PERSONAL ASSETS TRUST PLC

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‘Καὶ ἦν ἤδη ἐγγὺς ἡλίου δυσμῶν’

Fear not. There has been no computer malfunction. The quotation is from the original Greek of Plato’s *Phædo*, the dialogue in which he describes the death of Socrates, and may be translated as *‘and the sun was already beginning to set’*. As a schoolboy I thought the words so haunting and beautiful that I vowed to quote them if ever I had to write a letter of farewell. This Quarterly is not exactly a farewell, and my colleagues and friends assure me that my sun need not set for some time to come. But although my classical quotations, while delighting some, infuriate others, I hope that on this occasion even readers in the latter category will forgive me for fulfilling the vow I made to myself over half a century ago.

LEARNING FROM EXPERIENCE

What follow are some insights into the process of investment which I’ve gained in the course of my working life. Acquiring them has been at times fun and at other times painful, but my hope is they may be useful to those who come after me. I’ve attempted similar lists of insights in Quarterlies before, but they were always written from the point of view of someone involved in the investment management process and trying to choose among individual companies in Personal Assets’ universe. Here, however, I write purely as a private investor who invests mainly in investment trusts, and outline what I believe are some principles private investors would be well advised to adopt as regards their invested capital.

NOT THE TEN COMMANDMENTS

It’s hard to resist incorporating the artificial neatness of ten numbered points, but those which follow are not commandments in any sense. They are observations, hints and suggestions, nothing more.

1. Investment is not a hobby or a game. It’s grim reality.

Let me emphasise one thing above all others. While there is nothing wrong with having a flutter on a share you fancy with money you can afford to lose, and while those investors who are able to afford it will sometimes quite rightly set aside, say, up to 5% or 10% of their total capital for *‘a bit of fun’*, investing is not a hobby or game, whatever the sporting metaphors beloved of investment commentators may lead you to suppose. It is grim reality. Lose at golf or drop out of a race and you may feel disappointed. Make the wrong investment decisions and lose some of what have aptly been called your *‘sacred savings’*, and you may find yourself permanently poorer while your life choices will be fewer and less enjoyable.

2. Decide on your own definition of risk.

Lots of wealth managers and other investment advisers assign risk ratings to the funds they recommend. But there is no industry-wide consistency, so that what wealth managers like Middling & Co may call medium risk their competitors at Rash & Racy Ltd may consider low risk while those at Scrooge & McCanny call it high risk. What is an investor to make of it all?

My answer is that investors should decide on their own definition of risk, based on their financial aims and commitments, and rate potential investments accordingly. I know exactly what I mean by risk, and you’ll find the definition on page 6 of Personal Assets’ 2020 Report & Accounts:

‘Our definition of “risk” is fundamentally different from that commonly used by other global investment trusts and the industry at large (ours being “risk of losing money” rather than “volatility of returns relative to an index”).’

3. Begin by setting out your objectives. Why, and to what end, are you investing?

Do you want to accumulate a pension pot large enough to live off in comfort? Lend a hand with grandchildren’s school fees? Amass capital to leave to future generations? Or do you aim to do more cannily out of savings what equity release plans keep urging us to do with some of the equity in our houses – make home improvements, have special holidays or give a hand to cash-strapped adult children?

4. The desired outcome should determine the investment method and timescale adopted.

People interested in investment often look at stocks, shares and investment funds through the wrong end of the telescope. They surf the internet and read the weekend papers and the investment magazines, identify investments that look attractive and then commit some of their *‘sacred savings’* to them. This is like going into a supermarket and filling your shopping trolley with miscellaneous items that take your fancy, overlooking the necessity for buying things you really need and have put on your list.

There’s seldom any point in, say, buying sober blue chips in the hope of making a quick turn, or finding so-called *‘recovery stocks’* (which often don’t recover) and locking them away for 40 years. The first thing for investors to decide is what and when they want the outcome of their investing to be.

5. Find a manager you trust.

This is one of the hardest lessons to learn. Lots of people trusted Neil Woodford, and there was a huge amount of supporting evidence for their trust. But perhaps they didn’t spot that Neil Woodford himself had changed and was doing things in a different way.

You should never take for granted the permanence of a manager's views. Now that even Warren Buffett is buying the gold shares he despised, anything can happen.

Here I want to sound a warning against what sometimes seems the unduly cautious and even unhelpful advice from those who run and regulate the investment industry. Again and again we're reminded that *'past performance is not a guide to future performance'*. But past performance is usually the only objective evidence we have.

