QUARTERLY NEWSLETTER • SUMMER 2023

Connection

Alliance Trust
INVESTING FOR GENERATIONS

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-class[2] Stock Pickers, each with different, complementary styles. We believe our diversified, high-conviction, global equity strategy should deliver more consistent outperformance and lower volatility than a strategy run by a single manager. Returns from single-manager strategies are often prone to sharp up and down moves; we aim to provide investors with a smoother ride.

By Mark Atkinson

Japan specialist appointed as stock picker for Alliance Trust

Japan specialist, Dalton Investments, has been added to the line-up of managers picking stocks for Alliance Trust's global equity portfolio. The appointment is designed to capitalise on the attractive opportunity set of under-valued businesses in the market and the country's corporate governance reforms, including record share buybacks, dividend increases and increased shareholder activism, that is unlocking the earnings potential of many Japanese businesses.

Despite the recent surge in interest among foreign investors in Japan, the Alliance Trust Investment Committee believes that we are still near the start of the corporate sector's resurgence. "On a long-term basis, many Japanese companies are still cheap relative to their potential earnings power, so there are lots of legs to this rally," said committee chair Craig Baker.

> **"That's why we've appointed Dalton, whom we have researched and rated highly for over 15 years. We expect them to add a lot of value."**

"The corporate governance reforms launched by former Prime Minister Abe, assassinated last year, are structural in nature. They have been in train for many years, but are now really beginning to bear fruit. Japan is also benefiting from a cyclical upswing in economic growth after the end of decades of deflation, but it has nothing like the inflationary problems we have here in the UK. We want to ensure that Alliance Trust shareholders benefit from expanding investment opportunities."

However, Baker added that, like all stock market trajectories, it will not be a straight line upwards for Japanese shares. It will require skilled active management and on-the-ground expertise to select the companies most likely to profit. "That's why we've appointed Dalton, whom we have researched and rated highly for over 15 years. We expect them to add a lot of value," said Baker.

Dalton is a value-focused manager headquartered in Los Angeles with several other offices including in Tokyo. The firm is independently owned by its senior executives and investment professionals, who invest in its strategies

SAVE THE DATE

Autumn 2023 Investor Forums

EICC in Edinburgh
7 September 10am

WTW, Lime Street, London
27 October 1pm

A formal invitation will follow.

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

Past performance is not a reliable indicator of future returns.

alongside clients, ensuring an alignment of interests with shareholders. It was established in 1999 to pursue investment opportunities arising from the Asian financial crisis, and now offers a small range of Asia-focused and global emerging markets equity strategies.

Dalton looks to exploit mispricing opportunities in the most under-researched companies in Japan, which generally steers its focus to small and mid-cap companies. The concentrated, up to 20-stock mandate that it will be managing for Alliance Trust, will be run by the firm's chief investment officer and co-founder James Rosenwald, plus a team of six analysts based in Tokyo.

Alliance Trust co-portfolio manager, Stuart Gray, said, "We have a positive view of this strategy, largely predicated on the experience and differentiated insights of Jamie Rosenwald, combined with the disciplined nature of the investment process and a depth of analytical support provided by his team. We believe Jamie is an entrepreneurial and experienced investor with good foresight, market savviness and a large network of contacts. We also believe the strategy is well specified and consistently executed within an attractive opportunity set which is a relatively less efficient part of the Japanese market."

"On a long-term basis, many Japanese companies are still cheap relative to their potential earnings power, so there are lots of legs to this rally."

Rosenwald has a strong heritage, which includes working for George Soros as an investor in the Korean market. He has been investing in Japan since his teens, when he began working with his grandfather, who had previously worked with Benjamin Graham, the British-born American economist who is widely known as the father of value investing.

The firm's investment philosophy is based on four principles:

- **Buy good businesses with strong cash flows and balance sheets that have a 'moat' against competition.**
- **Seek shares that trade at a material discount to intrinsic value, looking to double money over three to five years.**
- **Identify companies with an alignment of interest between the business owner/management and minority shareholders.**
- **Identify a demonstrable track record of managing capital effectively and rewarding minority shareholders.**

Dalton's initial allocation of capital is for 4% of the Alliance Trust portfolio, funded from the existing stock pickers. The funding sources are selected to ensure the portfolio's style exposures remain balanced compared to the MSCI All-Country World Index. The bulk of Dalton's portfolio was funded from Black Creek and Jupiter.

