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Alliance Trust
INVESTING FOR GENERATIONS

Connection

TWO NEW STOCK PICKERS JOIN ALLIANCE TRUST

By Alliance Trust

Two new Stock Pickers have been added to the portfolio to increase sources of potential return and balance risk. Both are employee-owned private businesses and are highly differentiated in their approaches to investing from the existing eight Stock Pickers.

Metropolis Capital is a UK-based boutique investment management firm with $1.4bn of client assets under management. It specialises in unconstrained, high-conviction, global equity investment, and is, therefore, a natural fit for the strategy.

With 40 years experience between them of building, running and selling successful businesses, founders Simon Denison-Smith and Jonathan Mills, both former management consultants, are value investors with a private equity approach to public markets.

They ignore short-term share price volatility, seeking instead returns through cash dividends and long-term market recognition of the fundamental value of their investments. They look for companies with skilled management teams that understand their business and are making decisions which are in the best long-term interests of the shareholders. Often they look for companies where management has a significant stake in the business, particularly owner-occupied firms, where a founder still has a leadership role.

With $68bn in client assets, Sands Capital is a much larger firm but still independent, based in the Washington DC area of the United States. It specialises in investing in concentrated portfolios of high-quality businesses from around the world who are truly innovative and can sustain above-average growth over the long term.

ALLIANCE TRUST: DIVERSIFIED, HIGH-CONVICTION

Research shows that active equity managers add most value through a small number of their highest-conviction positions[1]. Yet, the performance of concentrated portfolios can also be highly volatile.

The Alliance Trust portfolio mitigates this risk by blending together the best ideas of ten best-in-class[2] Stock Pickers, each with different, complementary styles. We believe our diversified, high-conviction, global equity strategy should deliver more consistent outperformance and lower volatility than a strategy run by a single manager. Returns from single-manager strategies are often prone to sharp up and down moves; we aim to provide investors with a smoother ride.

1. Sebastian & Attaluri, Conviction in Equity Investing, The Journal of Portfolio Management, Summer 2014. **2.** As rated by Willis Towers Watson.

The lead manager on the Alliance Trust mandate will be Michael Sramek who has been with the firm since 2001.

There are six key criteria which have to be satisfied before Sands invests in a company:

1. sustainable, above-average earnings growth;
2. leadership position in a promising business area;
3. significant competitive advantage/ unique business franchise;
4. clear mission and value-added focus;
5. financial strength; and
6. rational valuation relative to the market and business prospects.

Sands' focus is on the sustainability of a business' future earnings growth, which leads it to invest in companies that are benefiting from structural change and secular trends—distinct from cyclical economic factors—in selective industries and businesses with powerful growth tailwinds.

Craig Baker, Chairman of the Alliance Trust Investment Committee and Global Chief Investment Office of Willis Towers Watson, says Metropolis and Sands should provide new sources of potential return for the portfolio, and increase flexibility when allocating capital between the Company's Stock Pickers.

"The addition of the new managers will not alter the overall concept that the portfolio should have no meaningful style, country or sector biases relative to the market," said Baker. "Indeed, having two more skilled Stock Pickers in our line-up should provide greater diversity and flexibility whist our portfolio construction will ensure that performance is driven by stock selection."

Despite the headwinds against the value style of investing for most of the last few years, Metropolis' flagship strategy has delivered very strong outperformance since its launch in June 2008, returning 14.8% gross of fees per annum in GBP terms vs 10.2% for the MSCI ACWI Index. It has done particularly well over the last 12 months, outperforming MSCI ACWI by 13.6% gross of fees for the 12 months through to the end of March 2021.[3]

Sands has had very strong returns, outperforming MSCI ACWI in every calendar year in the last decade except for 2016. The Sands Global Growth Fund was up 20% relative to its benchmark for the 12 months to March 2021 end. The strategy outperformed the index by 10% per annum gross of fees in USD terms for 3 years, 5 years and since its inception in January 2009 to end of March 2021.

Like the other eight Stock Pickers, Metropolis and Sands will manage customised mandates of 10-20 stocks for Alliance Trust which can only be accessed through the Company.

Although the number of holdings in the portfolio will increase, the overlap between the Stock Pickers is likely to remain low. "We anticipate that there may be some overlapping holdings, particular among the larger companies in the index, but Metropolis and Sands both bring something different to the portfolio and will naturally tend to invest in companies not currently held," said Baker.

The capital allocated to the two new managers to manage will be redistributed from the other eight.

Find out more

Past performance is a not a reliable guide to future returns. Please note the value of investments and any income from them can go down as well as up.

3. Source: eVestment

INVESTMENT PATHWAYS AND THE ALTERNATIVES

By Faith Glasgow

When the pension system was overhauled with the introduction in April 2015 of pension freedoms that allowed people to make their own decisions about funding their retirement, the authorities knew they were taking a big step into the unknown.

With hindsight, however, worries around pension funds being splurged on fast cars and world cruises proved unfounded. Instead, arguably the most concerning trend has been one of 'excessive caution' – a tendency for people to move their pension fund into cash and keep it there.

That may reflect a fear of losing money in the stock market, or the fact that they simply don't know what else to do with it. Either way, the very real danger is that over time the real value of their money will gradually be eroded by inflation.

The Financial Conduct Authority's Investment Pathway (IP) scheme that came into force at the start of February is designed to target the risk of retirees reverting to cash for their pension fund, and to make it simple for less engaged or knowledgeable investors to find an appropriate investment choice in line with their personal game plan.

