PERSONAL ASSETS TRUST PLC

AUGUST 2014 QUARTERLY REPORT N°. 73

INTRODUCING *'RELATIVITITIS'*

Quarterly N°. 72, published in June 2014, described an ailment called *'chronic comparisonitis'*. Sufferers from it forget that an investment portfolio is — or, at least, should be — a structured entity in its own right, possessing various qualities intended to complement one another. Instead, they see a portfolio as a league table of unrelated investments, and spend their time wishing that they had invested all their money in whichever shares happened to be topping the table when last they looked. Diversification of risk by holding a spread of investments is a sound principle designed to bring peace of mind. But to the unfortunate sufferer from *'chronic comparisonitis'* it all too often brings vexation and regret.

Related to *'chronic comparisonitis'* is *'relativititis'*. Thinkers such as Richard Hoggart, the cultural historian, and Pope Benedict XVI have described what they perceive as the modern loss of belief in moral absolutes as *'the tyranny of relativism'*. From the point of view of an investor, its meaning can be expanded to encompass the loss of a sense of absolute value. Confronted by a set of unattractive options, sufferers can feel tyrannised into choosing the least unattractive of them rather than judging them in terms of absolute attractiveness or lack of it and, if none of them appeals, not choosing any of them.

The practical danger of relying on relativism and ignoring absolutes when making choices was neatly illustrated by Joey Barton, the outspoken Queens Park Rangers footballer, when he got himself into trouble on *Question Time* at the time of the European elections by describing UKIP as being *'not the worst'* of four *'really ugly girls'* (the others, in this context, being the Conservatives, Labour and the Liberal Democrats). Barton's view seemed to be that he was obliged to choose the least unenticing of the options confronting him. But instead, and depending on the situation in which he found himself, he could have spoiled his ballot paper in the European elections or waved a cheery farewell to all four girls and gone to bed with a good book.

'IS NOTHING WORTH BUYING?'

Investment managers can easily get caught in this *'relativititis'* trap. When shareholders are clamouring for action and the market keeps on soaring skywards, any investment looks better than none. But that is when some of the worst investment mistakes are made. How many fund managers plunged into technology, media and telecommunications stocks in early 2000, when their run was coming to an end but their names simply *had* to appear in a published portfolio list? Probably about as many as piled heavily into 'Nifty Fifty' stocks on Wall Street in the early 1970s, just as those stocks were embarking on a decade or more of underperformance. How much better it would have been to have kept the cash for use when there really were unmissable bargains around.

Some investment funds, of course, don't have a choice in the matter. They are designed to be fully invested. In particular, geographic or sector specialists set out to be subcontractors within their specialist areas, leaving decisions about liquidity to the trust's shareholders themselves. But Personal Assets isn't like that. For all practical purposes it is a private investor writ large. Of course, we couldn't stop institutions holding our shares even if we wanted to. But the Board and the Investment Adviser together run the portfolio not for any particular class of institutional investor but as if we were managing our own personal capital — which, of course, is exactly what we're doing. Personal Assets' aims and objectives are those of the Directors and the Investment Adviser, who want to protect and increase *(in that order)* the value of their investment over the long term. Although sometimes we can learn from what other investment trusts are doing, we don't have to worry about comparing ourselves with them all the time, because we don't think of them as competitors. We are interested in absolutes, not relatives. As one commentator wrote recently, Personal Assets *'marches to the beat of its own drum'*.

Just as we don't have to match or mirror the composition of an index or measure ourselves against one (we use the FTSE All-Share Index as a comparator, not a benchmark), we don't have to be fully invested if we don't think it right to be so. As in the case of all private investors managing their own money, nothing prevents us from structuring our portfolio exactly the way we want it. We're immune from *'relativititis'*. It is the antithesis of the way we operate. We buy investments because we believe them to be attractive in their own right, not because we think they're the best of a bad lot. We aren't obliged to hold stocks of any particular size or in any particular sector. If we want to, we can use liquidity or gearing — and if the portfolio composition we think best at any given time means holding a large amount of cash, so be it.

THE MERITS OF CASH

Cash, considered as an investment, is perhaps more controversial even than gold. To hold it in any quantity is seen as the ultimate bankruptcy of imagination and failure of nerve, provoking the dreaded question from those who suffer from *'relativititis'*, *'Surely there must be* SOMETHING *worth buying?'* And this is particularly so today, when wealth managers and investors

alike query paying fees to money managers to hold cash when interest rates are zero. They fail to see what Personal Assets has proved several times in its history — that *holding cash can add value*. And they also fail to see that, rather than its being a cowardly cop-out, holding cash takes considerable courage. I see no reason to change what I wrote about it in Quarterly N°. 69:

'Cash is the most criticised of all investments. Wealth managers and private client stockbrokers are reluctant to hold any cash for clients, particularly in a zero interest rate world. But the virtue of cash is seriously underrated at present, just as it was in 2007 and 1999 . . . In the longer term (i.e. on a ten year view) cash is almost certain to lose a significant amount of its value in real terms, but so too may equities, while conventional bonds are a bear market waiting to happen. Cash has an important rôle as a diversifier in today's highly correlated, low return world. It should not be a permanent holding, but it is dry powder to deploy when value once again presents itself.'

