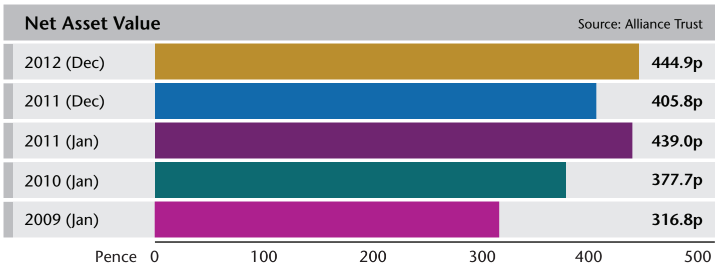
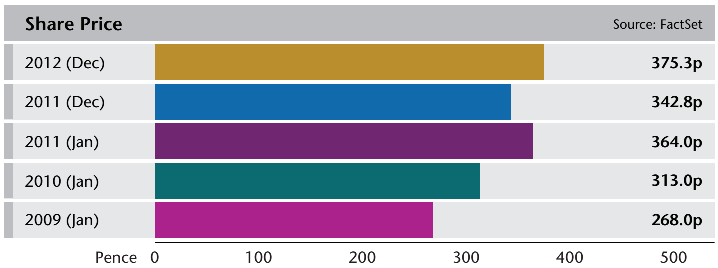
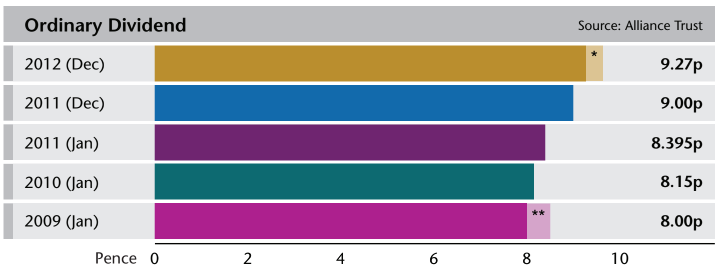
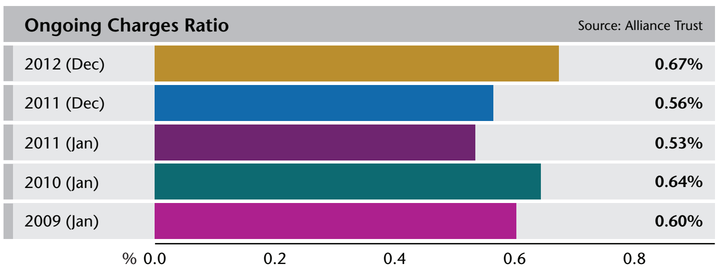
Company highlights







*special dividend of 0.36p
**special dividend of 0.5p



444.9p

Net Asset Value Total Return
in line with the Global Growth Sector

NAV
Total Return
12.1%

375.3p

Total Shareholder Return
in line with the Global Growth Sector

Total
Shareholder
Return
12.4%

9.27p **Ordinary Dividend**

0.36p **Special Dividend**

The total **Dividend** increased by **7%**

3%
+
4%

0.67%

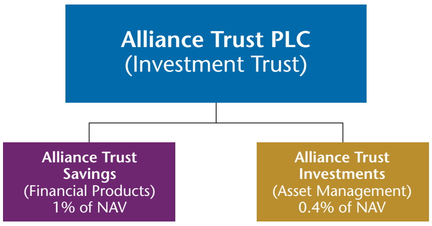
The **Ongoing Charges Ratio**
(formerly Total Expense Ratio)
increased by 11 basis points

Ongoing
Charges Ratio
11bps

Our business

Who we are

Alliance Trust PLC



We have two wholly-owned subsidiaries which are held as investments on which the Trust seeks to make a commercial return. Alliance Trust Investments has taken a meaningful step toward profitability by significantly increasing third party assets under management and advice and Alliance Trust Savings is now well positioned to perform profitably throughout 2013.

We are an investment and savings business with a 125 year history of building investor wealth.

We are the UK's largest generalist investment trust by market value listed on the London Stock Exchange. As at 31 December 2012 we had net assets of nearly £2.5bn.

We offer our investors, clients and customers a unique portfolio of products and services which have all been designed with a particular need in mind. From a renowned investment trust to an innovative range of investment strategies and funds and a multi-award winning investment platform where investors can host their ISA, SIPP or investment account.

Our focus is investment in global equities and fixed income, which we believe will provide good long term growth and income. We also hold other investments where we see that value can be achieved over a longer period.

