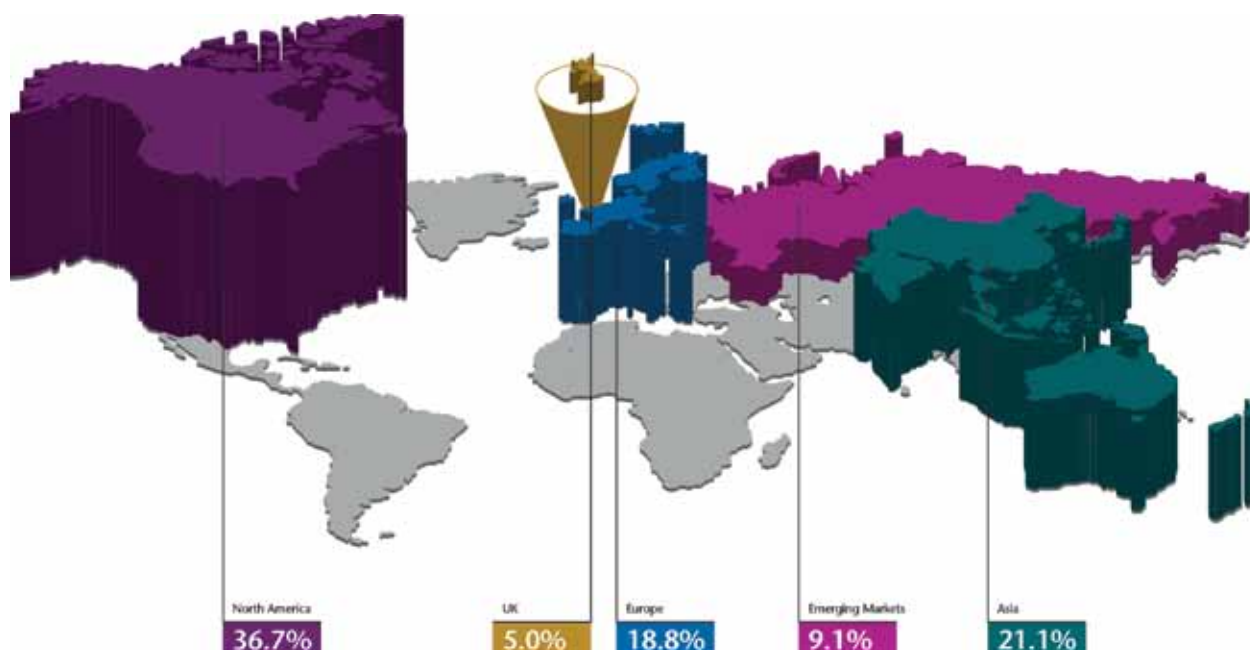


Portfolio Review

Source of Revenue†

We analyse our portfolio to determine where companies in which we have invested are generating the revenue that will be the source of the dividends that they pay to their shareholders. We believe that this analysis gives a much more accurate indication of the outlook for the companies than relying solely on where they are listed.



† Analysis excludes segmental non-specific income such as "Rest of the World" (9.3%) as the definition varies from company to company.
Source: Alliance Trust

Classification of Investments (%) Source: Alliance Trust

	North America	UK	Europe	Asia	Emerging Markets	Total Dec 12	Total Dec 11*
Energy	2.4	2.6	2.1	0.0	0.1	7.2	12.8
Materials	2.6	1.6	1.2	0.4	0.0	5.8	8.2
Industrials	5.3	1.8	1.9	0.8	0.0	9.8	14.9
Consumer Discretionary	4.0	0.7	1.2	0.9	0.0	6.7	12.9
Health Care	7.6	1.6	3.0	0.0	0.0	12.2	11.0
Consumer Staples	3.1	4.6	1.8	0.5	0.0	10.0	5.5
Telecommunication Services	0.4	0.0	0.0	1.7	0.0	2.0	3.8
Utilities	1.7	1.0	0.4	1.6	0.0	4.7	2.2
Financials	5.3	6.5	1.5	3.8	0.0	17.1	17.0
Information Technology	7.2	0.4	1.7	4.0	0.0	13.3	7.3
Core Equity Portfolio	39.5	20.7	14.8	13.7	0.1	88.8	95.6
Other Assets	0.4	0.0	0.0	0.0	0.7	1.0	1.4
Private Equity	0.0	4.8	0.0	0.0	0.0	4.8	3.1
Subsidiaries	0.0	1.7	0.0	0.0	0.0	1.7	1.2
Property	0.0	0.4	0.0	0.0	0.0	0.4	0.9
Fixed Income	0.0	9.6	0.0	0.0	0.0	9.6	5.0
Total Investments	39.9	37.1	14.8	13.7	0.8	106.3	107.2
Net Cash / (Gearing)	0.2	(6.8)	0.0	0.0	0.0	(6.6)	(7.7)
Other Net (Liabilities) / Assets	0.0	0.3	0.0	0.0	0.0	0.3	0.5
Net Assets Dec 2012	40.1	30.6	14.8	13.7	0.8	100.0	
Net Assets Dec 2011	29.4	38.6	12.8	18.1	1.1		100.0

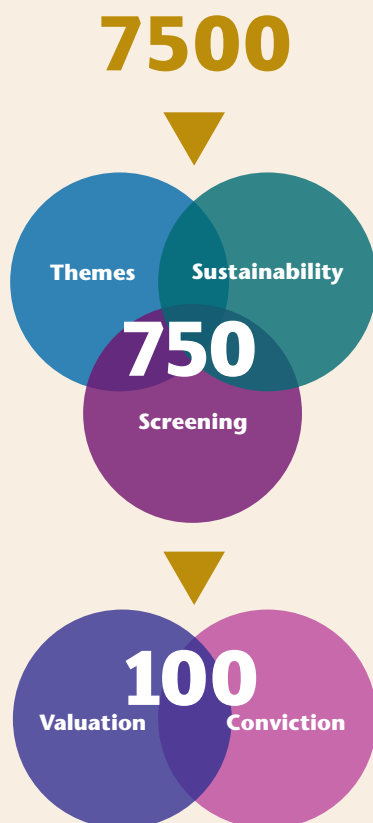
* The classification of investments in 2011 was based on FTSE sectors and in 2012 on MSCI sectors. The 2011 data has been reconfigured to provide an approximate comparator.