How we long for that happy day! But meanwhile, the pressure to *'do something'* continues regardless. Luckily for our nerves, we've been here before. As long ago as May 1995, in response to comments about our lack of turnover and apparent idleness, I was having to explain in Quarterly N°. 4:

'To "do something" is a great temptation in itself and requires self-control to resist. You see, doing something is a lot more fun than not doing something. Selling old investments and buying new ones creates a buzz of excitement in the investment manager's mind. Activity is its own adrenalin.'

This provoked from one shareholder the double-edged response, *'I admire your candour, if not your complacency, and your glibness!!'* Such accusations are a reminder not only of how shareholders at different times have worried about the same things and asked the same questions, but also of how consistent Personal Assets' management style has been over the nearly a quarter of a century during which it has been a self-managed trust.

NO NEED FOR NOSTALGIA

Looking back to a past golden age is a common human failing, but such an age has never existed. The problems of today are often the same as those we knew in the past. Shareholders sometimes write to me pining for what they remember as the glory days of Ian Rushbrook, as if everything had gone right for Personal Assets during the period up until 2008, when Ian was Managing Director. But memories are short, and distance lends enchantment to the view. In 2004, after a year of our underperforming the FTSE All-Share Index *(given that Personal Assets is concerned with absolutes rather than relatives, forgive me for writing so much about relative performance in the rest of the Quarterly, but it's the best way to explain our investment pattern)*, Ian wrote in his Investment Manager's Report, *'Such a spell of underperformance had to occur eventually.'* So it did. But it didn't end there. Personal Assets went on to underperform the All-Share *in each of our financial years 2005, 2006, and 2007*, making FOUR successive years of underperformance.

It's a period I remember well. In January 2003 I was invited to a New Year's colloquium of fund managers to give my views on the investment outlook for the coming year, and since Personal Assets had successfully predicted the market's fall from its 2000 heights I was greeted with reverence and awe. At the corresponding event in 2004 my views were listened to with respect, in 2005 they were greeted with polite derision and in 2006 I wasn't even invited. The patience of some of our shareholders had worn very thin by 2007 and Ian and I had to make it our daily discipline to stiffen the sinews and summon up the blood before going about our business in public.[1]

HOW TO AVOID A HANGOVER

Despite that, it never occurred to us during those difficult years to diverge from what we believed to be the right course by adopting a more media-friendly policy. Confronted by extravagant praise or contemptuous derision, we treat those two impostors just the same. That's rather like where we are now. We know an upturn in performance will come and we're poised to make the most of it; but we can't pretend that the waiting is fun.

It hasn't yet exactly driven me to drink, but it *has* made me meditate on parallels to Personal Assets in the world of wine. In my student days, the Dean of my college was a claret-loving clergyman of the type that was once the glory of the Church of England. He taught me many things; but none was so valuable as that certain highly regarded Bordeaux châteaux have a habit of producing good wines in 'off' years. Proof of this was a toothsome La Mission Haut-Brion 1968 with which he plied us on a College Retreat. I wouldn't want to press the analogy too far — La Mission Haut-Brion makes even better wines in good years — but there is something of this 'off year' quality about Personal Assets. We are a trust that (relatively, at least) tends to do well in such years.

The alcoholic analogy might even be taken a little further. Personal Assets might be compared to a rather reserved guest at a party who is very far from being a party animal. We pace our drinking, so that as the party hots up we look dull, awkward and out of things. But because of this, we don't get drawn into doing the silly things some people do when parties are at their wildest — and we don't have a hangover the next day. Boring, I know. But it has its advantages.

OUR PATTERN OF PERFORMANCE

These reflections were occasioned by the fact that Sebastian and I have recently spent some time in analysing Personal Assets' performance record between 31 December 1999 and 30 June 2014, with a view to explaining Personal Assets' typical performance pattern. Here's how the pattern works.

Over the whole 14½ year period, Personal Assets produced a share price total return of 100.4%, outperforming by 11.7% the FTSE All-Share's 79.4%— not a bad result, especially given that it was in

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[1] Unfavourable comparisons with a supposed golden age aren't confined to Sebastian and me. The Chairman comes in for criticism too. Some time ago, a shareholder who was complaining about Personal Assets' performance under the present Chairman and sighing for what he remembered as the palmier days of his predecessor wrote to me, *'Mr White* [Bobby White, Chairman of Personal Assets between 1994 and 2009] *must be turning in his grave.'* The selfsame Mr White, who is very much alive and flourishing, was highly amused when I told him about this at one of our periodic *'putting the world to rights'* lunches.

total return terms rather than in capital terms — always a higher hurdle for us, given our much lower yield than that of the All-Share.

