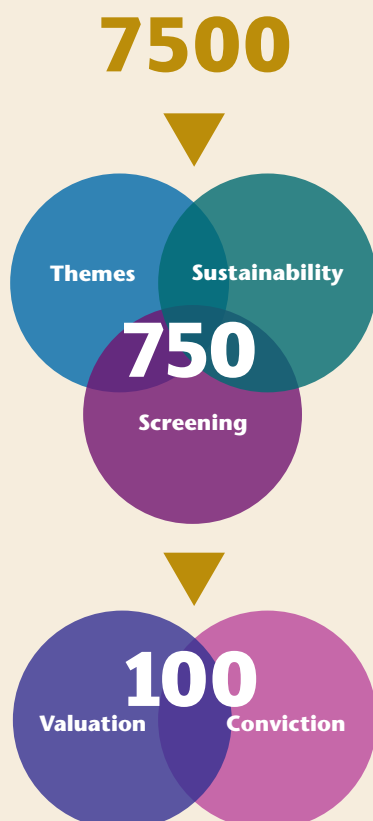


# Portfolio Review

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 thematic 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 allows us to analyse in depth the list of possible holdings for conviction and valuation to produce the final portfolio of around 100 companies.



## Description of themes

### Environment

We need to use the planet's resources as efficiently as possible and we seek out those companies which seek to benefit from more efficient resource usage.

#### Agricultural productivity:

With more mouths to feed and a finite world to feed them from, we will continue to need to produce more and more food. We invest in companies that enable farmers to increase productivity.

#### Sustainable transportation:

We must learn to do more with less within transportation industries. Searching out innovation and efficiency gains should always be on a company's priority list. We are also aware that there is additional pressure from regulators around the world who mandate stringent emissions targets for vehicles in their markets.

#### Subsea oil:

In order to supply the world's oil needs, producers are searching and extracting from sources that are increasingly hard to reach. This is an area of exciting growth and requires companies with the expertise and technologies for tough environments.

## Demographics

With the population of the world over seven billion and continuing to rise, we also see living standards and life expectancies rising, particularly in Asia.

#### Lifestyle:

Changes in lifestyle in the emerging markets have led to an increase in the incidence of what were traditionally viewed as western diseases. Diabetes is a prime example. Within this theme, healthcare companies, in particular, can help counter these diseases.

#### Financial services penetration:

Rising incomes and life expectancies increase the means and desire for financial services and savings products like pensions and life insurance.

#### Emerging luxury:

Rising disposable incomes provide the means and encourage the desire to buy luxury items.

#### Asian automation:

The downside of rising personal incomes for Asian companies is that this increases their costs. A way to offset this is through increased automation in manufacturing processes.

## Global realignment

We continue to see a shift of power from West to East. Opportunities exist for companies to expand in these more vibrant environments.

#### Banking consolidation:

The global financial crisis of 2008 ushered in a new era of banking regulation and change of business models.

#### Turnaround:

Inevitably, from time to time some companies must face up to dramatic change as a result of structural shifts in their industry or competition from innovative new methods or technologies. With thorough research on a business and its management, we can identify companies where the market has been too quick to judge the company's model as a failure, and ignored its potential for rebirth.

## List of stocks in theme

## Portfolio position

- BASF
- BorgWarner
- China Gas
- Cummins
- Enterprise Products Partners
- Glencore Xstrata
- Integrated Waste Solutions
- Melrose Industries
- Monsanto
- Noble Energy
- Oceaneering International
- Perusahaan Gas Negara
- Praxair
- Rolls-Royce
- Schlumberger
- Schneider Electric
- Seadrill
- Technip
- Volkswagen

We maintained our positions in the US based BorgWarner, an auto components maker, and Cummins, a global leader in the design, manufacture and distribution of track engines and power generation systems. Over the year we increased our exposure to the subsea oil theme. This was done by starting new positions in Schlumberger and Technip.

- Aberdeen Asset Management
- AmerisourceBergen
- Bangkok Bank
- Charoen Pokphand Foods
- Coach
- CVS Caremark
- Diageo
- Experian
- Express Scripts
- Fanuc
- Fomento Economico Mexicano
- Grupo Financiero Banorte
- Humana
- Hyundai Mobis
- Komerčni Banka
- Mattel
- Novo Nordisk
- Prudential
- Reckitt Benckiser
- Unilever
- WPP

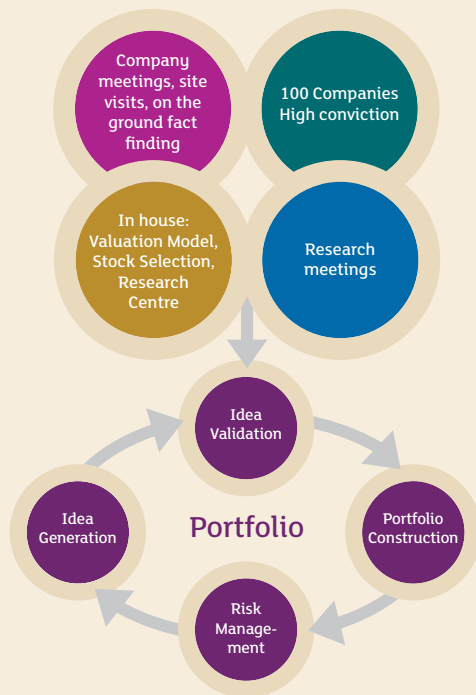
We continued to hold Novo Nordisk in Denmark, which focuses on diabetes care and offers insulin delivery systems as well as other diabetes products. We created a new position in Reckitt Benckiser, which is continuing to develop its consumer healthcare offering. Elsewhere in the UK, we sold the brewer SABMiller and the insurer RSA.

- Aviva
- Barclays
- BNP Paribas
- Citi
- Henkel
- HSBC
- Kraft Foods
- Mitsubishi UFJ Financial
- Pfizer
- Standard Chartered
- The Toronto-Dominion Bank
- Wells Fargo

We continue to hold Henkel, a German adhesives and household & personal care company as its turnaround progresses. We also started a position in Kraft, which is refocusing its business to perform solely in the well-developed US market.

