

Witan Investment Trust

Turning a corner

With inflation surging, interest rates rising, regional recessions looking imminent and the continued conflict in Ukraine, there is more uncertainty and potential variances of possible outcomes than investors have been accustomed to in recent years, which may suit Witan Investment Trust's (WTAN) broadly diversified portfolio. In our March 2022 [update](#) we reviewed WTAN's FY21 results and in this note we review the HY22 results, highlight some incremental portfolio changes and take a closer look at three of the external managers.

CEO Andrew Bell reviews the H122 results



Source: Witan Investment Trust

Why consider WTAN now?

WTAN will always appeal to those investors seeking a long-term buy and hold core global equity holding. The discipline of having a broadly spread portfolio in the current economic environment is attractive. The use of best-in-class external managers to find the most attractively valued quality growth companies, with the additional allocation to an internally managed special situations/thematic bucket, exposes the fund to a broad range of investment opportunities. The fund's recent performance has been held back slightly by the structural underweight to the strongly performing US equity market, specifically stocks such as Amazon, Apple and Netflix, and an overweight UK position. In the event of global equity market leadership broadening out from the US, the portfolio's 38% weighting to the out of favour UK and European markets could leave it well placed to outperform the more US centric global indices and peers.

Current discount opportunity

WTAN currently trades on a share price discount to cum income (debt at fair value) NAV of 11%. This compares to the average discount over the last 10 years of 4.6%. The board has been rigorous in buying back shares, with more than 45 million repurchased so far in 2022 (more than 6% of the current 690.8m shares in issue). Over the past five years some 200m shares have been repurchased. In the event of an uptick in performance and a return of more positive investor sentiment we would expect the current discount to be viewed as something of a bargain.

Investment trusts Global

30 September 2022

Price 212p
Market cap £1,465.4m
Total assets £1,845m

NAV* 238.2p

Share discount to NAV 11%

*Including income. At 28 September 2022.

Yield 2.6%

Shares in issue 690.8m

Code Ord/A-share WTAN/GB00BJTRSD38

Primary exchange LSE

AIC sector Global

52-week high/low* 257.0p 202.0p

NAV** high/low 276.4p 221.5p

*Including income.

Gearing

Gearing at 28 September 11%

Fund objective

Witan Investment Trust (WTAN) aims to deliver an investment total return exceeding that of the company's benchmark over the long term, together with above inflation growth in the dividend. The trust's composite benchmark with effect from 1 January 2020 is 15% UK and 85% world (including the UK).

Bull points

- Broadly spread portfolio by stock, sector and country.
- Experienced management, including the board.
- WTAN tends to trade close to NAV, with the board taking discount volatility seriously.

Bear points

- Underweight US has been an historic detractor to returns.
- The use of investment trusts within the specialist portfolio can add discount risk.
- Compared to some peers the fees may look high, but the use of investment trusts which contribute to these fees bring diversification and specialism.

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[Edison profile page](#)

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Fund profile: Ongoing evolution

Launched in 1909, WTAN has been listed on the London Stock Exchange since 1924; it offers many thousands of investors a 'one-stop shop' for global investment. The trust is managed by the executive team of Witan Investment Services (WIS), which acts as its alternative investment fund manager and the board. In 2004, WTAN became self-managed, appointed its first chief executive and adopted a multi-manager strategy, aiming to maximise returns while reducing the performance volatility risk arising from dependence on a single manager. The trust aims to generate a total return above that of its composite benchmark, while growing its dividend at a rate ahead of UK inflation. WTAN's composite benchmark with effect from 1 January 2020 is 15% UK (MSCI UK IMI Index) and 85% world including UK (MSCI All Country World Index). It has evolved to reflect the board's growing belief that the best opportunities are available from a more global (combined with thematic) approach as opposed to a regional one.

Investment process: Core and satellite

WTAN's investment approach primarily uses external managers. Around 75% of its assets are in its core manager line-up (five global and one UK). Global is 65% of the portfolio ($\pm 10\%$) and the UK is 10% ($\pm 5\%$). The balance of the portfolio is made up of specialist investments including dedicated emerging markets and climate change strategies. WTAN's specialist managers tend to invest in companies (or regions) with superior long-term growth prospects, which may otherwise be underrepresented in global portfolios due to the specialist knowledge required to research and monitor these investments.

The benefits of a multi-manager strategy include access to a broad range of opportunities, many of which are only available to the professional investor; the potential to smooth volatility in returns; and WIS's executive team can adjust manager allocations and portfolio exposure. The individual managers make their own decisions in terms of asset allocation within their portfolios, and run high-conviction funds, helping to ensure WTAN's combined portfolio is not overdiversified. In Exhibit 1 we show the recent weighting of the various parts of the portfolio.

