Taking STOCK

SPRING 2018

Investors first

PROTECTING YOUR INTERESTS IN A CHANGING MARKET

alliancetrustsavings.co.uk

Alliance Trust Savings

Welcome to the latest edition of *Taking Stock*.

Investing through change

Investment Trusts can trace their history back to Victorian times, aiming to give more people access to the investment markets and manage risk by spreading their money over a number of stocks.

Whilst the basic philosophy of the Investment Trust still persists, the world in which they operate has been defined by constant change. And 2018 is no exception, ushering in two of the biggest regulatory changes in years to impact the sector.

The Packed Retail and Insurance-based Investment Products (PRIIPs) Regulation and The Markets in Financial Instruments Directive II (MiFID II) both affect the information that Investment Trusts on sale in EU countries must now give investors. The aim is to improve investor understanding of what they are buying and the associated costs and charges.

Putting investors first

In this edition of *Taking Stock* our expert contributors take a closer look at how Investment Trusts go about protecting the interests of the investors they were established to serve. From implementing regulations like PRIIPs and MiFID II, through governance, investment decisions and to day to day operational processes. What does it actually take to put investors first?

As always, I hope you will find it an informative read.

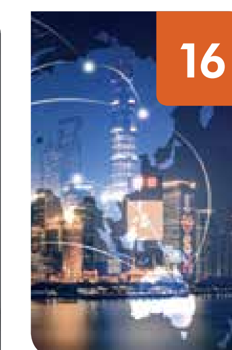
If you have any feedback or suggestions for future editions, please get in touch.

Sara Wilson
Head of Platform Proposition
Alliance Trust Savings

This information does not constitute investment advice or a personal recommendation for any particular investment and should not be used as the basis of any investment decision. If you are unsure you should consult a Financial Adviser before investing. The value of your investments and any income from them can go down as well as up and you may get back less than you originally invested. Past performance is not a guide to future performance.

Check your Alliance Trust Savings account now.

New regulations mean that, unless you have confirmed your nationality and personal identifier to us (your National Insurance number if you're British) we're currently unable to trade for you. That includes any regular monthly trades or automatic trades to reinvest dividends. If you are not sure whether you have confirmed the information we need, please go online and check your account now.



Contents

04 **Protecting against downside risk**
Nitin Bajaj, Portfolio Manager of Fidelity Asian Values PLC, explains how putting investors first is at the heart of his investment philosophy. For him it begins with buying good businesses, run by people you can trust and at the right price.

06 **Predictability in an uncertain world**
As market dynamics shift in the face of change, Charles Luke, Senior Investment Manager at The Murray International Trust, explains why he sees resilience, sustainability, the durability of dividends and good governance as key to serving the interests of investors.

08 **Improving investor understanding**
New rules took effect in January and are helping to provide greater protection for investors and improve transparency. Alliance Trust Savings' James McCafferty introduces the Key Information Document for investors, one of the central building blocks of these important reforms.

10 **Finding value in uncertainty**
On the face of it, the list of things to worry about may be growing for UK equity investors, but James Goldstone, portfolio manager of Keystone Investment Trust continues to see value in the market. For him it's about finding undervalued exposure to a better UK out-turn than is generally expected.

12 **Investing in ugly ducklings**
The Scottish Investment Trust takes a contrarian approach to global stock markets, focusing on out of favour stocks that show positive signs of change. Manager Alasdair McKinnon makes the case for supporting ugly ducklings on their journey to be beautiful swans.

14 **Rising to the challenge of a changing world**
In the 150 years since the first investment trust launched, the environment in which they operate continues to be transformed. Alliance Trust Savings' Sara Wilson reviews some of the latest developments affecting trusts and the impact they promise to have.

16 **Regards from Shanghai**
James Anderson, Joint Manager of Baillie Gifford's Scottish Mortgage Investment Trust, sees Chinese internet giant Alibaba as a symbol of developments that are transforming our social and economic lives. To get the best out of markets, he counsels living investment life in the exponential extremes.

PROTECTING AGAINST DOWNSIDE RISK

Nitin Bajaj, Portfolio Manager of Fidelity Asian Values PLC, on how protecting the interests of investors is at the heart of his investment philosophy.

I've always said that I invest client money in the Trust the exact same way I invest my own money. If you have a million pounds today and you want to buy a business in London – what would you do? You would go and buy a good business that you can understand. You would hire the best people to run it for you and then you would try and buy it at the best possible price. I have made this my guiding principle for investing in the stock market, i.e., buy good businesses, run by competent and trustworthy managers and buy them at the best possible price.

However, this is easier said than done. When you're in the stock market you have all kinds of pulls and stresses weighing on you. As a professional investor, you have to contend with how you perform relative to an index and relative to peers. As social and competitive creatures, you don't want to get left behind. And so, instead of treating an index as a measurement tool, it starts to become your investment tool. Charlie Munger has famously said "people don't manage money, they manage careers".

I'm not saying this is right or wrong, but this isn't the way I run my portfolios. I do not define risk in terms of variation from a benchmark, but rather as the probability of permanent loss of capital. That's why I try to make sure that the stars are aligned regarding the business, the management team and the valuation at which I purchase shares in the business. The objective is to start with sufficient margin of safety should things go wrong, yet have enough upside if things pan out as I anticipate.

Buying at the right price

Valuation is key for long term investors as the price you pay for a business can never be undone. The moment you buy something at the wrong price it becomes a statistical certainty. Thus, you have to be very careful about the prices you pay for assets.