How on earth can you judge managers without looking at their past record and giving consideration to how they coped with past crises and exploited past opportunities? Their record is their CV. Nobody would appoint someone to a job without studying one of those very carefully. Choosing a fund manager to look after some of your *'sacred savings'* is no different.

6. Time permitting, READ. My preference is for journals like *The Economist* and the weekend *Financial Times*, rather than periodicals concentrating mainly on individual stocks.

On my first day as an investment apprentice at Baillie Gifford in October 1977 I was presented with a pile of books to read from the company library, including classics such as: *The Money Game* by 'Adam Smith'; *Do You Sincerely Want To Be Rich,* Charles Raw's examination of Bernie Cornfeld and Investors Overseas Services; and J K Galbraith's *The Great Crash.*

I was immediately hooked and I've been devouring investment books and journalism ever since. (Others would doubtless add webcasts and podcasts, but despite urgings from my colleagues I haven't got there yet.) It's rather like learning another language or reading books on travel – it gives access to a whole new world in which you rapidly learn to feel at home.

There's a wider aspect to this, too. Much has changed in the world in which we operate. One of the first things we turned to in the *Financial Times* in the 1970s was the column headed *'Men and Matters'*. No-one would think of calling it that now. During my apprentice years oil was king and I enjoyed following oil companies. Today's reluctance to invest in fossil fuels never even remotely occurred to me then. Times change and we change with them. Indeed, sometimes we can even help to bring about the changes ourselves.

It's important for investors to keep abreast of social and other changes which may affect markets. Whatever one's political views or prejudices may be, such changes are objective facts and have to be incorporated into investors' thinking. For instance, there was a time when I might have written off ESG (Environmental, Social and Governance) investing as a fad. How wrong I would have been. As Sebastian Lyon, our Investment Manager, wrote in his Troy Investment Report N°. 65, ESG is here to stay and will be increasingly influential on investment decisions. Evidence also suggests that it, just like gender diversity on Boards and within companies, can have a favourable impact on performance.

7. Use your common sense.

You can subcontract many things to an investment manager or adviser, but the one thing you must never subcontract is your common sense. I believe it's up to individuals to learn by experience, and as regards advertising and promotion I'm what might be called a *'full disclosure libertarian'* — tell the customers everything, then leave them to make their own minds up.

There's no excuse for swallowing uncritically everything you read in the papers about potential investments. Nor is there any excuse for leaving common sense outside the broker's or IFA's door when seeking investment advice. As my father used to say to me in my boyhood days:

'God gave you a brain. Use it.'

Do you believe everything someone selling a car or a new kitchen tells you, if it seems contrary to common sense? Of course not. So why do it when you're investing? And does it ever seem common sense to put all your *'life savings'* (that phrase beloved of the media) into a single high risk investment?

Something curious seems to afflict people who are otherwise intelligent and sensible when they are exposed to the high pressure selling of investments. I don't know how many of you remember the Barlow Clowes affair in 1988, but around 18,000 customers, on the recommendation of intermediaries, invested their money in what was essentially a *'bond-washing'* operation in which UK gilts were bought and sold in order to create tax advantages. I won't go into the scheme's investment flaws here, but perhaps it was the prominently displayed link with UK gilts that led investors to believe their money had been invested risk-free.

At the time, I wrote:

'Tell those eager buyers that water can go uphill, and they'd have laughed at you. Tell them you had a perpetual motion machine, and they'd have laughed all the more. Tell them they could invest in gilts, pay a hefty management fee and still get a yield higher than that on the gilts themselves, and they chorused, 'Where do we sign?'

Yes, Peter Clowes, the malefactor-in-chief of the whole enterprise, should have been ashamed of himself for devising a fraudulent product that grew into a Ponzi scheme, and he richly deserved the ten-year prison sentence he was given.[1] But a few, at least, of the customers should have been ashamed of themselves for falling for it, and the intermediaries who sold it to them should have been ashamed of themselves for recommending it.

Lastly, learn from your mistakes. They can teach you a great deal – more, sometimes, than you can learn from your successes. Remember Marconi? Yes, I held it in one of those fortunately long forgotten investment products called a Single Company PEP, and failed to follow it as closely as I should have done because I remembered the cash mountain of GEC and was dazzled by the glamour of Marconi's name. And there was Royal Bank of Scotland, which I invested in because I worked for it after it took over NatWest and I got shares in it in exchange for my NatWest holding. I then participated in its Save As You Earn Scheme and bought still more shares. Eventual-

[1] Three years later, he was imprisoned again for the somewhat more downmarket crime of fraudulently claiming Jobseeker's Allowance.

ly I sold the whole lot for what I thought was a rotten price, but after more than a decade the shares have never managed to stagger back to that price again. This taught me that even when you think it's too late to sell, it ain't necessarily so.

