PERSONAL ASSETS TRUST PLC

JUNE 2010 QUARTERLY REPORT N$^{o.}$ 57

COLLECTED QUARTERLIES

The book of collected Personal Assets Quarterlies N$^{os.}$ 1-50 which we are planning to publish as a memorial to Ian Rushbrook was to have appeared in the spring of this year but has been delayed and will now appear later in the year.

Its date of publication will be announced either in Quarterly N$^{o.}$ 58 (August/September) or in Quarterly N$^{o.}$ 59 (November/December) and it will be available free of charge to shareholders on request.

RESULTS TO 30 APRIL 2010

This Quarterly accompanies the Annual Report & Accounts for the year to 30 April 2010. In the Chairman's Statement and the Investment Adviser's Report on pages 4-7 of the Report & Accounts you will find a comprehensive account of our recent net asset per share performance *(which, thanks to our discount and premium control policy, is the same as our share price performance)*, our current portfolio strategy and our views about markets, currencies and the world financial outlook in general.

I thought, therefore, that, rather than going over the same ground again here, it would make sense to use this Quarterly, first, to update you on changes to our portfolio since the year end, and, then, to draw your attention to a couple of new features in the Annual Report and discuss in more detail some points touched on by the Chairman and the Investment Adviser.

CHANGES TO THE PORTFOLIO

Some *very* old news first, but I feel obliged to mention it because shareholders still keep asking me about it. We no longer hold BP. At our 30 April 2009 year end it represented 6.8% of shareholders' funds, but we sold half our holding last September and the rest of it last October at prices between 535p and 540p.

Since our 30 April 2010 year end the main changes to the portfolio are that we have sold out of National Grid, in which we had a 1.8% holding, on concerns about its balance sheet and now have 2.4% of funds in Vodafone, yielding the same as National Grid but selling on a price to earnings ratio of under 10 and with scope for the profitable restructuring of its portfolio of minority holdings from its empire-building days.

LIQUIDITY INCREASES TO 37.5%

In order to reduce our exposure to UK equities we have for the time being sold out of FTSE 100 futures *(although we may well use FTSE 100 Futures again to vary our exposure to UK equities without physically buying or selling shares)* and now (7 June) have only 29.1% of shareholders' funds exposed to the UK equity market compared to 42.2% at the year end. Our exposure to other equities is 22.8% compared to 23.3% and to gold bullion is 10.6% compared to 9.7%. Liquidity (excluding gold) stands at 37.5% compared to the year end's 24.8%, an increase of 12.7 percentage points.

CHANGES TO ANNUAL REPORT

Regular readers of these Quarterlies will know that I am not a lover of change. My instincts are those of C S Lewis as expressed in *The Voyage of the Dawn Treader*, one of the Chronicles of Narnia:

> *"That would be putting the clock back,"* gasped the Governor. *"Have you no idea of progress, of development?" "I have seen them both in an egg,"* said Caspian. *"We call it* GOING BAD *in Narnia."*

The Chairman, however, does not agree. He not only believes in progress and development but also welcomes and encourages it. So he and I form a sort of Liberal/Conservative coalition on this and other matters, and we do our best to arrive at a working compromise which will benefit the voters. Even *I* think some of this year's modest changes to the Report & Accounts are an improvement, and I hope you agree.

For instance, the *Key Features* on page 2 and the charts in the section headed *Performance 2000-2010* on page 3 have been restructured so as to make them, we think, both more consistent and more useful to shareholders. In the Key Features last year we showed three sets of performance figures: over one year, over three years and over nine years. There was a good reason for this apparent eccentricity (the nine years covered the eventful period following the market peak in 2000, and this had been Ian's focus in his Managing Director's Report the previous year), but this year we decided to standardise and rationalise the Key Features page to show performance over one year, three years *(this, historically, having been the Board's primary point of reference)*, five years and ten years, which are the time periods over which the Association of Investment Companies (the "AIC") measures performance,

Perhaps fortunately, given that we had decided to change over to using these time-spans anyway, we managed to outperform the FTSE All-Share in net asset value total return terms over three years, five years and ten years, although the outperformance over five years was fractional and we slightly underperformed in share price total return terms. *(I shall say more later about our switch to focusing on total return rather than on capital performance.)*

It is also interesting to note that in capital terms the FTSE All-Share was 4.6% down from its 30 April 2000 level while Personal Assets' share price (despite our underperformance in the year to 30 April 2010) was 43.3% up. As noted in the Investment Adviser's Report, Personal Assets will always tend to outperform during sharply falling markets and underperform during sharply rising ones, which sometimes brings short term disappointments. However, this outperformance over the last tumultuous decade vindicates, I believe, the long term soundness of our 'protect and increase *(in that order)*' approach to the value of shareholders' funds per share.

