Alliance Trust

ANNUAL GENERAL MEETING QUESTIONS AND ANSWERS

A summary of the questions raised by shareholders, and the answers provided either during or after, the Alliance Trust PLC 2021 Annual General Meeting, are noted below. To hear in full the detailed responses, please view the video of the meeting https://www.alliancetrust.co.uk/news-items/events/agm2021/

Does the Company's outperformance target for the equity portfolio of 2% per annum over the MSCI All Country World Index, net of costs, over three-year rolling periods, remain in place? How has the Company performed against this target, what is the Board's view of that performance and why should investors remain confident that the target will be met?

The Company's investment objective is to provide a real return over the long term through a combination of capital growth and a rising dividend. Although there was significant market turbulence driven by the Covid-19 pandemic in 2020, the Company delivered a Total Shareholder Return of 9.4% against that objective. The Company also increased its dividend for the 54th consecutive year. While the portfolio's performance fell short of the benchmark, there were good reasons for that.

The outperformance target of 2% per annum over the benchmark, net of costs, over rolling three-year periods is still in place. It remains the Board's ambition that the portfolio should achieve this level of outperformance over the long term. The target is not a guarantee that that level of outperformance will be achieved every three years; however, the Board and Willis Towers Watson (WTW) its Investment Manager, expects the portfolio to deliver against the target over the longer term.

The Board is disappointed that the target has not been met over the initial three-year period since WTW's appointment but is confident that it will be in the future. The Company's diversified portfolio is well-positioned to benefit from a broadening of the recovery following the pandemic and vaccine roll-out. In addition, the current investment approach has only been in place for a relatively short period of time. The track record of WTW with a very similar strategy for an institutional portfolio over a longer period, provides evidence that the strategy can deliver outperformance. That portfolio has returned 1.9% per annum since 2015.

The Investment Manager provided a detailed explanation for the Company's recent performance highlighting the very concentrated nature of the benchmark which has driven its performance and how recent market movements have benefitted the Company's highly diversified portfolio.

With the Company having as many as 179 stocks or thereabouts, is index-tracking (but not index-tracking management costs) not the most likely outcome of the present manager-of-managers set-up and why should an investor look beyond a tracker fund with the Company's current level of performance?

Alliance Trust is actively managed and that provides the opportunity to generate outperformance. A passive product may have lower costs but there is no opportunity for upside outperformance. Over the longer term the Board expects significant outperformance to be generated from the portfolio and its investment strategy.

The Company's portfolio is very unlike its benchmark. In the Company's reporting, such as the monthly factsheet, refers to the Company having an active share of c.80%. A passive fund would have an active share of 0%. This measure shows the extent of difference between the Company's portfolio and its benchmark construction.

The Company's costs remain very competitive for an actively managed portfolio. However, cost is something that gets continued focus from the Board and it still expects further action in the future to manage the Company's cost base.

The Investment Manager also commented on the performance of the Company's portfolio, noting that it had not behaved like an index-tracking fund with its performance being very different to that of its benchmark.

Given WTW has said that "it does not often change Stock Pickers nor are they changing stocks", is the Board comfortable with the very high level of turnover for 2020 (77.3%) and is it expected that 2021 and onwards will see a substantial reduction in turnover?

Turnover in 2020 was very high. The level for 2020 is viewed as exceptional by the Board and WTW. There were two particular drivers to the high level of turnover. Firstly, a number of the Company's Stock Pickers are focused on the value style of stock picking. The volatility in the markets that occurred during the year presented some really great opportunities for those Stock Pickers. There was therefore a degree of turnover resulting from those Stock Pickers taking advantage of the valuable opportunities that arose. Secondly, as communicated to shareholders during the year, WTW made a number of changes to their selection of Stock Pickers and this also resulted in some turnover in the portfolio.

