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BY MARTEN & CO

INVESTOR

Alliance Trust

Investment companies | Update | 19 September 2024

A new powerhouse

In recent years, we have highlighted the success of Alliance Trust's (ATST) investment approach, which has, on average, outperformed the MSCI All Countries World Index (MSCI ACWI) over any given 12-month period (sampled weekly – see page 12). This success was an important factor in ATST's selection as a merger partner for Witan (WTAN), another global multi-manager investment trust with ATST's manager, Willis Towers Watson (WTW), continuing to manage the combined entity. Assuming the merger proceeds, as seems very likely, ATST shareholders can anticipate the benefits of a larger trust, and one that could enter the FTSE 100 as a result, as well as a reduced management fee.

Beyond the merger, a new manager has been added to ATST's line up: ARGA Investment Management. ARGA, a global value investor, will replace the team at Jupiter, who were removed from the roster following the resignation of their lead manager.

Sector	Global
Ticker	ATST LN
Base currency	GBP
Price	1,194.0p
NAV	1,262.6p
Premium/(discount)	(5.4%)
Yield	2.2%

The merger of ATST and WTAN may produce a new investment trust juggernaut

Global stock-picking portfolio

Alliance Trust aims to be a core equity holding for investors that delivers a real return (after adjusting for inflation) over the long term through a combination of capital growth and a rising dividend. It invests primarily in global equities across a range of industries and sectors via a 'manager of managers' approach. This is intended to reduce the risk often taken by investors selecting a single, "star" manager or one particular style that can move in and out of favour.

ATST has been a source of outperformance versus global markets

Market demand has played a key role in keeping ATST's discount to NAV tight

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Contents

Domicile	Scotland
Inception date	21 April 1888
Manager	Willis Towers Watson
Market cap	3,364.5m
Shares outstanding (exc. treasury shares)	281,779,600
Daily vol. (1-yr. avg.)	243,818 shares
Net gearing	4%

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Click for ATST's peer group analysis

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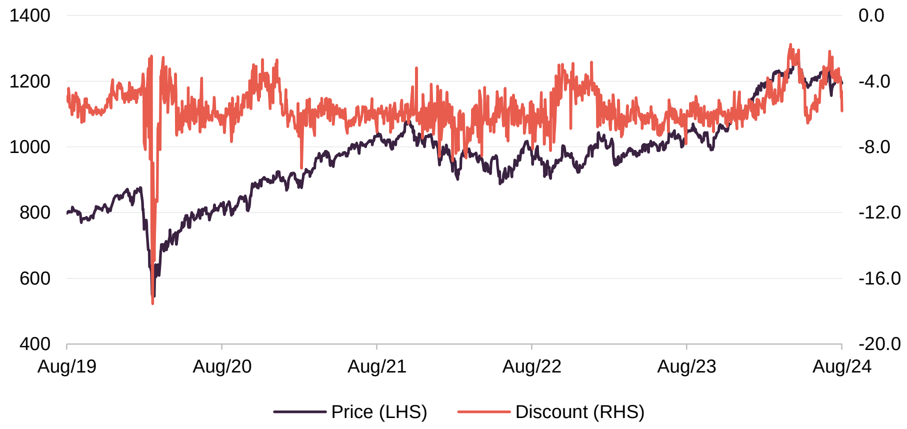
At a glance

Share price and discount

While ATST's tight discount to net asset value (NAV) has traditionally been attributed to the board's judicious use of buybacks, more recently, market demand has played a key role in keeping the discount stable. We believe the catalyst for this demand is twofold: ATST's outperformance relative to its benchmark and peers, and market confidence in ATST's buyback strategy (see pages 19 to 21).

Time period 31/08/2019 to 17/09/2024

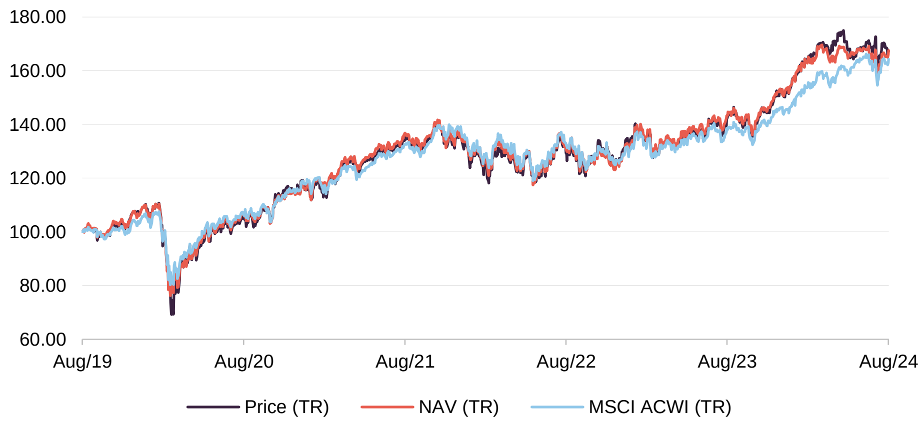


Source: Morningstar, Marten & Co

Performance over five years

ATST has, on average, generated a 1% outperformance relative to the MSCI ACWI over any given 12-month holding period. ATST's NAV returns have either matched or outperformed both its open-ended and closed-ended peers over one, three, and five years; having generated particularly strong outperformance over the long term.

Time period 31/08/2019 to 31/08/2024



Source: Morningstar, Marten & Co

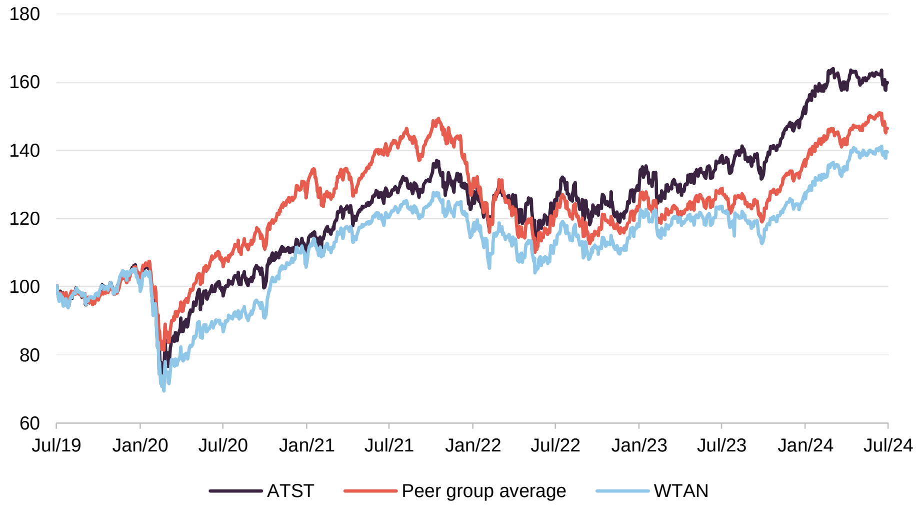
Year ended	Share price total return (%)	NAV total return (%)	MSCI ACWI total return (%)
31/08/2020	4.9	6.6	6.0
31/08/2021	28.5	27.5	25.2
31/08/2022	(4.3)	(4.3)	(0.5)
31/08/2023	10.8	10.1	4.6
31/08/2024	17.0	16.8	19.0

Source: Morningstar, Marten & Co

A transformational deal

For many years, the largest members of the investment trust industry have battled with each other for investors' attention and have sought to remain relevant by adapting to changing market forces. As we have documented in earlier notes, the revisions to ATST's investment approach that were made in 2017 with the appointment of Willis Towers Watson have revitalised the trust, thanks to improving performance and a stronger dividend. The evidence for this is in ATST's long-term net asset value (NAV) returns, which are now fairly consistently amongst the best of its global peer group.

