QUARTERLY NEWSLETTER • AUTUMN 2017

Alliance Trust
INVESTING FOR GENERATIONS

CONNECTION

WELCOME TO OUR ALLIANCE OF BEST IDEAS

As we build on our pioneering track record with an innovative investment proposition, we are introducing a new quarterly newsletter.

I'd like to welcome you to the first issue of the Alliance Trust quarterly newsletter, CONNECTION. Inside you'll find invaluable market insights – and the views of our expert equity managers.

Today, world markets are characterised by uncertainty. Yet, as you'll read, Alliance Trust is well prepared for the challenges volatility brings. It is managed by eight best-in-class[1] equity managers from around the world – two of which are profiled in detail in this issue.

You'll also have the opportunity to read more about our investment proposition: an alliance of best ideas – and how it offers investors the potential of outperformance against more traditional multi-manager funds.

I hope you will find this first issue of CONNECTION both insightful and thought-provoking.

Lord Smith of Kelvin
Chairman,
Alliance Trust PLC

Autumn 2017

INVESTMENT STRATEGY

The equity portfolio brings together an alliance of best-in-class[1] equity managers and their best ideas – all at a competitive cost. It provides access to eight managers from around the world each investing only in their top stock selections. Most of these managers are not otherwise available to individual UK investors. The equity portfolio target is to outperform the MSCI All Country World Index by 2% per year after costs over rolling three-year periods. Alliance Trust has a progressive dividend policy and has increased its dividend every year for 50 years.

1. As rated by Willis Towers Watson.

PIONEERING THE NEXT GENERATION OF MULTI-MANAGEMENT

Our new approach, an alliance of best ideas, neatly overcomes flaws in the traditional multi-manager model. It brings together best-in-class[1] managers investing only in their best ideas, resulting in a highly active portfolio – at a competitive cost. By contrast, traditional multi-manager funds are often index-hugging portfolios containing a large number of stocks and at a high cost.

Our alliance of best ideas is far more likely to outperform than a traditional multi-manager portfolio. Here we explain why.

HOW ACTIVE IS 'ACTIVE'?

There is significant evidence[2] that portfolios that are significantly different to their benchmarks produce better results than portfolios that are similar to them. Recent research shows that 72% of the funds that outperformed over a five-year period were run by highly active managers with portfolios that differed significantly from the benchmark.[3]

ARE MORE HEADS BETTER THAN ONE?

The likelihood of outperformance can also be boosted by employing a number of highly active managers that differ in their individual approaches. Doing this helps control the overall portfolio's risk. Analysis suggests that the use of about eight, uncorrelated, skilled equity managers increases the chance of outperformance to more than 90%, compared with 70% for a single skilled manager.[4]

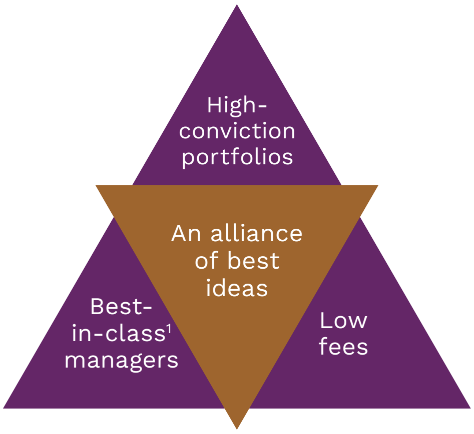
BRINGING THE MULTI-MANAGER MODEL UP TO DATE

While we appreciated the value of combining different managers, we recognised that a new model was required. Overcoming many of the flaws identified in traditional multi-manager, our new approach is designed to:

1. Increase the total return
All Alliance Trust's managers run bespoke, high active share (80%+) strategies. Focused, high-conviction equity portfolios are utilised.

2. Increase the likelihood of achieving those returns
The portfolio is driven by eight highly skilled equity managers with complementary investment approaches – and few overlaps.