Portfolio Review

Our investment process has at its heart the belief that markets are inefficient and that fundamental, insightful research can uncover share price discrepancies. The investment team identifies and capitalises on these inefficiencies across global markets adding to shareholder value regardless of market cycles or a benchmark.

This philosophy leads us to a high conviction approach investing in a long-only portfolio of equities from both developed and emerging markets. In line with our unconstrained approach, the team analyses the companies in which we invest on a seamless, global sector basis, rather than by country of domicile. Based on this process and long-term investment horizon, the portfolio will tend to have a growth with sustainable income bias over time.

As part of this sustainable approach we have a filter mechanism to screen our possible investment universe of over 7,500 stocks down to around 750. The initial screen will look to align our preferred themes and sustainability criteria with the universe of stocks. This then allows us to analyse in depth the list of possible holdings for conviction and valuation to produce the final portfolio of around 100 companies.



Investment Themes

Demographics

The population of the world is now over 7bn and rising. Life expectancy is also rising and at the same time, the standard of living, particularly in Asia, is increasing.

These three factors will combine to have a significant impact on the global economy. More mouths to feed will drive up food prices and encourage producers to increase their productivity.

As standards of living rise, so the level of disposable income increases. This leads to increased demand for branded/luxury goods and financial services.

Environment

The rising cost of living and wage rates in China has led some US companies to “on-shore” production for example; bringing production back to the US as the cost differential is reduced. In response, Chinese firms are increasing levels of investment in automated systems.

We are also investigating the implications of a drive for more fuel-efficient production and transport processes which industry is going to require to implement to meet the increasingly stringent targets on emissions being set by regulators all over the world.

Innovation

The rise of the smartphone has spawned a whole raft of innovations that will drive commerce in the future. The pace of change is relentless and is not restricted to technology in its purest sense. We are also closely following developments in personalised medicine which relies on the analysis of an individual patient’s DNA to tailor drug programmes to their particular needs, something that has only become possible as the cost of DNA analysis has shrunk from \$10m to \$10,000 over the last 12 years.

Portfolio activity

Changing Eating Habits:

We have initiated positions in Novo Nordisk in Denmark and Charoen Pokphand Foods in Thailand which has an attractive yield and dividend growth profile. In the case of Novo Nordisk one of the key drivers has been an increase in the incidence of diabetes in emerging economies.

Emerging Luxury:

We also initiated a position in Coach, a US luxury goods manufacturer which has a growing footprint in South East Asia.

Financial Services Penetration:

We created a new position in Bangkok Bank as we recognise the increasing level of demand for financial services in areas previously not well served by financial services.

Case studies

Novo Nordisk is a Danish healthcare company and a global leader in diabetes care with over 50% of the total insulin market. It continues to see strong sales driven by existing market growth with the adoption of modern insulin and an uplift from new products. Penetration of diabetes in emerging countries, in China for example, is a long-term growth driver and the growth potential for this company is what led us to our investment decision.

Asian Automation:

We have increased the Trust's position in a Japanese company called Fanuc which we have held for a number of years.

Sustainable Transportation:

We created new positions in BorgWarner, a US Auto Components maker, and Cummins Inc. a global leader in the design, manufacture and distribution of power generation systems, based in the US.

Fanuc is the global leader in robotics and factory automation. It benefits from the structural growth in wages in Asia, in particular China, which drives the need to improve productivity. Substitution of labour by automated facilities has been the key driver of growth for Fanuc not only in Asia but also in the rest of the developed and emerging world. This potential as a sustainable provider of growth is what initially attracted us to the stock.

Smart Communications:

During 2012 we initiated a position in Qualcomm, a US electronics company, as well as in the South Korean company Samsung Electronics.

Personalised Medicine:

In the pharmaceutical sector we created a new position in Roche of Switzerland.

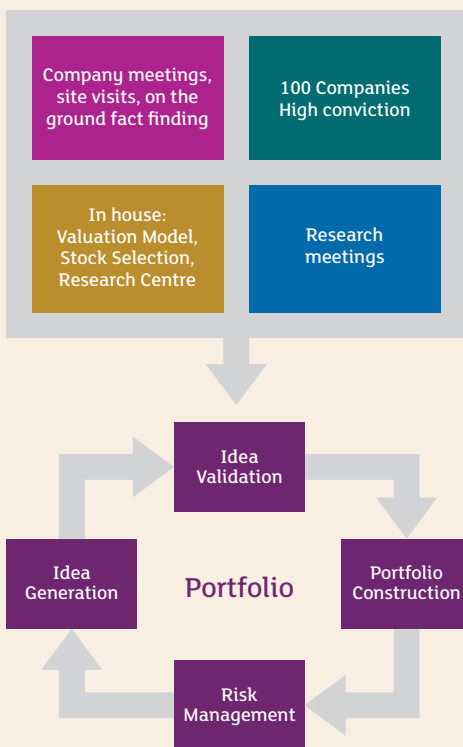
E-commerce:

We also created a new position in Google, the US Internet and software services company.

