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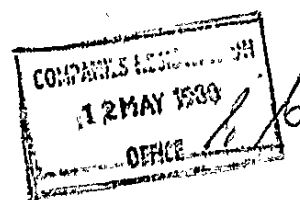
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THE ALLIANCE TRUST COMPANY  
LIMITED

REPORT AND ACCOUNTS 1980



# THE ALLIANCE TRUST COMPANY LIMITED

## DIRECTORS

DAVID F. McCURRACH *Chairman*

CHRISTOPHER BLAKE

LYNDON BOLTON *Joint Manager*

GEORGE W. DUNN

GEORGE A. STOUT *Joint Manager*

BRIAN H. THOMSON

## SECRETARY

GAVIN R. SUGGETT

## AUDITORS

THOMSON McLINTOCK & Co. C.A.

ROYAL EXCHANGE, DUNDEE

## REGISTERED OFFICE

MEADOW HOUSE, 64 REFORM STREET, DUNDEE DD1 1TJ

## REGISTRARS AND TRANSFER OFFICE

AND

AGENTS FOR THE DIVIDEND INVESTMENT PLAN

THE ROYAL BANK OF SCOTLAND LIMITED, P.O. BOX 27

31 ST. ANDREW SQUARE, EDINBURGH EH2 2AB

## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Ninety-Second Annual General Meeting of the Company will be held at MEADOW HOUSE, 64 REFORM STREET, DUNDEE, on Friday, 11th of April 1980, at 11.30 a.m. for the following purposes:—

- I. To receive the Report of the Directors.
- II. To declare Dividends.
- III. To elect a Director.
- IV. To fix the remuneration of the Directors.
- V. To re-appoint Thomson McIntock & Co., C.A., Dundee, as Auditors.
- VI. To fix the remuneration of the Auditors.

By Order of the Directors

G. R. SUGGETT

Secretary

Dundee,

14th March 1980.

A Member entitled to attend and vote at the above meeting may appoint a proxy in his stead who need not be a member of the Company. Proxies must be lodged at the Company's registered office not less than 48 hours before the time of the meeting. Only ordinary stockholders or their representatives are entitled to attend the meeting.

The Register of Directors' Share and Debenture Interests and copies of Directors' Service Agreements will be available at the meeting.

Subject to approval at the meeting, dividend warrants payable on 18th April will be posted on 16th April to Stockholders on the register on 21st March.

## COMPANY HISTORY

In the last quarter of the Nineteenth Century many companies were formed in Scotland to participate in the financing of land mortgages in the Western Territories of the U.S.A. The Alliance Trust Company, founded in 1888, was the consequence of a series of amalgamations of five smaller companies, the oldest being the Oregon & Washington Trust Investment Company which had begun operations in 1873.

From inception, the Alliance was one of the largest of the land mortgage companies with a Paid-up Ordinary Capital of £222,000, Preference Capital of £160,000 and Debentures of £706,000. Almost £1m. was lent on mortgage at a time when funds could be borrowed in the U.K. at around 4% and lending rates overseas were over 10%, often with a gold guarantee on capital and interest repayments.

Years of steady profitability and a cautious dividend policy led to the accumulation of a substantial Reserve Fund invested in marketable securities and by 1914 44% of the Company's assets were in Bonds and Stocks and only 56% still in mortgages. 83% of all funds were invested in the U.S.A.

A difficult North American environment in the early 1920s brought about low farm product prices and increased competition from U.S. financial institutions. Mortgage lending became steadily less attractive and these activities were gradually run down. By the late 1930s almost 60% of Company's funds were in U.K. securities, 30% divided almost equally between U.S. and other overseas securities and only 8% were in mortgages.

In 1939, foreign investment was almost completely eliminated through compulsory purchase of overseas assets by the British government. A primary aim in the early post-war period was therefore to restore the North American portfolio and by the mid 1950s it again represented one-third of the total.

Post-war policy has emphasised a balanced growth of capital and income through equity investment with holdings in the U.K. and U.S. stock markets averaging 47% and 32% respectively of total funds over the last 10 years. Other overseas interests include Germany and the Far East.

The net asset value of the Company's Ordinary Stock Units is computed monthly and published through the Association of Investment Trust Companies in the *Financial Times* on the third Saturday of the following month.

## REPORT OF THE DIRECTORS

The Directors present their Report and the Accounts for the year ended 31st January 1980.

