ALLIANCE TRUST
ASSET MANAGEMENT

# ALLIANCE TRUST
# NORTH AMERICAN EQUITY FUND

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# WHEN FACED WITH AN INVESTMENT UNIVERSE COMPRISING THE UNITED STATES AND CANADA, CONSTRUCTING A NORTH AMERICAN EQUITY PORTFOLIO OF ONLY 30 TO 45 HOLDINGS SOUNDS A CONSIDERABLE CHALLENGE.

Amid an abundance of individual stock opportunities, Head of North American Equities, Matthew Strachan and his team face the challenge of identifying the most attractive companies on a three year view. This may sound like a tall order, but Matthew and his team have worked together for many years, and follow a proven, high-conviction approach that focuses on finding quality companies to hold for the long term.

## AN EXPERIENCED, CLOSE-KNIT TEAM

Matthew Strachan heads up Alliance Trust Asset Management's North American equity team. Matthew has 24 years of investment experience; he began his career at Alliance Trust in 1985, remaining with the company since, and has gained investment experience in every major market or region, including the UK, Europe, Japan, Asia and North America.

**Fund highlights**

- Focused portfolio of 30 to 45 holdings
- Conviction led approach
- Low turnover: long-term investors, not traders of paper
- Experienced and stable management team

Alliance Trust Asset Management's North American equity team has spent many years together and can boast almost six decades of combined investment experience. The team enjoys all the benefits of a close-knit local group, but with the advantage of a global perspective. Based in Dundee, the team comprises four experienced investment professionals, supported by one analyst permanently based "on the ground" in the United States, in Portland, Oregon.

The team also benefits from its active and close relationships with Alliance Trust's global resources and global financials analysts.

### A focus on quality

Matthew Strachan has a background as an economist, and uses Alliance Trust's well-respected and dedicated Research Centre to assist him in his asset allocation and top-down analysis. Stock selection is the primary driver behind the fund's returns, particularly over the longer term; however, the team's stock selection takes place within a top-down framework, and the team's macroeconomic analysis helps the analysts to develop their views on the underlying sectors within the North American investment universe.

Matthew's investment style allows him and his team to pursue the most attractive individual stock opportunities without being restricted by any formal growth or value style bias. This provides the portfolio with the potential to perform well in most market environments.

## LOOKING TO THE LONG TERM

Matthew believes that there is little constructive value to be added by short-term trading. Looking beyond a two-year horizon, he considers that the quality of brokers' research tends to deteriorate, but he believes that he and his team have a process and structure which enable them to add value over the longer term. Portfolio structure, shaped by economic forecasts and sector insight, is discussed regularly so emerging trends can be picked up and followed.

The fund is relatively focused, with 30 to 45 holdings. The portfolio tends to be highly concentrated, with between 40% and 50% in the top-ten stocks. Every holding in the portfolio tends to be overweight compared with the benchmark index (the FTSE North America All Cap Index), although the weighting of each individual position is driven by the level of the conviction felt by the manager in conjunction with his team. Stock overweights relative to their benchmark position are limited to a maximum of between 6% and 7%. Sector weightings can differ substantially from those of the benchmark index, although Matthew's risk-aware approach makes it unlikely that he would have a zero weighting in any of the major industry sectors.

### Uncovering profitable opportunities

The team looks for companies with strong management who have demonstrated their ability to make sound long-term business decisions. They like companies that have pricing power, and that are in a position to benefit from – and solve – bottlenecks. Companies that are highly cash generative and can demonstrate high levels of return on invested capital, and good or improving return on equity, are attractive. In addition, Matthew favours companies that show the capacity to pay respectable and growing dividends to shareholders, believing that "dividends are the rent payable on shareholders' capital".

The analysts monitor all holdings on an ongoing basis; each holding has a target price, but this is not rigid. Matthew's approach is pragmatic and realistic: if the share price of a holding drops, but the investment story remains intact and the environment favourable, he is more likely to add to the existing holding than to sell it. The portfolio's focused structure – with only 30 to 45 holdings – means that every holding has to merit its inclusion.

### Focusing on the fundamentals

Although stock selection is the principal catalyst behind the portfolio's longer-term returns, the team's approach generally begins with the bigger picture. Ideas might be generated within the team, triggered by the Research Centre or sparked by external research or broker contact.

Qualitative analysis and corporate fundamentals are the primary catalyst for the team's research. Although the North American equity investment universe is considerable, Matthew avoids the use of a "black box" approach when looking for new investment ideas.

Following the initial phase of idea generation, the team assess and develop their investment thesis, discuss their rationale, undertake thorough analysis and assess how the stock would fit with existing holdings within the portfolio. After investment has taken place, they continue to monitor each holding continuously, checking returns and valuations, and constantly assessing the investment rationale to see whether it remains valid. Every member of the team visits North America at least twice a year to meet companies and to attend conferences.

## COMMUNICATION IS KEY

Communication is a crucial everyday component of the North American equity team's investment process. The team holds regular formal and informal equity strategy meetings, but ongoing ad-hoc discussion and debate are important elements of the investment process.

As Head of North American Equities, Matthew Strachan holds overall responsibility for the portfolio and its construction; however, the analysts' individual ideas are welcomed, and the analysts are encouraged to challenge each other's ideas – and to defend their own – with open debate. The analysts enjoy an open and supportive environment that is geared towards generating the best ideas and, ultimately, getting the best companies into the portfolio.

They have a clear investment focus; analysts are not looking for short-term trading ideas, but for long-term investment opportunities.

This positive environment, coupled with a concentrated, high-conviction portfolio, means that there is a constant stream of new ideas vying for inclusion. Above all, the success of Matthew Strachan's investment approach is borne out by results, which show strong, consistent performance over both the short term and the long term.

## CONTACT US

For more information on Alliance Trust Asset Management and our investment capabilities, please call us or visit our website.

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