Personal Assets Trust PLC

June 2018 **Quarterly Report No. 88**

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 12 noon on Thursday 19 July at The Principal Edinburgh Charlotte Square (formerly known as the Roxburghe Hotel), 38 Charlotte Square, Edinburgh, EH2 4HQ. After the AGM there will be a Presentation by Sebastian Lyon, our Investment Adviser, followed by Questions and Answers and a buffet lunch.

You should have received an invitation to the AGM along with the Quarterly and Annual Report. Alternatively, you can indicate on our website if you would like to attend.

http://www.patplc.co.uk/

Troy London Presentation

This year, as last year, Troy Asset Management Ltd is hosting an investment trust presentation featuring Personal Assets Trust and Troy Income & Growth Trust. The presentation will take place at 2.30 pm (doors open 2.00 pm) on Monday 16 July at the Royal Institution of Great Britain, 21 Albemarle Street, Mayfair, London W1S 4BS. To indicate an interest in attending, please contact Troy directly at troy@taml.co.uk or by 'phone on 0207 499 4030.

What, How and Why

As the Chairman noted in the Annual Report, Personal Assets' *'objective and timescale are not typical of investment trusts in general and so the Board believes it essential for existing and (especially) new shareholders to be fully aware of what we do and how and why we do it'*. This Quarterly looks at each element of our investment policy and explains why we adopted it and how we seek to put it into effect. Two themes emerge:

- We hold asset classes or investment instruments not for their own sake or to tick a box but to do a specific job for us.
- Often, investment instruments available for us to use (e.g. FTSE 100 Futures) may sound high risk. But we use them not for the sake of taking on extra risk but for reasons of investment efficiency.

The Company is an investment trust with the ability to invest globally.

Personal Assets is an investment trust as defined by Section 833 of the Companies Act 2006 and has been approved as such by HM Revenue & Customs. It also operates so as to comply with Section 1158 of the Corporation Tax Act 2010. The investment trust structure is highly attractive for collective investment, offering freedom from CGT within the portfolio, the ability to gear or go liquid, a Board elected by the shareholders and directly accountable to them, and, in many cases, lower operating costs than competing funds with different structures.

As regards being able to invest globally, why limit yourself if you don't need to? Recently we bought our first ever Euro-denominated stocks, Henkel and Société BIC. But buying stocks denominated in Euros is something our investment policy has always left us free to do.

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

I know that our investment policy sounds boring and unimaginative, but ask people who've made a bit of money for themselves and you'll find that their first concern is not to add to their often substantial capital but to hold on to what they've already got. This sounds easy, but it isn't. Few investments are guaranteed to hold their value. Even index linked do so only if your personal spending patterns are roughly in line with the index. And cash can lose its value through inflation.

We can't guarantee to preserve capital over every accounting period, but only once since 1990 have we seen a double figure decline in NAV (10.8% in 2009) while the All-Share has suffered three such declines, including 24.7% in 2003 and 29.9% in 2009.

We specify *'shareholders' funds per share'* because we are not asset gatherers. True, there are minor advantages to growing in size (our fixed costs are spread more widely and our fee scale tapers downwards) but these are at the margin.

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.

What Ian Rushbrook and I originally planned in 1983 was to take as our benchmark *'the assured returns available from index-linked gilts'*. We didn't do so because at the time we were told it lacked credibility — it would be too easy to beat. But I often wish we had stuck to our guns. Relative performance doesn't interest us and if we were starting again we probably wouldn't have a comparator.

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'). Tak-

ing this as our definition of risk, the Board will usually, although not invariably, prefer the Company's portfolio as a whole to have a lower level of risk than the All-Share.

This is of fundamental importance to how Personal Assets is run. As Bobby White, our former Chairman, liked to say, *'You can't eat relative performance'* — especially when all *'outperformance'* means is *'losing a bit less than others'*.

The Company will invest in equities and fixed income securities.

Equities are the natural first choice for those who seek to protect or grow their capital. They should at least grow with the economy as a whole, although they will suffer if the economy falters and at times may be overbought or oversold — the former presenting a danger and the latter an opportunity.

Fixed interest securities are not such a natural choice. They don't grow with the economy and most are subject to loss of value through inflation. We hold them only when they can do a job for us — at present, capital protection through index-linking or, in the case of short-dated Treasury bills, as a safer way to hold large amounts of cash than bank deposits.

