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Summer 2024

US ELECTION

We look at how a second term for Trump could impact investors and offer 10 policy-related areas to keep on the radar over the coming months.

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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 ten 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.

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

Alliance Trust

US ELECTION: How could a second term for Trump impact investors?

A 10-point guide to Trump 2.0

After the tumult of recent weeks, culminating in President Joe Biden's decision to drop out of the race, the mainstream and social media storm continues to rage around the 2024 election. Investors face a blizzard of static, and there's a high likelihood of short-term market volatility. This will make it harder to look through the sound and fury to focus on what the real stakes will be.

Pundits on each side are predicting dire economic consequences if the other party wins. Republicans decry Biden's deficit spending on greening the economy (a priority that will likely continue), while Democrats cite the risks of unfunded tax cuts by Donald Trump.

Ultimately, however, the key driver of equity returns will be concrete policy change. With that in mind, we'll briefly touch on ten policy-related areas for investors to keep on their radar over the coming months.

1. Control of Congress will define the stakes

The first thing to remember is that control of Congress is just as important as winning the White House. Domestic policy changes—notably taxation and spending plans that impact the federal budget deficit—require legislation. And passing laws requires a workable control of both the House of Representatives and the Senate. A split government would water down the winning candidate's power to enact change, so this will be a crucial starting point.

2. Trump would seek to extend his legacy

Trump's flagship legislation was the Tax Cuts and Jobs Act (TCJA) of 2017—a major overhaul of the US tax code, including cutting the corporate tax rate from 35% to 21%. Many provisions of the TCJA are scheduled to expire in 2025, and Trump has pledged to make the entire deficit-financed tax-cut law permanent, as well as advocating additional cuts for individuals and businesses.

3. Trump would seek to erode the Biden legacy

It's likely that Trump would seek to fund some of his policies by repealing Biden-era climate expenditures[1]. Four laws form the backbone of Biden's legacy—the 2021 American Rescue Plan; the 2021 bipartisan infrastructure law; the 2022 CHIPS and Science Act; and the Inflation Reduction Act. Of these, Trump has been particularly critical of the IRA, mocking wind power and electric cars and describing the climate law as the "biggest tax hike in history."[2]

1. The Wall Street Journal: Cancel Biden's Spending to Pay for Tax Cuts, May 14, 2024
2. Politico: Biden's big bet hits reality, May 8, 2024

4. Tougher trade policy

Trump has proposed a 10% across-the-board tariff on imports and a 60%-or-higher tariff on imports from China. For US consumers, this would raise the cost of foreign-made goods, and potentially enable domestic producers of rival goods to raise their prices too.

Outside the US, a tougher line on trade could put pressure on countries that have large trade surpluses with the US, notably Canada and Mexico, which have benefited from the nearshoring trend, and the EU. Here, for example, the German auto sector could find itself in the crosshairs.

5. Cracking down on immigration

Trump has promised a major crackdown on immigration and the "largest deportation in American history" of illegal migrants. It's unclear how much of this would come about, given the logistical challenges and potential impact on labour supply, but the trend would be towards rising wage bills and more difficulty hiring staff in some industries. For example, a wide range of businesses have benefited from migration from Mexico, including construction, agriculture and health care.

6. Central bank independence is a potential wild card

In terms of market sentiment, a high-stakes scenario relates to central bank independence. Trump has expressed support for the notion of bringing independent agencies under presidential control. Although Trump nominated Jay Powell as US Federal Reserve chair in 2018, he has been sharply critical of the Fed's interest rate policy. Fed independence is a key anchor for the economy and markets so, for example, attempts to change the Fed's mandate could trigger significant market turbulence.

7. Trump views US stock prices as a metric of success

Potentially good news for equity investors, Trump's domestic agenda is robustly business-friendly, and he is likely to view rising equity markets as a win. "Trump is going to want a booming domestic economy and stock market," says Ian Clark of Veritas Asset Management. "He's going to press as hard as he possibly can on the monetary and fiscal levers that he's got available to him in order to achieve that." In addition to pushing for stimulus such as corporate tax cuts, the Republicans would likely take a softer line than the Democrats on competition policy.

