



# Alliance Trust

Investment companies | Update | 17 November 2022

## Stability in troubled waters

More than five years after it refocused its global equity portfolio, Alliance Trust (ATST) has proven the merits of blending different expertise across different investment styles. Its manager, Willis Towers Watson, has been able to demonstrate the benefits of its balanced, multi-manager strategy. By eschewing style bets in favour of a focus on stock picking, ATST has been able to provide handy outperformance of the majority of its peers over 2022.

ATST has also implemented a new dividend policy, which has substantially enhanced its pay-outs. The trust now has a 2.4% yield, and the board aims to extend its 55-year track record of increasing the dividend every year.

## 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.

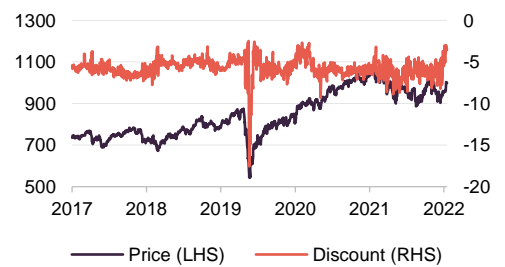
Year ended	Share price total return (%)	NAV total return (%)	MSCI ACWI total return (%)	MSCI UK total return (%)
31/10/2018	0.4	1.5	3.4	(0.9)
31/10/2019	10.0	9.3	11.2	5.7
31/10/2020	4.9	3.6	5.0	(22.2)
31/10/2021	30.2	32.0	29.5	35.6
31/10/2022	(5.4)	(6.6)	(4.7)	4.3

Source: Morningstar, Marten & Co

Sector	Global
Ticker	ATST LN
Base currency	GBP
Price	999.0p
NAV	1,035.4p
Premium/(discount)	(3.5%)
Yield	2.40%

## Share price and discount

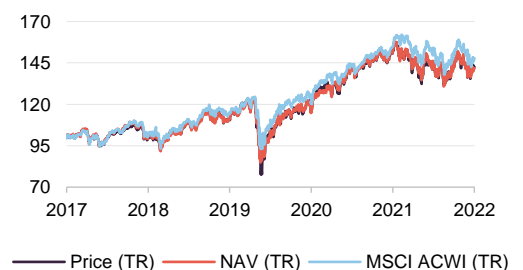
Time period 31/10/2017 to 15/11/2022



Source: Morningstar, Marten & Co

## Performance over five years

Time period 31/10/2017 to 31/10/2022



Source: Morningstar, Marten & Co

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<b>Domicile</b>	<b>Scotland</b>
<b>Inception date</b>	<b>21 April 1888</b>
<b>Manager</b>	<b>Willis Towers Watson</b>
<b>Market cap</b>	<b>2,934.1m</b>
<b>Shares outstanding (exc. treasury shares)</b>	<b>293,703,600</b>
<b>Daily vol. (1-yr. avg.)</b>	<b>348,884 shares</b>
<b>Net gearing</b>	<b>4.4%</b>

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## Bellwether by design

Readers may wish to refer to our initiation note which was published in November 2020

Alliance Trust (ATST) has since April 2017 been under the management of Willis Towers Watson (WTW), one of the world's leading investment consultants, with multiple trillions of pounds of assets under advisory. It is the intention of WTW to ensure that ATST is not only a superior choice for a 'core' equity allocation, but to also use the trust as a seldom-found opportunity for retail investors to gain access to both the expertise of WTW and a number of investment strategies that are not marketed to retail investors in the UK.

WTW's approach to constructing ATST's portfolio is a multi-manager one, selecting between eight and 12 external stock pickers to provide ATST with custom 10–20 stock portfolios of their best investment ideas. It is WTW's belief – which they evidence via the use of academic research – that the best-performing professional investors are those which follow a highly concentrated approach to stock selection. Thus, its approach should allow it to invest via a group of managers which are amongst the most likely to generate alpha over the long term.

WTW brings more than academic rigour to ATST; it also offers ATST's shareholders access to its enormous wealth of professional resources. So great is the level of resourcing that WTW assesses over 12,000 professional, long-only equity strategies before producing a short-list of about 20 managers from which the investment team assigned to ATST is able to select its preferred managers. This potential universe is also far greater than the products available to retail investors, meaning that not only are the portfolios constructed by ATST's managers an entirely unique offering, but many of their chosen managers can only be accessed via ATST. WTW's relationships with its chosen managers go far beyond ATST, given its vast client and asset base. WTW can in fact utilise the weight of these assets to help negotiate lower fees from its chosen managers as well, further improving the advantages of ATST even over managers which are available to UK retail investors.

WTW also places a considerable amount of weight on ESG integration, not only when selecting its managers but also in their day-to-day monitoring to ensure not only that they adhere to WTW's strict ESG criteria, but also that each of their holdings receives the correct amount of active engagement around ESG topics, and that the voting is undertaken having considered ESG factors. WTW utilises a third-party consultant, EOS, to oversee its voting and engagement activities, as not only is it a specialist in this sector, but also benefits from advantages of scale, having combined the assets of a number of professional investment managers and asset owners. We described WTW's ESG approach in substantial detail in our prior note.

The board intends for ATST to be a core equity holding for investors that delivers a real return over the long term, through a combination of capital growth and a rising dividend. ATST has a long history dating back to 1888. It is an AIC Dividend Hero, having increased its dividend in each of its last 55 financial years. The trust merged with its sister trust, Second Alliance Trust in 2006, and WTW took over management from 1 April 2017. Alliance Trust Investments (the trust's internal management company, which also ran 11 funds and had AUM ex-ATST of £2.5bn) was then sold to Liontrust.