What we said we would do in 2012

"We will continue the work that has been taking place over the last few years and which has been aimed at streamlining the portfolio to deliver improved investment performance.

We will seek to deliver strong performance in order to narrow the discount between our Net Asset Value and share price."

Alliance Trust Investments

We are a specialist fund management business which launched its first fund in 2009 and which offers a broad selection of open ended funds and investment solutions. As at 31 December 2012 the value of investments under management and advice was £1.9bn.

Our purpose is to utilise the experience and skills of our investment managers to provide a flexible and bespoke service which will aim to attract third party assets. This is raising the Trust's profile and, through the management fee income earned as the level of investments grows, will provide an additional revenue stream.

"We will launch new funds where we have the appropriate level of skills and identify a demand. In addition to the existing funds, all of which are available to individuals as well as institutional investors, we will increase awareness of the skills of our investment team to attract third party fund management mandates."

Alliance Trust Savings

Since 1986 we have been providing a convenient way for shareholders to hold shares in Alliance Trust. Today we provide high quality financial products to private investors, financial advisers and discretionary fund managers.

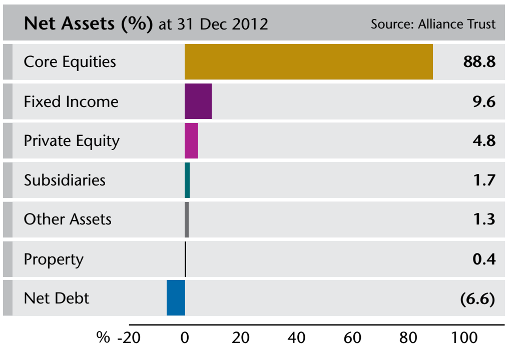
Over the last three years we have restructured the business and it is now an established, award winning, investment platform providing access to a wide range of shares and investment funds.

The focus is to have a business which both adds value and increases the visibility of the Trust to potential investors.

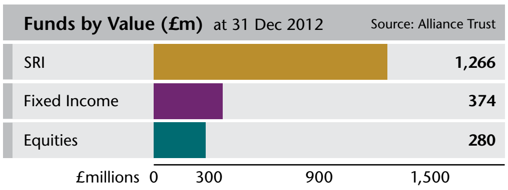
"We will build on the growth and momentum achieved in recent years. We will continue to enhance our customer and adviser propositions and further significantly develop our online capabilities. Our i.nvest platform is well positioned in both the retail and intermediated markets to take full advantage of the changes being introduced through the Retail Distribution Review in 2013."

What we did in 2012

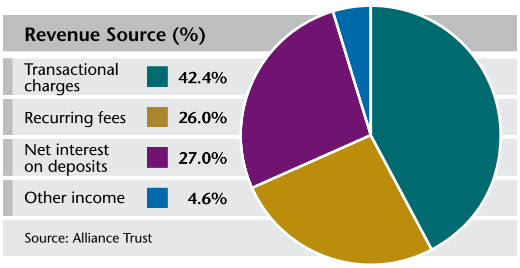
- In July, we announced the restructuring of the four regional equity portfolios into one global portfolio. This led to a reorganisation of the investment team.
- We reduced the number of direct equity holdings to around 100 holdings and will aim to take larger positions in the companies in which we invest than we have done in the past.
- The Total Shareholder Return of 12.4% and the NAV Total Return of 12.1% are in line with that of the Global Growth Sector for the year.



- We integrated the Sustainable and Responsible Investment (SRI) team and a £1.2bn portfolio of funds from Aviva Investors into our business.
- We launched the Dynamic Bond Fund.
- The Monthly Income Bond Fund was the best performing fund in its sector at the end of the year and continues to attract third party inflows.
- We closed three funds in order to focus on the three core areas of Global Equity, Fixed Income and SRI.



- We divested the SSAS business during the year and the Full SIPP business after the year end.
- Our self-select investment business achieved monthly profitability by the year end.
- We won awards for Best Customer Service and Best User Experience of Direct Platforms and were highly commended for our Junior and Stocks and Shares ISAs.



What we will do in 2013

- **We will embed the changes resulting from our portfolio restructuring and continue to streamline the Company.**
- **Our focus will remain on investment performance as the most sustainable way of delivering an increasing Total Shareholder Return.**
- **We will focus on building a profitable business which will create genuine value for the Trust over the longer term.**
- **We will complete the transition of the funds from Aviva and relaunch them as Alliance Trust Investments' funds.**
- **We are well positioned to perform profitably throughout 2013.**
- **We will grow our adviser site offering as the Retail Distribution Review (RDR) drives IFAs to look at how to minimise platform costs to their clients.**

Key Performance Indicators

Statement of Investment Objective and Policy

Alliance Trust is a self-managed investment company with investment trust status. Our objective is to be a core investment for investors seeking increasing value over the long term. We have no fixed asset allocation benchmark and we invest in a wide range of asset classes throughout the world to achieve our objective. Our focus is to generate a real return for shareholders over the medium to long term by a combination of capital growth and a rising dividend.

