PERSONAL ASSETS TRUST PLC

NOVEMBER 2012 QUARTERLY REPORT N$^{o.}$ 66

PAT'S LONDON MEETING

Our next London Shareholder Meeting is at 10.30 am for 11 am on Wednesday 23 January 2013 at the Institution of Engineering and Technology, 2 Savoy Place, London WC2R 0BL (nearest tube stations Charing Cross, Embankment and Temple). There will be a presentation by Sebastian Lyon, our Investment Adviser, followed by Questions & Answers and then by light refreshments.

You will find an invitation card enclosed along with the Quarterly and the Interim Report. If you require any further information, please telephone Steven Budge on the Personal Assets Trust Shareholder Information Line:

0131 538 6605

or e-mail him at:

steven.budge@patplc.co.uk

LOOKING AHEAD

Along with this Quarterly you will have received Personal Assets' Interim Report for the six months to 31 October 2012. In it, the Interim Management Report, on page 5, describes the investment outlook as we see it, the changes we have made to the portfolio over the past six months and the risks we shall watch out for in the months ahead.

Although we drew up the Investment Management Report before President Obama's re-election in the United States, there is little we would want to add to what we have written. The US market fell the day after Obama's victory, in anticipation of the 'fiscal cliff' that he and Congress together must face. However, if the past is any guide to the future, the politicians will look into the abyss and increase the federal debt ceiling, as they always have since 1917.

You will also have received a Circular setting out proposals by the Board to make certain changes to Personal Assets' stated investment and dividend policies and calling an Extraordinary General Meeting for Friday 21 December to consider them. The proposals, which have been unanimously recommended by the Directors, follow from the Board's decision, described in Quarterly N$^{o.}$ 65 *(published along with the Annual Report in June)*, to look again at the wording of our investment policy and the various investment limits set out therein. As I explained at the time, we felt it necessary to do this because the Board (in consultation with its advisers) had come to feel that our stated investment policy might restrict us in various unforeseen and unintended ways as a result of its having been formulated in different times in response to different circumstances.

In the last Quarterly I referred also to what I described as our *'Dividend Dilemma'* — that it was getting harder and harder to achieve our stated objective of a dividend growing in real terms while not hindering the pursuit of our primary investment objective, that of seeking to preserve the value of shareholders' funds per share over the long term. Here we must keep things in proportion. It is important, as the Chairman is fond of putting it, that the income 'tail' should not wag the capital 'dog'. The dividend as a percentage of NAV has never been much above 2% and it therefore makes sense to devote most of our attention to the NAV. However, the dividend remains important to some shareholders and I shall return to the subject later in the Quarterly.

CHANGING TO STAY THE SAME

It has often been said that there are times when one has to change in order to stay the same — *'New Means, Same Objective'*, as I described it in the last Quarterly. What we are proposing now is change for the sake of continuity, in the spirit of the *'evolution, not revolution'* approach to the future of Personal Assets that Sebastian Lyon, the Investment Adviser, and the Board decided on in 2009 following Sebastian's appointment and which Sebastian emphasised in his first AGM presentation to shareholders in July of that year.

'Change for the sake of continuity' and *'evolution, not revolution'* may sound like slogans left over from the US Presidential Election, but they actually mean something. While Personal Assets' key *objective* — protecting and increasing (in that order) the value of shareholders' funds per share over the long term — has stayed constant, our *means of achieving it* have varied and will continue to do so. Blessed John Henry Newman, no lover of change for change's sake, wrote, *'To live is to change, and to be perfect is to have changed often.'* Personal Assets will never be perfect, but if we are to be true to ourselves we must from time to time adjust the way we do things.

THE PORTFOLIO EVOLVES

Consider, for instance, what our portfolio looked like ten years ago. At our 30 April 2002 year end we had 50% of our shareholders' funds invested in equities — almost the same as the 49% at 31 October 2012. But in 2002 44% of our shareholders' funds was in UK equities and only 5% in US equities, compared to 18% in UK equities and 22% in US equities today. In 2002 we held no equities outside the UK and the US, whereas today we hold equities in three other countries — Australia, Canada and Switzerland.

The distribution of Personal Assets' investments, therefore, has changed quite considerably over the decade — sometimes in the hope of higher reward, but more often to defend ourselves against risk. This is why today, for instance, we hold some of our liquidity in the form of UK Treasury Bills rather than making large cash deposits with one or two banks, as we would have done before the banking crisis of 2008.

What once seemed prudent can come to seem the very opposite as circumstances change. It might be instructive, as well as amusing, for an investment historian with time on his hands to compare in detail the *Trustee Act* of 1925, the *Variation of Trusts Act* of 1958, the *Trustee Investments Act* of 1961 and the *Trustee Act* of 2000, all of them setting out very different Government approved means to the same end!

