Alliance Trust
INVESTING FOR GENERATIONS

Connection

By Alliance Trust

2022 has begun with a brutal sell-off in growth and technology stocks. Having led global stock markets up over the last few years and accounted for most of the gains, will the tech giants now drag down the whole market? Or are we seeing a healthy correction in the prices of overvalued segments and a rotation into cheaper areas of the market that offer better value?

There is no doubt that a rotation into more cyclical value stocks is underway, perhaps best illustrated by the outperformance of the UK market versus the US. As highly rated US growth and tech stocks tumble, cheap banks and energy companies that dominate the UK market, have come back into fashion. But will the switch from growth to value last? Or worse, will it morph into a market meltdown?

There was a similar move between investment styles starting in November 2020, when news of vaccines for Covid 19 triggered a temporary resurgence in the prices of economically sensitive value stocks. It didn't last.

Within 6 months, as the virus mutated into new strains and doubts surfaced about the pace of economic recovery, growth and tech stocks that benefitted from lockdowns were back on top, taking the market to new record highs. Apple's stock price, for example, soared at the turn of the year, becoming the world's first $3 trillion company.[3]

Will this time be different? It certainly seems possible that if the less virulent strain of Omicron is a guide, Covid won't lead to further lockdowns and, as the recovery gathers momentum, the earnings of economically sensitive stocks will benefit. But it's unlikely to be all plain sailing ahead.

The market is now faced with a major headwind in the form of potentially sharply rising inflation and interest rates, a combination not really seen for some 40 years. Rates

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 ten 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. - **3.** https://www.reuters.com/markets/europe/apple-gets-closer-3 trillion-market-value-2022-01-03/

have already started to go up in the UK and the US central bank has indicated that it will also begin increasing them in March. How far and fast interest rates will have to rise to tame inflation is the big question.

Optimists believe that the spike in inflation to 5.1% in the UK[4] and 7%[5] in the US[3] is mainly due to temporary Covid-related supply constraints that will eventually ease and that soaring commodity prices will soon stabilize. They believe only modest increases in interest rates will be necessary to prevent the rate of price rises accelerating further. Higher interest rates may even prove beneficial if they prevent the economy overheating.

However, pessimists believe central banks have left it too late and that, with tight labour markets and inflation becoming deeply embedded in the global economy, they will have to increase interest rates much more than most market participants expect. In doing so, the economy may tip into recession, undermining the entire stock market.

Rajiv Jain, Chairman and Chief Investment Officer of GQG (Global Quality Growth) Partners, says:

We think we could be at a crucial inflection point that will challenge many investors because they simply have limited experience analyzing companies in a rising rate and declining liquidity market environment." He fears that we are facing "an increasingly long winter.[6]

The market has been moving violently up and down as it tries to work out which scenario is most likely to occur. US growth and tech stocks have suffered the most, with popular names like Amazon and Tesla yo-yoing, while many value stocks have made gains. The logic behind this is that, in a rising interest rates environment the appeal of future-focused growth stocks fades because higher borrowing costs erode their potential earnings, while the earnings of economically sensitive value stocks offer more immediate gratification.

Andrew Wellington, Chief Investment Officer and Co-Founder of Lyrical Asset Management, believes the value rally has legs. He points out that, value rallies have historically lasted 8 years on average. On the other hand, he says the outperformance of expensive growth stocks is rare, only occurring in periods like 2018-2020 and the tech bubble of 1998-1999. "For most of history, the norm has been higher returns for lower price/earnings ratios and lower returns for higher price/earnings ratios,"[6] he says.

"We believe we have several more years of significant value outperformance ahead of us. And, while we are bottom-up investors, focused more on company fundamentals than macro events, the current macro backdrop of increasing inflation could potentially be another tailwind for us based on how it has influenced value stock performance historically. The future is always full of surprises, but we think we are in a fantastic position as we enter 2022."

As the name of his company suggests, Rajiv is known as a growth investor. But he is flexible about the sort of companies he will own and doesn't think it's all doom and gloom. Having previously invested in many of the largest new economy stocks, he thinks their valuations became overstretched last year. He currently finds better quality growth in utilities and brewers. "We believe this adaptability to reposition our portfolios is a hallmark of our success. We try to avoid dogmatism. In our view, a high-quality company can become a low-quality investment if you pay too much for it."

Even so, it's not the case that all traditional growth and technology stocks are overvalued, especially if you have a long investment horizon. Deep-seated, secular trends, such as the digitalization of business and artificial intelligence, haven't disappeared over-night in the growth stock market rout, although it may make the funding of more speculative companies quite challenging.

Sands Capital, hired for the Alliance Trust portfolio earlier this year, says it is not surprising that investors are flocking to defensive stocks in the current risk-

4. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2021 - **5.** https://www.bloomberg.com/news/articles/2022-01-12/u-s-inflation-shows-more-staying-power-after-hitting-7-in-2021 - **5.** GQG Partners, January 2022 - **6.** Lyrical Asset Management, January 2022 off environment. However, nothing has changed their view about the longer-term secular growth opportunity underpinning their businesses. For instance, Fed policy can't change the fact that less than 10 percent of IT budgets globally are currently spent on cloud computing, that new standards of care are meeting significant unmet medical demand, and that people are increasingly transacting digitally. Sands Capital believes these secular trends are likely to underpin years of above-average earnings growth for a select few businesses, regardless of the market environment. If they can identify most of these businesses, and their forecasts are directionally right, Sands Capital expects that fundamentals will overwhelm any short-term stock-specific issues.

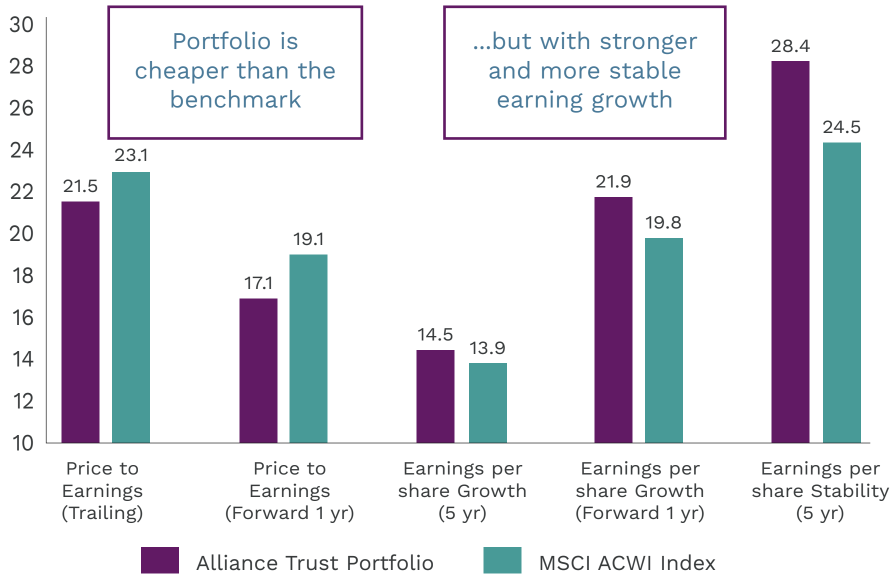
By the same token, not all value companies are destined to prosper in the new market environment, even with a style tailwind behind them. In other words, stock selection is key.

