

Connection

MARCH MARKET UPDATE

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-class² 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.

By Mark Atkinson

March Madness

After the worst returns for equities in 2022 since the Great Financial Crisis (GFC) of 2008, investors could be forgiven for expecting a reprieve in 2023. They were duly rewarded, with the MSCI All Country World Index returning 4.4% in the first three months of the year, a somewhat surprising performance given a rash of bank failures, panics and bailouts, and stubbornly high inflation, especially in the UK, where it remains the highest of the G7 industrialised nations.

As the second quarter begins, the question is: will these positive returns persist?

It's certainly possible, if the economy enjoys a soft landing (falling inflation and interest rates without the economy falling into a deep recession). But it's fair to say this Goldilocks outcome is far from guaranteed.

As Warren Buffett said, when the tide goes out, you see who is swimming naked. The sharp increase in interest rates globally since late 2021, caught Silicon Valley Bank in California with its trunks down, by simultaneously triggering big losses on the bank's inadequately hedged bond portfolio and a flight of depositors seeking higher returns elsewhere for their cash. The sudden disappearance of the wave of cheap money flooding markets since the GFC, was also partly responsible for exposing the weaknesses of Credit Suisse's business model. Weak companies that were kept alive by ultra-low interest rates, may struggle in a new era of dearer borrowing costs.

The big question from the financial events of March is: will they repeat or spread into a system-wide banking crisis? WTW's view is that this is unlikely in the short term. Bank capital positions are stronger than they were in 2008, as a direct result of the actions taken after the financial crisis. Even so, banks may be less willing to lend, which could feed through into a further slowdown in economic activity.

Perhaps the silver lining in March, was the restraint that nervous market conditions imposed on Chancellor Jeremy Hunt in his Budget. When he sat down from the despatch box in the House of Commons on 15 March, most market participants breathed a sigh of relief. Many are still bruised by the blow of Kwasi Kwarteng's anything-but-mini budget in September, so Hunt's modest package of measures was all very reassuring. All in all, he didn't do very much, and the gilt and currency markets didn't do much in response.

“Bank capital positions are stronger than they were in 2008, as a direct result of the actions taken after the financial crisis. Even so, banks may be less willing to lend, which could feed through into a further slowdown in economic activity.”

BUDGET RABBIT OUT OF THE HAT

The one big surprise, was the abolition of the lifetime allowance, which means that pension pots above £1.07 million will no longer be subject to punitive tax rates. For high earners and those with large pension pots or big defined benefits, this removes a possible incentive for retiring early. It’s also a considerable boon for those worried about inheritance tax, as some of the penalties for using a pension to plan your estate have now been lifted. And it’s particularly pertinent for medical professionals; the measure is designed, in part, to keep senior doctors and consultants in the NHS.

But as far as addressing the country’s shrinking workforce goes, we see the reform of the money purchase annual allowance as potentially more significant. By raising the limit on what people can pay back tax-free into their pension once they’ve started to draw on it, the Chancellor is encouraging retirees to return to the workforce, even if only part time. The new £10,000 limit is a big improvement on the previous £4,000, making work and renewed saving much more worthwhile. So far, this measure has drawn less attention than the lifetime and annual allowance, but it could prove particularly useful in tackling the UK’s demographic challenges.

POLLS, POLITICS AND PERVERSE INCENTIVES

Already, the lifetime allowance appears to have become a political football. The Labour Party has committed to restoring the £1 million limit, perhaps with an exemption for NHS staff. This could have some unintended consequences. Might those who are looking to retire in the coming years accelerate the process, so that they leave the workforce before the next election, in case Labour reverses Hunt’s measure?

The economic forecasts that accompanied the Budget, indicated a modest improvement in the outlook. The Office for Budget Responsibility (OBR) now expects only a small contraction this year, rather than a full-blown recession. Tax receipts have also been slightly better than expected. That gave Hunt some spare change for this Budget, and he spent about two thirds of it on defence, fuel subsidies and tax breaks. This wasn’t a huge giveaway: the Chancellor didn’t have much room for manoeuvre, and he chose not to manoeuvre much.