The current limitations on Personal Assets' geographical exposures have changed little since 1991, when an upper limit of 40% on overseas exposure was established (increased to 50% in 2008), and today they may prevent the Company from investing outside the UK in circumstances where to do so seems the best way of pursuing our primary objective of preserving the value of investors' capital. We therefore think it no longer appropriate to constrain the extent to which investments may be made outside the UK.

Anyone setting out a trust's investment policy has to steer a course between lofty generalities and restrictions on investment which may be right for today but wrong for tomorrow and the day after. There has to be a balance between informing new investors about what we intend to do and tying our hands in a way that stops us achieving our objectives. The proposed investment policy therefore does not set any maximum or minimum levels of exposure to particular geographic areas. The Company is already a constituent of the AIC's Global Growth category and the proposed change to a more overtly global focus is consistent with that categorisation.

We will also retain our present freedom to use currency hedging and to make use of derivatives, such as FTSE 100 Futures, to enhance and protect investment positions. Shareholders may remember that the use of FTSE 100 Futures was a feature of Personal Assets a few years ago, at a time of great market volatility, and the recent death of Clive Dunn, the actor (Lance-Corporal Jones in *Dad's Army*), reminded me of the first time we bought some.

Unsure as to how shareholders would react to the innovation, I referred in a draft Quarterly to Corporal Jones' celebrated exclamation, *'Don't panic! Don't panic!'* Ian Rushbrook reacted furiously to this, and demanded that the reference be removed. Probably he was right *(he usually was)*, but the questions from shareholders kept coming and I confess to keeping my fingers crossed that it will be some time before we feel it right to make use of them again.

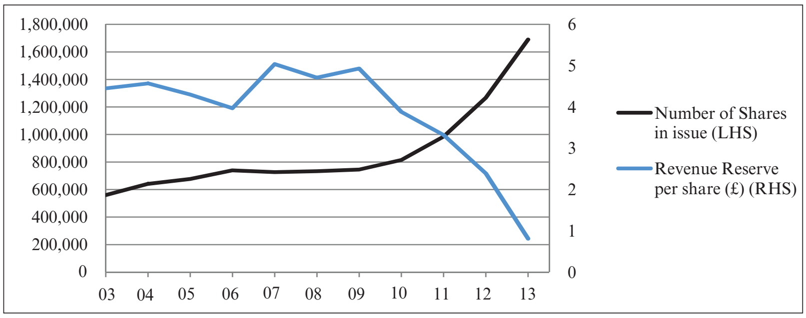
THE '*DIVIDEND DILEMMA*'

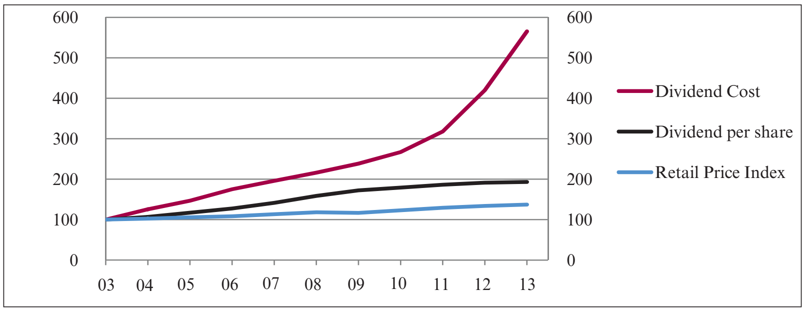
Now to the dividend itself. It is important not to overstress the importance of the revenue account as part of the overall picture the Board has to keep in view, but it is interesting as regards Personal Assets' development to see how today's *'dividend dilemma'* arose.

While earnings per share in 2009 and 2012 were almost identical (£5.32 and £5.34 respectively), revenue reserves per share fell from £4.93 in 2009 to £2.39 in 2012. Revenue reserves do not, unfortunately, expand to fit the number of shares in issue. If the number of shares in issue rises, the same sum in revenue reserves has to be apportioned among the increased number of shares. Since 30 April 2009 the number of Personal Assets shares in issue has more than doubled, from 745,231 to 1,568,097 *(8 November 2012)*, and during the current financial year we have been issuing shares at the rate of over 30,000 a month (around £10 million worth).

The first chart *(see below)* shows how over the last decade the number of shares in issue has soared and the revenue reserves per share have dwindled, and how our revenue reserves position will look by 30 April 2013 if we continue to issue new shares at the same rate.