Exhibit 1: Schedule of managers within WTAN

Investment manager	Mandate	Benchmark (total return)	Appointment date	% of FUM at 30/06/22	Investment style
Core					
Lansdowne Partners	Global	MSCI ACWI	14-12-12	17.1	Concentrated, benchmark-independent investment in developed markets
Veritas	Global	MSCI ACWI	11-11-10	19.4	Fundamental value, real return objective
Lindsell Train	Global	MSCI ACWI	31-12-19	16.0	Concentrated portfolio of exceptional companies demonstrating long-term durability in cash and profit generation
WCM Investment Management	Global	MSCI ACWI	31-08-20	10.8	High-quality businesses with growing economic moats, strong corporate cultures, and supported by durable global tailwinds
Jennison Associates	Global	MSCI ACWI	31-08-20	6.1	Market-leading companies with innovative business models, positively inflecting growth rates, and long-term competitive advantages
Artemis	UK	MSCI UK	06-05-08	6.4	Recovery/special situations
Specialist					
Witan's Executive Team	Specialist funds	WTAN's composite benchmark	19-03-10	11.2	Specialist collective funds
GQG Partners	Emerging markets	MSCI Emerging Markets	16-02-17	6.5	High-quality companies with attractively priced growth prospects
GMO	Climate change	MSCI ACWI	05-06-19	5.1	Climate change fund
Unquoted Growth	Specialist funds	WTAN's composite benchmark	02-07-21	1.9	Early-stage private equity

Source: Witan Investment Trust. Note: At 30 June 2022.

Positioning: Incremental change

Longstanding investors will be accustomed to the incremental changes made within the portfolio. In the year to August 2022 there have been relatively modest changes at the geographic (Exhibit 2) and sector level (Exhibit 3).

Exhibit 2: Portfolio geographic exposure versus benchmark (% unless stated)

	Portfolio end-August 2022	Portfolio end-August 2021	Change	Benchmark weight	Active weight versus index
North America	40.0	39.0	1.0	55.0	(15.0)
UK	19.0	21.0	(2.0)	18.0	1.0
Europe	18.0	17.0	1.0	10.0	8.0
Asia	6.0	7.0	(1.0)	10.0	(4.0)
Japan	3.0	3.0	0.0	5.0	(2.0)
Other	2.0	1.0	1.0	2.0	0.0
Investment companies	13.0	12.0	1.0	0.0	13.0
	100.0	100.0			

Source: Witan Investment Trust. Note: Benchmark is WTAN's composite benchmark.

Exhibit 3: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end August 2022	Portfolio end August 2021	Change	Benchmark weight	Active weight versus benchmark
Information technology	13.0	15.0	(2.0)	19.0	(6.0)
Industrials	13.0	13.0	0.0	10.0	3.0
Healthcare	12.0	11.0	1.0	12.0	0.0
Consumer staples	11.0	9.0	2.0	9.0	2.0
Financials	10.0	10.0	0.0	15.0	(5.0)
Communication services	8.0	10.0	(2.0)	7.0	1.0
Consumer discretionary	8.0	9.0	(1.0)	11.0	(3.0)
Materials	7.0	8.0	(1.0)	5.0	2.0
Energy	5.0	2.0	3.0	6.0	(1.0)
Utilities	1.0	1.0	0.0	3.0	(2.0)
Real estate	0.0	0.0	0.0	3.0	(3.0)
Investment companies	13.0	12.0	1.0	0.0	13.0
	100.0	100.0		100	

Source: Witan Investment Trust, Edison Investment Research. Note: Benchmark is WTAN's composite benchmark.

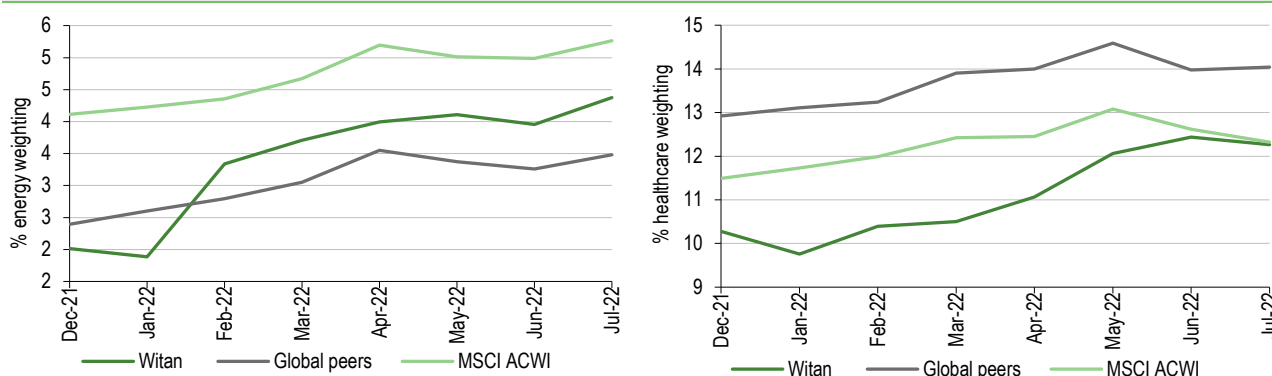
WTAN offers investors a diversified portfolio of around 250 mainly larger companies (not including the holdings at the underlying fund level). Looking closer at changes in the top 10 portfolio positions versus a year ago (Exhibit 4), the principal difference is the increase to the broad themes of sustainability with an increase of 2.5% to the allocation in the GMO Climate Change fund and an initiation of 1.5% in the VH Global Sustainable Energy Fund. In aggregate, these two positions account for 7.7% of the portfolio. Later in the note we take a closer look at some of the modest but discernible changes in sector weightings, but it is useful perhaps to indicate the new top 10 positions (but not new to the portfolio) in energy via BP and healthcare via UnitedHealth Group. The largest three positions added to the portfolio in 2022 include Shell, Novo Nordisk and Bio-Rad. All three feed into the marginal increases to the energy and healthcare sectors at the aggregate portfolio level (Exhibit 4).