*"a core equity holding for investors that delivers a real return over the long term"*

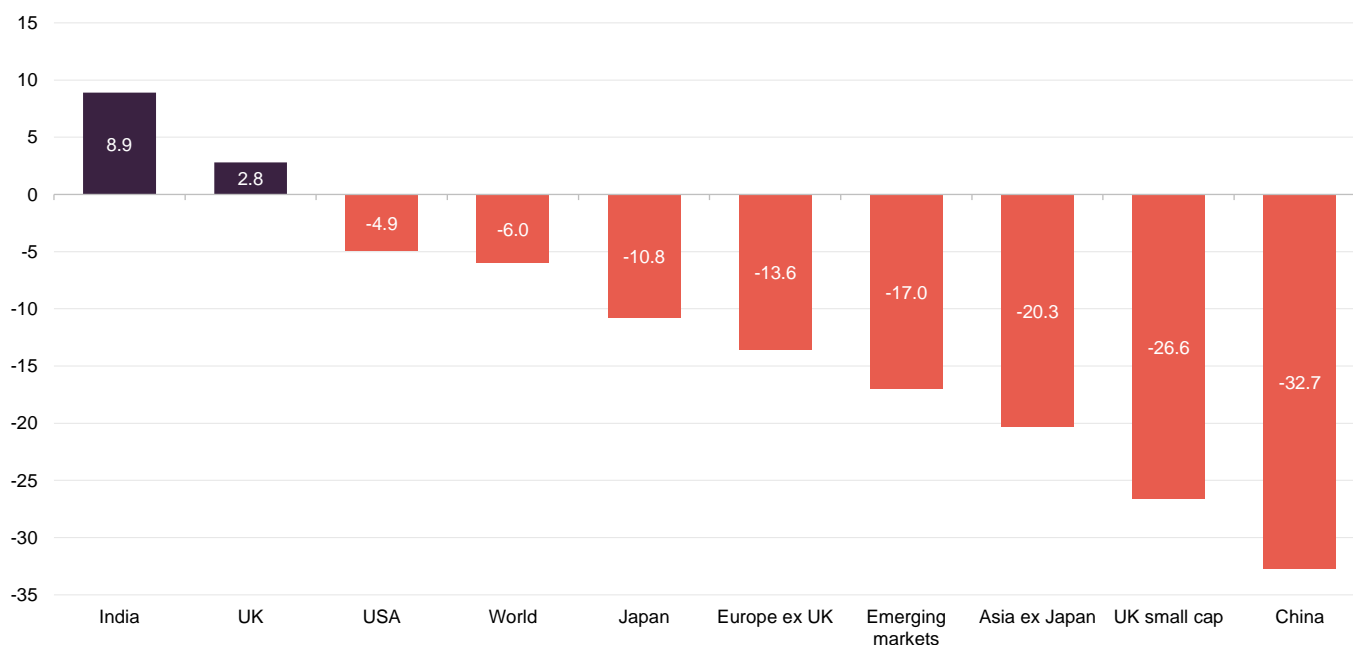
[alliancetrust.co.uk](http://alliancetrust.co.uk)

## Market backdrop

Market dynamics have evolved substantially since our last update

When we wrote our last note in August 2021, we could not have predicted the subsequent roller-coaster that equity markets would ride, especially considering they had only just recovered from COVID-19. Today's equity markets are now dominated by global inflationary pressures and rising interest rates, as well as increasing geo-political tensions – thanks to the outbreak of the war in Ukraine as well as more region-specific issues such as the turmoil in UK politics, and China's rigid adherence to its zero-COVID policy.

**Figure 1: YTD (31 October 2022) returns (in sterling) for various MSCI indices**



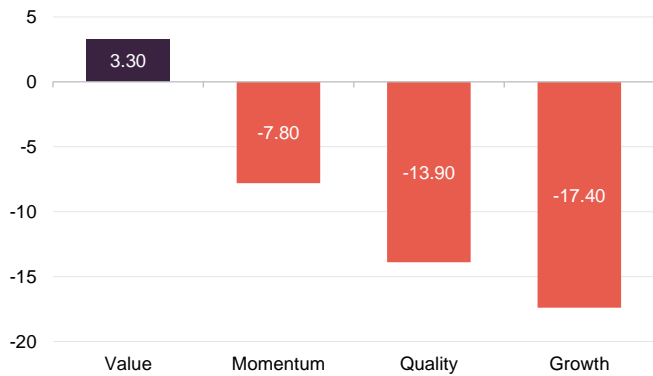
Source: Morningstar, Marten & Co

The dominant factor is the impact of rising global inflation and the associated rise in interest rates.

Be it issues in the supply of global energy, rising costs of raw materials, the realisation of pent-up demand post-pandemic, or tight labour markets, there have been numerous factors causing inflation to rise across almost all global economies.

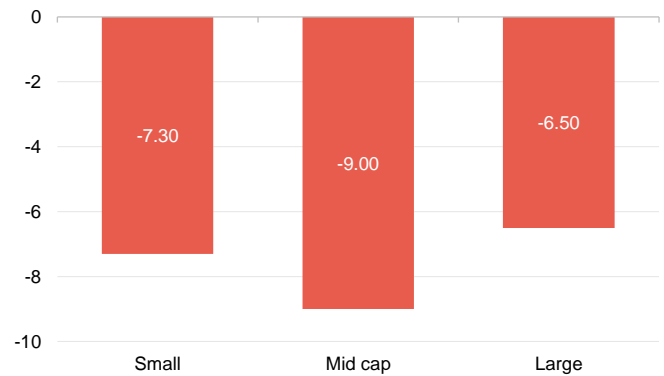
Prior to 2022 most major economies had benefited from nearly a decade of rock-bottom inflation, with accommodative central banking policy fuelling asset price increases. However, 2022 brought markets home to roost, with an unexpectedly steep, sharp rise in global inflation leading to a U-turn in central banking policy, which raised interest rates and in doing so raised the discount rates investors use to value their assets.

