PERSONAL ASSETS TRUST PLC

TROY ASSET MANAGEMENT

www.patplc.co.uk

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Quarterly Report

July 2021

Our policy is to protect and increase (in that order) the value of shareholders' funds per share over the long term.

Dedicated to
Jeremy Lyon
1942-2021
Stock Jobber and Stock Broker for 62 years

Legends

Back in the late 1990s, as an aspiring fund manager at GEC Pension Fund, I read *Money Makers* by Jonathan Davis. The book is somewhat dated now but in its time it provided a wonderful insight into the life and times of eight great UK-based fund managers including Anthony Bolton, Nils Taube, Mark Mobius, and Michael Hart of Foreign & Colonial (who was an early inspiration for my Troy co-director Francis Brooke). *Money Makers* appealed to me because it demonstrated two axiomatic insights into investment management. Firstly, there are plenty of different ways to succeed in investing; everyone has a style to best suit their temperament and talents. The second, perhaps less obvious lesson, is that clients have different needs and desires as well. Not everyone is seeking to 'beat the market' over every time frame. Some are seeking a different experience to all the thrills and spills which the equity market has to offer. I was drawn to one fund manager's approach which particularly appealed to me because it combined a big picture, macro view with bottom-up stock picking. He was Ian Rushbrook, described by Davis as "*a stock market impresario*". I soon became a shareholder in his investment trust, Personal Assets Trust, and the rest, as they say, is history.

Money Makers totally changed the way I looked at investing. It advocated for an approach which was long-term, which focused on avoiding the drawdowns of markets, and which unapologetically rejected the dogma of returns relative to an index. While the FTSE All-Share, MSCI World or the S&P 500 indices may be the correct target for certain institutions, are they appropriate for *all* investors? Private investors, academic research has shown, tend to be whipsawed by buying high and selling low. For most people the goal of capital preservation is the absolute priority. Similarly, charities never know when they will require access to their reserves. The last thing a trustee needs to see is the value of a charity's portfolio collapsing when the funds are needed most. Case in point, the pandemic required many charities to dip into their reserves in the teeth of the crisis. This coincided with the collapse in stock markets and the freezing of traditional fundraising due to lockdowns. A fully-invested equity portfolio is not always suitable for such eventualities.

Investing is about more than maximising upside or beating indices over short time periods. Many would prefer to avoid the slings and arrows of red-blooded equity market volatility but still, over the longer term, see their investments grow ahead of inflation and compound at a consistently attractive rate. We believe this is possible with patience and the acceptance that short-term returns may lag when markets are at their most ebullient.

Twenty years of winning by not losing

At the end of May, we celebrated 20 years of Troy's multi-asset strategy which, since 2009 has included the management of Personal Assets Trust. In this report I will reflect on the experience of the past two decades, considering the evolution of our investment process.

I have said before that this mandate, more than anything, is about 'winning by not losing', a phrase coined by Charlie Ellis in his book *Winning the Loser's Game*. In it, Ellis compares investment to playing lawn tennis. You win, not from hitting spectacular winners, but by keeping the ball in play and by making your opponent hit one more shot. Wimbledon fans will be all too familiar with this. During the Championships we watched Novak Djokovic grind down his opponents by keeping the ball in play and staying in the game.

What this means, in investment terms, is 'staying in the game' by avoiding the permanent capital loss suffered from torpedoes in your portfolio – the losers. Within equities, these tend to be weak businesses that are highly cyclical, geared or both. They may tempt us with the prospect of a short-term recovery or be buoyed by a temporary pick-up in demand. Over the long term, however, they bring with them the downside that accompanies poor competitive positions and low returns on capital. These are 'wasting assets' which we seek to avoid.

What I have learnt over 20 years of managing this strategy is that equity investment which prioritises quality is more suitable (and a lot less stressful) than attempting to trade the ups and downs of lesser businesses. Equity participation is about investing in cash flows delivered over the course of years and decades to come. It is not about riding on next quarter's earnings puff or hanging onto the glories of yesteryear. Looking back at the constituents of equity indices like the S&P 500 20 years ago informs us of the harsh Schumpeterian reality of business. There are few survivors. For the S&P 500, Microsoft is the only company from May 2001 to remain in the top ten. If you had invested in the top ten companies back then you would have lost money in seven of them despite the stock market's rising tide. In the case of two of these stalwart 'blue chips' of 20 years ago – General Electric and AIG – you would have lost more than 75% of your capital. We believe steering clear of such losses is the primary aim of any long-term investment plan.