It's worth pointing out that so far, IPs have not been rolled out right across the UK pension arena, but only by those providers regulated by the FCA – the insurance companies and other providers responsible for many workplace pension schemes and private pensions such as SIPPs.

Other employers use a different pension set-up known as a Master Trust, which are separately overseen by the Pensions Regulator, but it's widely expected that it will introduce a similar initiative to help scheme members at retirement.

THE PATHWAYS EXPLAINED

IPs are designed to simplify the decisions pension investors face at retirement, once they have taken the 25% tax-free lump sum from their pension pot. They're available from insurers such as Aviva and Standard Life, but also from investment platforms including interactive investor and Hargreaves Lansdown, and from other pension providers such as PensionBee.

It's a simple process. Having chosen a provider (about which more later) and decided which of the four broad retirement objectives is closest to their own plan, pension holders are offered a ready-made low-cost investment appropriate to that scenario.

As Paul Herbert, senior director at Willis Towers Watson, observes: "People may well not feel very confident about investing, but they are much more likely to know roughly how they intend to use the money. This way, they make that choice and then the investment decisions are delegated to the provider."

OPTION #1 I HAVE NO PLANS TO TOUCH MY MONEY IN THE NEXT FIVE YEARS

People who make this selection may have other pensions or income sources that mean they don't need to use this pot to generate an income for the foreseeable future; perhaps they plan to gift it to a child, or want to hold it to pay for long-term care down the line.

Either way, they can afford to leave the money invested at least partially in the equity markets. Even if it loses money in the short term, with a timescale of five years plus they can expect to see some growth.

Be aware, however, that there is considerable variation in the offerings available from different IP providers, so it's important to understand the nature of the fund you invest in.

Aviva, for example, uses a balanced fund with a broad mix of asset classes; Hargreaves Lansdown focuses primarily on bonds to reduce risk, while Pension Bee aims for growth through an equity-dominated fund.

OPTION #2 I PLAN TO SET UP A GUARANTEED INCOME (AN ANNUITY) WITHIN FIVE YEARS

Those intending to buy an annuity with their pension in the coming years need to ensure their earmarked capital keeps pace with any fluctuations in annuity rates.

The money used to buy annuities is invested in long-dated government and corporate bonds, and annuity rates move in line with bond yields. So it makes sense for prospective annuity purchasers to have their pension pot in a fund of bond holdings of a comparable duration that will be similarly affected by changes in interest rates.

A mixed or balanced fund is therefore the favoured choice for most IPs, though again there are significant differences between providers' choices.

On the whole there is much less variation between the offerings of different IP providers for this option.

Annuities have fallen out of favour with younger retirees, but the security they provide makes them an increasingly attractive choice as people get older. In that respect, it's perfectly feasible to revisit your IP choice at a later date, if you think you're likely to want to buy an annuity in years to come.

OPTION #3 I PLAN TO START TAKING A LONG-TERM INCOME WITHIN FIVE YEARS

This pathway is about income drawdown; it's designed for the growing number of people who want to leave their pension invested but intend to start making regular or occasional withdrawals in the next five years.

"The risk here is that too cautious an investment strategy will not produce enough of a return to last for the next 30 years or more, so it needs to include some equities," explained Herbert.

For instance, unlike its peers, interactive investor's choice uses a 'lifestyling' fund - which decreases the proportion of equities over time – to reduce the risk of stock market losses in those early years of drawdown, as this can do irreparable damage to the value of the fund.

OPTION #4 I PLAN TO TAKE ALL MY MONEY OUT WITHIN FIVE YEARS

For those who want to cash in their pension pot altogether in the next few years, option 4 is the best choice: the focus needs to be on protecting the value of the pension, rather than sustainability or growth.

That rules out stock market investments, which are too volatile for such a short timescale. Instead, the IP emphasis is on bonds, money market and cash holdings, aiming if possible to preserve the real value of the investment. But there is a risk that pensions invested in these choices will become worth less over time, as charges and inflation outpace returns.

THE PRACTICALITIES

In practical terms, investors who want to take advantage of the IP scheme could just make use of the solutions being offered by their pension provider; but they are encouraged to shop around in the open market in order to find the choice that will suit them best.

The IP selection tool provided by the government's Money Advice Service (https://www.moneyadviceservice.org.uk/en/tools/drawdown-investment-pathways/get-started) is a good place to start a search. It includes details of the fund being used for each pathway by some of the main providers, and also allows comparison of the cost of that pathway in the first year, which can also vary considerably between providers.

One crucial question around the Investment Pathways initiative is whether investors will actually make use of them. Herbert believes they will be use. "Some people don't engage with their pension investments at all, but we see many others as 'guided selectors' who need some help to achieve the right outcome. We think they will connect with IPs," he says.

Of course, there is another band of investors who may find the Investment Pathways useful as pointers, but who would rather identify their own fund (or use a financial adviser to do it for them) for the objective they have in mind.

So what kind of fund might self-guided investors look at in each case, bearing in mind the need to manage particular risks and also to keep a lid on costs?

For option 1 – remaining fully invested – many investors may simply leave their current portfolio in place. However, if you wanted to simplify it or reduce costs, you could use a well-diversified trust such as Alliance Trust as a robust long-term core. As a cheap passive alternative, Henry Cobbe, head of research at Elston Consulting, suggests the use of multi-asset passive funds.

Those looking at option 2 and annuity purchase in the medium term really need to stick with bonds funds that will preserve annuity purchasing power. Cobbe suggests gilt or sterling corporate bond trackers, or the Fidelity Pre-Retirement Bond fund.

What about option 3, for those about to start taking an income from their investment? "This is the hardest one," says Cobbe. If they want to live off the natural yield generated by the portfolio, he favours a multi-asset income fund.

