QUARTERLY NEWSLETTER • SPRING 2018

CONNECTION

AN ALLIANCE OF BEST IDEAS: A TRANSFORMATIONAL YEAR

By Craig Baker, Chief Investment Officer, Willis Towers Watson

Alliance Trust has hit an important milestone. Not only is the Trust celebrating its 130th year, it is one year on since it launched a new approach to managing its equity portfolio – its Alliance of Best Ideas.

Since it was established in 1888, the Trust has continually evolved to meet the shifting needs of investors and shareholders, whether in times of political upheaval, economic booms and busts, or indeed, two world wars.

The last year has not been an exception to the rule, proving to be one of transformation and progress, following the launch of its ground-breaking new investment approach.

AN AMBITIOUS APPROACH

Our new investment strategy for the Trust provides investors with a unique global equity portfolio, combining the highest-conviction stock picks of eight of the world's best equity managers.[1] Through selection of independent managers, investors benefit from a globally diverse portfolio of around 200 stocks, as well as a highly active approach. In fact, around 80% of the portfolio's positions differ from those of its benchmark, improving its chances of outperforming in the long-term.[2]

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 only available to retail investors in the UK through Alliance Trust.

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 over 50 years.

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

We also believe spreading stock selection across eight best-in-class[3] managers will bring consistency in outperformance in the long-term, smoothing the peaks and troughs of an individual manager's performance, without undermining the level of conviction.

The Trust's performance targets are as ambitious as its approach. Through focusing on stocks with the highest return potential, the equity portfolio aims to outperform the MSCI All Country World Index (ACWI) by 2% per year after costs over rolling three year periods.

TRACKING PROGRESS ONE YEAR ON

As investment manager, our role at Willis Towers Watson is to select the underlying managers and oversee the implementation of the new approach, drawing upon our track record of running similar strategies for institutional investors, such as the Towers Watson Global Equity Focus Fund, which has outperformed the MSCI World Index by 2.7% per annum (net of all underlying managers fees and fund expenses) since the strategy's inception on 17 August 2015 to 31 March 2018.[4] It is also our job to monitor the performance of the underlying managers and report back to the Board and the shareholders on the Trust's new strategy.

The first year has delivered an encouragingly positive performance, in spite of the growing macroeconomic and political uncertainty that has seen volatility return to global equity markets. We've seen the Federal Reserve hike US interest rates three times, fears emerge over the impact of trade war between China and the US, and closer to home, UK economic data deteriorate in the face of uncertainty over Brexit.

Set against this backdrop, we are especially pleased to report that the Trust has hit its outperformance goal in its first year, and is on track to meet its target over a three year period. It provided an equity portfolio return of 5.7% in the last 12 months – more than double the 2.8% total returns of the MSCI ACWI.

This has contributed to the Trust delivering strong total shareholder and net asset value returns in the year, which stand at 3.9% and 4.9% respectively. At the same time, costs have been well managed, keeping the ongoing charges below the target of 0.65%.

Last, but by no means least, the Trust continues to deliver on the progressive dividend policy. It has raised its ordinary dividend for 2017 by 3%, as compared to 2016, the 51st consecutive year it has increased dividends. In raising dividends for over half a century, it is in the select company of just two other investment trusts in the UK.[5]

LOOKING AHEAD

After a transformational year for both the Trust and its shareholders, the future looks bright.

Demand for investment trusts is growing. The Association of Investment Companies (AIC) reported that adviser purchases of investment companies on platforms rose 46% last year. The global sector was the most popular, accounting for 17% of all purchases.[6] As volatility returns to markets, a cloud hangs over the UK's economic growth, and sector-specific threats emerge, the appeal of global diversity is increasing as investors and their advisers seek to hedge their bets.

Alliance Trust is well positioned to meet this growing demand. The geographical and sector diversification of its equity portfolio, the mixture of different styles from its chosen equity managers, and its commitment to high-conviction investing, will help investors navigate the vagaries of the stock market, and drive long-term returns.

As its new approach becomes more familiar with investors, and we build a longer track-record of outperformance, we believe it will go from strength to strength.

