PERSONAL ASSETS TRUST PLC

JULY 2020 QUARTERLY REPORT No. 95

PAT'S QUARTERLY REPORTS

In April you will have received a Quarterly Report from Troy Asset Management, written by Sebastian Lyon and in a different style and format from the ones before. This will in future be Troy's regular way of updating you and the former series of Quarterlies will come to an end, but Sebastian and the Board are kindly allowing me to send you this old-style Quarterly with the Annual Report and a final one in September before I retire.

These will in a sense be a farewell, and of course after I cease to be a Director I won't be able to write to you on the Company's behalf. But Sebastian and the Board have indicated that I may occasionally send you (informally, and not as a Director but as a guest) thoughts on general investment topics which I think may be worth passing on. I am grateful to them for this, just as I am grateful to all of you who have been the recipients of my outpourings since 1994. I also want to thank all those who have so kindly sent me good wishes on my retirement. I hope to be able to reply personally to all of you soon.

A FORECASTER'S NIGHTMARE

Science fiction fans of a certain age may recall Isaac Asimov's celebrated *Foundation Trilogy*, set in the far future in the declining days of the First Galactic Empire. The galaxy's greatest analyst and forecaster, a mathematician called Hari Seldon, has spent his life developing a theory of what he calls *'psychohistory'*, which can predict the future of large populations. Seldon foresees the imminent collapse of the Empire and a dark age lasting 30,000 years before a Second Empire can arise. Although the momentum behind the fall of the First Empire is too great to be stopped, Seldon devises a plan (known as the Seldon Plan) whereby the interregnum between the two empires is limited to just a thousand years.

To implement his plan, Seldon creates the Foundations – two groups of scientists and engineers at opposite ends of the galaxy – to preserve the spirit of science and civilisation and be the cornerstones of the new galactic empire. But Seldon predicts that various crises will occur during the thousand years in which the Second Empire will be evolving. Should the leaders of the Foundation make the wrong decision regarding any of these crises, the Foundation may fall.

'THE BEST LAID SCHEMES . . . '

At each crisis, a Time Vault opens on the planet Terminus and a hologram of Seldon (now deceased) explains the crisis's significance to the Foundation. This happens four times, and on each occasion Seldon, speaking by means of the hologram, correctly describes the nature of the crisis and the steps that must be taken by the leaders of the Foundation to resolve it. But the leaders judge that the fifth crisis has come when an external threat arises in the form of a mysterious being known only as the Mule. He is a mutant and possesses the ability to sense and manipulate the emotions of others. He uses this ability to take over the planets bordering the Foundation and to cause them to wage war against it.

As the Mule advances, the Foundation's leaders assume that Seldon will have predicted this attack and that his next hologram appearance will, as before, tell them how to defeat it. To their horror, Seldon predicts a civil war (which does not happen), *not* the rise of the Mule (of whom he makes no mention). The hologram then goes blank as Terminus suffers a power failure in an attack by the Mule, and the Foundation falls.

'WE'RE ON OUR OWN . . . '

Yet there are glimmers of hope. As one of the leaders of the Foundation puts it to a colleague:

'When Seldon fails us, our prop disappears and we've been leaning on it so long, our muscles are atrophied to where we can't stand without it . . .

'And you see a way out?

'No, but there must be one. Maybe Seldon made no provision for the Mule. Maybe he didn't guarantee our victory. But, then, neither did he guarantee defeat. He's just out of the game and we're on our own.'

And so it is with COVID-19. The unthinkable has happened. Black swans do exist. Our compasses no longer work. Our maps stop just where we want them to continue. Many business models hitherto invincible now face existential challenges. The rug has been pulled from under investors' feet and prior sets of assumptions are invalid.

AN EXTRAORDINARY YEAR

But there are glimmers of hope here, too, in Personal Assets' investment style. Near the bottom of *Key Features* on page 1 of the Annual Report is a figure which appears nowhere else. It's both highly significant and hopelessly misleading, and it tells us a lot about how Personal Assets functions while being worse than useless as an indicator of the kind of long-term compound growth we strive for in our NAV and hence our share price.

What is this mysterious figure? It is 32.3% – the percentage by which our share price outperformed the FTSE All-Share Index ("FTSE"), which we have traditionally used as a comparator, over the year ending 30 April 2020.[1]

[1] The FTSE, in our view, has serious flaws as an index, but that is a subject for another time.

A MISLEADING FIGURE . . .

