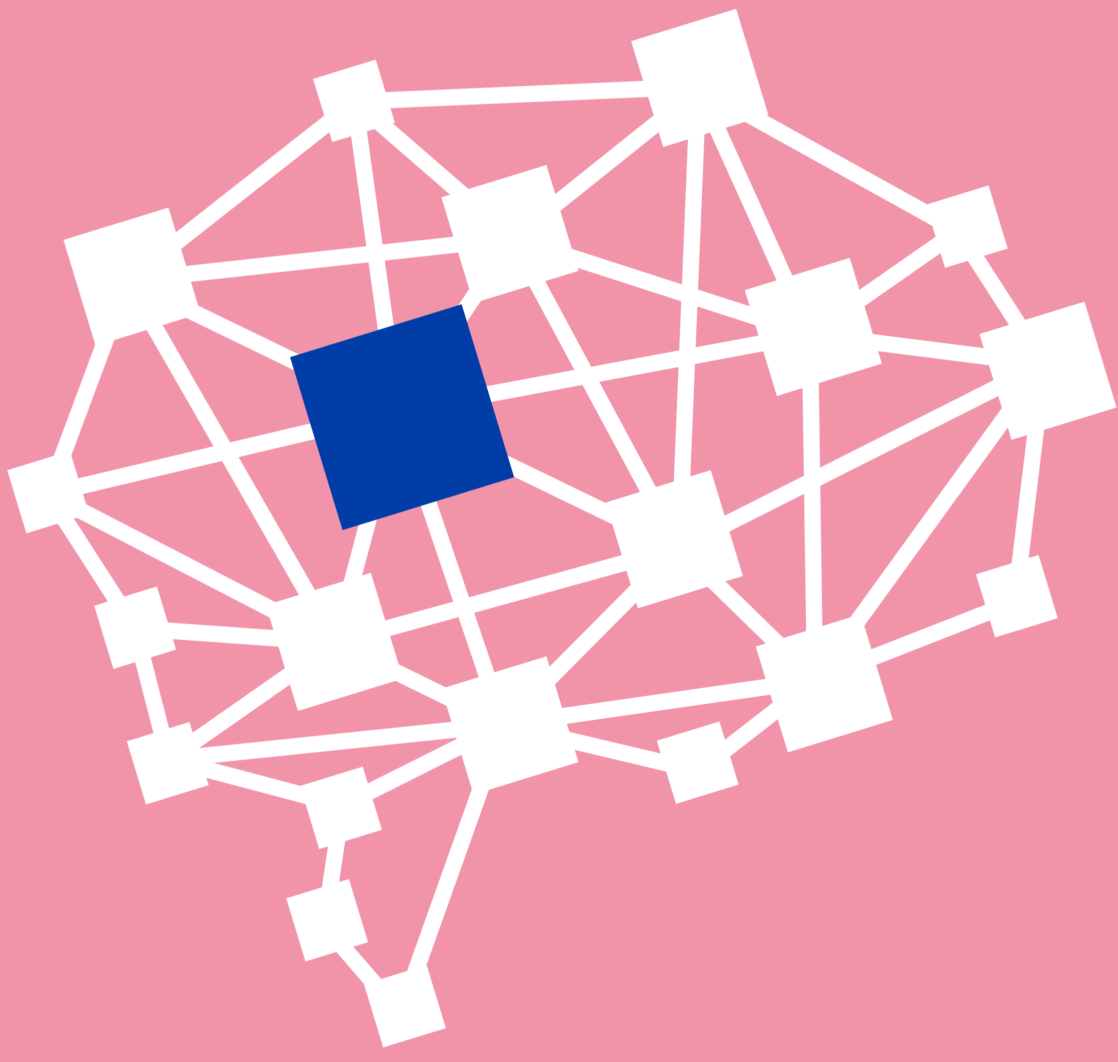
# Collective Wisdom



**Witan Investment Trust plc**
Annual Report 2018

Witan investment trust

## Our purpose
is to achieve significant growth in our investors' wealth by investing in global equity markets, using a multi-manager approach.

## Our objective
is to achieve an investment total return exceeding that of the Company's benchmark over the long term, together with growth in the dividend ahead of inflation.

### STRATEGIC REPORT



### CORPORATE GOVERNANCE

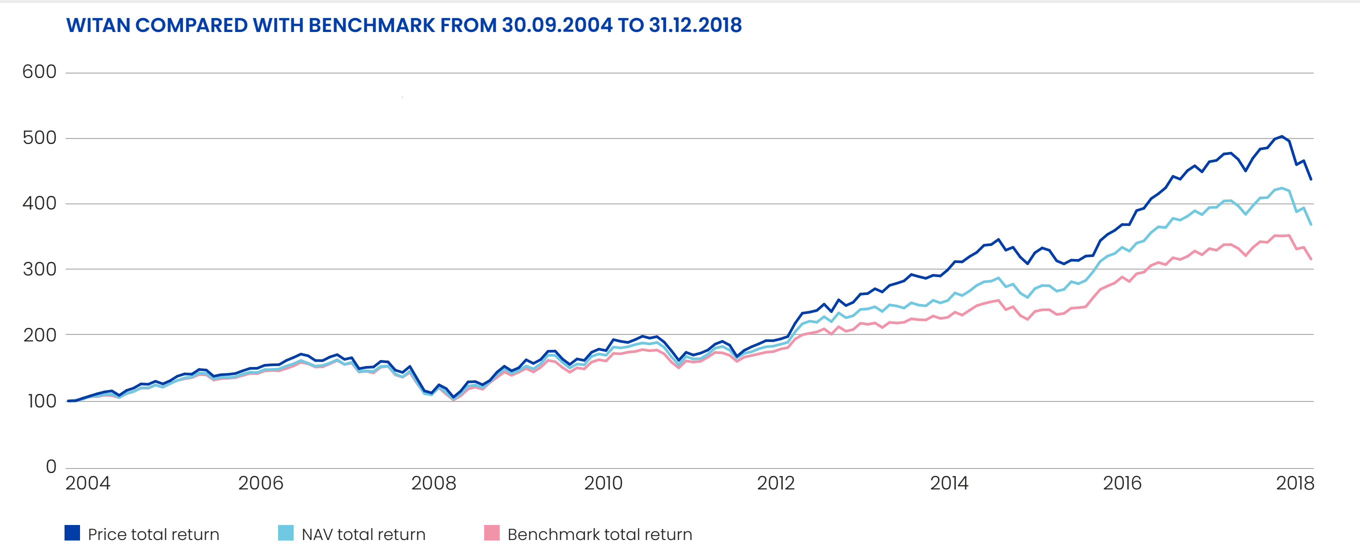


### FINANCIAL STATEMENTS



The annual report is intended to help shareholders assess the Company's strategy. It contains certain forward-looking statements. These are made by the directors in good faith based on information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including economic and business risks, underlying any such forward-looking information.

## Performance: Total returns since the introduction of the multi-manager structure(1)




(1) Alternative performance measure.

# Company overview
at 31 December 2018

**2018 was an exceptionally changeable year, as investors reacted to rising US interest rates, uncertainty over global trade, volatile oil prices and political uncertainties, including Brexit.**

**Our net asset value total return of -8.4% was 1.9% below that of our equity benchmark. In contrast to lower capital values, revenue earnings were buoyant and we increased the dividend by 11.9%."**

**Harry Henderson**
Chairman

### KEY DATA

| | 2018 | 2017 | % change |
|---|---|---|---|
| Share price | **971.0p** | 1079.0p | -10.0 |
| NAV per ordinary share (debt at par value)(3) | **995.1p** | 1109.8p | -10.3 |
| NAV per ordinary share (debt at fair value)(3) | **983.4p** | 1096.2p | -10.3 |
| Discount (NAV including income, debt at fair value)(3) | **1.3%** | 1.6% | – |

### TOTAL RETURN PERFORMANCE

| | 1 yr % return | 3 yrs % return | 5 yrs % return |
|---|---|---|---|
| Share price total return(1)(3) | -8.1 | 32.8 | 61.6 |
| NAV total return(1)(3) | -8.4 | 34.0 | 52.1 |
| Witan benchmark(1) | -6.5 | 32.4 | 44.6 |
| FTSE All-Share Index(2) | -9.5 | 19.5 | 22.1 |
| FTSE All-World Index(2) | -3.4 | 42.4 | 64.9 |

### DIVIDEND INFORMATION

| | 2018 | 2017 | % change |
|---|---|---|---|
| Revenue per share | **25.9p** | 23.8p | 8.8 |
| Dividend per share | **23.5p** | 21.0p | 11.9 |

### OTHER FINANCIAL INFORMATION

| | 2018 | 2017 |
|---|---|---|
| Gearing(3) | **11.6%** | 9.7% |
| Ongoing charges excluding performance fees(3) | **0.75%** | 0.76% |
| Ongoing charges including performance fees(3) | **0.83%** | 0.78% |

(1) Source: Morningstar.
(2) Source: Morningstar. See also FTSE International for conditions of use (www.ftse.com).
(3) Alternative performance measure (see pages 7 and 92).

## Why choose Witan?

### Long term
Our approach is fundamentally focused on achieving long-term returns from global equity investment.

See page 2

### Active
We invest in companies whose business and valuation mark them out as having above-average prospects.

See page 2

### Opportunistic
Within our long-term approach, we also seek to take advantage of shorter-term opportunities.

See page 3

### Heritage
Founded in 1909, we have survived boom and bust cycles, wars and political crises, helping put contemporary events into perspective.

See page 4

### Globally diversified
Our global approach seeks out the best opportunities across a broad range of economies, diluting risks from reliance on a single region.

See page 5

### Where to find us
Our website has a full range of information about Witan and regular commentary about investment markets.

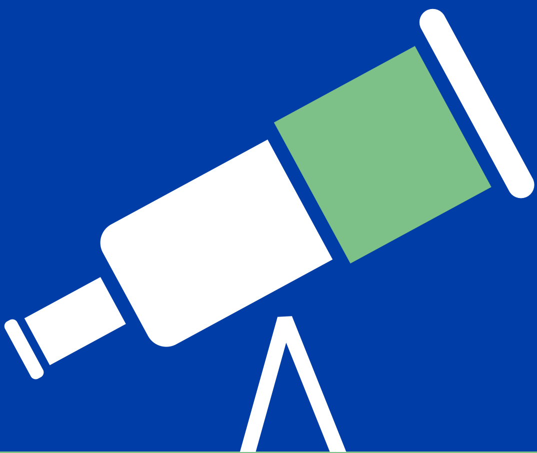
Find us online @ www.witan.com

## Why choose Witan?

# Long term

## Why we take a long-term view

There is an adage in investing that in the short run markets are a voting machine but in the long run they are a weighing machine. Investor sentiment, politics, liquidity, corporate news and many other factors have an influence on prices over days and weeks, sometimes over years, but ultimately companies that grow their cash flows and dividends will see their share prices follow suit. Long-term compounding in value helps generate wealth for investors and Witan and its managers are focused on finding opportunities to buy investments that the market misunderstands or wants to sell too cheaply. We also seek to avoid being shaken out of a good investment by temporary setbacks, while being willing to change our minds where necessary and open-minded about indications that investments may be heading for a difficult period.



# Active

## Why active share matters

Our investment approach is selective, aiming to deliver higher returns than our equity benchmark. We are not passive (or indexed) investors. Witan allocates around 90% of its portfolio to third party managers, whose remit is to beat a particular equity benchmark by selecting shares in companies they expect to deliver superior returns. Up to 12.5% is invested directly by the Executive team and both this and the externally managed portfolios are subject to regular review and scrutiny by the Board.

Achieving outperformance requires the individual and combined portfolios to differ from the benchmark. Our managers typically run concentrated, high-conviction portfolios, of between 15 and 70 stocks. It is important that manager diversification does not suppress the benefits sought when selecting active managers.

One measure of active management, while by no means a complete picture, is known as 'active share'. A portfolio identical to the benchmark has an active share of 0% while one with no holdings in common with its benchmark has an active share of 100%. The active share of our individual managers ranges from 73%-97%. The active share of our combined portfolio was circa 76% at the end of 2018 (2017: 77%). Put another way, less than one quarter of our combined portfolio by value overlaps with the weightings in our equity benchmark. This indicates that Witan's portfolio differs markedly from the relevant indices.

**76%**

ACTIVE SHARE AT END 2018

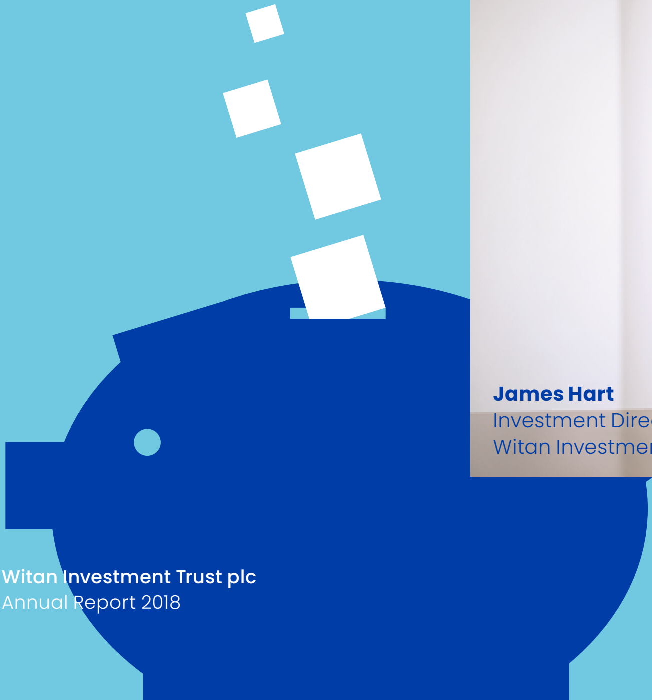
# Opportunistic

## Responsive to tactical and specialist opportunities

In addition to the ability of its external managers to adapt their portfolios in response to events, Witan uses its portfolio of direct holdings to invest in collective funds offering exposure to specialist asset classes (e.g. listed private equity, biotechnology) and those offering particular value. Witan also varies its use of borrowings (which can amplify both gains and losses) in response to whether valuations are seen as attractive and makes use of exchange-traded index futures to make tactical adjustments to equity and regional exposure, when events are perceived to have created opportunities.

**Andrew Bell**
CEO,
Witan Investment Trust

**James Hart**
Investment Director,
Witan Investment Trust



## Why choose Witan? continued

# Heritage

## Track record of driving outperformance

Witan is an investment trust, founded in 1909 by Sir Alexander Henderson (later the first Lord Faringdon) who was a leading financier in the South American railways boom during the late 19th century. Witan has been listed on the London Stock Exchange since 1924. Having been set up as a vehicle to manage the interests of one family, Witan has evolved into an investment trust which now serves the interests of the many thousands of shareholders who own the Company today.

Since its foundation, Witan has survived 110 years punctuated by world wars, recessions and other political and economic events, which helps us all to put contemporary developments in proper perspective. It is managed by the Executive team of its subsidiary Witan Investment Services Limited ('WIS'), which acts as its Alternative Investment Fund Manager ('AIFM'), under the control and supervision of the Company's Board of directors.

**44**

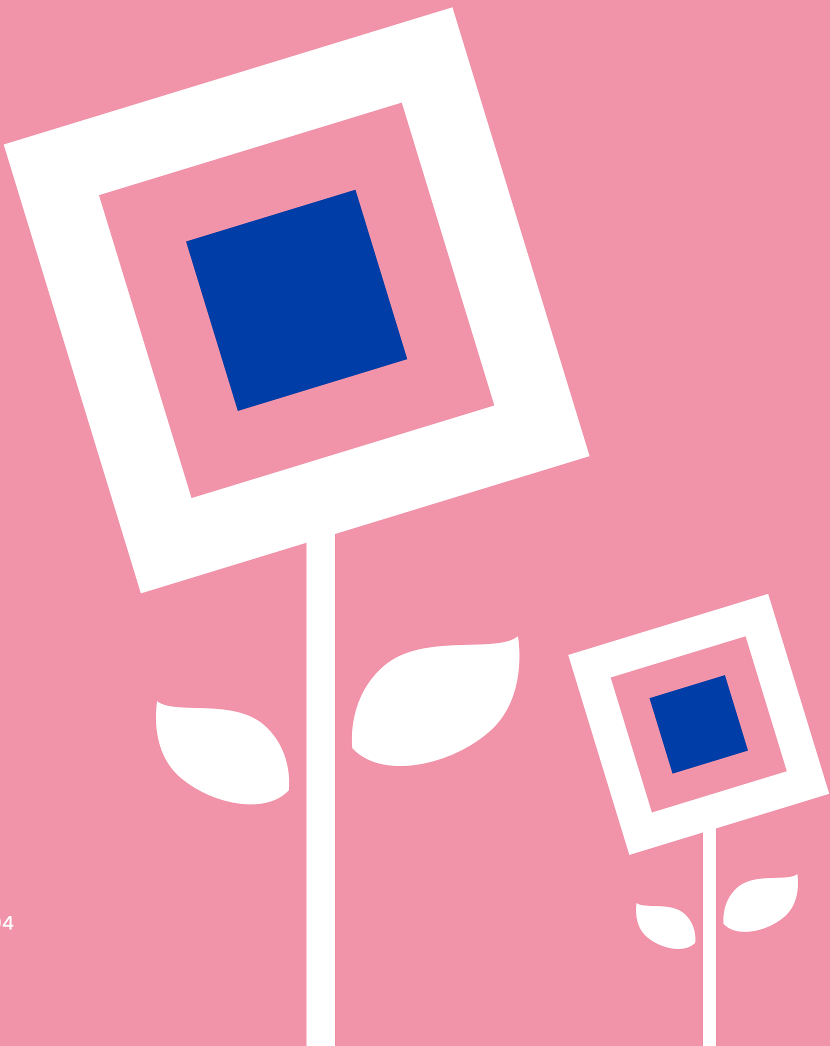
YEARS OF DIVIDEND GROWTH SINCE 1974

**7/10**

YEARS OF OUTPERFORMANCE SINCE 2008



Note that information about past performance should not be viewed as a guarantee of, or guide to, future performance.



# Globally diversified

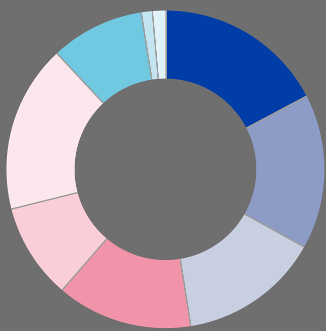
## Why and how we diversify



PERCENTAGE OF TOTAL FUNDS


(1) 2% emerging markets, 9% investment companies.

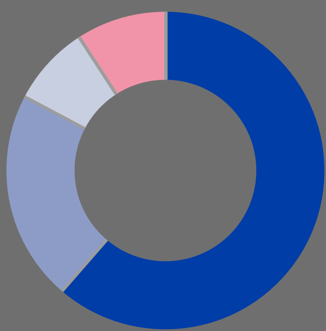
Witan has a portfolio that offers shareholders a wide range of opportunities, giving exposure to the fruits of global economic growth. Owing to our worldwide investment remit and the use of different managers, the portfolio is widely diversified by region, investment sector and at the individual company level. This avoids undue concentration of risks arising from individual companies, sector influences or local economic and political risks. However, the principal driver of our investment decisions is the potential for returns. The country, sector and individual stock weightings arise from decisions about which companies are judged to offer the best prospects, not from a pre-ordained template for the portfolio's structure. The resulting asset mix is, of course, monitored and can be adjusted when considered appropriate.



### SECTOR BREAKDOWN OF THE PORTFOLIO

| | |
|---|---|
| 17.3% | Financials |
| 15.9% | Consumer Services |
| 14.5% | Industrials |
| 13.8% | Consumer Goods |
| 9.8% | Technology |
| 16.8% | Other |
| 9.4% | Investment Companies |
| 1.2% | Equity Index Fixtures |
| 1.3% | Cash/Bonds |

Source: BNP Paribas as at 31 December 2018.



### COMPANY SIZE BREAKDOWN OF THE PORTFOLIO(2)

| | |
|---|---|
| 61.6% | Large Cap |
| 21.5% | Mid Cap |
| 8.1% | Small Cap |
| 8.9% | Investment companies |

(2) Numbers are rounded

The top 50 holdings are set out on page 30. They represented 44% of Witan's portfolio at 31 December 2018 (2017: 46%).

# Key performance indicators

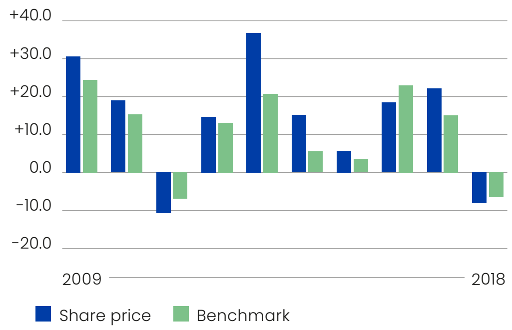
Aside from the statutory accounting measures, the financial key performance indicators ('KPIs') below are monitored as significant measures of longer-term success. With respect to non-financial measures, details of the Company's policies and compliance in relation to the UK Corporate Governance Code are set out in the Corporate Governance Statement on pages 34 to 39.

KPI

PERFORMANCE

## Share price total return vs. benchmark[1]

**Definition**
The Company seeks at least 2% p.a. long-term outperformance in the share price total return




The return in 2018 was -8.1%, 1.6% behind the benchmark's -6.5%. The share price total return was slightly better than the NAV total return as the discount narrowed to 1.3%.

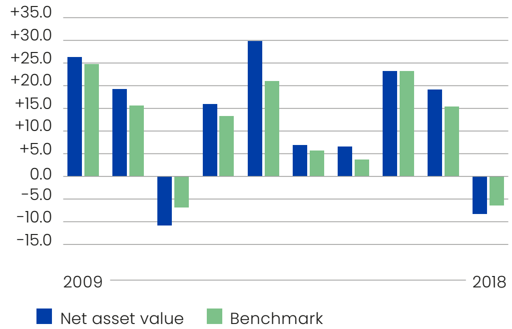
Over five years, the share price total return was 10.1% p.a. compared with 7.6% p.a. for the benchmark.

**–1.6%**

IN 2018

## NAV total return vs. benchmark[1]

**Definition**
The Company seeks at least 2% p.a. long-term outperformance in NAV total return, debt at fair value




The return in 2018 was -8.4%, 1.9% behind the benchmark's -6.5%. Performance failed to meet Witan's long-term target. Gearing proved a drawback as markets fell and most active managers, including Witan's, had an unsuccessful year.

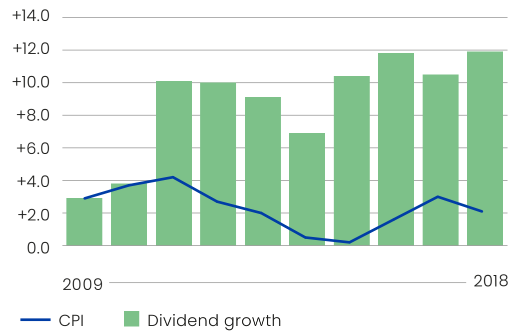
Over five years, the NAV total return was 8.6% p.a. compared with 7.6% p.a. for the benchmark.

**–1.9%**

IN 2018

## Dividend growth[1]

**Definition**
The Company seeks to grow its dividend ahead of the rate of inflation




The dividend increased by 11.9% in 2018 to 23.5 pence. The increase was 9.8% ahead of the year-end inflation rate during the year. This was Witan's 44th successive year of dividend increases. Over the past five years, Witan's dividend has grown by 63%, compared with a 10% rise in the UK Consumer Price Index.

**+11.9%**

IN 2018

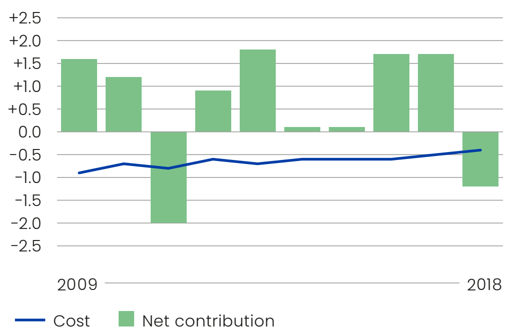
KPI

PERFORMANCE

## Net contribution from borrowings

**Definition**
Gearing to contribute to returns, after interest costs

### CONTRIBUTION FROM BORROWINGS (% of NAV)




In 2018, the contribution was -0.8% before borrowing costs and -1.2% including interest costs.

Gearing detracted from returns, as gearing averaged 10% and the Company's portfolio fell in value. Over the longer-term, gearing has contributed significantly to Witan's returns.

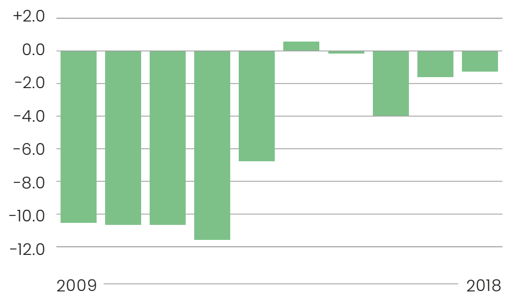
**-1.2%**

IN 2018

## Discount/ premium to NAV[1]

**Definition**
Achieve a sustainable low discount or a premium to NAV, taking account of market conditions

### DISCOUNT/PREMIUM TO NAV PER SHARE




In 2018, the year-end discount reduced to 1.3% (2017: 1.6% discount).

Despite volatility in markets, 2018's average discount of 1.6% was also lower than in 2017 (2.8%). The discount has been stable since early 2017, at around 2%.

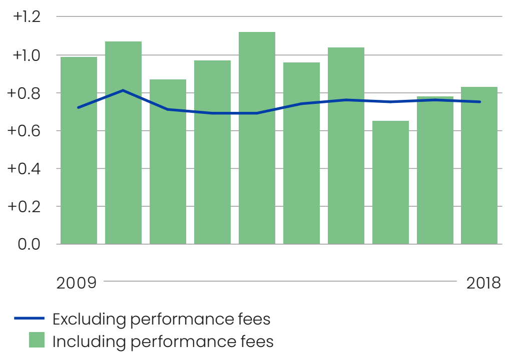
**-1.3%**

AT YEAR END

## Ongoing Charges[1] Figure ('OCF')

**Definition**
Achieve an OCF as low as possible, consistent with choosing the best available managers

### ONGOING CHARGES AS % OF NET AVERAGE ASSETS




In 2018, the OCF was 0.75% excluding performance fees and 0.83% including them.

Further details of costs are set out on page 19.

**0.75%**

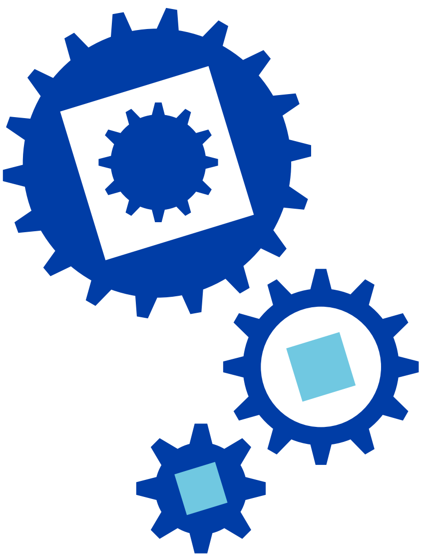
(0.83% INCLUSIVE OF PERFORMANCE FEES)

**(1) Alternative Performance Measures**
The financial statements (on pages 64 to 88) set out the required statutory reporting measures of the Company's financial performance. In addition, the Board assesses the Company's performance against a range of criteria which are viewed as particularly relevant for investment trusts, which are summarised in the key performance indicators on pages 6 to 7. Definitions of the terms used are set out on page 92. A reconciliation of the NAV per ordinary share (debt at par value) to the NAV per ordinary share (debt at fair value) is shown in note 18 on page 86.

# Business model

### Our purpose
Our purpose is to achieve significant growth in our investors' wealth by investing in global equity markets, using a multi-manager approach.

### Our approach
We select exceptional third party managers who are expected to outperform their assigned benchmarks. Most of the managers are not open for investment by UK individuals, or not on the same terms. They manage approximately 90% of Witan's assets. The remaining assets are invested directly by Witan's Executive team, which is also responsible for the management of gearing, under delegated guidelines from the Board.



### London listing
Witan is an investment trust, with a Premium Listing on the London Stock Exchange and is a member of the FTSE 350 Index. Witan invests across a wide range of global equity markets. Its portfolio has been managed with a multi-manager approach since 2004.

### WITAN

THE BOARD'S RESPONSIBILITIES

## Governance

The Company is directed by the Board, which consists primarily of non-executive directors, selected to bring the balance of skills required to manage an investment company. Witan Investment Services ('WIS'), a subsidiary of Witan, acts as the Alternative Investment Fund Manager (under the AIFM Directive which regulates the management of investment companies).

## Manager selection

Third party managers are chosen after a formal selection process, making use of the Board's substantial experience in investment management. The process entails using a variety of networks and databases to identify a list of organisations with evidence of success in the relevant investment area. Further due diligence is conducted on an initial long list, with the Board interviewing a final short list and making the decision to appoint.

### Investment managers

| | |
|---|---|
| UK | **Artemis, Heronbridge, Lindsell Train** |
| Global | **Lansdowne, Pzena, Veritas** |
| Europe | **CRUX, SW Mitchell** |
| Asia/Emerging | **Matthews, GQG** |

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### Shareholders

The majority of our shareholders are personal investors, investing directly or via portfolios managed on their behalf by discretionary managers. We welcome all shareholders but believe that our one-stop active equity management is well attuned to the needs of individual investors.

# Risk management

As AIFM, WIS is responsible for operating the Company's portfolio and risk management processes and delegates certain portfolio management responsibilities to third party portfolio managers. The Company outsources other corporate functions.

# Assessing performance

The Company's benchmark offers an appropriate reference point for comparing overall performance. The benchmark is a combination of global equity markets. All managers are also expected to outperform a benchmark appropriate to their specific mandate.

### Advantages of our business model

- Selecting managers in their areas of greatest competence should improve returns
- The use of multiple managers helps to smooth returns
- A focus on high-conviction managers avoids over-diversification
- Private investors can gain access to high-conviction managers not generally available
- The Executive team has flexibility in adjusting manager allocations and portfolio exposure
- Exposure to higher growth areas and value opportunities via the Direct Holdings portfolio

### Investment portfolio

Each manager has a different approach, whether based on geographical specialism, investment style or sector expertise. A common factor is focusing on company fundamentals, with returns being driven by the growth of corporate cash flows. A tangible sign of this is the growth in portfolio dividends and, in turn, Witan's own dividends to shareholders.

### Attributes we seek

- Talented and accountable leadership
- High standards of corporate governance
- Long-term outlook, generally low turnover
- Concentrated portfolios
- Clear and simple processes applied with discipline
- Stock picking independent of index considerations
- Potential for material outperformance
- Reasonable fees

# Our strategy

# Active global multi-manager investment

## THE MANAGEMENT OF WITAN

The Company's activities are directed by the Board, which delegates the full range of day-to-day activity to the Executive team, headed by the Chief Executive Officer, who is a director of the Company. Whilst the third party managers appointed are responsible for stock selection in their individual portfolios, the Company's Board and Executive team are responsible for the overall delivery of performance to shareholders, through the following means:

- setting the investment objective;
- selecting a benchmark for performance comparison that reflects the markets from which most of the investments are selected;
- selecting good managers, who are expected to outperform a relevant benchmark;
- overall portfolio construction consistent with a long-term investment horizon;
- operating appropriate portfolio, corporate governance and risk management controls;
- adjusting asset allocation according to opportunity;
- the judicious use of borrowings with the aim of adding to performance;
- direct investment in specialist funds;
- selective use of exchange-traded derivatives for efficient portfolio management; and
- clear communication of Witan's objective and results to shareholders and potential investors.

### WITAN'S BENCHMARK

The Company's equity benchmark consists of 30% UK, 25% North America, 20% Europe ex-UK, 20% Asia Pacific and 5% Emerging Markets. These markets cover the investment universe from which most of the portfolio's holdings are chosen. The component weightings reflect the Board's belief that returns derive from the changing opportunities as economies evolve, more than relative market capitalisation.

The portfolio is actively managed and does not aim to track or be constrained by the benchmark or any other combination of indices. Performance is likely to vary, sometimes considerably, from benchmark returns, while aiming for long-term outperformance.

### THIRD PARTY MANDATES

The selection of individual investments is largely delegated to third party managers, who are chosen by the Witan and WIS Boards, after a selection process focused on the managers' areas of expertise and scope to add value as part of the overall portfolio. The number of managers is not fixed, but in recent years has been around ten.

Witan's approach is to use different geographical mandates and investment approaches, creating a combined portfolio which is able to profit from the managers' ability to outperform over time. The selection process seeks managers focusing on fundamental value drivers rather than short-term trends.

The intention is to retain appointed managers for the long term, rather than to make changes to reflect stylistic fashions in the market or short-term performance. However, performance as well as the consistency and coherence of the investment process are monitored regularly to ensure that the assumptions and hopes underlying the appointments remain valid. Attention is also paid to structural changes in the investment world that may call for changes in the managers used.

The proportion of Witan's assets managed by the managers and their performance during the year are set out on page 16.

