

# Connection



## INVESTMENT TRUST LONGEVITY IN THE FACE OF CONFLICT

By Faith Glasgow

It's not an easy time to be a cool-headed investor. Although the state of our finances in the UK pales into insignificance in comparison with the destruction and suffering being inflicted on the people of Ukraine by the Russian invasion, the fact is that the war and the price inflation it is stoking are giving many private investors sleepless nights.

Nor is it simply a question of concerns about the fate of volatile Russian funds or stocks, to which many UK investors have minimal exposure. The war has direct consequences for global stock markets, and major indices are very volatile as the news ebbs and flows.

To put that into perspective, the US S&P 500 index has fallen more than 7% so far this year (to 24 March), having recovered from a -13% low after the Russians attacked a Ukrainian military site near the Polish border earlier last month. The Nasdaq index of technology-focused companies was down 20% year to date after that attack; it has subsequently recovered to some extent, but remains 12% below its value at the start of the year.

The MSCI World index is down 8% over that time, while the FTSE All-Share has done pretty well, having lost less than 3%.

Broker Interactive Investor (ii) is so far the only platform brave enough to publish data on the unpleasant consequences for customers' portfolios. As at 14 March, the average SIPP portfolio held with ii had lost 12% in 2022. Those with a high proportion in global equities, and especially in the tech-focused stocks and funds that have done so well in recent years, will have taken a harder hit.

**“The falls at the start of the year have been a consequence not only of the war, but also of the preceding rise in interest rates and the end of quantitative easing, among other factors that turned general sentiment negative from mid-January onwards,”** comments Becky O'Connor, head of pensions and savings, Interactive Investor.

### ALLIANCE TRUST: DIVERSIFIED, HIGH-CONVICTION

Research shows that active equity managers add most value through a small number of their highest-conviction positions<sup>1</sup>. 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<sup>2</sup> 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.

Moreover, on a short-term perspective, things are set to get worse, as rocketing fuel prices percolate through supply chains and push inflation up, potentially to above 8% by the end of the year. The Office for Budget Responsibility says it could take several years to return to previous low levels of inflation.<sup>3</sup>

So, it's easy to feel pretty despondent about the state of your portfolio. However, global investment trust shareholders seeking comfort, can cheer themselves up by stepping back and taking a much longer view. It really brings home how robust these trusts have historically proved to be in troubled times.

After all, as Andrew McHattie, publisher of the Investment Trust Newsletter, points out, investment trusts have been around for more than 160 years, and have seen a fair number of international crises during that time.

"F&C Investment Trust started out in 1868 investing in emerging markets bonds. More than 130 years ago the names of trusts described their investment realms, including the African Gold Share Investment Trust, London Scottish American, Spanish Railways Trust and Investment, and the United States and South American Investment Trust," he observes.

"So they have been outward-facing for a very long time, seeking the best returns from global innovations and accepting the attendant risks. Those have been managed well over time, and investment trusts have survived two world wars and much more besides."

John Newlands, a long-standing investment trust expert and historian, gives some context to the experience of investment trust shareholders through those two huge global events. As he explains, the London Stock Exchange was closed for nine months at the outset of World War One, and trusts and boards just had to carry on as best they could, without a trading market.

"Portfolios were largely fixed interest at that time – and became more so as all US dollar securities were requisitioned by the government in return for War Loan issues," he adds. "Most trusts had employees going off to the war, and some did not return."

By the outbreak of World War Two, 30 years later, things had moved on apace: the UK government was better organised, and trading continued during much of the conflict.

Says Newlands,

**"There was a sharp uptick as the end of the war became more certain, and**

**it caught many investors by surprise. I personally expect something like this to happen when the guns fall silent in Ukraine."**

In fact, the single most seismic shock of all for stock markets came in between the two, in the shape of the Wall Street Crash of 1929: this saw the US Dow Jones index lose a massive 89% of its value in less than three years.

Crucially, says Newlands, "not one of the older, long-established UK investment trusts with diversified portfolios and decent revenue reserves collapsed – Alliance Trust being a classic case in point. Even the best trusts suffered a sharp setback, naturally, but by as early as 1933, the signs of recovery were there and, in time, asset values would move to fresh peaks and beyond."

