Personal Assets Trust PLC

June 2015 — Quarterly Report No. 76

AGM and London Meeting

This year our Annual General Meeting will be held at 11 am on Thursday 23 July at The Roxburghe Hotel, 38 Charlotte Square, Edinburgh, EH2 4HQ. After the AGM there will be a Presentation by Sebastian Lyon, our Investment Adviser, followed by Questions and Answers and a light buffet lunch.

Our London Shareholder Meeting will take place the following day, at 9 am on Friday 24 July, at the Royal Institute of British Architects, 66 Portland Place, London, W1B 1AD, and will likewise consist of a Presentation by Sebastian followed by Questions and Answers and light refreshments.

You should have received an invitation for both these events along with the Quarterly and Annual Report. Alternatively, you can indicate on our website if you would like to attend either or both of them.

http://www.patplc.co.uk/

An Eventful Year

The Annual Report & Accounts of Personal Assets for the year ended 30 April 2015, which you will have received along with this Quarterly, contain an analysis of our recent performance and a discussion of the investment outlook. This leaves me free to deal with three subjects in the Quarterly, one concerning how the portfolio is managed and the other two being what might be called 'housekeeping matters'.

First there is the change made to the Articles of Association at the General Meeting held on 15 April, which gave the Company power to distribute realised capital profits as dividend, and its implications for the composition of the portfolio. Secondly, there are the improvements we have made to our Investment Plan during the past year to make it more welcoming and accessible and to take advantage of recent changes to the regulations governing Individual Savings Plans ("ISAs"). Thirdly, there are the changes we have made this year to the Annual Report & Accounts to get rid of clutter and make them easier to use.

Dividends and Total Return

The change to the Articles of Association solves once and for all a problem which had recently been taking up an increasing amount of the Board's attention — namely, that of how to keep faith with income-conscious shareholders by maintaining the dividend at the current rate without disadvantaging shareholders of all kinds, income-conscious or not, by restricting our investment flexibility or lowering the quality of the portfolio and hence putting at risk capital protection and capital growth.

Once we had set aside any preconceptions about the supposedly unbridgeable distinction between capital and income (something the Chairman and I have been campaigning about for many years, as Ian Rushbrook also did before his untimely death in 2008), the answer was plain. We had already established our willingness to distribute capital by being prepared to pay dividends partly out of revenue reserves. Extending the principle to paying out a small element of capital profits as dividend has provided us with a genuine total return solution to the dividend dilemma.

It does in a small way what the Cash Withdrawal Option in our Investment Plan has always done on a larger scale — paying out a percentage of the total return from a high quality portfolio rather than reducing the quality of the portfolio by buying into higher-yielding stocks in order to maintain the dividend from higher income receipts.

We can now maintain our annual dividend payment rate of £5.60 per share for the foreseeable future, and shareholders for whom it is a significant factor in their annual budgeting can rely on its regularity from now on. But to answer worries that such distribution of capital profits will harm our chances of protecting shareholders' funds in the longer term, we have made it clear that we intend to draw on capital profits only to maintain the dividend at the present £5.60 per annum, not to increase it.

Furthermore, unlike other trusts which have taken such powers we have undertaken to treat capital paid out as dividends as a temporary 'borrowing' from capital. Here I stress the word *'temporary'*. The present income drought cannot last for ever. As I emphasised in the last Quarterly, we look forward to when we are at last fully invested, interest rates are no longer at zero and we are drawing a higher income from our portfolio. Then if in future years we have earnings in excess of £5.60 per share the surplus will be used first to 'repay' the full capital amount distributed and then to rebuild our revenue reserves before we declare an increased dividend.

Portfolio Implications

What are the consequences of the change to our Articles of Association for our investment portfolio? At present there are very few. We have never managed the portfolio to maximise income at the expense of capital protection and growth. The change will, however, help us continue to avoid overvalued equities. We will also continue to be mindful of income when attractive opportunities present themselves, in line with our undertaking to replace the 'borrowing' from income as circumstances allow. Our recent addition to Philip Morris on a yield of over 5% demonstrates that discipline and we aim to make similar stock purchases on a significant market setback or if we see rotation out of our favoured holdings.

In the short term, our plan is to reduce further or sell out of a couple of investments where we have concerns about their ratings. Otherwise we are very happy with the long-term prospects of all the stocks we hold. In our view, the material risk to our stocks at present is valuation risk rather than earnings risk. We will continue to reduce holdings we believe to be fully valued, as we have already done with Altria and Dr Pepper Snapple in recent months. In terms of asset allocation, our equity exposure of around 40% will be reduced even more if we see a further market surge.