The addition of Dalton has created a small overweight to Japan versus the index currently. "We are not taking a macro bet on Japan per se," said Gray, "but we do think there is a disproportionate amount of opportunity in Japan at the individual stock level. We believe that Dalton is the best manager to help us identify the most attractive opportunities to benefit from broader exposure to Japan's increasingly dynamic corporate sector. It brings a differentiated approach to the Alliance Trust portfolio, providing further diversification and outperformance potential."

Dalton manages a standalone UK-listed investment trust, called the Nippon Active Value Fund (NAVF). Launched in 2020 to take advantage of a specific opportunity in illiquid, small cap 'salary man' (ie very limited ownership in the company for management) companies in Japan, it was designed to engage aggressively with these companies to drive change and unlock value. These companies would historically not have been considered for investment by Dalton because of the lack of alignment of interests.

The strategy that Dalton is running for Alliance Trust is quite different, representing a concentrated version of Dalton's flagship Japan long-only strategy, which it has managed since 1996 (outperforming the benchmark by about 6% gross of fees per annum over that period). This invests primarily in 'owner-operator' (ie family/entrepreneur-owned) companies, where there is a strong alignment of interests with management.

Dalton actively engages with these companies, but generally in a much more gradual or gentle manner than in NAVF. There is not generally expected to be an overlap between the two portfolios. A standard Dalton Japan long-only account holds about 40 stocks, whereas the 15–20-stock Alliance Trust portfolio is a customised product that cannot be bought off the shelf.

Mark Atkinson is a Senior Director, Client Management, Wealth & Retail at WTW

INTRODUCING DALTON INVESTMENTS

James B. Rosenwald III, CIO and Co-Founder of Dalton Investments, explains their philosophy, experience and approach to value investing.

WATCH THE VIDEO ⟶

By Faith Glasgow

As investment trusts become more widely used by private investors, one of the big challenges facing boards is the pressure to control the discount, and thereby reduce the share price volatility that comes from swings in investor sentiment.

Buying back shares has become more popular in recent years, as a way for them to do exactly that.

It's a simple enough concept. Share price discounts, or premiums to the value of the underlying assets, are (in part at least) a reflection of a mismatch between supply of and demand for shares in the trust. In theory, then, buybacks should help to reduce the gap and narrow the discount, pushing up the share price and boosting investor sentiment.

Buyback programmes often involve the board setting a formal or informal discount 'trigger level' – when the discount reaches 5%, for example – at which point it will consider making purchases. A buyback policy can therefore also offer broader reassurance to investors that the discount on an investment trust isn't entirely outside the control of the board.

As Pascal Dowling, a partner at broker Kepler Partners, observes, "Buyback is a useful tool in its arsenal, allowing it to provide an exit for shareholders who want to sell their holdings, and to protect those who want to remain invested from excessive discount volatility."

Nonetheless, share buybacks continue to attract controversy. Some boards and management groups are sceptical as to what can be achieved by repurchasing shares, or worried about effectively making the trust smaller, while shareholders may wonder how it can benefit investors to have shares taken out of circulation.

So what should investors expect of share buybacks, and to what extent is that supported by recent experience?

It's important to have realistic expectations as to what buybacks will and won't do. According to a note published in November 2022 by Numis, expectations of them as a 'cure-all' or panacea for a persistent discount are often over-inflated.

"Buyback is a useful tool in its arsenal, allowing it to provide an exit for shareholders who want to sell their holdings, and to protect those who want to remain invested from excessive discount volatility."

"We do not believe that 'marching in' the discount over a short period is a realistic objective [for buybacks]," says Numis. Instead, it suggests the objectives should be broader, focusing on limiting the trust's discount volatility (particularly for trusts targeting consistent returns), improving its liquidity and narrowing bid/offer spreads, building confidence in the reliability of the net asset value and demonstrating a focus on shareholder return.

Bear in mind also, that although there has been some increase in the use of buybacks by trusts investing in real assets such as property or renewable energy, it is inherently more difficult for them, because of the illiquidity of the underlying assets and lumpy cash flows. The vast majority of repurchases occur among conventional, equity-focused trusts.

Last year's market turmoil certainly provided a tough challenge for boards, as nervous investors ran for the exits. The average investment trust discount widened from about 2% at the start of the year to about 16% by the low point in mid-October, according to Numis in a January note; by that time more than 60% of trusts were trading on a discount above 10% – double the percentage at the end of 2021.