However, he adds, newer, less well-diversified funds, which had little time to build up reserves and possibly had borrowed into rising markets as well, took a real hammering; some of them did not survive.

McHattie makes the point that some dividends were reduced or suspended by UK trusts as a consequence of the 1929 crash. In contrast, these days investment trusts

**"have the considerable advantage of well-established revenue reserves to smooth dividends and to maintain them during difficult periods".**

He believes the crisis in Ukraine seems unlikely to have any general impact on dividends across the industry.

More recently, the devastating terrorist attacks of 11 September 2001 have had the most painful and protracted impact on markets worldwide. Annabel Brodie-Smith, communications director at the Association of Investment Companies, says, "If you had invested £100 in the average investment company at the beginning of 2001, by the end of September your investment would have been worth just £74. By the end of 2004, the Iraq War had begun and that same investment would have recovered to £82, but would still be 18% below its original value."

However, investors who pulled out of the market during that time and failed to catch the wave as it rebounded, would have lost out. "Two years later, markets had bounced back and your investment would be worth £131," continues Brodie-Smith.



3.<https://obr.uk/overview-of-the-march-2022-economic-and-fiscal-outlook/>



“Fast-forward to today and your original £100 investment would be worth £572 – a return of nearly six times your original investment in a period of just over 21 years.” Moreover, that period includes not just the 9/11 attacks, but the 2008 Global Financial Crisis and the recent Covid pandemic.

Since 1945 there have been several other regional conflicts, including the Falklands War and two Gulf Wars, which, while devastating for those directly involved, on the whole have proved to be relatively short-lived setbacks for the closed-ended sector’s performance.

For example, AIC data indicates that an investment of £100 at the beginning of 1982 in the average investment company, would have been worth £97 by the end of April during the Falklands War, but by the end of the year it would have recovered to £136.

Similarly, although a £100 investment would have fallen to just £83 in the six months following the start of the first Gulf War in August 1990, within a year it was back in positive territory at £103.

As Brodie-Smith observes, “Of course, investment companies’ share prices will suffer in the eye of the storm, but when markets recover, they bounce back strongly.”

Investment trusts do have important structural advantages in terms of resilience: for instance their listed company status and closed-ended structure mean managers can take

a long-term view, without fear of having to buy or sell portfolio holdings in response to shareholder pressure, because demand/supply inequities play out through share price movements on the stock market. (In contrast, open-ended fund managers have to create or cancel units on a daily basis, depending on the flows of money into or out of the fund).

Trusts also have the facility to hold back up to 15% of income received from portfolio companies, so they have a reserve to draw on that enables them to maintain their dividends in lean years.

But the bottom line is that in the long term, equity valuations are not terribly vulnerable to catastrophic events such as war or terrorist attacks. US wealth manager Barry Ritholtz wrote recently in Bloomberg Businessweek, “What drives equity prices are increased corporate revenue and profit, and the typical geopolitical event isn’t big enough to change those very much.”<sup>4</sup>

Thus, few investment trusts are really struggling as a direct result of the war in Ukraine. McHattie points to JPMorgan Russian Securities, “which has seen its net asset value fall sharply and its shares drop from over 700p in early February to around 80p now”.

He adds, “Barings Emerging EMEA Opportunities, which had nearly 28% of assets in Russia at the end of January, has also fallen, but the vast majority of trusts – particularly those with energy holdings – have been well positioned to protect investors’ assets.”

So what should investors do? Newlands underlines the familiar but important point that panicking and selling when crisis hits, tends to be a very bad idea. “Not only will you be disposing of your shares at a depressed ‘bid’ (selling) price, but you’ll be repurchasing, even in the absence of any market movements, at a higher ‘offer’ price, usually plus stamp duty and broker’s commission as well. So the round trip has a cost to it.”

