Alliance Trust
INVESTING FOR GENERATIONS

Connection

WHY LONG-TERM INVESTORS SHOULD TAKE A GENUINELY DIVERSIFIED GLOBAL APPROACH

By Faith Glasgow

It's not so long since most British investors focused their attention very much on the home market, channelling their cash into familiar brands, benefiting from the UK's long-established dividend culture and avoiding the complications of foreign markets and exchange rate issues. As a starting (and admittedly pretty inexperienced) investor in the mid-1990s, I can remember feeling really quite sophisticated when I added a European-focused fund to my modest UK-centric portfolio.

Times have changed beyond recognition since then. Rapid globalisation, in tandem with innovation in stock market technology and the proliferation of open-ended funds and investment trusts with an international mandate, has pushed global portfolio-building into the mainstream for private investors.

But that development, of course, brings its own challenges – most obviously the question of how to allocate your pot not just between different assets but also between different regions, not to mention different investment styles, themes and sector focuses.

Regional equity asset allocation is arguably as daunting a prospect this year as it has ever been. Global macroeconomic disruption, courtesy of the continuing impact of Covid-19, is likely to continue indefinitely until a vaccine is found, while heightened geopolitical risks and market uncertainty remain in the shape of the US presidential elections, ongoing tensions between China and the US, and the increasing likelihood of a no-deal Brexit at the end of the year.

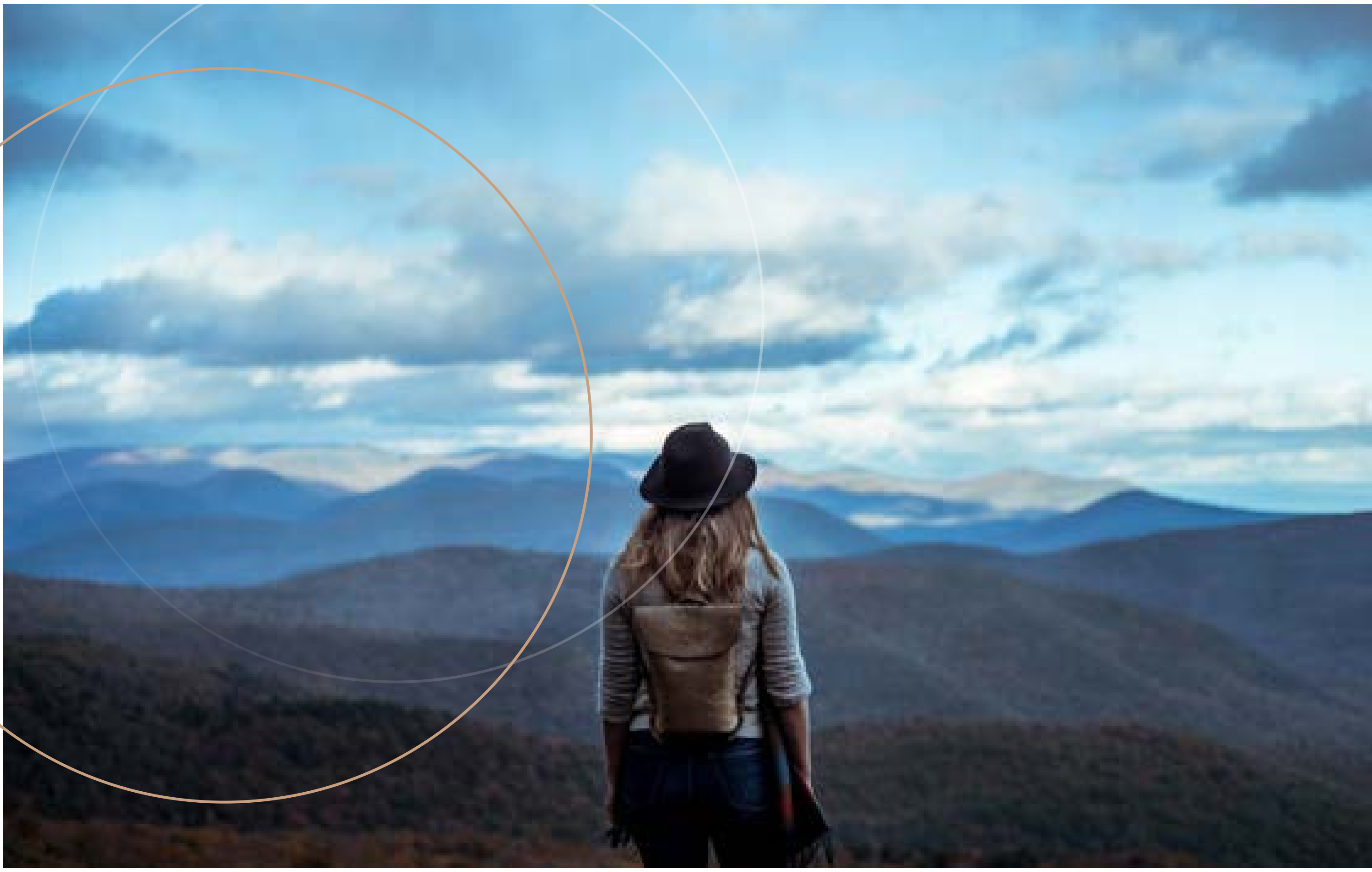
The outcome of the US election is a key factor for investors thinking about asset allocation, says Peter Kraus, chief executive of Aperture Investors. In line with other commentators, he predicts that "after the election, or longer if the