With the general election looming, he may be tempted to do a little more next year. But under the Government’s fiscal rules, any loosening of the purse strings before the election will have to be offset by fiscal tightening thereafter. That raises the question of whether Labour intends to adopt the rules the Conservatives set for themselves. Judging by the OBR forecasts, there will be very little wiggle room for whoever’s in charge.

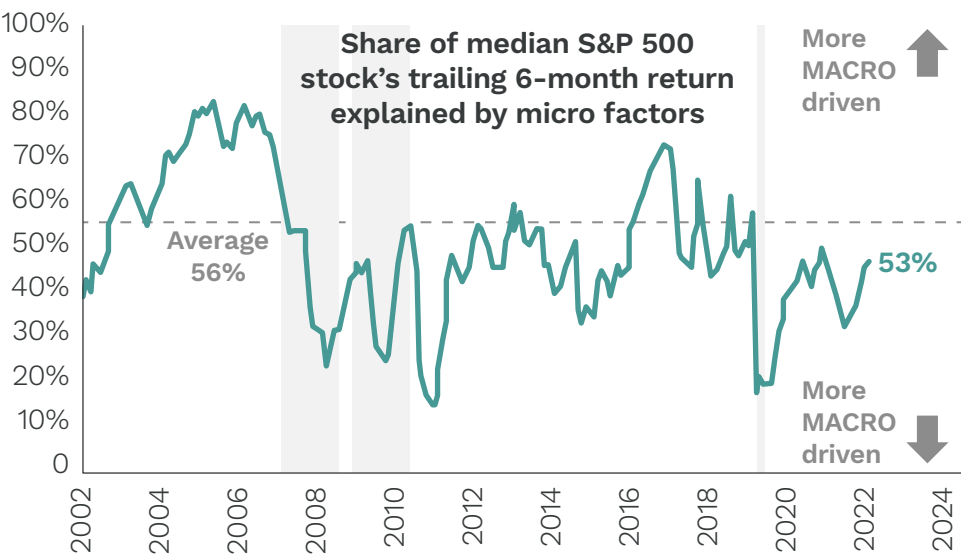
This time around, then, the one real positive was the focus on the supply side – even if much more needs to be done. We hope that Hunt and his successors maintain this focus, to deliver the improvements in the labour market and productivity that the UK so desperately requires. His first Budget was a small first step.

GOOD RISK MANAGEMENT IS CRUCIAL

Against an uncertain macroeconomic backdrop, it is pleasing to report that the Alliance Trust Portfolio has been quite resilient versus the market and peers. So far this year, the Company’s NAV Total Return³ has outperformed the MSCI ACWI index by 2.4% and the AIC global sector average⁴ NAV Total Return by 0.5%. The Company’s three-year performance figures are stronger still, outperforming the index by 1.8% pa and the AIC peer group by 4.9% pa. This is largely due to strong stock selection by most of our managers.

Reassuringly, our portfolio had no direct exposure to any of the banking trouble spots, and Hunt’s tinkering with tax rates did little to disturb the performance of our modest overweight position in UK stocks. A more detailed performance update for the first quarter of the year can be found on page 11.

Stock returns have recently become incrementally less macro-driven



Source Coldman Sachs Global Investment Research

Without any clear sense of direction for the global economy or stock markets, we believe it’s more important than ever to avoid excessive risk taking. For example, by adopting outsized positions versus the index in any sector, country or style of investment, e.g. growth or value. Instead, we will continue to focus on using deep research to pick the most attractive individual companies across global stock markets. Uncertainty and volatility can, ironically, be helpful in that regard, because they often lead to wider dispersion returns from shares, which can fall below the true value of a business. We are already seeing this, and share prices are now becoming more micro-driven (see chart). As macro factors, such as interest rates and GDP growth, become less important, there is more opportunity for skilful stock pickers. The payback from investments made in a volatile environment may not be instant, but buying good-quality companies when prices are temporarily depressed by negative investor sentiment, can lay the foundations for durable long-term gains.

