



## Quarterly Report

July 2022

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

### Nowhere to run to, nowhere to hide

The past six months have seen the worst start to the year for global equities since 1970. The MSCI World Index NR is down -20.3% in US dollars (-11.4% expressed in a weaker sterling). Those seeking diversification and solace in 'lower risk' bonds suffered almost as badly as yields rose and credit spreads ballooned. According to Deutsche Bank, US government bonds suffered their worst start to the year since 1788. While the benchmark 10-year US Treasury yield doubled from 1.5% to 3.0%, US high yield corporate bond spreads (over US Treasuries) have also almost doubled since December from 3.1% to 5.9% – implying a corporate bond yield rise from 4.6% to 8.9%. Not surprisingly, bond issuance has dried up for companies with poor credit ratings who are most dependent on it. This indicates severe stress for some corporate borrowers, albeit these spreads have yet to reach the levels seen during the pandemic sell-off in March 2020.

The UK stock market outperformed following years of lacklustre returns. The FTSE All-Share Index (-4.6%) was given support from a weaker sterling (as multinationals earn profits in stronger currencies) and a broader representation of oil and other commodities companies. Towards the end of the six months, the strong rise in commodities was partially reversed as fear of recession began to usurp concerns over lack of supply.

The first half of the year was initially characterised by stubborn and rising inflation combined with the prospect of tighter monetary policy. Yet the investment narrative shifted in May and June towards the threat of a global slowdown or recession either later in 2022 or in 2023. There were no places to hide for investors. Even companies delivering good news to shareholders suffered from significant declines in valuation as the cost of capital rose and investors anticipated more challenging conditions for corporate earnings later in the year.

The animal spirits of early 2021, that drove equity valuations to flirt with 1999 highs, have evaporated. Today investors are struggling to reconcile a world of high historical valuations, high inflation and tightening monetary conditions.

Amid this very challenging backdrop, the Trust's total return for the first six months of 2022 was -3.4%.

### Past performance is no guide to the future

We see this line in every fund advert and at the bottom of every fund manager report. Often the managers with the most stratospheric performance in any one year are very soon at the bottom of the performance tables. I had a taste of this with a strong track record for the five years to 2012 to be followed by a truly dismal 2013. It was a sobering experience.

'Past performance' is not merely referring to fund managers' performance but to markets themselves. It is at times like these, when economic news supersedes corporate news, that things change. Today the macro trumps the micro. We have enjoyed a remarkable period of price stability that investors have collectively taken for granted. The biggest mistake may be to look at the experience of the last decade and assume that past trends and valuations will return. We may need a new playbook.

A new chapter opened in both 2003 and again in 2009, following bear markets. Stock market leadership evolves and rarely stays the same. After the Dot-com bust, telecoms companies faced a decade in the wilderness. Vodafone, the poster child of overvaluation in the UK stock market, has not recovered the share price high made in March 2000. While large cap technology stocks are not at the valuation extremes of 2000, we should be open-minded to the prospects for changes in market leadership, once this bear market is complete.

Headlines of a 'cost of living crisis' have become a daily occurrence. Inflation has, undoubtedly, been the story of 2022 and its corrosive impact is now being felt. Rising yields have damaged the prolonged rise in equity valuations. A reappraisal of the valuation of future growth was overdue. History informs us that valuations fall as inflation rises. Some argue that companies with pricing power and high gross margins can protect investors from the effects of inflation; by increasing their prices, revenues and profits can keep up. This may well be true for companies' profits but for the stock price it will depend on the starting valuation of the equity. A stock on 40x price/earnings is less likely to offer the same protection as a stock on 15x. Higher margin businesses have greater ability to weather cost inflation, but how will the valuation react as

profit growth slows? Equities only offer partial protection from inflation.

We are six months into a bear market but it has room to run. The probability of a soft landing is remote. Soft landings are a rare breed. 1994/95 was one such occasion but then the Federal Reserve was ahead of the curve and it came soon after a deep recession. A hard landing is more probable following such a long economic cycle and should be anticipated. The second chapter of 2022 may be about anticipating the risks to corporate earnings as demand falls. Consumers' excess savings may postpone this slowdown but they will not necessarily avert it.

