PERSONAL ASSETS TRUST PLC

DECEMBER 2008 QUARTERLY REPORT No. 51

BUSINESS AS USUAL

The months since August, when I wrote Quarterly N°. 50, have been eventful and, latterly, sorrowful ones for Personal Assets. Not only have we seen the most turbulent world equity markets for a generation but we have also suffered the sad loss of Ian Rushbrook, the Company's Managing Director, after a short illness.

Personal Assets is an independently managed trust run by its Board and when the Chairman wrote to tell you of Ian's death he explained that as a consequence the Board was undertaking a review of how best to serve the interests of shareholders in the years ahead. This review is under way and the Chairman will write to you again as soon as it is complete. In the meantime it has been very much business as usual and this Quarterly aims to give you an update on our recent performance, the structure and progress of our portfolio and our view of the outlook for equities as we start preparing for what is certain to come in due course, however far away and unrealistic it may seem just now — the next bull market.

100% LIQUID TO 84% INVESTED

In describing how Personal Assets has fared since our July 2008 AGM it is necessary to begin with that key determinant of our net asset value per share ("NAV") and price performance, our liquidity position. The Interim Management Report in our Interim Report for the six months ended 31 October 2008, sent out with this Quarterly, explains how in response to the decline in equity values during the half year we reduced our liquidity in stages from 100% to 15%. By 31 October we were 87% invested in equities; after further variations in response to market movements the corresponding figure for 30 November was 84%.

By 31 July 2008, the end of the first quarter of our financial year, our liquidity — as Ian explained at the 2008 AGM — was already as low as 25%. We then varied it on five occasions between August 22 and 6 October before reducing it to 15% on 24 October. This active approach to managing our liquidity was in line with our stated intent that we would gradually reduce it in a falling market (just as we gradually increased it while the market was rising) and that in managing our liquidity we should remain flexible and responsive to market conditions.

Of course, given that the FTSE All-Share Index has fallen by 31.2% since 30 April it would obviously have been better had we kept our liquidity at 100% rather than feeding it back out into a falling market. Our NAV would then have changed little, rather than falling by 10.7%. However, it was never our intention to sit on our hands as markets crashed, running the risk of missing the start of a recovery and forfeiting the advantage we had gained while markets were unsustainably high. Instead, we did exactly as Ian said we would in his 2008 AGM speech:

'Our use of liquidity or gearing is always going to amplify Personal Assets' NAV performance against the market. How does this actually work? In approximate terms we would hope to have become fully invested by within 10% of the bottom of the market and then to be geared, perhaps by 25%, at the bottom. In practice, we would hope to capture around 75% of 'false' (in other words, what we would consider to be ill-founded and unjustified) equity market movements in relative performance against the market.'

That we are currently only 84% invested rather than 25% geared shows that we are far from confident that the bottom of the market has been reached. However, that we have gone from being 100% liquid to 84% invested in just over seven months shows that we do see some grounds for hope.

29.7% AHEAD SINCE 30 APRIL

At 31 July 2008 Personal Assets' share price was £250 and our NAV £251.26. August proved a low-key month during which our share price moved in a narrow range between £249½ and £259½; our benchmark rose by 4.3% thanks to a late spurt of strength in the market in the course of which we increased our liquidity in two successive increments. By the end of September, however, sentiment was worsening. The FTSE All-Share dropped by 13.4% over the month and we inevitably shared some of the pain, our share price falling by 6.3% to £243¼.

The following month fully merited its title of ***'Black October'***. By 27 October the UK market had slumped a further 22.2% from its end September level and our share price had fallen since the month end by 17.6% to £200½ — 22.7% below its 29 August high of £259½, compared to a 32.7% decline in our benchmark from that date. The extreme volatility of all world equity markets even on an intra-day basis has been a startling feature of recent weeks and by the end of the month the market had recovered somewhat, so that over the three months to 31 October we recorded an 11.2% drop in our share price, from £250 to £222, compared to a 20.6% fall in the FTSE All-Share — an 11.8% outperformance of our benchmark.