Numis reported in January that the total value of buybacks in 2022 was £2.7 billion, up by almost 40% compared with 2021. Activity was dominated by growth-focused equity trusts such as Scottish Mortgage and Monks, as rising inflation and interest rates meant they fell out of favour with investors and struggled with widening discounts.

"Numis reported in January that the total value of buybacks in 2022 was £2.7 billion, up by almost 40% compared with 2021."

But a number of other large equity trusts made substantial buybacks last year, including Alliance Trust.

The contrasting fortunes of Scottish Mortgage and Alliance Trust in response to active share buyback programmes, provide a useful illustration of the limitations of the tool.

Scottish Mortgage topped the buyback charts for 2022, repurchasing £231 million of shares, according to Numis data. Yet its discount has remained wide, ending the year at about -9%, but subsequently falling to almost -20% by March 2023. As Numis observes, this reflects "the degree to which the growth style has been out of favour". Buybacks cannot fix wholesale negative sector sentiment.

In comparison, Alliance Trust, which invests in a mix of growth- and value-focused sub-funds, bought back £146 million of shares, amounting to 5% of the Trust's value. Together with continuing demand from private investors, the buyback programme has kept the discount very stable in the face of extreme volatility – ranging between -3% and -9% and averaging -6% across the year, according to Peel Hunt's March report on buyback activity.[1]

However, as James Carthew, head of investment companies at QuotedData, points out, while limiting discount swings is one thing, eliminating the discount altogether is quite another.

"It may not always be practical or reasonable to eliminate a discount through buybacks – after all, the main reason why investment companies outperform, is that they operate with a fixed pool of capital [providing the potential for investor demand for shares to boost net asset value returns], but I think boards should aim to moderate discount volatility," he says.

Beyond the question of whether they actually work, buyback programmes also attract other criticisms.

A sign of managerial incompetence?

Some interpretations of a board's buyback activity, focus on the idea that it indicates a lack of faith in the manager's ability to run the portfolio. However, Dowling dismisses that idea.

"The performance of a trust's share price doesn't necessarily have anything to do with the performance of the underlying fund or the manager; it could be a forced seller driving the share price down while the actual underlying assets are performing well, or a sudden shift in sentiment, or any number of things," he argues.

Indeed, he maintains that this is one of the best arguments in favour of buybacks, in that the board is able to 'rescue' shareholders (by buying their shares if they want out, or managing the discount if they don't) when circumstances are beyond the manager's control.

However, boards may argue that they have a choice between buying back shares at a discount and using the money to make new investments. If a board opts for buybacks rather than giving the manager the opportunity to invest, that might be interpreted in terms of doubt about managerial stock-picking capabilities.

1. Peel Hunt, "Defending Discounts: a review of buybacks", March 2023.

Past performance is not a reliable indicator of future returns.

For instance, says Carthew, “There will definitely be times when preserving capital to make new investments will result in a better outcome for investors – at times of market panic, for example.

“A decision to opt for share buybacks instead at that point might reflect a lack of attractive investment opportunities, and at the margin, that could be construed as a lack of faith in the manager to identify those opportunities.”

Cost hikes?

It is certainly the case that buybacks increase the ongoing charges ratio for shareholders, because shrinking the fund means costs are spread over a smaller base. But Dowling says that, “In reality, this is likely to be minimal, unless the board buys back a lot of shares over time.”

A shrinking trust?

Another concern for some boards, is the whole idea of reducing the trust’s size: directors may argue that they were appointed to oversee its growth, not shrink it.

But that’s an overly narrow and short-termist view, says Numis. “Investors are keen to see evidence of boards protecting the interests of shareholders, rather than seeking to preserve a manager’s assets under management.”

“Trusts that build a record of limiting discount volatility through buybacks and other measures, are likely to be recognised over the long term as practising good governance and capital discipline.”

Trusts that build a record of limiting discount volatility through buybacks and other measures, are likely to be recognised over the long term as practising good governance and capital discipline. Over time, those that use buybacks effectively may see a better rating when times are good, enabling them to attract more interest and issue new shares.

For larger, more liquid trusts with a mandate to deliver reliable returns, especially, share buybacks are proving a valuable tool to help boards steer a steady course and protect shareholders’ interests.

