Connection

If you want to put some energy into your investment portfolio, look no further than how Alliance Trust and its Stock Pickers have done it for you.

Energy – broadly – is the protest issue of choice these days, behind the cost-of-living crisis (in which it plays a key part) and the war in Ukraine (which is also key to energy shortages); energy protests toggle between outrage at rising costs and outrage at our using fossil fuel for energy in the first place.

So you'd think any investor or fund manager wanting to demonstrate their ESG credentials would be disinvesting pretty sharpish.

Well, no, not necessarily – for there is the school of thought that if as a planet we are going to achieve zero carbon emissions, we need to work with the worst offenders to help them get there, which invariably means energy and mining.

The argument goes that investing in higher-carbon emitters, such as more traditional fossil fuel-based energy-producing companies, should not be ruled out, as excluding such stocks is counterproductive to achieving future zero carbon emission gains.

> Alliance Trust for example, is committed to a target of net zero greenhouse gas emissions by 2050 and to halving them by 2030, but believes that it is wrong to punish industries or countries facing the biggest hurdles in moving to a low-carbon world.

Mark Atkinson, Head of Marketing and Investor Relations at Alliance Trust, says, "Starving such companies of funding at a time when they most need it, may be more harmful to a successful shift to a low-carbon economy."

"Avoiding investing in certain industries and companies entirely or selling out of existing investments in companies whose activities harm the climate, are options. But this may not bring us closer to a more resilient economy or benefit wider society, so we use those options sparingly."

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.

Past performance is not a reliable indicator of future returns.

"Although their carbon footprint might be significant now, we believe many of these companies are also part of the solution, not only because they have plans to align their carbon reduction trajectory with the Paris Agreement, but also through researching and investing in alternative energy sources and carbon capture technology."

Alliance Trust Portfolio fossil fuel-based investments include, among others, BP in the UK, Exxon Mobil in the US and Petróleo Brasileiro in Brazil, as well as Reliance Industries and PetroChina. The company disinvested Gazprom, Rosneft and Lukoil earlier in the year.

Jupiter Asset Management, in its Stewardship Report writes, "We continue to believe that if mining companies have high-quality management teams, the sector can be investable for ESG-conscious investors, and that these companies will play a crucial role in the global economy and in energy transition for many years to come."[3]

PROVIDING SOLUTIONS

The climate change transition also offers opportunities for investors through companies that are addressing climate resilience, and some of these are traditionally 'dirty' sectors but are working on developing more energy-efficient alternatives. And there are innovative companies providing new technology and/or solutions to other companies helping the economy to reduce climate-related risks, in a range of sectors, not just energy, including agriculture, industrial and building solutions among many others.

Positive solution stocks include Bureau Veritas, Schneider Electric, Kubota Corporation and ANDRITZ.

Bureau Veritas is a global leader in the provision of carbon and energy consultancy, verification and certification services. Its team of experts support the development of bespoke energy and carbon management strategies to set objectives, targets and management plans, helping companies in their decarbonisation journey.

Schneider Electric SE is a French multinational company, providing energy and automation digital solutions for efficiency and sustainability. It addresses homes, buildings, data centres, infrastructure, and industries, by combining energy technologies, real-time automation, software and services. It was ranked the world's most sustainable corporation by Corporate Knights, the media, financial information and research company, in 2021.[4] It helps customers reduce their carbon footprints via products and software tools that optimise energy management and industrial processes.

Kubota Corporation is a Japanese multinational corporation, focused on the manufacturing of a wide range of products and technologies to provide solutions in the areas of food, water and the environment. This includes agricultural machinery, construction equipment, engines, pumps and equipment for water purification, sewage treatment and air conditioning. The company offers smart agriculture products, to enhance crop yield, as well as water solutions including water treatment systems, from water purification, sewage purification and wastewater treatment.

Finally, **ANDRITZ** is an international technology group providing plants, systems, equipment and services for various industries. ANDRITZ Hydro is a global supplier of electromechanical systems and services ('from water-to-wire') for hydropower plants, and one of the leaders in the world market for hydraulic power generation. ANDRITZ offers technologies for producing steam and electricity from renewable fuels, as well as the efficient use of traditional fossil fuels.

Simon Denison-Smith, Co-founder and Portfolio Manager at Metropolis Capital, holds ANDRITZ. "Within its Hydro division, the climate agenda is driving renewed interest, particularly in pumped storage hydroelectricity, where hydro plants are effectively used as batteries to store energy generated by wind and solar, which is not always generated synchronously with demand," he says. "ANDRITZ has 40% of this market. Furthermore, the existing installed base of hydroelectric power plants is ageing, and ANDRITZ is well

3. Jupiter Asset Management, Stewardship Report, April 2022.
4. www.corporateknights.com/leadership/top-company-profile-schneider-electric-leads-decarbonizing-megatrend25289/

positioned to take a share of the long-term need to upgrade and replace these old stations."

Denison-Smith adds, "We do not invest in companies with serious ESG issues. A key part of our investment analysis is to look at the disruption threats that every business faces from changes in the world around them. These disruption threats include changes in technology, changes in competitive intensity and changes in demand.

"One of the biggest areas that we focus on is the threat of increased regulation. Thinking about a business from the point of view of regulation (which includes all government action and taxation policies) enables us to pinpoint potential issues which could compromise its cash generation over future decades."

"This approach led us to specifically exclude certain industries such as thermal coal and tobacco. More generally, it has ensured that our portfolio has very good social and environmental characteristics with very low carbon and fossil fuel risk."

FOLLOW THE RESEARCH

If you are determined to invest in companies with good ESG credentials, look to see how they have engaged to gain those credentials themselves, or have engaged with companies that can advise them. A study – ESG shareholder engagement and downside risk – which uses engagement data from responsible investment fund manager EOS at Federated Hermes (formerly Hermes EOS), reveals that companies that are successfully engaged by EOS exhibit a lower risk profile, particularly when environmental issues are tackled.[5]

Dr Michael Viehs, former Head of ESG Integration, Hermes Investment Management, says,

"Companies with better ESG credentials have on average a lower chance of going bankrupt, more stable cash flows, and are more resilient to external ESG shocks, such as tightened regulation on pollution and climate change."

While zero targets are one essential measure, they are not everything, and while working from within is key, there are still cases for exclusion. These for Alliance Trust are firms making a significant amount of money from activities likely to be phased out in the net zero world, for example thermal coal and tar sands are major sources of greenhouse gas emissions, and highly pollutive and environmentally damaging.