8. For bond markets, the balance of risks is negative

Trump's agenda is less positive for bond markets than it is for equities. The US is already running a high federal budget deficit and will need to step up Treasury issuance to finance the gap. While both Biden and Trump presided over high spending, a Republican sweep of Congress would likely result in more pressure on the deficit.

The US's ability to repay its debt is not in question given a massive tax base, the vast investor base for US Treasuries, and the government's capacity to print dollars. The issue is the yields at which the government can issue debt. From equity investors' perspective, rising bond yields would be a headwind to equity returns, for example as higher interest costs took their toll on earnings and a higher discount rate was applied to valuations. From a broader portfolio perspective, recent experience shows that, in inflationary environments, bonds can become a less effective diversifier, with potential for both asset classes to fall simultaneously.

9. There are several potential sources of inflation

Inflation and monetary policy expectations are a crucial driver of bond returns, but they can also drive risk sentiment in equity markets. There are several potential sources of inflation under a second Trump administration.

"Geopolitical uncertainty and volatility leads directly to rising input costs," says Clark. "It leads to increases in things like shipping costs. Companies have to restructure their supply chains to build in redundancy, for example moving from 'just in time' to 'just in case'. Rising tariffs and barriers to trade directly impact prices. And finally, inappropriately loose fiscal and monetary policy—particularly when they act in combination—can be inflationary."

"Trump is going to want a booming domestic economy and domestic stock market, and so he's going to press as hard as he can to achieve that."

Ian Clark, Veritas Asset Management

C. T. Fitzpatrick of Vulcan Value Partners sees offsetting positives and negatives in terms of the policies that Trump has articulated. "On the negative side, we would expect to see higher tariffs, which would be inflationary. On the positive side we would expect to see a much more business-friendly regulatory environment, particularly with regard to the energy sector. We would expect to see US domestic energy production increase, and that would have a deflationary effect, which would offset the negatives from higher tariffs. So the net effect could be neutral."

"We like to invest in companies that can control their own destinies and are resilient to external circumstances like economic cycles or commodity prices"

Ian Clark, Veritas Asset Management

10. Predicting winners and losers is not always straightforward

Even knowing what we do about the two parties' likely policy agendas, predicting winners and losers at the industry and company level is not always intuitive, and investors need to be able to weigh up countervailing return drivers.

Bloomberg's John Authers[3] points out that Smith & Wesson, "the ultimate pure-play gun stock", fell sharply after Trump won the election in 2016 despite his vocal support of the Second Amendment. By contrast, the rise and fall of clean energy was almost the inverse of what would have been expected under Trump, who took the US out of the Paris climate agreement, and Biden, who has pledged huge sums of federal money to alternative energy.

In fact, the oil majors flourished during Biden's term, largely because oil company profits are heavily driven by global energy prices. Green energy stocks enjoyed highly supportive regulation, but shareholder returns were dismal because interest rates and inflation were high.

Building resilient portfolios

In uncertain investment environments, two of the best sources of portfolio resilience are careful security selection and buying securities at the right price.

"We like to invest in companies that can control their own destinies and are resilient to external circumstances like economic cycles or commodity prices," says Clark. "We seek businesses that can deliver reliable long-term growth under most scenarios. We like to buy them when they're on attractive valuations—or what we would call a discount to intrinsic value—and when they have strong balance sheets. This adds a layer of resilience."

Fitzpatrick says: "Overall, we think a second Trump term would be a net positive for the companies in our portfolios. We could be wrong, but if we are wrong, we think that we're protected. We seek to invest in businesses that have stable values, and we try to buy those companies at a significant discount to our estimate of fair value. We believe these two criteria in combination can protect us from times that are tough and can help us prosper when times are good."

3. Bloomberg: Investing for Trump 2.0 Is Trickier Than You Think, February 28, 2024

Comparing the two parties' likely policy biases

Although he has withdrawn his candidacy, President Joe Biden's term likely remains a good indicator of Democrat policy bias going forward – for example on key issues such as climate change and scrutiny of anti-competitive business practices.