REDRAWING THE CHARTS

Our performance charts in the Annual Report & Accounts used to go all the way back to 1990, when we became a self-managed trust. This was natural for the first decade of our self-managed status, but thereafter became mere habit. We have now decided to move to ten year charts, which seems reasonable as a long term period to choose, and which ties in with the Key Features. You may notice that we have dropped the chart we formerly included to show the discount or premium to net asset value since 1990. This is because it is now, in effect, a straight line and, thanks to our discount and premium control policy, will continue to be so. The closeness with which the share price tracks the net asset value per share can still be seen vividly in the chart of performance 2000-2010, on page 3.

TURNING TO TOTAL RETURN

The Chairman mentions in his Statement our increasing emphasis in the Report & Accounts on total return. He is enthusiastic about the concept of total return. I am less so, and he and I have been debating this for thirty years without yet coming to a common mind on the subject. Both of us agree that total return is the standard way of measuring long term return in the investment world in general. It is what the investing institutions recognise, it is what most investment funds use as their headline return figure and it is the AIC's preferred method of performance measurement. But is it useful to individual investors in real life? I'm not sure.

Speaking for myself, I focus on the movement in my share price over the years and the growth in my dividend over the same period. I think of them differently, and combining them doesn't help me.

Some people see an essential unreality in total return calculations in that most real-life investors in shares don't reinvest their dividends. Oddly enough, I don't fall into this category. My wife and I *do* reinvest most of ours (from our shares in the Personal Assets ISA and Investment Plan), but I still don't think in terms of the total return from those shares, whereas others, I know, *do* think of it in those terms.

Judging by the thirty years of bickering between the Chairman and myself over this, I don't think there's any right or wrong answer. Since different ways of looking at things are useful for different purposes, it seems appropriate to introduce total return calculations to the Annual Report while keeping the capital and dividend growth ones too, thus giving the Chairman, me and the rest of the shareholders the best of both worlds.

THE CASH INCOME OPTION

Of course, Personal Assets offers a special plan for the total return investor in the form of the Cash Income Option within our Investment Plan. The Cash Income Option lets investors draw an annual income of £4,000 or more (minimum £1,000 per quarter) from a shareholding in Personal Assets held within the Plan.

Depending on their own tolerance of risk and view of markets, investors can choose to receive an annual 4%, 7% or 10% of the starting value of their holding as a quarterly cash income from the sale of shares. The minimum starting sum depends on the percentage rate of cash income chosen.

The genesis of the Cash Income Option was an article I wrote for *Investment Trusts* magazine over 20 years ago, arguing that investors should use part of the total return from a high-quality share portfolio as a source of cash income, rather than buying unsuitable securities just to get a high yield. The problem this was designed to tackle has got ever more urgent as yields on cash and deposits have fallen to a pitiful level and got stuck there. How can your capital produce enough income to enable you to live comfortably, if the yields available are so low?

My contention was that it would be logical for most investors seeking a high cash yield to achieve it by realising regularly a small percentage of their investment in high quality shares, rather than by investing only for yield, and this was reinforced by the idea's tax-efficiency. Most investors, we argued at the time of the Cash Income Option's launch, would pay no tax on their realised cash sums because the CGT threshold was substantial — at the current rate, up to £20,200 of tax-free capital gains for a married couple.

Alas! All this is now up in the air. Higher CGT is expected to be introduced in the Budget on 22 June and forecasts as to what it may be (chargeable at 40% or even 50%, depending on one's top income tax rate, rather than at 18%, and perhaps an exempt allowance of a mere £2,500 per person, or £5,000 for a married couple) are disquieting in the extreme. Resisting here the temptation to indulge in a *Daily Telegraph* style rant of the kind of which I am sometimes accused by readers of these Quarterlies, I shall just say that Conservatives and Liberals look like rushing in where even Labour would have feared to tread. We shall keep a close eye on the Budget's implications for the Cash Income Option and keep you informed about any changes we may find ourselves forced to make.

DIVIDENDS AND INFLATION

This year there is rather more than usual about the dividend in the Chairman's Statement. This is because we are living in strange and perplexing times. As Sebastian writes in his Investment Adviser's Report, savers are currently being strangled by derisory returns on cash. This makes the need for a safe, worthwhile and growing dividend all the more important for private investors.

