EDISON

Alliance Trust

Global equities – quality, income and growth focus

Investment trusts

Alliance Trust (ATST) is a global equity investment trust differentiated by its focus on sustainable businesses and long-term investment in subsidiaries. Significant changes announced in October 2015 give ATST a simpler organisational structure and clarify the investment proposition. Measures include focusing on the global equity portfolio, introducing the MSCI AC World index as a formal performance benchmark for the trust, appointing ATI as investment manager with a 0.35% fee and a target 0.45% ongoing charge, confirming the progressive dividend policy and committing to share buybacks to help maintain the discount below 10%.

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI AC World (%)	FTSE All-share (%)	FTSE World (%)
30/11/11	(0.3)	(3.2)	(0.8)	2.6	(0.1)
30/11/12	13.9	13.5	11.8	12.1	12.0
30/11/13	21.2	17.8	21.4	19.8	22.5
30/11/14	10.0	9.4	13.6	4.7	13.7
30/11/15	9.4	5.4	2.0	0.6	2.6

Source: Datastream. Note: Twelve-month rolling discrete £-adjusted total returns.

Investment strategy: Fundamental stock selection

The investment team seeks to identify high quality companies able to distribute a sizeable proportion of earnings as income and deliver long-term earnings growth, which they expect will translate into capital growth. Stocks need to meet all three investment criteria to be considered for selection in the portfolio. The team expects to maintain between 60 and 70 equity positions and has a minimum investment horizon of three years. The portfolio is unconstrained by sector and geographic allocations, but regard is given to the risk associated with divergence from the benchmark MSCI AC World index. Stock selection and position sizes are based on the stock's underlying volatility, strength of conviction and portfolio diversification.

Aligning more closely with shareholder interests

Having appointed four new independent non-executive directors earlier in the year, on 1 October 2015, ATST announced a number of further changes in response to feedback from shareholders including activist Elliott Advisors, which holds a 10% direct stake and a total interest of 14%. Key concerns related to the trust's self-managed cost structure, its performance and its investments in loss-making subsidiaries. The changes include disposing of non-core assets to focus on global equities, introducing a formal performance benchmark and a fee-based cost structure as well as creating independent boards for the trust and its subsidiaries.

Valuation: Narrowing discount, above-average yield

Although ATST's share price discount to NAV including income has narrowed from 19.6% in March 2011 to its current level of 9.4%, it remains wider than the sector average, suggesting scope for further narrowing. While below average longer-term performance was raised as an issue by shareholders, ATST has outperformed its closest peers over one year and its 2.0% yield, based on its 2015 indicated ordinary dividend of at least 10.13p, is higher than the global sector average.

17 December 2015

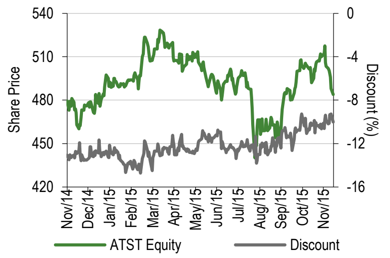
Price	**495.0p**
Market cap	**£2,613m**
AUM	**£3,314m**

NAV*	542.9p
Discount to NAV	8.8%
NAV**	546.6p
Discount to NAV	9.4%

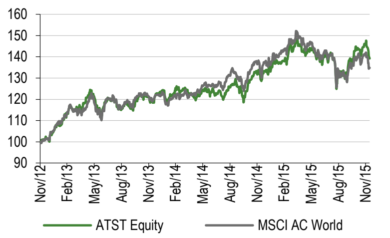
*Excluding income. **Including income.

Yield – 2015 indicated ordinary dividend	2.0%
Yield – 2015 indicated total dividend	2.3%
Ordinary shares in issue	527.8m
Code	ATST
Primary exchange	LSE
AIC sector	Global

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	528.5p	440.1p
NAV** high/low	608.4p	506.2p

**Including income.

Gearing

Gross*	14.1%
Net*	10.7%

*As at 30 November 2015.

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Edison profile page

Alliance Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

ATST's objective is to be a core investment for investors seeking increasing value over the long term through investing primarily in a portfolio of global equities with a strong sustainability focus. The MSCI AC World index was introduced as a formal performance benchmark in October 2015 but sector and geographic allocations remain unconstrained. The focus is to generate a real return for shareholders over the medium to long term by a combination of capital growth and a rising dividend.

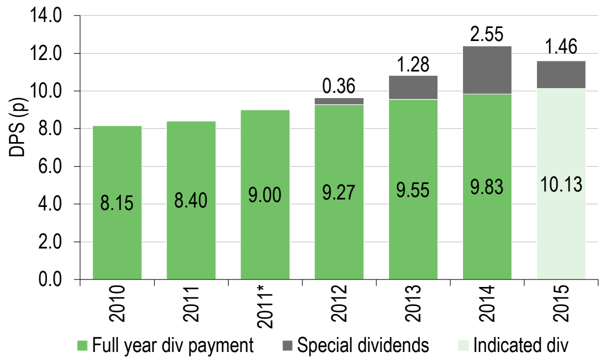
Recent developments

- 27 November 2015: On 1 Jan 2016, Karin Forseke to step down as Chair; Alastair Kerr to step down from board; Gregor Stewart to become Interim Chair.
- 1 October 2015: significant changes announced to enhance shareholder value, addressing performance, costs, discount, dividends and group structure; Alan Trotter resigned from the board.
- 24 September 2015: Chris Samuel and Karl Sternberg appointed to the board.
- 24 June 2015: Anthony Brooke and Rory Macnamara appointed to the board.
- 14 May 2015: ATS announces proposed acquisition of Stocktrade for £14m.

Forthcoming		Capital structure		Fund details	
AGM	May 2016	Ongoing charges	0.60% in 2014 (target 0.45%)	Group	Alliance Trust Investments
Final results	March 2016	Gearing	10.7%	Manager	Simon Clements
Year end	31 December	Annual mgmt fee	0.35% of NAV ex subsidiaries	Address	8 West Marketgait, Dundee DD1 1QN
Dividend paid	Apr, Jun, Sept, Dec	Performance fee	None		
Launch date	21 April 1888	Trust life	Indefinite	Phone	+44 (0)1382 321000
Continuation vote	No	Loan facilities	£100m loan notes; £450m multi-currency loan facility	Website	www.alliancetrust.co.uk

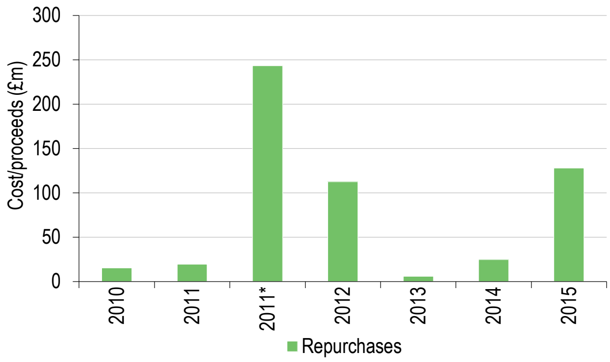
Dividend policy and history

ATST pays dividends quarterly and has a 48-year record of consecutive total annual ordinary dividend increases.