Policy bias	Republicans	Democrats
Spending*	• Inflation Reduction Act revised • Entitlement reform likely to be off the cards	• Inflation Reduction Act maintained • Entitlement reform off the cards
Tax*	• Personal tax reductions extended • Further corporate tax cuts e.g. 21% down to 15%	• Income tax reductions allowed to expire, e.g. for households owning over $400,000 • Increase corporate tax
Federal deficit*	• Stays high, possible bias to loosen	• Stays high, bias to tighten
Trade	• Tariffs: 10% blanket import tariff, 60% tariff on Chinese imports, aggressive restrictions on Chinese ownership	• Continued restriction on Chinese imports and access to tech
Federal regulation/ bureaucracy	• Purge of "deep state" in Federal system • Explicit pressure to lower interest rates • More oil/LNG drilling on Federal land	• Persist with industrial strategy – e.g. made in America provisions in IRA • Potential continued antitrust assertiveness
Geopolitics	• Reduce Ukrainian aid • Hard line on Iran; Taiwan, North Korea unclear NATO renegotiation • Withdraw from Paris accords	• Stronger headwinds to Ukrainian aid given Congressional approval

*Domestic policy items will be hard to change without a workable congressional majority
Source: WTW

The BIG Question

What could a second Trump presidency mean for the Alliance Trust portfolio?

Stock pickers C.T. Fitzpatrick from Vulcan and Ian Clark from Veritas give their views on the implications of Trump 2.0

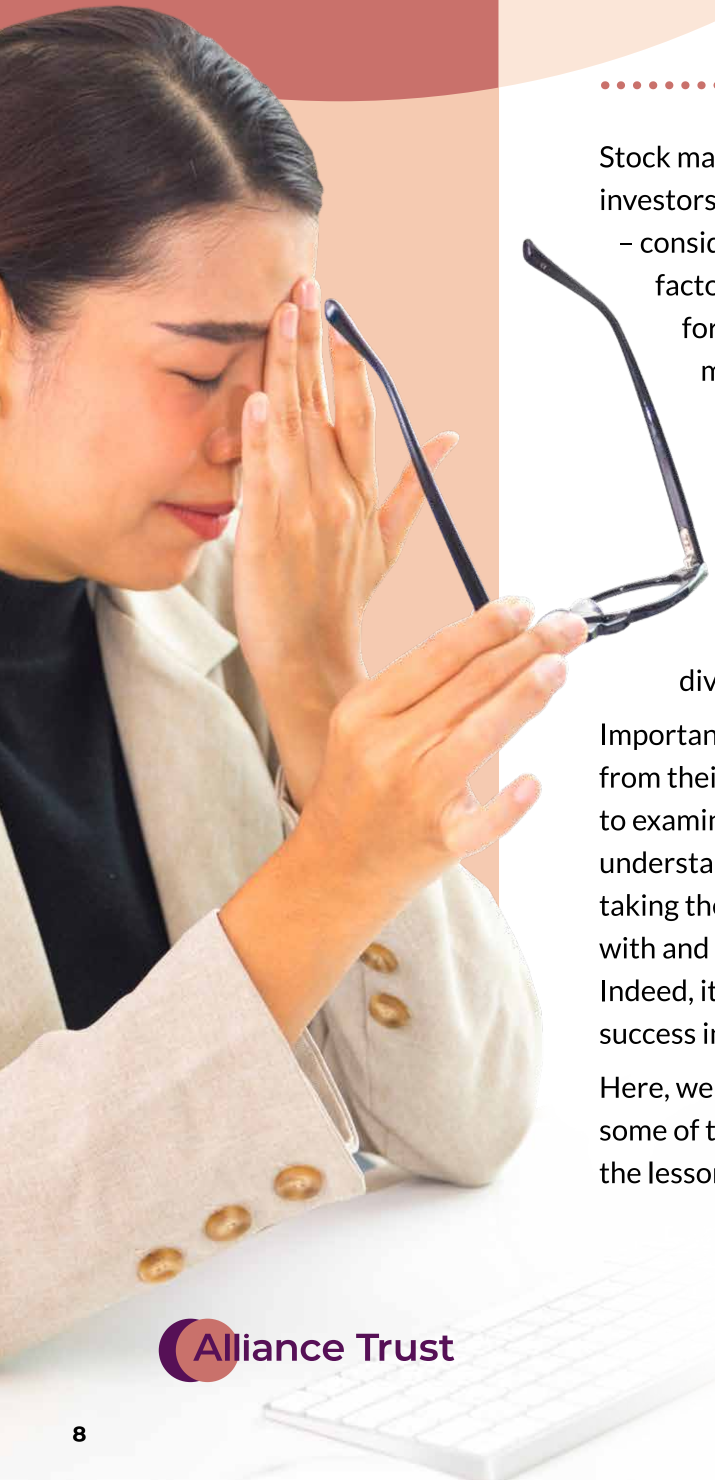
To watch the video
click here

“Failure is success in progress”

