



Quarterly Report

January 2021

Our policy is to protect and increase (in that order) the value of shareholders' funds per share over the long term.

Two Sides of the Same Coin

2020 will be remembered by investors as an extraordinary and turbulent year. Investment markets have had a rollercoaster ride from ecstasy to agony and back again. For the UK, it started with optimism following December 2019's General Election and the ensuing anticipation of a resolution to Brexit. Any such hope was swiftly overshadowed by the unfolding of the global pandemic with consequent, precipitous falls in stock markets, the most severe in a decade. Remarkably, the year managed to go out on another wave of optimism. Vaccine announcements in early November provided a line of sight to a post-pandemic world, and the prices of equities rallied in response. A frenzy of speculation, reminiscent of 1999, took hold in some parts of the US stock market, with vertical share prices cheered on by enormous retail investor participation. Working from home has, it seems, fostered a perfect environment for day-trading and tip-sharing but in lieu of the 'chat rooms' of the 1990s, speculators congregate on Twitter and TikTok.

Against this memorable backdrop, Personal Assets Trust returned a satisfactory +7.6% for the calendar year, which compares to the FTSE All Share Index (TR) return of -9.8%. This is marginally behind of the long-term annualised return of +8.2%¹ since Troy was appointed Investment Adviser² to the Trust in 2009. Perhaps most importantly, this return was delivered with less than half of the volatility of the market,

providing our investors with a more comfortable ride. For us, 2020 was not so much a game of two halves but rather a solid three quarters followed by a dull final one in which markets were buoyed by a 're-opening trade' and a rotation into more economically-sensitive stocks. 2020 reflected two sides of the same coin of our investment process: in our endeavour to generate absolute returns without taking undue risk, we avoid investing in the more cyclical and speculative parts of the market. This protects investors from the worst of the stock market's downdrafts. It will also lead to periods, like the fourth quarter, when the market performs very strongly and our companies track sideways.

With so many comparisons available, we choose to invest on our own terms, in our own way. We do not see ourselves as part of a talent contest but choose to take below-average risk, rather than that which is dictated by an equity index or peer group. In this we acknowledge we may be out of tune with the market periodically.

Remote Learning

Whilst we are mindful that dwelling on the past can also result in drawing the wrong conclusions, we are keen to learn from our experiences. 2020 reinforced to us the value of liquidity. An ample cash balance going into the crisis enabled us to add decisively to our equity exposure, buying more of the companies we like at lower valuations, while others were selling. We retain a healthy amount of liquidity going into 2021.

¹ Share price total return.

² Troy was appointed Investment Manager to the Trust on 1st May 2020.

There are always things we could do better. Whilst our long-term approach enabled us to maintain a focus on the future when adding to shares in durable businesses in February and March, we demanded a greater margin of safety from share prices before moving our equity allocation up further. Unlike the financial crisis, when valuations were permitted to trough lower before central banks intervened, this bear market was put to an end as soon as it started. The valuations investors are willing to ascribe to future earnings in such an uncertain world has surprised us. This level of confidence existed before the pandemic but share prices are now turbo-charged by lower discount rates. The long-term macroeconomic outlook is consistent with a sustainably lower risk-free rate but we remain open-minded as to where the equity risk premium ends up.

A universal lesson to be taken from 2020 is how difficult it is to forecast the future. Does that mean one should not try? The beginning of the new year brings out all sorts of soothsayers speculating about market levels (normally up) and Treasury yields (also up). These forecasters are clearly undeterred by having last year's predictions quickly cast aside by the pandemic. The pandemic put paid to prognostications with the UK and US stock markets falling -35% within weeks of the New Year. Moreover, whereas the hardest-hit, more cyclical stocks usually lead the rebound, this time around it was higher-quality business, and technology in particular, performing well in the rally. Pandemic-hit sectors such as airlines, hospitality and retail failed to fully recover, all hit from closures and weakness in economic growth.

A year ago, many predicted a resurgence for the UK stock market after it had lagged the US for several years. It certainly felt like the UK deserved a break, but any optimism proved short-lived with material capital losses and widespread dividend cuts. As investors are so often warned in the disclaimer, *"your income and your capital is at risk"*. The pandemic

exposed companies that were over-distributing unsustainable dividends. 2021 may bring a recovery for UK stocks and yet we suspect there are structural as well as cyclical factors at work. The constituents of the European and UK markets differ materially from the US where significant value has been created over the past two decades, driven in large part by technological innovation. This structural advantage is reflected in Personal Asset Trust's large allocation to US-domiciled, multi-national companies.