While it's almost impossible to imagine a situation in which Personal Assets held no equities, it wouldn't be remarkable or unusual for us to hold no fixed interest securities. At heart we are equity investors and long for when we will be fully invested in equities and even geared.

And it may also hold cash and cash equivalents (which may, depending on circumstances, include gold).

Never underestimate the usefulness of cash as an asset class to hold at appropriate times, such as when nothing in particular across the spectrum of possible investments looks worth buying. Holding cash is not an admission of failure. It's better to hold cash than lose money on investments acquired just for the sake of buying something.

Some fund managers, however, are not good at holding cash because cash burns holes in their pockets and they can't wait to invest it. Sebastian and Troy are not like this, and we would never have appointed them to advise us if they were.

Personal Assets' holding of gold is one of its best-known attributes and I've written about it several times. We are not 'gold bugs'. We don't intend to hold it for ever, and do so only because it does a job for us. But it has been used as a store of value since history began, it is acceptable as a means of exchange almost everywhere, and its beauty will always attract buyers.

The Company may use derivatives as a way of increasing or reducing its investment exposure and to enhance and protect investment positions.

In the early 2000s the derivatives we held made some shareholders edgy and tended to dominate question and answer sessions at investor meetings. But they were a successful investment tool, and although we haven't used them for some years we may use them again if it seems appropriate.

I can't emphasise enough that we used FTSE 100 Futures for essentially conservative reasons. When might we turn to them again? Perhaps when we want to ride on the back of a swiftly rising market spurred on by the kind of stocks we don't want to hold directly (the sort of markets which are described as a *'dash for trash'*). Or we might, in racing parlance, want to lay off a bet when we don't want to sell stocks we hold but do want to reduce our exposure to equities.

The Company may also from time to time make use of currency hedging.

We think in Sterling, because most of our shareholders are UK residents or expatriates whose personal liabilities are denominated mainly in that currency. Their need to match their long-term liabilities with Sterling assets means it is prudent for our portfolio to have a high Sterling content.

Sometimes, therefore, prudence will also dictate that we should use currency hedging to protect the Sterling value of a portion of our foreign investments, and this we have often done, as disclosed in successive Annual Reports.

The Company has no predetermined maximum or minimum levels of exposure to asset classes, currencies or geographic areas but these exposures are reported to, and monitored by, the Board in order to ensure that adequate diversification is achieved.

We set maximum and minimum percentages for each asset class and currency, and operate a 'traffic light' system for investment classes: green for core investments such as large cap stocks in the UK, US and Europe; amber for areas in which we are unlikely to invest and where doing so would require the Investment Adviser to seek Board approval, such as Japan and corporate bonds; and red for investments not currently permitted, such as direct property and most commodities. All these parameters are reviewed at each Board Meeting.

The Company's equity portfolio is typically concentrated in a short list of stocks and turnover tends to be low.

Peter Lynch, one of the world's most successful investors, who ran Fidelity's Magellan Fund between 1977 and 1990, noted in his book *Beating The Street* (1993):

'You have to know what you own, and why you own it.'

It is possible to over-diversify and get distracted monitoring too many holdings. It can also breed complacency about how risky one's portfolio is. Surely a portfolio of 50 stocks is twice as diversified as one of 25? Not necessarily, if significant numbers of them are alike. And you might lessen the impact of your best decisions by making lots of unnecessary ones about which you were less convinced. We tend to have between 20 and 30 equity holdings and are at present at the low end of the scale with 21.

No holding in an individual company will represent more than 10 per cent. by value of the Company's total assets at the time of acquisition.

Nearly all investment trusts have a proviso like this. It guards against too much concentration in one stock or in a small group of stocks and it signals the Company's compliance with the legal requirement that *'all, or substantially all, of the business of the company seeking investment trust status consists of* *investing its funds in shares, land or other assets with the aim of spreading investment risk and giving members of the company the benefit of the results of the management of its funds'.*

The Company is prepared to make use of both gearing and liquidity, the former by using short-term borrowed funds or derivatives such as FTSE 100 Futures.

I'm sometimes asked why we don't make use of long-term debt. At current rates, isn't it a no-brainer? No, because it can prove risky in unforeseen ways. Many trusts borrowed when it seemed a no-brainer in the 1980s, and lived to regret it when interest rates fell from levels that looked low by historical standards to minimal levels that made long-term debt excruciatingly expensive to repay early.

