

Connection



JAPAN'S
CORPORATE
RESURGENCE
ON TRACK

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 nine best-in-class² 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.

By Jamie Rosenwald

After their strongest start to a year in a decade, Japanese equities have traded sideways since June, but the structural reforms underpinning the country's improving economic prospects and buoyant stock prices continue to gather momentum.

So it's important to stay focused on the emerging opportunities in a country that, because of its lost decades of deflation, so often gets overlooked or, at worst, written off as a source of potential returns for UK-based investors.

Take the update recently issued by the Tokyo Stock Exchange (TSE) on progress towards listed companies achieving share prices that at least match the value of the business, known in the jargon as price-to-book ratio (PBR) of 1.0.

As part of this initiative, management teams were required to disclose their cost of capital and specifically address how they planned to achieve a return on equity (ROE), calculated by dividing net income by shareholder's equity, above 8%, which is deemed consistent with achieving a PBR above 1.0.

SAVE THE DATE

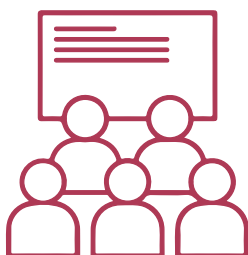
Autumn 2023 Investor Forum

27 October 2023, 13:15 – 15:00

in person at the WTW Offices

WTW, 51 Lime Street, London EC3M 7DQ

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Alliance Trust's specialist Japan manager, Dalton Investments, says this request may seem anodyne in a country with a shareholder model like the US.

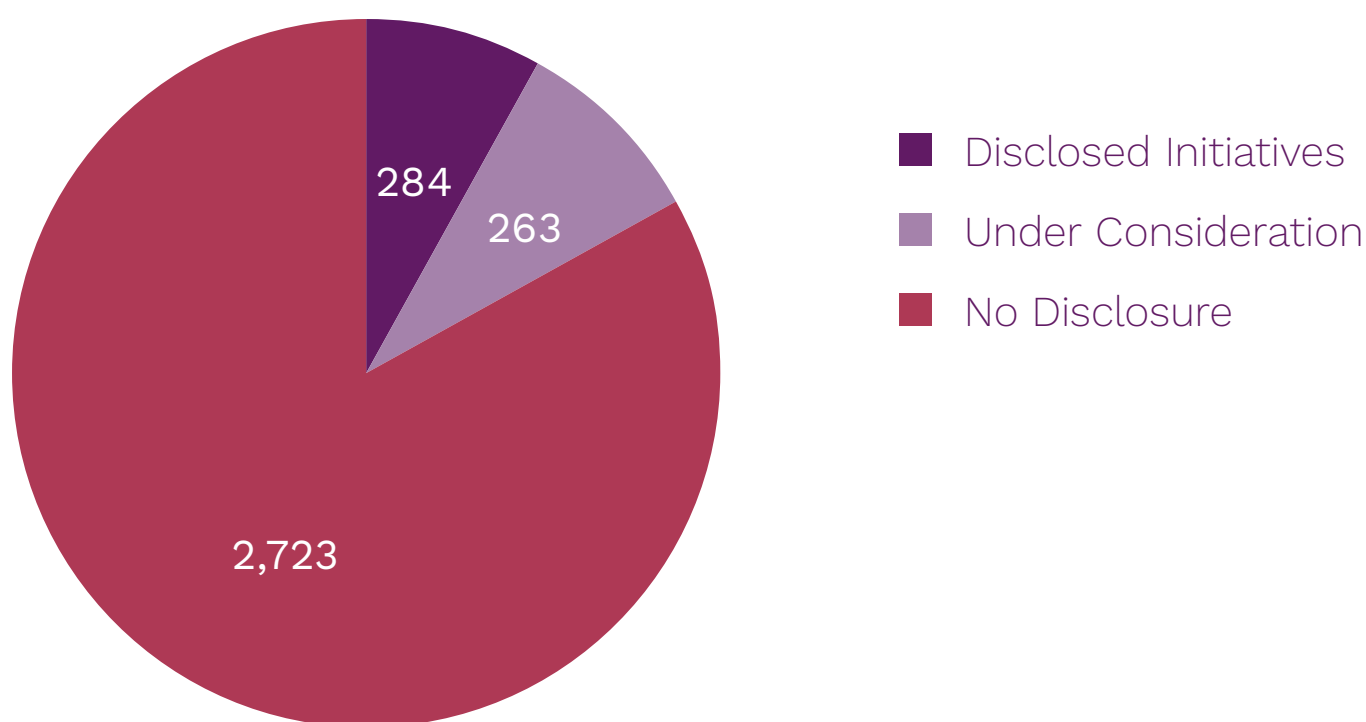
But it was actually revolutionary in that, for the first time—, Japanese company managers, usually so keen to balance a wide range of competing interests, ranging from employees to customers and suppliers, often at the expense of shareholders, were being mandated to explicitly focus on something which until then had often been viewed as none of their concern: namely the price of their stock!

Dalton says the minutes of the TSE meeting held on 29 August 2023, provided an insight into just how serious the TSE was about its initiative.

