Stewart Investors
Sustainable Funds Group

Pacific Assets Trust plc

Quarterly Shareholder Update

Q3

1 July - 30 September 2020

Image location: Saha-gu, Busan, South Korea

Risk Factors:

This document is a financial promotion for Pacific Assets Trust plc (the “Trust”) only for those people resident in the UK for tax and investment purposes.

Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Emerging market risk:** Emerging markets tend to be more sensitive to economic and political conditions than developed markets. Other factors include greater liquidity risk, restrictions on investment or transfer of assets, failed/delayed settlement and difficulties valuing securities.
- **Specific region risk:** investing in a specific region may be riskier than investing in a number of different countries or regions. Investing in a larger number of countries or regions helps spread risk.
- **Currency risk:** the Trust invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Trust and could create losses. Currency control decisions made by governments could affect the value of the Trust’s investments.
- **The Trust’s share price may not fully reflect net asset value.**

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

All information included in this document has been sourced by Stewart Investors and is displayed as at 30 September 2020 unless otherwise specified and to the best of our knowledge is an accurate reflection as at this date.

For an overview of the terms of investment, risks, returns, costs and charges please refer to the Key Information Document which can be found on the Trust’s website: www.pacific-assets.co.uk

If you are in any doubt as to the suitability of the Trust for your investment needs, please seek investment advice.

Contents

Investment objective

The investment objective of the Trust is to achieve long-term capital growth through investment in selected companies in the Asia Pacific region and the Indian Subcontinent, but excluding Japan, Australia and New Zealand (the 'Asia Pacific Region'). Up to a maximum of 20% of the Trust's total assets (at the time of investment) may be invested in companies incorporated and/or listed outside the Asia Pacific Region (as defined); at least 25% of their economic activities (at the time of investment) are within the Asia Pacific Region and this proportion is expected to grow significantly over the longer term.

Through the Looking-Glass

Disbelief.

> "So if I understand correctly, you're saying your business model is based upon buying the rights to products that have been banned in Europe for safety and environmental reasons, and selling those same products into Asian countries which have yet to ban them?"

The CEO nods enthusiastically. "Exactly!" He leans forward. "Environmental arbitrage! So long as they are legal in one or more countries, there is value left in them."

More disbelief. It's 2020. How is this still happening? This is a company which easily accesses society's savings via the stockmarket. There is plenty of disbelief still to be had elsewhere among listed Asia Pacific companies. The power generation company which attributes its success to "not letting the women in." The mining company whose dam collapsed, killing 19 people and polluting almost 700km of watercourses.

All are the easy recipients of society's capital. Why?

In the sequel to Lewis Carroll's 'Alice in Wonderland', Alice climbs 'Through the Looking-Glass' and finds another fantastical world, absent of reason and where everything is reversed. Time moves backwards. Events can be remembered before they happen. The right foot belongs in the left shoe. This crisis of logic is all too evident when investing in Asia Pacific.

As the Red Queen says to Alice, "it takes all the running you can do to keep in the same place." Sustainable investment in Asia Pacific is running hard now, but the goal seems to be getting further away. Rather than losing their licence to operate, such companies are having little difficulty accessing equity markets. Why?

Short-termism has for some time now been the prime suspect. As the investment industry has given way to the speculation industry, there is less emphasis on understanding long-term risks and opportunities and more focus on next quarter's results and a quick trading profit.

But perhaps there is another, more fantastical culprit lurking in Alice's Financeland in the shape of 'metric fixation.'

Jerry Muller defines metric fixation as 'the aspiration to replace judgement based on experience with standardised measurement'. Metric fixation would be at home in Alice's Looking-Glass world. An 'upsidedownbacktofront' idea that wreaks havoc wherever it goes. Muller notes the damage wrought by metric fixation across all aspects of society from academia to policing to healthcare. So too with Asia Pacific investing.

Metric fixation must itself share some of the blame for short-termism. The obsession with performance-related pay based on short-term measurable outcomes has been a major contributor to shrinking time horizons of both companies and investors.