Herbert, meanwhile, suggests that,

> "A diversified equity fund such as Alliance Trust could be used for the equity element of the portfolio, alongside a mix of lower-risk, income-producing assets such as bond and property funds."

Finally, for option 4, Cobbe makes the case for a passive money market fund or ultrashort bond ETF.

For investors who don't have a financial adviser but lack the confidence or inclination to make their own choices at retirement, Investment Pathways provide a potentially valuable solution that will help them avoid the key investment risks associated with each game plan. But self-directed investors too can learn useful lessons from a closer look under the IP bonnet.

Faith Glasgow is a freelance writer and former Editor of Money Observer.

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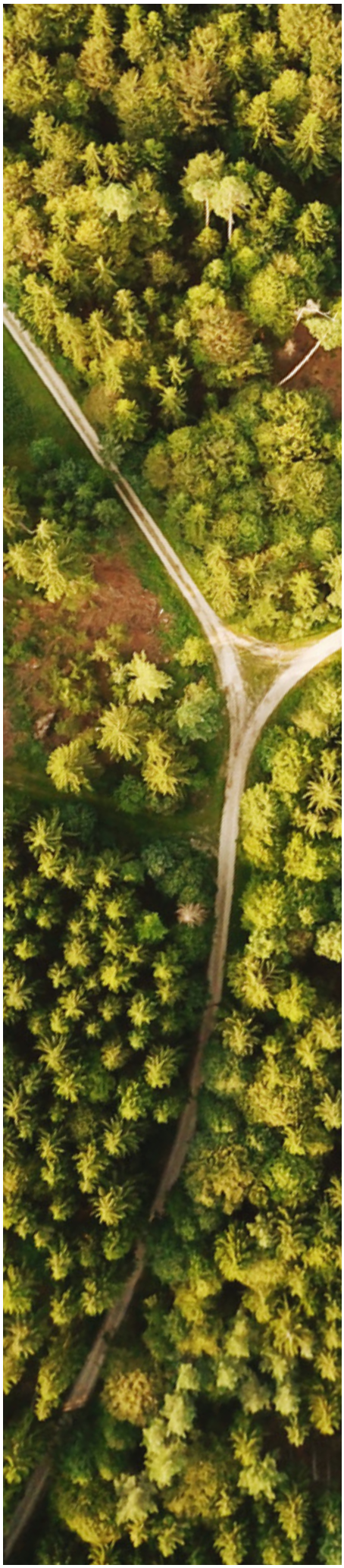

ETFS VERSUS ITS

By Jennifer Hill

ETFs are shiny, new and booming and various fund providers are hailing active ETFs as the next big thing. But it could be argued that active ETFs have been around since the 1880s in the form of investment trusts. We spoke to ten experts to compare the two vehicles.

Exchange-traded funds or ETFs – listed funds that give quick access to a range of indices and assets – are big business in the US where they command more than 23% of assets. Uptake is comparatively low in Europe, where they account for less than 10% of assets, Morningstar data compiled for Alliance Trust shows.

It is a market that is attracting growing interest due to its development from traditional passive ETFs that simply track an index, sector or commodity to 'smart beta' ETFs that use a blend of passive and active strategies by following bespoke indices based on particular fundamentals and now 'active' ETFs. They have a manager or team making investment decisions and the flexibility to trade outside their normal rebalancing periods.

Active ETFs account for just 0.72% of total US assets and 0.13% of European ones, the Morningstar data shows, but global fund selectors expect them to rise strongly in popularity. Asset allocators reckon active and smart beta ETFs will account for 39% of clients' overall ETF holdings by 2023, up from 20% three years ago and 31% at present, according to a survey by JPMorgan Asset Management.

James Sullivan, head of partnerships at Tyndall Investment Management, said: "The ETF market has witnessed phenomenal growth in recent years, catalysed by a changing regulatory landscape and a broadening of the ETF market.

"Historically, one would be forgiven for suggesting ETFs are passive in nature, constructed to track an index, but there's been a purposeful shift towards active ETFs by product providers. This has created a new benchmark for traditional mutual funds and investment trusts."

James Carthew, head of investment company research at QuotedData, draws several parallels between active ETFs and investment trusts that have zero discount control mechanisms (whereby boards buy back shares to narrow a discount or issue them to reduce a premium).

"Both are listed. Both expand and contract in response to investor demand. Both have a depositary. Both need a fund manager or managers. Both need accounts and must report to investors," he said. "The more you go into the detail, the more it seems that we're reinventing the wheel."

> On the face of it, active ETFs ought to be viable competitors to investment trusts. However, active ETFs have so far failed to ignite the interest of UK investors.

Vanguard launched its first active ETFs on the London Stock Exchange in December 2015 but closed them in February 2021 due to insufficient demand.
Managed by Vanguard's quantitative equity group, the four Ireland-domiciled ETFs were designed to provide broad, globally diversified equity exposure each with a tilt to an investment factor – value, momentum, low volatility and liquidity. At the time of their launch, Vanguard said the products were "a compelling alternative to high-cost active strategies that target similar exposures".

Ben Yearsley, a director at Shore Financial Planning, believes there is "no reason why active ETFs shouldn't or couldn't take off here". Part of the problem is structural – "the UK market is centred around mutual funds and platforms have largely developed with those in mind" – and part comes down to the idea that the ETF market is "passive only, with the odd exception".

COST

There is also a perception that ETFs should be ultra-cheap. “Anything that isn’t sub, say, 0.3% is seen as expensive,” said Yearsley.