BEWARE IMITATIONS!

Investors need to be alert to comp anies paying 'lip service' to ESG targets, virtue signalling and 'greenwashing', i.e., claiming to be more ESG legitimate than they are. Even the most earnest may be missing the mark.

In its report 'Absolute Impact: Why oil and gas companies need credible plans to meet climate targets', Carbon Tracker, the think tank that focuses on energy

5. www.hermes-investment.com/uk/en/individual/eos-insight/stewardship/shareholder-engagement-research/

Past performance is not a reliable indicator of future returns.

transition and investment in carbon-intensive fossil fuels, warns that net zero targets are not enough for companies to be aligned with the Paris Agreement – they need absolute limits on future emissions and significant interim targets.[6]

Mike Coffin, Head of oil, gas and mining at Carbon Tracker and report co-author, says, "Financial institutions must scrutinise companies' emissions targets, and whether their plans to achieve them are practical and credible, in order to assess alignment with global climate goals. This is particularly so for companies which seek to 'create space' for further fossil investment. The best way for companies to reduce both their climate impact and transition risk exposure for investors, is to allow their existing production to decline without investing in new assets."

Maeve O'Connor, Analyst at Carbon Tracker and co-report author, adds, "Oil and gas companies are gambling on emissions mitigation technologies that pose a huge risk to both investors and the climate. Most of these technologies are still at an early stage of development, with few large projects working at anything like the scale required by company goals, while solutions that involve tree planting require huge areas of land. It remains to be seen whether these technologies will be technically feasible or economically viable, given the huge costs involved."

The process is, however, naturally a changing one. "Our sense of what business activities we must exclude, will evolve," says Mark Atkinson. "However, we generally prefer engagement over exclusions. Having candid but productive discussions with companies on their climate impact is likely to be more effective in decarbonising the global economy than exclusions."

CASE STUDY – BP

Ben Whitmore, Co-portfolio Manager, Jupiter Asset Management, says it remains a long-term, engaged shareholder in BP. "We believe the oil and gas sector faces a profound challenge in adapting to the energy transition, and that BP is better placed than others to manage the transition effectively, due to the greater operational flexibility it developed in the years following the Macondo crisis."

"Following shareholder engagement, BP unveiled a radical new climate strategy to achieve net zero emissions by 2050, including emissions generated by the use of its products. As an interim measure, BP aims to reduce oil and gas production by 40% by 2030. We believe BP has an ambitious and credible decarbonisation strategy, and is taking steps to align its business model with net zero. Our engagement objective, aligned with CA100+, is for the company to show year-on-year progress towards its long-term objectives and lay out a roadmap to net zero, with further detail on how this will be achieved."

Stephanie Spicer, Head of Content, Quill PR

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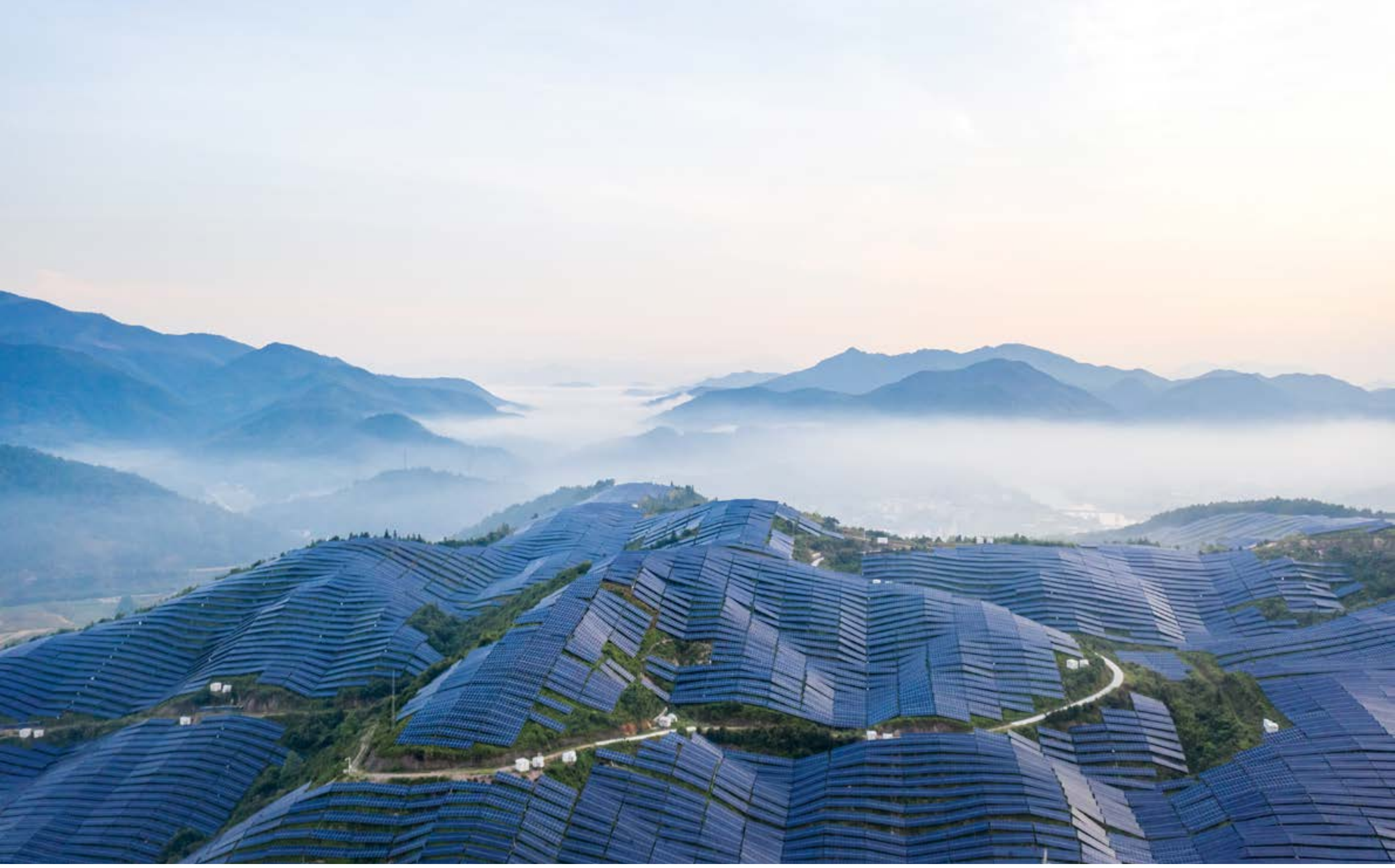

6. carbontracker.org/reports/absolute-impact-2022/

Kenneth Axford, a truly long-term investor

We tell the story of one shareholder who's been investing with Alliance Trust for generations, literally.