**Figure 2: Style factor returns for MSCI AC World Index YTD (31 October 2022)**



Source: Morningstar, Marten & Co

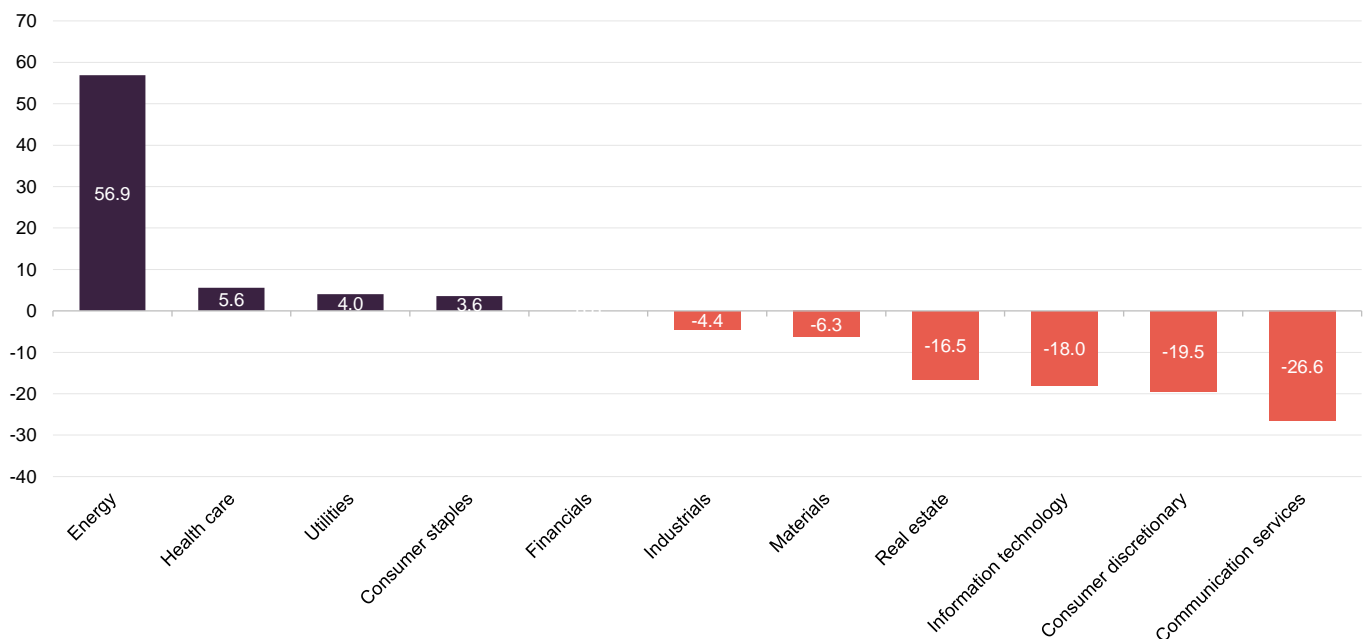
**Figure 3: Size factor returns for MSCI AC World Index YTD (31 October 2022)**



Source: Morningstar, Marten & Co

The question now is whether this inflation will persist, and by extension how much pain the central banks will be forced to inflict on global equity markets in order to contain it. These forces do not treat all stocks equally either, with high-growth companies feeling a disproportionately large amount of the pain given their sensitivity to discount rates. There are a small number of beneficiaries of this rising inflation, such as those directly associated with the production of energy and raw materials.

**Figure 4: MSCI AC World Index sector returns in sterling YTD (to 31 October 2022)**



Source: Morningstar, Marten & Co

Unfortunately, the market outlook is only becoming murkier, as investors not only need to grapple with rising inflation but also falling GDP, with more professional

commentators forecasting possible recession across the developed economy. The difficulty comes in predicting which style of investing would win-out in such an environment. For example, growth investing has tended to do well during market downturns (as investors seek out any source of economic growth), but this relationship may not be as straight forward in a stagflationary environment.

The consequences of this have been made apparent by today's equity markets, as no sector has been untouched by the aforementioned headwinds. While the stark decline in Europe's performance is predictable, given its proximity to the Ukraine conflict, many of 2021's global winners have given back returns, with 2022 effectively putting an end to the market momentum that carried many investment styles throughout 2020 and 2021.

The team at WTW does not try and pick which style will outperform but instead focuses on finding attractive companies with strong long term fundamentals that will allow them to navigate a variety of economic conditions.

## Manager's view

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WTW has needed to make few changes to its portfolio, with its managers already making adjustments

WTW's portfolio manager Stuart Gray describes similar macro issues to the ones we outlined above. However, he remains fully confident in the delegated managers' abilities to navigate an inflationary, or even recessionary, environment. To that end WTW notes that it has had to do little proactive adjustment to ATST's manager allocations (other than the redistribution of capital from River & Mercantile – see below), as the delegated managers have already made sufficient adjustments to their own allocations as to account for the changing market environment.

WTW does comment that 2022 has not been a year of a rotation from growth into value but rather from technology and into energy. Whilst these sectors are often seen as the stalwarts of growth and value investing respectively, because the change in momentum is so focused on these sectors, selecting outperforming managers is not as easy as simply rotating from one style into another, though a permanent shift to a higher inflationary and interest rate environment may eventually throw up additional winners in the value sector.

WTW believes the markets are yet to rationally price securities

Despite the sell-off in the growth sector, and the rise in interest rates, WTW still believes that many high-growth companies are still yet to be valued correctly as their valuations today have not adjusted for the prospect of a structural rise in discount rates, but instead are merely reacting to short-term macroeconomic data. Mispricing is still likely as investors have not yet valued companies based on their long-term cash flows relative to structurally higher interest rates.

In fact, WTW believes that the market is still yet to reflect true company fundamentals, with investors currently looking for short-term flights to safety rather than looking for companies which are strong based on long-term outlooks. Often, in the case of ATST's invested companies, their fundamentals have grown faster than the market even though their share prices have not, as they do not neatly fit into the current macro trades. However, this does mean that on a fundamental basis, ATST has become increasingly cheaper.

