

Alliance Trust Shareholder Action Group (ATSAG) - Update 7

Dear Member,

Since our last note to supporters there have been a number of developments which we round up below.

Elliott International

Elliott have been shareholders in Alliance Trust for 5 years and claimed, in March 2015, that they had "been the largest buyers of shares in the market" since 2010. Their stake as at 1 March 2012 had reached 20,259,667 or 3.5% of the company. Since then this has steadily increased.

By 4 March 2015 the Elliott holding had reach 12.11%. During the course of 2015 there were increases in the Elliott shareholding reported on 30 March, 25 June, 16 September and 11 December. The December change was an increase of 1,790,000 shares taking their stake to 79,323,819 or 15.03% of the issued share capital.

In the deal struck with the Alliance Trust Board on the eve of the 29 April 2015 AGM, Elliott agreed to mutual "non-disparagement undertakings" under which Elliott will not call a general meeting or seek to agitate against the company, its Board or management until after the 2016 AGM at the earliest. The continuing increase in Elliott's shareholding suggests that they have not lost interest.

Share Buy Backs

Since 1 January 2015 the company has bought back 26,918,249 shares at a cost of £135m. This is a 4.9% reduction in the issued share capital. 96% of the shares repurchased were acquired between 1 October and 31 December 2015.

The Discount

Aided by the share buy back programme and, possibly, the continuing presence of Elliott International, the discount has narrowed from 12.4% at the beginning of the year to 7.8%. The year end discounts over the past five years are as follows:

Year	2011	2012	2013	2014	2015
Discount %	15.5	15.6	12.9	12.4	7.8

The reduced discount in 2015 reflects a share buy back programme where, if the last quarter of 2015 were to be repeated for a full year, 18% of the company's shares would be repurchased. This rate of repurchase is unsustainable.

Performance

The performance data relative to a "benchmark" index needs to be treated carefully as a significant part of the recent Alliance Trust share price performance has come from the narrowing in the discount - an element from which the index cannot benefit. Also, the buy backs have benefited the net asset value (NAV) per share because the share purchases have cost less (due to the discount) than the reduction in the value of the net assets. As a result the number of shares will have reduced by less than the corresponding reduction in the net assets, giving a boost to the NAV per share value.

This is not to say that the impact of the buy backs is of no consequence. But it is a benefit which cannot continue indefinitely and means that the comparison with the index is not like for like.

A lot of confusing statistics are used to justify claims about performance. Periods of assessment, and the benchmark for comparison, are carefully chosen to show the fund either in the best or worst light. We believe long term Alliance Trust investors had already made a choice to purchase a large, broadly based, actively managed fund and selected Alliance Trust within the range of possible choices. What matters, therefore, is the comparison with relevant members of the actively managed peer group - not the 36 funds in the Alliance Trust peer group but comparable funds. The largest and nearest comparators are Scottish Mortgage, Witan, Foreign & Colonial and RIT Capital Partners. The Net Asset Value Total Return (i.e. capital appreciation plus dividends) over 1, 3 and 5 years are as follows:

Price Increase %	1 Year	3 Years	5 Years
Alliance Trust	5.0	34.4	39.2
Scottish Mortgage	14.7	76.7	88.2
Witan	6.5	46.9	51.2
Foreign & Colonial	7.9	44.5	53.8
RIT Capital Partners	11.0	44.1	38.4

Source: AIC data as at 1/1/2016

These comparisons are very telling. The degree of underperformance between Alliance Trust and its principal competitors is stark. Three of the four comparators outperform Alliance Trust, in one case with more than double the return.

The narrowing of Alliance Trust's discount has given the share price a boost over the past 12 months. However, over the same period, the Alliance Trust net asset value rose from 546.8p to 559.2p - an increase of only 2.3%. It is not obvious that the persistent long term underperformance of the Trust has been solved by the changes announced in October 2015. A well managed trust such as Scottish Mortgage usually trades at a premium to NAV, reflecting the market's positive view on the ability of its managers to deliver consistent superior results.

Katherine's Blog

Katherine Garrett-Cox who was appointed Chief Investment Officer in May 2007 and Chief Executive in September 2008 issued a blog at the end of the year. It concluded as follows:

"Final thoughts on the year.

As I look back on 2015, it stands out as a year that has presented both real challenges and moments of genuine positivity. Alliance Trust as a business is undergoing significant change but I am confident it is transforming into a company that will be ideally positioned to deliver for its shareholders for the long term, supported in no small part by Alliance Trust Savings and Alliance Trust Investments which are going from strength to strength.