Liquidity we've always been prepared to use aggressively, but for conservative reasons. We were briefly 100% liquid in April 2008. But this was not by selling stocks but by using FTSE 100 Futures, which was less expensive and kept our options open longer than selling stocks would have done.

The Company's gearing will not exceed 50 per cent. of shareholders' funds in aggregate. In exceptional circumstances, the Company's liquidity could be as high as 100 per cent. of shareholders' funds. These limits would not be exceeded without shareholder approval.

This may read oddly, given that during its entire 35 year existence Personal Assets has never been geared at all. But we hold to the dream that one day we may use it to take advantage of a highly undervalued market.

The Company may also invest in other investment trusts, especially as a way of gaining exposure to a region or industry in which the Company preferred not to invest directly.

We would hold such trusts not because of what they *were* (i.e. because they were investment trusts) but because they could do a particular job for us.

The Company's policy is not to invest more than 15 per cent. of its total assets in other investment trusts and other listed investment companies.

This is to conform with Rule 15.2.5 of the Listing Rules for Closed-Ended Investment Funds, which deals with cross-holdings. The necessity for such a rule goes back to the bad old days of the split capital trusts crisis of 2002/3, when increasingly baroque and convoluted structures imploded and did the sector great harm.

For those old enough to remember Steve McQueen and Faye Dunaway in *The Thomas Crown Affair*, the 'barbell' trust structures of 2002/3 irresistibly recalled the song *The Windmills Of Your Mind*:

'Like a circle in a spiral, like a wheel within a wheel… '

and tempted me to suggest a new verse beginning:

'Like a hurdle on a hurdle, like a fee within a fee… '

Rule 15.2.5 states:

1. No more than 10%, in aggregate, of the value of the total assets of an applicant at admission may be invested in other listed closed ended investment funds.

2. The restriction in (1) does not apply to investments in closed-ended investment funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds.

Personal Assets is run expressly for private investors.

Ian Rushbrook and I intended from the beginning that Personal Assets would be run with the needs of individual investors in mind. Of course we can't stop institutional investors acquiring our shares, and there are some index funds which are compelled to hold us. But our priorities are those of individuals, not of institutions, and in essence the Directors run Personal Assets for people like themselves.

Its capital structure is the simplest possible for an investment trust, consisting only of Ordinary shares.

Devising complicated capital structures is exhilarating but can seriously destroy wealth. I refer you here to my earlier comments about the split capital crisis of 2002/3.

The Directors, Sebastian Lyon and their respective families have substantial shareholdings in the Company . . . and those who run the Company therefore have a common interest with those who invest in it.

This has been the case ever since 1990, when Ian Rushbrook was able to bring about change because of the 29% holding he had built up in the Company. Today each of the seven Directors has a holding of 1,000 shares or more in Personal Assets, worth at least £395,000 at the current share price. Sebastian Lyon, our Investment Adviser, has 13,198 shares.

Our needs, interests and requirements are likely be the same as yours, and it's inescapably the case that if Personal Assets does badly, or overreaches itself, the Directors and the Investment Adviser will suffer not just in their pride but (very painfully) in their pockets.

