

# Alliance Trust PLC Pillar 3 Disclosures

## Background

The Capital Requirements Directive was implemented within the UK by the Financial Services Authority ("FSA"), it consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires us, and the FSA, to consider whether additional capital should be held against risks not covered by Pillar 1; and
- Pillar 3 requires us to disclose capital requirements and policies for managing our risks.

In this document we set out:

- How the directive applies to us;
- Our risk management objectives and policies;
- Our capital resources;
- How we comply with the rules on Pillar 2 requirements; and
- The disclosures we are required to make under Pillar 3

## SCOPE AND APPLICATION OF DIRECTIVE REQUIREMENTS

### Scope

These disclosures have been prepared for the UK consolidation group of Alliance Trust PLC ('the Group').

The principal business within the Group is Alliance Trust PLC which is a self managed investment company with investment trust status ('the Trust'). The Trust is not a regulated entity under the Financial Services and Markets Act 2000.

The Group includes a number of wholly owned regulated subsidiaries: Alliance Trust Savings Limited ('ATS'), Alliance Trust Asset Management Limited ('Asset Management') and Alliance Trust Equity Partners Limited ('ATEP'), an Article 2 MiFID exempt firm.

## Application

### Pillar 1

The Group's pillar 1 capital has been calculated on the basis of BIPRU 8.6.7R which requires that the consolidated capital resources for the Group be determined using the capital resources calculation for a bank, being the sum of operational risk, credit risk and market risk.

Credit risk has been calculated on the basis of the standardised approach. Operational risk has been calculated based upon the basic indicator approach.

Market risk has been calculated based on foreign exchange movements within the portfolio.

### Pillar 2

The Board of Alliance Trust PLC considers the key risks to which the Group is exposed to determine the assessment of capital requirements under Pillar 2. Our process involves:

- Identification of risks by senior managers across each company within the Group;
- Prioritisation of risks and measurement of their significance and probability both before and after considering controls in place;
- Stress testing using scenario analysis to determine the impact of significant risks and managements' response;
- Role of risk appetite statements and tolerance levels; and
- Assessment of recent loss events.

Processes and procedures are in place to monitor the capital requirement over the three year planning horizon. This is updated monthly using actual outturn and projected forward using our budget and reforecasts.

### ICAAP

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP). The Group undertakes ICAAP at least annually and it is performed more frequently should a significant shift in the Group's risk profile arise.

## RISK MANAGEMENT OBJECTIVES AND POLICIES

### Risk management objectives

The Trust invests in equities, financial instruments and its subsidiary businesses for the long term in order to achieve its investment objectives as published in the Report & Accounts. In pursuing these objectives the Group is exposed to a variety of risks that could result in a reduction in the Group's net assets or a reduction in the profits available for payment as dividends.

### Risk management framework

The Group has in place a risk management framework designed to ensure that the risks inherent within the business are adequately identified, assessed, monitored and controlled. No business is without risk. This section explains our risk management structure and highlights the main risks that we believe could impact on the performance of the business.

### Control environment

The Group has an organisational structure with established lines of accountability as well as defined levels of authority for matters such as approval of capital.

The organisational model is consistent with industry standard 'three lines of defence': 1. line management; 2. control functions and 3. internal audit. In addition each subsidiary is required to operate in accordance with established Group specific policies and procedures.

The key Boards and Committees of the Trust include:

- Board: Reviews and approves the consolidated risk summary, ICAAP report and the consolidated risk appetite statement.
- Audit Committee: Reviews the effectiveness of the system of internal controls, including the process for assessing risk factors and managing key risks identified.
- Executive Committee: Responsible for the management of group-wide strategic risks and the oversight of group-wide technical and operational risks.
- Operating Committee: Responsible for the management of operational risks for the Group.

- Risk Committee: Approves and maintains the framework for the identification and management of risks by the Group.
- Asset Allocation Committee: Responsible for the management of investments and market risk for the Trust.

Each subsidiary has an organisational structure with established lines of accountability as well as defined levels of authority for matters such as approval of capital expenditure.

### Risk management policies

The Group manages a number of different categories of risk, with those relevant to this disclosure described below.

### Business risk

This risk category includes external factors such as changes in the political, economic and regulatory environment as well as the risks arising from our businesses and products, strategic acquisitions or business diversification.

We have a number of specialist staff to ensure compliance with the legal and regulatory strictures affecting our operations.

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group.

This risk is managed as follows:

- Investment transactions are carried out with a number of well established, approved brokers.
- Investment transactions are done on a cash against receipt or cash against delivery basis.