When markets are falling, it's tempting to cut and run. But history shows that it's important to stay invested through turbulent times, however scary they may seem at the time, as missing the best days of the eventual recovery can have a large impact on returns generated in the long term. Kenneth Axford, aged 70, and his family can vouch for that. Personifying our tagline, 'Investing for Generations', they have been shareholders in Alliance Trust since it was founded in 1888. Indeed, Mr Axford believes his great-grandfather, T.H. Smith, was among the Company's founders.

"He and his father were property developers as well as being involved in the jute trade, inevitably, although I can't remember which mill," says Mr Axford. For anyone unfamiliar with the history of Dundee, the city was famous towards the end of the Victorian era for its three Js – Jute, Jam and Journalism. The jute trade has gone from the city, as has Keiller's, the first commercial brand of marmalade in Great Britain, although journalism remains strongly represented by DC Thomson, publisher of The Beano and The Dandy, as well as the Dundee Courier. DC Thomson's investment in the Trust also goes back to the beginning and it remains a major shareholder in Alliance Trust today.

The profits that flowed from these great 19th-century and early 20th-century industries helped to make Dundee an important source of overseas investment, especially in North America, where Alliance Trust helped to fund the early pioneers, farmers and businesspeople, as they moved westward across the United States, buying property and land in what was then an emerging market.

There have been many political and economic crises since then, not least two World Wars and the Great Depression, and the Trust is now fully focused on investing in company shares worldwide, rather than American mortgages or land. But it has remained at the core of Mr Axford's family's investment portfolio throughout the last 134 years, and he is now adding to his holding (via his ISA) when he has spare cash. His only regret is selling too many of the original Company's shares that he inherited from his mother, to deal with a difficult family situation.

"I wish I hadn't sold them now, as the Trust has done very well in recent years," says Mr Axford. "Having grown up in Dundee, I have always taken an interest in the city, and particularly in recent years since I retired, I feel the Trust has been doing very well. It's got, shall I say, its mojo back. I'm hanging on to the shares I've still got in certificated form for dear life. I've also got them in my ISA, which is with Hargreaves Lansdown, where I'm buying a few more shares, slowly, because they're quite expensive now compared to what they were. I'm gradually building them up again among a few other things, mainly investment trusts and one or two company shares."

"Having grown up in Dundee, I have always taken an interest in the city, and particularly in recent years since I retired, I feel the Trust has been doing very well. It's got, shall I say, its mojo back."

Now retired and living in Birmingham, where he served part of his career as a Conservative Party agent and subsequently retrained as a nurse, Mr Axford says he still feels Dundonian at heart, and that the Alliance Trust is a major part of his portfolio, which includes other shares and some buy-to-let properties in Dundee. "I've split some of what I have invested in my ISA to my wife Sue [to whom he got engaged at the Conservative Party Conference in Brighton the night the IRA bomb went off in 1984], because it makes sense if I decide to depart this life first, that she's got a certain amount more capital available to help keep her going.

Past performance is not a reliable indicator of future returns.

My first concern is that if I shake off my mortal coil, Sue is comfortable. I feel that's my first responsibility, but I am conscious that I've inherited my Alliance shares coming down the family line."

Mr Axford, who has three grown-up children, is currently considering running down his property portfolio, which, after tax and other regulatory changes, no longer offers the advantages it once did, and putting more of his capital into investment trusts. He and Sue are also shortly moving to a smaller house in a village just outside Birmingham for a more peaceful life, away from the now frantically busy road that the street they now live on has become.

But his heart remains in Dundee, where his great-grandfather, as well as being part of the foundations of Alliance Trust, built a big house in the affluent neighbourhood of Broughty Ferry, called Aystree House, on Victoria Road. "I understand my great-grandfather's company was called Tay Street Builders, and if you take the 'T' off the Tay (the name of Scotland's longest river, which flows out to the sea via Dundee) and the 'T' off the end of the 'Street', you've got Aystree. Aystree is quite a well-known landmark in Broughty Ferry. It's been converted into flats for many years, but my great-grandfather brought his family up there."

Today, the main house of the A-listed mansion, built in the Arts and Crafts style, is reputed to house the finest collection of Liberty of London furniture in Scotland.

Soon after the house was built in 1903, Winston Churchill became the local MP, although his frequent absence from Dundee on cabinet business, combined with bitterness and disillusionment caused by the Great War, strained this relationship and led ultimately to his refusing the offer of Freedom of the City in 1943. Mr Axford, by contrast, retains nothing but affection and gratitude for his connections with the city, and with the financial gains he and his family have made through their investments in Alliance Trust. "It's a core part of what I hold, and there's no way I'm parting with it," he says.

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IT'S A ROLLOVER! STOCK SELECTION IS NOT A LOTTERY

Investing long term is a good policy but sometimes the time is right to sell a stock. Alliance Trust Stock Pickers explain why they have done just that over the past year.

There is often concern when there is high turnover of stocks in a portfolio investing for long-term returns and a fear that it reflects a poor choice initially and a possible loss on sale. That may be true, as even the best Stock Pickers can make mistakes.

But there are invariably good reasons why companies are sold and new ones bought in their stead. Stock turnover can be good at the right time.

In this article we look at some examples of what stocks the Alliance Trust Stock Pickers have turned over and why – and what Stock Pickers the manager has turned over and why!

TURNOVER STATISTICS

To give an idea of how much movement there is within the overall Alliance Trust portfolio, 65.7% of the portfolio was subject to change in 2021 compared with 77.3% in 2020 which was significantly up from 52.3% in 2019 and 60% in 2018. While as we will see there have been some Stock Picker changes, there have also been some higher volatility periods in the market not seen since 2020, with COVID-19, inflationary pressures and the war in Ukraine. Higher volatility often means more opportunities arising for managers as stocks get unfairly penalised in sentiment driven markets.

Meanwhile H1 turnover 2022 was 32.7% of the portfolio.[1]

If those figures seem high, think of the highly unusual market conditions we've been living through the last few years, from the roller coaster ride through Covid 19 to rampant inflation fears of recession.

It's certainly not been plain sailing. Navigation skills have been required.

