QUARTERLY NEWSLETTER • SPRING 2020

CONNECTION

HOW WE ARE RESPONDING TO THE CORONAVIRUS PANDEMIC

By Alliance Trust

The coronavirus pandemic is, first and foremost, a humanitarian crisis. Saving lives is being put before short-term economic considerations, although the two aren't necessarily at loggerheads in the long run. Indeed, with companies increasingly aware of their wider social responsibilities and the impact on their finances, the CEOs that put people before profits may be the ultimate winners. But the crisis has also ended one of the longest bull markets in history and it's natural for anyone with savings or a pension to be anxious about the impact on their finances.

Share prices have yoyoed dramatically since late February, including that of Alliance Trust. However, for more than a century, the Trust's investment philosophy has been long term. It has been tested before in major crises, including two world wars and numerous stock market crashes, and each time the Trust has weathered the storm successfully. There's no reason to believe it will be different this time.

GLOBAL RECESSION LIKELY

Further volatility is likely in markets in the short term until it becomes clear how quickly the virus will be contained. A significant global recession appears inevitable at this point but if the measures taken so far by central banks and governments, including vast amounts of credit supplied to households and businesses and social distancing, prove effective, then our investment manager, Willis Towers Watson (WTW) thinks a protracted and dire downturn can be avoided.

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 nine 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.

It will, however, be some time before this is known and a prolonged global recession remains a distinct possibility, especially if new clusters

> "Alliance Trust has a progressive dividend policy, which has seen dividends increase every year for 53 years. The Trust has strong revenue reserves, amounting to £109.2m at the end of 2019, more than two times last year's pay-out, from which it can pay dividends if there is a shortfall in the income from the Trust's portfolio in any year."

of the disease emerge and social distancing remains in place for several months, putting acute and sustained downward pressure on corporate earnings in the US and Europe. (See table for full scenario analysis)

STAYING CALM, AVOIDING PANICKY DECISIONS

In this environment, WTW and the stock pickers it has appointed for the multi-manager approach to investing are being vigilant but avoiding knee-jerk reactions, conscious that what they do now in the portfolio could impact returns long into the future. In general, they are remaining calm and doing very little because WTW is confident that, after reviewing the portfolio in detail, the Trust has the right managers picking the right stocks.

As part of its regular rebalancing of the portfolio between stock pickers, WTW has tweaked some of the manager weightings, marginally reducing allocations to those who are contributing more risk. But the portfolio remains broadly neutral in terms of style exposures. With style cycles notoriously difficult to time, WTW believes that in the long run it pays to retain a balanced exposure to all styles, with allocations to growth, quality and value managers, for example, remaining roughly in line with benchmark to ensure stock selection drives returns. Although quality growth managers have generally done better in the crisis so far, there have also been days when value managers rallied, underlining the benefit of diversification across styles.

GEOGRAPHIC DIVERSIFICATION IS KEY

Given that the impact of the virus is varying by country, WTW also believes it is important to remain geographically diversified. In this regard, it is helpful that all the managers in the portfolio have the freedom to invest anywhere globally, rather than being confined to designated regions, as is often the case with multi-manager global equity portfolios. If regional exposures deriving from bottom-up stock picking start to look risky, WTW can reallocate capital between managers to reduce it, although this hasn't been necessary so far. It is, however, something that WTW will be actively monitoring and managing as the crisis unfolds.

WTW HAS CONFIDENCE IN THE TRUST'S STOCK PICKERS

WTW doesn't see the need to change any of the stock pickers due directly to the crisis. They are all veterans of previous market upheavals, including the global financial crisis in 2008, and know how to navigate volatile markets, though all managers are kept under constant review.

The stock pickers themselves have been evaluating the near-term and long-term impacts the coronavirus may have on the companies they have selected for the portfolio, aiming to identify those most likely to be affected in terms of revenue and profitability. Some companies will be more exposed than others given their markets and business models, either directly through operations within impacted markets, or indirectly via supply chain effects.

As a result, positions in some securities have been trimmed. For example, one sold down its position in New Oriental Education, in the early days, when the virus was still contained to China, to reflect the impact of the virus on the company's business model. Another stock picker decided to reduce its position in Ryanair, Amadeus and Inditex due to potential impacts on consumer demand for travel and clothing.

But fear and volatility also create opportunities as the prices of stocks diverge from their long-term value. It's at times like these that the seeds of future outperformance are sewn because high-quality companies with good long-term prospects are often sold indiscriminately and can be bought at attractive prices. New purchases include Heineken which offers predictable growth, strong pricing power, a diverse geographic portfolio, 40% plus exposure to the attractive premium beer segment and 70% exposure to emerging and frontier markets and is selling at an attractive valuation. Another new stock in the portfolio is Valmet - a Finnish company that develops and supplies technologies, automation systems and services for the pulp, paper and energy industries.

SMALL ADJUSTMENTS TO HOLDINGS

These adjustments to the portfolio have, however, been at the margin. The stock pickers aren't complacent, but they generally think the portfolio holdings are well positioned to generate strong and sustainable free cashflows (historically a strong indicator for share price outperformance) over the long-term.

Most of the portfolio holdings, therefore, remain largely unchanged. Clearly, there are many near-term challenges caused by the temporary shut-down of many of the world's leading economies. However, unless companies have weak balance sheets which mean they can't survive a period of economic hibernation despite life-support provided by the authorities, it should not make a significant difference to their long-term prospects.

