

# The ZONE

## Spring 2024

### NISA

As the Japanese  
**(Nippon) individual  
savings account  
(NISA) turns ten,  
will it succeed in  
transforming a  
nation of savers into  
investors?**



#### Contents

The NISA 10 years on	3
Six lessons from 1,001 ISA millionaires	6
Avoid holding too much cash at this critical juncture	9
Stock Spotlights	12
Portfolio Update	15

## Alliance Trust: Diversified, High-Conviction

Research shows that active equity managers add most value through a small number of their highest-conviction positions.<sup>1</sup> 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.<sup>2</sup> 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.

# 10 years on is NISA transforming a nation of savers into investors?

*After more than three decades of stagnation, Japan's governors have been trying hard to revive its stock market's animal spirits. You would forgive them for feeling frustrated: some tremendously high quality companies reside in its exchanges, and yet they are often found wanting – endlessly trading at nonsensically cheap valuations.*

*Amid fortunes never realised, many of Japan's citizens have shunned risk taking for the safety of cash savings. As a result, extraordinary wealth has ballooned under the mattresses of households – creating a store of untapped economic fuel that could be powering Japan's growth and stock markets.*

*It's why a decade ago the Nippon (Japan) Individual Savings Account (NISA) was launched – offering Japanese savers the opportunity to invest free from taxes. As it turns ten this year, and is gifted with an overhaul: is the NISA fulfilling its purpose and shaping a nation of investors?*

## A good start?

In February, Japan's stock market did what many had come to believe was the unthinkable: it soared past its 1989 all-time high. The period in between the two peaks could be easily described as the wilderness years. Shares in Japanese companies performed poorly against their developed market peers as the economy suffered under the yoke of deflation and low growth, and as an ever-ageing population started to impact its dynamism.

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

## The arrival of Abenomics

Companies were besieged by poor governance and profitability and a highly fractious relationship with shareholders, who were all too-often seen as the enemy of boards.

It left Japan's stock market with a sour reputation: investors saw it as a 'value trap' with seemingly attractive valuations on a road to nowhere. As Japan lost faith in their companies, domestic share ownership precipitously declined.

Then, around eleven years' ago, 'Abenomics' arrived under premier Shinzo Abe as he began his second term. It sought to transform the economy under three tenets: monetary easing, fiscal stimulus, and improving corporate governance.

## The first NISA

In lockstep, he launched the NISA – Japan's take on the British ISA – in an attempt to get some of the extraordinary household wealth into the stock markets and earning a better return.

The first iteration of the NISA was the 'general' account, which allowed for investments in foreign and domestic shares, ETFs, REITs, and collectives. A second variation followed in 2018 – the 'tsumitate' account – which focused solely on investments in collectives in an attempt to encourage a longer term approach for retirement. It's had some success: some 20 million accounts have been opened since launch and Japan's enthusiasm over stock market investing seems to be growing.<sup>1</sup>

## Fear continues to hinder domestic investment

But corporate reforms have been slow, and money has mostly flowed into international shares rather domestic ones – in particular, US shares. What's more, while younger investors in their 20s and 30s have been keen on stocks – older investors, conditioned by a history of disappointments, have tended to sell quickly to lock-in gains; in particular, last year when Japanese stocks boomed off the back of Japan's belated Covid re-opening trade.

It means households still have £5.9 trillion in cash – earning very little and restraining consumption and growth. Undeterred, Japan's politicians have been doubling down on the transformative work started on the economy a decade ago.