“To us, the message from the minutes of the meeting and associated presentation materials was clear:

- The TSE has no intention of slowing down its initiative and Japanese company management will continue to face pressure from the TSE to comply
- Companies should disclose their ROE targets
- Japanese companies need to improve their PBR to 1.0 *at a minimum*
- Importantly... companies that have a PBR of above 1.0 are not excused – they too need to actively consider their cost of capital and disclose their plans.”

Figure 1
Status of disclosure by number of companies (Prime and Standard segments of the TSE)



Source: TSE as of 30 September 2023

As **Figure 1** shows, there has been a steady uptake of the TSE’s request, with 284 companies making their public disclosures and another 263 stating that these are under consideration. However, this leaves a sizeable part of the listed universe (2,723 companies to be precise) which have yet to comply.

Figure 2
Breakdown of Prime segment companies disclosing by market capitalisation and PBR

Market Capitalisation (USD)	PBR <1	PBR >1
>\$700m	30.4%	20.6%
\$170-700m	21.6%	9.1%
<\$170m	12.5%	8.1%

Source: TSE as of 30 September 2023

Figure 2 makes it clear which companies have been quickest on the uptake. The larger companies in Japan are clearly feeling the greatest pressure to comply, particularly if they have a persistently low PBR. It is also fair to note that these larger companies often have greater resources to spend in undertaking and disclosing these important reviews. Nevertheless, the TSE has made it clear that there are no exceptions for smaller market capitalisations or even for higher PBR companies – all companies need to comply with the request. While there will likely be a continued stream of disclosures coming particularly from large low-valuation companies, Dalton also believes there will be significant opportunities in the small-cap space as these companies play catch-up.

So, what exactly is in the initiatives disclosed so far? Of the 284 disclosures so far made:

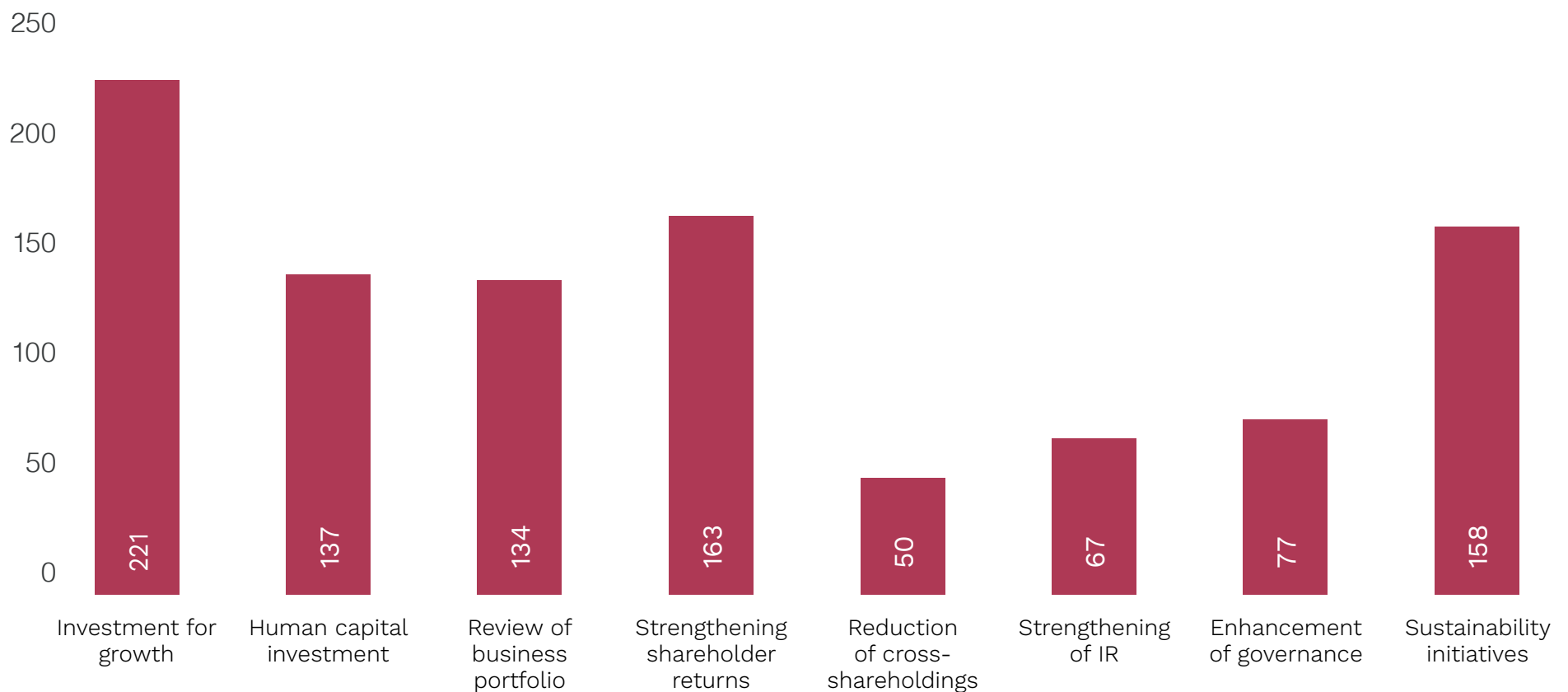
- 72 provided their cost of capital
- 235 set one or more explicit targets for their business:
 - 199 ROE targets
 - 57 Return of Investment Capital (ROIC) targets
 - 39 Price/Book targets

“While the above is not exactly perfect, as seasoned Japanese investors, we believe the setting of target metrics such as the above represents a sea change in thinking for Japanese management.”