Figure 1: ATST's NAV performance versus peers



Source: Morningstar, Marten & Co

Furthermore, ATST's track record and a concerted marketing effort has seen the number of share buybacks needed to maintain the discount dwindle to an extent that market demand alone is now sufficient to keep the share price discount to NAV around the 5% level (see pages 16 and 17 for more details).

As Figure 1 shows, while ATST's fortunes have been improving with it outperforming the wider peer group, Witan (WTAN) has struggled and its performance has lagged the global peer group's. The retirement of its longstanding CEO, Andrew Bell, kickstarted a review of the trust by the board. Given WTAN's size, it is not surprising that a number of managers put forward proposals to manage what is a significant slice of assets under management (AUM) and it is testament to ATST's success under WTW's stewardship that it has been selected as Witan's preferred merger partner.

Given the potential assets of the combined trust, the deal has the possibility of making ATST a member of FTSE 100 Index and give it the same sort of scale as rival F&C Investment Trust (we show how the funds stack up against each other on page 15). The benefits of the deal to ATST's shareholders are detailed below.

The merger proposals

The deal will take the form of a reconstruction under s110 of the Insolvency Act 1986. This has been the preferred approach for most mergers in the sector in recent years. Witan will be voluntarily liquidated, and its assets rolled into ATST. Shareholders will be given the opportunity to vote on the merger at a general meeting held on 1 October 2024.

Witan's shareholders can elect to receive cash for their shareholding at a price equivalent to a 2.5% discount to Witan's NAV at the calculation date (expected to be 3 October 2024), after the cost of redeeming WTAN's preference shares. If they choose not to participate in this, their share of the assets available to be distributed for the cash exit opportunity can be reallocated to those shareholders who do want to sell. However, whatever happens, the total cash exit is limited to 17.5% of all of Witan's shares in issue (excluding any treasury shares) – so if everyone ticks the cash exit box for their full basic entitlement, the most anyone will receive is cash for 17.5% of their total shareholding.

Each trust will bear its own costs in relation to the transaction although we do not know the exact final details of these costs as yet. However, WTW is to make a contribution to the costs of the deal equal to 0.52375% of the amount that rolls into ATST. Assuming the cash exit is taken up in full (a worst-case scenario in terms of the size of the contribution shareholders will receive from WTW), the contribution would be about £7.1m, which is expected to cover the direct transactional costs amply. That money will first be used to cover ATST's expenses and any remainder used to help with WTAN's expenses.

New ATST shares will be issued to WTAN shareholders on a formula asset value basis – which would take into account any costs not covered by WTW's contribution.

Benefits of the transaction for ATST shareholders

As WTAN shareholders that choose the cash exit will be cashing out at a discount to NAV, the value foregone will benefit all shareholders in the combined entity (to the extent that such value has not already been applied towards WTAN's direct costs).

At the close of business on 31 July, WTAN's net assets were £1,713m. That implies once WTAN's costs have been paid for, there will be £1.0-1.5m left over which benefits ongoing Alliance Witan shareholders.

Willis Towers Watson has agreed to a new management fee that will apply if the merger goes ahead. This will be calculated as:

- 0.52% on the first £2.5bn of market capitalisation;
- 0.49% on the next £2.5bn; and
- 0.46% on any balance.

That compares to a fee that was introduced on 1 January 2023 of:

- 0.57% of the first £2.5bn of market capitalisation;
- 0.54% on the next £1.5bn; and
- 0.52% on the balance.

If the new fee structure had been in place on 31 July 2024, and based on ATST's market capitalisation then of £3,498m, the new fee would save ATST shareholders about £1.74m per year.

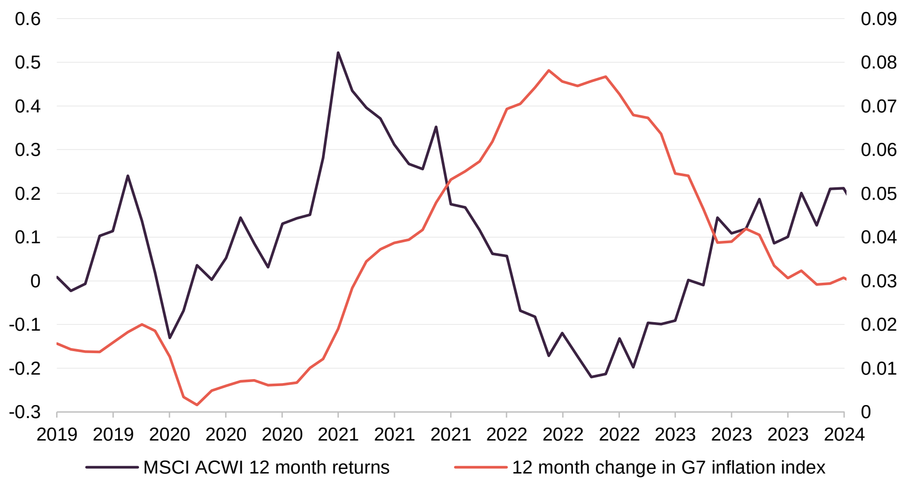
ATST has said that, if the deal proceeds, its third and fourth quarter dividends will each be uplifted to about 6.73p per share, making the full year total 26.82p (6.4% more than for the prior year) to bring its dividend payment into line with WTAN's. According to the announcement, the combined company also intends to raise the dividend in its 2025 financial year.

Market backdrop

Compared to when we published our last note less than a year ago, the current market environment feels vastly different. Today's markets appear noticeably more positive, with the MSCI ACWI (a major global equity index) up by approximately 19.0% over the past 12 months. This bullish sentiment is not too surprising, as we seem to be on the brink of across-the-board interest rate cuts by Western central banks, thanks to inflation nearing their target levels.