We pursue our objective by:

- Investing in both quoted and unquoted equities across the globe in different sectors and industries;
- Investing internationally in fixed income securities;
- Investing in other asset classes and financial instruments, either directly or through investment vehicles; and
- Investing in subsidiaries and associated businesses which allow us to expand into other related activities.

We are prepared to invest any proportion of the total corporate capital in any of the above asset classes, subject only to the restrictions imposed on us by the regulatory or fiscal regime within which we operate. However, we would expect equities to comprise at least 50% of our portfolio. Changes to the asset allocation will be dependent upon attractive investment opportunities being available.

Where market conditions permit, we will use gearing of not more than 30% of our net assets at any given time. We can use derivative instruments to hedge, enhance and protect positions, including currency exposures.

Key Performance Indicators

Percentage change in Net Asset Value against the peer group over 6 months, 1, 3 and 5 years on a rolling basis.

This KPI demonstrates how our investment performance ranks against other investment trusts in the AIC Global Growth sector. We consider performance from the short to the long term.

Percentage change in Total Shareholder Return against the peer group over 6 months, 1, 3 and 5 years on a rolling basis.

This KPI demonstrates the real return to our shareholders through dividends paid and increased share value. Again we consider performance from the short to the long term.

Dividend growth over 1, 3 and 5 years.

We have a long established policy of paying an annually increasing dividend.

Management of the Company's cost base in line with market conditions.

In the current economic conditions it is important that close attention is paid to the cost of running the business.

Performance

NAV Total Return	6 Months	1 Year	3 Years	5 Years
Alliance Trust	6.2%	12.1%	19.7%	13.2%
Global Growth Sector	6.8%	12.4%	21.5%	10.5%
Out/(under) performance	(0.6%)	(0.3%)	(1.5%)	2.4%

Source: Morningstar and Alliance Trust

Total Shareholder Return	6 Months	1 Year	3 Years	5 Years
Alliance Trust	7.9%	12.4%	23.2%	19.1%
Global Growth Sector	7.0%	12.3%	23.4%	13.2%
Out/(under) performance	0.8%	0.1%	(0.2%)	5.3%

Source: Morningstar and Alliance Trust

Dividend Growth	1 Year	3 Years	5 Years
Total over the period*	7.0%	18.2%	21.9%
Compound annual growth rate*	7.0%	5.7%	4.0%

* Including special dividend

Source: Alliance Trust

Costs	Dec 12	Dec 11	Jan 11	Jan 10	Jan 09
Company Expenses	£18.7m	£16.0m	£17.0m	£16.0m	£16.8m
Ongoing Charges Ratio	0.67%	0.56%	0.53%	0.64%	0.60%

Source: Alliance Trust

What we did in 2012

NAV performance was at or close to that of the Global Growth Sector over six months, 1 and 5 years but below the sector over 3 years.

Total Shareholder Return was in line with or above that of the Global Growth Sector over all periods.

The fourth quarterly dividend will be 2.3175p, which will be paid on 5 April 2013. The total ordinary dividend will be 9.27p. A further 0.36p will be paid as a special dividend on or around 1 July 2013, making a total payment for the year of 9.63p, representing a total increase of 7% for the year.

The increase in Company expenses compared with the annualised prior period of £17.2m was mainly due to the £1m one-off reorganisation costs associated with the restructure of the investment team. The Company also benefited in the previous period from a one-off gain of £0.8m which was netted off against administrative expenses as a result of the closure of the Defined Benefit pension scheme to future accrual.

Statement from the Chair

"I am delighted to have the opportunity to present my first statement to shareholders in the same year as Alliance Trust celebrates its 125th anniversary. The nature of our business and the environment in which we operate has undergone great change since 1888, and today more than ever there is a need for us to retain the trust of those we serve."

Karin Forseke

At Alliance Trust, our culture and values are captured in our vision "to be the UK's most trusted investment and savings business". We need to demonstrate focus on sustainability in everything we do, by:

- Long-term, consistent and strong investment performance
- Focus on client relationships and customer service
- Transparent communication
- A focus on people
- Building products to meet specific needs
- Strong corporate governance

Our investment team continues to build a consistent long-term track record, following the actions which we have taken to sharpen our focus on our core capabilities of equities and fixed income. At the same time our investment and savings businesses have both reached key milestones in their development which should give shareholders the confidence that they can represent a source of value and differentiation. We have also undertaken a number of exciting new initiatives despite the continuing challenges across the markets in which we operate.

