



Looks can be deceiving

Top-down portfolio characteristics can obscure the investment characteristics of a trust, particularly when it comes to multi-manager portfolios. Here, we examine how Alliance Trust maintains a high active share while still offering a diversified underlying portfolio...

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Kepler Trust Intelligence

It's easy to take things at first impression. But, as we are all aware, appearances can be deceptive.

When it comes to investment trusts, a cursory glance at portfolio characteristics can mask the true nature of a trust and its investments, with investors potentially misunderstanding the proposition at hand. Nowhere is this truer than for multi-manager funds.

By their nature, multi-manager funds tend to have higher numbers of portfolio holdings than their single-portfolio peers. Many also opt to have a diverse range of sub-portfolios, with the top-down effect being a portfolio that looks remarkably similar to its benchmark. However, these characteristics can be misleading when taken out of the context of a trust's overall portfolio construction.

By employing sub-portfolios tactically and with dynamism, some trusts are able to maintain a high active share, even while benefitting from the diversification that the multi-manager structure offers.

Clear-eyed vision

One of the trusts for which this is especially true is the £3.7bn **Alliance Trust (ATST)**. At first blush, the trust has country, style and sector weights that are closely aligned to its benchmark's. With over 140 portfolio holdings, it is easy to assume the trust could be a 'closet tracker' – as one of our Twitter followers did just last month.

This assumption belies the painstaking and proven portfolio construction process that has been carefully developed by the trust's manager Willis Towers Watson. Alliance Trust gives private investors an exclusive opportunity to tap into WTW's expertise, with this process previously being accessible to large-scale investors only.

The trust invests in a suite of eight to twelve sub-portfolios, each with a distinct investment style and with each manager given discretion to invest as they wish, without considering benchmark risk (instead, risk is managed across the portfolio). Crucially though, the managers are limited to 20 stocks each, encouraging them to pick only their very best ideas.

This concentration contributes to a portfolio that has a much higher active share – a measure of its differentiation versus its benchmark

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– than its top-down characteristics would suggest. Typically, the trust has an active share of 75-80%, significantly above the 60% threshold that the European Securities and Markets Agency cites as the marker of a closet tracker.

Top draw

When building the portfolio, Willis Towers Watson benefits from deep internal resources to access information on a broad range of strategies. Its in-house analysts consider over 4,000 strategies, whittling these down to its 200 top-rated managers.

From this, the three managers of Alliance Trust draw a 'bench' of 20 managers that they believe are complementary to, but distinct from, one another. Eight-to-twelve of these make up the final portfolio.

The advantage of this bench system is that it means the management team know which strategies to consider next should they need to replace a strategy within the portfolio – for reasons varying from portfolio adjustments to changes at the underlying management company. While each sub-investment is made with a long-term view, factors like these can and do crop up, with the managers moving dynamically to respond.



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Earlier in 2021, they added two new managers to the core portfolio. One of these, Metropolis Capital, is a UK-based boutique with its managers describing themselves as value investors with a private equity approach to public markets. In practice this means that they seek returns through cash dividends and long-term market recognition of the fundamental value of their investments. Often, they seek businesses which are still founder managed.

By contrast, the other new manager, Sands Capital, is a large independent investment manager based in the US. It focuses on companies from around the world that can sustain above-average growth over the long term.

These two new additions alone reflect the diverse and idiosyncratic nature of the Alliance Trust manager suite and show how the trust's managers combine several distinct points of view into one balanced portfolio.

This balanced approach is paying off for the trust, which is ahead of the MSCI ACWI NR USD benchmark over one and five years.

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