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.



election is disputed, the market will stabilise". The level at which this happens will depend on the winner, how any dispute over the outcome is resolved, and the policies adopted by the next administration – but, he warns: "Portfolios should be constructed to withstand increasing volatility into November and investors should refrain from attempting to predict the market direction as it will be easy to get whipsawed under these conditions."

The election outcome will also likely have a bearing on the level of aggressive posturing between the US and China: if Trump wins it is likely to be dialled up, whereas Democratic candidate Joe Biden is less antagonistic. But the fact remains that China's ambitions as a global superpower are almost bound to create further regional frictions.

Meanwhile, the UK government's hard-nosed approach to trade deal negotiations with the European Union could well result in a hard Brexit and further huge difficulties for both British and European businesses already stretched to breaking point by the economic fallout of the pandemic.

In other words, this is really not the time to start betting on the relative merits of particular parts of the world. Indeed, it's arguably a challenging undertaking for individual investors at the best of times, according to Russ Mould, investment director at AJ Bell. "Second-guessing stock markets on the basis of near-term trends in macroeconomic data is usually the road to ruin, so that is one approach that should really be avoided," he says.

Moira O'Neill, head of personal finance at broker interactive investor, explains some of the inherent dangers. "While many investors like keeping up with different markets around the world and finding regions that look good value, it can be risky. There are local currencies and politics to negotiate, and smaller economies can be more volatile. You can negotiate these risks using specialist regional funds, but there's always the dilemma as to how much to allocate. Investors without the time to monitor the different economies around the world may struggle to make these decisions."

So how then should investors approach the business of asset allocation? One simple option is to make use of a globally diversified fund or trust that acts effectively as a one-stop shop for international exposure.

Bear in mind that not all global funds operate in the same way. Some take into account changing regional strengths or weaknesses, adjusting the proportions they allocate to different areas over time. Ryan Hughes of AJ Bell suggest as an example Bankers Investment Trust: "The manager's approach is very much about adjusting the asset allocation on a top-down basis to match how he sees the world," he explains. "In the fund space, a fund like Schroders Global Equity combines both a top-down view and bottom-up approach."

The majority of funds and trusts, however, focus specifically on the quality of individual stocks and largely disregard asset allocation on the basis of macroeconomic factors. Hughes explain that this reflects the fact that they tend to use the MSCI World index as a benchmark, which "can make allocations pretty static" as they need to stay close to the benchmark split across regions.

This approach means the emphasis is very much on outperformance through individual stock selection. For example, Alliance Trust's approach is to outsource chunks of the portfolio to nine highly regarded specialist managers with differing styles and approaches to asset management, and then leave each to choose their own concentrated line-up of less than 20 'best ideas' from anywhere in the world. (The exception is a specialist emerging markets manager that can take a more diversified approach with its allocation because of the riskier nature of these markets.)

Willis Towers Watson's role is then to tweak the weighting of each manager in the portfolio so as to ensure the overall weighting is not too far removed from that of the MSCI All Country World benchmark (which includes emerging as well as developed markets). That means the Trust takes no 'high-conviction' punt that, say, Europe will be the place to be in the coming year, but instead holds a representative selection of the best stocks (whether in terms of high growth, great value, superior quality or reliable income) that the region has to offer.

Such investments are a strong choice for beginner investors looking for a single fund that provides the requisite mix of global diversification and 'best-in-class' share choices (in contrast, incidentally, to global index tracker funds and ETFs, which are often recommended for new investors but simply track the fortunes of the main global stock markets).

"Even for more committed investors with established portfolios, a global fund can be a useful addition. Investors can then extend their portfolio with smaller 'satellite' holdings in more focused funds that they think have potential to outperform."

O'Neill adds: "A globally diversified fund or trust may work for you if you don't have a lot of time to dedicate to investing, or if you just want to check up on it a few times a year. It will also be useful if you want global exposure to markets but don't know how much to allocate to the regions – the fund managers will do this for you."

Even for more committed investors with established portfolios, a global fund can be a useful addition. Investors can then extend their portfolio with smaller 'satellite' holdings in more focused funds that they think have potential to outperform. These might be regional, thematic, or focused on a particular industry sector such as biotechnology or financials.

As Mould observes: "No matter how good your research and strong your convictions, you can still be blown off course by an unexpected development or a wrong call. None of us has a crystal ball, after all, so a diversified fund can help guard against losses and overconfidence, while still offering upside potential."