Craig Baker, Chair of the Alliance Trust Investment Committee, balances the Company's assets roughly equally between growth and value styles, although he doesn't find style labels particularly helpful. He points out that most fund managers look at both quality metrics and growth projections, as well as valuations for any investment they are considering making.

Craig argues that highly skilled managers can still identify attractive investments even when facing a style headwind. "Turns in the style cycle are extremely hard to predict," says Craig. "They often happen so quickly that is very easy to miss them. By the time you've repositioned your portfolio in favour of the style that's just come into fashion, it's too late. All the short-term returns have been made.

"So, we think it's best not to even try and time market rotations. In any case, over the very long term, growth and value styles cancel each other out and what you are left with is the added value generated by good stock selection. That's what we rely on in the Alliance Trust portfolio.

"In the near term, the portfolio is titled very slightly toward value companies as a result of the changes the stock pickers have been making, but if that bias becomes too great, we will rebalance into growth to level the playing field. This value cycle may last for a long time, as Andrew says, but it could also be cut short again. Maybe not by Covid this time, although another new strain can't be ruled out, but there are lots of other risks out there, not least the situation in Ukraine, which could alter market leadership again."



Source: BNY Mellon Performance & Risk Analytics Europe Limited. Data as of 31 December 2021

Overall, Craig is confident that the portfolio is well positioned for adding significant value over the long term, especially if the market ceases to be dominated by a handful of US growth tech stocks.

"Currently, the portfolio has better growth prospects than the market and is significantly cheaper (See chart). We think that's a very exciting combination of factors which bodes well for the future."

The views expressed are the opinion of the managers and are not intended as a forecast, a guarantee of future results, investment recommendations, or an offer to buy or sell any securities. The views expressed were current as of January 2022 and are subject to change. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. You should not assume that any investment is or will be profitable. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is the appointed Alternative Investment Fund Manager of Alliance Trust plc. Alliance Trust plc is a listed UK investment trust and is not authorized and regulated by the Financial Conduct Authority.

EXPLORE more investment expertise

E-COMMERCE – SOME KEY STOCKS ANALYSIS

By Alliance Trust

There were few positive business stories during the pandemic lockdown, but arguably for those positioned to benefit, there was the increase in online sales. While a national lockdown could not have been predicted any more than the pandemic that led to it, some savvy investors may have foreseen the repercussions for those businesses that would be most hit and those that would most benefit, and invested or disinvested accordingly.

While Zoom meetings continue and many still work from home, shoppers have been out in force and on the High Street. But is it likely we will see online retail sales decrease significantly from the highs of lockdown spending, especially with the uncertainties of other variants impacting on the return to normality?

Online spending values did fall in October 2021 by 0.8% when compared with September 2021, according to the Office for National Statistics (ONS).[1] The monthly fall in online spending values resulted in a fall in the proportion of online sales to 27.3% in October 2021, from 28.1% in September.

The ONS reports that while this is the lowest proportion of online retail spending since March 2020 (22.5%), it remains far higher than the proportion of online retail spending in February 2020, before the coronavirus pandemic, of 19.7%.

We are not yet able to predict quite how the omicron variant will impact on our liberties, but it is timely to look at the e-commerce sector and how our fund managers are investing.

Sands Capital says e-commerce's share of retail spending has been growing by about 1 percentage point each year since 2000.

In its report E-commerce: A Play in Multiple Acts, - it says, "At the beginning of 2020, that share was at 16 percent and by April 2020, it had soared to 27 percent. That's a decade's worth of growth in less than one year. While we don't expect penetration will remain at this level, we also don't expect it to fall back to 16 percent; our research shows that the pandemic cemented new consumer habits, and that many expect to continue to shop online and do so more frequently even after the pandemic ends."[2]

Sands says as consumers make more and more purchases online, it believes e-commerce companies able to extend into adjacent businesses, leveraging consumer mindshare, technological know-how and data, will be best positioned to become the next great internet franchises, leveraging multiple engines of growth.

So which are the key e-commerce stocks our fund managers are researching? As of 31 December 2021, Alliance Trust holds Amazon, eBay, Qurate, MercadoLibre, DoorDash, JD.com, Sea Ltd, and Shopify. The portfolio's exposure to JD.com is marginal, and its largest allocation is Amazon.

The level of competition in the e-commerce sector, especially among these companies, is high: Amazon may be dominant in e-commerce in the US, but it is facing competition from Shopify as a direct-to-consumer brands platform. And in China, Alibaba, JD.com, Pinduoduo and Meituan are all competing for customers in the online grocery market.