Metric fixation has also been instrumental in the relentless drive towards passive investment. Currently an estimated US$3.75 trillion[1] of society's savings are allocated passively to listed companies, based not on human judgement but rather on inert quantitative models. Before long, passive investment will be the primary means by which capital is allocated to listed companies in the Region.

The journey towards passive capital allocation has been a long and winding one, but its origins lie less in the search for cheaper costs and more in the desire to quantify and model investment risk. Metric fixation. The real risk of losing money from owning shares is complex and requires subjective judgement. But that is hard to model or count. Instead, the rise of metric fixation has led to the invention of benchmark risk.

Benchmark risk is another wonderful Alice character. It makes no sense. Why would losing 40% of an investment, but still outperforming an arbitrary index, be a good outcome? The closer a portfolio is to the index and some of its dubious constituents, the less 'risky' it becomes – and for as long as the industry continues to define risk in terms of deviation from arbitrary benchmarks, the outcome is an inexorable move towards passive investment.

And passive investment matters.

According to the WHO, tobacco kills more than one million Indians each year, accounting for 10% of all deaths in the country[2]. More than the global deaths from COVID-19 to date. Each year. So why does India's largest tobacco company, with a market share of over 70%, have such easy access to society's savings? With a market capitalisation of over US$30bn, its largest underlying shareholders are all passive funds. Why would society choose to allocate so much capital passively to a company that poses such health dangers? Looking-Glass absurdity.

Why isn't the move towards sustainable investment in Asia Pacific counterbalancing this? Here too, metric fixation is causing trouble.

The obsession with quantifying Environmental, Social & Governance (ESG) is proving particularly challenging. Looking-Glass illogic is rife. The worse the company's real sustainability impact, often the greater the likelihood of a high ESG score. India's leading tobacco company has an AA ESG ranking and sits near the top of at least two ESG benchmarks, courtesy of its size and its sizeable ESG reports.

It is not just ESG scoring where metric fixation has warped the outcomes. Sustainable Development Goals (SDGs) mapping makes little sense but is fast becoming the norm. The Asian group hoping to source coal from a new mine next to the fast-bleaching Great Barrier Reef map themselves to the Education, Health and Sustainable Cities SDGs.

The requirement to quantify the impact of investor engagement with companies is also nonsensical. Improving access to affordable medicines. Phasing out toxic chemicals. Encouraging greater board diversity. Increasing tax rates. Improving working capital for smallholder suppliers. More governance checks and balances. Engagement success in these areas usually takes years and can rarely, if ever, be attributed to one actor. Even when it can, putting a dollar price on such qualitative aspects of impact is as nonsensical as the Looking-Glass Jabberwocky.

If metric fixation is a problem, what are the solutions? In the world of sustainable investment very little which counts can be counted or 'metricated', let alone standardised. Rather than produce banks of ESG data, the far greater challenge facing Asia Pacific companies and investors is to be authentic, resonant and imaginative when it comes to sustainability. These three characteristics do not lend themselves to metrication nor incentivisation. They require judgement and much effort to understand.

Is the approach to sustainability authentic and built upon a clear sense of purpose? Or a box-ticking, marketing-driven path towards short-term gain? Does it resonate across all aspects of the business? Or is it a marriage of convenience with little commonality? The coal company with the solar panels. The tobacco company with the award-winning eco-hotel business.

Is there evidence of imagination? The Asian bank which developed a successful mobile payments system, enabling millions of people in rural areas without access to bank branches to access simple savings products in a country where financial inclusion is still below 50%. The computer power supply company building an electric vehicle power business. Or is management stuck with a fixed mindset, unable to imagine how sustainability can be a driver of returns? The paint company still selling toxic paint where it is still legal to do so. The all-male board unable to imagine how to get from A to B.

Asia Pacific is home to many of the world's greatest development challenges. According to the UN, 25% of the population still live in multidimensional poverty. Over 600m people still have to resort to open defecation[3]. Inequality. Water scarcity. Climate change. There are still plenty of companies which are part of the problem, exploiting vulnerabilities and cutting corners without consequence.

