Alliance Witan (ALW)

ALW offers diversification and risk management amid an uncertain outlook...

Update
25 March 2025

Overview

Alliance Witan (ALW) continues the legacy of Alliance Trust (ATST) following its combination with Witan (WTAN) in October 2024. The combined entity has become one of the largest investment trusts, with a market capitalisation of c. £4.8bn and promotion into the FTSE 100 Index, making it easily investable for institutional investors and wealth managers. Both ATST and WTAN shareholders have seen the ongoing **Charges** ratio fall, while the **Dividends** for ATST shareholders have been boosted up to the level WTAN's enjoyed, with the annualised dividend yield up to 2.3%. The trust now has a 58-year track record of annual dividend increases, making it one of the AIC's Dividend Heroes, and the board anticipates that the dividend for the trust's financial year 2025 will be further raised.

ALW has maintained the same purpose as ATST: to offer a one-stop shop for global equities through a multi-manager approach. The investment committee at Willis Towers Watson (WTW) oversees the allocation to a team of complementary stock pickers, aiming to keep the **Portfolio** as neutral as possible in terms of geographic, sectoral and market factor exposure and allowing stock selection to drive relative returns.

Since the combination, the investment committee has appointed two new managers, bringing the number of stock pickers in the portfolio to 11. One is Jennison Associates, a growth manager with an emphasis on innovative and disruptive businesses investing, which was carried over from WTAN. The second is EdgePoint, which focusses on good, undervalued businesses, and replaces Black Creek in the portfolio. The investment committee has also reduced its exposure to growth-oriented stock pickers following a period of outperformance and increased its allocation to managers focussing on high-quality stocks over the past 12 months, due to concerns around potential valuation risks.

Analysts:
Jean-Baptiste Andrieux
Jean-Baptiste@keplerpartners.com

Analyst's View

In our view, ALW's style-balanced approach makes it a strong candidate for investors seeking a core global equity strategy. The trust has a track record of delivering good performance relative to both its sector peers and benchmark across different market environments, such as the 2022 bear market and the AI rally of 2023. ALW delivered double-digit returns in 2024, but similarly to many active global equity strategies, it struggled against its benchmark due to the concentration of market returns in a handful of US tech mega-cap stocks. However, we would argue that 2024 was an exceptional year, and we expect the strategy to deliver better relative performance in a more normal market environment.

Interestingly, since the start of the year, most of the Magnificent Seven have posted negative returns, while US stocks have underperformed other equity markets, suggesting that the market may be shifting away from these names. As such, we believe ALW's diversification across geographies, sectors and market factors, as well as the investment committee's risk management, could be beneficial for investors amid this uncertain outlook.

In addition, we believe that the combination with WTAN has enhanced ALW's appeal. The liquidity of the shares has improved due to the trust's larger size. Furthermore, the trust's promotion to the FTSE 100 is likely to raise the trust's profile, potentially attracting new investors, while it now receives inflows from index funds. The trust's charges now also compare favourably with the AIC Global sector's average, and it offers a higher dividend yield than most of its sector peers. Indeed, the five-year dividend growth rate of 13.85% is the highest of all the AIC's Dividend Heroes who have increased their dividend every year for more than 20 years. ALW is also joint first among the heroes, with a 58-year track record of consecutive dividend increases.

BULL
Has delivered good relative performance in different market environments
Offers diversification and risk management amid an uncertain outlook
Improved liquidity following combination

BEAR
May underperform during trend-driven markets
Core investment strategy means that the strategy is more correlated to global equity indices compared to more specialist strategies
Gearing, albeit moderate, can enhance losses on the downside

Portfolio

Alliance Witan (ALW) continues the legacy of Alliance Trust (ATST) following its combination with Witan (WTAN) in October 2024. The trust's aim has remained the same, which is to serve as a one-stop shop for global equities, employing a balanced approach to risk and reward, with diversification across regions, sectors and factors. To achieve this, Willis Towers Watson (WTW), ALW's investment manager, uses a multi-manager strategy. The investment committee, comprising Craig Baker, Stuart Gray, and Mark Davis, selects what it believes to be the world's best stock pickers, leveraging WTW's extensive research capabilities. Each stock picker is tasked with selecting up to 20 stocks, focussing on fundamentals rather than short-term market trends or portfolio balancing, which should ensure that they only choose their highest conviction ideas. The WTW investment committee then adjusts allocations to these managers, aiming to keep ALW's portfolio as neutral as possible in terms of geographic, sectoral or market factor exposure, with stock picking expected to drive returns.

