Alliance Trust
INVESTING FOR GENERATIONS

Connection

By Stephen Zachary

Technological advancements and biological breakthroughs have helped scientists better understand the causes of disease. Stephen Zachary, partner at Sands Capital explains.

The coronavirus pandemic has highlighted the importance of the healthcare ecosystem and demonstrated the rapid innovation cycles taking place in life sciences. Numerous research breakthroughs in recent decades enabled scientists to develop Covid-19 vaccines in record time. However, we are only beginning to see the far-reaching effects of this life sciences revolution, which has the potential to improve patient outcomes and healthcare economics globally.

The complex process of drug development has typically taken years to go from discovery to commercialization. However, researchers were able to take the Covid-19 vaccine from concept to the public in less than a year. Scientists' ability to rapidly sequence the virus' genome was one of many factors that allowed researchers to begin developing diagnostics and therapeutics targeting the virus within weeks. Though we cannot expect the research community to function at the same breakneck speed for every disease, we do foresee an era of faster drug discovery and deployment.

While the Covid-19 pandemic shone a light on the most recent innovations, Sands Capital has studied the evolution of the life sciences sector for many years.

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 ten 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. We believe that returns from single-manager strategies are often prone to sharp up and down moves; we aim to provide investors with a smoother ride.

RESULT OF DIVIDEND REVIEW ANNOUNCED

Gregor Stewart, Chairman of Alliance Trust, has announced the results of the Company's review of its dividend. He said: **"Shareholder feedback has indicated there is support for a higher dividend, as long as it is affordable and sustainable. We have therefore decided to reset the dividend to a more attractive level."**

Find out more

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

Technological advancements and biological breakthroughs have allowed a better understanding of the causes of disease, opening the way to more precise and earlier diagnosis and treatment. We believe this life sciences revolution has created exciting opportunities for select businesses in the areas of life sciences tools, diagnostics, and therapeutics.
As new technologies lower the barriers to entry, we expect that many earlier-stage businesses, many of which are still private, have the potential to capture and create value and ultimately generate wealth for long-term investors.

A MULTIDECADE GROWTH STORY

There has been a flood of private and public funding into the life sciences over the past 18 months; we believe that we are only at the beginning of a multidecade growth story[1].

> Twenty years ago, sequencing the entire human genome cost some $100 million. Today, that price has fallen to less than $700[2].

As in many areas of life sciences, lower costs led to increased opportunities for experimentation and discovery, which ultimately accelerates the pace of innovation. While sequencing is one of the best examples of a tool that has become remarkably accessible, it is only one among many. Indeed, we are also excited about similar trends in other areas, including proteomics, the large-scale study of proteins.

At the same time, the global demand for new technologies and therapies continues to grow. Notably, the global population of people aged 60 and over is set to reach or surpass 2 billion by 2050, creating a greater disease burden for society and a need for continued innovation across the life sciences[3].

DEFINE, DIAGNOSE, TREAT

Define: Life sciences tools businesses enable researchers to automate and scale experimentation while also uncovering new aspects of biology. These tools include gene sequencers, flow cytometers, liquid handling robots, and many other products that allow researchers to delve more deeply, and with greater efficiency, into the causes of disease. While sometimes overlooked, this subsector within the life sciences is an engine of continuous discovery.

For instance, new proteomics tools allow scientists to characterize thousands of proteins in a single sample, which is orders of magnitude higher than what technologies from earlier decades could do. Such stepwise changes in experimental capability have opened the way to rapid innovation, and, over time, we believe the proteomics space could be as transformative as the genomics space.

Tools companies typically employ a razor/razor blade business model in which customers are locked in by an instrument placement that drives subsequent pull through of related consumable products. We see opportunities in life sciences tools because many of these companies provide enabling technologies for diagnostic and therapeutic companies yet tend to have less direct exposure to risks created by drug pricing, clinical failures, and policy shifts.

Diagnose: More powerful life sciences tools have enabled businesses to develop diagnostic technologies that reduce the cost of care while improving patient outcomes. These technologies, which include liquid biopsies, imaging techniques, and genomic profiling, represent the front line of patient care.