Qualcomm, the US semiconductor company and leader for mobile phone applications, is now one of our largest holdings. The investment rationale is that it plays on smartphone growth and 3G/4G adoption. Because of its strong market position it is insulated from intensifying competition in the market related to competing handset styles and operating systems. This gives it a sustainability and stability of earnings which makes it attractive as an investment.

Portfolio Review

Investing with an unconstrained approach allows the team to look across global equity markets without reference to a benchmark. The team adopts a disciplined investment process which assists in generating ideas for the long-term. The emphasis is first and foremost on stock specific opportunities. Typically, the team seeks to exploit inefficiencies in a stock's long-term discount to intrinsic value. The team's emphasis is always on bottom-up, stock specific opportunities and identifying complementary structural themes which assists it in analysing and forecasting long-term sustainable corporate development and financial performance. The typical investment horizon is 3-5 years. However, within the boundaries of this disciplined investment and risk management process, the team can also take opportunistic and shorter-term investment decisions.



We are committed to building and maintaining relationships with the companies in which we invest and as such, endorse the updated UK Stewardship Code, which promotes dialogue between shareholders and boards. We continue as signatories of the UN Principles for Responsible Investment (UN PRI) which advocates environmental, social and corporate governance considerations when taking investment decisions. We actively engage with other investors through the UN PRI initiative as part of an international network of investors working together to promote a more sustainable global financial system. As such we do not participate in any stock lending activities.

We have a link to our Stewardship Policy Statement on the Company website as well as a report on all our voting activities which are also detailed on page 26.

Investment Themes

Global Realignment

We are seeing a shift of power from West to East. Coupled with this is the development of new consumer markets in Asia. Opportunities are developing for companies used to operating in ex-growth markets to expand in these more vibrant economic environments. These opportunities are not without risk and we look here for companies that have a strategy and the capability to execute in these new markets.

At the same time we are looking for companies in these new markets which are able to grow alongside their home markets.

Income

The Trust aims to generate around £52m of income after tax in order to cover the cost of the dividend paid to shareholders. Most parts of the investment portfolio contribute to this. The Alliance Trust Monthly Income Bond Fund generates a running yield of 6% and the bulk of the remainder will come from the equity portfolio.

When investing, we look at the sustainability of income in a variety of ways – one of which is to ensure that balance sheets are strong with good dividend cover and positive cash flow.

Portfolio activity

Case studies

Banking Consolidation:

We created a new position in Wells Fargo, a US bank, in July following detailed analysis of the company and an evaluation of the sector following the banking crisis.

Turnaround:

The German company Henkel, a leading provider of laundry, beauty care and adhesive products to the consumer and industrial sectors, attracted us because of its market position and valuation and we have initiated a position during 2012.

Wells Fargo is a US commercial bank. It benefits from a talented management team, diversified business mix and a retail deposit base that drives one of the highest Net Interest Margins amongst its US peers. Its revenues and cost synergies have been successfully extracted from acquisitions and it has a sustainability of Return on Equity that has been underappreciated by the market. Within an industry that remains under pressure, Wells Fargo is one of the few institutions that has continued to post strong financial results benefiting from its trusted position in a changing sector.

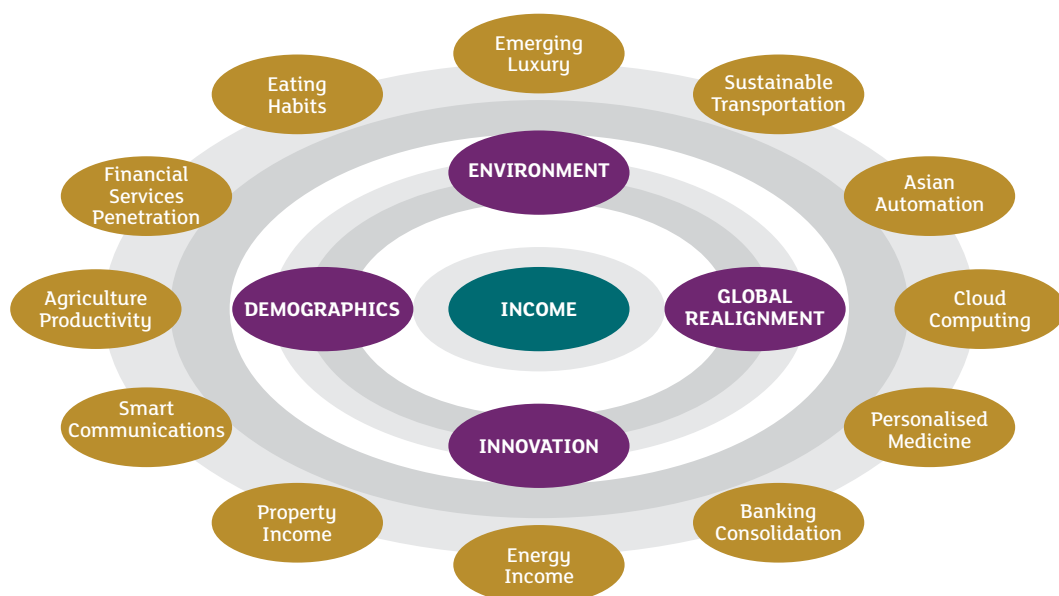
Energy Income:

We have increased our position in Enterprise Products Partners in the US, ENI in Italy and Total in France. All these companies have delivered consistently strong dividends over the past twelve months.

Property Income:

We have increased our position in Ascendas, a Real Estate Investment Trust company (REIT), based in Singapore. It is Singapore's first and largest listed business space and industrial real estate investment trust with a diversified portfolio of 101 properties in Singapore and one property in China.

Enterprise Products Partners is the largest US provider of pipelines to producers and consumers of natural gas liquids (NGLs), crude oil, refined products and petrochemicals. It has good prospects related to the growth in oil and gas production expected to come from the US shale gas industry. It also has positions in the oil and dry gas sectors which are growing. 75% of sales are via "take or pay" contracts making earnings very reliable. Our analysis concluded that the sustainability of growing income was undervalued by the market.