There will undoubtedly be cases of companies in the portfolio who face challenges, profit warnings and perhaps suffer dividend cuts or

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REASSURANCE FOR INCOME INVESTORS DURING DIVIDEND DROUGHT

By Craig Baker, Global CIO of Willis Towers Watson

It is not a particularly good time to be an income investor. Some of the largest dividend payers in the UK have cut payments entirely, with banks the latest to slash outstanding payments in order to shore up their finances and support the country in the battle against the COVID-19 pandemic.

Banks including Barclays, HSBC, Lloyds, RBS and Standard Chartered were due to pay out £15.3bn in dividends for 2019 to shareholders in the coming weeks, all of which have suddenly been scrapped.

It makes one wonder where to turn to, especially for those in retirement and living off the income provided by a dividend-reliant investment portfolio.

This is where one of the key benefits of an investment trust shines through. Unlike open-ended funds, which have to pay out all income accrued in any given year, the closed-ended structure allows trusts such as Alliance Trust PLC to hold back income and build up a reserve fund. These reserves are grown in the good times, when markets swing upwards and the investments perform well, to make sure cash is available in more difficult times, even if the value of underlying holdings falls.

This reserve pot means a trust should be able to maintain, or even grow, its dividend every year.

To assess how well covered a trust is, an investor can examine the amount it has in its reserves, then look to its dividend cover to analyse how many times the dividend can be paid from the reserve pot, even in times when new income from its investments is scarce. The higher the dividend cover, the better able the trust is to pay its dividends in difficult periods.

Analysis conducted by AJ Bell, reveals that Alliance Trust is one of only two investment trusts with 'Dividend Hero' status to have enough in reserve to pay more than two years of dividend payments from reserve funds alone.

With £109.2m in reserve, Alliance Trust has a dividend cover equivalent to 2.38 years. The only other trust to have enough to cover for more than two years is the Scottish Investment Trust, with £52m in reserves covering 2.35 years of dividend payments.

While dividends are never a cast-iron guarantee, Alliance Trust's position as a Dividend Hero – an accolade marking the fact we have increased dividend payments for 53 consecutive years – as well as its reserve pot to cover dividends, should offer some reassurance to investors in this difficult time.

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RESILIENCE IN INVESTMENT: AIRCRAFT LEASING

By Andrew Wellington, Co-Founder & CIO, Lyrical Asset Management

COVID-19 has severely impacted the market valuations of some stocks in our portfolio. However, we believe market reactions have been unduly severe. Aircraft leasing, as one example, is a simple, yet often misunderstood, business. It appears to be risky, renting multi-million-dollar aircraft to airlines, with counterparties known for going bankrupt frequently, especially in times like today's COVID-19 world. In fact, these aircraft lessors have fortress balance sheets and, historically, have weathered numerous client bankruptcies with nary a loss.

AerCap, one of Alliance Trust's holdings, is the second-largest order-book aircraft lessor in the world. Essentially, the company is an asset manager, and the asset it manages is commercial aircraft, mostly purchased new and directly from Boeing and Airbus at discount prices. Time and again it has proven it can weather economic storms.

For example, in the aftermath of 9/11, one of the worst travel periods in airline history, AerCap's utilization remained above 97%, and the company experienced credit losses of less than 1% of lease revenues. Seven years later, during the global financial crisis, numerous airlines around the world went bankrupt, but again AerCap was not impaired. The company's book value per share grew from $11.18 at the end of 2007, to $13.04 at the end of 2008 to $14.79 at the end of 2009, a 15% annualized rate.

It owes its resiliency as a business to multiple layers of protection; the first being that airlines do pay their leases. These operating leases are enforceable legal obligations that airlines have paid when their planes are half empty, or grounded, or even when they have entered bankruptcy for reorganisation. If an airline does not pay its lease, the aircraft lessors quickly repossess the aircraft and work towards placing it with another airline. The lessors take significant upfront security deposits, providing months of cushion. This is how they avoid credit losses even when customers stop paying.

In the event a large number of airlines stop paying leases, and the planes cannot be quickly leased again, AerCap still has the ability to survive. Over the next year, AerCap has over $11 billion in expected sources of cash compared with just $7.4 billion in expected uses, plenty of liquidity to keep its head above water.

The most common fear is that COVID-19 will stop the long-term growth in air travel. Since 1970, air travel has grown at a ~6% compound average rate per year. Only three times in that 50-year period have we seen air travel decline for a year, with 2020 likely to be the fourth. Consider all the events that have failed to stop long-term passenger growth during this period: six global recessions, the OPEC oil crisis of the 1970s, the first and second Gulf Wars, the Asian Financial Crisis, 9/11, the global financial crisis, and the SARS epidemic.

The experience in China suggests that COVID-19 will cause a severe but short-lived decline in air travel, and we expect only limited, temporary financial impact on AerCap. Despite its resilient business model, AerCap's stock recently sold off more than its weaker, money-losing airline customers. On 31 March, AerCap stock prices closed at $22.79 - just 2.9x pre-COVID earnings estimates. Notably, our current estimates of fair value are still significantly above the AerCap closing price on 21 February, before the COVID-related market sell-off.

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suspensions to shore up finances. But the stock pickers are all long-term investors who consider the impact of a recession on every stock they buy, no matter how rosy the environment might have seemed at the time of purchase. They look for resilient businesses that can withstand a sharp downturn without suffering acute distress and survive to profit from the recovery and expansion that naturally follow.

