental analysis looking at the manager's style and underlying value of the assets.
4. Portfolio construction involving reaffirmation of value potential with consideration of downside and identification of catalysts.

In implementing the process, Kun Deng, who is responsible for Discounted Assets Strategies and has advised WTR since 1997, can call on an experienced team (Exhibit 6). The team in turn is able to draw on the wider global resources of Lazard Asset Management, which has more than 300 investment professionals and manages over £114bn, of which approximately £3.2bn is in Discounted Assets Strategies.

Exhibit 6: Lazard Asset Management Discounted Assets Strategies team

	Function/title	Based	Investment coverage	Years of experience	Years at Lazard
Kun Deng, CFA	Portfolio manager/Analyst	New York	Lead PM	19	16
David Bliss	Portfolio manager/Analyst	London	Europe, UK, Japan	31	7
Lee Ann Alexandrakis	Portfolio manager/Analyst	New York	USA, Latin America	17	14
Ming Zhong, CFA	Portfolio manager/Analyst	New York	Asia	9	8
Edward Keating	Client portfolio manager	New York		12	12
J. Steuart Marshall	Trader	New York		23	19

Source: The World Trust Fund

Looking at the process in more detail, the underlying approach is that the manager seeks to identify assets that are trading at absolute and relative discounts to their net asset value. The manager believes using tangible assets as a starting point provides a basis for identifying value that can be applied through market cycles. The discount provides an opportunity to crystallise value that could be facilitated, for example, by the limited life of a company or corporate actions/restructurings.

Screening is not seen as a strongly differentiating part of the process as it is mechanical and sifts the universe, applying standard measures including the absolute discount (say above 15%), stocks that are trading on bigger discounts than peers, stocks that are trading on larger discounts than they have historically or where the z-score (a measure that takes account of the variability of discount) suggests there may be an opportunity. In addition to the formal screening process, ideas can come directly from the broader analyst team. An example of this was in the biotechnology sector, where the analyst highlighted increasing M&A as an indicator of potential value in the underlying assets in this sector; investment company BB Biotech, where the holding was initiated in February 2012, is still a top 10 holding in the portfolio.

Macro analysis follows: this does not involve setting top-down country or sector allocations but rather an assessment of whether the market and economic environment is conducive for a stock to rerate. Factors taken into account will be where in the economic cycle a country is, what the monetary situation is (easy or tight) and whether a market or sector appears under or over-valued by reference to history. If there are no attractive discount opportunities in a country then the manager will not invest there purely to modify the underweight position.

Fundamental analysis of a stock is carried out if it emerges from the first two steps in the process. The analysis consists of an assessment of the underlying assets to determine if they are themselves trading at a discounted value and whether they are in sectors and countries that the manager sees as attractive. The manager of a company's assets is also assessed in terms of style, consistency of approach and the depth of team in support (countering key man risk). The board membership is also monitored to gauge how effective it is likely to be in representing shareholder interests. The manager believes the resources that are brought to bear in this step of the process are a real differentiator allowing a more detailed examination of candidate investments.

Catalysts for revaluation must be identified before an investment will be made, although the manager is prepared to take a patient approach if this is required to see an asset class return to favour, for example. The manager notes that many securities have been in the portfolio for several years, although more typically a catalyst is expected to emerge within a year. Catalysts could include capital actions such as tenders or restructurings that help reduce the discount or allow investors to realise part of their holding at a much-reduced discount. WTR takes an active but not high-profile role, preferring to work with the board of a company to realise value. It can assist in some cases by suggesting candidates for board membership, thereby contributing to enhanced corporate governance.

Portfolio construction is the final stage in the process and the team answers four questions, which in part reaffirm the judgements made previously. (1) Is the value identified genuine and what are the downside risks? (2) Does the company take reasonable care of the assets on behalf of shareholders and is there scope to change behaviour positively? (3) Is the company properly diversified (this is seen as moderating the risk of unfavourable macro developments)? (4) How does the stock fit with the rest of the portfolio (does it create concentration risk through overlapping underlying stock holdings)?