Portfolio Information

All quoted equity holdings as at 31 December 2012

Stock	Country of listing	Sector	Value £m	% of quoted equities
Pfizer	United States	Pharmaceuticals	58.0	2.9%
Samsung Electronics	South Korea	Semiconductors & Semiconductor Equipment	55.4	2.8%
Qualcomm	United States	Communications Equipment	53.0	2.7%
Royal Dutch Shell	United Kingdom	Oil Gas & Consumable Fuels	52.0	2.6%
United Technologies	United States	Aerospace & Defence	46.6	2.4%
Enterprise Products Partners	United States	Gas Utilities	38.5	2.0%
Diageo	United Kingdom	Beverages	36.8	1.9%
American Tower	United States	Real Estate Investment Trusts (Reits)	35.8	1.8%
Prudential	United Kingdom	Insurance	34.0	1.7%
Express Scripts	United States	Health Care Providers & Services	33.5	1.7%
CVS Caremark	United States	Food & Staples Retailing	33.1	1.7%
Apple	United States	Computers & Peripherals	32.3	1.6%
HSBC	United Kingdom	Commercial Banks	31.8	1.6%
Unilever	United Kingdom	Food Products	31.8	1.5%
Mattel	United States	Leisure Equipment & Products	28.9	1.5%
Coach	United States	Textiles Apparel & Luxury Goods	28.5	1.4%
Total	France	Oil Gas & Consumable Fuels	28.3	1.4%
Philip Morris	United States	Tobacco	28.3	1.4%
Henkel	Germany	Household Products	27.8	1.4%
Danaher	United States	Industrial Conglomerates	27.5	1.4%
Standard Chartered	United Kingdom	Commercial Banks	26.7	1.4%
Sanofi	France	Pharmaceuticals	26.1	1.3%
National Grid	United Kingdom	Multi-Utilities	25.4	1.3%
Legal & General Group	United Kingdom	Insurance	25.4	1.3%
Wells Fargo & Co.	United States	Commercial Banks	25.3	1.3%
GlaxoSmithKline	United Kingdom	Pharmaceuticals	25.1	1.3%
BASF	Germany	Chemicals	23.4	1.2%
Visa	United States	IT Services	22.8	1.2%
Microsoft	United States	Software	22.5	1.1%
Deutsche Post	Germany	Air Freight & Logistics	21.9	1.1%
Amgen	United States	Biotechnology	21.7	1.1%
Ascendas Real Estate Investment Trust	Singapore	Real Estate Investment Trusts (Reits)	21.5	1.1%
ENI	Italy	Oil Gas & Consumable Fuels	21.4	1.1%
Xstrata	United Kingdom	Metals & Mining	21.3	1.1%
Fanuc	Japan	Machinery	21.0	1.1%
Bank of Nova Scotia	Canada	Commercial Banks	20.9	1.1%
Lloyds Banking Group	United Kingdom	Commercial Banks	20.9	1.1%
British American Tobacco	United Kingdom	Tobacco	20.6	1.0%
BorgWarner	United States	Auto Components	20.5	1.0%
SABMiller	United Kingdom	Beverages	20.1	1.0%
Roche Holding	Switzerland	Pharmaceuticals	19.9	1.0%
Experian	United Kingdom	Professional Services	19.9	1.0%
Taiwan Semiconductor Manufacturing Co.	Taiwan	Semiconductors & Semiconductor Equipment	19.7	1.0%
Oceaneering International	United States	Energy Equipment & Services	19.6	1.0%
Monsanto	United States	Chemicals	19.5	1.0%
RSA Insurance Group	United Kingdom	Insurance	19.5	1.0%
BHP Billiton	United Kingdom	Metals & Mining	18.1	0.9%
Praxair	United States	Chemicals	18.0	0.9%
Cerner	United States	Health Care Technology	17.7	0.9%
Cummins	United States	Machinery	17.3	0.9%
China Gas Holdings	Taiwan	Gas Utilities	17.2	0.9%
Ericsson	Sweden	Communications Equipment	17.1	0.9%
SAP	Germany	Software	17.1	0.9%
Union Pacific	United States	Road & Rail	16.8	0.9%
Kabel Deutschland Holding	Germany	Media	16.7	0.9%
Pearson	United Kingdom	Media	16.7	0.8%
AmerisourceBergen	United States	Health Care Providers & Services	16.6	0.8%
Adecco	Switzerland	Professional Services	16.5	0.8%
Australia & New Zealand Banking Group	Australia	Commercial Banks	16.4	0.8%
DaVita HealthCare Partners	United States	Health Care Providers & Services	16.3	0.8%
Ashmore Global Opportunities	United Kingdom	Mutual Fund	16.3	0.8%
Google	United States	Internet Software & Services	16.3	0.8%
Telecom Corp. of New Zealand	New Zealand	Diversified Telecommunication Services	15.0	0.8%
Axiata Group Berhad	Malaysia	Wireless Telecommunication Services	14.7	0.7%
Novo Nordisk	Denmark	Pharmaceuticals	14.6	0.7%
Hyundai Mobis	South Korea	Auto Components	14.5	0.7%
Mosaic	United States	Chemicals	14.5	0.7%
InterOil	Canada	Energy	14.3	0.7%