Specific examples of outright sales and buys year to date at in the Alliance Trust portfolio include LAM Research, Walt Disney, Lukoil, Rosneft Oil, Sanofi, Crown Holdings, which have all be sold, and ITC Limited, Total Energies, Recruit Holdings, Continental, Kyndryl, Ashtead, Danaher, Global Payments and Cloudflare which were new positions.

SOME SALES THAT REMAIN IN THE PORTFOLIO

It is interesting to look at how the individual fund managers bought and sold stocks in their portfolio selections in the last year. On occasions a manager may have exited a stock holding in their own list and yet it remains in the overall Alliance Trust portfolio because it is still held by another Stock Picker.

For example, GQG sold ASML Holding, the supplier to the semi-conductor industry, but it is still in the portfolio because it is held still by Sands Capital. Similarly, Charter Communications was sold by GQG but is still in the overall portfolio held by Veritas. And Heineken was sold by Sustainable Growth Advisers (SGA) but is still in the Alliance Trust portfolio held by GQG.

For investors querying stock turnover it is helpful to know why a stock is sold. So, for example, GQG sold ASML Holding in January, along with Charter Communications and LAM Research in March as the manager felt there were better risk adjusted opportunities elsewhere across the portfolio. GQG rotated its portfolio out of technology names towards energy as it feels this is where growth opportunities lie now.

SGA sold Heineken to replace it with what it saw as a more attractively valued growth opportunity in Recruit Holdings.

Rob Rohn, co-founding principal for SGA, explains: "Recruit owns leading job search engine Indeed.com as well as a variety of other online media and staffing businesses. Indeed, benefits from a dominant market share in the mass-market job search field and has established a reputation for reliability with employers leading to repeat customers and recurring revenues. Our research indicates a strong runway for growth in the online hiring market, and the ability of the firm to gain market share in its Media & Solutions business."

1. Turnover is the lesser of the value of stocks sold or purchased in the six-month period to the end of June, expressed as a percentage of the value of the equity portfolio;

Past performance is not a reliable indicator of future returns.

OTHER TURNOVERS

SGA in February bought Danaher and MercadoLibre selling PayPal and Meta Platforms in their place. However, Mercadolibre was not a new stock for the Alliance Trust portfolio as, it was already held by Sands and Meta is held in the overall portfolio by Veritas.

Danaher manufactures and sells scientific instruments and consumables used for testing/manufacturing across multiple industries.

Fraise says: "Danaher benefits from secular trends such as increased testing of food and drugs from increased regulation, increased demand for biological manufacturing, and increased investments into life sciences research.

"MercadoLibre, the leading e-commerce marketplace in Latin America and a leader in the region's nascent FinTech industry benefits from secular growth trends such as rising e-commerce penetration and digital payments. We have high conviction in MercadoLibre's growth opportunity and their ability to execute."

Individually, SGA also sold Disney and bought Intuit, the tax preparation and accounting software leader, seeing it as a more attractively valued growth opportunity.

"Intuit serves a broad, interconnected ecosystem of customers, accountants, financial institutions, and government entities who trust their products to manage highly sensitive financial information. As a result of its strong reputation, high switching costs, and its efforts to shift a majority of its SMB accounting clients to recurring online subscriptions, Intuit enjoys a highly recurring revenue stream while secular trends such as a shift toward DIY tax preparation supports a long-term growth opportunity," says Rohn.

GQG Partners sold Lukoil and Rosneft Oil in February and invested in other opportunities - ITC Limited, Visa Inc and Total Energies.

Rajiv Jain, chief investment officer at GQG says: "ITC is a tobacco company with a portfolio of other businesses including packaged foods and personal care products. The company is based in India. We like the visibility and profitability of the cigarette business since there is little innovation required. In addition, we believe that the tobacco industry has strong pricing power to combat an inflationary environment."

"Visa operates a transaction processing network that enables the authorization, clearing and settlement of payments among consumers, businesses and financial institutions. The company is based in California. We are optimistic on the recovery of consumer spending, particularly cross-border activity, as the pandemic wanes and leisure travel normalizes. In addition, since Visa's revenue is driven by the dollar amount of transaction volume, we think this business may act as an inflation hedge."

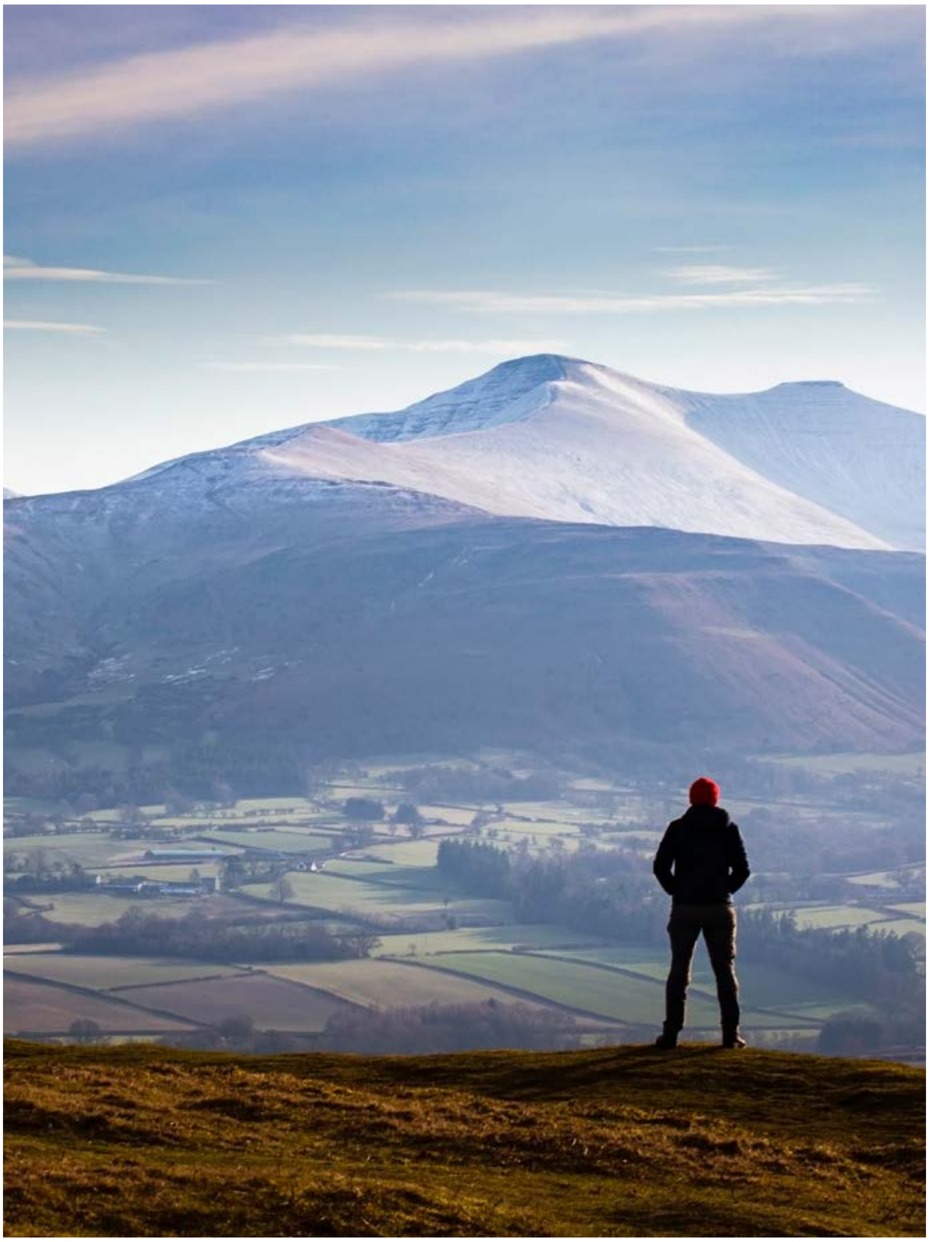
Total is an oil and gas producer with additional operations in liquefied natural gas (LNG), renewable energy sources, refining and petrochemicals. The company is headquartered in France.