Moreover, there is a very real danger of missing a key recovery surge when sentiment recovers. Newlands points to the 1973/74 bear market following the Middle Eastern oil crisis. “The then leading UK indicator, the FT30 Index, shot forward by more than 90%. Investors who had lost faith and moved into cash were kicking themselves for years afterwards,” he says.

He recommends that anyone concerned about potential geopolitical or economic risks, should take steps to “place their portfolios on a firm basis in the first place” through broad diversification across styles, regions and assets, and drip-feeding into the market. “This might mean slightly lower projected future values for their financial returns, but a far better night’s sleep when the next crisis strikes,” he advises.

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

Explore more insights

4. <https://www.bloomberg.com/news/articles/2022-03-02/history-shows-ukraine-war-will-be-a-stock-price-blip>



Past performance is not a reliable indicator of future returns.





# UKRAINE CRISIS AND WHAT IT MIGHT MEAN FOR ESG AND SUSTAINABLE INVESTING

Craig Baker, Global CIO, Willis Towers Watson

The human tragedy in Ukraine outweighs everything else. However, we are understandably being asked by investors what the implications might be for ESG and sustainable investing. Questions are being asked, such as:

- Will this ultimately increase or reduce the focus on ESG in the future?
- What does this mean for investment into Russia, Ukraine and other countries?
- Will these events accelerate or slow down the push into green energy?
- Has the focus on 'Net Zero' led to the cost-of-living crisis, in other words has a focus on improving the E in ESG come at the cost of the S?
- Do these events highlight that there also needs to be more focus on the G within ESG, as it pertains to governmental risk? In this we look to address some of these questions at a very high level. However, this is an incredibly complex topic, which requires in-depth analysis that will lead to different conclusions and often polarised opinions. That has always been the case, but it is likely that views will become more extreme on either side of each argument, and there will be greater division between those that believe wholeheartedly in ESG, and those that believe it is causing more problems than it is solving. This is simply mirroring the state of politics today throughout the world, with increasingly polarised views on each side of almost every debate.

## Comprehensive E, S and G policies ensure more sustainable long-term value creation

Good governance and investment policies incorporate good ESG policies. A good ESG policy has always been balanced between all the major E, S and G issues. Corporate governance has long been a focus of many investors, even those that have not fully embraced ESG. But good governance is also a bedrock on which solid E and S integration is built. The fact that climate change has been at the top of many agendas in recent times, particularly given COP26, does not mean that E should be solely focused on climate, nor that it should trump S and G. Indeed, in some markets such as the US, S has often been trumping E for many investors, with a

greater focus on social injustice. And for Emerging Markets, a just transition approach has been leading the fiscal policy agenda.

The issue for investors is to balance a good ESG policy as an integrated part of all fiduciary responsibilities around maximising returns, within an appropriate risk budget. Climate change has generally been an early beneficiary of this, particularly as climate-related risk metrics have improved. This will increase for more sustainability topics in the future. The recent introduction of TNFD (Taskforce on Nature-related Financial Disclosures) is a case in point. Similarly, the Covid-19 pandemic has increased the urgency of health-related considerations, while bringing into focus other S and E factors such as social inequality, worker rights and biodiversity.







The Ukraine crisis will and should catalyse greater scrutiny of a range of ESG policies, including stewardship, exclusions, divestments, and public policy engagements, as they apply to the safeguarding of human rights, transparency, governance, and the financing of and profiting from certain activities and alliances.

**Governance and investment policy requires constant review, and there is nothing like a crisis and global geopolitical uncertainty to stress-test its efficacy. Where improvements are needed, governance and policies must be evolved to reflect changing risks to an investor's portfolio, people and the planet.**

Several stakeholders are trying to draw comparisons between the crisis in Ukraine – and the financial and investment response – and other ESG issues and geopolitical risks. In this context, current policies, and allocations in respect of China are raised, not least given many investors have recently increased direct allocations to Chinese assets.<sup>5</sup>

It is important to note that China is very different from Russia from an investment perspective, and it might not be appropriate to extrapolate what has happened in one situation and assume it applies in the other. At the very least, China represents a much larger proportion of typical equity and bond indices than Russia did, so any policy to not invest directly in China is a much bigger investment decision. It could potentially also be more difficult to apply sanctions of the same degree to China than it has been to Russia, given how embedded Chinese companies are in the global supply chain and the differing Western nation trading partners.