(The Chairman and I differ on whether to show total return, which he argues is the trust industry standard, or capital performance, which I argue is what is set out as Personal Assets' objective in our shareholder approved Investment Policy. One day I may devote a Quarterly to the debate. However, given the length of the period under examination I am prepared to concede to the Chairman the use of total return on this occasion.)

Our outperformance wasn't, however, achieved in steady annual increments. For long periods, most notably between 2003 and 2007, we underperformed the All-Share. We achieved our outperformance in short bursts, when the All-Share fell sharply but our share price fell by much less, leaving us, in relative terms, with more of our firepower intact for the market upturn we knew would come eventually.

Here are the three periods, peak to trough, during which we built up our 11.7% outperformance over the 14½ years to 30 June 2014:

- Between **31 August 2000 and 31 January 2003** (29 months) the All-Share fell by 42.9% in total return terms while our share price fell by only 12.1% on the same basis — a **53.9%** outperformance.
- Between **31 October 2007 and 28 February 2009** (16 months) the All-Share fell by 41.1% in total return terms while our share price fell by only 11.9% on the same basis — a **49.6%** outperformance.
- Between **30 June 2011 and 30 September 2011** (three months) the All-Share fell by 13.5% in total return terms while our share price rose by 1.7% on the same basis — a **17.6%** outperformance.

Out of a total of 174 months, it was in these three periods, totalling 48 months (slightly more than a quarter of the whole), that Personal Assets achieved its outperformance.

The Way it's Meant to Be

'That's the way,
Mmm, that's the way it's meant to be.'

So sang the pop group Unit 4 + 2 in their 1965 hit *'Concrete and Clay'*. Whether or not the performance pattern for Personal Assets I've just described is *'the way it's meant to be'*, that's the way it undoubtedly is — a tendency to underperform modestly for long periods and then to enjoy short bursts of outperformance. And while Unit 4 + 2 was a one-hit wonder, we aim for a long period of low-key success — seldom, if ever, at Number One in the charts but always there comfortably among the dependable long term performers.

It is noteworthy — and those who hanker after a supposed golden age should note especially — that during the first of these three periods of outperformance, Ian was Managing Director; during the second, Ian was Managing Director until his death in October 2008 and Personal Assets was then run directly by the Board; and during the third, Troy was our Investment Adviser. Personal Assets' style of management and pattern of performance has been consistent over the years and — whether we are in or out of investment fashion — will continue to be so in the future.

That's why when Sebastian and I were discussing an early draft of his presentation for the AGM we stopped at the comment, *'we hope for better times and improved investment opportunities'*. This was too hesitant and tentative, we decided. Rather than using the words *'we hope'*, our meaning would be better expressed by *'we are confident'* — because, in fact, we ARE confident. Unless a new investment paradigm should suddenly emerge (and it never does, however much it may look like it at times), it's inevitable that Personal Assets will have a short, sharp spell of outperformance again, like we did in the past; and we shall build on that to make the most of a recovering equity market when attractive valuations once more appear.

The only question is, when will it come? We can't say, but in the meantime we are quietly but determinedly positive. Shareholders know that we've been prepared to admit it when we've done badly; here I'm glad to give the complementary assurance that we believe in what we are doing and are convinced it will end happily.

Where do we Stand?

That's in the future. What about now? Let me end with a quick survey of where we are. As at 22 July 2014, our portfolio was structured for the following:

- Caution;
- Flexibility; *and*
- Eventual Optimism.