Mark Atkinson, Senior Director, Client Management, Wealth & Retail at WTW

1. Sebastian & Attaluri, Conviction in Equity Investing, The Journal of Portfolio Management, Summer 2014.
2. As rated by Willis Towers Watson.
3. NAV Total Return figures are based on NAV including income with debt at fair value.
4. Global Sector as defined by the Association of Investment Companies (AIC).
This information is for informational purposes only and should not be considered investment advice. Past performance is not a reliable indicator of future returns.
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Connection Six reasons why now could be the era of the stock picker



By Marcus de Silva

2022 was an annus horribilis for active funds – where expert stock pickers sift through a market to construct a portfolio of the best stocks it has to offer.

According to investing broker AJ Bell's Manager versus Machine report, after fees just a quarter (27%) of active funds beat their passive equivalent, in which stock market indices – the benchmark against which active funds are compared for performance purposes – are simply copied.¹

It comes hot on the heels of a decade of investors shifting into passive strategies. In the US, where much of the global stock market resides, 10% of total assets in US mutual funds was allocated to passive strategies at the onset of 2010; by the end of the 2022, it was 25%.²

The allure is simple: while it isn't possible to outperform the market, passives offer investors the opportunity to access stock market returns for very little cost and drag on their returns.

Since 2022 however, long-term market conditions have been evolving, as we move into an era where inflation and interest rates are likely to be structurally higher, and stock market volatility elevated for some time to come. It's changing the playing field for stock pickers, and begs the question: as markets become choppy and uncharted, could now be the time to consider an experienced captain to navigate your investments through the storms?

Here are six reasons why the era of active may have arrived.

ALL ABOARD

1. Inflation and slowing economies create stock market winners and losers

Last year we saw sharply rising interest rates alter the relative values investors were prepared to pay for shares. This year, the driver of stock markets may shift towards newsflow surrounding company profits. Given that high inflation and slowing economies will hit company profits in varying ways, it implies a wide range of stock returns is likely.

It points to a need to separate the troubled companies that face existential threats, from those with a brighter future. Human stock pickers will be able to find companies that can navigate a tricky trading environment by identifying qualities such as strong pricing power, profits and profit margins, and low levels of debt.

“Given that high inflation and slowing economies will hit company profits in varying ways, it implies a wide range of stock returns is likely.”

2. New investing ‘styles’ come into vogue

In the decade running up to 2022, stock market returns were dominated by a handful of mega-sized technology businesses, particularly in the US. This trend may be about to go into reverse for an extended period: the winners of the last decade may face continued selling, and areas of the market that had stagnated in the former market regime may do much better, for example cheap ‘value’ stocks.

Given the new market order, winners are likely to be found in various corners of the market, and it will take a discerning eye to find them.

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3. Profits likely to fade for some companies

For more than a decade, globalisation, low inflation and cheap money spurred an era of ever-higher profits for companies, and now they’re looking vulnerable. As economic growth slows and costs rise, profits are likely to become increasingly squeezed, which may affect share prices. Experienced stock pickers will be needed to find companies that can sustain profitability.

4. US loses its dominance

In the former market regime, US markets outperformed non-US markets in eight out of the past ten years, largely on account of its heavy weighting towards popular ‘growth’ stocks. In the new regime, given that inflation is impacting countries in varying ways, a global investment approach, with asset allocators who can direct portions of the portfolio’s cash into different markets depending on how the economy is being impacted, will be needed. You won’t find this with passive strategies.

5. Volatility makes for a stock picker’s paradise

We need shares if we are to beat inflation, and yet stock markets are likely to remain volatile. According to data from index provider MSCI, stock volatility is above average in all major regions across the globe, bar Japan.³

Big differences in stock valuations, mean stock pickers can find cheap companies that have a chance of performing strongly over the long term, while avoiding those that appear overvalued and expensive. What’s more, the last two occasions when variations in stock valuations were as wide as they are now, were the tech bubble at the dawn of the millennium and the global financial crisis – following both periods, active managers went on to do well.⁴

6. Fee hurdles reduce

Passive funds are cheap by design, and the impact has been to drive down fees across the whole industry, including active funds. As a result, active managers find themselves having to leap over a smaller hurdle of fees, when comparing their performance to the index.