Jain says: "We believe that Total has a strong management team and operates with one of the industry's lowest breakeven cost structures. We expect Europe to pivot away from Russia as a supplier of natural gas in the wake of Russia's invasion of Ukraine and think that Total is well-positioned to facilitate that transition with its LNG assets."

Jupiter Asset Management bought Intel in December last year.

Ben Whitmore, head of strategy at Jupiter says: "The business is the largest designer and manufacture of semi-conductors in the world. However, it has lost its technology leadership to TSMC over the last few years and competitors are taking market share. The new management are having to invest with the aim of regaining and then over-taking TSMC. This is depressing profits and causing people to rightly question the future. The shares trade on a Graham and Dodd PE2 of c.12x (interestingly slightly lower than Shell). This seems to us that the worries are reasonably reflected in the valuation and a recovery not.[2]

Then this March Jupiter switched its holding in Nokia into Continental.



2. The Graham & Dodds Price to Earnings Ratio, commonly known as CAPE or Shiller P/E, is a valuation measure usually applied to stocks or equity markets. It is defined as price divided by the average of ten years of earnings

Whitmore says: "Over the last two years Nokia shares have performed well under new management. The shares are fairly valued. However, Continental has performed poorly due to worries over the automotive industry and raw material pressures. The balance sheet is strong. The shares are now on a Graham and Dodd PE of just over 6x. To put this in context the long run average US stock market is approximately 18x and the current rating is 36x."

Finally in April, Jupiter took the opportunity to purchase Kyndryl, the newly renamed IT services company spun out of IBM.

"The shares trade on 2x ebitda and are the most lowly rated IT services company of a material size in the world when measured using price to sales," says Whitmore.

IN AND OUT... AND IN AND OUT AGAIN

It may seem odd to buy in and out and in again, to some stocks but there is method in the madness.

Metropolis sold Ashtead in October 2021 only to buy it again this January.

Jonathan Mills, co-portfolio manager explains:

"We exited this position in October 2021 to accommodate a new position in Hargreaves Lansdown which offered a much higher margin of safety. Due to recent price weakness, we have been able to rebuild the position in Ashtead at levels 16-18% below the October exit price."

To accommodate Ashtead, Mills sold Sanofi, which he says held up well during January and is trading close to his assessment of intrinsic value.

"We exited this position because the Share Price was very close to our assessment of intrinsic value, so we took the opportunity to add Ashtead back into our portfolio with a better return profile."

Sands in March purchased Cloudflare and sold Meta Platforms in its own right, but Alliance Trust still has the stock held by Veritas.

Cloudflare is an emerging network-as-a-service leader. Its roots are in content delivery networks and web security.

Michael Sramek, managing director and senior portfolio manager says: "Cloudflare's common, software-defined network architecture allows the business to compete in massive addressable markets while maintaining high gross margins."

With Meta we see differing assessments by managers.

Sramek says: "Usage across Meta's family of apps has been maturing, which makes revenue growth increasingly dependent on realizing higher ad prices. Our research into the effects of Apple's App Tracking Transparency framework has raised concerns about their ability to raise prices."

So why does Veritas still keep it in the overall portfolio and in fact increase its position?

"Meta had fallen significantly after it announced good results, but a cautious outlook based on headwinds, the most significant of which was impact on offering its customers advert targeting amid the privacy changes in Apple's iOS 14, which allows users to opt-out of data tracking," says Headley. "It also pointed to increased competition in short video format from Tik Tok. The position was added to after researching the detail and the potential workarounds."

The divergence neatly highlights the investment philosophy at the heart of Alliance Trust, 'diverse views, strongly held' and the fact that the portfolio is well-diversified with a unique blend of high-conviction stocks.

In April, Lyrical Asset Management sold global food and drinks cans provider Crown Holdings, replacing it in the fund with Global Payments.

Andrew Wellington, chief investment officer at Lyrical says: "Crown Holdings is a stable business with attractive growth that we were able to purchase at just a 9x P/E multiple in January 2019. The attractive nature of the business has been recognized by the market, and the P/E multiple has expanded more than 50% to 14x. The business is now more fairly valued, so we sold it from the portfolio and replaced it with Global Payments, one of the largest global processors of credit card transactions. Global Payments is a technology company benefiting from the growth trend of electronic payments replacing cash."

MANAGER TURNOVER

It is not just stocks that are turned over – in some cases it is the fund managers – the Trust's Stock Pickers that come and go.

River and Mercantile was removed March 2022.

Craig Baker, Chief Investment Officer at WTW and Chair of the Alliance Trust Investment Committee, appreciate of the five-year contribution the manager had made said: "Given the relatively small allocation we have had with them and some of the recent changes at R&M, we have taken this opportunity to reallocate this 6% of assets to some of the existing Stock Pickers."

