LAXEY PARTNERS LTD

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The Board of Directors
Alliance Trust PLC
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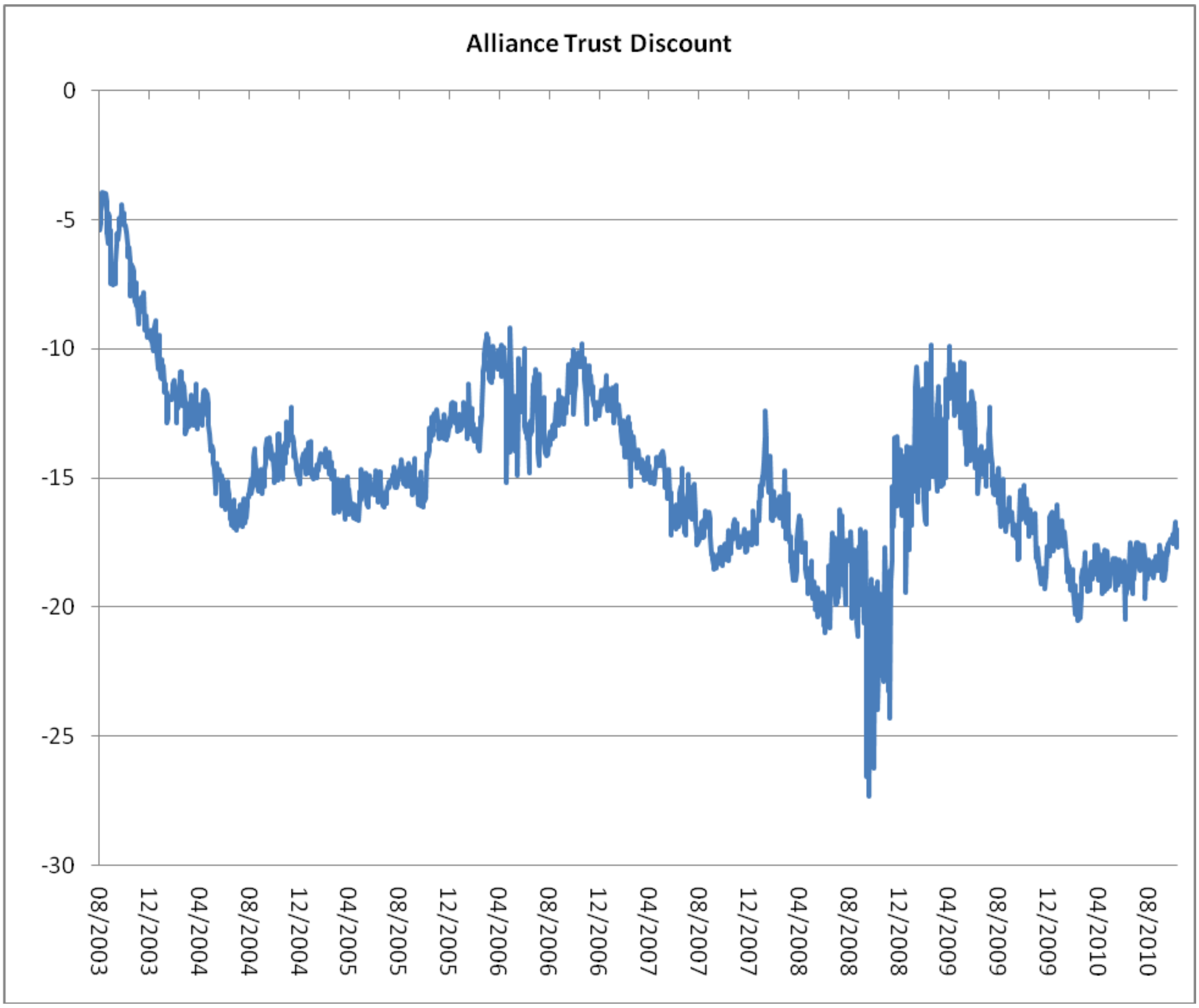
10th November 2010

Dear Directors,

Laxey Partners would like Shareholders to debate the pros and cons of the need for a discount control mechanism for Alliance Trust Plc and the operations and mechanics of the Alliance Trust Savings Scheme.