# 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. At the same time the team aims to identify specific opportunities and complementary structural themes which assists it in analysing and forecasting long-term sustainable corporate development and financial performance. The typical investment horizon is three to five years. However, within the boundaries of this disciplined investment and risk management process, the team can also take opportunistic and shorter-term investment decisions. ESG scores are provided to us by MSCI for the large majority of the equity universe along with supporting documentation and ratings. We capture these scores within our investment process and they are reviewed for all companies we invest in or consider investing in.



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 are signatories to the UN Principles for Responsible Investment (UN PRI) which advocate 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. We are particularly concerned to ensure that the companies in which we invest comply with relevant employment legislation and their human rights obligations. 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 21.

## Description of themes

### Innovation

Innovation is what drives economies and humanity forward. We favour companies that are setup in such a way to constantly produce innovative new products or methods of working.

#### Smart communications:

Smartphones continue to be an essential accessory to day-to-day life and, as the technology and networks evolve, more and more users gain access to greater opportunities for communication and commerce.

#### Cloud computing:

Computing is constantly evolving and the latest step – a move to the cloud and the “internet of things” – provides opportunities for companies and consumers to use data, systems and shared services more effectively.

#### Personalised medicine:

As a result of the fascinating discoveries related to the human genome, we continue to see progress in the area of personalised medicine, with several drugs being approved in the last few years. The cost of DNA sequencing continues to fall and we believe that we are still at the beginning of this journey.

### Income

Steady, sustainable income generation can be obtained from a few sectors and industries.

#### Energy income:

Many large oil majors offer relatively high dividends as they convert their significant oil reserves into free cash flow. Meanwhile, further discoveries and the emergence of US shale give expectation of increasing additions to their portfolios.

#### Property income:

A real estate investment trust (REIT) owns assets, such as offices, apartments or even communications towers, which generate a steady stream of income.

## List of stocks in theme

- Accenture
- Amgen
- Cadence Design Systems
- Cerner
- Danaher
- GlaxoSmithKline
- Google
- Intuitive Surgical
- Liberty Global
- Qualcomm
- Roche Holding
- Samsung Electronics
- Sanofi
- SAP
- Twenty-First Century Fox
- United Technologies
- Visa
- Walt Disney

## Portfolio position

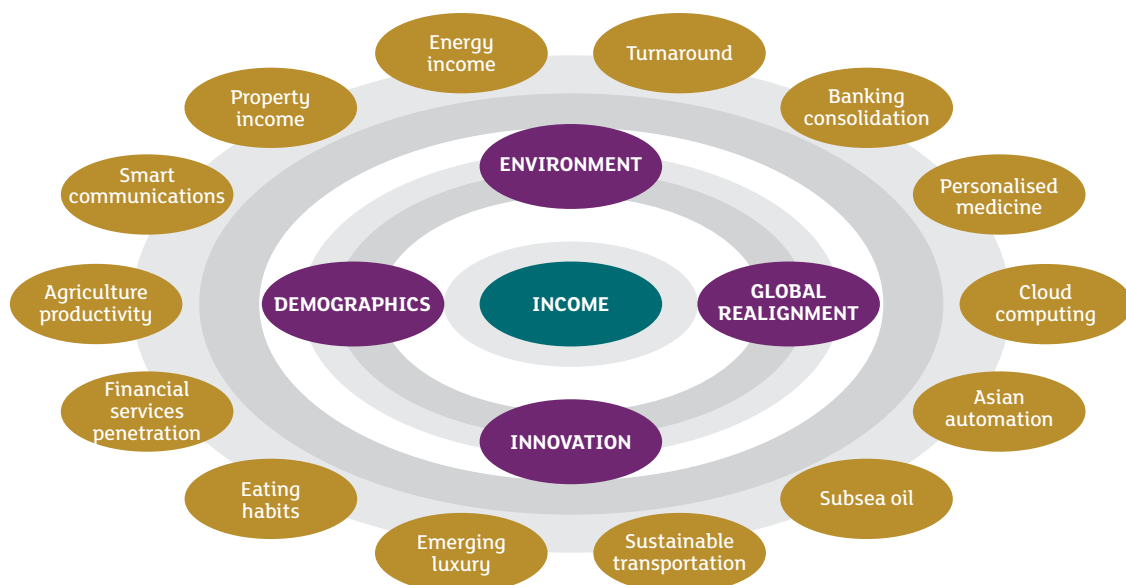
We continue to hold Qualcomm and Samsung. We added to Accenture, a leading provider of global management consulting outsourcing and IT services. We sold Microsoft, the US software company.

We continued to hold Roche of Switzerland. Amgen is another holding increasingly interested in the personalised medicine approach as evidenced by their acquisition of deCODE genetics, a global leader in analysing and understanding the human genome, based in Iceland.

- American Tower
- Ascendas Real Estate Investment Trust
- Ashmore Global Opportunities
- bpost
- Deutsche Post
- Eni
- Gtech
- Legal & General
- M1
- Marsh & McLennan
- National Grid
- Och-Ziff Capital Management
- Plum Creek Timber
- Resolution Limited
- Rogers Communications
- Royal Dutch Shell
- Swedbank
- Taiwan Mobile
- Telecom New Zealand
- Total
- Vodafone
- Vtech
- Wisconsin Energy
- Zurich Insurance

We continued to build a position in M1, a Singapore mobile voice, data communications, broadband and fixed communications services company in Singapore. We sold Axiata, a Malaysian telecommunications company.

We started a new position in Wisconsin Energy, a US utility company that operates in a benign regulatory environment.



# Portfolio Review

## Rogers Communications (Income)

(Total Return 8%. Initial investment in June 2013)

Rogers Communications operates as a diversified communications and media company in Canada, through three segments: Wireless, Cable, and Media. The company was founded in 1960 and is based in Toronto, Canada.



## Reckitt Benckiser (Demographics)

(Total Return -1%. Position acquired in May/June 2013)

Reckitt Benckiser is a global consumer goods company with leading brands in Health, Hygiene and Home products. The heart of its growth strategy is to shift its focus towards the faster growing consumer health and hygiene markets. They will also benefit from rising income and favourable demographic trends in developing countries where they are investing heavily (emerging markets will account for about 50% of non-pharmaceutical sales in 2015).