We understand that the combination with WTAN went smoothly, without disruption to the strategy. In a recent meeting, Stuart highlighted that WTAN had reorganised its portfolio pre-emptively to make the combination easier and more cost-effective. Most of WTAN's assets have been sold, and it is estimated that only c. 2.5% of ALW's assets are remaining legacy holdings from WTAN. These are largely investment companies trading at wide discounts, which the investment committee opted to hold in the expectation that they could be sold at better value in the future, and there are also some private equity holdings. The intention is to work out these positions over time, maximising the value obtained, and the team has no plans to buy shares in investment companies or unlisted equities in the future.

The combination was further facilitated by the fact that ATST and WTAN shared GQG Partners and Veritas Asset Management as stock pickers. Notably, the former used to run an emerging market portfolio for WTAN and managed both a global and an emerging market portfolio for ATST, a role it still holds for ALW. As such, most of the underlying assets associated with these stock pickers could be carried over into ALW's portfolio. The investment committee also chose to retain Jennison Associates from WTAN, bringing ALW's number of stock pickers to 11 as of the end of January 2025. Jennison is a stock picker that WTW rates highly and uses in some of its institutional strategies, making its transfer into ALW's portfolio a cost-effective way to gain exposure to its investment process. Jennison Associates also adds a distinctive approach compared to other growth managers in ALW's portfolio, with a stronger emphasis on momentum. Jennison Associates focusses on growth rates but also on growth acceleration and tends to reduce its exposure when growth slows down. This contrasts with the approach employed by Sands Capital, another growth manager in ALW's line-up of stock pickers, which focusses on long-term structural growth with low turnover, holding stocks through challenging periods as long as the long-term investment thesis remains intact.

Stock Pickers

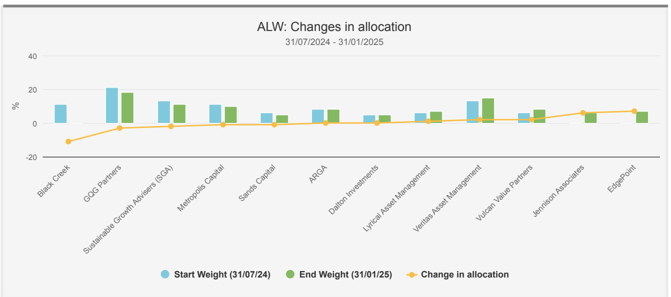
STOCK PICKER	STYLE	ALLOCATION (%)
GQG Partners	Quality growth at reasonable price	18
Veritas Asset Management	Thematic and quality	15
Sustainable Growth Advisers (SGA)	Predictable, sustainable growth	11
Metropolis Capital	Quality and value	10
ARGA	Deep value relative to sustainable earnings	8
Vulcan Value Partners	Capital preservation quality and value	8
Lyrical Asset Management	US value with quality tilt	7
EdgePoint	Undervalued businesses	7
Jennison Associates	Companies with exceptional growth prospects	6
Dalton Investments	Japan all-cap value and engagement	5
Sands Capital	High quality long-term structural growth	5

Source: Willis Towers Watson, as at 31/01/2025

WTW's investment committee also replaced Black Creek Investment Management with EdgePoint in October 2024. Black Creek's mandate was one of the longest-held positions in the portfolio, having been owned since 2017 when WTW took over Alliance Trust. Craig, Stuart and Mark anticipate that Black Creek's manager may retire in the coming years, so they have taken the opportunity of the combination to make their move. EdgePoint focusses on high-quality companies that dominate their niche markets but tend to be overlooked by the broader market. The WTW team think it is a great fit with what they are losing with Black Creek and note that the two managers are in their 50s with plenty of career left ahead of them. They note though that EdgePoint's portfolios tend to be more eclectic and feature holdings lower down the market-capitalisation spectrum, though it does not venture into the small-cap space. It's also worth noting that the costs associated with this manager change were combined with those of the portfolio transition to minimise expenses, which overall amounted to less than 0.04% of ALW's portfolio. We would also highlight that changes in the line-up of stock pickers are rare, reflecting the investment committee's requirements for their stock pickers to take a long-term view.