In April 2021, Sands and Metropolis Capital were appointed.

Baker said:

"Sands and Metropolis have proved themselves to be highly skilled Stock Pickers with strong track records of adding value for mainly institutional clients. We believe they will bring differentiated sources of return to the Alliance Trust portfolio and provide further flexibility in terms of how we allocate capital."

Stock changes within a portfolio are not made frivolously and much research goes into it and processes followed. Still, one must acknowledge that buying and selling is as much an art as a science. Managers with different philosophies and processes will arrive at different conclusions about the same stocks. That doesn't mean one is right and the other wrong. By avoiding the sort of binary decision making you get in a single manager portfolio, Alliance Trust concedes it may run the risk of diluting returns from not having enough exposure to winning positions, but it also reduces the chances of making costly mistakes.

Stephanie Spicer, Head of Content, Quill PR

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THREE FEATURES ALLIANCE TRUST SEEKS IN INVESTMENTS THAT CAN FIGHT INFLATION

With the UK's latest Consumer Prices Index (CPI) reading 9.1%,[1] inflation is high – the highest in 40 years – having been creeping higher for many months. Although equities fare better than bonds during periods of rising inflation, many areas of the stock market come under pressure at such eye-watering levels. As a result, the Stock Pickers at Alliance Trust have been, for some time, thinking how best to invest in the portfolio to avoid the worst ravages of inflation: not all companies were born equal in the fight. In speaking about what features they look for, here we identify three themes that have emerged.

1 PRICING POWER OFFERS AN ESSENTIAL ELEMENT OF CONTROL

The most discussed feature is pricing power: how freely a business can pass on its rising costs to the end consumer through higher prices without affecting demand for its goods or services. This is often seen as a signal of "quality" within a business and an investment.

Alliance Trust Stock Picker Rob Rohn (Sustainable Growth Advisers) describes it as looking for companies that can price products "at good margins, regardless of what's going on in the environment, regardless of what their [competition] might be doing."

2 CASH ACTS AS A KEY BUFFER

Cash-generative businesses with strong balance sheets and a buffer of capital are much better placed to withstand cost increases and weather the inflationary storm.

Alliance Trust Stock Picker Andy Headley (Veritas Asset Management) adds, "We try and avoid companies that require substantial investment, so in an inflationary environment they're not required to invest huge amounts that increase all the time."

3 LONG-TERM DRIVERS OF GROWTH KEEP INVESTMENTS POWERING AHEAD

Businesses with strong tailwinds driving long-term growth is another way to protect against inflation, particularly if these powerful trends are pushing revenue growth beyond inflation's corrosive impact.

Rohn explains, "In addition to pricing power, we look for businesses that have... long secular tailwinds to their growth: the growth may come from the opportunity in a growing end market, or the opportunity may come from the ability to take share in an existing market."

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1 www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2022

EQUITY MANAGER SPOTLIGHT

SUSTAINABLE GROWTH ADVISERS (SGA)

ROB'S VIEW

Rob Rohn,
Co-Founding Principal,
SGA

Investment Philosophy

Our investment approach brings together high business quality, superior long-term growth and attractive cash flow-based valuation. We seek businesses whose growth is more predictable and sustainable, due to their ability to command pricing power that protects their profit margins, generate recurring revenue streams that make them less susceptible to macro-economic fluctuations, generate attractive free cash flow, and that have management who have proved to be good stewards of shareholder capital. We then confirm that the company can grow faster than the market over a 3-5 year period. Once we have confirmed a company's high business quality and superior long-term growth opportunity, the company can become part of our Qualified Company List and is eligible for investment in client portfolios. We constantly evaluate the attractiveness of a business' quality, growth and valuation characteristics versus other candidates on the Qualified Company List, making sure our portfolios comprise the best investment opportunities we can identify. While such characteristics are always important, they are particularly so today, given increased market volatility, rising inflationary pressures, slowing profit growth and more restrictive monetary and fiscal policies. We strongly believe that the portfolio is well positioned looking forward, as the cyclical surge in economic and profit growth over the last year fades.

STOCK SPOTLIGHT: DANAHER

Danaher provides scientific instruments and consumables used for testing/manufacturing across multiple industries. Its products advance lifesaving research, improve health and safety, promote water safety and reduce packaging waste. Across industries, the company's businesses share a common model of leadership in installed base and razor-razorblade consumables in regulated applications. Danaher's consumable products are high margin and often difficult to switch out of, as they are part of routine client processes for testing and manufacturing. The company enjoys recurring revenues due to pull-throughs from its large installed base, and the fact that 75% of its revenues are derived from captive consumables, many with mission-critical applications. Danaher's growth opportunity over the next 3-5 years results from secular trends such as increased testing of food, water, drugs and other healthcare, as well as more life sciences research and increased demand for biological manufacturing. Increased investments into life sciences research by drug companies are also expected to be a driver of growth. In recent years the company has benefited from increased demand for Covid-19 testing and manufacturing of Covid vaccines and treatments. As Covid becomes more endemic, this tailwind will subside, however the company will benefit from an enlarged installed base of molecular testing instruments, while demand for biologic manufacturing is supported by secular trends beyond Covid vaccines, including continued demand for biologic drugs, both branded and generic.

FAST FACTS FROM DANAHER

Founded **1984**

Did you know?
Danaher is named after a tributary of the South Fork Flathead River in western Montana

over **80,000** employees

Headquarters in
Washington DC, United States

$29.45bn
Revenue
(USD)

CEO
Rainer M Blair

Companies mentioned are for informational purposes only and should not be considered investment advice.

EQUITY MANAGER SPOTLIGHT

VULCAN VALUE PARTNERS

VULCAN VALUE PARTNERS

CT'S VIEW

C.T. Fitzpatrick,
Founder & CIO,
Vulcan Value Partners

Investment Philosophy

The pillars of our investment philosophy are value stability and a long-term time horizon. Value stability is important for two reasons. First, because the companies we own have stable values, stock price volatility creates opportunity for us. Stock prices are more volatile than our values, which enables us to increase our margin of safety when price inevitably deviates from value. Second, if a stock is mispriced, there are two ways for that gap to close. Value can fall to meet price, or price can rise to meet value. A stable value gives us confidence that when the gap is closed, it will close by price rising to meet value.