STRONG RESERVES TO SUSTAIN DIVIDEND POLICY

Alliance Trust has a progressive dividend policy, which has seen dividends increase every year for 53 years. The Trust has strong revenue reserves, amounting to £109.2m at the end of 2019, more than two times last year's pay-out, from which it can pay dividends if there is a shortfall in the income from the Trust's portfolio in any year.

It's one of the critical competitive advantages of investment trusts over open-ended funds that they can retain surplus income from good years and smooth dividend payments in challenging conditions. With interest rates at record lows, the income that investment trusts can provide in the current market environment could become very attractive.

> "Given that the impact of the virus is varying by country, WTW also believes it is important to remain geographically diversified. In this regard, it is helpful that all the managers in the portfolio have the freedom to invest anywhere globally, rather than being confined to designated regions, as is often the case with multi-manager global equity portfolios."

GEARING HELD IN MIDDLE OF TYPICAL RANGE

The only other difference between the positioning of the portfolio before and after the onset of the coronavirus pandemic is the level of gearing. As equities have fallen, gearing has naturally risen. WTW manages gearing to a strategic position of 10% and typically in the range of 8-12%. At the start of this year, gearing was near the low end of that range as WTW viewed that the strong bull market had given rise to potential for downside risks (although did not expect a global pandemic!). Gearing rose towards the upper end of the range and, following the small relief rally at the end of March, WTW has moderated that gearing back towards the strategic target of 10%. WTW has leeway from the Board to increase the level of gearing further if it expects a sustained market recovery but, given the level of uncertainty about the economic outlook, it does not think this would be prudent at this stage. It's already been a tumultuous time, but WTW thinks there is probably more volatility to come before equity markets make a sustained recovery. As such, WTW remain vigilant, avoiding the temptation to time the market but to potentially judiciously take advantage of further market weakness if an opportunity presents itself.

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Scenarios and forward-looking risk management

Assumptions and expected impacts

Most likely	Global recovery in Q3	Extended global recession	Credit squeeze and defaults
Epidemiology	• Public health policy measures are highly effective – virus spread controlled by mid-Q2 • Social distancing measures eased in c 2 months	• Problem transmissions occur up to Q3. Public health policy is less effective; control of the virus and social distancing easing take 4 months; with new cluster cases in localised areas	• Problem transmissions occur up to Q3. Public health policy is less effective • New cluster cases continue in localised waves through the northern hemisphere winter
China	• Recovery in factory output is largely complete by early to mid Q2; consumer confidence recovers in Q3	• Recovery in factory output is delayed until Q3; consumer confidence recovers only in Q4	• Recovery in factory output is delayed until Q3; consumer confidence recovers only in Q4 • Slower recovery in export sectors
US and Europe	• US and Europe have an acute contraction until mid to late Q2 • Highly effective government credit support for households/businesses • SMEs are most affected; service sectors (aviation, travel, tourism) will be significantly affected • Energy sector affected by lower oil price to Q3	• Global recession over Q1 to Q3; US and Europe contract significantly throughout Q2 and Q3 • Acute, sustained and broad-based decline in corporate earnings in 2020 • Large-scale government credit support for households/businesses • Consumer confidence does not recover until Q4	• US and Europe contract through to Q1 2021 • A shock to employment, incomes, and global trade drives deleveraging, given high debt levels • Company funding and credit conditions are acutely affected leading to defaults • Policy is insufficient or ineffective; economic recovery is weak from Q2 2021

The opinions expressed are those held by Willis Towers Watson at date of issue and are subject to change.

VIDEO GAMING: A BRIGHT FUTURE FOR INVESTORS

By Greg Herr, Managing Director & Portfolio Manager, First Pacific Advisors

Once perceived as the preserve of anti-social teenagers, the video game sector has grown enormously in recent years. With many countries deploying stay-at-home policies, more people are expected to be at home playing games. In the US, telecommunications firm Verizon has reported 75% growth in gaming usage week-on-week across its network. One of the biggest players in the video game space, Tencent, has also reported seeing increasing numbers of players, as well as time spent playing, and spending rates.

Esport, where teams compete by playing video games, is one of the biggest signs of just how far the video gaming sector has come. While activity has been paused recently given the current unprecedented circumstances, it is likely to resume soon through worldwide streaming, though without the large stadium audience for obvious reasons. There is an opportunity to gain viewers while competition for attention is greatly reduced by traditional live sports closures.

However, there are challenges posed by the current environment. Work-from-home policies could reduce productivity on new game development. The longer the policy remains in place, the more likely future game launches could be delayed. A further challenge is that entertainment spending is a discretionary expense. In 2008-2009, consumers cut back spending on games. Nonetheless, the amount of money spent on video games compares very favourably to many other consumer entertainment options. For example, Activision estimates that consumer investment per hour for concerts is around $31, for a sporting event consumers invest $19 and a theatrical movie costs around $5.70 per hour. Meanwhile the cost-per-hour of a purchased video game comes in at only $0.46.

A GlobalData report has predicted the video games market could be a $300bn industry by 2025. As investors, looking to the world leaders in the market such as Tencent and Ubisoft offers huge opportunity to gain access to this high growth sector.

UBISOFT

Ubisoft, the publisher responsible for well-known gaming brands such as Assassin's Creed, Prince of Persia and Just Dance has experienced strong increases in annual revenues, with 2018/19 revenues of €2.3bn marking a 17.1% increase on the previous year.

Last year, the company delayed the launch of three major games until 2020. We expect the additional development time, in particular prior to the coronavirus outbreak, will allow for successful launches this year. Management recently noted that key titles continue to be on track for release, and added that engagement across all its games is higher than last year. The company has abundant financial strength, and its share price trades at an attractive discount to our estimate of intrinsic value, marking it out as a strong opportunity.