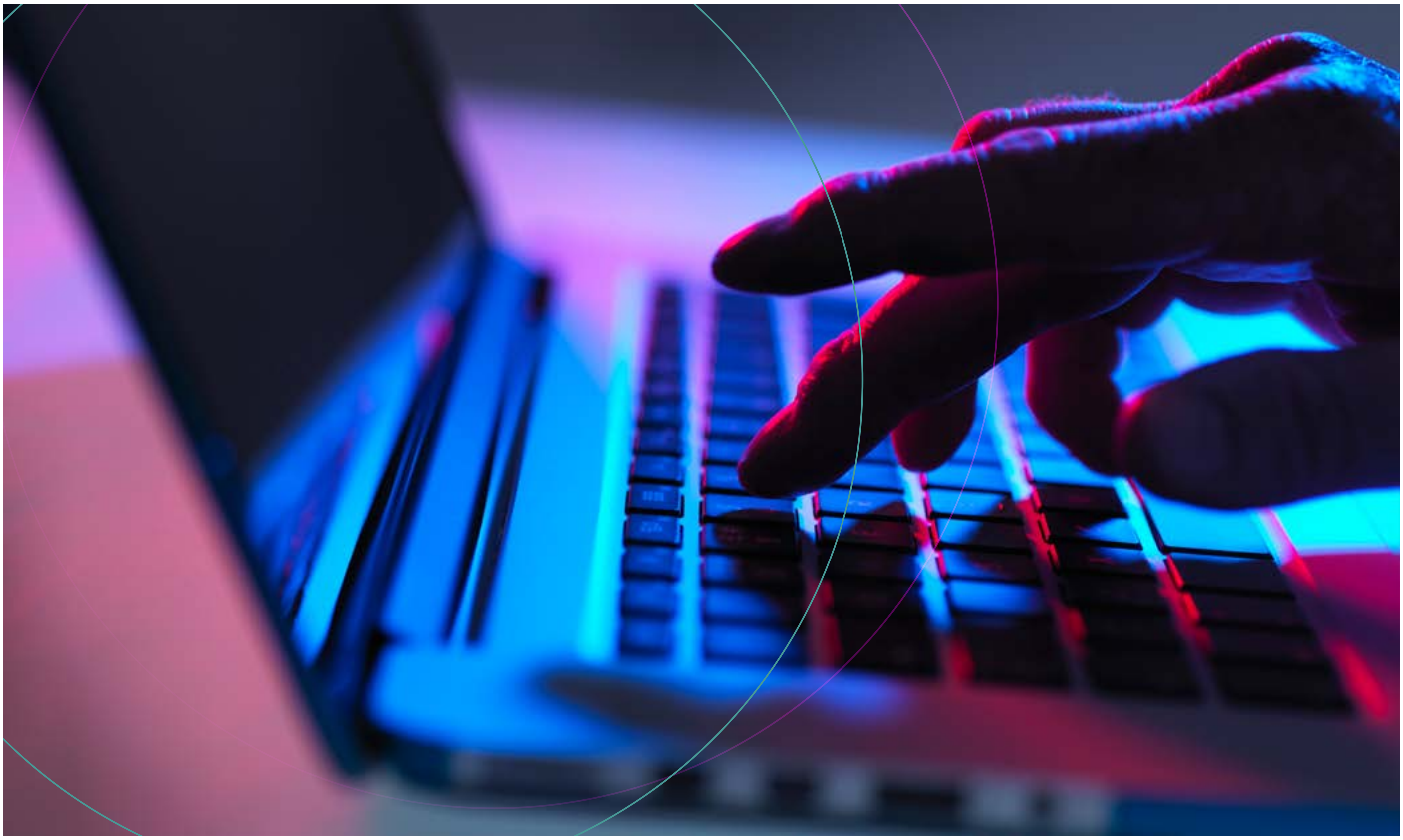
Here our managers outline some of those key stocks: Amazon, DoorDash, eBay, MercadoLibre, Qurate, Sea and Shopify.

AMAZON – ONLINE RETAILER

Sands, SGA and Vulcan are some of the managers that bring Amazon into the portfolio.

CT Fitzpatrick, CIO at Vulcan Value Partners, sees Amazon as one of those companies that can be both a value and a growth stock.[3] It has, he says, experienced meaningful compounding of its intrinsic value since Vulcan has owned it, and seen solid, double-digit stock price returns over the last 18 months. He believes it is deeply discounted due to the growth in the value of the underlying businesses, which is outpacing price appreciation.

1. https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/october2021 - **2.** Galloway, Scott, Post Corona: From Crisis to Opportunity. Page xvii, Bank of America, U.S. Department of Commerce, Shawspring Research. - **3.** Source: Vulcan Partners



"This incredible company produces robust free cash flow, which we expect to endure and compound well into the future," says Fitzpatrick. "The Covid-19 pandemic accelerated many trends directly benefiting Amazon's major business segments: retail, Amazon Web Services (AWS) and advertising. Amazon has experienced exceptional returns through thoughtful capital allocation and astounding top-line growth.

"As long-term investors, we consider Amazon's value stability and growth over the next decade, rather than its stock price over the next quarter. Through that 5+ year lens, we believe the market continues to underestimate the value of this truly wonderful business."

DOORDASH – FOOD DELIVERY COMPANY

DoorDash is one of those companies transforming by moving into adjacent businesses that lengthen and expand their runways for growth, according to Sands Capital.

Katherine B Okon, research analyst at the fund manager, says, "In early December 2020, investors got a chance to buy a piece of DoorDash, one of the breakout businesses of 2020. Throughout the year, the company became a household name and established itself as the market-share leader in the US food delivery market. Its annual gross order volume (GOV) grew 207% in 2020, as the spread of the coronavirus pandemic curtailed restaurant activity and fuelled the rise in takeout, with delivery evolving into the main connection between restaurants and their consumers.

DoorDash was able to expand its restaurant options and improve its local logistics experience, which we have found to be the most expensive and time-consuming part of the food delivery process, but the key to customer satisfaction. In 2020, the company leaned into this competitive advantage, reporting deliveries of more than 800 million orders, 23% faster than its average 2017 delivery time.

DoorDash has also moved towards delivery for groceries as well as convenience stores, which we expect will account for about 15% of DoorDash's GOV in 2021."[4]

EBAY – ONLINE MARKETPLACE

Lyrical says there are some wonderful e-commerce companies it owns at a fraction of Amazon's lofty multiple.

"One of them is eBay," says Andrew Wellington (Co-Founder and CIO), "the world's largest marketplace for used and out-of-season goods. eBay may not be growing as fast as Amazon, but it still is growing at 15% per annum, roughly triple the historical rate of the S&P 500.

"Despite its faster growth, once you adjust for the cash and investments eBay holds, you can own the business for about 12.5x forward earnings, a 40% discount to the S&P 500 multiple and 70% less than Amazon. At 12.5x forward earnings, eBay provides an attractive earnings yield of 8% and growing, as it focuses on growing the wallet share of its core customer, who is seeking the treasure hunt experience."[5]

QURATE RETAIL – HOME SHOPPING

Lyrical's Andrew Wellington says even cheaper than favoured stock eBay is Qurate Retail, the leader in home shopping, with live shopping streaming channels, QVC and HSN. Qurate is held in the portfolio by both Lyrical and Metropolis Capital.

"Qurate's earnings have basically doubled from 2018 to 2021, and the stock is valued at less than 5x forward earnings," he says. "That is an earnings yield of over 20% for a virtual retailer with one of the most loyal customer bases in retail (the company's core 8 million shoppers return each year at a 90% rate).

"Qurate operates a flexible business model, holding limited inventory and quickly shifting to sell whatever its customers want. As a result, in the last two economic downturns when most traditional retailers saw significant revenue declines, Qurate's revenue fell

4. Sands Capital. **5.** Lyrical Asset Management

only 1% in the Global Financial Crisis and grew 5% during the pandemic. The business is so cash-generative that it made two special cash dividend payments in 2020, worth about 30% of today's stock price."[6]

MERCADOLIBRE – ARGENTINE ONLINE E-COMMERCE COMPANY

MercadoLibre is the largest, in terms of market share, e-commerce and financial technology company in Latin America. Judy Jiao, research analyst at Sands Capital, says e-commerce adoption rates in Latin America are still low, leaving a significant growth potential.