## Walt Disney (Innovation)

(Total Return 31%. Initial investment in February 2013)

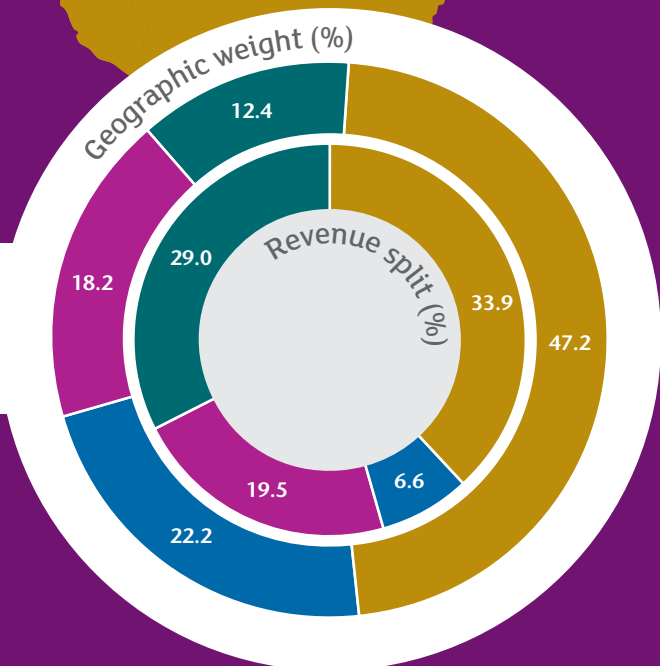
Walt Disney is a leading US media content business which benefits from growing Pay TV penetration in emerging markets as well as a very healthy US Pay TV ecosystem. Its strong media franchises such as Disney, Marvel, Cars and Star Wars can also be leveraged through its parks and resorts as well as its consumer and games business.



## Geographical weight

The geographical weight of our core equity portfolio is based on the region in which the company is listed, while the revenue split analyses the segmental reporting of revenue by the companies in which Alliance Trust invests. Analysis excludes segmental non-specific income such as "Rest of the World" (11%) as the definition varies from company to company.

- North America
- Europe
- UK
- Asia & Emerging Markets



**BNP Paribas (Global Realignment)**

(Total Return 38%. Net purchase of 200,000 shares during the year)

BNP Paribas attracts deposits and offers commercial, retail, investment, private and corporate banking services. The Bank also provides asset management and investment advisory services to institutions and individuals in Europe, the United States, Asia and the Emerging Markets.

We believe that BNP's level of capital, the integration of Fortis and its global and pan-european footprint is underappreciated.



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**China Gas (Environment)**

(Total Return 85%. Position reduced as price performed)

China Gas is one of the major gas distributors in China, which has seen volumes grow by 20% annually. The Chinese Government's drive to increase gas usage at the expense of coal is due to the huge pollution problems the country has now and which it fears will worsen. Therefore the Government has set out a key policy on supply gas growth, from which China Gas is well positioned to benefit.

**Classification of Investments (%)** Source: Alliance Trust

	North America	UK	Europe	Asia	Emerging Markets	Total Dec 13	Total Dec 12
Energy	2.6	0.5	3.9	0.0	0.0	7.0	7.2
Materials	2.0	0.9	0.9	0.0	0.0	3.8	5.8
Industrials	4.9	1.8	2.8	1.1	0.0	10.6	9.8
Consumer Discretionary	7.8	0.9	1.7	0.5	0.0	10.9	6.7
Health Care	8.4	1.3	3.3	0.1	0.0	13.1	12.2
Consumer Staples	3.1	3.1	0.9	0.6	0.8	8.5	10.0
Telecommunication Services	2.0	1.2	0.0	1.4	0.0	4.7	2.0
Utilities	2.4	1.4	0.0	1.2	0.0	5.1	4.7
Financials	5.7	10.2	2.8	2.4	1.3	22.3	17.1
Information Technology	6.8	0.0	1.3	2.3	0.0	10.4	13.3
Equity Index Futures	0.0	0.0	0.0	0.2	0.0	0.2	-
<b>Core Equity Portfolio</b>	<b>45.6</b>	<b>21.4</b>	<b>17.6</b>	<b>9.9</b>	<b>2.1</b>	<b>96.6</b>	<b>88.8</b>
Other Assets	0.5	0.3	0.0	0.0	0.0	0.8	1.0
Private Equity	0.0	4.1	0.0	0.0	0.0	4.1	4.8
Subsidiaries	0.0	1.6	0.0	0.0	0.0	1.6	1.7
Property	0.0	0.5	0.0	0.0	0.0	0.5	0.4
Fixed Income	0.0	7.6	0.0	0.0	0.0	7.6	9.6
<b>Total Investments</b>	<b>46.1</b>	<b>35.5</b>	<b>17.6</b>	<b>9.9</b>	<b>2.1</b>	<b>111.2</b>	<b>106.3</b>
Net Cash / (Gearing)	0.1	-11.7	0.0	0.0	0.0	-11.6	-6.6
Other Net (Liabilities) / Assets	0.0	0.4	0.0	0.0	0.0	0.4	0.3
<b>Net Assets</b>	<b>46.2</b>	<b>24.2</b>	<b>17.6</b>	<b>9.9</b>	<b>2.1</b>	<b>100.0</b>	
<b>Net Assets Dec 2012</b>	<b>40.1</b>	<b>30.6</b>	<b>14.8</b>	<b>13.7</b>	<b>0.8</b>		<b>100.0</b>