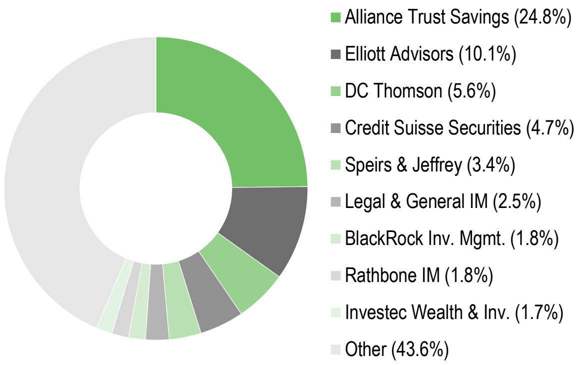


Share buyback policy and history

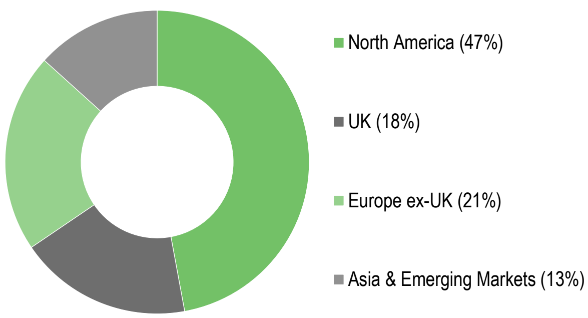
Renewed annually, ATST has authority to purchase up to 14.99% of issued share capital. No authority is held to allot shares on a non-pre-emptive basis.



Shareholder base (as at 15 December 2015)



Distribution of portfolio on a look-through basis** (as at 30 November 2015)



Top 10 holdings (as at 30 November 2015)

			Equity portfolio weight %	
Company	**Investment type**	**Sector**	**30 November 2015**	**30 November 2014**
Visa	US	Information technology	3.8	3.6
Pfizer	US	Healthcare	3.3	3.0
Walt Disney	US	Consumer discretionary	3.2	3.0
Accenture	US	Information technology	2.9	2.4
Prudential	UK	Financials	2.9	2.7
Amgen	US	Healthcare	2.5	2.2
Wells Fargo	US	Financials	2.5	2.0
CVS Caremark	US	Consumer staples	2.3	2.9
Legal & General	UK	Financials	2.1	1.9
National Grid	UK	Utilities	2.1	1.9
Top 10			**27.6**	**25.6**

Source: Alliance Trust, FactSet, Edison Investment Research. Note: 2009, 2010 & 2011 represent 12-month periods to 31 January. *2001 represents the 11-month period to 31 December 2011. **Includes indirect exposure through ATST's holdings in ATI funds.

Recently announced changes

Prompted by the results of the vote at the April 2015 AGM and following extensive consultation with a wide range of shareholders including activist shareholder Elliott Advisors, on 1 October 2015, ATST announced a number of significant changes aimed at enhancing value for all shareholders, focused on positioning ATST to deliver consistent outperformance in a cost-effective manner. As well as clarifying the investment proposition, changes to the operational structure will simplify the process of implementing any future required changes. We outline the key elements of these changes, which are currently being implemented.

Simplified structure

- **Wholly non-executive board, new chair to be appointed:** strengthened by four recent appointments, ATST's board will consist solely of non-executive directors with CEO Katherine Garrett-Cox stepping down from the trust's board and focusing on her role as CEO of ATI and a board member of ATI. Alan Trotter, CFO, resigned from the board on 1 October 2015. Current chair Karin Forseke will step down from the board on 1 January 2016 with Gregor Stewart assuming the role of interim chair while a search for an external candidate is undertaken.
- **Independent investment manager:** Alliance Trust Investments (ATI) will be appointed as ATST's investment manager, headed by Katherine Garrett-Cox as CEO. The investment mandate will include a 1% pa benchmark outperformance target and will be terminable by either party giving six months' notice.
- **Independent boards for subsidiaries:** ATI and Alliance Trust Savings (ATS) will remain wholly-owned subsidiaries of ATST, but independent boards will be appointed for each business to increase focus and accountability.

Clarified investment proposition

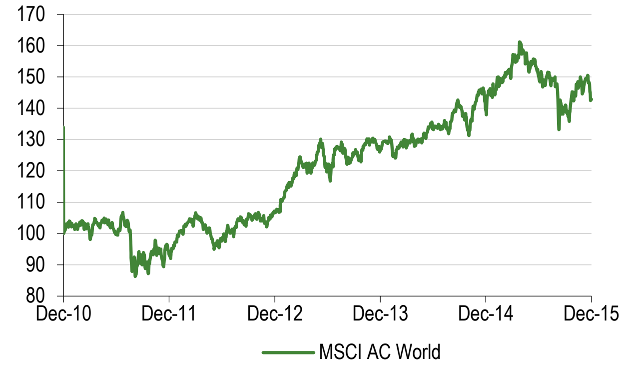
- **Portfolio focus on global equities** – ATST will focus on global equities and dispose of its fixed income, legacy mineral rights and private equity assets as soon as practicable. The sole remaining commercial property was sold in November 2015. ATI and ATS will be retained as stand-alone investments.
- **Formal benchmark introduced** – MSCI All Country World index (MSCI ACWI) will become a formal benchmark for measuring ATST's overall NAV performance. MSCI ACWI captures large and mid-cap representation across developed and emerging markets.
- **Simple low fee structure** – ATI will be paid a competitive management fee of 0.35% of NAV (excluding the investments in ATI and ATS), with a target ongoing charge ratio of 0.45% of NAV or less by the end of 2016. Total annual cost savings of £6m are targeted by 2016 based on the combined costs borne by ATST and ATI in 2014.
- **Commitment to manage discount** – improved investment performance resulting from the measures announced is expected to be the primary discount control mechanism. Additionally, the board is committed to use share buybacks, aiming to maintain the discount below 10% in normal market conditions.
- **Progressive dividend policy** – continuing focus on delivery of progressive dividends and all net income will be paid out as ordinary dividends.