Explore a world of investment expertise here →

Pictured above: David Shapiro, Craig Baker and Stuart Gray (members of the Investment Committee).

Past performance is not a reliable indicator of future returns

3. As rated by Willis Towers Watson **4.** The Towers Watson Global Equity Focus Fund (a Sub-Fund of the Towers Watson Common Contractual Fund) was created by way of a Scheme of Amalgamation with the Towers Watson Global Equity Focus Fund (a Sub-Fund of Towers Watson Investment Management Ireland 1 plc) on 21 March 2017. Performance is shown from the inception of the Towers Watson Global Equity Focus Fund (a Sub-Fund of Towers Watson Investment Management Ireland 1 plc) on 17 August 2015 to 20 March 2017 for Z Share Series (USD), sourced from BNY Mellon Fund Services (Ireland) Limited. From 21 March 2017, performance shown is for Non-Treaty USD Z Units of the Towers Watson Global Equity Focus Fund (a Sub-Fund of the Towers Watson Common Contractual Fund), sourced from Northern Trust International Fund Administration Services (Ireland) Limited. The Z Share Series and Z Units do not bear TWIM (Towers Watson Investment Management) management fees. Fee paying "A" Units bear management fees of 25bps. **5.** https://www.theaic.co.uk/aic/news/press-releases/aic-dividend-heroes **6.** https://www.theaic.co.uk/aic/news/press-releases/2017-a-record-year-with-adviser-purchases-of-investment-companies-close-to-

EQUITY MANAGER SPOTLIGHT

VERITAS ASSET MANAGEMENT

AN INTRODUCTION FROM OUR INVESTMENT MANAGER, WILLIS TOWERS WATSON

Veritas Asset Management (Veritas) was founded in London in 2003 and has always had a distinctive investment approach based on 'Real Returns'. The lead portfolio manager for the Alliance Trust portfolio is Andy Headley. Andy is one of the founders of the business and leads its Global strategies with co-founder and Chairman, Charles Richardson. Andy and Charles worked together at Newton Investment Management; Andy was also a portfolio manager at WP Stewart prior to establishing Veritas.

The 'Real Return' approach adopted by Veritas aims to generate excellent investment returns through the cycle while minimising the risk of permanent capital loss. Veritas is seeking to purchase only high-quality companies, and there is also a strong valuation focus underpinning the analysis. Valuation models are conservative and focus on the cash flow that businesses are capable of generating, compared to the cost of purchasing these businesses. Where Veritas cannot find high-quality businesses at the right valuations, it is prepared to build up its cash reserves and wait for better valuations to deploy capital.

Within Alliance Trust, we regard Veritas as one of the more defensive managers capable of combining high-conviction, high-quality companies and conservative valuations.

ANDY'S MARKET VIEW

Policy-makers around the world have been responsible for massive and persistent monetary accommodation since the onset of the global financial crisis. This has included zero or near zero interest rates together with well over $12tn of quantitative easing. The result is an additional $12tn seeking a return which has resulted in some bizarre outcomes, eg Mexico (defaulted in 1982) issuing a 100-year euro-denominated bond at a yield to maturity of 4.2%, and Henkel and Sanofi issuing euro bonds with negative yields. With so much money chasing returns, the valuation of equities has taken a back seat. The rise in equity markets in the recent past has largely been driven by a change in the multiple investors are willing to pay, rather than by an increase in the earnings power of the companies. Central bankers now find themselves in an unenviable situation: they recognise interest rates need to rise and that over time they need to unwind the asset purchases they have made, but debt levels are extremely elevated as a consequence of generationally low interest rates.

"With so much money chasing returns, the valuation of equities has taken a back seat."

Watch Andy explain his unique investment style and meet our other managers here →

STOCK SPOTLIGHT: ALLERGAN

With valuations elevated, it has been difficult as value-disciplined investors to remain fully invested. One category of investment that remains available is those we classify as 'fallen angels', companies of high quality where temporary issues are masking the quality of the business. One such company is Allergan. Allergan can be considered as having two businesses. One is a branded consumer aesthetics business with minimal exposure to government or private payer reimbursement pressure. Centred on Botox and Juvéderm, Allergan leverages its broad portfolio of products by offering bundled discounts to physicians and consumers that competitors cannot match in terms of quality, breadth of product or price.

