Connection

By Alliance Trust

It has been said many times that 2020 has been a year fraught with uncertainty. Financial markets have swung from difficult lows to unexpected highs, while the wider economic environment has been tough for businesses and individuals alike. In the midst of this, the Alliance Trust investment committee and its team of nine stock pickers have been monitoring markets, valuations and the underlying companies within the global equity portfolio, to ensure it remains on track and focused with a long-term outlook. The future remains uncertain, but there is cautious optimism among the investment team amid the vaccine roll-out against Covid-19 and hopes for economic recovery. As we enter a new year, we have gathered the head of the investment committee and some of our nine stock pickers to explain their expectations for the next 12 months.

Craig Baker Chairman of the Alliance Trust Investment Committee and CIO of Willis Towers Watson

Financial markets always face uncertainty, but as we enter 2021 there is more reason than ever to be cautious and avoid betting on particular countries, sectors or investment styles. We are in the midst of a global pandemic and, despite positive news on the vaccine front, there is still a lot that could go wrong, not least the policy responses, which could vary widely between governments. Any rise in inflation expectations or significant tax changes could dramatically affect the style or sectors driving the market. For that reason, we think it's vital to have a diversified portfolio focused on stock selection rather than macro factors as its key driver.

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.

Bill Kanko Founder and President of Black Creek Investment Management

We expect widespread vaccinations in the first half of the year to lead to a recovery in the second half. This post-pandemic recovery should favour a broad rally in stocks, helping to rebalance equity markets that have become heavily biased towards larger companies and momentum stocks such as Tesla, Apple and Microsoft. Small to mid-cap stocks should benefit from an economic recovery once the current crisis abates.

US equity growth stocks look priced for perfection. Current equity valuations suggest that a market rebound will favour the UK, Continental Europe and other international and developing markets over the US. We expect Asian economies, which except for India have handled the pandemic more effectively than much of the West, to lead the post-Covid recovery. Chinese growth is already back to pre-crisis levels, and with an expected improvement in China/US relations under a Biden administration, it looks well placed to be a leader in the recovery.

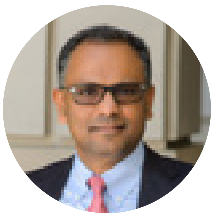
> "We will continue to look past current trends and the noise of the markets and use volatility to our advantage as we invest in a portfolio of winning businesses at attractive valuations."

A CAUTIOUSLY OPTIMISTIC OUTLOOK

We are acutely aware of the forces at work on global markets, however, we take a bottom-up approach. For Black Creek, successful investing requires evaluating companies on a fundamental basis and taking a long-term view, rather than positioning portfolios based on any short-term market views, which are inherently unreliable. As always, we will continue to look past current trends and the noise of the markets and use volatility to our advantage as we invest in a portfolio of winning businesses at attractive valuations.

The start to 2021 will likely remain challenging given volatility caused by disappointments in economic activity due to further pandemic-related lockdowns. However, the delivery and distribution of vaccines in the first half of the year should lead to an economic recovery in the second half given pent up demand.

Equity markets have become increasingly beholden to accommodative central bank policies and low interest rates. Areas such as large cap tech stocks, EV manufacturers and new IPOs are plagued by high valuations and unrealistic growth expectations.
We believe that post-pandemic, equity markets will favour a broader rally in stocks and help rebalance equity markets that have become heavily biased towards growth and momentum stocks.



Rajiv Jain Chairman and CIO of GQG Partners

Despite a recent resurgence of Covid-19 cases, markets continued to move in full force for much of the final three months of 2020, with commodities and bond yields rising on the back of a declining dollar and rising inflation expectations. With the rise in interest rates, the spread between two and ten-year Treasuries hit its widest level since February 2018, a potential sign of improving global economic conditions. Additionally, increased improvement on the global vaccine front saw a re-rating across a variety of economically sensitive sectors, and this certainly was reflected in recent market performance. However, we find ourselves questioning the sustainability of some of the recent rally in highly economically sensitive areas given the lack of clarity on vaccine distribution and uptake. While we remain cautiously optimistic for 2021, and do believe select cyclical stocks will do quite well, we also believe that certain industries have indeed run too far too fast, as some parts of the market are now trading at levels higher than their pre-Covid levels despite a lack of upward earnings revisions combined with degrees of structural business impairment.