READ MORE INVESTMENT INSIGHTS ⟶

Faith Glasgow is a Freelance Investment Writer

By Marcus de Silva

Why shares are your best weapon in the fight against inflation

When inflation began its descent from shock and awe highs of 11.1%[1] last October, many of us started feeling hopeful that ghastly price rises were finally coming to an end. But of course, the journey was never going to be quick and easy: inflation's downward path from its summit is proving more ambling rambler than a hastened hiker.

Although falling a little when compared to May, June's CPI inflation reading for the UK remained painfully high at 7.9%[1] – the highest of all the G7 nations.[2] What's more, worries persist that it may remain elevated for some time, as core inflation, which strips out more volatile prices like food and energy, sits at 6.9%[1] – just a drop off May's 31-year high of 7.1%.[1] It's why the Bank of England has continued aggressively raising interest rates – most recently by 0.5% to 5%.[3]

Longer term, although forecast to fall significantly over the next year,[4] inflation seems keen not to play ball with economic predictions, and in the years to come the prospect of unravelling globalisation, large increases in spending on the energy transition and possibly defence, not to mention ageing populations, may keep it elevated at uncomfortably high levels.

It leaves savers scratching their heads over how best to beat inflation. While savings rates are looking increasingly juicy, the buying power of cash is still being eaten into by even higher rates of inflation. What's more, given inflation's grisly effect on the economy, stock markets have hardly given us much to cheer about either.

Recently, AJ Bell decided to take a sneak peek back through history and run some numbers on how various financial assets have fared against inflation over time.

And the winner is...

QUIDS IN

Wander through the annals of history all the way back to 1983 and you'll find the year the £1 coin was first minted. Since then, over a four-decade timeframe, the value of the pound has fallen by more than two thirds in real terms as a result of inflation[5] – bringing into sharp focus its corrosive impact on buying power.

It paints a clear picture: if you're looking for a real return, savings or investments seem best placed to beat the underside of a mattress.

1. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2023
2 https://www.reuters.com/world/uk/uk-june-inflation-rate-lower-than-expected-79-2023-07-19/
3 https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp
4. https://www.bankofengland.co.uk/monetary-policy-report/2023/may-2023
5. Sources: AJ Bell, Morningstar, Bank of England, ONS, Land Registry, inflation based on RPI from 1983 to 1988 and CPI thereafter.

Past performance is not a reliable indicator of future returns.

Below are the returns of various assets after accounting for inflation.

Sources: AJ Bell, Morningstar, Bank of England, ONS, Land Registry, inflation based on RPI from 1983 to 1988 and CPI thereafter.

Gold is often lauded for its inflation-busting abilities, and the data supports this. Just above gold, you find the UK's government bonds also stay ahead of inflation, for those seeking a lower-risk investment. One more notch, and given the UK's obsession with bricks and mortar, it's a relief to see property taking a leap over inflation too.

Then, for the moderate risk seeker, there's the balanced managed fund – a one-stop shop that spreads risk by investing in a mix of assets including shares, bonds, cash, and potentially property and alternatives too.

Topping the list, however, are strategies investing purely in shares. While the stock market may feel like a rollercoaster ride from time to time given the swings in value – indeed the dotcom crash and the global financial crisis are good examples of this – the rewards from investing in riskier assets and therefore the likelihood of staying ahead of inflation are the greatest.

For those willing to lock away their cash for at least five years – but ideally much longer – history tells us stock market investing offers the best hope for growing their wealth ahead of inflation. Alliance Trust is one way of doing this: a diversified investment trust with a global equity approach – aiming to provide both a capital uplift and a source of income, by investing in shares from markets all over the globe.

What's more, out of 19 investment trusts that have consecutively raised their dividends for 20 years or more – known as the 'dividend heroes' – Alliance Trust is one of only three that have beaten inflation over the past five years in terms of dividend growth, net asset value (NAV), and share price returns.[6] Please remember though, past performance is not a guide to future performance.

Marcus de Silva is a Freelance Investment Writer

6. Source: QuotedData and interactive investor; as at 25/06/23.

By Marcus de Silva

The arrival of the new tax year typically sparks a rush in pension withdrawals, as retirees seek to take advantage of fresh tax allowances, according to figures from HMRC.