INVESTMENT PLAN CHANGES

The Company's Zero Charge Investment Plan was established in 1991 as part of our service to shareholders because the Board was strongly of the opinion that typical investors in Personal Assets would be interested in making use of cost-effective and tax-efficient ways of building up a stake in the Company. Over the years, the Investment Plan has been one engine of our hundredfold growth in market capitalisation from £6 million in 1990 to well over £600 million in 2015. By 30 April 2015 the Plan in its various categories accounted for 24.6% of the Company's issued share capital with a total market value of £150 million.

The Investment Plan has evolved over time, adapting to changing circumstances and new freedoms. Last year I reported that, following changes to the Cash Withdrawal Option, planholders wishing to draw a regular cash amount from their investment in Personal Assets through topping up dividends with the proceeds of the sale of shares can opt for a quarterly sum of £500 or more to be withdrawn instead of the original (and more complicated) system of specifying a required percentage 'yield'. This facility is also available to holders of Personal Assets ISAs and will, we expect, be increasingly useful to planholders as accumulated ISA funds come to be seen as a source of tax-free cash out of which to meet living expenses in later life. In the March 2015 Budget the ISA maximum allowance was increased to £15,240. This, along with the fact that a spouse's ISA fund is now transferable on death to the remaining spouse, means that a married couple can save £30,480 a year into a fund which is wholly free of tax on income and capital gains. (Please note that Direct Debits do not change automatically to reflect increases in the ISA limit and accordingly you must amend your Direct Debit to take advantage of the higher allowance.) It remains to be seen whether the post-election Budget on 8 July will make further changes to the ISA rules.

For reasons of cost, until this year we accepted only the maximum subscription for ISAs permitted by the regulations. The maximum level has, however, increased to such an extent that we have decided to make the minimum subscription for Personal Assets ISAs £5,000 annually, or £500 per month — the same as for the Single Investment Option and Monthly Investment Option within the Investment Plan. The Board felt that younger shareholders, in particular, would welcome this as a starting point in building up a stake in Personal Assets over the years.

REVAMPING THE REPORT

The expansion of our Investment Plan over the last quarter of a century has been a good thing. The same cannot be said of the expansion of our Annual Report & Accounts over the period. This has been not from choice but from bitter necessity, as legal and regulatory requirements have proliferated. The first Report & Accounts Ian Rushbrook and I produced were for the year to 30 April 1991, and at 24 pages they were less than half the size of 2014's 50 pages. (Had we wanted, we could have reduced them to a mere 16 pages by leaving out optional material.)

In 1991 there were only five Notes to the Accounts on two and a quarter pages compared to 18 on 13 pages of much smaller print in 2014, and the Report of the Auditors said everything one wanted to know in six lines of text. We are all familiar with the comparison between the 286 words of the Gettysburg Address and the alleged 26,911 words of the EU regulations on the sale of cabbages. But in my opinion the 1,715 words of the Statement of Directors' Responsibilities and the Independent Auditors' Report in the 2014 Report & Accounts say nothing more of real importance than does 1991's more easily intelligible Report of the Auditors at 94 words. (In fairness, and lest this be seen as a blanket criticism of the accounting profession, I should mention here the enthusiastic support we received from our Auditors in the present page-cutting exercise.)

HUTBER'S LAW

Here I think of Hutber's Law, articulated in the 1970s by Patrick Hutber, the great and much missed City Editor of the *Sunday Telegraph* during the years when I was emerging into financial consciousness between 1966 and 1979: *'Improvement means deterioration.'*

In 1991 we were able to include eight pages of additional relevant content whereas in 2014 we limited ourselves to a mere three pages of charts in order not to make the Report offputtingly unwieldy. No wonder I am glad to have the Quarterlies in which to write about matters more interesting than the 'boiler-plate' stuff which so often is to be found in Annual Reports.

My particular *bête noire* is the excruciating but mandatory note 13 on Financial Instruments, which I have only once seen surpassed as a series of statements of the obvious. This was by a book written by a former Professor of English at St Andrews which had become something of a cult classic among his students when I was an undergraduate there. He had been a keen officer in the Royal Naval Volunteer Reserve and the book was entitled *A Glossary of Shakespeare's Sea and Naval Terms including Gunnery*. It contained definitions such as, *'**sea:** the continuous body of salt water that covers the greater part of the earth's surface'* and *'**water:** the liquid of which seas, lakes, rivers are composed'*. Compared to this valuable information, one could almost welcome such platitudinous verbiage in note 13 as, *'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.'*

Just as it is very easy to explain the self-explanatory and say at great length what should go without saying, it is very easy to add things and expand things but much harder to prune or discard things. Sometimes, too, the original reason for including something can be forgotten, as in the story of Catherine the Great of Russia (1729-96) and the first snowdrop. It so delighted her that she ordered a guard to be posted there to protect it from being plucked. Legend has it that by the time of the Russian Revolution in 1917 a guard was still posted day and night at that spot, although noone could remember why.