TENCENT

Tencent, a Chinese multinational firm, is the global leader in video games with an association with now-famous games such as Fortnite, Call of Duty and League of Legends. In mobile games, the company has established a leading global ecosystem, including development, eSports, and gaming social communities. Mobile games are the fastest growing segment of the video game industry as they are easy to distribute across borders and the growth of broadband users offers the chance to reach an expanded audience base. It is mobile gaming that is accelerating the industry shift to more digital formats.

Gaming is only one part of Tencent's business, and the current environment has had various positive and negative impacts on its other segments. However, the company is financially strong, has a capable management team and its share price trades at an attractive discount to our estimate of its intrinsic value.

With new markets opening up, and the proliferation of mobile devices, we believe the scope for expansion within the video gaming sector is substantial. In the current environment, with millions of people confined to their homes in the battle against COVID-19, the scope for increasing use of video gaming is huge. As digitisation makes it easier for gamers to enhance play, the appetite for purchasing additional content will continue to generate strong recurring revenues. The popularity of video gaming has continued to rise despite a plateauing of other leisure activities such as TV and internet browsing, and we expect this level of consumer attention, and excitement, to continue to grow.

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Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

RESPONSIBLE INVESTING: TRANSLATING THINKING INTO ACTION

By Alliance Trust

With mainstream media headlines highlighting data privacy at Facebook, corporate scandals at Uber and the ever-present threat of climate change, it's no wonder that there's growing interest in environmentally and socially aware investments.

Recent results from a variety of YouGov polls, have found that over half of respondents who hold investments, want their savings to have a positive impact on the world beyond just generating investment returns.

However, each fund does something slightly different in terms of how it invests, and a wide variety of terms are used to describe their approaches. So it's tough for investors to work out what each one is doing, and whether it's in line with their own principles.

OUR BELIEFS

With the exception of controversial weapons, which are illegal in many countries, Alliance Trust doesn't currently place any ethical or value-based restrictions on the types of company that can be invested in for the Trust's portfolio, although this is kept under review and may change in the future.

As a general principle, we prefer to engage with companies on how they run their businesses, rather than having blanket exclusions on certain industries or sectors.

However, as responsible long-term investors, we believe it's essential to integrate environmental, social and governance (ESG) factors into the Trust's investment processes, because it can help manage risks better, improve returns and have a positive impact on society.

Put simply, we believe an investment approach that integrates responsible investing effectively, will outperform one that does not, over the long term. While the results of studies vary, the evidence for this approach is compelling. (See list of studies at the end of this article.)

TURNING BELIEFS INTO ACTION

Broadly speaking, the Trust has three lines of defence to help manage ESG risks:

1. All the managers Willis Towers Watson (WTW) selects to pick stocks for the portfolio, are vetted to make sure they meet minimum standards for assessing ESG risks in the companies they invest in. In addition to ensuring ESG risks are integrated within stock picker decision-making, managers are also expected to be good stewards of their capital:
   - WTW expects managers to vote at company meetings.
   - Between 1 January and 30 December 2019, the stock pickers cast 3,082 votes, voting against or abstaining at 344 of these.
   - Of the votes against management, the key topics were Board Structure, with 38.1% of the votes, as well as Capital Structure and Remuneration, both representing over 20% of votes.

2. WTW, itself a thought-leader on responsible investing, monitors the managers and the stocks they pick for the portfolio, using proprietary data and third-party tools, challenging them when necessary to justify a holding, as well as monitoring the ESG risks

and opportunities at a total portfolio level.

3. Equity Ownership Services (EOS) at Federated Hermes, an external, independent ESG expert, has been appointed. It:

- Shares its expertise with WTW and our stock pickers about ESG issues.
- Engages with the companies we invest in, to help effect positive change, and makes recommendations on how our stock pickers should vote at company meetings.
- Represents a wide range of institutional asset managers and asset owners, such as pension schemes, and, collectively, has over $662bn of assets under advice.
- This gives the collective views of the asset managers and owners that EOS at Federated Hermes represents more leverage when lobbying for corporate change than one investor acting alone.
- EOS at Federated Hermes also engages with policymakers.

ACTIVE OWNERSHIP DRIVES POSITIVE CHANGE

We think being active owners and constructively engaging with companies is often more likely to lead to positive outcomes than simply walking away, and having EOS at Federated Hermes on our side, helps us punch above our weight.

Since its appointment in June 2019, EOS at Federated Hermes has engaged on a range of 248 ESG issues/objectives with 65 companies held by the Trust. These engagements are typically multi-year endeavours, but in this short time, it has recorded progress on 23% of its objectives.

"AHEAD OF THE CURVE" ON ESG INTEGRATION

We believe these three lines of defence put the Trust at the forefront of efforts to integrate ESG into our investment processes. Indeed, this was acknowledged by broker Winterflood, which said, "Alliance Trust seems to be ahead of the curve" on ESG investing.

"We believe that it (the Trust) is benefiting from Willis Towers Watson's resources and capability in this regard and we see the appointment of EOS at Federated Hermes as a positive step in leading engagement," explained Winterflood.