Albert Einstein

The lessons from mistakes are often the most powerful

It’s easy to imagine why sinking portfolio company values are the sort of nightmarish stuff that keeps fund managers awake at night. Utter the words ‘permanent loss of capital’ and you’d clear a room of them. And yet, mistakes come with the territory.



Stock market investing is tricky: to get an investment right, investors must intricately analyse a business’ fundamentals – considering a mountain of internal and external economic factors – in an attempt to understand its intrinsic value and forecast the trajectory of its earnings and potential stock market valuation; all in the hope that unforeseeable events don’t pop-up and spoil the party.

Given these projections are about an unknowable future: even with plentiful resource and decades of experience, stock pickers often get it wrong. It is why skilful management of investment risk is rewarded; and it underpins the importance of portfolio diversification.

Importantly, the best investors out there will harness the lessons from their failures: viewing them as an introspective opportunity to examine the machinations of markets and deepen their understanding of what influences stock market valuations. By taking these learnings: investment processes can be tinkered with and refined to increase the likelihood of future success. Indeed, it was Albert Einstein who famously said: “Failure is success in progress”.

Here, we ask some of Alliance Trust’s stock pickers to discuss some of their less successful investments from over the years and the lessons they’ve learned from them.

Metropolis Capital
FOCUSED VALUE INVESTMENT

METROPOLIS CAPITAL

1. The quality of a company is very important

Quality is an important part of Metropolis' investment process. Some years back, the stock picker bought a private business, believing that, although "the business did not have a wide [economic] moat, it was doing something unique, and had a well-known brand". In particular, they thought that because they were paying a "very low multiple of free cashflow", the investment was protected by a "very large valuation margin of safety".

It was not to be. Soon after the purchase, some of the company's employees left and set-up shop in competition, as did one of the vendors, who put the new company in his wife's name in order to avoid litigation – proving to the stock pickers that "the moat was non-existent".

They found the lesson to be an enduring one: "It does not matter how little you pay for a business, if it has no moat, any price paid can be lost money. Quality has to be established first".

2. Don't hesitate to sell if the investment case changes

In June 2008, Metropolis invested in Lloyds bank, the UK's leading retail bank at the time. They believed it had passed their quality test on account of a 'cost advantage from scale, very sticky depositor base and conservative balance sheet.' Alas, four months later, in the depths of the global financial crisis, Lloyds bought commercial and clearing bank HBOS – a deal widely seen as disastrous – and its shares fell precipitously.

After such an event, Metropolis explains that some value investors may be reluctant to sell a loser 'because the value investing script and instinct tells one to buy more.' However, they 'determined that the investment case had completely changed' and that Lloyds 'no longer met our quality criteria', so they sold. This proved to be a good decision, with the stock later falling a further 90%. The lesson was clear: 'forget what you paid for the original investment', and keep asking 'would you invest in this stock today?'

3. Small-cap investing comes with risks and isn't suited to concentrated portfolios

A core tenet of Metropolis' quality score is 'scale advantage' – which tends to favour larger cap stocks. At times, however, they have been attracted to investments in smaller companies which 'dominate smaller niches.' This comes with greater risks, as 'investors are more exposed to poor management decisions', a lesson they learned many years ago with K3 – a software reseller.

K3's strategy of 'buy and build' – acquiring other firms - was working very well for the company, particularly given their disciplined focus on valuation. But then, suddenly, management changed tack, and the business began to "invest more than their annual free cashflow to build a software engineering team in a high risk endeavour to create IP (intellectual property)".

The stock picker assessed that this U-turn materially imperilled the business and exited the position – concluding that "small cap investing does not suit a highly concentrated portfolio".

ARGA INVESTMENT MANAGEMENT

ARGA Investment Management, LP

4. Beware of a shrinking market and cost synergies from mergers

For ARGA, which joined the Alliance Trust portfolio in April, they refer to a mistake made from an investment in French global IT services company Atos.