### THE EXECUTIVE TEAM'S ROLE IN INVESTMENT MANAGEMENT

Since the Company delegates the management of the majority of its assets (typically over 85%) to its selected third party investment managers, the returns from those portfolios are expected to be the principal driver of performance.

The overall asset allocation and portfolio risk are managed by the Executive team, which seeks to add to performance by adjusting the level of gearing, by the selective use of exchange-traded derivatives to adjust the asset allocation, and by the use of specialist funds to gain exposure to areas viewed as offering attractive returns. In essence, the Company seeks to have sufficient levers to pull to adapt to different conditions and take advantage of a wide range of investment opportunities.

The Executive team operates within delegated parameters that are periodically reviewed by the Board and its AIFM.

### DIRECTLY HELD INVESTMENTS

Up to 12.5% of the portfolio may be invested by the Executive team, with the objective of outperforming Witan's equity benchmark. Up to 10% (at the time of investment) may be invested in specialist collective funds, which may represent undervalued asset categories or funds viewed as longer-term generators of superior returns. Up to 2.5% may be allocated in smaller mandates to third party managers with strong potential to add value, which are newly established or in highly specialised investment areas.

The Direct Holdings portfolio is actively managed with no fixed allocation. More capital is invested when opportunities arise and the allocation falls when sales occur and there is a shortage of attractive new ideas.

### GEARING

The result of using borrowings (or 'gearing/leverage') is to amplify the effect of portfolio gains or losses on shareholders' returns. Accordingly, the Company seeks to set gearing at levels appropriate for market conditions, borrowing more when markets are attractively valued and less when returns are expected to be poorer. The calculation of gearing takes account of cash balances and the full nominal value of any derivatives held.

A blend of long-term and short-term borrowings is used, to balance the certainty of cost from locking in fixed rates for longer periods with the flexibility of short-term facilities which can be readily repaid.

### DERIVATIVES

Witan's use of derivatives prioritises transparency, cost-effectiveness and the minimisation of counterparty risk. In recent years, exchange-traded index futures have been the only instruments used. These are readily tradable, give exposure to a specified market index, and depend upon the creditworthiness of the exchange, not an individual firm.

The use of index futures enables Witan to adjust its investment exposure or asset allocation quickly and flexibly without interfering with our investment managers' objective of picking stocks that will grow in value and outperform their benchmarks. The operation of this investment area is the responsibility of the CEO, acting under guidelines set and supervised by the Board. The Company's third party managers are not permitted to use derivatives and may not gear their portfolios.

## INVESTMENT POLICY

- The Company invests primarily in listed companies across global equity markets, using a multi-manager approach. The Company's actively managed portfolio covers a broad range of markets and sectors, offering a distinctive way for investors to access the opportunities created by global economic growth.
- Under its Articles of Association, the Company may borrow up to 100% of the adjusted total of shareholders' funds. However, the Board's longstanding policy is not to allow gearing (as defined on page 92) to rise to more than 20%, other than temporarily in exceptional circumstances. Where appropriate, the Company may hold a net cash position.
- Selective and controlled use of specialist financial instruments (derivatives) will be considered, to assist with efficient portfolio management.
- The investment policy's objective is to achieve an investment total return exceeding that of the Company's benchmark over the long term, together with growth in the dividend ahead of inflation.

# Chairman's statement

## HIGHLIGHTS

- NAV total return of -8.4%, underperforming the benchmark's return of -6.5% by 1.9%
- Five-year NAV total return of 52.1%, compared with 44.6% for the benchmark
- Share price discount to NAV 1.3% at year-end (2017: 1.6%)
- Dividend increased by 11.9% to 23.5 pence, more than double that paid in 2008 and an unbroken run of increases since 1974

# Taking the long view

Witan has invested with a multi-manager approach since 2004. Over this period, we have beaten the returns on our equity benchmark and raised the dividend significantly faster than the rate of inflation. After several years of strong performance, our net asset value fell in 2018 and we underperformed, in what proved to be a challenging year.

During 2018, US economic growth (helped by a following wind from tax cuts) was stronger than in other developed economies, while growth elsewhere generally fell short of forecasts. In the UK the extended Brexit negotiations and related government disunity also continued to weigh on corporate and investor confidence. In addition, the US Federal Reserve steadily raised rates during the year and began to withdraw the liquidity from its earlier quantitative easing policy. Although this reflected strength in its own economy, the resulting squeeze put pressure on borrowers of dollars elsewhere, particularly in emerging markets.

With generally positive news on corporate earnings contending with these emerging concerns about a future trade war and the tightening of global liquidity, market fortunes fluctuated. A volatile first quarter was followed by generally positive returns in the middle quarters of the year and a very weak final quarter, on fears that the US rate tightening may have gone too far and might push the US into recession.

For much of the year, Witan's returns were positive and ahead of our benchmark, but the weakness towards the end of the year delivered a setback in both absolute and relative terms. The net asset value ('NAV') total return was -8.4%, 1.9% behind our benchmark's total return of -6.5%. The share price total return was -8.1%.

Taking a longer perspective, over the past five years, Witan has achieved a NAV total return of 52.1%, compared with the benchmark's 44.6% return over this period. During the ten years from the depths of the 2008 financial crisis to the end of 2018, shareholders have had a NAV total return of 207.1%, compared with the benchmark's return of 163.4%.

## 2018'S DIVIDEND

A fourth interim dividend of 7.75 pence was declared in February 2019, payable on 21 March 2019. As a result, the dividend for the year increased by 11.9% to 23.5 pence per share (2017: 21.0 pence), well ahead of the 2.1% rate of UK inflation at the year end. The dividend is fully covered by revenue earnings, with £4.7m added to revenue reserves. We have increased the dividend every year for the last 44 years, with the latest dividend more than double that paid in 2008. The chart below shows the dividend's growth over the past ten years, compared with inflation.

## SAVINGS SCHEMES

As announced in January 2019, Witan will be closing the Witan Wisdom and Jump Savings Plans in May 2019. The reasons behind the decision were fully set out in the January letter to account holders. In summary, a wide range of alternative platforms has grown up offering greater choice and better online capability than our own schemes. The costs of operating the Witan Wisdom and Jump platforms exceed the charges paid by account holders, even before the cost of upgrading the capabilities to match those elsewhere. Reluctantly, therefore, the decision was made to cease managing our own savings plans, offering the choice between a transfer to Hargreaves Lansdown, a FTSE 100 company specialising in the provision of investment accounts, a move to the investor's preferred platform, a transfer to the main register or closure. Witan is waiving all transfer charges and believes that the change will be to the benefit of account holders, who will enjoy enhanced service and choice at a competitive cost.

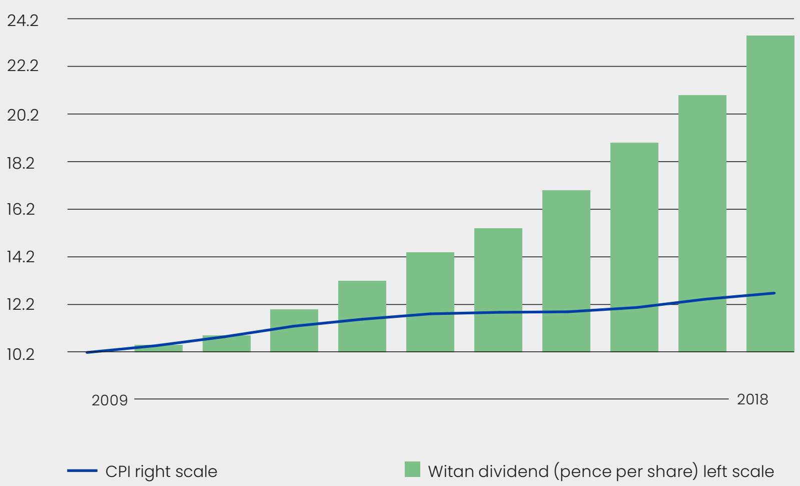
## PROPOSED SHARE SPLIT

The Board is proposing a share split, whereby shareholders will receive five shares with a par value of 5 pence in place of every share of 25 pence par value currently held. In addition, the current voting arrangement whereby shareholders have one vote for every four shares held will be replaced by one vote for each new share of 5 pence par value.

This will make no fundamental difference to the value of shareholdings. Assuming the proposal is approved by shareholders, the share price, net asset value per share and dividend per share can be expected to be one fifth of the level prevailing the day before the split, exactly reflecting the increase in the number of shares.

The intention is to make Witan's shares more accessible, particularly for those making regular savings or reinvesting dividends, where the approximately £10 share price in recent years may not be an ideal unit size to deal in. Furthermore, the previous position of one vote per four shares held was anomalous.

## WITAN'S DIVIDEND PER SHARE COMPARED WITH THE UK CONSUMER PRICE INDEX




## BOARD CHANGES

As announced to the Stock Exchange in December 2018, I shall be standing down as Chairman at the AGM in 2020. A search for a new director, who will in due course take over as Chairman, is under way, using external consultants.

The Board is committed to the benefits of having a diverse board, and is aware that in 2018 it had a less diverse board with fewer female directors than the desired minimum of 25%. This is unusual, as the Company met this test for the five years from 2012 to 2016, and it results from the pattern of retirements and appointments since 2017. As part of its succession planning, the Company has put in place a search for an additional new director, with re-emphasised guidelines having been given to the search consultant to ensure a fully diverse list of qualified candidates. An announcement will be made when this search has been completed.

## AGM

Our Annual General Meeting will be held at Merchant Taylors' Hall on Wednesday 1 May 2019 at 2.30 pm. Formal notice of the meeting will be sent to shareholders when the annual report is published. We look forward to the opportunity to meet you then for the Company's 111th AGM.

**Harry Henderson**
**Chairman**
11 March 2019

# CEO's review of the year

# A testing year for optimists

## THE INVESTMENT MARKETS IN 2018

Equity markets were volatile during the year and, after a notably weak fourth quarter, they ended the year with moderate losses, with global equities down in sterling terms. The standout performer in 2018 was the US market, with a small positive return of 1.4%, in a reversal of 2017 (when it was the weakest region). The UK and Europe were down 9.5% and 9.1% respectively. The Pacific Basin was down 8.1% and Emerging Markets fell 7.6%.

2018 was a year when macro-economic and political worries (such as Brexit, rising US rates and the US-China trade dispute) dominated the headlines. This proved a less auspicious climate for stock pickers than 2017 and our external managers as a whole were barely ahead of their benchmarks, providing little offset to our operating costs. Gearing was also a handicap during a year when markets ended in negative territory. As a result, our net asset value total return lagged our benchmark by 1.9% in 2018.

## OUTLOOK

Towards the end of 2018, investors became unnerved by concerns that US interest rate rises and tightening liquidity might be overdone, jeopardising global economic growth. The trade disputes initiated by the US with its trading partners, particularly China, were a further negative factor. Oil price rises earlier in the year had also increased inflation rates, while the uninspiring progress of the Brexit negotiations continued to dampen the domestic mood in the UK.

Corporate earnings and dividends grew while share prices as a whole fell, particularly in the final months of the year, so equity valuations finished the year lower. A mood took hold that 2018 might prove to be the peak in the economic cycle, leading investors to discount today's sunshine for fear of rain tomorrow.

Although it is normal for financial markets to be forward-looking, they are not clairvoyant, being prone to over-optimism and excessive gloom. Even as the investment mood darkened in December, the prevailing policy worries appeared to be improving. The oil price fell sharply, as new supplies came to the market. This acts as a tax cut for consumers of oil and, by lowering inflation rates, reduces the risk that central banks will have to raise rates to combat inflation. The US-China trade dispute is unresolved but talks are under way to mitigate it. The US Federal Reserve still plans to raise rates but has made clear that its actions are dependent on news from the economy, not on an automated path.

The risk of a 'cliff-edge' Brexit with no transitional arrangements appears to have reduced, although the shape of any ultimate deal remains profoundly uncertain. The risks have been widely analysed over the past two years and may well be largely discounted given the weak performance of the UK stock market (most of whose economic exposure is overseas). Our managers will continue to take account of the implications of Brexit when selecting stocks for their portfolios. Given the relatively minor economic importance of the UK and the Company's global investment remit, this is only one of a number of economic factors affecting the outlook for Witan's portfolio. The risks for the UK domestic economy are more significant and the political uncertainty related to the lack of unity in the government and the radical policies of the opposition continue to cloud investor attitudes towards the UK.

2018 started with apparently improving economic growth and (in the wake of the US tax cuts) a tangible mood of optimism. This set the stage for a tricky year as liquidity tightened, economic growth disappointed and US trade and foreign policy surprises proved unsettling. By contrast, 2019 started with sentiment overwhelmingly pessimistic. Whilst concerns over trade, recession and European disunity might be proved correct, recent developments suggest this is not a one-way bet. The risks are more fully recognised and positive surprises seem just as possible as unexpected shocks.

**“We believe that 2019 has the potential to deliver attractive investment returns, despite (or partly because of) the pervading gloom at the end of 2018.”**

Given current equity valuations, against a background where interest rates are likely to remain well below historic norms, we believe that 2019 has the potential to deliver attractive investment returns, despite (or partly because of) the pervading gloom at the end of 2018. At worst, time appears to be more clearly on the side of contrarian, patient equity investment than a year ago, with valuations lower and risk aversion in the ascendant.

## 2018 PERFORMANCE SUMMARY AND ATTRIBUTION

The financial statements on pages 64 to 88 set out the required statutory reporting measures of the Company's financial performance.

As referred to in the Chairman's Statement, Witan's NAV total return (with debt at fair value and after all costs) was -8.4%, 1.9% behind the return of -6.5% from the Company's benchmark.

## PERFORMANCE DRIVERS OF WITAN'S GROWTH IN NET ASSET VALUE DURING 2018

The chart overleaf shows the contributions (in pence per share) attributable to the various components of investment performance and costs, which together add up to the decline from the starting NAV for the year of 1096.2 pence to the ending NAV of 983.4 pence, after the payment of dividends to shareholders.

In a difficult year for active management, the third party managers, in aggregate, performed only slightly ahead of their benchmarks (before costs) and gearing was a negative contributor in the falling markets that prevailed at the end of the year.

A breakdown of the performance attribution in 2018 (based on the Company's financial statements) is shown in the table below.

## PORTFOLIO STRUCTURE AND PERFORMANCE

During 2018, there were no changes to Witan's list of ten core third party managers.

### A BREAKDOWN OF THE PERFORMANCE ATTRIBUTION IN 2018

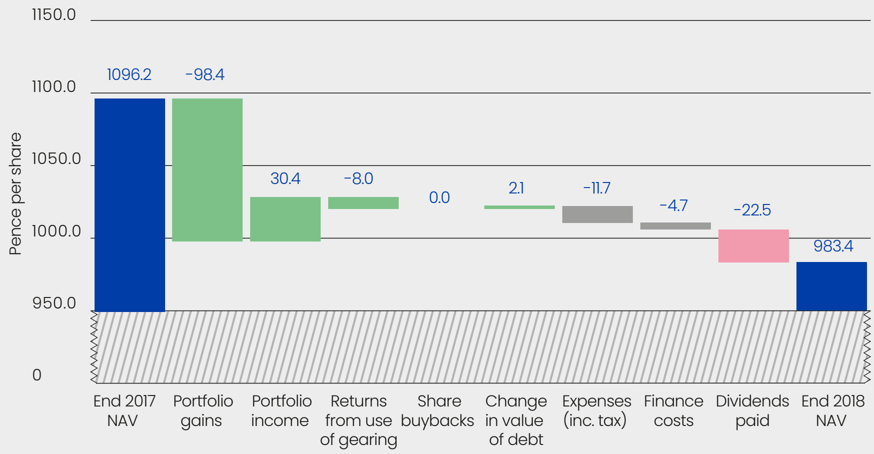
| | | | | |
|---|---|---|---|---|
| Net asset value total return | -8.4% | Portfolio total return (gross) | -6.3% | |
| Benchmark total return | -6.5% | Benchmark total return | -6.5% | |
| | | Relative investment performance | +0.2% | |
| | | Investment management costs | -0.6% | |
| | | **Investment contribution** | | -0.4% |
| | | Gearing impact | -0.8% | |
| | | Borrowing costs | -0.4% | |
| | | **Gearing contribution** | | -1.2% |
| | | Effect of changed fair value of debt | +0.2% | |
| | | Share buybacks | +0.0% | |
| | | **Other contributors** | | +0.2% |
| | | Other operating costs and tax | -0.5% | |
| | | | | -0.5% |
| Relative performance[1] | -1.9% | | | -1.9% |

(1) N.B. Figures may not sum due to rounding.

# CEO's review of the year continued

> **"Although Witan's overall performance is the primary focus, monitoring individual managers' performance is an important check."**

### NAV PER SHARE RECONCILIATION




### INVESTMENT MANAGERS' PERFORMANCE

| Investment manager | Witan assets managed as at 31.12.18 £m | % (1) | Performance in 2018 % Manager | Benchmark | Performance since appointment (2) % Manager | Benchmark |
|---|---|---|---|---|---|---|
| Artemis | 151.4 | 7.5 | (13.0) | (9.5) | 7.7 | 5.2 |
| Heronbridge | 124.1 | 6.1 | (10.1) | (9.5) | 7.0 | 5.4 |
| Lindsell Train | 175.5 | 8.7 | 0.0 | (9.5) | 14.6 | 7.5 |
| Lansdowne Partners | 302.9 | 15.0 | (5.4) | (3.4) | 17.5 | 12.2 |
| Pzena | 276.5 | 13.7 | (9.0) | (3.4) | 8.9 | 10.6 |
| Veritas | 294.6 | 14.6 | 1.2 | (3.4) | 12.8 | 10.2 |
| CRUX | 92.1 | 4.6 | (13.0) | (9.5) | (10.7) | (9.2) |
| SW Mitchell | 85.9 | 4.2 | (19.9) | (9.5) | (18.0) | (9.2) |
| Matthews | 238.3 | 11.8 | (5.6) | (7.9) | 9.3 | 7.5 |
| GQG | 96.5 | 4.8 | (8.8) | (8.9) | 3.4 | 3.0 |
| Witan Direct Holdings | 201.8 | 10.0 | (1.4) | (6.5) | 11.2 | 8.0 |

(1) The percentage of Witan's investments managed and cash balances held centrally by Witan.
(2) The percentages are annualised where the date of appointment was more than one year ago.

The third party managers follow mandates set by the Company. The mandate, benchmark, investment style and the date of appointment for each manager are shown on pages 24 to 29. The returns since each manager's appointment are set out in the adjoining table showing that, since inception, the majority have outperformed their benchmarks. Of the three which have underperformed, two have been in place for just over a year.

Although Witan's overall performance is the primary focus, monitoring individual managers' performance is an important check. In 2018, four of the ten third party managers in place for the full year and the internally managed Direct Holdings portfolio outperformed their benchmarks. These accounted for 49% of Witan's assets but were not sufficient to offset underperformance by the other six managers.

Positive relative performances were achieved by Lindsell Train (outperforming the UK market by 9.5%), Veritas (outperforming the world index by 4.6%), Matthews (outperforming the Pacific Basin by 2.3%), GQG (0.1% ahead of its emerging market benchmark) and the Direct Holdings portfolio (which outperformed Witan's benchmark by 5.1%). It is something of a comment on the year that only one of these (Veritas at +1.2%) delivered a positive absolute return. On the downside, our European managers both underperformed, SW Mitchell by 10.4% and CRUX by 3.5%. Artemis lagged the UK by 3.5% and Pzena underperformed the global index benchmark by 5.6%, in a difficult year for value managers.

### DIRECTLY HELD INVESTMENTS

The Direct Holdings portfolio delivered a return of -1.4%, 5.1% ahead of the -6.5% performance from Witan's benchmark. Returns were driven by positive performances from the specialist life sciences company Syncona (+34%) and the NB Distressed Debt Investment Fund (+7.7%), offsetting falls in value for other holdings (source: Bloomberg).

The portfolio held 9.1% of assets at the start of the year and was 9.3% of the investment portfolio at the end of 2018 in addition to which 0.7% was allocated to a newly established manager, Latitude Investment Management (see details on the next page).

The main direct investments are listed in the UK, but the underlying exposure currently bears little relation to the UK economy or stock market. 40% is in listed private equity funds with mostly international investments. 30% is in life sciences and biotechnology. Within this, the largest holding, Syncona, has had significant success backing a portfolio of new companies based in the UK, in highly specialised areas of cell and gene therapy where the markets are international. 16% is invested in the international mining sector via a holding in the BlackRock World Mining Trust, with the remaining holdings being 8% in an emerging markets smaller companies fund and 7% in a distressed debt fund.

In addition to the collective fund holdings, a portfolio amounting to 0.7% of Witan's assets was allocated to Latitude Investment Management in April, for investment in global equities. This manager was chosen, after an extended period of due diligence, as part of a programme of seeking to identify newly established managers with the potential to contribute positively to Witan's future returns. This portfolio outperformed significantly, with a total return of 6.3% compared with the 1.0% return from its global index benchmark during the nine months from April to December.

## STRUCTURE OF BORROWINGS

The Company has fixed-rate borrowings of £170.4m, principally consisting of:

| | |
|---|---|
| Secured Bonds 2025 6.125% | £64m |
| Secured Notes 2035 3.29% | £21m |
| Secured Notes 2045 3.47% | £54m |
| Secured Notes 2054 2.74% | £30m |

The Company has a £125m one-year borrowing facility, providing additional flexibility over the level of gearing, as well as enabling the Company to borrow in currencies other than sterling, if deemed appropriate. The drawn balance was £81m at the end of 2018. The average interest rate on the Company's fixed-rate borrowings is 4.3%. The average interest rate, including short-term borrowings, is currently 3.3%.

Witan may either invest its borrowings fully, or neutralise their effect with cash balances according to its assessment of the markets. The Company's third party managers are not permitted to borrow within their portfolios but may hold cash.

> **Since 2008, Witan's dividend per share has more than doubled, rising 130% compared with 25% for the UK CPI."**

## GEARING ACTIVITY DURING 2018

There were no changes in the Company's longer-term gearing securities in 2018.

Gearing fluctuated around 10% for most of the year. In retrospect, this was a drawback, as the benefit gained during the first nine months of the year was more than negated by the headwind from being geared during the fourth quarter's 10.5% fall in global markets.

At the end of 2017, gross gearing (the total value of all investment positions less cash) was 9.7%. This included £23m in European equity index futures, equivalent to 1.2% of net assets. Gearing excluding this was 8.5%. At the end of 2018, gross gearing (on the same basis) was 11.6%. This included £25m in Emerging Markets equity index futures, equivalent to 1.4% of net assets. Gearing excluding this was 10.2%. Further details of the accounting treatment for these positions are given in note 1(n) on page 70.

## DERIVATIVES ACTIVITY DURING 2018

The £23m holding in European equity index futures at the end of 2017 was sold in early January and £20m invested directly with our two Europe ex-UK equity managers.

During the summer, a small investment in Emerging Markets equity index futures was initiated. This was added to gradually, reflecting a balance between the market's evident concerns on the outlook for growth and the value on offer. The value as at the end of the year was £25m. There was a realised capital loss on index futures during the year of £1.3m, as shown in the cash flow statement on page 67 (2017: £7.6m gain).

## DIVIDEND PERFORMANCE IN 2018

Revenue earnings increased by 8.8% to 25.9 pence per share in 2018. Portfolio dividends increased and, for much of the year, there was a favourable foreign exchange impact on overseas currency dividends, due to the weakness of sterling.

The Company pays dividends quarterly. For 2018, the Board has declared a fourth interim dividend of 7.75 pence per share, to be paid to shareholders on 21 March 2018, making a total distribution for the year of 23.5 pence (2017: 21.0 pence). This represents an increase of 11.9%, 9.7% ahead of the 2.1% rate of CPI inflation in the year to December 2018.

In addition to increasing the dividend, the Company has added £4.7m to its revenue reserves. At £65m after allowing for 2018's fourth interim payment, the reserves are equivalent to one and a half times the annual dividend. These reserves enable the Company to maintain or grow its dividends in years when revenue from the portfolio is less buoyant, or falls.

Since 2008, Witan's dividend per share has more than doubled, rising 130% compared with 25% for the UK CPI (as shown in the chart on page 13) and 65% dividend growth for the UK market (Source: Datastream).

## 2019 DIVIDENDS

The first three quarterly payments for 2019 (in June, September and December) will, in the absence of unforeseen circumstances, be paid at a rate of 5.875 pence per share (2018: 5.25 pence), being one quarter of the 23.5 pence per share full-year payment for 2018.

Assuming that at the 2019 AGM shareholders approve the proposed five-for-one share split, the first three payments for 2019 will be adjusted proportionately, to 1.175 pence per share (compared with the adjusted equivalent of 1.05 pence per share for 2018), one quarter of the 4.7 pence full-year payment for 2018 (23.5 pence divided by five).

The share split will not affect the dividend income received by shareholders, as the greater number of shares held will be offset exactly by the adjusted payment per share.

# CEO's review of the year continued

The fourth payment (in March 2020) will be a balancing amount, reflecting the difference between the three quarterly dividends already paid and the payment decided for the full year.

### WITAN'S SHARES IN THE MARKET – LIQUIDITY AND DISCOUNTS

Witan is a member of the FTSE 250 Index, with a market capitalisation of over £1.7bn.

The Board has always paid attention to discount-related issues and has, over many years, made significant use of share buybacks, purchasing shares when they have stood at an unduly wide discount. In addition to being accretive to NAV, this has the objective of reducing the discount.

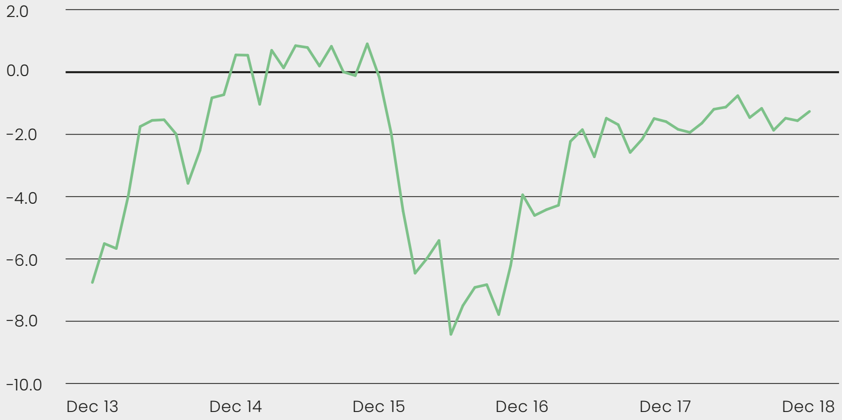
### WITAN INVESTMENT TRUST DISCOUNT TREND

The discount trend since 2014 is illustrated in the chart to the right. After the exceptional discount widening experienced during 2016 (affected by an institutional share sale and the aftermath of the Brexit vote) the discount has been stable in a range around 2% since early 2017.

During 2018, Witan bought 240,221 shares into treasury, at an average discount of 1.7%. Although the £42,000 added to the net asset value for remaining shareholders was modest, the activity helps to maintain a balance between supply and demand in the market.

Discounts are affected by many factors outside the Company's control but where it is in shareholders' interests (taking account of market conditions), the Company is prepared to buy back shares at a discount to NAV or to issue shares at a premium. It remains a long-term objective to create sustainable liquidity in Witan's shares at or near to asset value. The actions taken during 2018 are evidence of this continuing commitment.

### WITAN DISCOUNT TO NET ASSET VALUE




Source: Datastream

### COMMUNICATION

The Board believes that it is important to communicate the Company's strategy and operating results to existing and potential shareholders, to ensure they have access to relevant information concerning Witan's record as stewards of shareholders' capital and to help sustain a liquid market in Witan's shares. Clear communication of the Company's investment objective and its success in implementing its strategy can help investors to decide how Witan fits in with their own investment objectives. This should help the shares to trade at a narrow discount or premium to NAV, from which all shareholders benefit. If the shares trade at a premium, new shares may be issued to meet market demand, increasing the size of the Company, which benefits liquidity as well as spreading costs. When the shares are trading at a discount, buying back shares is accretive for NAV per share and helps reduce the discount.

The Company has for many years operated a marketing programme, communicating information about its investment strategy and performance to private and professional investors, financial advisers and intermediaries using a range of media. Investors can purchase shares on a wide range of investment platforms. The Company also maintains a website (www.witan.com), to enable investors to make informed decisions when considering Witan shares for their investment portfolios. The website is regularly refreshed with new information and includes Investor Disclosure and Key Information Documents.

**Andrew Bell**
**Chief Executive Officer**
11 March 2019

# Costs

### INVESTMENT MANAGEMENT FEES

Each of the third party managers is entitled to a management fee, based on the assets under management. The agreements can be terminated on one to three months' notice. The base fee rates for managers in place at the end of 2018 range from 0.25% to 0.70% per annum. The weighted average base fee was 0.52% as at 31 December 2018 (2017: 0.52%). Two managers, in total managing 16% of Witan's portfolio, have performance-related fees, which are subject to capping in any particular year. They have lower base fees than the managers without performance fees.

As an illustration, if our third party managers uniformly outperformed their benchmarks by 3% after base management fees, this would generate a total investment management fee rate of 0.57% (including a 0.52% base fee and a performance fee of 0.05%), 1% lower than the comparable estimate in 2017 (0.58%). The actual fees payable will vary according to the actual performance of managers with higher or lower fees.

Witan takes care to ensure the competitiveness of the fees it pays. A majority of the fee structures incorporate a 'taper' whereby the average fee rate reduces as the portfolio grows.

The Company's investment managers may use certain services which are paid for, or provided by, various brokers. They may place business, including transactions relating to the Company, with those brokers. Under the requirements of MiFID II, broker-provided services (other than the execution of transactions) must either be minor non-monetary benefits or, for research received by investment managers and charged to the Company, separately accounted for.

### ONGOING CHARGES AND COSTS

The Key Information Document on the Company's website contains a measure of costs calculated in accordance with EU PRIIPS regulations, which includes average figures over a period. In accordance with AIC guidance, Witan continues to calculate the Ongoing Charges Figure ('OCF') (the recurring operating and investment management costs, as a percentage of average net assets) for the annual report on a consistent basis with those published in previous years, to facilitate comparison. It is emphasised that the Company's investment performance is reported after all costs, whichever measure is used.

The OCF was 0.75% in 2018 (2017: 0.76%). When performance fees due to the relevant third party managers are included, the OCF was 0.83% in 2018 (2017: 0.78%). One of the two managers with a performance fee structure significantly outperformed during 2018, which explains why the OCF including performance fees was greater than the basic OCF, in a year when the portfolio as a whole underperformed. This is a relatively unusual combination of circumstances. For perspective, the performance fee generated in 2017, when Witan's NAV total return outperformed by 3.7%, was relatively small, as performance in that year was driven by managers without performance fee structures.

The main cost headings within the OCF are set out below. As in previous years, the figure for transaction costs is also shown. The figure for borrowing costs is also included in the table, for easy reference.

The Company exercises strict scrutiny and control over costs. The Board believes that the OCF during the year represents good value for money for shareholders, taking account of recent and longer-term performance.

### ANALYSIS OF COSTS

| Category of cost | 2018 £m | 2018 % of average net assets | 2017 £m | 2017 % of average net assets |
|---|---|---|---|---|
| Investment management base fees (note 4, page 72) | **10.14** | **0.53** | 9.02 | 0.49 |
| Other expenses (excluding loan arrangement and one off costs) | **5.85** | **0.30** | 6.46 | 0.35 |
| Less expenses relating to the subsidiary (those expenses not relating to the operation of the investment company) | **(1.45)** | **(0.08)** | (1.45) | (0.08) |
| **Ongoing Charges Figure** (including investment management base fees) | **14.54** | **0.75** | 14.03 | 0.76 |
| Investment management performance fees (note 4, page 72) | **1.56** | **0.08** | 0.53 | 0.02 |
| **Ongoing Charges Figure** (including performance fees) | **16.10** | **0.83** | 14.56 | 0.78 |
| Portfolio transaction costs Including costs relating to manager changes. | **2.52** | **0.13** | 3.18 | 0.17 |
| Interest costs | **8.37** | **0.43** | 7.62 | 0.41 |
| Total costs including transaction costs and borrowing costs | **26.99** | **1.40** | 23.35 | 1.37 |
| Relative performance during the year (after all costs, valuing debt at fair value) | | **(1.9%)** | | 3.9% |

N.B. Figures may not sum due to rounding.

# Corporate and operational structure

Witan is an investment trust with a Premium Listing on the London Stock Exchange. It has a single, wholly-owned subsidiary, Witan Investment Services Limited ('WIS') which acts as the Company's Alternative Investment Fund Manager ('AIFM').

The overwhelming majority of the portfolio is in segregated accounts, held in custody by the Company's depositary. The operations of the custodian and the safeguarding of the Company's assets are supervised by the depositary.

## OPERATIONAL MANAGEMENT ARRANGEMENTS

In addition to the appointment of third party investment managers, Witan and WIS contract with third parties for other services, including:

- BNP Paribas Securities Services London Branch for depositary services, custody, investment accounting and administration;
- Frostrow Capital LLP for company secretarial services;
- DST Services Ltd. ('DST') as the savings plan administrator of Witan Wisdom and Jump Savings; and
- the Company takes specialist advice on regulatory compliance issues and, as required, procures legal, investment consulting, financial and tax advice.