WTW's confidence is also due to its long-term view of manager selection, whereby it would not trust a manager's investment process if it did not account for all aspects

of a market cycle, effectively allowing for a decade-long investing horizon. This means that the companies in ATST's portfolio will demonstrate various ways in which they can adapt to either an inflationary or recessionary environment.

For example, Intuit, which is held by Sands Capital, is an example of a company with low capital intensity, requiring smaller amounts of capital to grow, and thus less exposed to rising input costs, whereas Visa, which we discuss later in this note, is directly correlated to inflation via its transaction-based revenue model and earns more money as the nominal price of goods increases. Then there are companies like Mercado Libre, held by Sands Capital and Sustainable Growth Advisers, which is an example of a secular growth opportunity, as its earnings growth is based on a long-term market transition rather than cyclical trends in the global economy.

## Manager allocation

The lead manager working on ATST's portfolio is WTW's global CIO, Craig Baker. He chairs an investment committee comprised of Stuart Gray and Mark Davis, who are co-portfolio managers. Maria Musiela is senior client lead. Between the four, they have over 85 years of investment experience. They are backed up by a team of 108 global research associates, 250 operations and support associates and 21 portfolio management team associates (as at end 2020).

There are currently nine underlying managers who make up 10 separate mandates (GQG manages both an emerging markets and a global portfolio).

**Figure 5: Change in manager allocation since last note**

	30/09/2022 (%)	30/06/2021 (%)	Change (%)
<b>Black Creek</b>	13	11	2
<b>GQG</b>	21	18	3
<b>Jupiter</b>	10	8	2
<b>Lyrical</b>	7	8	-1
<b>Metropolis</b>	10	10	0
<b>River &amp; Mercantile</b>	-	6	-6
<b>Sands Capital</b>	6	8	-2
<b>SGA</b>	11	11	0
<b>Veritas</b>	14	12	2
<b>Vulcan</b>	8	8	0

Source: Alliance Trust

Since our last note, the WTW team has exited its position with River and Mercantile, the UK value strategy. This was not done on the back of any concerns around process or performance, but rather due to the takeover of River and Mercantile by AssetCo. The team felt that following the purchase, the River and Mercantile managers would no longer have the same level of investor-alignment they did prior to the merger, a key element of their manager selection, and exited its position

accordingly. The resulting capital was distributed across a number of other stock pickers, with no new manager added to replace River and Mercantile.

Since taking over the mandate in April 2017, WTW has exited three managers in total, adding in four more. None of these exits were due to performance concerns; rather due to WTW changing its view on the managers.

## GQG – skilful navigation

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GQG seeks high-quality sustainable businesses at reasonable prices which should be able to perform regardless of the macro environment, with this philosophy shared across both their global and emerging market strategy

Although many of ATST's stock pickers have adopted a fixed investment style, the US-based GQG partners take a more malleable approach to stock selection. While it has a clear devotion to high-quality businesses, it is more than willing to adjust its allocations in line with the changing market tailwinds; something which has clearly been the case over the last 12 months, with GQG's current portfolios looking remarkably different to the one it held in 2021.

Prior to 2022 one would have historically associated GQG with the growth factor, with technology stocks in particular being a mainstay in their allocation. However, by the end of 2021 the GQG team had made a substantial rotation in its allocations, selling down these high-growth companies to rotate into more value-oriented sectors like oil and gas.

This was not a purely macroeconomic call, but rather a reflection of the GQG team wanting to take advantage of the changing supply/demand dynamics in the wider energy sector, which led oil and gas companies like Petroleo Brasileiro (also known as Petrobras) and Exxon Mobil to have sufficiently resilient and growing cash flows to meet the GQG team's investment criteria.

While WTW's other stock pickers have moved in and out of favour in accordance with their styles, GQG has remained one of its top contributors over both 2021 and 2022. This consistent growth, in conjunction with them being a good diversifier against some of the other stock pickers in the portfolio and receiving some of the capital from the disposal of the River and Mercantile position, has resulted in it having the largest allocation within ATST, as well as the largest allocation increase, albeit across its two separate portfolios.

## Jupiter: cash-heavy, valuation-light

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Jupiter aims to identify companies which trade at attractive discounts based on their cash-flows, typically with some form of pending catalyst to narrow the aforesaid discount. Following a 'value' style of investing, Jupiter also has a large overweight to the UK market

The Jupiter Asset Management sleeve of ATST is managed by Ben Whitmore, whose focus is finding 'cheap' companies on a cash flow-relative-to-valuation basis. This leads him to be considered a value manager, but Ben is aware that a heavily valuation-focused approach can lead to investing into 'value traps' – cheap companies with no upside. Ben believes that his focus on balance-sheet strength when assessing a company will help him avoid the aforesaid traps, as stronger balance sheets are typically associated with well-run and successful companies.

More than simply selecting cheap, high-quality companies, Ben has a preference for companies going through periods of 'change', which can lead to short-term share price depression. Such occurrences offer entry points into companies which he expects will come out of this temporary period of turbulence much stronger, which should narrow the discount they trade on.



Although Ben operates with a global remit, he has long held a large overweight to the UK, given the multinational natures of the UK's largest companies and also the inexpensive valuations that many UK companies trade on relative to international peers, thanks in large part to the heightened risks Brexit brought to the region. This UK overweight is also why Jupiter received a large proportion of the River and Mercantile capital, as it was a close proxy for their style. However, Ben is seeing increasing value in several Japanese companies, as well as a handful of stocks in other regions, which has led to him reducing his UK weighting recently.

## Asset Allocation

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Although WTW's approach to portfolio construction is nuanced, its outcome is easily understood. Each of the allocated managers' portfolios is an entirely stock-specific selection, reflecting their best ideas as opposed to any attempt by them to construct a balanced selection. Instead, it is the WTW team which chooses to allocate between them in whatever proportion it deems fit.