Three Risks

Some risks are easier to mitigate than others. A lesson of the past year is that exogenous threats, like that of the pandemic, can rarely be planned for or predicted by investors. In contrast to the Financial Crisis, where certain signs of dislocation were evident in 2007, the pandemic arrived with little notice. Whilst governments and health bodies would have done well to heed the warnings of high-profile luminaries like Bill Gates, it would have been difficult for investors to pandemic-proof a portfolio several years in advance.

We can, however, endeavour to mitigate risks of a more recurrent nature and, in so doing, we protect ourselves from events we cannot foresee. The first of these recurrent risks is business risk. We focus on owning companies that are resilient and adaptable, generating predictable and recurring revenues from a variety of essential activities including indispensable business software or everyday branded consumer goods. The companies in our investment universe have tended to endure economic dislocations with admirable resilience. This does not mean that their share prices will be immune when markets fall, but their resilient profits and dividends mean that their share prices tend to fall far less than those in more cyclical or asset-intensive sectors. The consistency of our favoured companies also makes them easier to buy with conviction in times of wider distress.

Beyond the cyclical gyrations, we seek to ensure that our companies are well positioned to navigate secular economic change. In recent reports we have emphasised the intense challenges facing certain sectors. There are businesses that may struggle to maintain decent financial productivity beyond the immediate recovery. We suspect, despite the recent snap back in share prices, that they remain susceptible to technology-driven disruption, with pressures set to intensify over the next decade. For this reason, our bottom-up stock picking remains focused on companies which are highly adaptive with long-term sources of growth and durable competitive advantages. When it comes to the 're-opening trade', a number of our companies are well-placed. In payments, Visa and American Express will see volumes bounce back with the recovery in international travel. More importantly however, these are highly profitable businesses on the right side of technological change. As consumer, business and government payments digitise, the card companies will be among the major beneficiaries.

The second risk is financial risk. The pandemic exposed those companies with weaker balance sheets. We have always been sceptical of companies requiring leverage to boost returns. *Figure 1*, on page 5 below, demonstrates the painful drawdowns (and more recent recovery) of the weakest US corporates. While the equity of 'AAA' and 'AA'-rated companies proved the most reliable, weaker balance sheets fared less well. In seeking to provide our investors with lower drawdowns we have always preferred the financially prudent. It was pleasing that none of our holdings in Personal Assets Trust raised new equity in 2020, thereby not diluting our long-term interest. Their financial capacity allowed them to invest through the downturn and emerge stronger with improved prospects for growth.

The final risk is valuation risk. We have written in the past about the ongoing debate in our industry between 'value' and 'growth' investing. The reality is more nuanced and less binary than

the prevailing narrative would suggest. A low price/earnings ratio, more often than not, informs an investor about an asset's business risk rather than providing any guide to its value. Stocks with very high dividend yields may well be rewarding shareholders too richly at the expense of growth, jeopardising the sustainability of the cash flows required to fund their pay-outs. Such companies are often wasting assets as value drains away from the business. Expectations for reversion to the mean, and the stable equilibrium they can imply, are often too simplistic. Value is a moveable feast – every year companies are becoming more or less valuable depending on their performance. This is not limited to measurable financial metrics such as revenues, profits and dividends but extends to softer, intangible aspects of corporate performance such as corporate culture, reputation and brands.

The much-cited concept of 'intrinsic value' implies a precise number, with any discounts from said value supposedly providing investors with a quantifiable margin of safety. However, valuation is not a science and an overreliance on models can create an illusion of certainty. For us, the first step is to identify uniquely profitable business models and to understand how they make money. It is only once we have appreciated the competitive advantages underpinning the durability of those cash flows that we can begin to ascribe a value to them. We use a variety of measures, acknowledging that no single metric is infallible, with a view to understanding the assumptions currently reflected in the share price. 2020 demonstrated that myopic valuation metrics, looking a single year out, are unhelpful in isolation and at worse can lead to a false sense of security when buying weaker businesses. Much more important is endeavouring to understand the likely drivers of a company's success over the coming years, and its resilience to bouts of turbulence in the meantime. We have never used price targets for buying and selling shares, preferring objectivity to exactness. Time is kind to the best businesses but unforgiving if value is ebbing away.

Occasionally it is useful to be reminded that share prices are merely the result of an agreement between a *marginal* buyer and seller. This does not mean the market is always right or that the price signals are always an accurate reflection of value. Quite the contrary. We seek to avoid wasting assets as well as speculative valuations, contingent on high growth in unproven cash flows. Vertiginous share prices should give the prudent vertigo, not 'FOMO'.

Outlook

It is important to recognise that while markets have been bailed out once more by policy makers' largesse, profits in aggregate have fallen and valuations have risen. A strong economic recovery is required to justify where we are today. There's many a slip between cup and the lip and we are unnerved by a growing narrative that valuations no longer matter. Equities were not particularly cheap going into the pandemic and they are no better value today. This explains our current asset allocation, following the strong rally in recent months.

