

Edinburgh Worldwide Inv Trust

Shareholders — your trust needs your vote

Edinburgh Worldwide Investment Trust (EWI) is under fire from activist US hedge fund Saba Capital. It is time for EWI's shareholders to make their feelings known following Saba's approach to seven UK investment trusts. Saba proposes to remove EWI's independent board and replace it with two non-independent directors, change the management of the company from Baillie Gifford to Saba and amend EWI's strategy, which may be at an unfavourable stage of the market cycle following a period where small-cap growth stocks have de-rated. EWI's board had already implemented proposals to improve the trust's disappointing near-term performance, which have started to take effect, with a meaningful NAV uplift in recent months and EWI's discount has continued to narrow. This is likely partly due to Saba's increase in beneficial interest; it currently controls c 25% of EWI's share base. If shareholders wish to retain access to a unique fund offering long-term exposure to the potentially world-class growth companies of tomorrow, they need to vote against Saba's proposals. Time is of the essence as EWI's general meeting is scheduled for 11:45am on 14 February 2025.

The cut-off for submitting votes is 11:45 on 12 February 2025 but for platforms, the date may be as soon as 6 February. Led by chair Jonathan Simpson-Dent, EWI's board is urging shareholders to vote against all the Saba resolutions. Simpson-Dent is concerned by Saba's lack of democratic process and exploiting the fact that the majority of investment trust retail shareholders do not exercise their vote. He highlights that if EWI is taken over and its strategy changes, retail shareholders in particular will find it difficult to gain similar exposure elsewhere. The trust has a long-term record of outperformance and performance is improving following the 2024 strategy review. Details of the shareholder vote can be found [here](#), while how to vote is shown [here](#).

EWI's investment strategy seeks to identify and access potential outsized returns from a portfolio of game-changing businesses that are aiming to transform end markets. This involves investing in both listed and private companies.

It should be noted that ahead of Saba's approach on 18 December 2024, EWI's board had taken proactive steps to address the trust's underperformance. Although outperforming over the long term, in recent years EWI has not met its objectives and has lagged the performance of its peers. Therefore, following a detailed review of EWI's strategy, execution and performance, on 20 November 2024, the board released a circular containing its proposals to put the trust back on a path to renewed growth and to return up to £130m to shareholders.

The key elements of these proposals were: changes to the management team; enhancements to the investment approach aiming to improve decision-making and portfolio discipline; a portfolio restructure involving a lower number of holdings (from 75–125 to 60–100) and better engagement with investee companies; raising the market cap limit on the largest portfolio company from \$5bn to match the largest constituent of the S&P Global Small Cap Index (the comparative index); and a 2025 capital return to shareholders of up to £130m.

In terms of the trust's management, Luke Ward and Svetlana Viteva were appointed as co-managers alongside Douglas Brodie; they have been involved with the management of EWI since 2017.

Investment companies
Global small-cap equities

23 January 2025

Price	191.40p
Market cap	£712m
Total assets	£804m
NAV	202.1p
¹ At 21 January 2025.	
Discount to NAV	5.3%
Current yield	0.0%
Shares in issue	371.9m
Code/ISIN	EWI/GB00BHSRZC82
Primary exchange	LSE
AIC sector	Global Smaller Companies
52-week high/low	200.0p 137.8p
NAV high/low	202.1p 157.5p
Net gearing	7.0%

¹At 31 December 2024.

Fund objective

Edinburgh Worldwide Investment Trust's objective is to achieve long-term capital growth from a diversified portfolio of smaller-cap global equities.

Bull points

- Access to potential long-term winning growth companies.
- Ability to seek opportunities among both listed and private companies.
- Board has taken steps to improve the trust's performance.

Bear points

- Trust is at risk of disappearing following an approach by a high-profile activist shareholder.
- Extended period of post-COVID-19 underperformance.
- Lack of investor appetite for long-duration growth stocks.

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Shareholder approval was required for a) the new investment policy and b) to reduce the trust's non-distributable share premium account and increase the distributable reserves to facilitate increased capital returns to shareholders. These resolutions were passed at the general meeting on 18 December 2024.

