

**Alliance Trust Shareholder Action Group (ATSAG)
Update No. 13 - Outcome of Strategic Review**

Dear Member,

This morning the Board of Alliance Trust announced the outcome of its major strategic review. The key points are:

1. The management of the Trust's investments will be outsourced to a series of active managers i.e. a multi-manager approach. Around 8 "best in class" equity managers will be selected.
2. The selection and monitoring of the managers will be outsourced to Willis Towers Watson (WTW), a leading global advisory consultant. The managers will be selected from WTW's international database of 4,500 possible candidates.
3. The Trust will continue to focus on long term capital and income growth through investment in global equities. The Trust's performance target, net of fees, and measured over rolling 3 year periods, will be increased from 1% over the MSCI All Country World Index to 2% over the same benchmark. Dividends will continue to be paid quarterly.
4. The existing investment subsidiary - Alliance Trust Investments (ATI) - will be divested to Liontrust Assets Management plc for a consideration well in excess of book value which at 31 June 2016 was £19.8m. The other subsidiary - Alliance Trust Savings (ATS) - is to be retained and is now profitable and, we understand, cash positive.
5. An aggressive buy back programme will be initiated to control the discount.

It is envisaged that under the range of new managers there will be circa 200 individual equity holdings. Each manager will run its concentrated portfolio on a "conviction" basis with a high active share i.e. the portfolio will be substantially differentiated from the benchmark.

The Board has negotiated very attractive fees with the individual managers and with WTW and the prospective Ongoing Charges Ratio (OCR) is targeted to be under 0.60%. (The Board's previous OCR target was 0.45% by the end of 2016. The actual OCR in 2015 was 0.59%).

A small corporate team will be based in Dundee to oversee some residual, minor, investments. These are primarily the private equity investments (3.5% of the portfolio), the ATS subsidiary (1.6%), the shareholding in Liontrust (0.5%) and mineral rights (0.5%). ATS will continue to be run as an independent entity with its own Board. Both the private equity and mineral rights will, however, be divested in time. The Dundee team will provide the Trust's Board with administrative support and will include a marketing function which will be substantially strengthened. We understand there is no intention to recreated the position of a powerful, domineering, Chief Executive Officer. The Trust will continue to be geared and this element will be managed by the in-house corporate team. Gearing currently is 6.6%.

ATSAG Assessment

The Board has undertaken an impressively thorough review and, in our view, the proposed changes, which the shareholders will be asked to approve at an EGM early in the New Year, are very positive. The multi-manager approach is much more flexible and lower risk than reliance on a single manager. The upgraded performance targets are ambitious but, if delivered, will fully justify the costs of the multi-manager configuration. The nearest comparator investment trust which is multi-managed is Witan and its performance relative to benchmark has been excellent over 1, 3, 5 and 10 years. Over 10 years, for example, Witan's total shareholder return was 145.7% compared to a benchmark total return of 105.6%. However, Witan is more expensive, with an OCR in 2015 of 0.99%, including performance fees. Alliance Trust will not pay performance fees to any of its managers or to WTW. With approximately 200 stocks in the new Alliance Trust portfolio (which currently has 60 stocks), stock specific risk will be greatly reduced.

Overall, the new strategy gives the Trust a very cost effective, risk controlled, distinctive identity and will be clearly differentiated from its peers. The increased performance target is demanding. Provided the performance target is met, there is likely to be a better balance between supply and demand for the Trust's shares. This should help to reduce the discount which, for many years, has been above the investment trust Global Sector Average.

James Cook 15/12/2016

<http://www.sharesoc.org/alliance.html>