ETFs that track the FTSE 100 can be bought for an annual cost of 0.07% but others cost considerably more. Vanguard’s European active ETFs carried ongoing charges of 0.22%.

Darius McDermott, managing director of Chelsea Financial Services, gives the example of Fidelity Global Quality Income ETF, a smart beta ETF that tracks the Fidelity Global Quality Income index, which has been designed to reflect medium and large developed market companies that pay dividends and have quality characteristics. It levies ongoing charges of 0.4%, whereas investors can buy an actively managed income fund for 0.25%.

The argument, for Carthew, comes down to value for money. “Is the management company creaming off a fatter profit margin from one than the other? Accusations have been made against the ETF industry in the US that the degree of active management involved in running some of these “active” ETFs is minimal, and the active ETF industry is just a way of expanding profit margins over passive ETFs,” he said.

“This seems plausible – not only do they seem a bit gimmicky, but why should investment managers focus their attention on accounts that are less profitable to them?”

PERFORMANCE

While cost is important, performance is arguably more so. “Investors have been duped into believing that investing is all about cost,” said Roddy Kohn, managing director of KohnCougar. “This shouldn’t surprise anyone because the passive fund industry is a behemoth and exceeds the money invested in active funds. Its impact on investors’ psyche is becoming more pronounced.

“I tell my clients, ‘Don’t let the charges tail wag the investment dog.’ After 40 years in business I’m still having to remind new clients of this tried and tested mantra.

“Our client portfolios are littered with investment trusts that have easily outperformed many ETFs,” he said.

Kepler Partners points to a string of research papers that support the case for a more concentrated – but still highly diversified – approach.

“The overwhelming evidence is that fund managers who are willing to back their convictions with punchy bets are the ones who tend to outperform by the highest margin,” said investment trust analyst William Sobczak.

> “Investors” he said, “should think about the benefit that the more focused approach of many investment trusts brings to their portfolio.”

A 2013 paper by finance professor turned fund manager Antti Petajisto asserted that the most active Stock Pickers outperformed their benchmarks by 1.26% a year after fees. In 2015, academic Martijn Cremers looked at high active share portfolios (those that differ the most from their benchmarks) relative to the investment timeframe and found that managers who held stocks for more than two years outperformed by more than 2% per year.

Past performance is not a reliable indicator of future returns.

"These findings are particularly pertinent for investment trusts where the closed-end structure allows managers to hold more concentrated portfolios and take a longer-term view on them," said Sobczak.

MANAGEMENT

The range of levers that managers of investment trusts have to pull in running their portfolios also contribute to them being able to "offer exceptional value", according to Kohn.

Managers can retain up to 15% of the income their investments generate each year to distribute in leaner years. They can also enhance returns in rising markets by employing gearing. "With trusts you are getting a lot more," said McDermott.

An additional benefit that investment trusts hold over ETFs is what John Newlands, founder of Newlands Research, calls the "human side".

"By this I mean that shareholders' money is managed by identifiable real people. Even if owning only a few shares, individuals have the right to vote, attend AGMs and even to meet the fund managers and board. Try asking that in the quasi-derivative murk that clouds the underlying processes behind some ETFs. I particularly enjoy Alliance Trust's AGMs, which are always hugely attended – and at which are served some of the best individual minced steak pies you will ever eat.

These morsels were absent one year, but reappeared the next, following constructive feedback from my own good self."

PRICING

Another key difference is pricing. While ETFs typically trade at net asset value or very close to it, investment trust shares can trade at significant discounts or premiums.

Buying shares at a discount that later narrows augments returns (though, of course, discount widening has the opposite effect). This is among the reasons that wealth manager Philip J Milton & Co, a staunch value investor, uses investment trusts extensively.

"We do so because of their technical opportunities, such as discounts, income reserves which were so valuable last year and gearing which boosts returns in buoyant times. We have no axe to grind but inevitably dwell mainly in the best value space as we see it for the client," said founder Philip Milton.

The fact that ETFs are compelled to trade regardless of value can cause problems, as was evident last April when they got swept up in plummeting oil prices.

"Had oil ETFs not existed would the negative underlying commodity prices have arisen?" asked Milton. "An ETF has no choice but to trade, so a very popular illiquid assets one could force asset prices very high and an unpopular one force sales at very low prices. An investment trust manager, by comparison, is never a forced seller."

GOVERNANCE

Both investment trusts and ETFs have a board of directors. "The board of the investment company has more teeth in that it could realistically fire an underperforming manager – not ever likely to be the case for an ETF," said Carthew at QuotedData. Sullivan at Tyndall also points to greater oversight and scrutiny among investment trust boards. "In a world that is becoming more aware of ESG [environmental, social and governance] factors, it could be argued that the independent board of an investment trust offers a layer of governance that is not seen so explicitly in ETFs," he said.

The investment trust sector is governed by the Association of Investment Companies' 2019 code, which sets out a framework of best practice and has been endorsed by the Financial Reporting Council, whose mission it is to promote transparency and integrity in business.

"The code puts shareholders at the front and centre of all it strives to achieve," said Sullivan. "It addresses performance and risk, transparency, cost, liquidity and communication – key observations of many investors when doing their due diligence on an investment.

"When it comes to governance standards investment trusts that subscribe to the AIC code will be hard to beat. Even if it comes at a marginally higher cost to the investor, there is something to be said for being able to sleep a little easier."

EXPOSURE

Through ETFs, investors can get exposure to more niche areas such as currency and commodity markets – anything from wheat, biofuels and water to lean hogs and live cattle – as well as more mainstream equity and bond markets.