Market outlook: Broadly favourable for global equities

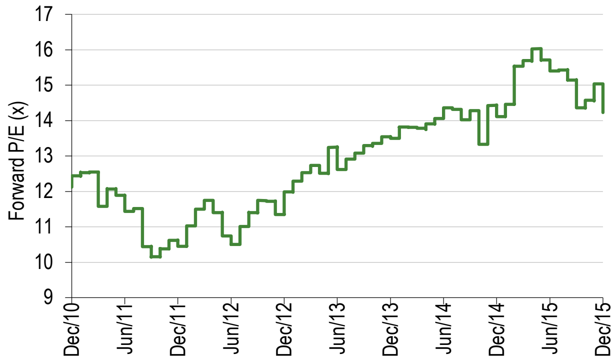
The upward progression of global equity markets since August 2011 appeared to have come to an end in 2015, with the MSCI AC World index retreating 17% in sterling terms between April and August 2015 (see Exhibit 2). The Datastream world market forward P/E multiple reached a 10-year high of 16.0x in April 2015 and the subsequent market decline saw the forward P/E multiple move down to 14.4x (Exhibit 2 right-hand chart). However, markets have proved relatively resilient and the MSCI index staged a recovery in September and October 2015 gaining 12%. Subsequent market weakness has seen the Datastream world market forward P/E multiple decline to 14.2x, some 11% below its peak but still 9% above its 10-year average level (Exhibit 3). Although this suggests limited scope for markets to move higher due to rerating, other metrics such as dividend yield, which is 2% above its 10-year average, make valuations appear less demanding.

Exhibit 2: World market performance and prospective P/E over five years

MSCI AC World index £-adjusted total return performance



Datastream world index 12-months forward P/E multiple



Source: Thomson Datastream, Edison Investment Research

While bond markets have weakened since the start of 2015 with yields moving higher, equity market yields have been pushed higher by the recent market retreat and in general remain well above bond yields; the UK equity market yield is 1.7 percentage points higher than the 10-year bond yield (Exhibit 3 right-hand chart). This increases the appeal to investors, of equities as an asset class and there appears to be scope for the yield differential to persist for some time unless interest rates move sharply higher.

Exhibit 3: Datastream world and UK equity market valuation metrics over 10 years

Datastream world index 10-year valuation metrics

	Last	High	Low	10-year average	Last % of average
P/E 12M forward (x)	14.2	16.0	8.8	13.0	109%
Price to book (x)	2.0	2.5	1.1	1.9	105%
Dividend yield (%)	2.6	4.6	2.0	2.6	102%
Return on equity (%)	10.1	16.8	4.6	12.1	84%

Yield premium of UK equities to 10-year government bonds (DS indices)

Source: Thomson Datastream, Edison Investment Research

Global economic growth forecasts for 2015 and 2016 have been trimmed recently, but the outlook remains for an improving trend over the next five years. This provides a favourable backdrop for corporate earnings growth to lead markets higher. A number of global macroeconomic uncertainties exist, including the direction of the oil price, the timing and pace of US and UK interest rate rises and the potential rate of economic slowdown in China. However, these appear more likely to contribute to continued market volatility than to derail the progress of equity markets, unless there is a significant change outside the currently expected range of outcomes.

Fund profile: Global equities with a sustainability focus

Launched in 1888, ATST is one of the longest established investment trusts listed on the London Stock Exchange, with a 48-year record of consecutive annual dividend increases. The trust's objective is to be a core investment for investors seeking increasing value over the long term. Historically, the trust has invested in a wide range of asset classes globally, to achieve its investment objective as well as developing subsidiary businesses. Since October 2015, ATST has focused on its global equities portfolio, selling down fixed income, mineral rights, private equity and property assets, but retaining subsidiaries ATI and ATS as stand-alone long-term investments expected to generate superior returns.

ATST aims to generate a real return for shareholders over the medium to long term through a combination of capital growth and a consistently rising dividend. In October 2015, the MSCI AC World index was introduced as a formal performance benchmark for the trust. This reflects the focus on the global equity portfolio, which targets c 1.5% pa outperformance of the MSCI AC World index, while maintaining an above-index dividend yield. Borrowing is used to enhance returns.

ATST is self-managed, with its subsidiary ATI acting as its investment manager. In September 2014 a new equity investment team of 12 experienced global equity fund managers was appointed with Simon Clements acting as ATST's lead equity portfolio manager. Clements has 17 years' of fund management experience, managing global equity funds since 2004, spending 12 years at Aviva Investors where he was head of global equities, before joining ATI in August 2012. The wider investment team has managed sustainable future funds for 14 years and has extensive expertise in this field. A diversified equity portfolio of 60 to 70 stocks is maintained, with sustainable development and responsible business practice a key element of the investment selection process. Longer-term value drivers through exposure to key sustainability themes (climate change, quality of life, sustainable consumption, resilience) are identified, with companies exposed to these persistent trends expected to enjoy superior growth prospects.

Alliance Trust Investments (ATI) – asset management

ATI is a specialist fund management business offering a range of open-ended, fixed income and Sustainable Future funds, as well as specialist institutional investment solutions. ATI's innovative products and range of sustainable investment choices are seen as key differentiating features. The business was launched as Alliance Trust Asset Management in January 2009, offering clients access to the high-conviction approach to global investing applied by Alliance Trust's investment team. In August 2012, ATI was appointed as manager of the £1.2bn portfolio of Sustainable Future funds, launched in 2001 by Aviva's Sustainable and Responsible Investment team. ATI aims to combine the best aspects of a small firm – client focus, flexibility and bespoke service, with the attributes of a large company – administrative resources, solid capital backing and strong investment and risk processes. At end-June 2015, seven of the nine ATI funds with a three-year track record were ranked above the median, with four in the top quartile.

ATI's range of equity and fixed income products is intended to satisfy different needs and risk appetites. During 2014, ATI launched its Sustainable Future funds, the UK's first sustainable and responsible risk-profiled fund range. The risk profiling of funds is designed to help investors to select the appropriate fund that matches their risk appetite.

The drivers to profitability for this business are the delivery of consistent investment performance and net fund flows. As well as attracting retail investment, ATI is seeing increasing institutional interest in its sustainable investment expertise. Third-party assets under management grew by 7% during H115, with net inflows of £59m. An 8% increase in third-party revenue, together with continuing control of costs saw ATI's loss before tax reduced by 31% y-o-y to £1.1m in H115. The reported fair value of the business at end-June 2015 was £24.3m.