For instance, last year was hard for value investors because in a bull market people buy stocks first, and ask questions later. The longer the bull market continues, the easier people feel it is to make money by buying stocks at almost any valuation. However, as any student of economics will tell you – business cycles are a certainty. Business conditions change, and when they do it becomes important that you have not overpaid for the shares that you own, versus what they are intrinsically worth. I don't think you should stop being conservative and stop doing the right due diligence just because you're in a bull market.

Fidelity INTERNATIONAL

"The objective is to start off with sufficient margin of safety should things go wrong, yet have enough upside if things pan out as I anticipate."

Avoiding runaway trends

There is always an emotional need to be liked and be in with the crowd. It gives you a sense of comfort. When growth stocks, momentum stocks or technology stocks are doing well, everyone focuses on those. People start to invest in the stock market in a different way to how they'd invest their own money.

This goes back to my earlier point – if you were buying a private business, you would never buy a business that you do not understand. But in the stock market people start buying businesses they have no idea about.

I know people, who have never been to China, buying Alibaba. They've never even visited China and don't know what Tmall or Taobao (both part of the Alibaba Group) are, but they still want to own Alibaba just because its share price is going up. I'm not saying Alibaba is a good or a bad investment, but such emotional pulls can take investors away from their core philosophy.

Once you do this, you're not investing any more, you're speculating. You're a slave to the market. And for me – that's not a pleasant position to be in.

Buy what you understand

So let's take a step back and see how we go about this process of buying good businesses, run by people we can trust and at the right price. The first and foremost thing is that you have to buy what you understand.

For me, there are three key guiding principles.

First, **understand the business**. Stocks are not tickers on a screen but a reflection of businesses that exist and compete in the real world. So it is very important to understand the economic characteristics of the underlying franchise. I don't think I can pick winning stocks if I do not pay close attention to the business of the company. If I decide to invest in Colgate India – I am basically investing in the future of the tooth paste industry in India as well the competitive advantages of Colgate within that industry. To make a sound investment decision, I think it is critical to understand the industry and how Colgate will continue to maintain or even enhance its economic moats. This is the starting point of everything I do.

Second, **valuation is critical**. For me investing is as much about protecting downside as it is about participating in the upside. I want to buy good businesses when either they are ignored or something goes wrong. It's at times like this you get them at valuations which leave a lot of upside for the investors. Valuation anomalies are my primary interest – where in my opinion the market either ignores or misunderstands the business. I will very rarely buy into good businesses when valuations are high. Why? Because there's little margin of safety or room for error, be it due to bad analysis or bad luck.

Third, **beware of chasing hot stories**. I consciously try to stay away from prevailing fashions in the market. This links back to valuations as I feel that sectors which are loved generally tend to be more dearly priced than warranted. For example large capitalisation growth companies in the late 1990s, technology companies in 2000 and real estate & commodities more recently before the stock market crash of 2007/08. I am generally more curious about businesses where expectations are low.

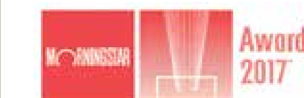
We cannot know the future of the world or the stock market. But fundamentally, owning good businesses, run by good managers and owning them at sensible valuations I believe cannot be wrong. If we can do this consistently over an extended period of time, we will tilt the odds greatly in our favour. ■

Important Information: Past performance is not a reliable indicator of future results. The value of investments can go down as well as up so investors may get back less than they invest. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a personal recommendation for any investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Investors should note that the views expressed may no longer be current and may have already been acted upon. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Nitin Bajaj
Portfolio Manager
Murray Income Trust PLC

Nitin Bajaj has been portfolio manager of Fidelity Asian Values PLC since 1 April 2015 and Fidelity Funds Asian Smaller Companies Fund since 1 September 2013. Nitin joined Fidelity International in 2003 as a research analyst, following four years working with KPMG in India as a business analyst. In 2007, he was promoted to assistant portfolio manager for the Fidelity Global Special Situations Fund in the UK before moving to Fidelity's Mumbai office to manage two of the company's domestic Indian equity funds, which were available to local Indian investors.

Nitin holds a Bachelor of Commerce degree from the University of Delhi, an MBA from Insead in Singapore and is a member of the Institute of Chartered Accountants of India.



This article is issued by Financial Administration Services Limited, authorised and regulated in the UK by the Financial Conduct Authority. Fidelity, Fidelity International, The Fidelity International logo and F symbol are trademarks of FIL limited. CSO8660/0818

This is a financial promotion from FIL limited.

AberdeenStandard
Investments

PREDICTABILITY in an UNCERTAIN WORLD

While a buoyant economic climate may encourage investors, high valuations and geopolitical uncertainty warrant caution. Nevertheless, there are ways to navigate uncertainty.

- The economic and political order is changing, at the same time as technology is disrupting existing businesses.
- Stock market valuations leave little room for error.
- Finding businesses with resilient business models, run in a sustainable way should give greater predictability.

On the face of it, there is much for investors to be happy about in the current climate. Global economic growth is moving higher, fuelled by tax cuts in the US and the increasing strength of China. Investor confidence remains buoyant and markets continue to achieve new highs. However, all this exuberance should give investors pause for thought.

January's meeting of global economic and political leaders in Davos highlighted the fragility of the existing trade and economic order. Global leadership is shifting and trade relationships are being redrawn. Technology is having an increasing influence, disrupting businesses and changing the way people and companies interact. These changes have potentially far-reaching implications for companies, as they adjust to this new world. Not all will thrive in this new environment.

At the same time, stock market valuations leave little room for error. Prices have moved up a long way and on a variety of metrics, look expensive. Although there is no immediate catalyst for markets to fall – interest rate rises are likely to be gradual and moderate – as investors, we need to ensure that we are prepared for a changing environment.