"In Latin America, the lack of an established logistics infrastructure is one of the main barriers to the spread of e-commerce," she says. "This means current shipping costs can be high – as much as $8 per package – and delivery time is long, with packages sometimes taking several weeks to arrive."

"To reduce the cost of shipping to merchants, MercadoLibre launched its Mercado Envíos service in 2013, through which it negotiated a volume-based discount directly with the postal carriers and passed on the savings to merchants. To increase the speed of shipping, in 2017 MercadoLibre launched its own managed network services, to directly handle warehousing and shipping using technology. Thanks to its ability to deliver products to consumers fast and cheaply, MercadoLibre's gross market value (GMV) consistently grew more than 100% on a year-on-year basis for the last three quarters of 2020."

MercadoLibre has also created an electronic payments system accessible to the region's large population of unbanked and underbanked. It launched Mercado Pago in 2003, to process online payments. In subsequent years, this payments business has spawned numerous systems that support buy now/pay later programmes, as well as consumer and merchant loans.

"Over time, we expect MercadoLibre has the potential to become the largest financial institution in Latin America," says Jaio.[4]

SEA LTD – E-COMMERCE AND DIGITAL PAYMENTS PLATFORMS

Singapore-based Sea, now a leading emerging markets internet company, used its early success in its gaming business, Garena, to fund its e-commerce (Shopee) and digital payments (SeaMoney) platforms. Sands Capital saw the potential of the company's growing e-commerce platform Shopee turning into expectations for future value.

Neil Kansari, senior portfolio manager at Sands, says, "For us, our key insight was the opportunity we saw in Sea's e-commerce (and beyond). Because of low internet penetration and e-commerce adoption rates in the region, we believed Shopee's prospects were immense.

"However, what really powered its growth in e-commerce, and gave the company early success in this expansion, was familiarity with Southeast Asian markets, their demographics and their emerging technology needs. This familiarity, combined with on-the-ground execution and cash flows from gaming, all became key factors that allowed the company to create a powerful network effect, connecting buyers and sellers in a virtuous circle of scale begets scale. Of course, once at scale, we find that network effect businesses, such as Sea, are often able to defy the traditional laws of mean reversion for much longer than a non-platform business, because the value of the network grows as each user is added, while the cost of acquiring each additional user declines."[4]

Shopee, he says, has now emerged as the clear e-commerce leader in terms of market share in Southeast Asia, was the most downloaded shopping app in the region, and was among the top three downloaded apps worldwide, according to App Annie.[6]

SHOPIFY – CANADIAN E-COMMERCE SOFTWARE PROVIDER

Shopify is not exactly an e-commerce business per se, but rather helps businesses to move their operations online. Shopify's revenues roughly doubled in the second and third quarters in 2020, compared with the same period in 2019.

It is a cloud-based multichannel platform employing more than 5,000 people. More than 1 million small and mid-sized businesses in more than 175 countries use the Shopify platform, which provides

6. App Annie July 1, 2020; https://www.appannie.com/en/insights/mobile-minute/mobile-ecommerce-marketplaces-expand-covid19/

online retailers with access to services, including marketing, payments, shipping and customer engagement tools.

Michael Sramek, senior portfolio manager and managing director of Sands, says, "Shopify says it wants to make e-commerce better for everyone. To do so, it seeks to reduce barriers to business ownership, by making it easier for anyone to start, run and enlarge their businesses. It offers tools for businesses to expand, and educational resources for current and aspiring entrepreneurs.

"As part of its efforts to leverage the power of e-commerce to create a more equitable and sustainable future for everyone, Shopify is focusing on four groups of business owners who face systemic barriers: Indigenous people, youths, newcomers and social-impact businesses.

"Shopify also launched a Sustainability Fund to contribute to a low-carbon future for the planet. It has a carbon-negative commitment to invest at least $1 million a year to remove carbon from the air. In 2020, when shoppers rang up a record $5.1 billion in sales in the stores of Shopify merchants on Black Friday and Cyber Monday – up 76% on 2019 – Shopify purchased offsets of nearly 62,000 tons of carbon emissions from the proceeds from its deliveries that weekend."[4]

SURVIVAL OF THE E-FITTEST

The competition in the e-commerce sector that was referred to earlier can be brutal, as has been evident to e-commerce players and those looking to expand.

Laird Abernethy, managing director, Australia and New Zealand at GQG Partners, for example raises two primary risks in Sea Ltd's expansion: 1) the investment required to sustain market share and 2) the challenges associated with international expansion.

"After observing many e-commerce models over the years, a strong investment in logistics is often required to sustain market share, as we believe that network effects alone do not create sufficient barriers to entry," says Abernethy. "Sea itself appeared to come out of nowhere to become the leading Brazilian e-commerce player by revenue within just 18 months. What prevents another company from similarly offering low take rates, coupons and free shipping to disrupt Sea, given that we have seen this in other markets?"

Abernethy highlights that in South Korea, eBay operated an asset-light model, but lost its leading position to South Korean e-commerce company Coupang, which invested aggressively in logistics.

And similarly, he says, MercadoLibre sacrificed its margins and pivoted to a more capital-intensive model to fight off competition.

"Over time, as many of these e-commerce companies, such as Coupang, Amazon and JD, have become more capital-intensive, their price-to-sales multiples have generally fallen to low, single-digit multiples."

Abernethy points out that markets being expanded into are already competitive.

"India is a highly regulated market with large incumbents such as Amazon, Reliance and Flipkart, Poland is currently dominated by Allegro (but Amazon is entering this market as well), and Brazil is a volatile macro environment with large incumbents, including MercadoLibre as well as Amazon."

"Great companies, as you all may know, can still be overvalued. In our opinion, those companies with the fastest growth, and which have continued to become increasingly more expensive in price, are the most vulnerable to a shift in expectations."

The views expressed are the opinion of Sands Capital Management, Lyrical, GQG and Vulcan Value Partners and are not intended as a forecast, a guarantee of future results, investment recommendations, or an offer to buy or sell any securities. The views expressed were current as of December 2021 and are subject to change. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. You should not assume that any investment is or will be profitable. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is the appointed Alternative Investment Fund Manager of Alliance Trust plc. Alliance Trust plc is a listed UK investment trust and is not authorised and regulated by the Financial Conduct Authority.

EXPLORE more investment expertise

By Alliance Trust

"The climate emergency comes down to a single number: the concentration of carbon in our atmosphere."

Sir David Attenborough addressing the COP26 UN climate change conference in Glasgow, 1 November 2021

Whether last year's COP26 climate change conference represented a vital step towards a global effort to cool our overheating world, or instead was a missed opportunity to avert a climate catastrophe, depends on your point of view. But the announcement by the Glasgow Financial Alliance for net zero that $130 trillion of assets under management are now committed to net zero, amply demonstrated the movement of capital that is under way.