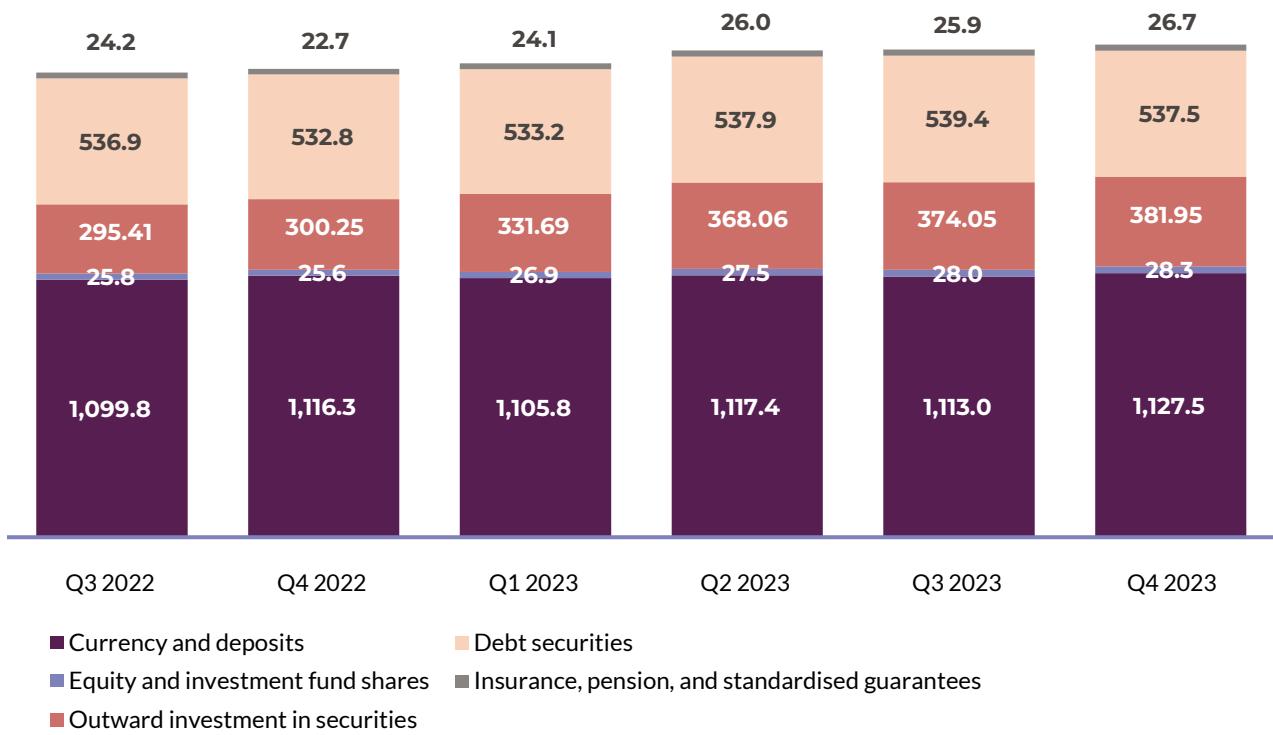
.....  
*Younger investors in their 20s and 30s have been keen on stocks – whereas older investors, conditioned by a history of disappointments, have tended to sell quickly to lock-in gains*  
.....



To watch Dalton's Jamie Rosenwald discuss the NISA 10 years on [click here](#)

1. <https://www.ftadviser.com/investments/2024/03/05/how-are-japanese-investors-changing/?page=3>

## Financial assets in trillion (Japanese yen)<sup>2</sup>



### Turning point

In October 2021, a new prime minister was elected – Fumio Kashida of the Liberal Democrats. As part of his ‘new capitalism’ drive, retail investors and corporate reforms are back in focus.

This year, the NISA system has been revamped: with annual contribution limits doubled and tax protection made permanent. Japan’s financial regulator, the Financial Services Authority (FSA), have been pushing for companies to unwind their cross-holdings – seen as a highly inefficient use of capital. And new rules and disclosures by the Tokyo

Stock Exchange are targeting companies with poor capital efficiency, asking them to disclose plans for how they will realise corporate value for shareholders.

It looks like it may just work. Underpinning this is an economy that finally seems to be getting to grips with its decades-long deflationary problems. The fact it retained a dovish monetary policy stance until recently in a world where central banks have broadly been hawkish has helped – and kept the yen weak in a nation that largely exports.

Furthermore, real wage growth could help keep inflation in place: a growing prospect given that Japan’s biggest union just agreed the first significant pay rise for its workers in 33 years. Indeed, the fact that Japan’s central bank recently moved to loosen its policy and increase interest rates out of negative territory offers evidence that institutions are becoming convinced that inflation may hold.

In turn, WTW’s economists believe wage growth and easing inflation could drive domestic consumption, benefitting Japanese equities and in particular domestic

2. <https://www.statista.com/statistics/1237816/japan-quarterly-household-financial-assets-by-type/>

equities. This is echoed by Alliance Trust Japan stock picker Dalton, who sees interesting opportunities emerging in domestically focused parts of the market; a shift given that their historical bias has been towards exporters.

## Bullish moves

Markets seem to be reflecting the broader optimism about Japan's changing fortunes: since the beginning of 2023, the Nikkei 225 has risen more than 50%.<sup>3</sup>

What's more, the weak yen and improving governance are attracting foreign buyers to the table – most notably Warren Buffett, who's been waxing lyrical about its turnaround to the press, and has Japan as Berkshire's second largest geographical holding.

