PERSONAL ASSETS TRUST PLC

DECEMBER 2017 QUARTERLY REPORT N°. 86

WHY PERSONAL ASSETS?

Quarterly N°. 85 looked at why and for what purposes Personal Assets invests. Quarterly N°. 86 considers what we can offer to various types of shareholder and — there being no such thing as *'one size fits all'* in the financial world — seeks also to identify the types of shareholder for whom Personal Assets would not be a suitable investment.

Although pointing out one's inappropriateness for certain types of investor may seem a strange thing to do, it's common sense in any business to make sure that what the buyer gets is what the buyer wants. Furthermore, it fits in well with the new and more tightly regulated world of PRIIPs *("Packaged Retail and Insurance-based Investment Products")*, KIDs *("Key Information Documents") and* MiFID II *("Markets in Financial Instruments Directive")*, all of which the Board is actively implementing.[1]

In contrast to many other investment entities, Personal Assets is not an asset gatherer. If we could double the size of the trust tomorrow but at the cost of attracting new shareholders who weren't wholeheartedly in sympathy with our philosophy, we wouldn't do it. It would lead to disappointment or disillusionment on the part of the new shareholders and would be a distraction for us.

We see investment management as a service industry first and foremost, and the starting point for those working in any service industry is to be fully aware at all times of what services are being offered, and to whom. To offer something that looks attractive or even compelling in the abstract isn't enough. For it to succeed, there has to be a genuine market for it.

PERSONAL ASSETS AND WOMEN

Who, then, are our customers and what can we offer them? What is Personal Assets' natural constituency? (Although the term is used in connection with PRIIPs and KIDs, I am anxious here to avoid such phrases as 'target markets' because we don't actively target anyone, preferring interested investors to seek us out for themselves.)

First, let's look at a very special interest group — the one which represents the majority of the population. I started thinking about this when my Board colleague Jean Sharp drew to my attention a most interesting and thought-provoking recent report by Ernst & Young entitled *Women and Wealth: the case for a customized approach*. Jean pointed out that, perhaps without our consciously realising it, Personal Assets already *'ticked many of the boxes'* for women investors.

The report took as its starting point that women's economic power and financial independence were growing rapidly around the world and would continue to do so, making them an increasingly important market for the wealth management industry. However, the wealth management industry itself had not yet properly caught up with this change. Many women still perceived it as being male-oriented and unwelcoming, and one recent study showed that in describing the industry many women continued to use pejorative terms such as *'unwelcoming'*, *'patronising'*, *'male-dominated'* and *'full of jargon'*. To highlight one startling statistic, the study found that in the UK 73% of the women in the Ernst & Young sample felt that their wealth manager or private banker misunderstood their goals or could not empathise with their lifestyle.

I like to think that Personal Assets is rising to this challenge, and that with a bit of extra effort we might do better still. We have always had what might be called *'a mission to explain'*. We believe shareholders are entitled to know what we do and why we do it, as well as why we don't do certain things. My hope is that at least we come across as welcoming and relatively jargon-free (except when the jargon is forced upon us by the regulators). No doubt shareholders will be quick to let me know if we aren't succeeding.

'WHAT EVERY WOMAN WANTS'?

While many men over the years have set out to invest with the needs of women in mind, such as when making provision for their spouse's eventual widowhood, men of my generation and older don't always appreciate what seems obvious and natural to young adults today — that women's financial lives are now often more complex than men's. The increased incidence of divorce in recent decades has made more women than ever responsible for their own and their children's finances, while women still often find themselves compelled to take on the lion's share of responsibility for child care and the care of the old. Women who outlive their male partners can also find themselves confronted with new or increased financial responsibilities in later life. This can be especially challenging if the man had previously handled most of the couple's financial affairs.

The following points from the Ernst & Young report echo our own experience. Each generation will have a different perspective, but these are, I think, of special relevance to what I see as the *'transitional generation'* of women

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[1] For further information on PRIIPs and KIDs, please see https://www.fca.org.uk/firms/priips-disclosure-key-information-documents,

For further information on MiFID II, please see https://www.fca.org.uk/markets/mifid-ii.

Once available, relevant information will be displayed on our website, https://www.patplc.co.uk becoming financially independent for the first time.

- **Performance.** Women view achieving their personal goals as more important, while men tend to focus more narrowly on measuring investment performance.
- **Experience.** Women have distinctive preferences in many areas of client experience. These include more emphasis on security, accuracy and privacy, and greater appreciation of human interaction.
- **Trust.** Women see transparency and clarity as particularly important ingredients for building up trust. Although generalisations can be misleading, it is often said that women are instinctively inclined to relate to others in a co-operative rather than a competitive way. This can mean that they also place more value than men on advice or referrals from family and friends.