Dalton

Figure 3

The content of the initiatives disclosed (Prime and Standard segments)



Source: TSE as of 30 September 2023

Figure 3 attempts to summarise the content of the text of the initiatives, grouping them into broad categories where the management teams want to drive improvements. Clearly all of these are positive steps, and Dalton sees the evidence of continued improvements in shareholder returns (record buybacks and dividends) as well as the start of a rationalisation of company’s business structures, including selling off or closing low profitability or non-core operations.

It is also encouraging to see Japanese firms embracing sustainability initiatives, given these continue to lag global standards.

However, Dalton is particularly interested in the 50 companies that discussed the plan to unwind their cross-shareholding structure.

“We view cross-shareholdings (where inter-related companies such as suppliers and customers will hold stakes in each other’s business) as one of the biggest remaining challenges in the Japanese equity market, and intend to make this a major focus of our engagement over the coming year. In our view, the TSE reforms supply strong ammunition to engagement-focused managers such as Dalton in driving positive change.”

The remarkable case of Aisin

Dalton cites Aisin as a poster child for the new mood sweeping Japanese boardrooms.

“Aisin is an \$11bn market capitalisation company which produces components and systems for the automotive industry, as part of Toyota Group of Companies (Aisin is the fourth biggest division in the group). The company is 40% controlled by Toyota Group, and has historically acted in unison with the Toyota’s management and given limited focus to its minority shareholders. Despite this, and driven by the TSE’s demands, on 14 September the company gave a ‘Mid/Long-term Business Strategy Briefing’, which included some remarkable elements:

- Completely selling out of its (mostly Toyota Group) cross-shareholdings (JPY 250bn in total)
- Increasing shareholder returns through share buybacks and dividends
- Transferring out or closing non-core and low profitability business lines
- Setting explicit ROIC (13%) and PBR (>1.0x) targets
- Outlining a specific focus on key sustainability issues such as carbon neutrality



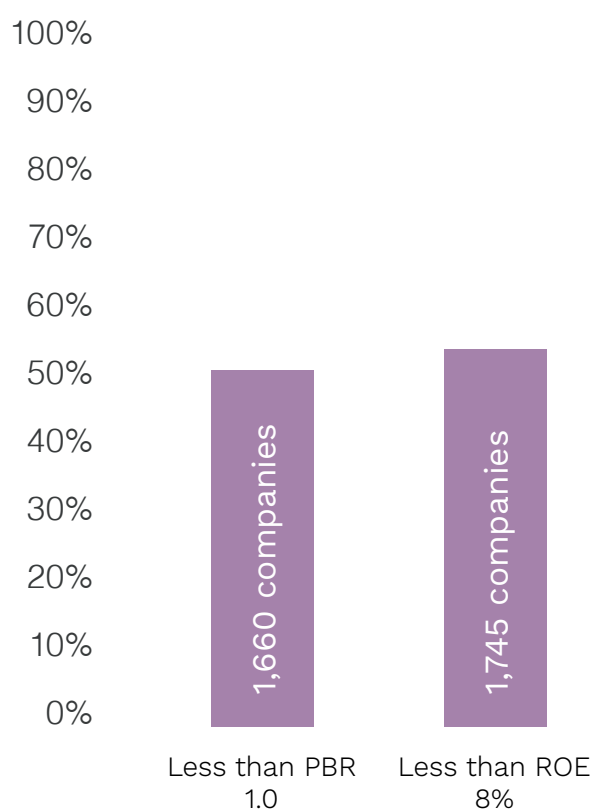
“In our view, if a company like Aisin can move to completely unwind its cross-shareholdings, then this is an extremely positive sign for the wider Japanese market.”

Dalton concludes:

“We are truly encouraged by the TSE’s continued and persistent reform agenda and believe it is having a profound impact on the Japanese market. As engagement-focused investors, being able to speak to Japanese company management in the common language of cost of capital, valuation and ultimately share price is revolutionary”.

“With the Japanese market’s strong performance (at least in Japanese Yen!) in recent periods, we are often asked whether we believe the opportunity is over in Japan. On the contrary, we believe we are still in the early stages of a multi-year opportunity in the country, as the management of Japanese companies responds to the pressure to drive better returns for shareholders”.