Low turnover, not no turnover

Over 20 years, change is inevitable. We recognise that portfolio turnover is a tax on investment returns and not just because of the direct costs of trading shares. There is also rich reward for patience from the positive compounding of returns. The average equity holding period for our multi-asset portfolios today is around seven years. But whilst we believe in low turnover, we do not believe in <u>no</u> turnover. Episodes of heightened activity at junctures like 2008 or 2020 are to be embraced, in the knowledge that they will often be followed by prolonged periods of calm. Our *modus operandi* has always been to be proactive and to treat the portfolio as a living organism, as opposed to something set in aspic.

Since Troy's foundation, the quality threshold for the businesses in which we invest has risen. Since being appointed as Investment Adviser to Personal Assets Trust, over 80% of the stocks we invested in have made a positive contribution to returns. This is a mark of continuity, building on the consistent track record of Personal Assets Trust, which now goes back nearly four decades. The track record is a function of a number of things. Perhaps most important is our highly selective filter at the time of purchasing any stock. Next comes patience. This is afforded by our mandate's time horizon, but it also requires a certain temperament and is bolstered by a conviction, borne of thorough research, in each investment that we make.

Patience does not however mean refusing to alter our course when new information comes to light; 'buy and hold' is not 'hold forever'. The majority of our sell decisions are made following a period of positive returns and are driven by our identification of increasing risks to the business or the better opportunities elsewhere. There are also, thankfully less frequent, instances where investment decisions transpire to have been wrong with the benefit of hindsight. When the facts change, we change our minds; we are not wedded to any holding in the portfolio.

The improvement in the quality of our holdings can be seen through portfolio-level metrics. Looking at the aggregate free cash flow margin of our equity holdings, this has always been in excess of the average stock market constituent but it has improved over the past decade by over 10 percentage points (*see Figure 1*). It is now well above market levels, illustrating the huge financial productivity of the companies we favour. Compare this to the price to free cash flow[1] which is still broadly in line with that of the MSCI World, an indicator that we resist overpaying for superior cash margins.

Evolution, not revolution

In my first investment report in July 2001, I stated that, "*We intend to invest in UK and US equities*". Part of this strategy's evolution pertains directly to its geographical make-up. In 2009, Personal Assets Trust held c.60% of its equity investments in UK-listed companies with the balance overseas. Over the past decade this has fallen, so that today the Trust's equity portion is c.80% invested overseas (predominantly in the US) and the remainder in the UK. The underlying revenues of the equities held in the Trust enjoy broad diversification by region, with 44% exposure to North America, 18% to Europe ex-UK and 35% to Asia and Emerging Markets. This international shift has nothing to do with any 'top-down' view on the UK market, nor its valuation. Instead it is a function of finding better companies elsewhere from a 'bottom-up' perspective. We have always found incredible depth of world-class businesses in the US. This is true across a broad range of sectors from software to healthcare, and the breadth of opportunity has only improved over the past decade.

We will continue to be guided by where the best opportunities lie. For us, companies must have exceptionally strong governance to match an outstanding business model, and that will often determine the jurisdictions in which we are happy to invest. However, that still means doing the homework on areas which may not be investable today; getting to know businesses in geographies such as China is paramount to understanding the global opportunity set. You will be reassured to hear that, having founded Troy as a one-man-band, I am now ably supported by a very talented team of fund managers and analysts, all of whom are focused on identifying the best businesses in the world. We retain an open mind when it comes to opportunities further afield, whilst maintaining that high bar set for capital preservation.

Seeking Absolute Returns

"Our aim is to protect investors' capital and to increase its value year on year"

This quote from Lord Weinstock has featured at the top of our multi-asset reports since Troy was founded. We hasten to clarify that we do not consider Personal Assets to be an 'absolute return' mandate, even though we endeavour to deliver attractive absolute returns over the long term. True absolute return funds target positive returns over <u>all</u> time periods. We recognise that we are long-only investors with a mandate that intentionally eschews shorting – and for good reason. Shorting is an entirely different investment discipline and one which incurs the threat of unlimited downside.

[1] Price to free cash flow is the share price divided by the free cash flow per share

Our long-only approach does not entail the use of stop losses; on the contrary, in weaker markets we lean into risk, increasing equity exposure as we did in the first quarter of last year. In more benign conditions, where risk appetite and investor complacency are high, we are prepared to stand back from markets and reduce our exposure. This approach has been stress-tested over market cycles from the dotcom bust to the global financial crisis, and more recently the pandemic.