The Group minimises credit risk through banking policies which restrict banking deposits to highly rated financial institutions. The policies also set maximum exposure to individual banks.

### Investment risk

Investment risk covers market risk and embodies the potential for both losses and gains and includes currency risk, interest rate risk and price risk. The Trust's strategy on investment risk is outlined in our statement of investment objectives and policy in the Report & Accounts. The Trust's portfolios are held with investment intent, rather than trading intent.

Investment risk concerns mainly the decisions being taken over the investment of funds in different asset classes, and within the different portfolios. It is managed on a regular basis by the Asset Allocation Committee which manages the allocation of the capital of the Trust between and among the asset classes approved by the Board and within the risk parameters, policies and other limits and guidelines set by the Board from time to time and with a view to

the income derived from the Trust's assets.

The committee's responsibilities include: asset allocation, cash and currency management, risk management and allocation of the capital of the Trust to ensure adherence to the dividend policy set by the Board. Individual managers are responsible for assessing the risks associated with each investment that they make.

A Board approved derivatives policy is in place which formulates the basis under which these financial instruments can be used. Derivatives may be used by the Trust to reduce the potential of loss or to enhance our ability to change investments quickly. The use of such investments is centrally controlled.

Interest rates may affect the fair value of investments in fixed interest rate securities, income receivable on cash deposits and interest payable on variable rate borrowings. The possible effects on fair value and cash flows as a result of an interest rate change are taken into account when making investment or borrowing decisions.

Alliance Trust Savings holds client deposits. This subsidiary has detailed risk management policies, with treasury and cash management undertaken within a framework of banking policies. These banking policies cover credit risk, counterparty exposure, capital adequacy and liquidity.

### Liquidity risk

This risk category relates to the level of liquid funds, whether in cash or easily realisable assets that we keep to satisfy obligations for payments that may arise. Our cash position is monitored daily across the organisation with surplus funds invested to earn interest. The Group continues to be able to secure funding when required from major banks at competitive rates.

### Gearing risk

This is the risk that the value of investments made with money which is borrowed does not increase sufficiently to cover the borrowing and interest costs resulting in a loss. The Trust intends only to use gearing tactically where it identifies opportunities which will provide a return, whilst at the same time managing the risk. The level of gearing which may be used is set by the Board and the use of gearing is decided by the Asset Allocation Committee.

### Operational risk

This is the risk of inadequate or failed processes or systems. The main potential risk here is a failure of our systems for holding or administering investments.

Our project framework ensures that we focus activity on those areas identified as presenting our greatest potential risk exposure.

All business areas are subject to a quarterly risk review. The risk management process consists of a cycle of risk identification and assessment,

control evaluation, measurement and reporting, monitoring and assurance and Group and subsidiary board level review. While the Risk team's role is to facilitate this process, the process is embedded in existing governance structures and does not operate in isolation.

### Concentration risk

The majority of equity investments by value are in UK companies, with significant amounts also in Europe, Pan Asia and North America. As at 31 January 2011, no individual investment exceeded 3 % of net assets attributable to equity holders of the Trust.

The Company's UK listed equities are held in CREST, and its overseas listed equities are held by Bank of New York as custodian. Bankruptcy or insolvency of the custodian may cause the Group's rights with respect to securities held by the custodian to be delayed or limited.

The policies also set maximum exposure to individual banks.

Other than outlined above there was no significant concentrations of credit risk to counterparties at the reporting date.

### Pension obligation risk

The Group sponsors two pension arrangements. The Alliance Trust Companies' Pension fund (the 'Scheme') is a funded defined benefit pension scheme which is now closed to new entrants. Following a consultation process between the Participating employer, Scheme Members and the Scheme Trustee, members ceased to accrue benefits under the scheme from 2 April 2011. Employees who joined the Group pursuant to an offer made after 1 March 2005 are not entitled to join the scheme but are entitled to receive contributions into their own Self Invested Personal Pension provided by Alliance Trust Savings Limited.

The risk is that funds held by the Scheme are insufficient to meet its obligations to members. This risk is managed by the triennial valuations to review the current level of funding, the results of which are reviewed by the Trustees of the company.

## CAPITAL RESOURCES

### Total capital resources

The table below sets out the total capital resources of the group.

Tier 1 capital comprises permanent share capital, profit and loss and other reserves and the share premium account. The deductions from Tier 1 capital comprise intangible assets being capitalised projects and goodwill. There are no innovative tier 1 capital resources.

Tier 2 capital comprises revaluation reserves. There no tier 3 capital resources.