Last year, however, set a record: £3.6 billion of taxable payments was withdrawn by about 500,000 people over the second quarter of the year – a 23% increase in comparison to 2021.[1]

The spike has left some pension experts concerned. It appears hefty cost increases amid an eye-watering cost-of-living crisis have forced retirees to turn to their pensions to make ends meet. But for those hiking up withdrawals to cope with rising costs, or indeed those turning to their pensions for the very first time, it's worth remembering that the consequences of these decisions on their retirement could be significant.

HERE ARE FOUR THINGS TO CONSIDER BEFORE RAIDING YOUR POT:

1. It could run out prematurely

The rules state that you can start drawing on your pension at 55, rising to 57 in 2028. At this point, you'll face a conundrum: not knowing when you will die and therefore how long the pot needs to last.

Let's say you're a 55-year-old with a fund of £100,000. According to numbers crunched by stockbroker AJ Bell, if you withdraw £5,000 per year, increase withdrawals each year by the Bank of England's long-term inflation target of 2%, and add in 4% of investment growth after fees, by the time you are 80 the pot will have all but run out.[2]

This could leave you with having to rely on the state pension. Even after double-digit increases this year, at £10,600 for 2023/24, it likely falls way below what many people need to cover their living expenses.

2. The Money Purchase Annual Allowance (MPAA) may be triggered

At the age of access, you are allowed to withdraw 25% of your pension tax-free, but if you take even just £1 of the remaining 75% that is taxable, it will trigger the MPAA. As a result, contributions that attract tax relief reduce from £60,000 per year down to £10,000, and you can no longer carry forward up to three years of unused allowances.

Given the changing nature of careers, and the fact that many employees in their 50s drift in and out of work, it may severely impact the amount you can save tax-efficiently.

1. Source: HMRC (Private pension statistics commentary: September 2022 - GOV.UK 1 (www.gov.uk).)
2. Source: AJ Bell, as at 5 April 2023.

Past performance is not a reliable indicator of future returns.

3. Withdrawals may reduce benefits

It's worth noting that drawing on any part of your pension may affect entitlements to means-tested state benefits, such as housing and income support.

> **"It appears hefty cost increases amid an eye-watering cost-of-living crisis have forced retirees to turn to their pensions to make ends meet."**

What's more, generous death benefits on pensions mean there may be implications regarding inheritance tax (IHT). As tax rules currently stand, pensions do not form part of your taxable estate, whereas assets such as houses and ISAs do, so leaving your pension as unscathed as possible may be prudent if you want to minimise the IHT tax bill for your loved ones. Of course, this tax year has ushered in a raft of tax changes on investing activity, so it's worth remembering that the Treasury and HMRC may change the rules on pensions in the future.

4. You could lose out on vital growth and income

Medical advances and increased living standards mean, broadly, we are living longer and longer. For men, life expectancy is 79, for women it's 82.[3] Given the number of years your pot may need to last, it's worth remembering that withdrawals today will have an outsized impact on the size of your fund down the line, given the powerful effect of compounding on your returns.

AJ Bell has run some numbers. If you have a £100,000 pot and withdraw £10,000 on your 55th birthday, and the remainder then carries on growing at 4% after fees, at 65 your fund would be worth £133,000. If you didn't withdraw the £10,000 at 55, at 65 the fund would be worth £148,000 – a sizeable £15,000 more.[4]

ALLIANCE TRUST FOR YOUR RETIREMENT

With more than £3 billion in assets,[5] Alliance Trust is designed as a core holding for your retirement pot, seeking to provide both growing capital and rising income. It aims to provide real, long-term returns, and has increased its dividend every year for 56 consecutive years.

Marcus de Silva, Freelance Investment Writer

3. https://www.statista.com/statistics/281671/life-expectancy-united-kingdom-uk-by-gender/
4. Source: AJ Bell, as at 5 April 2023.
5. As at 30 July 2023.

This information is for informational purposes only and should not be considered investment advice. Past performance is not a reliable indicator of future returns.
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EQUITY MANAGER SPOTLIGHT

GQG PARTNERS

Rajiv Jain,
Chairman & CIO,
GQG Partners

STOCK SPOTLIGHT: UNITEDHEALTH GROUP

INVESTMENT PHILOSOPHY

GQG's investment philosophy is rooted in the belief that earnings drive stock prices. The market offers very limited opportunities to create an information advantage, and can be disproportionately focused on shorter-term projections. As a result, investors often fail to effectively differentiate companies based on their long-term prospects, and stocks are often mispriced due to this domination of short-term thinkers. We seek to exploit the mispricing of long-tailed assets in a market that can be intensely focused on the next quarter or year, rather than on a company's prospects for profitable growth over the next five years and beyond.

