PERSONAL ASSETS TRUST PLC

NOVEMBER 2014 **QUARTERLY REPORT No. 74**

DIVERSE KINDS OF DIVERSITY

Earlier this month I attended a stimulating and thought-provoking seminar for investment trust directors hosted here in Edinburgh by Trust Associates and Edison Investment Research. Its subject was the fascinating and topical one of '*the changing profile around the boardroom table — what skills and expertise will be required in the future'*. Many of the points that came up in our discussion seem to me well worth passing on to the shareholders of Personal Assets — not least because they are the ultimate beneficiaries or otherwise of the Board's deliberations.

There were many types of diversity for us to debate, and we had a thorough and searching discussion about all of them. But there was widespread agreement among the seminar participants that the most important type of diversity for any board must inevitably be diversity of skills. First, and most obviously, an investment trust board needs some investment management experience among its members in order to engage intelligently and productively with the manager or investment adviser. But other skills are necessary too. Given the increased importance attached these days to the Audit Committee, for instance, someone who has recent accounting experience is a *sine qua non* for a trust board.

Experience of both retail and institutional investors and how they think is also invaluable, as is the ability to communicate with shareholders face to face and in writing. Furthermore, in these days of ever-increasing regulation an awareness of how the political and regulatory winds are blowing both in the UK and in the EU is indispensable, while here in Scotland we have yet another and increasingly powerful policymaking and tax-levying tier of government in the form of the devolved Scottish Parliament. Despite the No vote in September's Referendum on Scottish independence, the Scottish Parliament has already acquired substantial new powers through the Scotland Act 2012 and looks set to gain still more in the coming years irrespective of which party or parties form the government at Westminster.

The Board of Personal Assets is aware of all these requirements for boardroom expertise and, like most investment trust boards, consciously sets out first to identify the skills we need and then to make sure we possess them.

'PEOPLE LIKE OURSELVES'

One claim made at the seminar was that, in the boardroom, *'people like to be with people like themselves'*. If this is true, I think that as a sentiment it is profoundly mistaken. Speaking for myself, I would be bored to tears if there were no surprises, no new ideas and no fresh insights. Shared values are essential and a shared sense of humour helps, but differences in background, temperament, skills and experience all make for a stimulating and constructive board.

Ian Rushbrook, the founder of Personal Assets, would have been horrified if anyone had thought he and I resembled each other. He used to say that the reason he employed me was to have someone to argue with. If we really want to learn and to be challenged, we don't want to be only with people who are like ourselves. We need the spice of difference, and this is something Personal Assets has always been careful to ensure.

Another boardroom problem we discussed was lack of diversity by age of directors. Age diversity is important both in extending the experience available to a board and in avoiding the awkward situation that can arise when the bulk of a board's members all reach retiring age at around the same time. I'm glad to say that there is a gap of over a quarter of a century between the ages of the oldest and youngest Directors of Personal Assets, so there is little risk of our encountering this particular problem.

A LISTENING BOARD

One of the views most forcibly expressed at the seminar was that boards should listen to shareholders and do what they want. It's difficult to argue with that, and we try to be a 'listening' Board not only through meetings such as the AGM and the London Shareholder Meeting but also through these Quarterlies, which are a way of communicating the Board's thinking and eliciting feedback from investors.

When Ian Rushbrook took over the management of Personal Assets in 1990, however, the Board deliberately reversed this approach. Rather than quizzing our existing shareholders, most of whom had acquired their shares in the Company through a rights issue by a much larger trust *(see below)*, we first decided what sort of shareholders we wanted and then set out to find them, not only by defining our aims and objectives carefully but also by structuring the trust and the services it offered in such a way as to attract certain types of shareholder and deter others.

Strange as it may seem, I've often tried to convince people that Personal Assets isn't suitable for them. Some categorise us as 'Marmite Assets' (you either love us or hate us) or a financial version of Millwall FC, with its supporters' chant:

'Nobody likes us. Everybody hates us. We don't care.'

For instance, you shouldn't buy Personal Assets if you want a flutter, or if you're fixated on matching or beating an index, or if your preferred investment unit is something like £50 or £100 a month, or if you are put off because as a result of our 'heavy' share price up to £300 or £350 may lie uninvested for a month or more in an ISA or Investment Plan. Earlier I questioned the idea expressed at the seminar that we always prefer to be with *'people like ourselves'*. But as far as investment requirements and investment style are concerned we *do* run Personal Assets for people like ourselves, and while you are more than welcome to join us, you must take us as you find us.