Global generalist investment trusts have an important additional attraction as core holdings, which is that their large size means they can pass on economies of scale to shareholders in the form of relatively low fees. The annual charge for Alliance Trust, for instance, is less than 0.65%. Apparently insignificant savings on fees can make a big difference in the long term, says O'Neill: "Even small differences in charges can add up to thousands of pounds over a 30-year investment period, so you need to take costs seriously. You can't predict global markets and you can't always rely on a professional fund manager's track record, but the power of compounding is an exact science and it's proven that cutting costs today will reap rewards in future."

Of course, there are engaged investors who want to manage their own asset allocation using individual funds, and have the time, understanding and commitment to do a thorough job. The good news is that they don't have to start from scratch, as online brokers typically whittle down the thousands of funds and investment trusts available to provide shortlists of high-quality choices, or even suggest model portfolios to follow or use as a starting point.

These 'buy lists' have come in for considerable criticism in recent years, and brokers have tightened up their acts as a consequence; but it's important nonetheless that if you make use of these suggestions, you view them only as a jumping-off point for further research to ensure they will meet your requirements and fit well with other holdings in your portfolio.

In the meantime, if you don't have the staying power or confidence to build a properly diversified portfolio from scratch, or you decide that maybe you'd rather just leave it all to the experts in these difficult days, remember there are one-stop shop options out there that are well equipped to take the strain.

Faith Glasgow is a freelance writer and former Editor of Money Observer

EXPLORE more investment expertise

INTRODUCING LOMAS CAPITAL MANAGEMENT

By Alliance Trust

New York-based Lomas Capital (Lomas) has joined Alliance Trust's line-up of stock pickers, taking the place of FPA's Pierre Py and Greg Herr who have moved to a new firm.

Although Willis Tower Watson (WTW), the Company's investment manager, continues to believe that Pierre and Greg are skilled stock pickers, their joint venture with Polar Capital triggered a reassessment of the talent available for selection.

WTW's due diligence process, which takes into account a manager's past performance, investment process, resources and competitive advantage, the culture and alignment of the organisation, as well as operational infrastructure and other factors, identified Lomas as the best fit for the Alliance Trust portfolio.

Craig Baker, Global Chief Investment Officer at WTW and chair of the Alliance Trust Investment Committee, said: "Lomas is an independent, majority employee-owned, high-calibre manager that has a differentiated approach to the other eight stock pickers managing the Company's portfolio.

"We believe this will bring a new source of alpha, with a low correlation to the other stock pickers, ultimately leading to enhanced risk-adjusted returns and further diversity of the portfolio."

Whereas FPA has a bias towards the value style of investing (buying cheap stocks that are trading below their intrinsic value), Lomas takes a thematic approach that seeks to identify economic and industry trends and, through bottom-up fundamental research, the companies that will benefit from them.

Lomas was founded in 2012 by Dan Lascano, Charlie LoCastro and Ron McIntosh, all former senior members of the Caxton Equity Group. The team has worked together for almost 20 years. Dan is the lead portfolio manager and largest shareholder in the business.

Their mandate will be the same as for the Company's other stocks pickers – invest globally without any constraints in a high-conviction selection of 10-20 stocks. The allocation of capital to Lomas is being mainly funded from the Company's allocation to FPA, though WTW is also sourcing a small amount of capital from the other stock pickers and some borrowings. Overall, the portfolio will retain the same balanced exposures to regions, sectors and styles, ensuring that stock selection drives returns.

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WATCH Lomas' introductory video and more

TURNING LIMITATIONS INTO POSITIVES

By Jennifer Hill

A lack of consistency across ESG ratings represents a challenge for investors – and an opportunity for active managers to add value.

Call it ethical, sustainable or the now familiar acronym ESG (environmental, social and governance) investing, it matters more than ever.

"People are increasingly upset about great unfairness in society, such as climate change and diversity. These things are really starting to rattle people's cages," said Darren Lloyd Thomas, managing director of Thomas and Thomas Financial Services in Wales, which has 60% of assets under management in purely ethical portfolios, up from 47% a year ago.

ESG has become a big part of the investment world, but is it more substantial than a marketing gimmick? David Liddell, a director of online advisory investment service IpsoFacto Investor, concedes that it is easy to be cynical: 20 ESG funds were invested in Boohoo – one had the fast fashion e-tailer as its largest holding – when it emerged in July that it was paying garment factory workers in Leicester as little as £3.50 an hour.

However, it is "quite plain" to Liddell that a robust investment process should now take account of ESG – and perhaps always should have. "A fundamental part of the investment process is assessing the future market environment for a firm's products, the attitude and taste of consumers in society, and the ability of the company to govern and deliver on its plans – these should always have been pretty fundamental to assessing a company's future cash flow," he said.

"Of course, now we mean much more by ESG, for example the impact of the company on climate change, how good its working conditions are and diversity of the board."

Some of these issues lend themselves to a numerical approach, with board diversity being one. Others are much more subjective.