The Investment Manager noted that due to the volatility in the markets seen in 2020, you would have expected turnover to be higher. The Investment Manager explained that some managers saw high-quality companies that look attractive to them over the long term being offered at attractive prices and therefore bought those stocks. Others saw the opportunity to sell stocks that had appreciated greatly as a result of the rebound in the market.

When appointed, WTW said the Company should expect about 20 to 25% per annum stock turnover, for the underlying Stock Pickers and about 10 to 15% per annum turnover from Stock Picker changes. When you add in a little bit of turnover from buybacks and realising investments to satisfy the cost of dividend payments, you would get to an expectation of 40 to 50% turnover over the long term. The Company has seen about, or slightly above, that level.

The Company had just under £3 million of other administrative expenses in 2020, which represents nearly half of all administrative expenses. Can the Board please provide some further details of these costs?

Approximately half of the £3 million related to investor relations, marketing and distribution costs. There was some increase in this category of costs as a result of the additional communications with investors via, for example, webinars that were held instead of face-to-face meetings. There was also an increase in this category of costs as a result of increased engagement with the retail sector rather than the wealth management sector which has been the main focus of the Company's marketing activities in previous years.

The Chairman undertook to provide further analysis of the costs after the meeting and this analysis is provided below:

In addition to the investor relations, marketing and distribution costs referred to above, the £2,906,000 disclosed on page 82 of the Company's Annual Report for 2020 includes fees paid to the Company's Depositary, Custodian, tax agent and other administrative service providers. It also includes shareholder servicing costs such as the fees paid to the Registrar and costs associated with the Company's Annual General Meeting, Interim and Annual Reports. It also includes irrecoverable VAT and the one-off costs referred to on page 34 of the Company's Annual Report.

In view of the skewed composition of the benchmark, and the limit imposed on individual shareholdings in the trust, is that benchmark relevant any more?

The Company's benchmark, the MSCI All Country World Index, is the most comprehensive global equity index, representing the full opportunity set of large and mid-cap stocks across 23 developed and 27 emerging markets. Despite being skewed towards US large-cap technology stocks in recent years, we believe it still represents the best yardstick for the Company's investment performance over the long term. As the global economic recovery from Covid-19 gathers momentum and broadens out across industries, our Investment Manager expects index returns to be more evenly spread.

Under your risk management plans, what steps have you taken to protect non-Scottish shareholders from the impact of Independence of Scotland e.g. foreign currency exchange risk (sterling to the new currency of Scotland), higher taxation and forced sales (by Scottish government) of foreign investments to obtain foreign exchange etc, etc.

This question concerns the potential impact of a positive independence vote on shareholders' investments in Alliance Trust. Should there be a positive vote for independence in Scotland, and of course there is no guarantee that there will even be such a vote and even less certainty on what the outcome may be, this may well introduce some financial and political uncertainty for a period of time.

While the Company's registered office is in Scotland many of its service providers, and all of its stock pickers, are based in England or overseas. The Company's depositary, which ensures the safekeeping of the Company's assets, is based in England. The Company are a global equity trust listed on the London Stock Exchange and its investments are spread across many markets. Less than 12% (as at end Feb 2021) of the Company's investments are in the UK therefore should there be uncertainty in the UK market this is unlikely to make a significant impact on investment performance.

At present there are many unknowns, not least the outcome of the Scottish Parliament elections in May and whether or not there will actually be a further referendum on Scottish Independence. While the Company has previously undertaken a detailed assessment of the potential impact that Scottish independence would have on its business, prior to any further referendum, the Board would revisit that work and determine whether any action was required. Even if there were to be a referendum and this resulted in a vote in favour of independence, this would be the trigger for negotiations and at this point in time no-one can be certain of the outcome of those negotiations and what impact they may have.

The Board is proud of the Company's Scottish heritage, but it is a UK company and does operate across the UK. The Company has shareholders in every country in the UK as well as overseas and, as the Board has said in the past, it will act as necessary to protect all of the Company's shareholders' interests in the event of any decision to form an independent Scotland.