# Portfolio Review

## All quoted equity holdings as at 31 December 2013

Stock	Country of listing	Theme	Value £m	% of quoted equities
Pfizer	United States	Global Realignment	68.1	2.6%
United Technologies	United States	Innovation	64.8	2.5%
Walt Disney	United States	Innovation	64.2	2.5%
Qualcomm	United States	Innovation	55.9	2.2%
Prudential	United Kingdom	Demographics	52.6	2.0%
Enterprise Products Partners	United States	Environment	52.4	2.0%
Visa	United States	Innovation	50.2	1.9%
Samsung Electronics	South Korea	Innovation	49.8	1.9%
CVS Caremark	United States	Demographics	48.1	1.9%
Accenture	United States	Innovation	48.1	1.9%
Express Scripts	United States	Demographics	44.9	1.7%
HSBC	United Kingdom	Global Realignment	43.9	1.7%
Eni	Italy	Income	41.7	1.6%
National Grid	United Kingdom	Income	41.4	1.6%
Legal & General	United Kingdom	Income	38.8	1.5%
Amgen	United States	Innovation	38.5	1.5%
Wells Fargo	United States	Global Realignment	38.2	1.5%
GlaxoSmithKline	United Kingdom	Innovation	37.8	1.5%
Reckitt Benckiser	United Kingdom	Demographics	37.3	1.4%
Danaher	United States	Innovation	37.2	1.4%
Resolution Limited	United Kingdom	Income	36.5	1.4%
Deutsche Post	Germany	Income	36.1	1.4%
Vodafone	United Kingdom	Income	36.1	1.4%
Total	France	Income	35.9	1.4%
Rogers Communications	Canada	Income	35.0	1.4%
Kraft Foods	United States	Global Realignment	34.1	1.3%
Twenty-First Century Fox	United States	Innovation	33.6	1.3%
SAP	Germany	Innovation	33.6	1.3%
Swedbank	Sweden	Income	33.3	1.3%
Mitsubishi UFJ Financial	Japan	Global Realignment	32.6	1.3%
Roche Holding	Switzerland	Innovation	32.5	1.3%
BorgWarner	United States	Environment	31.8	1.2%
Sanofi	France	Innovation	31.7	1.2%
The Toronto-Dominion Bank	Canada	Global Realignment	31.1	1.2%
Barclays	United Kingdom	Global Realignment	30.6	1.2%
Noble Energy	United States	Environment	30.3	1.2%
Diageo	United Kingdom	Demographics	29.8	1.1%
Fanuc	Japan	Demographics	29.6	1.1%
Coach	United States	Demographics	28.7	1.1%
Aberdeen Asset Management	United Kingdom	Demographics	27.9	1.1%
Grupo Financiero Banorte	Mexico	Demographics	27.5	1.1%
AmerisourceBergen	United States	Demographics	26.6	1.0%
WPP	United Kingdom	Demographics	26.5	1.0%
Praxair	United States	Environment	26.2	1.0%
Melrose Industries	United Kingdom	Environment	25.8	1.0%
BNP Paribas	France	Global Realignment	25.7	1.0%
Schneider Electric	France	Environment	24.9	1.0%
Monsanto	United States	Environment	24.5	0.9%
Volkswagen	Germany	Environment	24.1	0.9%
Google	United States	Innovation	24.1	0.9%
Liberty Global	United States	Innovation	24.1	0.9%
Glencore Xstrata	United Kingdom	Environment	23.4	0.9%
BASF	Germany	Environment	23.2	0.9%
Standard Chartered	United Kingdom	Global Realignment	22.4	0.9%
Novo Nordisk	Denmark	Demographics	22.1	0.9%
Cummins	United States	Environment	22.0	0.9%
Aviva	United Kingdom	Global Realignment	22.0	0.8%
Seadrill	Norway	Environment	21.9	0.8%
Fomento Economico Mexicano	Mexico	Demographics	21.8	0.8%
China Gas	Hong Kong	Environment	21.6	0.8%
Henkel	Germany	Global Realignment	21.3	0.8%
Citi	United States	Global Realignment	20.9	0.8%
Cadence Design Systems	United States	Innovation	20.4	0.8%
Schlumberger	United States	Environment	20.2	0.8%
Mattel	United States	Demographics	19.5	0.8%
Unilever	United Kingdom	Demographics	19.1	0.7%
Zurich Insurance	Switzerland	Income	19.0	0.7%
Charoen Pokphand Foods	Thailand	Demographics	18.3	0.7%
Marsh & McLennan	United States	Income	18.1	0.7%
American Tower	United States	Income	17.7	0.7%
Oceaneering International	United States	Environment	17.2	0.7%



## All quoted equity holdings as at 31 December 2013

Stock	Country of listing	Theme	Value £m	% of quoted equities
bpost	Belgium	Income	16.5	0.6%
Bangkok Bank	Thailand	Demographics	16.1	0.6%
Gtech	Italy	Income	16.0	0.6%
Plum Creek Timber	United States	Income	15.9	0.6%
Telecom New Zealand	New Zealand	Income	15.5	0.6%
Humana	United States	Demographics	15.4	0.6%
Hyundai Mobis	South Korea	Demographics	14.7	0.6%
Wisconsin Energy	United States	Income	14.7	0.6%
Rolls-Royce	United Kingdom	Environment	14.6	0.6%
Intuitive Surgical	United States	Innovation	14.3	0.6%
Ascendas Real Estate Investment Trust	Singapore	Income	14.0	0.5%
Taiwan Mobile	Taiwan	Income	13.9	0.5%
Perusahaan Gas Negara	Indonesia	Environment	13.9	0.5%
Cerner	United States	Innovation	12.9	0.5%
Royal Dutch Shell	United Kingdom	Income	11.5	0.4%
Experian	United Kingdom	Demographics	11.4	0.4%
Vtech	Hong Kong	Income	11.4	0.4%
Och-Ziff Capital Management	United States	Income	11.2	0.4%
M1 Limited	Singapore	Income	11.0	0.4%
Technip	France	Environment	9.6	0.4%
Ashmore Global Opportunities	United Kingdom	Income	9.5	0.4%
Komerčni Banka	Czech Republic	Demographics	9.0	0.3%
Integrated Waste Solutions	Hong Kong	Environment	0.3	0.0%
<b>Total value</b>			<b>2,590.0</b>	

Source: Alliance Trust

## Funds as at 31 December 2013

Fund	Country of registration	Value £m
Alliance Trust Global Thematic Opportunities Fund	United Kingdom	205.5
Alliance Trust Monthly Income Bond Fund	United Kingdom	165.3
Alliance Trust Dynamic Bond Fund	United Kingdom	53.3
<b>Total value</b>		<b>424.1</b>

## Other assets as at 31 December 2013

Investment	Region	Value £m
Private Equity	United Kingdom/Europe	117.7
Subsidiaries	United Kingdom	39.9
Other	United Kingdom	16.8
Property	United Kingdom	14.7
Mineral Rights	North America	13.2
<b>Total value</b>		<b>202.3</b>

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





## Sustainable and Responsible Investments (SRI)

“The most profound force shaping the 21st century global economy is the essential shift to environmentally and socially sustainable growth.”

Alliance Trust Investments is a specialist fund management business offering a broad selection of open-ended funds and investment solutions.

