

PERSONAL ASSETS TRUST PLC

NOVEMBER 2019

QUARTERLY REPORT N^o. 94

*'IT'S SQUEAKY BUM TIME!'*¹

Believe it or not, this was the inellegant remark that greeted me when I entered the office on the morning of Monday 28 October. It alluded to polling that was under way at the time, but although I'm writing the Quarterly in a Britain obsessed by political votes — a seemingly interminable series of Parliamentary divisions and now the third general election in five years — this is not about the General Election or Brexit. What I want to write about is voting by shareholders.

Few subjects are more mundane than this — or more important. Accordingly, however much you think the subject will bore you, please don't stop reading. Regular shareholder voting has been necessary to Personal Assets' development for decades and will continue to help determine its future.

A PLEA TO SHAREHOLDERS

Let me first stress that the Quarterly is addressed to all shareholders, whether institutional or individual, and wherever and however your shares are held. The Resolutions put to you at General Meetings affect you all. And the reason the Board is so anxious that we keep renewing our ability to issue new shares on a non pre-emptive basis is not just that letting the shares go to a large premium would be disadvantageous to regular investors. There's also the benefit that (assuming the number of shares in issue continues to grow) additional shareholder value is created twice: from the small premium to net asset value ("NAV") at which new shares are issued and the reduction in the Ongoing Charges Ratio

("OCR") resulting from the fact that many of our costs are fixed. (Buying back shares at a discount also increases the NAV, although the OCR may rise slightly.)

And now I make a plea to all our shareholders. If you are ever considering voting against any Resolution at a General Meeting, please engage with us first. Tell us what's worrying you, and we'll do our best to explain our thinking and spell out why the Directors, who are all shareholders themselves, believe the Resolution to be in the interests of all shareholders.

THE 75% REQUIREMENT

The problem arose most recently in the run-up to the General Meeting called to approve two Resolutions concerning the issue of new shares on a non pre-emptive basis, and the remark about '*squeaky bum time*' referred to the uncomfortably low percentage of votes that had so far been received in favour of the second of the two Resolutions.

Resolutions at General Meetings are of two kinds, Ordinary and Special. Ordinary Resolutions require at least 50% of the votes cast at the meeting to be in favour. Special Resolutions require at least 75%. This particular resolution was a Special Resolution and was necessitated by the small quantity of shares remaining available to be issued in response to demand from investors. Voting was to close that afternoon, and only just over 80% of the votes cast had been in favour. It looked as if we might lose the vote, or at least fail to gain over 80%. (*For the significance of the latter, see p. 2.*)

Why would losing the vote have mattered? Personal Assets' success over the last two decades has rested on two pillars — our conservative investment aim of protecting and increasing (*in that order*) the value of shareholders' funds per share

over the long term and our commitment, enshrined in our Articles of Association since 2008, to ensuring that our shares will always sell at close to NAV. The reliability of the second pillar depends on the Board's being able at all times to create or buy back shares promptly in response to changes in the level of supply and demand.

DOUBLE JEOPARDY

In principle there should be no difficulty about this. Personal Assets is run for private investors, and I have yet to hear such a shareholder complain about our elimination of the discount. There are some private investors who like discounts, arguing that selling at a discount is no big deal if you've bought at a discount in the first place, while buying trust shares means you buy a stream of dividends at a discount — a higher quality income stream than you'd get if you invested the same amount of money in the stock market directly. There's some truth in both these things. But with them comes a serious risk — what happens if the NAV falls and the discount rises simultaneously, gearing up your losses just when you would probably prefer to retrench?

Every trust sector veteran can recall times when falling markets and widening discounts brought two-fold pain. I'm especially conscious of this because of October 2008, when the market crashed and Ian Rushbrook, our Founder and Managing Director, died in the very same week. Without our discount and premium control mechanism ("DCM") and the market's belief in our determination to stick with it through thick and thin, Personal Assets might have been crippled or even destroyed. As it was, a few shareholders did want out but we were able to buy back their shares without any fuss or disturbance of the noiseless tenor of our way.

¹ The phrase is attributed to Sir Alex Ferguson, the celebrated former manager of Aberdeen FC, who later held a similar position with a club in the North of England. It refers to the tense final stages of a competition and alludes to the sound supposedly made by squirming in one's seat as one's team's fortunes wax and wane.

Increasing the size of the trust by issuing new shares helps reduce the OCR. Issuing shares at a small premium or buying them back at a small discount enhances the NAV. Neither of these, however, is the DCM's main aim. More important than either is that it prevents you from ever being trapped, or having to accept less than the full value of your investment. Personal Assets lets you get back the value of your holding on demand at any time.