Integrating a robust ESG approach into investment decision-making is also problematic. The CFA cites three problems: it is difficult to assign a monetary value to ESG issues and to integrate them into quantitative models; ESG-related disclosure by companies may be limited, unverified and non-standardised; and ESG issues tend to influence financial performance in the long term, whereas many investors have relatively short-term horizons.

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APPLES AND PEARS

ESG is another set of data that allows investors to make better investment decisions. That is primarily because ESG factors are now widely regarded as risk factors for investors.

Increasingly, fund managers are thinking of ESG in both positive and negative terms – using considerations to identify investment opportunities as well as avoiding pitfalls. Because many areas of ESG investing are subjective, it can be hard to compare like with like when trying to make comparisons.

"While using negative screening made it easier to score from an ESG perspective, this is becoming less valuable as many managers prefer to focus on best-in-class, themes and engagement, as opposed to simply excluding areas," said Gavin Haynes, an investment consultant at Fairview Investing.

"There are an increasing number of ratings and index providers offering guidance, but the data sources and methodologies employed vary widely – comparing one to the other is like comparing apples with pears."

Moreover, most ESG ratings systems are based on industry-relative assessments rather than absolute scoring frameworks, which detracts from their value to fund managers, like those employed by Alliance Trust, who take a company-focused, bottom-up approach.

That is chief among the reasons for an over-reliance on ESG scores being unhelpful at best and dangerous at worst. "The investment world has a big role to play in shaping the future of the planet for the benefit of all of us – none of us should be passive investors in that regard," said James Carthew, head of research at QuotedData.

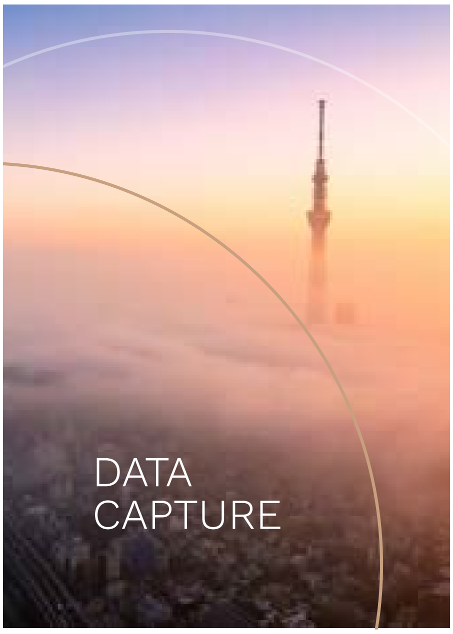
"But broad-brush ratings systems that attempt to inform investors on how ESG-friendly a company or fund is, are extremely subjective, often flawed and sometimes downright misleading. There is a danger that they encourage a box-ticking mentality, which offers the worst of all possible worlds."

Thomas believes the shortcomings of ESG scoring could result in future investor litigation against advisers who recommend funds based on scores without considering how underlying holdings fit with a client's values. "The whole issue with ESG scores, whether you're using Morningstar or RSMR, is that they don't immediately reflect the criteria that the ratings agency has used. You have to see through the screening. As a light touch, it works. But it can be dangerous if you don't do your homework properly."

Even ratings providers accept their limitations. "It is true that there is a lack of consistency across ESG ratings," said Hortense Bioy, director of sustainability research for Europe at global research provider Morningstar.

Each provider has its own methodology for assigning company-specific ratings. The differences in how ratings providers calculate ESG scores can result in the same company being ranked highly by one provider and poorly by another. And while most frameworks focus on material risk analysis, some prefer to focus on impact, which requires a different set of data.

Transparency is crucial. It is important that investors understand that a company's ESG score may differ between ratings providers, because they may be measuring different things or when measuring the same thing have different views regarding which issues are most material or which elements of best practice should be considered, said Bioy.



DATA CAPTURE

The quality of an ESG scoring system depends to a large extent on the quality of underlying data. ESG ratings and research providers use many data sources and regularly communicate with the companies they assess to ensure all relevant information has been captured and provide an opportunity for feedback.

ESG risk ratings capture far more than what companies are disclosing. Sustainalytics (owned 40% by Morningstar and soon-to-be wholly owned) assesses more than 60,000 news sources daily for incidents ranging from oil spills to employee discrimination lawsuits.

"This incident research and subsequent controversy assessments play a large role in informing our overall view of company ESG risks and the degree to which policies and programmes are translating into on-the-ground practices," said Bioy.

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"A lack of disclosure on material ESG topics can intrinsically be a signal of weak company management and has been shown to be associated with a higher cost of capital."

Developments in technology, like blockchain and artificial intelligence, will facilitate the collection of data. That, in turn, will lead to new ESG scoring approaches and help fund managers to collect more data. A key area of focus for these new data sources is impact analysis – an area of growing interest for investors keen to make a positive difference with their investments as well as profits.