As we see it, there are a number of ways to manage this shift. The first is to find high quality, resilient companies that can withstand long-term changes. This means looking beyond the next quarter's earnings, or shorter-term difficulties to a company's longer-term prospects and sustainability.

This sustainability takes a number of forms. First it is the sustainability of the business itself. Quite simply, can it continue to sell its products into the future? At the moment, this means looking for those companies that are not likely to be buffeted by the current political environment. For example, having globally diversified revenues, including revenues from growing markets provides some defence against the political uncertainty in the UK. Equally, companies on the right side of technological change will prove more resilient.

It also means holding companies in a variety of business areas to ensure that we are not over-exposed to one particular area. These are uncertain times. For example, at the moment we have around 15% of the portfolio in overseas companies. In this, we strive to find those sectors that are not well-represented in the UK, such as technology names, to build diversity into the portfolio.

The businesses in which we invest must also operate in a sustainable way. This means not taking on excessive debt, being prudent in their acquisition strategy and using capital effectively. In judging this, we look at metrics such as return on assets, and operating margin. We believe these are more accurate indicators of inherent business strength than sales growth or operating margin.

It also means durability of dividends. We like companies that have the cash flow and stability to grow their dividends over time. At the moment, there is a wider problem in markets, whereby companies are continuing to increase dividends without the earnings to back them up. We want to ensure that companies are growing dividends from earnings. On the trust, we have built up dividend reserves and now have the equivalent of around 80% of the annual dividend. This is helpful in ensuring consistency of income for our shareholders.

Increasingly, we find this sustainability and quality further down the market capitalisation spectrum. Over the past year, that has included investing in mid-cap companies such as property groups Asana and Big Yellow, plus Manx Telecom and Croda. Within the property groups, we find more companies that are 'all weather' among the mid-caps, less exposed to the individual property cycles of, say, London or the retail sector. There is also better dividend growth in the mid-caps.

In this environment, we also want to ensure that companies take governance seriously. Managing a company responsibly and sustainably is becoming more important for shareholders, and as such, is more influential for share price returns. This is part of our analysis for all companies in the trust. We do it as an investment team, rather than outsourcing it to proxy providers – that way we can focus on what we consider to be most important.

Overall, although the economic environment is benign, a lot of good news is already priced into stock markets today. On a lot of measures markets look expensive relative to their long-term averages. There are also still worries over Brexit, over changing patterns of trade, over an increasingly interventionist industrial policy. All of these factors may influence share prices in the short-term. However, we believe that the strongest companies can still thrive in this environment. They just have to be chosen with care.

The Murray Income Trust aims for high and growing income with capital growth, by investing in a diverse portfolio of companies with the potential for earnings and dividend growth. We focus first on quality, then price, measuring a company's potential on the strength of its management team, its cash flow and balance sheet. We strive to build a diversified portfolio that will be resilient in all market conditions. ■

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.

Charles Luke

Senior Investment Manager
Murray Income Trust PLC

Charles Luke is a Senior Investment Manager on the UK and European Equities Team having joined Aberdeen in 2000. Charles started his career at Framlington Investment Management in 1998, covering UK equities. Charles graduated with a BA in Economics and Japanese Studies from Leeds University and an MSc in Business and Economic History from the London School of Economics.

Find out more at www.murray-income.co.uk

This article is issued by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Registered Office: 10 Queen's Terrace, Aberdeen AB10 1YG. Registered in Scotland No. 108419. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.

This is a financial promotion from Aberdeen Asset Managers Limited.

Alliance Trust Savings

Improving investor UNDERSTANDING

New rules took effect in January that, among other objectives, help to provide greater protection for investors and improve transparency. Here, Alliance Trust Savings' James McCafferty introduces the *Key Information Document* for investors, one of the central building blocks of these important reforms.

What is it?

The Key Information Document (KID) has been introduced by the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation. It provides investors with standardised information about the products covered by that regulation. This includes most types of investment fund (including investment trusts), insurance-based investment products and structured products. It doesn't include pensions though, or directly-held shares and bonds.

The information given in a KID must be set out in a way that is "fair, clear and not misleading" and it has to be concise too – only providing information that investors really need.

> The idea behind the Key Information Document is that it will be easier for investors to understand and compare different options.

What will it tell me?

A KID will give you the following information[1], which must be presented in the order shown:

- What is this product?
- What are the risks and what could I get in return?
- What happens if the firm providing this product is unable to pay out?
- What are the costs?
- How long should I hold it and can I take money out early?
- How can I complain?
- Other relevant information

Here we show a copy of a new KID to give you a feel for what to expect.

KEY INFORMATION DOCUMENT

How can I use it?

The fact that KIDs are standardised is important – each document has the same sections in the same order and the methodology used (in disclosing risk and costs, for example) is the same.

The idea is that by having access to a short document like this, explaining what a product aims to do and how it works, it will be easier for investors to understand and compare different options.

Before making any future investments in an investment trust or other product covered by PRIIPs Regulation you should always read its KID first, to get a clearer understanding of what you are putting your money in to. The information provided isn't enormously detailed, but gives you the key facts you need to know and points you to where you can find out more.

Where do I get it from?

If you're buying a product that's included in PRIIPs Regulation, you have to be provided with its KID "in good time" before any binding agreement is made. It's up to the PRIIP provider to supply the KID, or any organisation that makes changes to the document supplied where they have been responsible for something like the final price you will pay for the product. That might include an adviser for example.

In Alliance Trust Savings' case, you'll be able to find the KID for relevant products in the Documents section for each product in our Investment Selector tool, available on our website or through your online account.