A QUALITY AND SECTOR–AGNOSTIC APPROACH TO STOCK SELECTION

We believe a balanced approach is warranted, given a lack of margin of safety across a spectrum of companies, with a lack of clarity on future earnings growth heading into 2021. As is always the case, our quality, sector-agnostic approach allows us to focus on the question of 'What are we receiving for the prices we're paying?' regardless of where a company falls on the style box or factor bucket spectrum.

We continue to find bright spots across areas such as healthcare, where we believe select companies continue to benefit from secular tailwinds combined with attractive valuations. Even though we do not build portfolios by purchasing entire sectors, it is interesting to see, when using the S&P 500 as a proxy, that the healthcare sector is the only sector this year, up to the end of November, to simultaneously see positive forward earning-per-share revisions, yet see price-to-earnings multiples fall. If earnings are like gravity, and we continue to believe that they are, then 2021 could be quite robust for these companies.

EXPLORE more investment expertise

LOST AND FOUND SHARES

By Faith Glasgow

Have you ever been contacted by a bank or building society with the news that you have an account you had forgotten all about? Or maybe you've been the instigator of the hunt, trying to track down a lost pension, insurance policy or shares?

If so, you're by no means alone. Recent research from Gretel, an online hub being set up to help consumers reconnect with their lost finances, indicates that one in four adults in the UK believes they have at least one lost or dormant cash account, amounting to an estimated 10 million inactive accounts worth £4.5 billion.[3]

OVER £15 BILLION UNCLAIMED ASSETS IN THE UK

Add in other mislaid financial assets and the numbers rise dramatically. There's no central record, but Gretel puts the total number of individuals affected at almost 20 million and the value of unclaimed assets – including bank accounts, pensions, investments, life insurance and child trust funds – at more than £50 billion, including £37 million in pensions alone. Experian is more conservative, quoting £15-20 billion.[4]

Certainly, it is all too easy to lose contact with a provider and simply slip off its radar. Many dormant accounts belong to elderly or infirm people who struggle to keep on top of their affairs, or move to a care home and in due course die, often without being able to put their finances in good order. Disconnection can easily happen to younger, healthy people too, particularly as a result of key life changes such as moving house, getting married or switching jobs, or if they make an investment without informing their partner.

Assets can also go adrift if a company changes its name, is bought out or wound up. Such events have happened many times in the world of financial services over the past 20 or 30 years.

The issue of lost assets has been recognised by financial services companies for quite a while. Since 2008 there has been a dormant assets scheme in place for banks and building societies, allowing them to transfer dormant assets whose owners cannot be traced to a separate fund that supports various good social causes.[5] At present, 33 financial institutions are signed up;[6] around £100 million has been successfully returned to the owners of 110,000 accounts, while unclaimed savings worth almost £750 million have gone to charitable schemes.[7]

> "One big question this throws up for consumers, is just how 'dormant' an asset needs to be before a financial services provider should take the initiative and try to hunt down the owner."

The government has recently confirmed the extension of that scheme to other types of financial asset – including investments and shares such as those

3. https://www.gretel.co.uk/media-centre, press release 17/11/2020 **4.** https://www.uar.co.uk/Help/AboutLostAssets **5.** https://www.gov.uk/government/publications/the-dormant-accounts-scheme **6.** https://www.reclaimfund.co.uk/wp-content/uploads/2020/09/Dormant-Assets-Information-Guide.pdf, page 8 **7.** https://www.reclaimfund.co.uk/wp-content/uploads/2020/09/Dormant-Assets-Information-Guide.pdf, page 12 owned by Alliance Trust shareholders – though there is no indication as to when it could take effect.[8]

WHEN IS AN ASSET CONSIDERED 'DORMANT'?

One big question this throws up for consumers, is just how 'dormant' an asset needs to be before a financial services provider should take the initiative and try to hunt down the owner. As things stand, there's no universally accepted definition of dormancy, but the government's consultation proposes that a dormant share should be seen as one where there have been no transactions or contact from the shareholder for at least 12 years, and during that time the provider has made 'reasonable efforts' without success to reunite the asset with its owner, and at least three dividends have gone unclaimed or unpaid.[9]

Importantly, though, before an asset can be considered dormant, the institution has to make its best efforts to try to bring it to its owner's attention. Some, Alliance Trust included, operate a tracing programme through which they make regular or ad hoc attempts to track down 'gone-away' account-holders or shareholders.