Of course, the risk is that a weak yen starts to rally, knocking the stock market off its stride. Another is that the Bank of Japan underestimates the strength of inflation coming through, as many central banks did in the West,

and the economy ends-up running too hot.

Nonetheless, while disappointments have been woven into the fabric of investing in Japan over many years, a sea change finally seems afoot for investors. Most excitingly, if Japan's overly cautious savers receive the message that its companies are worth the risk, a virtuous cycle for the stock market may just follow as an avalanche of cash begins underpinning share prices over the long run.

**Marcus De Silva, Freelance Investment Writer**

**To read More Investment Insights click here**

3. [https://www.google.com/finance/quote/NI225:INDEXNIKKEI?sa=X&ved=2ahUKEwiG4\\_6ptZeFAxUNRkEAHRd6BOsQ3ecFegQIHxAX](https://www.google.com/finance/quote/NI225:INDEXNIKKEI?sa=X&ved=2ahUKEwiG4_6ptZeFAxUNRkEAHRd6BOsQ3ecFegQIHxAX)



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

This information is for informational purposes only and should not be considered investment advice. Past performance is not a reliable indicator of future returns. The views expressed are the opinion of Towers Watson Investment Management (TWIM), the authorised Alternative Investment Fund Manager of Alliance Trust PLC, and are not intended as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell any securities. The views expressed were current as of March 2024 and are subject to change. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. You should not assume that any investment is or will be profitable. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is authorised and regulated by the Financial Conduct Authority. Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office: River Court, 5 West Victoria Dock Road, Dundee DD1 3JT. Alliance Trust PLC is not authorised and regulated by the Financial Conduct Authority and gives no financial or investment advice.

# Six lessons from 1,001 ISA millionaires

*Who of us wouldn't covet that rare and enticing goal from investing our ISAs: reaching one million pounds. These days, it doesn't quite afford you the opulence of yesteryear, but there's no doubting the financial freedom such a transformative sum would bring.*

***The relaxation of the annual contribution limit is helping the surge, which has grown from £7,000 to £20,000 today***

ISAs represent not just a powerful savings tool, with tax-free gains and unrestricted access, but also an extremely useful bedfellow to retirement savings with withdrawals that sidestep income tax too.

But how difficult is it to achieve that one million pound mark?

Well, it's not easy, but it's getting easier. Back in 2003, former Liberal Democrat peer, Lord John Lee of Trafford, was the first Brit to reach this inimitable status, having initially invested using the ISA's predecessor, the personal equity plan (PEP), before the ISA's introduction in 1999. Since then, the number of ISA millionaires has ballooned to around 4,000.<sup>1</sup>

The relaxation of the annual contribution limit is helping the surge, which has grown from £7,000 to £20,000 today. Following the Chancellor's announcement of a consultation for a new 'British ISA' in the recent Spring Statement, it will likely soon increase another £5,000 (if invested in UK shares).

Keen to lift the lid on their savvy strategies, stockbroker Interactive Investor examined ISA millionaires on its platform. Not only have their numbers grown over the past year from 852 to 1,001, but their investing habits reveal some interesting differences when compared to the regular ISA investors.<sup>2</sup>

Here are six lessons:

## 1. The average age is 74

Time, patience, and the magic of compounding are core ingredients of ISA millionaire strategies, juiced by the powerful impact of tax-free gains. Research by ii shows compounding's impact over time on a fictional portfolio averaging 5% annual return after fees. After year one, investment growth accounts



1. <https://www.independent.co.uk/news/uk/home-news/isa-millionaires-uk-business-b2385379.html>  
2. <https://www.ii.co.uk/analysis-commentary/isa-millionaires-ii-jump-record-1001-ii530722>



for just under 3% of the total portfolio. By year five, this has grown to almost 14%. By year 10, investment growth accounts for 30% of the portfolio, by year 20 it is 72%, and finally, after 26 years, investment gains begin outstripping contributions.<sup>3</sup>

What this shows is that compounding is vitally important because returns accelerate over time as gains build upon gains, meaning those last years in a long investing journey are often the most lucrative.

## **2. They love investment trusts (and hold far fewer funds)**

Investment trusts form 42% of ISA millionaire portfolios, compared to just 24% for an average ISA portfolio. Female ISA millionaire investors hold even more - at nearly 44%.