The service quality and value received from major service providers are reviewed regularly by the Board.

The contracts governing the provision of all services are formulated with legal advice and stipulate clear objectives and guidelines for the service required.

## STAFFING

The Company's policy towards its employees is to attract and retain staff with the skills and expertise required to manage the affairs of an investment trust company. Details of the Company's remuneration policies and required disclosures are set out in the Directors' Remuneration Report on pages 42 to 52. Employees and those who seek to work at Witan are treated equally regardless of gender, marital status, colour, race, religion or ethnic origin. The Company has seven direct employees, four men and three women. The Board currently consists of seven non-executive directors (six men and one woman) and the Chief Executive Officer, Andrew Bell, who is an employee. Given its outsourced model and small number of direct employees, the Group has no specific policies in respect of environmental or social and community affairs.

## WITAN INVESTMENT SERVICES

Witan Investment Services Limited is authorised and regulated by the Financial Conduct Authority. It is authorised to act as Witan's AIFM, to provide investment savings accounts and marketing services and to give investment advice to professional investors.

WIS's principal activities are acting as Witan's AIFM, providing executive management services to the Boards of Witan and Witan Pacific Investment Trust plc ('Witan Pacific') and communicating information about the Companies to the market.

WIS's operational objectives for 2018 were:

- to fulfil its responsibilities as Witan's AIFM;
- to provide suitable advice to the Boards of its corporate clients;
- to facilitate the implementation of new arrangements for members of the Witan Wisdom and Jump Savings Schemes, which are due to close in May 2019;
- to reduce the net operating costs for Witan; and
- to seek appropriate business opportunities that can add value for shareholders.

In 2018, WIS had two principal sources of income. These were savings plan revenues and the fees (as AIFM or Executive Manager and for marketing services) paid by Witan and Witan Pacific. The main costs incurred were fees to the savings schemes administrator ('DST'), staff costs and professional advice to ensure compliance with regulatory and accounting obligations.

# Principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These risks, and the actions taken to mitigate them, are set out on pages 21 and 22.

Risks are inherent in investment and corporate management. It is important to identify important risks and ways to control or avoid them. Witan Investment Services Limited ('WIS') has a Risk Committee in order to monitor compliance with its risk management and reporting obligations as Witan's Alternative Investment Fund Manager ('AIFM'). The Company maintains a framework of the key risks, with the policies and processes devised to manage them. Its detailed risk map is reviewed regularly by the Audit Committee and the WIS Risk Committee, which report on pertinent issues to their respective Boards.

The guiding principles remain watchfulness, proper analysis, prudence and a clear system of risk management.

Where appropriate, the Witan and WIS Boards meet jointly to cover matters of common interest. The WIS Board consists of six non-executive directors and one executive director who are also directors of Witan, and one executive director who is a Company employee.

The Group's key risks fall broadly under the following categories:

## Market and investment portfolio

| Risk | Mitigation |
|---|---|
| **Equity exposure is unlikely to drop below 80% of net assets in normal conditions, so a key risk of investing in Witan is a general fall in equity prices, which could be exacerbated by gearing. Other risks are the portfolio's exposure to country, currency, industrial sector and stock-specific factors. There are also risks associated with the performance of its investment managers and changes in Witan's share price rating.** | The Board seeks to manage these risks through:<br>■ a broadly diversified equity benchmark;<br>■ appropriate asset allocation decisions;<br>■ selecting competent managers and regularly monitoring performance;<br>■ paying attention to key economic and political events;<br>■ active management of risk, whether to preserve capital or capitalise on opportunities;<br>■ the application of relevant policies on gearing and liquidity; and<br>■ share buybacks and issuance to respond to market supply and demand.<br>During the year, Andrew Bell (the Chief Executive Officer ('CEO')) managed the overall business and the investment portfolio in accordance with limits determined by the Board and its AIFM, on which the CEO reports at each Board meeting. The Board also regularly reviews investment strategy and performance, supported by comprehensive management information and analysis. |

## Operational

| Risk | Mitigation |
|---|---|
| **Many of the Group's financial systems are outsourced to third parties, principally BNP Paribas Securities Services ('BNPSS'). Disruption to their accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.** | BNPSS, as the Company's depositary, has a key responsibility for monitoring such issues on behalf of the Company. DST Services acts as the administrator for the current Witan Wisdom and Jump Savings schemes so the effectiveness of its systems and controls is also key. Details of the Board's monitoring and control processes are explained further in the Corporate Governance Statement on pages 34 to 39. |

# Principal risks and uncertainties continued

## Compliance and regulatory change

| Risk | Mitigation |
|---|---|
| **The Company breaches compliance/regulatory requirements or fails to assess the impact.** | The Board takes its regulatory responsibilities very seriously and compliance issues and potential regulatory changes are regularly reviewed by the Board and its AIFM.<br><br>Details of the Company's corporate governance policies are set out in the Corporate Governance Statement on pages 34 to 39. The Board conducts an annual assessment of the effectiveness of its governance processes. There is also a three-yearly independent external review, the most recent of which was in late 2016. See page 36 for further details.<br><br>Operational and regulatory risks are regularly reviewed by Witan's Audit Committee and WIS's Risk Committee. WIS is subject to its own operating rules and regulations and is regulated by the Financial Conduct Authority ('FCA'). The Company has established a modus operandi for the effective coordination of its responsibilities and those of WIS, as its AIFM.<br><br>Operationally the multi-manager structure is robust, as the investment managers, the custodian and the fund accountants keep their own records which are regularly reconciled. The depositary, the AIFM and the Board provide additional checks and safeguards. Management monitors the activities of all third parties and reports any significant issues to the Board. |

## Accounting, taxation and legal

| Risk | Mitigation |
|---|---|
| **The Company must comply with sections 1158-59 of the Corporation Tax Act 2010 ('CTA'). A breach could result in the Company losing investment trust status and, as a consequence, capital gains realised would be subject to corporation tax.**<br><br>**The Company must comply with the provisions of the Companies Act 2006 ('Companies Act') and with the UK Listing Authority's Listing Rules and Disclosure Rules ('UKLA Rules'). A breach of the Companies Act could result in the Company and/or the directors being fined or becoming the subject of criminal proceedings. Breach of the UKLA Rules could result in the suspension of the Company's shares which would itself constitute a breach of the provisions of the CTA.** | The accounting criteria are monitored by the CEO and AIFM and the Company carefully monitors compliance with the applicable rules.<br><br>These requirements offer significant protection for shareholders. The Board relies on the CEO, the AIFM, the Company Secretary and the Group's professional advisers to ensure compliance with all applicable rules. WIS is authorised and regulated by the FCA to act as the AIFM for Witan, for the administration of savings plans and to provide marketing services and investment advice to professional clients. |

## Liquidity

| Risk | Mitigation |
|---|---|
| **The Company's portfolio of securities might not be realisable.** | The Company's portfolio consists mainly of readily realisable securities. The Company and its AIFM regularly review liquidity needs (for example, operational costs, loan servicing and repayment, shareholder dividends and share buybacks) relative to the Company's portfolio income and the value and tradability of the Company's assets. Most of the likely liquidity requirements are foreseeable (for example, timetabled loan payments and dividends) while others (such as share buybacks) are subject to the Company's discretion. The Board is satisfied that unexpected liquidity needs are not significant and could readily be met without compromising normal portfolio management. |

# Viability statement

In accordance with the UK Corporate Governance Code, the Board has assessed the prospects of the Company over a longer period than the 12 months required by the 'going concern' provision.

The Company's current position and prospects are set out in the Chairman's and Chief Executive Officer's reports and the strategic report. The principal risks are set out on pages 21 and 22. The Board has considered the Company's financial position and its ability to liquidate its portfolio and meet its expenses as they fall due and notes the following:

- The portfolio consists of investments traded on major international stock exchanges and there is a spread of investments. In normal conditions, the current portfolio could be liquidated to the extent of more than 87% within five trading days and there is no expectation that the nature of the investments held will be materially different in future.
- The closed-ended nature of the Company means that, unlike an open-ended fund, it does not need to realise investments when shareholders wish to sell their shares.
- The Board has considered the viability of the Company under various scenarios and concluded that it would usually be able to take appropriate action to protect the value of the Company's assets. As set out in note 14 to the accounts, the Board has considered price risk sensitivity (the sensitivity of the profit after taxation for the year and the value of the shareholders' funds to changes in the fair value of the Group's investments) and foreign currency sensitivity (the sensitivity to changes in the exchange rates for the £/US dollar, £/Euro and £/Japanese yen).
- In addition to its cash balances, which were £72m at 31 December 2018 (2017: £76m), the Company has a short-term bank facility which can be used to meet its liabilities, and fixed-rate financing in the form of secured bonds, secured notes and cumulative preference shares. With the exception of the short-term facility, this financing will remain in place until at least 2025. Details of the Company's current and non-current liabilities are set out in note 13 to the accounts.
- The expenses of the Company are predictable and modest in comparison with the assets and there are no capital commitments currently foreseen which would alter that position.

As well as considering the principal risks on pages 21 and 22 and the financial position of the Company, the Board has made the following assumptions in considering the Company's longer-term viability:

- The Company's remit of investing in the securities of global listed companies will continue to be an activity to which investors will wish to have exposure.
- Investors will continue to want to invest in closed-ended investment trusts.
- The performance of the Company will continue to be satisfactory. The Board is able to replace any of the current investment managers when it considers it appropriate to do so.
- The Company will continue to have access to adequate capital when required.
- The Company will continue to be able to fund share buybacks when required. The Company bought back 0.24m ordinary shares in 2018 at a cost of £2.5m and experienced no problem with liquidity in doing so. It had shareholders' funds in excess of £1.7bn at the end of 2018.

Based on the results of its review, and taking into account the long-term nature of the Company and its financing, the Board has a reasonable expectation that the Company will be able to continue its operations and meet its expenses and liabilities as they fall due for the foreseeable future, taken to mean at least the next five years. The Board has chosen this period because, whilst it has no information to suggest this judgement will need to change in the coming five years, forecasting over longer periods is imprecise. The Board's long-term view of viability will, of course, be updated each year in the annual report.

## GOING CONCERN

In light of the conclusions drawn in the foregoing Liquidity and Viability Statements, the Company has adequate financial resources to continue in operational existence for at least the next 12 months. Therefore, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reviewing the position as at the date of this report, the Board has considered the guidance on this matter issued by the Financial Reporting Council.

## APPROVAL

This report was approved by the Board of directors on 11 March 2019 and is signed on its behalf by:

**H M Henderson**
**Chairman**

**A L C Bell**
**Chief Executive Officer**

11 March 2019

## Meet the managers

# Selected for their expertise and experience

We choose managers who are experts in their particular field. We aim to identify individuals or teams who have a high degree of intellectual rigour and sound judgment to enable them to select good companies. This should be supported by a sufficient level of confidence to combine these investments into concentrated portfolios which are differentiated from the benchmark they are aiming to outperform. These characteristics should enable Witan to benefit from each manager's successful investment decisions.

The Board selects managers and adjusts allocations to create a combined portfolio which is expected to deliver long-term outperformance, while the multi-manager structure helps reduce overall risk. Our managers tend to have a long-term outlook with low portfolio turnover and a focus on company fundamentals rather than short-term trends. Whilst there is no 'typical' Witan manager, a common factor tends to be a focus on growth in corporate cash flow over the long term. Performance of each manager since appointment is shown on page 16.

## THE UK

### Annual performance

| | |
|---|---|
| Artemis | **-13.0%** |
| FTSE All-Share | **-9.5%** |

**7.5%**
Witan Assets
2017: 8.3%

| | |
|---|---|
| **Name:** | Derek Stuart |
| **Style:** | Recovery/special situations |
| **Benchmark:** | FTSE All-Share |
| **Inception date:** | 06/05/2008 |

### ARTEMIS

Derek Stuart, manager of Artemis's UK Special Situations strategy, aims to achieve superior long-term growth by looking for unrecognised growth potential in companies, often those that are unloved or out of favour. The strategy, which often favours smaller and medium-sized companies, identifies hidden value within 'problem investments' which are often companies in need of new management or refinancing or are suffering from investor indifference. The focus on those companies which can help themselves rather than relying on a change in the business climate aims to avoid 'value traps' and other risks associated with a 'special situations' strategy. The Artemis team places great emphasis on personal knowledge of management teams and meets with them regularly. This helps them understand what can be achieved and how aligned management are with shareholders. The portfolio typically has fewer than 50 holdings.

## THE UK

HERONBRIDGE
INVESTMENT MANAGEMENT

### Annual performance

| | |
|---|---|
| Heronbridge | **-10.1%** |
| FTSE All-Share | **-9.5%** |

**6.1%**
Witan Assets
2017: 6.2%

| | |
|---|---|
| **Name:** | Bevis Comer |
| **Style:** | Intrinsic value growth |
| **Benchmark:** | FTSE All-Share |
| **Inception date:** | 17/06/2013 |

**HERONBRIDGE**

Heronbridge is, by design, a small investment boutique based in South West England investing exclusively in UK equities. Its two lead managers, Benoit Bouchaud and Bevis Comer, describe their process as high-conviction, unconstrained, contrarian stock picking, with a value bias: "Good companies at fair prices, and fair companies at good prices". Their portfolio is constructed with reference to their investment merits, not a stock's size in a particular market index. The concept of 'Owner Earnings Yield' allows the managers to think as owners of businesses and focus on growing the portfolio's underlying earnings power, book value and dividends, in the expectation that stock prices will, over time, reflect that growth. This disciplined and repeatable process aims to produce returns which outperform the FTSE All-Share and inflation over the long term.

## THE UK

LINDSELL TRAIN

### Annual performance

| | |
|---|---|
| Lindsell Train | **0.0%** |
| FTSE All-Share | **-9.5%** |

**8.7%**
Witan Assets
2017: 7.9%

| | |
|---|---|
| **Name:** | Nick Train |
| **Style:** | Long-term growth from undervalued brands |
| **Benchmark:** | FTSE All-Share |
| **Inception date:** | 01/09/2010 |

**LINDSELL TRAIN**

Nick Train, in partnership with Michael Lindsell, is guided by four investment beliefs: investors undervalue durable, cash-generative business franchises; concentration can *reduce* risk; transaction costs are a 'tax' on returns; and dividends matter even more than you think. These tenets have led to the creation of a high-conviction portfolio of circa 15 stocks which they describe as "rare and beautiful assets". It is focused on three key themes: Consumer Brands, Media & Digital Technology and Financial Services and typically enjoys a portfolio turnover rate of less than 10% per annum. Lindsell Train Limited is a small company, with fewer than 20 staff looking after over £15bn of client assets. This small size allows the two founders and their team the freedom to concentrate on investment issues. The ownership structure allows the partners to focus on long-term performance rather than short-term market 'noise'. This clear sense of purpose and single-minded pursuit of investment excellence is a key distinguishing feature of Lindsell Train's approach.

# **Meet the managers** continued

## GLOBAL

LANSDOWNE PARTNERS

### Annual performance

| | |
|---|---|
| Lansdowne Partners | -5.4% |
| FTSE All-World | -3.4% |

**15.0%**
Witan Assets
2017: 14.9%

**LANSDOWNE**

Founded in 1998, Lansdowne Partners has evolved to become one of the UK's pre-eminent investment management boutiques. Whilst Lansdowne is perhaps better known among investors as a hedge fund manager, its Long Only Developed Markets Strategy, managed by Peter Davies and Jonathon Regis, has garnered over £5bn in assets since launch in 2012. The two lead managers benefit from the support provided by a team of experienced and insightful analysts who tend to focus on key sectors of interest to the team. The high-conviction portfolio, consisting of circa 20 stocks, is the result of detailed company-specific research, allied with an appreciation of global thematic developments. The team is willing to make significant adjustments to the portfolio to reflect its view of the changing investment landscape.

| | |
|---|---|
| **Name:** | Peter Davies |
| **Style:** | Concentrated, benchmark-independent investment in developed markets |
| **Benchmark:** | FTSE All-World |
| **Inception date:** | 14/12/2012 |

## GLOBAL

PZENA Investment Management

### Annual performance

| | |
|---|---|
| Pzena | -9.0% |
| FTSE All-World | -3.4% |

**13.7%**
Witan Assets
2017: 14.2%

**PZENA**

Pzena characterises its investment style as an "unwavering commitment to deep value investing". Its clear and consistent investment approach aims to identify good-quality companies at low valuations, focusing exclusively on companies that are underperforming their demonstrated historical earnings power. This strategy relies on the belief that most investors avoid businesses that are experiencing problems or are otherwise out of favour, for example, due to a misunderstood or insufficiently analysed threat of technological disruption. Value investing entails exposure to companies before the stock price reflects signs of business improvement, sometimes requiring significant amounts of patience. Those who last the course, such as Richard Pzena and his team, have been rewarded by superior long-term returns despite the recent headwinds faced by the value style. The Global Value portfolio contains circa 65 stocks in 14 countries across the developed and emerging markets.

| | |
|---|---|
| **Name:** | John Goetz |
| **Style:** | Systematic value |
| **Benchmark:** | FTSE All-World |
| **Inception date:** | 02/12/2013 |

## GLOBAL

Veritas — Asset Management

### Annual performance

| | |
|---|---|
| Veritas | 1.2% |
| FTSE All-World | -3.4% |

**14.6%**
Witan Assets
2017: 14.0%

**VERITAS**

Andy Headley, Head of Global Strategies at Veritas, uses a number of research methods to help identify industries and companies that are well positioned to benefit from medium-term growth, regardless of where they are located. The aim is to generate excellent real returns and minimise the risk of permanent capital loss. Potential investments are analysed from an absolute basis rather than relative to any benchmark or index. This equity portfolio follows a Global Focus strategy, investing with a disciplined approach to valuation in 'quality' mid to large capitalisation companies. It typically contains fewer than 30 stocks, chosen with a highly selective and rigorous approach, and is focused on a handful of investment themes.

| | |
|---|---|
| **Name:** | Andy Headley |
| **Style:** | Fundamental value, real return objective |
| **Benchmark:** | FTSE All-World |
| **Inception date:** | 11/11/2010 |

## EUROPE (EX-UK)

CRUX ASSET MANAGEMENT

### Annual performance

| | |
|---|---|
| CRUX | -13.0% |
| FTSE Europe (Ex-UK) | -9.5% |

**4.6%**
Witan Assets
2017: 4.4%

**CRUX**

CRUX is a UK-based fund management company established in 2014 by Richard Pease, who has been a fund manager investing in European equities for 30 years. Richard and his long-term colleague James Milne specialise in European equities and run a portfolio for Witan, which is a concentrated version of their highly successful European Special Situations fund. The investment philosophy is one of active, bottom-up stock picking centred on the search for companies with four characteristics: high-quality businesses, with proven management, which are sensibly capitalised and trading at a discount to CRUX's assessment of intrinsic value. Whilst the 40–50-stock portfolio contains some large and small-cap businesses, CRUX tends to concentrate on opportunities in the medium-sized range.

| | |
|---|---|
| **Name:** | Richard Pease |
| **Style:** | Sound businesses with quality management at attractive valuations |
| **Benchmark:** | FTSE Europe (ex-UK) |
| **Inception date:** | 26/10/2017 |

# Meet the managers continued

## EUROPE (EX-UK)

S. W. MITCHELL CAPITAL

### Annual performance

| | |
|---|---|
| S. W. Mitchell Capital | -19.9% |
| FTSE Europe (ex-UK) | -9.5% |

**4.2%**
Witan Assets
2017: 4.5%

### S.W. MITCHELL

Founded in 2005, S.W. Mitchell Capital is a specialist European equities investment boutique based in London. Stuart Mitchell sees himself as a value investor but not in the classic sense, as his definition includes investing in misunderstood and hence undervalued quality growth franchises. The process relies heavily on insights provided by management engagement and the depth of research undertaken by Stuart and his 'intellectually curious' and enthusiastic team. The portfolio is completely unconstrained and benchmark agnostic, being built from the bottom up with high conviction. The 25-stock portfolio is the result of a culture which promotes freedom of thought, detailed research and insulation from the market distractions which can be present in some larger investment firms.

| | |
|---|---|
| **Name:** | Stuart Mitchell |
| **Style:** | High-conviction portfolio of companies which offer unrecognised value |
| **Benchmark:** | FTSE Europe (ex-UK) |
| **Inception date:** | 26/10/2017 |

## ASIA

Matthews Asia

### Annual performance

| | |
|---|---|
| Matthews Asia | -5.6% |
| MSCI Asia Pacific Free | -7.9% |

**11.8%**
Witan Assets
2017: 11.7%

### MATTHEWS

Matthews is the largest Asia-only investment specialist in the USA. Its 46-person investment team, based in San Francisco, travels extensively across Asia to unearth investment opportunities in markets as diverse as Japan, China, Vietnam and India. Matthews' long-term investment philosophy is based on the view that only active management can identify companies whose potential is yet to be fully recognised and that bottom-up, stock-specific research is required to build a portfolio of companies with strong business models and quality management at reasonable valuations. The Asia Dividend strategy relies on the principle that the payment of dividends can be an important signal regarding a company's capital allocation, business quality and corporate governance. This disciplined investment process focuses on a company's ability and willingness to pay and, more importantly, grow dividends over time.

| | |
|---|---|
| **Name:** | Yu Zhang |
| **Style:** | Quality companies with dividend growth |
| **Benchmark:** | MSCI Asia Pacific Free |
| **Inception date:** | 20/02/2013 |

EMERGING MARKETS

GQG PARTNERS

## Annual performance

| | |
|---|---|
| GQG | -8.8% |
| MSCI Emerging Markets | -8.9% |

**4.8%**
Witan Assets
2017: 4.2%

**GQG**

GQG Partners' Emerging Markets Equity strategy seeks to invest in high-quality companies with attractively priced future growth prospects. Portfolio manager Rajiv Jain focuses primarily on high-quality, large-cap companies in emerging market economies and employs a fundamental investment process to evaluate each business. The resulting portfolio, which is constructed without reference to benchmark country weights, seeks to limit downside risk while providing attractive returns to long-term investors over a full market cycle. The current portfolio of 67 stocks is diversified across 13 markets and four continents. GQG's portfolio aims to participate in the growth that emerging economies promise to deliver over the long term, while avoiding some of the risks that are often associated with individual countries and stocks within their investment universe.

| | |
|---|---|
| **Name:** | Rajiv Jain |
| **Style:** | High-quality companies with attractively priced growth prospects |
| **Benchmark:** | MSCI Emerging Markets |
| **Inception date:** | 16/02/2017 |

# Fifty largest investments

at 31 December 2018

| | Company | Market value of holding £m | % of portfolio | Country[1] | Sector |
|---|---|---|---|---|---|
| 1 | Syncona | 47.5 | 2.43 | Other | Investment Company |
| 2 | Apax Global Alpha | 40.9 | 2.09 | Other | Investment Company |
| 3 | Vonovia | 39.1 | 2.00 | Germany | Real Estate Investment Services |
| 4 | Unilever | 34.4 | 1.76 | UK | Personal Goods |
| 5 | BlackRock World Mining | 30.8 | 1.58 | Other | Investment Company |
| 6 | Delta Air Lines | 26.7 | 1.36 | USA | Travel & Leisure |
| 7 | Taiwan Semiconductor Manufacturing | 24.5 | 1.26 | Taiwan | Technology Hardware & Equipment |
| 8 | Diageo | 23.5 | 1.20 | UK | Beverages |
| 9 | BP | 21.6 | 1.11 | UK | Oil & Gas Producers |
| 10 | Lloyds Banking | 21.1 | 1.08 | UK | Banks |
| 11 | Charter Communications | 20.3 | 1.04 | USA | Media |
| 12 | London Stock Exchange | 19.2 | 0.98 | UK | Financial Services |
| 13 | Relx | 19.0 | 0.97 | UK | Media |
| 14 | Schroders | 17.2 | 0.88 | UK | Financial Services |
| 15 | Cigna | 16.8 | 0.86 | USA | Health Care Equipment & Services |
| 16 | Deutsche Lufthansa | 16.5 | 0.84 | Germany | Travel & Leisure |
| 17 | Hargreaves Lansdown | 16.4 | 0.84 | UK | Financial Services |
| 18 | Rio Tinto | 16.4 | 0.84 | UK | Mining |
| 19 | Princess Private Equity | 16.3 | 0.83 | Other | Investment Company |
| 20 | BT | 15.9 | 0.81 | UK | Fixed Line Telecommunications |
| 21 | Electra Private Equity | 15.7 | 0.80 | Other | Investment Company |
| 22 | Vivendi | 15.5 | 0.79 | France | Media |
| 23 | Somerset Emerging Markets Small Cap Fund | 14.8 | 0.76 | UK | OEIC |
| 24 | Tesco | 14.6 | 0.75 | UK | Food & Drug Retailers |
| 25 | Reckitt Benckiser | 14.4 | 0.74 | UK | Household Goods & Home Construction |
| | **Top 25** | **559.1** | **28.60** | | |
| 26 | International Consolidated Airlines | 14.4 | 0.73 | UK | Travel & Leisure |
| 27 | Daily Mail & General | 14.0 | 0.72 | UK | Media |
| 28 | JPMorgan Chase | 13.5 | 0.69 | USA | Banks |
| 29 | Bank of America | 13.4 | 0.69 | USA | Banks |
| 30 | NB Distressed Debt Inv. Fund | 13.3 | 0.68 | Other | Investment Company |
| 31 | Alphabet | 13.3 | 0.68 | USA | Software & Computer Services |
| 32 | Burberry | 13.2 | 0.67 | UK | Personal Goods |
| 33 | Sage | 12.6 | 0.64 | UK | Software & Computer Services |
| 34 | Travis Perkins | 12.6 | 0.64 | UK | Support Services |
| 35 | Citigroup | 12.4 | 0.64 | USA | Banks |
| 36 | CVS Health | 12.3 | 0.63 | USA | Food & Drug Retailers |
| 37 | United Continental | 12.0 | 0.62 | USA | Travel & Leisure |
| 38 | Oracle | 11.9 | 0.61 | USA | Software & Computer Services |
| 39 | Thermo Fisher Scientific | 11.8 | 0.60 | USA | Health Care Equipment & Services |
| 40 | Safran | 11.3 | 0.58 | France | Aerospace & Defence |
| 41 | Capita | 10.9 | 0.56 | UK | Support Services |
| 42 | Vodafone | 10.8 | 0.55 | UK | Mobile Telecommunications |
| 43 | Rolls-Royce | 10.8 | 0.55 | UK | Aerospace & Defence |
| 44 | American Express | 10.8 | 0.55 | USA | Financial Services |
| 45 | Comcast | 10.4 | 0.53 | USA | Media |
| 46 | Rathbone Brothers | 10.3 | 0.53 | UK | Financial Services |
| 47 | Pearson | 10.3 | 0.53 | UK | Media |
| 48 | UnitedHealth | 10.3 | 0.52 | USA | Health Care Equipment & Services |
| 49 | Volkswagen | 10.1 | 0.52 | Germany | Automobiles & Parts |
| 50 | Shenzhou International | 9.8 | 0.50 | China | Personal Goods |
| | **Top 50** | **855.6** | **43.76** | | |

The top ten holdings represent 15.9% of the total portfolio (2017: 15.5%).
The full portfolio is not listed because it contains over 300 companies.
(1) Investment companies are included under the heading of Other because the underlying geographic exposure is not readily identifiable.

# Classification of investments

at 31 December 2018

| | Notes | United Kingdom % | Continental Europe % | North America % | Asia Pacific (ex Japan) % | Japan % | Latin America % | Other % | Total 2018 % |
|---|---|---|---|---|---|---|---|---|---|
| **Basic Materials** | Chemicals | 0.2 | 0.5 | – | 0.4 | – | – | – | 1.1 |
| | Industrial Metals & Mining | – | 0.5 | – | 0.2 | – | 0.1 | – | 0.8 |
| | Mining | – | – | – | 0.9 | – | – | – | 0.9 |
| | | **0.2** | **1.0** | **–** | **1.5** | **–** | **0.1** | **–** | **2.8** |
| **Consumer Goods** | Automobiles & Parts | – | 0.5 | – | 1.0 | 0.5 | – | 0.1 | 2.1 |
| | Beverages | 1.5 | 0.5 | – | 0.6 | – | 0.1 | – | 2.7 |
| | Food Producers | – | 0.5 | 0.4 | 0.7 | – | – | – | 1.6 |
| | Household Goods & Home Construction | 0.8 | 0.2 | 0.2 | 0.3 | 0.1 | – | – | 1.6 |
| | Leisure Goods | – | – | – | 0.2 | 0.1 | – | – | 0.3 |
| | Personal Goods | 2.7 | – | – | 0.6 | 0.7 | – | – | 4.0 |
| | Tobacco | 0.8 | – | 0.4 | – | 0.3 | – | 0.2 | 1.7 |
| | | **5.8** | **1.7** | **1.0** | **3.4** | **1.7** | **0.1** | **0.3** | **14.0** |
| **Consumer Services** | Food & Drug Retailers | 1.1 | – | 0.8 | 0.6 | – | – | – | 2.5 |
| | General Retailers | – | 0.6 | 0.8 | 0.7 | 0.6 | – | – | 2.7 |
| | Media | 2.5 | 1.3 | 2.3 | – | – | – | – | 6.1 |
| | Travel & Leisure | 1.3 | 0.9 | 2.5 | 0.3 | – | – | – | 5.0 |
| | | **4.9** | **2.8** | **6.4** | **1.6** | **0.6** | **–** | **–** | **16.3** |
| **Financials** | Banks | 2.2 | 1.1 | 2.4 | 1.2 | 0.1 | – | 0.4 | 7.4 |
| | Financial Services | 3.4 | 0.3 | 1.6 | 0.1 | – | 0.1 | 0.4 | 5.9 |
| | Life Insurance | 0.4 | – | 0.1 | 0.4 | – | – | – | 0.9 |
| | Non-life Insurance | 0.1 | – | 0.2 | 0.5 | – | – | – | 0.8 |
| | Real Estate Investment Services | 0.2 | 2.2 | 0.2 | 0.1 | – | – | – | 2.7 |
| | Real Estate Investment Trusts | – | – | – | 0.2 | – | – | – | 0.2 |
| | | **6.3** | **3.6** | **4.5** | **2.5** | **0.1** | **0.1** | **0.8** | **17.9** |
| **Health Care** | Health Care Equipment & Services | 0.2 | 0.5 | 3.1 | 0.6 | 0.1 | – | – | 4.5 |
| | Pharmaceuticals & Biotechnology | 0.3 | 0.7 | 1.2 | – | – | – | – | 2.2 |
| | | **0.5** | **1.2** | **4.3** | **0.6** | **0.1** | **–** | **–** | **6.7** |
| **Industrials** | Aerospace & Defence | 1.3 | 1.3 | – | – | – | – | – | 2.6 |
| | Construction & Materials | 0.4 | 0.3 | – | 0.2 | – | – | – | 0.9 |
| | Electronic & Electrical Equipment | 0.6 | 0.5 | 0.4 | 0.2 | 0.3 | – | – | 2.0 |
| | General Industrials | 0.3 | 0.2 | 0.4 | – | 0.2 | – | – | 1.1 |
| | Industrial Engineering | 0.5 | 0.4 | 0.1 | 0.1 | 0.5 | – | – | 1.6 |
| | Industrial Transportation | 0.1 | 1.2 | – | 0.4 | – | – | – | 1.7 |
| | Support Services | 3.4 | 1.4 | 0.1 | – | 0.1 | – | – | 5.0 |
| | | **6.6** | **5.3** | **1.0** | **0.9** | **1.1** | **–** | **–** | **14.9** |
| **Oil & Gas** | Oil & Gas Producers | 1.1 | 0.6 | 0.1 | 0.4 | 0.3 | – | 0.2 | 2.7 |
| | Oil Equipment Services & Distribution | 0.2 | – | 0.2 | 0.2 | – | – | – | 0.6 |
| | | **1.3** | **0.6** | **0.3** | **0.6** | **0.3** | **–** | **0.2** | **3.3** |
| **Technology** | Software & Computer Services | 1.5 | 0.7 | 3.1 | 0.1 | – | – | 0.3 | 5.7 |
| | Technology Hardware & Equipment | 0.2 | 0.6 | 1.0 | 1.6 | 0.9 | – | – | 4.3 |
| | | **1.7** | **1.3** | **4.1** | **1.7** | **0.9** | **–** | **0.3** | **10.0** |
| **Telecommunications** | Fixed Line Telecommunications | 0.8 | 0.2 | – | 0.1 | – | – | – | 1.1 |
| | Mobile Telecommunications | 0.6 | – | – | 0.7 | 0.4 | – | – | 1.7 |
| | | **1.4** | **0.2** | **–** | **0.8** | **0.4** | **–** | **–** | **2.8** |
| **Utilities** | Electricity | – | 0.4 | 0.3 | 0.7 | – | 0.1 | – | 1.5 |
| | Gas, Water & Multi-utilities | – | – | – | 0.1 | – | – | – | 0.1 |
| | | **–** | **0.4** | **0.3** | **0.8** | **–** | **0.1** | **–** | **1.6** |
| **Collective Investment Schemes** | Investment Companies(1) | – | – | – | – | – | – | 8.9 | 8.9 |
| | Open-ended Funds(2) | – | 0.1 | – | 0.2 | – | 0.1 | 0.4 | 0.8 |
| | | **–** | **0.1** | **–** | **0.2** | **–** | **0.1** | **9.3** | **9.7** |
| **Total 2018** | | **28.7** | **18.2** | **21.9** | **14.6** | **5.2** | **0.5** | **10.9** | **100.0** |
| Total 2017 | | 29.2 | 19.6 | 21.4 | 13.6 | 4.8 | 0.7 | 10.7 | 100.0 |

The holding of £24.7 million equity futures (1.4% of net assets) is not included in this classification (see page 17).
Included in the above are fixed interest holdings (including convertibles) of £nil (2017: £7,940,000).
(1) Investment Companies are included under the heading of Other because the underlying geographic exposure is not readily identifiable.
(2) Open-ended Funds relates to an Emerging Markets fund and a global exchange-traded equity fund.