This trend of strong and consistent outperformance continued in November, when during the month our share price rose by 1.1% to £224½ and our NAV gained 3.2% while the FTSE All-Share dipped by 2.3%. Altogether, since our 30 April 2008 year end our NAV has outperformed our benchmark by a quite remarkable 29.7%.

30 NOVEMBER 2008 PORTFOLIO

At 30 November 2008 there were three elements to Personal Assets' investment portfolio:

- ***direct equities*** of £63.3 million (38.1% of shareholders' funds);
- ***equity exposure through the medium of FTSE 100 Futures*** of £76.3 million (45.9% of shareholders' funds); *and*
- ***net cash and fixed interest*** of £26.7 million (16% of shareholders' funds).

This meant that of our total of £166.3 million of shareholders' funds, 84% was invested in equities and 16% was in the form of liquidity — our greatest degree of exposure to equities since 1996, the year of Alan Greenspan's *'irrational exuberance'* speech.[1]

Our exposure to equities through FTSE 100 Futures by definition mirrors the composition of the FTSE 100 Index. Our direct equities are stocks we have chosen to hold. The biggest at 30 November was ***Alliance Trust*** (8.7% of shareholders' funds). This diversified investment trust seems to us to offer outstanding value at the moment. Alliance's NAV has moved broadly in line with our benchmark, which, together with its 3.5% yield, makes it an appealing alternative to FTSE 100 Futures. The possible bonus is that the shares are currently selling at a 24% discount to NAV. If the Alliance Board takes action to reduce this, the return on our investment will be correspondingly enhanced.

In second and third place come ***Royal Dutch Shell*** and ***BP***, two oil majors which together represent 15.6% of shareholders' funds. The oil price has experienced a switchback ride in recent months, but BP yields 5.1% and Royal Dutch Shell 4.8%, both of them being notable beneficiaries from the strength of the Dollar. Stocks offering such yields on secure and well-covered dividends must be core holdings in any conservative, income-conscious portfolio. On a look-through basis, taking into account our FTSE 100 Futures, we are around 20% overweight in Oils relative to our benchmark.

Next in order of size in our UK portfolio — and illustrating the tiresome modern fads for uninformative acronyms and capitals inside a composite word — come ***GlaxoSmithKline*** (fourth) and ***BT*** (sixth), at 4.4% and 2.1% of shareholders' funds. Glaxo is another blue chip offering a decent yield (5.1% in this case) and our holding in it gives us a market weighting in Pharmaceuticals. Our BT holding is, comfortingly, less than half the size of our Glaxo stake and its 11.8% historic yield suggests that a sizeable dividend cut may be on its way. By the time of the next Quarterly, this holding may well have been sold. As for ***BAE Systems***, in tenth place, it is now worth only 0.6% of shareholders' funds and should not be regarded as a core holding.

Philip Morris International, in fifth place and the only US stock in the top ten, has in its various forms been a long-standing holding. We added to it last month, reinvesting the sale proceeds of Actuant and Altria, our smallest US stocks, and it now represents 2.1% of shareholders' funds. It is an '80/20' stock in US tax terms (in other words, at least 80% of its gross income is derived from outside the US), making the income we get from it more tax-efficient.

THE BANKS: OPTION MONEY?

This leaves the companies ranking seventh, eighth and ninth in our top ten holdings, and here I must eat humble pie. We still have direct holdings in three UK clearing banks, ***HBOS***, ***Royal Bank of Scotland*** and ***Barclays***, which together account for 2.7% of shareholders' funds. On a look-through basis we are nearly a third underweight in banks relative to our benchmark, but our continuing to hold them still causes comment.