Fortunately, there are also plenty of wonderful companies in the region, full of purpose and resolve to address Asia's development challenges. The medical diagnostics company providing over 40m affordable tests a year in a country which spends less than US$75 per person, per year on healthcare. The testing company helping to reduce the use of hazardous substances across supply chains. Prudent "micro-mortgage" providers helping to solve India's 75 million unit housing shortage challenge. The sustainable plant-based nutrition company. Affordable medicines. The electric vehicle powertrain maker. The electric vehicle testing company. The solar inverter manufacturer.

1 Source: UBS August 2020

2 Source: https://www.hindustantimes.com/india/one-million-tobacco-deaths-in-india-every-year-yet-politicians-in-denial/story-AlCLK66RW6xi9raARYVXdL.html

3 Source: https://www.un.org/en/events/toiletday/

Source for company information: Stewart Investors investment team

Significant Trust changes

Image location: Beijing, China

We initiated a number of new positions in the Trust during the third quarter of 2020. AK Medical is a leading medical device manufacturer in China focused on the development and sale of orthopaedic implants, with a particular focus on hip and knee joints. We have been impressed with the management team's focus on quality and innovation. Throughout their history, they have made decisions at the expense of short-term profitability in the name of long-term success: a quality we look for in stewards. One example is AK becoming the first player to commercialise 3D printing in the orthopaedic implant sector in China. China's penetration of hip and knee surgeries significantly lags that of the developed world. In addition, the government has introduced a number of supportive policies that should accelerate market share gains for AK at the expense of imported foreign products.

Aavas Financiers, is a 'bottom of the pyramid'[G] mortgage finance company set up in 2011 by Sushil Agarwal, who continues to steward the company today. Aavas lends mostly to the self-employed in rural and semi-urban India at an average amount of USD12,000. Aavas is built on the foundations of a conservative lending culture and a strong balance sheet. Mortgages in rural and semi-urban India are still at an early stage of development with limited competition and Aavas is well positioned to benefit from decades serving this community. Aavas' aim to provide affordable and accessible finance is central to the sustainable development[G] of many of the regions they operate in. The key risks are dilution to the risk culture and political/ government interference.

Silergy is a fabless[G] semiconductor company, designing analog chips, particularly those related to power management integrated circuits (PMIC). The end uses for their chips include 5G infrastructure, smart meters, solid-state drive (SSD) memory and industrial applications. Amidst ongoing US-China trade tensions, there is a strong tailwind[G] for many Chinese businesses benefiting from localisation, and Silergy is one such company. The PMIC market remains dominated by foreign firms like Texas Instruments, but local players, led by Silergy, are rapidly taking share as the Chinese authorities attempt to reduce reliance on US technology providers. This is providing Silergy the opportunity to grow quickly with the potential to generate attractive returns and contribute to sustainability outcomes.

Syngene is an Indian contract research and manufacturing company which provides drug discovery and production services to large pharmaceutical companies. Over 25 years, they have established a strong track record and reputation, reflected in their working with 8 out of 10 of the largest pharmaceutical companies in the world. Syngene's 4,000 scientists help make the development of new medicines cheaper and more efficient. The advantages of outsourcing these services to India means Syngene is likely to continue to be able to deliver healthy growth.

Metropolis Healthcare is India's second largest diagnostics provider with a leading market share in Western India. Ameera Shah, a member of the second generation of the Shah family, has engineered a successful professionalisation of the company while simplifying the ownership structure over the last decade. We like the diagnostics space given its attractive economics, the early stage of its evolution and the important role it plays in improving healthcare outcomes in society.

Tata Consumer Products consists of some of India's finest food and beverage brands and reaches over 200 million households. The TATA name is synonymous with quality and trust and the franchise has the potential to become the premier diversified consumer products company in the country.

Vinda is one of the leading household paper and personal care manufacturers in China and throughout Asia. Vinda has set itself on an ambitious journey away from household tissue paper to becoming a dominant player in China's feminine hygiene and incontinence care markets. Success here would not only allow Vinda to earn more attractive returns on its capital but provides exposure to sectors that are significantly underpenetrated relative to developed markets and should enjoy many years of structural growth. We believe the combination of local family and global multinational stewardship, in the form of Essity, provides an attractive balance of entrepreneurial spirit with global quality and marketing experience.