No doubt, ISA millionaire investors are aware of the uniquely powerful features of investment trusts: including gearing which serves to boost any gains over long periods of time (note: it exaggerates losses too), independent boards which scrutinise the stock pickers making investment decisions for the portfolio, and revenue reserve facilities which smooth dividend payments made to investors over time. While all of these features may add a little complexity, they serve the patient investor well.

## **3. They aren't necessarily savvy stock pickers**

Though you might expect investors who have reached the heights of millionaire status to be risk junkies - spending their days betting the

house on individual company stocks - this is actually not the case: with the percentage of individual company shares in ISA millionaire portfolios just 1.9% higher than regular ISA investors.

Perhaps they are wise to the difficulties in finding winning stocks. Research examining stock markets going all the way back to 1926 found that just 4% of stocks were responsible for all of the stock market's gains above that of ultra-safe US government treasuries.<sup>4</sup>

It's why investing using diversified products such as investment trusts, and keeping the individual company bets as small 'satellite' positions, might be the best approach to keeping hold of generated wealth, leaving stock picking to investment professionals.

3. <https://www.ii.co.uk/analysis-commentary/isa-season-compound-interest-powerful-alley-investors-ii530589>

4. <https://finimize.com/content/there-are-only-a-handful-of-stock-market-superstars-heres-where-to-find-them>

***Investing as early as possible in the new tax year rather than waiting until the end to use up allowances may serve you well because it gives your money more time to grow. Remember it's time in the market, not timing the market.***

#### **4. They keep cash levels low**

II's research found ISA millionaires hold almost half the cash of regular ISA investors: at 4.7% of total assets versus 8.2%. Though cash is important, too much of it can drag on the overall returns of an ISA portfolio and risks being eroded by inflation. Guidance suggests that an emergency fund of 3-6 months of living expenses is sufficient when it comes to investing.

#### **5. They are tax-year early bird investors**

ISA millionaires get going as the new tax year begins April 6th, with data showing that by April 30th, 40% of the money that they go on to invest in their ISAs over the tax year has already been contributed. This compares to 23% for regular investors.

Investing as early as possible in the new tax year in comparison to waiting until the end to use up allowances may serve you well because it gives your money more time to grow. Remember it's time in the market, not timing the market.

#### **6. Alliance Trust is the most held investment in II's ISA millionaire portfolios**

Alliance Trust features at position one in the top ten investments of ISA millionaire portfolios, demonstrating that enduring brands such as Alliance Trust, whose history stretches all the way back to 1888, may act as a great core for reaching that £1 million mark – offering investors diversification around the globe, and teams of stock pickers who spend their days striving to find the very best companies to invest in, while balancing the risks of investing across countries, sectors and styles.

*Marcus De Silva, Freelance Investment Writer*

To read More Investment Insights [click here](#)

This information is for informational purposes only and should not be considered investment advice.

Past performance is not a reliable indicator of future returns. The views expressed are the opinion of Towers Watson Investment Management (TWIM), the authorised Alternative Investment Fund Manager of Alliance Trust PLC, and are not intended as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell any securities. The views expressed were current as of March 2024 and are subject to change. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. You should not assume that any investment is or will be profitable. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is authorised and regulated by the Financial Conduct Authority. Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office: River Court, 5 West Victoria Dock Road, Dundee DD1 3JT. Alliance Trust PLC is not authorised and regulated by the Financial Conduct Authority and gives no financial or investment advice.

# How much cash should you hold at this critical juncture?

*Brits are getting their finances fighting fit following a cost-of-living pummelling over the past few years. Research gathered by YouGov for wealth manager Quilter reveals that two thirds plan to use their disposable income to boost overall financial resilience – prioritising paying down debt and topping-up their cash savings.<sup>1</sup>*

And yet, perhaps too many are focusing on cash savings over investing in risk assets such as shares. The latest FCA's Financial Lives Survey highlighted 9.7m wealthier Brits with more than £10,000 in investible assets: of this group, 58% held most or all of it in cash.<sup>2</sup>

Of course, we need cash savings. Official guidance suggests three-to-six months of living expenses in easily accessible savings accounts in case of an emergency. Above this – risk appetite willing – we should at the very least consider investing for financial goals of more than 5 years away, as holding too much cash can see your wealth deflate on account of inflation's eroding impact. What's more, you may just miss out on the benefits of potential stock market moves at a particularly critical juncture.

