PERSONAL ASSETS TRUST PLC

JUNE 2019 — QUARTERLY REPORT Nº· 92

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") will be held at 12 noon on Thursday 11 July at The Kimpton Charlotte Square Hotel (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

Troy Asset Management Ltd is hosting an investment trust presentation featuring Personal Assets Trust and Troy Income & Growth Trust at 2.30 pm (doors open 1.30 pm) on Wednesday 3 July at the Royal Academy of Arts, Burlington Gardens Entrance, 6 Burlington Gardens, London W1S 3ET. To indicate an interest in attending, please contact Troy directly at troy@taml.co.uk or by 'phone on 0207 499 4030.

MEASURING PERFORMANCE

When it comes to a steady supply of ideas I am the luckiest of mortals. As long as shareholders take the time and trouble to write to me with questions and suggestions I shall never be short of topics for these Quarterlies. And sometimes what seems a straightforward question can open a Pandora's box of related queries, all jostling for attention. For example, some time ago a shareholder wrote to me:

'I enjoy reading your quarterly reports. I notice that the start date for your performance graph on the back page is 30 April 2000 and I wonder why you have chosen this date. Significant dates would be the founding of the trust in September 1983 or the start of Troy as Investment Adviser in March 2009, or round numbers such as ten or 20 years. Am I being too cynical (and please take this with humour) in suggesting that your chosen start date is the start of a three year period of outperformance compared to the FTSE All-Share, which ensures that your line is always well above the FTSE All-Share line?'

My reply included the following:

'As regards our choice of date for the long-term performance graph in the Quarterlies, until 2009 the starting date was October 1990, three months after Personal Assets became self-managed and Ian Rushbrook became Investment Director. In Quarterly Nº· 56 in April 2010 the starting date became 30 April 2000 (10 years prior to the publication of that particular Quarterly) and it has remained at 30 April 2000 ever since.'

That e-mail exchange took place in November of last year and over the succeeding six months the subject has often been in my thoughts, since in measuring performance the starting date and period chosen are of vital importance.

CHANGING OUR STARTING DATE

Having begun the process of change in 2010 by moving the starting date for the long-term performance chart in the Quarterlies to April 2000, in the Annual Report for the year to 30 April 2011 we began to show (at the Chairman's behest but with *sotto voce* grumbles from me), performance figures over the previous ten year period. We've continued to show NAV and NAV total return performance over moving ten year periods, but as a counterweight I struck two blows for the traditional Personal Assets approach. First, in 2013 I introduced a cumulative bar chart of NAV performance compared to the FTSE All-Share since 2000 *(p. 10 of the Annual Report)*. Secondly, in 2015 I added what I regard as the chart most faithful to the original Personal Assets concept, showing share price performance versus the RPI since 30 April 1990.

This chart, to be found on the inside front cover, summarises Personal Assets' aim as originally formulated — not to outperform the market, or to outperform some *'peer group'*, or to produce a *'total return'*, but to protect and increase *(in that order)* the value of shareholders' funds per share over the longer term. When the trust was floated in 1983 Ian Rushbrook and I had intended that its benchmark should be not the FTSE All-Share but the assured returns available from index-linked gilts. This didn't become our formal target because at the time some of those offering advice thought it too easy to beat — which many years later I now have the courage to say was an irrelevance, because Personal Assets' intended aim was not to *'beat'* a benchmark but to preserve and, if possible, increase the real value of its NAV per share.

Most trusts present their performance as if it were a series of races, over (say) one year, five years and ten years. I must stress that we don't see performance in this way. To us, it's more like running a family business or an estate. This has certain corollaries. We know we'll almost certainly underperform the market in certain circumstances, sometimes for lengthy periods. This doesn't worry us much as long as we don't suffer serious losses in absolute terms in the meantime. Losses, once made, are hard to recoup. Our aim is to make cautious gains and hold on to them, recognising that frothy profits can subside as quickly as the fizz in a glass of cheap prosecco.

WHY 30 APRIL 2000?

None of this explains why from 2010 we chose 30 April 2000 as the starting date for the long-term performance chart in the Quarterlies. The explanation is the sea-change we judged to be taking place in the market at the time. The glory days of the 1990s bull market were over, and the new terrain was tougher going and strewn with pits for the unwary. Ian Rushbrook correctly diagnosed it as more than just a recurrence of the familiar market cycle, and the figures tell a startling story. Between 30 April 1984 and 30 April 2000 the UK market achieved a compound annual return of 12%, whereas for the period between 30 April 2000 and 30 April 2019 it managed a compound annual return of only 5%.