# Board of directors

**Key to membership**
**Board committee**

- ❖ **C:** Chairman of the Board or Committee.
- ◆ **Audit:** Members of the Audit Committee which is chaired by Mr Perry.
- ✱ **RemNom:** Members of the Remuneration and Nomination Committee which is chaired by Mr Oldfield.
- ✣ **WIS:** Director of Witan Investment Services Limited.

## HARRY HENDERSON ❖ ✱ ✣

CHAIRMAN

**Date of appointment**
January 1988; Chairman March 2003, retiring in 2020.

**Career & background**
Formerly a partner of Cazenove & Co and subsequently a senior executive at Cazenove Group plc.

**Skills & expertise**
Investment, management.

**External appointments**
Director of Cadogan Settled Estates Limited.

## ANDREW BELL ✣

CEO

**Date of appointment**
February 2010.

**Career & background**
Previously Head of Research at Rensburg Sheppards and an equity strategist and Co-Head of the Investment Trusts team at BZW and CSFB. Prior to the City, he worked for Shell in Oman leaving to take a Sloan Fellowship at the London Business School.

**Skills & expertise**
Investment management, investment trusts.

**External appointments**
Non-executive Director of The Diverse Income Trust plc.

## SUZY NEUBERT ✣

NON-EXECUTIVE DIRECTOR

**Date of appointment**
April 2012.

**Career & background**
Sales and Marketing Director at JO Hambro Capital Management. Previously Managing Director of Equity Markets at Merrill Lynch Securities in London following roles in equity research and sales. She is a qualified barrister.

**Skills & expertise**
Equities research, marketing of financial products.

**External appointments**
Sales and Marketing Director at JO Hambro Capital Management.

## RICHARD OLDFIELD ❖ ✱ ✣

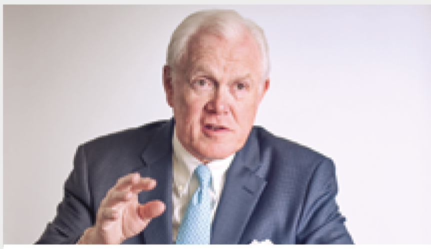
NON-EXECUTIVE DIRECTOR

**Date of appointment**
May 2011.

**Career & background**
Chairman and portfolio manager at Oldfield Partners, an investment management firm. Extensive experience as a fund manager at Alta Advisers and Mercury Asset Management.

**Skills & expertise**
Investment management, manager selection.

**External appointments**
Chairman of Oldfield Partners, non-executive director of Shepherd Neame Limited.



## JACK PERRY ❖ ◆ ✣

NON-EXECUTIVE DIRECTOR

**Date of appointment**
January 2017.

**Career & background**
Previously Chief Executive of Scottish Enterprise and a former Managing Partner and Regional Industry Leader of Ernst & Young LLP. Served on the Boards of FTSE 250 and other public and private companies and is a member of the Institute of Chartered Accountants of Scotland.

**Skills & expertise**
Financial accounting, investment trusts, management, corporate governance.

**External appointments**
Chairman of European Assets Trust PLC and ICG-Longbow Senior Secured UK Property Debt Investments Limited.

## BEN ROGOFF

NON-EXECUTIVE DIRECTOR

**Date of appointment**
October 2016.

**Career & background**
Lead manager of Polar Capital Technology Trust plc since 2006 and a fund manager of Polar Capital Global Technology Fund and Polar Capital Automation and Artificial Intelligence Fund. He has been a technology specialist for 23 years.

**Skills & expertise**
Fund management, technology.

**External appointments**
Director, Technology at Polar Capital.

## TONY WATSON ◆ ✣

SENIOR INDEPENDENT DIRECTOR

**Date of appointment**
February 2006; Senior Independent Director February 2008.

**Career & background**
Executive career in the investment management industry, most recently as Chief Executive of Hermes Fund Managers Limited.

**Skills & expertise**
Investment management, manager selection, management, regulatory matters.

## PAUL YATES ◆ ✱ ✣

NON-EXECUTIVE DIRECTOR

**Date of appointment**
May 2018.

**Career & background**
Previously CEO of UBS Global Asset Management (UK) Limited and held a number of global roles at UBS prior to retiring in 2007.

**Skills & expertise**
Financial services, investment management, management.

**External appointments**
Chairman of the Advisory Board of 33 St James's Limited, non-executive Director of Fidelity European Values PLC, and The Merchants Trust PLC.

# Corporate Governance

This Statement forms part of the Directors' Report on pages 53 to 56.

# A principled approach

### CHAIRMAN'S INTRODUCTION

I am pleased to report below on the Board's approach to corporate governance. The Board is responsible for effective governance of the Company and we take our responsibilities under the UK Corporate Governance Code (the 'Code') very seriously.

The UK Listing Authority's Disclosure Guidance and Transparency Rules (the 'Disclosure Rules') require listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code ('Corporate Governance Code'), as issued by the Financial Reporting Council ('FRC'). The provisions of the Corporate Governance Code, which was issued by the FRC in April 2016, were applicable in the year under review. The Corporate Governance Code can be viewed at www.frc.org.uk.

The related Code of Corporate Governance (the 'AIC Code'), issued by the Association of Investment Companies ('AIC'), provides specific corporate governance guidelines to investment companies. The FRC has confirmed that AIC member companies who report against the AIC Code and who follow the AIC's Corporate Governance Guide for Investment Companies (the 'AIC Guide') will be meeting their obligations in relation to the Corporate Governance Code and the associated disclosure requirements of the Disclosure Rules. The AIC Code issued in July 2016 was applicable in the year under review. The AIC Code can be viewed at www.theaic.co.uk.

We note that the FRC has published a new UK Corporate Governance Code and the AIC has followed up with a new AIC Code. The new Code and AIC Code will apply for financial years beginning on or after 1 January 2019 and accordingly we will report on our compliance with the new AIC Code in the Company's 2019 annual report.

**H M Henderson**
**Chairman**
11 March 2019

## COMPLIANCE

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the Corporate Governance Code) will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the best practice provisions of the Corporate Governance Code throughout the year ended 31 December 2018 except as set out below:

- The Corporate Governance Code (C.3.6) includes provisions relating to the need for an internal audit function. The Company does not have an internal audit function, for reasons that are explained on page 38;
- The Corporate Governance Code (B.7.1) includes provisions relating to the annual re-election of all directors. As explained on page 36, the Company considers that this provision is inappropriate to the Company. One-third of directors stand for re-election every three years and all directors with more than nine years' service are required to stand for re-election annually.

## THE BOARD

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of controls that enable risk to be assessed and managed. The Board sets the Company's strategic aims (subject to the Company's Articles of Association and to such approval of the shareholders in general meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company's objectives to be met.

Matters specifically reserved for decision by the full Board have been defined. There is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense.

The Board has typically met approximately ten times a year and deals with the most important aspects of the Company's affairs, including the setting of parameters for, and the monitoring of, investment strategy, the review of investment performance and the extent to which borrowings may be used. The Chairman is responsible for ensuring that the directors are provided with management, regulatory and financial information that is timely, accurate and relevant.

### Composition of the Board

Details of the directors are set out on pages 32 and 33. They demonstrate a broad range of experience, gained overseas as well as in the United Kingdom.

Mr H M Henderson has been Chairman of the Company since March 2003; he joined the Board in 1988.

Mr A Watson was appointed as the Senior Independent Director in February 2008. He is also able to act as a sounding board for the Chairman and serve as an intermediary for the other directors, should this prove necessary, and to act as a channel of communication for shareholders in the event that contact through the Chairman has failed to resolve concerns or is inappropriate.

### Independence of the Board

At 31 December 2018 the Board was composed of seven independent non-executive directors and one executive director (the Chief Executive Officer). The Board is therefore independent of the Company's executive management. All the directors are wholly independent of the Company's various investment managers. In the opinion of the Board, each of the directors is independent in character and judgement and there are no relationships or circumstances relating to the Company that are likely to affect their judgement.

Three of the directors have been on the Board for nine years or more: Mr Henderson, Mr Watson and Mr Bell. The Board considers that Mr Henderson and Mr Watson are, and have been since their appointment, independent non-executive directors. Independence stems from the ability to make decisions that conflict with the interests of management; this is a function of confidence, integrity and judgement. Mr Bell, who is the Chief Executive Officer of Witan, is an executive director but is deemed to be independent of the Company's appointed fund managers and other service providers. His long service is beneficial to the Company. Those directors who have served on the Board for more than nine years stand for re-election by the shareholders each year and will do so for as long as they continue to serve on the Board. The Board is firmly of the view, however, that length of service does not of itself impair a director's ability to act independently; rather, a director's longer perspective adds value to the deliberations of a well-balanced investment trust company board.

As reported in his Chairman's statement (page 13), Mr Henderson has announced that he will be standing down as Chairman at the AGM in 2020 and a search for a new Director is under way.

### Board diversity

The Company supports the objectives of improving the performance of corporate boards by encouraging the appointment of the best people from a range of differing perspectives and backgrounds. The Company recognises the benefits of diversity on the Board, including gender, and takes this into account in its Board appointments. The Company is committed to ensuring that its director search processes actively seek men and women with the right qualifications so that appointments can be made, on the basis of merit, against objective criteria from a diverse selection of candidates. The Board will continue to consider diversity during the director search process and in its current search for a new director has re-emphasised the guidelines given to the search consultant to ensure a fully diverse list of qualified candidates.

# Corporate Governance continued

### Appointments to the Board
The Board's Remuneration and Nomination Committee oversees the recruitment process, which includes the use of a firm of non-executive director recruitment consultants. However, all the independent non-executive directors are asked to contribute and to consider serving on the sub-committee appointed to draw up the shortlist of candidates.

New directors are appointed for an initial term ending three years from the date of their first annual general meeting after appointment, with the expectation that they will serve a minimum of two three-year terms. There is no absolute limit to the period for which a director may serve, although the continuation of directors' appointments is contingent on satisfactory performance evaluation and re-election at annual general meetings. Directors' appointments are reviewed formally by the Board ahead of their submission for re-election. None of the non-executive directors has a contract of service and a non-executive director may resign by notice in writing to the Board at any time. The Board's tenure and succession policy seeks to ensure that the Board is well-balanced and refreshed regularly by the appointment of new directors with the skills and experience necessary, in particular, to replace those lost by directors' retirements.

Directors must be able to demonstrate their commitment to the Company, including in terms of time. The Board seeks to encompass past and current experience of areas relevant to the Company's objective and operations, the most important skill-sets being investment management, finance, marketing, financial services, risk management, custody and settlement, and investment banking. Specialist firms are usually used to assist with recruitment. Whilst the roles and contributions of longer-serving directors are subject to rigorous review, the Board is strongly of the view that length of service is only one factor and that shareholders benefit from having directors with a longer perspective of the Company's history and its place in the savings market.

Directors newly appointed to the Board are provided with an introductory programme covering the Company's strategy, policies and operations, including those outsourced to third parties. Thereafter, directors are given, on a regular and ongoing basis, key information on the Company's investment portfolios, financial position, internal controls and details of the Company's regulatory and statutory obligations (and changes thereto). The directors are encouraged to attend industry and other seminars, conferences and courses, if necessary at the Company's expense, and to participate generally in industry events. A log of directors' training is maintained and reviewed each year by the Audit Committee.

### Election and re-election by shareholders
New directors stand for election by the shareholders at the annual general meeting that follows their appointment. Thereafter all directors stand for re-election at least every three years, as required by the Company's Articles of Association. Directors who have served for more than nine years stand for re-election annually. There are currently three directors with service of more than nine years: Mr H M Henderson, the Chairman, Mr Bell and Mr Watson.

The Board has reviewed Provision B.7.1 of the Corporate Governance Code, which states that all directors of FTSE 350 companies should be subject to annual election by shareholders. The Board considers that the annual election of all the directors is inappropriate to the Company. There are two main reasons: (a) it appears to place excessive emphasis on the short term and insufficient emphasis on the need for an effective board to work together and to refresh its composition over time; and (b) there is some danger, because many small and nominee shareholders do not exercise their voting rights, that if all the directors seek re-election at once a minority of the shareholders could engineer the removal of the whole Board for reasons injurious to the interests of the Company's investors as a whole. Therefore the Board considers it appropriate to continue to apply Provision B.7.1 as if the Company were not a constituent of the FTSE 350 Index, a view which a number of prominent institutional investors have shared.

### Board evaluation
The Board has established a process to evaluate its performance annually. This process is based on open discussion and seeks to assess the strengths and weaknesses of the Board and its Committees. The Chairman leads on applying the conclusions of the evaluation. The Chairman reviews with each director his or her individual performance, contribution and commitment to the Company. The Senior Independent Director leads the annual evaluation of the Chairman and reviews the conclusions with him. The Board's Remuneration and Nomination Committee oversees this process. In addition, in consideration of Provision B.6.2 of the Corporate Governance Code, which states that evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years, in 2016, the Board appointed BoardAlpha Limited to carry out an evaluation programme. BoardAlpha Limited did not have any other connection with the Company. The Board reviewed their report in March 2017 and the Chairman has led on implementing those changes recommended by the report that the Board considered should be made. The report did not identify any material weaknesses or concerns. The Board intends to appoint an external organisation to facilitate its evaluation in 2019.

### Directors' remuneration
The Directors' Remuneration Report on pages 42 to 52 details the process for determining the directors' remuneration and sets out the amounts payable.

### Board Committees
The Board has established an Audit Committee and a Remuneration and Nomination Committee. The membership of the Audit Committee and the Remuneration and Nomination Committee is set out on pages 32 and 33 The Board has chosen to combine the roles of Remuneration and Nomination in one committee. The roles and responsibilities of the Committees are described in the Report of the Audit Committee on pages 40 to 41 and in the Directors' Remuneration Report on pages 42 to 52.

Every year the Board reviews its composition and the composition of its two Committees. The Board's Remuneration and Nomination Committee oversees this process. Further details are given above under Board evaluation.

The directors have access to the advice and services of the Company's Executive team, AIFM and the Company Secretary, through its appointed representative, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

### Meetings of the Board and its Committees

Typically, the Board meets approximately ten times each year. The Chief Executive Officer (who is a director), other representatives of the Company's Executive team and the AIFM and a representative of the Company Secretary expect to be present at all meetings. The Board devotes two days each year to meetings with the Company's investment managers and each investment manager sends representatives at least once a year. The Chairman seeks to encourage open debate within the Board and a supportive and co-operative relationship with the Executive team and with the Company's investment managers, advisors and other service providers.

The number of formal meetings during the year of the Board and its Committees, and the attendance of the individual directors at those meetings, is shown in the table that follows.

| | Board | Audit Committee | Remuneration and Nomination Committee |
|---|---|---|---|
| Number of meetings | 10 | 4 | 3 |
| H M Henderson | 10 | 4(1) | 3 |
| A L C Bell | 10 | 4(1) | 3(1) |
| S E G A Neubert | 9 | – | – |
| R J Oldfield | 8 | – | 3 |
| J S Perry | 10 | 4 | – |
| B C Rogoff | 9 | – | – |
| A Watson | 10 | 4 | – |
| P T Yates | 4/6 | 3/3 | 1/1 |

(1) Not a member of the Committee but in attendance by invitation for all or part of the meetings.

All the then directors attended the Annual General Meeting in April 2018 and, apart from Mr Oldfield, the Board's 'Away Day' in May 2018.

The Board is responsible for determining the strategic direction of the Company and for promoting its success. At least one of its meetings each year is devoted entirely to reviewing overall strategy and progress is monitored throughout the year.

The Chief Executive Officer and the AIFM monitor investment performance and all associated matters. The Chief Executive Officer reports to each Board meeting, at which investment performance, asset allocation, gearing, marketing and investor relations are usually key agenda items.

## THE CHIEF EXECUTIVE OFFICER ('CEO')

The CEO is responsible to the Board and the AIFM for the overall management of the Company including investment performance, business development, shareholder relations, marketing, investment trust industry matters, administration and unquoted investments. The duties of the CEO include leading on investment strategy and asset allocation, on the selection and monitoring of the investment managers and their terms of reference and on the use of derivatives. The Board, in conjunction with the AIFM, sets limits on matters such as asset allocation, gearing and investment in derivatives, within which the CEO has discretion.

The CEO reports to each meeting of the Board. His reports include confirmation that the Board's investment limits and restrictions and those which govern the Company's tax status as an investment trust, have been adhered to.

In addition to his responsibilities for the overall management of the Company, the CEO manages the Direct Holdings portfolio. A maximum of 10% of the Company's gross assets (at the time of purchase) may be invested in specialist funds within this portfolio and there are restrictions on the number, size and type of investments that may be made. Up to a further 2.5% may be allocated to newly-established or smaller third-party managers that are viewed as having potential to add value to the overall portfolio.

The Board's Remuneration and Nomination Committee reviews the performance of and the contractual arrangements with the CEO. The CEO is responsible to the Board for reviewing the performance and the contractual arrangements of his staff. The Board's Remuneration and Nomination Committee oversees this process.

## INVESTMENT MANAGERS

The Company manages its own operations through the Board and that of its AIFM, as set out on page 10. Each investment manager runs a discrete investment portfolio within the terms of their investment management contract. Shares are held by the Company's custodian/depositary. The CEO leads on the selection and monitoring of the investment managers and their terms of reference, which are approved by the Board and the AIFM.

The individual investment managers are each appointed to manage a discrete portfolio in accordance with guidelines which limit, for example, the markets in which they can invest, the maximum size of each investment and the amount of cash that may be held in normal circumstances. They are not allowed to invest in unquoted securities, to gear the portfolio, to sell stocks short or to use derivatives. The investment managers take decisions on individual investments and are responsible for effecting transactions on the best available terms. The Company and the AIFM receive monthly confirmation from each investment manager that it has carried out its duties in accordance with its investment mandate.

## SERVICE PROVIDERS

The Board has delegated a wide range of activities to external agents, including the various investment managers. These services include the management of the investment portfolio, global custody (which includes the safeguarding of the assets), investment administration, management and financial accounting, company secretarial and certain other administrative requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and

# **Corporate Governance** continued

considers regular reports from the investment managers and ad hoc reports and information are supplied to the Board from its other contractors as required.

The CEO and the AIFM are responsible for monitoring and evaluating the performance of the Company's service providers. The Board's Audit Committee oversees this process together with the WIS Risk Committee.

### INTERNAL CONTROL

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the Corporate Governance Code guidance, is subject to regular review by the Audit Committee and was fully in place during the year under review and up to the date of this annual report. The Board remains responsible for the Company's system of internal control and has charged the Audit Committee with conducting an annual review of the effectiveness of the system, covering all the controls, including financial, operational and compliance controls and risk management systems. This review takes into account points raised during the year in the regular appraisal of specific areas of risk. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In accordance with provisions C2 and C3 of the Corporate Governance Code the Board reviews the Company's business risks at least once a year. These are analysed and recorded in a risk map, which the Audit Committee reviews at each meeting. The Company receives from its main contractors formal reports which detail the steps taken to monitor the areas of risk and which report the details of any known internal control failures.

As described elsewhere, the management of Witan's portfolio is outsourced to a number of third party investment managers around the world. There are currently ten such investment managers as well as the Direct Holdings portfolio which is managed by the CEO.

The CEO has responsibility (under delegation from the Board and the AIFM) for a number of aspects of the management of the portfolio, including asset allocation, gearing and investment in derivatives. The Board has set guidelines in respect of each of these aspects within which he may operate. The CEO reports to the Board regularly on each of these areas, as well as on the overall performance of the Company and other matters of significance.

The in-house Executive management team of Witan and WIS is responsible for managing and controlling the relationships with the third-party managers.

The management team receives monthly reports on investment and compliance matters from each manager. During 2018, the investment managers were asked to provide detailed information on their operational structures and systems. Each year, the Board also receives reports on their internal controls from its investment managers; in most cases these include a report from the relevant company's auditors on the control policies and procedures in operation.

The CEO makes regular reports to the Board on the performance of and activity within the Direct Holdings portfolio. In addition, the portfolio's performance is independently measured, along with those of the third-party managers.

The Company's subsidiary, WIS, is authorised and regulated by the Financial Conduct Authority to provide investment products and services and was appointed as the Company's AIFM from July 2014. The compliance structures required for these activities, including a compliance manual and a compliance monitoring programme, have been duly put into place.

The Company has a formal policy for staff to raise in confidence any concerns about possible improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. Its staff comprises only seven people (including the CEO), who are well known to and have frequent formal and informal contact with the members of the Board.

The Company does not have an internal audit function. Through WIS, the AIFM, it delegates the management of its investments and most of its other operations to third parties and employs only a small staff. The investment managers and certain other key contractors are subject to external regulation and most have compliance and internal audit functions of their own. The Company's investments are held on its behalf by a global custodian appointed by the depositary. A specialist firm of investment accountants and administrators is responsible for investment administration, for maintaining accounting records and for preparing financial accounts, management accounts and other management information. Their work is reviewed by an independent accountant who also carries out some of the work that an internal audit function would cover. In addition, the Board receives an annual report on the investment administrator's internal controls, including a report from the investment administrator's auditor on the control policies and procedures in operation. The investment performance of the investment managers, both individually and collectively, is measured for Witan by a company that is independent of all the investment managers. The corporate Company Secretary is a company with well-established experience in servicing investment trusts.

The appointment of these and other professional contractors provides a clear separation of duties and a structure of internal controls that is balanced and robust. The Board and the AIFM will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review at least annually whether a function equivalent to an internal audit is needed.

### STEWARDSHIP AND THE EXERCISE OF VOTING POWERS

It is the Board's view that, in order to achieve long-term success, companies need to maintain high standards of corporate governance and corporate responsibility. Therefore Witan expects the companies in which it is invested to comply with best practice in corporate governance matters, or to provide adequate explanation of any areas in which they fail to comply, whilst recognising that a different approach may be justified in special circumstances. In respect of UK companies, current best practice in corporate governance matters is set out in the UK Corporate Governance Code.

The Board encourages the Company's appointed investment managers to engage with companies and to vote shares, in the best long-term interest of Witan shareholders and in accordance with their own investment philosophies. Where applicable, it monitors the policies of the investment managers in respect of the UK Stewardship Code. Elsewhere in the world it can be more difficult to vote shares as each country has its own rules and practices regarding shareholder notification, voting restrictions, registration conditions and share blocking, including, for example, dealing constraints.

The Company also monitors the Environmental, Social and Governance policies of its managers, given the likely influence of such factors on the long-term growth prospects of the Companies in which they invest on Witan's behalf. Whilst the Company's investment managers are apprised of the Company's approach to the stewardship of its assets and the importance of sound corporate governance, they use their discretion according to their knowledge of the relevant circumstances. The investment managers report their compliance with the UK Stewardship Code, or equivalent legislation, to the Audit Committee each year.

In respect of the direct investments held, the Company's Executive Management maintains regular touch with the management of the investee holdings and engages when issues arise that are controversial or potentially prejudicial to the interests of Witan's shareholders. An annual report is provided to the Audit Committee in compliance with the UK Stewardship Code.

## SHAREHOLDER ENGAGEMENT

The Chairman is responsible for ensuring that there is effective communication with the Company's shareholders. He works closely with the CEO and there is regular liaison with the Company's stockbroker. There is a process in place for analysing and monitoring the shareholder register and a programme for meeting or speaking with the institutional investors and with private client stockbrokers and advisors. In addition to the CEO, the Chairman, or the Senior Independent Director, expects to be available to meet the larger shareholders and the Chairman of the Remuneration and Nomination Committee is available to discuss remuneration matters.

The Company encourages attendance at its Annual General Meeting as a forum for communication with individual shareholders. The Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. The Chairman, the CEO, the Chairman of the Audit Committee and the Chairman of the Remuneration and Nomination Committee all expect to be present at the Annual General Meeting and to answer questions from shareholders as appropriate. Details of the proxy votes received in respect of each resolution are made available to shareholders. The CEO makes a presentation to the meeting.

The directors may be contacted through the Company Secretary at the address shown on page 94.

While the CEO and his team expect to lead on preparing and effecting communications with investors, all major corporate issues are put to the Board or, if time is of the essence, to a Committee thereof.

The Board places importance on effective communication with investors and approves a marketing programme each year to enable this to be achieved. Copies of the annual report and the Half Year Report are circulated to shareholders, to those who hold shares through the subsidiary company's products and, where possible, to investors through other providers' products and nominee companies (or written notification is sent when they are published online). In addition, the Company publishes a monthly factsheet and its net asset value per share is released daily. All this information is readily accessible on the Company's website (www.witan.com). A Key Information Document, prepared in accordance with new EU rules is also published on the Company's website. The Company belongs to the Association of Investment Companies which publishes information to increase investors' understanding of the sector.

The CEO and his team monitor the share price and the discount/premium to net asset value on a daily basis and he reports to every Board meeting. Where appropriate, the Board makes use of share buybacks (at a discount) and issuance (at a premium) to add to the net asset value per share and achieve a sustainable low discount (or a premium) to net asset value.

## APPROVAL

This report was approved by the Board of directors on 11 March 2019 and is signed on its behalf by:

**H M Henderson**
**Chairman**
11 March 2019

# Report of the Audit Committee

### STATEMENT BY THE CHAIRMAN OF THE COMMITTEE

As Chairman of the Audit Committee (the 'Committee'), I am pleased to present the Report of the Committee for the year ended 31 December 2018.

### COMPOSITION AND RESPONSIBILITIES OF THE COMMITTEE

The members of the Committee are appointed by the Board. There are normally three members. Having been a member since February 2017, I was appointed Chairman of the Committee in May 2018, following the retirement from the Board of Robert Boyle, the outgoing Chairman. The Committee would like to thank Robert, and also Catherine Claydon, for their contributions to its work over many years. Mr Watson, who was appointed to the Committee in 2006 was a member of the Committee throughout the year. Mr Yates was appointed as a member of the Committee with effect from 18 May 2018.

The Board has taken note of the requirements that the Committee as a whole should have competence relevant to the sector in which the Company operates and that at least one member of the Committee should have recent and relevant financial experience. The Committee is satisfied that the Committee is properly constituted in both respects: I am a Chartered Accountant and was previously a partner at Ernst & Young and the other Committee members have a combination of financial, investment and other relevant experience gained throughout their careers. Details of our qualifications and experience are given on pages 32 and 33.

The role of the Committee is to assist the directors in protecting shareholders' interests through fair, balanced and understandable reporting, ensuring effective internal controls and maintaining an appropriate relationship with the Group's auditor. The Committee's role and responsibilities are set out in its terms of reference, which comply with the UK Corporate Governance Code. The terms of reference are available on request from the Company Secretary and can be seen on the Company's website (www.witan.com). In summary, the Committee is responsible for:

- monitoring the integrity of the Company's financial statements, including consideration of the Company's accounting policies and significant reporting judgements;
- ensuring the application of the Company's internal financial and regulatory compliance controls and risk management systems using external consultants where appropriate;
- the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services; and
- reporting to the Board on how it has discharged its duties.

### MEETINGS OF THE COMMITTEE

The Committee held four meetings during 2018 and also met in February 2019. Meetings are usually attended, by invitation, by the Chairman of the Company, members of management, relevant external advisers and the auditors. I report to the Board after each meeting on the main matters discussed at the meeting. In summary, the main matters arising in relation to 2018 were:

- Assessment of the controls to ensure the ownership, valuation and liquidity of investments: this includes assessing management reports on the controls and procedures of external managers and the external custodian/administrator and the review of the audit work performed. No significant issues were identified.
- Consideration of other matters in relation to the financial statements including appropriateness of accounting policies, revenue recognition, portfolio valuation and calculation of management fees.
- Interim and year-end reporting, in the light of the requirements of the Code of Corporate Governance issued by the AIC and FRC guidance to audit committees on key developments for annual reports and non-financial reporting. The Committee agreed the process, timing and responsibility for compliance.
- A variety of specific matters including whistleblowing, anti-money laundering compliance, data and IT systems security and business continuity. As explained elsewhere in this Report (see page 20), the Company makes extensive use of third party service providers, who are overseen by the WIS Executive. The Committee approves the programme of oversight and reviews the results.
- In light of the relative simplicity of the operations and the use of independent external consultants, who report directly to the Committee, to advise on regulatory compliance and adherence to internal procedures, it was concluded that no internal audit function was required (see page 38).
- Assessment of the risks related to the closure of the Witan Wisdom and Jump savings schemes and creation of a specific risk register for the project.

Following the appointment of WIS as the Company's AIFM, in 2014, the Committee has worked with the Risk Committee of WIS, the Company's subsidiary, to ensure WIS' compliance with Financial Conduct Authority ('FCA') regulations. Particular topics in 2018 included monitoring the implementation of the regulations contained within the Client Assets Sourcebook ('CASS') of the FCA.

The Committee also monitored the work required to ensure the Company's compliance with new legislation in 2018 and 2019, including MiFID II, the Criminal Finances Act and the General Data Protection Regulation ('GDPR').

### RISK

Management has identified (strategic report pages 21 and 22) five main areas of potential risk: market and investment portfolio; operational; compliance and regulatory change; accounting, taxation and legal; and liquidity, and has set out the actions taken to evaluate and manage these risks.

The auditor has also detailed two key audit matters in its report: valuation and existence of investments; and occurrence and completeness of investment income, and has set out the work it has performed to satisfy itself that these have been properly reflected in the financial statements.

The Committee has monitored the controls designed to mitigate the risks associated with these matters during the year, including reviewing management's risk report at each meeting and requiring amendments to both risks and mitigating actions as appropriate. The Committee considers that management has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity and has taken appropriate action to mitigate those risks. There were no significant areas of material judgement or unadjusted errors.

### GOING CONCERN AND VIABILITY

The Committee has assessed the information, forecasts and assumptions underlying the Viability and Going Concern Statements on page 23 and recommended to the Board that they are appropriate.

### EXTERNAL AUDIT

Grant Thornton UK LLP was appointed as statutory auditor in 2016. In accordance with the current legislation, the Company will need to re-tender for new auditors at least every ten years and will have to change its auditor after 20 years. The audit partner is Marcus Swales. The auditor is required to rotate partners every five years and it is proposed that Mr Swales should serve until the AGM in 2021, provided shareholders approve the continued appointment of Grant Thornton. Accordingly, the Committee considers that the Company has complied with the provisions of the Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year.

The Committee reviews the scope and effectiveness of the audit process, including agreeing the auditor's assessments of materiality, and monitors the auditor's independence and objectivity. The Committee conducts a formal review of the performance of the auditor following the conclusion of the audit.

In addition, Grant Thornton has been appointed to provide an assurance report on client assets in accordance with the FCA's Client Assets Sourcebook (the CASS Report) to the FCA in respect of Witan Investment Services Limited, to be completed by the end of April 2019.

### FINANCIAL STATEMENTS

The Board has requested the Committee to confirm that in its opinion the Board can make the required statement that the annual report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee has given this confirmation on the basis of its review of the whole document, underpinned by involvement in the planning for its preparation, review of the processes to assure the accuracy of factual content, and by assurances received from the Remuneration and Nomination Committee.

### NON-AUDIT SERVICES

The Committee has adopted the requirements, introduced with effect from January 2017, that non-audit fees cannot be more than 70% of the average audit fees for the last three years. Any new engagement with Grant Thornton for any non-audit service must be approved in advance by the Committee. The Committee assesses each service individually, having considered the cost-effectiveness of the service and the impact on the auditor's independence. Grant Thornton are not providing any non-audit services to the Company other than to provide the CASS report, for which their fees are budgeted at £30,000, and compliance with covenants on the Secured Bonds (£2,000). The ratio of audit to non-audit work in the year was 64:36. The Committee considered that it was in the interests of the Company to appoint Grant Thornton for this work as it would not be cost-effective to appoint another firm.

### EFFECTIVENESS OF THE COMMITTEE

The Committee assessed its own effectiveness during the year. The Committee considered that its approach was comprehensive and appropriate and that it focused on the right issues and was managed well.

### APPROVAL

This report was approved by the Committee on 11 March 2019 and is signed on its behalf by:

**Jack Perry**
**Chairman of the Audit Committee**
11 March 2019

# Directors' Remuneration Report

## CHAIRMAN'S STATEMENT

I am pleased to present my first report as Chairman of the Remuneration and Nomination Committee (the 'Committee'), following my appointment in May 2018, when Catherine Claydon retired from the Board. The Committee and I would like to thank her for her work in chairing the Committee for over eight years.

The Committee deals with both Nominations and Remuneration related matters. Reports on both aspects of the Committee's work are covered below.