Weren't KIDs already available?

If the term KID seems familiar to you, that's because it could easily be confused with the KIID or Key Investor Information Document. For years, KIIDs have had to be provided for Unit Trusts, Open Ended Investment Companies and other types of funds known as UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

By introducing the KID, the PRIIPs Regulations have effectively extended the disclosures included in KIIDs to a wider range of products, so the two documents do provide very similar information. But there are some differences to be aware of in the presentation of – and methodology behind – some of the details. That includes the target market for the product, its costs, performance (the KID only includes forward-looking performance projections, whereas the KIID focuses on past performance) and the calculation of investment risk.

Eventually, all KIIDs will have to be replaced by KIDs, but this changeover isn't due until the end of 2019. In the meantime working with both types is something investors who spread their money across different types of fund will have to get used to.

Ultimately, the KIID and the KID are there for the same reason – to make sure you know what to expect from a product and are able to compare it with others. ■

[1] FCA, PRIIPs Disclosure: Key Information Documents, at 29 January 2018.

James McCafferty
Platform Proposition Manager
Alliance Trust Savings Limited

James is Platform Proposition Manger at Alliance Trust Savings and has responsibility for the ongoing development of the platform and products. He has over 15 years industry experience gained in the Intermediary Business at Cornelian Asset Managers and in previous roles with F&C and Standard Life.

Important information: This information does not constitute investment advice or a personal recommendation for any particular investment and should not be used as the basis of any investment decision. If you are unsure, you should consult a Financial Adviser before investing. The value of your investments and any income from them can go down as well as up and you may get back less than you originally invested. Past performance is not a guide to future performance.

This article is issued and approved by Alliance Trust Savings Limited. Alliance Trust Savings Limited is a subsidiary of Alliance Trust PLC and is registered in Scotland No. SC 98767; registered office, PO Box 164, 8 West Marketgait, Dundee DD1 9YP; is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, firm reference number 116115.

FINDING VALUE IN UNCERTAINTY

James Goldstone, portfolio manager of Keystone Investment Trust plc, discusses his outlook for the months ahead and why he continues to see value in the UK equity market.

Looking across the market at the start of any year can be a daunting prospect; so far, 2018 has proven to be no exception. The growing list of things to worry about – monetary policy, geopolitics and domestic politics continue to rank high among my current concerns, providing a backdrop to my investment process.

My approach revolves heavily around stock picking, and I shape the portfolio in the context of a number of top-down working assumptions about how I believe the world will look over the next few years.

Putting the portfolio in context

The most important of these assumptions is around my view on inflation and the likely trajectory of interest rate policy. The fall in sterling following the EU Referendum quickly flowed through to the prices of food, energy and fuel. However, sterling's recent recovery against the dollar means the CPI (Consumer Price Index) is likely to be at or close to peak for now and is a factor in the market's view that interest rates will rise only very gradually. This potentially misses the significance of wage inflation. Private sector wage growth is above 3%, the 1% cap on public sector pay has been lifted and at the bottom end of the pay scale, wages will continue to accelerate thanks to increases in the national living wage and a tightening labour market, whereby the gap between job vacancies and the number of adults seeking employment is growing. The Bank of England has signalled consistently that inflation expectations drive monetary policy and wage inflation is surely the biggest driver of those expectations.

This leads to several conclusions: firstly that the risk to UK base-rates and market rates of interest is to the upside; secondly, in the near-term the recent decline in real disposable income is set to reverse, providing some tailwinds to UK consumption and the revenues and margins of companies exposed to the UK consumer; and finally, that the pound could see substantial upside and in the process dent the earnings of export-led and internationally-based businesses, while expanding disposable incomes further.

Winners and losers

The impact of all this could be significant given that the last several years in the equity market has left the share prices of companies exhibiting 'value' characteristics,[1] relative to those exhibiting 'growth' characteristics,[2] at levels rarely seen in the last forty years. Money has poured into so-called 'bond proxies' (equities which are viewed as having relatively predictable returns but higher yields than the bond market) and shares of companies perceived as capable of growing in a low growth environment. If the percieved wisdom that the low growth, low interest rate environment is permanent proves erroneous, sector rotation and the resultant correction in share prices could be dramatic.

The principle risk to this scenario is the outcome of the Brexit negotiations. Whilst the exit process will inevitably continue to generate headlines about the economic impact of a good deal or of no deal, I believe that an agreement will be reached that avoids unnecessary mutual pain. An intervening period of brinksmanship will likely bring volatility to the UK stock market, but over time I expect this to present unusually attractive investment opportunities.

The second risk to a domestic resurgence is the rise of the Labour party. While a Labour majority in the commons would turn the scenario above on its head, it is difficult to envisage another General Election over the next 24 months and therefore I don't perceive the threat to be imminent.

Value approach

I have therefore tilted my portfolio towards companies that I believe offer undervalued exposure to a better domestic out-turn than is generally expected. This has resulted in significant holdings in domestically focused UK banks and life insurers, where valuations are very depressed.

I have also invested in a number of UK companies which, exposed to UK consumption, stand to benefit if the consensus outlook for continued negative real wages and weak demand fails to materialise. I have selected exposure to the consumer across small and big ticket leisure, retail and RMI (repair, maintenance and improvement) companies at what I consider to be attractive valuations and backed by strong balance sheets and disciplined management teams.

While valuation at the point of purchase is critical, portfolio diversification remains a key priority. I have retained – or increased – broad exposure to international earnings where I believe valuations remain appealing, as is the case with select holdings in the oil and gas sector. Management of BP and Royal Dutch Shell have successfully adapted their business to the reality of a lower oil price: BP have achieved cashflow breakeven at a US$50 per barrel oil price and guided that they could achieve this at US$35 in time.