Edison's recent report: Saba Capital campaign – Your vote matters

Here is the opening paragraph of our Saba Capital note, which was published on 16 January 2025. The complete report can be accessed [here](#).

Shareholders of seven UK-listed investment trusts face a crucial vote during the upcoming general meetings. The trusts are Baillie Gifford US Growth Trust (USA), CQS Natural Resources Growth & Income (CYN), Edinburgh Worldwide (EWI), The European Smaller Companies Trust (ESCT), Keystone Positive Change Investment Trust (KPC), Henderson Opportunities Trust (HOT) and Herald Investment Trust (HRI). Their shareholders need to either approve or reject the agenda pursued by US hedge fund Saba Capital Management, which has built sizeable stakes of c 20–30% in these trusts in recent months, mostly by using a leveraged strategy via total return swaps. We recommend that investors carefully consider Saba's radical proposals to oust the existing boards, replace them with new directors proposed by Saba and take over the management of the assets. **Saba will likely favour a plain opportunistic arbitrage strategy to exploit the discounts to NAV among UK-listed investment trusts (by replicating the strategy of Saba Closed-End Funds ETF, ticker: CEFS), coupled with growing its own assets under management (AUM) and fee income, over providing shareholders with a truly differentiated value proposition tailored to each of these trusts.**

EWI: A unique exposure to early-stage growth companies

EWI's managers seek to invest in transformative businesses at the frontiers of innovation. They are encouraged by the recent improvement in the trust's performance and believe it can continue as there has been a reacceleration in EWI's portfolio's top-line growth, a greater percentage of portfolio companies have reached the stage of being financially resilient and the valuations of investee companies remain undemanding.

Guidelines state that the portfolio must be invested in a minimum of six countries and 15 industries. Unlisted companies of up to 25% of total assets (at the time of investment) and gearing of up to 30% of shareholders' funds is permitted.

The quality of EWI's portfolio in terms of financial resilience definitely improved over the course of FY24, with a 14.6pp reduction in exposure to companies in the de-risking phase and a 9.1pp reduction to companies at the initial commercialisation stage, with 13.3pp and 11.5pp increases in firms in a proven return and execution phase respectively (Exhibit 1). Hence, at the end of FY24, c 65% of the portfolio was invested in companies that were free cash flow positive, versus c 40% at the end of FY23.

Exhibit 1: EWI's portfolio breakdown by financial resilience

(% unless stated)		End Oct 2024	End Oct 2023	Change (pp)
Fledgling	Negative gross profit	3.1	4.1	(1.0)
Initial commercialisation	Positive gross profit	16.0	25.1	(9.1)
De-risking	FCF margin of -20% to 0%	16.2	30.8	(14.6)
Execution	Positive FCF	26.8	15.3	11.5
Proven return	Positive FCF & EPS	37.9	24.6	13.3
		100.0	100.0	

Source: EWI, Edison Investment Research. Note: FCF is free cash flow.

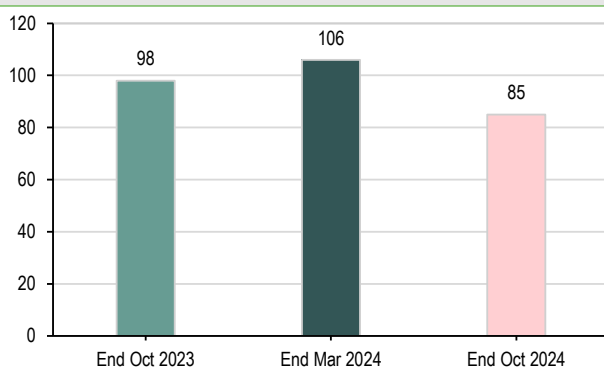
EWI's top 10 holdings are shown in Exhibit 2 and made up 42.7% of the portfolio at the end of December 2024. It is interesting to note that the trust's two largest holdings are both private companies. Saba's proposals do not include any details of how these would be treated in terms of raising liquidity or changing EWI's investment strategy; generally, private investments are much more difficult to dispose of than listed assets.