The second part of the business is more traditional pharmaceuticals. Allergan's pharma business is concentrated on drugs for the eye, central nervous system and gastrointestinal drugs, which are in general subject to less competition than in areas such as cardiovascular disease and oncology.

Unfortunately the company has suffered two well-publicised drugs being successfully challenged by generics, the most recent being Restasis for dry eye. This, together with the overly inflated concern of competition for Botox, means the company can be bought at a 9% free cash flow yield, a valuation which does not reflect the healthy late-stage pipeline of drugs, one of which has been fast tracked by the Food and Drug Administration (FDA).

EQUITY MANAGER SPOTLIGHT

BLACK CREEK INVESTMENT MANAGEMENT

BLACK CREEK
INVESTMENT MANAGEMENT INC.

AN INTRODUCTION FROM OUR INVESTMENT MANAGER, WILLIS TOWERS WATSON

Black Creek's portfolio with Alliance Trust is managed by the President and Portfolio Manager, Bill Kanko. With over 35 years' experience, Bill has previously held similar roles at AIM Trimark in Canada, Mackenzie Financial and Confederation Life before founding Black Creek in Toronto in 2005.

Bill is a valuation-orientated buyer of leading businesses around the world. These businesses frequently exhibit superior economics, but Bill has the patience to wait for them to be available at bargain valuations. Sometimes this is because he is willing to buy them at a point in their business cycle where they are deeply out of favour and the timing of recovery is uncertain, or after accidents or mishaps cloud the market's perception.

We like the fact that Bill invests after extensive research on each individual company, and that the time horizon over which Black Creek is prepared to hold stocks is five to ten years. This allows it to have low portfolio turnover and to use this patient approach to its advantage. All the portfolios that Black Creek manages are concentrated, with typically about 30 stocks, but for Alliance Trust it has created a portfolio of up to 20 of its best ideas.

BILL'S MARKET VIEW

The global equity bull market has now entered its tenth year and is one of the longest running and largest in terms of a total return post-World War II.

There are certainly tailwinds that are supportive of further gains, such as the synchronised global economic expansion, the US fiscal stimulus package, rising corporate profitability, and monetary policy that has remained largely accommodative. There are also reasons for caution, including stretched equity valuations in many areas of the market (particularly the US), interest rates have started to rise (albeit modestly), some central banks have begun to remove stimulus and there is rising political uncertainty. Any of these could lead to higher volatility or potentially a correction.

Equity market returns over the past five years are meaningfully above long-term averages and are not sustainable at these levels. As this cycle ages, it is worth remembering one of Sir John Templeton's investment axioms: "The four most expensive words in the English language are, 'This time it's different.'"

At Black Creek, we are acutely aware of the forces at work on global markets; however, we take a bottom-up approach and focus on the fundamental drivers of a winning business.
Our investment process requires independent and sometimes contrarian thinking. This has not changed over time and is not dependent on the prevailing market environment. We seek to build concentrated but diversified portfolios of attractively priced, winning global businesses.

Our investment horizon is long term and if our investment theses are correct, these ideas should unfold for investors over the next decade. Because of our long-time horizon, we look to take advantage of volatility to upgrade your portfolio with better ideas, regardless of what markets are doing in the short term.

Watch Bill's interview on his investment style and meet our other managers here →

STOCK SPOTLIGHT: HAIN CELESTIAL

During the fourth quarter of 2017, we purchased Hain Celestial, an American-based, leading organic and natural food, beverage and personal care products company with operations in North America, Europe and India. As a leader in many natural and organic product categories, Hain should continue to benefit from the increased popularity and growth of organic and natural better-for-you products over more conventional consumer packaged goods.

