

Centenary  
1909-2009

**100**  
**YEARS**  
...and counting

# WITAN INVESTMENT TRUST PLC

Report  
and Accounts  
2008

 Witan investment trust

*“Nine-tenths of wisdom consists in being wise in time.”*

*Theodore Roosevelt*

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Inside back cover	Chemmy Alcott

## Objective

To be the first choice for wealth creation through equity investment.

## Philosophy

- ◆ Seek returns for our investors across global stockmarkets.
- ◆ Embrace new investment techniques when appropriate.
- ◆ Present ourselves to investors in a clear, no-nonsense way.

## Method

- ◆ To maintain at least 80% exposure to equity markets.
- ◆ To offer an independent multi-manager approach, accessing the best available talent within the global marketplace.
- ◆ To use alternative asset classes and investment techniques to improve performance.
- ◆ To grow the dividend at least in line with inflation.
- ◆ To buy back shares to improve net asset value and reduce the discount.
- ◆ To be ready to use borrowing in attractive markets while retaining the ability to convert to cash when prospects are poor.
- ◆ To promote and seek demand for Witan shares.
- ◆ To exercise strict controls on costs and keep expenses competitive.

## Directors



**H M Henderson\***◆ (Age 56) Appointed a director in 1988, Harry Henderson became Chairman in March 2003. He was formerly a partner of Cazenove & Co. and subsequently a senior executive at Cazenove Group plc, retiring in 2002. Mr Henderson is Chairman of Witan Investment Services Limited. He is also a director of Cadogan Settled Estates Limited.



**R E Clarke BSc, MSc, ACA** (Age 51) Robert Clarke was appointed a director and Chief Executive Officer with effect from 15 September 2008. He is responsible for the overall management of Witan. For the last 26 years Mr Clarke has held various positions in the financial services sector. Until March 2008 he was a director and the Chief Executive of Majedie Investments PLC. Mr Clarke is a director of Witan Investment Services Limited.



**A W Jones\***◆ MA, FREng, FRAeS, FIEE, CIM (Age 69) Alan Jones was appointed a director in 1996 and became Chairman of the Remuneration Committee on its formation in December 2003. He was formerly Chief Executive of BICC plc and until 2008 Chairman of The Manchester Airport Group plc. He is a director of Agustawestland NV. He is a former member of The Financial Reporting Council. He will retire from the Board at the conclusion of the Annual General Meeting in April 2009.



**R H McGrath\***◆ (Age 62) Rory McGrath was appointed a director in 1996. He was formerly Chief Executive of H. Young Holdings plc, a marketing company. Mr McGrath is a director of Witan Investment Services Limited.



**R A Bruce\***● MA, MBA (Age 59) Andrew Bruce was appointed a director in 2002. He is Group Credit Risk Director at Barclays PLC where he has responsibility for asset quality and credit risk across the Barclays Group. He is also a non-executive director of Clearstream International.



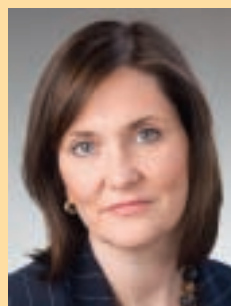
**A Watson\***● CBE, BSc (Econ), ASIP, Barrister-at-Law, FSI (Hon) (Age 63) Tony Watson was appointed a director in 2006. He was appointed Senior Independent Director on 5 February 2008. He is a non-executive director of Hammerson plc and of Vodafone Group Plc and Chairman of the Trustees of the Marks & Spencer Pension Scheme and of Strategic Investment Board Limited (Northern Ireland). He was a member of the Financial Reporting Council. Mr Watson retired in 2006 from an executive career in the investment management industry, most recently as Chief Executive of Hermes Pensions Management Limited.



**J E B Bevan\*** MA (Age 48) James Bevan was appointed a director in February 2007. He is CIO, CCLA Investment Management. Before joining CCLA in November 2006, he was the Chief Investment Officer at Abbey. Prior to Abbey, he was Chief Investment Officer for Barclays Stockbrokers and Barclays Personal Investment Management, having joined BZW in 1988, following postgraduate research in applied economics and asset allocation at Cambridge University.



**R W Boyle\***● MA, FCA (Age 61) Robert Boyle was appointed a director in February 2007. He retired in 2006 from PricewaterhouseCoopers LLP where he was Chairman of the PwC European Entertainment & Media Industry practice for 12 years. He is a non-executive director and chairman of the audit committee of Maxis Communications Berhad and the Hampshire Partnership National Health Service Trust. He is also a non-executive director of Prosperity Voskhod Fund Limited, an AIM company, and the independent member of the audit committee of the National Trust.



**M C Claydon BA, MBA** (Age 44) Catherine Claydon will join the Board on 9 March 2009 as an independent non-executive director. From 1992 to 2007 she worked at Goldman Sachs, from 2002 as Managing Director, Pension Advisory Group. From 2007 to 2008 she held the same position at Lehman Brothers International. Mrs Claydon is a Canadian citizen.

\*Independent non-executive directors.

●Members of the Audit Committee which is chaired by Mr Boyle.

◆Members of the Remuneration Committee which is chaired by Mr Jones.

# Directors' Report: Financial Highlights

## Corporate Key Performance Indicators

	31 December 2008	31 December 2007	% change
Share price	351.0p	478.5p	-26.6
Net asset value per ordinary share (debt at par value)	410.1p	545.7p	-24.8
Net asset value per ordinary share (debt at fair value)	400.3p	537.9p	-25.6
Dividends per ordinary share	10.2p	9.9p	+3.0
Discount (debt at par value)	14.4%	12.3%	
Discount (debt at fair value) <sup>(A)</sup>	12.3%	11.0%	
Shares buy-backs <sup>(B)</sup>	4.0%	14.3%	
Total expense ratio <sup>(C)</sup>	0.71%	0.53%	
Number of private investors <sup>(D)</sup>	40,356	41,936	-3.8

(A) The average discount in 2008 was 10.1%. (Source: Datastream)

(B) The percentage of the ordinary share capital in issue at the previous year end that was bought back during the year.

(C) The total of the management fees and other administrative expenses (excluding the expenses of the subsidiary company) as a percentage of the average of shareholders' funds at the beginning and end of the year (see note 5 on page 47). See further comment on page 9.

(D) The sum of the number of accounts on the Company's register of members and the number of accounts in Witan Wealthbuilder and Jump.

## Performance

	1 year % return	3 years % return	5 years % return
Total returns to 31 December 2008			
Total shareholder return <sup>(E)</sup>	-24.9	-9.5	30.2
Net asset value total return <sup>(F)</sup>	-23.3	-7.5	27.2
Benchmark <sup>(G)</sup>	-23.9	-7.7	-
FTSE All-Share Index <sup>(H)</sup>	-29.9	-13.8	18.7
FTSE World (ex UK) Index <sup>(H)</sup>	-17.1	-3.9	29.3

(E) The movement in the ordinary share price adjusted to include the notional reinvestment of dividends.

(F) The movement in the net asset value per share adjusted to include the notional reinvestment of dividends.

(G) Source: WM Performance Services

Since 1 October 2007 the benchmark has been a composite of four indices: the FTSE All-Share Index 40%, the FTSE All-World North America Index 20%, the FTSE All-World Europe (ex UK) Index 20% and the FTSE All-World Asia Pacific Index 20%.

From 1 September 2004 to 30 September 2007 the benchmark comprised the FTSE All-Share Index 50% and the FTSE World (ex UK)

Index 50%. Prior to 1 September 2004 the benchmark comprised the FTSE All-Share Index 60% and the FTSE World (ex UK) Index 40%.

(H) Source: Datastream

## Other Financial Information

	31 December 2008	31 December 2007	% change
Net assets	£879,247,000	£1,219,306,000	-27.9
Number of ordinary shares in issue	214,398,654	223,426,499	-4.0
Revenue return per ordinary share	11.60p	11.08p	+4.7
Gearing*	0.1%	4.7%	

\*The total market value of the investments less shareholders' funds as a percentage of shareholders' funds.

The Company's ten year historical record is shown on page 65.

## Directors' Report: Chairman's Statement

*"There is no wisdom like frankness."* Benjamin Disraeli



Harry Henderson

### Highlights

- NAV total return ahead of benchmark over the last year and last three years
- 9 out of 13 managers beat their own benchmarks in 2008
- New management team and structure in place
- Dividend increased by 3%

### Opening Remarks

On 13 October 2008, the day certain banks were all but nationalised, Gordon Brown spoke of "extraordinary times" and that they certainly are. In last year's review we stated that the future was unclear but we did not imagine that we would be where we are now. In 2008 we witnessed a global financial crisis, a deepening widespread worldwide recession and the US stock market posting its second worst performance on record since 1871.

Your Board is not pleased to be reporting a negative NAV total return of 23.3% but Witan's globally diversified portfolio of equities has given some consolation in that it performed better than many markets. For example, the UK where the FTSE All-Share Index was down by 29.9%.

Over the last five years the most significant change to Witan's investment portfolio has been the reduction in that part of the portfolio which is invested in the domestic equity market. At the end of 2003 we were 60% invested in UK equities; today the figure stands at 32%. This decision has proved to be important not only because the UK equity market has performed poorly but because in 2008 Sterling was particularly weak against all major currencies.

Before there is a sustained improvement in the UK economy and its currency, there will need to be greater confidence generated by those in charge. They must demonstrate a deeper understanding of current events however unusual and show that long term

economic stability is more important than short term political considerations. One has to believe the pilot must fly the airplane from an altimeter correctly adjusted.

### Shareholder Returns and Performance

The share price fell over the year by 26.6% which, combined with the dividends paid during the year, resulted in a negative total shareholder return of 24.9%. The five year numbers have obviously taken a severe knock but it is worth recording that shareholders since December 2003 have experienced a return of 30.2%.

Over the year Witan was in the second quartile of the Global Growth Investment Trust sector. However, perhaps a more telling comparison is with actively managed unit trusts and other open-ended funds. Since the inception of our new multi-manager structure in 2004 we would have been placed in the top quartile.

### Manager Changes and Performance Attribution

Following the 2007 Strategic Review, and the comments made in my statement last year, we reduced the UK enhanced index segment of the portfolio, appointing two new UK managers, namely Artemis and Marathon, and appointed Varenne to manage a small proportion of the European portfolio. We also ended the currency contract with Mellon as it became obvious that the dislocation in global markets was creating unprecedented foreign exchange monetary flows and the arrangement was not working. In the CIO's Investment Review on pages 13 to 19 we give more information about these changes and all the managers in the portfolio.

Looking at the attribution analysis on the facing page, it is significant to note that on a relative basis the investment portfolio outperformed the benchmark during 2008 by 1.6%.

## Performance Attribution

for the year ended 31 December 2008

Net asset value total return	-23.3%	Portfolio investment total return	-22.3%
Benchmark total return	-23.9%	Benchmark total return	<u>-23.9%</u>
		Investment outperformance	+1.6%
		Share buy-backs	+0.5%
		Interest on cash, etc	<u>+0.9%</u>
			+1.4%
			+3.0%
		Gearing and borrowing costs	-1.5%
		Operating costs and tax	<u>-0.9%</u>
			-2.4%
Outperformance	<u>+0.6%</u>		<u>+0.6%</u>

It is also worth noting that seven out of ten managers that were investing Witan funds over the full twelve months outperformed the relevant benchmark while two out of three managers appointed part way through the year are ahead.

### Changes to the Executive Management Team

In October 2008 Jim Horsburgh retired as Chief Executive Officer (CEO). I would like to pay tribute to his work as the first independent CEO of the Trust. We thank him on your behalf for his valuable contribution over such an important phase in the history of Witan.

As part of a review of the business the Witan Board last year decided to increase the level of resource applied to manage the business. It also identified various potential business opportunities for an independently managed investment trust, particularly one that is involved in multi-manager. The decision was therefore taken to split the role of CEO and to create a new position of Chief Investment Officer (CIO) – solely responsible for portfolio investments.

I am pleased to say that we were able to announce the appointment of Robert Clarke as CEO with effect from 15 September 2008 – from when he took executive responsibility for the overall management of the Trust and its subsidiary. Mark Lynam was appointed Chief Investment Officer (CIO) with effect from 3 November

2008 from when he took responsibility for investment policy and manager selection and monitoring. Robert and Mark are working closely together and in conjunction with the Board to manage all aspects of the Company's affairs.

One further change I would like to report is the appointment of James Frost as Witan's marketing executive following James Budden's resignation in October. James Budden was employed by Witan for ten years, being one of the first dedicated marketing executives appointed to an in-house managed investment trust. James Frost worked with him at Witan for the last three years and has now taken on the responsibility for marketing the Trust.

Your Board believes that it now has the appropriate structure to manage the Trust's investments and look at business opportunities. The new management team is building upon Witan's strengths and expertise while seeking to identify new ways of generating shareholder value.

### Dividend and Future Dividend Policy

Your Board has declared a second interim dividend of 5.9 pence per share, to be paid to shareholders on 3 April 2009, making a total distribution for the year of 10.2 pence (2007: 9.9 pence). This represents an increase of 3% over 2008 and maintains our policy of increasing dividends at least in line with inflation.

# Directors' Report: Chairman's Statement

continued

The Board has considered very carefully the global economic outlook and how companies around the world are affected – particularly in their ability to maintain their distribution policies. There is considerable uncertainty as a result of the global financial crisis and resulting recessionary environment. Witan's own dividend is very dependent on the income we receive from our investments. We will therefore monitor developments over the next year mindful that our dividend policy is one of the most important issues for shareholders.

## Board Changes

At the AGM in April Alan Jones retires after thirteen years as a director of Witan – the last five of which he has been Chairman of the Remuneration Committee. His wise counsel gained at a senior level in industry has been of great value to the Board and he will be much missed.

We welcome Catherine Claydon to the Board. With her experience at Goldman Sachs, she will no doubt make an active contribution to the business.

## AGM and Centenary

Our Annual General Meeting will be held at Merchant Taylors' Hall on Tuesday 28 April 2009 at 2.30pm. Formal notice of the meeting is set out on pages 62 to 64 and further details are given on the enclosed invitation card. With my fellow directors, I look forward to the opportunity to meet you then for the Company's 101st AGM.

On 17 February 2009 the Company celebrated its 100th birthday. Witan has endured and prospered despite two world wars, the Great Depression, the internet bubble and several stock market crashes. In the current climate it is particularly important to consider the investment returns generated over an extended period to remind ourselves of the Witan proposition. An investment in the UK stock market in 1909 would, with dividends reinvested, have grown over the last 100 years at an average rate of 9.9% per annum compared with 5.8% per annum for bonds and 4.2% per annum for inflation\*. Most investors are not looking at a 100 year time horizon. However,

investing in Witan for the long term makes sound financial sense because equities have outperformed all other asset classes over the long term and the Witan portfolio is a globally diversified selection of top fund managers, with low management charges and a good dividend yield growing with inflation.

## Outlook

The world seeks answers as to what next but in truth there is great uncertainty. History is important but the future is more so. We can draw comparisons to the 1930's but the global economy and financial systems are very different today compared to what they were then, not to mention our understanding of how to deal with such crises.

It is highly likely that global economic growth over the next year will be worse than currently forecast. Governments in the US and the UK seem to be adopting strategies of "whatever it takes" and it seems likely that these efforts will restore a functioning banking system and avert the worst of a recession. However, the long term cost – particularly to the UK – may be severe.

At the start of my statement I mentioned that in 2008 the US stock market posted its second worst performance on record since 1871. In all but one instance since then, when the market has been down by more than 20% there has been a 20% plus rise the following year. The only exception was the prolonged bear market of 1930 to 1932 and, interestingly, 1933 was up by over 50%! Despite a future that seems all too uncertain this is a time to accumulate global equities as investors are caught like rabbits in the headlights, frozen in masterful inactivity. Equity markets are likely to recover before economic activity turns positive. They have done so in the past and it is logical that they will do so again.

Harry Henderson

6 March 2009

\*Source: Credit Suisse Global Investment Returns Sourcebook 2009, Elroy Dimson, Paul Marsh and Mike Staunton, London Business School

## Directors' Report: Business Review

This Business Review provides shareholders and other readers with information about the Company's business and results in 2008 and looks forward to the year ahead. It is divided into two sections: Corporate & Investment: the former addressed by Robert Clarke, Chief Executive Officer; the latter by Mark Lynam, Chief Investment Officer.

### CORPORATE SECTION

- Objectives and strategy
- Management arrangements
- The Witan benchmark
- Dividend policy
- Buy-back policy
- Key performance indicators
- Principal risks and uncertainties
- Management team changes
- Witan Investment Services
- VAT
- Priorities for 2009



Robert Clarke

### Objectives & Strategy

Witan's objective is to be the first choice for wealth creation through equity investment. From an investment perspective this means that Witan will seek to outperform global stock markets consistently, adding value in the long term for its investors. In addition Witan seeks to attract new investors to buy the Trust's shares in order to provide ongoing liquidity for shareholders.

Witan aims to outperform by using a multi-manager investment structure. This allows us to select fund managers from around the world – often where the fund manager is not otherwise available to the UK investor. Your Board pays close attention to the control of risk and this is clearly of particular relevance in the current troubled financial and economic environment. However, the Board is at the same time mindful that risk needs to be embraced in order to enhance performance. We will therefore consider employing innovative investment techniques and diverse asset classes if, and when, these are deemed appropriate. As an investment trust, Witan can borrow in order to improve performance in rising markets. We will be considering carefully at what stage it may be appropriate to deploy our long term borrowings to a greater extent in order to increase the gearing in the portfolio.

### Management Arrangements

As already mentioned, the management of Witan's portfolio is outsourced to third party fund managers around the world. Witan's in-house executive management team manages and controls these

relationships, selects new managers when a change is appropriate, runs Witan Investment Services and advises the Board on all relevant investment and business matters.

As already mentioned in the Chairman's Statement the Board made some changes to the investment manager line-up during the year. These are referred to in greater detail in the Investment Section on page 13 along with other investment issues. Our chosen managers are summarised on pages 20 and 21 with a brief description of each.

Witan has also appointed third parties for the various supporting services it requires including:

- BNP Paribas Securities Services SA for global custody and for investment accounting and administration
- Henderson Secretarial Services Limited for company secretarial services
- Equiniti Limited as plan administrators of Witan Wealthbuilder.

From time to time, and as required, Witan also procures professional advice in the areas of legal, compliance, investment consulting, financial and tax advice.

Witan's aim is to provide the best possible return to shareholders. With this in mind, your Board applies strict controls to costs. Expenditure is only undertaken when necessary and relevant or when a specific project has been identified which is likely to achieve a profitable return for the original outlay. Witan's careful cost control has resulted in a total expense ratio of 0.71%.

# Directors' Report: Business Review

continued

Although, along with many other funds, we have seen our TER increase as a result of falling asset values, it remains one of the lowest in the investment trust industry and much lower than any multi-manager unit trust. See further comment on page 9.

Since November 2005 the Company has had a lease on office premises at 14 Queen Anne's Gate, London SW1H 9AA. The Company's registered office is at 201 Bishopsgate, London EC2M 3AE.

The Company's policy towards its employees is to attract and retain staff with the particular skills and expertise required to manage the affairs of an investment trust company. The Company has no specific policies in respect of environmental or social and community affairs.

## The Witan Benchmark

Your Company's benchmark is a quantitative representation of what shareholders can expect in the long term from an investment in Witan both in terms of the underlying investment structure of the portfolio and in performance. It enables the aims of your Company to be encapsulated succinctly without the need for a detailed description. It is an equity benchmark, although your Board reserves the right to invest in other assets if it deems it to be appropriate, for better performance or capital preservation. The benchmark does not drive the portfolio structure nor the specific allocation of mandates to managers. This is evident from the table on page 14 showing the investment management arrangements but it does provide a marker for the long term performance of the Company. Over shorter periods, performance can be expected to vary, sometimes considerably, from that of the benchmark.

On 1 October 2007 the Company's benchmark changed from 50% FTSE All-Share Index / 50% FTSE World (ex UK) Index to:

40% FTSE All-Share Index

20% FTSE All-World North America Index

20% FTSE All-World Europe (ex UK) Index

20% FTSE All-World Asia Pacific Index.

This change recognised that the global economy can be viewed as three major trading areas: the Americas, Europe, and Asia Pacific. Within these regions, a large

proportion of trade flows are internal. The Board felt at the time of the change, and still believes, that a slightly lower weighting to the UK and a larger weighting to the other economies split equally to all three areas would most likely deliver greater investment returns in future over the long term. Furthermore the Board believed that the new benchmark would give a fairer representation of the Company's proposition to its investors and would ultimately offer a truer gauge of its long term performance. As the new benchmark allocates a greater weighting to the Asia Pacific region, an area which your Board expects to outperform in the long term, then, if that view is correct, it will prove to be a more exacting test of performance than the old benchmark.

## Dividend Policy

As the Chairman has addressed in his Statement, the Company has recently announced an increase in the dividend declared in respect of 2008 of 3% compared with the previous year. This is the 34th consecutive year that the Board has increased the annual dividend and underlines the Company's ongoing intention to increase dividend income for shareholders at least in line with inflation.