Once we identify a company with a stable value, we follow it, sometimes for well over a decade, so that we can purchase it with a margin of safety, should it ever become discounted. Our collection of stable-value companies is called our MVP List. Adding a company to our MVP List means that we are making the decision to buy it, should it become discounted. We invest the resources to follow these MVP companies almost as if they were in the portfolio. We keep our values current and do a deep dive review every two years, to make sure that the company's competitive position remains strong and hopefully is getting stronger.

There are several advantages to following these companies over time. One advantage is that we can observe the actual results that these businesses deliver, and compare those results to the assumptions we are using to value the business over a long period of time. Another advantage of our investment process, is that we get to know the businesses on our MVP List and the people running them very well. As a result, when there is stock price volatility, we can move decisively to allocate capital into extraordinary businesses when they become discounted, because we know the businesses well and we have confidence that our values are stable.

STOCK SPOTLIGHT: KKR

KKR & Co. Inc. is a global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate, various debt strategies, hedge funds and portfolio refinancings. The company's stable investor capital, with an average duration of more than eight years, generates a predictable stream of base fees. Further profitability comes from performance fees produced by successful investment outcomes in its funds.

As long-term investors, we care less about what will happen next quarter and more about the future of the businesses we own. We first purchased KKR in 2018 and, entering 2020, continued to be impressed with the company's ability to produce generous amounts of free cash flow with plenty of 'dry powder' that could be deployed in an economic downturn. In the short run, KKR experienced a hit to its earnings. In the fourth quarter of 2021, the company's operating profits grew approximately 45% for the quarter and roughly 55% for the year. The outstanding fundamentals continued into Q1 2022's results, with fee-related earnings up about 65% versus the same period in 2021. In contrast, year-to-date to 15 June 2022, its stock price has declined almost 35%. KKR generates robust free cash flow, its value growth has been strong throughout the last year, and we are pleased to own it.

FAST FACTS FROM KKR

1976

Founded **1976**

Did you know?
KKR stands for Kohlberg Kravis Roberts – the founders

over **2,000** employees in offices around the world

Headquarters in
New York

Co-CEOs
Scott C Nuttall and Joseph Y Bae

Companies mentioned are for informational purposes only and should not be considered investment advice.

EQUITY MANAGER SPOTLIGHT

GQG PARTNERS

RAJIV'S VIEW

Rajiv Jain
Chairman & CIO,
GQG Partners

Investment Philosophy

We started transitioning our portfolios at the end of 2021, from certain technology and communication services companies that we believed had pulled forward earnings from future periods due to changing end market behaviour during the pandemic, and were at risk of downward revisions.

In contrast, we are constructive on the energy and materials sectors, where we believe the fundamentals are strong, due to years of underinvestment resulting in low supplies of certain commodities.

We continue to be concerned with inflation, which we see as pervasive across a broad range of goods and services. We are monitoring the large gap between the growth of producer prices and consumer prices that may broadly impact corporate profit margins and earnings during the next few quarters, and expect inflation to be stickier for longer.

As a result, we may have portfolios that look meaningfully different from our benchmarks and peers. We will continue to evaluate the direct and second-order effects from Russia's invasion of Ukraine, including spikes in commodity prices and their potential impact on global economic activity. We believe this adaptability to reposition our portfolios is a hallmark of our process, and we will continue to go where the data leads us.

STOCK SPOTLIGHT: PETROBRAS

Petrobras is an oil and gas exploration and production company, with additional operations in refining, transportation, petrochemicals and power generation. The firm is headquartered in Brazil.

We purchased Petrobras due to its ability to generate free cash flow as a low-cost producer, its willingness to return capital to shareholders by paying what we believe is a high and sustainable dividend, and its low valuation. At $80 oil, well below the current spot price, we expect a 25% dividend yield on this investment.

There is political risk with Brazil's October 2022 presidential election on the horizon, but we believe this uncertainty is already reflected in the stock price, which trades at a trailing price earning ratio (P/E) of 2.6x and a forward P/E of 3.0x, according to S&P Global. Meanwhile, we are being paid handsomely via the dividend, in our opinion, as we monitor the political environment.

We are also constructive on the industry's deteriorating supply dynamic, which we think is likely to keep the commodity price at elevated levels. We believed that crude oil was already in short supply entering 2022. However, the situation was further exacerbated by sanctions on Russia in the wake of its February invasion of Ukraine. Russia is the second largest oil exporting country after Saudi Arabia.

FAST FACTS FROM PETROBRAS

Founded **1953**

$86,174m
Revenue
(1Q21)

Headquarters in
Rio de Janeiro, Brazil

CEO
Caio Mário Paes de Andrade

View the latest Stock Pickers' interviews here

Companies mentioned are for informational purposes only and should not be considered investment advice.

PORTFOLIO UPDATE

Over the second quarter of 2022, the Company's total shareholder return and NAV total return were -7.7% and -8.4% respectively, with the MSCI All Country World Index (ACWI) returning -8.6%. Equity markets over the quarter have seen a lot of volatility as the global economy faced high inflation, rising interest rates, and the continued supply chain and energy challenges associated with the conflict in Ukraine.

Over the quarter the U.S. Federal Reserve continued to aggressively tighten monetary policy to combat rising inflation. This, coupled with weak economic data and the continued pressure on the global economy from the ongoing conflict in Ukraine led equity markets to sell off as they became increasingly concerned about a possible recession. In April and May we saw a continuation of the trends seen earlier in the year as longer duration growth companies, particular in the technology and consumer discretionary sectors underperformed and energy stocks performed strongly on the back of higher energy prices. However, in June, the concerns regarding recession appeared to take over and investors became more risk averse, with defensive sectors such as healthcare and consumer staples holding up and significant weakness in cyclical sectors such as energy, technology and consumer discretionary. There was some positive news towards the end of the quarter as China started to ease its COVID restrictions and China markets performed strongly, reversing some of their previous losses

In the Alliance Trust portfolio, GQG continued to be the strongest Stock Picker over the quarter, led by its exposure to energy and other higher quality, more defensive businesses. Other Value-oriented managers outperformed in the quarter including Jupiter and Black Creek whilst Growth-oriented or more cyclically-oriented managers such as Sands, Vulcan and Metropolis lagged.

From a sector perspective, energy has continued to outperform within the Company's portfolio, partly due to higher allocation to the sector and partly due to strong stock selection. Notable picks were the multinational energy companies of Exxon Mobil Corporation (American), Petroleo Brasileiro (Brazilian) and TotalEnergies (French) that performed well over the quarter. Strong stock selection in the Information Technology sector also contributed positively to performance relative to the benchmark. This was partly driven by not owning some of the large index stocks that performed poorly, such as Tesla, Inc. and Apple, Inc. and partly by our positions in Visa Inc. whose earnings are expected to be more resilient in this environment and VMWare, Inc (American cloud computing business) that was subject to a takeover bid during the quarter.