In contrast, some passive funds are proving costlier than they should be. According to research from Telegraph Money and Morningstar, charges can range from 0.5% to 1.5%, which is more expensive than the average actively managed fund.⁵ As fees for the two strategies converge, the cost benefits of passive strategies are fading.

IT NEEDN'T BE TEMPESTUOUS

Journalists and commentators have long indulged in ‘active versus passive’ debates, often portraying the rise of passives as stoking an existential fight between two sides of an industry. In truth, many investors appreciate that it is not an either/or situation – our portfolios are likely constructed best through a combination of both.

That said, in a bygone era of cheap money and low interest rates that raised markets more broadly, passive had been favoured. Since 2022 however, higher inflation and interest rates are changing the status quo, with markets becoming a choppy sea of winners and losers. So an experienced captain is likely required. Enter the era of the stock picker.

ALLIANCE TRUST

Alliance Trust is a highly active portfolio that utilises the best ideas of nine teams of stock pickers investing in markets across the globe, aiming to find strong long-term opportunities and provide both capital appreciation and a growing dividend for generations of investors.

Marcus de Silva, Freelance Investment Writer

READ MORE INVESTMENT INSIGHTS →

1. https://www.ajbell.co.uk/sites/ajbell.co.uk/files/Manager_vs_Machine_July_2022.pdf
2. Hargreaves Lansdown; as at 20/01/23
3. <https://www.quiltercheviot.com/news-and-views/articles/active-anticipation/?Region=uk&Role=fadv>
4. <https://www.quiltercheviot.com/news-and-views/articles/active-anticipation/?Region=uk&Role=fadv>
5. Sunday Telegraph, 05/02/23

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By Marcus de Silva
Retirement costs rise as inflation takes a bite from our pensions.

INFLATION TAKES A NIBBLE

A cost-of-living crisis has emerged as inflation bites hard into the things we really can't avoid buying, for example energy and food, where price rises have been eye-watering. In the latest figures for March, whilst appearing to be past its peak, inflation remains painfully high at 10.1%.¹ Its impact is being felt widely across society, and the quality of our golden years is one area that seems to be suffering.

According to pensions trade body, the Pensions and Lifetime Savings Association (PLSA), for those wanting to enjoy a very basic standard of living in retirement, costs are 18%² higher than they were a year ago.

Price rises are putting pressure on our retirements in two fundamental ways. Those saving for retirement will need a bigger pot, meaning squirrelling away more each month or saving for longer. While those in retirement will need to increase withdrawals, meaning facing the prospect of running out and having to rely on the state pension for the remainder of their days.

We can see this pressure in surveys. According to AJ Bell, an online brokerage, upon retiring one in ten people will now work part time as a result of the economic gloom, and a further one in ten will retire later than originally planned.³

So, for those thinking about retirement saving, it's blurring an already opaque financial goal: the size of the pot we need to build for the lifestyle we want to live. Fortunately, the PLSA has attempted to provide some clarity, by defining three different potential standards of retirement living.

SEEKING THE GOLDEN YEARS WE DREAM OF

Research shows that just over three quarters of us (77%)⁴, don't know how much we need in retirement. As with any loosely defined goal in life, it causes us to focus on the present at the expense of the future.

The Pension and Lifetime Savings Association (PLSA), a trade body representing £1.3 trillion in UK pension schemes, has painted a picture to help us plan for retirement – detailing three different standards of living with a breakdown of the costs involved, including rises year on year on account of inflation. Of course, personal financial circumstances vary wildly, and these must be taken as a rough guide.

“According to pensions trade body, the Pensions and Lifetime Savings Association (PLSA), for those wanting to enjoy a very basic standard of living in retirement, costs are 18%² higher than they were a year ago.”

For a single person, the PLSA forecasts that you will need £12,800 a year to enjoy a ‘minimum’ standard of living in retirement (up 18% from last year), £23,300 a year for a ‘moderate’ standard of living (up 12%), and £37,300 a year for a ‘comfortable’ standard of living (up 11%). Below offers a picture of some of the things these standards will afford. Bear in mind these figures are different for a couple – go to the PLSA’s [Retirement Living Standards website](#) for more details.