Alliance Trust Savings (ATS) – savings platform

ATS is a savings platform business offering a range of investment and pension products for retail investors including Investment Dealing Accounts, ISAs and SIPPs, with access to more than 6,000 different investments. ATS seeks to differentiate itself from other platforms through its flat-rate charging structure, transparent and competitive pricing, and quality of service. Launched in 1986, ATS has become one of the top-five direct platforms and also has a growing share of the intermediary market. In May 2015, ATS announced the acquisition of Brewin Dolphin's execution-only stockbroking business, Stocktrade, with the potential to add more than 48,000 new customers and £4.6bn of new assets. At end-June 2015, assets under administration totalled £7.2bn, representing the investments of more than 50,000 customers, and the recently-completed purchase of Stocktrade increases this to over £11bn, giving ATS the scale to move towards meaningful profitability. ATS continues to focus on growing all three channels of direct to customer, intermediary and partnerships with an enhanced platform set to deliver improved functionality to intermediary customers in 2015 and direct customers migrating to the new platform during 2016.

In H115, assets under administration rose by 12% driven almost entirely by new business inflows, with the number of accounts increasing by over 1,800 (2.5%). ATS made an operating loss from continuing activities of £0.2m due to planned marketing spend during the ISA season. The total loss before tax was £1.1m, including costs associated with the acquisition of Stocktrade. The stated fair value of the business at end-June 2015 was £31.6m. A further £6m has been injected to increase regulatory capital, but this does not get reflected until the year-end revaluation.

The fund manager: Simon Clements

The manager's view: Value exists in global equities

The ATI investment team believes that equities remain relatively good long-term value, particularly when compared with other asset classes, and the international exposure of many portfolio companies provides some protection from regional cyclicality or country-specific political uncertainty. The market weakness in August and September 2015 provided the opportunity to add to existing holdings at lower prices, and the team continues to identify new opportunities in well-managed companies with strong fundamentals and sustainable long-term business models. The focus continues to be on a company's ability to generate superior returns over the long term.

A number of investment opportunities have arisen in the information technology sector over the last year in developed and emerging markets and ATST initiated positions in three key stocks in H115: Tencent, SS&C Technologies and Seagate. Simon Clements characterises Tencent as China's leading technology platform and expects it to benefit from the shift in consumption to mobile phones as China builds the world's largest 4G mobile network. US-listed SS&C Technologies is seen as an emerging leader in integrated end-to-end financial services software for portfolio management. The manager views it as a high growth, high-margin leader, with best-in-class products and high barriers to entry after their systems are installed. US-listed Seagate is one of two dominant players in the hard disk drive (HDD) industry, controlling close to half the global market. While the shares have been held back recently by weaker than expected quarterly earnings, the manager considers that long-term outlook remains strong.

Several changes have been made to the portfolio's energy sector holdings in 2015 with ENI sold due to its focus on production growth rather than value creation and efficiency. New positions were initiated in Statoil and ENN Energy, and the holding in Total increased, while retaining overall underweight sector exposure. One of the key focuses of ATST's process is to assess energy companies' management of environmental and geopolitical risks to ensure the long-term sustainability of the dividend, with Statoil and Total considered clear leaders in this regard. Statoil has also been restructuring its resource base and focusing on cost reduction, since before the oil price fall, aiming to ensure they can support their dividend in a changed environment. ENN Energy provides exposure to the shift from coal to gas as an energy source, which is viewed as an important structural theme in China.

While retaining underweight exposure to both the consumer sectors, a position was initiated in TJX Companies, seen as the global leader in the shift to discount fashion retailing, with its leading TJ Maxx and TK Maxx brands. The holding in Diageo was sold and a position taken in Brazil-based Ambev, viewed as a very well run, high-margin business, benefiting from the ability of parent company Anheuser-Busch InBev to introduce brands and capitalise on their dominant distribution network in Brazil. Despite recent economic weakness, the manager considers that the long-term attractiveness of the Brazilian beer market remains intact.

More recent changes to the equity portfolio include the sale in July of Humana and Monsanto that were considered to have achieved their price potential with Dentsu and Ecolab replacing them. Dentsu is a Japanese media, digital and creative communications specialist, with a significant presence in an improving domestic market as well as an international network expected to benefit from the fast growth of this sector. Ecolab is a US-listed company delivering operational efficiencies relating to water and energy use. It is considered by the manager to be a high-quality company capable of delivering consistent double-digit earnings growth. In August, ARM Holdings was added to the portfolio funded by the sale of Aberdeen Asset Management, BASF and Computershare. ARM specialises in designing increasingly efficient semiconductor chips, with many applications across numerous technology applications. The manager describes it as a high growth, high-return business, with significant cash flow generation potential over the long term. In October, advantage was taken of the market rally to sell Qualcomm, Praxair and Petrofac with the proceeds reinvested in higher conviction existing portfolio holdings. In November, the holding in HSBC was sold, with the proceeds used to initiate a position in Deutsche Telekom.

Asset allocation

Investment process: Bottom-up fundamental approach

The investment team aims to achieve strong investment returns by identifying high quality companies able to distribute a sizeable proportion of their earnings as income and deliver long-term earnings growth, which they expect will translate into capital growth. Stocks need to meet all three investment criteria to be considered for selection in the portfolio. Meetings with senior management and industry experts form an important aspect of the assessment of a company's prospects.

Business fundamentals are assessed against the following criteria:

- the level and sustainability of prospective returns compared to peers and its cost of capital;
- net debt should be stable and gearing not excessive;
- margins need to be stable and predictable;
- free cash flow should be aligned with earnings and sufficient to support growth prospects;
- future growth should come from gains in market share, new products or markets and expansion should not be detrimental to returns; and
- management and shareholder interests should be aligned and there should be a stated and clear progressive dividend policy.

A sustainability matrix is used to rate companies on product sustainability and management quality. Product sustainability is assessed on a scale of A to E reflecting the extent to which a company's core business helps or harms society and/or the environment. An A rating indicates a company whose products or services contribute to sustainable development (eg renewable energy). An E rating indicates a company whose core business is in conflict with sustainable development (eg tobacco). Management quality is graded on a scale of 1 to 5 in relation to the appropriateness of a company's structures, policies and practices for managing its ESG risks and impacts.

The valuation analysis of each stock is performed on a basis that is relevant to its sector. Based on independent research, company meetings, site visits and sell-side analysis, a standard template is used to flex consensus forecasts to reflect the team's own research and assumptions. Key metrics include forecasts for sales growth, EBIT margins and free cash flows over one, two and three years. Appropriate valuation ratios are calculated and compared to historical ratios for both the company and its sector and to earnings or free cash flow expectations over three years. Using this analysis, the team derives one year to three year price targets.

There is no explicit target number of portfolio holdings, but the team expects to maintain between 60 and 70 equity positions. There is a minimum investment horizon of three years for any new position. Although the portfolio is unconstrained with respect to sector and geographic allocations, regard is given to the risk associated with divergence from the benchmark index. Stock selection and position sizes are based on the underlying volatility of the stock (stocks with higher volatility will tend to have smaller active weights), strength of conviction relative to the other stocks in the portfolio and the degree of diversification associated with the stock's position in the portfolio.