## Buy-back Policy

Your Board places great importance on the need to provide liquidity in Witan's shares to the market place. Shareholders should be able to sell Witan shares at a price that reflects prevailing market value while potential new shareholders should be able to invest when they wish to do so. Shares are bought back when they stand at a significant discount with the objective, subject to market conditions, of keeping the discount to net asset value at less than 10%. This policy has the impact of improving net asset value per share, improving liquidity and bringing the share price closer to that of net asset value – all other things being equal.

In 2008 the Company bought back and cancelled a total of 9,027,845 ordinary shares at a cost of £38.7 million including stamp duty. The result of this in terms of performance enhancement was to add just over 0.5% to the net asset value per share at 31 December 2008. In addition, Witan operates an ongoing marketing programme designed to stimulate demand for, and

encourage new investment into, the Company's shares. This programme reaches out to private and professional investors and to financial advisers and intermediaries using a blend of targeted marketing disciplines.

At the end of the last day of our financial year there was a currency market aberration which resulted in the discount (with debt at fair value) rising to 12.3%. Nevertheless the average discount for the year was 10.1%.

### Key Performance Indicators

Your Board assesses its performance in meeting the Company's objective against the following key performance indicators:

- net asset value total return
- total shareholder return
- investment performance compared with the benchmark
- annual dividend growth
- discount to net asset value
- the level of buy-back activity
- total expense ratio
- growth in the number of private investors.

The increase in the Total Expense Ratio (TER) from 0.53% last year to 0.71% in 2008 is due to an increase in performance fees from £0.5 million in 2007 to £1.4 million in 2008 as a result of managers outperforming their benchmarks and also due to a fall in the average total shareholders' funds of 18.3%.

The Board also reviews both absolute and relative volatility and risk statistics for the portfolio and evaluates employee performance. Witan's performance in 2008 against the above parameters is shown on page 3 and is discussed in the Chairman's Statement.

### Principal Risks and Uncertainties

The Board has summarised the key risks to the Group in a risk matrix document. The risks relating to Witan's subsidiary company, Witan Investment Services Limited ("WIS"), are separately recorded. The respective documents are reviewed and updated regularly by the relevant Board of directors.

The Board is conscious that it must regularly review the nature of its objective and corporate strategy to ensure

that both remain relevant and appropriate in a rapidly changing financial services and savings market. These issues are reviewed at least annually by the Board and include scrutiny of investment policies, the role of marketing and the Witan Wealthbuilder savings schemes as well as wider industry trends.

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

#### *Market and portfolio*

Witan is essentially a vehicle for UK and overseas equity investment. The Board is unlikely, in normal conditions, to allow the invested level to drop below 80%. Therefore the prime risk of investing in Witan is a fall in equity prices.

The other generic risks associated with any international equity portfolio are those of strategy and of country, currency, industrial sector, and stock selection. There are also risks associated with the choice of managers. Your Board seeks to manage these risks through:

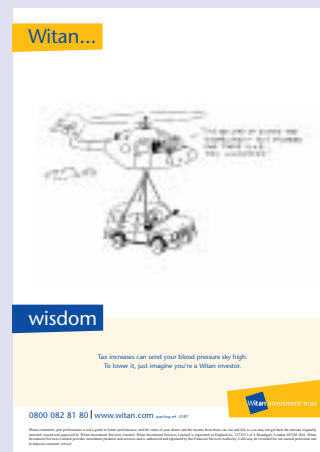
- appropriate decisions regarding asset allocation
- regular reviews of the competency and stock selection skills of fund managers
- monitoring the economic outlook, geo-political environment and stock market conditions around the world
- the application of relevant policies on gearing and liquidity.

The multi-manager structure of the portfolio means that from a risk point of view we are less dependent on one investment manager than with a conventionally structured portfolio.

Risk issues are further referred to in note 14 on pages 51 to 56.

#### *Investment activity and strategy*

An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may



## Directors' Report: Business Review

continued

lead to underperformance against the Company's benchmark index and compared with the companies in its peer group. It may also result in the Company's shares trading on a wider discount. The Board seeks to manage these risks by ensuring a diversification of investment managers and investments and a regular review of the extent of borrowings.

The Chief Executive Officer ("CEO") and the Chief Investment Officer ("CIO") manage the overall business and investment portfolio in accordance with limits and restrictions determined by the Board. These include limits on the extent to which borrowings may be used. The Board reviews regularly the matters delegated to executive management and the CEO confirms compliance at each Board meeting. Directors are provided with comprehensive management information covering many aspects of the business including investment performance data, financial reports and shareholder analyses. The Board reviews investment strategy at each Board meeting and monitors the implementation and results of the investment process with the CIO, who attends all Board meetings. The CIO regularly reviews reports and data which monitor the various risk factors in respect of the portfolio.

### *Corporate governance and shareholder relations*

Details of the Company's compliance with corporate governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 32 to 35.

The operational and regulatory risks described below are regularly and extensively reviewed by Witan's Audit Committee. WIS and its marketing activities are regulated by the Financial Services Authority and the subsidiary is subject to its own operating rules and regulations. Your Board takes its own regulatory responsibilities very seriously and reviews the main points of compliance against requirements on a quarterly basis. Your Board also takes corporate, legal, accounting, and tax advice as appropriate.

Operationally, the multi-manager structure is a robust one as each of the investment managers, the custodian and the fund accountants keep their own records which are reconciled on a monthly basis. Management

monitors the activities of all third parties and reports any significant issues to the Board. Comprehensive contractual obligations and indemnification provisions have been put in place with each of the third party services providers.

### *Accounting, legal and regulatory*

In order to qualify as an investment trust the Company must comply with section 842 of the Income and Corporation Taxes Act 1988 ("section 842"), to which reference is made on page 24 under the heading "Status". A breach of section 842 could result in the Company losing investment trust status and, as a consequence, capital gains realised within the Company's portfolio would be subject to Corporation Tax. The section 842 criteria are monitored by the CEO. The Company must comply with the provisions of the Companies Act 1985, and the Companies Act 2006 as it becomes enacted ("the Companies Acts"), and, as the Company's shares are listed for trading on the London Stock Exchange, the Company must comply with the UK Listing Authority's Listing Rules and Disclosure Rules ("UKLA Rules"). A breach of the Companies Acts 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 in turn lead to a breach of section 842. The Board relies on the CEO, the company secretary and the Group's professional advisers to ensure compliance with the Companies Acts and UKLA Rules.

The subsidiary company, Witan Investment Services Limited ("WIS"), is regulated by the Financial Services Authority for the administration of savings plans. These are administered on behalf of WIS by Equiniti Limited. The operation of the savings plans is monitored closely by the Board of WIS and by the member of staff appointed as Compliance Officer.

### *Operational*

Many of the Group's operations are outsourced to third parties, principally BNP Paribas Securities Services ("BPSS"). Disruption to, or failure of, the accounting, payment systems or custody records operated by BPSS could prevent the accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by BPSS and its

other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal control section of the Corporate Governance Statement on pages 34 and 35.

### Management Team Changes

The Chairman's Statement refers to the splitting of the role of Chief Executive Officer (CEO). Robert Clarke was appointed a director and CEO with effect from 15 September 2008 – from which date he took executive responsibility for the overall management of the subsidising Company and its subsidiary. Mark Lynam was appointed Chief Investment Officer (CIO) with effect from 3 November 2008, from which date he took responsibility for investment policy and manager selection and monitoring. The CEO and CIO will work closely together and in conjunction with the Board to manage all aspects of the Company's affairs.

### Witan Investment Services ('WIS')

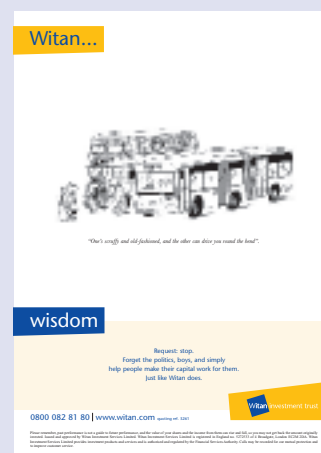
Witan Investment Services Limited is a wholly owned subsidiary of Witan Investment Trust plc. It was established in March 2005 and is authorised and regulated by the FSA to provide investment products and services.

WIS has two discernable channels of income by which its performance and profitability may be judged. These are firstly revenues from transaction fees and annual management charges relating to its savings plan business and, secondly, executive management and marketing fees paid by its corporate clients, Witan Investment Trust plc and Witan Pacific Investment Trust plc.

The platform provides savings plans to Witan Investment Services clients and is marketed under the Witan Wealthbuilder and Jump brands. It currently has over 29,750 customers with assets of some £150 million invested. The major cost incurred by Witan Investment Services is its fee to Equiniti Limited, the administrators of the Witan Wealthbuilder platform. WIS is a profit centre in its own right and the company contributed positively to the consolidated results of Witan Investment Trust during the year.

Witan Investment Services' overall aim is to stimulate demand for Witan shares and to do so profitably. It has three specific objectives:

- to generate a revenue stream exceeding costs normally incurred by its parent, Witan Investment Trust
- to have a tangible benefit for Witan shareholders
- to develop profitable new products within Witan that create demand for Witan shares.



In April Witan launched the Jump Child Trust Fund (CTF) that allows parents to invest the £250 Government CTF voucher in Witan. The CTF market represents a great opportunity for Witan to broaden the Trust's shareholder base further, and more importantly to nurture the next generation of Witan investors.

### VAT

Note 24 on page 60 explains in detail the current situation with regard to recent claims made by the Company to recover VAT borne following a legal judgment which held that the provision of investment management services to investment trust companies is an exempt activity for VAT purposes. The Company has received amounts in excess of the balance recognised as receivable as at 31 December 2007 of £1.45 million. The excess received of £565,000 is included in the 2008 accounts together with a further £200,000 being an estimate of the interest likely to be received on the total balances recovered. It is possible that further amounts may be recovered in future relating to different past accounting periods. However, the recovery of such amounts is not sufficiently certain to be recognised at this stage.

### Priorities for 2009

As a result of priorities set in 2008, the Board split the role of CEO, launched a new Child Trust Fund (CTF) product under the Jump brand, and introduced three new managers to the portfolio – this is referred to in greater detail on pages 15 to 17.

One of our most important priorities for the foreseeable future is to ensure that Witan is protected from the worst excesses of the severe financial and economic

# Directors' Report: Business Review

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conditions which have developed since last year. We will also look to take advantage of any investment and business development opportunities which will undoubtedly arise from such traumatic events.

The new management team, comprising Robert Clarke, CEO, Mark Lynam, CIO, and James Frost, Marketing Executive, is focusing on:

- managing the core Witan portfolio with the objective of generating strong investment returns for shareholders
- the execution of investment policy decisions so that once agreed new key themes can be transmitted into the portfolio quickly and effectively

- seeking and evaluating relevant business development opportunities where Witan's multi-manager expertise can be combined productively with other businesses both within and outside of the investment trust sector.

Essentially the new team is looking to build upon Witan's strengths and expertise, while identifying new ways of generating shareholder value.

## INVESTMENT SECTION

This Investment Section is addressed by Mark Lynam, Chief Investment Officer, under the following headings:

- Investment policy
- Portfolio review
- Investment managers
- Manager review
- Outlook



Mark Lynam

### Investment Policy

Witan's objective is to be the first choice for wealth creation through equity investment. This means that Witan seeks to outperform global stock markets, consistently adding value in the long term for its investors. Witan invests primarily in global equities: the minimum equity level is set at 80% of net assets although in practice, in recent times, it has been over 95%. The Board is prepared to consider alternative investments when appropriate.

The Company has the power under its Articles of Association to borrow up to 100% of the adjusted total of capital and reserves. Essentially this allows the Board to seek to improve performance through gearing by borrowing amounts equivalent in value to shareholders' funds. The Company had in place £144 million of long term debt. In practice the Board would not, other than in exceptional circumstances, allow gearing as defined on page 3 to rise to more than 20%. Over the past five years it has varied between 0% and 15% while, occasionally, the Company has held a small net cash position.

Investment risk is managed through:

- the selection of different investment managers with different mandates. Details of the managers, their mandates and the value of funds under management are set out on pages 14 and 17.
- the broad adherence to a global geographic benchmark, ensuring diversity. Details of major investment sectors and shareholdings are set out on pages 22 and 23.

- monitoring of investment manager performance and portfolios. Investment manager performance against their benchmarks is set out on page 17.
- monitoring of asset allocation, currency exposures and gearing levels.

During the year the Company invested its assets with a view to spreading investment risk and in accordance with the investment policy as set out above. In particular it has maintained a diversified portfolio, of which the analysis on page 22 and the commentary in this Business Review provide illustration. The portfolio has been actively managed by the investment managers, under the direction of the Chief Executive Officer and, since November, of the Chief Investment Officer. The directors have received regular reports on investment activity and portfolio construction, both at and outwith the regular meetings of the Board.

### 2008 Portfolio Review

It is difficult to write about 2008 without adopting a wholly negative tone. The scale of the global financial crisis and economic downturn has resulted in substantial negative returns for almost all asset classes, and nearly all investment managers, badly affecting investors be they institutional or private individuals. A string of bank bailouts across the world – following the collapse of Lehman Brothers in September – has led to a total collapse in investor confidence. Over the course of the year global equity markets fell 43.3% as measured by the FTSE World Index in local currency terms. The UK economy has suffered due to its relatively high exposure to financial services, consumer indebtedness and an inflated housing market, and consequently the FTSE All-Share Index fell 29.9%.

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The table below shows the current investment management arrangements:

EQUITY MANDATE	INVESTMENT MANAGER	BENCHMARK (TOTAL RETURN)	INVESTMENT STYLE
UK mainstream equities	Henderson Global Investors	FTSE 350 (ex investment companies)	Enhanced index
UK smaller companies	Henderson Global Investors	Hoare Govett Smaller Companies (ex investment companies)	Growth at an attractive price
Global	Southeastern Asset Management	FTSE All-World	Quality at a discounted valuation
UK	Artemis	FTSE All-Share	Recovery/special situations
UK	Marathon	FTSE All-Share	Capital cycles
Global	MFS International	FTSE All-World	Growth at an attractive price
Global	Thomas White International	FTSE All-World	Fundamental valuation techniques
Continental Europe	Wellington Management Company	FTSE World Europe (ex UK)	Fundamental research
Europe (inc UK)	Varenne	FTSE All-World Developed Europe	Value
North America	Henderson Global Investors	FTSE World North America	Enhanced index
Japan	Brandes Investment Partners	FTSE Japan	Value
Asia Pacific (ex Japan)	Comgest	FTSE All-World Asia (ex Japan/Australia/New Zealand)	Fundamental research
Australasia	Orbis Investment Management	FTSE Australia	Value

The Witan portfolio is well diversified across stockmarkets and also through a range of managers. Even so this challenging environment has resulted in a decline in net asset value total return of 23.3%, marginally ahead of the Witan benchmark which fell 23.9%. Contributions to this marginal relative outperformance came from being underweight the UK and overweight international markets where the weakness of Sterling has mitigated poor overseas stockmarket returns and there has been good stock selection by our managers.

Currency volatility has been a major feature of markets with a counter intuitive flight into the US Dollar by investors keen to seek safety in what is still considered the world's reserve currency, despite the poor US economic fundamentals. In addition to the US Dollar,

both the Japanese Yen and Euro strengthened considerably against Sterling. The strategic decision taken over recent years by Witan has been to emphasise investment overseas at the expense of the UK. This has been reflected both in adjusting downwards the Company's benchmark allocation to the UK and, in 2008, by strategically underweighting the UK allocation relative to this benchmark. Whilst the rationale for this policy reflects the perceived superior growth opportunities in overseas economies, the benefit in 2008 has actually only been seen in the strengthening of foreign currencies. Witan has some 60% of its assets invested overseas and this foreign currency exposure helped improve on poor stockmarket returns when translated back into Sterling. Whilst our actual currency exposure via our overseas managers has been of benefit, shareholders will know that in 2006 Witan engaged an

active currency manager to generate additional investment return. Unfortunately results have been very disappointing. At the interim stage we commented on the poor performance – whilst we believe the premise that investing in currency markets can add value, it became evident that Mellon Capital’s fundamental approach to currency management was unsuited to the momentum-driven forces that have been a recurring driving force behind currency movements in 2008. Following direct discussions with Mellon Capital’s new CIO we took the decision to redeem the currency loan note. This had given Witan effective economic exposure to £350 million of foreign currency – being approximately half of Witan’s actual foreign currency exposure at the time of initiating the investment. The actual loss in 2008 was a very disappointing £14 million.

Elsewhere the majority of Witan’s managers outperformed their respective benchmarks. Amidst such unrelenting bad economic and stockmarket news any positive comments are likely to be seen as overly optimistic but we are encouraged by our multi-manager strategy and the fact that nine out of the thirteen managers selected by us have outperformed their benchmarks in 2008 – some marginally and some to a much greater extent. It is even more encouraging if we compare our managers’ returns with comparable peer groups of managers available to investors in the UK. Using the IMA’s (Investment Management Association’s) sector guidelines we calculate that seven managers would rank in the first quartile and a further three in the second quartile.

### Investment Managers

As listed on the previous page, the portfolio consists of 13 separate mandates managed by 11 different fund management firms.

Each of the managers is entitled to a base management fee, calculated according to the value of the assets under management, and/or a performance fee, calculated according to investment performance, over a rolling three year period, relative to the benchmark applicable to the relevant investment mandate. With one minor exception, the fees for each of the segregated investment management agreements are subject to a cap in respect

of each accounting year and each agreement can be terminated on one month’s notice. Two of the investment mandates are held through pooled vehicles. These arrangements are not

subject to specific investment management agreements as they are in effect direct investments. However, the relevant terms are similar to what is described above. The base management fee rates range from nil to 0.90 per cent per annum and the performance fees range from nil to 25 per cent per annum of the relevant outperformance. All the fees are payable quarterly in arrears. The performance fees are payable on a pro rata basis, after a minimum initial period of one year, and after three years are calculated on a rolling three year basis.

The average aggregate base management fee, including the investments in pooled vehicles and the currency note, calculated on a size-weighted basis according to the value of the funds under management, was 0.28 per cent as at 31 December 2008 (and 0.21 per cent as at 31 December 2007). The investment in the fund covering Australasia is subject to uncapped performance fees of 20% of outperformance. Excluding this investment, the maximum performance fees payable, if each of the other investment mandates performs to at least the extent that the relevant cap applies, would result in total fees of 0.98 per cent being paid (based on the value of the funds under management at 31 December 2008).

The investment managers may use certain services which are paid for, or provided by, various brokers. In return they may place business, including transactions relating to the Company, with these brokers.

### Investment Manager Review

All our UK managers outperformed with the new additions in 2008, Artemis and Marathon, demonstrating the benefits of active management in such a challenging environment. Both comfortably outperformed over the period from May 2008 when they were appointed. **Artemis** fared particularly well and



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benefited from large underweight positions in banks, mining and consumer related sectors. Their preference for the more defensive areas of the market such as utilities, pharmaceuticals and food companies aided performance. Whilst acknowledging the poor economic environment our fund manager at Artemis believes that "Declining interest rates are, however, a positive. There are a large number of equities that are well financed and have yields three and four times the current level of base rates. On a medium to long term view these equities will make us money". **Marathon** too have delivered outperformance which has been largely attributable to stock selection and to a lesser extent sector selection. The latter was positive owing to the significant underweight to financials which was enough to offset the underweight to outperforming defensive areas such as oil & gas, health care and utilities. Their underweight to basic materials stocks was also beneficial.

Whilst Artemis and Marathon have mandates to invest freely across all areas of the UK stockmarket, the core of Witan's UK equity exposure is managed by **Henderson's UK Enhanced** equity team and focuses on the FTSE 350 Index. This index represents large and midcap stocks. Henderson's investment strategy seeks to add value through a mix of fundamental and technical strategies implemented through a number of small over and underweight positions around the core index. The result is a low risk strategy which for 2008 matched their benchmark.

Witan's coverage of the smaller companies in the UK has remained underweight given the poor outlook for the UK economy. This area of the market suffered more than larger companies as both prospects and liquidity dried up. This portfolio is also managed by Henderson and the manager, who outperformed his specific small company benchmark, is very experienced and thorough in his approach. "The emphasis is to pick stocks that exhibit a solid business model, strong management, a sound financial structure ..", all attributes that are key to survival in this difficult environment.