There have been limited changes in the allocations to stock pickers over the past six months (to 31/01/2025), excluding these two additions. Craig, Stuart and Mark did slightly increase exposure to stock pickers focussed on quality companies and reduced allocations to growth managers, as growth stocks had performed strongly since the end of the 2022 bear market and are currently expensive. As a result, they are seeing potential risks surrounding equity valuations and so this decision was taken to manage risk. As the chart below shows, allocations to Vulcan Value Partners, Veritas Asset Management and Lyrical Asset Management—all of which favour quality companies—were increased, while exposure to growth-focussed stock pickers like SGA, Sands Capital and GQG Partners were reduced. Interestingly, the MSCI World Quality Index has outperformed the MSCI World Growth Index since the beginning of the year, and this decision from the investment committee may prove rewarding if this trend continues.

Fig.1: Weight Changes In The Six Months To 31/01/2025



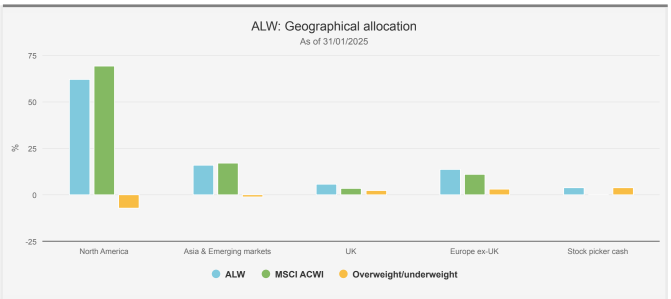
Source: Willis Towers Watson, as at 31/07/2024 and 31/01/2025

In a recent meeting, Stuart said that he finds the concentration level in the index concerning, noting that it is heavily reliant on the performance of a few names and could be vulnerable to downturns or volatility in those specific stocks. In the investment committee's view, this is a risk that is not fully recognised by the market, and we note that there have been signs of change since the beginning of 2025, with all the Magnificent Seven generating negative returns year-to-date. Additionally, non-US equities, particularly European and UK equities, have outperformed US equities since the beginning of the year. This could benefit ALW, which is overweight in European and UK equities and underweight in US equities, although we would emphasise that this is a by-product of stock selection rather than top-down asset allocation decisions.

The portfolio has tended to be underweight in US equities since WTW took over the management of ALW (at the end of 2017), despite the strategy of keeping risk factors close to those in the benchmark. The team note though that the strategy is designed to ensure that stock selection, rather than geographical allocation, drives returns and this has actually been the case. The underweight position in US equities has largely been explained by underweight holdings in Apple and NVIDIA, while the portfolio is overweight in the rest of the US equity market. Over the past 12 months, the stock pickers have also trimmed their positions in the members of the Magnificent Seven they did favour, Alphabet and Microsoft, increasing the underweight to this cohort.

Given the uncertain outlook for equities, we believe ALW's factor-neutral, geographically and sectorally diversified approach, along with the investment committee's risk management, offers a strong option for investors seeking global equity exposure.

Fig.2: Geographical Allocation



Source: Morningstar

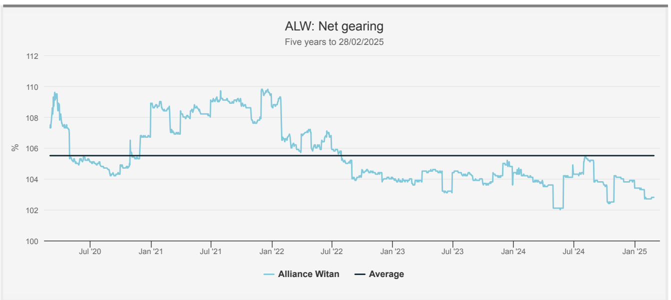
As the chart above shows, the portfolio holds 3.6% in cash, which is higher than average. Craig, Stuart and Mark ask their stock pickers to run low levels of cash, with a maximum of 10% each as they want to benefit from their stock picking and avoid market timing. The higher level of cash in recent months reflects more cash being held within the Veritas strategy. This requires an IRR of 15% from its investee companies, which is a high hurdle rate. If this stock picker cannot find businesses that meet this threshold, it will hold cash until suitable opportunities arise.

Gearing

The investment committee has the flexibility to adjust gearing in its day-to-day management, with gross gearing typically ranging between 7.5% and 12.5%. However, any adjustment outside of this range requires approval from the board.

As the investment committee considers that equities are now expensive, while the marginal cost of gearing has increased amid a higher interest rate environment, ALW's gross gearing stood at the lower end of this range, at 8.4%, at the end of 2024. As of 28/02/2025, net gearing stood at 2.8%, below ALW's five-year average of 5.5%.