In early 2018 we sold the holding in Info Edge from the Trust. We have long admired the conservative stewardship of Sanjeev Bikhchandani and the company has always boasted a strong financial profile. It is one of the few profitable internet businesses in India. However, we were concerned about the strength of the core franchise in online classified advertisements and we were impatient, uncharacteristically, with the pace of development of new businesses. Earlier in the year, we reappraised the franchise and found it to be stronger than we anticipated. It became clear that we had made a mistake by selling the holding and we rectified this by reinitiating a holding which we added to during the period.

We also were able to increase the position size in some of the companies we have acquired over the last two quarters and the longer term holding HDFC. History shows that this franchise strengthens during times of stress, and this has not been reflected in recent valuations.

We sold five holdings from the Trust: Commercial Bank of Ceylon, Concepcion Industrial Corporation (CIC), Sundaram Finance Holdings, Robinsons Retail and Uni-President Enterprises. Commercial Bank remains a high quality bank but has suffered from macro headwinds[G], continuous interference from successive governments and a weakening currency. We will be open to reinvesting should some of the above mentioned risks mitigate. Despite a strong financial position and high quality stewards the franchise at CIC was not developing in the way we anticipated, making the risk/reward less attractive. We sold a very small holding in Sundaram Finance Holdings which was an in specie transfer[G] of non-core assets from Sundaram Finance Limited. We maintain a holding in Sundaram Finance Limited. Robinsons Retail is a Filipino retailer across multiple formats including supermarkets, pharmacy chains and convenience stores. Retail is a tough industry at the best of times and Robinsons' inability to focus made backing their long-term journey very challenging. While we greatly admire the Lo family and the quality of the franchises within the Uni-President Enterprises conglomerate, we sold our holding because of valuation and intensifying sustainability headwinds.

Amidst strong markets we trimmed Delta Electronics, Tech Mahindra and Pigeon where valuations have run ahead of franchise quality. We also reduced President Chain Store where the product range is evolving too slowly against mounting sustainability challenges.

Source for company information: Stewart Investors investment team.

Silergy Corp

Country	Taiwan
Company size	USD5.4 billion market capitalisation
Shareholders since	September 2020
Description	Silergy is a designer and manufacturer of analog integrated circuits focused on power management
Stewardship	Founders own 25%

Silergy is one of China's leading analog chip players well placed to benefit from the growing commonality of semiconductors in the industrial and automotive sectors as well as growing market share in what is currently a very fragmented market. Their technology plays an important role in improving energy efficiency and reducing energy consumption. We believe risks to the company relate to the underlying cyclicality of end demand as well as a deterioration in relationship with key suppliers.

SDGs supporting

> SDG 7: Affordable and Clean Energy
Silergy design and manufacture energy efficient products.

> SDG 9: Industry, Innovation & Infrastructure
Silergy innovates new environmentally-friendly products across multiple industries.

SDGs to engage on

> SDG 5: Gender Equality
Improving the diversity of engineering talent.

> SDG 12: Responsible Consumption and Production
Improved reporting and calculating their positive energy efficiency impact.

Source for company information: Stewart Investors investment team. The Stewart Investors Sustainable Funds Group supports the Sustainable Development Goals (SDGs). The full list of SDGs can be found on the United Nations website.