Like all investors, women want and need advisers who can clearly explain their investment views and decisions. While women can feel less confident with investment terminology than men, they also (and in contrast to the well-recognised reluctance of alpha males to consult maps and guidebooks, let alone admit that they are lost) are more willing to admit to a lack of expertise and a desire to find out more, and hence are well placed to learn.

In addition, women are less likely to approach financial advisers with their minds already made up. But an openness to discussion and a dislike for jargon is not a call for bland reassurances. Advisers need to provide substantive and comprehensive explanations. Surveys by the wealth management industry over the years show that women value an open, two-way dialogue and clear, concise information.

To provide the kind of service that women require, perhaps relationship managers should spend less time on pure investment matters and more time working with clients during periods of financial volatility or challenging stages of their own lives, and enabling them to achieve important personal goals.

'People Like Ourselves'

If I want to remind myself of the hopes, fears and ambitions of Personal Assets shareholders, the first thing I do is look in the mirror. As far as the Directors of Personal Assets are concerned, if Personal Assets didn't already exist it would be necessary for them to invent it.

The novels of John Buchan have been favourites of mine since boyhood, and Buchan's sister Anna, who wrote under the pseudonym 'O Douglas', was a novelist in her own right who published popular chronicles of Scottish small-town life. An omnibus edition of three of these was entitled *People Like Ourselves*, and no phrase describes better the kind of people for whom the Directors run Personal Assets.

Personal Assets is designed for people who, like the Directors, have been lucky enough to have accumulated some capital over the years. Such people will tend to be risk-averse by temperament. The risk of losing money will weigh heavily with them and deter them from adopting too aggressive an investment approach with their *'sacred savings'*. While of course they would like to see their capital grow and multiply, their main concern is to keep it safe.

Knowing Our Limitations

I haven't included classical references in a Quarterly for some time, so here goes. There are three Greek tags which come back to me from schooldays: γνῶθι σεαυτόν ('know yourself'), μηδὲν ἄγαν ('nothing in excess', which was the title of a paper for Troy clients written by my colleague Charlotte Yonge) and ἄριστον μὲν ὕδωρ ('water is best'). The third of these I profoundly disagree with, considering as I do that water is a much over-rated drink.[2] The first and second, however, are excellent indicators of the type of investment trust Personal Assets is.

To know both what you can and cannot do is the secret of success in many areas of life, not least in the investment world. When people ask us about Personal Assets' investment stance it seems sometimes as if everyone has a favourite stock or specialised sector they think we should be invested in but aren't. These are often perfectly good investment ideas, but not ones which fit into Personal Assets' portfolio. One of the things I learned during my years as an investment trust analyst was that it was perfectly possible — indeed, normal and natural — to admire and recommend well-run trusts even if I didn't want to invest in them myself. They mightn't be what I wanted in my own portfolio, but for those who did want what they offered they were well worth buying. Hence, if you want exposure to the Far East, or Latin America, or small companies, either choose another trust or invest in a specialist trust in addition to your holding of Personal Assets. We are not going to change what we do or how we do it. If you are not happy with us, don't invest in us.

An Income To Live On

One of the great joys of my job is corresponding with shareholders and other investors. I can learn a lot from them, and sometimes gain significant new insights into how other investors think. One of them recently wrote to me as follows.

'I don't currently hold any Personal Assets shares, because at 86 I'm more concerned with income than capital preservation.'

I understand how he feels, and he isn't the first person to have told me that he likes Personal Assets but needs income and so can't afford to hold it. And the problem faced by such investors has got ever more urgent over the last decade of disappearing interest rates. How can you get enough income from even a substantial capital sum to enable you to live comfortably, if the yields available are so low?

Well, I would dispute the reasoning which led my correspondent to the conclusion that Personal Assets is not for him. Surprising though it may seem, I would regard Personal Assets as a highly appropriate investment for such an investor. I've long argued that, instead of flogging a portfolio mercilessly to obtain yield, investors should use part of the total return from a high-quality share portfolio as a regular source of cash, rather than buying less suitable and lower quality securities just to get a high yield. This is what I myself intend to do at a later stage of life, and I believe it will be a more prudent use of my

[2] The words are inscribed over the entrance to the Pump Room at Bath, and however good for you the waters there may be they still taste horrid.

capital than if I rearranged my portfolio to hold stocks with a different income characteristic. And remember, too, that in tax year 2018/19 higher and additional rate taxpayers will be taxed at just 20% on realised capital gains in excess of £11,700 compared to 32.5% and 38.1% respectively on dividends received in excess of £2,000.

