Alliance Trust PLC Pillar 3 Disclosures

Background

The Capital Requirements Directive ("CRD IV") was implemented within the UK by the Financial Conduct Authority ("FCA"), 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 FCA, 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 (own funds) 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 regulated by the FCA as an Alternative Investment Fund Manager ("AIFM") with permission to act as an internally managed Alternative Investment Fund ("AIF"). The Group includes a number of wholly owned subsidiaries, three of which are regulated; Alliance Trust Savings Limited ('ATS'), an authorised bank, Alliance Trust Investments Limited ('ATI'), a limited licence investment firm 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 in accordance with CRD IV which requires that the consolidated own funds resources for the Group are determined using the own funds 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 and commodities 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 own funds 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 management's response;
- Role of risk appetite statements and tolerance levels; and
- Assessment of recent loss events.

Processes and procedures are in place to monitor the own funds requirement over the three year planning horizon.

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 a review of the ICAAP at least annually and it is updated 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. 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 governance meetings of the Trust include:

- Board: Reviews and approves the consolidated risk summary, ICAAP and the 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.
- Asset and Liability Committee: Responsible for the monitoring of counterparty limits and exposures
- 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 and economic environment, as well as the risks arising from our strategy.

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 polices 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 our latest 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.

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 financial instruments 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. ATS 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 and management of change.

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

Concentration risk

The majority of equity investments by value are in North American companies, with significant amounts also in Europe, Asia and the UK.

As at 31 December 2015, no individual investment exceeded 4% of net assets attributable to equity holders of the Trust. The Company's listed equities are held by Bank of New York Mellon 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. 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 ATS. 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 Scheme and the Trust.

CAPITAL RESOURCES

Total Own Funds Resources

Table 1 sets out the total own funds resources of the Group as at 31 December 2015.

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 at net book value. There are no innovative tier 1 capital resources. There is no Tier 2 or 3 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 below (Table 2) sets out the minimum own funds resource requirements of the Group as at 31 December 2015, together with its capital adequacy position.

Table 1

Own Fund Resources	£000
Tier 1 Capital	2,533,718
Deductions from Tier 1	(249,386)
Total Tier 1 Capital	2,284,332
Total Tier 2 Capital	-
Total Own Funds	2,284,332

Table 2

Own Funds Requirements		£000	£000
Pillar 1			
Operational Risk			37,896
Credit Risk	Credit Quality Step		
Equity, Derivatives & Bonds	1	12,858	
	2	116,214	
	3	80,644	
	4	8,047	
	5	3,581	
	6	-	
	Unrated	61,417	
Real Estate		363	
Cash and Cash equivalents	Minimum A3	2,854	
Other	Fixed Assets	73	
	Other Assets	1,481	
			287,533
Market Risk			
	Equity	229	
	Foreign Exchange	211,276	
	Commodities	39,455	
			250,959
Pillar 1			**576,389**
Pillar 2			**1,137,525**
Total Own Funds Requirements			**1,713,914**
Current Total Own Funds			**2,284,332**
Own Funds Surplus			**570,418**

FCA REMUNERATION CODE - Pillar 3 Disclosures at 31 December 2015

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 four occasions during the year ended 31 December 2015. 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 December 2015.

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 level 3 firm and in line with regulatory guidance we have not been applied certain disclosure provisions of the Remuneration Code. At least annually, the Remuneration Committee will review any provisions that have been applied 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
- Pay and reward will be considered on a Total remuneration basis. Fixed pay elements are linked closely to market comparisons and variable pay will reflect the Company's performance and ability to pay and the individual performance measured against targets set
- Benefits offered reflect market practice and be considered within Total compensation structure
- 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 and therefore payments made will be on a strictly contractual basis

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 both the short and Long Term Incentive Plans helps us take into account future risks with the malus and clawback provision mitigating the impact of any misconduct or misstatement or material error in assessing performance conditions.

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.

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 200% 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, contribution of stock research recommendations, 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 December 2015 were as set out below:

- TSR and NAV performance against AIC Global Growth peer group with the test met for above median performance and fully met for top quartile performance;
- Dividend progression for the period ending 31 December 2015. Paid in full for a dividend which is progressive in absolute terms and meets the commitment set by the Board
- Achievement of group cost budget for financial reporting ending 31 December 2015 as approved by the Board

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 Executive Directors are eligible for maximum annual bonuses ranging between 100% and 200% of salary. All are totally dependent on performance. 50% of the annual bonus for the year under review was related to the achievement of the corporate performance targets listed above.

The remainder of 50% was assessed against a set of business objectives linked to delivery of company strategy. For all Code Staff at least 50% of any annual bonus award must be deferred into shares either within the LTIP described below or simply converted into a share award and deferred into PLC shares for 3 years. Share awards are not matched by the Company.

Long Term Incentive Plans

The Company operates a discretionary plan in which participants are given the opportunity to acquire shares at nil cost after five 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 December 2015 the target was based on TSR and NAV performance against the AIC Global Growth Sector. Awards only vest if the Company achieves a ranking of median or above against its peer group, with any payment also being subject to an underpin of increased dividend on an absolute basis. 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.

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 further strengthen the link between the Company's investment objective and vesting of awards under the LTIP.

A malus and clawback policy is in place and applies to short and long term incentives and applies to both invested awards and awards which have vested within the 3 or 5 previous year period.

The malus and clawback policy can be applied if it is discovered that the Company materially misstated its results for the last whole financial year comprised in the applicable performance period or a material error was made in assessing the relevant performance conditions.

The malus and clawback policy will also be applied to short and long term incentives, both unvested and vested within 5 years, should it come to light that a participant committed an act which was unknown to the Committee on that date but which, if it had been known, could have resulted in dismissal for gross misconduct. 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

For the purposes 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 150% of 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 receive contributions to a pension arrangement, instead they each received a payment equal to 25% of salary (for CEO) and 20% of salary for other Executive Directors.

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 December 2015 was as follows:

Investment Trust £000	Financial Services Subsidiaries £000
4,598	2,677

2 Fixed and Variable Remuneration

The following table sets out the fixed and variable remuneration paid to Code Staff (as defined above) during the year ended 31 December 2015.

	Senior Managers £000	Other Code Staff whose actions have a significant impact on the Risk Profile of the Firm £000
Fixed remuneration	941	2,891
Variable remuneration	471	2,972
Number of beneficiaries	8	22

Further information on remuneration is available in the Directors' Remuneration Report contained in the Annual Report and Accounts of Alliance Trust PLC for the period ended 31 December 2015.

Statement of Ownership

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

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