Turning to overseas, the US equity market got off to a weak start in 2008 but there was a hope after the US authorities rescued Bear Stearns that the government would step in to protect companies and the economy. At the same time corporate earnings and economic

data also appeared to stabilise. However, this mild recovery in sentiment was short lived as the oil price peaked at \$147 per barrel and the global economy showed signs of deteriorating. The ensuing financial crisis claimed a number of high profile victims and resulted in a wave of panic selling that peaked in November. There were a number of public bailouts, including AIG Insurance, and a number of iconic Wall Street names, such as Merrill Lynch, were forced to merge with larger rivals. The response from the Federal Reserve was unprecedented, with interest rates cut to record low levels. By the fourth quarter the financial crisis had moved into the real economy, with unemployment rising sharply, a steep drop in industrial activity, and confirmation of a recession. Only when Barack Obama proposed a massive stimulus package in November did the equity market stabilise to end the year off its lows but still down 40% in local currency terms. The near 25% rally in the US Dollar gave Sterling investors an index return of -13.1%. Our US equity exposure is through the **Henderson North America Enhanced Index Fund** which follows a similar low risk process to the Henderson UK Equity Enhanced portfolio and which marginally underperformed the US market.

Continental European stocks declined nearly 44% in Euro terms during the year. Financial stocks fared worst, while companies with more defensive earnings profiles declined the least. The Witan Europe ex-UK account is a concentrated portfolio where bottom up fundamental analysis drives stock selection as well as industry allocation. Unfortunately absolute returns have been negative but having underperformed in recent times it is good to see that our manager, **Wellington**, has outperformed in 2008 by remaining true to their investment principles. Wellington's focus on less 'popular' stocks where they identified more value than the market helped them to outperform for Witan this year. This was particularly true amongst the cyclical areas of the market such as financials, energy, and industrials, where their allocation and stock selection were strong. In financials, their preference for reinsurers over banks helped, while, in industrials, timely purchases of companies like Ryanair and Deutsche Post were well rewarded. Amongst defensives, the weighting and selection in telecom

## Performance

for the year ended 31 December 2008 and from inception to 31 December 2008

Investment Manager	Value of Funds under Management £m at 31.12.08	% of Witan's Assets under Management at 31.12.08*	Performance in the period 31.12.07 to 31.12.08 (%)	Benchmark Performance 31.12.07 to 31.12.08 (%)	Performance in the period since inception to 31.12.08 (%) (annualised)	Benchmark Performance since inception to 31.12.08 (%) (annualised)
Henderson Global Investors (UK mainstream)	134.2	14.8	-29.3	-29.4	+3.0 (B)	+2.9 (B)
Henderson Global Investors (UK smaller)	31.0	3.4	-40.1	-40.8	+1.2 (A)	0.0 (A)
Southeastern Asset Management (Global)	130.8	14.5	-23.5	-19.4	+1.6 (B)	+5.7 (B)
MFS International (Global)	101.9	11.3	-8.7	-19.4	+8.8 (B)	+5.7 (B)
Thomas White (Global)	91.1	10.1	-18.4	-19.4	-12.9 (D)	-15.1 (D)
Wellington Management Company (Europe)	76.2	8.4	-23.0	-25.9	+5.5 (B)	+9.0 (B)
Henderson Global Investors (USA)	58.6	6.5	-13.9	-13.3	+3.9 (A)	+3.5 (A)
Brandes Investment Partners (Japan)	80.3	8.9	+18.8	-1.1	+8.6 (B)	+5.9 (B)
Comgest (Asia Pacific (ex Japan))	50.5	5.6	-24.2	-33.5	-8.3 (C)	-17.0 (C)
Orbis (Australasia)	10.8	1.2	-40.3	-32.9	-23.1 (C)	-19.3 (C)
Varenne Capital (Europe)	24.3	2.7	not applicable		-26.4 (E)	-23.6 (E)
Artemis Investment Management (UK)	58.4	6.5	not applicable		-19.6 (F)	-28.3 (F)
Marathon Asset Management (UK)	55.4	6.1	not applicable		-24.3 (F)	-28.3 (F)

\*excluding cash balances held centrally by Witan and the unquoted investments.  
Source: The WM Company.

(A) from 31.08.04. (B) from 30.09.04. (C) from 31.07.07.  
(D) from 28.09.07. (E) from 30.04.08. (F) from 06.05.08.

stocks was again very additive; however, the selection of healthcare stocks was not as strong as hoped. While they were correct in anticipating that investors would take a fresh look at healthcare stocks generally, the market had a clear preference for larger companies. This meant that many of their smaller companies did not hold up as well as they expected. Our other European manager **Varenne Capital Partners** has an even more concentrated portfolio approach. Given their intense research process and the economic background, they have spent these first months since inception building the Witan portfolio which numbers just ten stocks. It is too short a period to judge their performance sensibly.

Japan has not been immune to the economic and financial crises. Whilst **Brandes**, our Japan manager, monitor the economic environment developments in global markets, their investment philosophy focuses on

company-by-company analysis. Sector and industry weightings are a by-product of this stock selection process and are not a result of top-down allocations driven by an economic outlook. This strategy has served them well as they have been a consistent outperformer through 2008 and were some 12% ahead of their benchmark in Yen terms which, when converted into Sterling, produced a very welcome positive return of +18.8%. Brandes is a bottom-up, value-oriented manager whose objective is to buy "undervalued" stocks and to hold them until they attain their "intrinsic value." Holdings in the food products industry had the most positive impact on their portfolio performance this year. Within this industry, positions such as Nippon Flour Mills Co. Ltd (packaged foods & meats) and Fuji Oil Co., Ltd (agricultural products) were among the top performers. Other positions that performed well in 2008 included Tokushu Tokai Holdings Ltd (paper & forest products) and Mitsubishi Tanabe Pharma

## Directors' Report: Business Review

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(pharmaceuticals). At the end of the year their portfolio's most significant exposures was in the commercial banking and pharmaceutical industries and they "believe the portfolio is well positioned to deliver favourable long term results".

2008 turned out to be a painful one for investors in Asia. **Comgest** continue to manage our Asia Pacific (ex Japan) portfolio, with their concern for free cash flow and quality companies helping them to comfortably outperform their benchmark. Comgest believe that "those companies that can generate enough free cash flow to finance their development or that can readily draw on credit lines will be at a competitive advantage in an environment where credit is restricted. It will be critical to identify such companies because they are the best-equipped to survive or to become the consolidators in their industries". Comgest highlight stocks such as Delta Electronics as falling into this category.

The **Orbis** Australia Fund completes our Asia Pacific exposure. Performance was disappointing in both absolute and relative terms but this specialist manager

has a particular small cap value style which should be handsomely rewarded in more normal markets.

In contrast to our regional managers our trio of global managers are free to actively pick stocks on a regionally unconstrained basis and two of them continue to do so successfully.

Chicago based **Thomas White** demonstrated their active management in the latter half of the period by reducing exposure to emerging markets and trimming the developed European and Asia Pacific regions. The cash proceeds were designated to be added to the US weight. During the fourth quarter the portfolio reflected this strategy as new US positions in Exxon Mobil (+23.9%) and Dominion Resources (+14.4%) were among top performers. Other portfolio holdings performing well in a challenging economic environment also included leading Mexican retailer Grupo Elektra (+48.6%), Japan's Electric Power Development (+47.9%), Toyo Suisan Kaisha (+38.6%) and Bristol Myers (+36.0%).

### Top 10 Overweight Positions at 31 December 2008

Name	Sector	Portfolio Weighting minus Benchmark Weighting
Fairfax Financial	Nonlife Insurance	1.64
Nipponkoa Insurance	Nonlife Insurance	1.45
Walt Disney	Media	1.31
Liberty Media	Media	1.19
Japan Petroleum Exploration	Oil & Gas Producers	1.00
ACS Actividades	Construction & Materials	0.97
Sompo Japan Insurance	Nonlife Insurance	0.94
Willis	Nonlife Insurance	0.89
DirecTV	Media	0.87
Dell	Technology Hardware & Equipment	0.87

### Top 10 Underweight Positions at 31 December 2008

Name	Sector	Portfolio Weighting minus Benchmark Weighting
HSBC	Banks	-1.42
BP	Oil & Gas Producers	-1.29
Vodafone	Mobile Telecommunications	-1.05
Royal Dutch Shell	Oil & Gas Producers	-1.04
GlaxoSmithKline	Pharmaceuticals & Biotechnology	-0.65
British American Tobacco	Tobacco	-0.56
Telefonica	Telecommunications	-0.52
AstraZeneca	Pharmaceuticals & Biotechnology	-0.52
Novartis	Pharmaceuticals & Biotechnology	-0.44
BG	Oil & Gas Producers	-0.41

Source of both tables: BNP Paribas and Style Research.

Global equity manager **MFS** were substantially ahead of the benchmark index thanks to their preference for high quality stocks and consequently a lack of financials. MFS benefited from their positions in companies that have demonstrated the ability to maintain above-average growth and returns through various economic cycles, including Swiss fragrance and flavour maker Givaudan and US diversified manufacturer 3M. MFS have high conviction in a number of individual companies that they believe have a good mix of products and are able to absorb and pass on increased input costs, and therefore are able to maintain earnings growth and profit margins in various economic conditions.

The laggard continues to be **Southeastern Asset Management**, a manager with an enviable long term track record and clear investment philosophy. As value investors their style has been out of favour and Southeastern's end of year report shows their frustration but also a strong belief that the portfolio of stocks they hold for Witan offers dramatic upside potential when stability and confidence return to stockmarkets:

"Throughout the year we followed our long-held discipline of trying to protect capital by buying businesses with competitive advantages, good management partners, and prices below 60% of appraisal. In 2008 many high quality investments went from 60-cent dollars to 30-cent dollars, even after lowering appraisals to account for the worse environment. We believe that prices will return to fair value at some point meaning that returns on our capital are deferred, not lost."

At Witan we are acutely aware that managers have poor periods when their style of investment may be out of tune with market dynamics – indeed the strength of such managers is that they are not persuaded by shorter term underperformance to change their investment approach and throw in the towel at precisely the wrong time. We continue to monitor and liaise with all our managers, including Southeastern.

The two tables opposite provide extracts of the top 10 overweightings and top 10 underweightings. These are derived from the investment holdings in the managers' portfolios being consolidated and

sorted according to their respective relative weightings against the benchmark.

## Outlook

Confidence in a stockmarket recovery would of course be welcomed by all investors but in the short term economic indicators suggest chronically weak economies, rising unemployment and depressed corporate profits and dividends. We view the concerted action by governments and central banks as positive, although the jury is still out as to whether or not historically low interest rates, bank bailouts and printing money will succeed in re-kindling economic activity. Loose monetary policies were the origins of this slump and counter cyclical fiscal policies are also needed to reflate the economy.

Tactically we will maintain our underweight position in the UK – with a recession unfolding there is little encouragement for investors in the short term. Elsewhere, the US should not be underestimated as the best positioned to recover first, given the flexibility and resourcefulness inherent in their economy. Asia has the advantage of being the mirror image of the West with well capitalised banks, current account surpluses and consumers who have a propensity to save.

Witan has been careful to select a range of quality investment managers who we believe have the intellectual, philosophical and practical experience to navigate difficult, arguably uncharted, waters. Most of our managers are bottom-up stock pickers who analyse individual companies using fundamental analysis. They believe that their portfolio valuations are at historic low levels and represent considerable value.

We are not able to forecast short term movements in stockmarkets but firmly believe in economic cycles, that reflation will come and that equity investments will benefit. In the very long run stockmarkets have averaged 6% per annum; from these depressed levels one might expect returns to be higher. With this in mind we will prudently make use of gearing during 2009.



## Directors' Report: Investment Managers



### Thomas White International

#### Thomas White International

Founded in 1992 by a Managing Director of Morgan Stanley Asset Management, Thomas White has £450m\* under management. With professionals in Chicago and Bangalore, India, Thomas White invests in 50 markets around the world using a disciplined value-driven strategy. Its analysts are aided in their stock selection by proprietary fundamental appraisal techniques applied to each company within an industry and/or country. This body of valuation knowledge has been refined over decades. Their unique analytical approach allows them to limit overall portfolio volatility and downside risk while delivering excellent long-term investment returns.



#### MFS Investment Management

Boston-based MFS is a global business with additional offices in London, Tokyo and Singapore. Founded in 1924, it has some £88bn\* under management on behalf of institutional and retail clients. Its investment philosophy is based on the premise that stocks of companies that provide substantial earnings growth and trade at a discount to their expected growth rate will outperform the market. The company believes that fundamental research is the most reliable method of identifying these stocks. MFS is 78% owned by Sun Life Financial, Inc with up to 22% available for ownership by its employees.



#### Southeastern Asset Management

Founded in 1975 and based in Memphis Tennessee, Southeastern manages over £14.0bn\* for a range of institutional, high net worth and retail clients. When Southeastern makes an investment they take the view that they are purchasing that company in its entirety. They aim to avoid capital loss while targeting an annual average return of at least inflation plus 10%. In the US they manage the Longleaf mutual funds which reopened in 2008 to new investors, after being closed for several years, due to the large amount of opportunity in the market. Southeastern is 100% employee owned with all staff equity investment made exclusively into the firm's funds.



#### Artemis Investment Management

Established in 1997, Artemis Investment Management Ltd manages over £16bn\* on behalf of a range of retail and institutional clients. Witan's portfolio is a segregated mirror of Derek Stuart's £2bn UK Special Situations Fund launched in 2001 – a contrarian fund that aims to outperform the FTSE All-Share Index by 3% per annum. This approach seeks to exploit market inefficiencies, with an absolute return mindset, in order to generate maximum returns. It is a stock-picking strategy that aims to achieve long-term capital growth by focusing on stocks that are out of favour and have turnaround potential.



#### Marathon Asset Management

Marathon Asset Management was founded in 1986 and is totally independent, managing some £21bn\* of institutional client assets. At the heart of Marathon's investment philosophy is the "capital cycle" approach to investment. This is based on the idea that the prospect of high returns will attract excessive capital (and hence competition), and vice versa. In addition, the assessment of management and how they respond to incentives and the forces of the capital cycle is critical to the investment outcome. The investment philosophy is intrinsically contrarian. Given the long-term nature of the capital cycle, Marathon's investment ideas generally require patience and, by industry standards, long stock holding periods.



#### Henderson Global Investors

Henderson has been managing investments since 1934. Once owned by Witan, it has managed the Trust's portfolio since the beginning. Currently it has some £49.5bn\* assets under management and provides a full range of investment products and services to clients worldwide. Henderson has recognised expertise as an enhanced index manager and is recommended as such by investment consultants. Neil Hermon continues to manage Witan's UK smaller company portfolio as he has done successfully for the past six years. Henderson is a quoted company on the London Stock Exchange.



### Wellington Management

Tracing their roots to 1928, Wellington Management is one of the largest independent investment management firms in the world. They are a private firm whose sole business is investment management. With client assets under management totalling just under £292bn\*, they serve as investment adviser for institutional clients in over 40 countries. Wellington's most distinctive strength is their commitment to proprietary, independent research – the foundation upon which our investment approaches are built. Wellington's commitment to investment excellence is evidenced by their significant presence and long-term track records in nearly all sectors of the liquid, global securities markets.

VARENNE CAPITAL PARTNERS

### Varenne Capital Partners

Varenne Capital Partners invests internationally in significantly undervalued equity and other listed securities. Varenne was established in 2003 and is a Paris-based boutique with four founding partners. The managers at Varenne focus on companies with good to excellent economic characteristics – a measurable, sustainable competitive advantage delivering long-term above-average returns on capital employed – that trade at discounts of at least 45% to its intrinsic value estimates.



### Brandes

Brandes Investment Partners, L.P. ("Brandes") is a leading US investment advisory firm, managing approximately \$52.9bn\* in equity and fixed income assets for institutional and private clients worldwide. Since the firm's inception in 1974, Brandes has applied the value investing approach, pioneered by Benjamin Graham, to security selection. Among the first investment firms to bring a global perspective to value investing, they manage a variety of investment strategies. They believe that a security's price and its intrinsic value detach from one another in the short term. The firm focuses on the fundamental characteristics of a company in order to develop an estimate of its intrinsic value. By choosing stocks that are selling at a discount to the firm's estimates of their intrinsic value, the firm seeks to establish a margin of safety and an opportunity for competitive performance. This combination of rational fundamental analysis and the discipline to take advantage of market price irrationality enables the firm to target competitive long-term results.



### Comgest

Wholly owned by its principals and staff, Comgest is completely independent. Founded in Paris in 1986, Comgest also has offices in Hong Kong, Dublin and Tokyo and manages some £5.1bn\* solely in equities (£4.0bn\* in Asia/Emerging markets). Comgest uses a fundamental bottom-up approach, investing in companies that show exceptional characteristics that are likely to appreciate over the long term. No specific sectors or geographical zones are favoured. Comgest's objective is to achieve above-average returns at below average levels of risk over the long-term, reflecting the excellent visibility and strong profit growth of the companies in which it invests.



### Orbis

Orbis employs over 100 staff based at offices in Bermuda, London, Sydney and Seoul and manages approximately £9bn\*. Orbis adopts a bottom-up approach to selecting a portfolio of typically 30-50 stocks, offering best value, diversification and liquidity. Orbis offers a range of equity-based pooled investment vehicles, including a range of equity funds, three of which are AAA rated by Standard & Poor's. Witan invests in Orbis's Australian Equity Fund, which since its launch in January 2006 has consistently outperformed its benchmark.

\* All figures as at 31 December 2008 (except MFS and Henderson: 30 September 2008)

# Directors' Report: Classification of Investments

at 31 December 2008

		United Kingdom %	North America %	Continental Europe %	Japan %	Asia Pacific (ex Japan) %	South America %	Africa %	Total 2008 %
Basic Materials	Chemicals	0.2	0.3	1.2	0.7	–	–	–	2.4
	Forestry & Paper	–	–	–	–	–	–	–	–
	Industrial Metals	–	–	–	–	–	0.1	0.1	0.2
	Mining	1.5	–	–	–	–	–	0.3	1.8
		<u>1.7</u>	<u>0.3</u>	<u>1.2</u>	<u>0.7</u>	<u>–</u>	<u>0.1</u>	<u>0.4</u>	<u>4.4</u>
Consumer Goods	Automobiles & Parts	–	0.2	0.7	0.5	–	–	–	1.4
	Beverages	0.9	0.3	0.4	0.2	–	–	–	1.8
	Food Producers	0.6	0.3	0.6	0.1	–	–	–	1.6
	Household Goods	1.0	0.3	–	0.3	–	–	–	1.6
	Leisure Goods	–	–	1.0	0.2	–	–	–	1.2
	Personal Goods	0.1	0.7	0.9	0.4	–	–	–	2.1
	Tobacco	0.9	0.2	–	–	–	–	–	1.1
		<u>3.5</u>	<u>2.0</u>	<u>3.6</u>	<u>1.7</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>10.8</u>
Consumer Services	Food & Drug Retailers	1.6	0.3	0.4	–	–	–	–	2.3
	General Retailers	0.4	0.7	1.2	0.3	0.3	0.1	–	3.0
	Media	1.4	3.9	0.5	0.3	–	–	–	6.1
	Travel & Leisure	2.1	0.1	0.2	–	0.7	–	–	3.1
		<u>5.5</u>	<u>5.0</u>	<u>2.3</u>	<u>0.6</u>	<u>1.0</u>	<u>0.1</u>	<u>–</u>	<u>14.5</u>
Financials	Banks	2.2	0.4	1.4	1.7	0.3	–	–	6.0
	General Financial	0.9	0.6	0.2	0.5	0.5	–	–	2.7
	Life Assurance	0.6	0.1	0.1	–	–	–	–	0.8
	Nonlife Insurance	0.4	2.7	1.3	2.9	0.3	–	–	7.6
	Real Estate	0.4	–	–	–	0.5	–	–	0.9
	Open-ended funds	–	6.4	–	–	1.2	–	–	7.6
		<u>4.5</u>	<u>10.2</u>	<u>3.0</u>	<u>5.1</u>	<u>2.8</u>	<u>–</u>	<u>–</u>	<u>25.6</u>
Health Care	Health Care Equipment & Services	0.2	0.9	0.2	–	–	–	–	1.3
	Pharmaceuticals & Biotechnology	2.4	0.6	1.8	0.8	0.1	–	–	5.7
		<u>2.6</u>	<u>1.5</u>	<u>2.0</u>	<u>0.8</u>	<u>0.1</u>	<u>–</u>	<u>–</u>	<u>7.0</u>
Industrials	Aerospace & Defence	1.0	0.4	–	–	–	–	–	1.4
	Construction & Materials	0.2	0.1	1.3	0.9	0.7	0.5	–	3.7
	Electronic & Electrical Equipment	0.5	–	0.4	0.4	0.2	–	–	1.5
	General Industrials	0.5	0.5	–	0.2	0.3	–	–	1.5
	Industrial Engineering	0.6	0.6	0.1	0.2	–	–	–	1.5
	Industrial Transportation	–	0.4	0.7	0.1	–	–	–	1.2
	Support Services	2.1	0.3	0.3	0.1	–	–	–	2.8
		<u>4.9</u>	<u>2.3</u>	<u>2.8</u>	<u>1.9</u>	<u>1.2</u>	<u>0.5</u>	<u>–</u>	<u>13.6</u>
Oil & Gas	Oil & Gas Producers	5.3	1.5	0.9	1.2	0.1	0.1	–	9.1
	Oil Equipment Services & Distribution	0.2	0.1	0.1	–	0.1	–	–	0.5
		<u>5.5</u>	<u>1.6</u>	<u>1.0</u>	<u>1.2</u>	<u>0.2</u>	<u>0.1</u>	<u>–</u>	<u>9.6</u>
Technology	Software & Computer Services	1.0	0.6	0.1	–	–	–	–	1.7
	Technology Hardware & Equipment	–	1.6	0.4	1.7	0.6	–	–	4.3
		<u>1.0</u>	<u>2.2</u>	<u>0.5</u>	<u>1.7</u>	<u>0.6</u>	<u>–</u>	<u>–</u>	<u>6.0</u>
Telecommunications	Fixed Line Telecommunications	0.5	0.1	1.4	0.4	0.6	–	–	3.0
	Mobile Telecommunications	1.4	0.1	0.3	0.1	0.6	0.1	–	2.6
		<u>1.9</u>	<u>0.2</u>	<u>1.7</u>	<u>0.5</u>	<u>1.2</u>	<u>0.1</u>	<u>–</u>	<u>5.6</u>
Utilities	Electricity	0.6	0.3	–	0.1	0.7	–	–	1.7
	Gas Water & Multiutilities	0.6	–	0.6	–	–	–	–	1.2
		<u>1.2</u>	<u>0.3</u>	<u>0.6</u>	<u>0.1</u>	<u>0.7</u>	<u>–</u>	<u>–</u>	<u>2.9</u>
<b>Totals 2008</b>		<u>32.3</u>	<u>25.6</u>	<u>18.7</u>	<u>14.3</u>	<u>7.8</u>	<u>0.9</u>	<u>0.4</u>	<u>100.0</u>
<b>Totals 2007</b>		34.8	23.7	18.5	11.1	10.5	1.2	0.2	100.0

## Notes:

1. Unquoted investments, options and futures are not included in this classification.
2. Included in the above are fixed interest holdings of £2,531,000 (2007: none).