Diversification

What of the other parts of the portfolio? While equities have been the driver of over 80% of the returns achieved since we were appointed over a decade ago, fixed income (including index-linked) and gold have also contributed to returns. Furthermore, they have provided crucial diversification and protection in times of market stress. They also offer valuable liquidity for us to deploy into equities when valuations become more attractive.

Gold bullion continues to serve an important role when it comes to protecting capital. It has generated returns of over +11% per annum (in £) since we first invested for the strategy in 2005, and continues to provide a rare store of value in the form of an alternative currency that cannot be printed. Gold has proven its credentials over millennia. Currency debasement is nothing new and we retain gold as insurance against the eroding purchasing power of modern money. We remain open minded as to whether the current surge in consumer prices will be transient or sustained. Over the past 12 years from 2009-2021, a saver holding cash has earned a mere +6% on their savings, which compares to UK RPI of +39% over the same period; a -24% devaluation of sterling in real terms. This is the definition of financial repression. In the years to come, given the current level of nominal interest rates, we suspect that this will remain a persistent problem for savers.

Preserve and grow

What of the next decade? Personal Assets Trust's aim is clear: to protect and grow the capital of our investors. This objective remains constant and just as relevant today as it was 20 years ago. There is no doubt that the next ten years will be very different but some things never change. The laws of compounding are most certainly intact. If you lose less on the downside, and still manage to compound steadily on the upside, your long-term returns will be better and the ride will be considerably more comfortable.

We are under no illusion that despite these constants, we must adapt. After 13 years, the unorthodox monetary policy of QE and low interest rates seem to be here to stay, with profound implications for asset prices and volatility. The means through which we fulfil our mandate will continue to evolve, but our principles are steadfast. We must steer a course that can deliver for investors on those same things that mattered when Personal Assets was founded. Look after and preserve what is there. Turn off the siren sounds of market noise and euphoria and instead, tune into opportunities which will play out over the long term, where patience is rewarded. We thank our investors and shareholders for their continued support.

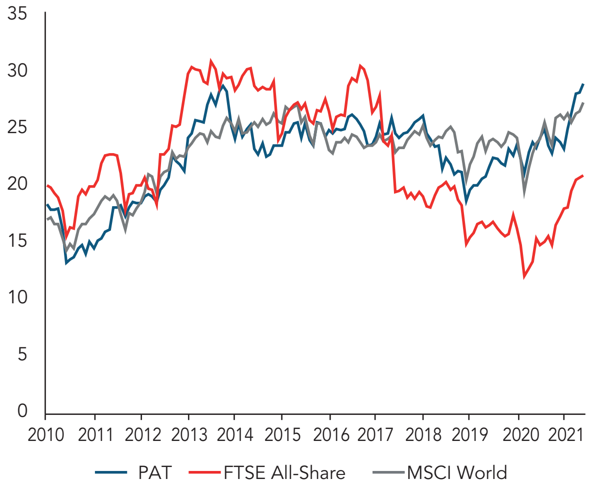
Sebastian Lyon July 2021

Investment Manager of Personal Assets Trust

Founder & Chief Investment Officer of Troy Asset Management

Equity Holding Characteristics

Price to Free Cash Flow



Free Cash Flow Margin (%)

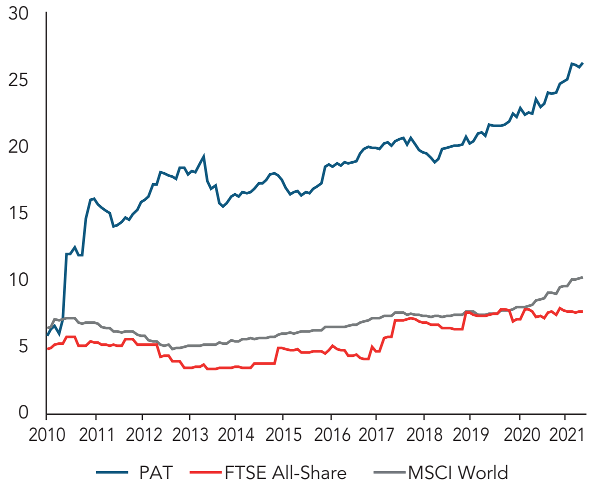


Figure 1 *Source: Factset and Troy Asset Management Limited, 30 June 2021.*

Free cash flow represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets.