Most importantly, the WTW team aims to create a well-diversified portfolio which simultaneously preserves the benefits of active management, as demonstrated by ATST's high active share of 78%, while also limiting the portfolio's overall factor exposures. The result is to ensure that ATST does not typically have any substantial stylistic over- or underweight exposures when compared to its performance benchmark, the MSCI ACWI. It is WTW's intention for ATST's risk to come entirely at a stock level, so as to ensure that ATST is as strong a reflection of the skill of their chosen stock pickers as possible.

WTW's approach to construction is not mechanical however, rather it follows what it believes to be good tenets of portfolio construction. It still accounts for the conventional concepts of investing, like developed market large caps stocks having the highest liquidity.

Whilst ATST aims to not take significant top-down bets relative to the benchmark, it has some marginal style biases. Its greatest deviation from its benchmark comes from its regional allocations, with ATST having an overweight the UK and underweight to North America. These positions reflect the underlying managers' convictions, with many of the global mandates being bullish on the relative attractiveness of UK valuations.

## Top 10 holdings

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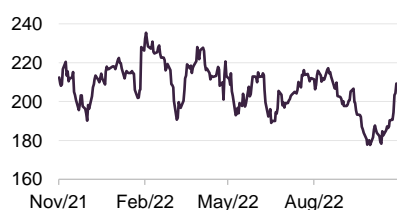
Figure 6 shows ATST's top 10 holdings as at 30 September 2022 and how this has changed since 30 June 2021 (as our last note was published on 04 August 2021). New entrants to the top 10 since then are Petroleo Brasileiro, UnitedHealth Group, HDFC Bank, and Exxon Mobile. The inclusion of these companies reflects the changing nature of markets, with ATST's managers' weight rotating into likely market winners or said winners having seen their share prices positively re-rate over 2022. ATST's allocations to technology companies like Amazon and Alphabet have correspondingly fallen for the same reason, managers like GQG having sold out of them in 2021 in anticipation of the market rotation, whereas long-term holders of such high-growth companies will have seen their valuation fall sharply since our last note.

**Figure 6: Top 10 holdings as at 30 September 2022**

Holding	Sector	Allocation 31 September 2022 (%)	Allocation 30 June 2021 (%)	Percentage point change
Microsoft	Information technology	3.6	2.8	0.8
Alphabet	Communication services	3.5	4.8	(1.3)
Visa	Information technology	2.9	2.7	0.2
Petroleo Brasileiro SA	Energy	2.0	-	2.0
Amazon	Consumer discretionary	1.9	2.5	(0.6)
UnitedHealth Group	Healthcare	1.8	-	1.8
Mastercard	Information technology	1.8	1.3	0.5
HDFC Bank	Financials	1.6	-	1.6
Exxon Mobile	Energy	1.5	-	1.5
Salesforce.com	Information technology	1.4	1.5	(0.1)
<b>Total of top 10</b>		<b>22.0</b>		

Source: Alliance Trust, Marten & Co

**Figure 7: VISA share price**



Source: Bloomberg

Turnover has been heightened over the last 12 months, in part due the redistribution of capital previously allocated to River and Mercantile, but also due to the increased volatility and market drawdowns we are currently seeing, with ATST's stock pickers having sold out of some positions entirely. Examples of outright exits include LAM Research, Walt Disney, Lukoil, Rosneft Oil, Sanofi and Crown Holding.

### Visa

Visa ([visa.com](https://www.visa.com)) is an American financial services firm, known primarily for its electronic payment solutions. Visa is also one of the most-held companies with ATST, held by five different stock pickers, as well as also being one of the largest overweight exposures within the portfolio, with a 2.4% overweight position relative to the MSCI ACWI. Visa was a direct beneficiary of the post-pandemic increase in consumer activity, given that it has a critical role in facilitating transactions, leading it to be directly correlated to consumer spending. Also, by being driven by the nominal value of transactions, Visa acts as a natural inflation hedge. We note that similar rationale can also be applied to Visa's closest competitor, Mastercard, which is also held in ATST's portfolio.

**Figure 8: Petrobras (US listed equity) share price**



Source: Bloomberg

## Petroleo Brasileiro

Petroleo Brasileiro ([petrobras.com](http://petrobras.com)), also known as Petrobras, joined ATST's top 10 in January 2022, having been purchased by GQG Partners after it rotated from growth into energy stocks. Oil companies have been one of the few bright spots in global equity markets over 2022, with Petrobras up about 30% over 2022. Petrobras has been a clear beneficiary of the global energy shortage. Analysts expect a meteoric year-on-year earnings growth of over 100% for 2022. Yet Petrobras, like many major oil producers, has underinvested into oil extraction in recent years, thanks to the previous downward trend in oil prices, often due the expectation that a more sustainable economy could require less oil.