All quoted equity holdings as at 31 December 2012

Stock	Country of listing	Sector	Value £m	% of quoted equities
AstraZeneca	United Kingdom	Pharmaceuticals	14.3	0.7%
Plum Creek Timber Company	United States	Real Estate Investment Trusts (Reits)	14.2	0.7%
Rolls-Royce Holdings	United Kingdom	Aerospace & Defence	14.1	0.7%
Bangkok Bank	Thailand	Commercial Banks	13.9	0.7%
Perusahaan Gas Negara	Indonesia	Gas Utilities	13.8	0.7%
Charoen Pokphand Foods	Thailand	Consumer Staples	13.1	0.7%
Marsh & McLennan	United States	Insurance	12.4	0.6%
BNP Paribas	France	Commercial Banks	11.5	0.6%
BG Group	United Kingdom	Oil Gas & Consumable Fuels	11.0	0.6%
Malayan Banking	Malaysia	Commercial Banks	10.7	0.5%
Accenture	United States	IT Services	10.3	0.5%
Melrose Industries	United Kingdom	Machinery	10.3	0.5%
SNAM	Italy	Gas Utilities	10.1	0.5%
Bank Rakyat Indonesia	Indonesia	Commercial Banks	10.0	0.5%
Apache	United States	Oil Gas & Consumable Fuels	10.0	0.5%
Allianz	Germany	Insurance	9.9	0.5%
ARM Holdings	United Kingdom	Semiconductors & Semiconductor Equipment	9.9	0.5%
Baidu	China	Software and Services	9.6	0.5%
Verizon Communications	United States	Diversified Telecommunication Services	9.6	0.5%
Power Assets Holdings	Hong Kong	Electric Utilities	9.5	0.5%
Amcor	Australia	Containers & Packaging	9.0	0.5%
VTECH Holdings	Hong Kong	Communications Equipment	9.0	0.5%
Metropolitan Bank & Trust	Philippines	Commercial Banks	8.6	0.4%
SoftBank	Japan	Wireless Telecommunication Services	7.8	0.4%
Housing Development Finance	India	Thrift & Mortgage Finance	7.7	0.4%
Lottomatica	Italy	Hotels Restaurants & Leisure	7.0	0.4%
BEC World	Thailand	Media	6.9	0.3%
BPZ Resources (Conv. Note 6.5%:2015)	United States	Energy	6.8	0.3%
M1	Singapore	Wireless Telecommunication Services	3.6	0.2%
Fook Woo Group Holdings	China	Household and Personal Products	0.3	0.0%

Funds as at 31 December 2012

Fund	Country of listing	Sector	Value £m
Alliance Trust Monthly Income Bond Fund	United Kingdom	Collective Investment	169.6
Alliance Trust Global Thematic Opportunities Fund	United Kingdom	Collective Investment	164.1
Alliance Trust Dynamic Bond Fund	United Kingdom	Collective Investment	51.0
Alliance Trust European Equity Fund	United Kingdom	Collective Investment	48.6
Alliance Trust North American Equity Fund	United Kingdom	Collective Investment	45.2

Other Assets as at 31 December 2012

Investment	Country of listing	Value £m
Private Equity	United Kingdom/Europe	41.9
Subsidiaries	United Kingdom	122.4
Property	United Kingdom	9.1
Mineral Rights	North America	8.9

A full portfolio listing, similar to that displayed above, will be available on a monthly basis on our website at <http://investor.alliancetrust.co.uk/ati/investorrelations/holdings.jsp>



£1.9bn

value of investments under management and advice, a **248% increase**

£1.2bn

value of new business from deal with Aviva Investors

75%

of the funds under management and advice were in the **1st or 2nd quartile** of their peer group over the year

Alliance Trust Investments was founded to use the investment skills of our managers and to create a business managing third party assets which would generate value for the Trust. We have made progress this year through the significant increase in third party assets under management and advice and have in 2012 taken a meaningful step towards achieving profitability.

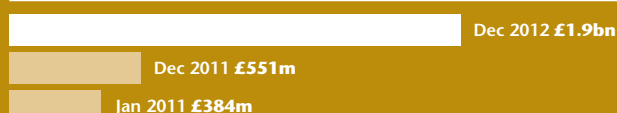
In August, we entered into an agreement with Aviva Investors under which we engaged a team of specialist Sustainable and Responsible Investment (SRI) managers. After the year end, we assumed the management of £1.2bn of third party assets in SRI funds which we had advised on during the second half of the year. The Sustainable Future Fund range is invested across equities and fixed income.

Following the restructure of the Trust's investment team we reviewed our range of funds, and closed three where we felt that they would be unable to attract sufficient third party investments to be profitable. We launched a new fund, the Dynamic Bond Fund, which uses a target return strategy investing in a full range of bonds as well as bond derivatives. The strategy was developed specifically to address the needs of the UK institutional investor and discretionary fund managers. We consulted with a number of leading market participants as we recognise the challenges faced by the institutional market in times of low yields, high volatility and elevated potential for economic collapse to occur.

We have increased the availability of our funds through reaching agreements with fund platforms to extend their distribution. Alliance Trust Funds are now available on six of the top nine retail platforms in the UK market.

We are beginning to attract greater interest from institutional investors. After the year end we entered into two investment management agreements with institutional investors for almost £50m of assets.

Assets Under Management and Advice



Third Party Assets Under Management and Advice



Key Strengths

We have a number of key strengths which position us well in the market.

- Investment Managers – we have a team of experienced and specialist investment managers who, between them, have previously managed significant third party assets at leading investment houses.
- Investment Performance – five of our funds were top quartile performers over the year and the Monthly Income Bond Fund ended the year as the best performing fund in its sector.
- Investment Choice – we have a wide range of funds available to suit both institutional and retail investors.

Strategy

- We will become established as a leading specialist fund manager focusing on SRI, global equities and fixed income.
- We will build a balanced business through both wealth managers and institutions.
- We now have a more substantial range of funds and, with our expanded team, will be recognised as one of the top SRI managers in the European market.
- We will look for opportunities to grow our business through appropriate strategic partnerships where they are consistent with our own culture and values.