Last year we reported that we had entered into an agreement with Aviva Investors under which we engaged a team of specialist Sustainable and Responsible Investment (SRI) managers and acquired around £1.2bn of third party assets. This year we have seen the positive impact of this transaction with an improved financial performance and increased assets under management. We are showing an operating loss for the year of £4.2m compared to £6.6m the previous year.

## Fixed Income

“We aim to use our knowledge and experience to deliver consistent above benchmark returns for our clients from global bond markets.”

Our fund managers have delivered good investment performance with over 80% of our funds being ranked in either the first or second quartile against their peers for the year.

Our SRI managers are now a core part of our business and have increased the level of retail investor funds under management. They have also attracted mandates from institutional investors seeking managers who can provide both a sustainable approach to investment and good returns. Of our seven UK Sustainable Future funds, six have out-performed their benchmark over the year and are either first or second quartile against their peers.

## Global Equities

“We search the world for the best investment opportunities, combining detailed analysis of individual companies with an assessment of how the world is changing structurally.”

Our Fixed Income funds have also proved attractive to investors and they have grown by around 4% in a sector which has seen significant outflows. Our three funds serve different markets; the Monthly Income Bond Fund provides a vehicle for retail investors seeking a regular income, the Dynamic Bond Fund is designed to provide a solution for institutions and pension schemes. The Sustainable Future Corporate Bond Fund aims to produce a higher income than government bonds by investing in bonds issued by companies that meet sustainable and responsible investment criteria. The Monthly Income Bond Fund and the Sustainable Future Corporate Bond Fund were both in the second quartile of their peer group for the year. The Dynamic Bond Fund delivered its objective of providing an absolute return of around 6% for the year.



### Assets under management



### Third party assets under management



\* including assets under advice

Our Global Thematic Opportunities Fund, which aims to achieve long-term capital growth, was launched two years ago. This year it has provided a return of 24% and is in the second quartile of its peer group. It will be marketed actively once it has built up a longer track record.

In the course of the year we closed two funds which were not core to our future strategy.

## 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 managers who, between them, have previously managed significant third party assets at leading investment houses.
- Investment performance - five of our funds were top quartile over the year.
- Investment choice - we have a wide range of funds available to suit both institutional and retail investors.

## Strategy

- We intend to continue to build upon the investment skills of our managers and where we identify opportunities we will launch new funds to take advantage of these skills.
- We will look to reposition our SRI funds as a more mainstream product but still retain the ethical strengths of these funds.
- We plan to extend our distribution channels and target those institutional market sectors where we see our fund range proving an attractive proposition.
- We will continue to seek out strategic partnerships that can add value and pursue other opportunities to introduce additional assets under management to complement the organic growth of our existing funds.

## Financial performance

### Net revenue

Alliance Trust Investments' 142% increase in net revenue was mainly due to a full year of fees from the SRI assets and fees from £424m of capital invested by Alliance Trust in ATI funds (Global Thematic Opportunities Fund, Dynamic Bond Fund and the Monthly Income Bond Fund).

### Average third party basis points

The average 45 basis points earned on third party revenue increased slightly from the prior year.

### Expenses

Expenses increased by £3.0m. The increase was largely due to the one-off acquisition costs of the SRI funds and the first full year's costs of that team, along with the closure costs of two non-core funds.

### Net assets

During the year Alliance Trust invested £11.5m in the business reflecting the additional capital required to support the larger assets under management following the transfer of the SRI assets.

	2013 £m	2012 £m
Net Revenue	9.2	3.8
Expenses	(13.4)	(10.4)
<b>Operating loss</b>	<b>(4.2)</b>	<b>(6.6)</b>
Fair valuation*	12.8	10.1

\* The fair valuation methodology and assumptions are described in Note 23.8 on page 109.

The cumulative capital investment in Alliance Trust Investments is £40.2m.

### Third party average net revenue



### Third party net revenue





# We deliver award winning products



Alliance Trust Savings has delivered a profit for the first time in eight years, and is now very well positioned to continue its growth in the platform market and deliver increasing profits. Our continuing platform business generated an operating profit of £0.4m excluding the gain on sale of the Full SIPP business and non-recurring RDR expenditure as outlined below.

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

The platform business has made strong progress with assets under administration increasing by 33%, which includes a 405% increase in new accounts from the intermediary market. We incurred non-recurring expenditure of £2.0m to promote the RDR readiness of the business. We made a net gain of £5.4m from the sale of the Full SIPP business which completed in the early part of the year. The disposal of the Full SIPP has allowed the business to focus on the growth and development of the platform.

2014 will see the implementation of the next phase of the Retail Distribution Review (RDR), with platform charging transparency becoming effective from 6 April. Alliance Trust Savings has always been transparent and with its flat-fee structure is in an excellent position to take advantage of this change. We have taken the opportunity to realign our pricing and to strengthen our flat-fee structure with a more inclusive annual fee.

To take advantage of these changes and our excellent proposition, we plan to promote our offering in both the direct and intermediary channels through a significant advertising and marketing campaign over the next two years.

We are also investing in the business through new technology which will help deliver increased functionality, initially in the intermediary market, with a much improved customer experience and efficiencies across the whole business. One-off costs associated with this investment are expected to be around £2m, with ongoing variable costs based on volumes.

# ...and service



## Continuing operations

### Assets under Administration

£5.4bn	Dec 13
£4.1bn	Dec 12
£3.3bn	Dec 11

### Revenue

£10.9m	Dec 13
£9.6m	Dec 12
£6.9m	Dec 11

## 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 widest 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 in both the direct and intermediary markets.
- To continue to improve technology and simplify the business to improve efficiencies and customer experience.
- To enhance our intermediary proposition to position ourselves as one of the leading platforms in the market.

## Financial performance (continuing operations)

### Revenue

Revenue increased 14% reflecting the introduction of quarterly charges on the Investment Dealing Account from August 2012 and a 16% increase in dealing volumes. Net interest income, which accounts for only 16% of revenue, reduced to £1.8m despite an increase in average customer deposits reflecting the reduced deposit rates paid by banks.

### Expenses

Expenses increased by 5% to meet customer service growth and the increased cost of regulatory compliance.

### Net assets

There were no capital injections into Alliance Trust Savings during the year.