Inflation has (so far) been reduced without triggering a significant recession (as the mechanisms sued to reduce inflation can also restrict economic growth), as most developed markets have posted positive GDP growth. This suggests that we may have achieved the much-talked-about "soft landing" that many pundits were hoping for in 2023. While several key events have occurred in 2024, the taming of inflation has likely been the most influential macroeconomic factor in global equity market performance, given the strong correlation between inflation movements in developed markets and equity returns, as shown in Figure 2.

Figure 2: Performance of global equities versus change in developed market inflation



Source: Bloomberg

This tailwind is likely to continue in the near term, as the Federal Reserve has just implemented its first interest rate cut of 0.5%, and the European Central Bank have recently expressed increased openness to implementing their second interest rate cut, possibly before the end of the year.

Politics of the day

Bullish market sentiment has persisted despite the uncertain global political landscape in 2024 – some 4 billion people will have the opportunity to go to the polls this year and, for many, this will be their first opportunity to do so since the pandemic – with a lot of eyes on what continues to be a closely-fought race in the US. Closer to home, the Labour Party's landslide victory (with the party more than doubling their seats) has been broadly welcomed by business, despite some teething issues, as it helps to draw a line under what was a long period of political turmoil under the previous Conservative government.

The new government is seen as business-like and fairly centrist in its approach and it is expected that greater political stability, alongside attempts to improve the nation's relationship with Europe, will be broadly good for business. Despite the improving outlook, UK markets have nonetheless lagged behind global equities, returning only 16.9% over the last 12 months.

The race in the US, which was always expected to be dogged, given the narrow gap between the candidates in the polls and that neither of the original candidates was particularly popular, has thrown up more surprises than has been expected. An assassination attempt on the Republican candidate, Donald Trump, was followed shortly by President Joe Biden's withdrawing his candidacy. Biden, whose ratings had taken a battering in the opinion polls following his poor performance during the presidential debates, made way for his Vice President, Kamala Harris, who rapidly narrowed the gap that had opened up in the polls. Despite the importance of the US election, markets have focused instead on sectoral tailwinds, inflation, and earnings, with the S&P 500 returning 22.6% over the last 12 months.

The political drama doesn't end there. In the French Parliamentary elections, an unexpected coalition of left-wing parties came together to form a government, thwarting the far-right Rassemblement National, which had won the most seats. More recently, Germany has also faced the rise of the far-right, with the AfD taking its first seat in parliament – the first time a far-right party has held a seat in Germany's post-WWII history. Even Japan has seen its political risks increase, following Prime Minister Fumio Kishida's resignation in August after a series of scandals and declining popularity.

While Europe's political turmoil has been a headwind to its markets' performance, especially France's, Japan's situation has been overshadowed by the apparent unwinding of the yen carry trade (borrowing in yen to invest in overseas assets with higher returns). The catalyst for this has been Japan's increasingly restrictive monetary policy compared to its developed market peers, leading to markets to expect a Japan's interest rate trajectory to be less accommodative than other developed nations, which also caused a surge in the relative value of the yen in July.

Strong foundations

Despite the headlines around political events, markets have powered ahead, with most major equity markets generating positive returns in 2024 (in sterling terms), buoyed by sectoral trends (such as technologic advancement or demographic change) and robust business and consumer activity, including the noted declines in inflation.

The most powerful of these factors has been the meteoric rise of artificial intelligence (AI)-related companies in 2024, with investors flocking to any obvious beneficiaries of this transformative – but still nascent – technology. This has been a major engine for global equity index performance, with technology companies now making up approximately 25% of global equities.

While technology stocks have performed strongly overall, the biggest beneficiaries have been semiconductor manufacturers, given the substantial processing power AI requires – leading to a greater usage of more powerful computer chips that require ever more complex semiconductors. Nvidia has been the poster child of the AI rally, up an astounding 134% year-to-date, briefly becoming the world's most valuable company in June. The AI rally seems to have experienced some reversion in recent weeks, at least with respect to Nvidia, as it reported the largest single market trading session loss in history, losing $280bn in market cap in a single day. However, even beyond AI, technology firms continue to post strong, expectation-beating earnings. For instance, Alphabet (one of ATST's largest holdings) exceeded earnings expectations due to strong performance from its advertising and cloud divisions.

Beyond sectoral trends, markets have been supported by positive consumer and business activity in developed regions. Figures vary from country to country, but for example, US small-business confidence jumped to its highest level in nearly two and a half years in July. The US consumer remains strong, with consumer spending up 0.5% and wages up 0.3% over the month of July. However, unemployment increased by 0.2% which, along with the increased political uncertainty noted above, appeared to weigh modestly on US small-cap equities. In the UK, business confidence continues to improve, reporting a purchasing managers index (PMI) of 53.4, its 10th consecutive above-50 composite PMI figure (indicating an expansion of average manufacturing and services business activity in August). Whilst not as strong as the UK, the Eurozone has also continued its expansion, reporting a composite PMI of 51.2 in August, marking its six consecutive months of growth.

Asset allocation

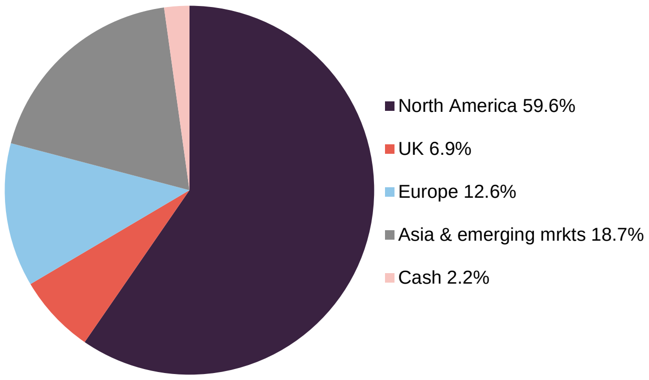
ATST's asset allocation is primarily driven by the stock selection decisions of its underlying managers. However, WTW has the ability to adjust the allocations to each manager as it sees fit, either to generate additional alpha or to improve diversification.

As of the end of July 2024, the portfolio was overweight the UK and underweight North America when compared to the MSCI ACWI. ATST's North American allocation has increased at the expense of the UK, reducing their respective under and overweight positions in the process. These movements reflect the strong relative performance of US equity markets since our last publication, which has naturally increased its weighting in the trust.

The reduction in ATST's UK exposure also reflects the subtle change in investment style under ATST's new manager, ARGA, which replaced the UK-biased Jupiter Asset Management.

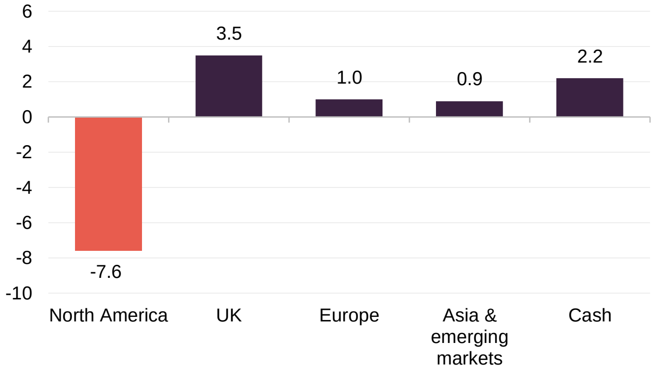
The shift in allocation can be seen in the list of top 10 holdings (Figure 8 on page 9), with US large-cap exposure having marginally increased since we last published.