	MINIMUM	MODERATE	COMFORTABLE
SINGLE	£12,800 a year	£23,300 a year	£37,300 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun.	More financial security and flexibility.	More financial freedom and some luxuries.
HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
FOOD	£54 a week on food (including food away from the home).	£74 a week on food (including food away from the home).	£144 a week on food (including food away from the home).
TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every 5 years.
HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
CLOTHING & PERSONAL	Up to £580 for clothing and footwear each year.	Up to £791 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.
HELPING OTHERS	£20 for each birthday present.	£34 for each birthday present.	£56 for each birthday present.

Source: Pensions and Lifetime Savings Association

MEETING THE STANDARDS

So how do we go about paying for these annual costs? As a base, there is the state pension. If you have 35 qualifying years on your National Insurance record, you are entitled to the full state pension, which for the tax year 2023/24 is £10,600 per year. For those with between ten and 35 qualifying years, you will receive a percentage of this.

This leaves it to us to make up the rest with our own private pot. AJ Bell has run some numbers to help us imagine the extra required. For those wanting a minimum standard, you’ll need a pot of £52,000, for a moderate standard it’s £354,000, and for a comfortable standard, you’ll need a fairly hefty three quarters of a million, at £755,000.⁵

It means that to be comfortable, the savings goal is a fairly significant stretch. To put this in context, for those earning the UK’s average salary of £33,000⁶ and auto-enrolled into a company pension scheme contributing the minimum 8% of their salary, they would be unlikely to afford even a moderate lifestyle. Therefore, we need to make sure we’re making the most of our pension savings.

“If you have 35 qualifying years on your National Insurance record, you are entitled to the full state pension.”





Below are some tips for boosting your pension pot.

Our five top tips for making the most of your pension:

- 1. Start as soon as possible – a long runway of growth and compounding does wonders for the size of your pot. It gives you an incentive to comb through your bills, cut anything you don’t need, and divert as much as you can to your pension, so that it’s not wasted.
- 2. Use workplace pension schemes to add employer contributions to your own, which is a minimum of 3% by law. Some employers may be even more generous, or potentially match any additional voluntary contributions (AVCs) you may make.
- 3. Boost your pot with any extras you might receive, for example bonuses or inheritance. Remember, you can contribute a maximum of £60,000 a year into your pension (raised this tax year from £40,000), or 100% of your salary, whichever is lower, and you may carry forward any unused allowances from up to the three previous tax years.
- 4. Use private pension tax wrappers such as self-invested personal pensions (SIPPs) if you’re self-employed or wanting to contribute outside your workplace pension. These come with tax relief and breaks to boost your pension savings.
- 5. Get the most out of your state pension and fill in any gaps in your National Insurance record, which you may do for up to the past six years.

“Boost your pot with any extras you might receive, for example bonuses or inheritance. Remember, you can contribute a maximum of £60,000 a year into your pension (raised this tax year from £40,000), or 100% of your salary, whichever is lower.”

ALLIANCE TRUST AS A CORE HOLDING

With more than £3 billion in assets, Alliance Trust is designed as a core holding for every generation of investor, seeking to provide both growth of your capital and rising income. It aims to provide real, long-term returns, and has increased its dividend every year for 56 consecutive years.

Marcus de Silva, Freelance Investment Writer

1. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2023>
2. <https://www.retirementlivingstandards.org.uk>
3. AJ Bell, as at 05/01/23
4. <https://www.retirementlivingstandards.org.uk/details>
5. AJ Bell, as at 11/01/23
6. Office for National Statistics, as at 01/10/22

EQUITY MANAGER SPOTLIGHT

METROPOLIS

Metropolis Capital

FOCUSED. VALUE. INVESTMENT.



Simon Denison-Smith & Jonathan Mills,
Co-founders and
Co-portfolio managers,
Metropolis Capital



INVESTMENT PHILOSOPHY

In public marketing investing, it’s impossible to make good investment returns unless you minimise risk and avoid mistakes.

There are two distinct types of risk that we seek to avoid:

Business performance risk, which arises when a company’s operational performance falls short of expectations, reducing earnings and cash flow.