Dividend Policy

I announced the intention at our last AGM that, in light of the greater flexibility available to investment trusts following recent changes to the tax regime, the Board would review its dividend policy in the course of this year. Having completed this review we intend to retain our policy of paying a steadily rising dividend. However, we now intend, under normal circumstances, to pay out all of each year's net revenue earnings. Where our current year's earnings exceed our previously published guidance we may pay a special dividend from those earnings. We have also decided that, unless there are exceptional circumstances, we will not pay dividends out of our realised capital reserves as we believe that, in the longer term, this is not sustainable.

Dividend

Our ordinary dividend of 9.27p continues our long and proud tradition of annual increases in the dividend, now stretching into a 46th consecutive year, a record shared with only a handful of other FTSE companies. In addition, we are also announcing a special dividend of 0.36p per share, payable on or around 1 July 2013, making a total for the year of 9.63p per share, a 7% increase over the previous period. The total dividend is again paid from current year earnings. The declaration of a special dividend reflects the level of income generated last year from the companies in our portfolio, during a period when dividend growth was strong.

Discount and share buybacks

Our willingness to undertake share buybacks where we judge it to be beneficial to shareholders is now well established, and we are committed to the ongoing flexible use of buybacks, taking into account the Company's discount relative to the peer group. During the year we bought back around 5% of the Company's share capital.

The effect of our policy of buy-backs has been to reduce the volatility of the discount of our share price to NAV. During 2012, it traded in a narrower range than in any of the last five years. Over the year, the discount narrowed to 13.7% as markets rallied in the first quarter of the year, and then, along with many of the other big trusts in the sector, we saw discounts widen until late June. Thereafter, the discount has been narrowing consistently, so that it ended the year where it started, broadly unchanged, at 15.6%.

Business developments

Each of our businesses underwent change during the course of the year.

The investment portfolio was radically restructured to ensure that going forward we invest on a genuinely global basis, unconstrained by issues of regional allocation, to create long term value for shareholders.

Alliance Trust Savings reached agreement to sell its more complex Full Self Invested Personal Pension (SIPP) business and sold its Small Self Administered Scheme (SSAS) pensions business. This allows it to focus on the opportunities open to a transparently priced on-line trading platform in the new regulatory environment. After a long period of investment in the repositioning of this business it is now well positioned to perform profitably throughout 2013.

Alliance Trust Investments was successful in acquiring Aviva's Sustainable and Responsible Investment team and the funds which it managed, amounting to some £1.2bn. This gives our third party asset management business critical mass in a competitive market place and allows us to offer a product that meets the increasing demand for a sustainable and responsible approach to investments.

The Board

I would like to thank Lesley Knox for all her support, guidance and wise counsel both during her time as a Director and Chairman of your company and also to me as I assumed her role less than a year ago.

Since last year's AGM Consuelo Brooke and Chris Masters have both stood down from the Board and I record my thanks to them both for their contribution. Chris has played an invaluable role in the transition of the Board as Senior Independent Director, and we were fortunate to be able to attract Alastair Kerr as a worthy successor in this role. We also welcomed Susan Noble as a non-executive director during the year and Win Robbins after the end of the year.

A glance at the biographies of the members of the Board in this report will demonstrate the diversity of backgrounds and experience which they bring to the Board table. We have not adopted a quota or target for gender diversity on the Board because, at a time when there is increasing focus on gender diversity in other companies, we can demonstrate a long-term commitment to selecting the best candidates, regardless of gender, throughout the Company, with women currently comprising over half of the Board and one-third of the Executive Committee. Across the Company as a whole, we are constantly seeking ways to ensure that every member of our staff has the opportunity to fulfil their full potential.

A changing business environment

At a time when the financial services sector is widely mistrusted, and economies are only slowly showing signs of recovery from a long period of recession, the regulatory environment in which we operate and the level of risk which we are prepared to accept within our businesses are regular discussion topics for the Board.

The dramatically increased weight of regulation is an understandable reaction to the events of the past, and we seek to engage constructively with our regulators. We know from our own experience that the cost of regulatory compliance has escalated significantly over recent years. Regulation must, however, be proportionate, preventing excessive risk-taking while encouraging a responsible and informed approach to risk. We support a framework that encourages business and provides choice to investors and customers.