The portfolio is constructed with a view to managing the risk inherent in the investments, with the assessment of management quality a key factor. In addition, a performance and investment risk team regularly meets with the portfolio manager to ensure all portfolio-specific risks are analysed, measured, reported, and considered and formal risk-review meetings are held quarterly.

The investment team has a disciplined and systematic approach to the sale of holdings, based on one and three year price targets and will initiate a sale when the price of a stock has attained its estimate of fair value or when it loses its conviction in a particular stock due to a change in the company's product sustainability or business fundamentals.

Current portfolio positioning

In October 2015, ATST announced plans to dispose of its fixed income, legacy mineral rights and property assets as soon as practicable and exit private equity as these investments mature over the next few years. As shown in Exhibit 4, fixed income exposure which comprises holdings in the Monthly Income and Dynamic bond funds managed by ATI had been reduced over the year to end-September 2015, thus immediate changes affect c 5% of the overall asset portfolio. The further decrease evident in the November asset allocation analysis reflects a phased withdrawal process. Since end-September, the sole remaining commercial property has been sold and the sale of the mineral rights portfolio initiated. While seen as strategically important with the potential to generate significant value, subsidiaries ATI and ATS represent only 2% of the portfolio value.

Exhibit 4: Asset allocation as at 30 November 2015

% of net assets	End Nov 2015	End Sept 2015	End Sept 2014	Change (Sept 14 - Sept 15)
Net equity exposure	102.1	99.6	98.1	1.5
Fixed income	2.4	4.9	6.2	(1.3)
Private equity	4.2	4.6	4.7	(0.1)
Operating subsidiaries	2.0	2.1	1.4	0.7
Property	0.0	0.2	0.1	0.1
Cash & other net assets	3.4	3.5	2.8	0.7
Gross assets	**114.1**	**114.9**	**113.3**	**1.6**
Gearing	(14.1)	(14.9)	(13.3)	(1.6)
Net assets incl. income	**100.0**	**100.0**	**100.0**	

Source: Alliance Trust, Edison Investment Research

Following the change in the equity investment team in September 2014, a full review of the portfolio was undertaken. Resulting changes affected around 15% of the portfolio with 19 holdings sold and eight new positions initiated in October 2014. A number of companies heavily exposed to the oil price were sold, including oil services companies Technip, Seadrill and Oceaneering, and holdings in ENI and Total were reduced. Holdings in VW and Glencore were among those sold; new positions included Australian blood plasma manufacturer CSL and Japanese air conditioning manufacturer Daikin Industries, while holdings were increased in German tyre manufacturer Continental and UK-based specialty chemical group Johnson Matthey.

The number of holdings in the equity portfolio had been reduced to 65 positions at end-September 2015 compared with 90 a year earlier, which reflects the orientation of the portfolio towards higher conviction holdings. This is seen as being close to the optimal number of holdings and it is not envisaged that the number of stocks in the portfolio will move below 60.

Exhibit 5 shows that the overall sector exposure of ATST's equity portfolio has not substantially altered over the year to end-November 2015, with the most notable changes being increases in consumer discretionary and information technology exposure and reductions in financials and healthcare. Relative to the benchmark MSCI AC World index, the portfolio has overweight exposures in healthcare, information technology and financials sectors, while the consumer discretionary, consumer staples and energy sectors represent the largest underweight exposures.

Exhibit 5: Equity portfolio sector exposure vs benchmark at 30 November 2015 (%)

	Portfolio end Nov 2015	Portfolio end Nov 2014	Change	MSCI AC World weight	Active weight vs index	Trust weight/ index weight
Financials	23.7	26.3	(2.6)	21.5	2.2	1.1
Information technology	18.4	16.3	2.1	14.7	3.7	1.2
Healthcare	16.3	17.9	(1.6)	12.1	4.2	1.3
Consumer discretionary	9.4	6.4	3.0	13.0	(3.6)	0.7
Industrials	8.9	8.4	0.5	10.4	(1.5)	0.9
Consumer staples	7.3	8.2	(0.9)	10.1	(2.8)	0.7
Energy	4.7	5.6	(0.9)	6.7	(2.0)	0.7
Materials	4.4	4.3	0.1	4.6	(0.2)	0.9
Utilities	3.5	4.5	(1.0)	3.1	0.5	1.1
Telecom services	3.4	2.1	1.3	3.7	(0.3)	0.9
	100.0	**100.0**	**(0.0)**	**100.0**	**(0.0)**	**N/A**

Source: Alliance Trust, MSCI, Edison Investment Research

The portfolio's geographic exposure by market listing shown in Exhibit 6 highlights ATST's predominant exposure to developed markets, with the US and UK accounting for close to two thirds of the portfolio and 18.0% UK exposure representing a significant overweight position. Although a full analysis is not possible due to the level of disclosure, segmental revenue reporting by portfolio companies indicates that the portfolio has a lesser economic exposure to North America, the UK and Europe and greater exposure to Asia and emerging markets than reflected in this analysis.

Exhibit 6: Equity portfolio geographic exposure vs benchmark by country at 30 November 2015 (%)

	Portfolio end Nov 2015	Portfolio end Nov 2014	Change	MSCI AC World weight	Active weight vs index	Trust weight/ index weight
US	48.1	47.7	0.4	53.5	(5.4)	0.9
UK	18.0	22.1	(4.1)	6.8	11.2	2.6
Germany	7.1	6.0	1.2	3.2	4.0	2.3
Japan	5.8	2.0	3.8	8.0	(2.2)	0.7
France	3.3	3.8	(0.5)	3.4	(0.1)	1.0
China	3.0	1.1	2.0	2.2	0.8	1.4
Australia	2.2	1.9	0.3	2.2	(0.0)	1.0
Norway	2.1	0.0	2.1	0.2	1.9	10.8
Italy	1.9	2.6	(0.7)	0.8	1.1	2.3
Sweden	1.7	1.9	(0.3)	1.0	0.7	1.7
Switzerland	1.4	2.4	(0.9)	3.2	(1.7)	0.5
Denmark	1.4	1.1	0.3	0.6	0.7	2.2
Canada	1.1	1.3	(0.3)	2.9	(1.8)	0.4
Brazil	1.0	0.0	1.0	0.6	0.4	1.8
Hong Kong	0.9	0.9	(0.0)	1.0	(0.2)	0.8
Other	1.1	5.3	(4.2)	10.4	(9.4)	0.1
	100.0	**100.0**	**0.0**	**100.0**	**0.0**	**N/A**

Source: Alliance Trust, MSCI, Edison Investment Research. Note: Other countries include Thailand, Mexico and the Netherlands which together represented 3.4% of the portfolio at end-November 2014.