3. Achieve this at a competitive cost
The ongoing charges ratio is targeted to be below 0.65%, making it one of the UK's most competitively priced global equity investment trusts.



Investors in Alliance Trust therefore benefit from access to a diverse range of highly active, skilled managers and high-conviction, active portfolios without high investment costs. This is why we have confidence in our target for the equity portfolio to outperform the benchmark by 2% every year over rolling three-year periods, after all costs.

To read the full article and more like it, visit **alliancetrust.co.uk/news**

1. As rated by Willis Towers Watson.
2. Antti Petajisto, Active Share and Mutual Fund Performance, 2013 Rick Di Mascio and Malcolm Smith, Identifying real skill and behavioural biases in the active management industry, 2005 Hao Jiang, Marno Verbeek, and Yu Wang, Information Content when Mutual Funds Deviate from Benchmarks, 2013.
3. Analysis based on data from eVestment as at 31 March 2016, carried out by Willis Towers Watson.
4. Source: Willis Towers Watson, September 2017.

SPOTLIGHT ON OUR EQUITY MANAGERS

GQG PARTNERS

RAJIV JAIN, GQG PARTNERS

Rajiv Jain is Chairman and Chief Investment Officer of GQG Partners. With over 24 years of portfolio management experience in global and emerging markets, Rajiv offers a wealth of knowledge in an investment approach that he has developed and refined over many market cycles.

Investment style

Rajiv looks for high-quality and sustainable businesses, whose underlying strength should outweigh its environment and where that company's strength can only truly be understood through bottom-up analysis.

Investors in emerging markets had plenty to cheer in 2017's third quarter. With growth picking up globally, stocks in most markets around the world posted gains over the past three months, many tacking on to already impressive first-half advances. We feel the optimism that rising share prices reflect is for the most part warranted, as current-year earnings have been strong and we see solid prospects for healthy profits going forward. I'm happy to share with you here some thoughts regarding a few of the more important emerging markets, as we enter the closing quarter of the year.

After more than three years of contraction, Brazil's economy finally posted an increase in Gross Domestic Product in the second quarter of 2017. To be sure, we believe the country's recovery is likely to be weak and fitful, as unemployment remains high, policy reforms still need to be implemented and corruption remains an issue. Nevertheless, inflation has been tamed for now and the central bank is cutting rates. Brazil is a country of over 200 million people – a return to growth there, even if tentative, is a positive for all of Latin America.

In Russia, too, the economy appears to have turned a corner. Inflation is low, interest rates are coming down and employment is up. Exports have been growing and are expected to continue doing so, and, with mortgage rates heading lower, the residential sector is expected to be one engine of growth. Car sales in Russia rose by over 10% in the first half of this year, and manufacturers are gearing up to meet pent-up demand. The political situation in Russia is complicated, certainly, and the country remains at least to some extent at the mercy of the energy markets. Nonetheless, we think things are looking up in Russia.

"CURRENT-YEAR EARNINGS HAVE BEEN STRONG AND WE SEE SOLID PROSPECTS FOR HEALTHY PROFITS GOING FORWARD"

Over the past year, our bottom-up approach led us to closely examine investment opportunities in Brazil as well as Russia, both of which we've visited in the past few months. We hold a number of positions in both countries, and remain overweight in both versus the benchmark MSCI Emerging Markets Index.

Having discussed the first half of the BRIC countries (Brazil, Russia, India & China), I might as well touch briefly on the second half. We remain underweight in both India and China versus the benchmark. On a macro level, we feel that India has made important strides with the implementation of demonetization and adoption of the Goods and Services Tax. On a stock-specific level, which is the vantage point that determines our investment decisions, we find fewer compelling choices than we did a few years ago. A combination of deteriorating fundamentals and stretched valuations leaves us somewhat wary regarding potential investments in India.

The story in China is a little different. We've long had a positive view on some of the larger Information Technology companies in China, and we continue to find our holdings in that sector attractive, as the companies we've invested in enjoy leading market positions and strong growth potential. We've recently added a few small holdings in the financials sector, where attractively valued companies are well positioned to benefit from continued economic growth and continued development of the financial markets. As a consequence, we are less underweight in China than we used to be.