8. True and false diversification.

It is a truth universally acknowledged that diversification is a Good Thing. Spread the risk, and you diminish the risk. But spread the chances of reward, and you may diminish the reward. The ultimate diversified portfolio of UK listed stocks would be an index fund made up of the stocks in the FTSE All-Share, and I would find such a fund distinctly unappealing.

But the diversification I refer to applies to funds rather than their underlying stock portfolios. Investors who invest mainly through investment trusts will usually be more interested in diversification by manager, which brings me back to the need to find managers with whom one can feel comfortable.

And beware of investing with lots of managers all doing more or less the same thing. The disappointing record of value investing in recent years might be a warning here.

9. Indices are a potentially harmful distraction.

I'm glad to say that Personal Assets is not, and never has been, in the business of trying to match or beat an index. Its aim for the last 30 years has been much more basic than that. It is to preserve and, if possible, increase the purchasing power of its shareholders' funds per share. For example, over the ten years to 30 April 2020 our share price rose by 4.1% per annum compound, whereas the FTSE All-Share over that period compounded at only 1.3%. Had Personal Assets merely matched the FTSE All-Share over that period our share price at 30 April 2020 would have been £329 rather than the £433 it reached in reality.[2]

Indices are often skewed and unhelpful. They aim to measure how a market moves in its totality, even if there are some stocks and sectors included in that market that investors like ourselves wouldn't touch with the proverbial bargepole. I couldn't care less whether the money I originally invested in Personal Assets has beaten, matched or lagged an index. That wasn't my reason for investing in it. What I care about is that my money is as far as is humanly possible no more at risk than it was previously and has the same or greater purchasing power that it had at the time when I first invested it.

Learn from those older and more experienced than yourself. When someone made an arcane observation about the economy or the market, Bobby White, Chairman of Personal Assets 1994-2009, would often comment dryly:

'What's that got to do with the price of fish?'

I might ask a similar question about my invested capital. Will it buy me as much, or more, of the necessities of life as it did before? If it does, the funds I invested in will have been a success. If it doesn't, there are, to say the least of it, questions their Boards and investment managers must answer.

When a trust Director or Chairman says to me that *'it's all about performance'*, a little bit of me dies inside. To say *'it's all about performance'* is as inadequate as saying that navigation is all about latitude without longitude. What it's *'all about'* is performance *in the context of the degree of risk accepted in pursuing it.* Veteran readers of these Quarterlies may remember that (like a surprisingly large number of shareholders in Personal Assets) I'm also a long term holder of Scottish Mortgage. It's done me extremely well over the years, but sometimes it's been at the cost of heart-stopping temporary dips. So be it. I know what I bought, I know why I continued to hold it and I'm fully aware of why I hold it still.

10. Total return is what counts – as an approach to investing, rather than as a way of measuring performance.

At the heart of common sense investing is an understanding of total return – the fairest, truest and most helpful way of making the most of one's *'sacred savings'*. Here readers may pause in shock and disbelief, because I've often been scathing about or dismissive of total return as a way of measuring a trust's performance compared to its peer group. But this is not the kind of total return I'm concerned with here. Performance tables shed little light on a trust's broader progress, and while peer groups may be useful when discussing the performance of geographical or sector specialist trusts, trusts comparable to Personal Assets are few and far between. (I prefer to think of it as being in a peer group of only one.)

What I mean by the total return approach to investing is a recognition that capital and income are not irreconcilable opposites but complementary elements or aspects of an investor's pool of useable assets. At different stages of life investors regard the pool differently. During early to middle adulthood the emphasis will be on accumulating capital by saving out of income, reinvesting dividends and accepting some capital risk on the investment pool itself. As investors near retirement their appetite for capital risk is likely to diminish, and after retirement investors may decide that the time has come to start drawing on their capital.

How should you do this? One thing I would never do is sell my low-yielding core holdings and go hell-for-leather for dividend income.