Troy team, Investment Managers to PAT

We are pleased to report that Troy's business remains stable. Staff turnover across the firm is very low and our investment team of 14 has had no changes since the arrival of Aniruddha Kulkarni, as an Investment Analyst, in January 2020. For the past year we have worked remotely. The company made this unexpected transition with ease which is testament to the investments we have made in technology and people over the last few years. This is not to say that this situation is ideal. Zoom calls are no substitute for interacting naturally with colleagues and clients in the office. We look forward to returning to the office when we are permitted, at the same time retaining a greater appreciation for our ability to work flexibly and the benefits that this can provide.

We wish our investors a healthy 2021.

Sebastian Lyon

January 2021

Investment Manager of Personal Assets Trust

Founder & Chief Investment Officer of Troy Asset Management

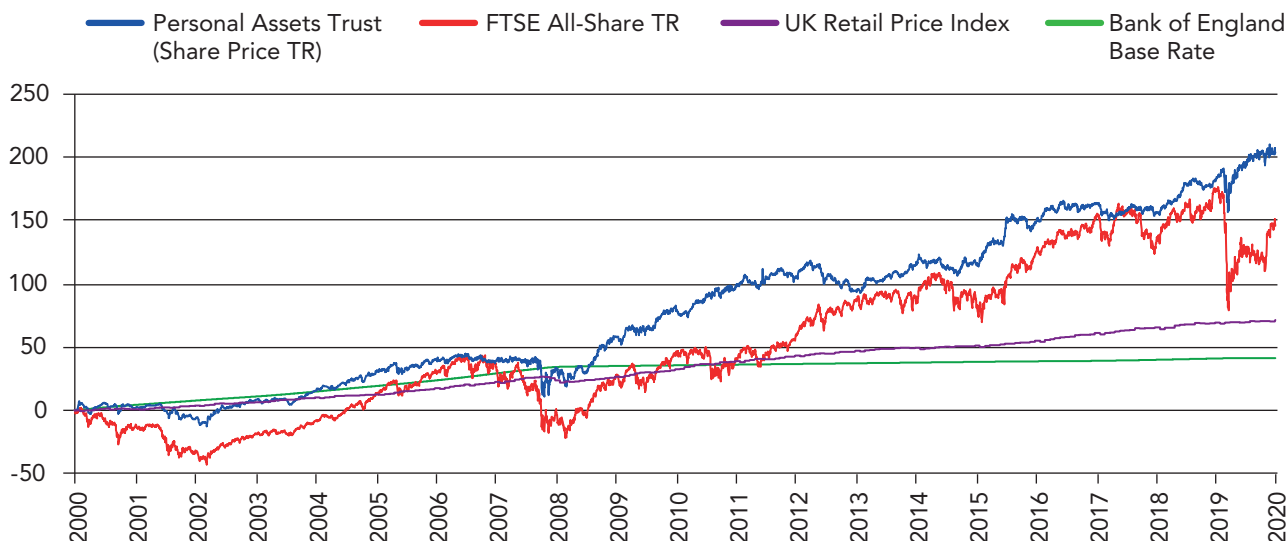


PERSONAL ASSETS TRUST PLC

As at 31 December 2020

| | |
|--------------------|--------|
| Share Price (£) | 453.50 |
| NAV (£) | 447.75 |
| Premium/Discount % | +1.3 |
| Market Cap (£) | 1.38bn |
| Shares in Issue | 3.1m |

Percentage Growth from 31/12/2000 to 31/12/2020



Source: Lipper

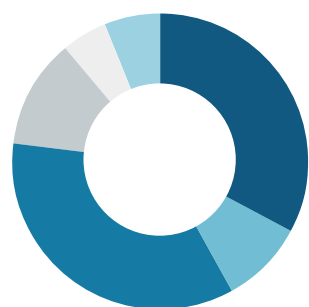
Past performance is not a guide to future performance

| Total Return to 31 December 2020 | 31/12/00 20 years | 31/12/10 10 years | 31/12/15 5 years | 31/12/17 3 years | 31/12/19 1 year | 30/06/20 6 months |
|--|----------------------|----------------------|---------------------|---------------------|--------------------|----------------------|
| Personal Assets Trust (Share Price TR) | +204.2% | +67.8% | +39.2% | +15.3% | +7.9% | +3.0% |
| UK Retail Price Index | +71.5% | +29.3% | +13.4% | +6.2% | +1.2% | +0.9% |
| FTSE All-Share Index (TR) | +146.3% | +71.9% | +28.5% | -2.7% | -9.8% | +9.3% |

Source: Lipper

Past performance is not a guide to future performance

Asset Allocation



| | |
|------------------------|-----|
| ■ International Equity | 33% |
| ■ UK Equity | 9% |
| ■ Fixed Income | 35% |
| ■ Gold Related | 12% |
| ■ UK T-Bills | 5% |
| ■ Cash | 6% |

Source: Factset, Asset Allocation subject to change.