ATST's equity portfolio is not constrained by geographical allocations, so the divergence in the portfolio's regional and country exposure relative to the benchmark index reflects the outcome of the bottom-up investment process rather than top-down investment views. As a result, portfolio exposure to individual countries and divergences from the index would be expected to vary over time, which is reflected in Exhibit 6. At a regional level, the portfolio is underweight North America, overweight UK and Europe, and underweight Asia and emerging markets. Notable changes in exposure over the 12 months to end-November 2015 include a 4.1pp reduction in the UK and a 3.8pp increase in Japan, although this remains one of the more significant active underweight positions. The largest (each with more than 1% exposure) constituents of the benchmark not represented in ATST's equity portfolio are South Korea, Taiwan and Spain which comprised 3.8% of the index at end-November 2015.

Exhibit 7: ATST's equity portfolio risk characteristics at 30 June 2015

Portfolio volatility	11.7%
Benchmark volatility	11.6%
Tracking error	2.44%
Beta	0.98
Active share	89%
Portfolio yield	2.7%

Source: Alliance Trust, Edison Investment Research

In terms of equity portfolio risk characteristics (see Exhibit 7), ATST reports a relatively low tracking error of 2.44% at 30 June 2015, even though active share is high at 89%, which is contributed to by the overweight UK exposure, while portfolio volatility similar is to the benchmark index. Key active exposures are underweight value and overweight growth, while the portfolio also has underweight exposure to financial leverage. Portfolio style influences on risk indicate that stock selection contributes the highest risk element followed by country and currency risk.

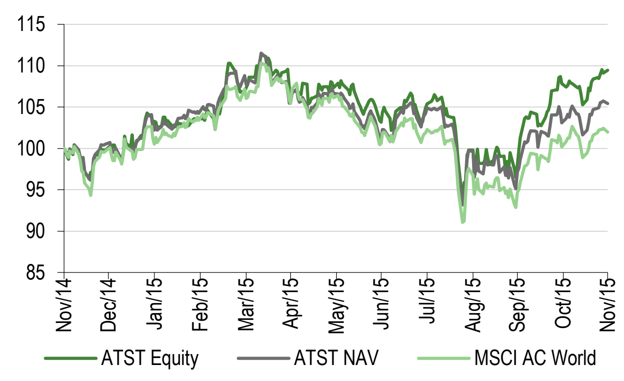
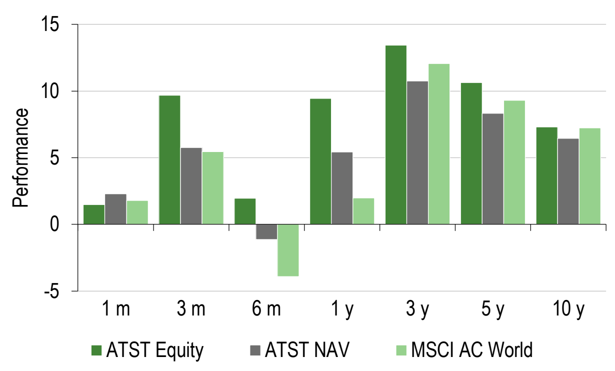
Performance: Ahead of benchmark over one year

ATST has used the MSCI AC World index as the performance benchmark for the equity portfolio since the appointment of the current equity investment team in September 2014, aiming to outperform the index by c 1.5 percentage points annually, as well as delivering a dividend yield above the index. This target was considered sufficient to achieve performance consistently in the second quartile of the global sector peer group, with returns expected to reach the top quartile over the longer term. As part of the changes announced in October 2015, in conjunction with the disposal of non-core assets and focus on ATST's global equity portfolio, the MSCI AC World index is being adopted as the overall NAV total return performance benchmark for the trust.

As shown in Exhibit 9, ATST's NAV total return has been ahead of the MSCI AC World index over one year although lower over three, five and 10 years, while its share price total return has outperformed the index over one, three, five and 10 years. Relative to the FTSE All-Share index, ATST's NAV total return has outperformed over one, three, five and 10 years, which reflects the underperformance of the UK market relative to the world market, largely driven by its relatively high exposure to resources stocks. Although ATST has historically invested in a broad asset portfolio making comparison less relevant, Exhibit 10 shows a marked improvement in performance relative to the MSCI AC World index over the last year under the current equity investment team.

ATST attributes the outperformance in the 12 months to end-September 2015 to positive equity portfolio returns in the healthcare and consumer sectors with positive contributions also from information technology and telecom services. Although energy and materials were the worst performing global sectors over the period by a considerable margin and were the main detractors from absolute performance, the trust's underweight positions in these sectors led to relative outperformance. Over the 12 months, stock selection was the strongest contributor to performance relative to the benchmark index, while sector allocation also had a positive effect. The portfolio outperformed the benchmark in nearly all sectors with utilities the only sector to underperform. Relative outperformance has continued since September and in the period from end-September 2014 to 14 December 2015, ATST's NAV total return has outperformed the benchmark by 3.5%.

Exhibit 8: Investment trust performance to 30 November 2015

Price, NAV and benchmark total return performance, one-year rebased	Price, NAV and benchmark total return performance (%)
	

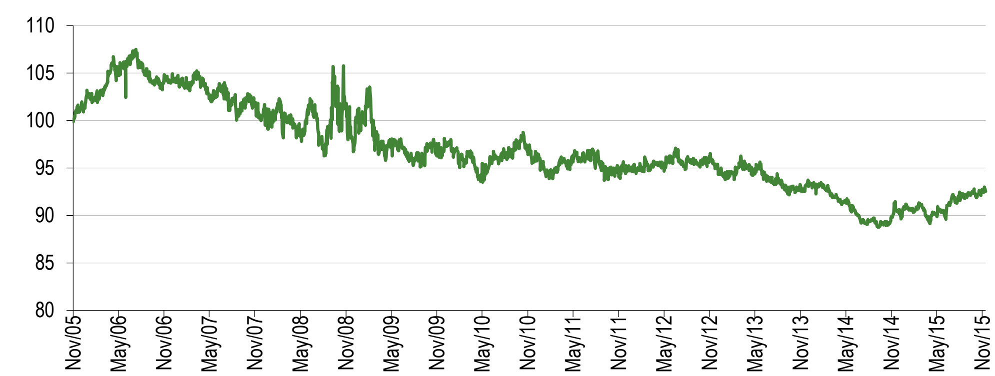
Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

Exhibit 9: Share price and NAV total return performance, versus indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI AC World	(0.3)	4.0	6.1	7.3	3.7	6.2	0.7
NAV relative to MSCI AC World	0.5	0.3	2.9	3.4	(3.4)	(4.4)	(7.2)
Price relative to FTSE All-Share	0.9	7.1	9.0	8.7	15.6	14.1	12.0
NAV relative to FTSE All-Share	1.7	3.3	5.6	4.8	7.6	2.7	3.2
Price relative to FTSE World	(0.4)	3.9	5.3	6.7	2.2	3.7	(0.9)
NAV relative to FTSE World	0.3	0.2	2.1	2.8	(4.9)	(6.6)	(8.7)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-November 2015. Geometric calculation.