To conclude, the world feels an increasingly uncertain place but I remain confident that my portfolio is well-positioned to navigate what lies ahead. Ultimately I am looking for businesses with strong balance sheets, high barriers to entry and the ability to expand market share and the potential to deliver a compelling total return, comprising both income and capital growth. ■

Investment risks

The value of investments and any income will fluctuate (this may partly be as a result of exchange rate fluctuations) and investors may not get back the full amount invested.

When making an investment in an investment trust you are buying shares in a company that is listed on a stock exchange. The price of the shares will be determined by supply and demand. Consequently, the share price of an investment trust may be higher or lower than the underlying net asset value of the investments in its portfolio and there can be no certainty that there will be liquidity in the shares.

The investment trust may invest in derivatives. This means that the net asset value of the investment trust may, at times, be highly volatile. The use of derivative instruments involves certain risks (including market or communication breakdown, counterparty failure and credit risk) and there is no assurance that the objectives for the use of such instruments will be achieved.

The investment trust may use borrowings to invest in the market. The use of borrowings may enhance total return when the value of the investment trust's assets is rising, but it will have the opposite effect when asset values fall. The use of borrowings may increase the volatility of the share price and the net asset value per share. In certain circumstances, the investment trust may be required to repay borrowings and this could adversely affect income and capital returns.

1. Value stock: companies with low price relative to earnings valuations.
2. Growth stock: companies whose earnings are expected to grow at an above average rate relative to the market.

Important information: *Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.*

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/ investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

Invesco Perpetual

James Goldstone
Portfolio Manager
Invesco Perpetual

James joined the UK Equities team in August 2012 and was appointed manager of the Keystone Investment Trust plc portfolio in April 2017. He also manages other UK investment trusts together with equity pension and pan-European equity mandates.

Prior to joining Invesco Perpetual, James was co-head of pan-European sales at Banco Espirito Santo in London. James began his career in pan-European equity sales at Credit Lyonnais in 2001 and went on, via HSBC and Dresdner Kleinwort, to specialise in UK equity sales.

James graduated with a First Class Honours Degree in French from Manchester University.

For more information on our products, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD) and the latest Annual or Half-Yearly Financial Reports. This information is available on www.invescoperpetual.co.uk

This article is issued by Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority.

This is a financial promotion from Invesco Fund Managers Limited.

THE SCOTTISH
Investment Trust

Alasdair McKinnon
Manager
The Scottish Investment Trust

Alasdair joined the Company in 2003 and became Manager in 2015.

He has 18 years of diverse global investment experience and a distinctly contrarian investment philosophy. He and his team take a highly active, differentiated approach to investment.

Alasdair has an MA (Hons) in Economic & Social History from the University of Edinburgh and an MSc in Investment Analysis (with distinction) from Stirling University. He is a CFA® charterholder and an Associate of the UK Society of Investment Professionals.

For regular updates, opinions and contrarian thoughts, visit us at www.thescottish.co.uk

This article is issued and approved by SIT Savings Ltd, registered in Scotland No: SC91859. Registered office: 6 Albyn Place, Edinburgh EH2 4NL.

T: 0131 225 7781
E: info@thescottish.co.uk
W: www.thescottish.co.uk

This is a financial promotion from SIT Savings Ltd.

We're investing in UGLY DUCKLINGS

At the Scottish, we take a contrarian approach to global stock markets.

Our philosophy is simple. We recognise that popular stocks become overvalued while unfashionable stocks are often too cheap. We favour the out-of-favour and look for the signs of change that others overlook – and we aim to exploit this inefficiency to deliver long-term gains for our investors.

Exploiting irrational markets

By the time everyone realises that a great company is great it may no longer be the best investment. It becomes difficult to see the storm on the horizon when everyone is toasting past success.

Similarly, when a company has hit rock bottom, it can be hard to see that there will ever be good times again.

Investment markets are driven by cycles of emotion, rather than dispassionate calculation, and this leads stocks to be priced too highly in the good times and undervalued when times are bad.

This inefficiency is driven by human nature – people feel comfortable sticking with the crowd. But the herding instinct that ensured human survival in the past may not serve our best interests in financial markets. We believe it pays to ignore these instincts when it comes to making investment decisions.

By looking for positive signs of change in the out-of-favour areas of the market, and avoiding the unsustainable bubbles, we see a better balance of risk and reward.

We have the conviction to back our ideas

We are patient investors. When we see that positive change is afoot we have the conviction to back our ideas. But we know it can take time for the changes we see to be recognised by investment markets. That's why we take a long-term view.

Our high conviction contrarian approach means that when the market reassesses the out-of-favour investments we prefer, our best ideas really count.

Stand out from the crowd

Our investment approach is truly differentiated in a world awash with index trackers. We don't want to own the overpriced areas of the market so the investment portfolio is constructed without the constraints of a benchmark. This means we expect our performance to be differentiated too.

Built for uncertain times

When the market mood turns, we believe it is important to have a keen eye on risk and reward. That's particularly pertinent when markets have soared through successive highs. The recent wobbles in equity markets hint at a reassessment of the more speculative areas of the market.

In contrast, the out-of-favour areas we prefer are ripe for recognition. That's why we believe it pays to invest in ugly ducklings that can turn into beautiful swans. ■

Interested to learn more about the fund? Visit www.thescottish.co.uk

Important information: Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest.

The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. Investment Trusts are listed companies and are not authorised or regulated by the Financial Conduct Authority.

Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this promotion should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor.