When after Ian's death we looked for a successor, we were strongly influenced by the fact that Sebastian Lyon of Troy had arrived at a similar estimate of the condition of the market and had similar ideas as to the strategy it would be prudent and profitable to pursue. When Sebastian was appointed in 2009 it therefore seemed natural to keep 30 April 2000 as our starting point for the performance chart in the Quarterlies — for continuity rather than as a sinister plot to flatter our long term performance record, and as a reminder that we continue to operate in a low return world.

HOW OPINIONS CAN DEVELOP

One question often leads to another in discussions with shareholders, and after I told my correspondent that I'd long grappled with how best to measure trust performance he asked me another question:

'If the original aim was to produce low risk returns superior to the assured returns available on index-linked gilts, how about showing a performance graph compared to them?'

Perhaps we might do so one day. But it's also worth noting here that since I've spent 40 years measuring performance it's not surprising that my views have changed and developed over that time.

There are pieces of analysis from my early days that I now read with toe-curling embarrassment. One of these is to be found in the Wood Mackenzie Investment Trust Annual 1985. It described in great detail the possible ways of measuring investment performance, some well established and some I had just invented. In describing how performance measurement might develop I even speculated about the possibility of devising a *'Management Olympics'* ranking all trusts by Overall Factor and all management groups by Management Group Overall Factor *(don't ask)*.

At the time, I was proud of what I believed to be innovative thinking. Now it seems to me that I was trying to reduce the art of Rembrandt or Van Gogh to *'painting by numbers'*. Six years later, in 1991, I produced for our clients an anthology of our past trust research. I'm relieved to say that even by then I was having doubts about my earlier bumptiousness, when I wrote:

'Having criticised in the earlier part of the 1985 Annual virtually everything the performance measurement industry did, we felt it incumbent upon ourselves to produce an alternative. Here it is, [but] *we might alter it considerably if we were writing it again: the notion of a "Management Olympics" now seems a trivialising one, because the perception of fund measurement as a game which results in medals, rankings and league tables has done great harm to the securities industry.'*

Children often go through a period of asking, *'Which is your favourite of . . . '* Such questions can be not only impossible to answer but also unhelpful even to think about. I don't *'prefer'* watching *Game of Thrones* to reruns of *The Bill* (to reveal two of my secret passions). I enjoy both, but at different times and in different ways. And one of my crusades throughout most of my working life has been against what I call the *'league table mentality'* when measuring investment performance. In the 1985 Annual I earlier quoted, I also wrote (I fear in somewhat contrived fashion):

'Will Spurs beat the Australians in the Test series? Could a racing car win the Derby? Is Boy George as fast as Zola Budd? Yes, stupid questions. But no more stupid than some of the questions we get asked about performance measurement.'

Nothing becomes obsolete faster than a topical reference. A reader today may never even have heard of Boy George or Zola Budd. But the point is as true and important as ever it was. It makes no sense to compare certain things, and so we shouldn't compare them.

TRUSTS AND THE CAUCUS-RACE

They say that lovers of sausages should never watch them being made. I feel rather the same about year-end trust tables, with which I once had a great deal to do. When I worked for Wood Mackenzie during the 1980s and 1990s we were employed to produce for newspapers and investment magazines various year-end trust performance rankings and awards. These grew in number with the passing years, adding more and more sub-classes and types of specialisation. The result was that the exercise came to resemble the Caucus-race in *Alice in Wonderland*:[1]

'What I was going to say,' said the Dodo, 'was, that the best thing would be a Caucus-race.'

'What is a Caucus-race?' said Alice.

'Why,' said the Dodo, 'the best way to explain it is to do it.' First it marked out a race-course, in a sort of circle, and then all the party were placed along the course, here and there. There was no 'One, two, three, and away,' but they began running when they liked, and left off when they liked, so that it was not easy to know when the race was over. However, when they had been running half an hour or so, the Dodo suddenly called out 'The race is over!' and they all crowded round, panting, and asking, 'Who has won?'

This question the Dodo could not answer without a great deal of thought. At last the Dodo said, 'Everybody has won, and all must have prizes.'

The curious thing is that there is probably more value in measuring trust performance by a Caucus-race than by a league table. Why should I compare Personal Assets to the FTSE All-Share? I don't want to have the same level of risk as the All-Share, and I don't want my capital to be as volatile. And I most certainly don't want whoever manages my money to treat the stocks in the All-Share as a list of suggested investments. The Caucus-race approach recognises that trusts do different things over different time periods, and are more con-

[1] Fans of Lewis Carroll will note that I have considerably abbreviated the account of the Caucus-race for reasons of space.

cerned with trying to achieve their own stated objectives than with competing against each other. I remember from schooldays a verse by the great American sports writer Henry Grantland Rice which went:

'For when the One Great Scorer comes
To mark against your name,
He writes – not that you won or lost –
But HOW you played the Game.'