Exhibit 10: NAV total return performance relative to MSCI AC World index over 10 years

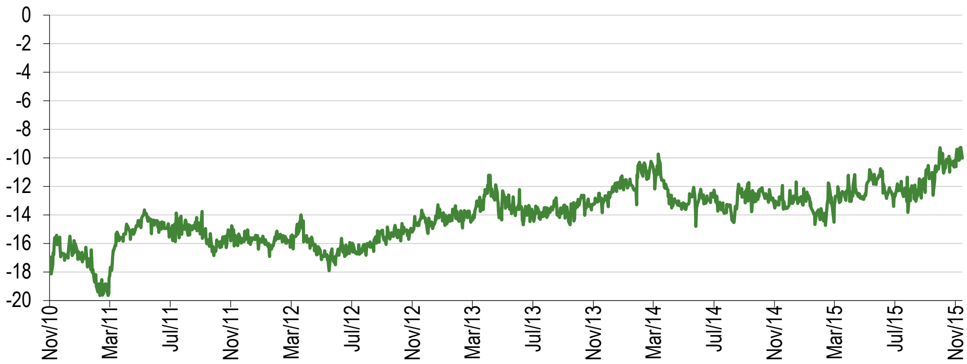


Source: Thomson Datastream, Edison Investment Research

Discount: Recent narrowing to c 10%

The board believes that the key driver of ATST's share price is investment performance and sees this as the primary discount control mechanism. It expects improved performance resulting from the measures announced in October 2015 to lead to the discount moving to a consistent level below 10%. However, the board is committed to the active use of share buybacks to help maintain the discount below this level and this is reflected in the resumption of buybacks in October 2015 after a six month pause. As illustrated in Exhibit 11, ATST's share price discount to NAV including income has followed a narrowing trend since March 2011 moving from 19.6% to its current level of 9.4%.

Exhibit 11: Share price discount to NAV (including income) over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

ATST had 527.8m ordinary shares in issue at 15 December 2015, having repurchased 24.5m (4.5% of issued capital) for cancellation since the end of September 2015, after the board confirmed its commitment to use share buybacks to help manage the discount. ATST has annually renewed authority to repurchase up to 14.99% of issued share capital and this has been used to varying extents during the last five years (see Exhibit 1) following the introduction of a flexible buyback policy. ATST bought back and cancelled a total of 99.5m shares during 2011 and 2012 reducing shares in issue by 15.1%, while repurchases in 2013 and 2014 were at a more modest level, equivalent to 0.3% and 1.2% respectively of the outstanding shares.

ATST issued £100m 4.28% unsecured fixed rate 15-year loan notes in July 2014 and has short-term multi-currency variable rate borrowing facilities with RBS and Scotiabank totalling £450m, giving it total current borrowing capacity of £550m. The weighted-average cost of the multi-currency facilities was 1.39% at 30 June 2015. Borrowings were held at a constant £380m during 2014 but have been increased to £430m at end-October 2015. This increase brought gross gearing to 14.1% of net assets while net gearing stood at 10.5%, which is well within the 30% restriction imposed by ATST's investment policy.

Although ATST remains self-managed, the changes announced in October 2015 include the appointment of ATI as ATST's investment manager. ATI will remain a wholly-owned subsidiary of ATST but a separate board, including independent non-executive directors, is being established for ATI to ensure the separation of shareholder and investment manager interests. All of the investment team will be employed by ATI, which is headed by Katherine Garrett-Cox as CEO. All asset management costs will be borne by ATI, which will be paid a 0.35% pa management fee and ATST is targeting a 0.45% ongoing charge ratio, which compares to 0.60% in 2014. To achieve this target, a significant cost reduction programme is planned to deliver savings of £6m by 2016 (equivalent to more than 20% of the combined recurring asset management costs borne by ATST and ATI in 2014). This change will take effect as soon as practicable once ATI obtains the relevant regulatory permissions under the AIFM Directive.

Dividend policy

A combination of capital growth and a consistently rising dividend has been considered an important feature of ATST, which is among a small number of UK-listed companies with a 48-year record of consecutive annual dividend increases. ATST pays four quarterly interim ordinary dividends, aiming to deliver dividend growth without drawing on reserves. Historically ATST has distributed excess net income above the minimum dividend guidance as an annual special dividend (see Exhibit 1), but the dividend policy was revised in October 2015 so that all net income will be paid out as ordinary dividends. At the same time, with the planned disposal of ATST's non-core fixed income, mineral rights, property and private equity investments, which is expected to trim revenue earnings, the decision was taken to allocate two thirds of administrative expenses to the capital account and one third to the revenue account, reflecting the expected balance of returns from the trust's predominantly equity portfolio.

Over the five years ending 2014, the ordinary dividend has grown at a compound rate of 3.8% pa and the total dividend has grown at 8.7% pa. The ordinary dividend increased by 3.0% to 9.83p in 2014 with the total dividend increasing by 14.3% to 12.38p. The 2.55p special dividend paid in June 2015 included £8m (1.45p per share) from Alliance Trust Finance, a dormant subsidiary in the process of being wound up, which holds a further £8m of cash to be distributed in due course.

The first two interim dividends for 2015, paid in June and September, were increased by 3.0% to 2.53p and in November, a 1.46p special dividend was declared for 2015 to be paid with the third interim dividend of 2.53p on 31 December 2015. It was indicated that a fourth quarterly interim dividends of at least 2.53p would be paid in April 2016 giving a total ordinary dividend of 10.13p for the year. However, the change in dividend policy means that this payment is likely to be increased to bring the total ordinary dividend in line with revenue earnings (H115 EPS 6.60p).

Based on 2014, the pro forma effect of the changes announced in October 2015 is an 11% uplift in basic EPS (excluding non-recurring items), which suggests that ATST will be able to maintain its progressive dividend payout without drawing on reserves. Revenue reserves at 30 June 2015 equated to 21p per share, providing reassurance over ATST's ability to smooth dividend progression in future years.