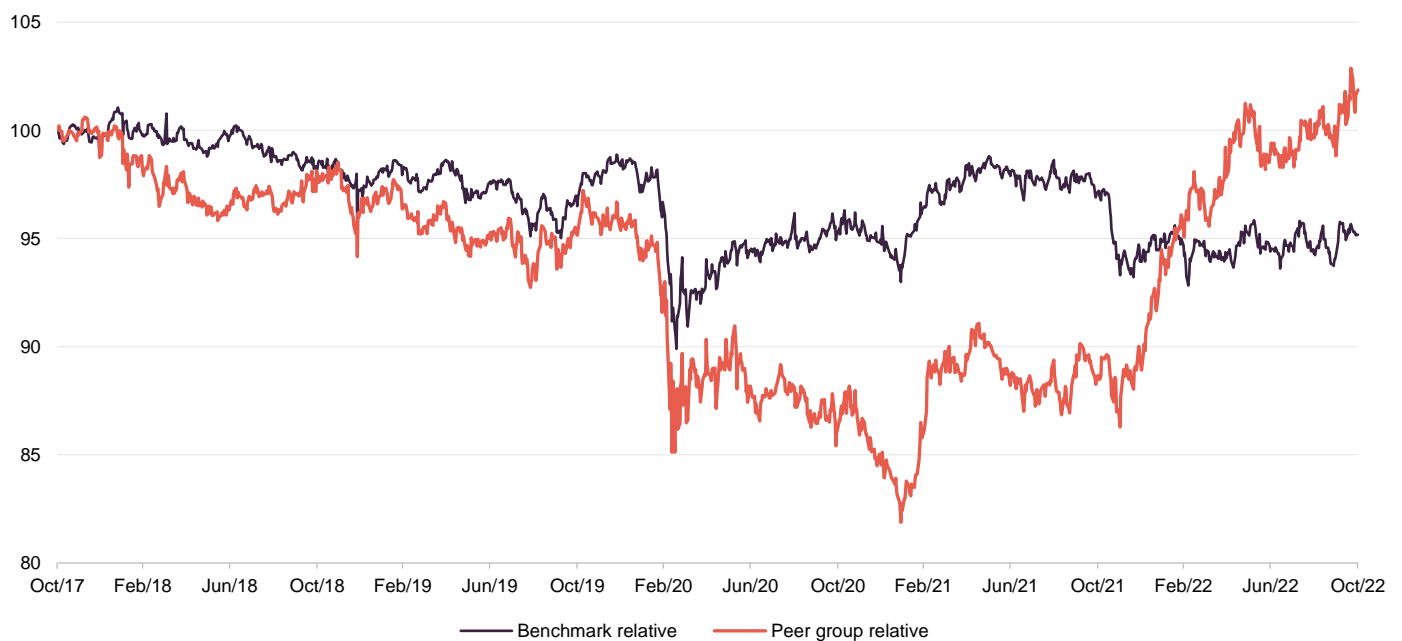
Given the potential for expansion, GQG is confident that Petrobras will be able to generate above-market free cash flow growth with ever-increasing reliability given the structural uptick in the cost of energy and oil.

Petrobras also demonstrates a phenomenal value opportunity, where despite its powerful tailwinds, it trades on a rock-bottom P/E ratio of sub-3 times, in part due to the market historic aversion to oil extractors.

## Performance

2022 has been a telling period for ATST's global equity peer group, with many of the past winners having been caught painfully off-guard by the market's rotation. Whilst ATST has not been able to avoid the wider selloff, with a YTD return of -3.3% (to 15 November) in NAV terms, it has pulled back some of its earlier underperformance of its benchmark and done well relative to competing funds.

**Figure 9: ATST performance relative to MSCI All Country World Index and peer group**



Source: Morningstar, Marten & Co. Note peer group is defined below.

We remind readers that for the majority of WTW's tenure as managers (having taken over in April 2017), there were a number of illiquid legacy assets that it slowly disposed of. As such, ATST's reported NAV is not a perfect reflection of WTW's investment approach, though none of these assets remain as of today.

**Figure 10: Cumulative total return performance over periods ending 31 October 2022**

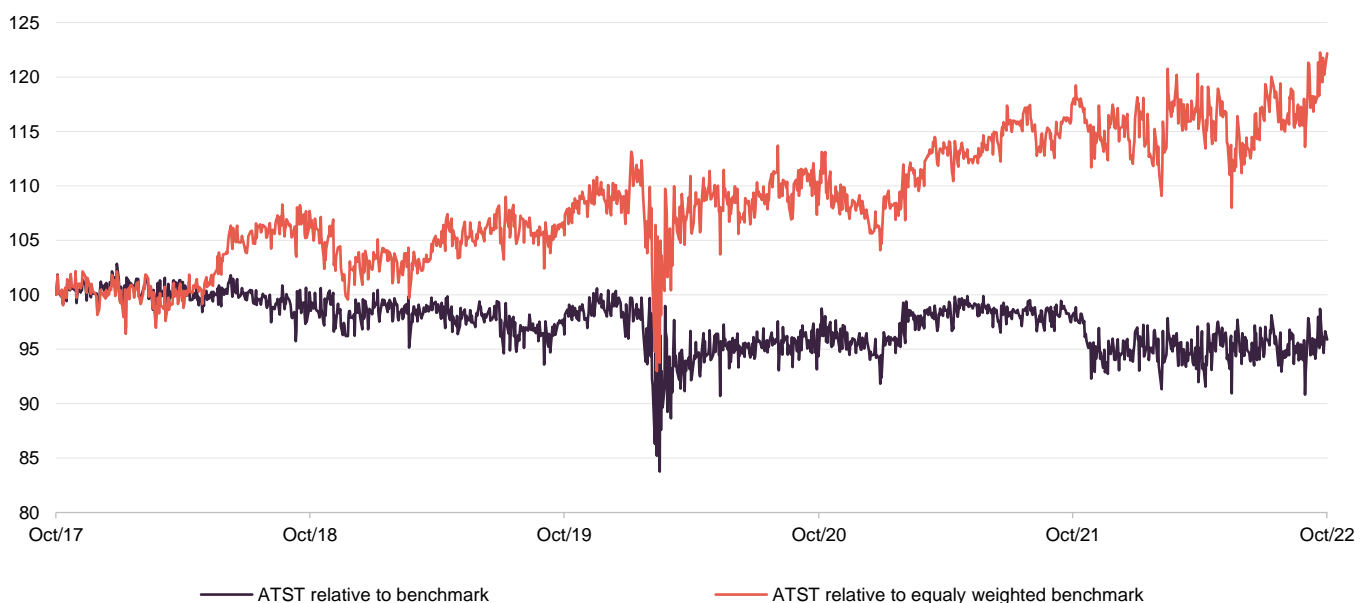
	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
ATST share price	3.5	(1.5)	(0.9)	(5.4)	29.1	42.6
ATST NAV	3.9	(1.9)	(0.1)	(6.6)	27.8	41.7
MSCI ACWI	2.8	(2.4)	(1.2)	(4.7)	29.5	48.9
MSCI UK	2.8	(3.6)	(4.1)	4.3	10.0	15.2
Peer group median NAV	1.6	(4.7)	(3.7)	(11.2)	19.5	40.3
Peer group median share price	1.7	(6.6)	(7.6)	(14.2)	10.9	31.1

Source: Morningstar, Marten & Co.