Exhibit 4: Top 10 holdings at 31 August 2022 (% unless stated)

Name	Country	Sector	Portfolio weight		WTAN	Active
			Aug 22	Aug 21	BM	wight
GMO Climate Change Investment A GBP Acc	Ireland	Fund	6.2	3.7	0.0	6.2
Apax Global Alpha Ord	Guernsey	Fund	2.6	3.0	0.0	2.6
Unilever PLC	UK	Consumer defensive	1.9	1.6	0.9	1.0
Princess Private Equity Ord	Guernsey	Fund	1.7	1.9	0.0	1.7
BP	UK	Energy	1.5	N/A	0.8	0.7
VH Global Sustainable Energy	UK	Fund	1.5	N/A	0.0	1.5
Microsoft	US	Information technology	1.5	N/A	2.8	(1.3)
BlackRock World Mining Trust Ord	UK	Fund	1.4	1.3	0.0	1.4
UnitedHealth Group	USA	Healthcare	1.3	N/A	0.7	0.6
Syncona	Guernsey	Healthcare	1.3	N/A	0.0	1.3
Top 10 (% of holdings)			20.9	11.5	5.2	

Source: WTAN, Edison Investment Research, Bloomberg. Note: *N/A where not in end-August 2022 top 10. Benchmark is WTAN's composite benchmark.

Energy is a sector where active managers tend to tread carefully with volatile spot prices often being the major driver of returns. In addition, in a world where a company's ESG merits can have a tangible influence on the investment decision, energy (despite the arguments about the sector's influence on the transition to low carbon) has generally been out of favour with investors. One way to consider it is as a hedge against the largely energy driven price input inflation that is surging through the global economy. WTAN's energy weighting (Exhibit 5) remains modest overall and below that of the wider global equity market weighting. Understandably, the energy sector has performed strongly through 2022. Key names in WTAN's portfolio are primarily accounted for via the aforementioned BP and Shell, which are trading on cheaper trailing valuations (price to earnings and price to book) compared with US peers, but there is also a tail of additional holdings within the portfolio including ExxonMobil, Total and Eni. As well as supporting energy stocks, higher energy prices also provide longer-term support for the GMO Climate Change Fund, which seeks to benefit from companies that mitigate climate change and enhance the efficiency of resource consumption. Other plays on energy efficiency and renewable infrastructure within the portfolio include BlackRock World Mining, VH Global Sustainable Energy, Vinci, and railroad operators such as Canadian Pacific Railway.

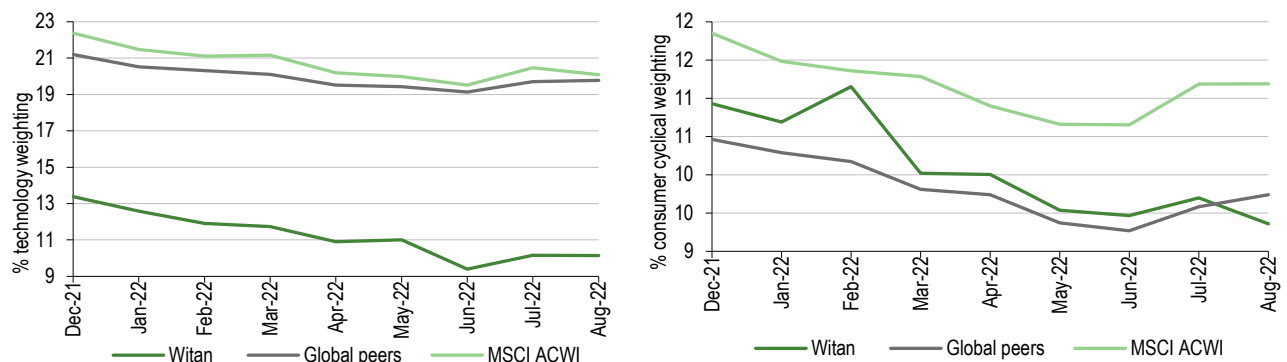
Exhibit 5: Increasing allocation to energy and health care


Source: Morningstar. Definitions of sectors are Morningstar's. Global peers = Morningstar Global Large-cap Blend category.

Healthcare has been an underweight position in the recent past, but additions to the sector have brought the overall weighting in line with the MSCI ACWI. It is a classically defensive sector, but with powerful secular trends such as demographics and a growing emerging markets middle class, healthcare has performed strongly through 2022. WTAN's exposure is via the whole gamut of subsectors including pharmaceuticals, biotech, drug manufacturers, medical devices and medical instruments. There were a number of portfolio additions to the sector in 2022, which have augmented the existing funds that are also invested in the life sciences subsector, including the SPDR S&P Biotech ETF (XBI), the Biotech Growth Trust (BIOG) and Syncona.

Conversely there has been a decrease in the allocation to technology and consumer cyclicals within the portfolio. The portfolio has been underweight in technology versus peers and the index (Exhibit 6). After its multiyear outperformance, the technology sector has been weak in 2022. The catalyst was the market's perception of the effect of interest rate increases on the valuation of long duration low yield assets. Some of the underlying managers have been reducing or exiting their ultra-high growth long duration holdings such as Shopify into arguably more reliable and less highly rated growth stocks such as Mastercard, while some managers have moved away from technology to high-quality brands such as Lululemon Athletica, whose growth prospects are less highly rated. With the weaker sentiment to high growth names creating a valuation opportunity, there have been several new additions to this sector in 2022 via stocks such as Atlassian and Samsung Electronics.