Hedging is used on occasions (see Exhibit 11 page 9 for a record of its employment since 2000). This could be when the Lazard investment team regard market levels as irrational in the near term or where attractive discount opportunities are identified but the manager is uncomfortable with the market risks (Russia being a recent example where shorting was used to mitigate country risk). The manager notes that there is a risk of a complete loss of value of a short position but underlines that the intention of these positions is to hedge existing exposures (such as the tech sector in 2000/2001) rather than taking an unhedged bet. The instruments typically used are liquid ETFs or closed-end funds trading at a premium.

Foreign exchange exposures are not currently hedged.

Current portfolio positioning

The fund has around 35 holdings, with the top 10 accounting for 53% of the portfolio. The level of concentration was increased during FY13 with the number of holdings reduced from c 50 to provide a greater focus on best ideas. While the stock selection is therefore relatively concentrated, the number of underlying stocks held by the closed-end funds together with the holding companies is very large at approximately 2,300.

The main geographical exposures are shown in Exhibit 7, highlighting the significant underweight position in the US relative to the benchmark, a position that has been a feature of the portfolio for some years, reflecting primarily an outcome of the bottom-up stock selection process. Less obvious but partly apparent in the overweights in China, Philippines and Indonesia is the significant exposure to emerging markets, which at the end of March stood at nearly 28%, having ranged between 24% and 32% in 2009-14.

The notable changes over the last year have been increases in US and Chinese weightings and the reduction for Other countries (as classified in Exhibit 7).

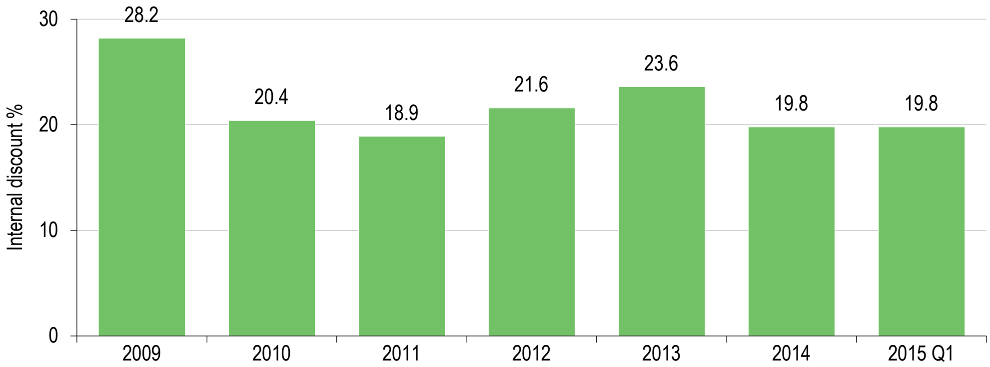
Exhibit 7: Top ten country exposures

	Portfolio weight end November 2014 (%)	MSCI AC World Index (%)	Active weight vs index (%)	Trust weight/Index weight (%)	End November 2013 (%)
United States	27.9	51.6	-23.7	0.5	18.1
China	15.2	2.2	13.0	6.9	13.0
Japan	8.7	7.1	1.6	1.2	10.4
United Kingdom	7.4	7.0	0.4	1.1	8.0
France	4.9	3.4	1.5	1.4	5.4
Switzerland	4.8	3.2	1.6	1.5	5.7
Philippines	4.4	0.1	4.3	44.0	4.9
Singapore	3.7	0.5	3.2	7.4	3.4
Sweden	2.5	1.1	1.4	2.3	2.6
Indonesia	2.3	0.3	2.0	7.7	N/A
Other	18.2	23.5	-5.3	0.8	28.5
	100.0	**100.0**	**0.0**	**1.0**	**100.0**

Source: The World Trust Fund, Edison Investment Research. Note: Net of hedge positions.