Figure 3: ATST asset allocation by region as at 31 July 2024



Source: Alliance Trust

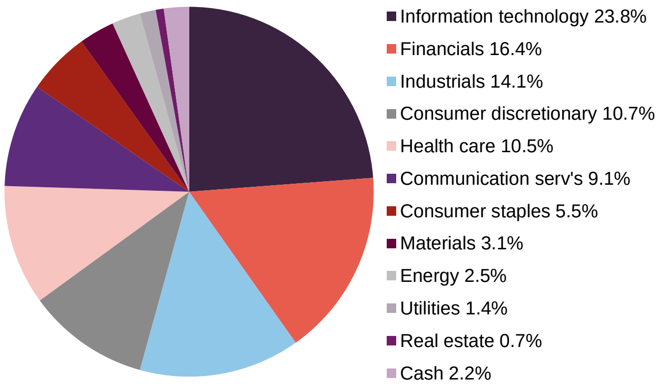
Figure 4: ATST asset allocation relative to benchmark as at 31 July 2024



Source: Alliance Trust

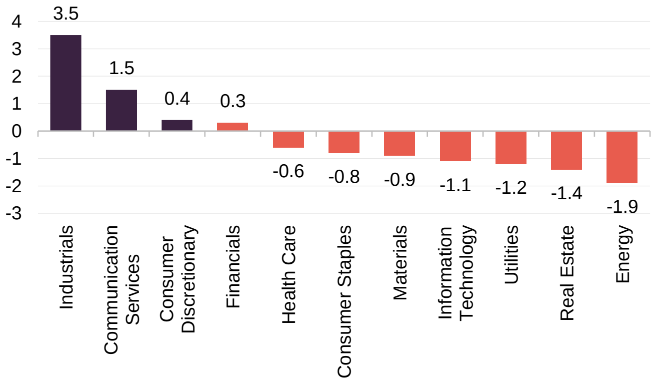
On a sector level, ATST continues to retain an overweight position to industrial and communication services that was seen when we last published. However, its underweight to information technology and consumer staples has reduced, while its underweight to real estate and energy has increased. Again, like ATST's regional allocations, these are a result of stock selection by its delegated managers, as well as the relative momentum behind the performance of select sectors over the last 10 months.

Figure 5: ATST asset allocation by sector as at 31 July 2024



Source: Alliance Trust

Figure 6: ATST asset allocation by sector relative to benchmark as at 31 July 2024



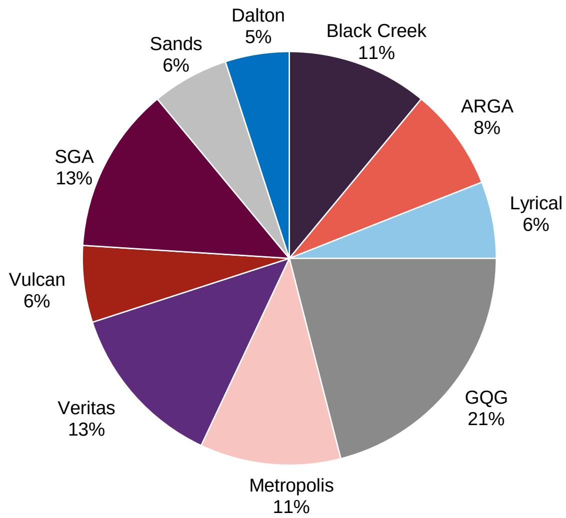
Source: Alliance Trust

The managers

The lead manager working on ATST's portfolio is WTW's chief investment officer, Craig Baker. He chairs the investment committee, which includes Stuart Gray and Mark Davis. Between them, they have over 65 years of investment experience. They are backed up by a team of 177 global research associates (as at end December 2023).

Since our last note, a new manager has been added to ATST's line up: ARGA Investment Management. After careful consideration following the departure of Ben Whitmore from Jupiter, the lead manager of Jupiter's UK equity team that was responsible for its ATST portfolio, WTW decided to take Jupiter out of the manager lineup and selected ARGA Investment Management, a firm with a similar preference for value stocks, in its place.

Figure 7: Portfolio split by manager 31 July 2024



Source: Alliance Trust

Figure 8: Change in manager allocation to end June 2024

	30 Sep 2022 (%)	31 Dec 2022 (%)	31 Mar 2023 (%)	30 Jun 2023 (%)	30 Sep 2023 (%)	30 June 2024 (%)
Black Creek	13	14	15	14	13	10
GQG (EM portfolio)	6	8	5	6	6	7
GQG (global portfolio)	15	12	14	15	14	15
Sands	6	5	5	5	4	6
Lyrical	7	7	6	6	7	6
SGA	11	11	12	11	11	13
Veritas	14	15	14	15	14	13
Vulcan	8	7	8	7	6	6
Metropolis	10	10	10	11	10	11
Dalton	-	-	-	-	5	5
ARGA	-	-	-	-	-	8

Source: Alliance Trust

New manager – ARGA Investment Management

ARGA Investment Management's portfolio is managed by A. Rama Krishna, the founder and chief investment officer of ARGA. Established in 2010, ARGA currently manages approximately $15bn in assets, with offices across the globe. ARGA's investment approach focuses on identifying "undervalued" businesses, utilising a process that requires a detailed assessment of a company's commercial business practices, and a deliberate effort to remove emotional decision-making from stock selection. The firm's investment philosophy is rooted in traditional value investing principles: the valuation approach identifies businesses as "statistically cheap" (e.g. their share price relative to their earnings potential) and determines whether this is temporary or permanent, often uncovering opportunities where investors have overreacted to negative events, mistaking temporary dips in share prices for permanent losses of capital.

A. Rama Krishna is the named fund manager on six of ARGA's funds, and over the past five years, these funds have generated positive alpha and information ratios (with one not having a sufficient track record), both common measures of an investment managers skill. These five funds also cover a range of regions, encompassing all major global equity markets, and ARGA's ability to add value across multiple markets was likely a key factor in their selection by WTW.

Figure 9: Qualcomm

Source: Bloomberg

A tangible example of ARGA's investment process is the recent investment in Qualcomm, the US chipmaker. Krishna notes that Qualcomm's discount was due to market concerns about the slowdown in smartphone growth and the possibility of losing its key client, Apple. However, Krishna and his team believe that even if Qualcomm did lose Apple's business, its valuation would still be attractive, given the strong demand in the Android smartphone market and the growth opportunities in the automotive chip and high-end PC markets – sectors that would more than offset the loss of Apple. Just a few weeks after ARGA purchased Qualcomm for their portfolios in September 2023, the company announced a three-year contract with Apple, leading to a rally in its share price. Qualcomm comprised 0.6% of ATST's portfolio as of 30 June 2024.