"You can reflect esoteric ideas through ETFs – sometimes nothing in the investment trust space exists for what you want to do," said Milton.

At present, his client portfolios have reasonable weightings to three defensive ETFs – one that profits from sterling strengthening against the euro, another that tracks the price of coffee and a third the price of aluminium. He has also made a small allocation to the cheap Turkish stock market through an ETF.

Investment trusts, meanwhile, are well suited to investing in less liquid assets, such as alternatives, private equity and smaller companies, as well as enabling investors to take diversified or focused exposure to stock and bond markets. Their closed-end structure means their managers do not need to consider the liquidity of the underlying assets as much.

"An ETF that has exposure to illiquid assets could come a cropper if a large portion of the investor base decided to sell at the same time, potentially making it a forced seller of an illiquid asset at a price that is well below its true value," said Jon Smith, head of research at Casterbridge Wealth.

"ETFs have the benefit of intraday dealing, unlike other open-ended collectives, and I think active ETFs will continue to grow for this reason but that will likely be at the expense of open-ended peers as opposed to investment trusts. Investment trusts still have the leverage and opportunity to invest in less liquid assets that would not be feasible in an ETF structure."

HOLDING PERIOD

None of this is to say that ETFs do not have a place. "The multiple structures through which one can invest offer the investor a wonderful menu of options and there's seldom a right or wrong answer," said Sullivan. Yearsley at Shore added, "They all play a part in a modern, diverse portfolio."

For David Liddell, a director of online advisory investment service IpsoFacto Investor, ETFs are best deployed for short-term, tactical moves and investment trusts for longer-term strategic positions.

"You don't run Tiger Roll in the Derby, nor would you enter Frankel for the Grand National," he said. "In other words, the investment trust 'stayer' may be more attractive for the long-term investor than the more youthful and short-term ETF."

IpsoFacto's mainstream investment trust portfolio used a FTSE 100 ETF in the recent past but has since switched to an investment trust standing at a good discount."The advantage of using ETFs as tactical plays, particularly in turbulent periods, is that the investor avoids the risk of discount widening and the effect of gearing on the downside," said Liddell.

"For the long-term investor who does not want to make too many tactical plays the investment trust with its ability to be purchased at a discount to net asset value, an element of gearing and usually relatively attractive fees remains a better bet."

NEW BOARD MEMBERS

As part of a succession plan, two new Non-Executive Directors joined the Alliance Trust Board in March. Sarah Bates and Dean Buckley both bring skills and experience that will complement those of the current Directors. Karl Sternberg, Senior Independent Director (SID), who joined the Board in 2015, will be stepping down on 30 June. Two others are also expected to stand down over the course of the next two years. Sarah will succeed Karl as SID, whose role it is to provide a sounding board for the Chairman and serves as an intermediary for other Directors and shareholders. The SID also leads any discussions on the appointment of a new Chairman.

FIND OUT MORE

SARAH BATES, NON-EXECUTIVE DIRECTOR

Sarah joined the Board in 2021. Sarah is currently Chair of Polar Capital Technology Trust plc and a Non-Executive Director of Worldwide Healthcare Trust plc. Sarah is also Chair of the John Lewis Partnership Trust for Pensions and is an independent member of the investment committees of the BBC Pension Scheme and of the University Superannuation Scheme.

Sarah is a Fellow of CFA UK and was previously Chair of the Association of Investment Companies. Sarah was also previously Chair of Merian Global Investors Limited, St James' Place plc, JPMorgan American Investment Trust plc, Witan Pacific Investment Trust plc (now Baillie Gifford China Growth Trust PLC) and chair of the audit committees of New India Investment Trust plc and of U and I Group plc. She was a founder of the Diversity Project and is currently Chair of the Diversity Project Charity and an Ambassador for Chapter Zero.

"Alliance Trust's portfolio is responsibly managed and built for resilient long-term performance."

DEAN BUCKLEY NON-EXECUTIVE DIRECTOR

Dean joined the Board in 2021. Dean is currently Chair of the Audit Committee, Remuneration Committee and Senior Independent Director of JPMorgan Asia Growth & Income plc, Senior Independent Director of Fidelity Special Values PLC and a Non-Executive Director of Baillie Gifford & Co Limited and Smith & Williamson Fund Administration Limited.

Dean is a qualified actuary and has enjoyed a career in fund management. Dean was previously Chief Executive Officer of Scottish Widows Investment Partnership. Prior to that, Dean held several positions at HSBC Bank plc, most recently as Chief Executive Officer of HSBC Asset Management UK & Middle East. Dean held senior fund management positions at Prudential Portfolio Managers and was also previously a Non-Executive Director of Saunderson House Limited.

"Our multi-manager approach to investing smooths out the peaks and troughs of performance normally associated with a single manager."

WHY THE BOARD MATTERS

By Alliance Trust

In the wide world of investment, putting your faith into a fund, a manager, a company, can be daunting. Will your pot of cash be safe? Will the company do its best to ensure you reap a solid return? Equally will you be treated fairly and not be charged over the odds once you hand over your savings?

With all investments, we can, usually, rely on additional checks and balances on funds to ensure they live up to their requirements. One of the key attractions of an investment trust is in the multiple layers of governance on offer, the type that can help you sleep at night. This high level of governance, in the form of an independent board tasked solely with protecting shareholders and speaking on their behalf, is one of the key benefits on offer from the investment trust sector.

In a nutshell, the board will seek to ensure the company is run in the best interests of shareholders at all times and seek to protect their interests. It holds those employed by the trust to account and ensures the investment manager is fulfilling its duties.