Scottish Independence

As a company, Alliance Trust does not believe it is appropriate that we should make any comment on the merits of the Scottish Independence proposals. We are, however, actively engaged with the CBI and Scottish Financial Enterprise in trying to explain and understand what opportunities and challenges may be presented to us as an investor, employer and a provider of financial products. Scottish independence might alter the landscape for regulated financial services products, although we do not expect much detail on this ahead of the referendum in 2014. As a provider of such products, we are used to operating in a constantly changing legislative environment and are adept at analysing the impact that such changes will have on our businesses and adjusting our products accordingly. We will be prepared and ready to deliver the best for our shareholders, customers and clients regardless of the outcome of the referendum on Scottish independence.

Chief Executive's Review

"In a year when trust in the financial sector has been undermined further, it makes me particularly proud to be able to deliver a Total Shareholder Return of 12.4% and an increase in our dividend for the 46th consecutive year. Once again we have been able to deliver the dividend from our current year earnings and I hope that our long term sustainable approach to investing can preserve the transparent and trusted relationship we have with our shareholders."

Katherine Garrett-Cox

Building products to meet specific needs

The Chair writes of our objective to build products to meet investors' needs and this has driven many of the changes that we have undertaken during the last five years. We have streamlined the investment portfolio and process. We have undertaken a major overhaul of Alliance Trust Savings which is now well positioned to grasp the opportunities presented by the Retail Distribution Review (RDR) and have, in Alliance Trust Investments, a viable asset management business. While the investment portfolio will drive the Net Asset Value (NAV) in the medium term, the two wholly-owned subsidiaries provide a differentiated offering in the investment trust market place and will provide value to the Trust going forward. We have moved up the peer group performance rankings and, as a result, we can tell a more confident story than we could have done in 2007.

Underpinning all these changes has been a desire to ensure that all that we do, how we do it and how it is paid for is clear for all to see. As a self-managed trust, the costs of managing the Trust are much more visible as they are itemised in the profit and loss account, rather than simply being wrapped up in the management fee that managed trusts will be charged. The advantage of this structure to our shareholders is that more of the benefits of the performance of the portfolio will accrue to the shareholder. We are also providing much more detail in these accounts on the key metrics which drive the business plans of our subsidiaries, Alliance Trust Investments and Alliance Trust Savings, in order that the reader can develop a better understanding of the revenue drivers for them and ultimately for the Trust itself.

Long-term, consistent and strong investment performance

During the year, the total return of the NAV and the share price was 12.1% and 12.4% respectively and since Christmas both the NAV and the share price have gone on to reach all time highs, whereas many market indices remain below levels reached in 2008. We do not have a fixed benchmark as we believe that this would constrain our ability to shape the portfolio to protect our shareholders capital. However, we recognise that many like to measure the Trust against an index. By way of comparison, during 2012, the total return of the Global Growth Investment Trust sector was 12.3%, FTSE All-Share Index was 12.3% and the MSCI All-Country World Index was 11.7%. Most of these gains accrued in the second half of the year following the announcement of the bailout of the Spanish Banks, the decision by the European Central Bank to buy European government bonds and latterly, the decision by the US to extend the debt ceiling in early 2013.

Over the last two years, we have reduced the level and the volatility of the discount thereby providing our shareholders with much greater levels of confidence about the ongoing relationship between the NAV and the share price. At the end of the year we had almost 90% of the portfolio invested in equity markets, as we believe that this asset class will be the best performing over the long term. We select stocks which we believe will best protect and preserve our shareholders' capital, while providing the potential to generate good returns over the long term.

At the same time, interest rates have languished at their lowest levels since records began for the last four years and we are not forecasting an early return to base rates of 5%. Against such a backdrop, we are constantly reminded by our shareholders of the importance that they place on sustainable income, both in its own right, but also as a component of total return.

Investment team and portfolio structure

In December 2008, we announced our intention to refocus Alliance Trust on its core competencies, which we defined as being investment in global equities and fixed income. Last July, we took the latest step in this process when we announced a radical change to the way in which we manage the equity portfolio of the Trust. Since 2004 we had managed the portfolio on a regional basis, but we concluded that this was failing to recognise that the world is becoming ever more interconnected and that it was not delivering the best return for the level of risk to which the portfolio has been exposed. Consequently, we combined all the equity portfolios into one and appointed Ilario Di Bon to the role of Head of Equities, with direct responsibility for managing the equity portfolio.