The second chart, immediately below the first, shows how Personal Assets' dividend has comfortably outpaced the RPI over the last decade, as was the Board's intention, but demonstrates vividly how the total cost of the dividend has rocketed because of the increased number of shares outstanding. Despite all our efforts to be vigilant over the revenue account and to husband our revenue reserves, and despite changes such as paying dividends quarterly and charging some expenses against capital, the unforeseen sustained inflows of new money proved overwhelming. It was therefore time for a fresh look at the subject.





TACKLING THE DILEMMA

I am grateful to all the shareholders who wrote to me about our dividend policy. Their comments were very helpful and such interaction between Board and shareholders is one of Personal Assets' great strengths. Our style in running the trust is not for the Board to present shareholders with *faits accomplis* about major matters but for the Directors (who all have considerable shareholdings in Personal Assets) to consult the other shareholders to enable all of us to come to a common view.

Formulating a dividend policy is difficult because different people want different things. These can't all be satisfied, because some of them are mutually exclusive, and therefore not everyone can be happy. Some people's wishes also change over time. However, the comments I received from shareholders suggested a preference for capital preservation over income, and so the Board, which shares this view, has decided that, while the current quarterly dividend rate of £1.40 per share will be maintained for the year to 30 April 2013, we will thereafter review the level of the dividend.

Our review of the options available to us was wide-ranging — after all, it was our own money we were talking about — and we could have addressed the *'dividend dilemma'* in a number of ways. We could have reduced the overall quality of the portfolio by buying weak businesses with high dividend yields. Less drastically, we could have invested more money in defensive equities with decent yields, of the type we currently hold. But while doing so might have solved one problem, it would have created two very much bigger ones — firstly, a problem of principle, by allowing the revenue account to take precedence over the capital account, and, second, one of practicalities, because it is our view, as Sebastian and I point out in the Interim Management Report, that many of the defensive blue chips we favour are now looking fully priced or even expensive.

There were also various other structural routes we could have explored. One shareholder whose views I have learned to value suggested that newly created shares either shouldn't rank for dividends for the first twelve months or shouldn't rank for dividends at all. This would leave only existing shareholders to be 'serviced' from the revenue account, and would mean that existing holders would continue to get what they had expected all along, while the expectations of new shareholders would be different and would be capable of being managed accordingly.

The idea attracted me at first. However, creating 'A' shares, or whatever they would be called, would have introduced a degree of complication into Personal Assets' structure, whereas we have always prided ourselves on our structural simplicity. We have avoided corporate confections like warrants issues or debentures, and have sometimes been critical of such complications when they were introduced into other trusts. Suggestions such as an annual scrip issue were again superficially tempting and might have worked in principle, but they, too, would have conflicted with the simplicity of structure we have always emphasised and might have appeared *'gimmicky'* — something as far away from Personal Assets' style as it is possible to imagine. So we reverted in the end to Thoreau's motto, which Ian Rushbrook never tired of quoting and even sometimes managed to follow in practice: *'Simplify! Simplify!'*

DISTRIBUTING CAPITAL

There was, of course, the new and topical solution some trusts have recently embraced. Following recent changes to the law, we could have asked shareholders for permission to supplement our dividends from realised capital profits. My initial reaction was that while doing this may suit those trusts which cater primarily for basic rate taxpayers who rely on a high regular dividend income, for typical Personal Assets shareholders it would be like turning the trust into a tax-inefficient annuity.

This remains my view and is the view of the rest of the Board as well. We are not in the business of converting capital into income and raiding our personal assets to fund our personal liabilities until all the assets have been used up. While recognising the need for a cash return from investments at various stages of people's lives, we have chosen a different route. Personal Assets has been a pioneer in making it feasible for shareholders who wish to do so to realise some of their capital to live off through the Cash Income option. To apply the principle compulsorily to all shareholders did not appeal.

DOES SIZE MATTER?

Much of the discussion of dividend policy has centred on the problems caused by our increase in size. What needs to be made clear in this context, however, is that despite the problems caused for revenue reserves per share by the inflow of new money, the increase in Personal Assets' size does not cause problems for other aspects of our investment policy.