Free cash flow margin is the free cash flow a company generates divided by its revenues.

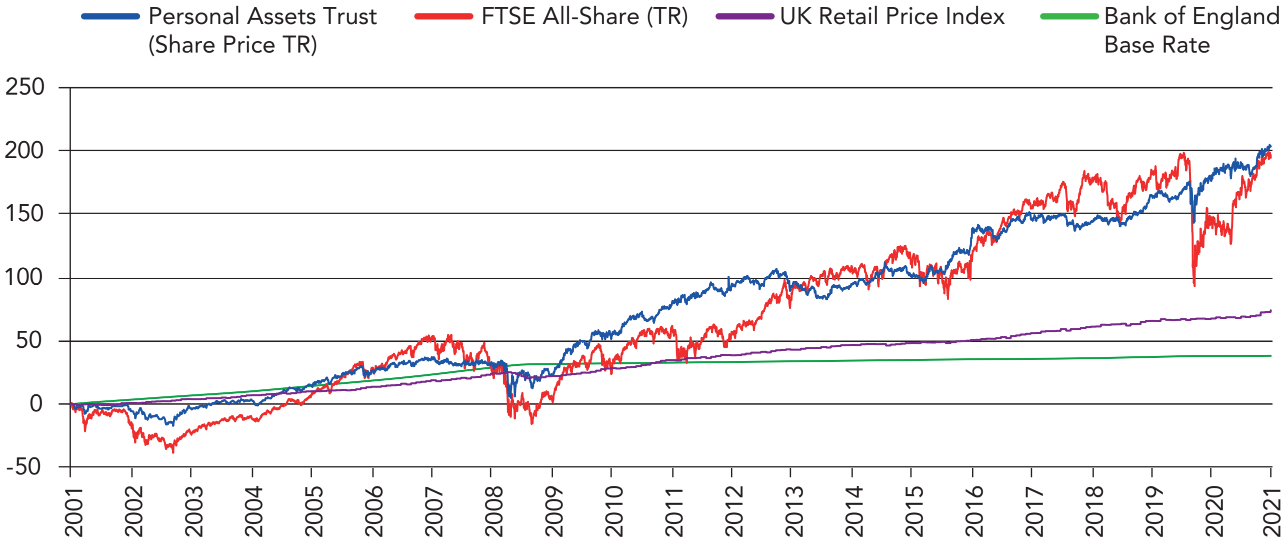
Past performance is not a guide to future performance

Personal Assets Trust PLC

As at 30 June 2021

Share Price (£)	477.00
NAV (£)	473.16
Premium/Discount %	+0.8
Market Cap (£)	1.58bn
Shares in Issue	3.3m

Percentage Growth from 30/06/2001 to 30/06/2021



Source: Lipper

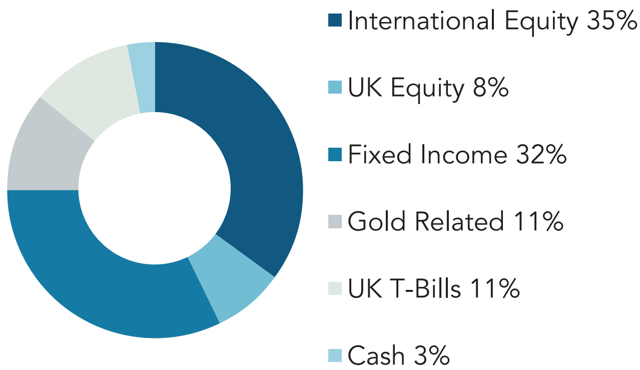
Past performance is not a guide to future performance

Total Return to 30 June 2021	20 years	10 years	5 years	3 years	1 year	6 months
Personal Assets Trust (Share Price TR)	+204.1%	+70.9%	+33.7%	+24.4%	+8.7%	+5.5%
UK Retail Price Index	+74.3%	+29.3%	+15.5%	+8.0%	+3.9%	+2.9%
FTSE All-Share Index (TR)	+195.2%	+85.5%	+36.9%	+6.3%	+21.5%	+11.1%