Image location: Taiwan

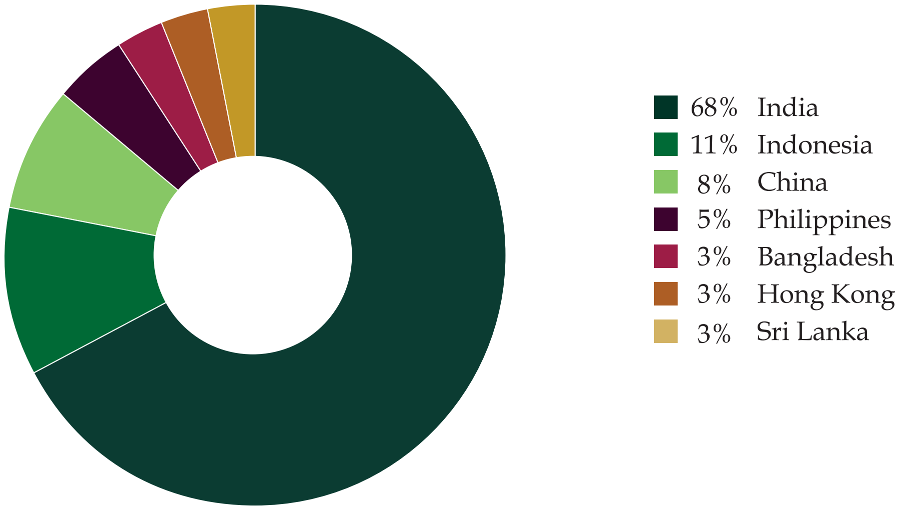
Proxy voting

During the quarter for the Pacific Assets Trust there were 248 company resolutions to vote on. On behalf of shareholders, we voted against four resolutions relating to corporate structure.

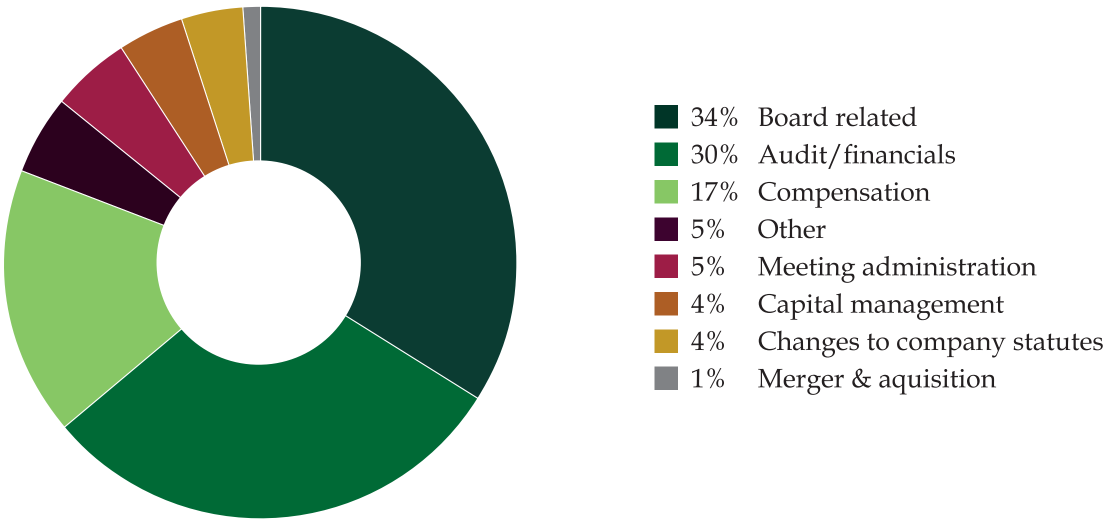
- We voted against Concepcion Industrial Corporation (CIC) and Philippine Seven's request for management to approve all other business matters before the annual meeting of shareholders. We consider ourselves active shareholders and prefer to vote on such matters at the annual general meeting (AGM). (two resolutions)
- We voted against Selamat Sempurna's request to make amendments to the Company's Articles of Association as we did not have sufficient information to know what changes we might be voting for. (two resolutions)

Should any shareholders like a full list of all proxy voting for the companies held in the Trust, please contact us directly.

Proxy voting by country of origin



Proxy voting by proposal categories



Source for company information: Stewart Investors investment team. Numbers may not add to 100 due to rounding.

The Future of Food and Sustainable Agriculture

Agricultural techniques have changed dramatically over the last 50 years, particularly in more developed nations. More efficient farm machinery, genetic modification of seeds and the use of fertilisers and agrochemicals have all helped to increase crop yields significantly. However, while the industrialisation of farming has brought a multitude of benefits, it is also contributing to an array of unintended negative consequences, particularly for the environment.

Challenges

The Stockholm Resilience Centre has identified nine planetary boundaries which humanity should not breach if we are to maintain a safe operating space for society. Modern agriculture practices contribute negatively to eight of the nine boundaries, including biodiversity loss, climate change, fresh water use, land system change, and nitrogen and phosphorus flows to the biosphere and oceans. In most of these areas, safe limits have already been breached.