In the years prior to 2022, the MSCI ACWI was overwhelmingly driven by a handful of mega-cap technology stocks of the US giants like Microsoft and Apple. Given ATST investment approach, it tended not to take the same concentrated bets that its benchmark did.

Figure 11 compares ATST's performance to both its benchmark and an equally weighted version of the MSCI ACWI (which WTW believes to be a closer comparison to the allocation weights present in ATST).

**Figure 11: ATST outperformance versus MSCI ACWI and MSCI ACWI equally weighted**



Source: Morningstar, Marten & Co

However, ATST's near-term performance (i.e. over the last six months) has been superior to its benchmark, helped by its overweight exposure to a number of energy stocks which have been able to generate significant outperformance over 2022 (as seen by the changes in ATST's top 10 holdings).

Within ATST's portfolio, growth-stock managers such as Sustainable Growth Advisors, which once helped drive the portfolio's performance, have now underperformed over 2022, while the more valuation-conscious managers like Jupiter have been amongst the best.

Up to date information on ATST and its peer group is available on the [QuotedData website](#)

## Peer group

For the purposes of this note, we have excluded Blue Planet Investment Trust from ATST's peer group on size grounds. Keystone Positive Change entered the sector with effect from February 2021. Lastly, and since we last published, Scottish Investment Trust has merged with JPMorgan Global Growth and Income.

**Figure 12: Peer group total return over periods ending 31 October 2022**

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Alliance Trust	3.9	(1.9)	(0.1)	(6.6)	27.8	41.7
AVI Global	2.4	(2.7)	(3.5)	(9.0)	31.3	40.4
Bankers	1.4	(6.8)	(6.0)	(11.3)	18.1	33.4
Brunner	2.5	(4.5)	(2.5)	(4.3)	30.1	43.6
F&C <sup>1</sup>	1.8	(0.8)	1.3	(3.1)	34.0	52.6
Global Opportunities <sup>1</sup>	1.0	4.1	5.9	13.3	19.5	19.9
JPMorgan Elect Growth	3.3	(4.5)	(5.8)	(11.1)	18.9	31.1
Keystone Positive Change	6.7	(1.1)	(3.1)	(31.8)	n/a	n/a
Lindsell Train	(2.6)	(6.5)	(3.9)	(11.1)	8.9	70.1
Manchester & London	0.2	(8.3)	(2.7)	(32.5)	(7.2)	11.6
Martin Currie Global Portfolio	0.7	(11.5)	(9.5)	(28.5)	5.2	28.3
Mid Wynd	2.2	(4.8)	(7.1)	(12.8)	27.8	53.9
Monks	(2.1)	(6.1)	(5.7)	(28.2)	20.9	40.3
Scottish Mortgage	(4.1)	(7.4)	(7.6)	(41.2)	65.9	96.8
Witan	2.4	(2.2)	(1.3)	(10.6)	14.1	22.3
Peer group median	1.6	(4.7)	(3.7)	(11.2)	19.5	40.3
ATST rank	2/15	4/15	3/15	4/15	6/14	6/14

Source: Morningstar, Marten & Co. Note 1) An earlier version of this note had these two funds reversed

Thanks to WTW's investment approach, ATST is, relative to many of its peers, more of a consistently 'core' style of investment, with the majority of its peers either carrying a substantial bias to a specific style of investing or having some sort of drift in their style in an attempt to match the varying market tailwinds.

This lack of bias has been key in allowing ATST to consistently rank amongst the upper half of its peer group, with its relative ranking having only improved over time

as it has not been caught off guard by sudden shifts in market sentiment in the same way as many of the others have.

**Figure 13: Peer group comparative data as at 15 November 2022**

	Premium/(discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (%)
Alliance Trust	(3.5)	2.4	0.61	2,934
AVI Global	(8.6)	1.7	0.88	972
Bankers	(6.0)	2.1	0.49	1,336
Brunner	(7.2)	2.0	0.63	455
F&C <sup>1</sup>	(3.0)	1.5	0.54	4,800
Global Opportunities <sup>1</sup>	(11.1)	1.6	0.98	93
JPMorgan Elect Growth	(3.7)	1.8	0.54	259
Keystone Positive Change	(14.5)	5.1	0.51	135
Lindsell Train	2.4	5.1	0.81	209
Manchester & London	(8.7)	3.8	0.81	147
Martin Currie Global Portfolio	(1.9)	1.3	0.69	254
Mid Wynd	1.4	1.0	0.61	472
Monks	(7.7)	0.2	0.4	2,397
Scottish Mortgage	(6.9)	0.4	0.32	11,840
Witan	(3.5)	2.4	0.61	2,934
Peer group median	(8.6)	1.7	0.88	972
ATST rank	5/15	5/15	7/15	3/15

Source: Morningstar, Marten & Co. Note 1) An earlier version of this note had these two funds reversed

Outside of its out-performance, ATST is also set apart from its peers by its much more stable discount, which we describe below. ATST is not the sole multi-manager strategy within its peer group, as Witan, JPMorgan Elect Managed Growth, and F&C also utilise a similar approach. Yet what sets ATST apart from this smaller cohort of peers is firstly its commitment to not relying on factor bets, which mitigates the risk of behavioural factors impacting the performance of the strategy, and secondly its use of not only custom portfolios, but WTW's ability to source seldom found managers, with no pressure to use 'in-house' managers which may lag their wider peers.

## Dividend

ATST has, in the last 12 months, dramatically improved its dividend profile. This has not come via any change in the underlying portfolio, but rather the board having tapped into the trust's substantial £645m 'merger reserve', which following shareholder approval was converted into a distributable reserve, giving the board greater capacity to fund ATST's dividend.