Yet it also increases the need for care in how we earn and pay dividends. We are affected not only by the unprecedentedly low rates of interest on cash and deposits but also by the non income bearing nature of our gold bullion holdings, the effect of our 9.4% increase in equity capital through the issue of new shares at different times during the year (new shares ranking for a full six months' dividend although Personal Assets may have had the use of the new money only for a month), and the one-off effect of bringing in house our secretarial and administration services, about which I shall have more to say later.

Personal Assets has never yielded much. Usually the yield on our share price has been less than 2%. But that does not mean that the dividend is unimportant to us. I'm happy to admit that the older I get, the more important it becomes to me as part of my planning for the future, and I know this to be true of quite a number of shareholders. Dividend growth over the last two decades has kept pace with the growth in our share price and comfortably outstripped inflation. Our annual dividend rate, which was £1 per share in 1990, is now £5.30. This means that the shares I bought in that year at a price of around £44 now have a yield on book cost of around 12%. *(Yes, I do still think in such old-fashioned terms.)* It also pleases me that the shares for which I paid £44 each have returned to me over the last twenty years dividends totalling £58.47½ per share. Given that a secure, stable dividend growing in real terms over the longer term remains a high priority for the Board, I confidently expect there is more to come.

BENCHMARK *VS* COMPARATOR

Now, here's a brief technical note. Shareholders will see that we have stopped referring to the FTSE All-Share Index as our *'benchmark'* and started calling it our *'comparator'*. We have done this not because we have stopped using it as our yardstick (to choose an old-fashioned synonym) but in order to make a subtle distinction.

'Benchmark', when used of an index, suggests to some people that the fund which has adopted the benchmark in some way attempts to reproduce it — or, at least, chooses its investments by weighting them in each case relatively to the weighting of that stock or sector in the benchmark.

This we do not do. Indeed, it would in theory be possible (however unlikely it might be in reality) for us to own not a single share in a FTSE All-Share company but yet to continue to measure ourselves against the FTSE All-Share Index. Hence we have adopted the word 'comparator' instead — something we use to compare ourselves against, not something we try to clone or copy.

AN EVER-GROWING REPORT

In times of boom or of recession, one thing can always be relied upon to grow — the amount of verbiage required by officialdom.

I am not prepared to sit counting up all the words in the 1991 Annual Report, the first that Ian and I compiled after Personal Assets became self-managed, so you will have to accept my assurance that it was a good deal briefer than the 1999 Annual Report, the earliest for which I can count the words electronically. But in the 1999 Annual Report there were 6,725 words, whereas in this year's Annual Report there are 21,872. That is nothing like 15,000 extra words of useful information. It is 15,000 extra words mostly of caveat, qualification, statement of the obvious and covering of the rear end.

If I had a criminal mind, I think I should find it much easier to conceal something in one of the Annual Reports of today than in one from 20 years ago, if only because Annual Reports then were short and succinct enough for shareholders to be able to read every word, whereas nowadays one gets utterly lost in the tangled thickets of Corporate Governance and Risk Management. Take this amazing revelation on page 43:

'The fair value of equity and other financial securities held in the Company's portfolio fluctuates with changes in market prices. Prices are themselves affected by movements in currencies and interest rates and by other financial issues including the market perception of future risks.'

Gosh! Isn't life full of surprises! Whoever would have thought it?

I would like to show large tracts of the Annual Report in the smallest possible readable font size, perhaps like this:

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This would show my contempt for it. Alas! I don't think I would be allowed to get away with it.

SECRETARIAL SERVICES

Another change in the way Personal Assets is run was mentioned by the Chairman in his Statement: with effect from 1 April 2010 we brought in house our secretarial and administration services. Until that date, such services had been provided to us by F&C Investment Business Limited ("F&C"), the successor company to Ivory & Sime PLC, managers of Personal Assets between its launch in September 1983 and its becoming a self-managed company in 1990.

Steven Davidson, our Company Secretary at F&C since 2006, is now a full-time employee of Personal Assets and has been joined in the Executive Office by Steven Cowie, a Chartered Accountant with wide and varied financial experience. We are delighted to welcome him as a colleague.