## NOMINATIONS

The Committee's main role is to oversee the recruitment process for non-executive directors.

Mr Yates was appointed to the Board on 3 May 2018. The Committee reviewed the skill and experience required of the new director and identified the person it considered to be most suitable to fill the vacancy. The Committee was assisted by Trust Associates, a firm of recruitment consultants that has no other connection with the Company. The Board confirmed the Committee's choice of candidate and the appointment was made.

A Committee of the Board, including members of this Committee and Mr Watson, the SID, is undertaking a search for a new director who will in due course take over as Chairman, with the assistance of the recruitment consultants Nurole, who have no other connection with the Company.

## REMUNERATION

The remainder of this report covers the remuneration-related activities of the Committee for the year ended 31 December 2018. It sets out the remuneration policy and remuneration details for the non-executive and executive directors of the Company. It has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') and the requirements of the Association of Investment Companies. The report is split into three main areas: this statement from me as Chairman of the Committee, an annual report on remuneration and a policy report. The annual report on remuneration provides details of remuneration during the financial year ended 31 December 2018 and other information required by the Regulations. It will be subject to an advisory vote at the Annual General Meeting on 1 May 2019.

The Company's existing remuneration policy was subject to a binding shareholder vote at the Annual General Meeting in 2016 and took effect from 1 January 2016. The Committee is required to submit its remuneration policy to a shareholder vote every three years and accordingly will be putting a resolution to shareholders at the Annual General Meeting to be held on 1 May 2019 to approve the remuneration policy. The Committee is not proposing to make any changes to the remuneration policy this year. If approved by shareholders, the policy will continue to apply for a further three years until the AGM in 2022, when it will next be voted on by shareholders.

The Companies Act 2006 requires the auditor to report to shareholders on certain parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are indicated in the report.

### Role of the Committee

The remuneration-related role of the Committee is essentially twofold. First, it has a role in respect of executive remuneration, assisting the directors in determining the remuneration of the Chief Executive Officer ('CEO') and evaluating his performance, as well as assisting the CEO in determining the remuneration arrangements for the Company's staff. Second, the Committee considers the remuneration of the non-executive directors. In addition, the Committee serves as the Board's nomination committee with responsibility for reviewing the effectiveness and composition of the Board. The Committee's role and responsibilities are set out in its terms of reference, which are available on request from the Company Secretary and can be found on the Company's website (www.witan.com).

The Committee normally consists of three non-executive directors, including its Chairman, who are appointed by the Board. I have been a member of the Committee since 2011 and was appointed as Chairman in May 2018. Mr H M Henderson has served on the Committee since 2003. Mr P T Yates was appointed as a member of the Committee in May 2018. Mrs Claydon was Chairman of the Committee until her retirement from the Board in May 2018.

The Committee's programme is to meet formally at least twice a year and on such other occasions as required. The Committee held two formal meetings during the year, during which it addressed all the matters under its remit.

As part of its annual work, the Committee reviewed the non-executive directors' fees in February 2019 and agreed that there should not be any increase in fees. With effect from 1 April 2017, the non-executive directors' fees have been paid at the following annual rates:

| | £ |
|---|---|
| Chairman of the Company | 60,000 |
| Chairman of the Audit Committee | 39,000 |
| Chairman of the Remuneration and Nomination Committee | 36,500 |
| Senior Independent Director | 36,500 |
| Other non-executive Directors | 31,500 |

The Company's Articles of Association currently limit the aggregate fees payable to the non-executive directors to £350,000 per annum. The aggregate non-executive directors' fees currently amount to £266,500 per annum.

**Richard Oldfield**
**Chairman of the Remuneration and Nomination Committee**
11 March 2019

# Directors' Remuneration Report continued

## ANNUAL REPORT ON REMUNERATION

An ordinary resolution for the approval of this section of the Report (together with the Chairman's statement on pages 42 and 43) will be put to members at the forthcoming Annual General Meeting.

The following section sets out the executive director's and the non-executive directors' remuneration for the year ended 31 December 2018. The information provided on pages 44 to 45 of this Report (other than the total shareholder return performance graph) has been audited by Grant Thornton UK LLP.

### Single total figure table for the year (audited)

Non-executive directors

The following table shows the single figure of remuneration of the non-executive directors for the financial year ended 31 December 2018, together with the comparative figures for 2017:

| | 31 December 2018 Fees and total remuneration £(1) (2) | 31 December 2017 Fees and total remuneration £(1) (2) |
|---|---|---|
| H M Henderson | **60,000** | 59,250 |
| S E G A Neubert | **31,500** | 31,125 |
| R J Oldfield | **35,000** | 31,125 |
| J S Perry | **36,650** | 31,125 |
| B C Rogoff | **31,500** | 31,125 |
| A Watson | **36,500** | 35,875 |
| P T Yates (appointed 3 May 2018) | **20,900** | – |
| R W Boyle (retired 2 May 2018) | **13,300** | 38,250 |
| M C Claydon (retired 2 May 2018) | **12,450** | 35,875 |
| Total | **277,800** | 293,750 |

(1) The non-executive directors are not entitled to any valuable payments or benefits. No taxable benefits were paid in the year, although all reasonably incurred business expenses will be met.
(2) Non-executive directors' fees were last increased with effect from 1 April 2017.

### CEO

The following table shows a single total figure of remuneration in respect of qualifying services for the financial year ended 31 December 2018 for the CEO, Mr A L C Bell, together with the comparative figures for 2017. Aggregate emoluments are shown in the last column of the table.

| | Base pay(1) £ | | Benefits(2) £ | | Annual Bonus(3) benefits £ | | Long-Term Bonus(3) £ | | Pension related benefits £ | | Total £ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Mr A L C Bell | **293,550** | 285,000 | **24,709** | 19,149 | **117,420** | 199,500 | **32,847** | 126,757 | **29,355** | 28,500 | **497,881** | 658,906 |

(1) Mr Bell is entitled to hold outside appointments and to retain any fees payable, subject to receiving the Board's permission. During 2018, in addition to the base salary set out above, Mr Bell received £30,156 (2017: £58,250) in respect of his directorship of Henderson High Income Trust plc and as chairman of Gabelli Value Plus+ Trust plc. He retired from both directorships during 2018. He was appointed as a non-executive director of The Diverse Income Trust plc with effect from 1 January 2019.
(2) Taxable benefits include life assurance and health insurance.
(3) Mr Bell's service agreement provides that he is eligible to receive a bonus of up to 170% of his basic salary. The cash bonus arrangement consists of three separate elements:
  (i) Discretionary bonus
  For a description of the terms of the discretionary bonus (including the performance measures), please see the policy report. The Committee reviewed Mr Bell's performance against the performance criteria, described on page 50, over the preceding year at its meeting in February 2019 to determine the appropriate level of the discretionary bonus that is payable for that year. Following that review, the Committee recommended, and the Board agreed, that Mr Bell should receive a discretionary bonus equal to 40% (compared with the maximum of 40%) of his basic salary, (£117,420) in respect of the financial year ended 31 December 2018 (2017: 30%, £85,500).
  (ii) One-year Bonus
  For a description of the terms of the One-year Bonus (including the performance measures), please see the policy report. The Company underperformed its benchmark in 2018 (net asset value debt at par, excluding the effect of share buybacks) and therefore a bonus will not be paid to Mr Bell based on the Company's financial performance for the year ended 31 December 2018 (2017: outperformed by 3.6%, £114,000).
  (iii) Long-Term Bonus
  For a description of the terms of the Long-Term Bonus (including the performance measures), please see the policy report. In summary, Mr Bell is eligible to receive up to 90% of his basic annual salary by reference to the Company's performance over the previous three financial years.
  The level of bonus is determined by reference to the performance against the benchmark, where performance in line with benchmark generates a bonus rising on a straight-line basis to a full bonus where the benchmark is exceeded by an average of 2.5% per annum.
  The Company has outperformed its benchmark over the three financial years to 31 December 2018 by 12% (net asset value debt at par, excluding the effect of share buybacks) and therefore a Long-Term Bonus of £32,847 will be paid to Mr Bell (2017: 8.0%, £126,757).
  Mr Bell's total variable remuneration in respect of the year ended 31 December 2018 is £150,267 (2017: £326,257).

Payment of the discretionary bonus, One-year Bonus and Long-Term Bonus will be partly deferred in accordance with the current policy, with 60% paid in March 2019 and the remaining 40% paid on a deferred basis in three equal instalments in March 2020, 2021 and 2022, subject to continued employment.

### Scheme interests awarded during the financial year

No directors were awarded any interest over shares in the Company during the financial year ended 31 December 2018 (2017: nil).

### Payments to past directors

No payments were made to former directors of the Company during the financial year ended 31 December 2018 (2017: £nil).

### Payments for loss of office

No loss of office payments were made to any person who has previously served as a director of the Company at any time during the financial year ended 31 December 2018 (2017: £nil).

### Statement of directors' shareholdings (audited)

The interests of the CEO and the non-executive directors (including connected persons) in the Company's ordinary shares are shown in the table below. No share options or other share-based awards, with or without performance measures, were awarded to the CEO or to any non-executive director. There are no requirements or guidelines for the CEO or the non-executive directors to own shares in the Company.

| | **Shares held as at 31 December 2018** | Shares held as at 31 December 2017 |
|---|---|---|
| A L C Bell | **140,000** | 140,000 |
| H M Henderson | **788,232[(1)]** | 788,232[(1)] |
| S E G A Neubert | **10,152** | 9,941 |
| R J Oldfield | **21,500** | 21,500 |
| J S Perry | **15,109** | 14,792 |
| B C Rogoff | **4,172** | 3,248 |
| A Watson | **25,022** | 25,021 |
| P T Yates | **5,049** | –[(2)] |

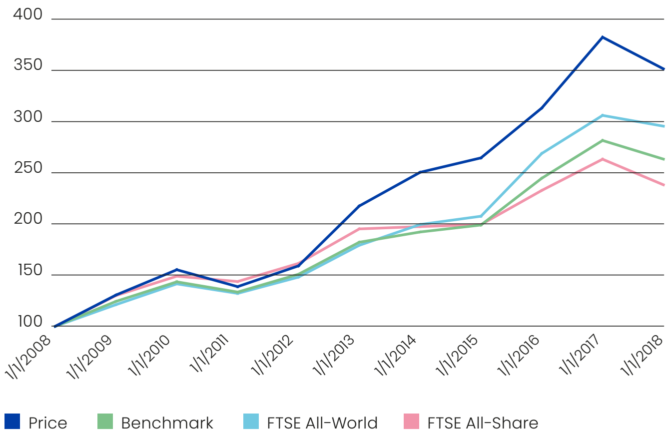
(1) H M Henderson is the legal and beneficial owner of 722,732 shares in the Company and 65,500 shares in the Company are owned by connected persons (2017: 722,732 and 65,500 shares).
(2) Mr Yates owned 5,000 shares at the date of his appointment, 3 May 2018.

Since the year end, Mr Rogoff has purchased 154 ordinary shares. There have not been any other changes in the directors' interests.

None of the directors had an interest in the secured bonds or preference shares of the Company.

### Total shareholder return performance graph

The line graph below sets out the Company's ten-year total shareholder return performance relative to the FTSE All-Share Index and the FTSE World Index (sterling adjusted). This line graph assumes a notional investment of £100 into the Indices on 31 December 2008 and the reinvestment of all income, excluding dealing expenses.




The Company is required to compare the Company's share price with a single broad equity market index. The Company has compared the share price total return against (i) a UK market index, namely the FTSE All-Share Index, because the Company's shares are listed on the UK market and also (ii) a global index, namely the FTSE All-World Index, because the Company invests across a broad spread of global equity markets. The performance of the Company's benchmark is also shown.

### CEO remuneration table

| Year ended 31 December | CEO single figure of total remuneration £ | Annual discretionary and One-year Bonus pay-out against maximum % | Long-Term Bonus against maximum % |
|---|---|---|---|
| 2018 – Mr Bell | **497,881** | **40.0** | **12.4** |
| 2017 – Mr Bell | 658,906 | 87.5 | 89.0 |
| 2016 – Mr Bell | 493,811 | 40.0 | 54.4 |
| 2015 – Mr Bell | 593,431 | 95.2 | 100.0 |
| 2014 – Mr Bell | 544,514 | 76.2 | 100.0 |
| 2013 – Mr Bell | 486,802 | 95.0 | 64.2 |
| 2012 – Mr Bell | 400,535 | 86.5 | 13.7 |
| 2011 – Mr Bell | 314,160 | 40.0 | n/a |
| 2010 – Mr Bell | 409,495 | 100.0 | n/a |
| 2010 – Mr Clarke[(1)] | 111,318 | 15.0 | n/a |
| 2009 – Mr Clarke[(1)] | 253,273 | 30.0 | n/a |

(1) Mr R E Clarke was the CEO until 8 February 2010, when Mr Bell was appointed.

# **Directors' Remuneration Report** continued

### Percentage change in remuneration of CEO

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2017 and 2018 compares with the percentage increase in each of those components of pay for the Group's employees taken as a whole:

| | Percentage increase/(decrease) in remuneration in 2018 compared with remuneration in 2017 | |
|---|---|---|
| | CEO % | Employees % |
| Salary and fees | 3 | 7 |
| All taxable benefits | 13 | 4 |
| Annual bonuses (discretionary and One-year Bonus) | (41) | 5 |
| Long-Term Bonus | (74) | n/a |
| **Total** | **(24)** | **6** |

The decrease in the CEO's bonuses in 2018 is due to the underperformance of the Company in 2018, which resulted in the One-year Bonus not being paid in respect of 2018 (see note 3(ii) on page 44), whereas it was paid in respect of 2017, and a decrease in the performance-determined Long-Term Bonus.

### Relative importance of spend on pay

| Spend | **2018 £'000** | 2017 £'000 | Difference £'000 |
|---|---|---|---|
| Fees of non-executive directors | **278** | 294 | (16) |
| Remuneration paid to or receivable by all employees of the Group (including the CEO) in respect of the year[(1)] | **1,868** | 2,103 | (235) |
| Dividends paid to shareholders in respect of the year ended 31 December 2018 | **41,835** | 37,510 | 4,325 |
| Share buybacks[(2)] | **2,518** | 26,622 | (24,104) |
| Total payments to shareholders | **44,353** | 64,132 | (19,779) |

(1) Includes any accruals for future payment of the CEO's Long-Term Bonus, subject to performance being sustained and to his continued employment with the Company.
(2) Share buyback activity was at a low level, reflecting the sustained low level of the discount during the year (see also comments on page 18).

### Statement of implementation of remuneration policy

The revised remuneration policy for the CEO as detailed in the policy section of the report was agreed by shareholders at the 2016 AGM and implemented with effect from 1 January 2016. The fees for non-executive directors were increased with effect from 1 April 2017.

### Consideration by the directors of matters relating to directors' remuneration

The Board as a whole sets the fees that are payable to the non-executive directors and it has appointed the Committee to consider matters relating thereto. The Committee also considers the remuneration of the CEO and makes a recommendation on this to the Board for its approval.

The Committee was not provided with any advice or services, during the financial year ending 31 December 2018, in respect of the fees payable to the non-executive directors or the remuneration payable to the CEO.

The Committee assesses the workload and responsibilities of the non-executive directors and reviews, from time to time, the fees paid to non-executive directors of other investment trust companies.

The table below sets out the members of the Committee who were present during any consideration of the CEO's remuneration, and shows the number of meetings attended by each non-executive director:

| Name | Number of meetings attended |
|---|---|
| M C Claydon | 2/2 |
| H M Henderson | 3 |
| R J Oldfield | 3 |
| P T Yates | 1/1 |

### Statement of shareholder voting

At the Annual General Meetings held on 2 May 2018 and 28 April 2016 respectively, ordinary resolutions to approve the Directors' Remuneration Report for the year ended 31 December 2017 and to approve the Remuneration Policy were passed on a show of hands. The proxy votes in each case were as follows:

| Votes for | Votes against | Votes at proxies' discretion | Votes withheld | Total votes cast (excluding votes withheld) |
|---|---|---|---|---|
| Approval of Directors' Remuneration Report | | | | |
| **15,222,848** | **122,638** | **34,926** | **47,045** | **15,380,412** |
| **99.0%** | **0.8%** | **0.2%** | **–** | **100%** |
| Approval of Remuneration Policy | | | | |
| **22,358,405** | **399,993** | **48,204** | **217,226** | **22,806,602** |
| **98.0%** | **1.8%** | **0.2%** | **–** | **100%** |

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought and any actions in response will be detailed in future Directors' Remuneration Reports. There were no substantial shareholder votes against the resolutions at the Annual General Meetings in 2018 or 2017.

## REMUNERATION POLICY

The Company reports on its remuneration policy in accordance with the Regulations each year. An ordinary resolution for the approval of the current policy was put to members at the AGM on 28 April 2016 and passed by the members. This policy took effect from 1 January 2016.

The Committee is required to submit its remuneration policy to a shareholder vote every three years and accordingly will be putting a resolution to shareholders at the Annual General Meeting to be held on 1 May 2019 to approve the remuneration policy. The Committee is not proposing to make any changes to the remuneration policy this year. If approved by shareholders, the policy will continue to apply for a further three years until the AGM in 2022, when it will next be voted on by shareholders.

The proposed policy is set out below.

### Non-executive directors

All the directors are non-executive, with the exception of the CEO. New directors are appointed for an initial term ending three years from the date of their first annual general meeting after appointment and with the expectation that they will serve a minimum of two three-year terms. The continuation of directors' appointments is contingent on satisfactory performance evaluation and re-election at annual general meetings. Non-executive directors' appointments are reviewed formally every three years by the Board as a whole. Each of the non-executive directors has a letter of appointment which sets out the terms on which they provide their services. A non-executive director may resign by notice in writing to the Board at any time; there are no set notice periods.

### Remuneration policy for non-executive directors

The following table provides a summary of the key elements of the remuneration of the non-executive directors.

| | Purpose | Operation |
|---|---|---|
| **Fees** | Fees payable to the directors should reflect the time committed to the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. | Non-executive directors are to be remunerated in the form of fees, payable monthly in arrears, to the director personally or to a third party specified by him or her. There are no long-term incentive schemes or pension arrangements and the fees are not specifically related to their performance, either individually or collectively. |
| | There are no performance-related elements and no fees are subject to clawback provisions. | The Committee determines the level of fee at its discretion. The fees are reviewed each year, although such review will not necessarily result in any increase in the fees. Proposed increases in fees are determined in the light of increases in inflation and in the Company's share price, net asset value and dividend payments. |
| | | The Chairman of the Board, the Chairmen of the Board's Committees and the Senior Independent Director are paid higher fees than the other non-executive directors in recognition of their more onerous roles (see below). |
| | | Each non-executive director's annual base fee is £31,500. Additional fees are payable as follows:<br>› Chairman of Audit Committee £7,500.<br>› Chairman of Remuneration and Nomination Committee £5,000.<br>› Senior Independent Director £5,000. |
| | | All of the above fees are effective from 1 April 2017. The maximum amount of fees, in aggregate, that may be paid to non-executive directors in any financial year is £350,000 following approval by shareholders at the Annual General Meeting in April 2014. |

# Directors’ Remuneration Report continued

**Remuneration policy for the CEO (and any future executive directors)**

Currently the Company operates with one executive director, the CEO. This policy applies to the CEO, but would also be applied to any other executive director appointed by the Company.

| | Purpose and link to Strategy | Operation and Clawback | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Base salary** | Base salary is set at market competitive levels in order to recruit and retain an executive director of a suitably high calibre.<br><br>The level of pay reflects a number of factors including individual experience, expertise and pay appropriate to the position. | Base salary is reviewed annually and fixed for 12 months. | The Committee has agreed to increase the CEO’s salary, with effect from 1 January 2019, by 2.5% to £300,900 per annum.<br><br>Year-on-year, salary increases for any executive director will not exceed 10% per annum other than in times of abnormal inflation or other exceptional circumstances, in which case the increase will not exceed 20%. | Not applicable |
| **Benefits-in-kind** | Offering market-competitive level of benefits-in-kind to help recruit or retain an executive director of a suitably high calibre. | An executive director may be eligible to receive a range of benefits including some or all of:<br>› private medical insurance for the executive director and their family;<br>› death in service insurance;<br>› business-related expenses.<br><br>Where benefits are sourced through third party providers, the expense will reflect the cost of the provision of the benefits from time to time but will be kept under review by the Committee. | The maximum benefit that can be offered or paid to an executive director is:<br>› private medical insurance provided on a family basis;<br>› death in service insurance of 4 times base salary;<br>› business-related expenses. | Not applicable |
| **Pension** | Offering market-competitive levels of guaranteed cash earnings to help, recruit or retain an executive director of a suitably high calibre. | The CEO currently receives a cash payment, equal to 10% of base salary, in lieu of pension contributions. | The maximum cash payment in lieu of pension contributions is 10% of base salary, which is the same as the pension contribution rate applicable to other staff. | Not applicable |

| | Purpose and link to Strategy | Operation and Clawback | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Discretionary bonus** | The purpose of the bonus arrangements is to incentivise the CEO to maximise the Company's performance and its return to shareholders. | The CEO is eligible to receive a discretionary bonus of up to 40% of basic annual salary. The Committee will review the CEO's performance against the performance criteria to determine the appropriate level of bonus payable in respect of the preceding year.<br><br>The Committee may change the terms of this bonus or reduce any bonus payment that would otherwise be payable in order to comply with any relevant current or future regulations, including the FCA Remuneration Code. See note 2 on page 50 for the operation of deferral, malus and clawback. | The maximum cash bonus payable to any executive director is 40% of base salary. | Please see note 1 on page 50 for details of the performance measures applicable to the CEO's discretionary bonus. |
| **One-year Bonus** | The purpose of the bonus arrangements is to incentivise the CEO to maximise the Company's performance and its return to shareholders. | The CEO is eligible to receive a bonus of up to 40% of base salary by reference to performance of the Company over the previous financial year.<br><br>The Committee may change the terms of this bonus or reduce any bonus payment that would otherwise be payable in order to comply with any relevant current or future regulations, including the FCA Remuneration Code. See note 2 on page 50 for the operation of deferral, malus and clawback. | The maximum cash bonus payable to any executive director is 40% of base salary. | Please see note 1 on page 50 for details the of the performance measures applicable to the CEO's One-year Bonus. |

# Directors' Remuneration Report continued

| | Purpose and link to Strategy | Operation and Clawback | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| **Long-Term Bonus** | The purpose of the bonus arrangements is to incentivise the CEO to maximise the Company's performance and its return to shareholders. | The CEO is eligible to receive a bonus of up to 90% of base salary by reference to the performance of the Company over the previous three financial years.<br><br>The Committee may, with shareholder approval as appropriate, change the terms of this bonus or reduce any bonus payment that would otherwise be payable in order to comply with any relevant current or future regulations, including the FCA Remuneration Code. See note 2 below for the operation of deferral, malus and clawback. | The maximum cash bonus payable to any executive director is 90% of base salary. | Please see note 1 below for details of the performance measures applicable to the CEO's Long-Term Bonus. |

**Notes:**

1. **Performance measures**

Mr Bell's service agreement, as amended, provides that he is eligible to receive a bonus of up to 170% of his basic annual salary. The cash bonus arrangement consists of three separate elements as set out below:

(i) Discretionary bonus

Each year Mr Bell is eligible to receive, at the absolute discretion of the Committee, a cash bonus of up to 40% of his basic annual salary. The Committee has determined a number of criteria that it takes into account, including the management and administration of the Company and reporting to the Board, shareholders and other stakeholders, on which to judge his performance.

(ii) One-year Bonus

Each year Mr Bell is eligible to receive an additional cash bonus of up to 40% of his basic annual salary. The bonus will be determined by the Company's net asset value per share total return performance over the previous financial year (debt at par, excluding the effect of share buybacks or issuance) relative to its benchmark. Outperformance of the benchmark by 3.0% or more will generate a bonus of the full 40%. No bonus is payable if performance is in line with or below that of the benchmark. Relative performance of between nil and 3.0% will generate a pro rata bonus.

(iii) Long-Term Bonus

Mr Bell is eligible to receive a Long-Term Bonus each year of up to 90% of his basic annual salary by reference to the Company's performance over the previous three financial years. The Long-Term Bonus will be determined by reference to the Company's net asset value per share total return (debt at par, excluding the effect of share buybacks or issuance) relative to its benchmark, as set out in the Company's audited annual accounts for the applicable financial years. Compounded average annual outperformance of the Benchmark by 2.5% per annum or more will generate a bonus of the full 90%. No bonus is payable if performance is in line with or below that of the Benchmark. Relative performance of between nil and 2.5% per annum will generate a pro rata bonus.

The Long-Term Bonus will be halved if, despite outperformance of the Benchmark over the relevant three financial years, the Company's net asset value total return per share is negative over that period.

2. **Deferral, malus and clawback**

2.1 Deferral

All bonuses are subject to deferral in terms of payment. 60% of any bonus will be paid in March following the performance year end ('First Bonus Payment Date'). 40% of any bonuses will be payable on a deferred basis over the following three years, in equal instalments on each anniversary of the First Bonus Payment Date.

2.2 Malus

Malus (where bonuses that have yet to be paid are forfeited) may be applied by the Remuneration Committee where:

(a) there has been material misstatement or error that causes an award to vest at a higher level than would otherwise have been the case;

(b) there has been a material failure in risk management;

(c) there has been serious misconduct that has resulted or could result in dismissal.

### 2.3. Clawback

Any bonus will be subject to a clawback period of two years after it has been paid, whereby the CEO will be required to pay back part or all of any bonus already received. Clawback may be applied by the Remuneration Committee where:

(a) there has been material misstatement or error that causes an award to vest at a higher level than would otherwise have been the case;

(b) there has been a material failure in risk management;

(c) there has been serious misconduct that has resulted or could result in dismissal.

### 3. Legacy plans

The Committee reserves the right to make remuneration payments and payments for loss of office that are not in line with the policy set out above (i) where the terms of such a payment were agreed before the policy came into effect or at a time when the relevant individual was not a director of the Company and (ii) in the opinion of the Committee, such a payment is not in consideration of the individual becoming a director of the Company. For these purposes, payments include the Committee making awards of variable remuneration.

### 4. Differences in the Company's remuneration policies for directors and employees

The remuneration policy for the executive director differs principally from that for employees in that the executive director's remuneration is more heavily weighted towards variable pay so that a greater proportion of his pay is related to the Company's performance and the value created for shareholders.

### Principles and approach to recruitment and internal promotion of directors

#### Non-executive directors

(1) Remuneration of non-executive directors should reflect the specific circumstances of the Company and the duties and responsibilities of the non-executive directors. It should provide appropriate compensation for the experience and time committed to the proper oversight of the affairs of the Company.

(2) Non-executive directors are not eligible to receive bonuses, pension benefits, share options or other benefits.

(3) The total remuneration of the non-executive directors is determined by the provisions of the Company's Articles of Association and by shareholder resolution.

(4) The basic non-executive director's fee will be paid to each non-executive director, with a higher fee per annum for the Chairman of the Company. An additional fee per annum will be paid to the Chairman of each of the Audit and the Remuneration and Nomination Committees and to the Chairman of any other Committees that the Company forms; and to the Senior Independent Director.

#### Executive directors

(1) When hiring a new executive director, or promoting to the Board from within the Group, the Committee will offer a package that is sufficient to retain and motivate and, if relevant, attract the right talent whilst paying no more than is necessary.

(2) Ordinarily, remuneration for a new executive director will be in line with the policy set out in the table.

(3) The maximum level of variable pay that may be awarded to a new director on recruitment or on promotion to the Board shall be limited to 170% of base salary (calculated at the date of grant, excluding any buy-out awards – see below).

(4) The Committee may, where it considers it to be in the best interests of the Company and shareholders, offer an additional cash payment to an executive director in order to replace awards which would be foregone by the individual on leaving his/her previous employment (i.e. buy-out arrangements) which will be intended to mirror forfeited awards as far as possible by reflecting the value, nature, time horizons and performance measures.

### Letters of appointment/service contract

#### Non-executive directors' letters of appointment

The non-executive directors all have letters of appointment, which may be inspected at the Company's registered office. None of the non-executive directors is subject to any notice period. All continuing non-executive directors are required to stand for re-election by the shareholders at least every three years. The initial period of appointment is two terms of three years. All reasonably incurred expenses will be met.

Mr Henderson, Mr Bell, Mr Rogoff and Mr Watson are proposed for re-election at the Annual General Meeting in May 2019 and Mr Yates is proposed for election.

#### CEO's service contract

The CEO's service contract with the Company may be inspected at the Company's registered office. The CEO's service agreement dated 3 February 2010, as amended, provided in 2018 for a salary of £293,550 (2017: £285,000) per annum. The salary has been increased, in line with inflation (as for other employees), to £300,900 with effect from 1 January 2019. Mr Bell's appointment may be terminated by either party on the giving or receiving of not less than nine months' written notice.

Please see 'Policy on payment for loss of office' below for further details of the CEO's service contract.

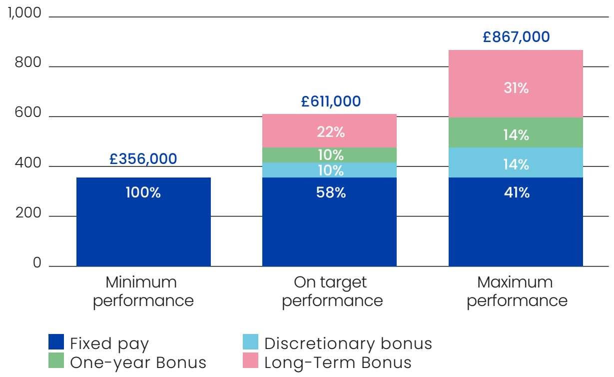
### Illustration of application of remuneration policy

The chart on page 52 shows an indication of the values of the CEO's remuneration that would be received by the CEO in accordance with this remuneration policy for the year ending 31 December 2019 at three direct levels of performance:

- minimum performance, i.e. fixed salary, taxable benefits and payment in lieu of pension contributions, with no bonus pay-out;

# Directors' Remuneration Report continued

- on-target performance, fixed pay plus bonus payments assuming a 50% pay-out of each of the discretionary, One-year and Long-Term Bonuses; and
- maximum performance, fixed pay plus bonus payments assuming 100% pay-out of each of the discretionary, One-year and Long-Term Bonuses.




### Policy on payment for loss of office

### Non-executive directors

None of the non-executive directors is subject to any notice period. It is the Company's policy not to enter into any arrangement with any of the non-executive directors to entitle any of the non-executive directors to compensation for loss of office.

### CEO (and any future executive directors)

The Company's policy is to agree a notice period for the CEO which would not exceed nine months.

The Company may, in its absolute discretion and without any obligation to do so, terminate the CEO's employment immediately by giving him written notice together with a payment of such sum as would have been payable by the Company to the CEO as salary (excluding future bonus accrual) in respect of his notice period. The Company may, at its discretion, make the termination payment in instalments over a period of no longer than six months from the termination date and on terms that any payment should be reduced to take account of mitigation by the CEO.

If a new executive director is recruited, the Company's policy regarding payments for loss of office will be the same as for the CEO.

If the CEO ceases employment as a result of a 'good leaver' reason (i.e. death, ill-health, injury, disability, redundancy, retirement or due to any other circumstance that the Committee at its discretion permits), any bonus payment shall be pro-rated for time and performance. The Committee may, however, taking into account such factors as it considers appropriate, increase the proportion of the relevant bonus that becomes payable. If the CEO ceases employment other than as a 'good leaver', or if the CEO gives or receives notice prior to the date that the relevant bonus would otherwise have been paid, the CEO will forfeit any right to receive the relevant bonus for nil consideration unless the Committee, in its absolute discretion, determines otherwise.

A change of control of the Company shall not affect the amount of any bonus or the date on which it becomes payable unless the Committee determines otherwise, in which case the Committee shall determine whether the pro-rated performance targets attached to the applicable bonuses have been satisfied at that time.

If the Committee determines that the pro-rated performance targets have not been satisfied on the change of control, the applicable bonus shall immediately lapse unless the Committee determines otherwise. To the extent that the Committee determines that the pro-rated performance targets have been satisfied on the change of control, if the CEO ceases to be employed by the Company prior to the date that the applicable bonus would otherwise have been paid to the CEO other than as a result of:

- a reason which would have justified his summary dismissal;
- his cessation of employment without the giving or receiving of notice; or
- his resignation.

the applicable bonus shall become payable to the extent determined at the time of the change of control on, or as soon as practicable after, the CEO's cessation of employment.

### Statement of consideration of conditions elsewhere in the Company

The Committee considers the employment conditions, including salary increases, of employees other than the CEO when setting the CEO's remuneration.

The Company did not consult with employees when drawing up the remuneration policy.

Where possible, the Committee benchmarks the remuneration of the employees and CEO by obtaining details of remuneration paid to employees in comparable roles in other companies. The Company has not reported the ratio of the CEO to that of any other employee, as it has only seven employees, to protect that individual's privacy.

### Statement of consideration of shareholder views

The Company places great importance on communication with its shareholders. The Company had frequent meetings with institutional shareholders and City analysts throughout the year ended 31 December 2018 and met with shareholders in general at the Annual General Meeting held in 2018 and can confirm that it is not aware of negative views being expressed by shareholders in relation to its policy on Directors' Remuneration.