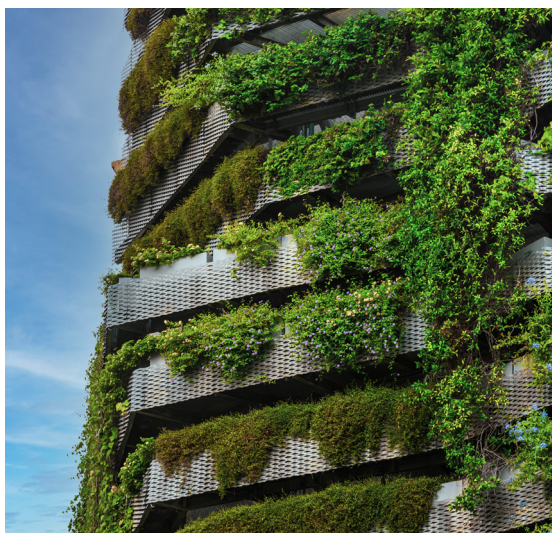
Managers Initiative (NZAMI), Investment Consultants Sustainability Working Group (ICSWG), Principles for Responsible Investment (PRI) and many more.

### ESG ISSUES ARE FINANCIAL ISSUES

We have argued for some time that it is essential to fully embed ESG issues in any investment process, because they have profound impacts on expected returns and risks. Recent events have highlighted that again, with any Russian holdings having essentially been written down to zero, as index providers around the world have removed the country from their indices, following the introduction of sanctions and the drying up of liquidity as a result. A strong policy on S and G may have led to exclusions prior to the crisis or at the very least caution in a significant overweight to Russia.

However, for balance, some would argue that while it is easy to say that in hindsight, such policies, if applied consistently, would arguably lead to disinvestment from multiple other assets, which make up a larger proportion of typical equity and bond indices.

**There is no simple ESG policy, particularly as it relates to oppressive regimes in a highly interconnected world. However, reflecting some of these risks in asset valuations seems a minimum requirement.**



Here we hit the limitations of ESG policy – it needs contextual consideration. The challenges are particularly acute given the global nature of investments, and the potential need to consider domestic and foreign policy in every market.

Engagement and collaboration across investment-related and multi-stakeholder initiatives remain more critical than ever. The complexity of the issues demands diversity of solutions – that's why WTW continues to support initiatives such as Glasgow Financial Alliance for Net Zero (GFANZ), Net Zero Asset

5. Source: WTW, 2022



## THE 'NET ZERO' MOVEMENT CONTINUES TO GATHER PACE

Those investors that do not wish to embrace ESG, have in some cases blamed the energy price spikes on the 'Net Zero' movement. Indeed, some are arguing that those focusing on the E of ESG have actually led to more S issues, such as the current cost-of-living crisis in certain countries.

On the other hand, those that have been advocating the Net Zero movement for some time, will understandably point out that recent events have only served to highlight the fact that Europe's current reliance on imported gas (and other fossil fuels) is the very reason why energy markets are failing on three fronts – failing to protect future generations from the devastating effects of climate change, failing to deliver a cost of energy that people can afford, and failing to deliver long-term energy security. The argument here is that had the Net Zero movement caught on earlier, we might not be in the perilous position we are in today. And growing momentum of the 'Just Transition' movement is ensuring that the S is addressed alongside the E.

Most governments appear to be moving closer to the second argument, with recent announcements from Germany about the desire to target green energy being a good example. Much of the voting public in Western nations are also pushing their governments in this direction. And at the same time, wind and solar are becoming in many instances the cheapest forms of energy, with the costs continuing to fall, and tools now available to manage the fact that the wind doesn't always blow and the sun doesn't always shine. Therefore, it is difficult to see a halt to progress towards Net Zero. This is both a return opportunity, and a risk mitigation issue that needs to be managed by investors.