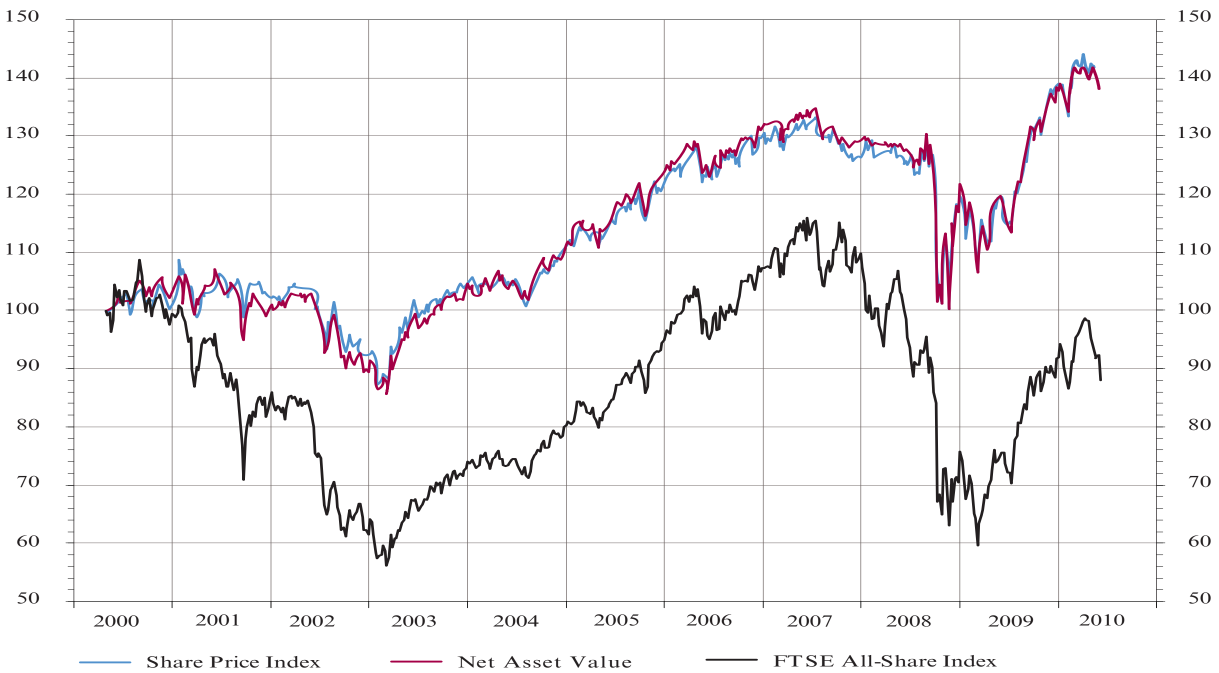
The main reason for the change is to maintain control over the service we offer shareholders. Quality of service has, from the beginning, been one of our top priorities and we like to keep a firm in-house grip on it. We are also supplying secretarial and administrative services to Troy Income & Growth Trust, run by Troy Asset Management, and this, together possibly with one or two other investment trust clients in the future, will help keep costs down. While there are inevitable start-up costs this year, we expect the operation in time to become self-financing.

NO MORE PHOTOGRAPHS

The other noteworthy point about the Annual Report is that this year we have dropped the photographs. It cannot be claimed that they were ever things of beauty. We got tired of looking at them and decided to get rid of them. We hope you don't mind.

ROBIN ANGUS

PERSONAL ASSETS TRUST PERFORMANCE



	Value	Percentage Changes			
	31 May 2010	1 Year	3 Years	5 Years	10 Years
Share Price	286.25	18.8	7.1	24.3	42.1
NAV per Share	280.91	17.4	5.6	24.1	38.6
FTSE All-Share Index	2,673.17	18.7	(22.3)	7.6	(11.4)
NAV relative to FTSE All-Share Index	–	(1.1)	35.9	15.3	56.4

TOP 10 HOLDINGS

Company	Country	Sector	Valuation 31 May 2010 £'000	Shareholders' funds %
Royal Dutch Shell	UK	Oil & Gas Producer	13,658	5.9
Nestlé	Switz	Food Producer	11,858	5.2
Coca Cola	USA	Beverages	11,438	5.0
British American Tobacco	UK	Tobacco	10,519	4.6
Diageo	UK	Beverages	8,290	3.6
GlaxoSmithKline	UK	Pharmaceuticals	7,520	3.3
Tesco	UK	Food Retailer	7,127	3.1
Berkshire Hathaway "A"	USA	Insurance	7,031	3.0
Sage	UK	Technology	5,486	2.4
Philip Morris International	USA	Tobacco	5,464	2.4
			88,391	**38.5**

GEOGRAPHIC ANALYSIS

	Valuation 31 May 2010 £'000	Shareholders' funds %
UK equities	67,194	29.2
US equities	37,064	16.1
Swiss equities	11,858	5.2
Australian equities	4,392	1.9
Gold Bullion Securities	24,349	10.6
US Treasury Inflation-Protected Securities	83,596	36.3
Net current assets	1,782	0.7
Shareholders' Funds	**230,235**	**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 225 9995.