For instance, invasive diagnostic procedures are increasingly being replaced by non-invasive molecular tests, such as liquid biopsies, that can provide a similar level of accuracy while greatly reducing the burden to the patient. Though the

liquid biopsy market is in the early stages of development, we can envision a future in which patients and physicians receive critical diagnostic information from a simple blood draw. As the liquid biopsy space evolves and new applications are developed, we believe this approach will replace antiquated diagnostic models that are more expensive and less accessible to the broader population.

More frequent and precise methods of testing for disease should enable more accurate detection of disease and at an earlier stage. Earlier and more specific diagnosis should pave the way for more effective and actionable therapeutic interventions.

Treat: Enabling life sciences tools and precision diagnostics are making drug development more efficient and leading to improved therapies. Moreover, we are witnessing a proliferation of novel treatment methods that allows us to treat previously untreatable diseases. For instance, we have seen first-hand how cutting-edge gene therapy treatments can deliver lifesaving benefits to paediatric patients with devastating neurological diseases. These breakthroughs lead us to believe that an era of truly personalized and precision medicine, delivering profound results to patients in dire need, is upon us.

The way in which drug discovery is carried out is rapidly evolving. Companies developing small molecule drugs can sample chemical space, or the ensemble of all possible molecules, more effectively and efficiently to identify promising drug candidates against targets previously considered undruggable. In addition, researchers are leveraging new biologic modalities, such as cell and gene therapy, to better address certain diseases of high unmet need. In many ways, drug discovery is evolving into drug engineering, as scientists increasingly leverage prediction and synthetic biology to create novel therapies and therapeutic modalities.

These novel therapies benefit from clinical trials that leverage precision diagnostics for enrolment and tend to be more likely to succeed. Genetic profiling of patient tumours, for instance, allows biotech companies to enrol patients that are most likely to respond to targeted therapy. Over time, we believe that the simultaneous development of precision therapies and diagnostics will increase the number of diseases that can be effectively treated.

FROM REVOLUTION TO EVOLUTION

As we move into this new era of life sciences discovery, we imagine a proliferation of tools and diagnostics that leverage massive amounts of information from patients and large-scale databases. Indeed, the life sciences industry's ability to generate large amounts of data has challenged life sciences businesses to find ways to make sense of the disparate pieces of evidence. Platforms that employ machine learning and computational biology are emerging to help researchers glean insights from immense datasets.

> We expect that the life sciences tools, diagnostic, and therapeutic companies that can best harness and utilize such data will enjoy an even greater competitive advantage, creating value and attracting investor interest.

As earlier noted, we believe that some innovative early-stage businesses, benefiting from lower costs of entry and ample funding sources, are well positioned to make inroads in these spaces.

As rapid scientific breakthroughs continue to transform life sciences, we envision that select, cutting-edge companies in the field will be attractive sources of value creation for the coming decade and beyond. Our research team is excited about the expanding opportunity set of private and public businesses. Furthermore, we are confident that our domain knowledge will enable us to evaluate the emerging innovators more effectively. If we succeed in identifying and investing in the leading businesses early, we expect not only to add value and enhance the wealth of our clients over time but also to support advancements in healthcare standards globally.

Find out more

LIFE SCIENCES STOCKS

Over the next decade, Sands Capital views genes and genomics, minimally invasive technologies, consumerization of health care, the humanization of pets, and globalization of innovation as the most important secular trends in life sciences.

Here Sands Capital highlights some of the stocks that it holds that fit into these categories and why they invest in them:

DEXCOM

We expect the company's next-gen continuous glucose monitoring (CGM) platform—known as the G7—to reshape the market as the new standard of care in diabetes. CGM provides continuous, predictive data that can monitor blood glucose levels and inform treatment decisions.

The G7 will be the thinnest, most accurate, most algorithmically advanced, and most consumer friendly CGM on the market. We believe it addresses the three largest barriers to adoption: cost, physical discretion, and insurance coverage/availability.

Over time, we expect Dexcom to leverage its data and further differentiate the G7 platform via future software and data analytics capabilities. Beyond insulin-intensive diabetics, who are the primary users of CGM today, but are still underpenetrated, we expect the G7 to address the massive and largely unaddressed population of non-insulin-intensive Type 2 patients. CGM sensors enable recurring revenues due to their replacement frequency.