Laxey Partners believes that the consistently wide discount and the poor comparison against its peers now merits the need for a discount control mechanism. Accordingly, as a first step, Laxey will ask Alliance Trust to add to their agenda at the next Annual General Meeting a

resolution requesting the Board to come forward with a discount control mechanism that will limit the discount to NAV which the Trust's share price trades to a maximum of 10% (excluding income and with debt treated at market value) in normal market conditions.
In addition Laxey Partners will request that Alliance Trust Plc put forward a resolution seeking approval for the Alliance Trust Savings' Shareholder Enfranchisement Scheme.
In May 2006, Alliance Trust requested that Shareholders give it the power to repurchase shares. This process has been repeated at each AGM thereafter and given consent by Shareholders. However, this power was only for the first time deployed in October 2009 and for the second time only in March 2010. The Chairman, commenting in the 2010 Report and Accounts stated that "when we took the power from shareholders to undertake buybacks in 2006, we were clear that we would use this power where the Board judged it to be in the interests of all shareholders to do so we concluded, following rigorous consideration of the merits of the transaction from an investment perspective, and taking into account both market conditions and our own investment process, that the criteria which we had previously determined were met this should not be confused with adoption of a discount control mechanism".

Furthermore, in the Chairman's statement within the 2008 Report and Accounts, it was acknowledged that "some shareholders" had proposed using the share buyback powers, which they had voted for, but that the Board had chosen not to do so – instead continuing to invest in the development of the Trust's financial services subsidiaries. Two years later (figures taken from the recent 2010 Report and Accounts), Alliance Trust Asset Management incurred expenditure of £3.4m and at the year end had attracted third party assets totalling £11.6m. Alliance Trust Savings generated total income for the year of £9.9m compared to £16.4m the previous year and incurred costs of £17.7m compared to £17.9m the previous year. Whilst not exactly pleasant reading for an Alliance Trust Shareholder, the cost of investing in these two businesses is miniscule in relation to the total assets of Alliance Trust – and would be completely unaffected by the utilisation of the buyback and adoption of a discount control mechanism. In fact it would benefit the Savings Plan customers via the re-rating of Alliance Trust shares and the ability of the Asset Management division to attract third party funds is driven by performance not subsidy.

At the time of the merger of Alliance Trust PLC with The Second Alliance Trust PLC in 2006, one of the principal benefits and reasons for the merger was given as: a raised profile for the Combined Company in the market and increased liquidity for its shares in the market. At the date of that document (23rd March 2006) Alliance Trust's shares had a mid-market value of 3714pps, representing a discount of 10.8% to their unaudited NAV of 4166pps.

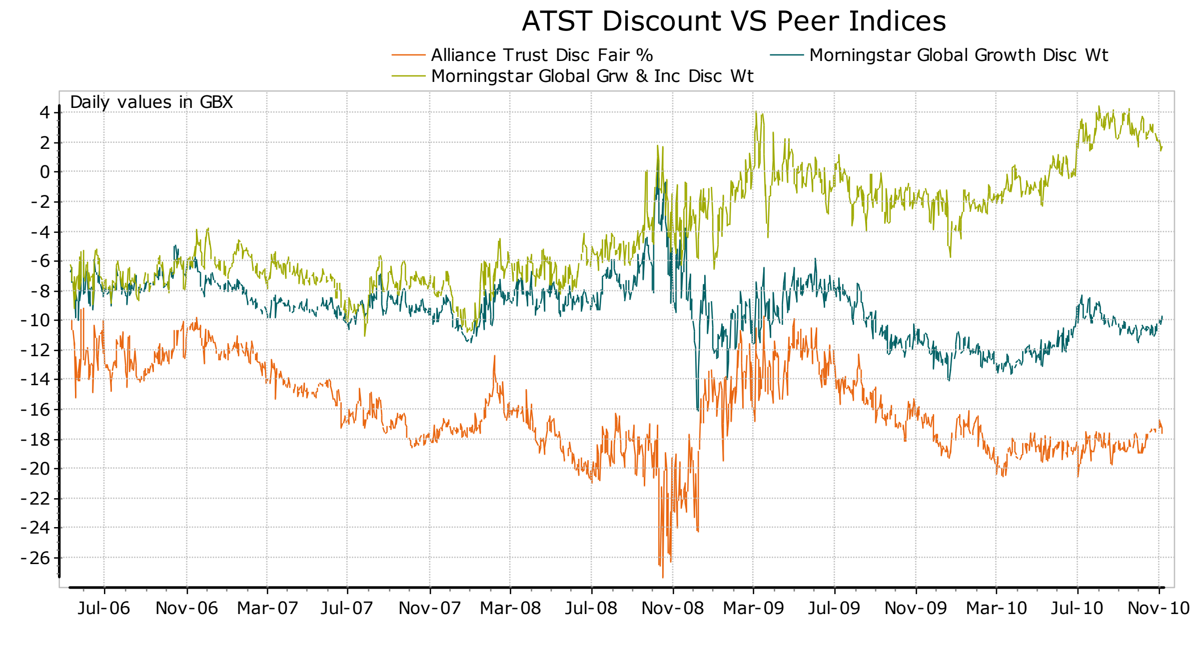
Since the merger, the discount of the Company as stated at each year end (taken from the Report and Accounts) was:

2007	(16.30%)
2008	(16.00%)
2009	(15.40%)
2010	(17.10%)
1/2/2010 to 5/11/2010	(18.51%)

Source: Bloomberg

This can only be viewed as a worsening situation. The discount is an indicator of supply and demand and shareholders who voted for the merger have seen their share price rating drop dramatically as a combination of disappointment in the NAV performance and selling pressure have taken their toll on the discount.