Other examples of ARGA's preferred stocks, which have been added to ATST's portfolio, include Alaska Air, the US commercial airline; Tapestry, a US fashion holding company; Boliden, the Swedish multinational metals firm; and Société Générale, the French commercial and investment bank.

Top 10 holdings

As we have discussed previously, for a portfolio like ATST's, where every stock is considered a 'best idea', an analysis of the top 10 holdings is perhaps less insightful than it might be for most other trusts.

However, there have been a few noteworthy changes worth highlighting. Petroleo Brasileiro, the Brazilian oil major, which had been a mainstay in ATST's top 10 for a long time, was reduced by GQG after strong share price performance. Another energy company, Total Energies, also dropped out of the top 10, as GQG rotated out of the energy sector. Both stocks are still held in ATST's portfolio though.

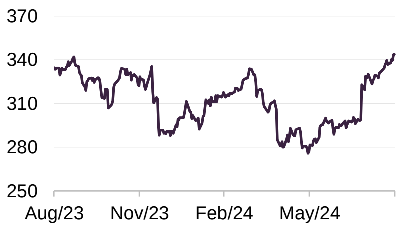
These companies were replaced in ATST's top 10 by Aon, the global insurance broker and professional services firm, and Diageo, the global spirits and drinks brand. Aon's inclusion in the top 10 resulted from SGA increasing its holding, while Diageo's addition was due to Veritas's increased allocation. Both of these stocks have a more 'value' bias, particularly when compared to the other components of ATST's top 10.

Figure 10: ATST's 10 largest holdings as at 31 July 2024

Holding	Sector	31 July 2024(%)	30 September 2023 (%)	Percentage point change
Alphabet	Communication services	3.7	4.5	(0.8)
Amazon	Consumer discretionary	3.6	2.9	0.7
Microsoft	Information technology	3.2	3.8	(0.6)
Visa	Information technology	2.7	2.7	0
Nvidia	Information technology	2.1	1.8	(0.3)
UnitedHealth Group	Healthcare	1.7	1.7	0
Aon	Financials	1.6	0.7	0.9
Diageo	Consumer Staples	1.5	0.7	0.8
Mastercard	Information technology	1.3	1.8	(0.5)
Meta Platforms	Information technology	1.3	1.2	0.1
Total		22.7	24.4	(1.7)

Source: Alliance Trust

Figure 11: Aon



Source: Bloomberg

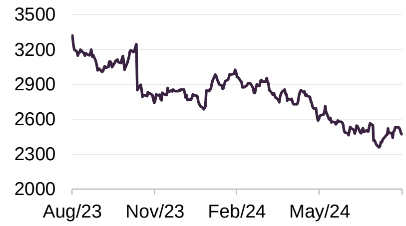
Aon

Aon has delivered a 4% share price growth over the last 12 months, albeit taking a volatile path. Aon's positive return is primarily attributable to its strong second-quarter results, which reversed an earlier decline in its share price after it missed its previous earnings expectation in the first quarter of 2024. Aon reported 18% revenue growth for the quarter, exceeding market expectations, with 8% of that growth being organic (generated by growing its existing businesses). The primary drivers of this growth were increased demand for its healthcare and wealth management solutions.

Despite this impressive revenue growth, Aon's earnings came in 5% below analysts' expectations, primarily due to higher costs related to employee compensation and benefits. However, the robust growth in Aon's business segments, coupled with improving operating margins (a key component of overall profitability), more than compensated for the earnings shortfall, leading to a 10% surge in its share price following the earnings announcement.

Diageo

Figure 12: Diageo

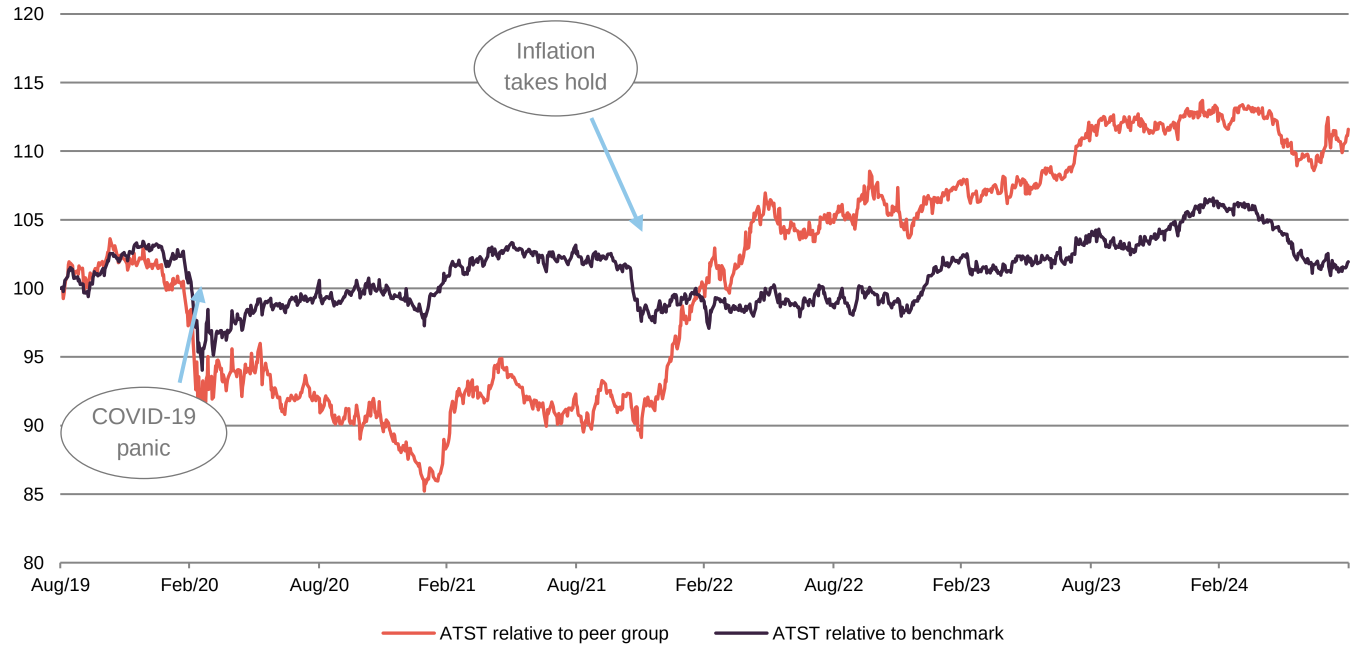


Source: Bloomberg

Diageo on the other hand has faced a challenging year, with its share price down approximately 35% from its 2022 high. The company's management attributes this decline in performance to a combination of a general economic downturn, cyclical factors within the spirits industry, and internal inventory issues (it had a backlog of stock that needed to be cleared before new sales could be made) – challenges that have also affected its competitors, leading to similar declines in their share prices. Despite these setbacks, Diageo's management remains confident in the consumer trends underpinning the business. They highlight the long-term value growth of spirits, driven by the trend of "premiumisation", where consumers are choosing quality over quantity, as well as the expanding demand from their emerging market consumer base, which currently accounts for 43% of their sales.