These programmes are particularly important – from the perspective of good housekeeping as much as best practice – after a corporate action such as a merger or acquisition, points out share administrator EQ (formerly Equiniti). "By not running a tracing programme after a corporate event, a company may incur added complexity and cost in maintaining their register," it notes.[10]

More generally, so-called asset reunification programmes are considered "not only best practice but also good corporate governance".

ALLIANCE TRUST'S TRACING COMMITMENT

At Alliance Trust, a recent overhaul of the company articles (its rules and regulations) provided the catalyst to undertake such an exercise. Having updated the Company's definition of what counts as dormancy, the share registrars identified 90 Alliance Trust 'gone-away' shareholders to be traced. Between them, they owned about £1 million in shares and had uncashed dividends totalling over £200,000; the largest holding comprised 10,000 shares, and the longest-dormant account went back to 1998.

In fact, this was not the first such effort made by Alliance Trust – a previous search had thrown up 291 names, including some of the outstanding 90, and an external company had had some success, repatriating 170 shareholders with their shares and dividends, with another 51 identified but still to finalise their claims.

But this time around, rather than simply repeating the process, Alliance Trust's commercial and corporate governance manager, Ian Anderson, decided to do some more in-depth sleuth work of his own, followed by a personal approach from the Company. Starting with the largest shareholdings, he made online searches of publicly available resources such as death registrations, which in some cases led to wills available in the probate registry, and in turn to the names of executors and solicitors involved in the winding-up of the estate.

"Having updated the Company's definition of what counts as dormancy, the share registrars identified 90 Alliance Trust 'gone-away' shareholders to be traced. Between them, they owned about £1 million in shares and had uncashed dividends totalling over £200,000; the largest holding comprised 10,000 shares, and the longest-dormant account went back to 1998."

Some searches proved pretty straightforward. "LinkedIn was a good way of making contact with people by telephone, or by email where an email address could be found. This also allowed the individuals I contacted, the information that they needed to check that my contact was bona fide and not some form of phishing scam," Anderson says.

"For example, one shareholder had a very distinctive name which came up quickly from a simple Google search followed up by a LinkedIn contact, so that took maybe half an hour at most." This gave the shareholder a windfall of nearly £2,000 in past dividends.

But on other occasions he found himself having to think very laterally. Tracking down the identity of one long-dead shareholder involved working out where she had lived many years ago and talking

8. https://www.gov.uk/government/news/plans-for-major-expansion-of-dormant-assets-scheme-to-benefit-good-causes **9.** https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/877025/Consultation_on_expanding_the_dormant_assets_scheme.pdf, page 12 **10.** https://equiniti.com/uk/news-and-views/eq-views/how-to-address-dormancy-on-your-share-register/

to the current owners, who remembered her as a previous occupier. Another, which has not been successful to date, involved him contacting several firms of solicitors to try to find someone with knowledge of the deceased. "That has probably taken a number of hours," he reckons.

Anderson makes the point that given the considerable value of the unclaimed shares and dividends, it's important that the Company takes all practicable steps to find the owners. "We will now use a professional database search tool on those shareholders that we have not managed to contact, and follow up with letters or telephone calls where we think we have found someone," he adds.

A STARTING POINT

Of course, it's great news that companies take the issue of dormant assets seriously and make concerted attempts to trace the owners. But what can you do if you think you've lost an account, shares or a pension along the way? The good news is that there are websites that may be able to help you trace your mislaid assets.

A sensible place to start, if you're looking for a pension, insurance policy or child trust fund, is with the guidance on the Association of British Insurers (ABI) website.[11] More generally, you could contact the Unclaimed Assets Register on uar.co.uk, which is run by Experian and is a paid-for service.

Gretel's unclaimed assets search service is free to consumers, fully digitalised and covers all types of financial holding. It has not launched at time of writing, but you can register your interest at gretel.co.uk

Even if you haven't lost any accounts, there are certain precautionary measures you can take to keep your affairs in order. They sound obvious, but the figures for unclaimed assets demonstrate that all too often people overlook these simple steps.