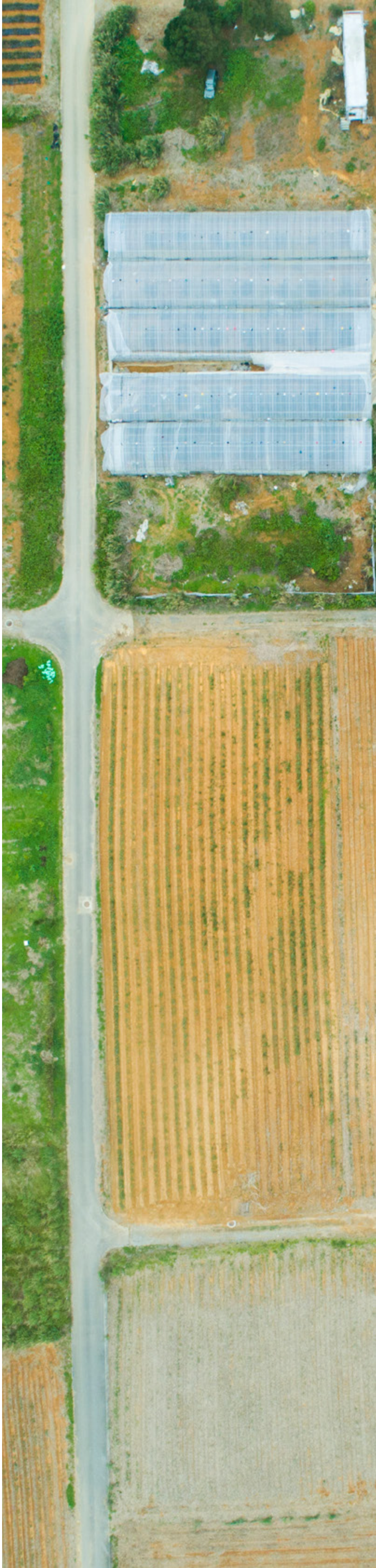
WE ARE PRAGMATIC

While our priority is to generate attractive returns for shareholders, and we believe the best way to do that is by being responsible investors, we are pragmatic. In some cases, the mispricing of ESG risks can lead to investment opportunities, which can deliver attractive returns.

> "Put simply, we believe an investment approach that integrates responsible investing effectively, will outperform one that does not, over the long term. While the results of studies vary, the evidence for this approach is compelling."

So, in principle, we are prepared to invest in stocks that at first appearance have weaker ESG profiles, such as tobacco and oil stocks for example, when our stock pickers believe the risks are more than compensated for by the low price of a stock relative to the company's long-term earnings power, especially when those companies have demonstrated a willingness to change for the better.

- For example, BP is in the portfolio. The concerns about the company are to do with the fact that it is an energy company, exposed to fossil fuels. Despite this, BP is highly ranked among peers in terms of ESG risk. BP has been investing in renewables and looking to improve its reporting and transition risk management. Many oil and gas companies are here to stay for the foreseeable future, and in many cases are part of the solution of working towards a transition to a low-carbon economy. Therefore we feel comfortable focusing on the better operators in the



space, engaging with them to address climate-related issues. Better outcomes may well be best achieved through engagement by shareholders, than from divesting from the sector completely. Companies such as BP don't really need additional equity capital from financial markets, and so reducing the pool of potential investors is unlikely to have a significant impact on company strategy. Instead shareholder engagement is more likely to have a positive impact, as was seen at the recent BP AGM, with the shareholder resolution tabled by Climate Action 100+, which aims to ensure BP provides better climate-related reporting and aligns each new material capital investment with the goals of the Paris Agreement on climate change. The resolution was co-filed by EOS at Federated Hermes and our manager Jupiter, and passed with near unanimous shareholder support. As a result, we expect better disclosure and, over time, a shift in BP's fuel mix towards lower carbon intensity.

- HeidelbergCement, which produces and distributes cement worldwide, is another holding that emits significant amounts of carbon. However, from an ESG perspective, HeidelbergCement is one of the industry's leaders. It has very strong corporate governance, solid ESG policies, has joined the United Nations Global Compact (UNGC) and is the first cement company to have the Science Based Targets initiative (SBTi) to verify that its CO_2 reduction targets (for 2030) conform to the requirements of the Paris Agreement. The international non-profit organisation CDP (formerly Carbon Disclosure Project) has recognised HeidelbergCement with a place on the 'Climate Change A-List 2019', as one of the leading companies worldwide for its commitment to climate action. The company has implemented numerous projects towards the goal of reducing its carbon footprint, including carbon capture and storage methods, recycling absorbed CO_2 into marketable building materials, and using CO_2 for algae cultivation. In addition, HeidelbergCement employs a region-specific biodiversity protection and quarry rehabilitation approach.

In aggregate, the climate risk exposures of the Trust's portfolio were lower than the benchmark at the end of 2019; we also had lower exposure to companies owning fossil fuel reserves, although that was a point in time and our exposures may be higher than the benchmark at other times, depending on the shares we own.

EXAMPLES OF EMPIRICAL EVIDENCE:

1. Clark, Feiner, Viehs. From the Stockholder to the Stakeholder, University of Oxford, Arabesque Partners, 2014. This used research from Clark, Viehs. The Implications of Corporate Social Responsibility for Investors, 2014.

- Based on more than 190 sources.
- "90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies"
- "88% of the research shows that solid ESG practices result in better operational performance of firms"
- "80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices"

2. Fulton, Kahn, Sharples. Sustainable Investing; Establishing Long-Term Value and Performance, Deutsche Bank, 2012.

- Based on more than 100 academic studies.
- "100% of academic studies agree that companies with high ratings for... ESG have a lower cost of capital in terms of debt (loans and bonds) and equity"
- "89% of the studies... show that companies with high ratings for ESG factors exhibit market-based outperformance"
- Within ESG, governance ('G') is often found to be the most influential factor.
- However studies of funds applying an exclusionary approach have tended to achieve mixed results.