### DIVIDENDS

The Board recommends a final dividend of 6.35p per Ordinary Stock Unit which together with the Interims already paid, makes a total of 10.0p for the year including a once-for-all distribution of 0.65p in respect of arrears of dividends declared by Shell Transport & Trading and British Petroleum, compared with 8.0p for the previous year. After payment of the dividend the surplus of £166,000 is transferred to Revenue Reserve.

### STATUS

The Company has received approval as an Investment Trust by the Inland Revenue in respect of the year ended 31st January 1979 and has subsequently directed its affairs so as to enable it to continue to seek such approval. It is not a 'Close Company'.

### DIRECTORS

The Directors throughout the year have been as listed below. Mr. David F. McCurrach retired by rotation from the Board and, being eligible, offers himself for re-election.

No contracts, apart from service agreements, entered into by the Company in which any Director is interested have subsisted during the year.

The following are the interests of Directors and their families in the Ordinary Stock of the Company:—

		At 31/1/80	At 1/2/79
David F. McCurrach	Beneficial	£ 701	£ 701
Christopher Blake	Beneficial	200	200
Lyndon Bolton	Beneficial	200	200
George W. Dunn	Beneficial	200	200
	As Trustee	9,238.75	9,177.50
George A. Stout	Beneficial	209.50	202
Brian H. Thomson	Beneficial	7,316	7,316
	As Trustee	34,362.50	34,362.50

There has been no change in these holdings between 1st February and 29th February 1980.

A resolution is being submitted to fix the fees of Directors at £4,000 for each Director and £5,000 for the Chairman which will provide total remuneration for the present Board of £25,000. The fees per director were last fixed in April 1957 at £3,000.

### STOCKHOLDERS

The Company has received notification of the following substantial interest in terms of Section 33 of the Companies Act 1967:— D. C. Thomson & Co. Ltd., 3,241,503 Ordinary Stock Units (6.43%).

Number of Ordinary Stockholders 16,258 (18,135)

### AUDITORS

Messrs. Thomson McLintock & Co., C.A., Dundee will be proposed as Auditors in accordance with Section 14 of the Companies Act 1976.

By Order of the Board

G. R. SUGGETT

Secretary

Dundee, 20th February 1980.

# REVENUE ACCOUNT

for the year ended 31st January 1980

INVESTMENT REVENUE	1980 £'000	1979 £'000
Franked Investment income		
Listed	5,823	4,524
Unlisted	31	44
	<u>5,854</u>	<u>4,568</u>
Unfranked Investment Income		
Sterling	1,198	1,419
Dollar	944	1,007
Other Overseas	302	273
Short Term Interest	763	350
	<u>3,207</u>	<u>3,049</u>
Mineral Royalty Income	87	59
	<u>87</u>	<u>59</u>
TOTAL REVENUE	<u>9,148</u>	<u>7,676</u>
INTEREST AND EXPENSES		
Interest on Bills and Advances repayable within 5 years	105	13
Interest on all other Loans	360	360
Administration Expenses	215	184
Directors' Remuneration (Note 1)	61	49
Audit Fee	5	4
Foreign Expenses and Taxes	20	19
	<u>766</u>	<u>629</u>
REVENUE BEFORE TAXATION	<u>8,382</u>	<u>7,047</u>
TAXATION (Note 2)	<u>3,108</u>	<u>2,806</u>
REVENUE AFTER TAXATION	<u>5,274</u>	<u>4,241</u>
DIVIDENDS		
Preference Stocks for the year	68	68
Ordinary Stock:		
Interim of 3.0p (2.5p)	1,212	1,260
Special Interim of 0.65p	—	—
Proposed Final of 6.35p (5.5p)	3,200	2,772
	<u>5,108</u>	<u>4,100</u>
SURPLUS TRANSFERRED TO REVENUE RESERVE	<u>£ 166</u>	<u>£ 141</u>
EARNINGS PER ORDINARY STOCK UNIT (Note 3)	10.33p	8.28p
Excluding exceptional arrears of dividends received	3.68p	8.23p

The Notes and Statement of Accounting Policies on pages 8 and 9 are part of these Accounts.