	2013 £m	2012 £m
<b>Continuing operations*</b>		
Revenue	10.9	9.6
Expenses	(10.5)	(10.0)
<b>Operating profit/(loss)</b>	<b>0.4</b>	<b>(0.4)</b>
Fair valuation**	26.7	24.6
<b>Core Tier 1 Ratio</b>	<b>20.5%</b>	<b>20.7%</b>
<b>Total Capital Ratio</b>	<b>27.1%</b>	<b>27.6%</b>

\* Excluding the revenue and expenses relating to the Full SIPP business which was sold in January 2013 and non-recurring RDR expenditure.

\*\* The fair valuation methodology and assumptions are described in Note 23.8 on page 109.

The cumulative capital investment in Alliance Trust Savings is £52.8m.

### Number of trades

	Dec 13	448,080
	Dec 12	386,767
	Dec 11	350,717

### Customer accounts

	Dec 13	75,796
	Dec 12	74,231
	Dec 11	70,186

# Other investments

## Private equity

Our private equity interests are predominantly in lower to mid-market European private equity buy-out funds which invest across a range of sectors and countries. In addition to our fund holdings, we also have small direct investments in three private companies.

The private equity portfolio demonstrates our willingness and ability to invest for the long term, with our funds often committed for longer than 10 years. Our commitment to responsible investment is also reflected in the portfolio.

Several of the fund managers are signatories to the United Nations Principles for Responsible Investment, and resource efficiency is a common investment theme in the majority of the funds.

The total committed to private equity funds at 31 December 2013 was £161m, of which £133m has been invested. Distributions to us from the funds are expected to accelerate as the funds mature over the next few years.

## Mineral rights

The Trust owns the mineral rights to land in the Southern and Mid Western United States. These are legacy positions from the time when Alliance Trust's principal activity was that of a mortgage bank, focused on lending to farmers in the United States. Historically, we have generated royalty income from the oil and natural gas that has been extracted

from this land and have valued the assets on the basis of the revenue it has generated. Over the last 12 months, we have seen an increase in leasing activity which has led to an increase of 115% in the revenue received and this in turn has led to an increase in the valuation of the portfolio by around 48%, despite the strength of Sterling.

## Property

Alliance Trust reduced its exposure to property late in 2013 as part of the continued strategy to exit from direct real estate investment. The sale of 107 George Street, Edinburgh for £5.0m was completed in December.

The market value of Monteith House, 11 George Square, Glasgow fell from £4.9m to £4.5m. The market valuation was primarily derived using comparable recent market transactions on arm's length terms and in accordance with RICS guidelines, undertaken by an independent professional valuer.

The Climate Change Property Fund Limited Partnership, which we have held since 2008, has made some asset disposals in 2013 and as a result distributions are starting to flow back to Alliance Trust as a limited partner. The valuation stood at £10.2m at the end of the year.

# Outlook

Looking forward into 2014, we believe that equities remain relatively good value, particularly when compared to other asset classes. Although stock markets can no longer be described as cheap, at a company level we continue to see a range of interesting investment opportunities in well managed companies with strong balance sheets and sustainable business models. These are the investments we seek and they still offer value and the prospect of above average returns, particularly for long-term investors such as Alliance Trust.

Our assessment of the global economic backdrop has improved and most commentators agree that global output will expand in 2014. The recent World Bank forecast suggests global economic growth will be 3.2% and it has issued a more favourable outlook for Europe. This backdrop will help underpin investor confidence as well as business investment, which slowed in 2012 and 2013. However, there are risks inherent in the financial system and we are not complacent about the potential consequences that the unwinding of quantitative easing might bring, as witnessed at the start of 2014. Other areas that still cause concern are the US debt ceiling, "Abenomics" in Japan and the risk of a hard landing in China; none of these should be underestimated. We believe that the best way to protect and grow shareholder value is to focus on the stock-specific risks and our rigorous and thematic bottom-up approach brings to light companies that will be successful throughout the economic cycle. We are confident that we can maintain a portfolio of companies that are well placed to drive future returns for the Trust.

In addition to our equity portfolio we continue to hold investments in mineral rights and private equity. While our investments in private equity do not generate income we expect significant capital distributions in the future. Income from our legacy mineral rights continues to increase as we actively manage these historic assets.

Despite the prospect of further "tapering", global monetary policy will remain loose and fiscal policy should become less restrictive as economies gather momentum. Unemployment remains an issue in some areas although domestic demand is increasing in others, particularly in the UK, the US and parts of Europe. Productivity needs to rise in 2014 but an increase in business investment and subdued wage inflation will help.

It promises to be a very interesting year. With an improving economic backdrop and the prospect of the US Federal Reserve reducing the amount of stimulus it provides, there could be a negative impact on equity markets across the

globe. The Scottish political landscape will also be under close scrutiny culminating in an independence referendum in September. Although our focus will continue to be on stockpicking, these and other issues will keep us vigilant throughout the year.

Importantly, even though we constantly monitor global macroeconomic developments, the portfolio continues to be focused on core holdings that are underpinned by long-term, structural thematic drivers.

Demographic change represents a critical backdrop for several companies that we are invested in. The emergence of new middle classes in developing economies is very supportive for the current and future growth of, for example, Reckitt Benckiser and Unilever. Greater penetration of financial services in countries like Mexico and Indonesia will lead to superior value creation for our holdings in Grupo Financiero Banorte and Prudential, respectively.

Challenges associated with the environment and the use of natural resources can represent a source of opportunity for companies that provide the right solutions. Monsanto is helping to address the long-term issue of food scarcity, through its advanced seed technology. Sustainable transportation is enabled by companies that increase fuel efficiency, like BorgWarner. The high level of pollution in China will be tackled by a progressive shift from coal to natural gas as the primary source of energy – our holding in China Gas is well placed to benefit from that transition.

Innovation is another area of focus for the portfolio. Cloud computing is forcing the corporate world to revisit their IT strategies - many Fortune 500 companies are supported by Accenture in a multi-annual process of transformation. Exciting developments in personalised medicine open new growth opportunities for companies with first-class biotechnology capabilities like Roche.

In line with our tradition, our emphasis remains focused on stocks with potential for sustainable capital growth and income generation. We believe that this will provide consistent returns and a rising dividend over the long term.