### Approval

This report was approved by the Board of directors on 11 March 2019 and is signed on its behalf by:

**Richard Oldfield**
**Chairman of the Remuneration and Nomination Committee**
11 March 2019

# Directors' Report

## STATUTORY INFORMATION

The directors present the annual report of the Group for the year ended 31 December 2018.

## ACTIVITIES AND BUSINESS REVIEW

A review of the business is given in the strategic report on pages 1 to 31 including the Chairman's and Chief Executive's reports on pages 12 to 18. The directors are required by the Companies Act to prepare a strategic report for each financial year, which contains a fair review of the business of the Group during the financial year ended 31 December 2018 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. This information can be found within the strategic report on pages 21 to 22.

The Corporate Governance Statement on pages 34 to 39 forms part of this Directors' Report.

## INVESTMENT POLICY

The Company's investment policy is set out on page 11.

## STATUS

Witan Investment Trust plc (the 'Company') is incorporated in the United Kingdom and registered in England and Wales and domiciled in the United Kingdom. It is an investment company as defined in section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010. The Company has received confirmation from HM Revenue and Customs that it has been accepted as an approved investment trust with effect from 1 January 2012, provided it continues to meet the eligibility conditions of section 1158 and of the ongoing requirements for approved companies in the Investment Trust (Approved Company) (Tax) Regulations 2011.

## SUBSIDIARY COMPANY

The Company has one subsidiary company, Witan Investment Services Limited, which provides marketing services and investment products to the Company and executive management and marketing services to third party investment trust clients. Witan Investment Services Limited is authorised and regulated by the Financial Conduct Authority to act as the Company's AIFM, provide investment advice to professional investors and manage savings schemes for investors.

As reported in the Chairman's statement, the decision has been taken to close the Witan Wisdom and Jump Savings Plans in May 2019. The impact of this decision on the Group's results is not considered to be significant.

## ISAs

The Company intends to continue to manage its affairs so that its shares fully qualify for the stocks and shares component of an ISA and a Junior ISA.

## SUBSTANTIAL SHARE INTERESTS

As at 31 December 2018, the Company had not been notified of any substantial interests in the Company's voting rights.

There have not been any new holdings notified between the year end and the date of this Report.

## ASSETS

At 31 December 2018 the total net assets of the Group were £1,773.4m (2017: £1,980.5m). At this date the net asset value per ordinary share was 995.1p (2017: 1109.8p).

## REVENUE AND DIVIDEND

The loss for the year was £164m (2017: profit £317m). A profit of £46m is attributable to revenue (2017: £43m). The profit for the year attributable to revenue has been applied as follows:

| | £'000 |
|---|---|
| Distributed as dividends: | |
| First interim of 5.25p per ordinary share (paid on 18 June 2018) | 9,357 |
| Second interim of 5.25p per ordinary share (paid on 18 September 2018) | 9,357 |
| Third interim of 5.25p per ordinary share (paid on 18 December 2018) | 9,357 |
| Fourth interim of 7.75p per ordinary share (payable on 21 March 2019) | 13,764 |
| Added to the Company's revenue reserve | 4,724 |
| **Revenue profit available for distribution** | **46,559** |

The directors have declared a fourth interim dividend instead of a final dividend in order to ensure that, as in previous years, the distribution is made to shareholders before 5 April.

## DIRECTORS

The current directors of the Company are shown on pages 32 and 33.

All the directors held office throughout the year under review. Mr Yates was appointed as a director on 3 May 2018 and will seek election by shareholders at the forthcoming AGM. Mr Rogoff will retire in accordance with the Company's Articles of Association and, being eligible, will seek re-election by shareholders. Mr Henderson, Mr Watson and Mr Bell will also retire and stand for re-election, as each of them has served as a director for more than nine years and is eligible to stand for re-election. The Board considers them to be independent despite their length of service. This is explained in more detail in the Corporate Governance Statement on page 35.

The Board has reviewed the performance and commitment of the directors standing for re-election and considers that each of them should continue to serve on the Board as they bring wide, current and relevant experience that allows them to contribute effectively to the leadership of the Company.

The Board's policy on the frequency of the re-election of directors is set out on page 36 in the Corporate Governance Statement.

# **Directors' Report** continued

During the year the membership of the Audit Committee comprised Mr Boyle (Chairman), Mrs Claydon, Mr Perry and Mr Watson until Mr Boyle's retirement in May 2018, when Mr Perry was appointed as Chairman of the Committee. During the year the membership of the Remuneration and Nomination Committee comprised Mrs Claydon (Chairman), Mr Henderson and Mr Oldfield until Mrs Claydon's retirement in May 2018, when Mr Oldfield was appointed as Chairman and Mr Yates as a member of the Committee.

No director was a party to, or had an interest in, any contract or arrangement with the Company at any time during the year or to the date of this report. With the exception of Mr Bell, no director has or had a service contract with the Company.

## DIRECTORS' INTERESTS

The interests of the directors in the share capital of the Company are set out in the Directors' Remuneration Report on page 45.

## DIRECTORS' CONFLICTS OF INTEREST

Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Companies Act 2006 (the 'Act') allows directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the Articles of Association contain a provision to this effect. The Act also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are two circumstances in which a potential conflict of interest can be permitted: either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's Articles of Association, which were adopted by shareholders on 27 April 2010, give the directors the relevant authority required to deal with conflicts of interest.

Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The directors have also undertaken to notify the Chairman as soon as they become aware of any new potential conflicts of interest that need to be approved by the Board and added to the register, which is reviewed annually by the Board. It has also been agreed that directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Act in advance of joining the Board. The Chairman will then determine whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered would be able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors will also act in a way they consider, in good faith, will be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

The Board believes that its arrangements for the authorisation of conflicts operate effectively. The Board also confirms that its procedures for the approval of conflicts of interest have been followed by all the directors and that there are currently no conflicts of interest.

## DIRECTORS' INDEMNITY

The Company's Articles of Association allow the Company, subject to the provisions of UK legislation, to:

(a) indemnify any person who is or was a director, or a director of any associated company, directly or indirectly against any loss or liability, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or her, or otherwise, in relation to the Company or any associated company; and

(b) purchase and maintain insurance for any person who is or was a director, or a director of any associated company, against any loss or liability or any expenditure he or she may incur, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or her, or otherwise, in relation to the Company or any associated company.

Directors' and officers' liability insurance cover is in place in respect of the directors and was in place throughout the year under review.

## DIRECTORS' FEES

The report on the directors' remuneration is set out in the Directors' Remuneration Report on pages 42 to 52.

## INVESTMENT MANAGERS

It is the opinion of the directors that the continuing appointment of the investment managers listed on page 16 is in the interests of the Company's shareholders as a whole and that the terms of engagement negotiated with them are competitive and appropriate to the investment mandates. The Board and the Company's AIFM review the appointments of the investment managers on a regular basis and make changes as appropriate.

## ARTICLES OF ASSOCIATION

It is proposed that the Company Articles of Association should be updated to reflect recent regulatory changes. This will require shareholder approval at the forthcoming AGM. The proposed changes are set out in the explanatory notes to the Notice of AGM.

## SHARE CAPITAL

The Company's share capital comprises:

**(a) ordinary shares of 25p nominal value each ('shares')**

The voting rights of the shares on a poll are one vote for every four shares held (one vote per £1 of nominal value). At 31 December 2017 there were 200,071,000 shares in issue. During the year, 240,221 shares were bought back and are held in treasury and at 31 December 2018 there were 21,861,632 shares held in treasury. These shares do not carry voting rights or the right to receive dividends and thus the number of voting rights was 44,552,342 on a poll. Since the year end, 763,601 shares have been bought back and at the date of this report there were 200,071,000 shares in issue of which 22,625,233 were held in treasury.

The Company's Articles of Association permit the Company to purchase its own shares and to fund such purchases from its accumulated realised capital profits. At the AGM in April 2018 a special resolution was passed giving the Company authority, until the conclusion of the AGM in 2019, to make market purchases to be held in treasury of the Company's ordinary shares up to a maximum of 26,717,240 shares (being 14.99% of the issued ordinary share capital as at 2 May 2018). The Company has bought back 787,993 shares since the date of the last AGM.

The Board is seeking to renew its powers at the forthcoming AGM to buy shares into treasury, for possible reissuance when the shares trade at a premium. The Company makes use of share buybacks, purchasing shares to be held in treasury with the objective of achieving a sustainable low discount (or a premium) to net asset value. Shares are not bought back unless the result is an increase in the net asset value per ordinary share. Shares will only be re-sold from treasury at, or at a premium to, the net asset value per ordinary share.

The Company is also seeking to renew shareholder approval to issue shares, up to 10% of the starting total, provided that such shares are issued at or at a premium to net asset value.

In order to improve the liquidity of the Company's shares and to assist monthly savers, the Directors propose to subdivide each of the existing ordinary shares of 25 pence each into five new ordinary shares of 5 pence each. A resolution will be put to shareholders at the forthcoming AGM. The New Ordinary Shares will carry the same rights and be subject to the same restrictions as the existing ordinary shares. Further details are given in the notice of AGM.

**(b) 2.7% preference shares of £1 nominal value each ('2.7% preference shares')**

The 2.7% preference shareholders have no rights to attend and vote at general meetings. At 31 December 2018 there were 500,000 2.7% preference shares in issue. Further details on the preference shares are given in note 17 on page 86.

**(c) 3.4% preference shares of £1 nominal value each ('3.4% preference shares')**

The 3.4% preference shareholders have no rights to attend and vote at general meetings. At 31 December 2018 there were 2,055,000 3.4% preference shares in issue. Further details on the preference shares are given in note 17 on page 86.

At the AGM in April 2018 a special resolution was passed giving the Company authority, until the conclusion of the AGM in 2019, to make market purchases for cancellation of the Company's own 2.7% preference shares and 3.4% preference shares up to a maximum of all those in issue. This authority has not been used. Accordingly, as at 31 December 2018 the Company had valid authority, outstanding until the conclusion of the AGM in 2019, to make market purchases for cancellation of 500,000 2.7% preference shares and 2,055,000 3.4% preference shares. No preference shares were bought back between the year end and the date of this report. Accordingly, the Company has valid authority to make market purchases for cancellation of 500,000 2.7% preference shares and 2,055,000 3.4% preference shares. The directors intend to seek a fresh authority at the AGM in May 2019.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer which are known to the Company; and no agreements to which the Company is party that might affect its control following a successful takeover bid.

## INDEPENDENT AUDITOR

Resolutions to reappoint Grant Thornton UK LLP as the Company's auditor and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM. Further details are included in the Report of the Audit Committee on pages 40 and 41.

## DIRECTORS' STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the directors at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
(2) the director has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## LISTING RULE 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the annual report. Details of Mr Bell's Long-Term Bonus are included in the Directors' Remuneration Report on page 44. The directors confirm that there are no other disclosures to be made in respect of Rule 9.8.4.

# **Directors' Report** continued

### ANTI-BRIBERY AND CORRUPTION POLICY

The Board has adopted a zero-tolerance approach to instances of bribery and corruption. Accordingly, it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private in the UK or abroad to secure any improper benefit for themselves or for the Company. The Board applies the same standards to its service providers in their activities for the Company. A copy of the Company's Anti-Bribery and Corruption Policy can be found on its website at www.witan.com. The policy is reviewed regularly by the Audit Committee.

### PREVENTION OF THE FACILITATION OF TAX EVASION

During the year and in response to the implementation of the Criminal Finances Act 2017, the Board has adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A copy of the Company's policy on preventing the facilitation of tax evasion can be found on the Company's website www.witan.com. The policy is reviewed annually by the Audit Committee.

### COMMON REPORTING STANDARD (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the Company to provide certain additional details to HMRC in relation to certain shareholders. The reporting obligation began in 2016 and is an annual requirement. The Company's registrar, Computershare, has been engaged to collate such information and file the reports with HMRC on behalf of the Company.

### MODERN SLAVERY ACT 2015

As an investment vehicle, the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the directors consider that the Company is not required to make any anti-slavery or human trafficking statement under the Modern Slavery Act 2015.

### SECURITIES FINANCING TRANSACTIONS

As the Company undertakes securities lending, it is required to report on Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to securities lending as at 31 December 2018 are detailed on pages 89 and 90.

### GREENHOUSE GAS EMISSIONS

The Company has a staff of seven employees, operating from small serviced office premises. Accordingly, it does not have any significant greenhouse gas emissions to report from its own operations, nor does it have responsibility for any other emission producing sources under the Companies Act 2006 (strategic report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio.

### ANNUAL GENERAL MEETING

The AGM will be held at 2.30 pm on Wednesday 1 May 2019 at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB. The formal notice of the AGM is set out in the accompanying circular to shareholders, together with explanations of the resolutions.

By order of the Board

**Frostrow Capital LLP**
**Company Secretary**
11 March 2019

# Statement of Directors' Responsibilities

in respect of the annual report, the Directors' Remuneration Report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and Article 4 of the EU IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description (on pages 21 and 22) of the principal risks and uncertainties that they face.

We also confirm that the financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

By order of the Board

| | |
|---|---|
| **H M Henderson** | **A L C Bell** |
| **Chairman** | **Chief Executive Officer** |
| 11 March 2019 | 11 March 2019 |

**Note to those who access this document by electronic means:**
The annual report for the year ended 31 December 2018 has been approved by the Board of Witan Investment Trust plc. Copies of the annual report and the Half Year Report are circulated to shareholders, to those who hold shares through Witan Investment Services Limited's savings schemes and, where possible, to investors through other providers' products and nominee companies (or written notification is sent when they are published online). It is also made available in electronic format for the convenience of readers. Printed copies are available from the Company's Registered Office in London.

# Independent Auditor's Report to the members of Witan Investment Trust plc

for the year ended 31 December 2018

## OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Witan Investment Trust plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Individual Statement of Changes in Equity, the Consolidated and Individual Balance Sheet, the Consolidated and Individual Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

**In our opinion:**

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 21 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 21 of the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 23 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 23 of the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## OVERVIEW OF OUR AUDIT APPROACH

- Overall Group materiality: £17.7 million, which represents 1% of the Group's net assets;
- Key audit matters were identified as:
  - Valuation and existence of investments measured at fair value through profit or loss;
  - Occurrence and completeness of investment income; and
- Our audit approach was a risk-based substantive audit focused on investments at the year end and investment income recognised during the year. There was no change in our approach from prior year.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter – Group and Parent | How the matter was addressed in the audit – Group and Parent |
|---|---|
| **Valuation and existence of investments measured at fair value through profit or loss**<br><br>The Group's investment objective is to provide long-term income and capital growth by investing in a diversified portfolio of global equities.<br><br>The investment portfolio at £2.0 billion (2017: £2.1 billion) is a significant material balance in the Consolidated Balance Sheet at year end and the main driver of the Group's performance.<br><br>Incorrect asset pricing or a failure to maintain proper legal title of the investments held by the Group could have an impact on the portfolio valuation and, therefore, the return generated for Shareholders.<br><br>We therefore identified the valuation and existence of investments measured at fair value through profit or loss as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br><br>› assessing whether the Group's accounting policy for the valuation of investments is in accordance with IFRS as adopted by the European Union and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') and testing whether management have accounted for valuation in accordance with that policy;<br><br>› independently pricing 100% of the listed equity portfolio by obtaining the relevant bid or last prices from independent market sources and recalculating the total valuation based on the Group's investment holdings, which was agreed to the holdings at the Balance Sheet date as shown in the Group's accounting records;<br><br>› substantively testing a sample of additions and disposals of investments during the year by agreeing such transactions to trade instructions and bank statements as applicable.<br><br>› testing that investments were actively traded by extracting a report of trading volumes in the week before and after the year end from an independent market source for the equity investments held; and<br><br>› confirming the existence of investments through agreeing investments held by the Company as at the year-end as per the Balance Sheet to an independent confirmation that we received directly from the Company's custodian.<br><br>The Group's accounting policy on investments held at fair value through profit or loss is shown in note 1(h) to the financial statements and related disclosures are included in note 10.<br><br>**KEY OBSERVATIONS**<br><br>Our testing did not identify any material misstatements in the valuation of the Group's investment portfolio as at the year-end or any issues with regards to the existence/Group's ownership of the underlying investments at the year end. |

# Independent Auditor's Report to the members of Witan Investment Trust plc continued

for the year ended 31 December 2018

| Key Audit Matter – Group and Parent | How the matter was addressed in the audit – Group and Parent |
|---|---|
| **Occurrence and completeness of investment income**<br><br>The Group measures performance on a total return basis and investment income is one of the significant components of this performance measure in the Income Statement.<br><br>Further, under the International Standard on Auditing (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition which could impact the investment income recognised for the year.<br><br>The investment income reported by the Group for the year is £58.2 million (2017: £54.4 million) is a significant material balance in the Consolidated Statement of Comprehensive Income. We therefore identified occurrence and completeness of investment income as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br><br>› assessing whether the Group's accounting policy for recognition of investment income is in accordance with IFRS as adopted by the European Union and the SORP;<br><br>› obtaining an understanding of the Group's process for recognising such income in accordance with the Group's stated accounting policy;<br><br>› testing that income transactions were recognised in accordance with the policy by selecting a sample of quoted investments and agreeing the relevant investment income receivable for those quoted equities to the Group's records. For the selected investments we also obtained the respective dividend rate entitlements from independent sources and checked against the amounts recorded in the Group's accounting records that are maintained by the administrator. In addition, we agreed the receipt of the dividend income to bank statements;<br><br>› performing, on a sample basis, a search for special dividends on the equity investments held during the year to check whether dividend income attributable to those investments has been properly recognised. We checked the categorisation of special dividends as either revenue or capital receipts; and<br><br>› on a sample basis, recalculating the interest income using the coupon rates and checking against the amounts recorded in the Group's accounting records that are maintained by the administrator.<br><br>The Group's accounting policy on income, including investment income, is shown in note 1(e) to the financial statements and related disclosures are included in note 2.<br><br>**KEY OBSERVATIONS**<br><br>Our testing did not identify any material misstatements in the amount of revenue recognised during the year. |

### OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

| Materiality measure | Group | Parent |
|---|---|---|
| **Financial statements as a whole** | £17.7 million which is 1% of the Group's net assets. This benchmark is considered the most appropriate because net assets, which primarily comprise the Group's investment portfolio, are considered to be the key driver of the Group's total return performance and form a part of the net asset value calculation.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2017 to reflect the decrease in net asset value in the year from £2.0 billion to £1.8 billion. | £17.6 million which is 1% of the Company's net assets. This benchmark is considered the most appropriate because net assets, which primarily comprise the Company's investment portfolio, are considered to be the key driver of the Company's total return performance and form a part of the net asset value calculation.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2017 to reflect the decrease in net asset value in the year from £2.0 billion to £1.8 billion. |
| **Performance materiality used to drive the extent of our testing** | 75% of financial statement materiality. | 75% of financial statement materiality. |
| **Specific materiality** | We also determine a lower level of specific materiality for certain areas such as investment income, the management fee, related party transactions and directors' remuneration. | We also determine a lower level of specific materiality for certain areas such as investment income and related party transactions, being the management fee and directors' remuneration. |

| | | |
|---|---|---|
| **Communication of misstatements to the Audit Committee** | £10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

### AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was based on a thorough understanding of the Group's business and is risk based, and in particular included:

- obtaining an understanding of relevant internal controls at both the Group and third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the investment manager, custodian and administrator; and
- performing substantive audit procedures on specific transactions, which included journal entries and individual material balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and our evaluation of the design and implementation of controls that address significant audit risk.

### OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 57 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 40 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code on page 35 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

# Independent Auditor's Report to the members of Witan Investment Trust plc continued

for the year ended 31 December 2018

### OUR OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 ARE UNMODIFIED

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the Audit Committee, we were appointed by Audit Committee in August 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.

The period of total uninterrupted engagement is 3 years, covering the years ending 31 December 2016 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

## USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Marcus Swales**
**Senior Statutory Auditor**
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
11 March 2019

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

| | | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| Investment income | 2 | **58,200** | **–** | **58,200** | 54,425 | – | 54,425 |
| Other income | 3 | **1,576** | **–** | **1,576** | 1,318 | – | 1,318 |
| (Losses)/gains on investments held at fair value through profit or loss | 10 | **–** | **(194,105)** | **(194,105)** | – | 289,268 | 289,268 |
| Foreign exchange losses on cash and cash equivalents | | **–** | **(1,083)** | **(1,083)** | – | (1,686) | (1,686) |
| Total income | | **59,776** | **(195,188)** | **(135,412)** | 55,743 | 287,582 | 343,325 |
| Expenses | | | | | | | |
| Management and performance fees | 4 | **(2,535)** | **(9,163)** | **(11,698)** | (2,255) | (7,294) | (9,549) |
| Other expenses | 5 | **(5,909)** | **(101)** | **(6,010)** | (6,361) | (101) | (6,462) |
| Profit/(loss) before finance costs and taxation | | **51,332** | **(204,452)** | **(153,120)** | 47,127 | 280,187 | 327,314 |
| Finance costs | 6 | **(2,156)** | **(6,217)** | **(8,373)** | (1,967) | (5,651) | (7,618) |
| Profit/(loss) before taxation | | **49,176** | **(210,669)** | **(161,493)** | 45,160 | 274,536 | 319,696 |
| Taxation | 7 | **(2,978)** | **–** | **(2,978)** | (2,493) | – | (2,493) |
| Profit/(loss) attributable to equity shareholders of the parent company | | **46,198** | **(210,669)** | **(164,471)** | 42,667 | 274,536 | 317,203 |
| Earnings per ordinary share | 9 | **25.92p** | **(118.18p)** | **(92.26p)** | 23.82p | 153.24p | 177.06p |

The total column of this statement represents the Group's Statement of Comprehensive Income, prepared in accordance with IFRSs as adopted by the European Union.

The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

The Group does not have any other comprehensive income and hence the total profit/(loss), as disclosed above, is the same as the Group's total comprehensive income.

All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of Witan Investment Trust plc, the parent company. There are no non-controlling interests.

The notes on pages 68 to 88 form part of these financial statements.

# Consolidated and Individual Statement of Changes in Equity

for the year ended 31 December 2018

| Group<br>Year ended 31 December 2018 | Notes | Ordinary share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Total equity at 31 December 2017 | | 50,018 | 99,251 | 46,498 | 1,712,019 | 72,735 | 1,980,521 |
| Total comprehensive income:<br>(Loss)/profit for the year | | – | – | – | (210,669) | 46,198 | (164,471) |
| Transactions with owners, recorded directly to equity:<br>Ordinary dividends paid | 8 | – | – | – | – | (40,090) | (40,090) |
| Buybacks of ordinary shares (held in treasury) | 15,16 | – | – | – | (2,518) | – | (2,518) |
| **Total equity at 31 December 2018** | | **50,018** | **99,251** | **46,498** | **1,498,832** | **78,843** | **1,773,442** |

| Company<br>Year ended 31 December 2018 | Notes | Ordinary share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Total equity at 31 December 2017 | | 50,018 | 99,251 | 46,498 | 1,712,471 | 72,283 | 1,980,521 |
| Total comprehensive income:<br>(Loss)/profit for the year | | – | – | – | (211,030) | 46,559 | (164,471) |
| Transactions with owners, recorded directly to equity:<br>Ordinary dividends paid | 8 | – | – | – | – | (40,090) | (40,090) |
| Buybacks of ordinary shares (held in treasury) | 15,16 | – | – | – | (2,518) | – | (2,518) |
| **Total equity at 31 December 2018** | | **50,018** | **99,251** | **46,498** | **1,498,923** | **78,752** | **1,773,442** |

| Group<br>Year ended 31 December 2017 | Notes | Ordinary share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Total equity at 31 December 2016 | | 50,018 | 99,251 | 46,498 | 1,464,105 | 66,765 | 1,726,637 |
| Total comprehensive income:<br>Profit for the year | | – | – | – | 274,536 | 42,667 | 317,203 |
| Transactions with owners, recorded directly to equity:<br>Ordinary dividends paid | 8 | – | – | – | – | (36,697) | (36,697) |
| Buybacks of ordinary shares (held in treasury) | 15,16 | – | – | – | (26,622) | – | (26,622) |
| Total equity at 31 December 2017 | | 50,018 | 99,251 | 46,498 | 1,712,019 | 72,735 | 1,980,521 |

| Company<br>Year ended 31 December 2017 | Notes | Ordinary share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Total equity at 31 December 2016 | | 50,018 | 99,251 | 46,498 | 1,464,915 | 65,955 | 1,726,637 |
| Total comprehensive income:<br>Profit for the year | | – | – | – | 274,178 | 43,025 | 317,203 |
| Transactions with owners, recorded directly to equity:<br>Ordinary dividends paid | 8 | – | – | – | – | (36,697) | (36,697) |
| Buybacks of ordinary shares (held in treasury) | 15,16 | – | – | – | (26,622) | – | (26,622) |
| Total equity at 31 December 2017 | | 50,018 | 99,251 | 46,498 | 1,712,471 | 72,283 | 1,980,521 |

The notes on pages 68 to 88 form part of these financial statements.

# Consolidated and Individual Balance Sheet

as at 31 December 2018

| | Notes | **Group 31 December 2018 £'000** | **Company 31 December 2018 £'000** | Group 31 December 2017 £'000 | Company 31 December 2017 £'000 |
|---|---|---|---|---|---|
| **Non current assets** | | | | | |
| Investments at fair value through profit or loss | 10 | **1,954,114** | **1,955,105** | 2,149,267 | 2,150,619 |
| **Current assets** | | | | | |
| Other receivables | 11 | **8,198** | **8,664** | 5,217 | 5,077 |
| Cash and cash equivalents | | **72,246** | **70,235** | 75,795 | 74,031 |
| | | **80,444** | **78,899** | 81,012 | 79,108 |
| **Total assets** | | **2,034,558** | **2,034,004** | 2,230,279 | 2,229,727 |
| | | | | | |
| **Current liabilities** | | | | | |
| Other payables | 12 | **(9,660)** | **(9,106)** | (6,016) | (5,464) |
| Bank loans | 13 | **(81,000)** | **(81,000)** | (73,000) | (73,000) |
| | | **(90,660)** | **(90,106)** | (79,016) | (78,464) |
| **Total assets less current liabilities** | | **1,943,898** | **1,943,898** | 2,151,263 | 2,151,263 |
| | | | | | |
| **Non current liabilities** | | | | | |
| Other payables | 12 | **(43)** | **(43)** | (377) | (377) |
| Borrowings at amortised cost: | | | | | |
| 6.125 per cent. Secured Bonds due 2025 | 13 | **(63,581)** | **(63,581)** | (63,538) | (63,538) |
| 3.29 per cent. Secured Notes due 2035 | 13 | **(20,873)** | **(20,873)** | (20,871) | (20,871) |
| 3.47 per cent. Secured Notes due 2045 | 13 | **(53,653)** | **(53,653)** | (53,652) | (53,652) |
| 2.74 per cent. Secured Notes due 2054 | 13 | **(29,751)** | **(29,751)** | (29,749) | (29,749) |
| 3.4 per cent. cumulative preference shares of £1 | 13, 17 | **(2,055)** | **(2,055)** | (2,055) | (2,055) |
| 2.7 per cent. cumulative preference shares of £1 | 13, 17 | **(500)** | **(500)** | (500) | (500) |
| | | **(170,456)** | **(170,456)** | (170,742) | (170,742) |
| **Net assets** | | **1,773,442** | **1,773,442** | 1,980,521 | 1,980,521 |
| | | | | | |
| **Equity attributable to equity holders** | | | | | |
| Ordinary share capital | 15 | **50,018** | **50,018** | 50,018 | 50,018 |
| Share premium account | 16 | **99,251** | **99,251** | 99,251 | 99,251 |
| Capital redemption reserve | 16 | **46,498** | **46,498** | 46,498 | 46,498 |
| Retained earnings: | | | | | |
| Other capital reserves | 16 | **1,498,832** | **1,498,923** | 1,712,019 | 1,712,471 |
| Revenue reserve | 16 | **78,843** | **78,752** | 72,735 | 72,283 |
| **Total equity** | | **1,773,442** | **1,773,442** | 1,980,521 | 1,980,521 |
| | | | | | |
| **Net asset value per ordinary share** | 18 | **995.15p** | **995.15p** | 1109.85p | 1109.85p |

The financial statements of Witan Investment Trust plc (registered number 101625) were approved by the directors and authorised for issue on 11 March 2019 and were signed on their behalf by

**H M Henderson** **A L C Bell**

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The loss of the Company dealt with in the accounts of the Group amounted to £164,471,000 (2017: profit of £317,203,000).

The notes on pages 68 to 88 form part of these financial statements.

# Consolidated and Individual Cash Flow Statements

for the year ended 31 December 2018

| | Notes | Group 2018 £'000 | Company 2018 £'000 | Group 2017 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Dividend income received | | 57,202 | 57,202 | 55,464 | 55,464 |
| Interest received | | 203 | 198 | 29 | 28 |
| Other income received | | 1,712 | 280 | 2,105 | 195 |
| Operating expenses paid | | (19,292) | (18,102) | (12,644) | (11,096) |
| Taxation on overseas income | | (3,102) | (3,102) | (3,014) | (3,014) |
| Taxation recovered | | 271 | 271 | 412 | 412 |
| **Net cash inflow from operating activities** | | 36,994 | 36,747 | 42,352 | 41,989 |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Purchases of investments | | (801,410) | (801,410) | (1,097,207) | (1,097,207) |
| Sale of investments | | 806,173 | 806,173 | 1,113,894 | 1,113,894 |
| Realised (loss)/gain on futures | | (1,258) | (1,258) | 7,593 | 7,593 |
| **Net cash inflow from investing activities** | | 3,505 | 3,505 | 24,280 | 24,280 |
| | | | | | |
| **Cash flow from financing activities** | | | | | |
| Equity dividends paid | 8 | (40,090) | (40,090) | (36,697) | (36,697) |
| Issue of secured notes net of issue expenses | 19 | – | – | 29,748 | 29,748 |
| Buybacks of ordinary shares | | (2,564) | (2,564) | (27,413) | (27,413) |
| Interest paid | | (8,311) | (8,311) | (7,345) | (7,345) |
| Drawdown of bank loans | 19 | 8,000 | 8,000 | 2,000 | 2,000 |
| **Net cash outflow from financing activities** | | (42,965) | (42,965) | (39,707) | (39,707) |
| | | | | | |
| **(Decrease)/increase in cash and cash equivalents** | | (2,466) | (2,713) | 26,925 | 26,562 |
| Cash and cash equivalents at the start of the period | | 75,795 | 74,031 | 50,556 | 49,155 |
| Effect of foreign exchange rate changes | | (1,083) | (1,083) | (1,686) | (1,686) |
| **Cash and cash equivalents at the end of the period** | | 72,246 | 70,235 | 75,795 | 74,031 |

The notes on pages 68 to 88 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2018

## 1 ACCOUNTING POLICIES

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ('IASC') that remain in effect, to the extent that they have been adopted by the European Union.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

### (a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts ('the SORP') issued by the Association of Investment Companies ('the AIC') in November 2014 and updated in February 2018 with consequential amendments is consistent with the requirements of IFRSs as adopted by the European Union, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

**Judgements and sources of estimation uncertainty**

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not always readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may vary from these estimates.

The Directors do not consider that there are any such items in these financial statements.

### (b) Going concern

The financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development and performance, are set out in the strategic report on pages 1 to 31. The financial position of the Group as at 31 December 2018 is shown on the balance sheet on page 66. The cash flows of the Group for the year ended 31 December 2018 are not untypical and are set out on page 67.

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entity controlled by the Company (its subsidiary) made up to 31 December each year.

In accordance with IFRS 10 the Company has been designated as an investment entity on the basis that:

- It obtains funds from investors and provides those investors with investment management services;
- It commits to its investors that its business purpose is to invest solely for returns from capital appreciation and investment income; and
- It measures and evaluates performance of substantially all of its investments on a fair value basis.

The subsidiary of the Company was established for the sole purpose of operating or supporting the investment operations of the Company, and is not itself an investment entity. Therefore, under the principles of IFRS 10, the Company has consolidated its subsidiary as it is a controlled entity that supports the investment activity of the investment entity.

Control is achieved where the Company is exposed, or has the right, to variable returns from its investment in the subsidiary and has the ability to affect those returns through its power to direct the relevant activities. Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used by it into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### (d) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. In accordance with the Company's Articles of Association, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

### (e) Income

Dividends receivable on equity shares are recognised as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Interest receivable from cash and short-term deposits is accrued to the end of the period. Stock lending fees and underwriting commission are recognised as earned. Any special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as revenue or capital. Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as revenue. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

### (f) Expenses
All expenses and interest payable are accounted for on an accruals basis. Expenses are presented as capital where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fees and finance costs are allocated 25% to revenue and 75% to capital to reflect the Board's expectations of long-term investment returns. Any performance fees payable are allocated wholly to capital, reflecting the fact that, although they are calculated on a total return basis, they are expected to be attributable largely, if not wholly, to capital performance.

### (g) Taxation
The tax currently payable is based on the taxable profit for the period.

Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that were applicable at the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (h) Investments held at fair value through profit or loss
When a purchase or sale is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All the Group's investments are defined by IFRSs as adopted by the European Union as investments held at fair value through profit or loss. All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments.