### SUMMARY

Even those investors that have historically not been keen to fully embrace ESG, have seen this situation as one that they need to address. Many investors instructed their managers to sell all Russian and Belarusian assets where they could (not just sanctioned companies), and many have introduced a restriction on purchasing more assets in those markets for the foreseeable future.

The more difficult decision for investors, might be what to do with Russian assets

that have not been sold and have been written down to almost zero, once liquidity returns and some sanctions are potentially lifted.

**From an ESG perspective, it could be argued that recent events have not really changed the fundamental thesis about sustainable investment, but rather that most people have even stronger views on ESG topics than they did before.**

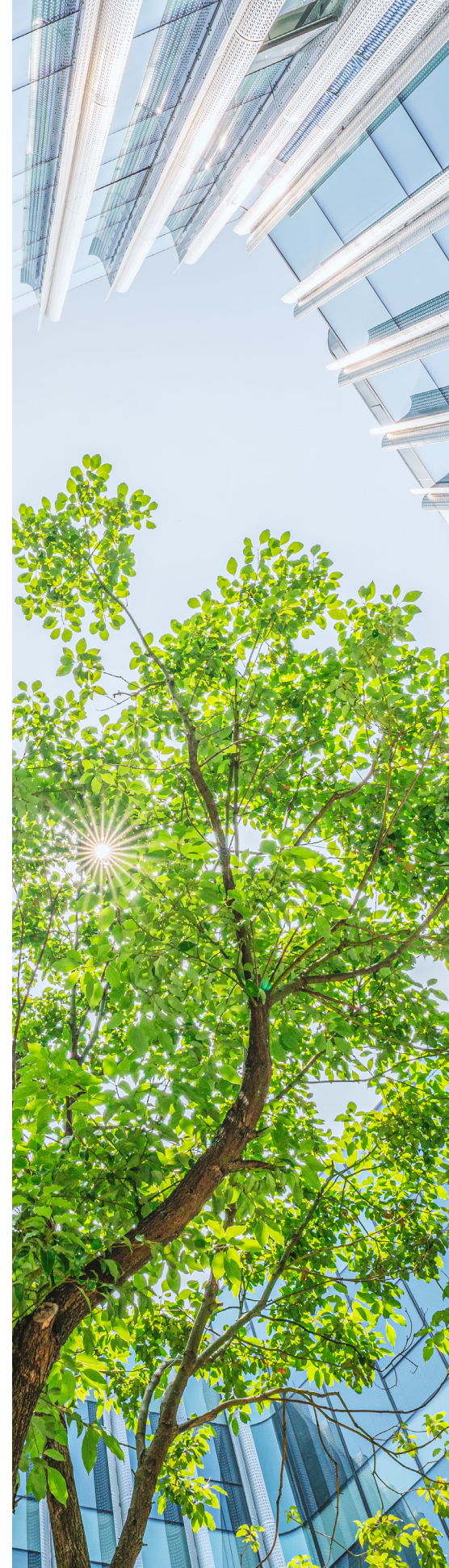
Those that were anti-ESG before are now very anti-ESG and will make bold claims that there is proof that it doesn't work. Similarly, those that were pro-ESG before, will now be arguing recent events are further proof that the world needs to speed up the ESG movement. Given that many investors have already started to incorporate ESG factors into their approach, it is likely that this will continue at pace, but with some strong or vocal exceptions.

The Net Zero movement is unlikely to slow down now, but there will almost certainly be a lot more noise about it. It is important to note that a good investment policy on Net Zero is not based on simple decarbonisation in the short term, anyway. It is about properly pricing in climate risk, engaging with assets in a proactive and constructive manner, investing more in climate solutions over time, and reducing greenhouse gas emissions over the next 30 years in a way that is consistent with the goals of the Paris Agreement. That doesn't mean having to always be ahead of that trajectory at every point in the next 30 years. There will be times when that doesn't make good financial sense, in the same way that there will be times where you want to be way ahead of that trajectory.

The debates about investing in China and other markets will also continue for some time. There is no right or wrong answer, and therefore there is likely to be some divergence in approach among investors. The key is that the E, S and G risks are appropriately considered by investors in making strategic and portfolio decisions.