The benefits to shareholders of the trust are wide-ranging. The board will monitor fees and charges, pushing to keep levels competitive. It will monitor if the share price falls to a discount, or rises to a premium, and where necessary manage this through share buybacks or issuance. It will ensure the funds over which the investment manager has responsibility are not abused, with appropriate risks monitoring and processes followed. It is also able to hold the investment manager to account over performance, raising concerns and asking the important questions if it trends downwards.

The breadth and depth of knowledge on offer is invaluable, ensuring the trust has an expert voice on a range of topics to help it achieve its ambitions and goals.

Nowhere has the power of a strong, independent Board been demonstrated clearer than in the transformation of Alliance Trust in recent years.

It set about overhauling a number of key areas, changing the trust from top to bottom. It overhauled the investment approach, bringing in a new manager and with it an entirely new investment process built on a multi-manager approach to global equities. This new equity portfolio, which saw old legacy investments in the likes of mining disposed of, is managed by global asset management house Willis Towers Watson and was set a demanding performance target. The entire corporate structure was also streamlined and updated. The board completed all of this while ensuring that the 130-year-old Trust continued to pay shareholders an increasing dividend each year. The work was ambitious and purely for the benefit of shareholders, a clear sign of the professional oversight and care taken to future-proof the trust for generations to come.

The board's decision to appoint global asset manager Willis Towers Watson is in itself a bonus for shareholders. With the investment team comes access to a specialist global organisation's research, tools and equity expertise. It in turn appoints and manages the underlying Stock Pickers for the trust, monitoring performance, allocating capital, and holding them to account on decisions affecting the overall portfolio. As an extra layer of defence, the board and Willis Towers Watson have also employed the services of EOS at Federated Hermes, a leading stewardship service provider, to offer support on all matters concerning sustainability and the ESG considerations of the portfolio's assets.

The board also brings together a wide range of professionals with different talents and areas of expertise. From risk and compliance to marketing and sustainability, each board member will bring a different specialism gained from real-world experience across different industries and sectors.

It really does take a village, as the old adage goes. At a time when the risks of relying on one person, or one manager, to carry the fortunes of a fund or company have never been more apparent, it is timely to consider the multi-faceted support on offer via investment trusts. When combined, the different arms of the Alliance Trust management – all overseen by the board – create a veritable army of experts dedicated to ensuring the company runs as smoothly and successfully as possible. With a board acting as a conduit for shareholders, giving them a voice in decisions and watching out for their wellbeing, Alliance Trust is truly a trust for the long term.

EQUITY MANAGER SPOTLIGHT

BLACK CREEK INVESTMENT MANAGEMENT

BLACK CREEK
INVESTMENT MANAGEMENT INC.

BILL'S VIEW

Bill Kanko
Founder & President
Black Creek Investment Management

At Black Creek, we build unconstrained, high conviction, concentrated portfolios that look very different from the market and our peers. We believe having a differentiated view of the market is the only way to produce long-term value added for our clients.

We seek out businesses that are industry leaders and gaining market share, providing a reasonable return on capital, and reinvesting for future growth to support their competitive position. We have a long investment horizon when evaluating the companies in which we invest. This is often referred to as "time frame arbitrage" or a willingness to deal with near term uncertainty and/or negative short-term business results that do not ultimately matter in the long term.

We are not value investors who look for cheap stocks. We buy companies based on their fundamentals, including an ability to grow future cash flows and earnings, but we are cognizant of valuation. Given our contrarian nature, companies of interest are often out of favour with other investors.

At Black Creek, successful investing requires evaluating companies on a fundamental basis and having the patience to take a long-term view. As always, we will continue to look past the noise of the markets and use volatility to our advantage as we invest in a portfolio of winning businesses.

STOCK SPOTLIGHT: WEIR

Founded in 1871, Weir Group has evolved into a focused engineering technology company. Weir partners with its clients to provide products and solutions that increase resource efficiency, improve operation safety, and improve environmental impact and outcomes.

With the recent sale of its oil and gas division to Caterpillar, Weir has become a pure-play mining equipment company. Weir's know-how provides solutions to mission-critical challenges in mining operations, as well as comprehensive aftermarket support covering every major mining region in the world. As a leader in its industry, Weir has strong market positions in products covering mineral extraction, comminution (ore crushing), mill circuit and tailings management.

Unlike many of its peers, Weir has exposure to the necessary repair and replacement of high-wear parts and consumables. Approximately 75% of Weir's annual revenues are from higher-margin aftermarket sales and support activity, with the balance from original equipment.

The transition to a low-carbon, global economy is also driving demand for Weir's technology. As the mining industry seeks to meet commitments to reduce emissions, resource extraction will require change. This transition requires technology to reduce energy consumption, water usage and waste: all areas where Weir has a comprehensive and market-leading offering.

Weir's technology is being used to process most of the world's copper. The demand for resources such as copper, will continue to grow as consumers and businesses adopt a lower-carbon footprint. For example, electric vehicles require four times as much copper as internal combustion vehicles, solar energy three times as much copper content as the coal power equivalent, and wind energy ten times the copper content versus the coal power equivalent.

Weir's business is supported by the long-term growth prospects for the mining industry, the strength of its market-leading product positions, and the resilience of its aftermarket-focused business model.

WEIR FAST FACTS

1871

Founded **1871**

Operating in **50** countries

11,500 employees

HQ in **Glasgow**

FTSE

100 company

Current CEO **Jon Stanton**

Companies mentioned are for informational purposes only and should not be considered investment advice.