### Total Capital Resources

As an investment trust company the Trust does not have a trading book as its main activity is buying, holding and selling securities for its portfolio: portfolios are held with investment intent, rather than trading intent. Therefore the market risk capital charge is the sum of the foreign exchange (Fx) and commodities position risk requirements (PRR).

The table on the right sets out the minimum capital resources requirements of the Group as at 31 January 2011, together with its capital adequacy position.

**Table 1**

<b>Capital Resources</b>	<b>£000</b>
Tier 1 capital	2,894,503
Deductions from Tier 1 capital	(2,345)
Total Tier 1 capital	2,892,158
Total Tier 2 capital	183
<b>Total Capital Resources</b>	<b>2,892,341</b>

**Table 2**

<b>Pillar 1</b>	<b>Capital £000</b>	<b>Capital £000</b>
<b>Operational Risk</b>		77,801
Credit Risk: Exposure Class	Credit Quality Step	
Investments: Equity	1	36,810
	2	77,518
	3	37,532
	4	9,969
	5	-
	6	1,110
	Unrated	147,725
Investments: Real Estate		2,281
Cash and Cash equivalents	Gilts	-
	Treasury Bills	-
	Cash	4,801
Other	Fixed Assets	502
	Other Assets	3,274
		<u>321,522</u>
<b>Market Risk</b>		
Fx PRR:	Cash positions	3,221
	Equity positions	154,852
Commodities PRR:	Mineral rights	1,935
		<u>160,008</u>
<b>Pillar 1</b>		<b>559,331</b>
<b>Pillar 2</b>		<b>175,000</b>
<b>Total Capital Requirement</b>		<b>734,331</b>
<b>Current Total Capital</b>		<b>2,892,341</b>
<b>Capital Surplus</b>		<b>2,158,010</b>

Moody's is used at the External Credit Assessment Institution (ECAI).

## REMUNERATION

### Governance

Alliance Trust PLC has established a Remuneration Committee ('the Committee') composed of independent non-executive directors. The Board has delegated authority and responsibility for determining remuneration policy across the Company and its subsidiaries to the Committee.

The Committee itself sets the remuneration of the Executive Directors and the Company Secretary and has oversight of remuneration arrangements for such other senior employees as the Committee may determine from time to time.

The Committee also reviews the remuneration arrangements of other employees and the operation of the share-based incentive plans to ensure that remuneration arrangements for the Executive Directors have regard to pay and employment conditions elsewhere in the Group. However, decisions on individual remuneration arrangements are made by management in the area, with oversight by the HR function which reports to the Chief Executive.

The terms of reference of the Committee are available at: <http://investor.alliancetrust.co.uk/ati/investorrelations/pdfs/RemunerationCommittee.pdf>

The Committee met on six occasions during the year ended 31 January 2011. During the year the Committee received independent advice on remuneration from Towers Watson. Towers Watson has no connection with the Company other than by virtue of their appointment by the Committee.

The disclosures set out in this report are based on information as at 31 January 2011.

### Decision making process

The overall objective of the Remuneration Policy is to promote effective risk management and to ensure a remuneration system is in place which discourages staff from taking unnecessary risks for short-term gains.

Based on the Firm's profile, we are classified as a tier 3 firm and in line with FSA and CEBS guidance have disappplied certain disclosure provisions of the Remuneration Code. At least annually, the Remuneration Committee will review any provisions that have been disappplied to ensure that the approach continues to be appropriate.

The Committee seeks to balance the components of executive remuneration in order to ensure proper alignment of the interests of executives and shareholders within a framework which discourages excessive risk-taking. The Committee has agreed the following principles which underpin the Company's Remuneration Policy for its Executive Directors:

- Variable pay will form a significant proportion of executives' total remuneration package and will be discretionary
- Base salaries will be targeted at market median for jobs of a similar size and complexity
- Total direct compensation (base salary plus annual and long-term incentives) will reflect the Company's performance, with the goal of being upper quartile for upper quartile performance
- Benefits offered to executives will be targeted at median for comparable roles
- Pension provision will be taken into consideration as part of the total remuneration package
- Remuneration packages of executives will be structured in such a way as to promote sound and effective risk management within the Company's risk appetite
- Termination payments should not reward failure

We take current risks into account by structuring our total variable remuneration in a way which does not limit the Company's ability to strengthen its capital base as required. The Committee sets the ratio of fixed to variable remuneration to ensure an appropriate balance and that the Company can operate a flexible policy on the payment of variable remuneration having regard to all relevant factors and where justified by prevailing conditions pay no variable remuneration.

Our deferral mechanism in the Long Term Incentive Plans helps us take into account future risks with the claw back provision mitigating the impact of any misconduct or misstatement.