1. If you move house, make sure you provide your new address to every financial services provider you have dealings with – including the ones you rarely hear from or contact.
2. If you change your bank account, check bank statements over the previous year to ensure you have updated every organisation that pays into your account or that you make payments to.
3. Maintain a paper or online record of your investments and insurance policies, including account numbers. If company names change or you switch to a new provider, update the topsheet.
4. Even if you already have a workplace pension into which you're making contributions, consider setting up a SIPP (Self-Invested Personal Pension) account where you can consolidate any pensions from previous jobs. The government's free Pension Tracing Service[12] may be able to help you find any you have lost the details for, but this is an area where it really is important to hang on to the paperwork.
5. One way of managing your affairs, which is also designed to make life straightforward for the executors of your estate after you die, is to make use of the Listpals app. It's free to download from listpals.com

THE SHARES THAT GOT AWAY

Julia's father was being cared for in a nursing home when he died back in 2002, leaving her to sort out his estate. His small portfolio of shares was sold after his death – so the contact from Ian Anderson to say that a further tranche of Alliance Trust shares had been overlooked, came as a real bolt from the blue.

The windfall amounts to 2,450 shares plus more than £4,000 in unclaimed dividends. "I guess I'm currently in a state of feeling it's a lovely surprise to have, but I need to work through everything before I allow myself to fully believe it," says Julia.

Ian's work involved obtaining details of Julia's father's will and probate and locating his beneficiaries – one of whom, Julia, he identified as being in practice as an architect. He was able to track her down through the Royal Institute of British Architects (RIBA) and the internet to give her the good news.

"My father's affairs were well filed and documented, so I can only surmise that either the solicitor who sorted out probate missed this, or there was another, unknown reason why the shares were mislaid," Julia adds.

"I've had to locate various pieces of paperwork and send original copies off, and currently have some more forms to fill in, so I am not in a position to sell yet. And I have to contact HMRC to understand the possible tax implications as well. But if all goes well, the beneficiaries may be able to look forward to a decent holiday with the proceeds post-Covid!"

11. https://www.abi.org.uk/data-and-resources/tools-and-resources/tracing-an-insurance-policy/ **12.** https://www.gov.uk/find-pension-contact-details

SLEUTH WORK VIA SOCIAL MEDIA

When Henry's wife Naomi died 22 years ago, he had no idea she owned shares in Alliance Trust: they had been a gift from her father a few years previously. "My father-in-law was administering them after her death, and everything was a little chaotic at the time," recalls Henry, who works in IT.

In this case, detective work by Ian Anderson to unite the lost shares with their rightful owners involved accessing a copy of Naomi's will and the probate document, which revealed her husband's name. Ian was able to identify Henry through Companies House; he used the LinkedIn social media app to get in touch and break the good news that 8,700 shares in his wife's name were waiting for him.

Ian has been guiding Henry through the bureaucracy involved in selling the shares and getting access to £16,500 in dividends. "Dividends more than 12 years old are statute-barred from claims for repayment, but I had a word with the Alliance Trust chairman and he approved their payment in this case," says Ian.

Once the whole process is done and dusted, Henry says, "The money will go to our children who are now young adults, and will help towards the deposits for their first flats in due course."

TRANSATLANTIC ALLIANCE

Paul Newsam, a web developer working for Accenture in the US, had simply forgotten about a tranche of 1,750 Alliance Trust shares purchased by his father in 1998 and given to him in 2004. Paul was born in the US, but his father had grown up in the UK and had various British investments as a consequence of that connection.

"My father managed a number of different accounts for my benefit, and although he passed along the necessary details at some point, I lost track of them somewhere along the way. For many years financial responsibility was not my strong suit! I may have sniffed out the trail at some point, but Ian Anderson's message was certainly a welcome one," he says.

The job of tracking down the shareholder in this case was complicated by the fact that he had moved house within the US several times over the years. Ian used the services of a US-based search agency to identify Paul, and then made contact through Paul's own website.

Paul has now been reunited with the shares, plus more than £2,500 in dividends. It was a simple process to create an online account and update the necessary details following Ian's instructions, he says. "I don't have any immediate plans for the shares, but the dividends are going right back to be reinvested," he adds.

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

INVESTING IN CHINA: POSITIONING PORTFOLIOS FOR A NEW WORLD ORDER

By Alliance Trust

Donald Trump's slogan, "Make America Great Again", may have helped get him elected in 2016, but it is China that is leading the world out of its current global recession. China is likely to be the only major economy in the world to post positive GDP growth in 2020 and, in the long run, it may also be China that outperforms the US.

Far from representing a setback, it's possible that US-China tensions over trade, heightened by the Covid-19 pandemic, may end up reinforcing China's position as a serious rival on the world stage, according to our investment manager, Willis Towers Watson (WTW). Indeed, WTW believes there is a possibility, albeit very small, that over the next ten years China might even replace the US as the global superpower, given that its population is four times larger. At the very least, it seems plausible that China will achieve equal status to the US.