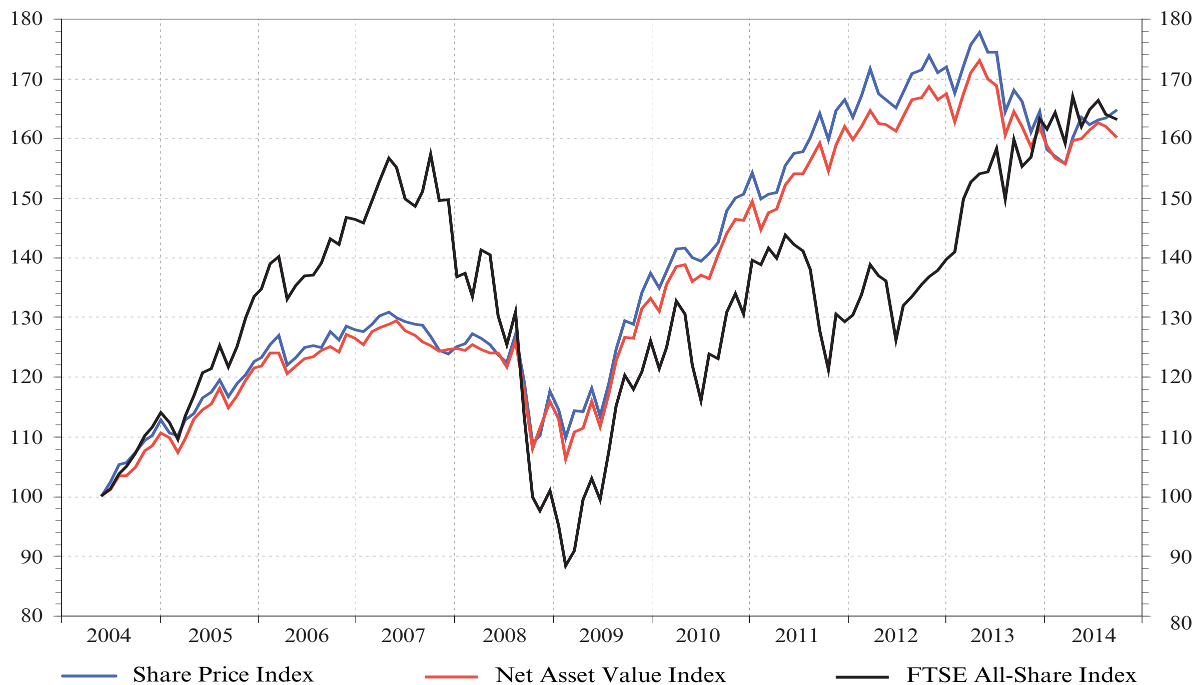
Our **Caution** is shown by our 56% in non-equity assets. More than half of our shareholders' funds is outside the equity markets, which shows how we prefer to sit on the sidelines when the play on the gaming tables gets too high. We recognise, however, that our 56% in non-equity assets is held partly in other types of risk assets. The risks of gold are well known. Singapore T-Bills have currency risk. And while we have hedged our US TIPS, price risk remains, as it does with UK index-linked gilts.

Our **Flexibility** comes first from our 20% in UK cash and T-Bills. This is ready for use when the time comes to add to our equity holdings — the liquidity of assets is essential to investment flexibility. Should we want to go further into equities without either using short-term borrowed funds or FTSE 100 Futures (the former is unlikely but the latter we have used in the past and may use again), we could mobilise our 4% of funds in Singapore T-Bills and some or all of the 21% of funds we hold in index-linked bonds in the US and UK.

Our **Eventual Optimism** is shown by our 44% in equities, to which we add as appropriate. Last year we took new holdings in Dr Pepper Snapple (spun out of Cadbury in 2008, since when it has bought back over 20% of its shares and increased its dividend five times) and American Express, one of the best and longest-established business franchises anywhere, which remained profitable throughout the Credit Crunch and bought back 4.7% of its shares in 2013. Since the year end we have also sold our holding in Greggs, and are adding a little to our holding in Philip Morris International. So we remain committed and active equity investors, which is where our heart still lies and where our future awaits.

Robin Angus

PERSONAL ASSETS TRUST PERFORMANCE



	Value 31 July 2014	Percentage Changes 1 Year	3 Years	5 Years	10 Years
Share Price	£336.90	(2.1)	2.9	38.8	64.9
NAV per Share	£331.69	(2.6)	2.7	37.2	60.6
FTSE All-Share Index	3,585.62	2.2	18.5	52.4	63.6
NAV relative to FTSE All-Share Index		(4.7)	(13.3)	(10.0)	(1.8)

TOP 10 EQUITY HOLDINGS

Company	Country	Sector	Valuation 31 July 2014 £'000	Shareholders' funds %
British American Tobacco	UK	Tobacco	24,573	4.3
Nestlé	Switz	Food Producer	20,830	3.7
Microsoft	USA	Software	20,122	3.5
Imperial Oil	Canada	Oil & Gas	19,859	3.5
Philip Morris International	USA	Tobacco	16,804	3.0
GlaxoSmithKline	UK	Pharmaceuticals	16,797	2.9
Coca-Cola	USA	Beverages	16,615	2.9
Becton Dickinson	USA	Pharmaceuticals	15,485	2.7
Dr Pepper Snapple Group	USA	Beverages	14,316	2.5
Altria	USA	Tobacco	12,433	2.2
			177,834	**31.2**

PORTFOLIO ANALYSIS

	Valuation 31 July 2014 £'000	Shareholders' funds %
Equities	250,741	43.9
US TIPS	95,995	16.8
UK Index-Linked Gilts	26,594	4.7
Gold Bullion	60,982	10.7
UK Cash and Cash equivalents	107,686	18.9
Overseas Cash and Cash equivalents	28,364	5.0
Shareholders' funds	**570,362**	**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