One of the consequences of this change is that we have been able to reduce the number of direct equity holdings to around 100 at the year end. This concentration of positions allows us to benefit from greater exposure to our best ideas. The impact of these changes can be seen in the shape of the portfolio. For the first time since 1987, the largest position in the portfolio is not a UK company and at the end of December 2012, none of the top three holdings had their primary listing in the UK. We explain more about these changes in the portfolio review section on pages 13 to 17.

This change in approach led to a reappraisal of the staffing needs of the investment team. This has also been restructured to reflect the change in focus and, as a consequence, we have reduced the headcount of the Trust's investment team by about one-third. We now run an integrated team of global sector specialists and regional income experts. Over the last 18 months we have been able to be more flexible about where the investment team is based and half of the investment team is now based in our London office, with the balance split between our Dundee and Edinburgh offices.

Income generation

Over the year we have reduced our exposure to UK listed companies and, in particular, have invested more into the US. We undertake detailed analysis to understand the difference between where a company is listed and where it derives its income as we believe that this is a much more accurate indicator as to the future prospects for the income we receive. Many Asian, European and US companies are now returning value to shareholders through dividends to the extent that we have been able to diversify the portfolio away from the UK market, where the bulk of the dividends are concentrated in a handful of stocks, to a much broader base of quality international companies. In addition we have also increased our allocation to fixed income, which now stands at over 9%, and this will allow us to focus the equity portfolio more on delivering capital growth, while still yielding income to the Trust. We anticipate that UK interest rates will remain close to the current low levels, so being able to pay a growing dividend from current year earnings will remain one of our key future objectives.

Borrowing

The Trust's low risk and liquid portfolio enables it to secure the most competitive rates for our borrowing facilities. The average rate for our current borrowings is 1.6%, which compares favourably with the rates available to other institutions. The level of net debt at the end of the year stood at 6.6%, broadly similar to the start of the year. The net amount of borrowing invested in the markets was reduced in the first half of the year as concerns in Europe continued. As the outlook improved in July, following the commitment to stabilise the financial sector, we increased net debt. We will continue to replace and renew our borrowing facilities to ensure we maintain the flexibility to enhance returns by selectively borrowing to fund the portfolio investments. In 2012 borrowings contributed 0.8% to the total return.

Focusing on client relationships and customer service

We believe that Alliance Trust provides a valuable service to the private investor and bridges the gap between the financial and the non-financial community. We employ a team of professional investors to build, manage and monitor a portfolio of assets, in order to provide our shareholders with exposure to equities from all over the world on a cost effective basis. Investment trusts were originally created for "the investor of moderate means" and that still holds true today as around 68% of the shares are either directly or beneficially held by private individuals. We consider the feedback from our large and diverse shareholder base as we formulate our strategy, aware that consistency of returns is equally, if not more important, than short-term performance.

Chief Executive's Review

Alliance Trust is unique in that there is no other investment trust with our structure, with our two wholly owned subsidiaries, providing products and services to the wider investment community. Over time we expect that these will provide added value to the shareholders of the Trust. In particular, Alliance Trust Savings provides a savings platform for over 62,000 retail investors and in the last year has won awards or been commended for all that it does; for its customer service, for its products and for the platform upon which the products sit. It has undergone significant change over the last four years and is well positioned to perform profitably throughout 2013. This comes at a time when the Retail Distribution Review is challenging the structure and provision of investment products and we expect that our business model will stand up well under such scrutiny.

Business development

Since the year end Alliance Trust has entered into an outsourcing agreement with its existing supplier of outsourced investment administration services, BNY Mellon. The agreement extends the scope of services provided by BNY Mellon to include middle and back office activities for both Alliance Trust PLC and Alliance Trust Investments.

This decision was taken, following an extensive supplier selection exercise, in order to allow us to focus on our core competencies and outsource some of the portfolio administration functions. We envisage that while this will not result in significant cost savings in the short term, the arrangement will provide a single, scalable and cost-effective solution. In addition it will allow us to shorten the time to market for new products and services, and enable management to focus greater effort and investment on those critical value adding activities of investment management and business development.

Transparent communication

Over the last 12 months we sought the views of a wide range of private investors, investment analysts, advisers and journalists on Alliance Trust. We were seeking to understand whether our current shareholders, investment analysts, advisers and journalists felt that the Alliance Trust brand was robust enough to attract the next generation of investors. This is of special relevance today as the Retail Distribution Review alters the investment landscape.

