Alliance Trust – New Fund Manager Appointment - Q&As

Why have you decided to add another manager to the mix now?

- We expect the portfolio will hold between 8-10 managers most of the time but may hold as few as 6 or as many as 12 depending on market conditions.
- The appointment of Vulcan will add a differentiated source of active return and risk control to the Alliance Trust portfolio. In particular, the addition of Vulcan will give us more flexibility to manage exposure to the US, which accounts for approximately 60% of global equity markets. We aim to keep country exposures broadly neutral but Vulcan gives us more options in the US.
- This is an opportune time to add Vulcan to the line-up of managers as they have recently reopened to new business. We are pleased to have secured an allocation for Alliance Trust shareholders.

What is their investment philosophy?

- Vulcan Value Partners' primary objective is to minimise the risk of permanently losing capital over a long-term, five-year time horizon. It seeks to invest in quality companies that display substantial competitive advantages that will allow them to earn attractive cash returns and demands a high-margin of safety in terms of value over price. If the team is not comfortable holding a stock for five years, then it will not qualify for investment.

What does Vulcan specialise in?

- Vulcan are quality value investors and as such specialise in large cap stocks. They have a global perspective and, like the other eight managers have no geographical constraints on the stocks they choose for the Alliance Trust portfolio. However, Vulcan tends to invest mostly in US domiciled businesses. The team focus on capital preservation and long-term compounding opportunities from very high-quality businesses that can grow in value over the long-term.

Why are you adding another value manager when value has underperformed as a strategy?

- Vulcan has a quality value bias which differs from other value strategies. Vulcan's investment style has proven successful despite a difficult market environment for value investors. As such, we are taking the opportunity to add another talented stock picker, rather than taking a view on value as a style in the portfolio.
- Value has been out of favour for an extended period of time but there is no reason to believe that skilled value investors will never be able to outperform. We believe that skilled value investors still deserve a place in the portfolio. Of course, there is no single strategy that will always work in all environments. Indeed, almost any style of investing goes through extended periods of underperformance. However, we retain conviction that our value-oriented investors can still find great investment opportunities at attractive valuations. It is also worth noting that value investors come in many different shapes and sizes and performance will vary significantly.

How many stocks are in the Vulcan mandate?

- Like the other managers, Vulcan will manage a highly concentrated portfolio of between 10 and 20 stocks*.

What is Vulcan's attitude to risk?

- Vulcan define risk as the probability of permanently losing capital over our five-year time horizon. It does not consider market volatility to be a risk. It believes volatility creates buying opportunities for long-term investors who understand that price and value are not always equal. A good business purchased at an attractive price has very little risk in the long run even though its price might fluctuate significantly in the short run. Vulcan also believes good businesses do not require leverage to produce high returns on shareholder's capital and free cash flow; it views leveraged businesses with scepticism.

Where is Vulcan based?

- Vulcan is based in Alabama in the United States.

Will adding more stocks dilute the potential return of the portfolio?

- No, the appointment of Vulcan adds another differentiated source of return and risk control. The portfolio holds around 200 stocks out of a universe of approximately 3000 stocks in the MSCI All Country World Index.

What do they bring to the portfolio that's new/different?

- Vulcan limit their search to investments in good businesses that they believe have identifiable, sustainable competitive advantages. However, Vulcan will only invest if it believes the price is sufficiently discounted to the business's intrinsic worth. Vulcan have no interest in enterprises with inferior economics that are statistically cheap. By their definition, good businesses produce free cash flow, and rapidly growing net income or earnings per share is of little importance unless it is accompanied by robust production of free cash flow. Vulcan want to invest in businesses that have sustainable competitive advantages that are becoming more competitively entrenched.

Are they being remunerated on the same basis as the other eight managers?

- Yes, their fee is the same as the other managers

Won't this add an additional layer of cost for investors?

- No, Willis Towers Watson's primary goal is to identify managers which will deliver long-term value for client's net of fees. Willis Towers Watson's scale and buying power ensures the fees are kept competitive to meet the specific needs of the Trust. The Alliance Trust ongoing charge remains at 0.65%.

Has this appointment been ratified by the board?

- The Trust appointed Willis Towers Watson as its investment manager and gave it full discretion to appoint managers to invest in stocks for the Trust's portfolio. Willis Towers Watson manages the overall portfolio and is responsible for balancing risk at the stock, sector and geographical level. The board has ratified the appointment of Vulcan.

What is Vulcan's notice period?

- Willis Towers Watson take a long-term view of the individual stock pickers and monitor their day-to-day management, evaluating and re-balancing the portfolio where necessary, but any of the managers can be terminated without notice if something unforeseen occurs.

Are you considering firing any of your existing managers?

- Vulcan is an addition to our current line-up of stock pickers, not a replacement for one. The performance of all the existing managers is within our expectations given the market conditions we have experienced.

- Willis Towers Watson has selected managers which it believes will outperform the market over the long term. It recognises that managers will go through periods of underperformance and will not terminate a manager for underperformance alone. Furthermore, it is very difficult to predict what future market conditions we will experience and therefore which manager's investment styles will be best suited for that environment. For that reason, the Trust comprises the best ideas of a collection of fund managers with varying investment styles.

Could this appointment exacerbate portfolio turnover, which was high at the end of last year?

- Portfolio turnover was higher at the end of last year due to a downturn in markets and an uptick in volatility that created a strong buying opportunity for the Trust's stock pickers to buy businesses at a discount to their true value. Vulcan's appointment itself, is not expected to be a cause for an increase in portfolio turnover.

Six of the nine portfolio managers are based in the US, how does this affect portfolio diversification?

- Despite a number of the Trust's managers being US-based, they are all global stock pickers and examine equity opportunities across the world. The physical location of the managers has no impact on the portfolio, the overweight to US managers can be attributed to the greater choice of highly skilled investment managers available to Willis Towers Watson in the US. Willis Towers Watson monitors and manages geographical and sector weighting of the investment portfolio to remove any biases to ensure returns are generated by stock selection.

Where is Vulcan's allocation coming from? Is it new money or a reallocation from the other managers?

- The allocation to Vulcan is being sourced from the Trust's other managers.

Why should I invest given current market conditions?

- It is very difficult to determine how economic conditions will develop over the next few years and how this will impact investor returns. In such market conditions, it is difficult to determine which stocks will rise and which will fall and so we would always advocate investing in a portfolio of best ideas diversified by geography, sector, stock and manager. This is why we have structured the Trust to invest in the best ideas of a collection of managers.

*Note that in addition to its global portfolio of 10-20 stocks, GQG also runs a separate emerging market mandate of up to 50 stocks