As a portfolio managed on a discount-seeking process it is not surprising to see that the underlying average portfolio discount to asset values (Exhibit 8) remains relatively high, but it is nevertheless interesting that this underlying discount has been quite stable between 2010 and the first quarter of the current financial year. This is perhaps a reflection of the breadth of opportunities afforded by the global universe of both closed-end funds and holding companies that the manager addresses.

Exhibit 8: Portfolio underlying discount to net asset value (end-March financial years)



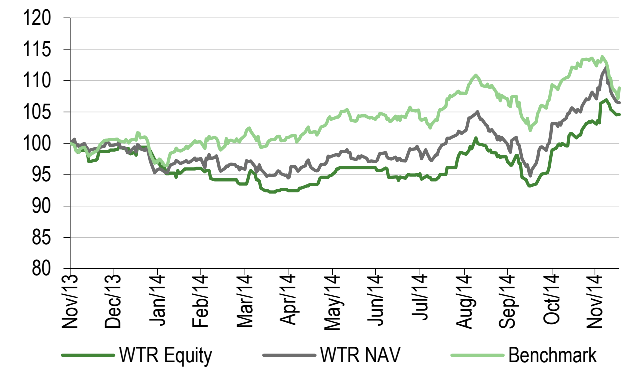
Source: World Trust Fund annual accounts and interim management statement, Edison Investment Research

As noted in the process section, hedging is used as a way of offsetting unwanted exposures that otherwise attractive investments entail. At the end of November 2014 the long/short position was 100.4%/0.2%: a noticeable reduction from the short position of 25.8% at the financial year end. At that stage the company reported seven short positions with the main ones being emerging market, European and US equity ETFs, providing a hedge against part of the fund's exposures in these markets. The average of the month-end short positions in the first eight months of the financial year was 9.8%.

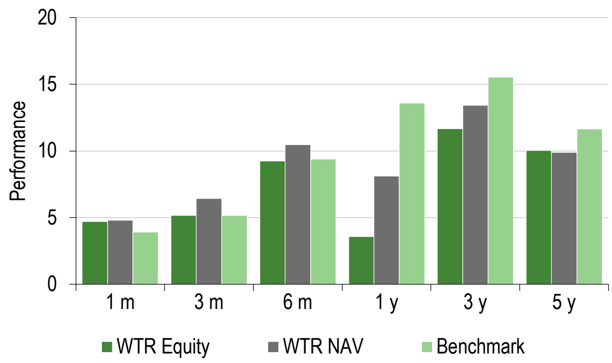
Performance: Useful recent pickup

Exhibit 9: Fund performance to end November 2014

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



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: three and five year performance is annualised.

The fund's performance has been somewhat behind its benchmark[1] over periods from one to 10 years: see Exhibits 9 and 10. In the one-, three- and five-year periods the fund's underweight to the US market acted as a drag on performance, a point that is illustrated by the fact that the NAV return has been either close to or ahead of the MSCI AC World Index ex-US over periods up to five years. As a further comparison we have included the performance relative to the Datastream World Investment Companies index in Exhibit 10: this shows NAV performance that is either ahead of, or similar to the index in periods up to five years with some relative weakness over 10 years.

[1] The benchmark is the MSCI AC World Index from 1 April 2009 and MSCI World Index before this. The fund expresses its NAV in US dollars, but since 30 October 2009 the shares have been traded in sterling terms and the NAV has also been reported in sterling for information purposes. For convenience our performance tables and charts are all presented in sterling terms for all periods.