New frameworks for analyses are emerging all the time. In September, Morningstar unveiled its 'ESG commitment level' framework for assessing both individual funds and the asset management firms that run them.

Expressed on a four-tier scale running from best to worst – leader, advanced, basic and low – the initiative aims to identify funds and asset managers that its analysts see as best-in-class in the context of ESG investing, while calling out those that are subpar in their approach. Morningstar will monitor strategies and fund managers for changes that could materially affect their ESG commitment levels.

Looking ahead, Bioy expects the harmonisation and standardisation of corporate ESG disclosure to make ESG ratings more robust. "At the moment, part of the data is estimated, which contributes to the lack of clarity and comparability," she said.

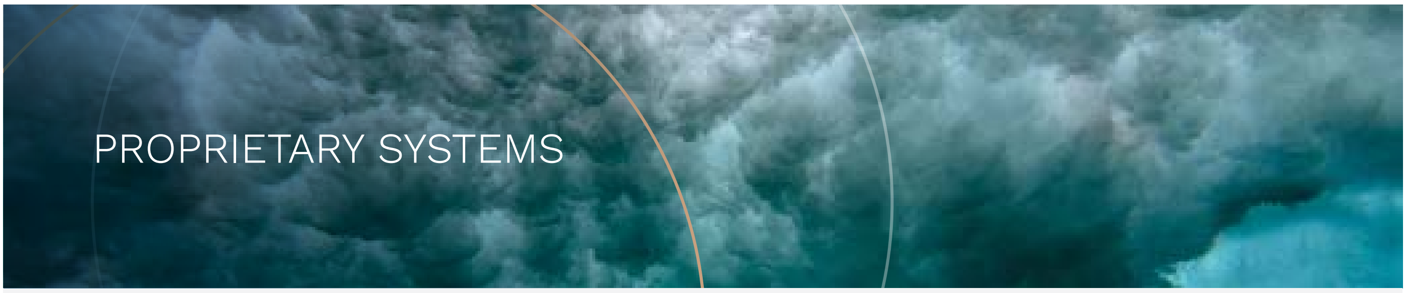
> "A lack of disclosure on material ESG topics can intrinsically be a signal of weak company management and has been shown to be associated with a higher cost of capital."

While the lack of consistency across ESG ratings represents a challenge for investors, greater uniformity would not necessarily be beneficial, however.

"Diversity of views is a good thing," said Bioy. "You wouldn't expect stockbrokers to issue the same buy/sell recommendations, so why would you expect ESG ratings to send the same signals?"

Canaccord Genuity Wealth Management is of the same mindset. It expects to see greater distinction between ESG risks and opportunities and more sophisticated data capture, analysis and interpretation, but uniformity of ratings systems is not on its wish list.

"Different agencies have different strengths and the divergence in scores between providers is healthy," said Patrick Thomas, its head of ESG investing. "We see scores as a useful starting point to ask managers more targeted questions."



PROPRIETARY SYSTEMS

Portfolio managers often compare data across providers to form their own opinions. In this respect, a lack of correlation among third-party ESG ratings presents an opportunity for active investors to add value for clients – particularly those investment firms with proprietary research capabilities.

Many asset managers have created their own proprietary scoring systems. These tend to use underlying ESG indicators provided by third-party rating agencies (instead of headline ESG ratings), giving greater scope for their own analysis.

Chris Welsford, managing director of Ayres Punchard Investment Management, has long said that ESG should be viewed as an analytical tool that enables fund managers to conduct thorough qualitative analysis on their investee companies. The Isle of Wight-based advice firm has offered clients socially responsible investment choices since Welsford founded it in 1995 with an inheritance from his late mother.

In running its Key to the Future model portfolio service, it takes as a starting point data analysis from Worthstone, which looks beyond ESG scores and considers other important factors such as social impact and transparency. The adviser then undertakes its own in-house research with reference to the United Nations' 17 sustainable development goals.

"ESG is qualitative research and analysis and as such there has to be judgement and context built into the process," said Welsford. "A fund manager who is running a thematic conventional energy fund will need to use ESG in a different way from one that is running a clean energy fund. But both can benefit from using ESG to better understand risk and opportunity in their investee companies."

For Canaccord Genuity, fund managers need to be able to distinguish between data (which on its own tells them nothing) and information (which does). ESG integration is a prerequisite for every active fund it owns.

"There are a handful of managers that get here by proxy through their style and sector preferences, but generally we expect to see processes that leverage internal proprietary ESG analysis," said Thomas. "Not having this is like saying a fund manager needn't bother reading an annual report. It's simply an expectation."

Fund managers often complement their proprietary data by engaging with companies to build on their insights.

"The more nuanced approach required in assessing companies from an ESG perspective, provides an opportunity for active managers to add value through engagement and helping drive change, which is not so easy for passives," said Haynes.