In a bipolar world that is less integrated globally, with China and the US potentially enjoying separate spheres of influence, WTW believes investors need to consider increasing their exposure to the Chinese economy over the next ten years, from the current level of 5%, versus 55% for the US, to about 20%, in line with China's expected contribution to global GDP.

CHINA IS OPENING UP MARKETS TO FOREIGN INVESTORS

"The opening up and reforms of Chinese capital markets are expected to continue apace over the coming decade," says WTW. "This should allow global investors to become more knowledgeable and more comfortable when it comes to owning Chinese assets. Building exposure to China is best viewed as a journey that balances the pace of market improvements with the imperative to achieve structural geographical diversity in a global portfolio."

WTW says there is a variety of Chinese assets that offer good potential, including equities which are attractively valued and ripe for active managers, particularly if they have local expertise and strong ESG capabilities.

"While China's ESG practice is not yet on par with most developed nations, it has made great strides over the past decade to close the gap", says WTW. "This positive ESG momentum should be recognised by global investors. ESG considerations should not be the reason that investors completely avoid China. Proper consideration of ESG risks and opportunities is likely to be more rewarding in China compared to developed markets, as these factors are not yet fully priced in. Given the relatively less strong ESG practice, there is a sound case for active management that exercises strong ownership practices."

ALLIANCE TRUST IS OVERWEIGHT CHINESE EQUITIES

As of 17 December 2020, the Alliance Trust portfolio had just over 7% of its assets invested in Chinese companies, 2% more than the MSCI All Country World Index, largely due to holdings in Alibaba, Baidu, Tencent, Melco and JD.com, which can all be accessed via offshore listings in the US and Hong Kong.

This exposure can be expected to increase over the long term, as the Company's stock pickers are likely to find more attractive, stock-specific opportunities there over time. GQG for example, sees an opportunity for long-term investors in companies catering for the highly affluent, or those tapping the emerging middle class. And River & Mercantile is particularly excited about its position in Baidu.

"While its share price has been negatively hit by a short-term downturn in its core search business, Baidu's current valuation remains an immense bargain in our view," says Head of UK Equities, Hugh Sergeant. "It is a very large mega-cap company, the so-called 'Google of China', and it has undergone a period of significant reinvestment into areas such as video, artificial intelligence and autonomous vehicles. However, it is this reinvestment that has temporarily depressed profitability which, coupled with some investors' general fears about the Chinese economy, has meant Baidu is currently available at a very attractive valuation. We believe there is an exceptional medium-term buying opportunity here, and we have increased our position in the stock during the past year."

	AT (%)	MSCI ACWI (%)	Excess (%)
ALIBABA GROUP HOLDING LTD	2.70	0.84	1.48
BAIDU INC	1.47	0.09	1.38
GDS HOLDINGS LTD	0.09	0.02	0.07
JD.COM INC	0.58	0.12	0.46
KE HOLDINGS INC	0.06	0.01	0.05
MEITUAN	0.08	0.22	0.14-
MELCO RESORTS & ENTERTAINMENT	0.54	0.01	0.53
NETEASE INC	0.04	0.07	0.03-
NEW ORIENTAL EDUCATION & TECHN	0.05	0.05	0.00
PING AN INSURANCE (GROUP) OF CHINA	0.12	0.12	0.00-
TAL EDUCATION GROUP	0.05	0.05	0.00
TENCENT HOLDINGS LTD	1.24	0.73	0.51
TOTAL	**7.03**	**5.03**	**2.00**

MARKET REFORMS HAVE CONTINUED INCREMENTALLY

During 2019, China continued to demonstrate its commitment to its opening-up process, by introducing a number of incremental measures that aim to ease restrictions for foreign ownership. These include:

- In January 2019, S&P Global became the first non-Chinese rating agency to win a licence to operate in China.
- In June 2019, London-Shanghai Stock Connect officially launched, allowing foreign firms to list their shares in mainland China for the first time.
- In August 2019, JP Morgan AM became the first foreign business to take control of its local joint venture.
- In September 2019, China scrapped purchasing cap for approved foreign investors that applies to both QFII and RQFII[13] programmes.