INCREASING DIVERSITY

The *quid pro quo* for this is openness about what we're doing. Given that our investment performance is covered in the Interim Report, this Quarterly aims to alert you to some of the other things the Board is discussing. Prominent among these is another sort of boardroom diversity — gender diversity.

We last appointed new Board members in 2009, when following Ian Rushbrook's death and the retirement of Bobby White, our former Chairman, the Board welcomed Frank Rushbrook and Stuart Paul. Since this gave us five non-executive Directors rather than our traditional four, we decided when Martin Hamilton-Sharp retired last year to revert temporarily to the previous number. But very much in our minds all along has been the view that the Board should be strengthened and made more effective by the appointment of our first woman Director. Rather than wait for a vacancy to arise, we have decided that at some time during the next eighteen months (i.e. by the July 2016 AGM at the latest) we will increase the size of the Board from five to six and that our next appointee will be female. We have a number of strong contenders for the position in mind and we look forward to making an announcement as soon as we are sure we have secured the right candidate.

OUR 'HEAVY' SHARE PRICE

One of the most distinctive features of Personal Assets is its 'heavy' (i.e. high) share price. It dates from January 1993, when we had a 1 for 100 share consolidation that increased our then share price from 77p to £77. Personal Assets had come to the market in September 1983 through a 1-for-30 rights issue by Atlantic Assets, another investment trust managed by our then managers, Ivory & Sime. The result had been that many small shareholders in Atlantic Assets had found themselves with minuscule holdings of Personal Assets, sometimes worth only a few pounds — scarcely worth holding, yet disproportionately expensive to sell.

One shareholder complained that his three daughters each held eight shares in Personal Assets, worth around £6 per daughter and paying dividends of around 13p — less than the cost of the stamp used to post the dividend cheque. Selling the shares would have cost more than the sale proceeds, so the shareholder wanted us to act. The Board decided on a 1-for-100 consolidation in which all holders of fewer than 100 shares (worth up to £77 on the old basis) would receive cash at close to NAV. This reduced the number of shareholders by around two-thirds, which not only meant significant economies in printing and postage but also, and more importantly for the future, sent out a message that Personal Assets was an idiosyncratic vehicle that wasn't intended as an investment for the smallest shareholders.

CAPITAL, NOT TOTAL RETURN

Personal Assets is also unusual in not having a total return objective. In the Circular to Shareholders in November 2012 setting out adjustments to our investment policy we clarified our objective thus:

'To enable us to concentrate on our primary objective of protecting and increasing the capital value of shareholders' investment in the Company, we do not seek to include the earning of any particular level of total return as an objective under the proposed investment policy.'

I maintain that total return has little relevance to the typical Personal Assets investor. It may be the industry way of *'keeping the score'*, but we are not particularly interested in keeping the score. Our aims are not relative (e.g. outperforming other trusts or outperforming an index) but absolute (to protect and increase, in that order, the value of shareholders' funds per share over the long term). Do *you* think about the total return on your own investments? I sometimes do and sometimes don't. If the time comes for me to make use of the Cash Withdrawal Option and opt for a regular cash payment consisting partly of dividends and partly of proceeds from the sale of shares, total return will have some relevance. Furthermore, many holders of ISAs and Investment Plans reinvest their dividends and for this reason we will always show total return figures in our Annual and Interim Reports. Our default objective, however, is the preservation of capital and accordingly the capital return figures are the ones we shall continue to highlight.

DIVIDEND FLEXIBILITY

Hand in hand with our deliberate lack of a total return objective is the flexibility as regards the dividend which shareholders sanctioned at the General Meeting in December 2012. In the Circular referred to above, we wrote:

'There is now a clear risk that the need to earn revenue to comply with the Company's dividend policy might require the Company to invest in a different way from that which the Board would consider best for capital preservation. Accordingly, the Board has concluded that in the current economic environment, in which interest rates have for some years been unprecedentedly low, sustainable dividend growth from equities is harder to come by and for reasons of capital protection the Board thinks it right to hold from time to time non-yielding assets such as gold, a policy of maintaining or growing the dividend in real terms may simply not be compatible with the Company's primary objective of protecting Shareholders' capital.'

Since then we have managed to maintain the dividend at the annual rate of £5.60, but it is becoming harder to do so as our revenue reserves dwindle, high quality income-producing equities are increasingly sought after and hence increasingly expensive, and interest rates remain all but non-existent.