# Directors' Report: Fifty Largest Equity Investments

at 31 December 2008

		Market value of holding £ million	Country	Sector
1	Royal Dutch Shell	19.2	UK/Netherlands	Oil & Gas Producers
2	British Petroleum	16.9	UK	Oil & Gas Producers
3	GlaxoSmithKline	13.5	UK	Pharmaceuticals & Biotechnology
4	Fairfax Financial	13.3	Canada	Nonlife Insurance
5	Nipponkoa Insurance	12.9	Japan	Nonlife Insurance
6	Walt Disney	12.1	USA	Media
7	Vodafone	11.7	UK	Mobile Telecommunications
8	Liberty Media	10.5	USA	Media
9	HSBC	10.2	UK	Banks
10	ACS Actividades	9.0	Spain	Construction & Materials
11	Japan Petroleum Exploration	8.9	Japan	Oil & Gas Producers
12	Sompo Japan Insurance	8.5	Japan	Nonlife Insurance
13	Willis	7.9	USA	Nonlife Insurance
14	Dell	7.9	USA	Technology Hardware & Equipment
15	DirectTV	7.9	USA	Media
16	AstraZeneca	7.2	UK	Pharmaceuticals & Biotechnology
17	Philips Electronics	7.1	Netherlands	Leisure Goods
18	Diageo	6.7	UK	Beverages
19	Chesapeake Energy	6.6	USA	Oil & Gas Producers
20	Reckitt Benckiser	6.4	UK	Household Goods & Home Construction
21	Tesco	6.3	UK	Food & Drug Retailers
22	BHP Billiton	6.1	UK	Mining
23	Nike	5.8	USA	Personal Goods
24	eBay	5.7	USA	General Retailers
25	BG	5.6	UK	Oil & Gas Producers
26	BAE Systems	5.5	UK	Aerospace & Defence
27	Ingersoll Rand	5.0	USA	Industrial Engineering
28	British American Tobacco	4.9	UK	Tobacco
29	Cemex	4.7	Mexico	Construction & Materials
30	Richemont	4.6	Switzerland	Personal Goods
31	Sanofi-Aventis	4.5	France	Pharmaceuticals & Biotechnology
32	France Telecom	4.5	France	Fixed Line Telecommunications
33	AXA	4.1	France	Nonlife Insurance
34	Nestlé	3.9	Switzerland	Food Producers
35	Canon	3.8	Japan	Technology Hardware & Equipment
36	Sligro	3.6	Netherlands	Food & Drug Retailers
37	Fielmann	3.6	Germany	General Retailers
38	Inditex	3.6	Spain	General Retailers
39	Sun Microsystems	3.5	USA	Technology Hardware & Equipment
40	Capita	3.5	UK	Support Services
41	Roche	3.4	Switzerland	Pharmaceuticals & Biotechnology
42	China Mobile	3.3	China	Mobile Telecommunications
43	Cable & Wireless	3.3	UK	Fixed Line Telecommunications
44	Compass	3.2	UK	Travel & Leisure
45	ComfortDelGro	3.1	Singapore	Travel & Leisure
46	Nippon Telegraph & Telephone	3.1	Japan	Fixed Line Telecommunications
47	Unilever	3.1	UK	Food Producers
48	Singapore Telecommunications	3.0	Singapore	Fixed Line Telecommunications
49	Standard Chartered	2.9	UK	Banks
50	Wolters Kluwer	2.9	Netherlands	Media

These investments total £328.5 million and represent 37.3% of the total investment portfolio at 31 December 2008. The full portfolio is not listed because it contains over 600 companies as a result of the investment management arrangements. The above listing is of the largest individual equity investments and as such excludes the collective investments used to invest in North America and Australasia.

# Directors' Report: Statutory Information

The directors present the audited accounts of the Group and their report for the year ended 31 December 2008.

## Activities and Business Review

A review of the business is given in the Chairman's Statement on pages 4 to 6 and in the Business Review on pages 7 to 19.

The Company is required by the Companies Acts to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2008 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 ("business review"). The information that fulfils the requirements of the business review can be found within the Business Review on pages 7 to 19.

## Investment Policy

The Company's investment policy is set out, within the Business Review, on page 13.

## Status

Witan Investment Trust plc ("the Company") is incorporated in England and Wales and domiciled in the United Kingdom. It is an investment company as defined in section 266 of the Companies Act 1985 and section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988 ("Taxes Act"). HM Revenue & Customs approval of the Company's status as an investment trust has been received in respect of the year ended 31 December 2007, although approval for that year may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Company will continue each year to seek approval as an investment trust under section 842 of the Taxes Act.

## Subsidiary Company

The Company has one subsidiary company, Witan Investment Services Limited, which provides marketing services to the Company and executive management and marketing services to third party investment trust clients. Witan Investment Services Limited is authorised by the Financial Services Authority to manage savings schemes for investors.

## ISAs

With effect from 6 April 2008:

- the annual Individual Savings Account (ISA) investment allowance was increased to £7,200; and
- all existing PEP accounts were automatically transferred into Stocks and Shares ISAs and are subject to ISA rules and regulations.

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

## Substantial Share Interests

As at 5 March 2009, the following had notified the Company of interests in the Company's voting rights:

	%
AXA Investment Managers UK Limited	16.4
Legal & General Group plc	3.9

The above percentages are calculated by applying the shareholdings as notified to the Company to the issued ordinary share capital as at 5 March 2009 (the shareholdings representing the voting rights).

## Assets

At 31 December 2008 the total net assets of the Group were £879.2 million (2007: £1,219.3 million). At this date the net asset value per ordinary share was 410.1p (2007: 545.7p).

## Revenue and Dividend

The loss for the year was £279.2 million, of which a profit of £25.3 million is attributable to revenue (2007: profit of £76.0 million, of which £27.1 million was attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	£'000
Distributed as dividends:	
First interim of 4.30p per ordinary share (paid on 5 September 2008)	9,288
Second interim of 5.90p per ordinary share (payable on 3 April 2009)	12,629
Retained earnings	3,344
	<hr/> 25,261 <hr/>

The directors have declared a second interim dividend instead of a final dividend in order to ensure that, as in previous years, the

distribution is made to the shareholders before 5 April. The Company intends to grow the dividend at least in line with inflation year on year.

#### Company revenue account

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own income statement. The revenue of the Company dealt with in the accounts of the Group amounted to £25,206,000 (2007: £26,905,000).

#### Directors

The current directors of the Company are shown on page 2.

All the directors held office throughout the year under review, with the exception of Mr Clarke, who was appointed a director on 15 September 2008, and Mrs Claydon, who on 6 March 2009 was appointed a director with effect from 9 March 2009.

Mr J Horsburgh served as a director until 31 October 2008.

Mr Clarke succeeded Mr Horsburgh as Chief Executive Officer on 15 September 2008.

At the Annual General Meeting on 28 April 2009, Mr Clarke and Mrs Claydon will retire in accordance with the Company's Articles of Association. Mr Henderson and Mr McGrath will also stand for re-election, having served as directors for more than nine years. Mr Jones will retire from the Board at the conclusion of the Annual General Meeting.

The non-executive directors have reviewed their independence in the context of the Combined Code, as revised in June 2006, and by reference to the AIC's Code of Corporate Governance. All the directors are wholly independent of all the investment managers. The non-executive directors are of the opinion that each of them is independent in character and judgement and that there are no relationships or circumstances that are likely to affect their judgement.

Mr Henderson was formerly a partner of Cazenove & Co., the firm which for many years acted as the Company's stockbroker.

However, he did not have responsibility for or involvement with Cazenove's role with the Company, being for many years responsible for aspects of Cazenove's fund management division.

Mr Henderson and Mr McGrath have served on the Board for more than nine years. Accordingly, they will stand for election by the shareholders each year 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, their longer perspective adds value to the deliberations of a well-balanced investment trust company board. The Board considers Mr Henderson and Mr McGrath to be independent. Their roles and contributions will, however, be reviewed rigorously each year.

Throughout the year the membership of the Audit Committee comprised Mr Boyle (Chairman), Mr Bruce and Mr Watson. Throughout the year the membership of the Remuneration Committee comprised Mr Jones (Chairman), Mr Henderson and Mr McGrath. Mr McGrath is the non-executive director who leads on marketing matters but the Board has decided not to establish a permanent committee to cover this area of the business.

As noted above, Mr Henderson was formerly a senior executive at Cazenove and a partner in its predecessor firm. As one of a number of institutional investors, the Company purchased in 2001 a holding of shares in Cazenove Group plc ("Cazenove") (see note 10 (v) on page 50). Subject to this exception, 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 Clarke, and until his resignation with effect from 31 October 2008 Mr Horsburgh, no director has a service contract with the Company.

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.

Number of meetings	Audit Remuneration		
	Board	Committee	Committee
	11	3	3
H M Henderson	11	*3	3
R E Clarke	3 of 3	*1	*1
J Horsburgh	9 of 9	*2	*1
A W Jones	10	–	3
R H McGrath	10	–	3
R A Bruce	11	3	*1
A Watson	10	2	*1
J E B Bevan	9	–	*1
R W Boyle	11	3	*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 and, with the exception of Mr Bruce, the Board's 'away day' in May.

# Directors' Report: Statutory Information

continued

## Directors' Interests

The interests of the directors in the share capital of the Company were as follows:

	31 December 2008	
	Beneficial	Non-Beneficial
Ordinary shares:		
H M Henderson	722,732	471,500
R E Clarke	–	–
A W Jones	97,536	–
R H McGrath	27,688	1,485
R A Bruce	3,167	397
A Watson	25,000	–
J E B Bevan	–	–
R W Boyle	4,606	–
	<u>880,729</u>	<u>473,382</u>
	1 January 2008	
	Beneficial	Non-Beneficial
Ordinary shares:		
H M Henderson	722,732	471,500
R E Clarke*	–	–
A W Jones	97,536	–
R H McGrath	27,688	1,006
R A Bruce	3,127	290
A Watson	25,000	–
J E B Bevan	–	–
R W Boyle	2,978	–
J Horsburgh	80,000	–
	<u>959,061</u>	<u>472,796</u>

\*on appointment on 15 September 2008.

Mr McGrath's non-beneficial interests increased to 1,567 shares as a result of regular investment through the Jump and Jump CTF share plans and Mr Bruce's non-beneficial interests increased similarly to 412 shares. No other changes in the interests of the directors have been notified since the year end. No director had an interest in the secured bonds, debenture stock or preference shares of the Company.

## Directors' indemnity

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

- 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 otherwise, in relation to the Company or any associated company and
- 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 may incur, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him 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 on pages 29 to 31.

## Corporate Governance

A corporate governance statement is set out on pages 32 to 35. The report of the Audit Committee is set out on page 36.

## Financial Instruments and the Management of Risk

By its nature as an investment trust, the Company is exposed to market price risk, foreign currency risk, interest rate risk, liquidity risk and credit risk. The Company's policies for managing these risks are outlined in note 14 to the accounts on pages 51 to 56.

## Investment Managers

**It is the opinion of the directors that the continuing appointment of the investment managers listed on pages 20 and 21 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. In 2007 the Board carried out a strategic review which included an in depth review of the investment managers. The Board reviews the appointments of the investment managers on a regular basis and makes changes as appropriate.**

## 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 2008 there were 214,398,654 shares in issue and thus the number of voting rights was 214,398,654.

*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 2008 there were 500,000 2.7% preference shares in issue. Further details on the preference shares are given in note 17 on page 58.

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 2008 there were 2,055,000 3.4% preference shares in issue. Further details on the preference shares are given in note 17 on page 58.

During the year a total of 9,027,845 ordinary shares were bought back by the Company for cancellation. There were no other changes to the issued share capital or the voting rights of the share capital during the year. Since the year end a further 347,600 ordinary shares have been bought back for cancellation.

There are no restrictions on the transfer of the Company’s share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

#### **New Zealand Listing**

Since 8 March 2006 the Company’s shares have been listed on the New Zealand Stock Exchange, in the category of Overseas Listed Issuer.

#### **Payment of Suppliers**

It is the Company’s payment policy for the financial year to 31 December 2009 to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company’s policy to abide by such terms. At 31 December 2008 the Company had no trade creditors (2007: none).

#### **Independent Auditors**

During the year the name of the auditors changed from Deloitte & Touche LLP to Deloitte LLP. Resolutions to re-appoint Deloitte LLP as the Company’s auditors, and to authorise the directors to determine their remuneration, will be proposed at the forthcoming Annual General Meeting.

#### **Directors’ Statement as to the Disclosure of Information to the Auditors**

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 auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant

audit information and to establish that the Company’s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

#### **Donations**

No donations were made to political parties during the year. No donations were made to charities during the year.

#### **Annual General Meeting (“AGM”)**

**The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your voting rights in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

The AGM will be held on Tuesday 28 April 2009 at 2.30 pm. The formal notice of the AGM is set out on pages 62 to 64. Resolutions relating to the following items of special business will be proposed at the AGM, for which shareholder approval is required in order to comply with the Companies Acts 1985 and 2006.

#### **Share buy-back facility**

*Resolution 9 – Authority to make market purchases of the Company’s own ordinary shares (special resolution)*

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 2008 a special resolution was passed giving the Company authority, until the conclusion of the AGM in 2009, to make market purchases for cancellation of the Company’s ordinary shares up to a maximum of 32,822,981 shares (being 14.99% of the issued ordinary share capital as at 28 April 2008). As at 31 December 2008 the Company had valid authority, outstanding until the conclusion of the AGM in 2009, to make market purchases for cancellation of 28,255,783 shares. During the year ended 31 December 2008 the Company purchased for

# Directors' Report: Statutory Information

continued

cancellation a total of 9,027,845 of its own ordinary shares, representing 4.0% of the ordinary shares in issue at 31 December 2007. These purchases, which cost £38.5 million excluding stamp duty, were funded from the realised capital reserves. A further 347,600 shares have been bought back between the year end and the date of this report.

The Board considers that the Company should continue to have authority to make market purchases of its own ordinary shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming AGM to authorise the Company to make market purchases for cancellation of up to 14.99% of the ordinary shares in issue at the date of the AGM (equivalent to 32,086,252 ordinary shares if there is no change in the issued ordinary share capital between the date of this report and the AGM). Under the Listing Rules of the UK Listing Authority this is the maximum percentage of its equity share capital that a company may purchase through the market pursuant to such authority.

The directors believe that buying back the Company's own shares in the market, at appropriate times and prices, is in the best interests of shareholders generally. The Company will make purchases, within guidelines set from time to time by the Board and if or when market conditions are suitable, with the aim of maximising the benefit to the remaining shareholders. The Company announced in December 2004 its intention to buy back shares proactively in order to maintain an appropriate level of discount, with the aim of moving the level of the discount to below 10% (as calculated by valuing the Company's debt on a fair value basis). The directors will not use this authority unless to do so would result in an increase in the net asset value per ordinary share. Shares will not be bought at a price that is less than 25p (the nominal value) or more than 5% above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the AGM in 2010.

## *Resolution 10 – Authority to make market purchases of the Company's own preference shares (special resolution)*

At the AGM in April 2008 a special resolution was passed giving the Company authority, until the conclusion of the AGM in 2009, 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 2008 the Company had valid authority, outstanding until the conclusion of the AGM in 2009, 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. The Board considers that the Company should continue to have authority to make market purchases of its own preference shares for cancellation. Accordingly, a special resolution will be proposed at the forthcoming AGM to authorise the Company to make market purchases for cancellation of up to the whole of the issued preference share capital in issue at the date of the AGM (equivalent to 500,000 2.7% preference shares and 2,055,000 3.4% preference shares if there is no change in the issued preference share capital between the date of this report and the AGM). The directors do not intend to use this authority unless, in their view, to do so would be in the best interests of the shareholders generally. Shares will not be bought back at a price that is less than £1 (the nominal value) or more than 5% above the average middle market price of the shares over the preceding five business days. The directors intend to seek a fresh authority at the AGM in 2010.

## **Recommendation**

**The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming AGM.**

By order of the Board

G S Rice

For and on behalf of

Henderson Secretarial Services Limited,

Secretary

6 March 2009

# Directors' Report: Directors' Remuneration Report

## Introduction

The Directors' Remuneration Report ("the Report") is prepared in accordance with Schedule 7A of the Companies Act 1985 ("the Act") in respect of the year ended 31 December 2008. An ordinary resolution to approve the Report will be put to the Annual General Meeting on 28 April 2009. The Act requires the auditors to report to the Company's members on certain parts of the Report and to state whether in their opinion those parts of the Report have been properly prepared in accordance with the Act. Therefore the Report has been divided into separate sections for audited and unaudited information.

## UNAUDITED INFORMATION

### Consideration by the Directors of Matters relating to Directors' Remuneration

The Board as a whole sets the directors' remuneration but it has appointed its Remuneration Committee to consider matters relating thereto. During the year the members of the Remuneration Committee were Mr A W Jones (Chairman), Mr H M Henderson and Mr R H McGrath. The Remuneration Committee has not been provided with advice or services by any person in respect of its consideration of the non-executive directors' remuneration (although the directors expect from time to time to review the fees paid to the boards of directors of other investment trust companies).

### Statement of the Company's Policy on Directors' Remuneration

#### *Non-executive directors*

All the directors are non-executive, with the exception of the Chief Executive Officer. 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 two three-year terms. The continuation of directors' appointments is contingent on satisfactory performance evaluation and re-election at annual general meetings. Directors' appointments are reviewed formally every three years by the Board as a whole. None of the directors has a contract of service and a director may resign by notice in writing to the Board at any time; there are no set notice periods. The Company's policy is for the directors to be remunerated in the

form of fees, payable quarterly in arrears, to the director personally or to a third party specified by him. There are no long term incentive schemes or pension arrangements and the fees are not specifically related to the directors' performance, either individually or collectively.

The Company's policy is that the fees payable to the directors should reflect the time committed by the directors to the Company's affairs and the responsibilities borne by them and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other directors in recognition of their more onerous roles.

The Company's Articles of Association limit the fees payable to the directors to £250,000 per annum in aggregate. In the year under review directors' fees were paid at the following annual rates: the Chairman £45,000 until 31 March 2008 and £50,000 from 1 April 2008; the Chairman of the Audit Committee £26,000 until 31 March 2008 and £30,000 from 1 April 2008; Mr McGrath, who has the additional role of monitoring the Group's marketing activities on behalf of the Board, £26,000 until 31 March 2008 and £30,000 from 1 April 2008; the other directors £23,000 until 31 March 2008 and £26,000 from 1 April 2008. The policy is to review these rates from time to time, although such review will not necessarily result in any change to the rates.

During the year the Remuneration Committee completed a review of the directors' fees and, on its recommendation, the Board agreed to increase the annual fees payable to the directors with effect from 1 April 2008, as above. These increases reflected the increase in the ordinary dividend over the three year period since the fees were last increased. On the recommendation of the Remuneration Committee, the Board agreed in February 2009 not to increase the fees in 2009.

Directors' and officers' liability insurance cover is held by the Company in respect of all the directors (including the executive director).