Emissions from agriculture, forestry and land clearing make up 23% of the world's greenhouse gas emissions and if the entire food chain is included (e.g. fertiliser, transport, processing) the contribution could be as high as 37%[1]. Cattle and dairy cows alone emit enough greenhouse gases to put them on a par with the highest-emitting nations. Agricultural expansion also continues to be the main driver of deforestation, forest degradation and the associated loss of forest biodiversity. Large-scale commercial agriculture, primarily cattle ranching and cultivation of monoculture[G] soya bean and palm oil, alongside subsistence agriculture[G], accounts for up to 80% of deforestation globally[2].

The overuse of chemical fertilisers has also contributed to water pollution and soil degradation in many areas, with excess nitrogen in the soil causing soil acidification and salinisation (increasing salt content). According to the United Nations (UN), a third of the world's soil is now moderately to highly degraded, largely due to intensive agricultural practices[3]. Overuse of garden variety herbicides and weed killers also threatens the health of waterways and fish, and some products are currently the subject of ongoing investigations about their carcinogenic qualities.

Demographics and changing human diets also present environmental challenges. Global populations are set to rise to 10 billion people by 2050 versus 7.8 billion today[4], meaning agricultural demand could grow over 50% in a business-as-usual scenario[5]. Increased demand for food is also driven by rising incomes in emerging markets, and the UN estimate that meat consumption is set to rise 76% by 2050, including a doubling in the consumption of poultry, a 69% increase in beef and a 42% increase in pork[6]. High levels of meat consumption have been linked to negative health consequences, including colorectal cancer, diabetes and heart disease, as well as dire impacts on the environment[7].

There is also a severe imbalance in the production and distribution of food globally, with 80% of the world's population relying on imported food and countries today not producing enough food to feed themselves[8]. Global supply chains are increasingly coming under the spotlight, especially in light of Covid-19, with countries placing more importance on local versus global production. At the same time, 50% of the population is either overweight or undernourished (39% overweight, 11% undernourished), while 25-30% of all of the food that is grown globally goes to waste[9]. In developing countries food is mostly lost from 'farm to fork', where a large amount of food spoils before it reaches the consumer due to poor infrastructure, while in developed countries food is mostly wasted by retailers and consumers buying more than they need, and letting food spoil.

There are other serious challenges related to intensive factory farming, animal welfare, antibiotic use, the rise of livestock epidemics, monocultures and genetic engineering, climate change threats to food security, lack of land tenure and a need for agricultural land reform in many emerging markets... the list could go on and on.