## BALANCE SHEET

	1980 £'000	1979 £'000
<b>CAPITAL AUTHORISED AND ISSUED</b>		
4½% (now 2.875% + tax credit) Cumulative Preference Stock	700	700
4% (now 2.8% + tax credit) Cumulative Preference Stock	650	650
5% (now 3.6% + tax credit) Cumulative Preference Stock	750	750
4% (now 2.0% + tax credit) "A" Cumulative Preference Stock	100	100
Ordinary Stock (divided into 50,400,000 units of 25p)	12,600	12,600
	<u>14,800</u>	<u>14,800</u>
<b>CAPITAL RESERVE (Note 4)</b>	75,008	68,579
<b>UNREALISED APPRECIATION ON INVESTMENTS</b>	48,946	60,463
<b>REVENUE RESERVE</b>		
Balance at 31st January 1979	6,247	6,106
Surplus Revenue for the year to 31st January 1980	166	141
	<u>6,413</u>	<u>6,247</u>
	143,167	150,089
<b>DEBENTURE DEBT</b>		
4½% Debenture Stock 1956 or after	1,648	1,648
3½% Debenture Stock 1975/85	675	675
5½% Debenture Stock 1980/85	5,000	5,000
	<u>7,323</u>	<u>7,323</u>
<b>CURRENT LIABILITIES</b>		
Purchases for subsequent settlement	645	909
Taxation	—	773
Amount due to Subsidiary Company	55	—
Sundry Creditors and Interest Accrued	31	28
Short Term Loans	366	111
Bills discounted (related to Alldoe Leasing Ltd.)	2,250	—
Proposed Dividends	3,234	2,806
	<u>6,581</u>	<u>4,627</u>
	<u>157,071</u>	<u>162,039</u>

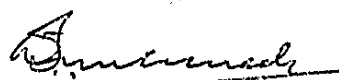
31 Dec January 1980

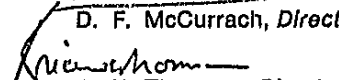
INVESTMENTS	1980 £'000	1979 £'000
Listed at Market Valuation		
In Great Britain	102,086	98,635
Overseas	48,382	56,500
Unlisted at Directors' Valuation	474	654
	<u>150,942</u>	<u>156,187</u>
Subsidiary Company (Note 7)	7	10
Temporary Deposits	3,943	5,519
	<u>154,892</u>	<u>161,716</u>

REAL ESTATE, MINERAL RIGHTS AND OFFICE PREMISES	30	30
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#### CURRENT ASSETS

Sales for subsequent settlement	1,432	—
Bank Balances	41	276
Taxation	672	—
Sundry Debtors	4	1
Amount due from Subsidiary Company	—	16
	<u>2,149</u>	<u>293</u>

  
D. F. McCurrach, Director

  
B. H. Thomson, Director

157,071

162,039

The Notes and Statement of Accounting Policies on pages 8 and 9 are part of these Accounts.



## ACCOUNTING POLICIES

The Accounts of the Company have been prepared in accordance with the following accounting policies:—

- (a) Investment Revenue is determined on the basis of cash receipts during the year, foreign income being converted at the rate of exchange applicable at the time of remittance or transfer. Franked Investment Income has been included in the Revenue Account with the addition of the relevant Tax Credit.
- (b) Interest payable and management expenses are treated on an accruals basis.
- (c) Gains and losses on disposal of investments and on currency transactions together with the related tax charge are taken to Capital Reserve (Note 4).
- (d) Listed investments are valued at middle market prices and unlisted investments at directors' valuation. In valuing foreign assets and liabilities the middle rates of exchange ruling at the year end have been taken.
- (e) The investments are included in the Balance Sheet at market value and the amount by which this exceeds the book value is taken to Unrealised Appreciation on Investments.
- (f) No provision is made for potential taxation liability on the unrealised appreciation on the investments held at the date of the Balance Sheet (Note 5).
- (g) No depreciation has been charged on freehold office premises, real estate and mineral rights which are shown at 1948 book value with subsequent additions at cost. In the opinion of the Directors any provision for depreciation would be immaterial in relation to the revenue for the year and the assets of the Company.