Exhibit 6: WTAN is reducing its allocation to technology and consumer cyclicals

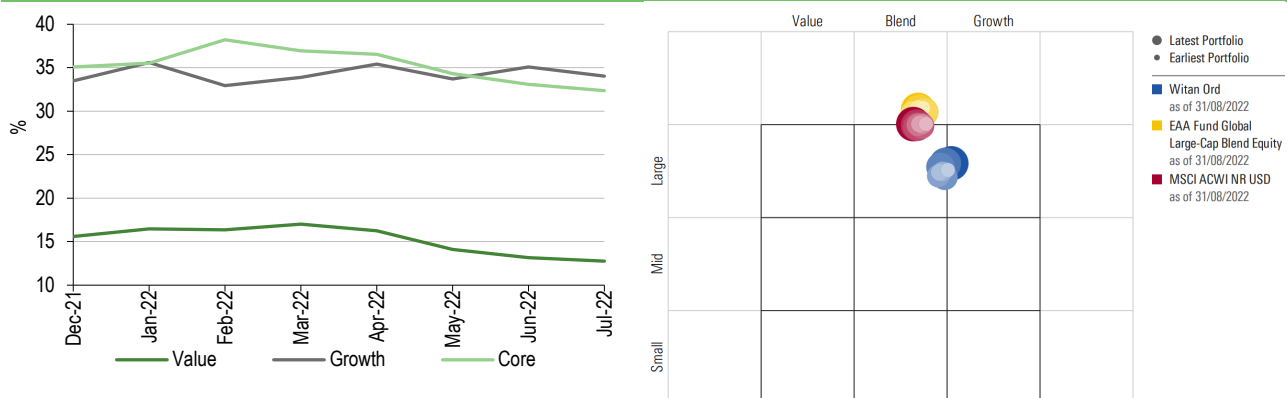


Source: Morningstar. Definitions of sectors are Morningstar's. Global peers = Morningstar Global Large-cap Blend category.

WTAN's weighting to consumer cyclicals has also declined during 2022 (Exhibit 6). The weighting is broadly in line with peers but below the MSCI ACWI. The macro headwinds that have created a cost of living crisis in many parts of the world and are stalling global economic growth have understandably reduced the perceived attractiveness of consumer cyclicals. This exceptionally broad group of companies however encompasses sub industries such as internet retail, luxury goods and restaurants. The largest stock weighting in allocation is Amazon, although prominent positions include LVMH, Tesla and eBay.

The core portfolio manager line-up remains unchanged and overall, the portfolios at the end of December 2021 and August 2022 share, as one would expect, a high level of commonality. The five largest stocks that have left the portfolio include Shopify, Universal Music Group, Vivendi, Sherwin-Williams and Nike. Despite some change at the stock level, in aggregate the portfolio has maintained its large cap balanced core/growth positioning through the period (Exhibit 7).

Exhibit 7: Little discernible change in focus in 2022



Source: Morningstar. Definitions of growth, value, core and market cap are Morningstar's.

Closer look at Veritas, Lindsell Train and Artemis

In our previous note [Strong absolute performance in 2021](#) published in March 2022 we looked at three of the external managers, WCM, Jennison and GMO Climate Change Fund. In this update we focus on Veritas, Lindsell Train and Artemis, which in aggregate account for 38% of the portfolio (at August 2022). For context, we set out the weighting to the individual managers and the specialist portfolio in Exhibit 1. All three strategies have experienced managers and follow proven investment approaches. Artemis was appointed in May 2008, with Veritas first appointed in November 2011. The most recent addition of the three was Lindsell Train in December 2019, although it successfully managed a UK sleeve for WTAN from September 2010 until the mandate was broadened out globally in December 2019. One of the key considerations for WIS and the board is that the various managers add diversification to the overall portfolio with limited overlap (eg Veritas shares just a single common holding with each of Lindsell Train and Artemis).

Veritas

The portfolio is managed by Andrew Headley and team with the investment process focused on creating a relatively concentrated portfolio of liquid, high quality cash-generative businesses. High quality means ongoing competitive advantages via high barriers to entry, patent protection and well-regarded management teams, resulting in long duration, reoccurring and growing cash flows. The team's valuation discipline is key to not overpaying as is its patient approach to building up positions. The resultant portfolio trades at a premium to the market and peers in terms of price to earnings and price to book, but with better earnings and cash flow and book value growth. It is also more overweight those businesses that have a competitive advantage (wide moats) versus the index. The portfolio is currently around two thirds invested in the US, which is perhaps not a surprise (major positions include Microsoft, Cooper Industries and Thermo Fisher Scientific), but it does have an overweight UK position via BAE Holdings and Unilever etc. Across the portfolio in aggregate there is less in cyclical stocks such as basic materials and financials and more in defensives such as healthcare (CVS Health and Baxter International) and communication services including Alphabet, Charter Communications and Meta Platforms (Facebook). The focus on valuation leads to a current lowly exposure to technology and an above -benchmark allocation to industrials (Canadian Pacific Railway, Aena and Vinci). The process results in a portfolio with lower volatility than peers or the broad global index, with less deep drawdowns, more resilience and lower sensitivity to market movements (Beta).