As G7 adoption inflects, we expect margin leverage, given the low production cost and distribution via higher-margin channels (e.g., pharmacies).

EDWARDS LIFESCIENCES

Edwards Lifesciences creates artificial heart valves to treat advanced cardiovascular disease. Edwards pioneered the development of artificial heart valves used to treat aortic stenosis, a disease characterized by a progressive hardening and dysfunction of the aortic valve, a life-threatening condition. The only treatment is replacement of the valve through open heart surgery or transcatheter aortic valve replacement (TAVR). We believe growing adoption of TAVR will be the primary driver of the company's growth over our investment horizon. We believe the rise of minimally invasive surgery is a major secular trend in healthcare as it improves patients' recovery times and provides savings to the broader healthcare system relative to open surgery. Additionally, Edwards is utilizing its expertise in minimally invasive valve technology to begin addressing other structural heart dysfunctions, particularly in the mitral and tricuspid valves, which should provide large, long-term growth opportunities.

ZOETIS

Zoetis is the global leader in the development, manufacturing, and commercialization of animal health medicines for livestock and companion animals. Zoetis—spun off from Pfizer* in 2013—has a broadly diversified business across geographies, species, and product categories. In our view, the animal-health industry provides steadier and more predictable growth prospects than human health, due to lower generic threats, lack of third-party payers, and faster and lower-risk R&D cycles. As the global market-share leader in this growing but consolidating industry, we believe Zoetis is best positioned to benefit from durable secular trends, including rising demand for animal proteins, a growing need to improve livestock productivity, and increasing ownership and spending on companion animals. This leadership position provides Zoetis with brand recognition, pricing power, and scale advantages. Zoetis was a pioneer in developing livestock medications and continues to feature a highly innovative and productive R&D engine across both livestock and companion animals. Beyond its leadership position and pipeline, we view its salesforce, management team, and strategic M&A potential as key differentiators.

The featured portfolio companies, Dexcom Edwards Lifesciences and Zoetis are the sole life sciences holdings in the Focus 20 portfolio (as of 9/25/2021), which is what Alliance Trust invests in.

*Pfizer is not a current holding in any Sands Capital strategy.

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There is no assurance that any securities discussed will remain in the portfolio or that securities sold have not been repurchased. You should not assume that any investment is or will be profitable. GIPS® reports and additional disclosures for the related composites may be found at Sands Capital Annual Disclosure Presentation.

1 "Biotech Went to Work as the World Stayed Home," PitchBook, March 30, 2021.
2 The Human Genome Project, https://www.genome.gov/human-genome-project
3 "Ageing and Health," The World Health Organization, https://www.who.int/news-room/fact-sheets/detail/ageing-and-health

THE INVESTMENT STORY IN CHINA

By Alliance Trust

There are schools of thought on investment in China at the moment: back out, stay in, re-purpose, ie switch stocks. And why – well it all depends on the stocks impacted by the Chinese Government's implementation of regulatory policies which broadly seek to clamp down on stocks which perform contrary to the greater good of the community (Common Prosperity), such as – in this current swathe of regulation targets - technology stocks, ie gaming stocks, private online education services companies and food delivery companies[1].

While some investors have backed out, seasoned and long-term investors are less alarmed particularly by China's move to protect its state by clamping down on anti-competitive practices and big tech firms especially with dual listing. These investors see such activity as nothing new. Those that want to stay in – and argue who can realistically opt to stay out of the second largest economic presence in the world? – look instead to other options, which are, not surprisingly, very often those which benefit the state.

The background to the sectors where China has placed restrictions is fascinating. The crackdown on the K-12 private tutoring sector comes from the rampant growth of the tutoring business that has exacerbated parental anxiety and increased the cost of child rearing. As demographics in China are aging rapidly, the government is promoting policy to increase birth rates and for-profit tutoring is viewed as hindering this goal[2].

Then the Government has put limits on video game play time[3] for minors aimed at reducing screen time (e.g., preventing eye issues such as dry eye problems in younger age demographics), reducing obesity in youth, addressing addiction (and other mental health issues), and as the younger generation matures and enters the workforce to increase productivity.