EQUITY MANAGER SPOTLIGHT

GQG PARTNERS

GQG PARTNERS

RAJIV'S VIEW

Rajiv Jain
Chairman and CIO,
GQG Partners

At GQG, we are guided by our over-arching investment philosophy predicated upon finding (ie security selection) and creating (ie portfolio construction) outcomes that are focused on compounding. By doing this, we believe it sets us on the path to long-term, superior risk-adjusted returns. Such pursuit not only serves, in our view, as the bedrock of our stock selection process but it also describes the inherent adaptability of our investment approach— as we would argue that compounding knows not of the arbitrary definitions for which the "style box" is bound.

Within our mission to compound client assets, three pillars are key: **quality**, **growth** and **valuation**. Simply stated, we believe that quality keeps you afloat even in bad times, growth—so long as it is sustained—is very valuable, and valuation matters. While perhaps not necessarily the case from 2017 to 2020, valuation keeps us focused on what in our view is the ever-crucial question of "what are we receiving for the prices we're paying?"

Apart from seeking to drive our portfolio away from the traditionally defined quality and growth packs, we believe that valuation plays a critical role in minimizing the risk of permanent capital impairment (our definition of "risk"). What that means today is, healthcare in developed markets and a few select financials are the two areas that have found some more room in our portfolio. We think these areas offer steady, highly visible earnings streams at reasonable prices which, when combined with our other holdings, have the potential to create a unique compounding advantage for our portfolio going forward.

STOCK COMMENTARY ON ASTRAZENECA

A merger between Astra of Sweden and Zeneca Group of the United Kingdom formed AstraZeneca in 1999. The company sells branded drugs across several major therapeutic classes, including gastrointestinal, diabetes, cardiovascular, respiratory, cancer and immunology. The majority of sales come from international markets with the United States representing close to one third of its sales.

We hold AstraZeneca given our positive outlook on the company's drug pipeline and potential for future earnings growth. We believe that AstraZeneca, unrelated to Covid-related vaccine developments, continues to offer an attractive risk/reward opportunity set, as once again we believe that attention will be placed on actual pipelines and cash flows rather than headline-driven sentiment. The company's portfolio is in the process of transitioning from maturing blockbusters (Crestor, Symbicort, Nexium) to one driven by potential growth platforms like Respiratory, Diabetes, Oncology and Autoimmune. More generally, we believe that ageing demographics globally will be a tailwind for the sector more broadly and specifically, we believe this tailwind should benefit the platforms that the company's pipeline is focused on. Additionally, we believe that AstraZeneca's strong R&D spend, which has averaged around 25% of revenue per year for the last 5 years, should continue to put the company in a strong position to capitalize on current and future opportunities.

The stock is trading at a 20.0x NTM PE (trailing 5-year average 19.9x), ROE of 22.33% (trailing 5-year average 19.21%), and a dividend yield of 2.76% TTM. In our view, we believe the business is trading at an attractive multiple considering the promising pipeline and potential growth platforms the company has invested in recently.

MASTERCARD FAST FACTS

Founded
1999

107
pipeline projects

FTSE
100 company

More than
75,000 employees

Current CEO **Pascal Soriot**

Headquartered in
Cambridge, England

Companies mentioned are for informational purposes only and should not be considered investment advice.

PORTFOLIO UPDATE

Over the first quarter of 2021, the Company's total shareholder return and NAV total return were 3.5% and 5.9% respectively, with the MSCI All Country World Index (ACWI) returning 3.6%.

Global equity markets continued their rally over Q1 following the significant US government stimulus and the rollout of the vaccine distribution scheme, particularly in the US and UK. In the last 12 months, the MSCI ACWI has rallied 39% and is currently sitting higher than pre-Covid (end 2019) levels. With over 37% of US and 58% of British adults having received the vaccine the market appears to be pricing in a gradual return to normality. In this environment, smaller cap, value and recovery stocks outperformed. While some riskier growth stocks held up well late last year, they gave way in the first quarter and the value index outperformed the growth index by 8.5% in what was a meaningful style rotation.

We maintain our view that market cycles and style cycles are very difficult to time. Unlike an individual manager that typically has a single style of investing, Alliance Trust's multi-manager approach with a mix of styles is typically more resilient to style rotations and the portfolio was able to outperform through the first quarter.

Within the portfolio, Alphabet Inc, the multinational parent company of Google, contributed the most to the overall performance of the Trust, delivering an absolute return of 16.8%. Internet search advertising exceeded analysts' expectations, leading to a rally in the stock over the quarter. Volkswagen also stood out as a key contributor over Q1 returning 50.3%, the majority of which was delivered in March following the announcement of significantly higher operating profit than analysts' consensus had predicted. Amazon Inc was the largest detractor over the quarter, with an absolute return of -5.7% as investor uncertainty grew following CEO Jeff Bezos' announcement that he will be stepping down from his current role.

The Company's Stock Pickers continued to search for favourable investments for the portfolio throughout the quarter. A position was initiated in Ebara Corporation, a Japanese-based global manufacturer of environmental and industrial machinery. Ebara is a leader in incinerator technology for solid waste disposal and power generation facilities using its advanced environmental engineering capabilities and is a cashflow generative business with a strong balance sheet. In addition, there was an increase in the position in consumer staples conglomerate Unilever. Since unifying its structure, Unilever is well positioned to refocus the business to higher growth areas, likely including selling or listing its tea business and increasing its market presence in plant-based products in China, India and the US. The company aims to be a global leader in sustainability and its management is proactively addressing supply chain and climate-related risks.