## NOTES ON THE ACCOUNTS

	1980 £	1979 £
<b>1. DIRECTORS' REMUNERATION</b>		
Fees	19,000	19,000
Managers' Salaries (9 months in 1979)	26,625	18,782
Pension Contributions	15,172	8,443
<i>Provision for increased pension of widow of former Director</i>	—	2,749
	<u>60,797</u>	<u>48,974</u>

During the year the Chairman received £4,000 (£4,000), the highest paid Director £17,062 (£12,153) (9 months in 1979) and other Directors were in the brackets £15,001—£20,000—1 (0), £10,001—£15,000—0 (1), and under £5,000—3 (5)

	£'000	£'000
<b>2. TAXATION ON REVENUE</b>		
Corporation Tax at 52% after group relief	228	1,275
<i>Less: Relief for Overseas Tax</i>	<u>210</u>	<u>208</u>
	18	1,067
Overseas Withholding Taxes	210	208
Income Tax Credit applicable to Franked Investment Income	<u>1,730</u>	<u>1,517</u>
	2,018	2,792
Payment to Subsidiary in respect of group relief	<u>1,090</u>	<u>14</u>
	<u>3,108</u>	<u>2,806</u>

No provision has been made for Advance Corporation Tax on the Final Dividend, as, in the opinion of the Directors, this will be offset by Tax Credits in the year commencing 1st February 1980.

### 3. EARNINGS PER STOCK UNIT

The earnings per Ordinary Stock Unit are based on revenue available to Ordinary Stockholders of £5,206,000 (£4,173,000) divided by the 50,400,000 Stock Units in issue.

#### 4. CAPITAL RESERVE

Balance at 1st February 1979

1980  
£'000  
68,579

Add: Net surplus on realisation of investments and currency for the year  
Underwriting Commission  
Bonuses and Rentals from Mineral Rights

7,029  
6  
90

Less: Payment to Subsidiary in respect of group relief against  
taxation on capital gains

7,125

696

Balance at 31st January 1980

6,429

75,008

#### 5. CONTINGENT LIABILITIES

There are Contingent Liabilities in respect of a Guarantee and Uncalled Capital, of £308,000 (£160,000). The potential liability of the Company to taxation at 10% on Capital Gains in the event of the realisation of all the investments at the valuation shown in the Balance Sheet is estimated at £4,710,000 (£6,026,000).

#### 6. INVESTMENTS

Included in the Company's unquoted investments valued at £150,000 at 31st January 1980 were 150,000 Ordinary Shares of City Oil Exploration Ltd., a Company incorporated in England, representing 42.86% of its Issued Share Capital. This investment has not been consolidated in these accounts as the Directors consider it would be misleading to do so.

#### 7. SUBSIDIARY COMPANY

The Company owns 100% of Alldée Leasing Ltd., a Company registered in Scotland whose activities are so dissimilar to those of the parent company that, in the opinion of the Directors, consolidated financial statements would be misleading and the information is better presented by a separate statement of the affairs of the subsidiary. The accounts of Alldée Leasing Ltd. were prepared in accordance with the accounting policies stated below. During the year to 31st January 1980 the accounts show a loss of £3,000 and no dividend payment. At 31st January 1980 the Company's indebtedness to Alldée Leasing Ltd. amounted to £48,000 being:

	1980 £'000	1979 £'000
10,000 shares of £1 at cost less losses of Alldée Leasing to date	7	10
Amount due to Alldée Leasing Ltd.	(55)	16
	<u>(48)</u>	<u>26</u>
The Balance is represented by:		
Equipment on lease at cost less Depreciation	3,455	27
Net Current Liabilities (1979 — Assets)	(1,707)	13
	<u>1,748</u>	<u>40</u>
Less: Deferred Taxation	(1,796)	(14)
	<u>(48)</u>	<u>26</u>

Accounting Policies adopted by Alldée Leasing Ltd.:

Provision has been made in the accounts of Alldée Leasing Ltd. for corporation tax at the current rate of 52% on the excess of book value of fixed assets qualifying for taxation allowances over the corresponding written down value for taxation purposes. Depreciation of leased assets is calculated using the 'Investment Period' method which determines that the total rental contribution net of depreciation is allocated over the term of each lease according to the average investment outstanding in each year. Leasing income is treated on an accruals basis.