Meanwhile the impact to the food delivery business is more around providing proper pay and benefits to drivers, so labour reforms.

WHAT THE MANAGERS SAY

We asked our managers how they see the country and its attractiveness or otherwise for investors and where their focus should lie.

Rajiv Jain, founder of GQG, is among those who have reduced their exposure to China recently. Alarmed by the government's interventions in the economy, he now has more capital invested in Brazil and Russia across his firm's portfolios than he does in China despite its much larger role in the global economy. Ever pragmatic, he will nevertheless be monitoring developments in case attractive opportunities arise from market upheavals[4].

Bill Kanko is Founder and President of Black Creek Investment Management acknowledges that there is both concern/risk and opportunity with respect to the recent tightening of regulation in China.

"The risk is that the market becomes less investible due to restrictive policy decisions, but the opportunity comes if this "crackdown" is temporary and eases (i.e., substantial growth opportunities in the world's second largest economy)," he says.

Black Creek's contrarian nature means it finds many of its best ideas where others are not looking.

> "We continue to do our due diligence and there is the potential to take advantage of further share price weakness and broad investor pessimism," says Kanko.

Black Creek has limited direct exposure to Chinese technology stocks. One it is likely to continue to hold is Baidu, the largest Internet search engine in China with an over 70% market share, where it derives significant advertising revenue. Baidu is a technology-driven company and is considered a leader in artificial intelligence (AI) research, including technology for autonomous vehicles. It is also growing its cloud computing service offerings in China and Southeast Asia and is considered a

1. https://www.bloomberg.com/news/articles/2021-08-11/china-signals-regulatory-crackdown-will-deepen-in-long-push
2. https://www.reuters.com/world/china/china-says-private-tutors-will-not-be-able-offer-classes-online-2021-09-08/
3. https://www.theguardian.com/world/2021/aug/30/china-cuts-amount-of-time-minors-can-spend-playing-video-games 4. Source: GQG Partners, September 2021

leader in AI cloud services in China. Kanko considers the company's valuation is attractive, particularly when the value of Baidu's stake in iQiyi (a streaming service in China like Netflix) and its excess capital is considered[5].

"We view the industry wide campaign to increase data protection and ensure fair competition as positive for China's technology sector's development given an increasing compliance burden will further cement the leading positions that companies, such as Baidu, have built over the previous decade," says Kanko.

Hugh Sergeant, Head of Value and Recovery Equities at River and Mercantile, also holds Baidu. While to some extent understandable to Western investors, the concerns that have led to reforms in China have caused uncertainty.

"Some share prices have fallen greatly, with digital economy related indices down 50%," says Sergeant. "Many shares have become exceptionally good value as a result." Baidu is one Sergeant says his team has been adding to.

"Baidu has only modest direct exposure to the areas of increased regulation, its core market of internet advertising being competitive and its areas of growth, such as Artificial Intelligence and Autonomous vehicles, being areas that are strongly supported by the Chinese Communist Party (CCP). Stripping out the material value attached to their growth investments, the core search business is on a single digit earnings multiple and a double-digit free cash flow yield and is still growing robustly," he says.

There are also value opportunities amidst the changes and uncertainties. As Sergeant points out there are attractive, long-term growth opportunities, huge innovation, a large and increasingly well-educated workforce which is hard working and entrepreneurial, and a growing equity market that remains very under-represented in global indices. But in the short term he says much of this is offset by the significant uncertainties thrown up by a period of intense regulatory change.

"As value investors, we do think the significant corrections in share prices

catalysed by the aggressive discounting of these uncertainties have created many attractive investment opportunities, but do accept that these will only prove to be high return investments if you believe the Chinese Communist Party (CCP) remains supportive of the role of private (and foreign) capital in providing the bedrock for the economic growth and 'common prosperity' that they have to deliver to their people. We believe they will struggle to deliver their prosperity mandate without State Capitalism and, as a result, are comfortable to add to the positions we have built in stocks with exposure to China[6]."

He adds that the digital economy already accounts for over 30% of China's GDP and is a key pillar of growth and for multiple reasons there is a desire to compete with the US in this area.