How so? The answer lies with the market's reaction to when interest rates finally start to fall.

.....  
*Of course, we need cash savings. Official guidance suggests three-to-six months of living expenses in easily accessible savings accounts in case of an emergency.*  
.....



1. <https://media.quilter.com/search/2024/press-release-new-data-shows-cash-savings-still-king-for-brits-despite-risk-of-losing-out-on-investment-gains/>

2. <https://www.fca.org.uk/financial-lives/financial-lives-2022-survey>

## A subtle signal

The latest quarterly GDP data released by the office of national statistics (ONS) came as a surprise to some: the UK economy contracted 0.3% in the fourth quarter of 2023, following a drop of 0.1% in the third quarter.<sup>3</sup> As such, it meant the economy had officially hit the skids amid cost-of-living pressures and higher interest rates, and was now in technical recession.

No doubt, the Bank would have liked to have eased the financial pressure on us a little, but with inflation remaining above its 2% target, at 4%, interest rates were kept on hold, at 5.25%.

And yet, perhaps a shift in tone could be detected: while the monetary policy committee voted to keep rates on hold by majority, one member – an independent economist – voted for cuts. With the Bank having been criticised for its response to ballooning inflation in 2021 and being ‘late to the party’ with interest rate rises, could a switch to a more dovish monetary stance be more swiftly administered?

As it stands, the Bank of England forecasts its first interest rate cut to be in the Autumn, with markets thinking it could be a little earlier – potentially June. And it’s not just the Bank of England that might be loosening the levers:

elsewhere around the globe, bond markets are forecasting that a number of major economies will cut this year – for example the US, Australia, Canada and the Euro area.

This is a potentially important moment for markets because, if we look back through history at their reaction to rate cuts, we see a compelling trend.

## Don't miss the party

Starting with the UK, if we examine the UK market going all the way back to 1975 and look at its reaction following the 14 times the Bank of England began cutting rates following a series of rises, we find its one-year returns were strongly positive in 11 cases.<sup>4</sup> On average, the stock market beat inflation (known as its real return) by 13.9%<sup>5</sup> over a one-year period following that first cut.

Schroders have also analysed US markets to see how they have historically reacted to cuts, and found a similar trend. Over 22 occasions since 1929, its one-year real returns were positive in 16 cases. On average, US stocks returned 11% to investors over one year after inflation.<sup>6</sup>

And this trend isn't just the preserve of shares either: bonds also tended to respond positively too. In the US, government treasuries beat

inflation by 5% on average over one-year following the first cut, and corporate bonds 6%.<sup>4</sup>

Of course, the state of the economy at the time of the cut plays a part in the subsequent reaction. In the US, stocks returns were lower if the economy was in a recession or soon entered one after the cut, at 8%. Bonds, on the other hand, actually performed better in the dour economic environment when compared to no recession,<sup>4</sup> with both government and corporate bonds beating inflation by 7%.

The market's historical reaction to cuts is perhaps understandable: central bankers have been either satisfied with inflation's trajectory or attempting to stimulate underlying economies and encourage spending. Either way, as borrowing becomes cheaper for businesses and households alike, and as low risk assets such as cash become less attractive as savings rates fall, this has encouraged stock market investing and a bump in share prices.

Being invested in these moments has a potentially dramatic effect on your long-term returns. Quilter examined 30 years of global stock market returns, and found if you had missed the best 10 days over that period of time, your investment would be worth almost half than if you'd stayed invested!<sup>4</sup>

3. <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/octobertodecember2023>

4. <https://media.quilter.com/search/2023/as-interest-rates-peak-is-cash-really-still-that-attractive/>

5. Quilter, Bank of England, ONS; as at March 2024

6. <https://www.schroders.com/en-bm/bm/professional/insights/how-do-stocks-bonds-and-cash-perform-when-the-fed-starts-cutting-rates-/>

## **Remaining realistic**

Of course, there remains a suite of uncertainties facing global economies at the moment, and a multitude of sins that could stoke inflation and keep central banks disinterested in reducing interest rates for some time. Even the Bank of England has remarked that, though it expects inflation to fall from around 4% to 2% over the next few months, it also expects it to rise towards the end of year, and goes on to point out the risks of further

global inflationary shocks to its interest rate outlook.<sup>7</sup>

None the less, the picture painted by history points to the risks of holding cash at such a critical juncture. Using actively managed, globally diversified portfolios such as Alliance Trust might be one approach to navigating the complexities of inflation and its impact and keep your wealth powering forward, with its teams of professional stock pickers seeking the best companies in which to invest.