The quality of the investment opportunities becoming available in China is improving, in part due to better macroeconomic management that recognises the role of markets. Prior to the Covid-19 hit, WTW says China was already walking a fine line between spending enough to prop up economic growth, and cutting down high levels of debt that pose a structural threat to its economy's sustainability. As a result, policy makers this time around are seeking more targeted investments in projects that facilitate innovation and improve weak areas, as opposed to just turning on the spending tap.

CHINA IS INVESTMENT IN NEW TECH

China's 14th Five-Year Plan (2021-2025), a pivotal tool that policy makers in Beijing use to shape the medium-term economic and social development, put achieving technological self-efficiency as one of its key developmental goals for the next five years and beyond.

The focus is now on "new infrastructure", which China's top economic planner defines as being "led by new development concepts, driven by technological innovation and based on information networks, to fulfil the needs of high-quality development". It mainly includes three aspects:

1. Information-based infrastructure such as 5G, semiconductors and the Internet of Things.
2. Converged infrastructure supported by the application of the internet, big data and artificial intelligence, such as smart transportation and smart energy infrastructure.
3. Innovative infrastructure that supports scientific research, technology development and product development.

The scale of investment is substantial. As of March 2020, 25 provincial-level regions had announced a total of ¥49.6 trillion (US$7 trillion) of investment in 22,000 projects, including ¥7.6 trillion for this year (7.7% of 2019 GDP).

Another interesting area is climate technology. China has now officially committed to achieving carbon neutrality before 2060. Given the magnitude of transformation needed, it reflects a growing confidence that technological progress can make net-zero emissions attainable, without interrupting China's path to prosperity. For example, renewable energy, plant-based foods, circular economy, vehicle-sharing and smart buildings are all sectors that could potentially benefit from this tailwind.

WTW believes that these macro trends are expected to create many winners as well as losers in each relevant sector, which in turn creates a great environment for highly skilled stock pickers to add value to the Company's portfolio.

EXPLORE more investment expertise

13. Qualified Foreign Institutional Investors and RMB QFII

EQUITY MANAGER SPOTLIGHT

LYRICAL ASSET MANAGEMENT

ANDREW'S VIEW

Andrew Wellington
Co-Founder and CIO
Lyrical Asset Management

We are fundamental value investors. We analyse businesses and estimate what their future profits should be. We look to own companies where we can get the most future profits for the lowest price. It is hard to estimate the future, and not everything goes according to plan. Thus, we build a diverse portfolio of quality businesses to manage the risk.

While fundamental value investing has a great history of working over the long term, generating returns several percentage points better than the market averages, there have been periods where the equity market shuns value stocks, driving acute periods of underperformance. In the recent past this happened during the Global Financial Crisis of 2008 and the Internet Bubble of 1999. After each of these brief periods of underperformance, value stocks went on to outperform for long stretches of five to ten years, or longer.

In 2018, value stocks began to experience one of these acute periods of underperformance, which continued through the first few weeks of the Covid-19 pandemic in early 2020. It appears a bottom was reached in mid-March and value stocks in general, and Lyrical's stocks in particular, have since experienced a noteworthy recovery. We expect the strong performance of Lyrical's value stocks selected for the Alliance Trust equity portfolio, to continue for several more years. Our portfolio is still attractively undervalued compared to the market averages, and our companies have proved resilient, with earnings that, on average, have been less impacted by the pandemic than the broader market.

WATCH Andrew's video

STOCK SPOTLIGHT: XPO

XPO is a global leader in transportation and logistics with top positions in less-than-truckload, contract logistics, freight brokerage, and last-mile logistics. The business is exposed to industries that are expected to grow, on average, more than 2x the growth rate of GDP. For example, as a key North American provider of last-mile delivery services, XPO helps retailers connect their shipments to local installers that can deliver efficiently, while also protecting the retailers' brands. Consumers increasingly demand their deliveries to be faster, more flexible, and with better service. This creates complexity that equates to opportunity for XPO, which has grown its revenues at a 7% rate on average in the five years leading up to 2020.

XPO's businesses enjoy sustainable competitive advantages that, along with low capital intensity, drive attractive profitability and a high return on their invested capital. The company has invested heavily for years in the technology that has powered its contract logistics unit to becoming one of the world's biggest e-commerce fulfilment platforms, where the company has long-term contracts and 95%+ retention rates.

Despite strong gains in XPO shares, we believe the company is being valued at less than the sum of its parts. The company has recently announced its intention to split its logistics unit from its transportation unit, a move we expect to help close the gap to intrinsic value.