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# BLACK CREEK INVESTMENT MANAGEMENT



## BILL'S VIEW



**Bill Kanko**

Founder & President  
Black Creek Investment  
Management

### Investment Philosophy

At Black Creek, we build unconstrained, high-conviction global equity portfolios. While our portfolios are concentrated, there is a conscious diversification of investment ideas. Our business-owner mindset and long-term perspective allow us to think differently. We believe that having a differentiated view from the market is the only way to produce differentiated results.

We search for companies of interest through fundamental company analysis, seeking to identify industry leaders that are gaining market share, providing a reasonable return on capital, and reinvesting for future growth to support their competitive position.

Our long-term investment horizon means we are willing to have a holding period measured in years versus quarters – a timeframe in which most investors are not willing to participate. When we acquire a company, we frequently do so when it is temporarily out of favour for the potential to create long-term value for clients. This is often referred to as time arbitrage, or timeframe mismatch.

When it comes to assessing risk, we gauge it as a permanent loss of capital, not short-term market volatility. We look to use short-term market volatility to our advantage (fundamentals vs market sentiment) as we invest in a portfolio of winning businesses at attractive valuations.

## STOCK SPOTLIGHT: NUTRIEN

Nutrien is a leading, vertically integrated, provider of crop inputs, services, and solutions. It should continue to benefit from higher demand for crop nutrients, as declining arable land pushes growers to become more productive.

Nutrien has a diverse asset base of crop inputs with access to low-cost natural gas, a major input cost in fertiliser production. This gives it an advantage over many of its competitors, particularly in Europe, where natural gas prices are high. Nutrien also has scale, as the largest retailer of agricultural inputs to farmers in North America and Australia. It further cements the relationship it builds with farmers, by providing experts (agronomists) that help with field-crop

production, soil and land management, and water resources. Its scale in retail supports its fertiliser and proprietary products businesses. It also has a growing e-commerce and digital platform. The company achieved very strong financial results in 2021, resulting from higher prices across its nutrient businesses, higher potash sales volumes, and solid organic and proprietary product sales growth in its retail business. It achieved record sales volumes of 13.6 million tonnes of potash in 2021, and expects to sell as much as 15 million tonnes of potash this year, an increase of nearly 1 million tonnes over previous expectations. Nutrien expects to sell as much as 15 million tonnes of potash this year, an increase of nearly 1 million tonnes.

## FAST FACTS FROM NUTRIEN



Founded **2018**



Headquartered in  
**Saskatoon, Canada**



### Did you know?

In 2022, 91-93 million acres of corn will be planted in the US



circa **23,100** employees

**FTSE**

100 company



Current CEO **Ken Seitz**



## MICHAEL'S VIEW



**Michael Sramek,**  
Senior portfolio manager  
and MD, Sands Capital

## Investment Philosophy

A stock represents an ownership stake in a business, and over the long run, we believe that the value of a stock reflects the earnings power of the underlying business. The value of a stock can fluctuate wildly in the near term as investors respond to new information, but over time, we've observed that business fundamentals ultimately shine through. Times of extreme volatility can test even the most experienced investors, but those times are when we believe it's most important to set emotion aside and rely on an objective set of principles. For us, it's our six criteria, which reflect characteristics that we believe enable a select group of businesses to sustain above-average growth over five or more years.

These are:

- Sustainable above-average earnings growth
- Leadership position in a promising business space
- Significant competitive advantage/unique business franchise
- Clear mission and value-added focus
- Financial strength
- Rational valuation relative to the market and business prospects

The events and volatility seen this year emphasise to us the importance of seeking growth underpinned by powerful secular forces, which are unlikely to be derailed by changing central bank policy, energy prices or near-term corporate guidance. If we can identify those businesses capable of growing across market environments – and our forecasts are directionally right – then we expect that over time, the stocks will take care of themselves.