### Regime change

The false world of quantitative easing (QE) and zero interest rates is over. We are heading back to the future with a normalisation of interest rates and the unwelcome awakening of inflation. Tighter monetary conditions not only make the investment environment much more challenging but managing a business with rising costs and wages will put pressure on profits. We are now entering a new and just as discomfiting world of higher fiscal support and higher interest rates. This may have the opposite impact on asset prices to QE and lower interest rates. We have seen, with recent profit warnings across a range of industries, that falling valuations combined with declining profits can have a disproportionate impact on share prices. From the clear-blue-sky optimism of a year ago, clouds have gathered and darkened. If unicorn companies<sup>1</sup> 'grazed on zero interest rates', as described by James Grant of *Grant's Interest Rate Observer*, then the outlook for the valuations of these companies looks severely challenged.

Stock market relief is unlikely to arrive until a reverse of the Federal Reserve's aggressive

---

<sup>1</sup> Profitless technology companies valued at over \$1bn.

tightening of monetary conditions or an indication that inflation is falling sharply. In June, the Fed increased rates by 0.75%, its most aggressive hike since 1994. It hiked by a further 0.75% in July. US inflation (CPI) rose by an annual rate of +9.1% in June, the highest since November 1981. The expectation is that this number will gradually fall in the coming months, yet a resurgence of the oil price, feasible amid geopolitical tensions, cannot be ruled out. Moreover, the build-up in the cost of housing (which accounts for over 30% of the CPI) is yet to show itself in the figures. This may be a source of disappointment and defer the abatement of inflation. Another is labour costs.

The longer this current bout of inflation lasts the more likely wage growth will become embedded and continue to feed it. The labour market remains very tight on both sides of the Atlantic, with record low unemployment. Labour is increasing its power over capital, admittedly from a very low starting point. The Governor of the Bank of England, Andrew Bailey, recently called for wage restraint and by doing so revealed the weakness of his hand in controlling these pressures. Clearly, the RMT did not get the message. Comparisons with the 1970s are too simple. Wage pressure is building daily whilst governments are using other fiscal methods to support consumers, providing subsidies such as the energy price cap. Such transfer payments may be easier to reverse than pay rises, but as economist Milton Friedman warns us, *"Nothing is so permanent as a temporary government program"*.

The situation is also challenging in the event of a recession. Investors are still travelling hopefully.

### Losing the faith

It was the sharp growth in money supply, instigated by central banks in 2020, which funded fiscal transfers combined with supply chain stress that fed the current spell of

inflation. This money supply growth is now falling back but there can be a long delay in feeling the effects. Inflation can remain high despite the threat of a severe slowdown in the economy. Central banks are terrified of making a compounding policy error, meaning policy could remain 'tighter for longer'. This may be good for the long term but the pain will be felt in asset prices and can already be seen in the cost of credit. Central bank impotence will not help markets that are looking for guidance and support. In previous downturns, in 2002, 2008 and 2020, central banks were happy to ride to the rescue in order to fight deflationary pressures. This time may be different with less manoeuvrability than before. The 'Greenspan put' has disappeared. Whether in the US, the UK or Europe, historically when inflation surprises on the upside it has a tendency to linger. As one wise and experienced client told me recently, *"Inflation is only ever crushed by positive real [interest] rates"*. We are a long way from that.

Meanwhile, what of sterling? The currency has provided some cover this year for UK-domiciled investors, ourselves included, falling almost -10% against the US dollar. The dollar has been just as strong in euros and even stronger in yen. Sterling still seems to have little support despite falling recently to \$1.19, close to post-Brexit lows. Recent political shenanigans are merely a distraction. Interest rate differentials are more important, and these have widened thanks to the Bank of England's slow response to higher inflation. To date, the UK has only increased its Base Rate to 1.25%. The UK RPI reported this month at an annual rate of +11.8%, and is at a forty-year high. We have negative real interest rates writ large! Just as important as interest rate differentials, the UK current account deficit, at 8.3% of GDP in the second quarter of 2022, is the widest on record. Sterling may need to weaken further before the deficit begins to narrow.