The classification and measurement criteria determine if financial instruments are measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

Investment assets are classified based on both the business model, and the contractual cash flow characteristics of the financial instruments. This approach determined that all investments are classified and measured at fair value through profit or loss, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in unit trusts or OEICs are valued at the closing price, the bid price or the single price as appropriate, released by the relevant investment manager.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been accumulated in equity is recognised in profit or loss.

Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by using various valuation techniques. These may include recent arm's length market transactions, the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and reference to similar quoted companies. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised.

The subsidiary company, Witan Investment Services Limited, is held at fair value in the Company balance sheet. This is considered to be the net asset value of the shareholder's funds, as shown in its balance sheet.

### (i) Cash and cash equivalents
Cash comprises cash in hand and on demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

### (j) Dividends payable
Interim dividends are recognised in the period in which they are paid. Final dividends are not recognised until approved by the shareholders in general meeting.

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 1 ACCOUNTING POLICIES CONTINUED

### (k) Fixed borrowings

All secured bonds and notes are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future payments over the expected life of the financial liabilities, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### (l) Foreign currency translation

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction.

Foreign currency monetary assets and liabilities that are fair valued and denominated in foreign currencies are re-translated into sterling at the rate ruling on the balance sheet date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income and allocated to the capital return.

### (m) Adoption of new and revised accounting standards

#### (i) Changes in accounting policy and disclosures

***IFRS 9 'Financial Instruments'***

The Company changed its accounting policy for financial instruments on 1 January 2018 upon transition from IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) to IFRS 9 'Financial Instruments' (IFRS 9).

The impact assessment from the adoption of IFRS 9 determined that there was not a material impact on the Company's financial position, summarised as follows:

*(a) Classification and measurement*

The financial instruments of the Company were assessed against the revised classification and measurement criteria under IFRS 9. The assessment did not change the classification or measurement of the financial assets or financial liabilities of the Company.

Investment assets and liabilities continued to be measured at fair value through profit or loss and non-investment assets and liabilities continued to be measured at amortised cost, therefore no changes were identified on transition to IFRS 9 regarding the classification or measurement of all financial assets and financial liabilities.

Disclosure of the opening balance sheet as at the transition date of initial application of IFRS 9 on 1 January 2018 has not been presented as there are no changes in classification or measurement changes as a result of moving from IAS 39 to IFRS 9.

*(b) Impairment provision*

The Company implemented new credit risk methodology to calculate impairment provisions based on expected credit loss criteria.

All non-investment financial assets were assessed for credit risk on 1 January 2018 under the new methodology and assessed as having no significant credit risk. Therefore no amounts were recognised as an impairment provision.

The Company does not present a reconciliation of impairment losses on moving from IAS 39 to IFRS 9 on the transition date as no expected credit loss amounts were identified.

*(c) Hedge accounting*

The Company does not undertake any hedge accounting activities, therefore no IFRS 9 impact has been assessed as a result of adoption.

***IFRS 15 'Revenue from Contracts with Customers'***

The Group applied IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) on 1 January 2018 which replaced IAS 18 'Revenue'.

The impact assessment from the adoption of IFRS 15, determined that there was not a material impact on the Group's financial position that as the majority of the Group's income is derived from financial instruments under IFRS 9.

#### (ii) Adoption of new and revised accounting standards that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations have not been applied in these financial statements, as they were in issue but not yet effective.

***IFRS 16 'Leases'***

The Company is planning to apply IFRS 16 'Leases' (IFRS 16) on 1 January 2019 which replaced IAS 17 'Leases'.

The impact assessment from the adoption of IFRS 16, anticipates there should not be a material impact on the Group's financial position. The Company has one property lease with a lease term of five years. This lease is currently classified as an operating lease and on transition to IFRS 16, a right-to-use asset and a lease liability shall be recognised, and the lease payment expense shall be replaced with an expense for amortisation and interest.

The directors do not expect that the adoption of the above named standards will have a material impact on the financial statements of the Group in future periods.

### (n) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in market prices, foreign currency exchange rates and interest rates. Derivative transactions which the Company may enter into comprise forward exchange contracts (the purpose of which is to manage currency risks arising from the Company's investing activities), quoted options on shares held within the portfolio, or on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings) and futures contracts appropriate to sections of the portfolio (to provide additional market exposure or to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to the investment managers' longer-term expectations for the relevant share prices. The Group does not use derivative financial instruments for speculative purposes. Hedge accounting is not used.

The use of financial derivatives is governed by the Group's policies as approved by the Board, which has set written principles for the use of financial derivatives.

Changes in the fair value of derivative financial instruments are recognised in the Statement of Comprehensive Income as they arise. If capital in nature, the associated change in value is presented as a capital item in the Statement of Comprehensive Income.

### (o) Nature and purpose of reserves

***Ordinary share capital***
The ordinary share capital on the balance sheet relates to the number of shares in issue and in treasury. Only when the shares are cancelled, either from treasury or directly, is a transfer made to the capital redemption reserve.

***Share premium account***
The balance classified as share premium includes the premium above nominal value from the proceeds on issue of any equity share capital comprising ordinary shares of 25p.

***Capital redemption reserve***
The capital redemption reserve is used to record the amount equivalent to the nominal value of any of the Company's own shares purchased and cancelled in order to maintain the Company's capital.

***Capital reserve***
Gains and losses on disposal of investments and changes in fair values of investments are transferred to the capital reserve. The capital element of the management fee and relevant finance costs are charged to this reserve. Any associated tax relief is also credited to this reserve.

***Revenue reserve***
This reflects all income and costs which are recognised in the revenue column of the Statement of Comprehensive Income. The revenue reserve represents the amount of the Company's reserves distributable by way of dividend.

## 2 INVESTMENT INCOME

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Franked: | | |
| UK dividends from listed investments | 18,648 | 21,117 |
| UK stock dividends from listed investments | – | 43 |
| UK special dividends from listed investments | 1,660 | 1,040 |
| | 20,308 | 22,200 |
| Unfranked: | | |
| Overseas dividends from listed investments | 36,726 | 30,161 |
| Overseas special dividends from listed investments | 1,074 | 683 |
| Property income dividends | – | 81 |
| Stock dividends from listed investments | – | 491 |
| Fixed interest and convertible bonds | 92 | 809 |
| | 37,892 | 32,225 |
| **Total investment income** | 58,200 | 54,425 |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Analysis of investment income by geographical segment: | | |
| United Kingdom | 20,308 | 22,200 |
| North America | 7,622 | 6,260 |
| Continental Europe | 11,644 | 15,290 |
| Japan | 2,269 | 2,145 |
| Asia Pacific (ex Japan) | 9,403 | 7,237 |
| Latin America | 230 | 536 |
| Other | 6,724 | 757 |
| **Total investment income** | 58,200 | 54,425 |

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 3 OTHER INCOME

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Deposit interest | **214** | 41 |
| Underwriting commission | **–** | 4 |
| Stock lending income | **278** | 180 |
| Income from the subsidiary company's third party business | **1,084** | 1,093 |
| | **1,576** | 1,318 |

At 31 December 2018 the total value of securities on loan by the Company for stock lending purposes was £99,424,000 (2017: £66,964,000). The maximum aggregate value of securities on loan at any time during the year ended 31 December 2018 was £102,647,000 (2017: £103,937,000). Collateral, revalued on a daily basis at a level equivalent to at least 105% (110% for equities) of the market value of the securities lent, was provided against all loans. Collateral in respect of UK securities is usually in the form of Crest DBVs (Delivery by Values); the content of Crest DBVs (Delivery by Values) is subject to a concentration limit of 10%.

## 4 MANAGEMENT FEES

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Management fees | **2,535** | **7,605** | **10,140** | 2,255 | 6,766 | 9,021 |
| Performance fees | **–** | **1,558** | **1,558** | – | 528 | 528 |
| | **2,535** | **9,163** | **11,698** | 2,255 | 7,294 | 9,549 |

A summary of the terms of the management agreements is given on page 19 in the strategic report.

## 5 OTHER EXPENSES

### Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

| | 2018 Revenue £'000 | 2017 Revenue £'000 |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts | **47** | 41 |
| Fees payable to the Company's auditor and its associates for other services to the Group: | | |
| – the audit of the Company's subsidiary | **10** | 10 |
| Total audit fees | **57** | 51 |
| | | |
| Other services[1]: | | |
| – audit-related services | **30** | 45 |
| – other assurance services | **2** | 8 |
| Total non-audit fees | **32** | 53 |
| | | |
| **Total fees paid** | **89** | 104 |

(1) These fees relate to the CASS audit for the year ended 31 December 2018 (£30,000) and loan compliance review fees for the Secured Bonds (£2,000) and expenses incurred in relation to the year ended 31 December 2017. The fees for this work were specifically approved by the Audit Committee (see page 41).

| | 2018 Revenue £'000 | 2017 Revenue £'000 |
|---|---|---|
| Auditor's remuneration (see page 72) | **89** | 104 |
| Tax advisory services | **43** | 36 |
| Directors' fees (see the Directors' Remuneration Report on pages 42 to 52) | **278** | 294 |
| Employers' National Insurance contributions on the directors' fees | **29** | 34 |
| Employee costs (including executive director's remuneration): | | |
| – salaries and bonuses | **940** | 1,439 |
| – employers' National Insurance contributions | **138** | 200 |
| – pension contributions (or payments in lieu thereof) | **87** | 82 |
| Advisory, consultancy and legal fees | **168** | 158 |
| Investment accounting fees | **333** | 320 |
| Company secretarial fees | **145** | 140 |
| Insurances | **57** | 56 |
| Occupancy costs | **181** | 153 |
| Bank charges and overseas safe custody fees | **682** | 569 |
| Depositary fees | **136** | 133 |
| Marketing expenses[1] | **567** | 538 |
| Savings scheme expenses (Witan Wisdom and Jump Savings) | **1,118** | 1,112 |
| Other expenses | **767** | 807 |
| Irrecoverable VAT | **151** | 186 |
| **Total[2]** | **5,909** | 6,361 |

(1) Includes £50,000 sponsorship paid to the Royal Horticultural Society (2017: £50,000).
(2) The total includes costs of £1,890,000 (2017: £1,892,000) in respect of the subsidiary company's third party business which are partially covered (2017: partially covered) by the subsidiary company's income from that business. The analysis relates to the revenue return column only.

Expenses included in the capital return column for 2018 were £101,000 (2017: £101,000). These related to investment advisory costs.

The average number of employees during the year was 7 (2017: 7).

## 6 FINANCE COSTS

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Interest payable on overdrafts and loans repayable within one year | **228** | **683** | **911** | 193 | 579 | 772 |
| Interest payable on secured bonds and notes repayable in more than 5 years | **1,845** | **5,534** | **7,379** | 1,691 | 5,072 | 6,763 |
| Preference share dividends | **83** | **–** | **83** | 83 | – | 83 |
| | **2,156** | **6,217** | **8,373** | 1,967 | 5,651 | 7,618 |

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 7 TAXATION

### 7.1 Analysis of tax charge for the year

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| UK corporation tax at 19% (2017: effective rate of 19.25%) | – | – | – | – | – | – |
| | | | | | | |
| Foreign tax suffered | 3,893 | – | 3,893 | 3,269 | – | 3,269 |
| Recovery of prior years' withholding tax | (283) | – | (283) | (305) | – | (305) |
| Foreign tax recoverable | (632) | – | (632) | (471) | – | (471) |
| Total current tax for the year (see note 7.2) | 2,978 | – | 2,978 | 2,493 | – | 2,493 |

### 7.2 Factors affecting the current tax charge for the year

The UK corporation tax rate is 19% for the year (2017: effective rate of 19.25%). The tax assessed for the year is lower than that resulting from applying the effective standard rate of corporation tax in the UK. The difference is explained below.

| | Year ended 31 December 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Profit/(loss) before taxation | 49,176 | (210,669) | (161,493) | 45,160 | 274,536 | 319,696 |
| Corporation tax at 19% (2017: effective rate of 19.25%) | 9,343 | (40,027) | (30,684) | 8,693 | 52,848 | 61,541 |
| | | | | | | |
| Effects of: | | | | | | |
| Non-taxable UK dividends | (3,859) | – | (3,859) | (4,265) | – | (4,265) |
| Non-taxable overseas dividends | (7,182) | – | (7,182) | (5,898) | – | (5,898) |
| Withholding tax suffered | 3,261 | – | 3,261 | 2,798 | – | 2,798 |
| Recovery of prior years' withholding tax | (283) | – | (283) | (305) | – | (305) |
| Non-taxable losses/(gains) on investments held at fair value through profit or loss | – | 37,086 | 37,086 | – | (55,360) | (55,360) |
| Realised gains on non-reporting offshore funds | – | – | – | – | 396 | 396 |
| Excess management expenses not utilised in year | 1,830 | 2,941 | 4,771 | 3,389 | – | 3,389 |
| Unused loan relationship deficits for the year | – | – | – | 188 | – | 188 |
| Preference dividends not deductible in determining taxable profit | 16 | – | 16 | 17 | – | 17 |
| Capitalised expenses | – | – | – | (2,116) | 2,116 | – |
| Other non-taxable items | (148) | – | (148) | (8) | – | (8) |
| **Current tax charge** | 2,978 | – | 2,978 | 2,493 | – | 2,493 |

### 7.3 Deferred tax

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to maintain that status in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

No provision has been made for deferred tax on income outstanding at the end of the year as this will be covered by unrelieved business charges and eligible unrelieved foreign tax (2017: £nil).

### 7.4 Factors that may affect future tax charges

At 31 December 2018, the Company had excess expenses of £243,368,000 (2017: £218,091,000) carried forward. This sum has arisen due to cumulative deductible expenses having exceeded income over the life of the Company. It is considered too uncertain that there will be sufficient taxable profits against which these expenses can be offset and, therefore, in accordance with IAS 12, a deferred tax asset of £41,372,000 (2017: £37,076,000) in respect of unrelieved loan relationship deficit and unrelieved management expenses based on a prospective corporation tax rate of 17% (2017: 17%) has not been recognised. The reduction in the standard rate of corporation tax was substantively enacted on 15 September 2016 and will be effective 1 April 2020. Provided the Company continues to maintain its current investment profile, it is unlikely that the expenses will be utilised and that the Company will obtain any benefit from this contingent asset.

## 8 DIVIDENDS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the year:** | | |
| Fourth interim dividend for the year ended 31 December 2017 of 6.75p (2016: 6.25p) per ordinary share | 12,038 | 11,246 |
| First interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | 9,357 | 8,509 |
| Second interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | 9,357 | 8,485 |
| Third interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | 9,357 | 8,478 |
| Refund of unclaimed dividends | (19) | (21) |
| | 40,090 | 36,697 |
| Fourth interim dividend for the year ended 31 December 2018 of 7.75p (2017: 6.75p) per ordinary share | 13,764 | 12,038 |

**Total in respect of the year:**
Set out below is the total dividend to be paid in respect of the year. This is the basis on which the minimum distribution requirements of section 1158 of the Corporation Tax Act 2010 are considered.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Revenue profits available for distribution (Company only) | 46,559 | 43,025 |
| First interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | (9,357) | (8,509) |
| Second interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | (9,357) | (8,485) |
| Third interim dividend for the year ended 31 December 2018 of 5.25p (2017: 4.75p) per ordinary share | (9,357) | (8,478) |
| Fourth interim dividend for the year ended 31 December 2018 of 7.75p (2017: 6.75p) per ordinary share | (13,764) | (12,038) |
| Revenue retained for the year (Company only) | 4,724 | 5,515 |

## 9 EARNINGS PER ORDINARY SHARE

The earnings per ordinary share figure is based on the net loss for the year of £164,471,000 (2017: profit of £317,203,000) and on 178,265,167 ordinary shares (2017: 179,149,747), being the weighted average number of ordinary shares in issue during the year.

The earnings per ordinary share figure detailed above can be further analysed between revenue and capital, as below. The Company has no securities in issue that could dilute the return per ordinary share. Therefore, the basic and diluted earnings per ordinary share are the same.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Net revenue profit | 46,198 | 42,667 |
| Net capital (loss)/profit | (210,669) | 274,536 |
| Net total (loss)/profit | (164,471) | 317,203 |
| | | |
| Weighted average number of ordinary shares in issue during the year | 178,265,167 | 179,149,747 |
| | | |
| | Pence | Pence |
| Revenue earnings per ordinary share | 25.92 | 23.82 |
| Capital earnings per ordinary share | (118.18) | 153.24 |
| Total earnings per ordinary share | (92.26) | 177.06 |

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 10 INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

### 10.1 Analysis of investments held at fair value through profit or loss

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group Restated(1) £'000 | Company Restated(1) £'000 |
| Listed in the United Kingdom | 560,697 | 560,697 | 627,374 | 627,374 |
| Listed abroad | 1,393,417 | 1,393,417 | 1,521,893 | 1,521,893 |
| Investment in subsidiary undertaking | – | 991 | – | 1,352 |
| | 1,954,114 | 1,955,105 | 2,149,267 | 2,150,619 |

### 10.2 Group changes in investments held at fair value through profit or loss

| | Valuation 31 December 2017 Restated(1) £'000 | Purchases £'000 | Sales £'000 | Investment losses £'000 | Valuation 31 December 2018 £'000 | Cost 31 December 2018 £'000 |
|---|---|---|---|---|---|---|
| United Kingdom | 627,374 | 195,142 | 181,768 | (80,050) | 560,697 | 536,026 |
| North America | 460,349 | 198,702 | 223,462 | (6,582) | 429,007 | 396,667 |
| Continental Europe | 421,693 | 150,004 | 144,787 | (71,067) | 355,843 | 369,360 |
| Japan | 104,154 | 35,841 | 30,888 | (8,416) | 100,691 | 90,437 |
| Asia Pacific (ex Japan) | 291,890 | 157,924 | 162,096 | (3,057) | 284,661 | 255,931 |
| Latin America | 14,639 | 9,495 | 11,446 | (3,210) | 9,478 | 8,910 |
| Other | 229,168 | 58,954 | 53,585 | (20,800) | 213,737 | 182,741 |
| | 2,149,267 | 806,062 | 808,032 | (193,182) | 1,954,114 | 1,840,072 |

The above figures do not include the gains/losses on futures positions.

Included in the above figures are purchase costs of £1,868,000 (2017: £2,306,000) and sales costs of £656,000 (2017: £869,000). These comprise mainly stamp duty and commission and include £Nil in respect of changes in portfolio managers (2017: £368,000).

(1) Subsequent to the year ended 31 December 2017, the investment companies allocation was reanalysed and is now included under 'Other'.

### 10.3 (Losses)/gains in investments held at fair value through profit or loss

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Realised gains on sales of investments | 131,836 | 289,484 |
| Realised (losses)/gains on futures | (1,258) | 7,593 |
| Movement in investment holding gains | (325,018) | (7,919) |
| Movement in unrealised loss on futures | 335 | 110 |
| | (194,105) | 289,268 |

### 10.4 Derivatives

**Open futures contracts as at year ended 31 December 2018**

| Contract | Position long £'000 | Settlement value £'000 | Nominal exposure £'000 | Unrealised loss £'000 |
|---|---|---|---|---|
| MSCI Emerging Markets Future | 650 | 24,805 | 24,671 | (134) |

The realised gain on the closing of futures positions during the year was £1,258,000.

**Open futures contracts as at year ended 31 December 2017**

| Contract | Position long £'000 | Settlement value £'000 | Nominal exposure £'000 | Unrealised loss £'000 |
|---|---|---|---|---|
| Euro Stoxx50 Future | 750 | 23,725 | 23,256 | (469) |

The realised gain on the closing of futures positions during the year was £7,593,000.

### 10.5 Substantial share interests

The Company has notified interests in 3% or more of the voting rights of five of the investee companies, all of which are closed-ended investment funds. However, the Board does not consider any of the Company's investments to be individually material in the context of these financial statements.

It is the Company's stated policy to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

## 11 OTHER RECEIVABLES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Sales for future settlement | **2,480** | **2,480** | 621 | 621 |
| Taxation recoverable | **1,509** | **1,509** | 1,021 | 1,021 |
| Amounts due from subsidiary | **–** | **1,166** | – | 562 |
| Prepayments and accrued income | **3,509** | **3,509** | 2,864 | 2,864 |
| Other debtors | **700** | **–** | 711 | 9 |
| | **8,198** | **8,664** | 5,217 | 5,077 |

## 12 OTHER PAYABLES – CURRENT LIABILITIES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Purchases for future settlement | **5,195** | **5,195** | 543 | 543 |
| Unrealised loss on derivatives held at fair value through profit or loss[1] | **134** | **134** | 469 | 469 |
| Preference dividends | **39** | **39** | 40 | 40 |
| Outstanding buybacks of ordinary shares | **–** | **–** | 46 | 46 |
| Accruals | **4,292** | **3,738** | 4,918 | 4,366 |
| | **9,660** | **9,106** | 6,016 | 5,464 |

(1) The unrealised loss on derivatives related to a long position in MSCI Emerging Markets Futures, nominal value at 31 December 2018: £24,671,000 (2017: Euro Stoxx50 Futures, £23,256,000) (see note 10.4).

### Other payables – non-current liabilities

| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
|---|---|---|---|---|
| Bonuses payable in more than one year | **43** | **43** | 377 | 377 |
| | **43** | **43** | 377 | 377 |

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 13 BORROWINGS

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Financial instruments redeemable other than in instalments are as follows: | | | | |
| **Amounts falling due within one year:** | | | | |
| Bank loans | **81,000** | **81,000** | 73,000 | 73,000 |
| | | | | |
| **Amounts falling due after more than one year:** | | | | |
| 6.125 per cent. Secured Bonds due 2025 | **63,581** | **63,581** | 63,538 | 63,538 |
| 3.29 per cent. Secured Notes due 2035 | **20,873** | **20,873** | 20,871 | 20,871 |
| 3.47 per cent. Secured Notes due 2045 | **53,653** | **53,653** | 53,652 | 53,652 |
| 2.74 per cent. Secured Notes due 2054 | **29,751** | **29,751** | 29,749 | 29,749 |
| 2,055,000 3.4 per cent. cumulative preference shares of £1 each (see note 17 on page 86) | **2,055** | **2,055** | 2,055 | 2,055 |
| 500,000 2.7 per cent. cumulative preference shares of £1 each (see note 17 on page 86) | **500** | **500** | 500 | 500 |
| | **251,413** | **251,413** | 243,365 | 243,365 |

At the year end, the Company had a £125,000,000 secured and committed multi-currency borrowing facility with BNP Paribas, London Branch (expiring 4 December 2019). The terms of this loan facility contain covenants that total net borrowings do not exceed 20% of the NAV.

On 15 December 2000 the Company issued £100,000,000 (nominal) 6.125 per cent. Secured Bonds due 2025, net of discount and issue costs totalling approximately £2,000,000. The discount and the issue costs will be written back over the life of the Secured Bonds. The nominal value of the remaining Secured Bonds in issue (£64,290,000 at 31 December 2018) is redeemable on 15 December 2025.

During 2015 the Company issued £21,000,000 (nominal) 3.29 per cent. Secured Notes due 2035 and £54,000,000 (nominal) 3.47 per cent. Secured Notes due 2045 net of issue costs totalling approximately £528,000. These costs will be written back over the life of the Secured Notes.

During 2017 the Company issued £30,000,000 (nominal) 2.74 per cent. Secured Notes due 2054 net of issue costs totalling approximately £252,000. These costs will be written back over the life of the Secured Notes.

The Secured Bonds and the Secured Notes are secured by floating charges over all the undertaking and assets of the Company. The security of the charges applies pari passu to the issues. The terms of each of the three Secured Notes contain covenants that the NAV should at no time be less than £575,000,000 and that total net borrowings do not exceed 25% of the NAV at any time.

## 14 FINANCIAL INSTRUMENTS

### Risk management policies and procedures

As an investment company, Witan invests in equities and other investments for the long term so as to secure its investment objective as stated on the inside front cover. In pursuing its investment objective, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction in the profits available for distribution by way of dividends.

These risks, market risk (comprising price risk, currency risk and interest rate risk), liquidity risk and credit risk, and the directors' approach to the management of them, are set out below.

The objectives, policies and processes for managing the risks and the methods used to manage the risks, as set out below, have not changed from the previous accounting period, although in some instances additional resources have been allocated to some areas.

### 14.1 Market risk

The fair value of a financial instrument held by the Group may fluctuate due to changes in market prices. This market risk comprises: price risk (see note 14.2), currency risk (see note 14.3) and interest rate risk (see note 14.4). The Board reviews and agrees policies for managing these risks, which policies have remained substantially unchanged from those applying in the year ended 31 December 2017. The investment managers assess the exposure to market risk when making each investment decision and monitor the overall level of market risk on the whole of their investment portfolios on an ongoing basis.

## 14.2 Price risk

Price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the quoted and the unquoted investments.

### Management of the risk

The Board manages the risks inherent in the investment portfolios by regularly reviewing relevant information from the investment managers. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the managers' compliance with their mandates and also whether each mandate and asset allocation is compatible with the Company's objective.

When appropriate, the Company has the ability to manage its exposure to risk through the controlled use of derivatives.

The Group's exposure to other changes in market prices at 31 December on its quoted equity investments, and on index futures and investments, was as follows:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Investments held at fair value through profit or loss | **1,954,114** | 2,149,267 |
| Nominal futures exposure (long position) | **24,671** | 23,256 |

### Concentration of exposure to price risks

An analysis of the Group's investment portfolio is shown on page 31. This shows that the greater geographical weighting is to UK companies, with significant exposure also to North America, Asia and Continental Europe. Accordingly, there is a concentration of exposure to those regions, although an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

### Price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the value of the shareholders' funds to an increase or decrease of 15% in the fair values of the Group's equity investments (including exposure through futures contracts). This level of change is considered to be reasonably possible based on observation of market conditions and historical trends. The sensitivity analysis is based on the Group's equities and equity exposure through options and futures at each balance sheet date, with all other variables held constant. The results of these example calculations are significant but not unreasonable, given that most of the Group's assets are equity investments.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Increase in fair value £'000** | **Decrease in fair value £'000** | Increase in fair value £'000 | Decrease in fair value £'000 |
| Changes to the Consolidated Statement of Comprehensive Income | | | | |
| Revenue return | **–** | **–** | – | – |
| Capital return – investments | **293,117** | **(293,117)** | 322,390 | (322,390) |
| Capital return – futures | **3,701** | **(3,701)** | 3,488 | (3,488) |
| | **296,818** | **(296,818)** | 325,878 | (325,878) |

## 14.3 Currency risk

A proportion of the Group's assets, liabilities and income is denominated in currencies other than sterling (the Group's functional currency in which it reports its results). As a consequence, movements in exchange rates affect the sterling value of those items.

### Management of the risk

The investment managers monitor their exposure to currencies as part of their normal investment processes. The Board receives a monthly report on the currency exposures of the entire fund.

Income denominated in foreign currencies is converted into sterling on receipt. The Group does not normally use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

### Foreign currency exposure

The fair values of the Group's monetary items that have foreign currency exposure at 31 December are shown on page 80. Where the Group's equity investments (which are not monetary items) are denominated in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

# **Notes to the Financial Statements** continued

for the year ended 31 December 2018

### 14 FINANCIAL INSTRUMENTS CONTINUED

| **2018** | **US$ £'000** | **Euro £'000** | **Yen £'000** | **Other £'000** |
|---|---|---|---|---|
| Receivables (due from brokers, dividends and other income receivable) | **1,171** | **743** | **1,945** | **1,687** |
| Cash at bank and on deposit | **2,435** | **43** | **(47)** | **3,464** |
| Payables (due to brokers, accruals and other creditors) | **(2,591)** | **–** | **(191)** | **(2,656)** |
| Payables (unrealised loss on derivatives held at fair value through profit or loss) | **(134)** | **–** | **–** | **–** |
| Total foreign currency exposure on net monetary items | **881** | **786** | **1,707** | **2,495** |
| Investments at fair value through profit or loss that are equities | **481,383** | **298,295** | **103,345** | **336,776** |
| Total net foreign currency exposure | **482,264** | **299,081** | **105,052** | **339,271** |

| **2017** | US$ £'000 | Euro £'000 | Yen £'000 | Other £'000 |
|---|---|---|---|---|
| Receivables (due from brokers, dividends and other income receivable) | 520 | 448 | 206 | 1,141 |
| Cash at bank and on deposit | 747 | 4,029 | – | 624 |
| Payables (due to brokers, accruals and other creditors) | (947) | – | (72) | (356) |
| Payables (unrealised loss on derivatives held at fair value through profit or loss) | – | (469) | – | – |
| Total foreign currency exposure on net monetary items | 320 | 4,008 | 134 | 1,409 |
| Investments at fair value through profit or loss that are equities | 573,717 | 355,602 | 104,154 | 329,541 |
| Total net foreign currency exposure | 574,037 | 359,610 | 104,288 | 330,950 |

The above amounts are not necessarily representative of the exposure to risk during the year as levels of foreign currency exposure change significantly throughout the year.

**Foreign currency sensitivity**

The following table illustrates the sensitivity of the profit/(loss) after tax for the year and the Group's equity in regard to the Group's monetary financial assets and financial liabilities and the exchange rates for the £/US dollar, £/Euro and £/Japanese yen. The results of these example calculations are significant but not unreasonable in the context of the majority of the Group's assets being invested overseas.

It assumes the following changes in exchange rates:

£/US dollar +/- 15% (2017: 15%)
£/Euro +/- 15% (2017: 15%)
£/Japanese yen +/- 15% (2017: 15%)

The sensitivity analysis is based on the Group's foreign currency financial instruments held at the balance sheet date and takes account of any forward foreign exchange contracts that offset the effects of changes in currency exchange.

If sterling had depreciated against the currencies shown, this would have the following effect:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **US$ £'000** | **Euro £'000** | **Yen £'000** | US$ £'000 | Euro £'000 | Yen £'000 |
| Changes to the Consolidated Statement of Comprehensive Income | | | | | | |
| Revenue return | **1,880** | **1,560** | **337** | 1,805 | 1,452 | 331 |
| Capital return | **84,950** | **52,640** | **18,237** | 101,159 | 65,489 | 18,380 |
| Change to the profit/loss after tax | **86,830** | **54,200** | **18,574** | 102,964 | 66,941 | 18,711 |
| Change to the shareholders' funds | **86,830** | **54,200** | **18,574** | 102,964 | 66,941 | 18,711 |

If sterling had appreciated against the currencies shown, this would have the following effect:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | US$ £'000 | Euro £'000 | Yen £'000 | US$ £'000 | Euro £'000 | Yen £'000 |
| Changes to the Consolidated Statement of Comprehensive Income | | | | | | |
| Revenue return | **(1,389)** | **(1,153)** | **(249)** | (1,334) | (1,073) | (245) |
| Capital return | **(62,789)** | **(38,908)** | **(13,480)** | (74,770) | (44,361) | (13,585) |
| Change to the profit/loss after tax | **(64,178)** | **(40,061)** | **(13,729)** | (76,104) | (45,434) | (13,830) |
| Change to the shareholders' funds | **(64,178)** | **(40,061)** | **(13,729)** | (76,104) | (45,434) | (13,830) |

### 14.4 Interest rate risk

Interest rate movements may affect the level of income receivable from fixed interest securities and cash at bank and on deposit.

**Management of the risk**

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Group holds cash balances, partly to meet payments as they fall due but also when appropriate to offset the long-term borrowings that it has in place.

The Group finances part of its activities through preference shares that do not have redemption dates and through secured bonds and notes that were issued as part of the Company's planned gearing.

**Interest rate exposure**

The exposure at 31 December 2018 of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates: when the interest rate is due to be re-set; and
- fixed interest rates: when the financial instrument is due to be repaid.

The Group's exposure to floating interest rates on liabilities is £8,754,000 (2017: assets of £2,326,000). This represents cash holdings minus variable rate borrowing.

The Group's exposure to fixed interest rates on assets is £Nil (2017: £7,940,000). This represents investments in bonds.

The Group's exposure to fixed interest rates on liabilities is £170,413,000 (2017: £170,365,000). This represents fixed rate borrowing.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts and loans, is at margin under/over LIBOR or its foreign currency equivalent (2017: same);
- the finance charge on the preference shares is at a weighted average interest rate of 3.3% (2017: 3.3%);
- the finance charge on the secured bonds is at a weighted average interest rate of 6.125% (2017: 6.125%); and
- the finance charge on the secured notes is at a weighted average interest rate of 3.23% for an average period of 27.1 years (2017: 3.23% for an average period of 28.1 years).

The above year-end amounts are not representative of the exposure to interest rates during the year, as the level of exposure changes as investments are made in fixed interest securities, long-term debt is partially redeemed and as the level of cash balances varies during the year. In the context of the Group's balance sheet, the exposure to interest rate risk is not considered to be material.

**Interest rate sensitivity**

Based on the Group's monetary financial instruments at each balance sheet date, an increase or decrease of 200 basis points in interest rates would decrease or increase revenue after tax by £1,040,000 (2017: £1,151,000), capital return after tax by £1,215,000 (2017: £1,095,000), and total profit after tax and shareholders' funds by £175,000 (2017: £156,000).