'Nothing In Excess'

It can be tempting to have in one's portfolio too much of a good thing. Investment managers have not infrequently been known to let their enthusiasms run away with them, as happened quite a lot at the time of the technology, media and telecommunications boom in 2000. At such times, *'nothing in excess'* is a maxim well worth remembering.

When I sing the praises of long-term investing, people sometimes tell me they could select a few blue chips themselves and lock them away without paying someone else to do it. It sounds easy, but investment management is a scarily difficult job. I've often meditated on how in 1999 I might have thought myself astute if I'd put my money into two safe stocks on departing for a space flight or an arctic expedition. The trouble is that the two stocks might well have been GEC and Royal Bank of Scotland — and yes, I held both of them, for what seemed good reasons at the time.

In Quarterly 32, back in February 2004, I wrote of how in my youth a seasoned fund manager quoted to me a maxim of the legendary Sir George Williamson, advocate in Aberdeen and Chairman in the 1950s of the sadly departed Scottish Northern Investment Trust.

'If you get 5 out of 10 right, you're good. If you get 6 out of 10 right, you're brilliant. And if you say you get 7 out of 10 right, you're a bloody liar!'

Uneasy Bedfellows

People are sometimes under the impression that making an investment is like betting on a horse — you either win or you lose. In fact, it's much more like buying a car. You can choose the car on its various qualities, such as speed, safety, comfort or fuel economy, depending on how important each of them is to you. There is no 'right' or 'wrong' car in the absolute, just the car which is most suitable for you, the purchaser.

- **Short term traders.** This is so obvious that I need say little more about it. If you want to buy some Personal Assets as a short term bet, I can't stop you — but we're not in business for quick returns, and you're unlikely to get them.

- **Very small investors.** Given its current share price of over £400, Personal Assets is obviously not ideal for very small investors. A saver of £50 a month would have to save for the best part of a year before getting even one share. Sometimes it has been suggested, both in-house and by outsiders, that we should change this and have a share split with the aim of making the shares affordable to a wider range of investors. This, however, I've always resisted. The heavy share price indicates that Personal Assets is different from most other trusts. Of course it is possible to use Personal Assets as a way of building up wealth, but its chief purpose for most investors is to protect wealth that already exists. A smaller investor might choose to have a cash ISA rather than an investment trust long of cash, and, being at an earlier stage on the savings 'ladder', if investing in equities might prefer a fully invested trust to a dull, defensive one heavy in gold, cash and index-linked.

- **Investors seeking aggressive growth.** Back in 1986, when Nigel Lawson introduced Personal Equity Plans ("PEPs"), a colleague of mine bought what was described as an 'Aggressive Growth' PEP. Never was anything so misnamed. He held it for years but was never able to get back what he paid for it — and he didn't even have the consolation of establishing a tax loss to offset against gains elsewhere. What Albert Camus wrote about believers in democracy as a system of government can be adapted to apply equally well to the realistic investor:

'The [realistic investor] *is modest. He admits to a certain degree of ignorance and recognises that his efforts possess characteristics that are in part risky and that he does not know everything. And because he admits that, he recognises that he needs to consult others, to* [augment and cross-reference] *what he knows with what they know.'*

- **Those seeking high dividends.** Personal Assets' dividend is safe and dependable, being topped up when necessary by borrowing from realised capital profits. However, it is not high. At £5.60 annually Personal Assets has a yield of 1.4%. Those looking for a cash income from a combination of dividends and realisations of capital can find what they want from Personal Assets, as noted earlier. But it's unlikely ever to be a high-yielding investment on dividends alone.

- **Those who want a geared investment.** In my younger days I was a great enthusiast for gearing. Equities tended to rise in value over time, whereas cash didn't. It was therefore axiomatically a good thing for an investment trust to borrow the one to invest in the other, right? But no-one then foresaw the distortions that would arise from zero interest rates, such as the prices of long debt rocketing.

- **Those whose idea of trust investment is trading on the back of discount anomalies.** This was prevalent when I first entered the investment trust world back in the 1970s. Apart from a few favoured stocks, many investors didn't look at what a trust did — just at what the discount was, and how it compared with those of other trusts.

