The Alliance Trust Debacle

By Roy Colbran

37 members replied to our email enquiry telling us that they held Alliance Trust and there are probably more who did not reply. This seems to justify a few lines in Private Investor despite all that has been said in the press. UKSA Directors took the view, correctly in my opinion, that it would not be right to make a recommendation to members on voting but instead to provide a forum on the website where members could record their views. Eight members did so. Alliance Trust approached us to see if we could help them pass on their views to our members and we simply included a link to their response on our website.

Katherine Garrett-Cox Alliance Trust Chief Executive

Seeing the amount of effort Alliance put in to urging their shareholders to vote against the Elliott proposals, it is not surprising that, according to reports, shareholders at the AGM were very angry at the outcome. I thought the way that the Trust responded to the approaches did not help them. Casting such strong aspersions on the independence of the proposed directors seemed a very negative response, especially bearing in mind that by Company Law they would be bound to act in the interests of the Company and not Elliott. It is frustrating that after going to all the trouble to vote, we shall never know what was actually happening.

The percentages voting in the regular resolutions that were put to the meeting were all within the range 46% to 49% of the total shareholding. It is possible that slightly higher percentages voted for the Requisitioned Resolutions but even so with Elliott starting at 9.95% they needed only to get another 15% to support them to carry the day. Several institutions had said publicly that they backed Elliott so one can guess that they did not need many private shareholders' votes to carry the day.

We now have two additional directors out of the three originally proposed by Elliott. Only one of the two took the trouble to turn up at the AGM. He, according to the press reports, admitted to no knowledge of Alliance other than what he had read in the press but did say he would be independent. This did not stop the Chairman from saying in her announcement that the significant experience of the new directors would be a considerable asset (some contrast to what she was saying before!) The third additional director is to be appointed in consultation with major shareholders – one wonders what happens to the views of private shareholders who, we are told, make up 70% of the total holdings.

Even with the new directors all acting independently, Elliott will still be in the background having promised to hold off only for another year. Some cost-cutting would certainly not come amiss but Elliott will be looking for improved performance. This leads to the worry that Alliance will go for short-term gains by methods inappropriate to a long-term fund. There is also the likelihood that they will be looking for what is euphemistically called a discount control mechanism. In other words buying back shares to improve the price.

I believe that buying back is undesirable and generally only of very limited effectiveness. Witan who have bought back to the extent of reducing the number of shares in issue by about half since the days of their full glory failed to have much impact on the discount until the market really began to believe in the success of their multi-manager approach.

In four years (i.e. after they started seriously buying back) Alliance Trust have reduced the number of shares in issue by one-sixth yet still leaving the discount at a level which the institutions find unacceptable. Hence there must be serious concern that because of this institutional pressure they will feel obliged to go proceed even more strongly in the buy-back process. This is totally in contrast to their slogan "Investing for Generations" and will sadly reduce even further the limited pool of investment trusts which are so much better as an investment for private individuals than open-ended funds. Being able to buy into a pool of assets at a material discount has always been a big attraction of investment trusts. As I write Alliance Trust on 13% does not look so far out of line.

Once again, Alliance Trust will be holding an Investor Forum for shareholders in London in the autumn – on September 29th. I shall be writing to them beforehand to ask them to make sure that (in contrast to previous occasions) there is ample time for reporting and questions on the way they are running the Company.

Roy Colbran