ACTIVE ENGAGEMENT

In its article, ESG Scoring in an Imperfect World, Sustainable Growth Advisers (SGA), one of the nine managers of Alliance Trust, uses stocks examples to highlight why it prioritises its own proprietary research over third-party input when assessing ESG factors.

One such example is industrial gases company Linde, whose operations result in significant consumption of electricity and production of CO2. Two years ago, SGA started discussing the issue with the company's chief sustainability officer. In the past year, it has engaged with the chief executive and chief financial officer.

Through this, it gained a greater appreciation of Linde's sustainability framework to improve productivity, and the ways in which the company's gases can reduce emissions and energy consumption for its customers.

Following its due diligence, SGA assigned Linde a high score for environmental considerations in February 2019. By contrast, MSCI upgraded Linde's ESG score from BBB to A just last June, based on its carbon mitigation strategy and efficiency programmes that SGA had already identified.

SGA is one of seven Alliance Trust managers that are signatories to the United Nations' principles for responsible investment. It is a focus shared by Equity Ownership Services (EOS) at Federated Hermes, an external, independent ESG expert that Willis Towers Watson (WTW), investment manager of Alliance Trust and itself a signatory, has appointed to provide voting recommendations and undertake engagement activities on its behalf.

During the first 6 months of 2020, EOS at Federated Hermes has engaged with over 90 companies held by the Trust on 347 ESG issues and objectives. These engagements are typically multi-year endeavours, but it has recorded progress on 22% of its objectives in this short period.

Advisers and the clients they represent have a part to play too. While few individual investors have the clout to make their views heard, investors in funds have the "strength in numbers" necessary to elicit change, said Carthew.

Ayres Punchard Investment Management takes any controversial issues back to fund managers for engagement. One area of focus has been the use of child labour in cobalt mining. This resulted in Microsoft making changes to its procurement procedures and supply chain scrutiny to address the use of unlawfully mined cobalt, which implicated the company in child slave labour.

AHEAD OF THE CURVE

Some advisers are long-term proponents of Alliance Trust for more traditional reasons. Francis Klonowski, director of Leeds-based Klonowski & Co, has used the Trust for 25 years, increasingly so since it adopted its multi-manager approach in March 2017.

He likes the low-cost access it affords to a well-diversified global portfolio that emphasises best-in-class companies, and has an impressive 53-year track record of increasing dividends paid to shareholders. He points to ongoing charges of 0.62% compared to 1.5% for many open-ended multi-manager funds.

"The private investors I know were brought up in an age when a hot summer day was a miracle – not a cause for concern," he said.

However, the Trust's integration of ESG factors has gained plaudits from various quarters. "We like the approach taken by Alliance Trust. Without selling itself as an ESG fund, it is clearly taking the issue seriously," said Liddell at IpsoFacto Investor.

Carthew at QuotedData said: "This is a move in the right direction and we applaud Alliance Trust's efforts in this area."

For Winterflood Securities analyst Annabel Herman, "Alliance Trust seems to be ahead of the curve" in sustainable investing.

In a broker note published in March, she highlights WTW's regard for ESG risks and opportunities as a core part of the research, selection and monitoring process. It places "emphasis on active engagement and stewardship at the stock-picker level", while the appointment of Hermes EOS is a "positive step in leading engagement", she said.

Data suggests the Trust's carbon footprint is significantly lower than its benchmark's. It had a weighted average carbon intensity of 87.0 t CO2e/$M sales on 30 June 2020, compared to 163.3 t CO2e/$M sales for the MSCI All Country World Index.

The Trust also has lower exposure to companies owning fossil fuel reserves.

The Trust's latest set of annual results contained more information on voting, engagement and carbon emissions than most of its peers and Winterflood "would not be surprised to see this level of reporting becoming increasingly familiar across the sector in the years ahead", said Herman.

Haynes at Fairview Investing expects investment trust boards to increasingly scrutinise managers to ensure they are implementing ESG considerations.

"This is not a fad or a short-term theme, but a structural shift in the way money is invested," he said. "ESG is increasingly becoming a part of mainstream investing across the globe and investors who ignore it will be left behind."

Jennifer Hill is a freelance journalist.

EQUITY MANAGER SPOTLIGHT

BLACK CREEK

BILL'S VIEW

Bill Kanko
Founder and President
Black Creek Investment Management

At Black Creek, we build portfolios that are unconstrained, consisting of stocks that we have a high-conviction in, and focused on only a concentrated number of holdings. Our way of working means our portfolios look very different from the market, and our peers.

When assessing a potential investment, we do so as business owners. Our perspective when evaluating the companies in which we invest, is long-term – over five to ten years. We search for companies of interest by examining the company from a fundamental, bottom-up standpoint, seeking to identify industry leaders that are gaining market share, providing a reasonable return on capital, and reinvesting for future growth to support their competitive position. When we identify companies that meet our criteria, we buy them only when we believe that we have a different proprietary view on the future growth trajectory of the business. We also want to buy at prices that are inexpensive relative to their long-term potential cash flows.