Figure 4
Percentage of Prime and Standard segment companies trading below TSE targets



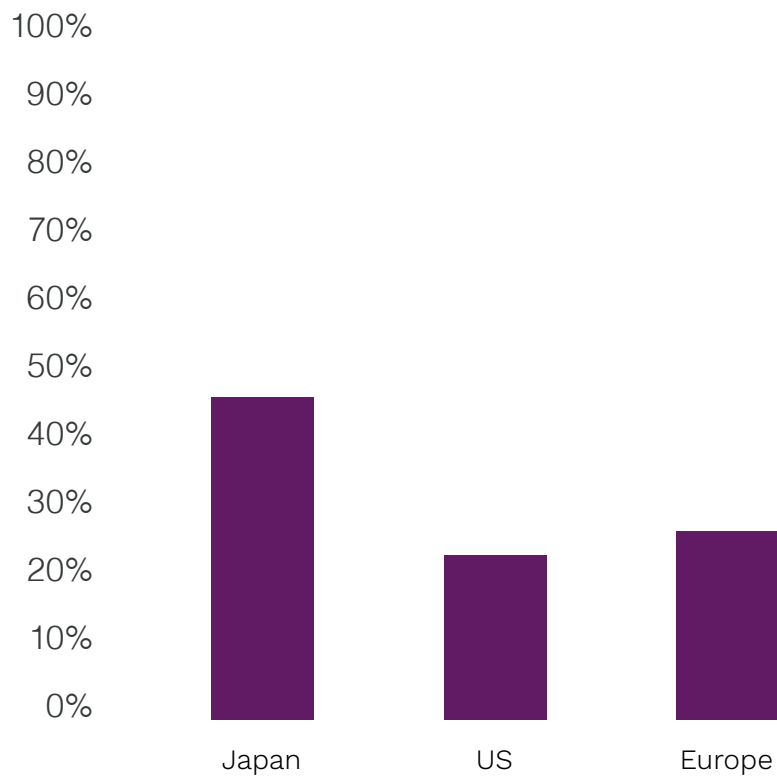
Source: Bloomberg as of 30 September 2023

“As Figure 4 shows, there remain a huge number of companies listed in Japan with metrics below the TSE’s minimum targets, most of which are yet to make public disclosures of their plans to address these failings. Even if we only consider the large-cap skewed TOPIX index, we see a pronounced gap between Japan and the rest of the world (Figures 5 and 6) on these key metrics, meaning there remains the potential for sustained relative outperformance from Japan.”



Figure 5

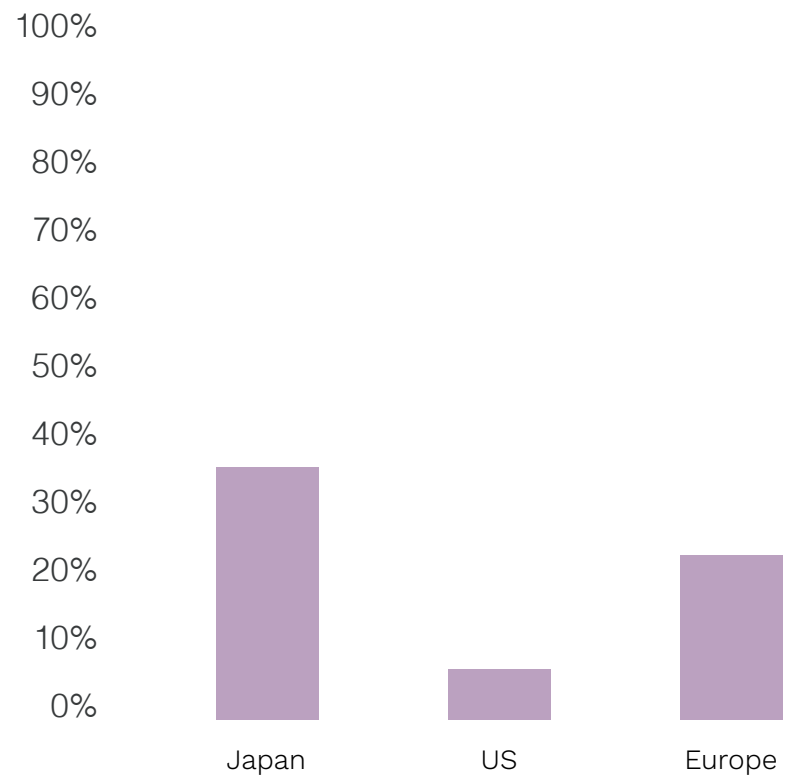
**Ratio of companies with ROE lower than 8%
(TOPIX, S&P 500, STOXX 600)**



Source: Bloomberg as of 30 September 2023

Figure 6

**Ratio of companies with PBR lower than 1.0
(TOPIX, S&P 500, STOXX 600)**



Source: Bloomberg as of 30 September 2023



Jamie Rosenwald, CIO and Co-Founder, Dalton Investments

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EMERGING MARKETS:

WHY ALLIANCE TRUST'S STOCK PICKERS HAVE REGAINED THEIR APPETITE

Emerging market stocks weren't all that palatable in 2022. Russia's nasty invasion of Ukraine played a large part in dulling investor appetite: rewriting the geopolitical equation and altering the perception of emerging market risk, particularly given the potential for a China/Taiwan flashpoint.

The war sent shockwaves rippling through the global economy, stoking inflation, and forcing global interest rates to go higher and the US dollar to strengthen. Unfortunately, as is often the case when developed economies come under pressure, emerging markets tend to suffer even worse.

Today, the picture seems different. Although the Russian/Ukraine war drags on and the West continues to wrestle with inflation, Alliance Trust's Stock Pickers think emerging markets (EM) have plenty of opportunities to indulge in. Here's why EM have become their flavour du jour.