# Directors' Report: Directors' Remuneration

continued

## *Executive director*

Mr J Horsburgh was the Chief Executive Officer ("CEO") and the sole executive director of the Company until 15 September 2008; he retired from the Board on 31 October 2008.

Mr R E Clarke was appointed a director and Chief Executive Officer on 15 September 2008.

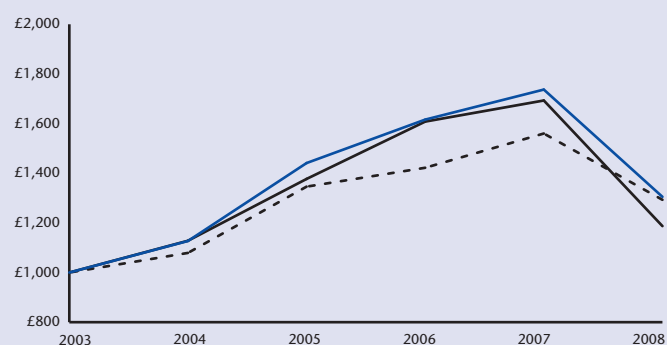
The Company's policy on the remuneration of the CEO is to pay a basic salary appropriate to the position, together with bonus arrangements that link his remuneration to the performance achieved in the different aspects of his role.

Mr Horsburgh's service agreement dated 16 January 2004, as revised by side letters dated 3 June 2005 and 25 April 2008, provided for a salary of £215,000 per annum, pension contributions equivalent to 10% of salary to a pension scheme of his choosing (or payment in lieu thereof) and private health insurance cover. His salary was increased to £236,500 per annum with effect from 1 January 2007. The bonus arrangements provided, at the ultimate discretion of the Board, a bonus of up to 100% of salary in respect of 2008 (up to 2007: 50%). Bonus payments were to be made over two years, subject normally to continued employment with the Company. The performance over the year of the Company's net asset value per share relative to its benchmark determined 60% of his bonus payments. In respect of 2008, this element of his bonus was determined as at 30 September 2008. Outperformance of the benchmark by 2% or more generated a bonus of the full 60%; no bonus was payable if performance was in line with or below that of the benchmark; relative performance of between nil and 2% generated a pro rata award. Until 30 September 2007 the benchmark was a composite of 50% the FTSE All-Share Index and 50% the FTSE World (ex UK) Index, both on a capital return basis. Since 1 October 2007 the benchmark has been a composite of 40% the FTSE All-Share Index, 20% the FTSE All-World North America Index, 20% the FTSE All-World Europe (ex UK) Index and 20% the FTSE All-World Asia Pacific Index, all on a capital return basis. The remaining 40% was awarded, at the Board's discretion, on the basis of Mr Horsburgh's overall performance as CEO of the Company. The appointment could be terminated by either party subject to not less than twelve months' written notice. Mr Horsburgh was not entitled to fees for his service as a director. He was entitled to take

unpaid leave, subject to the approval of the Chairman (and he did so in 2008 and 2007).

Mr Clarke's service agreement dated 4 September 2008 provides for a salary of £200,000 per annum, pension contributions equivalent to 10% of salary to a pension scheme of his choosing and private health insurance cover. The bonus arrangements provide, at the ultimate discretion of the Board, a bonus of up to 50% of salary in respect of each calendar year. Bonus payments will be made over two years. The performance over the year of the Company's net asset value per share relative to its benchmark (excluding the effect of share buy-backs) determines 60% of his bonus payments. Outperformance of the benchmark by 2% or more will generate a bonus of the full 60%; no bonus is payable if performance is in line with or below that of the benchmark; relative performance of between nil and 2% will generate a pro rata award. Since 1 October 2007 the benchmark has been a composite of 40% the FTSE All-Share Index, 20% the FTSE All-World North America Index, 20% the FTSE All-World Europe (ex UK) Index and 20% the FTSE All-World Asia Pacific Index, all on a capital return basis. The remaining 40% is awarded, at the Board's discretion, on the basis of his overall performance as CEO of the Company; this element is guaranteed for the first six months of his employment. An additional bonus, of up to 50% of salary, is payable subject to new business targets being met. The limit of 50% of salary in respect of this element may be waived if significant value is returned to shareholders; the circumstances governing any additional bonus are subject to the achievement of targets to be agreed by the Board. The appointment may be terminated by either party subject to not less than six months' written notice. The CEO is not entitled to fees for his service as a director.

## Performance Graph



- Witan share price total return, assuming the investment of £1,000 on 31 December 2003 and the reinvestment of all dividends (excluding dealing expenses).
- FTSE All-Share Index total return, assuming the notional investment of £1,000 into the Index on 31 December 2003 and the reinvestment of all income (excluding dealing expenses).
- - - FTSE World (ex UK) Index, Sterling adjusted, assuming the notional investment of £1,000 into the Index on 31 December 2003 and the reinvestment of all income (excluding dealing expenses).

Source: Datastream

The Act requires the performance of the Company's share price to be compared to a single broad equity market index. The FTSE All-Share Index is selected for the graph because it is the prime index of the UK market, on which the Company's shares are listed, and forms the largest constituent of the Company's benchmark. The FTSE World (ex UK) Index is also shown because more than half of the Company's investments are held in overseas companies.

## AUDITED INFORMATION

### Amount of each Director's emoluments

#### Non-executive directors

The fees payable in respect of each of the directors who served during the year, and during 2007, were as follows:

	2008 £	2007 £
H M Henderson	48,750	45,000
A W Jones	25,250	23,000
R H McGrath	29,000	26,000
R A Bruce	25,250	23,000
A Watson	25,250	23,000
J E B Bevan (i)	25,250	21,019
R W Boyle (ii)	29,000	23,022
R W C Colvill (iii)	—	8,643
<b>TOTAL</b>	<b>207,750</b>	<b>192,684</b>

#### Notes:

- (i) Mr Bevan was appointed a director on 1 February 2007.
- (ii) Mr Boyle was appointed a director on 1 February 2007 and as Chairman of the Audit Committee on 30 April 2007.
- (iii) Mr Colvill retired from the Board and as Chairman of the Audit Committee on 30 April 2007.

#### Executive director

The remuneration payable to the Chief Executive Officer in respect of the year is as follows:

	2008 £	2007 £
<b>J Horsburgh</b>		
Basic salary	186,478	219,532
Paid in lieu of pension contributions	17,472	20,966
Performance related bonus	143,674	51,170
Benefits in kind (health and life insurance)	5,148	5,803
<b>TOTAL</b>	<b>352,772</b>	<b>297,471</b>
<b>R E Clarke</b>		
Basic salary	58,888	—
Pension contributions	5,889	—
Performance related bonus	28,877	—
Benefits in kind (health and life insurance)	875	—
<b>TOTAL</b>	<b>94,529</b>	<b>—</b>

By order of the Board

G S Rice

For and on behalf of

Henderson Secretarial Services Limited,  
Secretary

6 March 2009

# Directors' Report: Corporate Governance Statement

## Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance ("the Code").

Throughout the year under review the Code in force was the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006. In addition, the AIC Code of Corporate Governance, issued by the Association of Investment Companies in May 2007, applies to the Company ("the AIC Code").

## Application of the Principles of the Code

The Company is committed to high standards of corporate governance and the Board attaches importance to the matters set out in the Code and applies its principles. However, as an investment trust company, many of the Company's day to day responsibilities are delegated to third parties and all but one of the directors are non-executive.

## The Board

The Board is collectively responsible for the success of the Company. Its role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed.

The Board sets the Company's strategic aims (subject to the Company's memorandum and 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.

As at the date of this report the Board consists of eight directors, all of whom are independent of the Company's various investment managers. With the sole exception of the Chief Executive Officer, the directors are all non-executive. Their biographical details, set out on page 2, demonstrate a breadth of investment, industrial, commercial and professional experience with an international perspective.

The Board meets at least 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 Chief Executive Officer is responsible to the Board for the overall management of the Company including business development, shareholder relations, marketing, investment trust industry matters, administration and unquoted investments. During 2008 following a review of the business, the role of Chief Executive Officer was split to create the additional role of Chief Investment Officer. His duties 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 Chief Executive Officer works closely with the Chief Investment Officer and reports to each meeting of the Board. His report includes confirmation that the Board's investment limits and restrictions have been adhered to, including those which govern the Company's tax status as an investment trust. The Chief Investment Officer attends each Board meeting. His report includes confirmation from each of the investment managers that they have carried out their duties in accordance with the terms of their investment mandates. The investment managers take decisions as to the purchase and sale of individual investments and are responsible for effecting those decisions on the best available terms. The Chairman is responsible for ensuring that the directors are provided, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant, whether from the Chief Executive Officer or otherwise.

Representatives of the investment managers attend Board meetings on a regular basis, enabling the directors to monitor the management of the Company's assets, to seek clarification on specific issues or to probe further on any points of concern. Matters specifically reserved for decision by the full Board have been defined and 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 directors have access to the advice and services of the corporate company secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed. When a director is appointed he or she is offered a tailored introductory programme. Directors are also provided, on a

regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors are encouraged to attend suitable training courses on an ongoing basis at the Company's expense.

Directors are appointed for specified terms, subject to re-election and to the provisions of the Companies Acts. In accordance with the Company's Articles of Association, new directors stand for election at the first annual general meeting following their appointment. The Board has agreed that every director will stand for re-election at intervals of not more than three years. The Board's report on the independence of the directors is set out on page 25.

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 relevant past and current experience of various areas, the most important skill-sets being investment management, finance, marketing, financial services, risk management, custody and settlement, and investment banking.

The Board's procedure in 2008 for evaluating the performance of the Board, its Committees and the individual directors was by means of individual meetings of the Chairman with each of the directors. A meeting of the directors was then held, without the Chairman present, to evaluate his performance. The evaluation process is designed to show whether individual directors continue to contribute effectively to the Board and to clarify the strengths and weaknesses of the Board's composition and processes. The Chairman has taken the lead in acting on the results of the evaluation process, mindful of the requirement to refresh the composition of the Board from time to time without reducing the stability, sense of purpose and effectiveness of the Board that was highlighted by the evaluation process.

The Chairman of the Company is an independent director. Mr Watson is appointed as Senior Independent Director.

Nevertheless, the Board considers that, by design, the directors have different qualities and areas of expertise on which they may lead when issues arise. In addition, the Board has appointed separate chairmen to lead its two permanent committees. Accordingly, any concerns can be conveyed to the director most qualified to address the subject.

### **Board Committees**

The Board has established Audit and Remuneration Committees. The Remuneration Committee has responsibility for the duties of the Board's former Nominations Committee. The duties of the former Management Engagement Committee are now the responsibility of the Chief Executive Officer. The membership of the Audit Committee and the Remuneration Committee is set out on pages 2 and 25.

#### *Audit Committee*

The report of the Audit Committee is set out on page 36.

#### *Remuneration Committee*

The Committee comprises three non-executive directors appointed by the Board; the Board also appoints the Chairman. The Committee held three meetings during the year. Its programme is to meet at least once a year, in advance of the year end, and on other occasions as necessary.

The role of the Remuneration Committee is to determine and review the Company's remuneration policy, to establish the incentive arrangements for, and to evaluate the performance of, the Chief Executive Officer, to assess the effectiveness of the Board and to consider the remuneration of the non-executive directors. It is also responsible for reviewing the composition of the Board and for proposing nominations for appointment to it. Each director is invited to submit nominations and external advisers may be used to identify or assess potential candidates. The nominations list is considered by the Board as a whole, although the Chairman would not expect to be involved in the selection of his successor.

A Board appointment was made early in 2009. The directors reviewed the skills and experience required of potential new directors. The Remuneration Committee, assisted by a specialist firm of search consultants, prepared a short list of candidates

# Directors' Report: Corporate Governance Statement

continued

from which the Board selected the person it considered to be best suited to the position.

## Directors' Remuneration

The directors' remuneration is detailed in the Directors' Remuneration Report on pages 29 to 31.

## Relations with Shareholders

The Board seeks to develop an understanding of the views of the major shareholders by receiving reports from the Chief Executive Officer and from the Witan Marketing Director on meetings that they have with shareholders, investors and analysts and from the Company's stockbrokers on contact it has with shareholders and investors. The Chairman, and other members of the Board if requested, expect to be available to talk to major shareholders.

The Board considers that the annual general meeting should provide an effective forum for individual investors to communicate with the directors. The annual general meeting is chaired by the Chairman of the Board. The Chairmen of the Audit Committee and the Remuneration Committee also expect to be present and able to answer questions from shareholders as appropriate. Details of the proxy votes received in respect of each resolution are made available to shareholders. The Chief Executive Officer makes a presentation to the meeting. The Company has adopted a nominee share code which is set out on page 68.

## Accountability and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 37.

The report of the independent auditors is set out on page 38.

The Board has delegated contractually to external agents, including the various investment managers, the management of the investment portfolio, global custody (which includes the safeguarding of the assets), the investment administration, management and financial accounting, company secretarial and certain other administrative requirements and the 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 considers regular reports from the investment managers and ad hoc reports and information are supplied to the Board from its other contractors as required.

## 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 Turnbull 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 conducted its annual review of the effectiveness of the system, covering all the controls, including financial, operational and compliance controls and risk management systems. This review took 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.

The Board routinely reviews the Company's business risks. These are analysed and recorded in a risk map. 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. The Board receives each year from its investment managers and its investment administrator reports on their internal controls; with two exceptions each of these includes a report from the relevant company's auditors on the control policies and procedures in operation.

The Company's subsidiary, Witan Investment Services Limited, is authorised by the Financial Services Authority to undertake the regulated activities necessary to manage savings schemes for investors. 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 six people (including the

Chief Executive Officer), 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. It delegates to third parties the management of its investments and most of its other operations 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. 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. 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 long 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 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.

### Going Concern

The assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts. Further details are given in note 1(b) on page 43.

### 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 the Board encourages its investment managers to vote proxies in the best long term interest of Witan shareholders and in accordance with their own investment philosophies. The Company's UK equity managers expect UK companies to comply with the Combined Code, including the Turnbull Guidance on Internal Control, or to provide adequate explanation of any area in which they fail to comply, whilst recognising that a different approach may be justified in special circumstances. Elsewhere, 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. Therefore, whilst the Board has agreed general policies with the non-UK managers, they do use their discretion in applying these in individual circumstances.

### Statement of Compliance

The directors consider that the Company has complied during the year ended 31 December 2008 with all the relevant provisions set out in the Code. The directors consider that the Company has complied throughout the year ended 31 December 2008 with the AIC Code.

### New Zealand Listing

It should be noted that the UK Codes of Corporate Governance may differ materially from the New Zealand Stock Exchange's Corporate Governance Best Practice Code.

### Warning to Shareholders

Over recent months 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'.

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company Secretary or the Registrar at the numbers provided on page 68.

## Directors' Report: Report of the Audit Committee

The role of the Audit Committee is to assist the directors in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Group's auditors.

The Committee's role and responsibilities are set out in its terms of reference, which comply with the Combined Code. The terms of reference are available on request from the Company Secretary and can be seen on the Company's website.

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. It reviews the Company's internal financial controls and risk management systems. It reviews the scope and effectiveness of the audit process and monitors the auditors' independence and objectivity. It makes recommendations in relation to the appointment of the external auditors, including their remuneration and the provision by them of any non-audit services. The Committee has established a procedure to ensure that the engagement of the auditors to provide non-audit services cannot exceed a specified proportion of the annual audit fees without due consideration being given by the Committee to the proposed appointment. The Committee also reviews the process for negotiating and monitoring major contracts undertaken by the Company, the Board's investment restrictions and the values attributed to the unlisted investments. It ensures that the Company maintains appropriate compliance with the requirements of regulators; and it reviews the reporting of investment performance. The Committee reports to the Board, identifying matters on which it considers that action is needed and making recommendations on the steps to be taken.

The Committee comprises three non-executive directors, including its Chairman, who are appointed by the Board. Mr Boyle was appointed Chairman of the Committee in 2007. He is a Chartered Accountant and was previously a partner in PricewaterhouseCoopers LLP. The other two members are Mr Bruce and Mr Watson, who were appointed in 2002 and 2006 respectively; details of their qualifications and experience are given on page 2. The Committee's programme is to meet at least three times a year: in advance of the publication of both the annual and the half year results and on at least one other occasion with an agenda that is focused on its broader responsibilities.

The Committee held three meetings during the year, at two of which representatives of the auditors were present: to consider the outcome of the audit of the Group's 2007 financial statements and to consider the plan for the audit of the Group's 2008 financial statements.

During the year the Committee addressed all the matters set out as its responsibilities under its terms of reference. In particular, the Committee considered the Board's processes for the review of the Group's internal control and risk management systems (and confirmed that the Group should not establish an internal audit function); counterparty risk; the subsidiary company's compliance with its responsibilities as a regulated entity; and compliance with established internal processes.

Robert Boyle  
Chairman of the Audit Committee  
6 March 2009

# Directors' Report: 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. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs") and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements*. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. The directors are also required to:

- properly select and apply accounting policies consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- 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.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and a Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

## Statement under DTR 4.1.12

The directors as at the date of this report, who are listed on page 2, each confirm to the best of their knowledge that:

- (a) 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 subsidiary undertaking included in the consolidation taken as a whole; and
- (b) the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the subsidiary undertaking included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

H M Henderson

Chairman

6 March 2009

### Note to those who access this document by electronic means

The annual report for the year ended 31 December 2008 has been approved by the Board of Witan Investment Trust plc and circulated to the Company's shareholders in hard copy format. It is also made available in electronic format for the convenience of readers. However, the Board cannot accept responsibility for guaranteeing the integrity of the document in electronic format. Printed copies are available from the Company's Registered Office in London.

# Independent Auditors' Report

to the members of Witan Investment Trust plc

We have audited the group and parent company financial statements (the "financial statements") of Witan Investment Trust plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review section of the Directors' Report on pages 7 to 19.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, as described in the Contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any

further information outside the Annual Report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

## Separate opinion in relation to IFRSs

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended.

## Deloitte LLP

Chartered Accountants and Registered Auditors  
London  
6 March 2009

### *Note to those who access this document by electronic means*

*An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.*

*Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.*

# Witan Investment Trust plc

## Consolidated Income Statement

for the year ended 31 December 2008

Notes	Year ended 31 December 2008			Year ended 31 December 2007			
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000	
2	Investment income	29,577	–	29,577	31,817	–	31,817
3	Other income	8,185	–	8,185	7,659	–	7,659
10	(Losses)/gains on investments held at fair value through profit or loss	–	(297,614)	(297,614)	–	54,884	54,884
	Total income	37,762	(297,614)	(259,852)	39,476	54,884	94,360
	<b>Expenses</b>						
4	Management fees	(490)	(2,831)	(3,321)	(505)	(2,009)	(2,514)
24	Write-back of prior years' VAT	141	424	565	324	1,126	1,450
5	Other expenses	(5,045)	–	(5,045)	(5,432)	–	(5,432)
	<b>Profit/(loss) before finance costs and taxation</b>	<b>32,368</b>	<b>(300,021)</b>	<b>(267,653)</b>	<b>33,863</b>	<b>54,001</b>	<b>87,864</b>
6	Finance costs	(2,527)	(7,334)	(9,861)	(2,618)	(7,600)	(10,218)
	<b>Profit/(loss) before taxation</b>	<b>29,841</b>	<b>(307,355)</b>	<b>(277,514)</b>	<b>31,245</b>	<b>46,401</b>	<b>77,646</b>
7	Taxation	(4,580)	2,878	(1,702)	(4,108)	2,494	(1,614)
	<b>Profit/(loss) attributable to equity holders of the parent company</b>	<b>25,261</b>	<b>(304,477)</b>	<b>(279,216)</b>	<b>27,137</b>	<b>48,895</b>	<b>76,032</b>
9	<b>Earnings/(loss) per ordinary share</b>	<b>11.60p</b>	<b>(139.86)p</b>	<b>(128.26)p</b>	<b>11.08p</b>	<b>19.97p</b>	<b>31.05p</b>

The total column of this statement represents the Group's Income Statement, 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. 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 minority interests.

The notes on pages 43 to 61 form part of these accounts.