.....  
*This is a potentially important moment for markets because, if we look back through history at their reaction to rate cuts, we see a compelling trend.*  
.....

**Marcus De Silva, Freelance Investment Writer**

**To read More Investment Insights click here**

7. <https://www.bankofengland.co.uk/explainers/will-inflation-in-the-uk-keep-rising>

This information is for informational purposes only and should not be considered investment advice. Past performance is not a reliable indicator of future returns. The views expressed are the opinion of Towers Watson Investment Management (TWIM), the authorised Alternative Investment Fund Manager of Alliance Trust PLC, and are not intended as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell any securities. The views expressed were current as of March 2024 and are subject to change. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. You should not assume that any investment is or will be profitable. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is authorised and regulated by the Financial Conduct Authority. Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office: River Court, 5 West Victoria Dock Road, Dundee DD1 3JT. Alliance Trust PLC is not authorised and regulated by the Financial Conduct Authority and gives no financial or investment advice.



## Equity Manager Spotlight

# Lyrical Asset Management

### Investment Philosophy

Lyrical looks for companies that demonstrate resilience despite uncertain macroeconomic conditions. Resiliency is the ability of a company to produce the expected result, even when the unexpected happens. And while companies may face a temporary earnings disruption, they can adjust and adapt and return to earning profits well before the world returns to normal.

Resilience takes many forms. Its simplest form is stability. Lyrical's investments in healthcare services companies are good examples. Healthcare demand is fundamentally stable, not rising in a boom, nor shrinking in a bust. In an uncertain world, stable companies are resilient because they do not fluctuate, even as everything else does.

### Andrew Wellington

Co-founder and CIO



### Stock Spotlight – United Rentals

In the fast-growing equipment rental industry, Andrew Wellington looks at why United Rentals is one of their top stocks

To watch the latest Stock Picker interview  
[CLICK HERE](#)



United Rentals is the largest equipment rental and management company in the world, with operations in 1,500 locations across North America, Europe, Australia, and New Zealand, serving customers across construction and industrial sectors.

By renting rather than buying, customers avoid expensive outlays for specialist equipment that may be used infrequently and require extensive maintenance. In the midst of complex projects, it ensures the right equipment is in the right place at the right time.

Currently, the equipment rental industry is growing at a particularly fast clip, penetrating further into the equipment ownership market. The stock picker believes the firm is attractively valued, and growing its earnings at a much higher rate when compared to the wider S&P 500 market in which it is listed.



### United Rentals – Fast Facts



Founded 1997

**€14.3bn**

Revenue (2023)



circa. 26,300



CEO  
Matthew Flannery



Headquarters  
Stamford, CT - USA

## Equity Manager Spotlight

# GQG Partners

### Investment Philosophy

GQG's investment philosophy is rooted in the belief that earnings drive stock prices. Markets are often disproportionately focused on shorter-term projections and stocks are often mispriced as a result.

GQG seeks to exploit this mispricing by focusing on finding high-quality, durable businesses with the highest probability of compounding capital over the next five years. This "Forward-Looking Quality" investment style, gives them the flexibility to focus on what they believe to be the highest-quality companies in every industry, allowing for a broader set of industries for potential consideration.

**Brian Kersmanc**

Portfolio Manager,  
GQG Partners



### Stock Spotlight – Nvidia

**GQG's Brian Kersmanc, describes how Nvidia's early call on AI and full end-to-end solution for clients has kept it at the leading edge of computing**

To watch the latest Stock Picker interview  
[CLICK HERE](#)



Nvidia Corporation provides solutions for advanced computing, and has become a household name on the back of excitement over artificial intelligence (A.I.) in recent years, as well as member of the 'Magnificent 7' group of superstar US technology stocks.

Their offering crosses both the software and hardware divide: manufacturing graphics processing units (GPUs) or chips used to rapidly process the vast quantities of data used in applications such as AI and gaming, as well as supporting software elements such as platforms for training algorithms and cloud services.

As a result of an early call on A.I., and their linear, end-to-end solutions for clients, the stock picker believes Nvidia has a dominant and entrenched competitive position and huge addressable market.