### It is different this time

While there are comparisons and similarities with the other bear markets which we have experienced at Troy in over twenty years of managing multi-asset mandates, there is one big difference today. This time round there is no hiding in bonds. The years of loose monetary policy and ever lower bond yields, supporting the valuations of most asset classes, appears to have ended. This has huge ramifications for what to avoid, whether it be high-risk, profitless growth companies or long duration 'safe' bonds. We have seen in the last six months that in an inflationary environment, very little does well, except perhaps commodities, investing in which is desperately hard to time, as the recent recession-concern falls demonstrate. What of property? Historically, real estate has performed well in inflationary periods but over the past three decades it has become more and more 'financialised' – packaged and sold by the capital markets. Moreover, history suggests property can be difficult to exit quickly if liquidity dries up and it may not provide the traditional hiding place which many hope or expect.

### Cash is king

Inflation's eroding effects are being felt across all asset classes. It is axiomatic, among investors and savers, that the last thing to hold in inflationary times is cash. It is ironic that of all the assets to provide some semblance of protection, cash has done a very respectable job in 2022. Index-Linked bonds performed better than fixed income, but despite the contribution from rising inflation, break-evens (the market expected inflation rate) were dragged down and linkers were caught up in the crossfire of a broad-based bond market sell-off. We remain convinced that we will make good, if not great, returns from our US Treasury Inflation Protected Securities (TIPS), which are

today offering a real return of c.+1% p.a. Hardly mouth-watering, admittedly, but we expect over the coming years a return in excess of the level of inflation will be gratefully received and perhaps even coveted. We used the weakness in index-linked during the first half of the year to increase the duration of the portfolio's TIPS.

With this exception, we were not especially active in the first half. We remain of the opinion that equity valuations are yet to reach appealing levels. If we are right and the world has changed, there is a greater adjustment to be made as valuations revert to the old normal. This may also coincide with earnings weakness driven by a downturn in corporate profitability. At c.35%, our equity allocation remains at or close to record lows.

### The Times They Are A-Changin'

Despite what, at times, looks like a bleak outlook, we must offer hope. The Trust's long-term performance has been generated by careful asset allocation and stock selection. Our focus has been on the prudent valuation of better-quality businesses. We have adapted our approach through various stock market cycles over the past two decades. We believe the investment backdrop has become considerably more challenging in the past six months. It has been relatively easy to make good returns in the last decade and having any kind of valuation discipline has worked against you as an investor. Personal Assets Trust's portfolio has evolved and changed as we have recognised the opportunities available within the ever-changing environment. The times are indeed changing, which should benefit more disciplined and risk-averse investors. Our best investments have been made when we buy well at the right price. Those opportunities are not behind us, they are ahead. We wish our investors a restful and enjoyable summer.

### [A footnote on our forthcoming share split](#)

As we write, the proposed share split which was approved at our recent AGM, is imminent. The 100 for one split is due to take effect on Monday 1 August 2022. For more details please see the Q&A on the Personal Assets Trust website, [www.patplc.co.uk](http://www.patplc.co.uk).