Outlook

Although the business was launched in 2009, market conditions since then have extended our start-up period. The significant increase in assets under management and advice during 2012 will flow through to higher revenues from 2013. We continue to consider additional options to accelerate our path to profitability.

Financial Performance

Net revenue

Alliance Trust Investment's 111% increase in net revenue was due to five months of fees from the SRI advisory assets commencing August 2012, £0.5m performance fees (13% of net revenue), fees from £203m seed capital invested by Alliance Trust in newly launched ATI funds (Global Thematic Opportunities Fund and Dynamic Bond Fund) and fees from Alliance Trust's investment in the ATI Monthly Income Bond Fund.

Average third party basis points

The average 43 basis points earned on third party revenue reflected the bias of the portfolio towards fixed income funds, where typically management fees are lower, during the year prior to the transfer of the SRI advisory assets.

Expenses

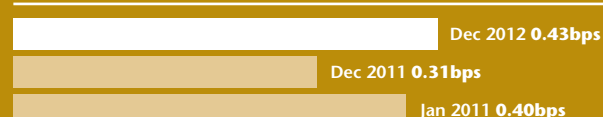
Expenses increased by an annualised £3.2m. The increase was due in part to the one-off acquisition costs of the SRI funds and the additional recurring running costs of that team.

Net assets

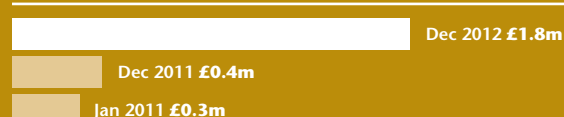
During the year Alliance Trust invested £10m in the business reflecting the additional capital required to support the larger assets under administration and advice following the SRI assets transfer.

	2012 £m	2011 £m
Net Revenue	3.8	1.8
Expenses	10.4	6.6
Operating loss	(6.6)	(4.8)
Net assets	8.6	1.8

Third Party Average Net Revenue



Third Party Net Revenue





£4.1bn

assets under administration
an increase of **21%**

Alliance Trust Savings has been simplified and is now well positioned to perform profitably throughout 2013. We completed a programme of transformational change which included the disposal of its SSAS business and, after the end of the year, its Full SIPP business.

The platform business made strong progress during the last year with assets under administration increasing by 21% and representing a 4% share of the direct client market.

Alliance Trust Savings is now in an excellent position to expand its platform business and capitalise on the opportunities in a market anticipated to see significant growth over the next five years. We have already witnessed such growth in Australia and the US, where the platform markets are more mature.

386,767

number of trades during the year,
an increase of **10%**

Additionally, the advent of the Retail Distribution Review (RDR), which will bring in transparent charging for advice and platforms, plays directly to the strengths of Alliance Trust Savings as it becomes increasingly known as a champion of pricing transparency and as one of the few platforms where customers can access funds with low management charges. We plan to promote these benefits through a significant advertising and marketing campaign in 2013 targeted at the intermediary channel which currently represents around 10% of business inflows. This will become a key area of focus for Alliance Trust Savings as we seek to exploit the opportunities in this channel.

The Alliance Trust Savings proposition is to offer a high quality trading platform for direct and intermediary clients, which delivers value for money together with award winning service.

£0.4m

loss generated on continuing
operations in the year, against a
loss last period of **£2.3m**

Continuing Operations

Assets under Administration

	Dec 12	£4.1bn
	Dec 11	£3.3bn
	Jan 11	£3.2bn

Revenue

	Dec 12	£9.6m
	Dec 11	£6.9m
	Jan 11	£6.9m

Key Strengths

We have a number of key strengths which position us well in the market.

- Fixed Fee pricing – we have a simple fixed fee structure.
- Investment Choice – we have one of the broadest ranges of investments in the platform market.
- Quality of Service – we have won a number of service level awards during the year.
- Alliance Trust – we have the backing of a strong parent independent of banks and life company product providers.
- Retail Distribution Review – we already offer transparent pricing.

Strategy

- The key drivers for the business are customer account numbers and trading volumes, our strategy is to grow both over the coming years by a continued focus on our customer proposition.
- To continue to automate and simplify the business to improve efficiencies.
- To enhance our Intermediary proposition to position ourselves as the leading secondary platform in the market.

Outlook

The Platform business is well placed to exploit emerging market opportunities to grow the business, resulting in the delivery of increasing profits and value to shareholders.

Financial Performance (continuing operations)

Revenue

Revenue increased 39% reflecting the increase from non-interest income following the introduction of quarterly charges on the Investment Dealing Account from August 2012, higher platform SIPP charges, 6% growth in customer account numbers and a 10% increase in dealing volumes. Net interest income, which now accounts for only 27% of revenue, remained flat at £2.6m despite an increase in average customer deposits reflecting the reduced deposit rates paid by banks.

Expenses

Expenses remained broadly flat compared to the prior period despite the increased cost of regulatory compliance. Savings achieved during the year were reinvested to ensure that business operations were scalable for future growth.

Net assets

During the year Alliance Trust invested £2m in ATS.

Continuing operations*	2012 £m	2011 £m
Revenue	9.6	6.9
Expenses	(10.0)	(9.2)
Operating loss	(0.4)	(2.3)
Net assets	18.8	17.1
Core Tier 1 Ratio	20.7%	17.8%
Total Capital Ratio	27.6%	25.4%

* Excluding the revenue and expenses relating to the SSAS business, which was sold during the year, and the Full SIPP business which was sold shortly after the year end.