Yes, we foresaw grave problems for the world banking system. Even we, however, did not foresee the extent of the banking collapse in the UK and the partial nationalisation of the major clearers. In July 2007 we cut back our holdings in UK banks by around half, giving us an underweight position relative to the FTSE All-Share. Often since then, with the benefit of hindsight, I've wished we had got rid of the lot. Instead, this year we compounded our error by taking up our rights in Royal Bank of Scotland and then, as rumours of a merger with Lloyds TSB gained credence, by adding to our by then modest holding of HBOS. We believe little risk now remains in the price of bank shares, while there are real, if perhaps distant, prospects of recovery. We therefore expect to retain at least some direct exposure to the sector.

BACK TO STOCK SELECTION?

Stock selection has not loomed large in Personal Assets' thinking for some considerable time. In the sort of markets we have seen in recent years we have been strategic rather than tactical investors and our belief in the need to take a 'macro' market view using FTSE 100 Futures has dominated our investment decision-making. At some point, however, as the present crisis passes and the markets steady, I would expect to see stock decisions growing in importance to us while we would continue to use FTSE 100 Futures to vary our percentage equity exposure without disturbing our core portfolio.

As the market bottoms out and as investment conditions gradually return to normality, our aim would be to start building a solid equity portfolio which will not only offer scope for steady capital appreciation but also will produce a growing stream of tax efficient income. This is central to our aim of paying a dividend that will continue to grow in real terms. For the year to 30 April 2008 we increased our dividend by 12.2%, giving us a three year compound dividend growth rate of 10.6% compared to the RPI's 3.8%. This year we shall pay a total dividend of at least £5.00 a share, giving an increase of 8.7% even if our second interim dividend remains unchanged.

WE ARE NOT *'PERMA-BEARS'*!

To some, what I have just written may come as a surprise. There were those who were inclined to describe Ian as a 'perma-bear', a prophet of global financial doom

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[1] This does not mean that we have turned into rampant bulls. After all, we are still negatively geared by 16%, which many investment trust Boards would regard as remarkably bearish. Rather, it reminds us of how cautious we felt it necessary to be during the long decade of financial mismanagement with which Mr Greenspan followed his fine-sounding words.

and gloom, perennially pessimistic about the outlook for equities.

Nothing could have been more mistaken. Indeed, when I first got to know Ian well, in the early 1980s, he was notably bullish and he had a reputation as an aggressive and stock-oriented fund manager. The truth is that he was neither a confirmed bull nor a confirmed bear. He was a student of markets who courageously took whatever investment stance his analysis of markets dictated — invariably in a bold and determined way that grabbed the attention.

After his death I found on his desk a handwritten note which I expect he'd meant to pass on to me for use in the next Quarterly. It read:

'Unlike 95% of all investment managers, who assume the market is always right, we believe the market is usually wrong.'

This not only showed the true Ian but also encapsulates the philosophy of the Personal Assets Board as a whole. We acted boldly and decisively when we believed markets to be unsustainably overvalued and thought the world financial system was riding for a fall. The corollary is that we will be equally bold and decisive when we believe that recovery is on its way, that markets are attractively cheap and that the time is right to buy. We can hardly wait.

PREPARING TO BE BULLISH

In February 1991, when I worked with Hamish Buchan in the investment trust team at the stockbrokers County NatWest Woodmac, the market was gloomy. We were in the middle of the First Gulf War. There were tensions in what are now the Baltic States and it seemed that the USSR might explode into violence and chaos. The UK was sliding into a particularly nasty recession and there was little confidence in John Major's government. *'Black Wednesday'* was still to come and Norman Lamont's famous *'green shoots'* were a long way from sprouting. Surprisingly, however, in my *Investment Trust Review of 1990* I found myself writing thus:

'The world is in a hell of a mess. We have never written a piece of trust research against so depressing a global background . . . Nor shall we pontificate (here, at least) about the state of the economy or the market . . . All we shall say is that cleverer people than we are seem to be making very gloomy noises. It will therefore surprise our clients if we say that this will be a cheerful Review with a clear message: START BUYING.' [2]

How did I justify this? I did so by suggesting ten rules for common sense investors.