This promotion is issued and approved by SIT Savings Limited, authorised and regulated by the Financial Conduct Authority.

Success in investment doesn't come easily.

It takes skill.
Conviction.
The determination to focus on your goals.
Whatever the conditions.
And the experience to find a new route when challenges arise.
As a unique investment trust, we think differently.
Like our first-ever clients, 130 years ago.
Those pioneers setting out on the Old Oregon Trail.

Today, we're pioneering a new investment style.
A high-conviction, multi-manager approach.
Delivered by eight of the world's leading equity managers.
Discovering the best opportunities.
And selecting only their best investment ideas.
Navigating risk and seeking out growth potential.
Helping investors like you aim higher with their savings.

Investing for today.
Tomorrow.
And generations to come.

When investing, your capital is at risk. The value of your investment may rise or fall as a result of market fluctuations and you might get back less than you invested.

To find out more and take advantage of this opportunity, visit alliancetrustsavings.co.uk/alliance-trust or speak to your adviser.

Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office, 8 West Marketgait, Dundee DD1 1QN.
Alliance Trust PLC gives no financial or investment advice.

Alliance Trust Savings

RISING TO THE CHALLENGE OF A CHANGING WORLD

In the 150 years since the first investment trust launched, the environment in which they operate continues to be transformed. Alliance Trust Savings' Sara Wilson reviews some of the latest developments affecting trusts and the impact they promise to have.

The Foreign & Colonial Investment Trust came into the world in 1868[1] as a vehicle through which private investors could access international investment opportunities. The same year saw the UK's last public execution, the impeachment of US president Andrew Johnson and Thomas Edison's first patent application[2].

Our world is unrecognisable from that in which Foreign & Colonial arrived but investment trusts are in many ways more relevant and robust than ever. Sales of investment trusts on platforms used by Financial Advisers for example, reached a new record high in the first three quarters of 2017, with more money invested in them across that period than in the whole of 2016[3]. Alliance Trust Savings' own share of those sales was 18% – we are the second equal largest adviser platform for investment trust sales[4].

Growing demand for investment trusts has been attributed to several factors. For instance, their ability to keep up to 15% of their income in reserve each year so that they can maintain payouts during harder periods has made them popular with investors in need of a reliable income.

New regulations rising

The dawn of 2018 brought with it two European-driven sets of regulation that promise to have a profound impact on the investment world. The Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Markets in Financial Instruments Directive II (MiFID II) both came into force in January and have direct implications for investment trusts and those who hold money in them.

The aims of MiFID II include providing greater protection for investors, improve transparency and make markets more efficient. New rules on costs and charges disclosure are perhaps the most striking elements of the package, with firms now required to give investors a statement of the total costs and charges associated with holding the product both at the point of sale and annually, and both in percentage and cash terms (that is, set out in Pounds and Pence).

If you're a customer of Alliance Trust Savings you'll begin receiving these enhanced disclosures from us over the course of 2018. Visit **alliancetrustsavings.co.uk/mifid** and read our *MiFID II: What it means for you* booklet for more information.

Hand-in-hand with the disclosure overhaul is the new Key Information Document (KID) that now provides investors with standardised information about the products covered by the PRIIPs Regulation, including investment trusts. The KID is a document all investors need to be familiar with, and Alliance Trust Savings' James McCafferty delves into the detail on page 8.

The impact of greater transparency

One potential impact of greater costs and charges disclosure is that investors become increasingly conscious of the impact of those costs on their long-term returns. Investment trusts may have an advantage over open-ended funds (such as unit trusts) here, as they typically have lower charges and tend to compare favourably in terms of long-term returns too.

Investment trusts also have Boards that keep an eye on costs and represent the interests of shareholders. For instance, Boards can respond to consistent underperformance by making changes to the trust or even taking it to a different manager.

A good model for governance?

That approach to governance may stand investment trusts in good stead for changes arising from the Financial Conduct Authority's Asset Management Market Study (AMMS) when it sets out new policies over the coming months. In the final report on the study, published last summer, the regulator identified a need for governance that aligns with the interests of investors, noting a lack of independent directors in the open-ended sector.

Challenges still to come

MiFID II, PRIIPs Regulation and the AMMS are part of a wider regulatory challenge facing the industry. In May 2018, for example the General Data Protection Regulation (GDPR) will replace the 1995 Data Protection Directive, bringing with it wide-ranging new requirements around data consent that include stringent new rules on matters such as collecting and using personal data.

Then there is the UK's departure from the European Union for investors and investment firms to think about. The longer term implications may take some time to become clearer, but the domestic focus of investment trusts – virtually all the money they attract is from within the UK – may offer the sector some insulation against some of the short-term difficulties.

How can investors respond?

Navigating the implications of external developments is a challenge that all long-term investors must get used to, whether it's riding out short-term market strife, political events or natural disasters. The wave of regulatory change sweeping through the investment world will – like many other external events – also have both short-term and more lasting impacts.

As always, it's important to keep focused on your long-term goals. But it's also useful to keep tabs on what's happening and how you might be affected. That's something we'll aim to help you with through future editions of Taking Stock. It's also a good reason to keep on reviewing your investments on a regular basis, making sure your portfolio is sufficiently diversified to withstand whatever the world throws at it. ■

1. Foreign & Colonial Investments.
2. Wikipedia, 1868.
3. Association of Investment Companies, 2017 sets new record for adviser purchases of investment companies, 10 January 2018.
4. As above.