"There should be little desire to impair the long-term growth of this part of the Chinese economy," he says.

Despite value or contrarian opportunities in China, there are potential implications for Chinese companies abroad. Changes which have come about over government concerns over inequality, high cost of living, low birth rate and a rapidly aging population are developing alongside a more adversarial relationship with the West, and especially the US, where many of China's largest companies are listed, according to Rob Rohn, founder and manager at Sustainable Growth Adviser (SGA).

Rohn says while Chinese companies have for years been encouraged to grow rapidly and achieve hyperscale to compete with global peers, and the Chinese government has always exercised oversight in the internet space, most regulatory actions were relatively modest and allowed for quick remediation by businesses. Now he says, given the critical role internet companies play in the Chinese economy today, and their highly sensitive data assets, the Chinese government is shifting to a more active and aggressive approach.

"Such actions negatively impact the future profitability of businesses or, in extreme cases, change fundamental business models as demonstrated in the education sector where for-profit tutoring has been effectively nationalized," says Rohn. "We are concerned there will be additional regulatory actions limiting profitability, withdrawing favourable tax treatment, curtailing variable interest entity (VIE) structures and restricting data access. Since the Chinese legislative process is opaque, and President Xi Jinping has consolidated his power as head of the Chinese Communist Party, shareholders

5. Source: Black Creek Investment Management Inc, September 2021
6. Source: River and Mercantile, September 2021

may have little warning of significant regulatory change. In addition, the growing hostility with the West may result in pressure on Chinese and non-Chinese companies engaged in cross-border business, as well as the delisting of Chinese securities on overseas markets."

However, Rohn says he does not believe the changes signal an end to the potential for successful foreign investment in China.

"While the size of the country's GDP is approaching the US, GDP per capita is well behind the developed world and will remain a strong secular growth engine as it rises. The key for future investment is to position alongside this growth, while minimizing exposure to the less predictable regulatory actions of the Chinese government."

SGA has exposure to Chinese growth via companies such as Hong Kong-based AIA Group, which has a fast growing business on the mainland as the hierarchy of needs of the middle class moves to insurance and financial products. It also recently added Mengniu Dairy to its Qualified Company List[7], which as the leader in Chinese milk and milk products, is providing access to healthy nutrition to a population demanding more protein as their incomes rise.

"We recognize that recent changes have heightened the risk of investing in China, but it is important to remember that China has a rich history of entrepreneurship and innovation, represents nearly 20% of the world's population, and has been a major growth engine for world GDP in the last few decades as hundreds of millions of its population emerged from poverty into the middle class," says Rohn[8].

The key is to identify those companies that can sustainably grow and compound shareholder value over the long-term, leveraging powerful secular growth drivers such as China's continued transition towards a consumption-led economy.

China's current social, as it were, focus on 'common prosperity', sharing of wealth, fair employment rights in terms of pensions, pay and health plans for example and equality in terms of education, property and healthcare could be seen as commendable. It could salve investor concerns of human rights issues. Further, future targets may also appeal.

"China's policymakers have identified four main pillar industries, namely energy conservation and environmental protection; biotechnology; next generation information technology; advanced machinery and equipment, in short, what some refer to as 'new infrastructure' development. Companies focusing on these areas may provide good long term sustainable investment opportunities if they benefit from long term competitive advantages and are available at attractive valuations," says Andy Headley, head of global strategies at Veritas Asset Management.

"Whilst the short-term landscape has unsettled investors views on the likes of Alibaba, it's highly probable the company will continue to play a pivotal role in supporting growth within the Chinese economy and benefiting from digitalisation in all aspects of life. One area likely to grow significantly is Cloud infrastructure, which is still in an early stage in China and an area in which Alibaba not only exceeds but is on the cusp of turning profitable," Headley concludes[9].

Craig Baker, who chairs the Alliance Trust Investment Committee, is sanguine about the portfolio's exposure to China. He says: "We remain convinced that China is an exciting long term investment opportunity and that it will play a much bigger part in the global economy and stock markets in the future, albeit in a potentially more politically polarised world.