EMERGING MARKETS FOR YOUR PORTFOLIO

There's a view that emerging markets, should be a core part of your portfolio. Ostensibly, they are seen as riskier than developed markets due to the perception of higher economic and political volatility and lower standards of corporate governance. And yet, in addition to portfolio diversification benefits, they are also home to some of the world's most innovative companies, nestled in its fastest-growing economies.

The investment case is tantalising for a host of reasons.

First, over the long term, emerging market growth is forecast to remain well ahead of developed markets. Although the juicy economic boost generated by the decades-long transition from rural subsistence farming

to urbanisation has largely passed, the explosion of homegrown consumption in an expanding middle class sets a strong bedrock for growth in economies that house 70% of the global population.¹

Second, in the near term, the wider macroeconomic picture in emerging markets seems to be improving, with inflation across many emerging countries falling and interest rates beginning to follow as supply chain issues are resolved, food and energy prices ease, and as the US dollar plateaus or weakens against numerous EM currencies, for example the Chinese yuan, the Brazilian real, and the Indian rupee.

And third, following a spell of EM being out of favour, valuations are looking attractive, especially given the potential for growth in profitability, as they catch up with developed markets over time.

As a result, Alliance Trust's Stock Pickers are finding EM a fertile hunting ground for stocks. Moreover, it isn't all about China.

“Over the long term, emerging market growth is forecast to remain well ahead of developed markets.”

1. <https://www.fidelity.co.uk/markets-insights/markets/asia-emerging-markets/is-now-the-moment-to-get-into-emerging-markets/>

NURSING THE DRAGON BACK TO HEALTH

China's long-term story is certainly impressive. It remains a flourishing economy with remarkable infrastructure that gives it an edge in global manufacturing and export. Alliance Trust Stock Picker Sands points to the "increasingly affluent middle class", and the fact it has "plenty of daring entrepreneurs". What's more, its focus on building advanced sectors pave the way for long-term investment opportunities in AI, high tech, and advanced manufacturing in areas such as electric vehicles.

These are some of the reasons why China's stock market has become a significant beast, with its 6,000 or so companies representing 29.79% of the MSCI Emerging Markets Index.² One investment for the Alliance Trust portfolio is Stock Picker Black Creek's position in tech giant Baidu.

Still, while there are undeniable long-term opportunities, there remains elevated risks in the near term too.

President Xi's move to centralise state power in recent years and rein in business has eroded the technocratic influence on policy, resulting in a heavy-handed approach to regulation. On top of shifting domestic politics, deteriorating geopolitical relations with the US are creating headaches for China, with a tech trade war that's hobbling its ambitions to become a technologically advanced economy. And after years of drawn-out Covid lockdowns, the economy still has some recovering to do, with growth stalling following an initial post-Covid bump earlier this year, not to mention a real estate sector in crisis and unemployment high, particularly among the young.

While there's no doubt these issues will be worked through, the Stock Pickers at Alliance Trust point to some of the exciting opportunities elsewhere in EM.



NOT SO FRAGILE

Numerous markets across the EM stable look attractive, according to the Stock Pickers at Alliance Trust.

Stock Picker GQG, for example, is seeing opportunities in India as supply chains shift away from China, and as it continues its push to upgrade its infrastructure. They point to the fact that, from a macroeconomic perspective, India looks like it's taken a page out of the "developed market economic playbook", with "low public debt to GDP, moderate inflation, and the positive real rates of return".³ It's why the market has some of its "highest conviction ideas", having come far from ten years ago when it was labelled one of the "Fragile Five" EM economies. Over the decade since, it has outperformed the wider MSCI EM Index by a significant margin.⁴

As a result, GQG, alongside Alliance Trust Stock Pickers Sands and SGA, has invested in giant Indian bank HDFC for the portfolio, with GQG remarking that "HDFC Bank has an excellent management team, strong underwriting discipline, and headroom for growth", not to mention "significant synergies" with its parent company, HDFC—India's largest mortgage lender – with which it recently merged.

"Numerous markets across the EM stable look attractive, according to the Stock Pickers at Alliance Trust."

2. <https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111>
3. <https://gqgpartners.com/insights/rise-bengal-tiger>
4. <https://www.msci.com/documents/10199/1ad792ce-3199-445c-8be3-f2a035ac782d>

For Sands, banks are thematically appealing not just in India but more widely across EM. In developed markets, it sees banking as a “mature industry that sells commoditised products and services”, whereas in emerging markets, it observes “very low rates of penetration” which are creating “secular growth opportunities”.

Elsewhere, GQG is also finding opportunities in South America, for example Brazil, where it believes concerns over the perceived extreme leftist tendencies of newly elected president Lula da Silva were overblown. It also believes the macro environment is strong, given the 1.5% fiscal deficit, attractive valuations, and inflation that seems under control. One investment picked for the Alliance Trust portfolio is Brazilian oil & gas producer, Petrobras.

Also looking to South America are SGA and Sands, with investments in dominant Argentinian e-commerce platform MercadoLibre, which SGA remarks is “well positioned to capitalise on e-commerce growth in Latin America, given its dominant e-commerce marketplace and its leadership position in consumer financial technology.”

“HDFC Bank has an excellent management team, strong underwriting discipline, and headroom for growth.”