1. Markets go up when lots of people want to buy.

2. Markets go down when lots of people want to sell.

3. Markets also go down when few people actually want to sell, but nobody very much wants to buy, either.

4. It is unlikely that anyone buying OR selling knows much more about what's really going to happen in politics or the economy than you do.

5. It is therefore safe to back your own common sense judgements without fear, since common sense is an attribute which investors tend to forget they possess.

6. Always buy shares which offer intrinsically good value.

7. This means that you should usually buy on a yield basis.

8. Always buy too early. Market timing is unreliable as a technique. It will, of course, work well for you if you can manage to get it right more often than not. But you almost certainly won't.

9. Very clever people will tell you that there can be exceptions to these rules. When they are telling you this so insistently and so persuasively that you start to believe what they say, remember Rule 10.

10. There aren't.

THE END OF THE BEGINNING?

In 1991 I followed my ten rules with a look at how they applied at the time, noting that UK equities were selling on a yield basis of 5% or 6% — attractive compared to the below 3% we had seen before the Crash of 1987. Then I quoted the pessimists, who said:

'Of course it's still too early to buy. The economy will get worse before it gets better. Dividend cuts may surprise us by their savagery. And if the market goes to a 6% yield it won't stop there. It'll probably go higher.' [3]

There is at least as much to worry us today as there was in 1991 and it is only right to stress that in our opinion there may still be much misery and uncertainty to come. Not only are we entering a possibly savage recession but also we are in the midst of a Sterling Crisis — not surprising, given the efforts of Mr *'Borrow and Spend'* Brown, who insists repeatedly that increased Government borrowing is *'the responsible thing to do'*. [4]

The words *'responsible', 'borrowing'* and *'Gordon Brown'* do not, in our view, fit well together. We await in December the possibility of major withdrawals from hedge funds around the world. The need for such repayments will inevitably create demand for the US Dollar (further weakening Sterling) and will also be likely to cause a fresh wave of financial uncertainty and unsettling rumours of disaster. Mr Paulson's original $700 billion funding for his troubled asset relief programme has already, as so often happens to government spending, been diverted from its original purpose and has now been augmented by a further $800 billion. Meanwhile, at a time when even sovereign states are going bankrupt, who can say that there will not be more bank failures to come?

As well as quoting Lewis Carroll, however, Ian loved to quote his great hero, Sir Winston Churchill. Perhaps, then, it would be appropriate for me to end these comments on today's financial outlook with Churchill's words following the Battle of El Alamein:

'This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.'

ROBIN ANGUS

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[2] I can't resist adding that it wasn't a bad investment call, because between the time of my writing those words and the end of 1991 the FTSE 100 had risen by 22% and after three years, by the end of 1993, it was up by no less than 67%.

[3] To this I riposted that whereas only a fool will try to tell you where the market will be in a month's time, long after we are all dead it will still be right to buy equities on a 6% yield.

[4] You may remember that Ian was fond of quoting Lewis Carroll. Mr Brown here reminds me of the character of the Bellman in *The Hunting of the Snark*, who asserted:

'What I tell you three times is true.'

PERSONAL ASSETS TRUST INVESTMENT PLANS

While the shares of Personal Assets Trust are listed on the London Stock Exchange and so can be bought and sold in the normal way, investors can also buy shares ***free of all commissions and charges*** through the Company's ***Investment Plan***, ***ISA*** or ***ISA Transfer***.

The Company also operate a ***Cash Income Plan***, which allows shareholders to draw a capital return of either 4%, 7% or 10% per annum of the value of their plan.