Sebastian Lyon

July 2022

Investment Manager of Personal Assets Trust

Founder & Chief Investment Officer of Troy Asset Management

Charlotte Yonge

Assistant Manager of Personal Assets Trust

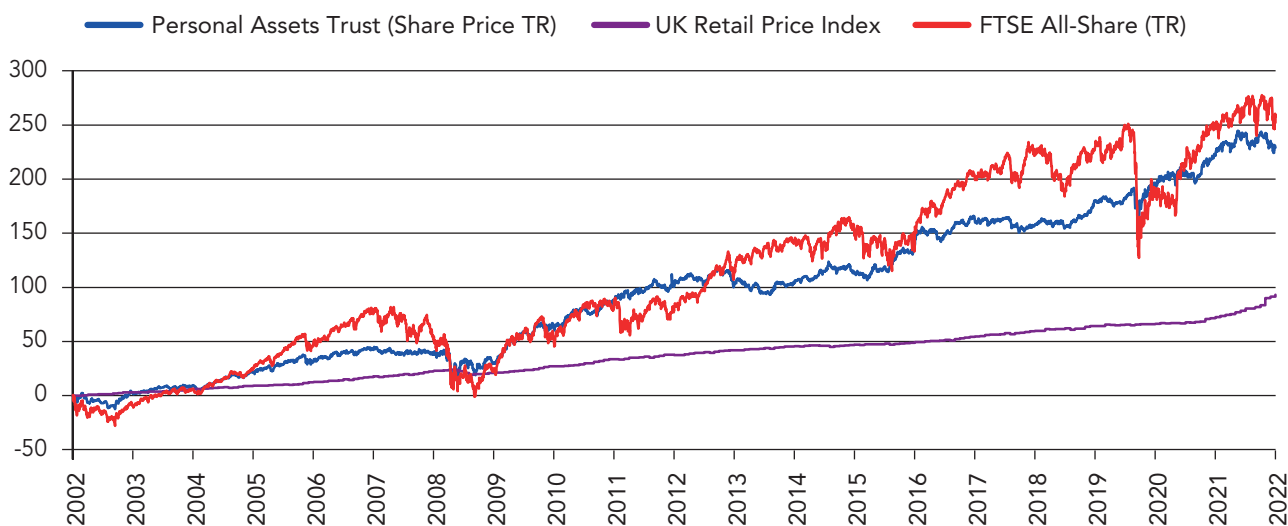


# PERSONAL ASSETS TRUST PLC

As at 30 June 2022

Share Price (£)	480.50
NAV (£)	471.87
Premium/Discount %	+1.8
Market Cap (£)	1.82bn
Shares in Issue	3.8m

## Percentage Growth from 30/06/2002 to 30/06/2022



Source: Lipper

Past performance is not a guide to future performance

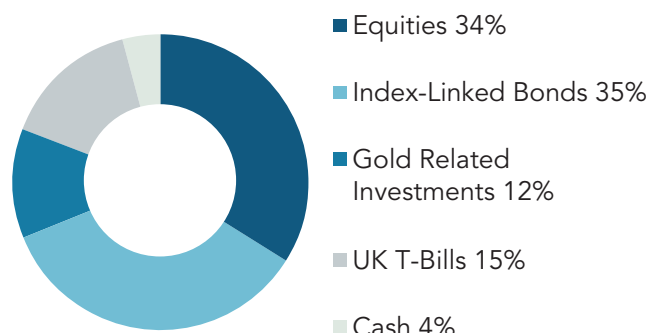
## Total Return to 30 June 2022

	20 years	10 years	5 years	3 years	1 year	6 months
Personal Assets Trust (Share Price TR)	+229.0%	+62.0%	+26.6%	+17.6%	+2.2%	-3.4%
UK Retail Price Index	+93.0%	+40.6%	+24.9%	+17.4%	+11.8%	+7.0%
FTSE All-Share Index (TR)	+252.1%	+94.6%	+17.8%	+7.4%	+1.6%	-4.6%

Source: Lipper

Past performance is not a guide to future performance

## Asset Allocation



## Top 10 Holdings

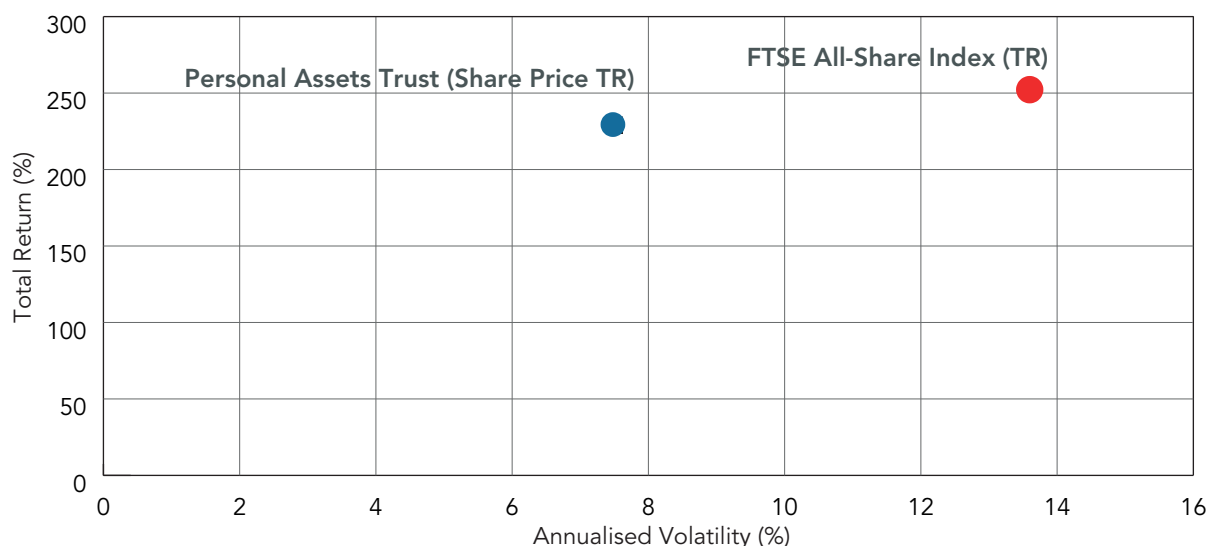
(exc. Government Bonds)