Ultimately, only concrete actions, not conference rhetoric, can solve the colossal climate challenge. As Sir David Attenborough's above quote from his stirring address to the COP26 conference implies, the most important thing we can all do to limit global warming, is reduce the amount of carbon dioxide and other greenhouse gases, such as methane and nitrous oxide, we pump into the atmosphere.

Failure to slash these emissions will jeopardise humanity's efforts to cap the rise in global temperatures this century at 1.5˚C Celsius above pre-industrial levels.

Keeping the planet's warming below this temperature threshold was a key plank of the 2015 Paris Agreement on combating climate change. It remains unclear whether this goal will be achieved, but breaching it could have devastating consequences.

OUR NET ZERO PLEDGE

We all need to act. But how are we going to play our part in meeting the climate challenge?

Last year the Company and our investment manager, Willis Towers Watson (WTW), committed to a target of net zero greenhouse gas emissions from the portfolio by 2050, and, on the way, halving them by 2030. What does that mean? We pledge that, by the middle of the century, the amount of greenhouse gases across our portfolio must overall net off to zero, taking into account the emissions arising from the day-to-day operations of each of the roughly 200 companies held in the portfolio.

This aim aligns with the goals of the Paris Agreement. It also meets the principles of two major climate initiatives established by the investment management industry: the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF) and the Net Zero Asset Managers Initiative (NZAMI), which WTW signed up to in 2021.

WHY SHOULD SHAREHOLDERS CARE ABOUT CLIMATE CHANGE?

Climate change is first and foremost a physical risk, but it is a financial risk, too. It is far-reaching and foreseeable. For investors, there are significant and growing risks from climate change, but also opportunities as the world moves to a net zero future. Greater focus and momentum among policymakers and regulators will alter the global economy and financial markets. Climate transition risks will affect the fortunes of companies and investment portfolios.

We have committed to a net zero greenhouse gas emission portfolio because we have a responsibility to wider society, but also because we believe starting this journey now will improve the portfolio's long-term returns relative to the calculated risks we take in managing the portfolio.

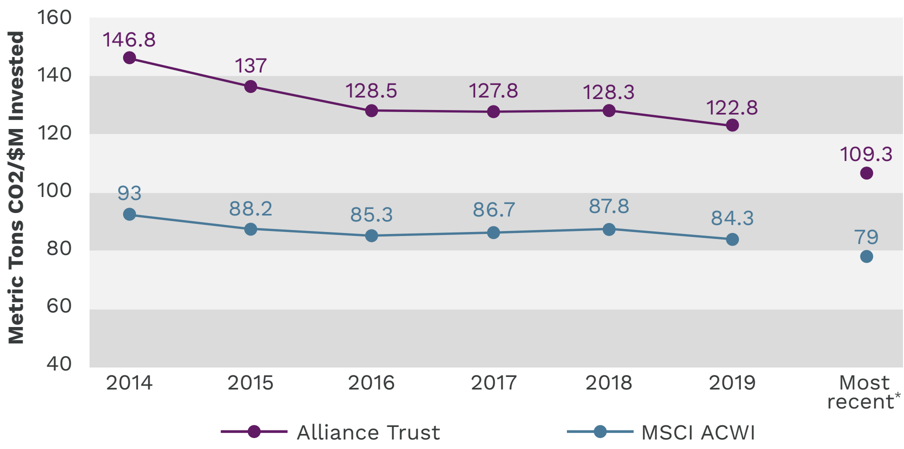
Hitting our targets won't be straightforward. The challenge of plotting the net zero journey, along with its measurement and monitoring, is a developing science; the relevant data points and how we analyse them are rapidly evolving. But we are well placed. WTW has invested heavily to help its clients with the shift to net zero, and we will be drawing extensively upon its expertise and access to over 70 climate specialists to help us reach our net-zero-by-2050 goal and interim 2030 target. WTW has developed its own Carbon Journey Plan methodology, which we will follow. This includes a rigorous framework with which to measure and evaluate our progress, along with controls to help keep us on track.

OUR CURRENT CARBON FOOTPRINT

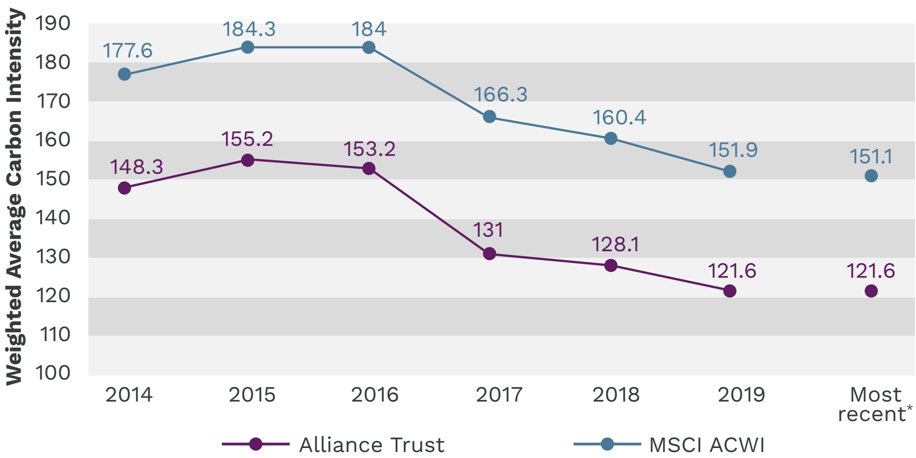
Setting the carbon journey plan, along with measurement and monitoring of the transition, is a developing science. While there is no single definitive metric that can be used to adequately measure progress at this time, the data and analytics in the climate space are rapidly evolving. Opposite we provide an illustration of the carbon emissions and weighted average carbon intensity (WACI) of the current holdings as at 31 December 2021, in the portfolio and the index, as well as the trend in the emissions and WACI of these stocks through time. In terms of carbon emissions, these are higher than those of the benchmark, given some of our Stock Pickers increased their allocation to energy stocks earlier in the year, which was beneficial to returns, given the strong momentum in the sector. it is not in the Company's shareholders' financial interests to always be ahead of the pathway to net zero, regardless of market pricing or the magnitude of the risk posed by climate change. Our exposure will depend on opportunities that arise at any given point in time. In terms of the WACI, which is a measure of a portfolio's exposure to carbon-related potential market and regulatory risks, we are less exposed than the benchmark.

Critically, we note that in terms of both measures, the stocks in our portfolio are reducing their carbon emissions, and improving their carbon efficiency at a faster rate than the stocks in the benchmark.

Carbon Emissions Trend of Current Holdings



Weighted Average Carbon Intensity Trend of Current Holdings



*Reflects the most recently available data for each company on the date of running the report (10/01/2022). Source: MSCI ESG Research LLC, portfolio as at 31 December 2021.