Hain Celestial has very identifiable and established brands (eg Celestial Seasonings teas, Alba Botanica hair and skin products, Earth's Best baby food and Dream almond and soy milk), giving it first mover advantage. Other first mover advantages include long-established sourcing, warehousing and logistics relationships, which allow Hain to buy in bulk and ensure the supply of key organic commodities. The company has extensive distribution in traditional grocery, such as Walmart, Target, Kroger and Whole Foods, and is increasing its investment in digital and e-commerce initiatives. Hain has grown both organically and through tuck-in acquisitions.

Hain's shares have fallen out of favour with investors recently, due to increased competition, the 'Amazon effect' and an accounting review that delayed the filing of financial results. Management has committed to reinvesting to grow sales in both traditional and digital channels, and to improve profitability through several initiatives including an SKU rationalisation/optimisation, and cost-cutting.

PORTFOLIO UPDATE

Willis Towers Watson

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

Alliance Trust adopted the new multi-manager approach on 1 April 2017,[1] and so this quarter marks the first year anniversary since the change of management. The Trust's equity portfolio has returned 5.7%, outperforming the MSCI All Country World Index (ACWI) by 2.9%, with stock selection remaining the main driver of performance. We believe that the increased volatility and dispersion within the market is an ideal environment for our managers to deliver long-term results. We continue to maintain strong conviction in all our managers and have not made any changes to the portfolio.

Looking now at the first quarter of 2018, it was eventful, as we saw a surge in equities followed by a correction that continued through the end of March. Most major market indices posted positive returns in January, continuing the positive momentum of 2017. However in February, volatility returned to markets, as better-than-expected US wage growth sparked inflation fears, triggering a sell-off of US and global equities. In March, the US administration's announcement of tariffs on steel and aluminium imports from China prompted threats of retaliatory tariffs that led to increasing fears of a global trade war, resulting in a further deterioration of global equity markets.

The Trust's total shareholder return, Net Asset Value (NAV) total return and equity portfolio return over the quarter were -5.9%, -3.9% and -3.7% respectively, against the MSCI ACWI which returned -4.4% over the same period. The portfolio started the year strongly and outperformed the market in January due to the underweight position in America across our portfolio. During the months of February and March, our balanced exposure across styles, factors and geographies resulted in the portfolio performing similarly to the benchmark through the broadly based market correction. The portfolio slightly underperformed the MSCI ACWI towards the end of the quarter.

Over the quarter, we have seen increased activity in the portfolio, with our portfolio managers taking advantage of the volatility by realising profits on some stocks and entering into new opportunities in response to price moves. The biggest sale over the quarter was a position in Aetna, previously a stock in the top 20 holdings across the portfolio, after a period of strong performance.

Learn more about the latest portfolio price and performance here →

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases	As at end of quarter (£m)	
	% of Equity Portfolio	Value position
CommScope Holding Company	0.9	22.1
Yum! Brands	0.9	21.4
Booking Holdings	0.9	21.1
Autodesk Inc.	0.8	20.5
GlaxoSmithKline	0.7	17.4
Barrick Gold	0.7	16.9
Adient	0.7	16.9
Compagnie de St-Gobain	0.7	16.7
L'Oréal	0.5	13.1
Henry Schein	0.5	13.1

10 largest sales	As at start of quarter (£m)	
	% of Equity Portfolio	Value of position
Aetna	1.0	24.8
TE Connectivity	0.9	22.5
Britvic	0.8	20.7
Lowe's Companies	0.8	20.6
Prosegur	0.7	19.0
Mondelēz International	0.7	17.6
Teradata	0.6	16.1
Priceline	0.6	16.0
BNP Paribas	0.6	15.5
Daimler AG	0.6	14.7

UPDATE ON BUYBACKS

The Trust's discount to Net Asset Value (NAV) averaged 5.6% in the first quarter, close to the average discount of 5.4% in 2017. Buyback activity in the first quarter, although slightly higher than the third and fourth quarters of 2017, has continued to be used flexibly as supply and demand continue towards a state of equilibrium.

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.

1. Date Willis Towers Watson assumed responsibility for management of the portfolio

Notes: All data is provided as at 31st March 2018 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.

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 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 computershare.com →

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: 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.

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

Start your investment journey here →

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