The criteria used to determine which of our staff are 'Code Staff' is based on identifying roles within the Company with the potential to impact on the firm's risk profile according to our internal Risk Appetite Statements, broken down by each of the individual metrics. Individuals identified by the firm as being 'Code Staff' were categorised using the descriptors set out by the FSA in their Code Staff List tool:

- Risk Taker
- SIF
- Senior Manager; or
- Risk Taker & SIF/or Senior Manager to indicate where an individual qualifies for more than one category.

The Company's primary objective is to generate capital growth over the medium to long term, together with a rising dividend for shareholders and our incentive arrangements are intended to reward management for achievements against this objective. We believe that we have adopted an approach

that supports our traditional low risk investment philosophy underpinned by the belief that consistent year on year median to upper quartile performance will, over time, translate into long-term upper quartile performance.

### The link between pay and performance

Performance assessment: We have in place throughout the Company an annual performance review based on achievement of personal objectives aligned to the Company's key priorities:

- To focus on investment in equities
- To continue to improve investment performance
- To manage our cost base in line with market conditions
- To develop our subsidiary businesses
- To invest in the development of our people

Key performance indicators have been approved by the Board to monitor and report to shareholders on performance against these priorities.

Multi-year framework: The Company currently operates a combination of annual and three year performance conditions together with a requirement for Directors and other senior managers to defer part of any award in the form of shares.

### Basic Salary

The Policy adopted by the Committee is that base salaries of executives should be targeted at market median for jobs of a similar size and complexity. The salaries of all of the Executive Directors are below or around the market median.

Non-Executive Directors receive only fees and do not receive salary, bonuses, pension or share options. Each Non-Executive Director's appointment is governed by written terms which are available for inspection at the Company's registered office and are also available at the Annual General Meeting. Non-Executive Directors are appointed initially for a term of three years.

The Company and the Remuneration Committee take advice from independent consultants who advise on fees and issues of comparability between the Company and other similarly sized companies, and companies operating in the same sector, to ensure that the Non-Executive Directors and Chairman are remunerated at a level which reflects the time commitment and responsibilities of the role.

The Remuneration Committee determines the Chairman's fees. The Board (excluding the Non-Executive Directors who take no part in the process) determines the Non-Executive Directors' fees.

## Variable Remuneration

There are two components to variable pay; firstly the Annual Bonus and, secondly, awards made under the Company's Long Term Incentive Plan (LTIP) which was approved by shareholders in 2007.

Investment managers are eligible for annual bonuses of up to 150% of salary based on achievement of annual performance targets relevant to their own portfolio and the wider equity portfolio. At least one half of any annual bonus is deferred for three years. At the end of the three year deferral period a matching award may be awarded based on individual portfolio performance (including consideration of consistency of fund performance, risk profile of the fund and market conditions) and achievement of the corporate target as set by the Board.

Senior managers' annual bonuses are based on performance against business and individual objectives during the year, with the long-term element based on corporate performance measures which for the year ended 31 January 2011 were as set out below:

- TSR performance against a peer group (the AIC Global Growth and Global Growth and Income Sectors) with the test met for above median performance;
- NAV performance against a target of the FTSE All-World Index
- Dividend payable for the year to 31 January 2011 meeting or exceeding the commitment set by the Board for the year of 8.25p.

In setting the levels of remuneration for the Executive Directors, the Remuneration Committee takes account of the levels of remuneration of other employees, particularly at senior level, within the Company and of the overall level of pay awards made. The Executive Directors' remuneration is not set through any formulaic approach or multiple of any other employees engaged within the business, but is driven by their experience and market rates for comparable roles.

The performance criteria by which Executive Directors were judged were set with this in mind. The CEO and Executive Directors are eligible for maximum annual bonuses ranging between 100% and 150% of salary. All are totally dependent on performance. Between 25% and 50% of the annual bonus for the year under review was related to the achievement of the corporate performance targets listed above.

For the remainder, approximately 40% was linked to business performance and approximately 10% was linked to individual objectives.

For all Code Staff at least 50% of any annual bonus award must be deferred into shares within the LTIP described below

## Long Term Incentive Plans

The Company operates a discretionary plan which in which participants are given the opportunity to acquire shares at nil cost after three years, subject to the Company achieving certain targets.

The plan makes provision for two forms of award, namely matching awards and performance awards, as described below:

Matching awards entitle the participant to receive shares at nil cost with the number of shares being calculated with reference to the amount of annual bonus which the member uses to purchase shares in the Company and which are deposited in the plan. Subject to meeting performance conditions the matching awards will vest over the same period as the Deposited Shares.