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended 31st January 1980

SOURCE OF FUNDS	1980 £'000	1979 £'000
Revenue before Taxation	8,382	7,047
Net Sale of Investments	—	1,718
Short Term Loans received	255	—
Appreciation of Foreign Currency Balances	—	157
	<u>8,637</u>	<u>8,922</u>
APPLICATION OF FUNDS		
Taxation paid and suffered	3,463	2,710
Dividends paid:		
Preference Stock	68	68
Previous year Final on Ordinary Stock	2,772	2,504
Current year Interims on Ordinary Stock	1,840	1,260
	<u>4,680</u>	<u>3,832</u>
Net Purchase of Investments	466	—
Investment in subsidiary company:		
Loans and Capital	(71)	26
Payments in respect of Group Taxation Relief	1,786	14
	<u>1,715</u>	<u>40</u>
Repayment of Short Term Loans	—	59
Depreciation of Foreign Cash Balances	678	—
	<u>11,002</u>	<u>6,681</u>
TOTAL INCREASE (DECREASE) IN LIQUIDITY	<u>(2,365)</u>	<u>2,241</u>
Represented by:		
Increase (Decrease) in debtors	1,435	(929)
Decrease (Increase) in creditors	(1,989)	(466)
Increase (Decrease) in cash	(235)	225
Increase (Decrease) in Temporary Deposits	(1,576)	3,411
	<u>(2,365)</u>	<u>2,241</u>

## REPORT OF THE AUDITORS

To the Members of The Alliance Trust Company Limited

In our opinion the Accounts set out on pages 5 to 10 give a true and fair view of the state of the Company's affairs as at 31st January 1980 and of the net revenue and source and application of funds for the year ended on that date, and comply with the Companies Acts 1948 and 1967.

DUNDEE, 29th February 1980.

THOMSON McLINTOCK & Co., C.A., Auditors.

# CLASSIFICATION OF INVESTMENTS

based on Valuation at 31st January 1980

Classification	United Kingdom	United States of America	Europe	Elsewhere	Total	Total 1979
<b>EQUITIES (including Convertibles)</b>	%	%	%	%	%	%
<b>CAPITAL GOODS</b>						
Aircraft	4.7	1.4	0.4	0.3	6.8	6.7
Building and Construction	0.3	—	—	0.1	0.4	0.3
Electrical	1.1	—	—	0.2	1.3	0.8
Engineering	1.9	1.2	0.4	—	3.5	4.0
Miscellaneous	0.7	0.2	—	—	0.9	1.2
<b>CONSUMER GOODS</b>	0.7	—	—	—	0.7	0.8
Breweries and Distilleries	24.8	5.4	0.3	1.2	31.8	34.3
Wines and Spirits	2.3	—	—	—	2.3	2.0
Drugs and Cosmetics	—	—	—	0.1	0.1	—
Electrical	4.2	1.2	—	0.1	5.5	7.4
Entertaining and Catering	7.8	—	—	0.3	8.1	7.3
Food Manufacturing	—	—	—	—	—	0.3
Paper and Packaging	0.5	0.3	0.3	—	1.1	1.2
Publishing	0.2	—	—	—	0.2	1.0
Retail Trade	—	0.2	—	—	0.2	0.2
Textiles	4.8	2.2	—	—	7.2	7.7
Tobacco	0.4	—	—	0.2	0.4	0.8
Miscellaneous	4.0	1.4	—	—	5.4	6.2
<b>OTHER GROUPS</b>	0.7	0.1	—	0.5	1.3	0.3
Chemicals	9.8	10.9	1.9	1.2	23.8	22.1
Office Equipment	1.8	2.4	—	—	4.2	4.6
Oil and Oil Service	1.3	1.6	—	—	2.9	4.1
Public Utilities	5.2	5.2	1.9	0.7	13.0	8.2
Transport	—	—	—	—	—	1.1
Miscellaneous	—	0.2	—	—	0.2	0.4
<b>FINANCIAL</b>	1.5	1.5	—	0.5	3.5	3.7
Banks and Finance	17.7	3.2	1.7	1.1	23.7	23.8
Insurance	5.1	0.2	1.7	—	7.0	6.5
Investment Trusts	6.0	1.5	—	—	7.5	8.0
Property	4.3	1.1	—	—	6.5	6.3
<b>COMMODITIES</b>	2.3	0.4	—	1.1	2.7	3.0
Base Metals	0.3	—	—	—	—	—
Gold and Diamonds	0.3	—	—	—	—	—
<b>TOTAL EQUITIES</b>	—	—	—	0.8	1.1	0.9
<b>FIXED INTEREST</b>	57.4	20.9	4.3	4.6	87.2	87.9
<b>PREFERENCE STOCKS</b>	11.3	0.1	1.4	—	12.8	12.1
<b>OTHERS</b>	1.8	—	—	—	1.8	1.9
<b>TOTAL</b>	9.5	0.1	1.4	—	11.0	10.2
1979	68.7	21.0	5.7	4.6	100.0	100.0
	63.8	28.2	3.6	4.6		