Exhibit 2: EWI's top 10 holdings

At 31 December 2024		Country	Business	% of total assets
Space Exploration Technologies	Unlisted	US	Designs, manufactures & launches advanced rockets & spacecraft	12.3
PsiQuantum	Unlisted	US	Developer of commercial quantum computing	7.5
Ailynham Pharmaceuticals	Listed	US	Drug developer focused on harnessing gene silencing technology	4.7
Zillow	Listed	US	US online real estate portal	3.7
Axon Enterprise	Listed	US	Law enforcement equipment & software provider	3.6
AeroVironment	Listed	US	Small unmanned aircraft & technical missile systems	2.7
Oxford Nanopore Technology	Listed	US	Novel DNA sequencing technology	2.5
Doximity	Listed	US	Online healthcare resource and interactive platform developer	2.0
Upwork	Listed	US	Online freelancing & recruitment services platform	1.9
Exact Sciences	Listed	UK	Non-invasive molecular tests for early cancer detection	1.8
Total				42.7

Source: EWI, Edison Investment Research

Exhibit 3: Number of portfolio holdings



Source: EWI, Edison Investment Research

Exhibit 4: EWI's sector exposure

(% unless stated)	End Oct 2024	End Oct 2023	Change (pp)
Healthcare	29.9	36.2	(6.3)
Industrials	27.8	24.7	3.1
IT	27.0	24.5	2.5
Consumer discretionary	4.6	4.3	0.3
Financials	3.8	3.3	0.5
Communication services	3.3	3.8	(0.5)
Materials	0.7	0.8	(0.1)
Net liquid assets	2.9	2.4	0.5
	100	100	

Source: EWI, Edison Investment Research

As part of EWI's portfolio restructuring, the number of names in the portfolio has come down (Exhibit 3). In terms of the trust's sector exposure (Exhibit 4), during FY24, there was a notable decrease in healthcare (-6.3pp), which was broadly offset by higher weightings in industrials (+3.1pp) and IT (+2.5pp).

At the end of December 2024, EWI's geographic was split: 72.9% in North America, 9.2% in the UK and 17.9% in the rest of the world, which included 5.2% in net liquid assets. The trust had exposure to 25 industries, the top three of which – by a wide margin – were software (c 20%), aerospace & defence (c 20%) and biotech (c 15%). All three industries represented significant overweight positions versus the comparative index.

Performance: Turned the corner; looking good

EWI has a strong, long-term track record. However, in recent years, the trust's bias towards smaller, earlier-stage companies has been detrimental to performance due to negative market sentiment, which was exacerbated by geopolitical events and tighter monetary policy following the global pandemic. Investors became more short-term focused and favoured larger companies with more predictable earnings, while higher interest rates in response to elevated inflation put pressure on growth company valuations. EWI's managers invest with a long-term horizon of a minimum five to 10 years, although they aim to invest in companies that can generate value over decades. They state that history shows there are periods when US small-cap companies can perform well following increases in the US Federal Funds rate. The managers believe that successful high-growth, long-term investing is down to understanding how a company's cash flow is likely to evolve over time, rather than estimating the discount rates used in growth company valuation models. They explain that the majority of returns from their most successful investments have come from business growth, rather than from a positive revaluation.

As shown in Exhibit 5, there has been a marked improvement in EWI's relative performance over the last three months. The managers attribute this to an improvement in the investment process, whereby companies are more rigorously stress tested for their upside potential as they get larger, and they acknowledge that they had been too patient with some smaller companies in the portfolio. There is now a better picture of the fund's maturity spectrum; early-stage companies are not the finished article, are investing for the future and have provided the majority of EWI's most successful positions. However, there is now a more rigorous process before allocating capital to early-stage companies and having