Why, then, are we not cracking open the champagne? Why might this figure be hopelessly misleading? There is a common tendency to extrapolate past performance into the future. This can make some sense over long periods, such as the thirty years 1990-2020 we consider in this Annual Report, but extrapolating a single year's figures in this fashion would be silly.

There is no way Personal Assets is going to outperform the FTSE like this annually over the next thirty years. And if you imagine that it could, my only response would be that of the Duke of Wellington when he was greeted with the words, *'Mr Jones, I believe?'*:

'If you believe that, you will believe anything.'

. . . BUT HELPFUL NONETHELESS

Yet the figure *is* helpful, because it demonstrates the distinctive shape of our investment performance graph as we seek to protect and increase (*in that order*) our NAV per share. It confirms that we are doing something different from just investing mainly in the kind of UK equities which make up the FTSE. And because our approach is so strongly at variance with that of most other trusts, we will inevitably tend to underperform the FTSE when the market rises but outperform it when it falls. It is essential that shareholders recognise this.

Over the year to 30 April 2020 our NAV rose by 5.3% while the FTSE fell by 19.8%. In other words, we held on to what we had and added to it slightly, while the FTSE lost a fifth of its value. This demonstrates how the pattern of Personal Assets' performance differs from that of most other trusts.

Trusts with unusually concentrated portfolios and a high tolerance of risk can sometimes deliver startling degrees of outperformance (and, it must be said, of underperformance too). But the average actively-managed investment trust investing mainly in conventional listed equities would be highly unlikely ever to outperform an equity-related benchmark by 32.3% over 12 months. If such a trust outperforms its benchmark it will usually have done so through good stock and sector selection and sometimes the use of gearing. Rather than through bold strategic moves and *'big bets'*, however, its performance will typically have been achieved through lots of small decisions, and the more decisions we make, the greater are the chances of getting some of them wrong. In the words of Sir George Williamson, the Chairman of the Scottish Northern Investment Trust in the 1950s and 1960s, speaking to a young fund manager.

'If you get five decisions out of ten right, you're good. If you get six right, you're brilliant. And if you say you get seven right, you're a bloody liar,'

We are cautious and disciplined, and our portfolio turnover is low. In a strongly rising equity market we will typically make some money, but often this will be a good deal less than a more aggressive fund. But when the market falls we sit tight and cling on to what we've got. Our spells of outperformance will usually be characterised by a steady share price against a falling FTSE. The first gift Ian Rushbrook ever gave me was Charles D Ellis's *Winning the Losers' Game*, and this is what Personal Assets has consistently tried to do since 1990.

As an afterword, we are sometimes criticised for not stressing total return as opposed to capital performance. I've discussed the reasons for this elsewhere. But for those who use total return as their yardstick, the NAV total return of Personal Assets has outperformed the total return on the FTSE by 1.2% compound per annum over the last 30 years. This may look unexciting, but it accumulates to give a 39.4% outperformance over the period – one during which, furthermore, we were at almost no time fully invested in equities.

MEASURING OUR PERFORMANCE

You will have noticed that in the Investment Manager's Report we have formally added the RPI as a performance comparator alongside the FTSE. I say *'formally'* because our use of the RPI as a comparator internally is no novelty. When Ian Rushbrook and I were planning the creation of Personal Assets back in the early 1980s, protection against inflation was high up our list of priorities and the inflation rate was therefore an obvious comparator. Of course, inflation is not the same for everyone. My inflation rate is not your inflation rate, and even my own inflation rate has changed many times (gin is still there, but Turkish cigarettes have long since vanished). But the RPI is the best that we've got (the CPI assumes oddly that owner-occupiers suffer no housing costs) and we've used it in charts and tables in the Annual Report for a number of years.

I can't overstress that the rôle of performance measurement is not drawing up league tables or scoring points, but helping managers and investors alike to understand how a particular trust is faring. It should be seen as a health check, not a sporting competition. Every day in my school career I saw these words inscribed in the Assembly Hall:

'Therefore get wisdom : and with all thy getting get understanding.' (Proverbs 4.7)

For me it is a valuable motto. Gaining wisdom in order to gain understanding, rather than accumulating facts for their own sake, must surely be the true goal of education.

PERFORMANCE MISINTERPRETED

Back in the late 1980s, while the Japanese market was soaring, a journalist called me to ask what I thought of the *'wonderful results'* just reported by a trust specialising in mainstream Japanese equities. I replied that they weren't *'wonderful'* results – they were rather disappointing. Yes, the trust's share price had risen nicely. But the Japanese index against which it measured itself had risen by much more. A straightforward investment in the underlying index, had this been possible, would have done better than the specialist trust – to invest in which, you would have had to pay brokers' fees and other charges, and which then costs you a significant annual management fee.