To hear Rajiv explain what it takes to manage the emerging markets portfolio, go to **alliancetrust.co.uk/managers**

SPOTLIGHT ON OUR EQUITY MANAGERS

SGA
Sustainable Growth Advisers

GEORGE FRAISE, GORDON MARCHAND AND ROB ROHN, SUSTAINABLE GROWTH ADVISERS

George Fraise, **Gordon Marchand** and **Rob Rohn** founded Sustainable Growth Advisers (SGA) in 2003. They have an average of 30 years of investment experience between them.

Investment style

SGA's investment style is to identify those few truly differentiated global businesses that possess strong pricing power, offer recurring revenue generation and benefit from attractive, long runways of growth.

Economic activity continued to improve in Europe, with Eurozone Gross Domestic Product growth for the second quarter rising 2.2%, which was the fastest growth recorded since the first quarter of 2011. Economic data in China also surprised to the upside, as second quarter GDP figures showed 6.9% growth, easing concerns about any imminent slowdown. The better-than-expected data in China was supported by increased government spending, however concerns persist about excessive debt burdens. In Japan, stronger consumer spending lifted GDP growth to 4% in the second quarter, its fastest growth rate since 2014. Growth in the United States for the second quarter was revised upward to 3.1% on stronger investment and consumer spending. While growth has improved from very low levels in Europe and Japan, near-term stabilization in China's growth, and solid economic data in the US, the global economic landscape remains vulnerable to shocks. As we move forward the impact of less monetary stimulus from central banks around the world is likely to lead to increasing volatility and higher dispersion among index companies as focus is shifted back towards company fundamental drivers, and financial position.

Equity markets continued their strong upward trajectories in the third quarter as the outlook for growth in the U.S., Europe, and China improved. Rising oil prices benefited energy-related businesses as well as markets in commodity-producing economies such as Brazil, Norway, and Russia. Emerging markets outperformed developed markets. Growth as a style generally continued to outperform value, however smaller capitalization, lower quality companies, with higher volatility, and lower returns on equity outperformed. This did not help our portfolio, which is focused on high quality, consistent growth stocks. We were able to use our longer-term investment horizon to take advantage of opportunities where high-quality, secular growth businesses were temporarily out of favour.

In periods of rising optimism, the sustainable growth characteristics of our businesses aren't always fully rewarded, particularly when market returns are very strong (and likely unsustainable). However, in such periods we typically participate well in the market's strength, albeit to a lesser extent than the index itself. We find that when high quality, long duration growth businesses are temporarily out of favour, it can provide excellent opportunities for our approach to add value for the long-term.

"THE PORTFOLIO IS WELL POSITIONED FOR LONG-TERM INVESTORS SEEKING TO CAPITALIZE ON HIGH LEVELS OF COMPOUNDING FREE CASH FLOW AND ABOVE AVERAGE EARNINGS GROWTH"

When looking in aggregate at the overall growth characteristics of our portfolio businesses, they are growing their earnings meaningfully faster than the average company in the index in a more predictable and sustainable manner. Such growth, when priced attractively based on the cash flows the businesses are generating, should be rewarded over the long-term. We are continuing to reallocate capital from less attractively valued outperformers to future opportunities which offer better upside potential. The portfolio is well positioned for long-term investors seeking to capitalize on high levels of compounding free cash flow and above average earnings growth.

To see more of our equity managers' views visit **alliancetrust.co.uk/managers**

PORTFOLIO UPDATE

Willis Towers Watson

A look at what has occurred in the Trust's portfolio over the last quarter.

Global equity markets experienced a good quarter with all major markets posting strong returns in local terms. Declining unemployment rates across US, UK and Japan along with increasing consumer confidence across the regions continue to indicate a healthy global economy. Amidst this backdrop, central bankers around the world have indicated their desire to reduce gradually the level of monetary stimulus. The Federal Reserve had indicated that it wants to reduce the size of its balance sheet and increase interest rates with the Bank of England and European Central Bank echoing a similar sentiment.