STOCK  
SPOTLIGHT:  
SERVICENOW

View the latest  
Stock Pickers'  
interviews here

ServiceNow – the leading provider of enterprise workflow automation software, based on market share – was the largest business in the Alliance Trust portfolio as at 28 February 2022.

ServiceNow is one of the best examples, in our view, of a business benefiting from secular change. There were many takeaways from the fourth-quarter 2021 earnings season. But one of the most important, in our view, is that enterprise digitalisation is a durable secular trend, and that enterprise IT spending did not experience a pandemic-driven demand 'pull-forward' in 2020/21. Rather, our research suggests that the pandemic drove an awakening among corporations across industries about the importance of and need for digitalisation, and a long runway remains, despite strong growth since 2020.

Looking ahead, we expect company fundamentals to matter more for investors, following the 2020/21 'Everything Bubble' and the ensuing market correction that began in November 2021. ServiceNow has one of the best combinations of growth and free cash flow (FCF) margins among all publicly traded software businesses, with best-in-class unit economics, low churn and a rapidly expanding product portfolio. To put this into further context, ServiceNow was one of only five public software companies that delivered organic growth and FCF margins north of 30% in 2021.

ServiceNow remains one of the highest-conviction businesses at Sands Capital. While the stock could continue to be volatile in the near term, given the market's short-term focus, we remain confident about the long-term opportunity.

## FAST FACTS FROM SERVICENOW



Founded 2018



Headquartered  
in **Santa Clara,**  
California, US



**Did you know?**  
Clients are the National  
Basketball Association  
and the Women's National  
Basketball Association

\$577.99

Revenue



circa 17,000  
employees



Current CEO  
**Bill McDermott**

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# PORTFOLIO UPDATE

Over the first quarter of 2022, the Company's total shareholder return and NAV total return were -3.8% and -2.4% respectively, with the MSCI All Country World Index (ACWI) returning -2.6%.

The first quarter of 2022 will be remembered in history for the terrible events that have unfolded in Ukraine. The humanitarian crisis that has been caused by Russia's invasion of Ukraine in mid-February, continues to grow worse by the day. Our thoughts are with those impacted by the events, and we can only hope for the conflict to be resolved soon.

The first half of this quarter was challenging for equity markets as the U.S. Federal Reserve began discussions of reducing its balance sheet and setting out a more concrete plan for raising interest rates. The improving COVID situation has also been a signal to the market that the Fed is likely to be raising rates sooner rather than later. The shifting expectations for inflation and interest rates led to a dramatic repricing within the equity market away from growth stocks. In particular, this has impacted companies with high Price-to-Earnings (P/E) ratios and little profitability as investors started to seek out stocks with more reliable near term cash flows and valuation support. In this period, non-US Value parts of the market outperformed and given the inflationary back-drop, energy and commodity sectors showed particular strength.

In the second half of the quarter the Russian invasion of Ukraine created one of the worst humanitarian crises in recent history as well as triggering economic sanctions on a huge scale. The fall out of these events includes materially disrupted food supplies and other supply chains as well as a public backlash against the use of Russian hydro-carbons, particularly in Europe. This exacerbates some of the exiting trends and in reaction to the

conflict, markets continued to fall in the first half of March, led unsurprisingly by Europe but also China as investors increased their concern of geo-political risk. However, markets staged a strong rally of around 10% off the mid-month lows to finish the month higher, leaving the MSCI ACWI index down just 2.6% for the first quarter overall. This late March rally was led by the sharp reversal of previously underperforming US growth stocks, perhaps an indication that the post-COVID liquidity provided by governments' fiscal support over 2020/21 still remains in the system. However, the most notable market reaction has been in commodity prices and inflation. The energy and materials sectors outperformed materially as constrained supply led to rising prices and expectations of increased profitability. Further, Consumer-oriented sectors came under pressure in anticipation of weaker consumer demand resulting from the cost of living squeeze that is beginning to be felt.