H&R Block (American tax preparation company) was the biggest contributor to relative performance held in the portfolio. Over the quarter, the company posted strong earnings results beating market expectations and has raised earnings forecasts for the year. Baidu Inc (Chinese multinational technology company) has benefitted from the easing of lockdown in China as well as improving market sentiment there. The biggest detractor from performance was MercadoLibre Inc. (Argentine online marketplace company). Revenues continue to grow significantly and margins remain high but the market pressure on highly-valued growth companies and shorter-term focus on earnings continues to weigh on the stock price.

We have kept gross gearing levels at around 9%, below the 10% long-term target as we remain cautious on the outlook for equities as markets continue to adjust to shifting expectations for inflation and interest rates. The portfolio continues to be structured as a collection of high conviction company investments from a diverse set of skilled Stock Pickers with different investment approaches that we believe will be able to compound attractive returns in the long-run.

LEARN more about the latest portfolio price and performance here

WATCH the JULY Investor Forum on-demand video 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 – Q2 2022	% of Equity portfolio bought	Value of position bought (£m)
Microsoft	0.7	23.0
Verizon Communications	0.6	22.6
ICON	0.6	21.2
Kyndryl	0.6	20.7
Stericycle	0.5	18.8
General Electric	0.4	15.6
HDFC Bank	0.4	14.7
Paypal	0.4	12.7
Vmware	0.3	12.0
Amazon.com	0.3	10.7

10 largest sales – Q2 2022	% of Equity portfolio sold	Value of position sold (£m)
GSK	1.0	30.1
Novo Nordisk	0.9	28.0
Nutrien	0.6	19.6
Visa	0.6	18.6
Dell Technologies	0.6	18.3
Walmart	0.5	16.4
CVS Health	0.5	14.5
Alphabet	0.5	14.4
TransDigm Group	0.5	14.1
Convatec Group	0.4	13.5

UPDATE ON BUYBACKS

At the AGM in April 2022, 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 June 2022, the Company purchased 3.6 million shares at a cost of £34.4 million. In this period, specifically on days when shares were purchased, the discount ranged from 4.4% to 8.6%, with an average discount of 6.1%.

In the period from 1 January to 30 June the discount has ranged between 4.2% and 8.9% with an average of 6.3%, and in this period the Company purchased 10.4 million shares at a cost of £99.8 million and on days shares were purchased, the discount ranged between 4.3% and 8.9% with an average of 6.4%.

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 Jun 21 30 Jun 22	30 Jun 20 30 Jun 21	30 Jun 19 30 Jun 20	30 Jun 18 30 Jun 19	30 Jun 17 30 Jun 18
Total shareholder return	-6.9	28.9	0.3	8.4	8.8
NAV total return	-7.6	29.1	1.9	7.3	8.7
MSCI ACWI total return[1]	-4.2	24.6	5.2	9.7	8.9

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 (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.

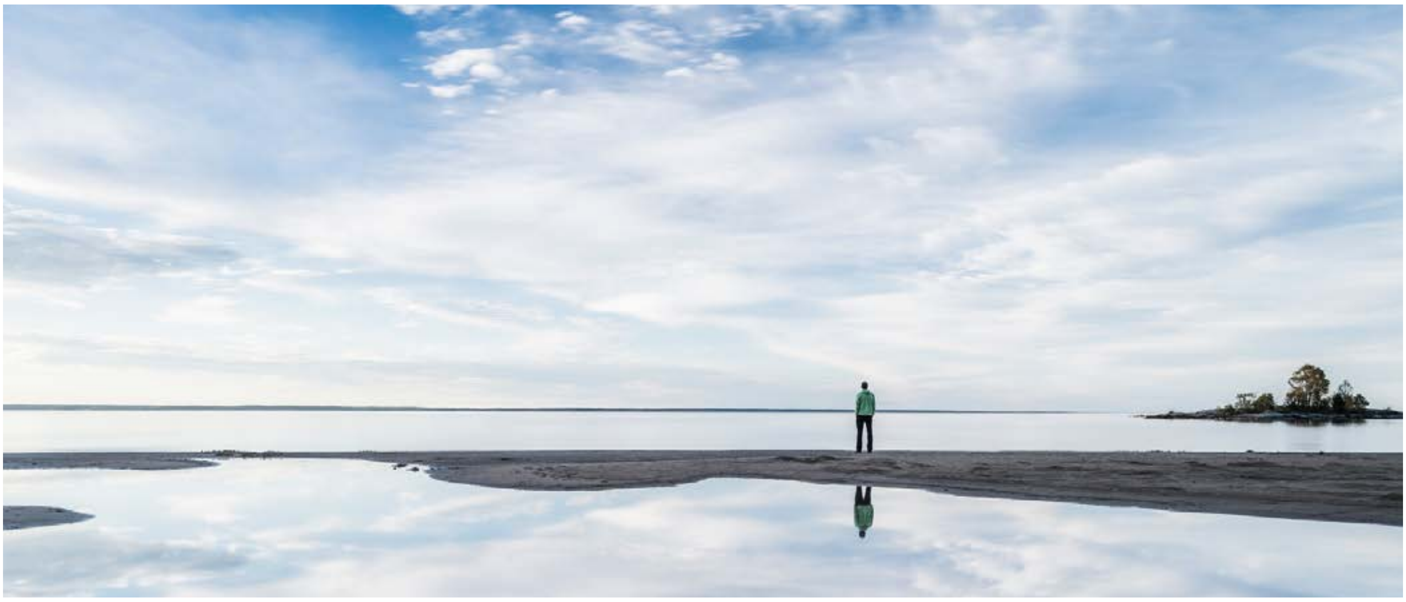
The Alliance Trust Board has appointed Towers Watson Investment Management Limited (TWIM) as its Alternative Investment Fund Manager (AIFM). TWIM is part of Willis Towers Watson. Issued by Towers Watson Investment Management Limited. Towers Watson Investment Management Limited, registered office Watson House, London Road, Reigate, Surrey RH2 9PQ is authorised and regulated by the Financial Conduct Authority, firm reference number 446740.

Past performance is not a reliable indicator of future returns.

Notes: All data is provided as at 31 March 2022 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 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.

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