"However, successful investing in China is all about being highly selective, which is why we've got expert stock pickers on the job, as opposed to taking a big bet top-down on the country, which could easily backfire".

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7. Companies that meet the characteristics that SGA looks for and that have passed their rigorous fundamental research process. SGA then build portfolios from the Qualified Company List by selecting those companies they have the highest conviction in.
8. Source: Sustainable Growth Advisers, September 2021 9. Source: Veritas Asset Management, September 2021

EQUITY MANAGER SPOTLIGHT

VERITAS ASSET MANAGEMENT

Veritas — Asset Management

ANDY'S VIEW

Andy Headley
Head of Global Strategies

At Veritas, in order to generate real returns that translate into returns that exceed the MSCI in a predictable manner, we seek to invest in sustainable companies over the long term (5-10+ years).

There is much use of the word sustainable, but we use it in a broad context: we seek to populate a Universe List of companies which demonstrate a high sustainable return on capital, generate high sustainable free cash flows, possess high sustainable barriers to protect those future cash flows, benefit from enduring growth drivers and run by management that are forward thinking and aligned with shareholders. These companies, if bought at the right entry points, may generate excellent returns over the long term.

At times, we will need to remain patient before entering a new position if not afforded the opportunity by a fall in markets (as in Q1 2020). Often the opportunity will result from what we believe to be a short term concern (e.g. drop in elective surgery for lifestyle diseases during the pandemic). We believe management that is forward thinking and aligned, are more likely to run sustainable businesses. We believe well governed companies are more likely to adapt to environmental factors including climate change risk and where there are gaps (e.g. are targets science based?), open to engagement. We are undergoing a process of assessing companies along Task Force on Climate-related Financial Disclosures TCFD guidelines and will engage where necessary.

CANADIAN PACIFIC RAILWAY FAST FACTS

Founded
1881

Headquartered in **Calgary,** Canada

11,890 employees

CEO:
George Stephen, 1st Baron Mount Stephen

Canadian Pacific Railway (CP) is Class I freight railway that runs across Canada and into North America. Not only does the network provide a high barrier to entry, the company has completed an efficiency upgrade with the introduction of Precision Scheduled Railroading. Essentially freight trains operate on fixed schedules, much like passenger trains, instead of being dispatched whenever a sufficient number of loaded cars are available. This saves customer's time and money and affords CP pricing power.

The company is looking to extend its network into Mexico by buying Kansas City Southern railway. KCS would give CP the advantage of creating the only rail network that cuts through all three North American countries, which becomes increasingly important following the trade pact between the countries and the onshoring of some companies from China following trade war concerns. Mexico is a crucial supplier of automobiles, electronics and food and a major customer of grain, fuel and consumer goods. CP transports everything from food crops, cars, imported finished goods and some oil and metallurgical coal (approximately 9%). Because it transports some oil and coal, it has been classified as a fossil fuel company by some data providers. This however misses the impact the company has on carbon transition. The transportation sector accounts for the second most greenhouse gas emissions in both Canada (28%) and the United States (29%). Railways move approximately 70% of all freight on a tonne-kilometre basis in Canada but only account for 3.3% of the greenhouse gas emissions from the transportation sector. Railways are on average 4 times more fuel-efficient than trucks and CP offers shippers an opportunity to move their products with less greenhouse gas emissions. CP is educating customers (and exploiting an opportunity) that transporting goods by rail will help lower their customers carbon footprint, something which will become increasingly important if not mandated.

Despite the greater energy efficiency, locomotive fuel consumption at CP is the second largest operational cost. As such, fuel conservation is a driving factor in financial performance and directly related to CP's compensation plan. The company continues to invest in a modernisation program which includes technological upgrades, fuel efficient engines (including testing a hydrogen powered engine), enhanced cooling systems and efficiency improvements like a new covered hopper car for carrying 44% more grain but is shorter and lighter than the previous version. The company is to implement Task Force on Climate-related Financial Disclosures ("TCFD") recommendations within the next 18 months, including more formal climate-related scenario testing. Changing weather patterns and climate conditions are influencing changes in where certain crops are now being produced beyond traditional growing regions (e.g. corn increasingly grown in more northern areas). These changes result in shifting demand for logistics services and infrastructure to new regions of CP's rail network. We will continue to monitor managements progress.