3. Friede, Busch, Bassen. ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, Deutsche Bank & University of Hamburg, 2015.

- A second-level review study, covering 60 review studies (3,718 underlying studies, and when taking out duplicates, this leads to 2,200 unique studies).
- The business case for ESG investing is empirically very well founded.
- Roughly 90% of the studies find a non-negative ESG-CFP (corporate financial performance) relation. The large majority of studies report positive findings.

4. Dimson, Karakas, Li. Active Ownership, Review of Financial Studies, 2015.

- Engagements with investee companies on average generated abnormal returns of 2.3% one year following the initial engagement in the US from 1999-2009.
- The study examined 2,152 highly intensive engagements on ESG areas for 613 US public firms. The success rate for engagements was 18%, and on average it took 2-3 engagements before success could be recorded, which on average was 1.5 years after the initial engagement.

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EQUITY MANAGER SPOTLIGHT

SUSTAINABLE GROWTH ADVISERS (SGA)

AN INTRODUCTION FROM OUR INVESTMENT MANAGER, WILLIS TOWERS WATSON

Sustainable Growth Advisers (SGA) are long-term growth investors. Within the mix of managers for Alliance Trust, we value their ability to identify companies with predictable and sustainable long-term growth prospects selling at reasonable valuations. There are some competing growth investors who are less sensitive to valuation, and we believe this comes with a heightened risk of generating permanent losses of capital, which we are keen to avoid.

SGA's portfolios are constructed from a thorough bottom-up, fundamental research perspective, which takes into account both the expected growth rates and the appropriateness of their valuation. Investments are weighted by conviction with no reference to the benchmark. George Fraise, Rob Rohn and Gordon Marchand, the three portfolio managers, are experienced, exhibiting strong interaction and complementary approaches within a collegial environment.

GEORGE'S MARKET VIEW

George Fraise
Founder & Principal
Sustainable Growth Advisers

At Sustainable Growth Advisers we implement a team investment approach, where every member of our Investment Committee is first and foremost a research analyst. There are multiple layers of proprietary research behind every stock on our qualified company list, and each portfolio has three portfolio managers responsible for managing it (with two of three needed to agree for changes to take place). We seek to buy businesses with unique characteristics that lead to a high degree of predictability, strong profitability, above-average earnings and cash flow growth over our three to five-year investment time horizon.

"We seek to buy businesses with unique characteristics that lead to a high degree of predictability, strong profitability, above-average earnings and cash flow growth over our three to five-year investment time horizon."

The companies typically have three primary attributes:

1. A high degree of pricing power as a result of a powerful brand, a significant structural competitive advantage or a proprietary product.
2. A large component of repeat revenues due to contracts or the regular use of and need for replacement of the products.
3. Long runways of growth into unsaturated markets, which lead to confidence that the growth rates will be sustainable.

Additionally, we look for businesses that convert a high proportion of their earnings into cash, have strong balance sheets, and proven management teams that are good stewards of our clients' capital.

Watch George's interview on his investment style and meet other managers →

STOCK SPOTLIGHT: NIKE

Nike is a global behemoth in the sports and activewear market. Founded in 1964, it has become known for its famous Nike 'tick' slogan, and for its motivating tag 'Just Do It'. In 2019, its latest trainer, the 'Zoom', caused some controversy with the extra bounce it provided runners. Eliud Kipchoge ran the Berlin marathon in world record time in 2019 wearing the famous shoes. With revenues increasing 7% in 2019, the power of the Nike brand remains strong. It reported net income increased to $4bn in 2019, with diluted earnings per share of $2.49 – this globally recognised brand remains a key, growing investment opportunity.

GEORGE'S VIEW

Nike is an iconic sportswear brand that has built its business around a healthier lifestyle. Its sportswear offers a combination of performance, utility and durability, all driven by technology and innovation.

Nike's attractive pricing power emanates from the power of its brand and its technology, both of which are supported by its strong supply chain and distribution networks. These factors help enhance Nike's margins relative to its competitors. Recurring revenues are generated as customers replace worn-out items and add to their wardrobes. Once a customer is accustomed to the comfort and fit of clothing, it reduces the chances that they will switch. This is particularly the case with shoes, where comfort is critical and people are less likely to switch. Increased sports participation by women, greater e-commerce and increased spending on sports items per capita, along with more emerging market penetration, are expected to help fuel Nike's growth moving forward. While it faces competition from Under Armour and Adidas, neither possesses the global reach or distribution network of Nike.

In addition to its promotion of a more active and fit lifestyle, we are pleased to see Nike using increasing amounts of recycled materials in its products, and implementing new controls spanning training, inclusion and feedback mechanisms, to enhance the quality of its workplace.