Some of you will have seen the announcement last week that Karin Forseke has decided to step down from her position as Chair. Karin's contribution to Alliance Trust over the past 4 years has been invaluable, and I have thoroughly enjoyed working with her. I wish her well with her next challenge.

Before I sign off my final blog post for the year I want to communicate my deep sadness at the events that recently occurred in Paris and express my solidarity with all those around the world affected by such tragic events. I am an ardent believer in the strength of the human spirit and our collective ability to overcome even the fiercest challenges, and I hope this continues to prevail in 2016. I wish you all a merry Christmas, an enjoyable Hogmanay, and wish you all the best for 2016.

*Best wishes,
Katherine"*

Neil Collins' (FT journalist) Response

"That's more than enough from her.

Ping! It is a cheery Christmas message from Katherine. That's Katherine Garrett-Cox, the Empress of Dundee, telling us shareholders that 2015 has been an eventful year for Alliance Trust, including the appointment of new board members. Ms Garrett-Cox cannot bring herself to welcome the arrival of Chris Samuel and Karl Sternberg, probably because she and her fellow directors fought to keep them off until they realised that the shareholders disagreed.

Since then Karin Forseke has forsaken the chair, and Ms Garrett-Cox has slipped from chief executive to the same title at Alliance's principal subsidiary. It is not obvious why or how this move will improve the poor performance of the trust's portfolio, but between the 'real challenges' she can see "moments of genuine positivity" even if others cannot."

(Subsequently, Neil Collins corrected the identity of the two new directors in question as Anthony Brooke and Rory Macnamara).

Note that Katherine Garrett-Cox and her family appear to have been reducing their share holding in the company substantially – possibly as much as 50% - in the past year. According to the Annual Report for 2014, the holding was 606,022 shares and, as announced in December, is now 305,436.

Alliance Trust Investment Seed Capital

One of our ATSAG members has raised a concern about the seed capital which Alliance Trust has invested in the ATI funds which are marketed to third parties.

He asks: "What return have Alliance Trust plc shareholders received from this seeding (not to be confused with the word investment) since 2010?" He claims that some questions on this were raised at the November Forum but were not answered to his satisfaction.

According to the 2014 Annual report there was £434.7m invested by Alliance Trust in 6 ATI funds. We understand from our meeting with Karin Forseke at the end of September that the Global Thematic Opportunities Fund which Alliance Trust held at a value of £183.2m has been closed. This fund represented a substantial investment, defined as more than 5% of the Alliance Trust portfolio. The other 5 funds were below the 5% threshold.

We have asked Alliance Trust to clarify the returns (since 2010) which Alliance Trust has made on its investment in these funds and how these returns compare with the overall returns on the Alliance Trust portfolio. A response is awaited.

Alliance Trust Savings (ATS) and Alliance Trust Investments (ATI)

A total of £33.9 million (i.e. the accumulated losses to 31 December 2014) has been invested in ATS since its inception. The business has continued to lose money. The previous Chairman told us ATS was expected to deliver positive returns in 2016. We question why so much time, effort and shareholders money has been invested in a business which requires totally different management skills to Alliance Trust. If investors wished to invest in a fund management business, there are quoted companies with good track records.

Alliance Trust Investments (where the accumulated loss are £26.8m) has supposedly been turned into an arms length investment management business having a challenging performance contract with Alliance Trust. However, none of the key executives who have failed to deliver in the last five years has changed. In addition if ATI does not reduce its costs significantly, whilst delivering top quality investment returns, any loss from ATI will be borne by its 100% shareholder, Alliance Trust plc.

In terms of control, Alliance Trust will have only one or two representatives on the boards of ATS and ATI, and be in a minority on the board, with executives and independent directors holding the majority. It looks to us like the Alliance Trust plc shareholders will bear all the business risks of these subsidiaries, whilst having little control over their operations.

Meeting with Interim Chairman

A meeting with Gregor Stewart is scheduled for early this year. We will report back on our discussions in due course.

In Conclusion

We still have concerns about the cost structure of the company and whether all costs are being reported in the performance figures. In addition, we question the strategic decisions to retain and invest further in Alliance Trust Savings (ATS) and Alliance Trust Investments (ATI) which seem to us to be a diversion from what should be the key focus of any investment trust, namely, to generate returns to investors from a diversified portfolio. As we show above, Alliance Trust has significantly underperformed its main competitors. We will continue to pursue these and other issues.

May we wish you a prosperous New Year.

Roger Lawson, ATSAG

7 January 2016

www.sharesoc.org/alliance.html