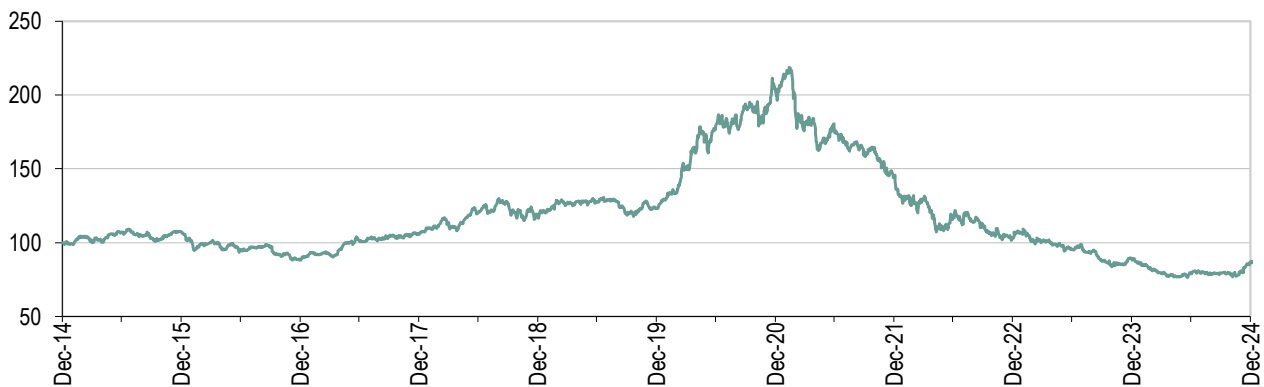
correct position sizes. Also, the managers are aware that there had been a growing percentage of the portfolio in the top three industries of software, aerospace & defence and biotech. They have now put controls on exposure to these three areas.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to S&P Global Small Cap Index	11.0	20.3	23.6	12.4	(40.2)	(32.2)	(2.0)
NAV relative to S&P Global Small Cap Index	7.7	8.6	8.5	(3.6)	(40.2)	(30.1)	(13.7)
Price relative to UK SmallCap Index	5.8	27.0	25.7	8.9	(35.9)	(28.7)	20.3
NAV relative to UK SmallCap Index	2.7	14.6	10.4	(6.6)	(36.0)	(26.5)	5.9
Price relative to UK All-Share Index	7.7	26.2	29.7	13.2	(43.9)	(21.9)	36.6
NAV relative to UK All-Share Index	4.5	13.9	14.0	(2.9)	(43.9)	(19.4)	20.3

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end December 2024. Geometric calculation.

Exhibit 6: NAV total return performance versus S&P Global Small Cap Index over 10 years



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 7: Five-year discrete annual performance

12 months ending	Share price total return (%)	NAV total return (%)	S&P Global Small Cap (%)	UK SmallCap (%)	UK All-Share (%)
31/12/20	87.7	85.6	12.6	1.7	(9.8)
31/12/21	(20.9)	(17.4)	16.4	31.3	18.3
31/12/22	(39.8)	(34.2)	(7.8)	(17.3)	0.3
31/12/23	(10.9)	(5.0)	9.4	10.4	7.9
31/12/24	24.0	6.3	10.3	13.8	9.5

Source: LSEG Data & Analytics, Edison Investment Research. Note: All % in pounds sterling.

Peer group: Getting back on track

EWI is the second smallest of five funds in the AIC Global Smaller Companies sector. As evidence that the trust is getting back on track, its NAV total return ranks first over the last 12 months, which is 5.8pp above the peer group average. The post-pandemic period of underperformance has negatively affected the other periods shown. At 22 January 2025, EWI had the highest valuation in the sector and the lowest ongoing charge, and was one of two funds that were geared. Unsurprisingly, given the nature of the trust's investments, EWI does not pay a dividend.