XPO FAST FACTS

50,000
customers

Operating in **30** countries

100,000 employees

HQ in **Connecticut**, US

Largest e-commerce fulfilment platform in Europe

CEO **Bradley Jacobs** is largest shareholder

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

EQUITY MANAGER SPOTLIGHT

VULCAN VALUE PARTNERS

C.T.'S VIEW

C.T. Fitzpatrick
Founder and CIO
Vulcan Value Partners

As we close out the year and reflect on what worked and, more importantly, what did not go quite as expected, we are reminded of why we started Vulcan Value Partners in the first place. Our primary portfolio management goal is to reduce risk and protect invested capital. In fact, our definition of risk is the probability of incurring a permanent loss of capital. We reduce this risk by limiting our investments to high-quality companies whose values are inherently more stable than their stock price. We further reduce risk by demanding a discount to those stable values. This focus allows us to take advantage of stock price volatility, because the values of our companies are not as volatile as their stock prices.

Value stability plays a vital role in our investment discipline, and is especially important in a year like 2020. We buy only businesses that we believe have the quantitative and qualitative characteristics required for value stability. Our companies have strong balance sheets and produce consistently high levels of free cash flow, which bolsters value stability and growth. We want to own superior businesses that get stronger when times are bad and prosper when times are good, and to own them at a discount to intrinsic worth. When a company's stock price is more volatile than its value, it creates opportunity. When prices rise faster than values, we can reduce risk by harvesting returns and redeploying capital into more discounted companies. When prices decline and our values are stable, we can reduce risk by making additional purchases with a greater margin of safety.

WATCH C.T.'s video

STOCK SPOTLIGHT: MASTERCARD

Mastercard is perhaps the definition of a typical value stable company. We first purchased Mastercard in our portfolios in 2008, during the early days of the global financial crisis when many financial companies were in trouble. Most of these companies were considered statistically cheap, but their values were not stable. A small subset of financial companies with stable values such as Mastercard were unduly punished, providing an opportunity for us to purchase shares at a meaningful discount to intrinsic worth. Mastercard's value growth since that time is among the highest of the companies we follow, due to the wonderful combination of consistent free cash flow production, strong double-digit bottom-line growth, and outstanding capital allocation. In fact, the value of Mastercard has compounded at a double-digit rate for over a decade. The value per share has compounded even faster because of outstanding capital allocation, all while the company continues to strengthen its competitive position.

Although Mastercard's near-term results have been negatively impacted by the economic slowdown due to Covid-19, they are executing incredibly well and will benefit from the accelerating secular shift to digital and contactless payments. Mastercard's market share of overall spending is improving, as consumers increasingly move from cash in physical retail and purchase more through e-commerce channels. More e-commerce transactions also raise demand for Mastercard's increasingly essential anti-fraud and data analytics services.

We applaud Mastercard's management team for its outstanding capital allocation over the years. As of 1 January 2021, Ajay Banga, the former CEO, became the executive chairman. Mr Banga did an excellent job leading the company for the last decade. Michael Miebach, the former president, has succeeded Mr Banga as Mastercard's new CEO. We expect Mr Miebach will continue to allocate capital in a shareholder-friendly way, and we look forward to future long-term value growth for the company.

MASTERCARD FAST FACTS

1.9bn users worldwide	Processes $3.6trn transactions a year	IPO 2006
18,600 employees	Listed on the **NYSE**	Distributed across **210** countries

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

PORTFOLIO UPDATE

Over the fourth quarter, the Company's total shareholder return and NAV total return were 11.1% and 8.6% respectively, compared to the benchmark MSCI All Country World Index (ACWI) which returned 8.5%. Fourth quarter performance brought the Company's total shareholder return for 2020 to 9.4%, and NAV total return to 8.5%. The benchmark MSCI ACWI returned 12.7% for the year.

Global equity markets continued to rally over Q4 following news of the US election result which, though contested, delivered a degree of certainty for markets. Scientific breakthroughs with the announcement of several Covid-19 vaccine successes also boosted sentiment. Additionally in the US, Congress approved a $900bn stimulus package and the US Federal Reserve reiterated its supportive message, stating it will continue with current levels of quantitative easing. In such a 'risk-on' environment, a number of high beta growth stocks continued to perform well, whilst cyclical value and small cap stocks, those that suffered the most during the Covid-19 crisis, experienced a late-year surge, closing much of the performance gap with large cap quality stocks that performed so well earlier in the year.