Performance awards also enable the participant to receive shares at nil cost. However, in this case, there is no requirement for the participant to purchase any shares. The maximum number of shares which can be awarded in a performance award is calculated on twice the annual salary of the participant at the date of the award.

The performance measure for both matching and performance awards is described below.

For awards granted during the year ended 31 January 2011 the target was based on TSR performance against the peer group listed on page 47 of the annual Report and Accounts. Awards only vest if the Company achieves a ranking of median or above against its peer group. This benchmark was chosen as the Board believed that comparative performance against our peer group was the most effective way of linking shareholders' interests with management incentives.

In respect of awards made in 2007 and 2008, the target that must be met to achieve the minimum level of vesting is TSR equivalent to inflation plus 3% each year, compounded over three years, with the maximum level of vesting only being achieved for TSR of 10% over inflation compounded over three years. In 2009 this target was replaced with one based on TSR compared to that of a peer group of other investment trusts with the minimum level of vesting (25%) at median and full vesting at upper quartile. If the minimum performance targets are not met then the awards will not vest.

At the Company's 2011 Annual General Meeting shareholders approved a change to the performance conditions of the LTIP so that vesting would be made subject to achieving a combination of TSR and NAV performance above the median of the AIC Global Growth sector with any payment also being subject to an underpin of increased dividend on an absolute basis.

For awards made in 2009 and later years, vesting between median and upper quartile

is based on a vesting curve. This provides for vesting to take place subject to a curve whereby mid-third-quartile performance will result in 75% of the award vesting. The objective of the Remuneration Committee in adopting this methodology was to align the interests of participants to the Company's low risk investment philosophy and to avoid increased levels of risk taking and consequent volatility. The changes made in 2011 further strengthen the link between the Company's investment objective and vesting of awards under the LTIP.

A clawback provision in the case of material misstatement or misconduct was also introduced which will be applied to any Deposited Shares purchased on participants' behalf using the 50% of their Plan Bonus Payments that they are obliged to contribute to the Plan – these Shares are referred to as "Compulsorily Deposited Shares".

In general terms, the new rules of the Plan provide that if, after the date on which Compulsorily Deposited Shares are acquired, either a fraud is uncovered or it is established that the Company's accounts for the year to which the Plan Bonus Payment relates have been materially misstated or the employee commits an act of misconduct, then some or all of those Compulsorily Deposited Shares will be "clawed back" by being forfeited for no consideration. These changes apply to all staff who participate in the LTIP.

It is intended that all awards will be satisfied from shares purchased on the open market and no new shares will be issued to satisfy awards.

## All Employee Share Ownership Plan

In the interests of aligning the interests of employees and directors with that of the firm and its shareholders, Executive Directors and employees may participate in the Company's All Employee Share Ownership Plan (AESOP). All participants are treated in the same way.

All Directors are required to hold 3,000 shares in the Company as a condition of their appointment and all Directors hold at least that number. The Company has issued no options to subscribe for shares.

The Remuneration Committee has adopted a policy that Executive Directors should, over time, accumulate a personal holding of shares in the Company equivalent to their annual salary.

## Directors' Pension Benefits

For certain senior executives the Committee may provide a cash allowance in lieu of any pension provision, leaving the individual to make appropriate long-term provision having regard to their individual circumstances. It is not the policy of the Committee to award enhanced discretionary pension benefits to employees as part of their variable remuneration package.

No current Executive Director is a member of the Company's Defined Benefits plan, instead they each received contributions to a defined contribution arrangement of 10% of their base salary and a matching contribution of up to 7% of salary where they also contributed 7%.

The Company does not grant pension benefits as part of variable remuneration.

## Quantitative disclosure on remuneration

The Company is required to disclose aggregate quantitative remuneration information for its Code Staff.

### 1 Aggregate Remuneration Expenditure

Aggregate remuneration expenditure for the year ended 31 January 2011 was as follows:

Investment Trust £m	Financial Services Subsidiaries £m
3.42	1.28

### 2 Fixed and variable remuneration

The following tables set out fixed and variable remuneration paid to Code Staff (as defined above) during the year ended 31 January 2011

	Senior Managers £m	Other Code Staff whose actions have a significant impact on the Risk Profile of the Firm £m
Fixed remuneration	0.64	2.35
Variable remuneration	0.30	1.41
Number of beneficiaries	5	15

Further information on remuneration is available in the Directors' Remuneration Report contained in the Annual Report and Accounts of Alliance Trust PLC for the year ended 31 January 2011.

### Statement of Ownership

This disclosure has been prepared in accordance with the requirements of the FSA Remuneration Code and formally adopted by the Remuneration Committee of Directors of Alliance Trust PLC.