## Strategic Report

The Strategic Report (pages 2 to 39 of this document) has been approved by the Board and signed on its behalf by

Katherine Garrett-Cox, Chief Executive  
6 March 2014

# Risk

## Risk Management Structure

The Group’s Risk Management Framework provides a robust and comprehensive approach for the identification and management of key risks facing the business. The risk framework considers risks aligned to categories covering Strategic, Market, Operational, Conduct, Legal, Regulatory and Disclosure and reports on these risks on a regular basis to the relevant governance meetings.

## Board Risk Committee

The Board Risk Committee was established in early 2013 as a committee of independent directors, with delegated responsibility from the Board to provide oversight and challenge of the appropriateness of the risk management framework and the forward looking risks facing the Group.

## Risk Management Committee

The Risk Management Committee, chaired by the Chief Financial Officer, ensures 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. Where risks breach the Group’s agreed risk appetite, they are escalated for consideration at the Risk Management Committee.

## Appointment of Director of Risk and Compliance

In June 2013 a Director of Risk and Compliance was appointed reporting to the Chief Executive. This appointment provides dedicated Risk & Compliance presence on the Executive Committee and focused senior leadership to drive forward the activities required to meet regulatory expectations, ensure compliance with future regulatory developments such as the Alternative Investment Fund Managers Directive (AIFMD) and ensure robust risk management across the Group.

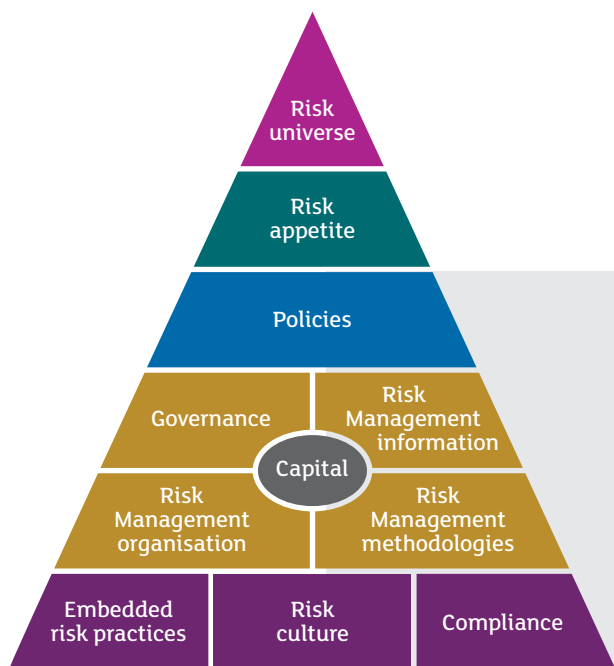
## Risk Outlook

The Group has established processes designed to assess the threats to the firm via formal quarterly Risk and Control Self Assessments (RCSA) and Risk Outlook workshops. The key risks to the Group include:

- Strategic, Market and Operational Risks, which would include the potential impact of the vote on Scottish Independence.
- The volume and significance of regulatory change e.g. AIFMD, European Market Infrastructure Regulation (EMIR), Capital Requirements Directive IV (CRD IV), Foreign Account Tax Compliance Act (FATCA) and others.
- Brand and Reputation – activities that result in damage to the external reputation of the Group.

## Risk Appetite

Risk appetite statements have been developed across the Group against all risk types, creating a baseline for how much risk the Group is prepared to accept for a specific return. This process is aligned to the strategy development activity and supported by an appropriate suite of measures that monitor adherence to the stated triggers and limits.



## Our Risk Management Framework

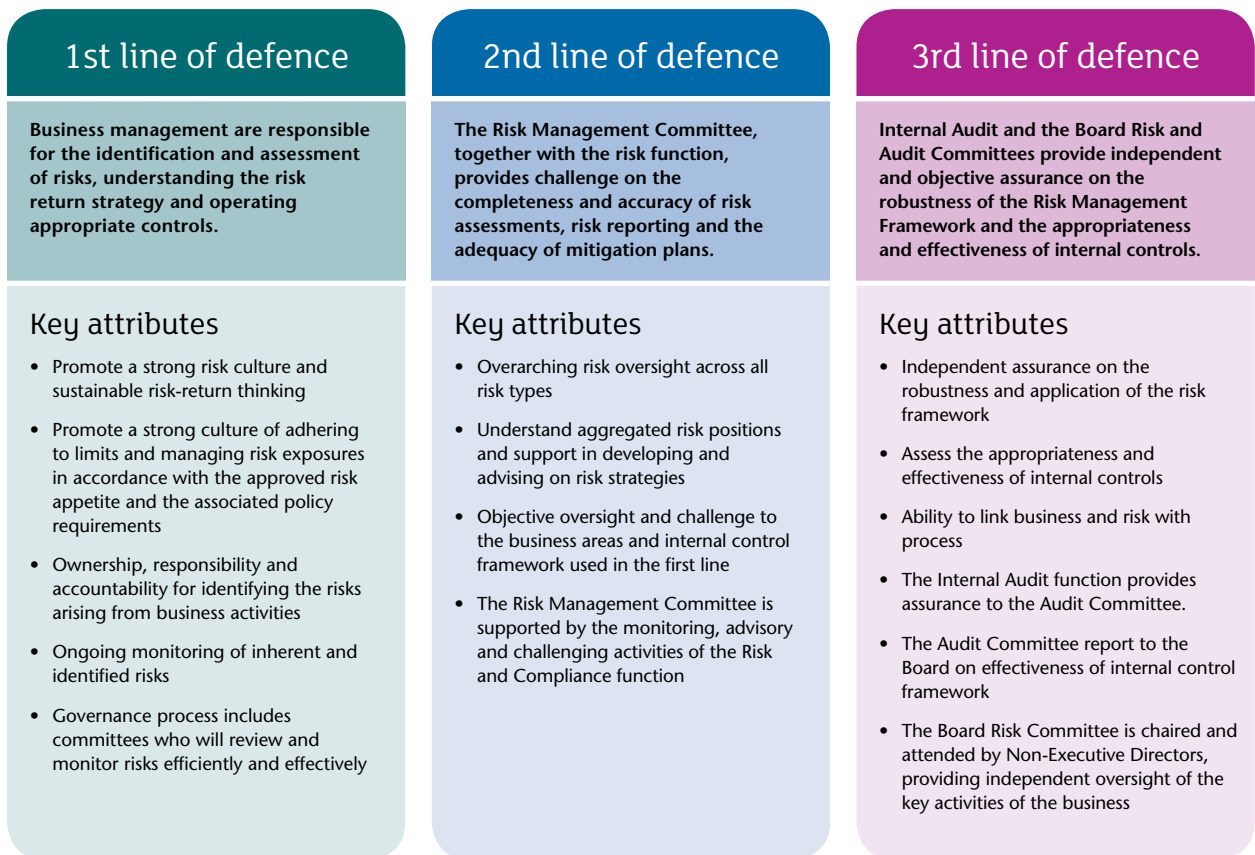
The Group has developed a Risk Management Framework and methodology that incorporates a number of individual components that create a robust and responsive risk capability across the Group.