# Witan Investment Trust plc

## Consolidated and Individual Company Statements of Changes in Equity

for the year ended 31 December 2008

Notes	Group					
	Ordinary share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2007	55,857	16,237	37,969	1,059,939	49,304	1,219,306
(Loss)/profit for the year	–	–	–	(304,477)	25,261	(279,216)
8 Ordinary dividends paid	–	–	–	–	(22,137)	(22,137)
15, 16 Buy-backs of ordinary shares	(2,257)	–	2,257	(38,706)	–	(38,706)
<b>At 31 December 2008</b>	<b>53,600</b>	<b>16,237</b>	<b>40,226</b>	<b>716,756</b>	<b>52,428</b>	<b>879,247</b>

Notes	Company					
	Ordinary share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2007	55,857	16,237	37,969	1,060,025	49,218	1,219,306
(Loss)/profit for the year	–	–	–	(304,422)	25,206	(279,216)
8 Ordinary dividends paid	–	–	–	–	(22,137)	(22,137)
15, 16 Buy-backs of ordinary shares	(2,257)	–	2,257	(38,706)	–	(38,706)
<b>At 31 December 2008</b>	<b>53,600</b>	<b>16,237</b>	<b>40,226</b>	<b>716,897</b>	<b>52,287</b>	<b>879,247</b>

Notes	Group					
	Ordinary share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2006	65,193	16,237	28,633	1,192,597	45,874	1,348,534
Profit for the year	–	–	–	48,895	27,137	76,032
8 Ordinary dividends paid	–	–	–	–	(23,707)	(23,707)
15, 16 Buy-backs of ordinary shares	(9,336)	–	9,336	(181,553)	–	(181,553)
<b>At 31 December 2007</b>	<b>55,857</b>	<b>16,237</b>	<b>37,969</b>	<b>1,059,939</b>	<b>49,304</b>	<b>1,219,306</b>

Notes	Company					
	Ordinary share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 31 December 2006	65,193	16,237	28,633	1,192,451	46,020	1,348,534
Profit for the year	–	–	–	49,127	26,905	76,032
8 Ordinary dividends paid	–	–	–	–	(23,707)	(23,707)
15, 16 Buy-backs of ordinary shares	(9,336)	–	9,336	(181,553)	–	(181,553)
<b>At 31 December 2007</b>	<b>55,857</b>	<b>16,237</b>	<b>37,969</b>	<b>1,060,025</b>	<b>49,218</b>	<b>1,219,306</b>

The notes on pages 43 to 61 form part of these accounts.

# Witan Investment Trust plc

## Consolidated and Individual Company Balance Sheets

as at 31 December 2008

Notes	Group 31 December 2008 £'000	Company 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2007 £'000	
	<b>Non current assets</b>				
10	Investments at fair value through profit or loss	<u>880,013</u>	<u>881,054</u>	<u>1,276,354</u>	<u>1,277,340</u>
	<b>Current assets</b>				
11	Other receivables	19,830	20,204	6,742	6,625
	Cash and cash equivalents	<u>124,383</u>	<u>122,815</u>	<u>88,394</u>	<u>87,166</u>
		<u>144,213</u>	<u>143,019</u>	<u>95,136</u>	<u>93,791</u>
	<b>Total assets</b>	<u>1,024,226</u>	<u>1,024,073</u>	<u>1,371,490</u>	<u>1,371,131</u>
	<b>Current liabilities</b>				
12	Other payables	<u>(4,892)</u>	<u>(4,739)</u>	<u>(5,277)</u>	<u>(4,918)</u>
	<b>Total assets less current liabilities</b>	<u>1,019,334</u>	<u>1,019,334</u>	<u>1,366,213</u>	<u>1,366,213</u>
	<b>Non current liabilities</b>				
13	8½ per cent. Debenture Stock 2016	(45,779)	(45,779)	(45,779)	(45,779)
13	6.125 per cent. Secured Bonds due 2025	(91,753)	(91,753)	(98,573)	(98,573)
13, 17	3.4 per cent. cumulative preference shares of £1	(2,055)	(2,055)	(2,055)	(2,055)
13, 17	2.7 per cent. cumulative preference shares of £1	(500)	(500)	(500)	(500)
		<u>(140,087)</u>	<u>(140,087)</u>	<u>(146,907)</u>	<u>(146,907)</u>
	<b>Net assets</b>	<u>879,247</u>	<u>879,247</u>	<u>1,219,306</u>	<u>1,219,306</u>
	<b>Equity attributable to equity holders</b>				
15	Ordinary share capital	53,600	53,600	55,857	55,857
16	Share premium account	16,237	16,237	16,237	16,237
16	Capital redemption reserve	40,226	40,226	37,969	37,969
	Retained earnings:				
16	Other capital reserves	716,756	716,897	1,059,939	1,060,025
16	Revenue reserve	<u>52,428</u>	<u>52,287</u>	<u>49,304</u>	<u>49,218</u>
	<b>Total equity</b>	<u>879,247</u>	<u>879,247</u>	<u>1,219,306</u>	<u>1,219,306</u>
18	<b>Net asset value per ordinary share</b>	<u>410.1p</u>	<u>410.1p</u>	<u>545.7p</u>	<u>545.7p</u>

The financial statements were approved by the directors and authorised for issue on 6 March 2009 and were signed on their behalf by

H M Henderson

R E Clarke

The notes on pages 43 to 61 form part of these accounts.

# Witan Investment Trust plc

## Consolidated and Individual Company Cash Flow Statements

for the year ended 31 December 2008

	Group Year ended 31 December 2008 £'000	Company Year ended 31 December 2008 £'000	Group Year ended 31 December 2007 £'000	Company Year ended 31 December 2007 £'000
Notes				
<b>Operating activities</b>				
(Loss)/profit before taxation	(277,514)	(277,514)	77,646	77,646
Interest paid	9,664	9,664	10,072	10,072
10 Losses/(gains) on investments held at fair value through profit or loss	297,614	297,559	(54,884)	(55,116)
19 Net sales of investments held at fair value through profit or loss	89,327	89,327	158,309	158,309
Net (loss)/gain from futures contracts	(5,934)	(5,934)	3,029	3,029
Scrip dividends included in investment income	(537)	(537)	(269)	(269)
Decrease/(increase) in other receivables	150	(341)	(1,202)	(1,310)
Increase/(decrease) in other payables	1,037	1,243	(420)	(632)
<b>Net cash inflow from operating activities before interest and taxation</b>	<b>113,807</b>	<b>113,467</b>	<b>192,281</b>	<b>191,729</b>
Interest paid	(9,664)	(9,664)	(10,072)	(10,072)
Amortisation of debt issue costs	80	80	79	79
7 Tax on overseas income	(1,633)	(1,633)	(1,836)	(1,836)
<b>Net cash inflow from operating activities</b>	<b>102,590</b>	<b>102,250</b>	<b>180,452</b>	<b>179,900</b>
<b>Financing activities</b>				
8 Equity dividends paid	(22,137)	(22,137)	(23,707)	(23,707)
Buy-backs of ordinary shares	(39,264)	(39,264)	(182,567)	(182,567)
Buy-backs of secured bonds	(7,518)	(7,518)	-	-
<b>Net cash outflow from financing activities</b>	<b>(68,919)</b>	<b>(68,919)</b>	<b>(206,274)</b>	<b>(206,274)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>33,671</b>	<b>33,331</b>	<b>(25,822)</b>	<b>(26,374)</b>
Cash and cash equivalents at the start of the year	88,394	87,166	114,610	113,934
Effect of foreign exchange rate changes	2,318	2,318	(394)	(394)
<b>Cash and cash equivalents at the end of the year</b>	<b>124,383</b>	<b>122,815</b>	<b>88,394</b>	<b>87,166</b>

The notes on pages 43 to 61 form part of these accounts.

# Notes to the Accounts

for the year ended 31 December 2008

## 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. 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* ("the SORP") issued by the Association of Investment Companies ("the AIC") in January 2003 (revised in December 2005) 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.

### (b) Going concern

The Group's business activities, together with the factors likely to affect its future development and performance, are set out in the Business Review section of the Directors' Report on pages 7 to 19. The financial position of the Group as at 31 December 2008 is shown in the balance sheet on page 41. The cash flows of the Group for the year ended 31 December 2008, which are not untypical, are set out on page 42. The Company had fixed debt and preference share capital totalling £140,087,000, as set out in note 13 on page 51; none of the borrowings is repayable before 2016. The Group has no short term borrowings or borrowing facilities. Note 14 on pages 51 to 56 sets out the Group's risk management policies and procedures, including those covering currency risk, interest rate risk and liquidity risk. As at 31 December 2008 the Group's total assets less current liabilities exceeded its total non current liabilities by a multiple of over seven. The assets of the Group consist mainly of securities that are held in accordance with the Company's investment policy, as set out on page 13. Most of these securities are readily realisable even in the more volatile markets experienced in recent months and despite the current uncertain economic outlook. The directors consider that the Company has adequate financial resources to enable it to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Group's accounts.

### (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. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### (d) Presentation of Income Statement

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 Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, 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 842 of the Income and Corporation Taxes Act 1988.

### (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. 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 income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Income Statement.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 1 Accounting policies (continued)

### (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.

Transaction costs incurred on the acquisition or disposal of investments are expensed and included in the costs of acquisition or deducted from the proceeds of sale as appropriate.

### (g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Income Statement 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 Income Statement 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 Income Statement 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 842 of the Income and Corporation Taxes Act 1988 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 Income Statement, 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 investments are designated upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, 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.

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. Where no reliable fair value can be estimated for such instruments, they are carried at cost, subject to any provision for impairment.

### (i) Cash and cash equivalents

Cash comprises cash in hand and 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.

## 1 Accounting policies (continued)

### (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.

### (k) Non current liabilities

All debentures and secured bonds 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. Amortised cost is calculated by taking into account any discount or premium on settlement. The costs of arranging any interest-bearing loans are capitalised and amortised over the life of the loan.

### (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 Income Statement.

### (m) Adoption of new and revised Standards

In the current year, two interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but were not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)/IAS 27 (amended)	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 (amended)	<i>Share-based Payment – Vesting Conditions and Cancellations</i>
IFRS 3 (revised 2008)	<i>Business Combinations</i>
IFRS 8	<i>Operating Segments</i>
IAS 1 (revised 2007)	<i>Presentation of Financial Statements</i>
IAS 23 (revised 2007)	<i>Borrowing Costs</i>
IAS 27 (revised 2008)	<i>Consolidated and Separate Financial Statements</i>
IAS 32 (amended)/IAS 1 (amended)	<i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
Improvements to IFRSs (May 2008)	

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

### (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 on indices appropriate to sections of the portfolio (one purpose for which may be 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.

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 that do not qualify for hedge accounting are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
<b>2 Investment income</b>		
Franked:		
UK dividends from listed investments	13,224	16,603
Special dividends from listed investments	48	391
UK dividends from unquoted investments	379	338
	<u>13,651</u>	<u>17,332</u>
Unfranked:		
Overseas dividends from listed investments	14,798	13,531
Scrip dividends from listed investments	537	269
Special dividends from listed investments	582	657
Overseas fixed interest and convertible bonds	9	28
	<u>15,926</u>	<u>14,485</u>
<b>Total investment income</b>	<u>29,577</u>	<u>31,817</u>
Analysis of investment income by geographical segment:		
United Kingdom	14,054	17,424
North America	3,114	3,732
Continental Europe	7,658	6,756
Japan	2,180	1,610
Asia Pacific (ex Japan)	2,032	1,931
South America	526	332
Other	13	32
<b>Total investment income</b>	<u>29,577</u>	<u>31,817</u>
<b>3 Other income</b>		
Deposit interest	6,903	6,129
Stock lending income	268	375
Underwriting commission	11	6
Income from the subsidiary company's third party business	766	1,142
Other income	237	7
	<u>8,185</u>	<u>7,659</u>

At 31 December 2008 the total value of securities on loan by the Company for stock lending purposes was £75,000 (2007: £124,644,000). The maximum aggregate value of securities on loan at any time during the year ended 31 December 2008 was £113,852,000 (2007: £344,485,000). Collateral, revalued on a daily basis at a level equivalent to at least 105% 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 is subject to a concentration limit of 10%.

#### 4 Management fees

	Year ended 31 December 2008			Year ended 31 December 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fees	490	1,470	1,960	485	1,453	1,938
Performance fees	–	1,361	1,361	–	487	487
Irrecoverable VAT thereon	–	–	–	20	69	89
	<u>490</u>	<u>2,831</u>	<u>3,321</u>	<u>505</u>	<u>2,009</u>	<u>2,514</u>

A summary of the terms of the management agreements is given on page 15 in the Business Review section of the Directors' Report.

#### 5 Other expenses

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	46	44
Fees payable to the Company's auditors and their associates for other services to the Group:		
– the audit of the Company's subsidiary pursuant to legislation	4	4
– other services pursuant to legislation	–	2
– other services relating to taxation	–	25
Directors' fees (see the Directors' Remuneration Report on pages 29 to 31)	208	193
Employers' national insurance contributions on the directors' fees	22	26
Employee costs:		
– salaries and bonuses	773	644
– employers' national insurance contributions	104	83
– pension contributions (or payments in lieu thereof)	52	47
Investment accounting fees	189	202
Advisory and consultancy fees	54	170
Company secretarial fees	76	76
Bank charges and overseas safe custody fees	313	333
Marketing expenses	1,690	1,975
Insurances	68	75
Occupancy costs	114	110
Migration of savings scheme	–	(71)
Savings scheme expenses	243	348
Child Trust Fund expenses	73	–
Third party marketing costs	109	189
Other expenses	579	616
Irrecoverable VAT	328	341
	<u>5,045†</u>	<u>5,432†</u>

†The total includes £925,000 (2007: £1,111,000) in respect of the subsidiary company's third party business which are offset by the subsidiary company's income from that business.

The average number of employees during the year was 5.0 (2007: 5.0).

#### 6 Finance costs

	Year ended 31 December 2008			Year ended 31 December 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on overdrafts						
– repayable within one year	23	70	93	11	29	40
Interest payable on the secured bonds and						
– debenture stock repayable in more than 5 years	2,421	7,264	9,685	2,524	7,571	10,095
Preference share dividends	83	–	83	83	–	83
	<u>2,527</u>	<u>7,334</u>	<u>9,861</u>	<u>2,618</u>	<u>7,600</u>	<u>10,218</u>

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 7 Taxation

	Year ended 31 December 2008			Year ended 31 December 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>(a) Analysis of the charge for the year</b>						
UK corporation tax at 28.5% (2007: 30%)	1,650	–	1,650	1,623	–	1,623
Double taxation relief	(1,650)	–	(1,650)	(1,623)	–	(1,623)
	–	–	–	–	–	–
Foreign tax suffered	1,994	–	1,994	1,892	–	1,892
Foreign tax recoverable	(292)	–	(292)	(278)	–	(278)
Tax relief to capital	2,878	(2,878)	–	2,494	(2,494)	–
<b>Total current tax for the year (see note 7(b))</b>	<b>4,580</b>	<b>(2,878)</b>	<b>1,702</b>	<b>4,108</b>	<b>(2,494)</b>	<b>1,614</b>

### (b) Factors affecting the current tax charge for the year

The tax assessed for the year is lower than that resulting from applying the effective standard rate of corporation tax in the UK for a large company (28.5%). The difference is explained below.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
(Loss)/profit before taxation	(277,514)	77,646
Corporation tax at 28.5% (2007: 30%)	(79,091)	23,294
Effects of:		
Non-taxable UK dividends	(3,891)	(5,200)
Non-taxable stock dividends	(68)	(14)
Withholding tax written off	1,702	1,614
Double taxation relief	(1,650)	(1,623)
Non-taxable losses/(gains) on investments held at fair value through profit or loss	84,820	(16,465)
Unused loan relationship deficits for the period	(104)	(8)
Disallowed expenses	–	4
Income taxable in different periods	(40)	(13)
Preference dividends not deductible in determining taxable profit	24	25
	<b>80,793</b>	<b>(21,680)</b>
<b>Current tax charge for the year</b>	<b>1,702</b>	<b>1,614</b>

### (c) Deferred tax

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval 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 (2007: £nil).

### (d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £11,752,000 (2007: £11,673,000) arising as a result of having unrelieved loan relationship deficits and eligible unrelieved foreign tax.

It is unlikely that the Company will obtain relief for these in the future so no deferred tax asset has been recognised.

## 8 Dividends

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Amounts recognised as distributions to equity holders in the year:		
Second interim dividend for the year ended 31 December 2007 of 5.80p (2006: 5.30p) per ordinary share	12,849	13,694
First interim dividend for the year ended 31 December 2008 of 4.30p (2007: 4.10p) per ordinary share	9,288	10,024
Write-back of unclaimed dividends relating to prior years	–	(11)
	<u>22,137</u>	<u>23,707</u>
Second interim dividend for the year ended 31 December 2008 of 5.90p (2007: 5.80p) per ordinary share	<u>12,629</u>	<u>12,849</u>

The second interim dividend has not been included as a liability in these financial statements.

Set out below is the total dividend to be paid in respect of the year. This is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
First interim dividend for the year ended 31 December 2008 of 4.30p (2007: 4.10p) per ordinary share	9,288	10,024
Second interim dividend for the year ended 31 December 2008 of 5.90p (2007: 5.80p) per ordinary share	<u>12,629</u>	<u>12,849</u>
	<u>21,917</u>	<u>22,873</u>

## 9 Earnings/(loss) per ordinary share

The earnings per ordinary share figure is based on the net loss for the year of £279,216,000 (year ended 31 December 2007: gain of £76,032,000) and on 217,695,259 ordinary shares (year ended 31 December 2007: 244,901,514), 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.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Net revenue profit	25,261	27,137
Net capital (loss)/profit	<u>(304,477)</u>	<u>48,895</u>
Net total (loss)/profit	<u>(279,216)</u>	<u>76,032</u>
Weighted average number of ordinary shares in issue during the year	217,695,259	244,901,514
	Pence	Pence
Revenue earnings per ordinary share	11.60	11.08
Capital (loss)/earnings per ordinary share	<u>(139.86)</u>	<u>19.97</u>
Total (loss)/earnings per ordinary share	<u>(128.26)</u>	<u>31.05</u>

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 10 Investments held at fair value through profit or loss

### (i) Analysis of investments held at fair value through profit or loss

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Listed in the United Kingdom	282,552	282,552	433,686	433,686
Listed abroad	594,011	594,011	808,600	808,600
Loan note at directors' valuation*	–	–	29,093	29,093
Unquoted at directors' valuation (see note 10(v))	3,450	3,450	4,975	4,975
Investment in subsidiary undertaking	–	1,041	–	986
	<u>880,013</u>	<u>881,054</u>	<u>1,276,354</u>	<u>1,277,340</u>

\*The loan note was redeemed on 31 December 2008.

### (ii) Group changes in investments held at fair value through profit or loss

	Valuation 31 December 2007 £'000		Purchases £'000	Sales £'000	Net (depreciation)/ appreciation £'000	Valuation 31 December 2008 £'000	Cost 31 December 2008 £'000
United Kingdom	467,755	328,068	384,985	(124,836)	286,002	360,922	
North America	292,946	65,247	73,166	(62,371)	222,656	247,916	
Continental Europe	230,542	133,698	122,541	(76,319)	165,380	181,519	
Japan	138,365	28,773	51,985	10,566	125,719	125,432	
Asia Pacific (ex Japan)	129,365	16,851	44,599	(33,367)	68,250	91,459	
South America	15,305	2,391	1,832	(7,009)	8,855	12,211	
Other	2,076	877	456	654	3,151	2,735	
	<u>1,276,354</u>	<u>575,905</u>	<u>679,564</u>	<u>(292,682)</u>	<u>880,013</u>	<u>1,022,194</u>	

Included in the above figures are purchase costs of £976,000 (2007: £1,163,000) and sales costs of £388,000 (2007: £531,000). These comprise mainly stamp duty and commission.

### (iii) (Losses)/gains on investments held at fair value through profit or loss

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Realised (losses)/gains on sale of investments	(22,566)	180,459
Movement in unrealised appreciation	(276,748)	(125,181)
Realised loss on buy-back of secured bonds	(618)	–
Net movement on foreign exchange on cash and cash equivalents	2,318	(394)
	<u>(297,614)</u>	<u>54,884</u>

### (iv) Substantial share interests

The Company has no interests of 3% or more of any class of capital in any investee companies.

### (v) Unquoted investments

The value of the unquoted investments as at 31 December 2008 was £3,450,000 (2007: £34,068,000) and the portfolio comprised the following holdings:

Investments	Valuation £'000
Cazenove Group Limited	3,000
Cazenove Capital Holdings Limited	450
	<u>3,450</u>

Cazenove Group Limited (formerly Cazenove Group plc) ("Cazenove") was established by the partners of Cazenove & Co. to incorporate the business of that firm, to raise additional capital and to seek a stock market quotation in due course. It has since combined its investment banking business with that of JP Morgan to form JP Morgan Cazenove. Its asset management business has been transferred to a separate entity, Cazenove Capital Holdings Limited.

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
<b>11 Other receivables</b>				
Sales for future settlement	14,791	14,791	786	786
Unrealised gain on derivatives designated as held at fair value through profit or loss	318	318	1,016	1,016
Taxation recoverable	531	531	600	600
Intercompany account	–	752	–	333
Prepayments and accrued income	1,861	1,859	2,225	2,219
Other debtors	2,329	1,953	2,115	1,671
	<u>19,830</u>	<u>20,204</u>	<u>6,742</u>	<u>6,625</u>
	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
<b>12 Other payables</b>				
Purchases for future settlement	110	110	974	974
Share buy-backs awaiting settlement	406	406	964	964
Preference dividends	38	38	38	38
Accruals	4,338	4,185	3,301	2,942
	<u>4,892</u>	<u>4,739</u>	<u>5,277</u>	<u>4,918</u>
	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
<b>13 Non current liabilities</b>				
Financial instruments redeemable other than in instalments are as follows:				
8½ per cent. Debenture Stock 2016	45,779	45,779	45,779	45,779
6.125 per cent. Secured Bonds due 2025	91,753	91,753	98,573	98,573
2,055,000 3.4 per cent. cumulative preference shares of £1 (see note 17 on page 58)	2,055	2,055	2,055	2,055
500,000 2.7 per cent. cumulative preference shares of £1 (see note 17 on page 58)	500	500	500	500
	<u>140,087</u>	<u>140,087</u>	<u>146,907</u>	<u>146,907</u>

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 Secured Bonds is redeemable on 15 December 2025. The nominal value of the Debenture Stock is redeemable on 1 October 2016. The Debenture Stock and the Secured Bonds are secured by floating charges over all the undertaking and assets of the Company. The security of the charges applies *pari passu* to both issues.