### Nvidia – Fast Facts



Founded 1993

**€60.9bn**

Revenue (2023)



circa. 29,600



CEO  
Jensen Huang



Headquarters  
Santa Clara, CA - USA

## Equity Manager Spotlight

# Dalton Investments

### Investment Philosophy

Dalton is a disciplined, opportunistic, global investment management firm committed to capital preservation and long-term growth. Dalton's strategies focus on Asia, Emerging Markets and global equities.

The firm is independently owned by its senior executives and investment professionals, and its investment team members invest in the firm's strategies alongside clients. Since inception, Dalton's investment philosophy has valued insight and agility as their investment professionals seek opportunity in an ever-changing global market environment.

The depth of research, combined with experience and stringent risk management, enables Dalton to seize attractive investment opportunities when they appear and gives them the flexibility to walk away when an investment is no longer attractive.

**Jamie Rosenwald**

CIO - Dalton Investments



### Stock Spotlight - Rinnai

Rinnai peaked Jamie's interest when he needed an energy efficient, on-demand hot water solution in his own busy household. Subsequent research has shown that the company has huge market potential

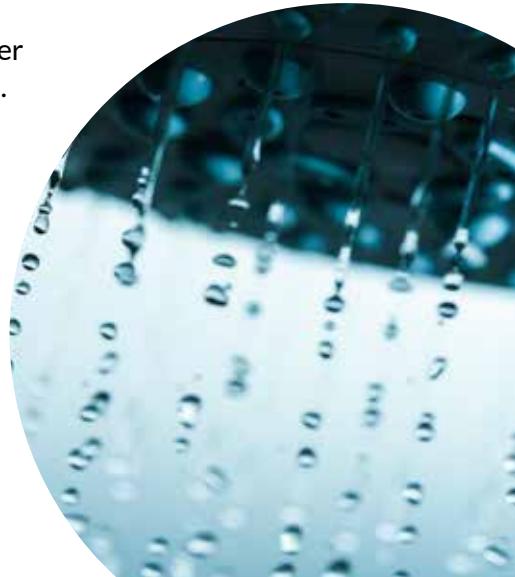
To watch the latest Stock Picker interview  
[CLICK HERE](#)



Rinnai is a Japanese manufacturer of energy efficient, on-demand hot water heaters and heat pumps, selling its products 79 countries across the world.

Hot water can often be the bane of a large family's existence, with traditional systems needing to use vast quantities of energy to heat large tanks for long periods in order to supply sufficient hot water when needed. Rinnai's products superheat water when it is required, providing an on-demand solution that's significantly more environmentally friendly.

What's more, the stock picker believes that, given the ubiquitous use of hot water showers around the globe, Rinnai's addressable market potential is enormous, but also that the stock is trading at attractively cheap valuations.



### Rinnai - Fast Facts



Founded 1920

**€2.97bn**

Revenue (2023)



circa. 10,570



CEO

Hiroyasu Naito



Headquarters

Nagoya, Aichi - Japan

# Portfolio Update

**Stock markets powered ahead in the first quarter of 2024, with our benchmark, the MSCI All Country World Index, returning an impressive 9.1%<sup>1</sup> on the back of investor optimism about the outlook for corporate profits. Our portfolio outperformed the market, rising by 10.3% in terms of net asset value, but total shareholder returns were higher at 11.2% due to a narrowing of the discount. The discount reduced to -4.8% at the end of March from -6.3% at the beginning of January amid robust demand for the Company's shares.**

By design, this outperformance was due to good stock selection by our team of ten fund managers. Stock selection more than offset the negative impact of being underweight the US market, which hit a record high in the quarter, and overweight the UK. The UK continued to lag other major equity markets through much of the quarter, although the gloom hanging over locally listed stocks lifted somewhat in March when they benefitted from a rotation away from expensive technology shares towards cheaper energy, materials, and financials stocks, which make up much of the FTSE 100 Index. For once, the main UK market rose by more than the S&P 500 in the month.

But the first quarter of the year was largely a continuing story of global returns being driven by US tech stocks, particularly the stellar performance of the so-called “Magnificent Seven” (Nvidia, Microsoft, Amazon, Tesla, Apple, Alphabet and Meta). The star of the group was Nvidia, which climbed an impressive 84% in the quarter. However, there was increasing dispersion between the “Magnificent Seven”, as investors focused more forensically on individual company performance rather than the broad theme of artificial intelligence. There were also signs of a gradual broadening out of positive returns beyond big tech to other sectors and regions.