Number of Trades

	Dec 12	386,767
	Dec 11	350,717
	Jan 11	356,205

Customer Accounts

	Dec 12	74,231
	Dec 11	70,186
	Jan 11	63,547

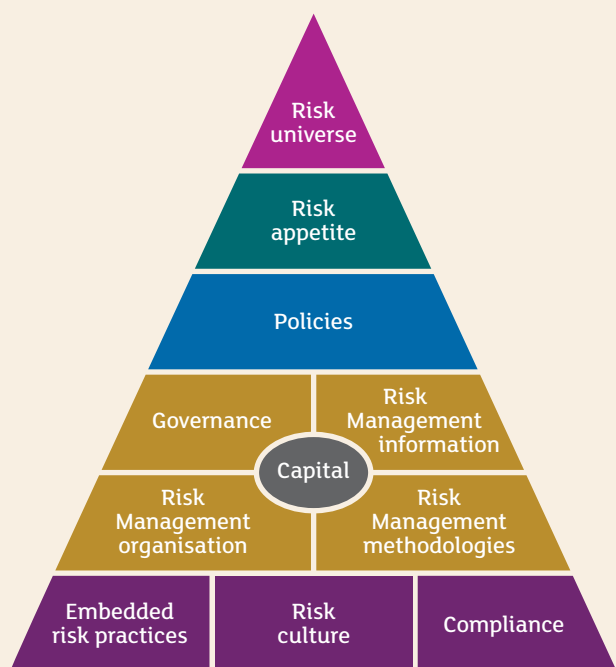
Risk Factors

The Company's risk management strategy is to identify events and scenarios that may impact the business and to manage these within the risk appetite set by the Board.

Risk Management Framework

Primary responsibility for oversight of the Group's Risk Management Framework which is shown below rested with the Risk Management Committee (formerly the Risk Committee) which is chaired by the Finance Director and comprises representatives from Alliance Trust and each of its regulated subsidiaries. The Risk Management Framework is designed to ensure that the key risks facing the Group are identified, monitored, assessed and controlled. There is clear ownership and accountability for the day to day management of risk across the Group with risk management practices embedded within business operations.

For 2013 we decided to enhance the level of scrutiny applied to risk within the business by establishing a Board Risk Committee to focus on the oversight of the risk management framework.



Principal risks

Strategic Risks

Building investment credibility is dependent on the performance of the portfolio.

The ability to pay a steadily increasing dividend depends upon portfolio structure and income generation.

The Trust may borrow money for investment purposes. If the investment falls in value, any borrowings will magnify the extent of this loss. Borrowing facilities may not be renewed.

A lack of understanding of the Trust and its objectives could lead to a lack of demand and a widening of the discount to Net Asset Value.

Market Risks

The Trust currently invests primarily in equities and in fixed income securities and its principal risks are therefore market related and include counterparty and market risk (currency, interest rate and other price risk). An explanation of these risks is included in note 23 on pages 77 to 84.

Over the counter derivatives are used in the fixed income funds managed by Alliance Trust Investments both for efficient portfolio management and for investment purposes.

Operational Risks

One of the key risks to which all investment trusts/asset management firms are exposed is operational risk. The operational risks to which the Group is exposed include:

Loss of key personnel; business continuity; management of third parties/suppliers; fraud and other criminal acts; conflict of interest; processing failures, including administration/dealing errors and breach of investment mandates; the number of significant business change initiatives and the volume of regulatory change.

Legal, Regulatory & Disclosure risks

The Financial Services sector continues to experience significant regulatory change at national and international levels.

The FSA will split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) in 2013. Risks include uncertainty over roles and responsibilities and the likelihood for increased costs.

Mitigation

What we did in 2012

The performance of the Trust and the income derived from investments is regularly reported and monitored.

Compliance with investment risk parameters and policies is monitored and regularly reported.

Borrowing levels and facilities require the prior approval of the Board. Debt levels are regularly monitored and reported. Borrowing commitments are with different banks and with different maturity dates. The majority of the Trust's investments are in quoted equities that are readily realisable.

The Trust's investment strategy has been widely communicated. Meetings are also held with key institutional shareholders.

- Portfolio restructured with four regional equity portfolios amalgamated into the global equity portfolio and number of equity holdings reduced to around 100.
- Appointed Head of Performance & Investment Risk to oversee and develop the investment performance and risk management model.

The Asset Allocation Committee meets quarterly to oversee the allocation of capital between and among the asset classes approved by the Board.

Exposure to market risk is assessed through stress and scenario testing of the Group's portfolios.

Counterparty/concentration limits are in place for all financial instruments including bank deposits.

The Group's Research Centre supports the management of market risks by providing analysis of economic and socio-economic issues.

- Stress tests undertaken considering extreme market movements in equity markets, bond prices, interest rates, commodity prices and foreign exchange rates.
- Developed and implemented formal, documented processes for risk management of derivative investments.

The risk management framework seeks to identify and mitigate key risks. Policies have been implemented to manage key person risks. Continuity of Business plans are maintained. The supplier management framework controls risks from significant third party service providers. The Group operates an anti-financial crime policy and controls to minimise exposure to fraud, money laundering and market abuse. Segregation of duties and oversight of controls mitigate against the risk of conflict of interest and process failures.

Project management disciplines are employed with reporting to management committees.

- Further enhancement of reporting of key risks and effectiveness of the control frameworks and refinement of group risk appetite statements.
- Risk Management Committee terms of reference expanded to include investment risks.
- Risk Management Committee strengthened with Chief Investment Officer and new Head of Performance and Investment Risk becoming members.
- Continuity of Business plans extended to include plans to manage a crisis resulting from Euro zone failures.
- External review of IT security.
- Effective oversight of major initiatives including transfer of SRI funds and team from Aviva (completed February 2013) and sale of SSAS business (completed June 2012) and Full SIPP business (completed January 2013).

The Group maintains a forward radar of forthcoming regulatory changes. Preparedness for implementation of regulatory change is assessed by the Risk Management Committee.