Where do we go from here? The Board has yet to decide. The alternatives are to cut the dividend or to take powers to distribute a small element of our retained capital profits. We have always had reservations about the latter alternative. Paying dividends out of capital goes against the grain. In a sense, however, we — like many other trusts — have been doing this all along by drawing on revenue reserves (which, although they were originally received as revenue, are included in the net asset value) and apportioning part of our management costs to capital. The dividend is important to some shareholders and the sums are tiny in the wider context (£1 or £2 paid out of capital to maintain the dividend is no more than a typical day's movement in the share price). We would not draw on capital to increase the dividend, but might consider doing so to maintain it at its current rate while undertaking to make good the amount so distributed by rebuilding our reserves before sanctioning any dividend increase.

'Skiing Off-Piste'

Another distinctive feature of Personal Assets is our propensity on occasions for what I might call *'skiing off-piste'*. By this I mean investing in ways other than by straightforward stock selection in mainstream equity markets. We do this usually, but by no means invariably, for defensive purposes. Examples at different times have been our use of FTSE 100 Futures, our holdings of Index-Linked government stocks in the USA and the UK, and our exposure to gold bullion (doubters should note that despite the yellow metal's woeful recent performance we are still making money on our holdings of it).

Tied in to this investment approach is our decision to have not an investment benchmark but a comparator. Benchmarks can be tyrants, whereas comparators are candid friends and counsellors. Our choice of the FTSE All-Share Index as our comparator reminds us that we are naturally equity investors and that most of our shareholders are residents of the UK with liabilities denominated in Sterling, but our portfolio weightings are in no way correlated with those of the index.

Directors' Holdings

Life in the investment trust world is full of surprises. I had always thought that the Directors' personal shareholdings in Personal Assets would be seen as reassuring, so I was startled when a shareholder unhappy with our recent performance wrote to complain that the Directors and the Investment Adviser were obviously too rich to care about what happened to their own invested capital.

In my limited acquaintance with the super-rich, indifference to the fate of their invested capital is not prominent among their characteristics. And when I remember that my own initial stake in Personal Assets some thirty years ago was the equivalent of 50 of today's shares, I think not of thirty years of smug indifference to investment outcomes but of thirty years of hard work. The financial fate of the Directors depends to a large extent on Personal Assets' performance. This is not a guarantee of success, but it *is* a guarantee of diligence, hard work and attention to detail.

No Marketing, Good Service

Since we're not interested in increasing our size, we see no need to spend money on promoting ourselves through the use of PR agencies or other marketing organisations. But we do emphasise service to shareholders, which we don't subcontract but supply through our wholly-owned secretarial and administration subsidiary, Personal Assets Trust Administration Company ("PATAC").

PATAC was founded in 2010 with two objectives: first, to provide a top quality service to Personal Assets and its shareholders; and, secondly, to reduce the cost of providing this service by taking on other clients without putting at risk the achievement of the first objective. This strategy has proved successful so far and we look forward to adding a small number of new clients in the years ahead in order to reduce still further the net cost of these services to Personal Assets.

An Accessible Exit

When I started in the investment trust world in 1977 the curse of the closed-end fund was the discount, which in those days could be as high as 30% or 40% of net asset value. When Ian Rushbrook took over the management of Personal Assets in 1990 our discount was around 30%, and we decided we could not allow this to continue. First we provided an exit for a lot of small and unenthusiastic shareholders through the share consolidation in 1993. Next we started our zero charge investment plans, which created new demand for our shares, and then set our 'no discount' policy in stone once investment trusts were given the power on 8 November 1999 — which we dubbed 'Discount Freedom Day' — to buy back shares for cancellation or to hold in treasury through using retained capital profits.

Some people like discounts. They aim to make money by buying a trust's shares at a high discount and selling them when the discount is lower, so they see us as spoilsports. But for long-term holders who may need to realise their shares, the discount is a drawback. It means that when you sell your shares you have to give up for nothing some of the assets you own. We can't eliminate all risks, but the discount risk is one we have managed to eliminate.