During the year the Company purchased for cancellation £6,900,000 of its Secured Bonds at an aggregate cost of £7,518,000. See also note 25 on page 61.

#### 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 page 1. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company'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.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 14 Financial instruments (continued)

### 14.1 Market risk

The fair value or future cash flows of a financial instrument held by the Company 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 of directors reviews and agrees policies for managing these risks, which policies have remained substantially unchanged from those applying in the year ended 31 December 2007. 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 (ie 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 of directors manages the risks inherent in the investment portfolios by ensuring full and timely access to 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 Witan's objective.

When appropriate, Witan has the ability to manage its exposure to risk by buying/selling put or call options on indices and on equity investments in its portfolios.

The Company's exposure to other changes in market prices at 31 December on its quoted and unquoted equity investments, and on options on indices and investments, was as follows:

	2008 £'000	2007 £'000
Investments held at fair value through profit or loss	<u>880,013</u>	<u>1,276,354</u>

#### *Concentration of exposure to price risks*

An analysis of the Company's investment portfolio is shown on page 22. This shows that the greater geographical weighting is to UK companies, with significant exposure also to North America, Continental Europe and Japan. 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 Company's equity investments (including equity exposure through options). This level of change is considered to be reasonably possible based on observation of market conditions and historic trends. The sensitivity analysis is based on the Company's equities and equity exposure through options at each balance sheet date, with all other variables held constant.

	2008 Increase in fair value £'000	2008 Decrease in fair value £'000	2007 Increase in fair value £'000	2007 Decrease in fair value £'000
Income statement – profit after tax				
Revenue return	–	–	(57)	57
Capital return	<u>132,002</u>	<u>(132,002)</u>	<u>191,315</u>	<u>(191,315)</u>
Change to the profit after tax for the year	<u>132,002</u>	<u>(132,002)</u>	<u>191,258</u>	<u>(191,258)</u>
Change to the shareholders' funds	<u>132,002</u>	<u>(132,002)</u>	<u>191,258</u>	<u>(191,258)</u>

### 14.3 Currency risk

A proportion of the Company's assets, liabilities and income are denominated in currencies other than sterling (the Company's functional currency, and the currency in which it reports its results). As a consequence, movements in exchange rates may affect the sterling value of those items. In addition, the Board appointed a currency manager which aimed to add value by taking positions in currencies and which therefore had an impact of fund values.

## 14 Financial instruments (continued)

### 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 upon receipt. The Company does not 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

With the exception of the underlying exposures held within the currency loan note, the fair values of the Company's monetary items that have foreign currency exposure at 31 December are shown below. Where the Company'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.

	US\$ £'000	Euro £'000	Yen £'000	Other £'000
<b>2008</b>				
Receivables (due from brokers, dividends and other income receivable)	1,284	392	110	224
Cash at bank and on deposit	4,034	3,423	218	1,316
Payables (due to brokers, accruals and other creditors)	–	(65)	–	(13)
Total foreign currency exposure on net monetary items	5,318	3,750	328	1,527
Investments at fair value through profit or loss that are equities	176,477	145,422	125,719	103,531
Total net foreign currency exposure	181,795	149,172	126,047	105,058
	US\$ £'000	Euro £'000	Yen £'000	Other £'000
<b>2007</b>				
Receivables (due from brokers, dividends and other income receivable)	240	925	67	463
Cash at bank and on deposit	2,435	2,256	349	1,002
Payables (due to brokers, accruals and other creditors)	–	(638)	(97)	(229)
Total foreign currency exposure on net monetary items	2,675	2,543	319	1,236
Investments at fair value through profit or loss that are equities	217,468	191,446	138,365	184,744
Total net foreign currency exposure	220,143	193,989	138,684	185,980

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

### Foreign currency sensitivity

The following table illustrates the sensitivity of the profit after tax for the year and the Company's equity in regard to the Company's monetary financial assets and financial liabilities and the exchange rates for the £/US dollar, £/Euro and £/Japanese yen.

It assumes the following changes in exchange rates:

£/US dollar +/- 15% (2007: 10%)

£/Euro +/- 15% (2007: 7%)

£/Japanese yen +/- 15% (2007: 10%)

These percentages have been determined by taking in each case the highest range seen in each of the last seven calendar years. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at the balance sheet date and takes account of forward foreign exchange contracts that offset the effects of changes in currency exchange rates.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 14 Financial instruments (continued)

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

	2008			2007		
	US\$ £'000	Euro £'000	Yen £'000	US\$ £'000	Euro £'000	Yen £'000
Income statement – profit after tax						
Revenue return	481	1,042	350	260	306	108
Capital return	31,229	25,867	22,212	24,179	14,457	15,353
Change to the profit after tax	31,710	26,909	22,562	24,439	14,763	15,461
Change to the shareholders' funds	31,710	26,909	22,562	24,439	14,763	15,461

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

	2008			2007		
	US\$ £'000	Euro £'000	Yen £'000	US\$ £'000	Euro £'000	Yen £'000
Income statement – profit after tax						
Revenue return	(356)	(770)	(259)	(213)	(266)	(88)
Capital return	(23,080)	(19,089)	(16,418)	(19,783)	(12,565)	(12,563)
Change to the profit after tax	(23,436)	(19,859)	(16,677)	(19,996)	(12,831)	(12,651)
Change to the shareholders' funds	(23,436)	(19,859)	(16,677)	(19,996)	(12,831)	(12,651)

In the opinion of the directors, neither of the above sensitivity analyses are representative of the year as a whole since the level of exposure changes frequently, as part of the currency risk management process used to meet the Company's objective.

### 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 Company holds significant cash balances, partially to meet payments as they fall due but also to offset the long term borrowings that it has in place.

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

Derivative contracts are not used to hedge against the exposure to interest rate risk.

#### Interest rate exposure

The exposure at 31 December 2008 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;
- fixed interest rates: when the financial instrument is due to be repaid.

The Company's exposure to floating interest rates on assets is £124,383,000 (2007: £88,394,000).

The Company's exposure to fixed interest rates on liabilities is £140,087,000 (2007: £146,907,000).

Interest receivable and finance costs are at the following rates:

- interest received on cash balances, or paid on bank overdrafts, is at margin over LIBOR or its foreign currency equivalent (2007: same);
- the finance charge on the preference shares is at a weighted average interest rate of 3.3% (2007: 3.3%);
- the finance charge on the debenture stock is at a weighted average interest rate of 8.5% (2007: 8.5%);
- the finance charge on the secured bonds is at a weighted average interest rate of 6.2% (2007: 6.2%).

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, borrowings are drawn down and repaid, and the mix of borrowings between floating and fixed interest rate changes.

## 14 Financial instruments (continued)

### Interest rate sensitivity

Based on the Company's monetary financial instruments at each balance sheet date, an increase or decrease of 200 basis points in interest rates would increase or decrease revenue return after tax by £1,791,000 (2007: £1,238,000), capital return after tax by £697,000 (2007: £530,000), and total profit after tax and shareholders funds by £2,488,000 (2007: £1,768,000).

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.

### 14.5 Liquidity risk

This is the risk that the Company 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 Company's assets are investments in quoted equities and other quoted securities that are readily realisable.

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 policy is that the Company should remain fully invested in normal market conditions and that short term borrowings be used to manage short term cash requirements.

#### Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 31 December 2008, based on the earliest date on which payment can be required, was as follows:

	3 months or less £'000	2008 More than one year £'000	Total £'000	3 months or less £'000	2007 More than one year £'000	Total £'000
<b>Current liabilities</b>						
Amounts due to brokers and accruals	4,892	–	4,892	5,277	–	5,277
<b>Non current liabilities</b>						
Preference shares	–	2,555	2,555	–	2,555	2,555
Debenture stock	–	45,779	45,779	–	45,779	45,779
Secured bonds	–	91,753	91,753	–	98,573	98,573
	<u>4,892</u>	<u>140,087</u>	<u>144,979</u>	<u>5,277</u>	<u>146,907</u>	<u>152,184</u>

### 14.6 Credit risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss. The recent reduction in the Company's stock lending programme reduces the exposure to counterparty risk.

#### Management of the risk

The risk is managed as follows:

- 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 Company 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;
- cash at bank is held only with reputable banks with high quality external credit ratings.

None of the Company's financial liabilities are past their due dates or impaired.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 14 Financial instruments (continued)

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

Except for those financial liabilities measured at amortised cost that are shown below, the fair values of 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).

	2008		2007	
	Fair value £'000	Balance sheet amount £'000	Fair value £'000	Balance sheet amount £'000
Financial liabilities measured at amortised cost:				
<b>Non current liabilities</b>				
Preference shares	1,362	2,555	1,362	2,555
Debenture stock	58,756	45,779	55,169	45,779
Secured bonds	100,911	91,753	107,857	98,573
	<u>161,029</u>	<u>140,087</u>	<u>164,388</u>	<u>146,907</u>

The fair values shown above are derived from the offer price at which the securities are quoted on the London Stock Exchange.

Note 1(h) on page 44 sets out the Board's policy for determining the fair values of the unquoted investments. The directors are of the opinion that changing one or more of those assumptions to reasonably possible alternative assumptions would not change those fair values significantly. The amount of change in fair value for such investments recognised in the profit or loss for the year was a loss of £16,723,000 (2007: profit of £7,419,000).

### Capital management policies and procedures

The Company'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 Company's total capital at 31 December 2008 was £1,019,334,000 (2007: £1,366,213,000) comprising £140,087,000 of debt (2007: £146,907,000) and £879,247,000 of equity share capital and other reserves (2007: £1,219,306,000).

The Company's policy is to manage the effective gearing in the portfolio to not normally exceed +20%. Effective gearing is defined to be the total market value of investments less shareholders' funds as a percentage of shareholders' funds. At 31 December 2008 effective gearing was 0.1% (2007: 4.7%).

The Board monitors and reviews the broad structure of the Company'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 need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (ie the level of share price discount or premium);
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company'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 debenture stock and secured bonds 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;
- as a public company, the Company has a minimum issued share capital of £50,000;
- 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.

	<b>Group and Company 2008 £'000</b>	Group and Company 2007 £'000
<b>15 Called up share capital</b>		
214,398,654 ordinary shares of 25p (2007: 223,426,499)	<b>53,600</b>	55,857
Allotted, called up and fully paid	<b>53,600</b>	55,857
175,381,346 unissued ordinary shares of 25p (2007: 166,353,501)	<b>43,845</b>	41,588
Authorised	<b>97,445</b>	97,445

During the year 9,027,845 ordinary shares were bought back for cancellation at a cost of £38,706,000 (2007: 37,346,388 at a cost of £181,553,000).

	Share premium account £'000	Capital redemption reserve £'000	Other capital reserve – realised £'000	Other capital reserve – unrealised £'000	Revenue reserve £'000
<b>16 Share premium and reserves</b>					
<b>Group</b>					
At 1 January 2008	16,237	37,969	925,054	134,885	49,304
Net movement on investments	–	–	(22,566)	(276,748)	–
Net movement on foreign exchange	–	–	2,318	–	–
Expenses and interest payable charged to capital net of tax relief	–	–	(6,863)	–	–
Buy-backs of ordinary shares	–	2,257	(38,706)	–	–
Buy-backs of secured bonds	–	–	(618)	–	–
Profit for the year	–	–	–	–	25,261
Ordinary dividends paid	–	–	–	–	(22,137)
<b>At 31 December 2008</b>	<b>16,237</b>	<b>40,226</b>	<b>858,619</b>	<b>(141,863)</b>	<b>52,428</b>
<b>Company</b>					
At 1 January 2008	16,237	37,969	925,054	134,971	49,218
Net movement on investments	–	–	(22,566)	(276,693)	–
Net movement on foreign exchange	–	–	2,318	–	–
Expenses and interest payable charged to capital net of tax relief	–	–	(6,863)	–	–
Buy-backs of ordinary shares	–	2,257	(38,706)	–	–
Buy-backs of secured bonds	–	–	(618)	–	–
Profit for the year	–	–	–	–	25,206
Ordinary dividends paid	–	–	–	–	(22,137)
<b>At 31 December 2008</b>	<b>16,237</b>	<b>40,226</b>	<b>858,619</b>	<b>(141,722)</b>	<b>52,287</b>

Under the terms of the Company's Articles of Association, sums standing to the credit of capital reserves are distributable only by way of redemption or purchase of any of the Company's own shares, for so long as the Company carries on business as an investment company. Company law states that investment companies may only distribute accumulated "realised" profits.

The Institute of Chartered Accountants in England and Wales, in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with accounting standards, may be distributed, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently included within the unrealised capital reserve, may be regarded as distributable under company law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 31 December 2008 to capital reserves available for distribution of approximately £716,756,000 after adjusting for net unrealised capital losses of £141,863,000.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 17 Preference shares

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

	Group and Company 2008 £'000	Group and Company 2007 £'000
2,055,000 3.4 per cent. cumulative preference shares of £1	2,055	2,055
500,000 2.7 per cent. cumulative preference shares of £1	500	500
	<u>2,555</u>	<u>2,555</u>

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) 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 as set out in its Memorandum 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 ordinary shareholder has one vote for every four shares held.

## 18 Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £879,247,000 (2007: £1,219,306,000) and on the 214,398,654 ordinary shares in issue at 31 December 2008 (2007: 223,426,499).

The movements during the year of the net assets attributable to the ordinary shares were as follows:

	£'000
Total net assets at 1 January 2008	1,219,306
Total loss for the year	(279,216)
Dividends paid in the year on the ordinary shares (see note 8)	(22,137)
Buy-backs of ordinary shares	(38,706)
<b>Net assets attributable to the ordinary shares at 31 December 2008</b>	<u><b>879,247</b></u>

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company the preference shares, the debenture stock and the secured bonds 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 2008 calculated on this basis is 400.3p (2007: 537.9p).

## 19 Note to the cash flow statement

Purchases and sales of investments are considered to be operating activities of the Company, given its purpose, rather than investing activities. However, the cash flows associated with these activities are presented below.

	Group and Company Year ended 31 December 2008 £'000	Group and Company Year ended 31 December 2007 £'000
Proceeds on disposal of fair value through profit or loss investments	665,559	988,058
Purchases of fair value through profit or loss investments	<u>(576,232)</u>	<u>(829,749)</u>
	<u>89,327</u>	<u>158,309</u>

## 20 Capital commitments and contingent liabilities

At 31 December 2008 there were capital commitments in respect of securities not fully paid up of £nil (2007: £nil) and underwriting liabilities of £nil (2007: £nil). In November 2005 the Company took a five year lease on office premises at 14 Queen Anne's Gate, London SW1 which expires in 2010. The Company has the right to terminate the lease after the first three years of the lease.

## 21 Operating lease arrangements

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Minimum lease payments under operating leases recognised for the year	<u>58</u>	<u>58</u>

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:

	2008 £'000	2007 £'000
Within one year	58	58
In the second to fifth years inclusive	<u>51</u>	<u>109</u>
	<u>109</u>	<u>167</u>

The operating lease payments represent rentals payable by the Group for its office property.

The lease was negotiated for a term of five years and rentals are fixed for an average of five years.

## 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.

Transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

# Notes to the Accounts

for the year ended 31 December 2008 (continued)

## 23 Segment Reporting

### 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 46. 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 50. 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 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.

	Year ended 31 December 2008		Year ended 31 December 2007	
	Investment trust £'000	Management services £'000	Investment trust £'000	Management services £'000
Revenue from external customers	36,996	766	38,334	1,142
Carrying amount of assets	878,206	1,041	1,218,320	986

## 24 Value Added Tax

In 2004 the Association of Investment Companies (the "AIC"), together with JPMorgan Claverhouse Investment Trust plc, launched a case against HM Revenue & Customs ("HMRC") to challenge whether Value Added Tax ("VAT") should have been charged on fees paid for management services provided to investment trust companies. On 28 June 2007 the European Court of Justice delivered its judgement on the case in favour of the AIC. Since then HMRC has accepted that the provision of investment management services to investment trust companies is VAT exempt and has acknowledged its liability to pay claims in respect of VAT borne by investment companies.

Henderson Global Investors Limited, which was the Company's sole investment manager until 2004 and has been one of the Company's investment managers since 2004, has now been able to reclaim from HMRC the amount of VAT charged to the Company in respect of investment management services from 1 October 2000 to 30 June 2007, to the extent that such VAT was borne by the Company. VAT has not been applied to investment management fees invoiced in respect of periods since June 2007. Similarly, the Company has been able to recover VAT paid in respect of its other investment management contracts.

Accordingly, £1,450,000 of the VAT borne by the Company on investment management fees invoiced in the period from 1 October 2000 to 30 June 2007 was written back in the year ended 31 December 2007; this was the amount that the Board then considered to be certain of recovery. The write-back has been allocated between revenue return and capital return according to the allocation of the amounts originally paid.

Since the year end the Company has received back the balance of the £1,450,000 that was outstanding at 31 December 2008. As a result of the agreement reached by Henderson Global Investors Limited and HMRC, the Company has received back a further £565,000 in respect of the period from 2000 to 2007 and this has been recognised in the Income Statement for the year ended 31 December 2008. The total of £2,015,000 to date represents all the VAT borne by the Company in the period from 1 October 2000 to the point in 2007 from which VAT was no longer charged.

The Company may be able to recover further amounts of the VAT charged on investment management fees in the years from 1990 to 2000 inclusive. For this purpose the years 1990 to 2000 fall into two distinct periods. The Company expects to be able to reclaim VAT paid in respect of the period from 1 January 1990 to 4 December 1996, following the judgement of the House of Lords in a case concerning the time limits applicable to VAT claims. The Board considers that the calculation of the figures is currently too uncertain to permit a realistic estimate to be made but it does not expect the amount to be material in the context of the Company's total assets. There may also be some possibility, albeit remote, of recovering VAT paid in the period from then to 30 September 2000.

The Company will receive the interest to be paid by HMRC on the amounts recovered. The Board is not yet certain as to how this interest will be calculated but has included a figure of £207,000 in the Income Statement in respect of the £2,015,000 referred to above.

**25 Subsequent events**

(a) Due primarily to a reduction in the market values of the investments held, the Company's net asset value per ordinary share as at 4 March 2009, calculated to include current year income, was 333.5p per share, a decrease of 18.7% from the net asset value per share as at the balance sheet date. In accordance with FRS 21 *Events after the balance sheet date*, changes in asset prices after the balance sheet date constitute a non-adjusting event as they do not relate to conditions that existed at the balance sheet date. Accordingly, it is not appropriate to reflect any financial effect of these changes in asset prices in the balance sheet as at 31 December 2008.

(b) On 4 March 2009 the Company purchased for cancellation £1,190,000 of its Debenture Stock and £28,810,000 of its Secured Bonds. See also note 13 on page 51.

# Notice of Annual General Meeting

Notice is hereby given that the one hundred and first Annual General Meeting of Witan Investment Trust plc will be held at Merchant Taylors' Hall, 30 Threadneedle Street, London EC2R 8JB on Tuesday 28 April 2009 at 2.30 pm for the following purposes:

## Ordinary Business

- 1 To receive the directors' report and the audited accounts for the year ended 31 December 2008.
- 2 To receive and approve the directors' remuneration report for the year ended 31 December 2008.
- 3 To elect Mr R E Clarke as a director of the Company.
- 4 To elect Mrs M C Claydon as a director of the Company.
- 5 To re-elect Mr H M Henderson as a director of the Company.
- 6 To re-elect Mr R H McGrath as a director of the Company.
- 7 To re-appoint Deloitte LLP as auditors to the Company.
- 8 To authorise the directors to determine the remuneration of the auditors.