WHAT THE DCM DOES

Our shareholders have made it clear to us that they *do* want to be sure they can realise NAV for their holdings or buy new shares at close to NAV at any time. There are a few institutional shareholders who vote against, but their opposition is often in response to a recommendation from a body such as Pensions & Investment Research Consultants Ltd ("PIRC"), a corporate governance and shareholder advisory consultancy which provides proxy research services to institutional investors on environmental, social and corporate governance ("ESG") issues. Recommendations applying to industrial companies are not always relevant to investment trusts, such as on pre-emption rights on the issue of new shares. The issue of new Personal Assets shares never causes financial dilution to existing holders. The reverse is true. It always adds value.

Investment trusts have long suffered from volatile discounts to NAV. Sometimes, too, the shares of individual investment trusts may sell temporarily at a significant premium to NAV. This can put regular investors at a disadvantage, because they may find themselves buying shares at a sizeable premium which almost certainly will not be sustained and which will therefore have an adverse effect on the return from their investment. In view of this, our policy is to ensure that our shares always trade at close to NAV through a combination of share buybacks and the issue of new or Treasury shares at a small premium to NAV where demand exceeds supply.

THE DISCOUNT IS VOLUNTARY!

It's 20 years ago this month that it first became possible to make such

a pledge — on 8 November 1999, Discount Freedom Day. Before that date, investment companies had been permitted to buy in their own shares for cancellation, but only by using revenue reserves. This, however, was never popular. Revenue reserves are usually tiny in relation to a trust's share capital but, given the importance of income to many private investors, they are invaluable for smoothing dividends. On Discount Freedom Day, however, an amendment to the rules relating to investment companies became effective, permitting an investment company to distribute capital profits by way of redemption or purchase of its own shares in accordance with section 160 or section 162 of the Companies Act 1985 without losing investment company status.

In my opinion, this was the best thing to happen to the investment trust sector since 1979/80, when exchange controls were abandoned and capital gains tax within trusts' portfolios abolished in the first year of Mrs Thatcher's rule. I can't say it too strongly: in the sector today, discounts (at least for trusts with simple capital structures and liquid portfolios) are voluntary.

THE DIFFICULTY ABOUT VOTING

Given that we've found that shareholders agree overwhelmingly that the DCM is in their own best interests, what's the difficulty? It's the same one that has dominated elections of all kinds ever since voting began — that of *'getting out the vote'*. It should be easier for limited companies than for political parties; most voting is by post or online. But online voting is no panacea. Some shareholders are not connected to the internet or, if they are, are not keen on using it. Moreover, some otherwise highly intelligent and competent people *'freeze'* when confronted with a communication about finance or investment. While we try to make Personal Assets as user-friendly as we can, the law and the regulatory system limit what we can do.

Part of the problem is because Alliance Trust Savings ("ATS"), our previous service provider, was taken over by another company, Interactive Investor, which has meant our having to get used to Interac-

tive Investor's different procedures as regards voting. If we were to maintain continuity of service it was essential for us to do this.

My advice is to give it time. Regulations and requirements which are designed to protect service users and are essential to the safe operating of the service nevertheless tend to be irritating if they are unfamiliar. Service users find it difficult to understand why something that has been working perfectly well has to be changed. But staying as we were was not an option, any more than when Halifax Share Dealing ceased to offer the services we wanted and we appointed ATS instead. I've recently been grappling with changes to the online banking service I use. The difference is that I can't live without online banking but can easily get by without online voting — until, that is, too many shareholders decide that they, too, can do without online voting and suddenly a resolution fails to be carried and a service is disrupted.

It's only human to hanker after the old ways of doing things. Some of us feel nostalgic about steam locomotives or the Book of Common Prayer, but although these may no longer be in universal use they can still be found by those who take the trouble to seek them out. It's not so, however, for those nostalgic for 5¼-inch floppy disks or Netscape web browsers. They have been superseded, and the old ways of running investment trust savings schemes have been superseded too. Yes, change can be a nuisance. But I'm determined to prevent a working model that has proved its value, and which benefits many, from being interrupted by something as avoidable as inertia about voting.