Exhibit 10: Share price and NAV total return performance, relative to benchmarks

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Benchmark	0.8	(0.0)	(0.1)	(8.8)	(9.7)	(7.1)	(23.3)
NAV relative to Benchmark	0.9	1.2	1.0	(4.8)	(5.4)	(7.6)	(26.7)
Price relative to MSCI AC World ex US	1.7	4.4	6.0	(2.0)	3.0	14.5	(19.7)
NAV relative to MSCI AC World ex US	1.9	5.7	7.2	2.3	8.0	13.8	(23.3)
Price relative to DS World Inv. Cos	1.0	2.1	1.3	(5.2)	0.7	3.0	(23.9)
NAV relative to DS World Inv. Cos	1.1	3.3	2.4	(1.1)	5.5	2.4	(27.2)

Source: Thomson Datastream, Edison Investment Research. Note: Geometric calculation, data to end-November 2014 and indices sterling adjusted. Benchmark from 1 April 2009 MSCI All Countries World Index, previously MSCI World Index.

The longer-term relative underperformance can be largely explained by the severe impact of the global financial crisis on the portfolio. This reflected a range of negative factors including the sharp widening of closed-end fund and holding company discounts as the crisis hit; the fund's leverage, which averaged 17% during the first half of FY09; high exposure to emerging markets; the US underweight; and an unfavourable currency exposure. While there was a relative bounce as markets rallied and discounts began to narrow, the lost ground was not fully regained.

The calendar-year contribution from long and short portfolio positions since 2000 is summarised in the table below, highlighting the manager's long-term track record of employing short positions and the marked variations in the average short exposure and a significant positive contribution in 2002 (but negative contributions 2003-7). The manager notes that hedging is employed to reduce volatility and in the three-year period to end August 2014 annualised volatility for the portfolio was 13.4% versus 14.2% for the MSCI AC World index. The portfolio beta was significantly below 1.00 at 0.85 and the downside capture ratio below the upside capture ratio (such measures are sensitive to the period selected).

Exhibit 11: Short/long contribution by calendar year

Year	Avg. short exposure	Short exposure contribution	Long exposure contribution	Other	WTR NAV total return	MSCI AC World Index
2000	0.0%	0.0%	-21.8%	0.0%	-21.8%	-15.1%
2001	6.0%	0.2%	-28.0%	0.1%	-27.9%	-16.2%
2002	30.0%	14.8%	-14.2%	0.0%	0.6%	-19.3%
2003	15.0%	-6.8%	54.5%	0.0%	47.7%	34.0%
2004	4.0%	-0.9%	24.3%	-2.2%	25.6%	15.2%
2005	21.0%	-3.1%	31.8%	0.0%	28.7%	10.8%
2006	21.0%	-7.7%	34.8%	6.9%	20.2%	21.0%
2007	19.0%	-12.5%	20.9%	0.8%	7.6%	11.7%
2008	5.0%	0.5%	-60.2%	2.2%	-61.9%	-42.2%
2009	0.0%	0.0%	48.2%	0.0%	48.2%	34.6%
2010	0.0%	0.0%	17.0%	0.0%	17.0%	12.7%
2011	3.0%	2.8%	-14.4%	1.2%	-12.8%	-7.4%
2012	3.0%	2.2%	20.9%	3.7%	19.4%	16.1%
2013	0.0%	0.0%	18.9%	0.0%	18.9%	22.8%
2014 (30 November)	11.1%	-2.3%	1.8%	-2.7%	2.2%	6.2%

Source: The World Trust Fund. Notes: unaudited attribution analysis; "Other" includes cash contribution and dilution effects.

The relative performance has been more stable in the last three years, although the US underweight and emerging market weakness continued to exert a negative influence on performance, particularly during 2013 and the first part of 2014 (Exhibit 12). In its report for the year to end March 2014 the company commented that generally good stock selection provided some offset to the effect of geographical allocation. There has been a healthy uptick in relative performance over recent weeks with positive contributors in October and November including Asian emerging market stocks such as CITIC Securities, First Pacific and China Everbright with biotechnology investments such as BB Biotech and International Biotechnology Trust also strong performers.