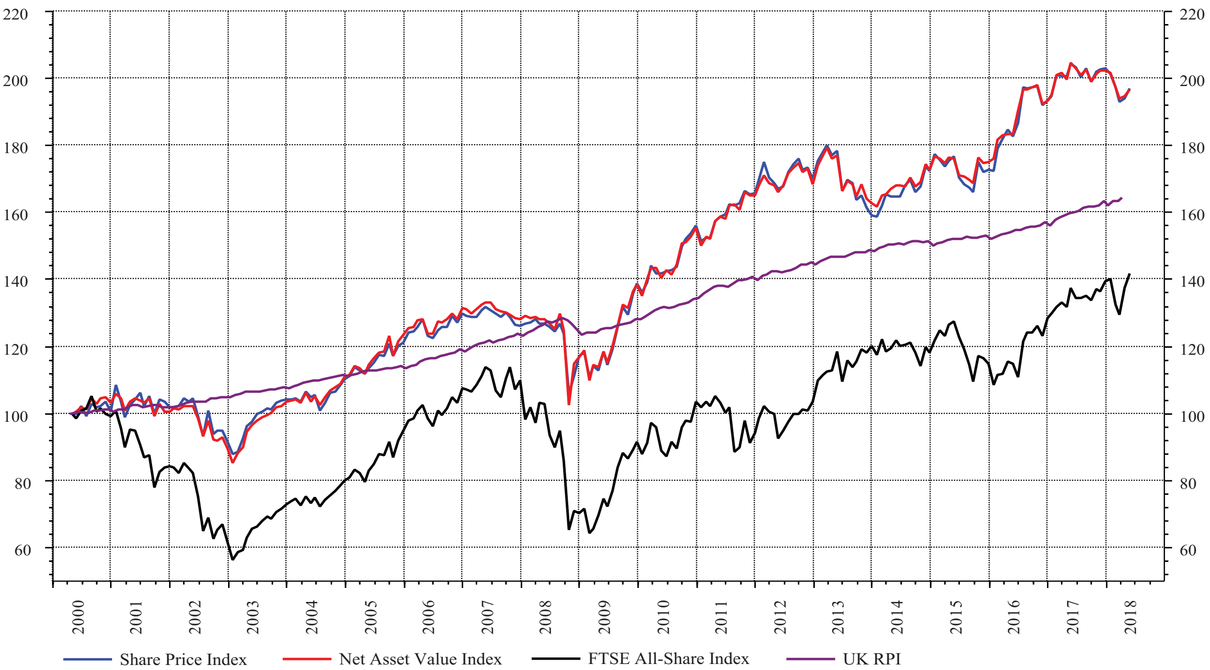
The Company aims to pay as high, secure and sustainable a dividend as is compatible with protecting and increasing the value of its shareholders' funds and maintaining its investment flexibility.

Personal Assets pays a dividend because a significant number of its shareholders, particularly those of long standing, want it to. But even if no shareholders *did* want us to pay a dividend we would still have to do so in most circumstances in order to fulfil the requirement for retaining investment trust status that *'an investment trust must not retain in respect of an accounting period an amount which is greater than 15% of its income'.*

The greatest danger for a trust which pays a dividend is what the Chairman calls *'allowing the dividend "tail" to wag the capital "dog".'* All too often, a trust anxious to maintain or increase its dividend will resort to lowering the quality of its portfolio in order to squeeze from it a higher yield. This we will never do. Nor would we need to, now we have the freedom to distribute realised capital profit as dividend. Choosing to do this is, like other techniques referred to in the Quarterly, in fact the most conservative option available to us.

ROBIN ANGUS

Personal Assets Trust Performance



Source: Thomson Reuters Datastream

	Value 31 May 2018	Percentage Changes 1 Year	3 Years	5 Years	10 Years	30 Apr 2000
Share Price	£398.00	(3.8)	11.5	11.4	55.5	97.0
NAV per Share	£392.27	(4.0)	11.8	12.3	53.2	96.3
UK RPI	279.7	3.4	8.4	12.1	30.7	64.4
FTSE All-Share Index ("Index")	4,222.20	2.6	11.2	21.5	37.0	40.7
NAV relative to Index		(6.4)	0.5	(7.6)	11.8	39.5

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 31 May 2018 £'000	Shareholders' funds %
Microsoft	USA	Software	28,622	3.3
British American Tobacco	UK	Tobacco	27,044	3.1
Nestlé	Switzerland	Food Producer	26,840	3.1
Coca-Cola	USA	Beverages	26,192	3.0
Philip Morris	USA	Tobacco	23,919	2.7
Unilever	UK	Food Producer	23,319	2.7
Altria	USA	Tobacco	18,436	2.1
Berkshire Hathaway	USA	Insurance	18,411	2.1
Sage Group	UK	Technology	17,885	2.0
American Express	USA	Financial Services	16,259	1.9
			226,927	**26.0**

Portfolio Analysis

	Valuation 31 May 2018 £'000	Shareholders' funds %
Equities	338,230	38.8
US TIPS	178,040	20.4
UK T-Bills	195,686	22.4
UK Index-Linked Gilts	31,498	3.6
US Treasuries	24,000	2.8
Gold Bullion	78,638	9.0
Cash and Cash equivalents	26,053	3.0
Shareholders' funds	**872,145**	**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