Stripped of any sentimental overtones, it conveys a great truth: what matters *is* how you play the game — or, in modern idiom, how well you deliver what it says on the tin.

WHAT DOES IT SAY ON THE TIN?

I'm not a fan of *clichés*. You won't find me using words such as *'robust'* or *'vibrant'* without inverted commas to mark them out as what they are, and you will never catch me using *'raft'* when I mean simply *'a large number'*. But one *cliché* I welcome is the one I used in the previous paragraph: *'It does what it says on the tin.'* This delightful expression cuts right through sloppy vagueness and prevarication to provide a simple and infallible test.

Ian Rushbrook used to display next to his desk a sign quoting the celebrated utterance of the American sage Henry David Thoreau:

'Simplify, simplify!'

Those who knew Ian won't be surprised to learn that he didn't always succeed in following Thoreau's advice. But to simplify — to get rid of inessentials and get straight to the heart of the matter — was always his aim. The older I get, the more I, too, try to focus on the essentials. And in reviewing or describing trusts' performance, this means reading carefully what it says on the tin and then setting out clearly the extent to which the trust succeeded in achieving it.

WHAT ABOUT TOTAL RETURN?

In this context, one question is often asked — why do we use *'capital only'* for our headline figures, rather than the commoner and more generally accepted total return? The advocates of total return would say that using the generally accepted industry standard makes comparison between trusts easier. To this I reply that I'm not very interested in comparing trusts to one another in the traditional way and it can be misleading to do so.

Why do I buy a trust? Not because I expect it to rise in price more than some other trust, but because it can do a particular job for me. My biggest equity holding by a very long way is Personal Assets. My second biggest is Scottish Mortgage. This is not because I see it as comparable to Personal Assets, but because it is a useful complement, in the same way that I like my roast beef with horseradish and my Bloody Marys with Worcestershire Sauce.

A LOOK AT THE ANNUAL REPORT

With these thoughts about performance measurement in mind it may be useful to canter through the Annual Report *(which you should have received at the same time as this Quarterly)*, highlighting what figures we show at various points in the narrative, and why.

- **Key Features** *(p.1)* gives the lie to the notion that we suppress total return, or that we pick our own idiosyncratic timespans to suit ourselves. We show performance over one, three, five and ten years and since 1990, using both price and NAV, and total return as well as capital only.
- **Chairman's Statement and Investment Adviser's Report** *(pp. 2-3)*. The first of these highlights the Company's NAV performance record since 30 April 1990 against the FTSE All-Share and the RPI. The second discusses last year's NAV performance and our view of markets for the forthcoming year.
- **Record** *(p. 8)*. Four points here are worth noticing. First, there is a new column this year — liquidity. This shows better than any other measure the ebbs and flows of Personal Assets' view of the equity market. Secondly, we prefer RPI to CPI because it includes housing costs *(rises in mortgage payments, rents and council tax)*, and there must be few of us who don't at least pay council tax. Thirdly, until ten years ago we aimed to grow the dividend in real terms, but since the year ended 30 April 2014 the annual dividend has been held constant at £5.60 per share. Sometimes I am asked when it will start growing again, or why we pay a dividend at all, but these are not questions for here. Lastly, if comparing the share price with the NAV or the FTSE All-Share please remember that until 1999 the price data diverge from the NAV data because of the discount or premium to NAV which then existed.
- **Ten Year Performance** *(p. 9)*. Why ten years, not nine years or 11 years? Having been brought up in a world in which there were 20 shillings to the pound, eight furlongs to a mile and 5½ yards to one rod, pole or perch. I learned fractions long before decimals and I have no great loyalty to systems of measurement based on the number ten.
- **Performance and Volatility**. The reason for these charts is on p. 10. There is nothing sinister behind the choice of 30 April 2000. It simply ties in these charts to the long-term chart in the Quarterlies.
- **Directors' Remuneration** *(p. 25)*. Reporting on this topic was obviously laid down by the Companies Act to give shareholders an idea of the value for money they get from the Directors they elect, but for a trust like Personal Assets, which is concerned with the avoidance of risk as much as with growth in NAV per share, it's like showing longitude without latitude.