Exhibit 12: NAV relative performance over 3 years

Source: Thomson Datastream. Note: The performance is total return relative to the fund's blended benchmark.

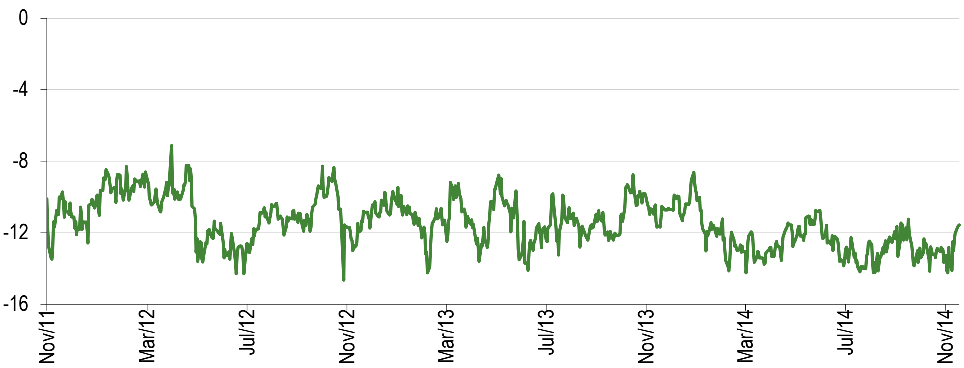
While this set of performance data may be seen as mixed, it should be viewed in the context of a process that is not linked to index weightings: hence the significant underweight position in the US and overweight to emerging markets. The increased concentration of the portfolio since FY13 also has the potential to increase the differentiation from benchmark performance, while the recent pick up in relative performance provides encouragement.

Discount: Fluctuating in a relatively narrow band

As shown in Exhibit 13, the share price discount to NAV has traded in a relatively narrow range over most of the last three years. It currently stands at about 12%, similar to the three and five year averages of c 11.5%.

As a company that focuses on opportunities to realise value from discounted assets, the board has over time paid close attention to the company's own discount and adopted a discount control mechanism in May 2010. This included a provision for a tender offer for 15% of the shares (subject to shareholder approval) if, during the final 90 days of the financial year, the discount exceeded 10%. The mechanism was modified for the year to March 2014 to extend the monitoring period to include the whole year. Share buybacks have also been undertaken, resulting in total repurchases of $105.3m from May 2010 to July 2014.

Exhibit 13: Discount over three years



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

Following a further assessment of the discount mechanism this year, the board has noted that repurchases and tenders tend to have only a short-term impact on the discount. It also cites the questionable relevance of a benchmark-related test for a fund that is not managed with reference to its benchmark, the potential for missing attractive investment opportunities when discounts widen, and the decrease in the level of fund assets to NAV of close to £100m, as a result of share repurchases. Given these considerations, the board has decided to continue to seek authority to buy back up to 14.99% of the shares, but to propose tender offers on a discretionary basis taking into account a range of factors including the level of discount and shareholders' views.

Capital structure and fees

WTR has 50.7m ordinary shares in issue, of which 10.2m are held in treasury without voting rights and the balance of 40.5m in issue with voting rights.

The fund has an unlimited life, subject to an annual continuation vote at its AGMs in August. This feature, together with the measures described in the previous section, is likely to act to contain the level of discount to NAV.

The company may employ gearing up to a maximum of 25% of net asset value with the manager authorised to use gearing of up to 15%. The manager indicates that gearing is not normally employed, although it will be used when there are attractive investment opportunities that require prompt action or to facilitate share buybacks and tender offers. At the end of November 2014 there was marginal gearing of 0.4%.

The management fee paid by the company is 0.75% of NAV per year. The manager is entitled to a performance fee subject to the total return of the fund over the two-year period to the fiscal year end beating the benchmark by more than 5%. The rate payable increases in 5% bands linked to the level of outperformance up to 20% for outperformance of 20% or more. In the last financial year no performance fee was paid and the ongoing charge was 1.47%. The average ongoing charge/total expense ratio over the last five years was 1.43%.