This core valuation philosophy ignores the idea of traditional growth and value investing, and instead focuses on finding companies with the highest probability of compounding capital over the next five years. We consider this investment style, focused on high-quality, durable businesses, to be more suitably named "Forward-Looking Quality".

We believe that by focusing on the compounding of capital, as opposed to minimum rates of growth, ROIC or other measures, we likely have a wider opportunity set than most other Quality Growth managers. This flexibility allows us to focus on what we believe to be the highest-quality companies in every industry, allowing for a broader set of industries for potential consideration.

UnitedHealth Group

UnitedHealth (UNH) Group is a diversified healthcare business offering benefit plans, health management services and pharmacy programmes. The company is based in Minnesota.

We believe UNH Group is uniquely positioned as a dominant player of scale in commercial, Medicare and Medicaid insurance markets, with a growing presence in home health, pharmacy benefits management (PBM) and data management. The company's strong balance sheet and continued solid cash generation give it flexibility, in our opinion, to continue to make accretive acquisitions.

The stock has declined this year, due to several regulatory concerns regarding Medicare audits and reimbursement rates, as well as the industry's PBM business practices. Sentiment was also impacted by the expected popularity of anti-obesity drugs, which could weigh on earnings, depending on adoption rates and negotiated prices/rebates. UNH recently noted an increase in medical costs as, post-Covid, there is a rise in elective surgeries, but the company reiterated its earnings guidance for the year.

Despite the recent stock price decline, we remain constructive. We expect the ageing demographics in the US to help drive enrolment in its insurance plans. As the largest player in the space, we believe its scale gives it purchasing power and pricing power. The company is well positioned, in our view, to deliver EPS growth in the low teens during the next three to five years.

MEET THE ALLIANCE TRUST MANAGERS ⟶

FAST FACTS ON UNITEDHEALTH GROUP

CEO
Andrew Witty

$91.9bn
Revenue

Circa 125,000
employees

Headquarters
Minneapolis, USA

Partners
1.3m physicians and care professionals, 6,500 hospitals and care facilities

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

EQUITY MANAGER SPOTLIGHT

SUSTAINABLE GROWTH ADVISERS (SGA)

Rob Rohn,
Co-Founding Principal,
SGA

STOCK SPOTLIGHT: S&P GLOBAL

INVESTMENT PHILOSOPHY

SGA's investment process is focused on identifying differentiated high-quality global businesses that offer predictable and sustainable growth due to superior pricing power, recurring revenue streams, long runways of growth, strong cash flow generation, and management teams that have proved to be good stewards of shareholder capital. We assign two analysts to each company under consideration, to reduce the human risks of our process associated with emotional and cognitive biases. We supplement our own proprietary research, which integrates ESG analyses by our analysts with that of third-party ESG scoring provider MSCI, to enhance our perspective. Companies possessing the sustainable business quality and growth characteristics we seek, form SGA's Qualified Company List (QCL).

We strongly believe that valuation is a critical element in growth investing, and evaluate valuation using multiple cash flow-based metrics to establish an appropriate entry point, and to determine when expectations and valuations are becoming too rich. From the QCL, a concentrated portfolio of our highest confidence companies is created, based on an analysis of the cash flow-based valuations of the candidates and the long-term investment opportunities they offer. This approach has been successfully implemented by our diverse and stable team over time, and has generated attractive risk-adjusted returns.

S&P Global

S&P Global engages in the provision of transparent and independent ratings, benchmarks, analytics and data to the financial services, commodity and industrials markets worldwide. It operates through five business segments: Ratings, where it offers credit ratings and research to market participants; Financial Information and Services segments, where it provides multi-asset class data, research and analytical capabilities, and access to the CapIQ platform; and the Commodity and Energy segments, where it provides information and benchmark prices for the commodity and energy markets. It derives about 64% of its sales from the US, but also operates in non-US Developed and Emerging Markets.