Performance

Figure 13: ATST NAV total return performance relative to benchmark and peer group[1,] to end August 2024



Source: Morningstar, Marten & Co. Note 1) peer group is defined on page 14.

Relative to its benchmark, ATST has outperformed by 2.9% over the last five years. However, as shown in Figure 13, this period has included runs of both underperformance and outperformance, notably in 2020, 2022, and 2024. A common factor during these periods has been the concentration of global equity returns, with ATST having underperformed when the performance of global equities was driven by a narrow group of companies. This underperformance is partly due to ATST's active multi-manager approach, which can result in underweighting these market leaders.

For example, in recent months, ATST has suffered from its underweight position in NVIDIA, the global semiconductor giant whose exceptional returns have driven a significant portion of the global equity market. NVIDIA's rise coincides with a fall-off of ATST's outperformance over this year.

However, ATST's approach also enabled it to outperform global equity markets in 2023, generating a 6.3% return in excess of the MSCI ACWI's 15.3%. Despite 2023 being another year where global equities were dominated by a small group of stocks – namely the 'magnificent seven' US tech companies (the seven major technology-biased companies within US markets at the time), which accounted for more than 53% of the market's returns – ATST achieved excess returns through a broad range of stocks, even though it was underweight in these leading technology companies during that period.

As noted earlier (see page 5), there are signs that the semiconductor super rally may be slowing down. NVIDIA's recent earnings presentation disappointed the market, and a high-profile short seller highlighted weaknesses in Super Micro Computer, another major AI beneficiary. If the AI rally has indeed begun to stagnate, this could serve as a catalyst for ATST to accelerate its outperformance, as it would suggest a broader base of global stock returns.

Whilst the debate around diversity of returns versus concentration extends beyond the analysis of ATST's returns, WTW's approach has ultimately proven successful. Despite the outsized returns of a few mega-cap stocks, such as Tesla and NVIDIA, over the past five years, we believe ATST has been a better investment relative to the MSCI ACWI index. This view is supported by the fact that the NAV total returns of ATST have, on average, generated a 1% outperformance relative to the MSCI ACWI over any given 12-month holding period (sampled weekly). Additionally, ATST has shown positive outperformance over rolling two- and three-year periods as well.

Figure 14: Cumulative total return performance over periods ending 31 August 2024

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
ATST share price	(3.2)	(0.3)	2.3	17.0	24.0	67.2
ATST NAV	(0.2)	1.2	2.1	16.8	23.2	67.5
MSCI ACWI	0.2	3.2	6.4	19.0	23.9	64.3
MSCI UK	1.0	2.5	12.3	17.6	35.4	40.7
Peer group median NAV	0.1	1.4	2.8	16.8	13.1	57.5
Peer group median price	(1.7)	1.1	5.5	19.9	2.2	47.6
IA Global sector average*	(0.1)	1.7	3.9	14.4	11.2	49.5

Source: Morningstar, Marten & Co Note 1) peer group is defined below. *Th IA sector average represents the average returns of the open-ended global equity funds marketed in the UK.

The benefits of WTW's approach become even more apparent when compared to other actively managed strategies, which often invest with greater concentration or specific style biases (e.g. having a strong preference towards more expensive high-growth companies). As illustrated in Figure 13, ATST's NAV returns have either matched or outperformed both its open-ended and closed-ended peers over one, three, and five years, with particularly strong outperformance over the three- and five-year periods.

Top contributors

In the first half of 2024, ATST's best-performing managers were GQG Partners, Sands Capital, and Vulcan Value Partners. GQG employs a more active and flexible approach; Sands Capital focuses on quality-growth companies (well manged companies with above average growth, typically priced on a premium); and Vulcan Value specialises in value stocks. The diversity of these styles not only reflects the skill of the managers, but also highlights how concentrated stock returns have been, as these three managers were the best at identifying the narrow group of 'winners' that have driven global equity returns in 2024. For example, GQG and Sands were ATST's main sources of exposure to NVIDIA.

At the stock level, ATST's five largest contributors were Alphabet, Ebara, Amazon, Novo Nordisk, and Hargreaves Lansdown. Alphabet, the US tech giant, benefitted not only from broader sector trends, but also from a surprise stock buyback and dividend announcement, with the company's shares up 31% over the first six months. Ebara, the Japanese industrial group, was another beneficiary of the tech rally due to its exposure to semiconductor manufacturing, rising 36% over the same period. Amazon, the US consumer and technology giant, also gained from technology sector tailwinds, with its shares up 28% in the first half of 2024.

Outside of the technology sector, Novo Nordisk, the Danish pharmaceutical company, stands out for the strength of its performance, driven by intense demand for its pioneering weight loss drug, Ozempic, with its shares up 41% over the year. Hargreaves Lansdown, the UK investment platform provider, saw its shares rise 57% in the same period following the announcement of a takeover bid.

Peer group

Compare ATST and its peer group on the QuotedData website

ATST stacks up well when compared to its peers in the global equity sector. ATST's narrow discount can be attributed to the effectiveness of its discount control mechanism (see page 17). Interestingly, the two of the other trusts that trade on narrower discounts also operating similarly strict buyback policies. Brunner is the only trust in the peer group not to employ such a mechanism.

Figure 15: ATST's peer group comparison data as at 17 September 2024

	Discount (%)	Yield (%)	Ongoing charges (%)	Market cap (£m)
Alliance Trust	(5.4)	2.2	0.62	3,364
AVI Global	(9.1)	1.5	1.27	1,017
Bankers	(11.0)	2.4	0.50	1,296
Brunner	(1.6)	1.7	0.64	596
F&C	(9.0)	1.4	0.49	5,036
Keystone Positive Change Investment Trust	(8.4)	0.2	0.90	133
Lindsell Train	(18.4)	6.5	0.80	158
Manchester & London	(12.4)	2.0	0.54	267
Martin Currie Global Portfolio	(2.0)	1.1	0.64	239
Mid Wynd	(1.7)	1.0	0.62	378
Monks	(10.7)	0.2	0.44	2,360
Scottish Mortgage	(9.8)	0.5	0.35	10,624
Witan*	(5.7)	2.3	0.96	1,594
Peer group median	(9.0)	1.5	0.62	1,017
ATST rank	4/13	4/13	6/13	3/13

Source: Morningstar, Marten & Co.