WHY DO PEOPLE INVEST?

There are all sorts of reasons why people invest in shares and securities: for a flutter; temporarily parking sums of money destined for use in purchasing a property or paying a tax bill; hoping to make quick gains on a hot tip; or providing for their needs during their lifetime and then leaving something to family, friends or good causes.

It is for the last category of investor that Personal Assets caters. (Of course we can't stop people investing in our shares for the wrong reasons – like the shareholder who complained that his shares hadn't risen over the two months he had held them, or the one who expected us to make good the losses incurred when he was bed-and-breakfasting his shares, or those who keep asking me why we can't combine our long-term caution with opportunistic forays in search of short-term gains in frothy markets.)

Because people differ in age and temperament and have different needs and tolerances of risk, no trust is right for everyone and no shareholder is right for every trust. Some would say that a list of possible trusts in which to invest is like a restaurant menu. I would see it more as a list of suggested pairings from a marriage bureau.

What Is A Trust's Job?

Earlier this year I had to complete, for I what I hope will be the last time, the two mandatory annual online tests for investment professionals about Data Protection and Anti-Money Laundering. The format of a large proportion of these tests consisted of asking you to choose the correct answer from among a series of options. To use the same format here, the following have been suggested to me at various times by shareholders and fund managers alike as they attempt to answer the question, *'What is an investment trust's job?'*:

- To outperform its benchmark?
- To outperform its peer group?
- To grow in size as much as possible?
- To win awards?

The answer is, of course, none of these. A trust's job is very simple – in the modern phrase, it is *'to do what it says on the tin'*.

But as one who has seen many trusts come to the market with fashionable specialisations only to come badly unstuck once the wheel of fashion turns against them, I would add this: an investment policy should be a support, never a straitjacket. Take care that what it says on the tin is something you are confident you can deliver.

The Sale of PATAC

Now to two corporate matters concerning which you will find further information in the Annual Report – the sale of our subsidiary, PATAC, and the establishment of an educational charity, the PAT Foundation. PATAC (originally known as Personal Assets Trust Administration Company Limited) was incorporated in 2009 but its origins go back to September 2001, when Steven Budge joined Ian Rushbrook and me at Personal Assets. Ivory & Sime, where Steven had spent the earlier part of his career, had acted as Personal Assets' original Company Secretary and so we knew and trusted Steven's commitment and ability. It worked well from the beginning and Steven has been an indispensable part of Personal Assets' development over the last two decades, not least in managing the premium and discount control policy.

Then in 2010 Ivory & Sime indicated that they no longer saw themselves as providing company secretarial and administrative services to third parties, and accordingly we were pleased to secure the services of Steven Davidson as a direct employee and our Company Secretary, the rôle which he had fulfilled impeccably for us at Ivory & Sime for many years, and to start building the business which has grown into the PATAC of today.

The investment trust industry is first and foremost a service industry. Customer service has accordingly been PATAC's priority and its success in this has seen it expand to seven investment trust clients and 12 employees. Now, we believe, it has reached the stage when it should cease to be a subsidiary of Personal Assets and become an independent business, while still providing the same high quality of service to Personal Assets and its shareholders.

To single out any of the present PATAC employees would be invidious, but here I would like to say a special *'thank you'* to Steven Cowie, who joined PATAC as an Executive Director in 2010 and retired at the end of 2018. Steven's commitment, accuracy and professionalism were an inspiration to me and I am hugely grateful to him.

The PAT Foundation

This has nothing to do with Hari Seldon's Foundation, which I mentioned earlier. No Time Vault will open to reveal Hamish, newly awakened from suspended animation, speaking to the shareholders of tomorrow *via* a hologram. Instead, Hamish and I, like Ian Rushbrook before us, have always been committed to two aims: the education of the young, and publicising investment trusts as a suitable vehicle for private investors.

Over my 43 years in the investment trust industry I have been astonishingly lucky at every stage in the people I've worked with. In particular, on entering the industry in 1977 and in my years of apprenticeship first at Baillie Gifford and then at Wood Mackenzie I met with amazing kindness and consideration on every side.