S&P helps clients assess and adapt to increasingly desired ESG considerations, with its offerings bolstered by its IHS Markit merger and its emission and carbon registry assets. The company offers attractive pricing power, having sustained an annual 3-4% price increase for its data subscriptions, given that its data is typically deeply embedded and highly valued in often mission-critical client workflows. It generates highly recurring revenue streams, with more than 70% of revenues coming from subscriptions with high renewal rates. Following its merger with IHS Markit, which was previously held in the portfolio, meaningful revenue synergies and cross-selling opportunities provide predictable high-single-digit organic topline growth over the long term, and strong three-year earnings growth at an attractive enterprise (cash) yield.

FAST FACTS ON S&P GLOBAL

CEO
Douglas L Peterson

$11.18bn
Revenue

Circa 22,500
employees

Headquarters
New York, USA

Founded **1917**

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PORTFOLIO UPDATE

Global stock markets rose in the second quarter led by the US while emerging markets lagged. The dominant sector was technology, boosted by investor enthusiasm over artificial intelligence. In aggregate, the MSCI All Country World Index returned 3.3%. Our portfolio outperformed the market, with net asset value (NAV) returns of 3.6%, building on gains made in the first quarter. We outperformed the market by 3.3% points in the first half of the year (11.1% vs 7.8%). Total shareholder returns were, however, slightly lower than the index at 7.6% due to a slight widening of the discount.

The biggest contributors to our outperformance in the second quarter were Petrobras, Latin America's largest energy group, Google's parent company Alphabet, and Amazon. Having been depressed earlier in the year by concern that Brazil's new president would use the government's controlling stake to take a more interventionist approach, Petrobras' shares rose by around 50% when investors realised their fears had been overblown. Microsoft, Alphabet and Amazon all benefited from the Artificial Intelligence (AI)-related boom in share prices. However, we were underweight in chipmaker Nvidia, had limited exposure to Apple, whose share price hit a new record high, and had no exposure at all to Tesla, whose share price rose more than 20%. Overall, our positions in tech-related stocks detracted from relative performance versus the index. Although it has significant potential to increase productivity in a wide range of industries, we are wary of the current hype surrounding AI. As with the internet bubble 20 years ago, it could take several years before the clear AI winners are established. In the meantime, some of today's front runners may fall by the wayside. So, while we do have exposure to AI, our stock pickers are playing it company by company rather than as a portfolio theme.

As expected from a broadly diversified approach across sectors, countries and investment styles, our gains versus the index were made across a wide range of industries, including Molson Coors Brewery in the consumer stable in the US and Covestro in the materials sector in Germany. We

> **"Although it has significant potential to increase productivity in a wide range of industries, we are wary of the current hype surrounding AI."**

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also benefited from positions in the cement manufacturer Heidelberg Materials in Germany, ICON, the Irish-founded, clinical research company and ITC, India's largest tobacco company.

We didn't make any significant changes to portfolio positioning in terms of manager weightings between April and the end of June, although in early July we added a specialist Japan manager, Dalton Investments, to the line-up. This was funded by reallocations from the other nine stock pickers.

"Canon shareholders have demanded a diverse board of directors, Citizen Watch has said it would buy back up to one quarter of its shares, and the owner of Uniqlo has promised its workers raises of up to 40%."

After years of economic malaise, corporate governance reforms instigated in 2014 by then Prime Minister Shinzo Abe are leading to a significant shift in how Japan's corporations are run, changes that are making them much more shareholder-friendly and, in turn, are helping to breathe new life into the economy.

For example, in recent months, Canon shareholders have demanded a diverse board of directors, Citizen Watch has said it would buy back up to one quarter of its shares, and the owner of Uniqlo has promised its workers raises of up to 40%.

Many of these developments stem from a decision by the Tokyo Stock Exchange (TSE) in January to force companies to disclose action plans to increase their price/book ratio (calculated by dividing the company's stock price per share by the value of all its assets minus liabilities) to 1x. The reform should deter companies from hoarding cash and galvanise them into action to generate value for shareholders. Dalton says this has the potential to be a huge boon to the Japanese market and particularly to value managers with a focus on engagement or activism.

While the addition of Dalton will lead to a small overweight to Japan, we think there's little to gain from placing big bets on countries or macroeconomic trends, which are subject to too many variables to analyse accurately. Instead, the portfolio will maintain structurally balanced exposure to all regions, leaving our stock pickers to add value by investing in the best companies with fundamental strengths, irrespective of their country of listing. We believe Dalton's expertise will improve our ability to select the best opportunities available in Japan.

