



Alliance Trust: A standout trust for the uncertain times ahead

With ISA season quickly approaching, we look at a trust which can offer attractive returns in both bull and bear markets, and has a track record to prove it...

As the end of a year, which few of us will be sad to say goodbye to, approaches, the new ISA season draws closer. This typically leads to a flurry of activity among investors seeking to top up their ISAs before the end of the tax year in April, or to use their new ISA allowance once the new tax year commences. For ordinary investors, choosing the right things in which to invest can be a tricky task at the best of times, and the forthcoming ISA season offers a greater challenge than most.

After collapsing in March 2020, equity markets around the world have soared despite the almost universally gloomy economic outlook that COVID has created, making it harder than ever to know where to invest.

With that in mind we at Kepler Trust Intelligence highlight what we believe to be a standout ‘all-in-one’ vehicle which can make the process of stock selection simpler for investors.

Alliance Trust

Typically diversification is the first port of call to navigate uncertain economic situations. One way to do this is through multi-manager strategies. Alliance Trust uses a multi-manager structure and has offered high levels of alpha, as well as diversification across investment styles, industries and geographies. It is also one of few multi-manager funds with access to underlying funds which have been created specifically to meet its requirements – rather than buying ‘off the peg’ from existing strategies.

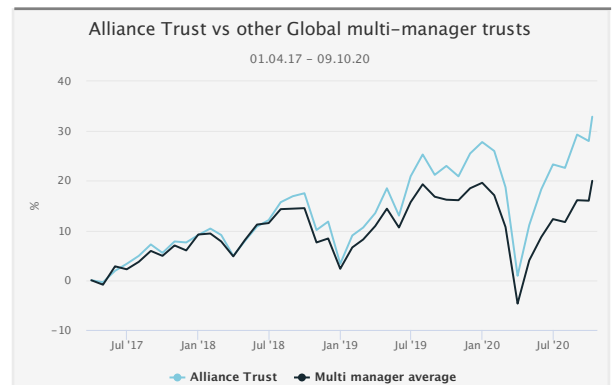
Close to three years ago, ATST ‘changed it’s spots’ and adopted a new approach which has seen the management of the portfolio outsourced to nine individual fund management groups in different parts of the world. Since this change in strategy, which **we discuss in greater detail here**, performance has improved dramatically, particularly when compared to its peers. When Willis Tower Watson (WTW) took over the management of the portfolio there were still a number of non-core assets which they wanted to dispose of, including a savings platform as well as legacy private equity investments. If we exclude the impact of these holdings from the calculations, ATST’s portfolio has outperformed its peer group and performed in line with the benchmark. Over the three-year period to 23/10/2020, ATST’s portfolio is up 22.8% on a NAV total return basis, compared to a median NAV return of 14.7% from the AIC Global sector. We believe the returns are particularly

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impressive in comparison to other multi-manager trusts in the sector, which we estimate to have an average NAV total return of only 13.8% (Source: Morningstar).

Fig.1: Performance Versus Peers



Source: Morningstar

As one might expect from a global equity strategy, the trust was not immune to the impact of COVID-19. However, the performance of the trust rebounded strongly as the market started to recover. In fact, from the bottom of the market in 2020 (23 March) the trust has delivered NAV total returns of 41.2%. This compares to returns of 33.4% from the MSCI ACWI and 34.2% from the AIC peer group average (Source: Morningstar).



Exemplifying the benefits of investing in a team with extensive knowledge and resources, WTW swiftly repositioned some of the funds after the COVID-19 correction to control risk, and money was reallocated away from value-orientated portfolios to more growth-oriented funds, which they generally deemed to be exposed to companies less vulnerable to a prolonged economic contraction. During these periods of market change, making fast decisions can be paramount to adapt to changing circumstances in the managers' opinion, and this requires the time and resources that most retail investors do not possess. Within the underlying portfolio stock turnover also increased, and during March and April about 20% of the underlying funds' companies changed, as stocks deemed most vulnerable to Covid-19 were generally sold by the underlying managers and replaced with companies the managers deemed better placed to withstand the uncertain environment.

Looking forward to a brighter 2021 we at Kepler Trust Intelligence believe that, even if the virus is in retreat, the uncertainty surrounding global markets is likely to continue. There is an argument in favour of a rapid return to economic growth as restrictions are lifted, but the weight of evidence suggests the damage wrought by COVID is likely to mean further disarray across economies which have been hit badly by lockdowns in 2020. ATST offers the potential to adapt and rapidly adjust their portfolio to either scenario, and its current discount of more than 5% could be an interesting entry point.

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