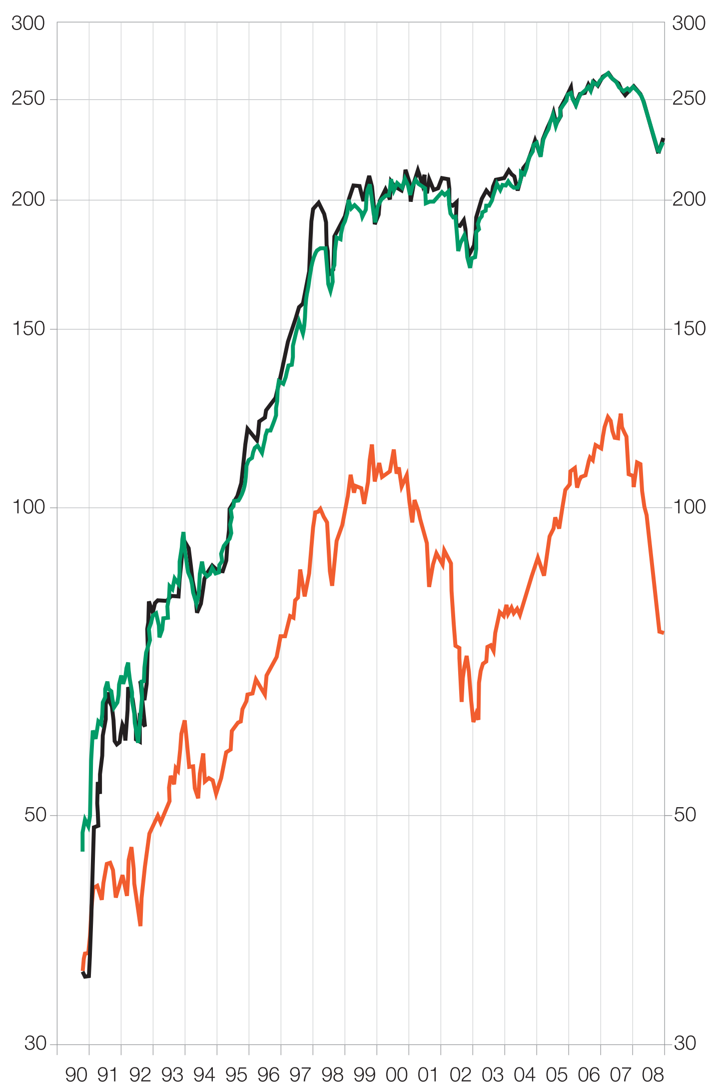
Full details of how to invest in the shares of Personal Assets can be obtained from:

Steven Budge
Personal Assets Trust PLC
10 St Colme Street
Edinburgh EH3 6AA

Tel: 0131–225 9995

PORTFOLIO (000's)	**30-Nov-08**
Alliance Trust	£14,490
Royal Dutch Shell	£13,354
BP	£12,642
GlaxoSmithKline	£7,270
Philip Morris Int. (US)	£3,544
BT Group	£3,513
HBOS	£1,868
Royal Bank of Scotland	£1,367
Barclays	£1,337
BAE Systems	£974
Top Ten Equities	**£60,359**
Other Equities held	**£2,976**
FTSE 100 Futures held	**£76,266**
Liquidity (16%)	**£26,700**
Shareholders' Funds	**£166,301**

PERSONAL ASSETS TRUST PERFORMANCE



% Changes from	31-Oct-90	30-Nov-03	30-Nov-05	30-Nov-07	30-Nov-08
Period	**18 Yrs 1m**	**5 Years**	**3 Years**	**1 Year**	**Values**
Share price	**532.4%**	**6.9%**	**-7.5%**	**-11.6%**	**£224.50**
NAV per share	**394.9%**	**12.7%**	**-4.6%**	**-10.4%**	**£229.82**
FTSE All-Share (FTSE)	**115.0%**	**-0.6%**	**-22.1%**	**-35.0%**	**2,133.99**
NAV relative to FTSE	**130.2%**	**13.3%**	**22.5%**	**37.7%**	