ATST's dividend yield is comfortably ahead of its peer group median, and in line with the other multi-manager strategies. Note that Lindsell Train's yield is amplified by payments from its management company, in which it has a stake. ATST's ongoing charges figure sits in the middle of what is a competitive peer group, however if the merger with WTAN goes ahead we do expect this figure to come down. ATST remains one of the largest trusts in its sector and will likely solidify its position upon merging with WTAN.

Figure 16: Cumulative NAV total return performance over periods ending 31 August 2024

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Alliance Trust	(0.2)	1.2	2.1	16.8	23.2	67.5
AVI Global	(2.1)	(2.4)	2.8	17.5	25.4	69.0
Bankers	(0.5)	1.5	3.8	17.1	14.3	46.8
Brunner	0.6	2.0	6.2	19.0	27.8	73.5
F&C	(0.3)	2.0	5.0	18.4	22.6	65.0
Keystone Positive Change	0.6	0.8	(4.2)	(0.5)	(31.5)	n/a
Lindsell Train	0.6	3.5	0.1	4.0	(9.1)	12.9
Manchester & London	5.7	(3.5)	11.6	52.2	30.5	75.2
Martin Currie Global Portfolio	1.3	0.4	(2.8)	13.8	(5.9)	37.8
Mid Wynd	1.0	4.7	2.6	14.6	5.2	50.0
Monks	0.1	1.4	3.3	18.9	(7.6)	48.5
Scottish Mortgage	(3.4)	(3.5)	(0.3)	8.4	(33.5)	77.4
Witan	(0.0)	1.4	7.1	16.8	13.1	45.8
Peer group median	(0.3)	3.7	8.8	14.1	17.0	53.5
ATST rank	9/13	8/13	8/13	4/13	4/13	4/12

Source: Morningstar, Marten & Co

As we mentioned on page 13, the benefits of WTW's diversified multi-manager approach are better demonstrated when comparing ATST's performance to its peers, as this group contains a range of different styles of investment, from concentrated growth stock portfolios to those focusing on discount opportunities. ATST has ranked amongst the better performing trusts over one, three, and five years.

Dividend

> Progressive annual dividend, paid quarterly, that has been substantially enhanced in recent years

ATST underwent a significant revamp of its dividend policy in 2022, following the conversion of its merger reserve (resulting from historic corporate activity) into a distributable reserve. With this additional flexibility, the board increased its 2022 dividend to 24p per share and has continued to grow it from this higher base. For its 2023 financial year, ATST paid a total dividend of 25.2p per share, representing a 5% increase over the previous year. As of 17 September 2024, ATST had a dividend yield of 2.2%.

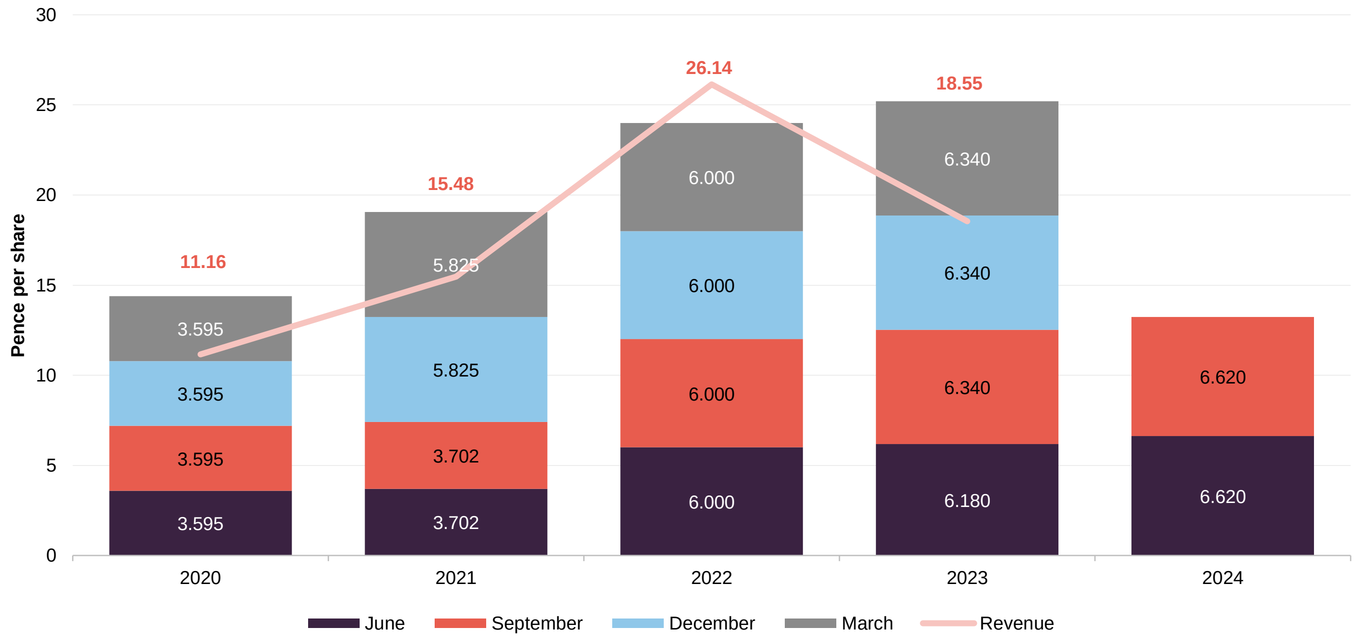
ATST is known for its enduring track record of dividend increases, currently standing at 57 years of consistent dividend rises, making it the second-longest record of progressive dividends among investment trusts. We expect this track record to continue if ATST's merger with Witan proceeds.

Regardless of the merger, ATST's board has ample resources to continue growing the dividend, supported by a distributable reserve of £3.5 billion (as of 30 June

2024), which represents almost the entirety of the trust's capital. Additionally, it has a substantial revenue reserve (an account of underlying cashflows kept aside to fund future dividends), amounting to 1.5 times its most recent full-year dividend for 2022.

The board also offers investors a dividend reinvestment plan, administered by the registrar, which is designed to enable shareholders to increase their holdings in the trust in a cost-effective manner.