## CAPITAL GAINS TAX

For Capital Gains Tax purposes, the 6th April 1985 prices of the Company's Loan and Share Capital quoted on the London Stock Exchange are given below:

4% Cumulative Preference Stock 54½  
5% Cumulative Preference Stock 69½  
Ordinary Stock, 25p Units £1.2125 (24/3)

4½% Debenture Stock 1956 or after 64½  
3½% Debenture Stock 1975/85 63½  
5½% Debenture Stock 1980/85 82½  
4½% Cumulative Preference Stock 58½

In terms of the Finance Act 1972 Ordinary Stockholders realising gains may be entitled to a credit against any Capital Gains Tax Liability. The rate of credit for disposals between 6th April 1975 and 5th April 1977 is 17½% of the amount of the gain, 17% until 5th April 1979, and thereafter at 10%.



Form 1000 (Rev. 1-1-60)

Printed name of shareholder  
in  
BLOCK CAPITALS

I, \_\_\_\_\_, hereby appoint \_\_\_\_\_ as my proxy to attend and vote for me at the annual general meeting of the company to be held on \_\_\_\_\_ at \_\_\_\_\_ and every adjournment thereof.

I, \_\_\_\_\_, hereby appoint \_\_\_\_\_ as my proxy to attend and vote for me at the annual general meeting of the company to be held on \_\_\_\_\_ at \_\_\_\_\_ and every adjournment thereof.

General meeting resolutions —

RESOLUTIONS

1. To receive the Report of the Directors
2. To receive the Dividend
3. To receive the Report of the Auditors
4. To receive the Report of the Directors
5. To receive the Report of the Auditors
6. To receive the Report of the Directors
7. To receive the Report of the Auditors

FOR/AGAINST  
FOR/AGAINST  
FOR/AGAINST  
FOR/AGAINST  
FOR/AGAINST  
FOR/AGAINST

Signature

Witness  
I, \_\_\_\_\_, do hereby certify that the above is a true and correct copy of the minutes of the meeting of the company held on \_\_\_\_\_ at \_\_\_\_\_ and every adjournment thereof.

# THE ALLIANCE TRUST COMPANY LIMITED

## Summary of results attributable to ordinary stockholders

	Year to 31st January	
	1980	1979
Net revenue after tax	£5.2 million	£4.2 million
per stock unit	10.33p	8.28p
Dividends as proposed	£5.0 million	£4.0 million
per stock unit	10.00p	8.00p
Net asset value at year-end	£141.0 million	£147.9 million
per stock unit	279½p	293½p

## STATEMENT BY THE CHAIRMAN

Having presided for 12 years and being due to retire from the Board in two years' time, I think it right, while remaining a Director, to step aside from the Chair now. Your Directors have appointed Mr. George Dunn as your new Chairman and we all offer him our fullest confidence and support. He will take over at the conclusion of the Annual General Meeting.

### RESULTS

Earnings are almost 25% higher at 10.33p including an exceptional 0.65p of arrears of dividends from Shell Transport & Trading and British Petroleum. Without this special factor the increase would be 17%. Franked investment income rose by £1,286,000 as U.K. dividends were freed from dividend restraint. Sterling unfranked income was down because of a smaller investment in U.K. gilts but this was more than counterbalanced by greater income from funds invested in short term deposits during a period of rapidly rising interest rates. Although overseas investment income was greater in foreign currency terms, there was no net benefit due to the continuing strength of sterling against most other currencies. However, royalty income from oil-bearing land in the U.S.A. was a record at £87,000 which, together with £90,000 received from bonus payments and rentals on leases (credited to Capital Reserve), reflects the present high level of oil prices and activity in exploration. These interests now have a value far in excess of the Balance Sheet figure of £30,000: a valuation is being secured.

Your Directors recommend a final dividend of 6.35p making a total of 10.0p (including 0.65p in respect of arrears of dividends received) against 8.0p last year, an increase of 25%. Although growth of income cannot be expected to repeat last year's exceptional pace, a further rise may be anticipated this year in the absence of any major change in investment policy. Our earnings estimate for 1980/81 already stands at 10.74p.