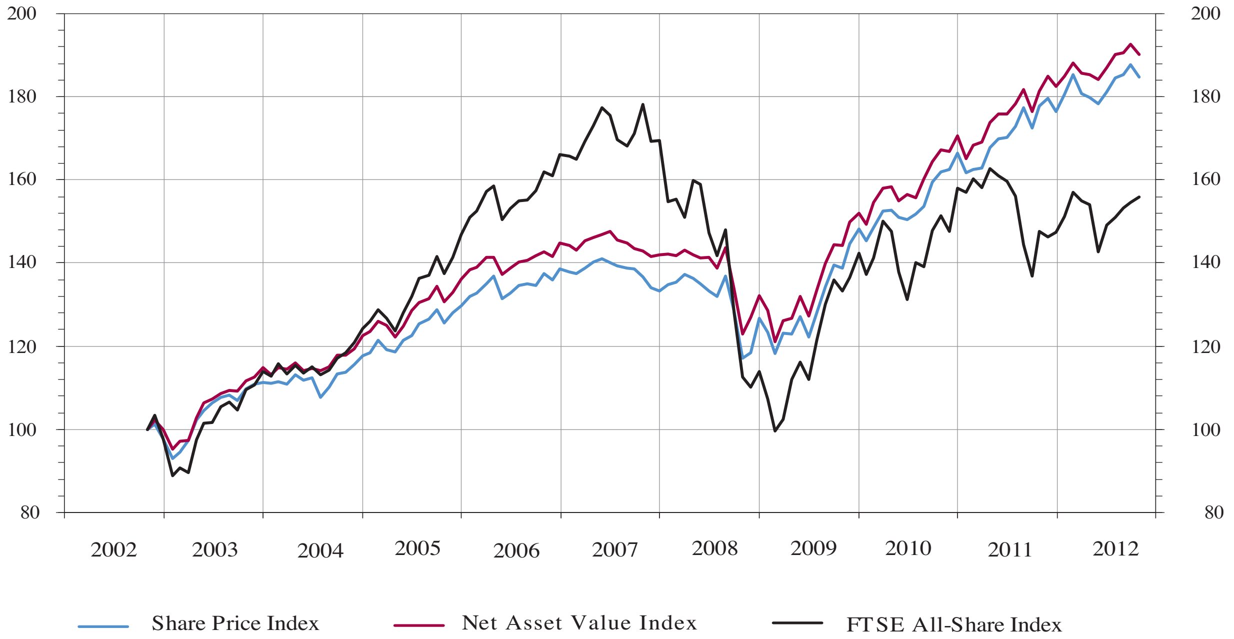
Having seen Personal Assets grow in size a hundredfold since 1990, I can assure you that we have been in no way constrained by this growth on the capital side. We were never a small companies specialist or an emerging markets specialist or a major investor in private equity, and we have no intention of becoming so now. What's more, even if Personal Assets grew tenfold from here on it would make no difference to our objectives or to the methods we use in pursuit of them.

(Who knows? We may shrink as well, as we have done in the past when we were out of fashion. In both 2007 and 2008 the number of shares in issue fell as investors made use of their ability to sell out at close to NAV. But we shall carry on regardless, managing our own money in the way we think best, delighted if others care to join us but not being deterred if they decide to move on.)

No-one can predict the medium term with any certainty (I say this with confidence, having spent 35 years trying to do so and failing). This is why we ask for maximum flexibility to enable us to react appropriately to events and to adapt to changing circumstances.

ROBIN ANGUS

Personal Assets Trust Performance



	Value		Percentage Changes		
	31 Oct 2012	1 Year	3 Years	5 Years	10 Years
Share Price	£350.00	3.9	33.1	35.1	84.7
NAV per Share	£344.67	4.9	32.0	33.2	90.2
FTSE All-Share Index	3,024.40	5.7	17.0	(12.4)	56.0
NAV relative to FTSE All-Share Index		(0.8)	12.8	52.1	21.9

Top 10 Equity Holdings

Company	Country	Sector	Valuation 31 Oct 2012 £'000	Shareholders' funds %
Microsoft	USA	Software	22,572	4.2
British American Tobacco	UK	Tobacco	21,655	4.0
Nestlé	Switz	Food Producer	18,605	3.5
Newmont Mining	USA	Mining	16,912	3.1
Centrica	UK	Utility	16,762	3.1
Coca-Cola	USA	Beverages	14,850	2.8
Becton Dickinson	USA	Health Care Supplies	14,310	2.7
Imperial Oil	Canada	Oil & Gas	14,277	2.6
Diageo	UK	Beverages	13,925	2.6
Philip Morris International	USA	Tobacco	13,354	2.5
			167,222	**31.1**

Portfolio Analysis

	Valuation 31 Oct 2012 £'000	Shareholders' funds %
US equities	118,923	22.1
UK equities	97,442	18.1
Canadian equities	20,915	3.9
Swiss equities	18,605	3.4
Australian equities	8,903	1.7
Gold	74,867	13.9
Government bonds (USA, Singapore and UK)	192,721	35.9
Net current assets	5,641	1.0
Shareholders' funds	**538,017**	**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.