ATST's recent full year dividend of 19.05p represented a 32.5% increase on the prior year's, but only the third and fourth interim dividends were paid utilising the board's new approach. The third and fourth interim dividends were in fact a 62.0%

ATST has substantially improved its dividend profile over the last year

increase on the prior year's third and fourth interim dividends and reflect the overall increase of future dividends going forward. ATST currently has a share price yield of 2.4%, which is roughly in line with the expectations of the board. ATST's yield is higher than that of its sector median of 1.8%

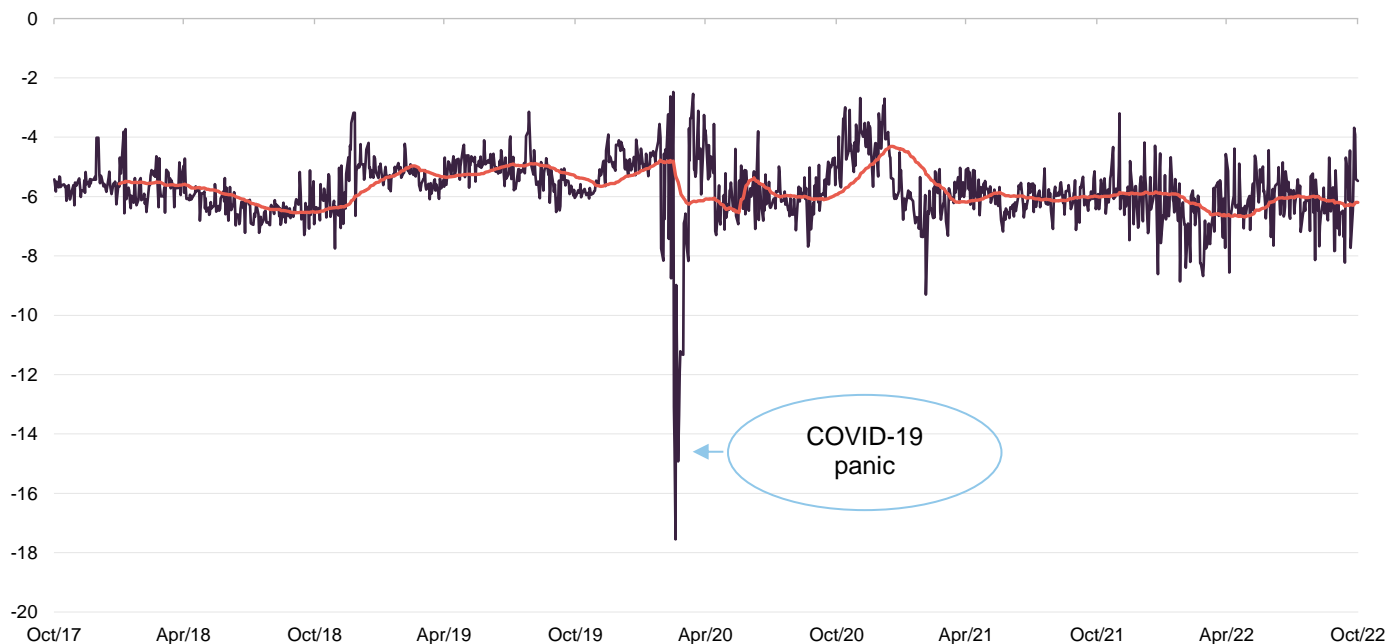
Whilst the board anticipates that ATST will maintain its more attractive yield going forward, it has not given explicit guidance around a target nominal dividend. Rather, it retains the same approach to dividend payments as prior to the increase, to deliver a rising, progressive, dividend year-on-year in conjunction with capital growth. The board is highly unlikely to cut ATST's dividend in the future, given the substantial reserves, ATST will pay a level which is commensurate with prevailing market conditions, accounting for factors such as inflation, dividend growth, and the dividend yield of the wider global sector.

The board offers investors a dividend reinvestment plan (administered by the Registrar), designed to enable shareholders to increase their holding in the trust in a cost-effective way.

ATST already boasts a track record of 55 consecutive years of increasing dividends, one of the longest track records of any investment trusts and making it one of the AIC's leading dividend heroes.

## Premium/(discount)

Figure 14: ATST discount over five years ended 31 October 2022



Source: Morningstar, Marten & Co

Over the 12 months ended 31 October 2022, ATST's shares traded within a range between a 3.2% discount to NAV and an 8.9% discount. The average discount over that period was 6.2%.

At 15 November 2022, ATST was trading on a 3.5% discount, narrower than the 6.0% median discount for its peer group. Since WTW took over the helm in April 2017, ATST has largely traded on a discount between 6% and 4%. This has also largely been the case over the course of 2022 despite the broader sell off of risk assets, with many of ATST's more growth-focused peers having seen their discount widen substantially over the year.

ATST's stable discount is in part due to its appeal as a 'core' equity product, one which should in theory be less sensitive to the stylistic swings in the market than its peers. It is also due to the actions of ATST's board, who have been practice in buying back shares of the trust to help control the discount. In December 2016, the board adopted a policy of seeking to defend a discount around a 5% level in normal market conditions. Over the last 12 months the board has repurchased 15.5m shares to achieve this goal, equal to 8% of the current shares in issue.

ATST has the least volatile discount of its peers

The stability of ATST discount is far more apparent when compared to that of its wide peer group, with many of the more stylistically-biased trusts seeing their discount swing much more wildly than ATST's over the last 12 months. The peer group has a 12-month average discount volatility three times greater than that of ATST.

ATST's dividend has been so reliable that it has the lowest discount volatility and the highest five-year z-score amongst its peers, of 0.01% and 0.5 respectively. ATST is also one of two trusts to have a current discount which is narrower than its five-year average, a sign of the trust's resilience and the diligence of the board.

## Previous publications

Readers interested in further information about ATST may wish to read our previous notes (details are provided in Figure 15 below). You can read the notes by clicking on them in Figure 15 or by visiting our website.

**Figure 15: 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

Source: Marten & Co





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