Fig.3: Gearing



Source: Morningstar

As of 30/06/2024, ALW had £206m in fixed-rate loan notes, set to mature between 2029 and 2053, with interest rates ranging from 2.66% to 4.28%. Following the combination with WTAN in October 2024, £155m of fixed-rate loan notes were novated with a blended interest rate of 3%, and maturities between 2035 and 2054. By bringing across this debt, ALW was able to ensure long-term debt at much lower rates than would be available in the markets, with the Bank of England's base rate at 4.5% at the time of writing.

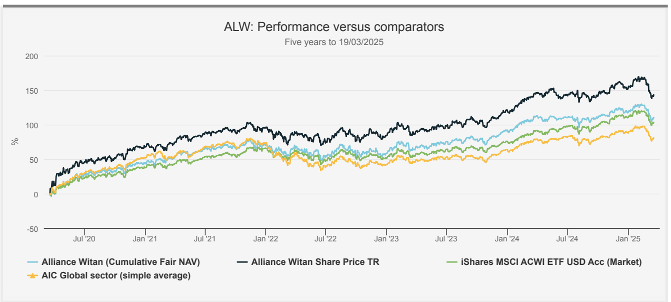
ALW also had £130m available in borrowing facilities, including a £90m facility, which will expire on 16/12/2025 and a £40m facility expiring on 16/12/2026. Of these, £60.7m had been drawn down as of 30/06/2024, including £15m through a three-year loan and £45.7m through a revolving credit facility. Following the combination with WTAN, ALW's borrowing facilities were reviewed and increased by £50m.

Performance

ALW aims to provide a factor-neutral, core strategy capable of performing across the market cycle, with stock picking expected to be the key driver of returns. This approach has proven rewarding over the past five years (to 19/03/2025), as ALW has generated a NAV total return (TR) of 110.7% and a share price TR of 143.3%, comparing favourably with the 104% return of the MSCI ACWI Index (represented by an ETF in the chart below).

ALW has also significantly outperformed the AIC Global sector's simple average of 80.9%, which we have used instead of the more conventional weighted average to reduce the significant influence of Scottish Mortgage (SMT), by far the largest constituent of the sector. In our view, this outperformance is due to ALW's factor-neutral approach, which has enabled the portfolio to adapt to different market environments. In contrast, many of the sector constituents have a pronounced growth bias and experienced strong drawdowns when the market factor they focus on was not in favour.

Fig.4: Five-Year Performance



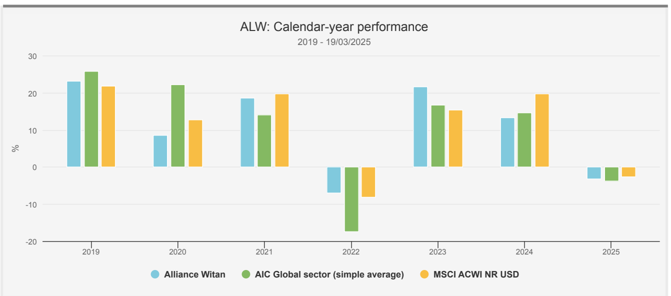
Source: Morningstar

Past performance is not a reliable indicator of future results.

For example, ALW outperformed both its benchmark and sector peers in 2022, when growth stocks went through a bear market. In that year, ALW benefitted from not being overly exposed to US tech stocks, while energy holdings such as ExxonMobil, BP and Petroleo Brasileiro supported relative performance. The following year, ALW delivered significantly higher returns than the MSCI ACWI Index and the average constituent of the AIC Global sector amid the AI rally. Interestingly, while the Magnificent Seven accounted for 53% of the benchmark's return, they contributed only 34% of the trust's NAV performance, which arguably demonstrates the skill of ALW's stock pickers.

ALW delivered double-digit returns in calendar year 2024, with Amazon being one of the main contributors, as the e-commerce company saw strong revenue growth from AWS, its cloud computing platform, in the third quarter of its financial year 2024. Axon Enterprises, a developer of technology and weapons for law enforcement and military, also contributed to performance, reporting revenue and earnings per share above consensus. The company is benefitting from generative AI, notably through its tool Draft One, which converts audio captured by body cameras into draft narratives for police reports. Other key contributors to performance included Salesforce and NRG Energy. However, ALW could not match the returns of its benchmark in 2024, as the trust suffered from the narrowness of market returns, being underweight in dominating US tech names like NVIDIA, Broadcom, Apple and Tesla, with the latter stock not held in the portfolio.