Many of these higher emitting companies are on a decarbonisation path that is consistent with the Paris Agreement, something that we and our Stock Pickers monitor. And often they are investing heavily in "green" energy and will be a key part of the solution.

APPROACH: LOOK FORWARD AND AVOID OVERSIMPLIFICATION

We will avoid an overly simplistic approach to decarbonisation, as this can often be self-defeating. We don't want to unduly punish industries or countries that face the biggest hurdles in moving to a low-carbon world. Starving them of funding at a time when they most need it, may be more harmful to a successful shift to a low-carbon economy. Many climate solutions are being developed by companies that are currently highly carbon-intensive, but provide a path for the whole economy to decarbonise quicker.

This means forward-looking measures are needed when analysing how companies can move to net zero emissions, not just backward-looking carbon emissions numbers. WTW has therefore developed its own forward-looking measure of climate transition risk, which it calls Climate Transition Value at Risk (CTVaR). This measure will help us identify, company by company, the winners and losers in the move to a low-carbon world.

We believe our ability to combine standard carbon metrics with a comprehensive set of additional data and analysis, including CTVaR, allows us to understand climate-related risks better, and gives us an edge versus other investment trusts.

OUR INVESTMENT TOOLBOX

So what actions can we take within the portfolio to get to net zero? There are several tools in our investment toolbox to help us progress towards our net zero destination.

Avoiding investing in certain industries and companies entirely (exclusions), or selling out of existing investments (divestment) in companies whose activities harm the climate, are options. But while these may be quick fixes for the Company's portfolio, they do not bring

us closer to a more resilient economy, or benefit wider society. That said, exclusion or divestment can be the right approach in certain instances, and we use it to a limited extent, mainly in situations where exposure to climate risk cannot be resolved via other means, such as having constructive dialogue with companies (known as engagement).

One case for exclusion from the Company's portfolio are firms that make a significant amount of their money from activities that are likely to be phased out in the net zero world. Dialogue with these firms is unlikely to be productive.

Thermal coal and tar sands, a type of petrol deposit, are major sources of greenhouse gas emissions and are highly pollutive and environmentally damaging. We have decided to exclude from the portfolio companies that generate significant revenues from thermal coal and tar sands.

Exclusion might be appropriate for other industries, too, over time. Our sense of what business activities we simply cannot engage with, and must exclude, will evolve.

We think engagement – working in tandem with companies and having candid but productive discussions with them on all different types of issues, including their climate impact – is often likely to be more effective in decarbonising the global economy than exclusions.

AN ACTIVE ENGAGEMENT APPROACH, SUPPORTED BY SPECIALISTS

Extensive engagement already happens across the Company's portfolio. WTW monitors how well climate-related issues and wider sustainability concerns are baked into the investment activities of our ten underlying Stock Pickers. Our investment manager assesses how well our Stock Pickers reflect climate risk in their decisions when picking stocks, using their own climate risk metrics, such as the CTVaR, to challenge the Stock Pickers when appropriate.

WTW also regularly engages with our Stock Pickers and the wider investment management industry on sustainability and stewardship practices. In 2020 alone, WTW carried out over 200 engagements with over 70 investment management firms on sustainability, sharing with them its views of what it believes to be best-in-class practices. WTW also participates in broader discussions on many responsible investment issues, including climate risk, with industry bodies, governments, regulators and policy-makers.

Together with WTW, we are able to go even further than this, by appointing EOS at Federated Hermes (EOS), a leading stewardship specialist, to engage with companies, regulators and governments. Our Stock Pickers and EOS regularly speak to companies to encourage them to follow best practices for the climate, move towards a Paris-aligned pathway and to share as much information as possible on their climate strategies and carbon footprint. This includes collaborative initiatives, such as EOS leading on a number of Climate Action 100+ engagement projects; Climate Action 100+ being an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

THE JOURNEY BEGINS

We have taken major steps in drawing up our plan to reach net zero by 2050, and meet our interim target of a 50% cut in the portfolio's greenhouse gas emissions by 2030. Underpinned by the pioneering work and industry-leading resources of WTW, we have a framework to monitor our progress and controls to help keep us on track.

Achieving these ambitious targets will require a multi-decade commitment, but we firmly believe it is in the interests of our shareholders and wider society to make this journey. We look forward to updating you on our progress along the way.

EXPLORE more investment expertise

Past performance is not a reliable indicator of future returns. This material contains the opinions of the manager and such opinions are subject to change without notice. Forecasts, estimates and certain information contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

TWIM is the appointed Alternative Investment Fund Manager of Alliance Trust plc. Alliance Trust plc is a listed UK investment trust and is not authorised and regulated by the Financial Conduct Authority.

READING LIST

We asked our Stock Pickers what they had enjoyed reading recently. They shared their recommendations below.

Bill Kanko

Black Creek Investment Management

"I highly recommend two books: ***A Promised Land*** by Barack Obama, and ***Traitor to His Class: The Privileged Life and Radical Presidency of Franklin Delano Roosevelt*** by HW Brands."

Andrew Wellington

Lyrical Asset Management

"I have been reading ***Noise: A Flaw in Human Judgement*** by Daniel Kahneman. I love to read about the psychology of decision-making, the flaws in the way our human brains process information, and techniques for overcoming these flaws. Daniel Kahneman is one of the pioneers in behavioural finance, an excellent writer on complex topics, and the winner of the 2002 Nobel Prize in Economic Sciences."

Hugh Sergeant

River and Mercantile Asset Management

"Magdalena: River of Dreams by Wade Davis; my wife is Colombian and this book provides a fantastic insight into the country, definitely worth reading if you want to move beyond the stereotypical view of this wonderful if sometimes quite challenging country."

Andy Headley

Veritas Asset Management

"The Contrarian: Peter Thiel and Silicon Valley's Pursuit of Power by Max Chafkin. Interesting (and somewhat negatively biased) book about Peter Thiel that is thought-provoking in parts and outrageously biased in others. Some parts of the book seem well researched while others are hardly researched at all and rely on testimony from individuals with an axe to grind! Worth a read though!"

Ben Whitmore

Jupiter Asset Management

"I rather enjoyed ***The Origins of Asset Management from 1700 to 1960*** by Nigel Morecroft. I have also enjoyed Tim Marshall's ***The Power of Geography."***

Michael Sramek

Sands Capital Asset Management

"The pandemic drove us to ponder the meaning of happiness, and Brian Portnoy's ***The Geometry of Wealth*** presents an interesting framework for how people derive contentment and meaning in their lives. He calls them the "Four Cs": connection (social engagement), control (self-direction), competence (being good at something valued) and context (attachment to something external)."