The Trust chooses to be judged against an investment trust peer group for Total Shareholder Return as opposed to a fixed benchmark. The chosen peer group is the Global Growth and Global Growth and Income Trusts. As is demonstrated by the graph below, Alliance Trust's discount is substantially wider than both of the comparative indices and the relative rating has worsened since the merger. We believe the completely ineffectual and piecemeal utilisation of the buybacks has been a major contributing factor and will continue to be so unless remedied by decisive action by the Board.



Source: Morningstar

Looking at the constituents of the chosen index, we believe the three most similar trusts by size and specialisation are Foreign and Colonial Investment Trust PLC (F&C); Witan Investment Trust PLC (Witan) and Scottish Investment Trust PLC (Scottish IT). All three trusts have installed a policy to manage the discount at which the shares trade in the market. In the case of F&C it is set as achieving a less volatile discount with a ceiling, in normal market conditions, of 10% as well as enhancing net asset value per share for continuing shareholders. In the case of Witan, shares are bought back when they stand at a significant discount to net asset value with the objective, subject to market conditions, of keeping the discount to net asset value at less than 10%. In the case of Scottish IT the Board went further and offered shareholders the right to tender up to 40% of shares at a 9% discount to NAV (excluding net revenue and with its bonds valued at par). The board further introduced a buyback policy with the aim of maintaining a discount to ex income of 9% or below. These policies were instigated in November 2005 in the case of F&C, December 2004 in the case of Witan, and February 2006 in the case of Scottish IT - so they have had a decent time to see them in operation. The discounts of all of the comparative trusts have, on average, been very close to their target levels. They have also been much more consistent (see graph below) and that has reduced their volatility which has helped their attractiveness especially to retail investors. We have calculated the discount volatility of Alliance (since the merger of ATST and SAT) and compared that to the other three trusts over the same period. Alliance's discount is both wider and far more volatile than the others:

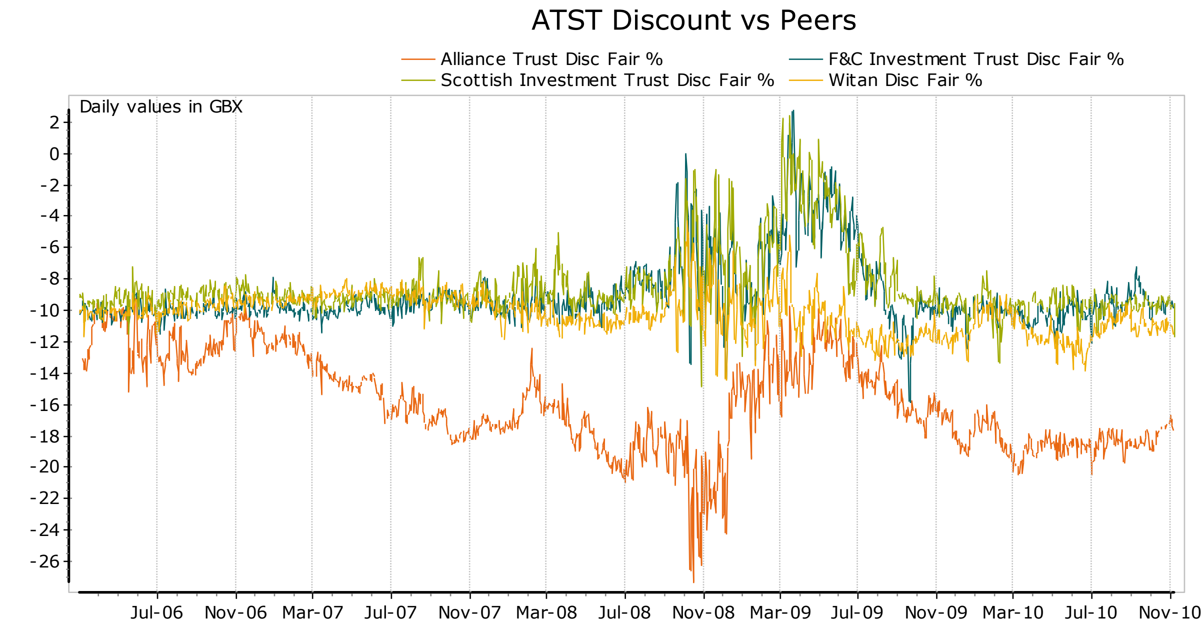
	Mean disc.	Std. Dev.
F&C	(10.53%)	2.05%
Witan	(11.48%)	1.35%
Scottish IT	(10.38%)	1.84%
Alliance Trust	(16.03%)	2.90%