ALLIANCE TRUST

Alliance Trust invests in emerging markets as part of a well-diversified global strategy, and is currently overweight emerging markets relative to its benchmark index, at 19.4% of the portfolio versus 18.6% for the MSCI All Country World Index.

Marcus de Silva, Freelance Investment Writer

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EQUITY MANAGER SPOTLIGHT

VULCAN VALUE PARTNERS



C.T. Fitzpatrick,
Founder & CIO,
Vulcan Value Partners

STOCK
SPOTLIGHT:
CBRE GROUP
INC.

INVESTMENT PHILOSOPHY

The pillars of our investment philosophy are value stability and a long-term time horizon. Value stability is important for two reasons. First, for companies that have stable values, stock price volatility creates opportunity for us. Stock prices can be more volatile than our values, which enables us to increase our margin of safety when price inevitably deviates from value. Second, if a stock is mispriced, there are two ways for that gap to close. Value can fall to meet price, or price can rise to meet value. A stable value gives us confidence that when the gap is closed, it will close by price rising to meet value.

Once we identify a company with a stable value, we follow it, sometimes for well over a decade, so that we can purchase it with a margin of safety, should it ever become discounted. Our collection of stable value companies is called our MVP list. Adding a company to our MVP list means that we are making the decision to buy it, should it become discounted. We invest the resources to follow these MVP companies almost as if they were in the portfolio. We keep our values current, and do a deep dive review every two years, to make sure that the company's competitive position remains strong and hopefully is getting stronger.

There are several advantages to following these companies over time. One is that we can observe the actual results that these businesses deliver, and compare those results to the assumptions we are using to value the business over a long period of time. Another advantage of our investment process, is that we get to know the businesses on our MVP list and the people running them very well. As a result, when there is stock price volatility, we can move decisively to allocate capital into extraordinary businesses when they become discounted, because we know the businesses well and we have confidence that our values are stable.

CBRE Group Inc.

CBRE Group Inc. is one of the largest commercial real estate services companies, which offers comprehensive real estate services globally. The company serves real estate investors and corporate occupiers of real estate by providing leasing, brokerage, M&A and investment advisory, as well as property and facility management services. To complement its core offerings, the company also has a large global real estate investment management business with steady recurring fees. The industry is highly fragmented. Industry consolidation has been occurring for decades, and we believe CBRE will continue to take market share. The company's revenues are diversified by geography, asset class and service lines. Additionally, CBRE has inherently variable cost structures. The company does not own any real estate, which provides the flexibility to adjust costs when the macro environment becomes less favourable. CBRE continues to benefit from the secular trend towards outsourcing. Corporate clients are focusing on reducing costs, and outsourcing real estate services is a driver of expense reduction. CBRE is winning business, because very few providers have the global scale to match that of its global clients.

In times of industry or market stress, we lean on qualitative factors such as business model, market structure and management quality. This discipline allows us to see through uncomfortable near-term market dynamics and execute our process of identifying stable value businesses. When considering the qualitative aspects of CBRE, we believe there is a lot to like.

MEET THE ALLIANCE TRUST MANAGERS →

FAST FACTS ON CBRE GROUP INC.



Founded
1906



Headquarters
Texas, USA



CEO
Robert Sulentic



circa **115,000**
employees

\$30.83bn

Revenue

EQUITY MANAGER SPOTLIGHT

SANDS PARTNERS



Sunil Thakor,
Research Analyst and
a Co-Portfolio Manager,
Sands Capital

STOCK
SPOTLIGHT:
ROPER
TECHNOLOGIES

INVESTMENT PHILOSOPHY

Sands Capital is an active, long-term investor in leading innovative growth businesses, globally.

Our approach combines analytical rigor and creative thinking to seek to identify high-quality growth businesses that are creating the future. Through an integrated investment platform spanning venture capital, growth equity and public equity, we provide growth capital solutions to institutions and fund sponsors in more than 40 countries.

Sands Capital is an independent, staff-owned firm founded in 1992 with offices in the Washington, D.C. area, London, and Singapore. Sands Capital managed \$51.0 billion in client assets as of June 30, 2023.

The operating environment remains challenging for many businesses, as the global economy continues to work through the “bullwhip” effects that were created by the pandemic.

That said, we are seeing potential signs of stabilisation and overall improvement in the spending environment, which has us increasingly optimistic. This is particularly the case in the enterprise market where it feels as if the period of consolidation and “optimisation” are largely behind us, and businesses across the globe are continuing to embark on their ongoing digital transformations. Importantly, we believe ongoing digital transformations now must incorporate increased investments in artificial intelligence, which we expect to provide a healthy tailwind to many businesses owned in the Global Focus portfolio.

We’re also encouraged by the financial strength of our portfolio companies, as Global Focus tends to invest in businesses with robust cash balances, strong unit

economics, and less debt than the average MSCI ACWI constituent. Financial strength could become a competitive advantage should the economic environment worsen.

Fundamentals have driven our investment results over the long run, and we continue to have conviction in the growth potential of the businesses we own today. Over the next five years as of August 31, 2023, we expect our portfolio to deliver weighted average annualised earnings growth of approximately 32%.