Lindsell Train

In some ways Lindsell Train shares some similarities of approach with Veritas in that the managers are looking for high quality, cash generative and easily understood companies, although at the end of June 2022 the two portfolios shared only a single holding (Unilever). The portfolio is highly concentrated (20–25 stocks) and follows a patient investment approach with very long-term holding periods. As a result, the portfolio has typically exhibited lower levels of volatility than peers, with less downside participation in weaker markets. Quality is evident within the portfolio, which according to Morningstar has more wide moats or barriers to entry in aggregate than the index. Unlike Veritas, the managers find more opportunity in the UK and Japan where the portfolio is currently weighted at 29% and 22% respectively at the expense of the US, which is only 35%. The portfolio trades at a premium to the market and peers in terms of price to earnings and price to book. From a sector perspective the portfolio has significant exposure to consumer defensive companies such as Diageo, Heineken and Unilever, and communication services via Nintendo and Walt Disney versus peers and the index. The portfolio is very underweight technology and healthcare. The process scores very strongly on Sustainability with the maximum five globe rating and holds the Morningstar Low Carbon designation (June 2022).

Artemis

Artemis manages the UK Special Situations Fund and it has been one of the longest held mandates in the WTAN portfolio, since 2008. The strategy has been overseen by Artemis founding partner Derek Stuart since its inception in March 2000. The portfolio is the sole single-country mandate, focusing on self-help turnarounds and out of favour valuation opportunities. The portfolio is unconstrained by sector and stock weightings and has a bias to small- and mid-caps with an average market cap of c £15bn versus the c £48bn of the broad UK equity market. From a sector perspective the portfolio is substantially overweight consumer cyclicals via holdings such as Weatherspoon and Entain, industrials via Melrose and Smiths Group and Technology via Spectris and Computacenter. As a result, the portfolio is more volatile than the index with higher Beta and corresponding historically larger upside and downside capture ratios, which given the all-cap nature of the portfolio is to be expected.

Exhibit 8: Portfolio sector exposure versus benchmark (% unless stated)

	Number of holdings	Correlation with MSCI ACWI	Active share with MSCI ACWI	Beta	Standard deviation	Max drawdown
Veritas Global Focus	34	0.88	88.8	0.88	11.3	(13.3)
Lindsell Train Global Equity	26	0.79	97.9	0.83	11.8	(17.3)
Artemis UK Special Situations	53	0.70	98.5	0.95	15.4	(30.5)
MSCI ACWI	2,894	1.00	0.0	1.00	11.3	(16.0)

Source: Morningstar. Note: Standard deviation, Beta, Correlation and Max drawdown all 10 years.

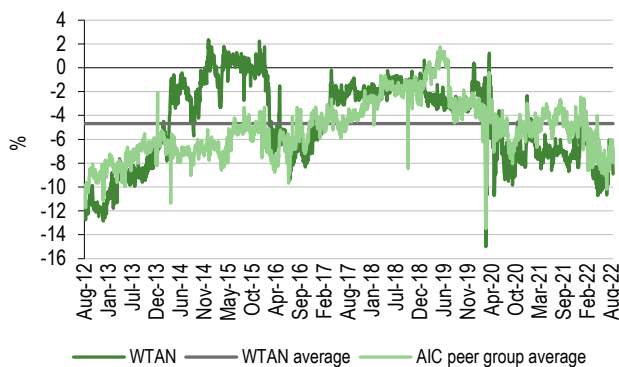
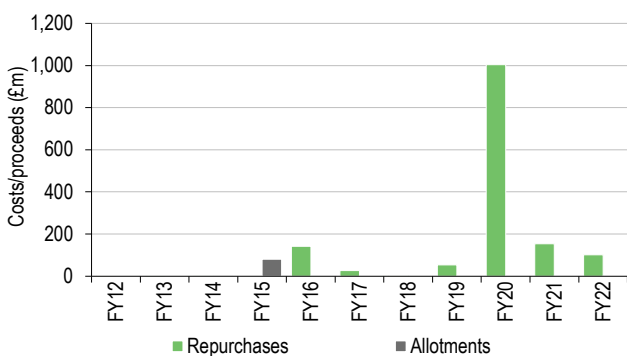
Income: A recovery in WTAN's earnings

The company aims to pay a dividend that grows faster than inflation over the longer term, however if inflation remains at the current elevated levels, dividends paid by WTAN may not exceed inflation each calendar year. WTAN has paid a second interim dividend of 1.40p (H121: 1.36p) on EPS of 2.51p, which is a 39% increase from H121 earnings of 1.80p. Some of the more cyclical parts of the portfolio have seen the greatest recovery in the dividends they pay to WTAN, having been most affected by COVID, but overall, the recovery in dividends has been fairly broad-based across the portfolio, illustrating improved trading and cash flow generation at the stock level. The board is confident that it will be able to pay a fully covered dividend to investors over the coming years. As an [AIC dividend hero](#), the company has delivered 47 years of consecutive increasing dividends, with the board guiding to a further increase for FY22, utilising revenue reserves if required, which stood at £52m (or 1.2x the FY21 full year dividend) at the start of 2022. WTAN currently yields 2.5%, which is a premium to its AIC Global peers.