Dividend policy

Reflecting its focus on long-term capital appreciation, the fund did not pay a dividend until the current year but, with its full-year results announcement in July 2014, the board announced that it will pay a dividend equivalent to substantially all investment income net of costs excluding performance fees. The first dividend was declared with the results for the six months to end September (0.50p per share to holders on 19 December) with semi-annual payments to follow. Any undistributed income will be retained in reserves to smooth future payments although, as an investment company, WTR could choose to distribute capital gains.

While the company has made no further indication of the likely level of payment, if we take last year's net investment income of just short of $3m, this would be equivalent to $0.075 per share or 4.5p per share. Rounding this down to 4p to allow for modest reserve accumulation would point towards a yield of 1.7% based on a share price of 240p, assuming no significant change in net investment income.

Peer group comparison

As a fund of investment and holding companies, WTR has few direct comparators. From the AIC global sector we have picked out six trusts that invest in funds or holding companies: British Empire, Cayenne, F&C Managed Portfolio Growth, Henderson Value Trust, JP Morgan Elect Managed Growth and Miton Worldwide Growth (Exhibit 14). WTR's NAV total return has been above the weighted average for this relatively small peer group over one, three and five years and had a middle ranking (not shown) within the whole global sector over the same periods. On a risk-adjusted measure of performance (Sharpe ratio) WTR is above the peer average over both one year and three years. The comparison shows a wide range of performances between the trusts reflecting differentiated approaches with some portfolios run with greater reference to benchmarks than is the case for WTR.

Exhibit 14: Selected global sector peers: Total returns, Sharpe ratios and discounts

% unless stated	Mkt cap/fund size £m	TR one year	TR three year	TR 5 yr	Sharpe one yr	Sharpe three yr	Discount (cum fair)	Latest Ongoing Charge	Perf Fee	Net Gearing	Yield (%)
British Empire Securities	717.2	6.1	36.3	40.0	0.3	0.8	(10.0)	0.9	No	100.0	2.1
Cayenne	50.3	9.9	37.2	40.6	1.4	0.8	(5.3)	2.0	Yes	120.0	0.8
F&C Managed Portfolio Growth	37.1	3.4	53.3	66.0	0.4	1.2	(0.7)	1.2	Yes	96.0	0.0
Henderson Value Trust	113.7	(5.4)	(13.4)	(7.2)	(1.1)	(0.5)	(15.1)	0.9	No	92.0	1.3
JPMorgan Elect Mangd. Growth	213.5	4.6	58.9	73.3	0.5	1.4	0.8	0.5	No	99.0	1.3
Miton Worldwide Growth	39.8	3.4	27.9	41.2	(0.1)	1.0	(10.6)	0.8	Yes	99.0	0.0
World Trust Fund	**98.1**	**8.0**	**45.2**	**56.6**	**0.5**	**1.0**	**(12.8)**	**1.4**	**Yes**	**100.0**	**0.2**
Selected peer wtd. average		**4.9**	**36.6**	**43.5**	**0.3**	**0.8**	**(8.4)**	**0.9**		**99.8**	**1.6**
World Trust Fund rank		2	3	3	3	3	6	2		2	5

Source: Morningstar 18 December 2014. Note: TR = total returns of NAV for investment trusts, TER = total expense ratio. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 36-month period by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as percentage of shareholders' funds.

The board

The five members of the board with year of appointment in brackets are: Philip R McLoughlin (1991, chairman 2010), Duncan Budge (2006), James Cave (2008), Howard Myles (2011), and Tony C Morrongiello (2014). The board considers all the directors are independent, but notes that Philip McLoughlin has served on the board for over 10 years. Tony Morrongiello was elected to the board at the AGM in August; he brings significant investment-related experience and is currently CEO of quoted alternative investment company Altin AG.

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