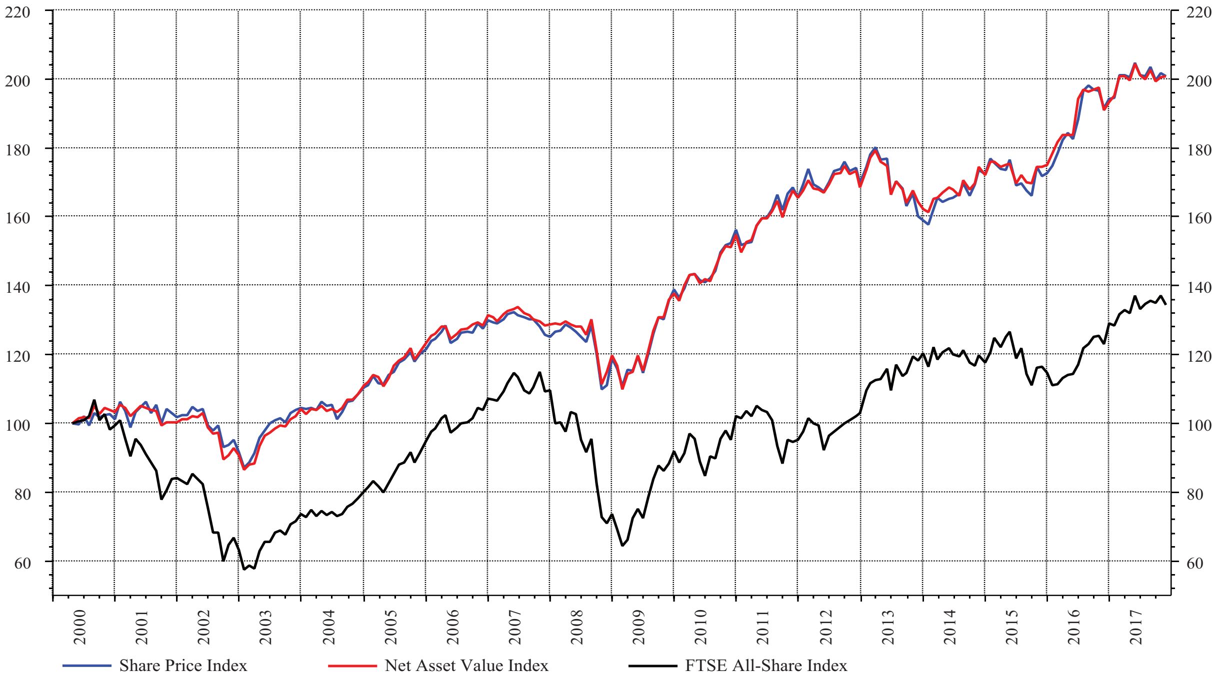
- **Those whose approach to investment is based on an index or on relative performance.** I need say nothing more here than what we state in our Annual Report:

'While the Company uses the FTSE All-Share Index (the "All-Share") as its comparator for the purpose of monitoring performance and risk, the composition of the All-Share has no influence on investment decisions or the construction of the portfolio. As a result, the Company's investment performance is likely to diverge from that of the All-Share. Our definition of "risk" is fundamentally different from that commonly used by other global investment trusts and the industry at large (ours being "risk of losing money" rather than "volatility of returns relative to an index").

This is fundamental to our investment approach. If you are fixated on indices and judge investments principally on how they perform relative to an index, Personal Assets is not designed for you.

Robin Angus

Personal Assets Trust Performance



Source: Thomson Reuters Datastream

	Value 30 Nov 2017	Percentage Changes 1 Year	3 Years	5 Years	10 Years	30 Apr 2000
Share Price	£405.80	4.8	15.7	15.3	59.8	100.9
NAV per Share	£401.00	5.2	15.0	15.8	56.3	100.7
FTSE All-Share Index ("Index")	4,033.84	9.3	12.3	31.6	23.0	34.4
NAV relative to Index		(3.8)	2.4	(12.0)	27.1	49.3

Past performance is not a guide to future performance. The value of investments may go down as well as up and you may not get back the full amount originally invested.

Top 10 Equity Holdings

Company	Country	Sector	Valuation 30 Nov 2017 £'000	Shareholders' funds %
British American Tobacco	UK	Tobacco	30,479	3.6
Philip Morris	USA	Tobacco	30,403	3.6
Nestlé	Switzerland	Food Producer	29,963	3.5
Microsoft	USA	Software	29,345	3.4
Coca-Cola	USA	Beverages	27,405	3.2
Sage Group	UK	Technology	20,898	2.4
Altria	USA	Tobacco	19,052	2.2
Berkshire Hathaway	USA	Insurance	18,200	2.1
Unilever	UK	Food Producer	16,198	1.9
American Express	USA	Financial Services	15,887	1.9
			237,830	**27.8**

Portfolio Analysis

	Valuation 30 Nov 2017 £'000	Shareholders' funds %
Equities	363,400	42.4
US TIPS	177,545	20.7
UK T-Bills	160,686	18.8
UK Index-Linked Gilts	31,309	3.6
Gold Bullion	75,828	8.9
Cash and Cash equivalents	47,694	5.6
Shareholders' funds	**856,462**	**100.0**

Further information on the Trust can be obtained from the Company's website – www.patplc.co.uk or by contacting Steven Budge on 0131 538 6605