Over the quarter, we maintained the level of gross gearing at the central target level of 10%, consistent with a more neutral outlook for markets in the medium term. Furthermore, we removed Lomas Capital from the portfolio of Stock Pickers and allocated the assets across the remaining Stock Pickers (we added Metropolis Capital and Sands Capital in April). The portfolio continues to be structured in a balanced way across ten Stock Pickers with different investment approaches, resulting in a diversified but high-conviction portfolio of stocks.

LEARN more about the latest portfolio price and performance here

Companies mentioned are for informational purposes only and should not be considered investment advice.

Past performance is not a reliable indicator of future returns.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases – Q1 2021	% of Equity portfolio bought	Value of position bought (£m)
Target Corporation	0.7	22.6
Ping AN Insurance	0.6	21.3
Daimler	0.6	21.0
ServiceNow Inc.	0.6	19.9
Liberty Global Plc	0.5	17.8
Booz Allen Hamilton	0.4	14.6
ArcelorMittal	0.4	14.5
Chevron Corporation	0.4	13.0
Nokia	0.4	13.0
DBS Group	0.4	12.7

10 largest sales – Q1 2020	% of Equity portfolio sold	Value of position sold (£m)
Celanese Corporation	0.6	21.4
Mastercard Inc.	0.6	20.5
Tencent Holdings Ltd	0.6	19.8
Equinix	0.5	18.8
Nvidia Corporation	0.5	17.6
ServiceNow Inc.	0.5	16.8
BorgWarner Inc.	0.4	13.7
Baidu COM Inc.	0.3	10.7
Nestlé	0.3	9.7
Booking Holdings Inc.	0.3	9.4

UPDATE ON BUYBACKS

At the AGM in April 2020, shareholders approved for the Company to purchase and cancel up to 14.99% of the issued share capital. In the period since the AGM to 31 March 2021, the Company purchased 12.3 million shares at a cost of £103.3 million. The shares were purchased across a discount range of 2.7% to 9.3%, with an average discount of 5.6%.

The discount widened from 2.9% as at 1 January 2021 to 5.7% as at 31 March 2021. In the period from 1 January to 31 March, the Company purchased 4.8 million shares at a cost of £43 million, the discount ranged between 2.7% and 9.3%, with an average of 5.9%.

The Trust continues to watch the discount closely, and will carry out further buybacks if the discount shows signs of widening significantly over sustained period.

DISCRETE PERFORMANCE (%)

From To	31 Mar 20 31 Mar 21	31 Mar 19 31 Mar 20	31 Mar 18 31 Mar 19	31 Mar 17 31 Mar 18	31 Mar 16 31 Mar 17
Total shareholder return	47.2	-12.3	8.8	3.9	39.3
NAV total return	45.2	-11.2	8.2	4.7	30.2
MSCI ACWI total return[4]	38.9	-6.7	10.5	2.3	32.2

IMPORTANT INFORMATION AND RISK WARNINGS

This section contains important regulatory disclosures and risk warnings that are relevant to the material in this document. You should read this section carefully, as it is intended to inform and protect you.

Towers Watson Investment Management Limited (TWIM) has approved this communication for issue to Retail Clients. Past performance is not a reliable indicator of future returns.

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Investment trusts may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV), meaning that a relatively small movement, down or up, in the value of a trust's assets will result in a magnified movement, in the same direction, of that NAV. This means that potential investors could get back less than the amount originally invested.

Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

No investment decisions should be based in any manner on the information and opinions set forth above. You should verify all claims, do your own due diligence, and/or seek advice from your own professional adviser(s) before investing in any securities mentioned.

The Alliance Trust Board has appointed Towers Watson Investment Management Limited (TWIM) as its Alternative Investment Fund Manager (AIFM). TWIM is part of Willis Towers Watson. Issued by Towers Watson Investment Management Limited. Towers Watson Investment Management Limited, registered office Watson House, London Road, Reigate, Surrey RH2 9PQ is authorised and regulated by the Financial Conduct Authority, firm reference number 446740.

Past performance is not a reliable indicator of future returns.

Notes: All data is provided as at 31 March 2021 unless otherwise stated. All figures may be subject to rounding errors. Sources: Investment performance data is provided by BNY Mellon Performance & Risk Analytics Europe Limited, Morningstar and MSCI Inc; key trades data is provided by BNYM Fund Services (Ireland) Limited. Equity portfolio return is the return achieved by the equity managers, and so includes the effect of any of their cash holdings (gross of their fees). Returns are quoted net of withholding taxes (some of which are potentially recovered at a later date) and therefore potentially underestimate the managers' relative performance.

USEFUL INFORMATION

SHARE INVESTMENT

Alliance Trust PLC invests primarily in equities and aims to generate capital growth and a progressively rising dividend from its portfolio of investments. Alliance Trust currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products, and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products, because they are shares in an investment trust. The shares in Alliance Trust may also be suitable for institutional investors who seek a combination of capital and income return. Private investors should consider consulting an IFA who specialises in advising on the acquisition of shares and other securities before acquiring shares.

REGISTRARS

Our registrars are:
Computershare Investor Services PLC,
Edinburgh House, 4 North St Andrew Street,
Edinburgh EH2 1HJ
Telephone: 0370 889 3187

Change of address notifications and registration enquiries for shareholdings registered in your own name should be sent to the Company's registrars at the above address. You should also contact the registrars if you would like the dividends on shares registered in your own name to be sent to your bank or building society account. You may check your holdings and view other information about Alliance Trust shares registered in your own name at computershare.com

HOW TO INVEST

There are a growing number of savings and investment platforms where you can purchase shares in Alliance Trust direct. They are primarily for investors who understand their personal attitude to risk and those related to equity-based products.

START your investment journey here

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