Discount: Current opportunity

The board has been actively buying back stock and in H122 it bought c 30.7m shares into treasury, which resulted in an increase to NAV of £5.7m. This action also had the unintended benefit of offsetting the fees paid to the underlying managers (£4.3m) during the period. Since the end of H122 (30 June) to 22 September, the company has bought back a further 14.6m shares.

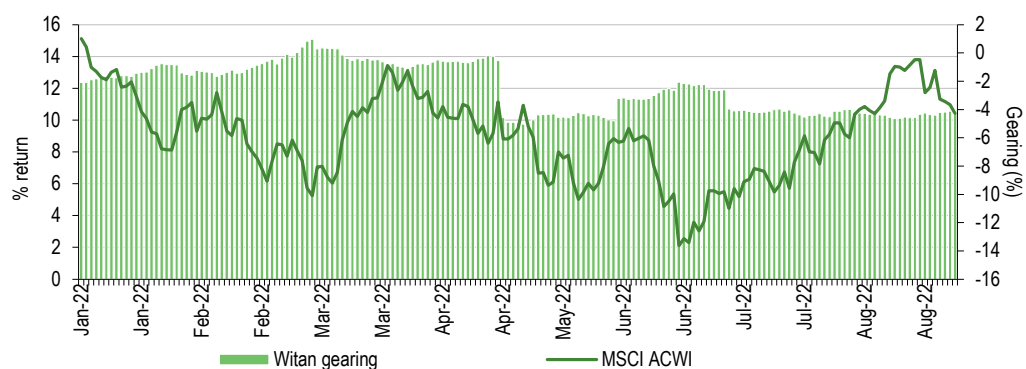
The current discount of 11% is broadly in line with WTAN's AIC Global peers, however, it is wider than the company's long-term historical average of c 4.6% (Exhibit 9). In our view, this provides a decent opportunity to add to or initiate new positions, with the expectation that the board is keen to keep the level of discount closer to NAV and have shown its resolve through consistent large-scale buybacks.

Exhibit 9: Discounts and buybacks
10-year WTAN discount versus peers

Buybacks


Source: Refinitiv, Edison Investment Research, Morningstar

CY22 performance review

In the eight months to the end of August 2022 the fund has returned -7.5% in NAV terms versus the Morningstar Global Large-cap Blend category return of -6.8% and the MSCI ACWI return of -4.3%. WTAN's performance during 2022 has been volatile, with the fund underperforming in the first quarter as the market's attention shifted from the positive prospects of economic reopening post COVID-19 to the war in Ukraine, rising inflation and tightening monetary policy. The market's first leg down troughed in early March and after a brief rally fell again in mid June. Within these mini cycles the market's concern about stalling global growth, soaring inflation and rising interest rates was especially detrimental to a portfolio that is in aggregate focused on quality growth and some cyclical businesses. The use of gearing in these circumstances was also clearly a pressure on performance, although the board also used market weakness to increase gearing during weaker periods in the market (Exhibit 10).

Exhibit 10: Increased gearing utilised on market weakness through 2022 ytd


Source: Morningstar

Since WTAN's half year end at 30 June 2022 to the end of August 2022, the fund has staged something of a recovery returning 8.0% versus the Morningstar Global Large-cap blend category return of 6.5% and the MSCI ACWI return on 7.5%.

Exhibit 11: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Composite benchmark (%)	MSCI World Index (%)	CBOE UK All Companies (%)
31/08/18	9.8	9.2	7.3	12.7	4.3
31/08/19	(3.5)	(0.8)	3.9	7.6	0.3
31/08/20	(9.0)	(5.3)	4.5	6.8	(13.5)
31/08/21	37.4	36.2	26.1	26.8	27.1
31/08/22	(10.3)	(7.8)	0.4	0.9	1.8

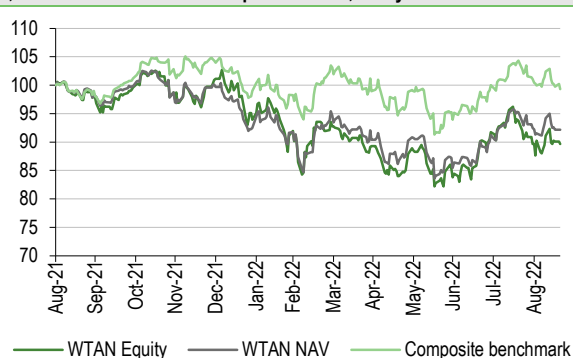
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Performance is broadly a function of the stocks (or manager selection), investment style and geographic asset allocation. WIS and the board have done a decent job at manager selection and the track record of the individual managers, when measured against their respective benchmarks over the long term, is generally good. The exceptions are the relatively recent additions of Lindsell Train's global portfolio, WCM and Jennison, which in aggregate accounted for 33% of the portfolio at end June 2022. While it is too soon to judge the performance of these managers within the context of WTAN's portfolio, there have been clear stylistic headwinds facing these strategies as the returns from 'quality growth' stocks have stalled after many years of outperformance.