Fig.5: Calendar-Year Performance



Source: Morningstar

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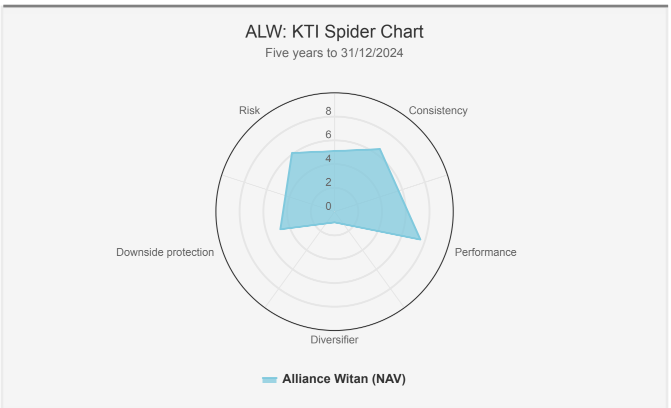
Our KTI Spider Chart below shows how ALW's NAV has performed versus its peer group of global trusts over the past five years, in some key categories. Each category is scored out of ten, based on returns over the past five years, and scores are normalised to the peer group, with a higher score indicating superior characteristics. ALW's highest score is for performance, reflecting strong risk-adjusted returns compared to most of its peer group. The trust also scores above average for consistency, indicating that its outperformance relative to the peer group was achieved gradually over time, rather than through a short period of exceptional returns. This is also true for risk, as evidenced by a better sigma ratio, which highlights more consistent returns and lower volatility compared to the peer group. ALW's lowest score is for diversification, due to a higher correlation with equity indices than most of its sector peers, which, we would argue, is to be expected from a core strategy.

Fig.6: KTI Spider Chart



Source: Morningstar
Past performance is not a reliable indicator of future results.

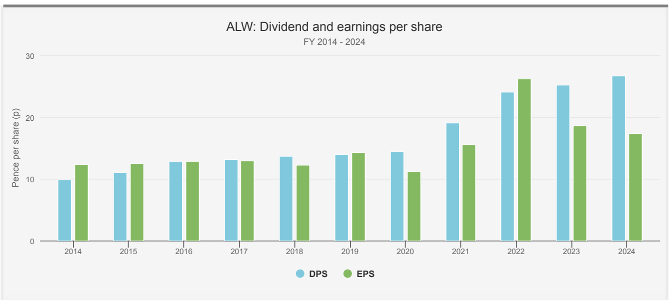
Dividend

ALW pays its dividend in four instalments throughout its financial year. Following the combination, the board fulfilled its promise to increase both the third and fourth interim dividends for the trust's financial year 2024, raising them to 6.73p per share—a c. 1.7% increase compared to the two first interim dividends. This also represents a c. 6.2% increase compared to the corresponding interim dividends paid in 2023. As a result, ALW currently offers an annualised yield of 2.3%, which compares favourably to the AIC Global sector's simple average of 1.7%. Ahead of the combination, the board anticipated that the payout for the trust's financial year 2025 would be further increased, maintaining the progressive dividend policy.

In fact, the trust has increased its dividend for 58 consecutive years and is one of the AIC's Dividend Heroes—a group of investment trusts that have raised dividends for at least 20 years in a row. The board has a strong commitment to growing the dividend year-on-year.

In the trust's financial year 2024, the dividend was uncovered, but ALW has substantial reserves, including revenue reserve and capital reserve. Therefore, we believe that the board should be able to extend its track record of dividend increases.

Fig.7: Dividend And Earnings Per Share



Source: Morningstar
Past performance is not a reliable indicator of future results.

Management

Willis Towers Watson (WTW) has managed ALW—or Alliance Trust (ATST) prior to the combination with Witan (WTAN) on 10/10/2024—since 2017 through an investment committee consisting of Craig Baker, Stuart Gray and Mark Davis, who all have decades of industry experience.

They are supported by WTW's extensive resources, which include approximately 80 manager researchers, a portfolio management team of about 70 people, as well as operational due diligence and capital markets research teams.

In our view, these substantial capacities are difficult to match, especially for an individual investor, and give WTW an advantage in researching funds, analysing data, gaining direct access to managers and uncovering talented yet lesser-known managers.