	% Trust
Gold Bullion (Bars)	9.4
Microsoft	4.9
Alphabet	4.7
Visa	4.0
Unilever	3.2
Nestlé	2.9
Franco-Nevada	2.8
Diageo	2.5
American Express	2.5
Medtronic	2.1
<b>Total Top 10</b>	<b>39.1</b>
6 other equity holdings	7.1
Index-Linked Bonds	34.9
UK T-Bills	15.1
Cash	3.8
<b>TOTAL</b>	<b>100.0</b>

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

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

## Risk Analysis from 30/06/2002 to 30/06/2022



Source: Lipper

Past performance is not a guide to future performance

### Risk analysis since 30 June 2002

	Personal Assets Trust (Share Price TR)	FTSE All-Share Index (TR)
Total Return	+229.0%	+252.1%
Max Drawdown	-23.5%	-45.6%
Best Month	+6.9%	+12.7%
Worst Month	-7.8%	-15.1%
Positive Months	+63.3%	+60.4%
Annualised Volatility	+7.5%	+13.6%

Source: Lipper

Past performance is not a guide to future performance

### Fund Manager Awards



### Structure

London Listed Investment Trust

### Investment Manager

Troy Asset Management Limited  
33 Davies Street  
London W1K 4BP  
Tel: 020 7499 4030  
Fax: 020 7491 2445  
email: busdev@taml.co.uk

### Manager

Sebastian Lyon

### 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

### Troy Investment Advisor

March 2009

### Troy Investment Manager

May 2020

### ISIN (pre share split – 31 July 2022)

GB0006827546

### SEDOL (pre share split – 31 July 2022)

0682754

### ISIN (post share split -1 August 2022)

GB00BM8B5H06

### SEDOL (post share split -1 August 2022)

BM8B5H0

### Ongoing Charges (30 April 2022)

0.67%

### Year End

30 April

### Pricing

Share price is listed daily in the FT

### Auditor

PricewaterhouseCoopers LLP

## Disclaimer

All information in this document is correct as at 30 June 2022 unless stated otherwise. Past performance is not a guide to future performance. The document has been provided for information purposes only. Neither the views nor the information contained within this document constitute investment advice or an offer to invest or to provide discretionary investment management services and should not be used as the basis of any investment decision. The document does not have regard to the investment objectives, financial situation or particular needs of any particular person. Although Troy Asset Management Limited considers the information included in this document to be reliable, no warranty is given as to its accuracy or completeness. The views expressed reflect the views of Troy Asset Management Limited at the date of this document; however, the views are not guarantees, should not be relied upon and may be subject to change without notice. No warranty is given as to the accuracy or completeness of the information included or provided by a third party in this document. Third party data may belong to a third party. Benchmarks are used for comparative purposes only.

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 Trust may be subject to change. Investments in emerging markets are higher risk and potentially more volatile than those in developed markets.

The Trust's performance is given in a 20 year period. Volatility of the Trust is run from 2000 in the Annual Report because that was the year end following 'discount freedom day' or when investment companies were permitted to buyback shares.

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.

All references to indices are for comparative purposes only. All reference to FTSE indices or data used in this presentation is © FTSE International Limited ("FTSE") 2022. 'FTSE ®' is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. Morningstar logo (© 2022 Morningstar, Inc. All rights reserved.) contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Issued by Troy Asset Management Limited, 33 Davies Street, London W1K 4BP (registered in England & Wales No. 3930846). Registered office: Hill House, 1 Little New Street, London EC4A 3TR. Authorised and regulated by the Financial Conduct Authority (FRN: 195764) and registered with the U.S. Securities and Exchange Commission ("SEC") as an Investment Adviser (CRD: 319174). Registration with the SEC does not imply a certain level of skill or training. The Trust described in this document is neither available nor offered in the USA or to U.S. Persons.

Copyright: Troy Asset Management Limited 2022