For shareholders in these three trusts, the operation of the buyback has:

- **Enhanced the NAV performance**
- **Improved market liquidity**
- **Reduced discount volatility**

Alliance Trust states its Test No 1 of its Key Performance Indicators as being: Total Shareholder Return performance against a peer group.

It is the share price which is the most important element for shareholders and to virtually ignore the performance of this key metric when compared to NAV is no longer acceptable and needs to be addressed in simple terms to the benefit of all shareholders.



Source: Morningstar

To achieve this, we call on the Board to announce and implement a discount control policy whereby the Board sets a new objective to limit the discount to NAV which the Trust's share price trades to a maximum of 10% (excluding income and with debt treated at market value) in normal market conditions.

By installing and implementing this policy, we estimate that Shareholders who maintained their holding in the Trust would benefit from the re-rating and the reduced discount volatility. Assuming the discount was 19% on announcement, and there was a need to buy in 10% of Shares in issue to achieve the required 10% rating, the uplift to continuing shareholders would be approximately 12.3% irrespective of NAV performance - performance that Alliance Trust could well do with!

Alliance Trust Savings Scheme - Shareholder enfranchisement or management enfranchisement?

When Shareholders voted for the recommended merger of The Alliance Trust PLC and the Second Alliance trust PLC in March 2006, the Company stated that "none of the Company's major shareholders have or will have different rights". Indeed Shareholders were asked to approve a change in the Articles of Association whereby it was proposed that after the subdivision, Alliance Trust Shareholders will have one vote for each subdivided share. This was duly approved. This principle of one shareholder, one vote is a standard of normal good corporate governance and is a principle we wholeheartedly endorse.

What Shareholders didn't get a chance to approve was a scheme that allows the Alliance Trust Savings' nominee shareholder to scale up the votes in the Alliance Trust Savings Enfranchisement Scheme by a huge multiple, including the votes cast by Alliance Trust PLC's management. Given the likely very low uptake of voting rights by the shareholders in the Scheme, this provides very close to effective control for Alliance Trust PLC's management. In the table below we include the most recent ownership data announced to the

London Stock Exchange for current and recently employed Directors of Alliance Trust. NB. No data is available for Alliance Trust's management as a whole.

Director	Registered Holder	Most Recent Announcement	Beneficially Owned	Benefitial Interest in shares held by Trustee of Employee Benefit Trust	Deemed beneficial interest in shares held for Company by Trustees of Employee Benefit Trust	Total %age of Issued Class All interests	Notes
Katherine Garrett-Cox	Alliance Trust Savings Nominees Limited	26/10/2010	226,991	52,538	1,770,203	0.31%	Current (Exec Dir)
Lesley Knox	Alliance Trust Savings Nominees Limited	13/10/2010	156,038			0.02%	Current (Chairman)
John Hylands	Alliance Trust Savings Nominees Limited	05/08/2010	64,561			0.01%	Current (Non exec Dir)
David Deards	Alliance Trust Savings Nominees Limited	17/04/2009	53,847	17,649	1,842,670	0.29%	Ended April 2009 (Exec Dir)
Chris Masters (Spouse)	Alliance Trust Savings Nominees Limited	05/02/2009	10,870			0.002%	Current (Non exec Dir)
Alan Harden	Alliance Trust Savings Nominees Limited	09/07/2008	76,134	36,766	1,854,285	0.29%	Ended July 2008 (CEO)
Janet Pope	Alliance Trust Savings Nominees Limited	15/02/2008	23,621	4,258	1,108,624	0.17%	Ended March 2008 (Exec Dir)

It is this effective control mechanism which gives the Alliance Trust Savings Plan a "unique" voting structure and one that we believe contributes to the excessive discount of Alliance Trust Plc. So how does it work?