Valuation risk, which occurs when an investor pays too high a price for an investment, resulting in poor returns or permanent capital loss, even if a company performs well operationally.

For us, minimising these risks involves avoiding mistakes through a rigorous investment process. Key components of this include:

Requiring a high-quality threshold: invest only in businesses with wide moats, moderate debt levels and strong management.

Insisting on a margin of safety: a 30% gap to intrinsic value at initiation provides substantial protection from both risks.

Assessing disruption: identify potential disruptors and avoid businesses with high disruption risks.

Gradual buy-in: initiate at a small size and build positions gradually as our confidence grows.

Consider counter-arguments: understand and evaluate the bear and bull cases for each investment, to avoid confirmation and other biases.

Utilise a portfolio management model: manage position sizes to monitor risk, and take advantage of share price volatility during the holding period.

By embedding these practices in our investment approach, we look to reduce risk and minimise mistakes, thereby achieving above-average returns.

Ashtead is a UK-listed equipment rental company, operating in the US, UK and Canada, with over 85% of its earnings from the US. Its customer-facing brand, Sunbelt Rentals, offers a range of equipment including aerial work platforms, forklifts, earthmoving equipment, pumps, power generators and scaffolding. In the year ending April 2022, Ashtead reported revenues of \$8bn and operating profits of \$2.1bn.

Ashtead’s economic model is straightforward. It acquires new equipment at discounted prices because of its scale, rents it out, and divests after seven years for 35-40% of the original cost. It has historically generated a pre-tax return on tangible capital of 20%, and has reinvested this cash flow into expanding its branch network, both organically and by making small acquisitions. It now has 1,056 branches across 49 US states.

There are several factors that contribute to Ashtead’s moat: procurement scale, cost efficiency and a modest network effect. It is one of the two market leaders in the US, along with United Rentals, with the top two players’ combined market share rising from 9% in 2010 to 28% in 2022. Ashtead is expected to continue increasing its share of a market that is itself growing, as businesses recognise that it’s cheaper and more environmentally friendly to rent rather than own equipment.

Ashtead has also expanded into new market areas, such as speciality rental, which currently represents 29% of the company’s US rental revenue and offers superior economics.

Introducing our refreshed fund manager video series

We explore ‘The Big Question’ on investor minds with Alliance Trust’s Stock Pickers.

This time, we look at ‘Does the macro matter?’, with Lyrical Asset Management’s **Andrew Wellington** and GQG Partners’ **Brian Kersmanc**.

WATCH NOW →

FAST FACTS ON ASHTEAD

Founded **1947**
Ashtead, England

Headquarters
London, England

Listing
London Stock Exchange

Circa **24,578**
employees

CEO
Brendan Horgan

EQUITY MANAGER SPOTLIGHT

VERITAS

Veritas
— Asset
Management



Andy Headly,
Head of Global Strategies,
Veritas



INVESTMENT PHILOSOPHY

At Veritas, our focus is on long-term, more robust investment opportunities. This is partly why we don’t own any banks in our portfolio.

Banks are particularly recession-sensitive, with all of them paying the price when there’s an economic mishap. And gauging the health of banks’ primary products, their loans, can be a challenge due to lack of visibility.

Rather than trying to predict largely unknowable macroeconomic factors, our aim is to build a portfolio that’s resilient to the vicissitudes of the external environment. To do this, we emphasise businesses with:

Pricing power: taking price at or above inflation over time, due to a combination of factors like: a strong brand, attractive market structure, high switching costs, and so on.

Low capital intensity: not having to keep investing significant amounts into plant, equipment and working capital – all of which are costs that increase with inflation.

Strong balance sheet: avoiding excess leverage, which restricts a business’s ability to successfully navigate changing circumstances.

Limited cyclicity: being insulated from cyclicity, or able to capitalise on cyclical weakness.

Durability and barriers to entry: structurally rising demand for the company’s products, and the ability to maintain an advantaged position.

Predictability of free cash flow: recurring revenue with high free cash conversion.

Attractive valuation: a discount to intrinsic value, that sometimes comes when investors have overinflated concerns.