GQG was the strongest stock picker over the quarter. Over the last year or so, GQG has been repositioning its portfolio from their US technology exposure towards energy and materials and this has materially benefited their performance. Other Value-oriented managers outperformed in the quarter including Jupiter and Black Creek whilst Growth-oriented managers such as Sands and SGA lagged. The most notable change to the portfolio structure in the first quarter was the removal of River and Mercantile from the portfolio. River and Mercantile was also performing well in the quarter given its Value/Recovery approach, however, the significant corporate changes, with the sale of the Solutions business to Schroders and acceptance of an offer for the remaining business from Asset Co., reduced our conviction in the long-term stability at the organisation. River and Mercantile's allocation (approx. 6% of the portfolio) was re-distributed amongst the other 9 stock-pickers.

In terms of specific stocks, GQG's investments in large oil & gas companies, Petroleo Brasileiro and Exxon Mobil Corporation, were the biggest contributors to the Fund's performance. Their shares have climbed as the conflict in Ukraine has led to oil prices peaking at over \$120/barrel. The biggest detractor from performance was Meta Platforms (owner of Facebook). Meta's stock fell after the market was surprised by news that it's user growth was beginning to stagnate. In an environment of rising interest rates where valuations of growth stocks are under pressure, news of stagnating user growth on the platform led to swift decline in the share price. Nevertheless, revenue growth was ahead of expectations and some shorter term issues such as revenue disruption driven by privacy changes to Apple's iOS mobile software, and some cyclical reduction in advertising spend is expected to abate in future.

Having maintained gearing at around our target 10% for some time, we reduced gearing slightly to around 9% in January. This is a reflection of the very strong absolute returns achieved by equity markets in recent years, in part supported by central bank stimulus, and we expect more volatility as markets adjust to shifting expectations for inflation and interest rates. The portfolio continues to be structured as a collection of high conviction company investments from a diverse set of skilled stock pickers with different investment approaches that we believe will be to compound attractive returns in the long-run.

[LEARN more about the latest portfolio price and performance here](#)



## BIGGEST POSITIONS SOLD AND ACQUIRED OVER THE QUARTER

10 largest purchases – Q1 2022	% of Equity portfolio bought	Value of position bought (£m)	10 largest sales – Q1 2022	% of Equity portfolio sold	Value of position sold (£m)
Visa	0.8	31.4	Visa	1.2	41.3
Philip Morris International	0.7	27.4	Alphabet	1.0	34.6
Exelon Corporation	0.7	25.4	The Walt Disney Company	0.9	32.2
Recruit Holdings	0.6	23.6	Heineken	0.8	28.2
Danaher Corporation	0.6	23.4	JPMorgan Chase	0.8	27.6
Total Energies	0.6	22.6	Charter Communications	0.8	26.6
Intuit	0.6	22.2	Microsoft	0.8	26.5
MercadoLibre	0.6	21.1	Meta Platforms	0.8	26.4
British American Tobacco	0.5	20.2	Taiwan Semiconductor Manu Comp	0.7	25.4
Murata Manufacturing	0.5	19.9	Target Corporation	0.7	25.2

### UPDATE ON BUYBACKS

At the AGM in April 2021, shareholders approved for the Company to purchase and cancel up to 14.99% of the issued share capital. In the period since the AGM to 31 March 2022, the Company purchased 13.9 million shares at a cost of £137.8 million. In this period the discount ranged from 3.2% to 8.9% and on days shares were purchased the discount range was 4.3% to 8.9%, with an average discount of 6.2%.

In the period from 1 January to 31 March the discount has ranged between 4.2% and 8.9%. In this period the Company purchased 5.3 million shares at a cost of £51.2 million and on days shares were purchased, the discount ranged between 4.3% and 8.9% with an average of 6.6%.

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

### DISCRETE PERFORMANCE (%)

From To	31 Mar 21 31 Mar 22	31 Mar 20 31 Mar 21	31 Mar 19 31 Mar 20	31 Mar 18 31 Mar 19	31 Mar 17 31 Mar 18
Total shareholder return	8.2	47.2	-12.3	8.8	3.9
NAV total return	9.3	45.2	-11.2	8.2	4.8
MSCI ACWI total return <sup>6</sup>	12.4	38.9	-6.7	10.5	2.3

### 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 2022 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](https://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.

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