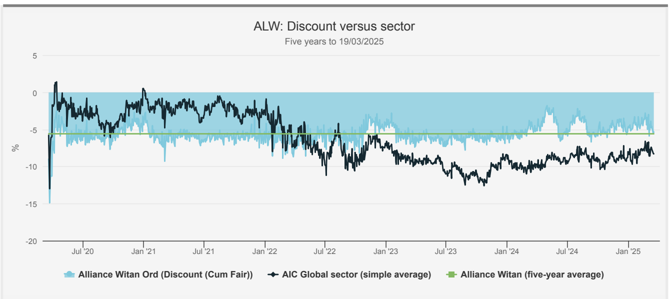
WTW is a global investment group, providing investment management advice and services that are tailored to the specific needs of their clients. This is typically reserved for professional clients such as pension funds, insurance companies, sovereign wealth funds or wealth management companies. As at the end of 2023, WTW managed over $162 billion of delegated assets.

Discount

At the time of writing, ALW is trading at a 5.4% discount, which is slightly narrower than its five-year average of 5.6%. ALW's market capitalisation has grown to approximately £4.8bn following the combination with Witan, potentially making it more easily investable for institutional investors and wealth managers, which could see the discount trade on average closer to par in future than in the past. For instance, in a recent meeting, Stuart told us that WTW has seen increased interest from wealth managers and other professional buyers for the strategy since the combination. Moreover, ALW was promoted to the FTSE 100 Index at the end of December 2024, which should increase the trust's profile, and potentially attract new investors. It also means that ALW now benefits from inflows from index funds.

In addition, the board has a strategic objective to maintain a stable share price discount to NAV, ideally as close to NAV as possible, and actively uses share buybacks for this purpose, which should help to maintain a narrow discount.

Fig.8: Discount



Source: Morningstar

Following the combination, 120,949,382 new shares were issued to WTAN shareholders, increasing the number of shares in issue by approximately 43%. Since then, the board has repurchased 2,175,000 shares to date, representing c. 0.5% of the shares in issue as at 10/10/2024.

Charges

As stated ahead of the combination with Witan (WTAN), charges have been reduced. ALW's ongoing charge ratio (OCR)—which is equivalent to the ongoing charge figure (OCF)—was 0.56% for the year ended 31/12/2024, representing a c. 9.7% decrease for ATST's 2023 figure and a c. 26.3% decrease for WTAN's, although this includes a temporary fee waiver by WTW to cover the costs of the transaction. This compares favourably with the AIC Global sector's simple average of 0.65%.

A new management fee structure was introduced with the combination, calculated monthly, at 0.52% on the first £2.5 billion of market capitalisation, 0.49% on market capitalisation between £2.5 billion and £5 billion and 0.46% on market capitalisation in excess of £5 billion. This fee includes the management fees paid to the underlying managers. With a market capitalisation of approximately £4.9bn at the time of writing, this would equate to an average management fee of c. 0.51%.

ALW reported a 1% KID RIY as of 10/10/2024. We note the regulation around KID RIYs is changing, and a consensus on how they should be calculated has not yet been formed. More information on the current situation regarding KID RIY can be **found here**.

ESG

ALW does not have any ethical or value-based restrictions in place. However, the underlying stock pickers are prohibited from investing in certain types of businesses, such as those involved in controversial weapons or those with significant revenue exposure to thermal coal and tar sands.

WTW believes that inadequate consideration of ESG and climate risk factors can negatively impact investment performance and reputation. As a result, WTW integrates these risk factors into its investment processes, including the monitoring of underlying stock pickers' ESG reporting.

Both the board and WTW aim to transition ALW's assets to achieve net zero by 2050, with an interim target of reducing portfolio emissions by approximately 50% by 2030, relative to 2019. The board favours stewardship and engagement over exclusion.

ALW employs EOS at Federated Hermes as its stewardship provider. In 2024 EOS engaged with 97 companies on 515 issues and objectives. The stock pickers also cast votes on 3,346 resolutions in 2024, voting against company management on 386 occasions and abstaining from voting 38 times.

Morningstar has awarded ALW three out of five globes for sustainability, which is average relative to its wider global equity peer group (of both open- and closed-ended funds). Morningstar has also given ALW the low carbon designation, which is based on the portfolio's asset-weighted carbon-risk score and percentage exposure to fossil fuels.

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