While 2020 has been a challenging environment, we have adhered to our philosophy and remained disciplined. At Black Creek, we must continue to be aware of a changing world; identify growth trends, regardless of the economy, that others have not recognised; and find the best ideas we can for our portfolios. Further volatility can be expected, but for long-term investors, volatility is looked at as opportunity.

WATCH BILL'S interview on his investment style and meet other managers

STOCK SPOTLIGHT: BUREAU VERITAS

Bureau Veritas (BVI) is a global leader in testing, inspection and certification (TIC), as well as assurance. Its primary activities involve testing products and materials, inspecting sites and equipment, and certifying products and systems to maintain various global standards.

Historically, BVI was more exposed to cyclical sectors. Over the past decade, it has expanded into areas that are more reliant on operating than capital expenditures, such as agri-food, consumer products. The company has also increased exposure to growth regions, eg China and the US. The Wendel family has owned a controlling stake since 1995, which has provided patient capital that enabled BVI to invest in the future.

BVI is a leader in digital transformation, with a history of audit and quality assurance. These services provide independent third-party verification for businesses to demonstrate best practices in non-financial reporting, for instance, sustainability, CSR, CR and ESG. Transparent reporting is critical to safeguarding a brand's reputation, which is why organisations such as ABB, GlaxoSmithKline, AstraZeneca, Bank of America and Nestlé engage its services.

The company is also a leader in providing testing and certification for digital and smart technology, eg 5G wireless, IoT. It has entered strategic partnerships with companies such as Dassault Systèmes, Avitas Systems and Microsoft, that have enhanced its digital offerings and growth opportunities.

After a period of investment, we expect BVI to deliver higher margins, profitability and cash flows. A near-term growth opportunity is related to the Covid-19 pandemic. BVI has developed back-to-work sanitary protocols to support business resumption. BVI trades at an attractive valuation, particularly when compared to its peers.

BUREAU VERITAS FAST FACTS

1828
Founded in **1828**

78,000 employees

CEO is **Didier Michaud-Daniel**

Present in **140** countries

5.1bn
euro revenue in 2019

Headquartered in Paris

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

EQUITY MANAGER SPOTLIGHT

RIVER AND MERCANTILE

RIVER AND MERCANTILE
ASSET MANAGEMENT

HUGH'S VIEW

Hugh Sergeant
CIO of Equities
River and Mercantile

After another period of relative outperformance, our contention that the US equity market has seen the best of its cycle has further strengthened, with profits fully recovered and valuations high. But the rest of the world is very different: earlier in the cycle, still with profit growth potential and, after recent underperformance and absolute falls, far more modest valuations. This makes the opportunity set even greater for value managers like us to exploit.

The value cycle is now even more cyclically depressed and presents a significant opportunity. Most notably the huge relative value gap of equities in, or exposed to, emerging markets; the valuation gap between the 'certain' digital economy stocks such as Amazon, and the 'uncertain' digital economy stocks, such as Baidu (uncertain, because it operates in that 'risky' market of China). Then there are the Brexit discount stocks, where there is a large value gap between these and the steady international growth stocks listed in the UK.

By focusing on the cheap nominal and relative-to-history end of the spectrum, really attractive absolute returns should be generated by these companies over the medium term. By avoiding the momentum, capital flow-driven 'any price for growth' or quality compounding stocks, our relative returns should also be robust. This portfolio won't be exposed to the downdrafts of hot capital flowing out of the Apples or Netflixes of this world, when their delivery fails relative to very high expectations.

WATCH HUGH'S interview on his investment style and meet other managers

STOCK SPOTLIGHT: ANIMA

Anima is Italy's number one independent asset manager, with €183 billion in assets under management. Italy is an underpenetrated and fragmented market, providing opportunities for Anima to grow. Central to Anima's business model are its strategic distribution arrangements with banks, where Anima has helped transform mutual funds from a troublesome area into a profitable opportunity for both parties. Service offered to the distribution channel (eg tailor-made funds on demand) rather than fund performance is the main differentiator and inflow driver. This company is a strong cash generator, which provides the opportunity for M&A to drive growth and provide economies of scale. In September 2017, Anima announced the acquisition of Aletti Gestielle from Banco BPM, and an agreement with Poste Italiane regarding the transfer of Banco PostaFondi to Anima; both these transactions strengthen Anima's market position.

Anima's share price has suffered disproportionately recently from its linkage to Italy/Italian banks. The company earns very good profit margins and a high return on capital, despite low management fee margins (0.3%), which should increase as it delivers cost synergies from recent M&A. Our confidence on delivery of these is supported by management's strong record of cost discipline. At the current trough valuation, it offers clear strategic value as an entry into the Italian market on 1% of AuM, 8x earnings and a 5% dividend yield.

ANIMA FAST FACTS

Stock ticker:
ANIM

1,000,000
customers

CEO is **Marco Carreri**

Total assets
183bn
euro AUM

300 investment professionals

September net inflows
103mn
euro

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

PORTFOLIO UPDATE

Over the third quarter of 2020, the Company's total shareholder return and NAV total return were 4.4% and 3.5% respectively, outperforming the benchmark MSCI All Country World Index (ACWI) which returned 3.3% over the period.