Rob Rohn

Sustainable Growth Advisers

"Elevated Economics: How Conscious Consumers Will Fuel the Future of Business by Richard Steel, and ***Expectations Investing*** by Michael J Mauboussin."

C.T. Fitzpatrick

Vulcan Value Partners

"I am currently reading ***Amazon Unbound*** by Brad Stone and recently finished Simon Sinek's ***The Infinite Game***. Both books emphasise the importance of thinking long term."

ISA Season Approaches

The cut-off for making an individual savings account (ISA) investment for the year 2021/22 on 5 April may seem ages away, but there is nothing to say that you need to wait until that deadline. Indeed there's a lot to be said for investing now to beat the rush that inevitably happens at the beginning of April.

You have a £20,000 ISA allowance to use by then, and if you miss the deadline, you can't carry it over and you will lose the tax-efficient benefits for that year.

Not that it's easy to decide how to invest. Inflation and interest rates are rising and there is still extreme uncertainty about the path of the pandemic.

We would argue that the best way to minimise risk, at any stage of the economic cycle, is to ensure that a portfolio is diversified across asset classes. A mix of equities, fixed income, property and alternatives has also long been considered a good combination. Within equities, we believe Alliance Trust's unique blend of managers and their customised stock selections make it a strong core holding for long-term investors seeking capital growth and rising income.

EQUITY MANAGER SPOTLIGHT

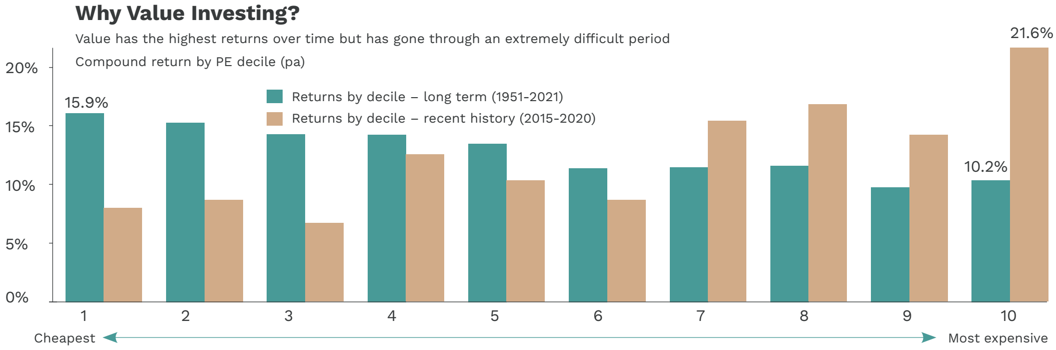
JUPITER ASSET MANAGEMENT

BEN'S VIEW

Ben Whitmore
Head of Strategy,
Jupiter Asset Management

Investment Philosophy

As value investors, the team believe the key determinant of future returns is whether the valuation paid for a security is high or low relative to its long-term history. There is a significant amount of evidence showing that securities purchased at a low valuation, have historically delivered above-average returns over time. The theory is that low valuations result in higher future returns, whereas higher valuations on average result in lower future returns. In other words, there is a "value premium" which, if it can be captured, leads to above-average returns over the long term. Analysis of the US stock market, for example (see chart below), shows that from 1951-2021, the bottom decile of the market in terms of price-earnings ratio produced superior annual returns to the market average.



US Data Series. Source: CRSP data set, Long-term compound annualised return for All Stocks

The reason why this "value premium" occurs is open to debate. One might argue that lowly-valued securities are "riskier" and that the return comes from this higher risk. Alternatively, it could be argued that the higher return comes from an ability to exploit the behavioural biases at work in stock markets, in which stocks are often driven to irrational valuations due to short-term fashion or momentum. Whatever the cause of this trend, a value-based investment process relies on the premise that the lowly-valued securities will eventually mean-revert, as either their profits move closer to the industry average, or any fears about the business prove to be either unfounded or not as severe as first thought.

The team's investment process is focused on identifying lowly valued securities with resilient balance sheets and good businesses, in an attempt to capture this value premium. To further their understanding and refine their investment process, they actively seek out academic and investment literature to gain further insights into value investing, and continually refine the process. They do not attempt to make forecasts at either the company or macro level. It is inherently difficult and unreliable to forecast the future, and especially to do so consistently, so instead they aim to understand where a company's current earnings sit within the broader historical context.

STOCK SPOTLIGHT: BAYER

FAST FACTS FROM BAYER

Current CEO **Werner Baumann**

99,538 employees

$41.4bn
Revenue

Headquartered in
Leverkusen, Germany

We have initiated a position in Bayer. The shares are valued very low due to worries over litigation in the US and a higher level of net debt as a result. Its product Roundup, a herbicide, has been accused of being carcinogenic. The US Supreme Court has recently requested the views of the Solicitor General on behalf of the US. It is clearly a complicated legal issue, as the Environmental Protection Agency has consistently found that glyphosate herbicides can be used safely. However, some individual State courts have ruled differently. Bayer has already provided approximately $14 billion to settle existing and future claims. Bayer has three businesses: it is the world leader in crop science, world number three in consumer health, and has a strong portfolio of pharmaceutical products. These types of business (high return on operating assets and leading global positions) normally command high valuations, not low valuations. Bayer trades in the bottom two deciles of global valuations. One stock market analyst talks about "the continued unwillingness of investors to entertain Bayer as an investment". We think this is too backward looking, and that as the litigation is resolved, the strength of the businesses will be rewarded with a far higher valuation.

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
Head of Value and Recovery strategies, River and Mercantile Asset Management

Key Views

We invest in companies with Potential, Valuation and Timing (PVT) characteristics, where we have honed an approach to focus on the key drivers of shareholder value, which fully integrates ESG analysis through our Sustainable PVT framework (S-PVT) to deliver attractive risk-adjusted returns. We have a strong portfolio construction commitment to attractively valued companies, to good businesses with recovery potential, to being interested in structural growth when it is temporarily unpopular, and to getting most interested in an investment when it is out of favour, but where the fundamentals are on the turn.

We repeat this investment approach day in and day out, aided by systematic screening. We try to stick to our approach during the difficult times (such as the anti-value market of the last few years), so that we nearly always participate when there is a following wind for our factors.

The Value Cycle: rather surprisingly value has corrected significantly over the last six months, following a short-lived period of outperformance after the coronavirus vaccine news in late 2020; economic and Covid-19 uncertainty and bond yields moving heavily negative have caused the value cycle to move back to its post-Global Financial Crisis nadir. From my perspective, this provides another significant opportunity, with very modest valuations of our key PVT ideas being combined with attractive medium-term business fundamentals.

Recovery: many classic re-opening beneficiaries and consumer and industrial recovery stocks have pulled back aggressively over the last six months, due to a combination of worries about the latest waves of Covid and input price pressures. We think this provides a very attractive opportunity in these areas of the market, where valuations are again very modest and where profits recovery will be robust, once we are through these short-term periods of uncertainty.