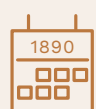
Roper Technologies

The most recently purchased business in the portfolio is Roper Technologies, a diversified industrial technology company that operates over 40 businesses in more than 40 niche markets. The company sells software and engineered products and solutions across four segments: application software, network software and systems, measurement and analytical solutions, and process technologies.

The corporate strategy prioritises cash-flow growth, which Roper then seeks to deploy into acquiring new businesses. Roper maintains strict investment criteria when evaluating acquisition targets, and its rigorous standards are based on its proprietary “cash return on investment” metric. The company is indiscriminate in the types of businesses it seeks to own; rather, it focuses exclusively on free cash generation and management quality. Each business is decentralised and operates autonomously, with a mandate to grow and generate cash.

Our research suggests that Roper is an acquirer of choice for engaged management teams that desire to continue independent operations. Over our investment horizon, we expect steady cash-flow growth as Roper executes on its disciplined acquisition and growth strategy.

FAST FACTS ON ROPER TECHNOLOGIES



Founded
1890



Headquarters
Florida, USA



CEO
Neil Hunn



circa **18,400**
employees

\$5.37bn

Revenue

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PORTFOLIO UPDATE

THIRD-QUARTER PORTFOLIO UPDATE

After a strong run in the first half of the year, global stock markets lost momentum in the third quarter. Our benchmark index returned just 0.6%, as investors came round to the realisation that, although inflationary pressure may be easing, the rate of price increases remains well above central bank targets. It dawned on investors that maybe central banks really could mean what they say, ie that interest rates are likely to remain higher for longer to ensure inflation is squeezed out of the system.

Concerns about inflation and interest rates were compounded by surging oil prices, which rose 35% in August and September, on lower global output and resilient economic growth. We are pleased to report that our portfolio significantly outperformed the index, delivering net asset value returns of 1.7%, while a narrowing of the discount saw total shareholder returns advance by 3.4%, taking them to a 11.3% gain year-to-date compared to 8.5% for the index.

European stocks posted the weakest performance in the third quarter, falling -1.9%, with the UK stock market at the opposite end of the spectrum, rising 2.5%. In between, there were modest gains for North America, Asia-Pacific including Japan, and emerging markets.

MAGNIFICENT SEVEN FALL FROM PEAK

Sector returns were widely dispersed, with energy, buoyed by the oil price surge, leading the way with a 15.3% gain, and utilities bringing up the rear at -4.8%. After leading the market up through much of the first half of the year, many tech-related stocks also lost ground. The so-called Magnificent Seven (Nvidia, Amazon, Microsoft, Tesla, Apple,

Although these two positions in big tech-related names were significant contributors to our outperformance in Q3, it was much more broadly based, with gains driven by stock selection across a wide range of sectors and countries. Indeed, seven out of our ten managers, all with contrasting styles and approaches to investing, added value to the portfolio.

GQG AND JUPITER LEAD MANAGER RETURNS

The biggest contributors to outperformance by manager were GQG and Jupiter, which had been among the weaker performers earlier in the year. GQG's winning stock picks included two major oil and gas companies, TotalEnergies in France, and Petrobras in Brazil. In emerging markets, GQG benefited from owning the Turkish petrol refiner Turkiye Petrol. All three companies' stock prices were buoyed by rising oil prices, as was one of Jupiter's main contributors, BP in the UK. Two of Jupiter's US technology holdings also did well, namely Intel, the semiconductor group, and Kyndryl Holdings, the infrastructure services business that was spun out of IBM in 2021.

Metropolis, Dalton, Lyrical, SGA and Vulcan made further contributions to our outperformance. Metropolis' strongest performer was Booking Holdings, the US online travel site; Dalton's was Toyota Industries, which benefited from corporate governance reforms; Lyrical's was Global Payments, which provides electronic transaction processing, information systems, and services; SGA's was Intuit, the US financial management software business. Vulcan's best contributor to our outperformance was the US investment firm KKR.

“Concerns about inflation and interest rates were compounded by surging oil prices, which rose 35% in August and September.”

Alphabet and Meta Platforms) came down from their peak in aggregate, although this hides mixed fortunes at the level of the individual companies. For example, Apple fell sharply by more than 8%, while Alphabet posted further gains of 13.5%. Our nuanced exposure to the Magnificent Seven was helpful in this respect, since we have long been significantly underweight Apple and overweight Alphabet.



SANDS, BLACK CREEK AND VERITAS DETRACT FROM PERFORMANCE

The managers detracting from relative returns in the third quarter, were Sands, Black Creek and Veritas, though both Veritas and Sands had been among the strongest performers in the first half of the year. Sands' biggest detractor was Adyen, Black Creek's was Interpublic and Veritas' was CooperCompanies. Adyen is a Dutch-based global payments processor, whose share price came under pressure this quarter as revenue growth slowed and margins compressed. Its previously rich valuation suggested the