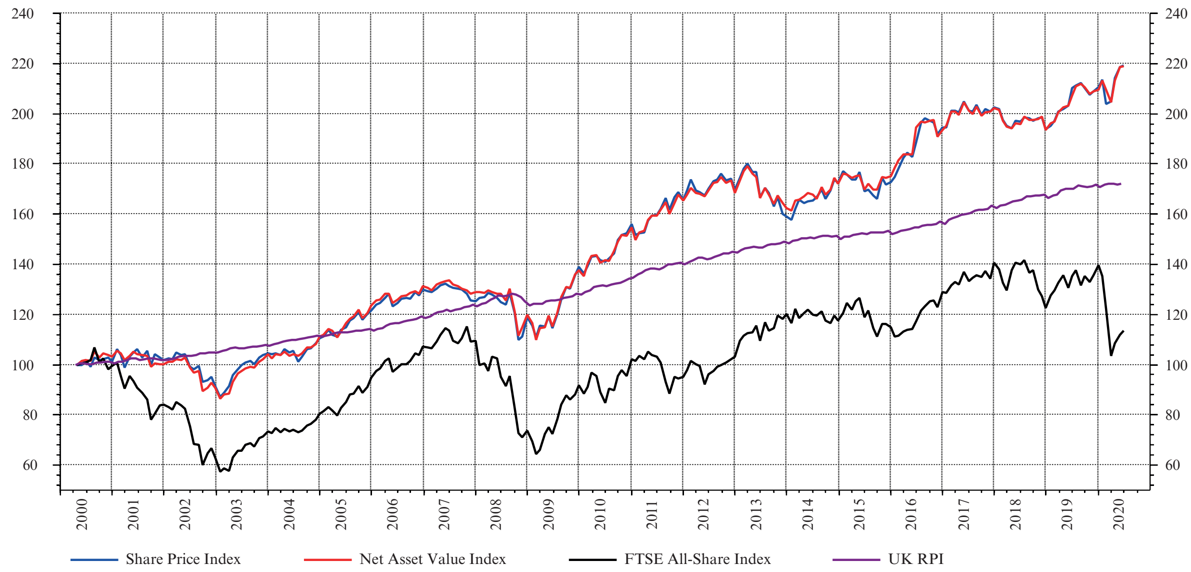
How lucky I was *(I now realise)* to have had no preconceived ideas and to have been aware that I knew nothing about the subject. And how lucky I was to have had wise and patient people to advise me and challenge my thinking.

To *'pass it on'*, I have lectured to and counselled students of finance and investment over many years, first at the University of Edinburgh and currently at Heriot-Watt University along with my friend and academic collaborator, Professor Andy Adams. There is a sense, too, in which the Personal Assets Quarterlies have been about education – educating first myself and then those who read them and question me about them. The PAT Foundation, of which Andy will also be a Trustee, provides a new way of continuing this work. We intend to see the Foundation's activities develop over time and the Board of Personal Assets looks forward to keeping you informed about them. Further details are included in the Annual Report on pages 2 and 10.

And although I never give investment tips I shall end by quoting a recent piece of advice which I rather like and in which pleasure and investment coincide: the wine columnist of the *Church Times* recommends putting any spare money into 2019 clarets.

Robin Angus

PERSONAL ASSETS TRUST PERFORMANCE



Source: Refinitiv Datastream

	Value	Percentage Changes				
	30 June 2020	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**30 Apr 2000**
Share Price	£443.00	4.2	9.1	29.7	55.4	119.3
NAV per Share	£437.34	5.6	8.8	28.9	54.4	118.9
UK RPI	292.70	1.1	7.5	13.1	30.6	72.1
FTSE All-Share Index ("Index")	3,410.93	(15.9)	(14.8)	(4.5)	34.1	13.6
NAV relative to Index		25.6	27.7	35.0	15.1	92.7

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 June 2020 £'000	Shareholders' funds %
Microsoft	USA	Technology	71,217	5.8
Alphabet	USA	Technology	49,757	4.1
Nestlé	Switzerland	Food Producer	49,413	4.0
Unilever	UK	Food Producer	48,564	4.0
Philip Morris	USA	Tobacco	38,554	3.1
Visa	USA	Financial Services	37,245	3.0
Diageo	UK	Beverages	35,208	2.9
British American Tobacco	UK	Tobacco	34,652	2.8
Medtronic	USA	Healthcare	30,800	2.5
Franco-Nevada	Canada	Mining	24,825	2.0
			420,235	**34.2**

PORTFOLIO ANALYSIS

	Valuation 30 June 2020 £'000	Shareholders' funds %
Equities	535,819	43.6
US TIPS	373,903	30.4
UK T-Bills	135,864	11.1
Gold Bullion	121,368	9.9
Cash and Cash equivalents	59,775	4.9
Property	1,699	0.1
Shareholders' funds	**1,228,428**	**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.