"We believe Dalton's expertise will improve our ability to select the best opportunities available in Japan."

VIEW THE LATEST PORTFOLIO PRICE AND PERFORMANCE HERE ⟶

Companies mentioned are for informational purposes only and should not be considered investment advice.
Past performance is not a reliable indicator of future returns.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest net purchases – Q2 2023	% of Equity portfolio NB	Net value of stock bought (£m)
Nvidia	0.8%	25.1
Aon	0.7%	23.9
Amazon.com	0.7%	23.5
Diageo	0.6%	20.1
Nutrien	0.5%	16.9
Meta Platforms	0.5%	16.9
Adani Enterprises	0.5%	15.3
Mastercard	0.4%	13.2
Moody's	0.4%	12.4
Misumi Group	0.4%	12.3

10 largest net sales – Q2 2023	% of Equity portfolio sold	Net value of stock sold (£m)
Exxon Mobil	0.8%	27.0
British American Tobacco	0.8%	26.2
Fleetcor Technologies	0.8%	26.1
Vale	0.6%	20.6
HDFD Bank	0.6%	18.5
Amadeus IT Group	0.5%	16.1
Enbridge	0.4%	14.0
CVS Health	0.4%	12.3
Microsoft	0.3%	10.5
Interpublic Group	0.3%	9.7

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. In the period since the AGM to 30 June 2023, the Company purchased 2.9 million shares at a cost of £28.7 million. In this period the discount ranged from 5.1% to 7.4% and on days shares were purchased the discount range was 5.2% to 6.9%, with an average discount of 6.5%.

In the period from 1 January to 30 June the discount ranged from 2.8% to 7.4%. In this period the Company purchased 5.7 million shares at a cost of £57.0 million and on days shares were purchased, the discount ranged from 2.8% to 7.4% with an average of 5.8%.

The Trust continues to watch the discount closely 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.

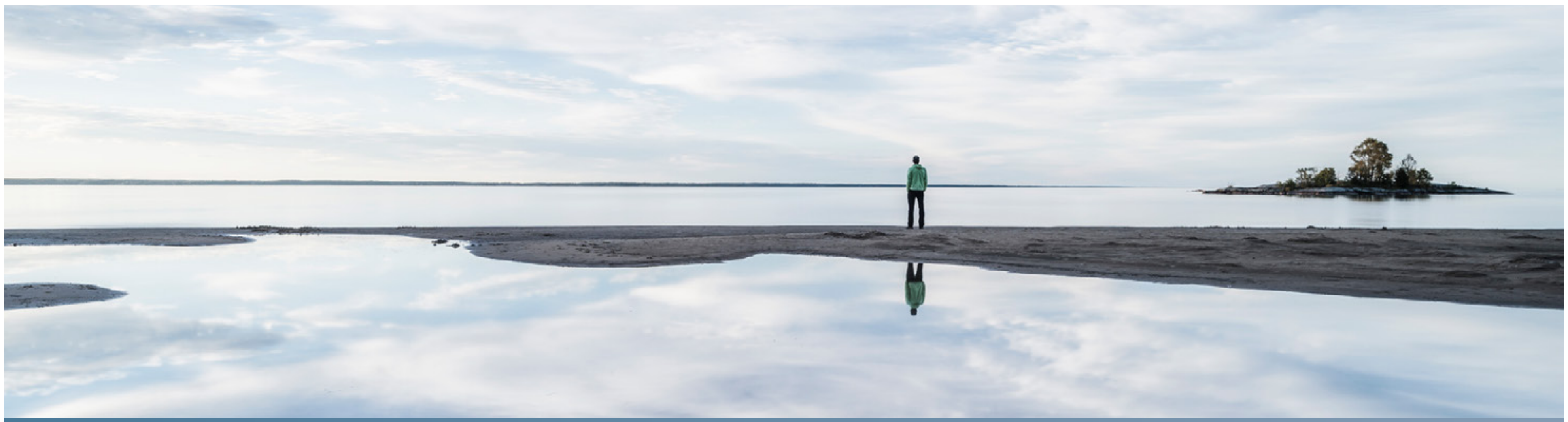
No investment decisions should be based in any manner on the information and opinions set forth above. You should verify all claims, do your own due diligence, and/or seek advice from your own professional adviser(s) before investing in any securities mentioned.

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 June 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.

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