STOCK COMMENTARY ON WHITBREAD

We continue to build a position in Whitbread, owner of the market-leading UK budget hotel brand Premier Inn, which offers attractive operational gearing (the profit that will drop through from each incremental pound of sales) into a recovery in travel and leisure spend in 2022 and beyond. There are three further areas of interest. First (and primarily), we see it as a market share gainer, from both smaller independents and key competitor Travelodge, which has either come out of the market or not had the balance sheet to re-invest. Secondly, the asset-backing that the business has via its majority freehold estate, gives it the opportunity to release some cash via sale and leaseback of assets, to help support its growth and buy back shares at today's modest valuation. Thirdly, the company is developing a market-leading position in Germany, where there is little competition at the branded budget hotel end of the market. Current Covid uncertainty is providing another opportunity to purchase the shares on a big discount to our estimate of medium-term worth.

WHITBREAD
FAST FACTS

Founded
1742

£6.3bn
Market cap

Did you know? Largest brewer in the world in 1780s

More than
35,000 employees

Current CEO **Alison Brittain**

Headquartered in
Houghton Regis, England

View the latest Stock Pickers interviews here

informational purposes only and should not be considered investment advice.

PORTFOLIO UPDATE

Over the fourth quarter of 2021, the Company's total shareholder return and NAV total return were 2.4% and 2.3% respectively, with the MSCI All Country World Index (ACWI) returning 6.2%.

The fourth quarter has brought to a close another eventful year, both in the real world and in financial markets. Market drivers were varied and volatile, while the real world grappled with significant challenges such as resurgence of Covid-19 and Omicron, rising cost of living not seen for a generation, extreme climate events causing misery for millions, and continuing social unrest and polarisation. The MSCI ACWI was led by the US market over the quarter (9.5%), with all other major regions underperforming, notably Japan (-4.4%) and China (-6.5%). From a sector perspective, technology continued to dominate (12.7%). There was a significant deviation by size/market cap, with large cap outperforming small cap by 6.0% for the quarter.

The Company's portfolio suffered relative to the benchmark, by not holding US technology firm Apple, the largest company in the index, which rallied over the quarter returning 25.1%. Sea Ltd, owned by Sands, was the other largest detractor to relative performance over the quarter, returning -30.1%. The Singapore-based consumer internet company reported strong earnings over 2021. However investor sentiment of a predicted slow of growth in technology-related companies following strong performance over the pandemic, as well as fears over interest rate hikes, caused the stock to tank. In contrast, Vulcan's holding in the American technology company Nvidia, was the leading contributor to relative return over the quarter, delivering an absolute return of 41.3% and contributing +0.3% to relative return. Nvidia is mostly known for designing graphic processing units for gaming, and chips for mobile computing. When the CEO of Meta Platforms, Mark Zuckerberg, announced that his vision for Meta is in interactive virtual technology, Nvidia's stock price soared, as investors expect Nvidia to play a large role in the commercial application of the metaverse.

With regard to regional exposure, the Company benefited from its underweight position in emerging markets versus the benchmark, as the region underperformed over the quarter. While the overweight in the consumer services sector was a drag on the Company's relative performance.

Over the quarter, a position was established in Tencent, a Chinese technology company. GQG purchased the stock on the back of continued growth in demand for Cloud computing. A position in EPAM Systems was also initiated by GQG, following strong revenue results for the third quarter of 2021, beating analysts' expectations.

Over the quarter, we maintained the level of gross gearing at the central target level of 10%. Some cash rebalancing took place, as markets favoured different styles over the quarter in order to capture profits, however the portfolio continues to be structured as style-neutral, across skilled Stock Pickers with different investment approaches, in order to maintain a high-conviction, diversified portfolio.

LEARN more about the latest portfolio price and performance here

Companies mentioned are for informational purposes only and should not be considered investment advice.
Past performance is not a reliable indicator of future returns.

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases – Q4 2021	% of Equity portfolio bought	Value of position bought (£m)
Visa Inc.	0.9	35.1
Walmart Inc.	0.7	27.1
Procter & Gamble Co.	0.7	24.7
BNP Paribas	0.5	19.6
Charter Communications	0.4	15.8
Salesforce.com Inc.	0.4	14.9
Glencore PLC	0.4	14.6
Bayer AG	0.4	13.9
Sberbank of Russia	0.4	13.6
JPMorgan Chase & Co.	0.4	13.1

10 largest sales – Q4 2021	% of Equity portfolio sold	Value of position sold (£m)
Nvidia Corp.	1.7	62.9
Meta Platforms Inc.	0.8	30.5
Amazon.com Inc.	0.6	23.4
Bank of America Corp.	0.7	26.6
Oracle Corp.	0.6	20.9
Adobe Inc.	0.5	16.7
Vale	0.4	16.5
KKR & Co. Inc.	0.4	13.7
Ashtead	0.4	13.3
Volkswagen AG	0.4	13.0

UPDATE ON BUYBACKS

At the AGM in April 2021, shareholders approved for the Company to purchase and cancel up to 14.99% of the issued share capital. In the period since the AGM to 30 September 2021, the Company purchased 5.3 million shares at a cost of £52.5 million. In this period the discount ranged from 5.0% to 7.2% and on days shares were purchased the discount range was 5.1% to 7.2%, with an average discount of 6.1%. In the period from 1 January to 30 September the discount has ranged between 2.7% and 9.3%. In this period the Company purchased 10.2 million shares at a cost of £97.0 million on days shares were purchased, the discount ranged between 5.1% and 9.3% with an average of 6.2%.

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	31 Dec 20 31 Dec 21	31 Dec 19 31 Dec 20	31 Dec 18 31 Dec 19	31 Dec 17 31 Dec 18	31 Dec 16 31 Dec 17
Total shareholder return	16.5	9.4	24.3	-6.1	19.2
NAV total return	18.6	8.5	23.1	-5.4	18.6
MSCI ACWI total return*	19.6	12.7	21.7	-3.8	13.2

*For an explanation of how we measure performance, please refer to our website

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 31 December 2021 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:
Computershare Investor Services PLC,
Edinburgh House, 4 North St Andrew Street,
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 is 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

CONTACT

Alliance Trust PLC, River Court, 5 West Victoria
Dock Road, Dundee DD1 3JT
Tel +44 (0)1382 938320
investor@alliancetrust.co.uk
alliancetrust.co.uk

WINNER ONLINE PERSONAL WEALTH AWARDS 2021 BEST MULTI-MANAGER INVESTMENT TRUST

Alliance Trust INVESTING FOR GENERATIONS

SIGN UP here to receive further editions of our award-winning newsletter and factsheet