Source: Lipper

Past performance is not a guide to future performance

Asset Allocation



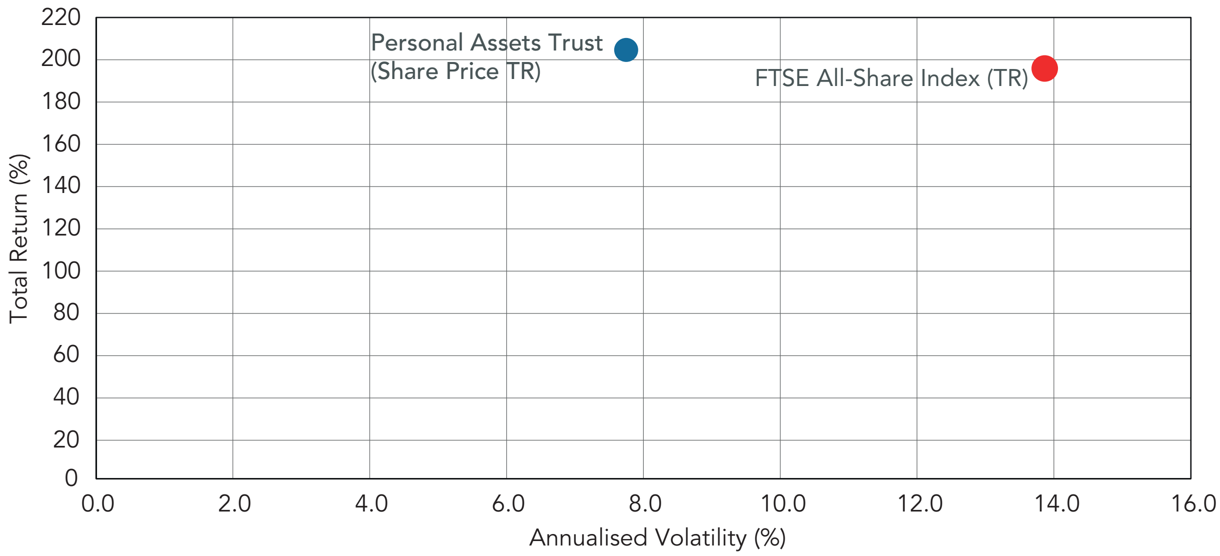
Source: Factset, Asset Allocation and holdings subject to change.

Top 10 Holdings

(exc. Government Bonds)	% Trust
Gold Bar	8.5
Microsoft	5.4
Alphabet	4.9
Unilever	3.9
Philip Morris International	3.7
Nestlé	3.7
Visa	3.6
American Express	3.0
Diageo	2.9
Medtronic	2.9
Total Top 10	42.4
8 Other Equity holdings	11.4
Index Linked Bonds	32.0
UK T-Bills	10.7
Cash	3.5
TOTAL	100.0

Source: Factset, Asset Allocation and holdings subject to change.

Risk Analysis from 30/06/2001 to 30/06/2021



Source: Lipper

Past performance is not a guide to future performance

Risk Analysis since 30 June 2001	Personal Assets Trust (Share Price TR)	FTSE All-Share Index (TR)
Total Return	+204.1%	+195.2%
Max Drawdown	-23.5%	-45.6%
Best Month	+6.9%	+12.7%
Worst Month	-7.8%	-15.1%
Positive Months	+62.5%	+59.2%
Annualised Volatility	+7.7%	+13.9%

Source: Lipper

Past performance is not a guide to future performance

Fund Manager Awards

MORNINGSTAR Gold™

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London Listed Investment Trust

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Assistant Manager	Charlotte Yonge
AIFM	Juniper Partners Limited 28 Walker Street, Edinburgh, EH3 7HR 0131 378 0500

Board of Directors	Iain Ferguson CBE (Chairman) Mandy Clements Gordon Neilly Paul Read Robbie Robertson Jean Sharp
Currency	£ Sterling
Established	22 July 1983
ISIN SEDOL	GB0006827546 0682754
Ongoing Charges (30 April 2021)	0.73%
Year End	30 April
Pricing	Share price is listed daily in the FT
Auditor	PricewaterhouseCoopers LLP

Disclaimer

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Overseas investments may be affected by movements in currency exchange rates. The value of an investment and any income from it may fall as well as rise and investors may get back less than they invested. Any decision to invest should be based on information contained in the investor disclosure document, the relevant key investor information document and the latest report and accounts. The investment policy and process of the Trust may not be suitable for all investors. If you are in any doubt about whether the Trust is suitable for you, please contact a professional adviser. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. Asset allocation and holdings within the fund may be subject to change. Investments in emerging markets are higher risk and potentially more volatile than those in developed markets.

Personal Assets Trust is registered for distribution to the public in the UK but not in any other jurisdiction. The Trust is registered for distribution to professional investors only in Ireland.

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