



No need for compromise

The volatility of global markets has illustrated how ‘all-in-one’ investment vehicles can be beneficial for investors. We look at ATST, which can offer diversification without compromising growth...

Update
08 September 2020

The highly unpredictable situation caused by coronavirus has illustrated just how difficult being an active stock picker can be for the everyday investor. We have seen huge discrepancies in the returns of markets across the globe, and a small number of companies driving the returns within some of the best-known indices.

In the US, for example, over 2020 (to mid-August) the S&P 500 has risen by more than 4%, more than any other major market in the world. However, one fifth of the companies in the index have lost more than 50% from their all-time highs according to research group Cornerstone Macro. In fact, the average stock in the index is 28.4% below its peak, with just three sectors (dominated by technology and consumer discretionary) averaging returns greater than the total S&P 500 index. By way of comparison the FTSE 100 is down almost 21% over the same period, with oil and banking stocks being some of the strongest hit. All the while, the FTSE AIM market is up c.1%, with sectors including retail, gold, pharma and technology leading the way.

This unpredictability and volatility we have seen across countries and sub sectors, demonstrates how ‘all-in-one’ investment vehicles can benefit investors. These funds, done properly, take the job of portfolio construction away from the investor and give it to professional management teams with access to the skills, resources and knowledge of some of the best investment houses in the world, and offer diversification that is absent from a single-strategy fund.

Diversification without compromise

Alliance Trust (ATST) is a multi-manager fund which utilises the expertise of nine different stock pickers across the world. Each has been given the task of creating a concentrated, bespoke selection of their best ideas. The fund managers’ stock picks can only be accessed by UK retail investors through the company. The stock picking teams themselves are chosen and overseen by manager selection experts Willis Towers Watson (WTW) which is responsible for managing more than \$120bn in multi-manager assets for institutional investors worldwide. The Trust is WTW’s only vehicle for bringing their expertise to the retail market for ordinary investors.

WTW manages the allocations towards each of the stock pickers and encourages them to operate with little regard to sector, style or country weightings. They encourage this freedom because

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they believe that by forcing the managers to carry minimum weightings toward sectors, indices or regions this can end up in a situation where they are selecting companies to meet a ‘quota’, which may in fact simply be the best of a bad bunch – instead of purely holding the best possible opportunities wherever in the world they see them. WTW avoids the potential trap of overlapping holdings by selecting managers with a range of complementary approaches, which means they naturally tend to avoid each other..

WTW also encourages conviction, limiting the managers to no more than 20 holdings each, which means that despite the diversification offered by the trust as a whole, every holding counts. **As we have previously discussed**, the overwhelming evidence is that fund managers who are willing to back their convictions with punchy bets are the ones that tend to outperform by the highest margin. This is regardless of whether markets are rising or falling. ATST neatly demonstrated this principle in the rising market of 2019 when it kept up with its peers during the first half of the year (with growth stocks driving performance), but then also performed strongly over the second half (when there was a shift to value stocks outperforming). Again, in the difficult conditions of 2020 the trust has performed well relative to peers and the benchmark. Over the six months to the end of August the trust generated NAV total returns of 8%, the fifth highest in the sector of 16 and outperforming the MSCI ACWI by c. 2% (JPMorgan Cazenove, as at 28 August 2020).



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Although capital growth is the focus of the trust, investors also benefit from a 1.7% yield and one of the most longest and most consistent records of dividend growth in the investment trust universe, which is no mean feat given some of the track records is up against in this venerable sector.

These factors combined make ATST an ‘all-in-one’ solution offering investors growth, a moderate income, and well-managed diversification across a global portfolio of stocks, at a time when ‘going it alone’ is surely as hard as it has ever been.

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