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EQUITY MANAGER SPOTLIGHT

VULCAN VALUE PARTNERS

VULCAN VALUE PARTNERS

C.T'S VIEW

C.T. Fitzpatrick
Founder and CEO

At Vulcan, we approach investing with a dual discipline. We only buy companies that we believe possess characteristics that create value stability. If a company does not have a stable intrinsic value, we have no interest in owning it at any price. On the other hand, we care very much about the price we pay for these outstanding businesses.

Any business, no matter how competitively entrenched it is, becomes risky when it is over-valued. Many of the businesses we follow are over-valued most of the time, but we are patient. We wait for them to become discounted to our estimate of intrinsic worth so that we can change a margin of safety in terms of value over price.

The companies we own have stable values and the values of these businesses are growing. Our dual discipline improves our ability to respond quickly to inevitable disruption and market volatility. We are therefore ready to execute when an opportunity comes our way.

STOCK SPOTLIGHT: TRANSDIGM GROUP INC.

TransDigm Group Inc. is an aerospace manufacturing firm that provides highly engineered, niche components for use on commercial and military aircraft. The vast majority of the company's profits come from aftermarket sales. Most of its products are small volume, low-cost items that are sole sourced from TransDigm. It is economically unlikely for a new company to compete on any particular product, because volumes on individual components are not large enough to justify the investment in manufacturing facilities and regulatory approval.

The company produces high levels of free cash flow, has stable margins, a strong business model, and an effective, shareholder-oriented management team who are good capital allocators.

We have followed this business for years and it has rarely been discounted enough to make sense in our portfolios. In 2020, the uncertainty created by the COVID-19 pandemic provided an opportunity to purchase shares at a meaningful discount to our estimate of intrinsic value.

As patient investors, we make decisions through a long-term lens. Headwinds to global air travel still exist, however, Transdigm's competitive position as a key supplier to aerospace OEMs is intact and expanding.

TRANSDIGM GROUP INC.
FAST FACTS

Founded
1993

14,200 employees (at 2020)

CEO **W Nicholas Howley**

$5.1bn
Revenue of more than **$5.1bn** in 2020

Recently: Gave **US$1bn** to children-in-need sight care charity

Headquartered in **Cleveland,** Ohio

View the latest Stock Pickers interviews here

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PORTFOLIO UPDATE

Over the third quarter of 2021, the Company's total shareholder return and NAV total return were 2.5% and 1.1% respectively, with the MSCI All Country World Index (ACWI) returning 1.4%.

Over the quarter, equity market returns were broadly flat in local currency terms, as concerns about general inflation pressure, energy price rises and supply chain disruption in September resulted in negative returns, wiping out much of the prior gains made in August. The moderate positive return of the MSCI ACWI benchmark in sterling terms was consequently largely driven by currency factors as the pound declined in value over the quarter relative to the dollar and other major global currencies. Top performing regions over the quarter in local currency terms were Japan and the UK. Mining, Air Transport and Insurance sectors drove positive returns in Japan, while consumer discretionary and industrial sectors led the way in the UK. Emerging markets and Asia (ex-Japan) were the weakest regions, particularly held back by China (both onshore and Hong Kong listings), where earlier in the quarter a regulatory crackdown on the private education and technology sectors had knocked investor confidence, and in September fears mounted around the potential default of property developer Evergrande and the potential knock-on impacts that such a default could bring.

Within the portfolio, Alphabet (Class A) was the leading contributor over the quarter, delivering an absolute return of 12.1%. The parent company of Google announced record revenue, increasing by almost 70%, which exceeded analysts' expectations. This increase in revenue was driven by an increase in advertising spending as consumers continue to shop online during the pandemic. Salesforce.com Inc was another key contributor to return over Q3. The acquisition of Slack, a business communication platform, in July opened up the opportunity to provide remote working to consumers globally, while also boosting revenue substantially for Salesforce. In contrast, both Alibaba and Baidu were detractors from performance in light of China's recent regulatory crackdown on the largest technology companies in the country.