For example, besides the late rebound in UK-listed “old economy” stocks, the Japanese stock market continued to mount a strong comeback after decades in the doldrums. China also had a rare, good month in February, and small and mid-cap stocks showed some signs of life, having been overshadowed by large-cap stocks for so long.

Despite benefitting to varying degrees from owning Nvidia, Amazon, and Meta, the biggest contribution to our outperformance of the benchmark came from not owning Tesla and Apple, which have both started to drift apart from the other members of the “Magnificent Seven”.

Tesla’s share price declined by 28.6% in the quarter due to multiple worries about declining deliveries, price cuts pinching margins, competition from Chinese electric vehicles, and talk of a potential bust in global electric vehicle sales. Apple declined by 10%. Until recently the largest company by market cap, Apple’s share price has been hit

1. Data as of 28 March 2024 due to UK Bank Holiday on 29 March 2024



To learn more about the portfolio price and performance [click here](#)



To watch the Spring Investor Forum [click here](#)

by concerns about its high valuation compared to expected earnings growth and perceptions that it lags Alphabet and Microsoft in the race to monetise developments in artificial intelligence. We believe the underperformance of Tesla and Apple underlines the importance of actively managing exposures to technology, and other sectors, based on individual business fundamentals, as opposed to following a thematically based approach to investing.

The main detractors from relative returns were HDFC Bank in India, Misumi Group in Japan, which makes and distributes factory automation parts, and Kuehne & Nagel, the Swiss-based logistics company.

While all our managers posted positive absolute returns in the first quarter, GQG was the strongest performer. As well as owning Nvidia and Meta, it benefitted from appreciating stakes in the pharmaceutical company Eli Lilly, which is a key player in the rapidly growing market for obesity,

and ASML Holdings, the Dutch chip toolmaker that is Europe's biggest tech company. GQG's contribution to portfolio returns was also boosted by a 30.5% rise in the share price of China's state-backed PetroChina.

At the other end of the spectrum, the weakest contributor to returns was Jupiter, which exited the portfolio at the end of March, to be replaced by ARGA Investment Management (ARGA). Like Jupiter, ARGA is a global value manager, founded in 2010 by Chief Investment Officer A. Rama Krishna, who has over 30 years' experience managing global and emerging markets equities. He previously worked at Pzena Investment Management from 2003 to 2010 where he led development of global value strategies while co-leading the emerging markets value team. Prior to that he worked for Citigroup Asset Management and AllianceBernstein. ARGA has £10.7bn billion of assets under management and

its staff are split between Stamford, USA, Chennai and Mumbai, India, and London. The firm's investment philosophy is rooted in traditional value principles which seek to capitalise on investors overreacting to negative events and mistaking temporary stresses in share prices for permanent losses of capital.

By replacing Jupiter with a manager with a similar approach to investing, it will ensure the portfolio remains balanced across investment styles and continues to focus on stock selection for adding value, as opposed to style, sector or country biases.

Jupiter's replacement with ARGA was unrelated to its performance. The change in manager was triggered by Ben Whitmore's decision to leave Jupiter later this year and set up his own business. While we continue to have high regard for Ben's skill as an investor, his new business arrangements represent potential risks and will take time to fully assess.

## Biggest positions sold and acquired over the quarter

10 largest net purchases - Q1 2024	Net value of stock purchased (£m)	% of equity portfolio bought	10 largest net sales - Q1 2024	Net value of stock sold (£m)	% of Equity portfolio sold
Arista Networks	21.6	0.6	Adani Enterprises	30.5	0.8
Super Micro Computer	18.3	0.5	AIA Group	30.0	0.8
Uber Technologies	17.3	0.5	Nvidia	26.4	0.7
Netflix	17.2	0.5	TotalEnergies	23.7	0.6
Diageo	15.8	0.5	Astrazeneca	22.0	0.6
Synopsys	15.2	0.4	Petrobras	16.8	0.4
Kerry Group	14.4	0.4	Exxon Mobil	16.1	0.4
UnitedHealth Group	14.0	0.4	Adidas	15.6	0.4
Unilever	13.2	0.4	Cooper Companies	15.5	0.4
Ryanair	12.4	0.4	Taiwan Semiconductor	14.6	0.4

### 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

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](http://computershare.com)**

## 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.

## How to Invest

**There are a growing number of savings and investment platforms where you can purchase shares in Alliance Trust direct. They are primarily for investors who understand their personal attitude to risk and those related to equity-based products.**

## Contact

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