EDISON

Witan Investment Trust

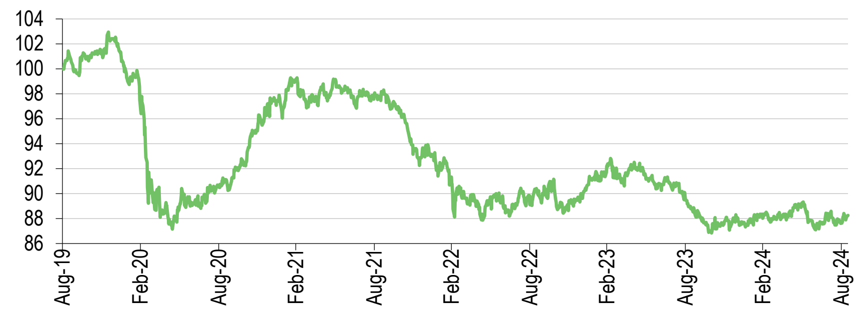
Merger with Alliance Trust offers many benefits

Investment trusts
Global equities

23 September 2024

In June 2024, the boards of Witan Investment Trust (WTAN) and Alliance Trust (ATST) announced plans for a combination of the two companies to create Alliance Witan. Details of this transaction have now been released and suggest that the combination will hold several potential benefits for the shareholders of WTAN, ATST and the new Alliance Witan trust. Alliance Witan will have combined net assets of almost £5bn, offering significant liquidity, economies of scale and eligibility for UK 100 index inclusion. The new trust will aim to deliver a real return over the long term through a combination of capital growth and a rising dividend. It aspires to be the UK's leading 'one-stop shop' for global equity investment, at the core of retail investors' portfolios. Subject to shareholder approval, the deal is expected to be finalised in early October.

NAV total return performance versus benchmark over five years



Source: LSEG Data & Analytics, Edison Investment Research

Background to the proposal

- The forthcoming combination follows a review of WTAN's investment management arrangements, which was triggered by the retirement announcement of its CEO, Andrew Bell.
- The proposed deal ensures the continuation of WTAN's active multi-manager approach and a broadly similar investment strategy. ATST invests primarily in global equities across a wide range of industries and sectors.
- WTAN's board has unanimously recommended the deal to shareholders.
- Subject to shareholder approval at meetings scheduled for 30 September 2024 and early October, the transaction is expected to be finalised on 9 October and the shares of the new, combined trust will begin trading on 10 October 2024.
- The board of this new vehicle will initially comprise 10 members, including four members of WTAN's board, and will be chaired by ATST's chairman, Dean Buckley. WTAN's chair, Andrew Ross, will be deputy chair.
- The number of Alliance Witan board members will be reduced to eight in spring 2025 at the new trust's first AGM.

Price		**271.0p**
Market cap		**£1,611.5m**
AUM		**£1,889.0m**
NAV*		286.07p
Discount to NAV		5.3%
*Including income. As at 19 September 2024.		
Yield*		2.3%
*Prospective yield based on a FY24 dividend of 6.28p.		
Ordinary shares in issue		595.0m
Code/ISIN		WTAN/GB00BJTRSD38
Primary exchange		LSE
AIC sector		Global
52-week high/low	276.0p	210.5p
NAV* high/low	287.4p	232.8p
*Including income		
Net cash*		9.6%
*As at 31 August 2024.		

Fund objective

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

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Benefits of the transaction for all shareholders

In the circular announcing the details of the proposed deal, Witan's board notes a number of attractions offered by the combination with ATST:

Best-in-class investment management: the enlarged portfolio will be invested in ATST's multi-manager strategy, providing access to best-in-class managers globally, many of whom are not otherwise accessible to UK retail investors. ATST's portfolio consisted of the selections of 10 stock pickers (as at 6 September 2024), with different investment styles, and centrally held cash or cash equivalents. Each stock picker is unconstrained by the benchmark, the MSCI All Country World Index (MSCI ACWI) and only buys a limited number of stocks in which they have strong conviction.

A robust investment performance track record: WTAN investors may also benefit from the investment expertise evidenced by ATST's strong investment performance track record. Over the seven years since the appointment of Willis Towers Watson (WTW) as ATST's investment manager in April 2017, to 31 August 2024, its NAV total return was 102.2%, versus 101.7% for its benchmark, the MSCI ACWI (Exhibit 1). However, relative performance has been challenged in recent years by the focus on a few fast-growing technology giants that dominate global equity indices.

Exhibit 1: ATST's cumulative performance to 30 August 2024

	Year-to-date (%)	One year (%)	Three years (%)	Five years (%)	Since 01/04/2017* (%)
Total shareholder return	9.1	17.0	24.0	67.2	102.9
NAV total return**	9.5	16.7	23.1	67.3	102.2
MSCI ACWI total return***	12.5	19.0	23.9	64.3	101.7

Source: WTW, Juniper Partners, Morningstar, MSCI. Note: *1 April 2017 was the date on which WTW's predecessor, Towers Watson Investment Management (Ireland), was appointed investment manager of ATST. **NAV total return is based on NAV including income with debt at fair value, after all manager fees and allows for any tax reclaims when they are achieved. Cumulative for periods above one year. ***MSCI All Country World Index net dividends reinvested.

An attractive and progressive dividend policy: WTAN shareholders will receive an increased dividend over both 2024 and 2025. ATST intends to increase its third and fourth interim dividends for the financial year ended 31 December 2024 (FY24) to 1.51p, commensurate with WTAN's first interim dividend. Given that WTAN's second interim dividend for FY24 was 1.75p, this amounts to a full year dividend of 6.28p for WTAN shareholders, a 4% increase over the 6.04p WTAN paid in respect of 2023. This represents a prospective yield of 2.4% based on the current share price. This would mark 50 consecutive years of annual dividend growth for WTAN shareholders and 57 years for ATST investors. Furthermore, it is expected that ATST's dividend for FY25 will increase compared with the prior financial year.

Greater scale and the prospect of UK 100 index inclusion: the new vehicle is expected to have net assets of c £4.8bn on completion of the transaction, meaning that the enlarged trust may be eligible for inclusion in the UK 100 index in due course. This would bring the benefit of an improved profile and should help attract new investors and improve secondary market liquidity.

A lower management fee: the deal also includes a new, more competitive management fee structure than is currently enjoyed by either WTAN's shareholders or the shareholders of ATST. The fee will amount to 0.52% on the first £2.5bn of Alliance Witan's market capitalisation, 0.49% between £2.5bn and £5.0bn, and 0.46% on market cap above this level.

Lower ongoing charges: the new management fee structure, combined with greater economies of scale derived from the larger investment vehicle, is expected to lead to lower ongoing charges for shareholders in the new vehicle. ATST will target an ongoing charges ratio in the high 50s in basis point terms, in future financial years, an improvement on both WTAN's and ATST's current ongoing charges of 76bp and 62bp, respectively.

A liquidity opportunity: WTAN shareholders are being given the opportunity to elect a cash exit at a discount of 2.5% relative to WTAN's NAV per share for some or all of their holding. This may appeal to some WTAN shareholders given that the current share price discount to NAV is 6.1% and has averaged over 4.0% over the past 10 years.

A significant contribution to costs from WTW: this contribution is estimated at approximately £7.1m based on the estimated unaudited net asset value of the assets to be transferred to ATST as at 6 September 2024. Combined with the benefit of the discount on cash exit, this contribution means that WTAN shareholders who roll into the new vehicle are expected to suffer minimal or no dilution, depending on the level of take-up of the cash option discussed above.

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