Over the period since the new structure has been in place, the equity portfolio returned 5.7% – outperforming the MSCI ACWI by c.3.2%. It is pleasing to see that a majority of this outperformance can be attributed to stock selection, which indicates that the portfolio construction has allowed performance to be driven by managers' stock picking capabilities and not swayed by any individual factor or regional bets.

UPDATE ON BUYBACKS

Towards the end of last year, we introduced a more active approach to share buybacks, supporting our determination to narrow materially the Trust's discount to NAV which has averaged 5.3% over the year to 30 September.

As supply and demand has moved towards a state of equilibrium, share buybacks have reduced during the second and third quarters of 2017.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases	As at end of quarter (£m)	
	% of Equity Portfolio	Value position
IHS Markit Ltd.	0.73	18.9
Sodexo	0.59	15.4
Ralph Lauren Corporation	0.57	14.9
McKesson Corporation	0.54	13.9
Daimler AG	0.53	13.8
Booz Allen Hamilton	0.43	11.1
Rio Tinto	0.40	10.5
Zynga Inc.	0.32	8.3
MMC Norilsk Nickel	0.05	1.4
X5 Retail Group	0.05	1.3

10 largest sales	As at start of quarter (£m)	
	% of Equity Portfolio	Value of position
Kansas City Southern Railway Company	0.84	21.1
SoftBank Group	0.51	12.9
Aristocrat Leisure Limited	0.45	11.3
Roche Holding AG	0.43	11.0
Charles Schwab Corporation	0.43	10.9
International Business Machines Corporation	0.42	10.6
Distribuidora Internacional de Alimentación	0.42	10.6
Bancolombia	0.05	1.4
Guangdong Investment Limited	0.05	1.2
Hyundai Mobis Co., Ltd.	0.05	1.2

Please remember, past performance is not a guide to future performance, and the value of shares and the income from them can rise and fall, so investors may not get back the amount originally invested. Net Asset Value ("NAV") performance is not the same as share price performance and investors may not realise returns the same as NAV performance.

Notes: All data is provided as at 30 September 2017 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 eight equity managers and so includes the effect of any of their cash holdings (gross of their fees). Returns are quoted net of withholding taxes (some of which are potentially recovered at a later date) and therefore potentially underestimate the managers' relative performance.

USEFUL INFORMATION

SHARE INVESTMENT

Alliance Trust PLC invests primarily in equities and aims to generate capital growth and a progressively rising dividend from its portfolio of investments.

Alliance Trust currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products, and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products, because they are shares in an investment trust.

The shares in Alliance Trust may also be suitable for institutional investors who seek a combination of capital and income return. Private investors should consider consulting an IFA who specialises in advising on the acquisition of shares and other securities before acquiring shares.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and you may not receive back the full 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.

HOW TO INVEST

One of the most convenient ways to invest in Alliance Trust is through one of the savings plans run by Alliance Trust Savings Limited who can be contacted online at: www.alliancetrustsavings.co.uk/apply/ or by calling Alliance Trust Savings on 01382 573737. Annual account charges and certain transaction costs will apply according to the type of plan. For more information visit www.alliancetrust.co.uk/how-to-buy

Our shares can also be purchased through most online share dealing platforms that offer investment trusts, or through your bank or stockbroker.

SHAREHOLDER FORUMS

We plan to hold more shareholder forums in the future, providing our shareholders with the opportunity to meet Alliance Trust's equity managers. You can hear from them directly about their investment approach and how they create their portfolios of best ideas. We will publish details of future forums on our website as soon as dates are confirmed. Previous investor presentations can also be found on our website www.alliancetrust.co.uk/events.

REGISTRARS

Our registrars are:
Computershare Investor Services PLC, PO Box 82,
The Pavilions, Bridgwater Road, Bristol BS99 7NH.

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 www.computershare.com.

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