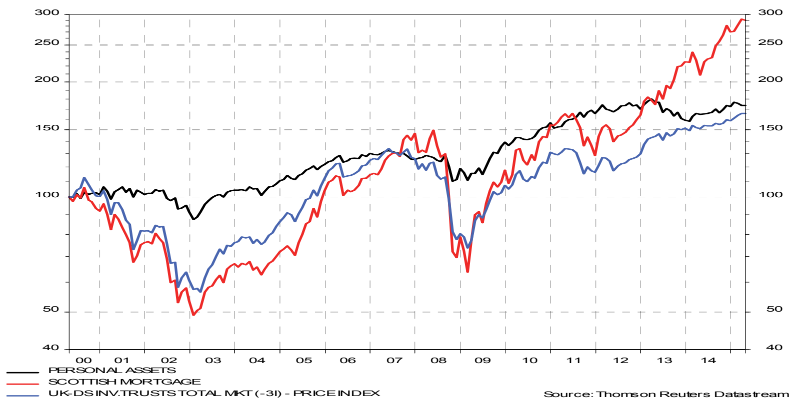
So what changes have we made? The Table of Contents has been replaced by the coloured tabs on the right hand side of the pages of the Report and the inside front cover of the Report now features a statement of objective and a chart of price performance versus the RPI since 1990, showing how we have protected and increased the real value of shareholders' funds since we became a self-managed trust.

Next come Key Features, which we amended last year the better to show the distribution of our portfolio. In its new form it enables the movements over time in our percentage stakes in Equities, US TIPS, UK Index-Linked Gilts, Gold Bullion, UK cash and cash equivalent and Overseas cash and cash equivalent be comprehended more readily, together with their relative importance. The Chairman's Statement and the Investment Adviser's Report are as before, and are designed to complement each other, the Investment Adviser concentrating on world markets and the portfolio while the Chairman focuses on more general matters and on issues which affect Personal Assets as a company.

The Strategic Report is intended to contain a fair and balanced analysis, consistent with the size and complexity of the business, its development and performance during the financial year and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties facing the Company. It replaced the Business Review in 2013 and is growing in importance in investment trusts' reporting; it may in due course absorb the Directors' Report, which is to be found later in the Annual Report & Accounts, on pages 21-23.

From page 15 of the Annual Report onwards (the beginning of the Notes to the Accounts) we have adopted a double column format. As in the case of newspapers, magazines and these Quarterlies, which have been in three column format since their inception in 1994, multiple column formats are typically easier to read as well as taking up less space. Throughout the Report & Accounts we have wherever possible adopted the principle of separating out the topical and newsworthy from what is merely background information, useful when needed.

Much of what is in the Notes to the Accounts is required information helpful to the diligent reader, but it's unlikely that many will turn to them with eager excitement. The same applies to the Notes to the Notice of Annual General Meeting. They, too, are necessary, but will affect few. As before, they are to be found at the end of the Report.