Fiserv are a leading payments and technology provider for financial institutions and merchants, generating high-quality recurring revenue. Their modular IT architecture offering and best-of-breed bundled products allow their banking customers to build and grow faster with fewer risks.

As a result, Fiserv has a leading market share among mid-sized banks that lack the resources to upgrade tech internally. We expect this segment to continue offering reliable single-digit growth.

In its Payments segment, Fiserv operates the third largest debit network behind Mastercard and Visa. And Merchant Acceptance is well positioned to post low double-digit revenue growth.

Fiserv also has a hugely successful direct relationship with Clover, an industry-leading payment acceptance provider. Thanks to Fiserv leveraging its banking relationships to distribute Clover to their merchant customers, Clover now handles more payment volume and is growing faster than Block (formerly Square).

We believe Fiserv was undervalued for several reasons. Primarily, concerns that its merchant acceptance business is ‘old tech’, with this view reinforced by unexpectedly high capex at the tail-end of 2021.

While Fiserv is diversified and lacks pure e-commerce exposure, it has a significant tilt to online spending, which helped it outperform peers over the pandemic. Checks with the company point to an end to its capex-heavy period, which should support cash conversion once again. We have also urged more disclosure surrounding Clover, to assist the market in valuing this business, and expect this to help Fiserv fulfil its apparent value.

MEET THE ALLIANCE TRUST MANAGERS →

FAST FACTS ON FISERV

Founded 1984

Headquarters
Brookfield, Wisconsin, US

Listing
NASDAQ, US

Circa 44,000
employees

CEO
Frank Bisignano

PORTFOLIO UPDATE

Investors flocked back to large cap growth stocks, especially tech companies and European equities in the first three months of 2023, in a marked reversal of the trend in 2022 when value and cyclical stocks such as energy dominated.

The market rotation reflected macroeconomic factors, particularly the expected path of interest rates. Whereas borrowing costs rose rapidly in 2022, dampening expectations of future earnings among growth stocks; by the end of the first quarter of 2023, the market consensus was that interest rates were at or close to peaking and may start to fall later in the year. This led to a rebound in the valuations of many high-quality growth stocks, though they remained far below their recent peaks and there was little sign of a revival in the prospects of more speculative businesses that involved a lengthy wait to make back their investment. At the same time, value stocks, which generally offer investors more immediate cashflows, underperformed. But it was not clear if the rally in growth stocks represented a return to the conditions we saw in the last decade, when a handful of growth stocks drove the whole market, or if it was a blip.

The continued strength of inflation and possibility of recession resulting from the slow burn effect on economic activity of the past tightening of monetary policy suggests investors may be too sanguine about the outlook for growth stock profits. While a Goldilocks economic outcome of falling inflation and resilient growth is possible, we are cautious on equities generally near-term; hence gearing remains lower than the long-term strategic position of 10%.

If interest rates are cut in response to slowing growth and falling inflation, equities could still be hit by sticky costs and falling demand; if rates stay high or rise further, it may slay the inflation dragon, but profit margins and earnings could still fall. Even so, increased volatility and stock dispersion is creating mispriced opportunities for long-term gains across the market, which favours skilled stock picking. This was demonstrated by the outperformance of our portfolio in Q1. The Company’s NAV total return was 6.8% compared to 4.4% for our benchmark, the MSCI All Country World Index (MSCI ACWI).

“While a Goldilocks economic outcome of falling inflation and resilient growth is possible, we are cautious on equities generally near-term; hence gearing remains lower than the long-term strategic position of 10%.”

OUTPERFORMANCE DRIVEN BY STOCK SELECTION

The outperformance of 2.4% was driven to a significant margin by good stock picking by all our managers irrespective of their styles of investing, apart from GQG which was the only one to detract from returns. Having been the best performing stock picker through 2022, largely due to its holdings in buoyant commodities stocks, GQG’s performance was hurt by pull backs in their share prices, including the oil companies Petrobras in Brazil and Exxon Mobil in the US; as well as the mining company’s Vale and Glencore, the UK-listed commodities trading business. GQG’s investment in the US broker and investments group Charles Schwab, which fell sharply in the wake of the collapse of Silicon Valley Bank, was another significant detractor, although, in aggregate the portfolio’s lack of exposure to US banking was positive for relative returns. GQG subsequently sold the stock.