NIKE FAST FACTS

1964 Founded in 1964, the Nike brand was adopted in 1971	Revenue hit $39.1bn in 2019 – a 7% annual increase	Aims to source using 100% renewable energy by 2025	Headquartered in Beaverton, Oregon
In 2019, Eliud Kipchoge ran a world-record beating marathon in Nike trainers	The name comes from the Greek goddess of victory	It sells more than 900m items a year	The Nike logo, a solid swoosh, was designed for $35

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

EQUITY MANAGER SPOTLIGHT

VERITAS ASSET MANAGEMENT

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. Charles Richardson is co-founder and Executive Chairman. Andy and Charles worked together at Newton Investment Management. Andy also held a portfolio manager role at W.P. 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 loss of capital. 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

Andy Headley
Head of Global Strategies
Veritas Asset Management

Since our inception, Veritas has embraced sustainable investment, and we feel strongly that what today is being termed ESG, is very much integrated into our investment process. We invest in companies with repeatable future cash flows, and the search for such companies focuses on a number of sustainable characteristics. Firstly, sustainability of product or service. We also look at the sustainability of the business model. Microsoft has a product people want, and this is coupled with very high barriers to entry. Few move away once they have signed up to Office 365, for example. Additionally, we look at the sustainability of cash flow. Can a pharmaceutical company maintain cash flow if it does so by increasing drug pricing twice a year? Those healthcare companies that help take cost out of the system, rather than help increase costs, are likely to be more successful looking ahead. Sustainability of corporate structure is also important (debt profile/leverage), as is the sustainability of management. If the governance is right, the E and the S will follow.

Watch Andy's interview on his investment style and meet other managers ⟶

"We feel strongly that what today is being termed ESG, is very much integrated into our investment process."

STOCK SPOTLIGHT: COOPER COMPANIES

Cooper Companies is a California-based company trading on the New York Stock Exchange. Its business is split between contact lens manufacturing and the building of fertility products for the female healthcare market. With 12,000 employees, it is an established operation that sells its product in more than 100 countries around the world. At the end of the quarter in January, the company reported quarterly revenue increased 3% year on year to $646.2m, and expects total revenue in 2020 to reach more than $2.7bn.

ANDY'S VIEW

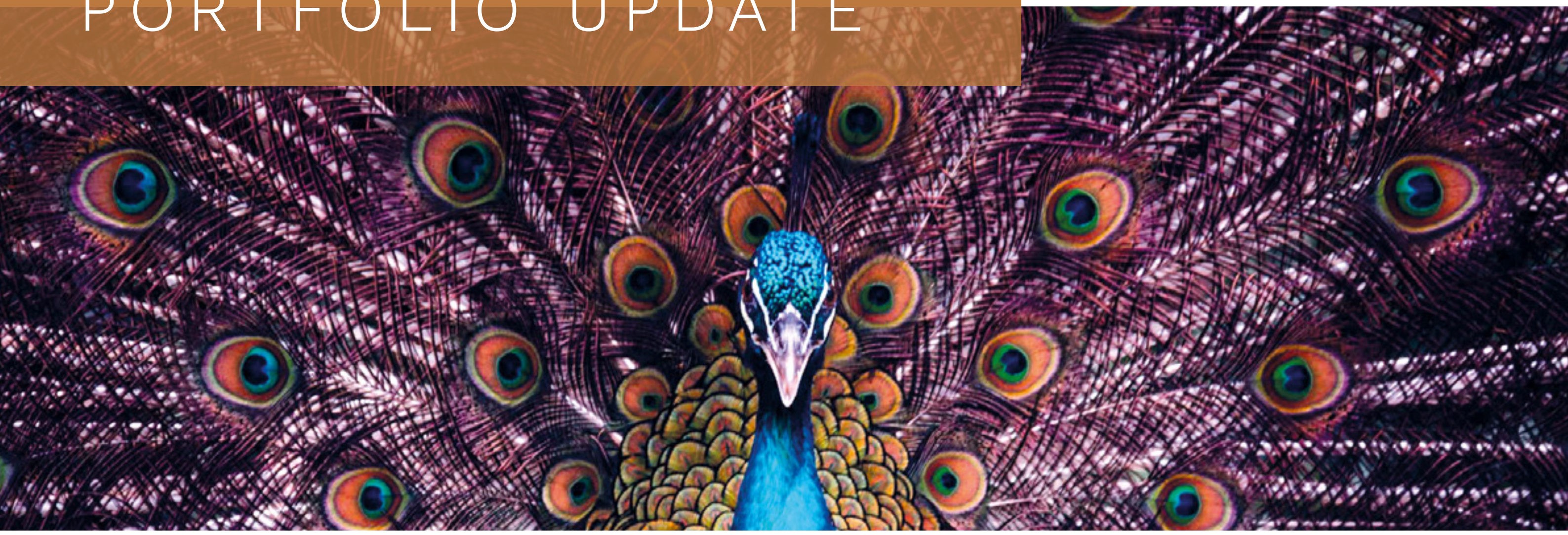
One of the recent investments that illustrates our view on sustainability and healthcare is Cooper Companies. Cooper Companies predominantly operates in the contact lens market. There are three main players, but Coopers is the only company that operates a white-label subscription model. Companies such as Specsavers sign up to multi-year contracts and in return receive competitive pricing on the widest range of soft contact lenses. Coopers will brand the lens for the retailer and take care of logistics such as sending out lenses to customers. Setting aside the obvious growth drivers from longer living, ageing populations and the high barriers to entry (these are medical devices), management has been forward thinking in addressing an unmet medical need that has reached epidemic propositions. Myopia, or short-sightedness, affects up to 90% of 20-year-olds in Asia and is becoming an ever-increasing problem globally (50% of the planet will be myopic by 2050 (WHO). Linked to myopia are many of the age-related eye diseases such as glaucoma, cataracts and blindness, which will become more prevalent the longer people live. Coopers has designed the only FDA-approved contact lens that slows down myopia if worn by a new target market of 8 to 12-year-olds.