Emphasising Low Volatility

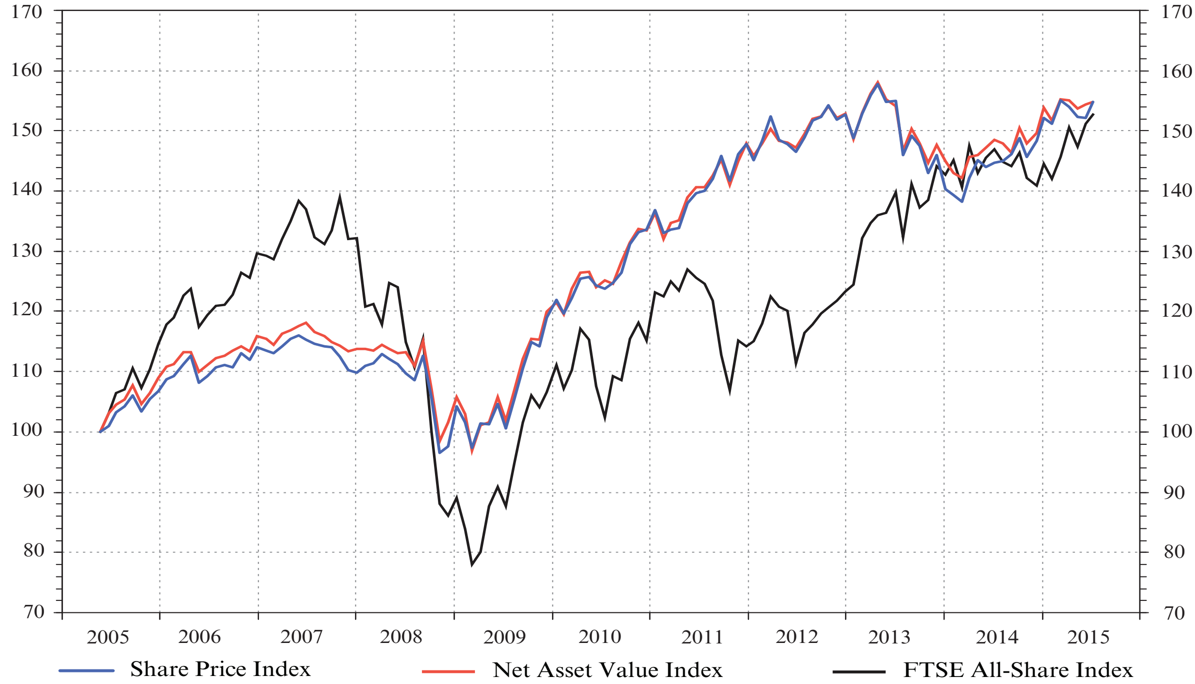
Perhaps the heart of the Report as it is now structured is the quartet of charts we introduced last year and which are to be found on pages 9 and 10. On page 9 are two ten-year performance charts versus our comparator, the FTSE All-Share Index, the top one showing price performance and the bottom one price total return.

The charts on page 9 are put into context by the two charts on page 10. The top one shows the pattern of performance over the years by means of which Personal Assets has succeeded in protecting and then increasing shareholders' funds — the underperformance (frustrating at the time) in rising markets contrasting with outperformance in falling markets, when we hold on to what Jimmy Gammell, our first Chairman, used to call our 'grubstake'. The bottom chart focuses on our low volatility compared to the All-Share and the 24 other trusts in the AIC Global Sector for which we have data, showing how we outperformed the All-Share over the period while being the least volatile of all the trusts surveyed.

It's rare for me to enthuse over charts, being someone who prefers words; but let me finish with a particularly interesting one contrasting the performance of Personal Assets with that of Scottish Mortgage (an investment trust to which we are still sometimes bafflingly compared by commentators on the sector, and which I have held in my own portfolio for a quarter of a century) and the UK Datastream Investment Trust Total Market Index (ex 3i) 2000-2015. It shows vividly how stable our performance has been compared to the huge swings of the other two. No, we are not exciting. But if I may without indelicacy paraphrase the words of Our Lord in Matthew 11:28, Come unto Personal Assets, all ye that labour and are heavy laden, and we will give you rest.

Robin Angus

Personal Assets Trust Performance



	Value 31 May 2015	Percentage Changes 1 Year	3 Years	5 Years	10 Years
Share Price	£357.00	7.0	5.7	24.7	55.1
NAV per Share	£350.73	4.2	5.1	24.9	55.0
FTSE All-Share Index	3,797.12	3.9	37.2	42.0	52.9
NAV relative to FTSE All-Share Index		0.3	(23.4)	(12.0)	1.4

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 May 2015 £'000	Shareholders' funds %
British American Tobacco	UK	Tobacco	28,177	4.6
Philip Morris International	USA	Tobacco	24,454	4.0
Nestlé	Switzerland	Food Producer	23,989	3.9
Coca-Cola	USA	Beverages	21,681	3.5
Sage Group	UK	Technology	18,150	3.0
Microsoft	USA	Software	16,460	2.7
Altria	USA	Tobacco	14,473	2.4
Dr Pepper Snapple Group	USA	Beverages	14,038	2.3
Imperial Oil	Canada	Oil & Gas	13,830	2.3
Becton Dickinson	USA	Pharmaceuticals	13,465	2.2
			188,717	**30.9**

Portfolio Analysis

	Valuation 31 May 2015 £'000	Shareholders' funds %
Equities	246,936	40.3
US TIPS	103,804	16.9
UK Index-Linked Gilts	28,158	4.6
Gold Bullion	62,431	10.2
UK Cash and Cash equivalents	134,843	22.0
Overseas Cash and Cash equivalents	36,504	6.0
Shareholders' funds	**612,676**	**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