Annual Reports

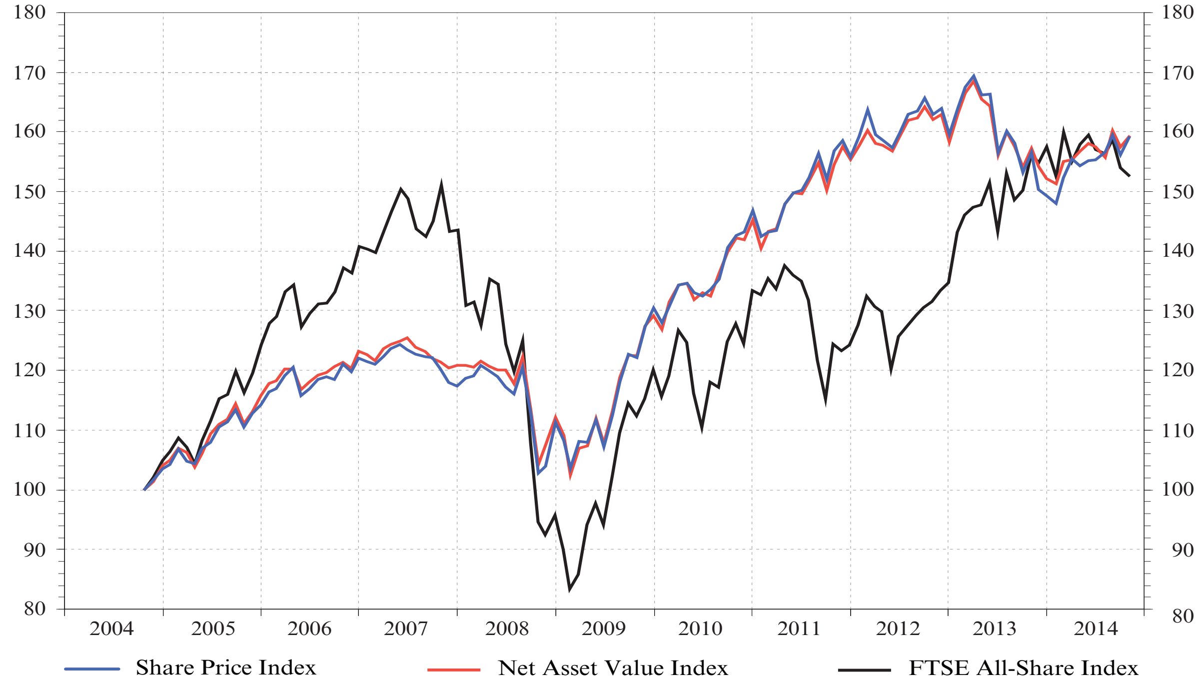
Annual Reports nowadays are drowning in a tsunami of well-meant verbiage. Recently a senior audit practitioner visited us to describe the glories of modern reporting. I told her that, despite the undoubtedly good intentions behind nearly four decades of tinkering, Annual Reports were less informative and useful to shareholders today than they were when I entered the investment trust world in 1977; and when she asked if she could quote me, I gave my permission with delight. Some sections of Annual Reports are now reminiscent of nothing so much as the scene in the Marx Brothers' *A Night at the Opera* where Groucho, as Otis P Driftwood, tells Chico, as Fiorello:

'The first part of the party of the first part shall be known in this contract as the first part of the party of the first part shall be known in this contract – look, why should we quarrel about a thing like this? We'll take it right out, eh?'

In the coming year we are therefore examining our Annual Report carefully, to see what (if anything) can be simplified or omitted as superfluous in order to make it easier to read. Don't raise your hopes too high, but we shall do what we can.

Robin Angus

Personal Assets Trust Performance



	Value 31 Oct 2014	Percentage Changes 1 Year	3 Years	5 Years	10 Years
Share Price	£342.00	1.6	1.5	30.0	58.7
NAV per Share	£338.99	1.3	3.2	29.8	58.9
FTSE All-Share Index	3,503.46	(2.3)	22.5	35.6	52.5
NAV relative to FTSE All-Share Index		3.7	(15.8)	(4.3)	4.2

Past performance is not a guide to future performance. The value of investments may go down as well as up and you may not get back the full amount originally invested.

Top 10 Equity Holdings

Company	Country	Sector	Valuation 31 Oct 2014 £'000	Shareholders' funds %
British American Tobacco	UK	Tobacco	27,716	4.7
Microsoft	USA	Software	23,086	3.9
Philip Morris	USA	Tobacco	22,032	3.8
Nestlé	Switzerland	Food Producer	21,608	3.7
Coca-Cola	USA	Beverages	21,198	3.6
Imperial Oil	Canada	Oil & Gas	19,394	3.3
Dr Pepper Snapple Group	USA	Beverages	17,806	3.0
Altria	USA	Tobacco	15,623	2.7
Sage Group	UK	Technology	14,494	2.5
Berkshire Hathaway	USA	Insurance	12,582	2.1
			195,539	**33.3**

Portfolio Analysis

	Valuation 31 Oct 2014 £'000	Shareholders' funds %
Equities	258,175	44.1
US TIPS	99,742	17.0
UK Index-Linked Gilts	27,486	4.7
Gold Bullion	58,311	10.0
UK Cash and Cash equivalents	108,527	18.5
Overseas Cash and Cash equivalents	33,489	5.7
Shareholders' funds	**585,730**	**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