Risk appetite has been developed and approved by the Board and provides the basis for the level of risk the Group is prepared to accept. This is reinforced through minimum standards communicated via the Group Policy Framework.

Risk Management Information is appropriate to support Board and Committee decision making, escalating concerns as required.

The Risk Management Framework supports the ICAAP process, assisting in determining the capital requirements of the Group.





### Risk and Control Self Assessment (RCSA)

The RCSA is the methodology that allows our business areas to identify and assess risks, define controls and perform quarterly testing of controls. Individual risk and control owners are assigned with explicit responsibility for the ongoing monitoring and management of risks. The risk function undertakes a quarterly review and challenge of the RCSA and underlying evidence.

### Effectiveness of the Risk function

The Risk and Compliance function is subject to regular review, both in terms of resource and the appropriateness of the skills that reside within the team. In addition, the Board Risk Committee and Risk Management Committee are subject to effectiveness reviews with improvements being identified and implemented where required.



# Risk



We have assessed the principal risks that may impact the delivery of our business priorities. The risks have been categorised as Strategic, Market, Operational, Conduct, Legal, Regulatory and Disclosure. Against each category we have considered the specific risks that impact our business and have outlined the risk mitigation actions taken. We also provide details of the key activities undertaken during 2013 to monitor and track risk exposures.

## 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.
- Uncertainty around the debate on Scottish Independence over such matters as jurisdiction and taxation of savings and pension plans, financial services regulation and consumer protection, currency and membership of the European Union.

### Market Risks

- The Trust currently invests primarily in equities and 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 100 to 110.
- Over The Counter (OTC) 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 and asset management firms are exposed is operational risk, as a consequence of operating in a complex financial environment.
- Key operational risks include the availability and reliability of our core systems, reliance on third party suppliers to deliver against service levels, processing failures, IT security issues and operational errors e.g. dealing errors, administration breaches, loss of key personnel and failure to manage and deliver change initiatives.

### Conduct Risks

- The profile of conduct risk is ever increasing including the continued strengthening and evolution of the regulatory framework.
- Key aspects of conduct risks include the appropriateness of products and services, marketing campaigns and financial promotions, product design and development, complaint resolution and corporate culture.

### Legal, Regulatory and Disclosure Risks

- The Financial Services sector continues to experience significant regulatory change at national and international level.
- The FSA split into the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) in 2013. The key risk is the ability to respond to the volume and scale of mandatory regulation, including AIFMD, EMIR, CRD IV and FATCA among others.

## Mitigation

- We regularly report and monitor the performance of the Trust and the income derived from investments.
- Compliance with investment risk parameters and policies is also monitored and regularly reported.
- Borrowing levels and facilities require the prior approval of the Board. Debt levels are regularly monitored and reported.
- The Trust's investment strategy has been widely communicated. Meetings are also held with key institutional shareholders.
- We monitor developments around the Scottish Independence debate through participation in industry working groups and by direct interaction with UK and Scottish government representatives. This allows us to identify actions necessary to ensure that all our customers across the UK can have full confidence in the continuity of service and that their investments and savings are protected.

- The Asset Allocation Committee meets at least 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.

- We operate an effective risk management framework which seeks to identify and mitigate key risks. Policies have been implemented to manage key person risks and Continuity of Business plans are maintained.
- Our 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.
- Our segregation of duties and oversight of controls mitigate against the risk of conflict of interest and process failures.
- We manage projects rigorously to a defined plan and timescales.
- We review our IT security policies to ensure risks are continually assessed and relevant controls are in place.

- The Group maintains customer outcome management information which is reviewed at Board and Committee level and included within the board risk appetite measures.
- The customer outcome management information includes an assessment of future business initiatives and risk outlook.
- Training modules have been developed and risk objectives embedded to ensure delivery of appropriate corporate culture behaviours.

- 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.

## What we did in 2013

- Regular reporting of Trust performance and borrowing levels.
- The Trust operated within risk parameters and policies and within approved borrowing limits.
- We undertook regular meetings with key institutional shareholders and arranged a number of investor forums.
- We set up a Scottish Independence working group to monitor and report on developments to the Board Risk Committee.
- We identified the key areas likely to impact our customers and business as a result of the debate on Scottish Independence and have monitored developments to assess the actions that may be necessary.

- We continued to develop a comprehensive approach to the monitoring and oversight of Investment Risks and Derivatives. This creates the capability to oversee more complex product offerings in a robust and consistent fashion that aligns to the Group's stated risk appetite.
- We enhanced the visibility of Group-wide counterparty exposures through improved analysis and reporting, allowing for a consolidated position across various exposures.

- The quarterly Risk and Control Self Assessments (RCSA) have been performed to identify the key operational risks facing the business and the controls tested to ensure that mitigation measures are robust.
- Regular Risk Workshops have been held to identify emerging risks and implement appropriate responses.
- We have also enhanced reporting and management information to support decision making at Board and Committee level.
- We have undertaken testing of business resilience regularly incorporating disaster recovery workplace tests and scenario crisis tests to ensure the Group is able to respond to extreme events.
- We reviewed our IT security controls in conjunction with external IT security consultants and enhanced controls to reflect industry developments.

- In conjunction with the management teams of the subsidiary businesses the Risk team enhanced the approach to monitoring and assessing customer outcome data during the year.
- Our customer outcome data has developed the ability to assess, evolve and enhance the ongoing review of customer outcomes at Board and committee level.

- We have taken action to respond to the evolving regulatory framework, including forming working groups for key regulatory change projects.
- During the year, the Group submitted to the regulator an Internal Capital Adequacy Assessment Process (ICAAP), a Recovery and Resolution Plan for Alliance Trust Savings (RRP) and an Individual Liquidity Systems Assessment (ILSA).