Initially, ARGA thought the market was getting it wrong and overselling the stock. There were concerns over its significant private cloud business given rising competition from public cloud players such as Amazon, Google and Microsoft; and in the performance of its platform solutions business following a large-scale acquisition of Indian firm, Syntel.

ARGA felt, however, that investors had overlooked the scale of growth in the total addressable market for cloud services, which they believed would be captured by Big Tech and leave Atos' segment revenues largely unscathed, as well as the significant cost synergies that could emerge from the Syntel acquisition. Setting the cat amongst the pigeons, the pandemic changed everything: "With the onset of Covid, there was a big shift in IT spending towards digital transformation, which resulted in customers moving away from private data centres to the public cloud at a more rapid pace. This accelerated segment revenue declines."

As such, they learned to "exercise caution with companies seeing shrinking revenues…for structural reasons" as it can become very difficult to "cut costs fast enough to keep pace with revenue declines over time."

What's more, they found that integrating two large companies in the IT Services industry is difficult, given the "importance of people in the business".

LYRICAL ASSET MANAGEMENT

5. Beware of a business' gradual deterioration

For Lyrical, the trajectory of earnings is of particular importance, as they describe: "If we get the future earnings right, we get the investment right". It's why they seek "resilient businesses that can succeed under a wide range of circumstances", and avoid those that are "too complex or opaque, or undergoing disruptive change".

And yet, they explain that mistakes have emerged in the past from businesses in gradual decline, which can be tricky to spot. It's why they developed a yellow card system:

"When we see a potential sign of deterioration, we give the stock a yellow card. The real world is full of ups and downs, and so it is common for a stock to get one or even two yellow cards and ultimately be a success. However, by the time a third yellow card emerges, the odds shift against us, and we are usually better off selling at that point."

LYRICAL ASSET MANAGEMENT

"In the past year we have sold two stocks that were mistakes, Whirlpool and Bread Financial. Both were companies that received a third yellow card", adding, "we are better off moving on and owning something else".

BLACK CREEK INVESTMENT MANAGEMENT

6. Over-leveraged balance sheets are to be avoided

In 2015, Black Creek initiated a position in Nielsen – a provider of data analytics to advertisers on the content consumers watch across various channels. The investment thesis centred on the company's "unique capabilities to measure and analyse data in a world of media fragmentation during a transition from legacy broadcasters to streaming services".

Unfortunately, disruption was lurking: "Technology not only changed viewership measurement but also lowered the barriers to entry for measurement services. As competition entered the ad-tech and audience measurement market, Nielsen lost some of its pricing power, and pricing also became tougher to maintain in the move to streaming".

Compounding the problem was the company's former private equity ownership, which had loaded the balance sheet with debt and resulted in underinvestment in the technology required for the tectonic shifts in the industry. Ultimately, Nielson's earnings and financial position floundered.

They concluded with needing "to be skeptical of companies that are taken private only to be then taken public years later with significant leverage on their balance sheet."

BLACK CREEK
INVESTMENT MANAGEMENT INC.

DaltonInvestments

DALTON INVESTMENTS

7. Over-regulated industries can be prevented from change

Japan specialist Dalton made a mistake in 2016, when they initiated a position in Japanese bank Shinsei Bank. The investment thesis was based on the fact that it had a highly profitable consumer finance business and a good margin of safety. Given that the Japanese government was a major shareholder and targeting an exit share price that was higher than Dalton's initial purchase price, there was also good alignment of interests between Dalton and Shinsei Bank's board."

Because of this, they saw an opportunity for engagement – chiefly using share buybacks to help them reach their target valuations. But it didn't quite work-out as hoped, as they explain: "While we were able to achieve some share buybacks through our public and private engagement, the scale of the change in capital allocation was nowhere near sufficient."

The key lesson for the stock picker was that they were "too early in the corporate governance reform process in Japan to succeed, as an activist requesting a radical change in capital allocation."

"Had the Shinsei Bank investment happened today, the company (and the regulator) would likely have been under intense pressure to address the company's structurally low price/book ratio."