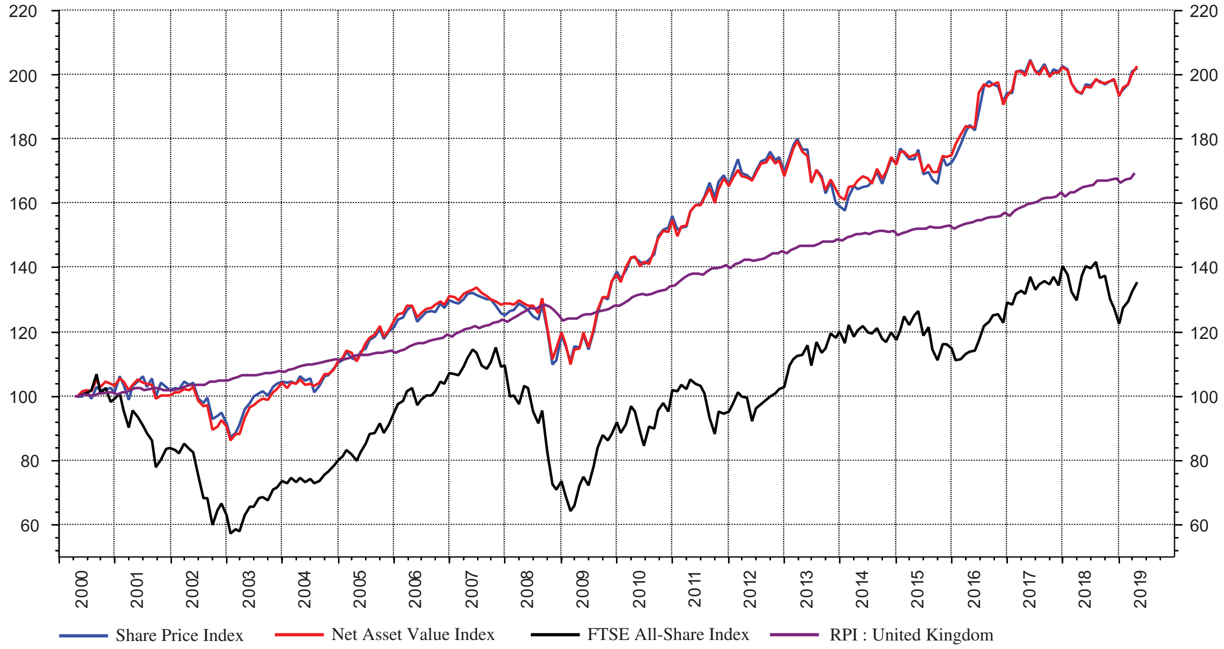
AND TO CONCLUDE . . .

And what of my correspondent's query about the timescale of the chart on the back page of the Quarterlies, with which this discussion began? Why doesn't it begin with September 1983, which is when Personal Assets was floated, or March 2009, when Troy was appointed Investment Adviser.

I wouldn't pick September 1983 for the reason that Personal Assets didn't settle to its present character until Ian Rushbrook took over as Investment Director in 1990. Nor would I choose March 2009, because when Troy became Investment Adviser the intention was (as Sebastian put it) *'evolution, not revolution'*. April 2000 was an important date to Ian, and the Annual Reports took it as a starting point until 2010. My personal preference would be for 1990, but the figure for price is anomalous because of the discount to NAV at which the shares then sold. Any comments and suggestions from shareholders would be received with interest.

ROBIN ANGUS

Personal Assets Trust Performance



Source: Thomson Reuters Datastream

Value	**Percentage Changes 30 Apr 2019**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**30 Apr 2000**
Share Price	£408.00	4.1	9.5	22.9	75.1	102.0
NAV per Share	£404.88	4.3	10.3	21.3	76.3	102.6
UK RPI	288.20	3.0	10.3	12.7	36.3	69.4
FTSE All-Share Index (“Index”)	4,067.98	(1.4)	18.9	12.4	87.2	35.5
NAV relative to Index		5.6	(7.9)	9.3	(6.5)	49.5

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 30 Apr 2019 £’000**	**Shareholders’ funds %**
Microsoft	USA	Technology	42,588	4.4
Coca-Cola	USA	Beverages	30,477	3.2
Nestlé	Switzerland	Food Producer	29,305	3.0
Unilever	UK	Food Producer	29,217	3.0
British American Tobacco	UK	Tobacco	27,838	2.9
Philip Morris	USA	Tobacco	26,564	2.7
Berkshire Hathaway	USA	Insurance	21,205	2.2
American Express	USA	Financial Services	19,786	2.0
Sage Group	UK	Technology	19,570	2.0
Procter & Gamble	USA	Household Products	19,112	2.0
			265,662	**27.4**

Portfolio Analysis

	Valuation 30 Apr 2019 £’000	**Shareholders’ funds %**
Equities	348,359	36.0
US TIPS	269,415	27.8
UK T-Bills	180,596	18.7
Gold Bullion	78,832	8.1
US Treasuries	37,161	3.8
UK Index-Linked Gilts	32,096	3.3
Cash and Cash equivalents	22,120	2.3
Shareholders’ funds	**968,579**	**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.