Sara Wilson
Head of Platform Proposition
Alliance Trust Savings Limited

Sara joined Alliance Trust Savings in March 2013 as Head of Platform Proposition, taking on responsibility for the products and investment choice available on the platform. Previously, she worked for Standard Life as International Proposition Manager. Before moving to Scotland Sara worked for Xansa, a technology outsourcing company. She received a BA Honours in International Business from the University of Teesside and a Post Graduate Diploma in Marketing at Napier University, Edinburgh.

Important information: This information does not constitute investment advice or a personal recommendation for any particular investment and should not be used as the basis of any investment decision. If you are unsure, you should consult a Financial Adviser before investing. The value of your investments and any income from them can go down as well as up and you may get back less than you originally invested. Past performance is not a guide to future performance.

This article is issued and approved by Alliance Trust Savings Limited. Alliance Trust Savings Limited is a subsidiary of Alliance Trust PLC and is registered in Scotland No. SC 98767; registered office, PO Box 164, 8 West Marketgait, Dundee DD1 9YP; is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, firm reference number 116115.

REGARDS from SHANGHAI

I've seen the future and it probably works. I'm writing an hour after the privilege of a meeting with Jack Ma. The founder of Chinese internet giant Alibaba was in especially ebullient mood as he was preparing for the start of Singles Day – a company invented occasion that now attracts a TV audience twice the size of the US Super Bowl and dwarfs any other shopping day anywhere in the world be it online or traditional. Alibaba expects to process 360,000 transactions a second in the coming 24 hours. No other company in the world comes close to this scale.

Singles Day and Alibaba symbolise developments that are transforming our economic and social lives. The forces set in motion are highly likely to dominate our lives and financial markets. Alibaba's rise encapsulates the ascent and challenges of the power of technology, its scale signals the awesome power of a small number of giant corporations and its example is a harbinger of an age of Chinese progress and global leadership that is barely grasped in even the most ambitious forecasts.

Why does Alibaba promote Singles Day? It's great publicity for sure and probably helps boost the business overall. But that's not the point. As Mr Ma explained it's a stress test for the future. In about eight years' time Alibaba thinks it will be dealing with such volumes every normal day – around 10-12 times current average levels.

"Singles Day and Alibaba symbolise developments that are transforming our economic and social lives."

The logistics systems need to learn how to cope. Alibaba's human and machine scientists need to see how such unparalleled data sets can be sorted and interpreted to further strengthen links to individual customers.

At present the US and China compete for global leadership in machine learning and artificial intelligence. But it's likely that in the next decade Chinese leadership will become firmly established. As Martin Lau of Tencent (the other Chinese technology giant to have added a mere $200 billion of market value in 2017) puts it, scale is more of an advantage to China in a data age than it was in the manufacturing era. And in turn data is the most important factor of production in our new economy. From the delivery of food through to autonomous driving, this gives brilliant and blindingly ambitious Chinese entrepreneurs a giant canvas to work on.

There follow wider and beneficial consequences. It's already clear that Alibaba, Tencent, Baidu and a host of their smaller and usually affiliated brethren are expanding progress in data into early explorations of the potential to improve healthcare and education after the paralysis of recent decades. In these contexts parallel efforts in China and America are more likely to be helpfully symbiotic than damagingly exclusive. That's great for us all. In healthcare the combination of data empowering personalised medicine, and the collapse in the price and rise in performance of genomic sequencing, will permit far earlier and better diagnosis of health problems. Advances in gene therapy and synthetic biology ought to match cures with diagnosis for all their societal challenges.

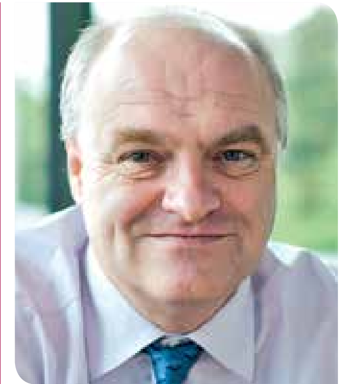
But let's refocus on the specifics of Alibaba and the Chinese economy. Alibaba recently celebrated its 18th birthday. Revenue growth was 61% in the quarter to September 2017. As the company points out, China's per capita GDP has compounded at an annual rate of 14% over the last 18 years. This means that the average citizen is almost 10 times better off than when Alibaba was born. With its help, China now possesses the most advanced mobile internet technology in the world. China's physical infrastructure is also modern and often superb. Education levels are generally high. Social solidarity is strong.

So why would China stop growing? As I discussed with Jack Ma, shouldn't we instead be thinking that China has every chance of being as rich as America on a per capita basis? Although this will take time to come to fruition, if 7% annual growth continues for another decade then even Anglo-American commentators might have to acknowledge a shifting world order. In any case pessimism about world growth would have proven rather exaggerated.

For markets it's only companies of the significance and scale of Alibaba, and tectonic shifts in perception such as China potentially becoming as rich as America on a per capita basis, that are worthy of attention. There's a persistent illusion that the normal is of relevance. It isn't. It matters not one iota to long-run market returns that British GDP turns out to be a decimal point or two higher or lower than expected. It's only of interest to traders, speculators and investment banks if quarterly earnings reports exceed or disappoint expectations. As recent academic research has confirmed, most stocks don't even outperform bonds over their lifetime. Just ignore the daily nonsense. Throw market forecasts in the nearest bin. Investment life is best lived in the exponential extremes. We're lucky to live in an era where companies and economies can grow to the sky. ■

Important information and risk warnings: The views expressed in this article should not be considered as advice or a recommendation to buy, sell or hold a particular investment. Some of the views expressed are not necessarily those of Baillie Gifford. Investment markets and conditions can change rapidly, therefore the views expressed should not be taken as statements of fact nor should reliance be placed on them when making investment decisions. This article contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Please remember that the value of a stock market investment and any income from it can fall as well as rise and investors may not get back the amount invested.