SGA (SUSTAINABLE GROWTH ADVISERS)

8. Investment modelling is an iterative process

In 2019, SGA initiated a position in PayPal – a digital wallet provider – given its ability to capitalise on both user and merchant in its two-sided network. But once again, the pandemic was to change things – first as a positive, as SGA explains:

"The surge in usage led to intensified competition for the digital wallet space, including accelerated growth of Apple Pay, Google Pay, as well as new players with Buy-Now-Pay-Later models such as Affirm and Klarna. As a result of this dramatic change in the demand for digital payments, PayPal's stock appreciated significantly."

Soon, however, this surge was to unwind: "With the advent of the Covid vaccines being more widely rolled out, e-commerce growth began to decelerate while expectations remained high. While we realised that there had been a surge due to the pandemic, and expected some moderation in demand, we did not sufficiently reflect the changing dynamics into our modelling or investment decision."

As a result, SGA improved the models used in their investment process, ensuring they more "appropriately reflected changes in the competitive landscape."

SGA
Sustainable Growth Advisers

SANDS CAPITAL

9. Be sensitive to valuation

For Sands Capital, they found the unique dynamics of markets in 2021-2022 particularly tricky to navigate, as valuations ballooned and growth expectations soared.

During this time, they found the "supply and demand signals for businesses" had become distorted, "the regulatory environment more unpredictable than usual, and central bank activity had an outsized influence on investor behaviour. In short, sentiment mattered much more than underlying fundamentals."

The core of their philosophy is to be "business owners and not stock traders", which means focusing on "underlying earnings power". As such, what they learned from the 21/22 period was that they needed to be more "sensitive to what [they're] paying for those earnings", because "owning too many high-growth, high-valuation businesses can make the overall portfolio vulnerable to external shocks."

Moving forward, they have "mitigated that vulnerability by being more disciplined in [their] exposure to these types of businesses".

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Equity Manager Spotlight

Veritas Investment Philosophy

Investment Philosophy

At Veritas, in order to generate real returns that translate into returns that exceed the MSCI in a predictable manner, we seek to invest in sustainable companies over the long term (5-10+ years). There is much use of the word sustainable, but we use it in a broad context: we seek to populate a Universe List of companies which demonstrate a high sustainable return on capital, generate high sustainable free cash flows, possess high sustainable barriers to protect those future cash flows, benefit from enduring growth drivers and run by management that are forward thinking and aligned with shareholders.

Our focus is on long-term, more robust investment opportunities. This is partly why we don't own any banks in our portfolio. Banks are particularly recession-sensitive, with all of them paying the price when there's an economic mishap.

Ian Clark
Fund Manager & Investment Analyst

Stock Spotlight – Unilever

Ian Clark looks at why Unilever's expansion strategy into developing markets makes it such an attractive investment opportunity

To watch the latest Stock Picker interview CLICK HERE

Unilever is one of the largest fast-moving consumer goods companies in the world, producing food, hygiene and care products for emerging and developed market consumers.

Its history stretches all the way back to 1885, beginning with soap sold under its Sunlight brand. In 2024, it offers a much wider portfolio of around 80 brands – with more than 3.4 billion customers from 190 countries using its products every day.

In particular, 58% of its €59.6 billion[1] in annual revenues are generated in emerging markets. This, the stock picker believes, gives the company a long runway of growth: as low income consumers become wealthier and shift consumption from single serve portions towards more expensive, higher price-point products. In addition, they believe the company will benefit from a fresh management team that replaces one that has underperformed in recent years.

1. https://www.unilever.co.uk/our-company/

Unilever - Fast Facts

Founded **1929**	**€59.60bn** Revenue (2023)	circa. 127,000	**CEO** Hein Schumacher	**Headquarters** London

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Equity Manager Spotlight

Vulcan Investment Philosophy

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.

C.T. Fitzpatrick
Founder & CEO

Stock Spotlight – Skyworks

C.T. explains why Skyworks earns its place in the portfolio with its wide and growing base of applications and strong fundamentals

To watch the latest Stock Picker interview CLICK HERE

Skyworks are one of a few players that make RF systems – key components in connecting mobile devices around the world; making seamless technologies that are increasingly vital in how we live, work, and play.

In particular, their chips power ubiquitous, 'always-on' connectivity critical in high performance devices such as smartphones and across the Internet of Things (IoT), and increasingly in the future, self-driving vehicles. As such, the stock picker believes there is a wide and growing base of applications.