We are seen as independent, solid, committed and trusted by many loyal investors. But, at the same time, in the eyes of some, we have appeared dull, old-fashioned and boring. We recognised that we had two tasks. The first was to ensure that all our staff are better informed about all parts of the business and the second was to look at how we appear to the outside world. The logo on the front cover is the product of this project and it works to bring a more united presentation of Alliance Trust PLC, Alliance Trust Investments and Alliance Trust Savings. We will be rolling it out across the entire business over the next six months.

A focus on people

At Alliance Trust we are dedicated to developing the talent at all levels within our business. The key to our success as a business depends upon the engagement and dedication of our people and we are committed to unlocking potential and providing our people with rewarding and challenging careers. We achieve this through a combination of formal leadership programmes, which develop leadership styles and techniques, ongoing in-house training for all staff, comprehensive graduate recruitment programmes and internships. We were delighted to be able to attract a visiting Harvard Professor to deliver a thought provoking programme for our senior leaders in June 2012. We also target the leadership development of our emerging leaders to ensure that we are nurturing the next level of management for the future, through various programmes including an MBA run in conjunction with Strathclyde Business School. We devote time and energy into developing our key people and careful selection is made of established and emerging leaders to participate in key projects. We realise that the best ideas come from all levels of our business and our culture encourages contribution and challenge.

Outlook

Equity markets have started 2013 in a positive mood, with the best market performance for over 10 years, despite a number of fundamental global monetary imbalances and economic activity remaining subdued. Alliance Trust has had its best start to a year in terms of share price performance and NAV performance for over 20 years.

This highlights one of the key issues faced when positioning the portfolio for the long term. If we look in isolation for cyclical economic changes to determine which countries and sectors will do best, then we are likely to increase portfolio turnover, thus increasing costs and run the risk of misreading the economic signals and being held hostage to macro and political misadventure.

This is why we remain committed to our rigorous and thematic bottom up approach to ensure our investment decisions are focused on finding high quality companies with consistency of earnings, sound management teams and compelling business models as these companies are best placed to weather changes to market sentiment. The formal investment process is made up of four interconnecting elements of idea generation, idea validation, portfolio construction and risk management. We have targeted a portfolio of around 100 stocks, which means that we invest with greater conviction than we have in the past. This spreads the investment risk sufficiently but still allows us to deliver above market returns over the long term.

We cover the details of this thematic approach later in this report. In essence we have continued to add to our high conviction holdings such as Pfizer and Qualcomm, and have taken profits in stocks that have realised their potential and initiated new holdings in companies with sustainable long-term prospects.

Looking forward into 2013, we continue to assert that equities remain good value relative to other asset classes, particularly government bonds. At a company level we are analysing a range of interesting opportunities which meet our investment criteria and we continue to meet with management of well run businesses with strong balance sheets and valuations that are consistent with above average returns, particularly for long-term investors such as Alliance Trust.

The economic backdrop to this fundamental approach is less gloomy than last year and we forecast that the global economy will grow in 2013, albeit marginally. Many governments and financial institutions will face the challenge of repairing their balance sheets and policy makers will be faced with difficult decisions between austerity and stimulating growth. Recent market moves and the strong flow of funds into equities from bonds suggest that investors feel more confident that the outlook is improving and confidence will play a part in global recovery. However, while we do not expect the current rally to run for the rest of the year at the current pace, we are confident that our portfolio of companies is well placed to drive returns for the Trust.

Portfolio Performance Analysis

Performance

The Net Asset Value (NAV) total return for 2012, including reinvested dividends, was 12.1%. Although we do not have a formal benchmark this compares favourably with a return of 11.7% for global equity markets, represented by the MSCI All Country World Index in Sterling terms.

Equity investments, representing on average 95% of net assets, contributed 10.3% to the NAV total return. The attribution analysis table overleaf gives more information on how this performance was generated from a global sector perspective as this is more representative of how we invest than a geographical analysis.

Investments in fixed income provided over 1% to the total return. The allocation to fixed income was increased during the second half of the year to over 9%, and the investments provided a total return of nearly 23%. It was a strong year for fixed income markets in general, and the Trust's investment in the Monthly Income Bond Fund, which accounted for the majority of the Trust's investment in fixed income, had a relative positive return of 4% compared to the IBoxx Sterling Corporate Bond 5-15 year index which is the benchmark for that fund.

Other Assets – which include Private Equity, Real Estate and Subsidiaries – made a small positive contribution to NAV growth, while cash balances made a negligible return due to the continuing very low level of interest rates. Currency hedging added 0.3% (£7 million) to net assets during the year.

The low interest rate environment allowed the Trust to borrow at attractive interest rates of 1.6% on average. The average level of gearing was just under 10%. The cost of borrowing was low in relation to the returns that were earned on the Trust's investments, leading to an Allocation gain (a contribution to relative performance) of over 0.8%.