We have system based controls and monitoring systems to ensure compliance with relevant regulations. Breaches are reported to the Audit Committee and Board.

- Dedicated resource allocated to monitoring and management of regulatory forward radar.
- Monitoring plans developed using a risk based approach approved by the Audit Committee.
- Prudential and Conduct Risk strategies developed reflecting changes in the supervisory structure.

Corporate Responsibility



“In this section of the report we report on our approach to our investors, customers, employees, the wider community and the environment. In addition to delivering long-term, consistent and strong investment performance, in order to achieve our vision of being the UK’s most trusted investment and savings business, we must operate in a sustainable way, taking into account the interests of our other stakeholders. We have set priorities for each of these groups, as outlined below.”

Katherine Garrett-Cox

Marketplace – meeting the expectations of our investors and customers

Our priorities are:

- To consider all of the risks, including non-financial and reputational risks, when we take investment decisions
- To offer competitive products in which our customers can invest with a clear understanding of the likely risks and returns.

Alliance Trust PLC and Alliance Trust Investments are signatories to the Stewardship Code and also to the UN Principles for Responsible Investment. Together these set out a framework within which investors can take account of environmental, social and corporate governance issues in their day-to-day activities. Our stewardship policy, which explains how we meet the provisions of the Code, and details of our voting activity is published on our website.

Our policy is to vote whenever practicable – in most cases we support management but we will engage with management and ultimately vote against their recommendations where we believe that the proposals are not in shareholders’ interests.

During the year we voted as follows:

In favour of management recommendations	129
Against management recommendations	5

Votes against management were mostly in respect of US companies and in favour of an independent chairman, against an individual executive director’s compensation and in favour of shareholder proposals on appointment of Board members.

We engage with our own shareholders, not only at the time of our AGM but also throughout the year, meeting both institutional and individual shareholders on a regular basis to explain company performance and developments. We also publish monthly factsheets giving additional information on current performance and portfolio structure.

Alliance Trust Investments and Alliance Trust Savings offer straightforward and fairly-priced investment and savings vehicles. Our commitment to customer service was recognised when Alliance Trust Savings won the Shares Award 2012 for best customer service.

To remove the risk of undue influence and bias which might adversely affect the interests of investors and customers, we have adopted a policy on conflicts of interests, information on which is available on our website. Our employees are also subject to a Code of Business Conduct, setting out the behaviours we expect of them, and rules on the giving and receiving of gifts and hospitality.

Workplace – providing an environment in which our employees can realise their full potential

Our priorities are:

- To maintain a safe and discrimination-free working environment
- To offer all employees opportunities to learn and develop new skills for the benefit of the Company and themselves.

We aim to ensure the safety of our employees through a health and safety management framework comprising a health and safety policy which is communicated to all staff, clear allocation of responsibilities, regular risk assessments to ensure that proper controls are in place, recording of accidents and “near misses”, and an annual audit of compliance.

Our employees are entitled to work in an environment which promotes diversity and removes the threat of discrimination both at the time of recruitment and throughout their time with the Company. We enforce this through clearly-communicated policies and procedures, with sanctions for non-compliance. These policies ensure that we meet our responsibilities to disabled employees. Where employees have concerns which they are unable to discuss with their own manager, we operate a confidential whistleblowing facility.

We are committed to involving our employees in the progress of the Company. In addition to team meetings where matters specific to individual business areas are discussed, we regularly hold all-company briefing sessions to report on company performance and future plans for the business. For 2013 we are relaunching our intranet to give our employees better access to information about the Company. Since 2001 Alliance Trust has operated an All-Employee Share Ownership Plan, allowing employees to receive an allocation of free shares each year based on the Company’s performance once they have been employed for at least six months. The average number of shares in the Company held by our employees is over 4,400.

Community – playing our part to support the wider community

Our priorities are:

- To support the disadvantaged, particularly young people, in our local community
- To promote a sense of responsibility in our own employees.

During 2012 we sponsored the Alliance Trust Cateran Yomp for a second year. This 52 mile team event based on the

Cateran Trail in Perthshire and the Angus Glens attracted 400 participants, double that of the 2011 event, including 48 employees. The event raised more than £370,000 through sponsorship and entry fees and the proceeds were distributed between ABF the Soldiers’ Charity, Youth Business Scotland (part of the Prince’s Trust) and the Alliance Trust staff foundation. In addition to participating, employees undertook a variety of fund-raising activities for the event raising a total of £27,000 which was matched by the Company.

We also continue to encourage employees to undertake volunteering activities. During 2012 a total of 14 days were spent by employees at the Brae Dundee Riding Ability Centre.

Environment – managing the impact of our direct operations on the environment

Our overarching aim is to minimise our environmental footprint.

During 2012 we continued to work towards ISO 14001 accreditation at our Head Office in Dundee, undertaking initiatives to minimise office energy consumption and business travel and to improve our environmental data recording.

The following outcomes were achieved during the year;

- An absolute reduction of approximately 5.9% (or 50 tonnes CO₂e) in our carbon emissions
- Reductions in electricity consumption at Head Office of 2.6%
- Reduction in overall air travel of 12%

Carbon footprint report

Alliance Trust’s carbon footprint has been estimated in line with the WRI/WBCSD Greenhouse Gas Corporate Accounting and Reporting Standard (GHG Protocol) and Defra guidelines.

Scope (tonnes CO ₂ e)	2012	% Change
Scope 1: Gas, fuel oil, petrol, refrigerant	166	-4.8%
Scope 2: Electricity	486	-3.0%
Scope 3: Business travel	247	-11.7%
Total	898	-5.9%
Tonnes CO₂e per employee	3.36	-3.1%

Source: Corporate Citizenship
Scope 1 and 2 excludes property investments.