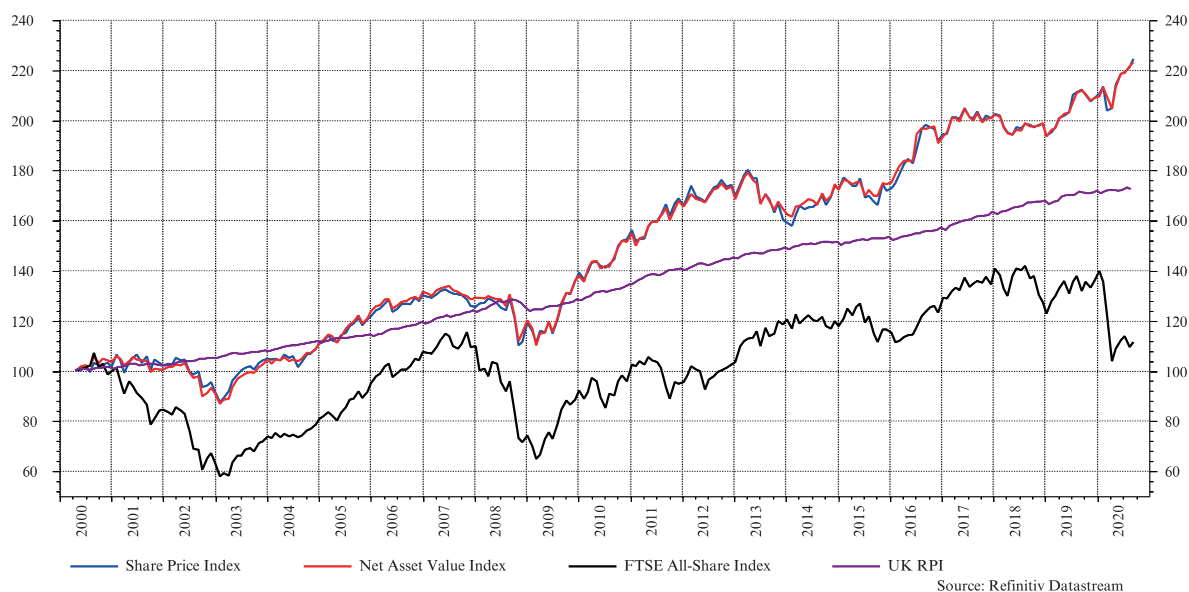
Money is money. Why is it thought acceptable to spend money that comes as dividends, even if those dividends are derived from unattractive high-yielding investments, but not acceptable to sell a similar amount of capital invested in a fund that has stood the test of time? Yes, Capital Gains Tax ("CGT") can be a pain, but (Rishi Sunak's forthcoming Budget permitting) most investors will be able to avoid paying it by making use of their CGT allowance and selling stocks held tax free in an ISA.

Throughout your life your *'sacred savings'* will have been the goose that laid the golden eggs. Don't kill the goose. Take great care of it – and continue to enjoy the eggs.

ROBIN ANGUS

[2] Another change in today's investment world is that compound interest at yields of 1% or below is no longer the sure path to riches that once it was. But compounding still works its magic when a well-run company that's mindful of its shareholders' interests reinvests its growing profits.

Personal Assets Trust Performance



	Value			Percentage Changes		
	31 August 2020	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**30 Apr 2000**
Share Price	£453.50	5.8	10.3	34.0	55.7	124.5
NAV per Share	£446.03	5.3	10.1	31.4	53.6	123.2
UK RPI	293.30	0.5	6.8	12.9	30.6	72.4
FTSE All-Share Index ("Index")	3,342.44	(15.4)	(17.9)	(2.7)	23.9	11.3
NAV relative to Index		24.5	34.1	35.0	24.0	100.5

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 August 2020 £'000	Shareholders' funds %
Microsoft	USA	Technology	74,432	5.7
Alphabet	USA	Technology	53,416	4.1
Nestlé	Switzerland	Food Producer	49,959	3.9
Unilever	UK	Food Producer	49,735	3.8
Philip Morris	USA	Tobacco	41,300	3.2
Visa	USA	Financial Services	38,675	3.0
Medtronic	USA	Healthcare	33,684	2.6
Diageo	UK	Beverages	32,950	2.5
British American Tobacco	UK	Tobacco	28,262	2.2
Berkshire Hathaway	USA	Insurance	27,986	2.2
			430,399	**33.2**

Portfolio Analysis

	Valuation 31 August 2020 £'000	Shareholders' funds %
Equities	552,217	42.6
US TIPS	350,952	27.1
UK T-Bills	165,990	12.8
Gold Bullion	124,797	9.6
Cash and Cash equivalents	100,742	7.8
Property	1,816	0.1
Shareholders' funds	**1,296,514**	**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.