### INVESTMENT POLICY

While our valuation of £154,892,000 did not match the record level of last year this was entirely due to the dismantling of exchange controls during the year which eliminated the investment currency premium. Without the premium at both dates our valuation rose by 10%.

The feature of the year was the strength of oil and oil equipment shares, particularly in the U.S.A. where several of our holdings more than doubled in price. Oil stocks are well represented in our published list of the 40 largest investments. The table of investment changes demonstrates the greater flexibility conferred by the abolition of exchange control: we have added almost £6 million to our Far East and continental equities and over £2 million to German bond holdings, while reducing exposure to U.K. equities by £5.3 million and U.S. equities by £2.6 million.

During the first full year of operations our leasing subsidiary wrote £3.4 million of business with lessees of the highest credit. Profitability is well up to expectations and should be reflected in the accounts as the portfolio matures in 1981-82 onwards.

### INFLATION AND INVESTMENT

Perhaps in a final speech I may be allowed some personal observations at large on the besetting economic evil of our times — Inflation — and its bearing on productive investment. The weakness of investment in the U.K. is secondary only to the other evil. A few years ago it was common to speak of the going rate of inflation as a function of expectations. Now, alas, expectations have become institutionalised in a host of devices, outstandingly escalation and indexation. These may originally have had some merit to the extent that, as in pensions, they protected the weak. But they have been taken over by the strong and it was always predictable that they would only aggravate the curse.

The big Unions in the U.S. built escalation into their contracts years ago and the going rate is implicit in the starting point for all U.K. negotiations. Now OPEC has taken it over in fixing oil prices. We have reached the stage where we are all the victims of our own simple arithmetic, but at compound interest. And we have a built-in ratchet, perpetuating rises but preventing falls. All this has not lessened, but enlarged, the distortions and strains—and the inequities. There is also the damaging contrast between those countries swallowing the illusion (we are an extreme case) and those few, like Germany, who have not. But above all, coming closer to our own affairs and bearing directly on the future living standards of both the weak and the strong, inflation in alliance with these devices and coupled with the measures designed to counter them, threatens to sterilise all new productive investment. Confidence flags from utter faintly in the face of monetary policy curbing demand. And there is slim hope of any net return over the huge cost of money, another bitter fruit of inflation and of the battle against it. These soaring interest rates and currencies have in turn spawned other new devices, again institutionalising and compounding them. Inflation through international currency loans and fluctuating interest rate provisions frustrate normal controls exercised by central banks. Lenders are not inhibited by fear of still higher rates, nor are borrowers who can buy assets appreciating with inflation. The proviso is crucial. These devices might be commendable if they fostered productive investment. By definition they have precisely the opposite effect; floating rates oil the wheels of investment in existing appreciating assets (housing in both U.K. and U.S. are obvious examples) but clog true capital creation, by diverting whatever savings flow there may be away from it.

Against this background the Government's first tentative feelers towards "de-indexation" are to be heartily welcomed. Certainly turning the tide is a fearsome task but the Government has already taken big and brave steps in freeing overseas investment and reducing tax on higher incomes. (The latter may restore the capacity of the private investor but we need now the incentive to personal saving and direct investment by restoring complete fiscal neutrality for all savings, putting persons — and investment trusts — on the same footing as pension funds, life assurance and building societies.) Something even bigger is needed to break the terrible cycle — a total freeze of everything, a standstill lasting just as long as is needed to smash the apparatus of inflation, removing the ratchet and ultimately all indexation, and abolishing floating rates on longer term loans. If this were coupled with revival of the flow of personal saving for direct investment we should really have laid the ground for solid advance.

#### THE FUTURE

These rather desperate pleas do not imply any lack of confidence in the Company's future. For the shorter term our current policies of selectivity and specialisation are, we believe, appropriate for the hazardous conditions in which we live and the discouraging outlook for general trade and investments. For the longer term, and it is on this that a true judgment of investment trusts should be made, the record shows our ability to adapt and adjust. When I became a Joint Manager in 1952 we were still 25% in Fixed Interest, largely Preference, Stocks. We had pioneered in the restoration of our U.S. equities, decimated by wartime requisition, up from 15% to 20% that year and reaching 44% by 1958. In 1952 our net asset value (typically in those days not even noted in the Report) was only £0.20; now it is £2.79½. Our Gross Revenue had just passed the £1 million mark for the first time; now it is over £9 million. And the gross Ordinary Dividend (raised from 40% to 50%) was £525,000; the corresponding figure this year is £7,200,000. Our comparative record may be summarised as follows (the F.T. Index although not entirely satisfactory is the only one available) expressing increases as multiples:

Alliance Trust Ordinary Dividends	13.7 times
F.T. Index Dividends	5.2 times
Alliance Trust Net Asset Value	14.0 times
F.T. Index	4.1 times
Alliance Trust Share Price	10.1 times
Cost of Living Index	6.1 times

These results cover nearly three decades of the most violent and rapid change in trade and finance world-wide, as well as continuous tight and changing Government controls and two major restructurings of the tax system, all of these hitting us badly and vastly complicating our task. None the less, and despite the widened discount in our share price against asset value, the long-term holder has been not merely protected against inflation on both income and capital, but well rewarded.

We have today a fine management and staff team supported by the most advanced technical apparatus. I am confident that in today's freer air they will do even better. I take this chance to thank them all, and their predecessors over the years, for their loyalty and dedication, as I do my past and present colleagues on the Board for their counsel, for their tolerance and for their support.

D. F. McCurrach.

22nd February 1980.



# FORTY LARGEST EQUITY INVESTMENTS

Shell Transport & Trading Co. Ltd.	15,000,000	Imperial Chemical Industries Ltd.	£1,375,000
B.A.T. Industries Ltd.	4,601,000	Fleming Japan Fund S.A.	1,366,000
Electrocomponents Ltd.	3,808,000	Marathon Oil Co.	1,334,000
Beecham Group Ltd.	3,165,000	Midland Bank Ltd.	1,323,000
Petrolina S.A.	2,984,000	Tri-Continental Corp.	1,305,000
Racal Electronics Ltd.	2,867,000	De Beers Consolidated Mines Ltd.	1,223,000
Southland Royalty Co.	2,801,000	K Mart Corp.	1,188,000
Glaxo Holdings Ltd.	2,816,000	Rank Organisation Ltd.	1,180,000
General Electric Co. Ltd.	2,243,000	Associated Dairies Group Ltd.	1,180,000
Philip Morris Inc.	2,101,000	Schlumberger Ltd.	1,173,000
British Petroleum Co. Ltd.	2,041,000	Marsh & McLennan Companies Inc.	1,170,000
Standard Chartered Bank Ltd.	1,848,000	Thorn Electrical Industries Ltd.	1,141,000
Slough Estates Ltd.	1,790,000	Bass Ltd.	1,083,000
C. E. Heath & Co. Ltd.	1,710,000	Steeley Co. Ltd.	1,075,000
National Westminster Bank Ltd.	1,689,000	Ranger Oil (Canada) Ltd.	1,056,000
Superior Oil Co.	1,665,000	Allied Breweries Ltd.	1,042,000
International Business Machines Corp.	1,517,000	Prudential Corp. Ltd.	1,035,000
Telephone Rentals Ltd.	1,407,000	Lloyds Bank Ltd.	1,030,000
Barclays Bank Ltd.	1,387,000	Imperial Group Ltd.	1,013,000
Land Securities Investment Trust Ltd.	1,376,000	Rentokil Group Ltd.	993,000

The above investments represent 53.1% of the Company's total equity holdings. These include convertible holdings where applicable.

## INVESTMENT CHANGES

	U.K. Equities	U.S. Equities	European Equities	Other Equities	Fixed Interest	1980 Total	1979 Total
Valuation at 31/1/79	84,982	44,463	5,238	7,366	14,128	156,187	140,535
Purchases	10,459	9,191	3,547	4,360	5,165	32,722	24,964
Sales	(15,788)	(11,706)	(131)	(1,716)	(2,815)	(32,256)	(26,662)
Appreciation/(Depreciation)	9,269	(9,526)	(2,217)	(2,792)	(445)	(5,711)	17,370
Valuation at 31/1/80	88,922	32,422	6,437	7,218	15,943	150,542	156,167

Number of equity investments      Sterling 131 (127)      Foreign Currency 88 (79)

## SUMMARY OF 10 YEAR RECORD

Percentage Increases 31st January 1970 to 31st January 1980

	Values	Dividends
Allianco	43.0	159.7
F.T.A. All-Share	69.6	181.8
F.T.	10.6	87.3