## Special Business

To consider and, if thought fit, pass the following resolutions:

### as a *Special Resolution*

- 9 THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163 (3) of the Companies Act 1985) of ordinary shares of 25p each in the capital of the Company ("Ordinary Shares"), provided that:
  - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 32,086,252 (representing approximately 14.99% of the issued ordinary share capital of the Company at 6 March 2009, the date of this Notice of Annual General Meeting);
  - (b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 25p;
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105% of the average middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to purchase an Ordinary Share, or such other amount as may be specified by the UK Listing Authority from time to time;
  - (d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2010 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed, varied or revoked prior to such time; and
  - (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

### as a *Special Resolution*

10 THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163 (3) of the Companies Act 1985) of 3.4 per cent Cumulative Preference Shares of £1 each and 2.7 per cent Cumulative Preference Shares of £1 each in the capital of the Company ("Preference Shares"), provided that:

(a) the maximum number of Preference Shares hereby authorised to be purchased shall be the entire issued capital amount of the Preference Shares as at 6 March 2009, the date of this Notice of Annual General Meeting, being (i) 2,055,000 of the 3.4 per cent Cumulative Preference Shares of £1 each and (ii) 500,000 of the 2.7 per cent Cumulative Preference Shares of £1 each;

(b) the minimum price (exclusive of expenses) which may be paid for a Preference Share is £1;

(c) the maximum price (exclusive of expenses) which may be paid for a Preference Share is an amount equal to 105% of the average middle market quotations for the relevant Preference Share taken from the London Stock Exchange Daily Official List for the business day immediately preceding the day on which the Company agrees to purchase the relevant Preference Share, or such other amount as may be specified by the UK Listing Authority from time to time;

(d) the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2010 or, if earlier, on the expiry of 18 months from the passing of this resolution, unless such authority is renewed, varied or revoked prior to such time; and

(e) the Company may make a contract to purchase Preference Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Preference Shares pursuant to any such contract.

By order of the Board

G S Rice

For and on behalf of  
Henderson Secretarial Services Limited,  
Secretary  
6 March 2009

## Registered Office

201 Bishopsgate  
London EC2M 3AE  
Telephone: 020 7818 1818

Registered as an investment company in England and Wales  
No. 101625

## Notes

- 1 Only those ordinary shareholders registered in the register of members of the Company at close of business on Sunday 26 April 2009 (or, if the Meeting is adjourned, at close of business on the day which is two days prior to the adjourned Meeting) shall be entitled to attend and vote at the Annual General Meeting (“the Meeting”) in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after close of business on 24 April 2009 will be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the Meeting or adjourned Meeting.
- 2 An ordinary shareholder entitled to attend and vote at the Meeting may appoint one or more proxies (who need not be a member of the Company) to exercise all or any of his or her rights to attend, speak and vote at the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by the ordinary shareholder.  
  
If two or more valid proxy forms are delivered or received in respect of the same share for use at the same Meeting, the one which was last sent shall be treated as replacing and revoking the others in their entirety. If the Company is unable to determine the one which was last sent, none of them shall be valid in respect of that share.  
  
Every ordinary shareholder who is present in person at a general meeting of the Company, and every person (not being himself or herself a member entitled to vote) who is present as proxy for a member entitled to vote, shall have one vote on a show of hands. On a poll, every ordinary shareholder who is present in person or by proxy shall have one vote for every £1 nominal value of shares held by him or her. Accordingly, on a poll each ordinary shareholder has one vote for every four shares held.
- 3 A form of proxy is enclosed. To be valid the form of proxy must be completed and delivered to the office of the Registrar to the Company not less than 48 hours before the time appointed for holding the Meeting. The form of proxy should be returned in an envelope addressed to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB. The return of the form of proxy duly completed will not preclude a member from attending and voting in person at the Meeting.  
  
CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID number 3RA50) by not later than 48 hours before the time appointed for the holding of the meeting (i.e. by 2.30 pm on Sunday 26 April 2009). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 4 This notice is sent for information only to holders of the preference shares and the debenture stock who are not entitled to attend or vote at the Meeting.
- 5 The Chief Executive Officer's service agreement will be available for inspection at the Meeting.
- 6 The attendance at the Meeting of members and their proxies and representatives is understood by the Company to confirm their agreement to receive any communications made at the Meeting.
- 7 As at 5 March 2009 (being the latest business day prior to the publication of this Notice), the Company's issued ordinary share capital consists of 214,051,054 ordinary shares of 25p each. On a poll ordinary shareholders have one vote for every £1 in nominal value (i.e. four ordinary shares are required for one vote). The Company does not hold any ordinary shares in treasury. Therefore the total voting rights in the Company are 214,051,054.
- 8 In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (i) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance

# Notice of Annual General Meeting

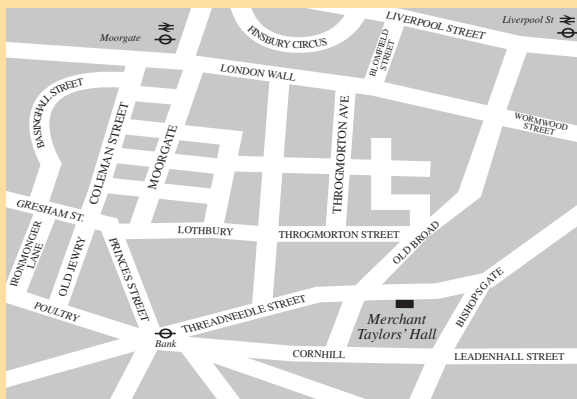
continued

includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

- 9 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person"). The rights to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member.

However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

## Annual General Meeting Venue



### Location of Merchant Taylors' Hall

Merchant Taylors' Hall is located at 30 Threadneedle Street in the City of London. It is a few minutes' walk from Liverpool Street Station and from Bank Underground Station.

The Annual General Meeting will be held on Tuesday 28 April 2009 at 2.30 pm.

## Historical Record

Year end	Market price per ordinary share in pence	Debt at fair value		Debt at par value		Net revenue after taxation in £'000	Earnings per ordinary share in pence	Dividends per ordinary share in pence
		Net asset value per ordinary share in pence <sup>(b)</sup>	Share price discount % <sup>(b)</sup>	Net asset value per ordinary share in pence <sup>(c)</sup>	Share price discount % <sup>(c)</sup>			
31 December 1998	367.0	not recorded		423.9	13.4	30,317	8.06	7.40
31 December 1999	477.5	not recorded		560.7	14.8	28,272	7.54	7.60
31 December 2000	478.0	not recorded		521.5	8.3	32,541 <sup>(d)</sup>	8.95 <sup>(d)</sup>	7.75
31 December 2001	391.0	not recorded		429.3	8.9	29,634	8.40	7.95
31 December 2002	261.5	303.2	13.8	307.6	15.0	31,445 <sup>(e)</sup>	8.92 <sup>(e)</sup>	8.10
31 December 2003	303.0	354.7	14.6	358.2	15.4	31,362	8.98	8.30
31 December 2004	331.5	384.4	13.8	390.2 <sup>(a)</sup>	15.0	29,330 <sup>(a)</sup>	8.63 <sup>(a)</sup>	8.60
31 December 2005	414.0	458.9	9.8	469.5 <sup>(a)</sup>	11.8	28,002 <sup>(a)</sup>	8.96 <sup>(a)</sup>	8.80
31 December 2006	454.5	508.4	10.6	517.1	12.1	27,565	10.24	9.20
31 December 2007	478.5	537.9	11.0	545.7	12.3	27,137	11.08	9.90
<b>31 December 2008</b>	<b>351.0</b>	<b>400.3</b>	<b>12.3<sup>(f)</sup></b>	<b>410.1</b>	<b>14.4</b>	<b>25,261</b>	<b>11.60</b>	<b>10.20</b>

(a) The figure for 2005 has been calculated in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the figure for 2004 has been restated in accordance with IFRSs. The figures for the earlier years have not been restated.

(b) 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 shown reflects this calculation.

(c) 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 shown reflects this calculation.

(d) With effect from 1 January 2001, 75% of finance costs and management fees have been charged to capital. The 2000 figures were restated to reflect this change of accounting policy.

(e) With effect from 1 January 2002, tax relief has been allocated as described in note 1(f) on page 44.

(f) The average discount in 2008 was 10.1%. (Source: Datastream)

## Explanation of Share Buy-Backs

The impact of the Company buying in its own shares at a discount

Shareholders have in the past questioned the benefit of buying in shares for cancellation.

Below is a hypothetical example of how buying in shares can improve the share price of an investment trust. Typically, this happens in two ways: first, the buy-back, because it takes place at a discount, increases the NAV (net asset value) per share which, all other things being equal, leads to a rise in the share price; and, secondly, because a seller has been removed the discount often narrows, again leading to a rise in the share price.

Take an investment trust (ABC) whose shares are priced at 320p but which has a NAV per share of 400p. There are 100 shares in the company.

NAV per share of ABC Investment Trust = 400p

Price per share of ABC Investment Trust = 320p

Discount of ABC Investment Trust = 20%

Value of ABC Investment Trust assets 100 x 400p = £400

Market value of ABC Investment Trust 100 x 320p = £320

If the company then buys back 15 shares at 320p the following happens:

Value of buy-back 15 x 320p = £48

As these shares are cancelled the value of the Company's total assets falls.

Value of Assets £400 - £48 = £352

But there are now only 85 shares in issue so the NAV per share is

$£352 \div 85 = 414p$ , a rise of 14p (3.5%).

If the discount remains at 20% then the share price will rise to  $80\% \times 414p = 331p$ , an increase of 11p (3.4%). In practice

because a large seller has been removed, the discount may well fall. Therefore, the share price may rise even more, benefiting all the remaining shareholders who will retain exactly the same number of shares.

# Marketing Review



James Frost

## 2008

Witan's marketing objective is to promote awareness of the Trust and therefore stimulate demand for its shares. This in turn provides a level of liquidity which boosts the share price and allows shareholders to purchase and sell shares at a price accurately reflecting the performance and rating of the Trust. The presence of liquidity in investment trust shares is increasingly important in an environment where demand can drop, discounts slip and price spreads widen. All of Witan's marketing is measured and the results are reported to the Board, to ensure our activity is effective, adheres to our key objectives, and above all provides value for money to shareholders.

2008 was a very eventful year for Witan with three new managers appointed to the multi-manager roster, a new Chief Executive Officer and Chief Investment Officer, and not forgetting one of the most hostile years in living memory for equity investors.

The volatile market conditions had a significant impact on investor sentiment, in particular towards the end of the year. Private investors seemed to lose their appetite for equity based investments altogether. For the Witan Wealthbuilder platform, inflows fell marginally during the year. However the number of sales of Witan shares fell considerably when compared with 2007. The savings for children market on the other hand remained fruitful for Witan. Jump, Witan's savings plan for children, saw inflows increase year-on-year, a tremendous achievement given the weak investor sentiment. In April, Jump launched its own Child Trust Fund account, to complement the Savings Plan that has now been in existence for more than 9 years. The CTF market provides a significant new area of demand for Witan shares, as the parents of every new born baby are now given a voucher that has to be invested in a CTF account.

Within the intermediary and discretionary wealth manager marketplace, we have continued to encourage investment in Witan by stressing the benefits of our multi-managed investment approach. One area that we have focused on during 2008 has been to increase the profile of the underlying managers within Witan's portfolio. A key selling point is our ability to pick good managers. This has been a particularly effective message; as you will have seen from earlier in the report, 7 out of the Trust's 13 managers are in the 1st quartile since inception (when compared to the relevant IMA sector).

Witan Investment Services (WIS), Witan's subsidiary company, had its second full year of business, and again generated a healthy profit. The income derived from WIS is used to offset the cost of the administration of Witan's savings plans.

## 2009

2009 is likely to be a difficult year for the financial services industry. The volatile market conditions witnessed during September and October 2008, coupled with the onset of a global recession, provide a very challenging environment. As such we expect investors to be fairly thin on the ground. However, as the popularity of Jump in the aftermath of the tech bubble testifies, a good product, marketed well, can flourish even in the most hostile market conditions. In light of these conditions we will focus our attention on areas that we know work well, and will yield the maximum level of response. Furthermore, we intend to maximise the use of lower cost distribution channels such as the internet.

We will continue to deploy a wide range of activities across the full marketing mix, including advertising, direct mail, public and investor relations, e-commerce and sponsorship. Good marketing should be innovative, creative,

**Witan**

*"I went window shopping today. I bought four windows."*  
Tommy Cooper.

wisdom

**We pride ourselves on our transparency. So get in touch and we'll give you the story behind our success. (Just like that.)**

Here's a breath of fresh air for investors. At Witan we believe in being completely open about the way we invest your money. While some organisations prefer to hide behind a veil of secrecy, we're quite happy to 'let light in on magic' and tell you all about our multi-manager strategy. It's an approach we adopted in 2004, and it's designed to help us ensure steady long-term growth by entrusting

investment decisions not to one company, but to a team of hand-picked, 'best of breed' experts whose historic results prove that they can more than deliver on their, and our, target. This flexible strategy allows us to keep an eye on the key global players and add to our crack team if we spot a manager who's performing particularly well. In 2008, three new managers joined our team. And it also means we can indulge in the odd spot of defenestration - jettisoning any managers who fail to meet our exacting standards. Please remember, past performance is not a guide to future performance, and the value of your shares and the income from them can rise and fall, so you may not get back the amount originally invested. For a fuller picture visit [www.witan.com](http://www.witan.com) or call 0800 082 81 80.

0800 082 81 80 [www.witan.com](http://www.witan.com)

Please quote reference XXXX when calling.

**Witan investment trust**

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**Witan**

*"Those who trust to chance must abide by the results of chance."*  
Calvin Coolidge.

wisdom

**More astute investors, however, prefer to trust their money to our multi-manager team of experts. (Nudge, nudge.)**

You can bet your bottom dollar that some of our rivals were sceptical about our decision to adopt a multi-manager strategy way back in 2004. And no doubt a few of them now feel like lemons for not having had the same insight. We reckoned that, rather than trusting our fortunes (that's your clients' hard-earned cash) to the whims of a single expert, we'd be better off recruiting a team of proven, 'best of breed' specialists from around the globe, whose combined opinions and insights would provide a more balanced view. And as our shiny new publication, the Witan Investment Handbook, makes abundantly clear, it seems our instincts were right. The table here shows that we've delivered 33.82% since going multi-manager, which puts us in the 1st Quartile of the IMA Active Managed Sector\*.

	30.09.04 - 30.09.08*
Witan Investment Trust	33.82%
Quantile ranking**	1st

\*All performance figures share price total returns. Source Lipper to 30.09.08. \*\*1st quartile ranking versus other managers against the IMA Active Managed Sector. \*\*Based upon Witan's long-term multi-manager.

And we've continued to stay true to our objectives, cherry-picking the best talent from around the globe - adding three new specialist managers, Artemis, Marathon and Varenne in 2008. To find out more, request your copy of the Witan Investment Handbook by visiting [www.witan.com](http://www.witan.com), or calling 020 7227 9720.

0800 082 81 80 [www.witan.com](http://www.witan.com)

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and thought provoking, but what really matters is whether it works, and that it generates new investment into Witan. To this end all marketing activity will be tracked and reported to the the Board on a regular basis.

### How to invest

There are a variety of ways to invest in Witan Investment Trust plc. Naturally Witan's shares can be traded through any UK stockbroker. However, Witan is also available for investment through the Witan Wealthbuilder savings platform managed by Witan Investment Services. Witan Wealthbuilder offers different savings wrappers which carry the benefits of income

**Affording children, a user's guide.**



Age 2: I want, I want, I want.  
 Age 4: But Sam's got one!  
 Age 8: Emma's going to Jamaica with her mummy and daddy.  
 Age 13: But everyone's going on the skiing trip.  
 Age 17: Driving lessons are really cheap these days, dad.  
 Age 25: Well it might not exactly be a white wedding.  
 Age 28: We're calling him Harold after you.

There's only one book that's going to help you at every stage of your darling one's development: "Money: Your Children, Their Future" by Sally Hamilton. Best goodness knows every parent needs it. Luckily for you the first step in looking after your children's future is to find out more about Jump investments and the Jump Child Trust Fund. Better yet, when you request a brochure, we'll send you a copy of Sally Hamilton's indispensable guide, worth £6.99, absolutely free and with no obligation whatsoever\*. Don't be stuck for an answer to the inevitable demands, get in touch with Jump today.

**Witan investment trust**  
 Savings Plan  
 0800 011 2015 | www.jumpsavings.com  
 Ref XXXX

\*Please note this is a limited offer. Offer applies to the first 10,000 requests made before 31.12.08. As Jump is an equity investment, please remember that past performance is not a guide to future performance, and the value of your shares and the income from them can rise and fall, so you may not get back the amount originally invested. Issued and approved by Witan Investment Services Limited. Witan Investment Services Limited is registered in England no. 5272533 of 4 Broadgate, London EC2M 2DA. Witan Investment Services Limited provides investment products and services and is authorised and regulated by the Financial Services Authority. Calls may be recorded for our mutual protection and to improve customer service.

reinvestment, regular saving and tax efficient investment. These saving schemes may be purchased online, by telephone or through the post. Online dealing is fixed at £15 per trade while telephone and postal business is charged at 1% per deal (subject to a minimum of £1.25).

- The Share Plan is a straightforward savings scheme with a minimum lump sum investment from £500 and/or regular saving from £50 per month or quarter.
- The ISA enables investors to save efficiently up to a limit of £7,200 per annum. Minimum lump sum investment is £2,000 with regular savings from £50 per month.
- The Transfer ISA allows investors to transfer all or any number of their existing ISA holdings to Witan Wealthbuilder. The investments retain their tax free status during and after transfer.
- Jump, Witan's savings scheme for children, now comes in two flavours, the Child Trust Fund (CTF) and the Savings Plan. The CTF is for new born children who are entitled to receive the £250 voucher issued by the Government. The

Savings Plan is for older children who don't qualify for the CTF voucher or for investors who would prefer more investment flexibility than the CTF allows. Both the Jump Savings Plan and the CTF give parents, grandparents and other adults the chance to save effectively for children over the long term. Minimum lump-sum investments start at just £50, regular contributions can be made from as little as £25 a month or quarter. Please visit [www.jumpsavings.com](http://www.jumpsavings.com) for more information and application forms.

Further information on all products is available by calling 0800 082 81 80 or online via [www.witan.com](http://www.witan.com). If you would prefer to write to request further information the address is:

Witan Wealthbuilder  
 PO Box 4605  
 Worthing  
 West Sussex  
 BN99 6QY

Investors are reminded that the value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Tax benefits may change if the law changes and their value will depend upon individual circumstances.

**Witan**

*"Make three correct guesses consecutively and you will establish a reputation as an expert."*  
 Laurence J. Peter

wisdom

**Add three expert stockpickers to the team, like Witan, and you'll confirm your determination to add alpha to your portfolio.**

When it comes to providing the best possible service for your clients, the trick is being able to spot opportunities. And at Witan, we pride ourselves on the ability to do just that – which is why the Witan Investment Handbook gives details of the three new managers we've recently added to our multi-manager team.

Not just any managers, you understand, but expert stockpickers, who, through rigorous research, we've identified as being well equipped to generate alpha by applying their individual tried and tested investment processes.

The Handbook explains why we believe that in Artemis Investment Management, Marathon Asset Management and Valence Capital Partners, we've found exactly the right people to help us ensure that our globally diversified, relatively low-risk fund becomes a better place for your clients to invest than ever.

So, if you want your clients to benefit from the expertise a 'best of breed' multi-manager team can bring to long-term investment, what should you do?

We'll give you three guesses. Actually, we won't. We'll simply suggest you request your copy of our Investment Handbook at [www.witan.com](http://www.witan.com), or by calling 020 7222 9770.

**Witan investment trust**

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# Shareholder Information

## Points of Contact

If you have any questions or need more information concerning Witan, you may contact us in the following ways:

*Freephone:*  
0800 082 8180

*Website:*  
www.witan.com

## *Post:*

For Witan Wealthbuilder (and Jump) queries:  
Witan Wealthbuilder  
PO Box 4605  
Worthing  
West Sussex BN99 6QY

## Points of Reference

You can follow the progress of your savings through the newspapers. Witan's share price appears daily in the national press stock exchange listings under 'Investment Trusts' or 'Investment Companies'.

The London Stock Exchange Daily Official List (SEDOL) code is 0974406.

## Dividend

A second interim dividend of 5.9p per share has been declared, payable on 3 April 2009. The record date for the dividend is 6 March 2009 and the ex-dividend date for the dividend is 4 March 2009 (see pages 5 and 24).

## Nominee Share Code

Where notification has been received in advance, Witan will provide the operators of nominee accounts with copies of shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman.

## 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.

## 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 0870 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.

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Telephone: 020 7818 1818

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London EC4A 3BZ

## Solicitors

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Exchange House  
Primrose Street  
London EC2A 2HS

## Stockbroker

JPMorgan Cazenove Limited  
20 Moorgate  
London EC2R 6DA

## New Zealand Registrar

Computershare Investor Services Limited  
PO Box 92119  
Auckland 1020  
New Zealand  
Telephone (New Zealand) (64) 09 488 8777

## New Zealand Stockbrokers

Rose Capital Management Limited  
PO Box 1630  
Queenstown 9197  
New Zealand



Witan Investment Trust plc is the principal sponsor of Chemmy Alcott. Miss Alcott is Britain's number one female skier and competes successfully at the highest level. Witan's current arrangement supports Miss Alcott up to and including the Winter Olympic Games in Canada in 2010. For more information please visit [www.chemmyalcott.com](http://www.chemmyalcott.com).

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