This is referred to as "Shareholder Enfranchisement" but should perhaps be referred to as management enfranchisement. "It gives real power to investors who wish to vote". Quite so, but that means that any Shareholder within the Scheme who has not specifically opted out of this process and has not voted on any given issue, has their vote exercised by those within the Scheme that have voted. This mechanism is directly comparable to class actions. This "opt out" system in inconsistent with both English and Scottish procedural law on class actions. The Scottish Law Commission takes the view that an "opt in" is essential because each individual must have the freedom to be involved only if the individual chooses to do so. Consequently, we consider it is totally inappropriate for the Alliance Trust Savings Plan to have adopted an "opt out" system for enhanced voting rights.

The votes are held by the Alliance Trust Saving Scheme which is owned by the Alliance Trust Plc. It is highly likely that the management of Alliance Trust Plc, through their holdings within the Scheme, exercise the largest proportion of those votes, and so de facto control the entire block. The Scheme currently holds 21.5% of the shares and is by far and away the largest shareholder.

On the 31st October 2008, Alliance Trust Savings notified the FSA that it had crossed the 20% ownership threshold. Since that date, no notification of change has been filed with the FSA – even though the number of shares held by the Alliance Trusts Savings Scheme has increased to 21.5% as at the Report and Accounts of Alliance Trust PLC 2010. Surely the change in this strategic holding warrants full disclosure to the FSA, and the market?

Alliance Trust Savings' management have stated that they will cast the votes for the total Scheme in the same proportion of those that express a voting intention. But how many people actually vote? Well there has been no disclosure of the actual votes cast so shareholders have no idea the extent of this scaling up and the extent of the de facto control exercised by the management. We believe the numbers within the Scheme who do vote is minimal, maybe less than 0.5%. If so few people in the Scheme actually vote we believe shareholders should be made aware of the materiality of the scaling up with full disclosure.

An example would be if 0.5% of the Scheme's clients who had not specifically (and in writing – no form supplied for purpose) opted out of the enhanced voting system voted, and the other 99.5% declined to do so, then those 0.5% of the Scheme's clients would in effect have 200 votes per share. We believe that the current Scheme (which charges Scheme holders who opt out and then want to vote, but does not charge if they do nothing and stay within the Scheme) is a back door control mechanism. This we believe is the opposite of voting best practice and good corporate governance and is open to potential market abuse and needs full disclosure. We would like to see full details of how votes have been cast and exercised since the Scheme has been in existence.

The growth of the Savings Scheme from 10.9% of shares in issue to 21.5% of shares in issue between 2001 and 2010 begs a further issue. Due to its ownership of Alliance Trust Savings, the management of Alliance Trust Plc has the power to determine the way in which votes in the Scheme are exercised. They currently have decided that the nominee must exercise them on a scaling up basis.

Even the Board seemed conflicted when they stated "Alliance Trust believes that all investors should have equal rights whether they hold shares directly or on a nominee register" unless of course those rights apply to Alliance Trust itself.

We think it is critically important that shareholders are aware of how many Directors, spouses, employees and connected parties hold shares in the Scheme and what proportion of votes cast they represent. This has never been disclosed.

There is also a strong requirement for Chinese walls in such a voting system as access to votes cast on any resolution coupled with a disproportionate weight of connected parties in the Scheme has the potential to create a very imbalanced voting system.

The mechanics of the Scheme's operation are also impossible to quantify. The Scheme is open to abuse as a single interest group could (assuming a low percentage vote within the Scheme) control a huge percentage of the total votes in Alliance Trust PLC for their own ends. The only single interest group that Shareholders of Alliance Trust PLC are aware of is the Directors, their associated parties and the Manager. This brings up conflict of interest issues – in a contested situation the utilisation of the scaling up mechanism by the Managers, the Board of Alliance Trust and associated parties would potentially control a huge voting block in order to serve their own interests. We would not call this Shareholder Enfranchisement – but Management Enfranchisement.

There has been no declaration of Interested Parties within the Scheme structure. Furthermore, the percentages of those who have opted out and for that matter, those who have voted as a percentage of the whole Scheme on any single issue, have never been disclosed. This is a completely unacceptable lack of disclosure.

No wonder the stock market views this block of shares as a poison pill and that, coupled with the lack of will to tackle the discount in a credible way and pedestrian performance, has lead to the entrenched discount which on average trades over 5% wider than its peer group.

IN CONCLUSION:
We call on the Board to take full notice of Katherine Garrett-Cox description of what needs to be done as quoted in the autumn 2008 edition of *Investor*:
"We have to do what we can to narrow the gap between our NAV performance and that of the share price".
The two obvious ways to achieve this are, we believe, the adoption of an industry standard Discount Control Mechanism and the removal of a very NON industry standard voting scheme.

Yours faithfully,

Michael Haxby
Director
Laxey Partners Limited