Exhibit 8: AIC Global Smaller Companies sector at 22 January 2025*

% unless stated	Market cap (£m)	1Y NAV TR	3Y NAV TR	5Y NAV TR	10Y NAV TR	Disc (cum-fair)	Ongoing charge	Performance fee	Net gearing	Dividend yield
Edinburgh Worldwide	711.9	19.0	(17.2)	(0.5)	127.1	(5.4)	0.8	No	107	0.0
Herald	1,188.0	16.3	4.2	48.7	211.8	(9.0)	1.1	No	100	0.0
North Atlantic Smaller Cos	485.2	5.6	(8.9)	26.5	152.9	(33.7)	1.2	Yes	100	1.9
Smithson	1,964.1	11.0	3.8	33.2		(12.5)	0.9	No	100	0.0
The Global Smaller Cos	752.2	14.0	9.5	28.0	130.6	(12.4)	0.8	No	105	1.7
Simple average (5 funds)	1,020.3	13.2	(1.7)	27.2	155.6	(14.6)	0.9		102	0.7
Rank	4	1	5	5	4	1	1		1	3

Source: Morningstar, Edison Investment Research. Note: *Performance data at 21 January 2025 based on ex-par NAV. TR = total return.

Valuation: Significant narrowing in the discount

EWI's discount has narrowed significantly since July 2023 from around 23% to closer to par. As a reference, over the last one, three, five and 10 years, the average discounts were -9.5%, -12.7%, -7.2% and -5.6% respectively. In recent months, this narrowing may be in response to the trust's performance improvement as well as Saba actively buying the trust's shares.

Exhibit 9: Discount over three years (%)



Source: LSEG Data & Analytics, Edison Investment Research

Highlights from FY24 results (ending 31 October 2024)

- **Performance:** NAV and share price total returns of +12.8% and +26.1% respectively compared to the +21.6% total return of the S&P Global Small Cap Index. The backdrop for growth investors is improving, with central banks starting to reduce interest rates. However, macroeconomic risks remain, including the war between Russia and Ukraine, national security and protectionism, and the re-election of US President Trump (see below).
- **Private companies:** at the end of FY24, 25.3% of the portfolio was held in private companies (end FY23: 26.2%), which had increased to 27.1% by the end of December 2024.
- **Share repurchases:** during FY24, c 14.7m shares (c 3.8% of the share base) were bought back at a cost of c £21.8m.
- **Revenue:** due to the nature of EWI's investments, in FY24, revenue per share was -0.70p (FY23: -0.65p per share); hence, no dividends will be paid.
- **Ongoing charges:** in FY24, the ongoing charges' ratio was 0.76%, which was 6bp higher than 0.70% in FY23.
- **The board:** Gregory Eckersley has been appointed as a new independent, non-executive director with effect from 15 February 2025, to replace Helen James, who is due to retire at the 14 February 2025 AGM. His background is in a range of leadership and asset management roles, including at Cigna International Investment, Draycott Partners, Alliance Capital and AllianceBernstein, and until 2019 he was the global head of internal equities at the Abu Dhabi Investment Authority. Eckersley is also a non-executive director of Murray International Trust.

Trump returns for a second presidential term

President Trump's re-election brings policy uncertainty. However, US small-cap stocks are likely to benefit from expected tax cuts and de-regulation, while the impact of higher tariffs is more likely to be felt by multinational large-cap companies. Trump's presidency may have an inflationary effect, which would limit interest rate cuts – the CME FedWatch tool indicates that the expected number of interest rate cuts in 2025 has already declined. However, if interest rates have peaked, even a stabilisation of rates could be supportive for the performance of small-cap stocks. **In this case, Saba may liquidate EWI's portfolio and change its investment mandate at an unfavourable stage of the market cycle following a period where small-cap growth stocks have de-rated.**

EWI's new holdings

Despite the managers reducing the number of holdings in EWI's portfolio, they are continuing to invest in new opportunities. Relatively new additions to the fund include Silergy (a leading Chinese analogue semiconductor company that is well positioned to benefit from local demand growth in a global industry that is dominated by US players), RxSight (a US manufacturer of adjustable intraocular lenses, which can be used to customise patients' vision after cataract surgery, enabling better vision without glasses; the firm has both domestic and international growth potential), UK-based Raspberry Pi (a low-cost, compact single-board computer and computing modules manufacturer, whose units are expected to be embedded in growth areas such as Edge AI products) and dLocal (a Uruguayan payment processor helping global merchants to operate in emerging markets, where e-commerce is growing rapidly, but business can be more problematic than in developed markets).

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