Whilst long-standing investors will have heard us say this many times, it is worth repeating in a quarter like this that the performance of style factors are very difficult to predict and to time. The strong style reversal this quarter may have affected many investors adversely if they had concentrated exposure to the large cap quality/growth stocks that have had such strong momentum for so long. The Company's carefully balanced portfolio is constructed to avoid concentrated style risk, which we believe will enable the Company to deliver outperformance over the long-term regardless of these style rotations.

Q4 was a strong 'risk-on' environment where we expected, and did see, recovery in a number of our companies that had struggled to keep pace with the market earlier in the year. However, we finished the fourth quarter in line with the benchmark as we had relatively less exposure to some of the lower quality cyclicals that benefit from the expected post-vaccine reopening in the short-run, but where we do not see significant long-term investment potential. Some of our investments in larger cap quality stocks that we believe will generate strong long-term returns lagged the benchmark.

Within the portfolio, Baidu, a Chinese technology company, contributed most to the overall performance of the fund, returning 65% as the company posted quarterly results that topped analysts' expectations. Baidu is benefiting from mobile-app traffic growth supporting a recovery in core marketing and improving monetisation of recent investment. Furthermore, aerospace manufacturing firm TransDigm outperformed with a 23% return. The company provides highly engineered, niche aircraft components. TransDigm has high levels of free cash flow, a strong business model, and a shareholder-oriented management team who are good capital allocators.

Alibaba was the main detractor from performance over the period as the withdrawal of the planned IPO of its affiliate company, Ant Group, as well as the announcement from the government of an antitrust probe into big tech companies, weighed on the firm's share price. Despite these short-term challenges, Alibaba holds a strong market position in China and is well placed to benefit from the long-term growth of domestic consumer spending in the country.

The Company's stock pickers continued to search for favourable investments for the fund throughout the quarter. A position was initiated in Compagnie Financière Richemont SA, a Swiss-based luxury goods company. Through its various subsidiaries, the company produces and sells a broad variety of luxury items such as jewellery and watches and has seen strong growth in several of their brands globally. The Company's holdings in Facebook increased over the quarter as the stock pickers took advantage of share price weakness, believing the long-term fundamentals for the company remain. Facebook's pricing power benefits from multiple self-reinforcing network effects, its broad data set gives marketers an unprecedented means to conduct personalized marketing campaigns on a global scale and the company generates strong repeat revenues due largely to the advertisers and direct targeting marketers who seek to access those consumers.

Over the quarter, we have increased the level of gross gearing to be in line with a central target level of 10%, consistent with a more neutral outlook for markets in the medium term.

LEARN more about the latest portfolio price and performance here

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

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 Largest purchases – fourth quarter 2020	% of Equity portfolio bought	Value of position bought (£m)
Facebook	1.9	57.4
PayPal	1.2	37.3
Amazon	1.1	32.7
Vale	0.9	25.7
Bank of America	0.8	25.4
American Financial	0.8	23.1
Banco Santander	0.7	21.6
Chubb	0.6	18.5
Owens Corning	0.5	16.1
DBS	0.5	16.0

10 Largest sales – fourth quarter 2020	% of Equity portfolio sold	Value of position sold (£m)
SAP	1.1	35.7
Tencent	0.9	29.6
Infosys	0.9	29.0
Linde	0.8	26.0
Berkshire Hathaway	0.7	22.7
Philip Morris International	0.7	22.4
Qorvo	0.6	21.4
Newmount	0.6	18.5
Ubisoft Entertainment	0.5	15.2
Murata Manufacturing	0.4	13.3

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 7.5 million shares at a cost of £59.8 million. The shares were purchased across a discount range of 2.7% to 7.7%, with an average discount of 5.4%. The discount narrowed from 5.6% as at 30 September 2020 to 3.5% as at 31 December 2020. In that period, the discount ranged between 2.7% and 6.5%, with an average of 4.6%.

The Company 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 19 31 Dec 20	31 Dec 18 31 Dec 19	31 Dec 17 31 Dec 18	31 Dec 16 31 Dec 17	31 Dec 15 31 Dec 16
Total shareholder return	9.4	24.3	-6.1	19.2	26.4
NAV total return	8.5	23.1	-5.4	18.6	21.3
MSCI ACWI total return	12.7	21.7	-3.8	13.2	28.7

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 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:
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 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

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

Alliance Trust
INVESTING FOR GENERATIONS

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