THE 80% EMBARRASSMENT

I mentioned earlier that there can be a problem if a resolution fails to achieve 80% of votes in favour, even if the 50% or 75% requirement is attained. This is not fatal in itself but it is an embarrassment and may indicate shareholder unrest and trouble to come. There are two relevant references in relation to significant votes against at General Meetings. The first is from the Corporate Governance Code and the second from the Investment Association Register:

- If substantial votes are received against a resolution there are certain disclosure requirements the relevant company has to follow. Under the UK Corporate Governance Code the company is required, where there has been a significant vote against a resolution, to state when announcing the results what action it intends to take to consult shareholders in order to understand the result. The Code stipulates that an announcement must be made for votes against in excess of 20%. The Board must then publish an updated statement within six months and a final update in its next annual report as to what impact the feedback has had on Board decisions on the matter.

- In addition, the Investment Association requires any FTSE All-Share constituent company that has experienced dissent at a general meeting above the 20% threshold, or withdrawn a resolution prior to a shareholder vote, to file this on a public register. Again the purpose of this is to record publicly what companies are doing to address shareholder concerns.

USE YOUR VOTES!

The level of voting for the October General Meeting was very disappointing. Only 22.5% of the possible votes on the second resolution were cast compared to 31.7% on the comparable resolution at the 2019 AGM. Even more concerning was that out of a possible 531,547 votes held through Interactive Investor a mere 28,867 shares (5.4%) were voted — doubtless because of the unfamiliarity of voting procedures following the changeover from ATS.

Throughout my career I've taken pride in working in a sector which is accountable to those it seeks to serve and which actively encourages them to engage with Boards, managers and fellow shareholders and stakeholders. They have a perfect right even to send rude letters or ask rude questions (and I've had a few of both in my time), because they own the company and are my employers as well as (I like to think) my partners. And remembering as I do the agitation in the 1970s to disinvest from Barclays, I'm not surprised to see the renewed emphasis on *'voting for*

causes'. Whether you are a dyed-in-the-wool climate change denier or a dedicated supporter of Extinction Rebellion, this heightened consciousness will affect you. To the shareholders of Personal Assets I therefore say:

Use your votes. Exercise your rights. Chuntering from a sedentary position (as Speaker Bercow would have said) is not a constructive approach.

VOTING ARRANGEMENTS

I asked my colleagues at PATAAC for a summary of the ways in which different types of Personal Assets shareholders can vote. They began by stressing that all the documentation we send to our shareholders encourages them to vote if possible. However, despite this, shareholder turnout at recent meetings remains worryingly low.

How a shareholder receives information in relation to the Annual General Meeting or any General Meeting convened by the Company and how a shareholder can attend and vote at any such meeting depends on how they hold their shares in the Company.

INDIVIDUAL CERTIFICATES²

If shareholders hold certificated shares on the main register, they will receive a form of proxy for use at the meeting along with the notice of the relevant meeting. Members who cannot attend the meeting to vote in person can appoint either the Chairman or another party as their proxy for the meeting.

A proxy can be appointed in two ways. First, the Company provides through Equiniti, its Registrar, online voting for all its shareholder meetings at www.sharevote.co.uk. Details of how to vote through the online system are included in the documentation sent to shareholders for the relevant meeting.

If, however, shareholders lack access to the internet or prefer to vote by post then a hard copy proxy form is also included with each

² Shareholders should be aware that there are considerable difficulties involved in trying to replace lost share certificates and that as a result holding shares in this form is losing popularity. I pine for the old ways and the old days, but have to admit that the new ways of doing things are safer. For further information, please feel free to contact us through our website or call the Shareholder Information line on 0131 538 6605.

mailing. The proxy form must be completed and returned to the Company in advance of the meeting. A reply paid envelope is also included with the documents to make this as simple as possible.

NOMINEE ACCOUNTS

The majority of private shareholdings are now administered through private wealth managers or other financial advisers or through one of the consumer platforms, e.g. Interactive Investor. This means that the shares are held through nominee accounts and as a result shareholders do not automatically receive documentation or have a right to vote at shareholder meetings.

The majority of platforms allow shareholders to vote through their own systems but each platform has its own requirements and it does involve some engagement from the shareholders themselves. For instance, Interactive Investor allows holders to receive shareholder documentation and vote through their electronic voting and information service within each customer's secure account. Shareholders who recently transferred to Interactive Investor from ATS should have had this feature automatically enabled where Interactive Investor holds a valid email address for the holder.

The AIC website provides more information on how to vote investment company shares held on platforms in order to assist investors (www.theaic.co.uk/aic/shareholder-voting-consumer-platforms).