What's more, they believe that given there's a duopoly in RF systems, and Skyworks has robust free cash flow, a strong balance sheet, and high returns on capital, that it can grow at a high single-digit rate over the long term.

Skyworks – Fast Facts

2002	€4.77bn		CEO	Headquarters
Founded **2002**	Revenue (2023)	circa. 9,750	Liam Griffin	Irvine, CA - USA

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

Portfolio Update

Global stock markets, as measured by the MSCI All Country World Index, delivered positive returns of 2.9% in the second quarter, building on the upward momentum established in the first quarter of 2024. Although worries about the US economy overheating shook markets in April, these concerns faded as the quarter progressed and economic data pointed to a soft landing, with resilient growth accompanied by moderating inflation pressures. Even so, with inflation in wages and services remaining stubbornly high, Western central banks are expected to cut interest rates by less than anticipated at the start of the year.

Within equites, a strong earnings season and investor enthusiasm for artificial intelligence (AI) meant that mega cap US information technology stocks continued to dominate the leader board. But emerging markets were the strongest performing region, boosted by moves from the Chinese government to support its real estate sector and Taiwan's exposure to the semiconductor industry via Taiwan Semiconductor Manufacturing Company, the world's largest dedicated semiconductor foundry and supplier of chips to NVIDIA. The UK equity market also did well, against a backdrop of the economy recovering from a shallow recession and inflation falling back to the Bank of England's target.

Our portfolio significantly underperformed the market, delivering net asset value (NAV) returns of -1.0%, although total share price returns were marginally less negative at -0.9%. This underperformance in the second quarter more than offset the outperformance delivered in the first quarter. Although the portfolio still delivered robust absolute returns at the NAV level, they trailed the index by 2.7% in the first half of the year (9.5% vs 12.2%). Total shareholder returns were higher than the NAV at 10.2% due to a favourable movement in the discount, which ended the half year at 4.9%.

Lack of exposure to tech giants detracted from performance

The biggest reason for the underperformance versus the index in the second quarter was our relative lack of exposure to the US tech giants, NVIDIA and Apple, whose share prices rose strongly on the back of the generative AI boom. Together, they accounted for around 70% of the return on MSCI ACWI. NVIDIA's advance has been astonishing. While its revenues grew in 2024 by $35bn and net profit by $25bn, its stock market valuation went up by around $2 trillion in 6 months, a move never seen before in market history.

Our average portfolio weight in NVIDIA, the chipmaker at the epicentre of the new technology, was 1.8% versus 3.5% for the index, and our average weight in Apple was just 0.1% compared to 3.8% for the index.

To learn more about the portfolio price and performance click here

Alliance Trust

While these are just two companies out of around 3,000 in the index, their market capitalisations are two of the largest in the world – together worth more than the entire stock markets of various countries, including the UK – so that when their share prices move, they take the whole index with it.

The portfolio's exposure to NVIDIA and Apple comes through two of our 10 fund managers, GQG, which has stakes in both companies, and Sands, which only owns NVIDIA. GQG says AI is transforming industries across the globe from entertainment to pharmaceuticals, but adoption of the technology is still in the early stages. "For now, investments are predominantly flowing into the foundational sections of the AI value chain, especially in the development of high-performance chips, semiconductor equipment, and datacenters," says GQG, with NVIDIA the main beneficiary. Hence its ascent, albeit it briefly, in the second quarter, to being the world's biggest company with a stock market capitalisation of over $3.34 trillion.

NVIDIA subsequently shed over £500bn in a matter of days and fell back into third place behind Microsoft and Apple, underlining its share price volatility and calling into questions its staying power. Long-term investors may recall that, behind the company's current prominence, there has been a stomach-churning ride. Apple's share price rise hasn't been linear either. Having struggled in the first quarter, Apple only gained in the second quarter after it unveiled upgrades to its software, including a smarter Siri voice assistant, which helped allay fears that Apple was falling behind other tech giants in the race to develop new products using AI.