The biggest contributors to our outperformance by manager were Black Creek and Vulcan Value Partners, which both have a strong valuation discipline, though they don't always invest in classic value stocks. For example, Vulcan, despite its name, tends to buy high quality businesses more often associated with growth managers, but it only does so when it judges that share prices have fallen below a company's long-term earnings power. The sharp revival of its investments in the US software company Salesforce, which returned 46.6% over the quarter, and General Electric, which returned 43%, were both standout performers. Black Creek's biggest contributors to returns were the Chinese web search company Baidu, which rose 28.4%, and two industrial stocks, namely Kuehne & Nagel (+24.5%), the Swiss logistics group, and Ebara Corporation in Japan (+25.7%), which makes hydraulic pumps. HeidelbergMaterials, up 25%, also did well for Black Creek.

The two stock pickers with the strongest growth bias, SGA and Sands, both added considerable value, principally by owning MercadoLibre, the e-commerce and finance platform, which is often described as Latin America's answer to Amazon and was the single biggest contributor to portfolio outperformance. The company's share price rose by 51.5% in the first quarter. It is now worth more than \$50bn by market cap, having roughly doubled in value since the Covid pandemic. Also in the tech sector, Alphabet, Google's owner (+14%), held by Metropolis, GQG Partners, SGA, Vulcan and Veritas, contributed to returns, as did Jupiter-owned Kyndryl Holdings (+29.1%), the IT services business that was spun out of IBM in 2021. However, being underweight to Apple, which rose 23.6%, and Nvidia (+84.9%), which makes graphic processing units, detracted from relative performance.

“The biggest contributors to our outperformance by manager were Black Creek and Vulcan Value Partners, which both have a strong valuation discipline, though they don't always invest in classic value stocks.”

“The company's share price rose by 51.5% in the first quarter. It is now worth more than \$50bn by market cap”

It remains to be seen whether the uncertain economic outlook will be resolved in favour of Q1's growth-style winners or the value stocks that suffered a setback, but we remain confident in the skills of our stock pickers to navigate their way through oscillating style trends. By retaining a balanced and diversified stance across styles, industries, and countries, and focusing on individual company fundamentals, we believe our stock pickers can build on the outperformance achieved in the first quarter in the months ahead, without shareholders suffering from the stomach-churning fluctuations in performance often experienced by investors in more concentrated single manager funds.

[VIEW THE LATEST PORTFOLIO PRICE AND PERFORMANCE HERE →](#)

BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest net purchases – Q1 2023	% of Equity portfolio bought	Net value of stock purchased (£m)	10 largest net sales – Q1 2023	% of Equity portfolio sold	Net value of stock sold (£m)
Microsoft	1.0	30.0	Exelon	0.7	21.8
Alphabet	0.9	29.1	Schneider Electric	0.6	20.4
Novo Nordisk	0.8	23.8	Mastercard	0.6	19.5
Apple	0.7	22.6	Berkshire Hathaway	0.5	17.0
Essity	0.7	22.6	Walmart	0.5	16.3
Danone	0.7	21.7	Exxon Mobil	0.5	16.0
UnitedHealth Group	0.6	19.2	Kingfisher	0.5	15.0
Nvidia	0.6	17.6	Charles Schwab Corporation	0.4	14.3
Intercontinental Exchange, Inc.	0.4	11.6	Baidu	0.4	11.5
Gen Digital	0.3	9.8	Heidelberg Cement	0.4	11.5

UPDATE ON BUYBACKS

At the AGM in April 2022, 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 31 March 2023, the Company purchased 10.4 million shares at a cost of £100.6 million. In this period the discount ranged from 2.8% to 8.6% and on days shares were purchased the discount range was 2.8% to 8.6%, with an average discount of 5.8%.

In the period from 1 January to 31 March the discount has ranged between 2.8% and 7.4%. In this period the Company purchased 1.7 million shares at a cost of £16.3 million and on days shares were purchased, the discount ranged between 2.8% and 6.9% with an average of 5.5%.

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.

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 March 2023 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.

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

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