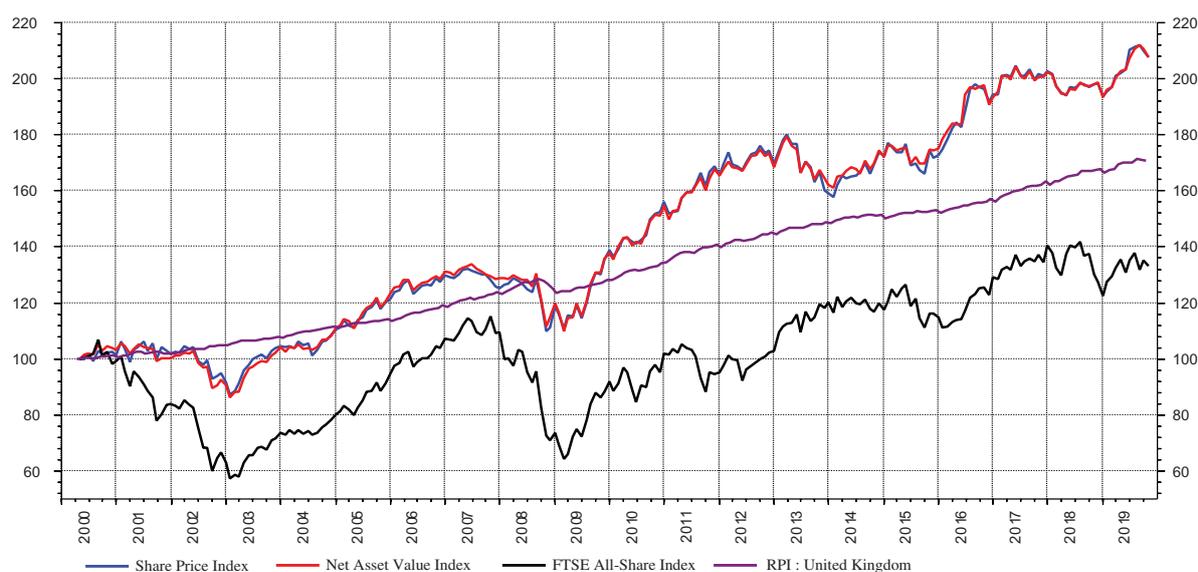
If shareholders hold their shares through a wealth manager or other independent financial adviser they need to contact them directly to ascertain how the shares are being voted on their behalf or how they can continue to vote at meetings on shareholder matters if they wish.

OUR MAILING LISTS

We have created a print mailing list to allow shareholders to receive hard copy Annual, Interim and Quarterly Reports (but not voting cards). We also maintain an online mailing list through our website which sends an email out when the Company publishes any update or the Annual Report. If you want your name added to either of these lists, please let us know.

ROBIN ANGUS

PERSONAL ASSETS TRUST PERFORMANCE



Source: Refinitiv Datastream

	Value 31 Oct 2019	Percentage Changes				30 Apr 2000
		1 Year	3 Years	5 Years	10 Years	
Share Price	£419.50	4.9	5.7	22.7	59.5	107.7
NAV per Share	£415.16	5.0	5.1	22.5	59.0	107.8
UK RPI	290.40	2.1	9.7	12.7	34.4	70.7
FTSE All-Share Index ("Index")	3,993.46	2.3	6.0	14.0	54.5	33.0
NAV relative to Index		2.6	(0.8)	7.5	2.9	56.2

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 2019 £'000	Shareholders' funds %
Microsoft	USA	Technology	47,095	4.3
Nestlé	Switzerland	Food Producer	32,760	3.0
Unilever	UK	Food Producer	30,846	2.8
Coca-Cola	USA	Beverages	30,339	2.8
British American Tobacco	UK	Tobacco	29,214	2.6
Philip Morris	USA	Tobacco	25,175	2.3
Berkshire Hathaway	USA	Insurance	20,931	1.9
American Express	USA	Financial Services	19,941	1.8
Procter & Gamble	USA	Household Products	19,860	1.8
Alphabet 'A'	USA	Technology	17,326	1.6
			273,487	24.9

PORTFOLIO ANALYSIS

	Valuation 31 Oct 2019 £'000	Shareholders' funds %
Equities	356,419	32.3
US TIPS	354,549	32.1
UK T-Bills	160,422	14.6
Gold Bullion	99,380	9.0
US Treasuries	37,557	3.4
UK Index-Linked Gilts	32,748	3.0
Cash and Cash equivalents	59,835	5.4
Property	1,628	0.2
Shareholders' funds	1,102,538	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.