COOPER COMPANIES FAST FACTS

1958 Founded in 1958	President and CEO is Albert G. White III	**12,000** employees	Headquartered in San Ramon, California
Market cap: £15bn	Three of its sites run entirely on renewable energy	NYSE ticker: COO	Certified a 'Great place to work' in the US

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

PORTFOLIO UPDATE



Willis Towers Watson

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

Over he first quarter of 2020, the Trust's total shareholder return and NAV total return were -23.1% and -20.9% respectively, underperforming the benchmark MSCI All Country World Index (ACWI) which returned -16.0%. Leverage in the Trust was detrimental to NAV returns over this period, and the widening of the discount to NAV hurt shareholder performance.

The COVID-19 pandemic created a severe impact on markets globally, with the likelihood of a global recession leading to the fastest equity market decline of this magnitude in history. The sharp rally towards the end of March was also one of the largest 3 day market gains in history, indicating the level of market volatility that was experienced. We believe that with markets moving this far and this fast, it is unlikely that every company in the world is perfectly priced relative to its long-term fundamentals and as such, opportunities may be presented. However, as the market fell, the flight to safety (large cap quality and liquidity) created a very narrow market leadership and was a more extreme version of some of the challenging trends we observed in 2018-19. The magnitude of this trend has now led to truly extraordinary levels of performance difference between size and style factors in recent history and we think this provides a small number of compelling opportunities for long-term investors.

In light of the market turmoil and the disruptive impact of coronavirus, we have been busy keeping in touch with our managers to understand how they are dealing with lock-down procedures and market volatility. We are pleased to report that all our managers are continuing business as usual, despite having to conduct them at home, and that all managers have taken this as an opportunity to re-underwrite the investment thesis of their companies. As expected, this has led to some turnover in the portfolio, as managers exit the companies which they feel had suffered deterioration in fundamentals and purchase other higher quality companies that have now become more attractively priced. We have heard a number of the managers describe this as the most exciting time to be an active stock picker, as suddenly many companies that they had closely followed but could not justify the price of purchase have now become very compelling long-term investment opportunities.

A position was established in late March in Booking Holdings, a US listed online travel agent and the global leading company for online accommodation reservations. The manager believes the balance sheet remains sufficiently strong, in spite of the weakening share price due to the collapse of global travel. Furthermore, the company has a strong market position which is expected to dominate the travel industry when the market recovers post the Coronavirus outbreak. Siemens, a large conglomerate operating principally in industrial engineering, energy, healthcare and infrastructure, also has a strong balance sheet with positive cash generation. It has interesting long-term opportunities in pioneering energy-efficient, resource-saving technologies. The company was also purchased in late March, at a valuation close to its historical lows.

At the total portfolio level, we would describe our position as cautiously optimistic. We continue to retain a balanced positioning, ensuring that we maintain a well-diversified exposure to a range of styles, despite what some might view as glaring attractiveness in certain parts of the market. We think that the increased market volatility and dispersion of outcomes have allowed our managers, each with its own unique investment style, to collectively build a portfolio that we expect will deliver significant long-term value to investors in the Trust.

Learn more about the latest portfolio price and performance here ⟶

Past performance is not a reliable indicator of future returns. Please refer to the next page for important past performance information. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases (by amount bought) - first quarter 2020	% of Equity Portfolio	Value of position (£m)
Skyworks Solution	0.6	19.3
Nestlé	0.6	18.8
Infosys - ADR	0.6	18.8
Heineken	0.6	17.7
Nike	0.6	17.5
Fleetcor Technology	0.5	15.5
Carlyle Group	0.5	15.1
Raytheon	0.4	13.8
Baxter International	0.4	13.7
Dell Technologies	0.4	12.3

10 largest sales (by amount sold) - first quarter 2020	% of Equity Portfolio	Value of position (£m)
Ryanair	1.0	26.4
Equinix	0.8	21.0
Inditex	0.8	19.2
Citigroup	0.8	19.1
New Oriental Education ADR	0.7	18.2
Amadeus IT Group	0.6	16.4
Bank Of America	0.6	16.0
KKR	0.6	15.7
Carnival Corporation	0.6	15.2
Nielsen	0.6	15.2

UPDATE ON BUYBACKS

In the three months to 31 March, the Trust did not buy back any shares. In the period since the 2019 AGM, the Trust has bought back 1,536,108 shares at a cost of £12.1 million. These shares were purchased across a discount range of 3.1% to 6.5% since the AGM, with an average discount of 5.2% through the period to 31 December 2019. With a reported discount of 4.1% as at 31 December 2019, this suggested that despite a notable reduction in buyback activity, supply and demand were finding a current equilibrium level with continued stability of the discount.The discount as at 31 March 2020 was 6.9%, however in the three-month period to 31 March, the discount ranged between 2.5% and 17.6%, demonstrating the impact of the high market volatility brought about by the COVID-19 crisis spreading globally. The Trust continues to watch the discount closely, and will carry out further buybacks if the discount shows signs of widening significantly over a sustained period.

DISCRETE PERFORMANCE (%)

From To	31-Mar-19 31-Mar-20	31-Mar-18 31-Mar-19	31-Mar-17 31-Mar-18	31-Mar-16 31-Mar-17	31-Mar-15 31-Mar-16
Total shareholder return	-12.3	8.8	3.9	39.3	1.6
NAV total return	-11.2	8.2	4.7	30.2	-1.2
MSCI ACWI total return	-6.7	10.5	2.3	32.2	-1.2

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.

Notes: All data is provided as at 31 March 2020 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.

Past performance is not a reliable indicator of future returns.

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.

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

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.

Start your investment journey here →

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