market was not expecting this disappointment and the share price reacted accordingly. Nevertheless, Sands was trimming the position ahead of this quarter's earnings announcement, but has now materially added at lower levels. This reflects its confidence in the longer-term prospects for the business and supportive view of management who are taking long-term decisions, such as adding high-quality engineers, taking advantage of the layoffs from other tech companies, and thinking more about long-term value creation than short-term market expectations. Interpublic has been hit by market concerns about lower tech and telecom spending on advertising, but Black Creek continues to see it as a good long-term investment. CooperCompanies reported strong sales, up 10.3% annually, but the company's stock price suffered from investors' concerns about reduced cashflow from increased investment, the strong dollar and uncertainty about potential for business growth in China. Veritas, which owns the stock, says these are short-term headwinds, most of which will moderate over time. During the quarter, we rebalanced the portfolio, taking capital away from some of the strongest performing managers over the year to date, such as Vulcan and Sands, which led to reductions in our positions of some of the so-called Magnificent Seven tech-related stocks, including Amazon, Alphabet and Microsoft. Independently, GQG eliminated its small position in Apple. Black Creek took profits in Heidelberg Materials after a strong run, as did Jupiter in Kyndryl Holdings.

“GQG’s winning stock picks included two major oil and gas companies, TotalEnergies in France, and Petrobras in Brazil. In emerging markets, GQG benefited from owning the Turkish petrol refiner Turkiye Petrol.”

NEW POSITIONS INCLUDE SEVERAL JAPANESE NAMES

Among the new positions established during the quarter was Nokia, which now focuses on making telecoms equipment, as opposed to mobile phones. Several Japanese companies also entered the portfolio, due to the addition of Dalton Investments to the manager line-up in July. Dalton's appointment is designed to capitalise on the attractive opportunities emerging from Japan's accelerating corporate governance reforms, including record share buybacks and dividend increases, which are making the country's corporations more shareholder-friendly.

One such example in the portfolio is Toyota Industries, which makes industrial vehicles such as forklifts. The company has the largest share of the forklift market in the world (20% globally and nearly 50% in Japan). Toyota Industries' stock price rose in September after Aisin, another member of the Toyota Group, announced a plan to increase shareholder value that includes the complete sale of its cross-shareholdings. Poor capital efficiency (and related corporate governance concerns) due to cross-shareholdings is a key problem for the entire Toyota Group, and Aisin's announcement raised expectations for Toyota Industries to follow suit. Automobile-related stocks also generally performed well in a market that favoured value stocks and a weaker yen. Dalton continues to engage intensively with the senior management of the Toyota Group regarding the improvement of its board diversity and independence, as well as the rationalisation of its capital structure.

HIGHLY UNCERTAIN ECONOMIC OUTLOOK

It is possible that the loss of momentum in stock markets in the third quarter will turn out to be a period of consolidation before further gains later in the year, especially if inflation falls more quickly than expected while growth remains robust. But we are cautious about the highly uncertain economic outlook. Sticky wages and inflation could yet have negative impact on growth if interest rates rise further or stay high for a protracted period. In the worst-case scenario, the delayed consequence of monetary tightening could be a major recession. We, therefore, see downside risks to corporate earnings in the short term and are keeping the portfolio's gearing at the bottom of the typical range of 7.5% to 12.5%. Nevertheless, macroeconomic and market volatility typically lead to high differentiation of valuations between stocks. In these conditions, the long-term gains from skilled active stock selection can be significant.



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BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest net purchases – Q3 2023	% of Equity portfolio bought	Net value of stock bought (£m)	10 largest net sales – Q3 2023	% of Equity portfolio sold	Net value of stock sold (£m)
Nokia	0.48%	15.5	Amazon.com	0.90%	29.0
Eli Lilly	0.47%	15.3	Alphabet	0.78%	25.4
Intuitive Surgical	0.44%	14.3	Apple	0.76%	24.6
Applovin A	0.35%	11.5	Microsoft	0.67%	21.7
Sony Group	0.34%	11.1	Humana	0.63%	20.5
Expedia Group	0.32%	10.3	UnitedHealth Group	0.53%	17.2
Sanwa Holdings	0.29%	9.4	Heidelberg Materials	0.50%	16.2
Toyota Inds.	0.28%	9.2	Astrazeneca	0.38%	12.2
Rinnai	0.27%	8.8	Visa 'A'	0.34%	10.9
Square Enix Holdings	0.26%	8.5	Kyndryl Holdings	0.27%	8.9

UPDATE ON BUYBACKS

At the AGM in April 2023, shareholders approved for the Company to purchase and cancel up to 14.99% of the issued share capital prior to the Company's next AGM, or within 15 months. In the period since the AGM to 30 September 2023, the Company purchased 5.4 million shares at a cost of £54.1 million. In this period the discount ranged from 5.1% to 7.4% and on days when shares were purchased, the discount range was 5.5% to 7.4%, with an average discount of 6.3%.

In the period from 1 January to 30 September the discount has ranged between 2.8% and 7.4%. In this period the Company purchased 8.2 million shares at a cost of £82.4 million and on days when shares were purchased, the discount ranged between 2.8% and 7.4% with an average of 6.0%.

The Company continues to monitor the discount and will carry out further buybacks if the discount shows signs of widening significantly over a sustained period.

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 30 September 2023 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.

CONTACT

Alliance Trust PLC, River Court,
5 West Victoria Dock Road, Dundee DD1 3JT
Tel +44 (0)1382 938320
investor@alliancetrust.co.uk
alliancetrust.co.uk

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