Alibaba in particular was imposed with an antitrust probe as part of the regulatory enforcements. Despite this, the Company's Stock Pickers expect Alibaba and Baidu to continue to play a pivotal role in supporting growth within the Chinese economy and to continue to benefit from digitalisation. Alibaba is leading in Cloud infrastructure which is still early-stage in China. While Baidu is the largest search engine in China with over 70% market share and is also a leader in Artificial Intelligence (AI) research, including research into autonomous vehicles. The digital economy already accounts for 30% of China's GDP and the share will continue to grow as China challenges the US in this area. Hence, these companies continue to offer attractive long-term growth opportunities.

Over the quarter, a position was established in Adyen, a Dutch payment company. The business's technology, in addition to its operational infrastructure and partner ecosystem, provides a wide competitive moat which is strengthened by the virtuous cycle of share gains, more data, and better risk decisions. Furthermore, a position was established in healthcare company Cigna, which provides a broad range of medical cover to consumers worldwide. In contrast, the position in biotechnology company Illumina was eliminated following concerns around potential Federal Trade Commission interventions in future acquisitions, which could stagnate the company.

Over the quarter, we maintained the level of gross gearing at the central target level of 10%. Some rebalancing took place as markets favoured different styles over the quarter in order to capture profits, however the portfolio continues to be structured as style neutral, across skilled stock pickers with different investment approaches in order to maintain a high conviction, diversified portfolio.

LEARN more about the latest portfolio price and performance here

Companies mentioned are for informational purposes only and should not be considered investment advice.
Past performance is not a reliable indicator of future returns.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases - Q3 2021	% of Equity Portfolio purchased	Value of stock purchased (£m)
Heineken	0.7	27.3
NRG Energy Inc.	0.4	15.3
Cigna	0.4	15.0
Molson Coors Beverage Company	0.4	14.8
Petroleo Brasileiro	0.4	13.5
Lithia Motors Inc.	0.4	13.2
Doordash Inc.	0.3	11.2
CVS Health Corporation	0.3	10.5
Booking Holdings Inc.	0.3	9.8
News Corp	0.3	9.5

10 largest sales - Q3 2021	% of Equity Portfolio sold	Value of stock sold (£m)
HCA Healthcare Inc.	0.8	29.1
IHS Markit Ltd.	0.8	29.0
Alibaba Group Holding	0.6	23.2
Novo Nordisk A/S	0.4	16.1
Pearson PLC	0.3	12.3
Samsung Electronics Co.	0.3	11.6
New Oriental Education & Technology	0.3	11.4
Howden Joinery Group PLC	0.3	10.9
Alphabet Inc.	0.3	10.6
Illumina Inc.	0.3	10.6

UPDATE ON BUYBACKS

At the AGM in April 2021, shareholders approved for the Company to purchase and cancel up to 14.99% of the issued share capital. In the period since the AGM to 30 September 2021, the Company purchased 5.3 million shares at a cost of £52.5 million. In this period the discount ranged from 5.0% to 7.2% and on days shares were purchased the discount range was 5.1% to 7.2%, with an average discount of 6.1%.

In the period from 1 January to 30 September the discount has ranged between 2.7% and 9.3%. In this period the Company purchased 10.2 million shares at a cost of £97.0 million on days shares were purchased, the discount ranged between 5.1% and 9.3% with an average of 6.2%.

The Trust continues to watch the discount closely, and will carry out further buybacks if the discount shows signs of widening significantly over sustained period.

DISCRETE PERFORMANCE (%)

From To	30 Sep 20 30 Sep 21	31 Sep 19 31 Sep 20	30 Sep 18 30 Sep 19	30 Sep 17 30 Sep 18	30 Sep 16 30 Sep 17
Total shareholder return	26.5	3.9	5.1	10.0	27.0
NAV total return	26.1	3.8	4.0	10.8	19.9
MSCI ACWI total return[1]	22.2	5.3	7.3	12.9	14.9

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 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.

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Past performance is not a reliable indicator of future returns.

Notes: All data is provided as at 30 September 2021 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.

1. MSCI All Country World Index Net Dividends Reinvested.

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 that 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

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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 is 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.

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