This level of change is considered to be reasonably possible based on observation of current market conditions. This is not representative of the year as a whole, since the exposure changes as investments are made. In the context of the Group's balance sheet, the outcome is not considered to be material.

# **Notes to the Financial Statements** continued

for the year ended 31 December 2018

## 14 FINANCIAL INSTRUMENTS CONTINUED

### 14.5 Liquidity risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities.

**Management of the risk**

Liquidity risk is not significant as the majority of the Group's assets are investments in quoted equities and other quoted securities that are readily realisable. The Group has borrowed £63,174,000 by its issue in 2000 of 6.125 per cent Secured Bonds due 2025. During 2015, the Group issued 3.47% and 3.29% secured notes for £54,000,000 and £21,000,000 respectively. During 2017, the Group issued 2.74% secured notes for £30,000,000. The Group is able to draw short-term borrowings of up to the sterling equivalent of £125m from its secured and committed multi-currency borrowing facility with BNP Paribas, London Branch (expiring 4 December 2019). £81,000,000 was drawn down under the facility at 31 December 2018.

**Liquidity risk exposure**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Within 1 year £'000 | Between 1 and 5 years £'000 | More than 5 years £'000 | Within 1 year £'000 | Between 1 and 5 years £'000 | More than 5 years £'000 |
| Secured bonds(1) | 3,938 | 15,751 | 71,993 | 3,938 | 15,751 | 75,931 |
| Secured notes(1) | 3,387 | 13,547 | 178,365 | 3,387 | 13,547 | 181,751 |
| Preference shares(2) | 83 | 332 | 2,555 | 83 | 332 | 2,555 |
| Other creditors and accruals | 9,005 | 300 | – | 6,200 | – | – |
| Bank loan and interest payable | 81,093 | – | – | 73,069 | – | – |
| | 97,506 | 29,930 | 252,913 | 86,677 | 29,630 | 260,237 |

(1) The above figures show interest payable over the remaining terms of each instrument. The figures also include the capital to be repaid.
(2) The figures in the 'More than 5 years' columns do not include the ongoing annual finance cost of £83,000.

The Board gives guidance to the investment managers as to the maximum amount of the Company's resources that should be invested in any one company. The investment managers may hold cash from time to time but the Group's overall equity exposure is unlikely to fall below 80% in normal conditions.

### 14.6 Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Group suffering a loss.

**Management of the risk**

The risk is managed as follows:

- cash at bank is held only with reputable banks with high-quality external credit ratings;
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default;
- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the investment managers, and limits are set on the amount that may be due from any one broker;
- stock lending transactions are carried out with a number of approved counterparties, the credit ratings of which are reviewed periodically, and limits are set on the amount that may be sent to any one counterparty. Other than stock lending, none of the Company's financial assets or liabilities is secured by collateral or other credit enhancements.

None of the Group's financial assets is past its due date or impaired.

**Credit risk exposure**

The table below summarises the credit risk exposure of the Group as at the year end.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Fixed interest securities | – | 7,940 |
| Cash | 72,246 | 75,795 |
| Receivables: | | |
| Sales for future settlement | 2,480 | 621 |
| Taxation recoverable | 1,509 | 1,021 |
| Accrued income | 3,509 | 2,864 |
| Other debtors | 700 | 711 |
| | 80,444 | 88,952 |

### 14.7 Fair values of financial assets and financial liabilities

Except for those financial liabilities measured at amortised cost that are shown below, the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments and derivatives) or the balance sheet amount is a reasonable approximation of fair value (amounts due from brokers, dividends and interest receivable, amounts due to brokers, accruals, cash at bank and bank overdrafts). The net asset value calculated on the basis of fair values is shown in note 18.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Fair value £'000** | **Balance sheet amount £'000** | Fair value £'000 | Balance sheet amount £'000 |
| Financial liabilities measured at amortised cost: | | | | |
| Non current liabilities | | | | |
| Preference shares | **1,354** | **2,555** | 1,354 | 2,555 |
| Secured bonds | **79,628** | **63,581** | 81,620 | 63,538 |
| Secured notes | **109,420** | **104,277** | 111,807 | 104,272 |
| | **190,402** | **170,413** | 194,781 | 170,365 |

The fair values shown above are derived from the offer price at which the securities are quoted on the London Stock Exchange or, in the case of the Secured notes, calculating a present value by using a discount rate which reflects the yield on a UK gilt of similar maturity plus a credit spread of 1.20% (2017: 1.10%).

#### Level 1 Financial liabilities

The Company's preference shares, debenture stock and secured bonds are actively traded on a recognised stock exchange. Their fair value has therefore been deemed Level 1. The carrying values are disclosed in note 13.

#### Level 3 Financial liabilities

The Company's secured notes are not traded on a recognised stock exchange so the fair value is calculated by using a discount rate which reflects the yield on a UK gilt of similar maturity plus a credit spread of 1.20% (2017: 1.10%). Their fair value has therefore been deemed Level 3. The carrying values are disclosed in note 13.

#### Fair value hierarchy disclosures

The table below sets out fair value measurements using the IFRS 13 fair value hierarchy.

#### Financial assets and financial liabilities at fair value through profit or loss

| **At 31 December 2018** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| Equity investments | **1,939,347** | **–** | **–** | **1,939,347** |
| Investments in other funds | **–** | **14,767** | **–** | **14,767** |
| Derivatives (nominal exposure of £24,671,000) | **(135)** | **–** | **–** | **(135)** |
| **Total** | **1,939,212** | **14,767** | **–** | **1,953,979** |

| **At 31 December 2017** | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity investments | 2,132,527 | – | – | 2,132,527 |
| Investments in other funds | – | 16,740 | – | 16,740 |
| Derivatives (nominal exposure of £23,256,000) | (469) | – | – | (469) |
| Total | 2,132,058 | 16,740 | – | 2,148,798 |

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in an active market for identical assets.
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices within Level 1.
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Group are explained in the accounting policies in note 1(h). There were no transfers during the year between Level 1 and Level 2.

# **Notes to the Financial Statements** continued

for the year ended 31 December 2018

## 14 FINANCIAL INSTRUMENTS CONTINUED

### Level 2 Financial assets

Level 2 Financial assets refer to an investment in MI Somerset Emerging Markets Small Cap Fund (2017: MI Somerset Emerging Markets Small Cap Fund).

### Level 3 Reconciliation of Level 3 fair value measurement of financial assets

There were no Level 3 investments at 31 December 2018 or 31 December 2017.

### Capital management

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt.

The Group's total capital employed at 31 December 2018 was £2,024,855,000 (2017: £2,223,886,000) comprising £251,413,000 of debt (2017: £243,365,000) and £1,773,442,000 of equity share capital and other reserves (2017: £1,980,521,000).

***Gearing***

The Group's policy is to manage the effective gearing in the portfolio to be below 20%, other than temporarily in exceptional circumstances. Effective gearing is defined as the difference between shareholders' funds and the total market value of the investments (including the nominal value (effective underlying exposure) of futures positions which were £24,671,000 long at 31 December 2018 (2017: £23,256,000 long)) expressed as a percentage of shareholders' funds. At 31 December 2018 effective gearing was 11.6% (2017: 9.7%) and the calculation is set out below:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Value of investments per the Balance Sheet | **1,954,114** | 2,149,267 |
| Add: | | |
| Nominal exposure of futures | **24,671** | 23,256 |
| Adjusted gross value of investments (including futures nominal exposure) | **1,978,785** | 2,172,523 |
| | | |
| Shareholders' funds per the Balance Sheet (A) | **1,773,442** | 1,980,521 |
| Excess of gross value of investments over shareholder funds (B) | **205,343** | 192,002 |
| Effective gearing (B as a percentage of A) | **11.6%** | 9.7% |

The Board monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Chief Executive Officer's view on the market;
- the opportunity to buy back equity shares, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium); and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Group's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is subject to several externally imposed capital requirements:

- the terms of issue of the Company's secured bonds and notes require the aggregate amount outstanding in respect of borrowings, measured in accordance with the policies used to prepare the annual financial statements, not to exceed a sum equal to the Company's capital and reserves at any time (see also note 13 on page 78 for details of other covenants);
- as a public company, the Company has a minimum issued share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

These requirements are unchanged since the previous year end and the Company has complied with them.

## 15 CALLED UP SHARE CAPITAL

| | Group and Company 2018 £'000 | Group and Company 2017 £'000 |
|---|---|---|
| Called up and issued: 178,209,368 ordinary shares of 25p each (2017: 178,449,589) | **44,552** | 44,613 |
| Held in treasury: 21,861,632 ordinary shares of 25p each (2017: 21,621,411) | **5,466** | 5,405 |
| Total 200,071,000 shares (2017: 200,071,000) | **50,018** | 50,018 |

During the year, 240,221 ordinary shares were bought back at a cost of £2,518,000 (2017: 2,761,150 ordinary shares bought back at a cost of £26,622,000). All of the shares were placed in treasury. Shares held in treasury do not carry a right to receive a dividend.

In the event of a poll at a general meeting of the Company, an ordinary shareholder who is present in person or by proxy has one vote for every £1 nominal value of shares registered in their name. Accordingly, on a poll, each ordinary shareholder has one vote for every four shares held.

## 16 SHARE PREMIUM ACCOUNT AND RESERVES

| Group | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve arising on investments sold £'000 | Capital reserve arising on revaluation of investments held £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | **99,251** | **46,498** | **1,273,428** | **438,591** | **72,735** |
| Net movement on investments | **–** | **–** | **130,578** | **(324,683)** | **–** |
| Net movement on foreign exchange | **–** | **–** | **(1,083)** | **–** | **–** |
| Expenses and interest payable charged to capital net of tax relief | **–** | **–** | **(15,481)** | **–** | **–** |
| Buyback of ordinary shares into treasury | **–** | **–** | **(2,518)** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** | **46,198** |
| Ordinary dividends paid | **–** | **–** | **–** | **–** | **(40,090)** |
| **At 31 December 2018** | **99,251** | **46,498** | **1,384,924** | **113,908** | **78,843** |

| Company | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve arising on investments sold £'000 | Capital reserve arising on revaluation of investments held £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | **99,251** | **46,498** | **1,273,428** | **439,043** | **72,283** |
| Net movement on investments | **–** | **–** | **130,578** | **(325,044)** | **–** |
| Net movement on foreign exchange | **–** | **–** | **(1,083)** | **–** | **–** |
| Expenses and interest payable charged to capital net of tax relief | **–** | **–** | **(15,481)** | **–** | **–** |
| Buyback of ordinary shares into treasury | **–** | **–** | **(2,518)** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** | **46,559** |
| Ordinary dividends paid | **–** | **–** | **–** | **–** | **(40,090)** |
| **At 31 December 2018** | **99,251** | **46,498** | **1,384,924** | **113,999** | **78,752** |

In accordance with the Company's Articles of Association, dividends may only be paid out of current period revenue or revenue reserves.

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 17 PREFERENCE SHARES

Included in non current liabilities is £2,555,000 in respect of issued preference shares as follows:

| | Group and Company 2018 £'000 | Group and Company 2017 £'000 |
|---|---|---|
| 2,055,000 3.4 per cent. cumulative preference shares of £1 each | 2,055 | 2,055 |
| 500,000 2.7 per cent. cumulative preference shares of £1 each | 500 | 500 |
| | 2,555 | 2,555 |

The 3.4 per cent. and 2.7 per cent. cumulative preference shares constitute a single class and confer the right, in priority to any other class of shares:

(i) to receive a fixed cumulative preferential dividend at the respective rates (exclusive of tax credit thereon for payments made prior to 6 April 2016) of 3.4 per cent. and 2.7 per cent. per annum, such dividend being payable half-yearly on 15 January and 15 July in each year, in respect of the 3.4 per cent. cumulative preference shares, and on 1 February and 1 August in each year in respect of the 2.7 per cent. cumulative preference shares; and

(ii) to receive repayment of capital at par in a winding up of the Company (but do not confer any further right to participate in profits or assets).

The preference shareholders are entitled to receive notices of general meetings of the Company but are not entitled to attend or vote thereat (except on a resolution for the voluntary liquidation of the Company or for any alteration to the objects of the Company set out in its Articles of Association).

In the event of a poll at a general meeting of the Company, every member of the Company who is present in person or by proxy and who is entitled to vote thereat, whether an ordinary shareholder or, in the circumstances outlined above, a preference shareholder, has one vote for every £1 nominal value of shares registered in their name. Accordingly, on a poll each preference shareholder has one vote for every one share held.

## 18 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share of 995.15p (2017: 1109.85p) is based on the net assets attributable to the ordinary shares of £1,773,442,000 (2017: £1,980,521,000) and on the 178,209,368 ordinary shares in issue at 31 December 2018 (2017: 178,449,589).

The movements during the year of the net assets attributable to the ordinary shares were as follows:

| | £'000 |
|---|---|
| Total net assets at 1 January 2018 | 1,980,521 |
| Total loss for the year | (164,471) |
| Dividends paid in the year on the ordinary shares (see note 8) | (40,090) |
| Share buybacks | (2,518) |
| **Net assets attributable to the ordinary shares at 31 December 2018** | **1,773,442** |

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company, the bonus fees payable in greater than one year, the preference shares and the secured bonds and notes at their market (or fair) values rather than at their par (or book) values. Details of the alternative values are set out in note 14.7. The net asset value per ordinary share at 31 December 2018 calculated on this basis is 983.36p (2017: 1096.17p) as set out below.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Debt at balance sheet amount £'000 | Debt at fair value £'000 | Debt at balance sheet amount £'000 | Debt at fair value £'000 |
| Total assets less current liabilities per balance sheet | 1,943,898 | 1,943,898 | 2,150,886 | 2,150,886 |
| Liabilities at balance sheet value/fair value | (170,456) | (191,462) | (170,365) | (194,781) |
| | 1,773,442 | 1,752,436 | 1,980,521 | 1,956,105 |
| | | | | |
| Ordinary shares in issue at 31 December | 178,209,368 | 178,209,368 | 178,449,589 | 178,449,589 |
| NAV per share | 995.15p | 983.36p | 1,109.85p | 1,096.17p |

## 19 RECONCILIATION OF GROUP LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Long-term debt £'000 | Short-term debt £'000 | Total £'000 | Long-term debt £'000 | Short-term debt £'000 | Total £'000 |
| **Opening liabilities from financing activities** | 170,365 | 73,000 | 243,365 | 140,492 | 71,000 | 211,492 |
| | | | | | | |
| **Cash-flows:** | | | | | | |
| Drawdown of bank loans | – | 8,000 | 8,000 | – | 2,000 | 2,000 |
| Issue of secured notes net of expenses | – | – | – | 29,748 | – | 29,748 |
| **Non-cash:** | | | | | | |
| Effective interest | 48 | – | 48 | 125 | – | 125 |
| | | | | | | |
| **Closing liabilities from financing activities** | 170,413 | 81,000 | 251,413 | 170,365 | 73,000 | 243,365 |

## 20 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2018 and 31 December 2017 there were no capital commitments in respect of securities not fully paid up and no underwriting liabilities. In November 2005 the Company took a five year lease on office premises at 14 Queen Anne's Gate, London SW1H 9AA which was renewed for a further five years in October 2010. In October 2015 the lease was renewed for a further five years.

## 21 OPERATING LEASE ARRANGEMENTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised for the year | 49 | 49 |

At the balance sheet date, the Group had outstanding commitments for the future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Within one year | 73 | 73 |
| In the second to fifth years inclusive | – | 73 |

The operating lease payments represent rentals payable by the Group for its office property.

The lease was re-negotiated during 2015 for a further term of five years and to include additional office space.

## 22 SUBSIDIARY UNDERTAKING

The Company has an investment in the issued ordinary share capital of its wholly-owned subsidiary undertaking, Witan Investment Services Limited, which was incorporated on 28 October 2004, is registered in England and Wales and operates in the United Kingdom.

## 23 RELATED PARTY TRANSACTIONS DISCLOSURES

Balances and transactions between the Company and its subsidiary, which are related parties, amounting to £469,000 have been eliminated on consolidation and are not disclosed in this note.

### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company for each of the relevant categories specified in IAS 24 'Related Party Disclosures' is provided in the audited part of the Directors' Remuneration Report on pages 44 to 45.

### Directors' transactions

Dividends totalling £234,000 (2017: £227,000) were paid in the year in respect of ordinary shares held by the Company's directors.

# Notes to the Financial Statements continued

for the year ended 31 December 2018

## 24 SEGMENT REPORTING

The Group adopted IFRS 8 'Operating Segments' with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are reviewed regularly by the Chief Executive Officer and that are used to allocate resources to the segments and to assess their performance. The identification of the Group's reportable segments did not change as a result of the adoption of IFRS 8.

### Geographical segments

Geographical segments are considered to be the primary reporting segment. An analysis of investment income by geographical segment is set out in note 2 on page 71. Analyses of expenses by geographical segment and of profit by geographical segment have not been given as it is not possible to prepare such information in a meaningful way. An analysis of the investments by geographical segment is set out in note 10 on page 76. Analyses of the remaining assets and liabilities by geographical region have not been given as either it is not possible to prepare such information in a meaningful way or the results are not considered to be significant.

### Business segments

Business segments are considered to be the secondary reporting segment. The Group has two business segments: (i) its activity as an investment trust, which is the business of the parent company, Witan Investment Trust plc, and recorded in the accounts of that company; and (ii) the provision of alternative investment fund manager, executive and marketing management services and the management of savings schemes, which is the business of the subsidiary company, Witan Investment Services Limited, and recorded in the accounts of that company.

| | **31 December 2018** | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Investment trust £'000** | **Management services £'000** | **Total £'000** | Investment trust £'000 | Management services £'000 | Total £'000 |
| Revenue[1] | **58,691** | **1,085** | **59,776** | 54,649 | 1,094 | 55,743 |
| Interest expense | **8,373** | **–** | **8,373** | 7,618 | – | 7,618 |
| Net result | **(164,471)** | **–** | **(164,471)** | 317,203 | – | 317,203 |
| Carrying amount of assets | **1,772,451** | **991** | **1,773,442** | 1,979,169 | 1,352 | 1,980,521 |

(1) The investment and other income of the parent company.

## 25 SUBSEQUENT EVENTS

Since the year end, the Board has declared a fourth interim dividend in respect of the year ended 31 December 2018 of 7.75p per ordinary share (see also page 13 and note 8 on page 75).

From 1 January to 11 March 2019, 763,601 ordinary shares of 25p were bought back for £2,272,000.

# Other Financial Information (unaudited)



### SECURITIES FINANCING TRANSACTIONS

The Company engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to securities lending as at 31 December 2018 are detailed below.

### GLOBAL DATA

The amount of securities on loan as a proportion of total lendable assets and of the Company's net assets at 31 December is disclosed below:

Stock lending 2018

| Market value of securities on loan | % of lendable assets | % of AUM |
|---|---|---|
| **£99,424,000** | **5.09** | **5.07** |

Stock lending 2017

| Market value of securities on loan | % of lendable assets | % of AUM |
|---|---|---|
| £66,964,000 | 3.12 | 3.11 |

### CONCENTRATION DATA

The ten largest collateral issuers across all the securities financing transactions as at 31 December are disclosed below:

| Issuer | 2018 Market value of collateral received £'000 | 2017 Market value of collateral received £'000 |
|---|---|---|
| UK Treasury | **43,438** | 1,194 |
| France Treasury | **33,544** | 5,367 |
| Government of Germany | **4,891** | 1,770 |
| Japan Treasury | **4,280** | 30,609 |
| Banco Santander | **3,056** | – |
| Roche Holdings | **2,645** | – |
| Nestlé | **2,498** | – |
| Aena | **2,212** | – |
| S&P Global | **1,074** | – |
| Lockheed Martin | **968** | – |
| Other issuers comprising top ten in prior year | **–** | 26,944 |
| | **98,606** | 65,884 |

The top counterparties of each type of securities financing transactions as at 31 December are disclosed below:

| Counterparty | 2018 Market value of securities on loan £'000 | 2017 Market value of securities on loan £'000 |
|---|---|---|
| Citigroup | **43,724** | 6,695 |
| JPMorgan | **40,486** | 1,271 |
| HSBC | **10,185** | 2,587 |
| BNP Paribas | **5,029** | 9,463 |
| Abbey National | **–** | 37,444 |
| Deutsche Bank | **–** | 5,410 |
| ING Bank | **–** | 4,094 |
| | **99,424** | 66,964 |

# Other Financial Information (unaudited) continued

## AGGREGATE TRANSACTION DATA

The following table discloses a summary of aggregate transaction data related to the collateral received from securities on loan as at 31 December:

### Stock lending 2018

| Counterparty | Counterparty country of origin | Type | Quality | Collateral CCY | Settlement basis | Custodian | Market value of collateral received £'000 |
|---|---|---|---|---|---|---|---|
| BNP Paribas | France | Equity | Main Market Listing | EUR | Non Cash | BNP Paribas | **1,493** |
| | France | Government Bond | Investment Grade | EUR | Non Cash | BNP Paribas | **4,996** |
| Citigroup | US | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | **12,628** |
| | US | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | **33,946** |
| HSBC | Hong Kong | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | **3,541** |
| | Hong Kong | Corporate Bond | Investment Grade | EUR | Triparty | BNP Paribas | **807** |
| | Hong Kong | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | **6,513** |
| JPMorgan | US | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | **1,834** |
| | US | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | **40,777** |
| | | | | | | | **106,535** |

### Stock lending 2017

| Counterparty | Counterparty country of origin | Type | Quality | Collateral CCY | Settlement basis | Custodian | Market value of collateral received £'000 |
|---|---|---|---|---|---|---|---|
| Abbey National | UK | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | 39,321 |
| BNP Paribas | France | Equity | Main Market Listing | EUR | Bilateral | BNP Paribas | 4,432 |
| | France | Government Bond | Investment Grade | EUR | Bilateral | BNP Paribas | 5,912 |
| Citigroup | US | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | 1,163 |
| | US | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | 5,929 |
| Deutsche Bank | Germany | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | 3,044 |
| | Germany | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | 2,780 |
| HSBC | Hong Kong | Equity | Main Market Listing | EUR | Triparty | BNP Paribas | 1,672 |
| | Hong Kong | Corporate Bond | Investment Grade | EUR | Triparty | BNP Paribas | 292 |
| | Hong Kong | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | 829 |
| ING Bank | Netherlands | Government Bond | Investment Grade | EUR | Triparty | BNP Paribas | 4,303 |
| JPMorgan | US | Government Bond | Investment Grade | EUR | Bilateral | BNP Paribas | 1,410 |
| | | | | | | | 71,087 |

All of the collateral is held within segregated accounts.

The lending and collateral transactions are on an open basis and can be recalled on demand.

***Re-use of collateral***
The funds do not engage in any re-use of collateral.

***Return and cost***
The return and cost of engaging in securities lending by the Company and the securities lending agent in absolute terms and as a percentage of overall returns are disclosed below:

| Total gross amount of securities lending income | Direct and indirect costs and fees deducted by securities lending agent | % return of the securities lending agent | Net securities lending income retained by the fund | % return of the fund |
|---|---|---|---|---|
| **£371,000** | **£93,000** | **25%** | **£278,000** | **75%** |

2017: The gross amount of lending income was £240,000 with direct and indirect expenses deducted of £60,000.

# Additional Shareholder Information



## ALTERNATIVE INVESTMENT FUND MANAGERS' DIRECTIVE

Witan Investment Trust plc is an 'alternative investment fund' ('AIF') for the purposes of the EU Alternative Investment Fund Managers' Directive (Directive 2011/61/EU) (the 'AIFMD') and the Company has appointed its subsidiary, Witan Investment Services Limited ('WIS'), to act as its AIFM. WIS is authorised and regulated by the United Kingdom Financial Conduct Authority as a 'full scope UK AIFM'.

The Company is required to make certain disclosures available to investors in accordance with the AIFMD. Those disclosures that are required to be made pre-investment are included within the Investor Disclosure Document ('IDD') which can be found on the Company's website, www.witan.com. There have not been any material changes to the disclosures contained within the IDD since it was last updated in December 2018.

The Company and AIFM also wish to make the following disclosures to investors:

- the investment strategy, geographic and sector investment focus and principal stock exposures are included in the strategic report. A list of the top 50 portfolio holdings is included on page 30;
- none of the Company's assets is subject to special arrangements arising from their illiquid nature;
- the strategic report and note 14 to the accounts set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- there are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by the Company;
- all authorised Alternative Investment Fund Managers are required to comply with the AIFMD Remuneration Code in respect of the AIFM's remuneration. The relevant disclosures required are within the IDD; and
- information in relation to the Company's leverage is contained within the IDD.

## SHAREHOLDER INFORMATION

### Points of reference

You can follow the progress of your investment through the newspapers. Witan's share price appears daily in the national press stock exchange listings under 'Investment Trusts' or 'Investment Companies' and is also included on the Witan website (www.witan.com). The London Stock Exchange Daily Official List (SEDOL) code is 0974406.

### Dividend

A fourth interim dividend of 7.75p per share has been declared, payable on 21 March 2019. The record date for the dividend was 1 March 2019 and the ex-dividend date for the dividend was 28 February 2019 (see pages 13 and 75).

### Dividend Tax Allowance

From April 2018 individuals have an annual £2,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of the dividends it has paid and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

### Capital Gains Tax

The calculation of the tax on chargeable gains will depend on your personal circumstances. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.

Please note that tax assumptions may change if the law changes, and the value of tax relief (if any) will depend upon your individual circumstances. Investors should consult their own tax advisers in order to understand any applicable tax consequences.

### Beneficial Owners of Shares – Information Rights

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 should direct all communications to the registered holder of their shares rather than to the Company's Registrar, Computershare, or to the Company directly.

# **Additional Shareholder Information** continued

## DEFINITIONS OF ALTERNATIVE PERFORMANCE MEASURES

**Benchmark:** This is a composite of five indices: the FTSE All-Share Index 30%, the FTSE All-World North America Index 25%, the FTSE All-World Europe (ex UK) Index 20%, the FTSE All-World Asia Pacific Index 20% and the FTSE Emerging Markets Index 5%.

**Gearing:** The difference between shareholders' funds and the total market value of the investments (including the face value of futures positions) expressed as a percentage of shareholders' funds. See page 84.

**Net asset value per share (debt at par and debt at fair value):** This is the value of total assets less all liabilities of the Company. The Net Asset Value, or NAV, per Ordinary Share is calculated by dividing this amount by the total number of Ordinary Shares in issue (excluding those shares held in Treasury). Please refer to note 18 on page 86.

**Net asset value total return:** Total return on net asset value ('NAV'), on a debt at fair value to debt at fair value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

| Total return calculation | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Opening cum income NAV per share (p) (A) | **1096.17** | 939.24 |
| Closing cum income NAV per share (p) (B) | **983.36** | 1096.17 |
| Total dividend adjustment factor [1] (C) | **1.020824** | 1.019871 |
| Adjusted closing cum income NAV per share (B x C = D) | **1003.8** | 1118.0 |
| **Net asset value total return (D/A - 1)** | **-8.4%** | 19.0% |

(1) The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum income NAV at the ex-dividend date.

**Ongoing charge:** The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue as a collective fund, excluding the costs of acquisition and disposal, finance costs and gains or losses arising on investments. The calculation is performed in accordance with the guidelines issues by the AIC. Please refer to page 19 of this annual report.

**Premium/discount:** The amount by which the market price per share is either higher (premium) or lower (discount) than the net asset value per share expressed as a percentage of the net asset value per share.

**Share price total return:** Share price total return, on a last traded price to last traded price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

| Total return calculation | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Opening share price (p) (A) | **1079** | 902 |
| Closing share price (p) (B) | **971** | 1079 |
| Total dividend adjustment factor [1] (C) | **1.021141** | 1.020478 |
| Adjusted closing share price (B x C = D) | **991.5** | 1101.1 |
| **Share price total return (D/A - 1)** | **-8.1%** | 22.1% |

(1) The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the last traded price quoted at the ex-dividend date.

## HISTORICAL RECORD

| | Market price per ordinary share in pence | Debt at fair value: Net asset value per ordinary share in pence[1] | Debt at fair value: Share price (discount)/ premium %[1] | Debt at par value: Net asset value per ordinary share in pence[2] | Debt at par value: Share price discount %[2] | Earnings per ordinary share in pence | Dividends per ordinary share in pence |
|---|---|---|---|---|---|---|---|
| 31 December 2007 | 478.5 | 537.9 | (11.0) | 545.7 | (12.3) | 11.08 | 9.90 |
| 31 December 2008 | 351.0 | 400.3 | (12.3) | 410.1 | (14.4) | 11.60 | 10.20 |
| 31 December 2009 | 444.6 | 497.0 | (10.5) | 502.7 | (11.6) | 10.63 | 10.50 |
| 31 December 2010 | 516.5 | 578.1 | (10.7) | 584.4 | (11.6) | 9.45 | 10.90 |
| 31 December 2011 | 450.0 | 503.7 | (10.7) | 516.9 | (12.9) | 13.27 | 12.00 |
| 31 December 2012 | 503.0 | 568.9 | (11.6) | 581.8 | (13.5) | 14.50 | 13.20 |
| 31 December 2013 | 669.0 | 717.6 | (6.8) | 725.2 | (7.7) | 15.44 | 14.40 |
| 31 December 2014 | 753.5 | 749.2 | 0.6 | 760.3 | (0.9) | 15.88 | 15.40 |
| 31 December 2015 | 780.0 | 781.2 | (0.2) | 788.4 | (1.1) | 18.49 | 17.00 |
| 31 December 2016 | 902.0 | 939.2 | (4.0) | 952.8 | (5.3) | 22.11 | 19.00 |
| 31 December 2017 | 1079.0 | 1096.2 | (1.6)[3] | 1109.8 | (2.8) | 23.82 | 21.00 |
| **31 December 2018** | **971.0** | **983.4** | **(1.3)[3]** | **995.1** | **(2.4 )** | **25.92** | **23.50** |

(1) The net asset value per ordinary share is calculated by deducting from the total assets less current liabilities of the Group the fixed borrowings at their fair (or market) values. The share price discount reflects this calculation.
(2) The net asset value per ordinary share is calculated by deducting from the total assets less current liabilities of the Group the fixed borrowings at their par (not their market) values. The share price discount reflects this calculation.
(3) The average discount to the net asset value, including income, with debt at fair value, in 2018 was 2.4% (2017: 2.8%). (source: Datastream).

## HOW TO INVEST

There are various ways to invest in Witan Investment Trust plc. Witan's shares can be traded through any UK stockbroker and most share dealing services and platforms that offer investment trusts (including Alliance Trust Savings, Hargreaves Lansdown, Barclays Stockbrokers, Halifax Share Dealing Limited, Interactive Investor and A J Bell), as well as Computershare, the Company's Registrars. Advisers who wish to purchase Witan shares for their clients can do so via a stockbroker or via a growing number of dedicated platforms (including Seven Investment Management, Transact and Fidelity FundsNetwork).

The Company conducts its affairs so that its shares can be recommended by independent financial advisers ('IFAs') to retail private investors. The shares are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in a UK-listed investment trust.

# Contacts

### REGISTERED OFFICE OF THE COMPANY AND ITS SUBSIDIARY, WITAN INVESTMENT SERVICES LIMITED

14 Queen Anne's Gate
London SW1H 9AA

The Company is a public company limited by shares.

### REGISTERED NUMBER

Registered as an investment company in England and Wales, Number 101625.

### COMPANY SECRETARY

Frostrow Capital LLP
25 Southampton Buildings
London WC2A 1AL
Telephone: 020 3008 4910

### CUSTODIAN, INVESTMENT ADMINISTRATOR AND DEPOSITARY

BNP Paribas Securities Services
10 Harewood Avenue
London NW1 6AA

### REGISTRAR

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1408(1)

(1) Calls cost no more than calls to geographic numbers (01 or 02) and must be included in inclusive minutes and discount schemes in the same way. Calls from landlines are typically charged up to 9p per minute; calls from mobiles typically cost between 3p and 55p per minute. Calls from landlines and mobiles are included in free call packages.

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### STOCKBROKER

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### SOLICITORS

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London EC2A 2EG

The Company is a member of

PREMIUM MAIN MARKET LONDON STOCK EXCHANGE

aic The Association of Investment Companies

### DISABILITY ACT

Copies of this annual report and other documents issued by Witan Investment Trust plc are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact our Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator, by dialling 0370 702 0005. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by The Royal National Institute for Deaf People), you should dial 18001 followed by the number you wish to dial.

### UNSOLICITED APPROACHES FOR SHARES: WARNING TO SHAREHOLDERS

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

Shareholders who suspect they may have been approached by fraudsters should advise the Financial Conduct Authority ('FCA') using the share fraud report form at www.fca.org.uk/scams or call the FCA Customer Helpline on 0800 111 6768. You may also wish to call either the Company Secretary or the Registrar at the numbers provided above.

## ROYAL HORTICULTURAL SOCIETY

With effect from 2019, the Company is no longer a financial sponsor of the RHS's activities. However, for this final year shareholders on the main register and those who were members of the Company's Savings Schemes as at 20 February 2019 are eligible to apply for a ballot for a ticket that will allow free entry for two adults to any one of the four RHS gardens in the UK. If you would like to request a ticket then please phone us on 0800 082 8180, giving your full name and address. Tickets will be sent out on 3rd May 2019 to shareholders who are successful in the ballot.

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