Expenses of £18.7m had the effect of reducing NAV by 0.8% during the year.

Share buy-backs, mainly in the first half of the year, led to gains of just over 1% of NAV. In total, 31.7 million shares were repurchased at a weighted average discount to NAV of 16.5%.

Contribution Analysis (%)	Average Exposure	Rate of Return	Contribution to Total Return
Equities	95.3	10.9	10.3
Fixed Income	5.5	22.8	1.2
Other Assets*	6.6	1.9	0.1
Cash & FX	2.7	16.3	0.5
Gearing (cost of borrowing)	-10.0	1.6	-0.2
Expenses			-0.8
Share Buy-backs			1.0
NAV Total Return			12.1
Effect of Discount			0.3
Share Price Total Return			12.4
MSCI ACWI Total Return			11.7

* Private Equity, Real Estate and Subsidiaries
Source: Alliance Trust

Portfolio Performance Analysis

Attribution

The Attribution Analysis table below breaks down the performance of the Trust by sector and identifies the extent to which each part of the portfolio contributed to the Trust's overall return relative to the chosen reference index, in this case the MSCI All-Country World Index. It shows the weighting of the assets in the portfolio and the index to identify where the Trust is overweight or underweight and the return of each sector or asset class in the portfolio in the index. The chosen reference index has no exposure to cash, so no weight or return is shown.

The degree of out/underperformance is then attributed to:

- Stock selection – This measures the degree to which the stocks that we held in each sector did better or worse than the sector (e.g. although we were overweight in Materials, which did not do very well relative to the index as a whole, we selected good stocks in that sector)
- Asset allocation – (e.g. we had less in Telecoms than the index, and Telecoms did not perform as well as the index as a whole).

We have analysed the portfolio by sector as this reflects the adoption, in July 2012, of a single global equity portfolio approach for the majority of the Trust's assets.

Our investment approach is now predominantly based on stock selection rather than taking deliberate active positions on a sector basis, but this provides a useful insight into the structure of the portfolio.

Stock selection was relatively strong in Materials and Utilities but relatively poor in Energy, Consumer Discretionary and Financials. From a sector allocation perspective, the underweight positions in the high-performing Financials and Consumer Discretionary sector were both minor detractors from relative performance, while the underweight in Telecommunication was beneficial as this sector lagged the broad market.

In the course of the year, as the portfolio was restructured, the weight in Health Care and Information Technology increased while the weight in Energy, Materials and Industrials decreased, based on our analysis of the attractiveness of the companies in those sectors.

Index futures were used for hedging purposes in the first half of 2012 and for efficient portfolio management in the second half of the year while the portfolio was being restructured.

The table also highlights the positive effect of both the allocation to fixed income as an asset class and the fixed income stock selection relative to the reference index.

Attribution Analysis (%)	Alliance Trust Average Weight	Alliance Trust Total Return	MSCI All Country World Index Average Weight	MSCI All Country World Index Total Return	Sector/Asset Allocation Effect	Stock Selection Effect	Total Relative Effect
Consumer Discretionary	7.6	11.7	10.4	18.6	-0.2	-0.4	-0.6
Consumer Staples	9.7	12.2	10.6	10.4	0.0	0.2	0.2
Energy	10.9	-8.7	11.3	-1.4	0.1	-0.7	-0.6
Financials	17.7	22.0	19.5	23.8	-0.2	-0.3	-0.5
Health Care	11.4	14.6	9.3	13.4	0.0	0.1	0.1
Industrials	13.0	10.9	10.4	11.6	-0.1	-0.1	-0.2
Information Technology	9.6	12.3	12.6	10.7	-0.2	0.2	0.1
Materials	7.9	14.2	7.6	6.4	-0.1	0.5	0.4
Telecommunication Services	2.5	0.4	4.6	4.3	0.2	-0.1	0.1
Utilities	2.8	11.3	3.7	-1.3	0.1	0.3	0.4
Index Futures	2.1	16.1	0.0	-	0.0	-	0.0
Equities	**95.3**	**10.9**	**100.0**	**11.7**	**-0.3**	**-0.3**	**-0.6**
Fixed Income	5.5	22.8	-	18.2	0.3	0.2	0.5
Cash, FX & Other Assets	9.3	6.1	-	-	-0.5	-	-0.5
Gearing	-10.0	1.6	-	-	0.8	-	0.8
Total	**100.0**	**11.9**	**100.0**	**11.7**	**0.2**	**-0.1**	**0.2**

Source: Alliance Trust