Figure 17: ATST dividend history



Source: Alliance Trust

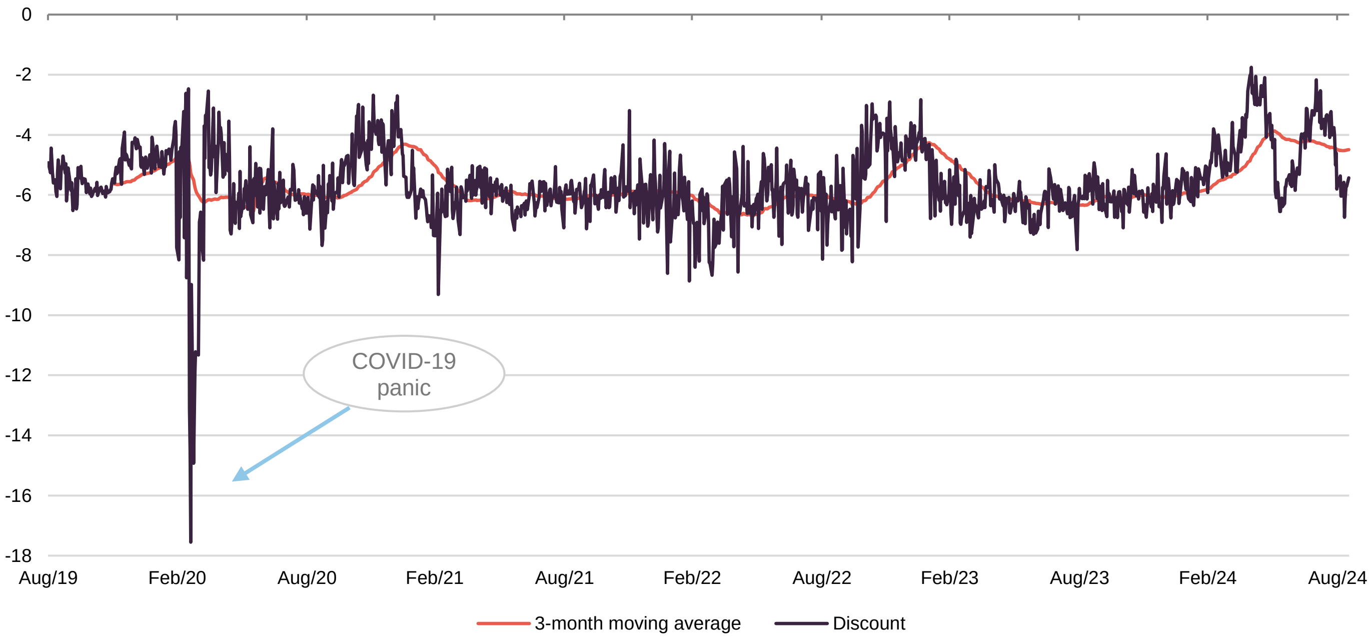
Premium/(discount)

> Target a discount to NAV close to 5% in normal market circumstances

Over the 12 months ended 31 July 2024, ATST's discount to NAV moved within a range of 7.8% to 1.8% and averaged 5.3%.

ATST's board follows a policy aimed at maintaining a discount to NAV around the 5% level under normal market conditions. To achieve this, the trust deploys share buybacks when necessary. The success of this strategy is evident in Figure 18, which shows that ATST has traded at a discount wider than 7% on only 85 days over the last five years. The stability of ATST's discount is further demonstrated by its low one-year z-score of 0.19, the second-smallest in its peer group.

Figure 18: ATST discount over five years



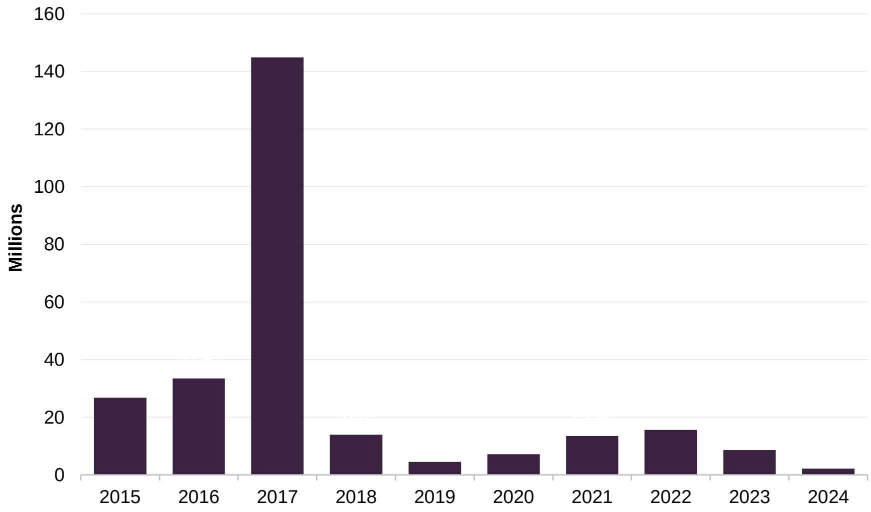
Source: Morningstar, Marten & Co

Share buybacks

Each year, the board asks shareholders for permission to buy back shares, and in April 2024 they approved the repurchase of up to 14.99% of ATST's issued ordinary share capital. Shares that are bought back are now held in treasury.

While ATST's tight discount has traditionally been attributed to the board's judicious use of buybacks (see below), more recently, market demand has played a key role in keeping the discount stable. In 2024, the board significantly reduced its share repurchases, as shown in Figure 19. We believe the catalyst for this demand is twofold: ATST's outperformance relative to its benchmark and peers, and market confidence in ATST's buyback strategy. Investors likely view any discount materially wider than 5% as an opportunity to anticipate ATST's buybacks, effectively realising the board's target discount.

Figure 19: ATST shares repurchased by year



Source: Alliance Trust, Marten & Co

Fund profile

> *"a core equity holding for investors that delivers a real return over the long term"*
>
> alliancetrust.co.uk

Alliance Trust (ATST) aims to be a 'core' equity holding for investors that delivers a real return (one in excess of inflation) over the long term, through a combination of capital growth and a rising dividend. The company invests primarily in global equities across a wide range of industries and sectors. Willis Towers Watson has appointed a number of stock picking investment managers with different styles, who each ignore ATST's benchmark and only buy a small number of (around 20) stocks in which they have strong conviction (though in the case of the GQG emerging market portfolio a total of 60 stocks are used for diversification reasons). For performance measurement purposes, the trust is benchmarked against the MSCI All Countries World Index in sterling terms (MSCI ACWI). The board also monitors ATST's returns relative to similar investment companies.

Given ATST's highly diversified approach, it can be viewed as a 'core' investment allocation, whereby it is a strong reflection of the wider global equity markets, albeit through the lens of active management.

ATST has a long history dating back to 1888, although the current 'manager of managers' investment approach is much newer, having been adopted with effect from 1 April 2017. ATST is an AIC Dividend Hero, having increased its dividend in each of its last 57 financial years.

Previous publications

Readers interested in further information about ATST may wish to read our previous notes (details are provided in Figure 20 below). You can read the notes by clicking on them in Figure 20 or by visiting our website.

Figure 20: QuotedData's previously published notes on ATST

Title	Note type	Published
A trust for all seasons	Initiation	25 November 2020
The fruits of diversification	Update	04 August 2021
Stability in troubled waters	Update	17 November 2022
Coming into its own	Annual overview	16 November 2023

Source: Marten & Co

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