Impact of AI still largely unknown

The stock market excitement around AI is understandable. As GQG argues, it could be a game-changing technology, with huge potential benefits for productivity as it infiltrates the wider economy. But AI's impact beyond early adopters is still largely unknown. We, therefore, prefer to actively manage our exposure to this theme and to maintain a diversified exposure to a wide range of around 200 companies to avoid the excessive concentration risk embedded in the index, although we did add to our exposure to GQG and Sands towards the end of the quarter, thereby indirectly increasing the portfolio's holdings in NVIDIA and Apple but by a small margin. This should insulate the portfolio to some degree against these two stocks continuing to dominate index returns and undermining the portfolio's relative performance.

Vinci fell sharply following the success of France's far-right National Rally party and Macron's call for a snap national election.

Apart from NVIDIA and Apple, the other detractors from relative performance in the second quarter included Diageo, the UK drinks company, the Irish airline Ryanair, Visa, the US digital payments company, Airbus, the European aircraft manufacturer, and Vinci, the French industrial group.

Diageo well positioned for the long term

Diageo has been going through a tough period in recent years, marked by profit warnings and poor share price performance. But Veritas, which owns the stock along with Metropolis, and bought it believing it was undervalued, says it is well positioned in the long run to benefit from being the global leader in the spirits industry with a collection of outstanding brands, such as Johnnie Walker and Guinness.

Ryanair, also owned by Metropolis, fell by 23% after warning of that air fares were not rising as fast as expected ahead of the peak summer tourist season but still posted a 34% rise in profits after tax for the year ending in March. Visa's share price fell much more modestly but it is a significant overweight in the portfolio, owned by several managers, so it had a relatively large impact.

Airbus shares fell after it cuts its annual profit forecast as supply chain disruptions worsened. Veritas, which owns the stock, says there is no issue with the enduring trends that support Airbus. Travel continues to grow and demand for cleaner aircraft has accelerated. Airbus has launched its new A321XLR (which flies further on less fuel) and, given the issues at Boeing, continues to win the bulk of orders.

Vinci, also owned by Veritas, fell sharply following the strong results for the far-right National Rally party in European Parliament elections and French President Emmanuel Macron's decision to call a snap national election. Vinci arguably faces the most direct threat from National Rally policies. One of the party's goals is to nationalise motorways. Vinci's construction business may be the main source of revenues, accounting for 46% last year, but its motorway concessions are by far the biggest source of profits. Last year, €3.4bn of the group's €8.4bn earnings before interest and tax, about two fifths, came from its autoroutes division, according to Veritas. As an infrastructure owner and developer, Vinci, which generates 45% of sales in France, is sensitive to interest rates.

Veritas says Vinci's shares looked cheap before the recent fall. The shares are priced at 11 times forecast next 12-month earnings. Over the last 10 years, they've only been cheaper during the height of the pandemic on this measure. Much of the income that underpins the dividend payout, equivalent to a 5% forecast yield, is linked to inflation and Vinci is well positioned for many of the enduring trends in digitalisation and smart cities and decarbonisation.

Hargreaves Lansdown and HDFC performed well

The main contributors to relative returns in the second quarter were the investment platform Hargreaves Lansdown, whose share price bounced after receiving a takeover bid; Alphabet, which surprised investors with a stock buyback and its first dividend payment; and HDFC Bank in India, whose share price recovered strongly after the Indian election results briefly weighed on its share price.

Biggest positions sold and acquired over the quarter

Top 10 largest net purchases Q2 2024	Net value of stock purchased (£m)	% of equity portfolio purchased	Top 10 largest net sales Q2 2024	Net value of stock sold (£m)	% of equity portfolio sold
Synopsys	33.7	0.9	MercadoLibre	28.4	0.7
Apple	29.9	0.8	NVIDIA	25.8	0.7
Coca-Cola	26.5	0.7	Alphabet	25.7	0.7
Philip Morris	26.1	0.7	Stericycle	24.6	0.6
Skyworks Solutions	22.9	0.6	Signify	22.1	0.6
Qualcomm	21.5	0.6	Zebra Technologies	22.1	0.6
Tencent Holdings	21.1	0.5	Molson Coors	21.7	0.6
Southern Company	21.1	0.5	Uber Technologies	21.4	0.6
NEC Corporation	20.0	0.5	Arista Networks	20.3	0.5
Amadeus IT Group	19.7	0.5	Danone	19.2	0.5

Source: Juniper, as of end June 2024

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 of end March 2024 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.

Registrars

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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.

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 consult an IFA who specialises in advising on the acquisition of shares before acquiring shares.

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