After the sharp fall in the first quarter followed by a dramatic rebound in the second quarter, stock markets were calmer in the third quarter. While overall returns were strong, September experienced a partial reversal of the July and August gains, as investors' confidence fell in line with the rise in Covid-19 cases in major markets around the world. There was a disparity in market reactions to the second wave of the Covid-19 outbreak. Asian equities returned over 5% as China managed to contain the virus, whereas both UK and European equities fell over the quarter as the number of cases and hospitalisations started to rise again. The UK was notably weak, perhaps due to renewed concerns about Brexit as well as the Covid second wave. US equities performed strongly. However, the impending election does bring further uncertainty. For now all eyes are on the stimulus package that is being discussed in Congress, which will influence the trajectory of the US economy over the coming months.

Earnings reports of company fundamentals, have indicated that there has been some improvement beyond technology and healthcare companies that have outperformed since the start of the pandemic into more cyclical sectors, such as materials. Nevertheless, there are still some industries (travel, hospitality) that remain severely afflicted by the ongoing crisis.

Over the quarter, there was no one particular style driving the Company's outperformance. We have made some small rebalancing adjustments to the portfolio by increasing slightly the exposure to value-style managers and away from the growth-biased stock pickers. Our approach remains the same in that we have maintained a style-neutral, diversified portfolio, focused on high-conviction stock picks.

Within the Company's portfolio, a position was initiated in VINCI, a leading toll road and airport operator in France. The substantial decline in demand from consumers for transport services over lockdown led to a dramatic fall in the shares price, creating an attractive opportunity for the portfolio. Shares in VINCI were bought at a price below the value of the concessions alone. Despite short-term pressures, the company has an all-time-high order book for projects.

In contrast, the position in the leading global distribution system company, Amadeus IT, was removed from the portfolio. The persistence of Coronavirus has prolonged the fall in demand for air travel, diminishing its use by travel agents and airlines. Even so, the Company's stock pickers saw lucrative opportunities elsewhere, taking advantage of the fast recovery of the US housing market and the trend in de-urbanisation of living, by purchasing a position in Owens Corning, a leading North American company that produces insulation, roofing and fibreglass composites. This holding also has attractive ESG credentials, as Owen Corning centralises its business on energy efficiency and renewable energy.

We remain defensive in our use of gearing, maintaining it at the lower end of the range, in light of the continual volatility and uncertainty throughout equity markets as the Coronavirus pandemic persists. We have also maintained a higher cash buffer for the Company, which can be deployed when valuations appear more attractive.

LEARN more about the latest portfolio price and performance here

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BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases – third quarter 2020	% of Equity Portfolio	Value of position (£m)
TransDigm	0.9	27.5
Berkshire Hathaway	0.8	22.7
Alibaba	0.7	21.4
Salesforce	0.7	21.2
Fiserv	0.6	18.2
Tencent	0.6	18.0
VINCI	0.5	15.7
Aena	0.5	13.5
Adyen	0.4	12.9
Sony Corp	0.3	8.0

10 largest sales – third quarter 2020	% of Equity Portfolio	Value of position (£m)
Cigna Corporation	0.9	26.2
Nvidia	0.7	20.7
Raytheon Technologies	0.7	19.8
Amazon	0.6	18.6
Deutsche Börse	0.6	16.6
Paypal	0.6	16.5
L'Oréal	0.5	15.9
Reckitt Benckiser	0.5	15.6
Microsoft	0.5	15.5
Altice USA	0.5	15.4

UPDATE ON BUYBACKS

At the AGM in April, shareholders approved the proposal by the Company to purchase and cancel up to 14.99% of the issued share capital. At the end of May the discount started to increase, and the Company commenced share buybacks. Since the end of May, the Company purchased 6.9 million shares at a cost of £55.2 million. The shares were purchased across a discount range of 3.8% to 7.7%, with an average discount of 6.0%.

The discount narrowed slightly from 6.4% as at 30 June 2020 to 5.6% as at 30 September 2020. In that period, the discount ranged between 3.8% and 7.7%, with an average of 6.1%.

The Trust continues to watch the discount closely, and will carry out further buybacks if the discount shows signs of widening significantly over a sustained period.

DISCRETE PERFORMANCE (%)

From To	30 Sep 19 30 Sep 20	30 Sep 18 30 Sep 19	30 Sep 17 30 Sep 18	30 Sep 16 30 Sep 17	30 Sep 15 30 Sep 16
Total shareholder return	3.9	5.1	10.0	27.0	28.9
NAV total return	3.8	4.0	10.8	19.9	26.4
MSCI ACWI total return	5.3	7.3	12.9	14.9	30.6

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 30 September 2020 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.

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:
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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.

START your investment journey here

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