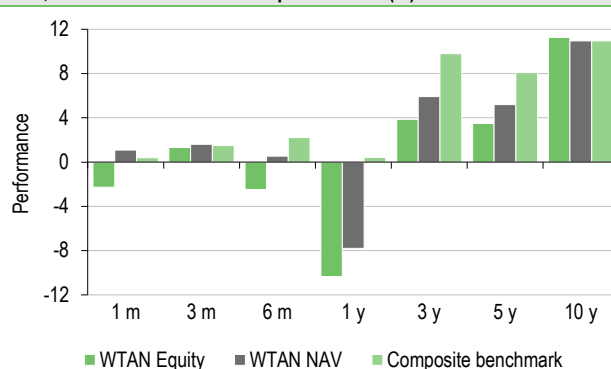
From a geographic allocation perspective, WTAN's underweight position to US equities and overweight positions in UK and European equities versus global indices and peers has been a long-term headwind for performance against these comparators. For example, the S&P500 has outperformed UK and European markets by an annualised 4.2% and 3.6% respectively over the past 20 years (to the end of August 2022. All returns in GBP). At the start of 2020 the board decided to change WTAN's benchmark to better represent the available opportunity set. The US benchmark weighting was increased from 25% to 51% and the UK and Europe were reduced from 50% to c 30%. Given the performance and valuation differential between these markets there were not wholesale changes made to the geographic asset allocation, however the US weighting was incrementally increased from 22% at the end of 2019 to 40% at August 2022. WCM and Jennison were appointed in August 2020 as growth stocks made up the majority of the increased US weighting. Retrospectively the timing was unfortunate as growth investing as a style fell out of favour shortly after.

Exhibit 12: Investment company performance to 31 August 2022

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



Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

H122 review of the managers

For the half year to 30 June 2022, five of the six core managers underperformed their respective benchmarks, with all ending in negative territory over the period. The growth investment styles of Jennison and WCM were the weakest performers as growth stocks de-rated substantially over the period as global growth slowed and interest rates were raised to counter rising inflation. The

stylistically more balanced strategies, such as Lansdowne and Lindsell Train, performed better than the growth strategies but still underperformed. Veritas, which has more of an absolute return approach performed broadly in line with global indices, while Artemis with its small-cap bias was weaker than its mainstream UK index, where major oil companies performed particularly well. Overall, the specialist element of the portfolio, which accounts for around a quarter of the overall portfolio, performed better relatively versus comparators. The unquoted growth portfolio, which consists of two funds (Lindenwood and Lansdowne Opportunities) outperformed the WTAN benchmark, while the direct holdings sleeve was the weakest performing. Longer term, of the 10 constituent core managers or elements of the specialist portfolio, only three are behind their benchmarks since appointment, with the recently initiated positions of Unquoted Growth, WCM and Jennison lagging.

The directly invested portfolio underperformed in the first half of the financial year, as the private equity investment trust holdings such as Apax Global Alpha and Princess Private Equity saw their discounts to NAV move substantially wider as investor sentiment weakened with the equity market volatility seen from Q122, which was despite robust NAV performance. WTAN estimates that the effect of this wider discount contributed to a c 100bp detraction at the overall NAV level. If investor sentiment improves, it is likely that this derating will reverse and instead contribute positively to WTAN's NAV performance. The holdings in BlackRock World Mining and Schroder Real Estate were reduced into strength in the first half of 2022. While biotech has attractive long-term investment characteristics, the sector has been weak over recent years. This prompted the managers to initiate a new holding in an exchange traded fund that tracks the S&P Biotechnology Index. This vehicle is equally weighted, meaning that it has a higher weighting to the smaller, more innovative companies in the index rather than being more concentrated in the four largest index constituents of Gilead, Amgen, Vertex and Regeneron, which in aggregate account for around 30% of the index. This holding adds to the existing healthcare positions of the Biotech Growth Trust (BIOG) and Syncona.

Gearing: A consistent but actively managed feature

At the end of June 2022 WTAN had £158m of fixed rate borrowings (including £2.6m of preference shares), which have tiered redemption dates from 2035 to 2054 with a 3% average interest rate fixed for an average of 25 years. In addition, there is a multi-currency flexible facility of £150m, of which £78m was drawn down at the end of June 2022. With the 30-year UK Gilt Index yielding 3.9% at the time of writing the managers are very happy to have locked in long-term debt at substantially better terms than the UK government is able to borrow at. Gearing has been a long term and fairly consistent tailwind for WTAN's performance and WIS and the board feel that overall it is better to be geared than not. They also point to the low hurdle that the portfolio has to overcome in terms of returns to justify the long-term use of such cheap funding. As we have illustrated in Exhibit 10, the board takes an active tactical approach to utilising this facility. WTAN's current gearing is 11%.

Peer review: WTAN less exposed to US and technology

WTAN's performance relative to its AIC Global peers has been competitive verses the average constituent over one and three years (Exhibit 13), but is lagging over five and 10 years. The most powerful longer-term driver of returns for global equity indices has been the US equity market and technology sectors, which have been a significant underweight within the WTAN portfolio relative to global equity indices and some peers. WTAN's historical standard deviation has been lower than peers as befits a core one-stop equity fund and from a portfolio metrics perspective, according to work done by Morningstar, WTAN is cheaper than its AIC Global peers and broad global equity

indices on a prospective price to earnings and price to book basis, which illustrates the valuation discipline implemented across the portfolio.

