

AT/DMcP/HS/AJH
19th June 2007

Mr. Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
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Dear Mr Hodge

REVIEW OF THE IMPACT OF THE COMBINED CODE

We welcome the opportunity to respond to the FRC's consultation paper on the Combined Code.

Alliance Trust is the UK's largest generalist investment trust, with net assets of some £2.8bn. Listed in London, we have some 22,000 registered shareholders, with a further 30,000 shareholders through our in-house nominee. The majority of our shareholders – over 60% by shares held – are individual rather than institutional. We are relatively unusual as an investment trust in that we are self-managed, that is to say our investment portfolio is managed by our own in-house team, rather than being outsourced to an external fund managers. Given this characteristic we are able to consider and comment on the effectiveness of the Combined Code both as an investor and as a listed company.

In principle we do not believe there is a need for a major review of the Combined Code at this point in time. In structure, the focus on principles is aligned with the approach now being taken elsewhere in the UK regulatory framework and the layers of supporting principles and detailed rules, if applied pragmatically and with due regard to "comply or explain" are helpful in clarifying the expectations of investors.

On the specific questions which you have raised:

1. Does the Code support better board performance over time?

On balance we believe it does. We have some reservations with regard to the "industry" which has evolved of professional board performance evaluation specialists. There is a risk that the prescriptive requirement for annual evaluations of each of the Board, Board Committees and individual directors can detract from the fundamental question "Do the Board and its committees operate cohesively to govern the company?" and companies should be prepared to look behind the administrative procedures and processes to focus on this. By way of illustration, part of our board performance evaluation exercise this year is an exercise on board dynamics, reviewing the behavioural styles of individual directors and how they interact, facilitated by an external coach. Overall however we would contend that the Code has improved standards of performance in the Boardroom by raising the bar as to what is acceptable.

2. Is the "comply or explain" approach working effectively?

Key to this is effective engagement between investors and companies, and that requires a conscious effort by both parties which is not always evident in practice. Companies can be guilty of simply asserting, rather than explaining, non-compliance and failing to show that they have considered the full implications of non-compliance on a specific point. Conversely, we have seen a tendency on the part of some institutional investors to adopt a "tick-box" approach to engagement – they are prepared to meet with companies when governance issues arise, but are not prepared either to change their views in the light of the company's explanation, where it conflicts with their pre-determined governance policy, or to engage proactively in a dialogue to establish common ground. Our experience is that this is more of a risk where investors have created a separation between their fund managers and their corporate governance function, leading to a lack of cohesion in voting decisions. Our own approach is that our fund managers are responsible for all voting decisions in relation to the companies they manage, thus ensuring that each company's own circumstances can be taken into account fully in voting decisions.

3. What impact has the Code had on smaller companies?

Following on from our previous comments, provided that "comply or explain" is properly applied and that due regard is had to the circumstances of individual companies, there is no reason for any widespread derogation from the Code in relation to smaller companies.

4. Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to companies?

Yes

In summary we would express our support for the Combined Code as it currently stands. When it is applied in an open and pragmatic way by both investors and listed companies it provides a sensible framework within which companies have the scope to conduct their own affairs with an understanding of shareholders' expectations, while avoiding the prescriptive requirements which have been adopted in other jurisdictions which have resulted in increased costs without necessarily improving the quality of Board level governance for companies subject to those requirements.

Yours sincerely



Alan Harden
Chief Executive