Alliance Trust Results - ATSAG Update 9

On the 4th March Alliance Trust announced their results for the year ending December 2015. This company has been the subject of a campaign supported by ShareSoc (see http://www.sharesoc.org/alliance.html) and Elliott Advisors were also aggressive in demanding changes before Alliance's last Annual General Meeting but then committed to a truce for one year. Subsequently the Chairman Karin Forseke and Chief Executive Katherine Garrett-Cox have departed and the board has otherwise been restructured. This followed some years of underperformance which resulted in a wide share price discount appearing. That has now been narrowed somewhat by an active market buy-back programme but the discount is now still 10.3% according to the AIC at the time of writing (8.1% at the year end as reported by Alliance).

Has the investment performance improved in the latest figures? The Net Asset Value (NAV) Total Return per share rose by 5.4% in the year although the share price total return improved by 10.7% due to the narrowing discount. The 5.4% increase compares with the relevant MSCI index of 3.8%. So that certainly indicates an improvement. But it does not look great against another global active fund which I reported on in my last blog post - namely Fundsmith who achieved 15.7%, albeit with a very different and more focussed investment style. Looking through a list of similar global funds to Alliance for the year to date, the performance of Alliance in terms of "Net Asset Value Total Return" looks middling in essence.

Two problem areas that arose from the empire building of the former CEO were the Alliance Trust Investment (ATI) and Alliance Trust Savings (ATS) subsidiaries. ATI reported a reduced loss of £2.1m with a small increase in assets under management. ATS increased assets and customer accounts by the acquisition of Stocktrade and revenue increased as a result of that and some organic growth, but losses rose substantially to £5.2m. Alliance report an increase in the valuation of that business from an external review of 71% and they do say that it "is positioned to deliver a profit in 2016". There is clearly still work to be done, or actions required, on both of these operations.

One change that will improve the profitability of ATS is that they plan to increase account charges to investors using the ATS platform. The annual administration fees will rise from £75 per annum to £90 for a standard dealing account and charges on new SIPP accounts will also rise. This reflects the investment in new technology and other cost increases according to the Managing Director of ATS.

Alliance did report a reduction in On-Going Charges to 0.59% with further reductions by the end of 2016 which is a positive sign. For investors minimising such costs is essential for long term returns, but whether the reported figures properly represents the total costs including that of the subsidiaries is questionable. But yet again, Alliance Trust has incurred "non-recurring" expenses which are excluded from the calculation of the Ongoing Charges Ratio (OCR) - these include restructuring costs of £2.8m and the costs of fighting off Elliott in a somewhat misguided fashion of £2.4 million in 2015. These expenses totalled £1.1m in 2013, £2.1m in 2014 and £5.2m in 2015. While the OCR is calculated in accordance with the Association of Investment Companies guidelines (which permits the exclusion of non-recurring expenses), these costs are borne by the Alliance Trust shareholders. If the £5.2m non-recurring expense in 2015 had been included in the OCR calculation, the ratio would be 0.77% - significantly higher than the claimed OCR of 0.59%".

Lastly the Chairman of Alliance comments in the announcement on the "lack of gender diversity" on the board following the restructuring. In essence dominant women were removed leaving a lot of aged white men - in other words more like most public company boards. He is determined to address that issue.

In summary, this company still appears to be a work in progress in terms of tackling some of the past problems, but the direction appears to be positive in this writer's view. The AGM will be on the 6th May in Dundee and we hope to provide a report on the event. It was certainly a lively one last year.

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Note that two of the Alliance Trust Shareholder Action Group (ATSAG) Committee members recently met with the Chairman of Alliance Trust, Lord Smith, and with Deputy Chairman Gregor Stewart. This was a useful meeting and we have confidence that the new board is tackling the key issues at this company. We believe that it would be appropriate to support the reappointment of the current board members at the forthcoming AGM.

The actions of ATSAG and ShareSoc in relation to Alliance Trust surely demonstrate that this has been an effective campaign which has achieved substantial change. It demonstrates the merits of shareholder activism when companies go astray.

Roger Lawson 9/3/2016 http://www.sharesoc.org/alliance.html