Exhibit 13: AIC Global peer group as at 22 September 2022*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Witan Ord	1,513	(7.3)	15.5	31.0	169.9	0.71	Yes	(11.0)	111	2.6
Alliance Trust Ord	2,791	(3.0)	26.6	48.1	179.2	0.61	No	(5.6)	105	2.5
AVI Global Trust Ord	902	(3.7)	31.0	49.1	151.3	0.85	No	(10.9)	102	1.8
Bankers Ord	1,311	(6.1)	19.3	44.2	187.2	0.48	No	(6.1)	106	2.2
Blue Planet Investment Trust	5	(57.4)	(68.3)	(68.7)	(44.4)	5.18	No	(11.7)	153	4.7
Brunner Ord	404	(0.9)	29.7	52.0	190.4	0.63	No	(13.9)	107	2.3
F&C Investment Trust Ord	4,635	0.8	33.6	61.3	220.8	0.54	No	(5.2)	106	1.5
Global Opportunities Trust Ord	83	13.3	16.2	22.5	138.8	0.98	No	(20.3)	67	1.8
JPMorgan Elect Managed Growth	254	(7.8)	19.4	40.7	176.5	0.54	No	(2.4)	94	1.9
Keystone Positive Change	124	(34.8)	(31.5)	(29.2)	21.1	0.51	No	(13.0)	110	5.6
Lindsell Train Ord	197	(9.7)	12.3	87.6	464.1	0.81	Yes	(6.2)	99	5.4
Manchester & London Ord	136	(30.7)	(11.2)	18.1	70.8	0.81	Yes	(4.5)	42	4.1
Martin Currie Global Portfolio Ord	238	(24.1)	9.1	38.2	150.3	0.69	No	(0.7)	112	1.4
Mid Wynd International Inv Tr Ord	444	(11.6)	27.5	63.9	242.6	0.61	No	(2.4)	100	1.1
Monks Ord	2,179	(21.4)	26.7	58.3	218.9	0.40	No	(8.6)	108	0.2
Scottish Mortgage Ord	11,301	(35.2)	75.6	124.6	548.5	0.32	No	(1.6)	115	0.5
Average	1,657	(15.0)	14.5	40.1	192.9	0.92	No	(9.4)	102	2.5
WTAN rank in sector	5	7	11	12	10	11		8	3	5

Source: Morningstar, Edison Investment Research. Note: *Performance as at end of 22 September 2022 based on ex-par NAV. TR = total return. OGC = ongoing charges. Net gearing is total assets less cash and equivalents as a percentage of net assets. Dividends: *only one of WTANs managers, which accounts for c 6% of AUM, has a performance fee.

ESG: At the heart of the investment process

The managers believe that investing in well-managed companies with sustainable long-term cash flows is the foundation for achieving good returns for investors; put simply, without due care and attention to ESG factors, sustainable long-term cash flows are at risk. Failure to take ESG considerations seriously is a substantial and existential risk to the businesses and as such an assessment of a company's ESG credentials is an increasingly important part of the investment process.

ESG is increasingly important in the investment industry and will become ever more central to investment culture and process. WTAN is not a 'green' fund, nor does it currently exclude any industries except controversial weapons. However, it does insist that its managers engage where relevant, as this is arguably the most effective way to influence positive change in investee companies and, in turn, to have a more meaningful and positive impact. WTAN became a signatory to the Net Zero Asset Managers initiative (NZAMI) in early 2022 and in addition half of WTAN's managers have also signed up to NZAMI. This is a commitment by 236 asset managers with \$57tn of assets under management to work with all parties within the investment supply chain to reduce greenhouse gas emissions to net zero by 2050, which is in line with global efforts to limit global warming to 1.5°C by 2050 or sooner. WTAN will be setting out further detail on these commitments throughout 2022 and beyond.

It is pleasing that WTAN has been awarded a low carbon designation by Sustainalytics, as have the strategies managed by Jennison, Lindsell Train, Veritas, WCM and Artemis.

In addition, WTAN will also create and execute a strategy whereby the entire portfolio will be only invested in sustainable businesses by 2030. WTAN defines a sustainable company as:

- **Prosperity:** focus on companies with sustainable cash flows, exhibiting good corporate behaviour, strong stakeholder engagement and respect for their shareholders.
- **People:** investee companies should have a strong and experienced management team (and board) with an inclusive and diverse culture that respects the wellbeing of its customers and others in the organisation, its value chain and its community.

- **Planet:** investee companies must have a clear strategy to minimise its environmental impact and wherever possible, transition towards net zero by 2050. Additionally, companies which are positioned to help accelerate the energy transition and carbon reduction.
- **Partnership:** investee companies must collaborate and engage with all stakeholders and participate in industry initiatives to promote good practices.

WTAN is also ensuring its own operations are consistent with a sustainable business via strong corporate governance, a minimalised carbon footprint and an inclusive and diverse corporate culture. It has put initiatives in place such as only using recycled paper, removing plastic from client presentations, installing energy efficient lighting and phasing out single-use materials.

WTAN and all of its managers have ESG policies and are signed up to the United Nations-Principles for Responsible Investment, which were launched in 2006 and are seen as a code of best practice on ESG issues. They aim to spot opportunities and minimise exposure to companies that are at risk of disruption, litigation, regulation or loss of business due to poor ESG practices. Where negative issues arise, the managers are expected to engage with the company concerned, encourage positive change and vote their shares accordingly. WIS monitors WTAN's portfolio to identify any ESG risks that may arise and scrutinises the policies of its external managers. It focuses on understanding how ESG is integrated into their investment processes and ensures that its managers adhere to what they say they do via regular ESG meetings; this process is a high priority for WTAN's board.

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