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OPINION

Personal Finance Advice & Comment

Alliance Trust's reinvention is a lesson to others

The UK is short of funds offering diversified, intelligent exposure to the global equity market on the cheap

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In the early days of its existence in the late 19th century the annual management cost of the global equity investment trust, Alliance Trust, was less than 0.2 per cent.

We will never be able to compare that number directly with today's costs. At the time there was no such thing as a total expense ratio for price-sensitive investors. What the early directors spent on lunch and the like goes unrecorded.

Given the historical reputation of Dundee worthies for frugality, however, we can safely say that the overall cost was rather less than today's 0.65 per cent. We can also say, I think, that it would be verging on impossible to get the cost as low today as it probably was then, as the costs of the custodians, depositories, secretaries, marketing people and lawyers required to meet regulatory requirements are just too high.

On the plus side, 0.65 per cent represents progress for Alliance and its exceptionally patient long-term investors. The past couple of decades have seen it working hard to ignore its illustrious history as a one-stop investment shop that ordinary people could trust to look after their cash for the long term with a combination of overpricing — the total expense ratio was more than 1.5 per cent at one point — investment mission creep and determined underperformance.

Today, most of that appears to have been sorted out. Two years ago, the (mostly new) directors announced that the old investment team was to go, as were all non-equity investments, including various private equity and property holdings as well as a savings platform business, Alliance Trust Savings.

The private equity stuff is gone. The savings business has been sold to Interactive Investor, which guarantees that anyone on the platform will pay no more for their service than they did at ATS for at least three years. And the last property is on its way out.

The trust is now 97 per cent in equities and will soon be 100 per cent in equities. This is where it gets interesting. The portfolio management was then contracted out to investment consultant

Willis Towers Watson, the idea being to find eight excellent fund managers with varying styles and have them each build a portfolio of 20 stocks for Alliance. (Another manager gets to pick 50 emerging market stocks.)

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One of these portfolios alone would represent too much focus and volatility for the average Alliance-style investor. Together they would represent a hugely diversified portfolio of up to 200 stocks (not all the managers hold the full 20 allowed) but one made up only of very good people's very best ideas. No halfhearted buys, no fillers and no average stocks bought just for the sake of risk management optics.

Better still, what with Willis Towers Watson having some heft in the institutional market, most of these managers would be unavailable to UK investors via any other channel — and they would also offer their services to Alliance on the cheap. This sounded pretty good to me two years ago, addressing as it did almost all my major market gripes: diversification in what are supposed to be active funds, cost and the fact that most of us have never heard of some of the world's best fund managers. These are people who aren't catering to UK investors wondering what to do with £50,000 worth of Sipp.

So how is it going? Pretty well. I hold some myself and went to the annual general meeting this week in Dundee. I love investment trust AGMs and would encourage all of you to go to as many of them as you can. The lunches aren't what they were — you'd be lucky to get a biscuit these days — but shareholder democracy is important and these meetings are some of the few occasions at which you can get your voice heard.

At this one I saw something you wouldn't have dared to imagine five years ago: a shareholder standing up in the Q&A session to thank the board for a job well done. Performance from the equity portfolio itself has been good over the past two years, with some mild outperformance. (For the purposes of thinking about the future the performance of the non-equity bit is irrelevant.)

Two years is not long enough to be sure of the strategy but Willis has a record, as it told the AGM, of outperforming by about 2 per cent a year over the long term. In backtesting the Alliance portfolio, it suggested it would have returned more like 3-4 per cent a year outperformance in the long term.

Also attending were two of the US-based fund managers, Gordon Marchand of Sustainable Growth Advisers and Andrew Wellington of Lyrical Asset Management. The former is a growth investor and the latter very much a value investor. Mr Marchand's fund has been one of the best performers in the overall portfolio and Mr Wellington's very much not one of the best, as 2018 was an appalling year for value investors.

This is the kind of thing that makes the fund compelling. We think time is nearly up in this cycle for growth investors. And we think we know that value should soon have its time in the sun again. If you define value as Mr Wellington does — to him it's all about low price-earning ratios — value stocks have performed so badly and are so cheap relative to the rest of the market that there is a "generational opportunity" for those who choose to take it.

The point is that we can't time this stuff. To outperform overall we need a group of managers who underperform slightly less than others when their style is out of fashion and outperform more than others when it is not. We will find out if that is what Alliance has achieved over the next decade.

You may wonder why I am giving this quite so much space. It is because in this age of DIY investing and pension freedom, the UK is still short of the kind of funds most of us want: easily comprehensible, one-stop shops for investors wanting diversified but very active and intelligent exposure to the global equity market on the cheap. Alliance is turning back into one of these. And that's a very good thing.

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