BAILLIE GIFFORD



James Anderson
Investment Manager
Scottish Mortgage Investment Trust

James graduated BA in History from Oxford University and after postgraduate study in Italy and Canada he gained an MA in International Affairs in 1982. He is a Trustee of the Johns Hopkins University. He joined Baillie Gifford in 1983 and became a Partner in 1987. He headed our European Equity team until 2003 when he co-founded our Long Term Global Growth strategy and has been the Manager and then Joint Manager of Scottish Mortgage Investment Trust since 2000.

This article is issued by Baillie Gifford & Co Limited and does not in any way constitute investment advice. All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

This is a financial promotion from Baillie Gifford & Co Limited.

Investment trust TOP 20s

Take a look at which investment trusts Alliance Trust Savings' customers have been buying.

These tables are based on the monetary value of purchases made by our investors on the dates stated below. They do not give any indication of the investment performance of the investments trusts stated. This information is provided for educational and informational purposes only. Any commentary provided should not be considered as a personalised recommendation and no reliance should be placed on the rankings of any investment trusts in making investment decisions.

Investments can go down as well as up and investors can get back less than they originally invested. If you are unsure if a particular investment trust is suitable for you, you should seek independent financial advice before making any investment decision.

Investments trusts may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV), meaning that a relatively small movement down or up, will result in a magnified movements in the same direction, of that NAV. This may mean that you could get back nothing at all. ■

Top 20 for 2018 to 20 February

1	Scottish Mortgage Investment Trust
2	Alliance Trust
3	Personal Assets Trust
4	Worldwide Healthcare Trust
5	Schroder European Real Estate Investment Trust
6	Monks Investment Trust
7	Witan Investment Trust
8	City of London Investment Trust
9	Foreign & Colonial Investment Trust
10	Edinburgh Investment Trust
11	Finsbury Growth & Income Trust
12	RIT Capital Partners
13	Baillie Gifford Shin Nippon
14	Templeton Emerging Markets Investment Trust
15	Pantheon International
16	Merchants Trust
17	JPMorgan European Smaller Companies
18	HICL Infrastructure Company
19	TR Property Investment Trust
20	Blackrock Frontier

Top 20 in January 2018

1	Alliance Trust
2	Scottish Mortgage Investment Trust
3	Personal Assets Trust
4	Worldwide Healthcare Trust
5	Monks Investment Trust
6	Witan Investment Trust
7	Baillie Gifford Shin Nippon
8	Blackrock Frontier
9	Templeton Emerging Markets Investment Trust
10	City of London Investment Trust
11	Miton Global Opportunities
12	Merchants Trust
13	RIT Capital Partners
14	TR Property Investment Trust
15	HgCapital Trust
16	Foreign & Colonial Investment Trust
17	Finsbury Growth & Income Trust
18	Edinburgh Investment Trust
19	JPMorgan European Smaller Companies
20	Jupiter European Opportunities

Don't let time pass you by

You have until 5 April 2018 to take advantage of tax savings opportunities for the current tax year.

Should you wish to open a new ISA or top up an existing Account with us, here's some important dates to keep in mind:

Action	Cut off dates
Open a new Stocks & Shares ISA or SIPP	3 April 2018 (post) and 12 midnight on 5 April 2018 (online)
If you would like to move cash from your Investment Dealing Account (IDA) to your Individual Savings Account (ISA)	12 noon on 4 April 2018
If you want to sell investments from your Investment Dealing Account (IDA) to your Individual Savings Account (ISA)	29 March 2018 for Equities 21 March 2018 for Funds
Top up any Account by cheque	Cheque needs to be received by 12 noon on 4 April 2018
Top up any Account by bank transfer	Cleared funds in our bank account by 6pm on 4 April 2018
Top up any Account by debit card	5 April 2018 (5pm by telephone or 12 midnight online)

Charges will apply for these transactions. Please refer to the *Charges Guide* on our website **alliancetrustsavings.co.uk** for full details.

Your capital is at risk. You can only contribute to one Stocks & Shares ISA each year, regardless of provider. Tax rules can change and benefits depend on your circumstances.

For more helpful information on how you can make the most of your tax savings opportunities, visit our **Tax Year End Resource Hub** at **alliancetrustsavings.co.uk/tax-year-end/** today.

Alliance Trust Savings Limited is a subsidiary of Alliance Trust PLC and is registered in Scotland No. SC 98767, PO Box 164, 8 West Marketgait, Dundee DD1 9YP; is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, firm reference number 116115. Alliance Trust Savings gives no financial or investment advice.

alliancetrustsavings.co.uk

Alliance Trust Savings Limited does not give advice. If you are unsure whether an investment is right for you, you should seek professional advice.

The articles in this magazine from other investment trusts have been paid for and as such are published without any representation or endorsement made by or from us of any kind whether express or implied, including but not limited to the opinions expressed, appropriateness of any recommendation made, fitness for a particular purpose, compatibility with any investment strategy or accuracy.

We will not be liable for any indirect or consequential loss or damage whatever (including without limitation loss of business, opportunity, data, profits) arising out of or in connection with your reliance on any article or the contents of any article contained in this Magazine.

Alliance Trust Savings Limited is a subsidiary of Alliance Trust PLC and is registered in Scotland No. SC 98767, registered office, PO Box 164, 8 West Marketgait, Dundee DD1 9YP; is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, firm reference number 116115. Alliance Trust Savings gives no financial or investment advice.

ATS GEN MAG 0025 (Spring 2018)