Peer group comparison

Exhibit 12: Global closed-ended sector selected peer group as at 15 December 2015

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Alliance Trust	2,612.7	6.6	32.0	39.4	79.0	0.4	1.0	(9.1)	0.60	No	113	2.0
Brunner	221.3	3.8	25.5	38.8	71.7	0.1	0.8	(16.2)	0.79	No	108	3.0
Edinburgh Worldwide	225.4	14.5	49.3	51.9	113.7	0.8	0.9	(4.8)	0.92	No	110	0.0
F&C Global Smaller Companies	524.3	12.2	54.4	78.1	165.3	1.2	1.6	1.9	0.54	Yes	106	1.0
F&C Investment Trust	2,436.0	7.4	39.4	51.8	104.3	0.5	1.2	(7.3)	0.53	No	110	2.2
Henderson Global Trust	138.9	0.9	22.7	28.5	106.0	(0.0)	0.8	(10.0)	0.85	No	100	2.7
JPMorgan Elect Managed Growth	212.3	9.5	49.7	55.0	116.0	0.7	1.4	(2.3)	0.52	No	100	1.1
JPMorgan Overseas	271.2	4.6	38.7	36.9	113.4	0.3	1.1	(7.3)	0.55	Yes	109	1.6
Martin Currie Global Portfolio	176.8	4.2	32.2	46.7	99.0	0.2	1.0	0.6	0.73	Yes	100	2.4
Monks	885.8	6.4	30.2	18.7	70.9	0.4	0.9	(10.0)	0.58	No	99	1.0
Scottish Mortgage	3,496.9	14.3	71.8	83.9	191.4	0.5	1.3	1.1	0.48	No	113	1.1
Witan	1,505.2	6.9	42.3	48.9	109.1	0.4	1.2	0.9	0.80	Yes	113	2.1
Selected peers average	**1,058.9**	**7.6**	**40.7**	**48.2**	**111.6**	**0.5**	**1.1**	**(5.2)**	**0.66**		**107**	**1.7**
Sector average (37 funds)	**593.5**	**5.8**	**31.3**	**36.9**	**93.8**	**0.3**	**1.0**	**(5.6)**	**1.00**		**104**	**1.9**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Exhibit 12 shows a comparison of ATST with selected funds from the AIC global sector, which has 37 constituents. We show a peer group of funds with more than 25% exposure to North America and less than 20% exposure to Asia as most similar to ATST's equity portfolio exposures of 47.9% and 11.4% respectively. ATST's NAV total return is ahead of the sector average over one, three and five years, although lower over 10 years and its performance ranking has improved from third quartile over 10 years to second quartile over one year. Compared with the selected peer group, while ATST's NAV total return is below average over the periods shown, its ranking has improved from 10th over 10 years to seventh over one year. In terms of risk-adjusted returns, ATST's Sharpe ratios over one and three years are similar to both the sector and selected peer group averages. Although it has narrowed recently, ATST's share price discount to NAV remains wider than the sector and selected peer group averages. The trust's 0.60% ongoing charge compares favourably with both groups and its target 0.45% ongoing charge would rank it as one of the three lowest charging funds in the sector. Although ATST's net gearing appears moderate and is well below the maximum permitted level, it is at the higher end of the peer-group range with half the sector not utilising gearing. ATST's 2.0% ordinary dividend yield is higher than the global sector and selected peer group averages.

The board

Exhibit 13: Alliance Trust board of directors

Director	Position	Date of appointment	Comment
Continuing board members			
Gregor Stewart	Non-executive director	December 2014	Becoming interim chair on 1 January 2016
Karl Sternberg	Non-executive director	September 2015	Becoming senior independent director on 1 January 2016
Anthony Brooke	Non-executive director	June 2015	Proposed by Elliott Advisors
Rory Macnamara	Non-executive director	June 2015	Proposed by Elliott Advisors
Chris Samuel	Non-executive director	September 2015	
Board members stepping down in 2016			
Karin Forseke	Non-executive chair	March 2012	Stepping down on 1 January 2016
Alastair Kerr	Senior independent director	October 2012	Retiring on 1 January 2016
John Hylands	Non-executive director	February 2008	Retiring at May 2016 AGM
Board members stepping down in 2015			
Katherine Garrett-Cox	Chief executive officer	May 2007	Stepping down from ATST board; continuing as CEO and director of ATI
Alan Trotter	Chief financial officer	February 2010	Stepped down on 1 October 2015
Susan Noble	Non-executive director	July 2012	Stepping down to chair ATI board
Win Robbins	Non-executive director	February 2013	Stepped down in February 2015

Source: Alliance Trust, Edison Investment Research

ATST has made four new appointments to the board during 2015 and the changes to the group structure announced on 1 October 2015 will see it become wholly non-executive with executive directors Katherine Garrett-Cox (appointed May 2007) stepping down and Alan Trotter (appointed February 2010) resigning. The reorganisation also sees Susan Noble (appointed July 2012) retiring from ATST's board to become chair of ATI's newly established board while Win Robbins stepped down from the board in February 2015. Following these changes and the appointments of Anthony Brooke and Rory Macnamara in June 2015, and Chris Samuel and Karl Sternberg in September 2015, the board will comprise eight independent non-executive directors.

In November 2015, chair of the board Karin Forseke (appointed March 2012) announced that she would step down from the board on 1 January 2016 with Gregor Stewart (appointed December 2014) assuming the role of interim chair on her departure. Having previously indicated that he would retire from the board at the AGM in May 2016, senior independent director Alastair Kerr (appointed October 2012) has elected also to stand down on 1 January 2016. Karl Sternberg will then assume the role of senior independent director and lead the search for an external candidate to join the board as chair of the trust. John Hylands (appointed February 2008) has indicated that he will retire from the board at the AGM in May 2016. These three departures and appointment of a new chair will leave the board consisting of six independent non-executive directors all appointed since December 2014.

Chartered accountant and former partner of Ernst & Young, Gregor Stewart previously acted as finance director for the Insurance division of Lloyds Banking Group, where he was also a member of the finance board. Anthony Brooke has extensive international capital markets experience gained at BZW and Warburg, subsequently becoming a partner of a fund-of-funds firm. Chartered accountant Rory Macnamara has extensive corporate finance experience including 17 years at Morgan Grenfell and is a director of Dunedin Income Growth Investment Trust. Chris Samuel was CEO of Ignis Asset Management from 2009 until its recent sale to Standard Life Investments, previously acting as COO at both Gartmore and Hill Samuel, and is a director of JP Morgan Japanese Investment Trust, UIL and UIL Finance. Karl Sternberg was a founding partner of Oxford Investment Partners, where he worked from 2006 to 2013, previously acting as global head of equities and chief investment officer for Europe and Asia Pacific at Deutsche Asset Management. He is chairman of JP Morgan Income & Growth Investment Trust and a director of Herald Investment Trust, Monks Investment Trust, Lowland Investment Company and Clipstone Logistics REIT.

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