

# 'Avoid having too many stocks and seek low fees'

Craig Baker tells Danielle Levy how Alliance Trust's unusual approach avoids the pitfalls of other 'multi-manager' funds

Although Alliance Trust's heritage dates back to 1888, it is arguably best known for reinventing itself in April 2017 when it appointed investment adviser Willis Towers Watson to run its assets via a "multi-manager" approach.

Over the past five years the £2.9bn investment trust's share price has risen by 49pc, compared with a 23pc gain by Witan, its most obvious rival. However, the past year has been challenging: the trust has lost 4pc, albeit less than Witan's 8pc fall.

Even though Alliance Trust prides itself on being "style neutral", by blending nine fund managers who use fundamentally different approaches, Craig Baker, global chief investment officer at WTW, explains that if global shares fall so too will the portfolio. In spite of a difficult year, he says he feels "genuinely excited" about how the trust is positioned.

Far from firing a fund manager who has disappointed, he says the team will top up their investment if they understand why performance has lagged.

## HOW DO YOU INVEST?

It is a "multi-manager" approach, which means we pick fund managers we think are the best stock pickers from around the world. Alliance Trust doesn't come with the negatives typically associated with multi-manager funds. One of the most common is having too many stocks, which makes it difficult to generate returns. It can also become expensive because you have two layers of charges: the underlying managers' fees plus another fee for managing the portfolio as a whole.

We get around both issues because we ask the underlying managers to give us only their best ideas across 10 to 20 stocks, while WTW has the scale to drive costs down.

We provide access to some of the best fund managers who are often not available to DIY investors – and we are able to do so for a low cost. You are not reliant on an individual or a specific investment process or style so you

## IN FOCUS



**Craig Baker**  
*Inflation stocks*

It is important to own companies that are resilient to inflation: those with pricing power and a sticky customer base, such as TransDigm, which manufactures aerospace components. We also like stocks that benefit from transaction-based fees, such as Visa or Mastercard, or those with products and services that boost efficiencies; software company Salesforce is a good example.

don't have the downsides that sometimes come with that approach.

## HOW DO YOU KNOW WHEN TO DITCH A FUND MANAGER?

It's the million dollar question. What we don't do is simply get rid of a fund manager because performance has disappointed. In fact, if nothing has changed for the manager and they have underperformed in the kind of environment we would expect them to, we will give them more money and take profits from those who have done well.

Clearly, the bigger question is what to do with a manager who is performing poorly when you expected them to do OK. Did you get the call on their skill wrong or have they just been unlucky?

That is ultimately a judgement call, based on the research we do. We are looking to hold fund managers for a long period of time. They will still have periods when performance disappoints, but ideally you pick managers who will perform differently at a particular point in time and combine them to generate returns over the long term.

The things that lead us to get more negative on a manager would be a change in the ownership of their company that might affect the way they manage money; key individuals leaving; the asset manager becoming so large that it stops adding value; or a change in style.

## WHY SHOULD AN INVESTOR CONSIDER THIS FUND OVER A CHEAPER TRACKER?

Our portfolio can perform better than the market and tracker funds over the long term. The world index that many tracker funds follow has become very concentrated, with significant allocations to a small number of large technology companies, so you are not getting a particularly diversified portfolio.

## WHAT HAS BEEN YOUR BEST INVESTMENT?

GQG Partners has been a big winner for us. Part of that is because they changed their portfolio very well. They are large



## Investor newsletter

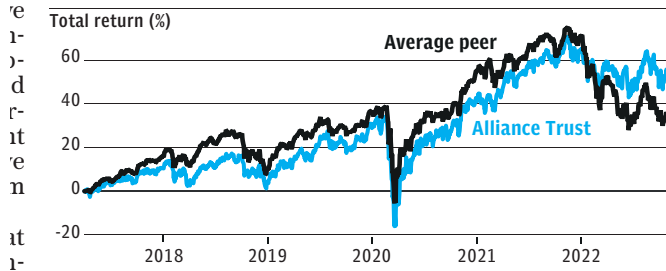
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## ALLIANCE TRUST



### How does the fund measure up?



### KEY FACTS

Launch date  
April 1888

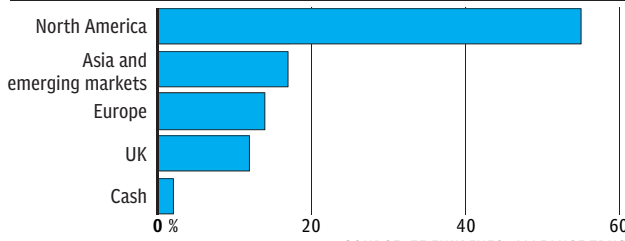
Total return since Jul 1995  
864pc

Total return year to date  
-1.4pc

Annual charge  
0.64pc

Total number of stocks  
190

### Where does the fund invest?



SOURCE: FE FUNDINFO, ALLIANCE TRUST

### Top 10 holdings (as of 31/10/2022)

1. Visa	3.3pc	6-. UnitedHealth Group	1.9pc
2. Alphabet	3.2pc	6-. Petroleo Brasileiro	1.9pc
3. Microsoft	2.9pc	8. ExxonMobil	1.7pc
4. Amazon	2.2pc	9. HDFC Bank	1.6pc
5. Mastercard	2.1pc	10. Salesforce.com	1.5pc

cap, growth-focused managers who look for companies with strong cash flows. That means they can end up having a portfolio that looks different at different points of the economic cycle.

For example, they invested in a number of large tech names through to the end of last year and did well out of that. They then rotated into a number of energy companies.

This helped them to perform extremely well this year. They have generated

a 60pc return over the past three years.

### AND WHAT HAS BEEN YOUR WORST INVESTMENT?

The majority of value-oriented managers have struggled over a period of three years plus, but they are among the best performers this year. They include Jupiter and Lyrical. Some have lagged by between 10 and 20 percentage points over the past five years, as the average value manager in the industry.

**£1,620**

What £1,000 invested in April 2017 is worth now



## QUESTOR THIS WEEK

### SUNDAY

SHARE TIP

**BP**

Buy at 478.4p

Improving finances and low valuation make risk/reward opportunity compelling

### TUESDAY

SHARE TIP

**Bellway**

Buy at £20.72

Also covered:

**Vistry (sell)**

### WEDNESDAY

FOLLOW THE MONEY

**Kering**

Buy at €547.20

Markets are obsessed with China's 'zero-Covid' policy. It's made this stock a bargain

### THURSDAY

INVESTMENT TRUST BARGAIN

**JP Morgan  
Emerging Markets**

Buy at 103.8p

A large discount to net asset value and a strong record of outperformance

### FRIDAY

QUESTOR IHT PORTFOLIO

**Craneware**

Hold at £21.10

Also covered: **Brooks**

**Macdonald (hold)**



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