



Less stocks, more diversification

Alliance Trust has protected shareholders from losses in a tough year for investors...

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Taking into account all the macroeconomic chaos we've seen over the past 12 months, if one were to imagine a trust that invests in global equities and had used historic levels of gearing to do so, the odds are you'd think it would have taken a major hit to its net asset value (NAV) and share price in 2022.

Looking at the market as a whole that wouldn't be a bad call to make. In the 12 months to 22/08/2022, closed-ended funds in the AIC's 'Global' sector averaged NAV total return declines of close to 18% and share price falls, on a total return basis, of 22.9%.

Unsurprisingly then, **Alliance Trust (ATST)** sticks out relative to its peers when looking at the highly volatile period we've gone through and continue to be stuck in. In the year-long period to 22/08/2022 the trust had delivered a small NAV total return of 0.6%. Its shares rose, also on a total return basis, by 0.5% over the same period.

True, this may not represent some sort of massive gain for shareholders. But given how drastically many indices and other active funds have fallen in that time, I'm sure there are plenty of investors that would've been quite happy with those returns. Moreover, a trust's performance is arguably best judged relative to its peers. And, in that sense, ATST has outperformed the average substantially in the last year and is one of the only global equity trusts to have delivered positive returns for shareholders in that time.

Those returns were driven by ATST's unique approach to active management. The trust uses a multi-manager structure to invest in global equities, with the portfolio constructed from the highest conviction picks of a group of leading fund managers.

To create that portfolio, global consultancy group Willis Towers Watson (WTW), which has the mandate for the trust, looks through a group of approximately 200 of the highest-rated global fund managers. From that group, a top 20 is selected. That number is further narrowed down to between 8 to 12 managers, who are instructed to pick their highest conviction stocks, which then make up the ATST portfolio.

The result is a highly diversified closed-ended fund, typically comprised of around 200 stocks. The managers are chosen not just on their stock picking skills, but also how they complement each other to create that well-diversified portfolio. The stock selections these managers make are also unique to the trust and investors cannot access them elsewhere.

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Sharp-eyed readers may find one point of contention here, which is that, even with 200 holdings, the trust would still be less diversified than a global equity index. Superficially that may appear to be the case.

However, the market cap weightings of indices mean that the large size companies in them can end up dominating and their performance ultimately dictates how an index performs. So even though you ostensibly have a 'diversified' portfolio, there is actually a level of concentration risk that means investing passively in a global equity index can result in you being much more exposed to any headwinds the large caps in that index are susceptible to.

In contrast, ATST may have fewer holdings, but the weightings to those companies are much more spread out compared to market cap weighted indices. As a result there is arguably less risk of shareholders in the trust being caught with all 'their eggs in one basket'. For example, many global indices were hit hard by the sell-off in tech we've seen during the last 12 months. ATST was not.



What's arguably more remarkable about this is that the trust managers were actively using gearing for much of this period. In February, when markets were severely dented by the start of the war in Ukraine, net gearing stood at 6.5%. At the end of July the equivalent figure was 4.3%.

You'd expect these sorts of figures to exacerbate losses, given the wider market conditions. And yet the trust has still managed to deliver relative outperformance. Again, this would suggest the approach to diversification that the trust takes has paid off.

But it's also worth highlighting that the trust is not a one trick pony. Clearly the managers' preservation of capital over the last 12 months has been positive but investors will want the trust to produce returns when the market isn't experiencing wild swings as well. In this regard, the trust's long-term track record still holds water. Over the decade up until 22/08/2022 ATST delivered annualised returns of just over 12.6%.

There are no guarantees that will continue into the future but it is a positive for shareholders and prospective investors to take note of. ATST has delivered when the going was good and protected shareholders when markets performed poorly. There isn't much more one can hope for when making an investment.

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