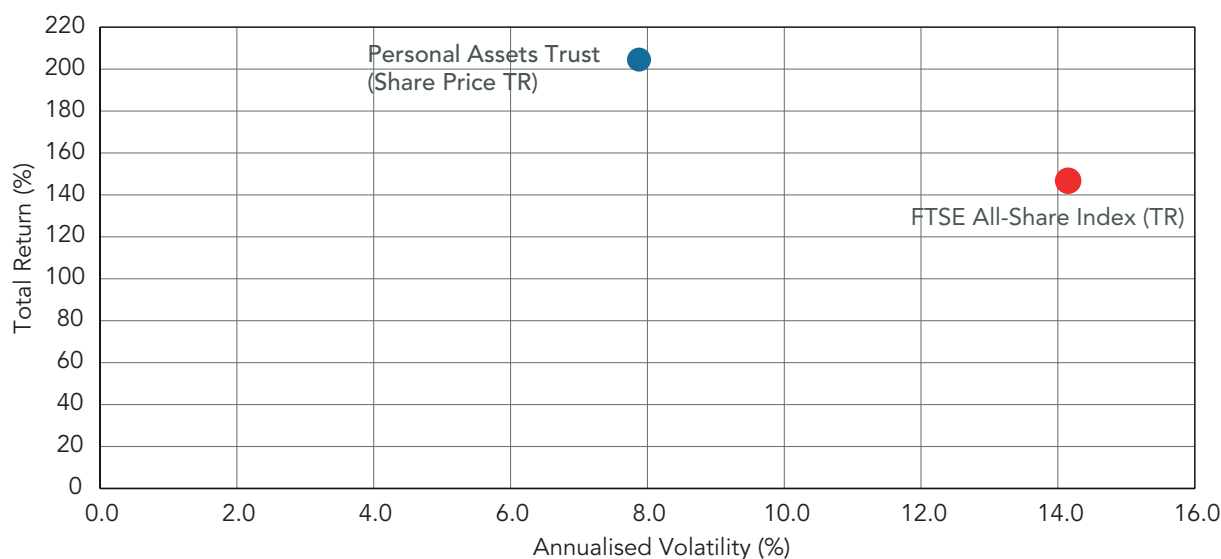
Top 10 Holdings

(exc. Government Bonds)

| | % Trust |
|-------------------------|--------------|
| Gold Bar | 9.4 |
| Microsoft | 5.1 |
| Unilever | 4.1 |
| Alphabet | 4.1 |
| Nestlé | 4.0 |
| Philip Morris | 3.5 |
| Medtronic | 3.1 |
| Visa | 3.0 |
| Diageo | 2.7 |
| American Express | 2.5 |
| Total Top 10 | 41.5 |
| 7 Other Equity holdings | 12.4 |
| Index Linked Bonds | 35.0 |
| UK T-Bills | 5.2 |
| Cash | 5.9 |
| TOTAL | 100.0 |

Source: Factset, Asset Allocation and holdings subject to change.

Risk Analysis from 31/12/2000 to 31/12/2020



Source: Lipper

Past performance is not a guide to future performance

Risk Analysis since 31 December 2000

Personal Assets Trust (Share Price TR)

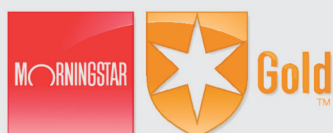
FTSE All-Share Index (TR)

| | | |
|------------------------------------|---------|---------|
| Total Return | +204.2% | +146.3% |
| Max Drawdown ¹ | -23.5% | -45.6% |
| Best Month | +6.9% | +12.7% |
| Worst Month | -7.8% | -15.1% |
| Positive Months | +62.5% | +57.9% |
| Annualised Volatility ² | +7.9% | +14.1% |

Source: Lipper ¹ Measures the worst investment period ² Measured by standard deviation of annual returns

Past performance is not a guide to future performance

Fund Manager Awards



Structure

London Listed Investment Trust

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Sebastian Lyon

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Charlotte Yonge

AIFM

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Board of Directors

Iain Ferguson CBE (Chairman)
Mandy Clements
Gordon Neilly
Paul Read
Robbie Robertson
Jean Sharp

Currency

£ Sterling

Established

22 July 1983

ISIN SEDOL

GB0006827546
0682754

Ongoing Charges (30 April 2020)

0.73%

Year End

30 April

Pricing

Share price is listed daily in the FT

Auditor

PricewaterhouseCoopers LLP

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