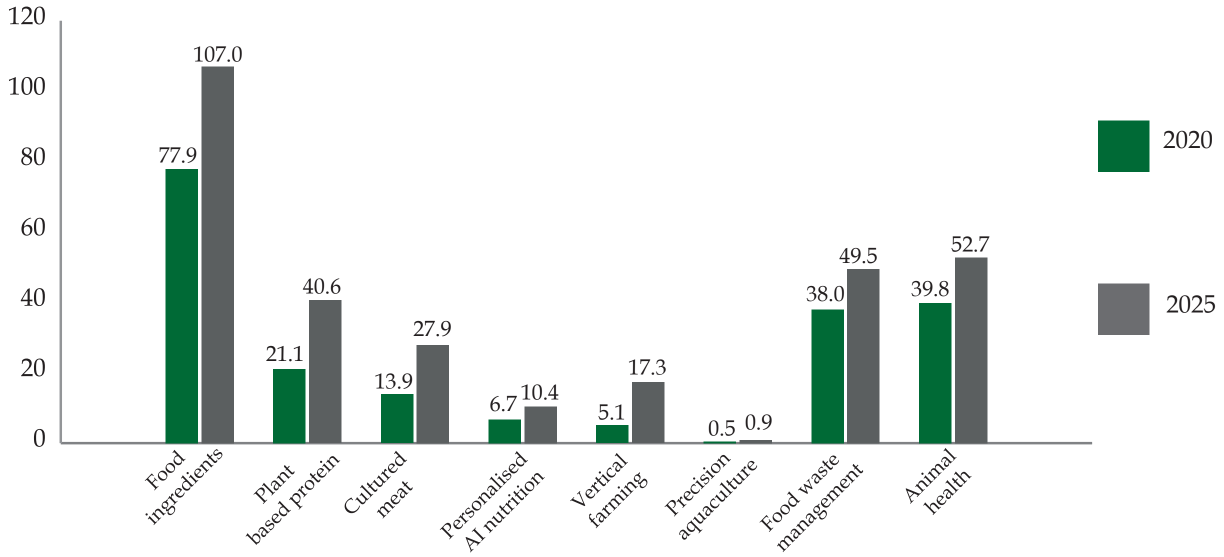
A vision for a more sustainable future

Although there are many farmers and food producers globally that utilise sustainable agricultural practices, it is clear that many parts of the 'food system' would benefit from a fundamental overhaul. Given the severity of the challenges ahead, systemic change is required in order to protect our soils, waterways, forests and wildlife, reduce emissions and at the same time to feed our growing population.

In particular, there is an urgent need to conserve and restore tropical forests in order to protect against biodiversity-loss but also to increase carbon sequestration. This is highlighted by Project Drawdown, an initiative that has identified and researched 80 climate change solutions with the potential to solve collectively the climate crisis. Project Drawdown has identified 14 solutions related to food and agriculture, including forest protection, reducing food waste and a shift to plant-based diets, and has calculated that these alone could contribute over 20%[10] of the emission reductions needed to achieve the goal of the Paris Agreement[G].

In addition, greater adoption of more holistic regenerative farming techniques can also help to rebuild the quality of the soil and, in the process, help to sequester carbon. Typically this involves using cover crops and perennials so that bare soil is never exposed, reducing the use of tilling, rotating diverse crops and integrating livestock, limiting the use of chemicals, and composting and recycling as much farm waste as possible. There is evidence to suggest yields from this type of agriculture can be higher than conventional agriculture, while at the same time helping to prevent soil erosion, re-mineralising the soil, protecting groundwater and reducing damaging pesticide and fertiliser runoff.

Future food market solutions (USD billion)[11]



Investment opportunities

This shift to a more sustainable food system is presenting a number of excellent investment opportunities. Bank of America estimate that the 'future food solutions' market is worth over USD200 billion in 2020 and is set to grow at an 8.6% compound annual growth rate (CAGR)[G] to 2025[12].

The market for sustainable food ingredients such as organic, local, 'free-from' products has been increasing rapidly in developed markets along with soaring demand for plant-based proteins. The global plant-based protein market is forecast to reach USD35.5 billion in 2024, representing 14% annual growth for the period spanning 2020-2024[13]. Considering a typical plant-based burger uses up to 95% less water and land, generates 90% fewer greenhouse gases, and requires 46% less energy than a normal beef burger, this can only be a good thing for the environment and human health[14].

Indoor vertical farming[G] is also booming, especially in urban areas, which offers the prospect of more local production. Vertical farming can increase yields 300x compared with conventional outdoor farming[15], with the potential to have an almost closed loop system, reusing water and nutrients, without soil contamination and pollution run off.

Precision farming is also a growing area which offers huge potential. Agri-robots, artificial intelligence (AI) and big data, satellite positioning, drones, weather prediction and soil testing all offer the potential to enhance yields and reduce environmental impacts. The food waste management sector is also steadily growing, and is anticipated to expand at a CAGR of 5% between 2019 and 2025[16].

How are we positioned?

There are clearly a number of rewarding investment opportunities that can support this vital transition to a more sustainable food and agricultural system, including Vitasoy, the Hong Kong listed maker of over 300 plant-based products, such as soya and nut milk, tofu, tea and juices. Their beverages offer sustainable nutrition and a healthy alternative to sugar-laden carbonated drinks, with their core raw ingredient, soy beans, being high in protein and cholesterol-free. Growing soy beans is significantly less water and resource-intensive than meat or dairy production, however it is also linked to deforestation in certain regions. It is estimated that over 85% of soy is grown to feed livestock, underlining the systemic nature of these issues[17]. We have engaged with Vitasoy on deforestation and they continue to improve their sourcing policies, traceability and standards for contract farmers.

Research and engagement

As long-term, active investors[G], we regularly conduct research and engage with companies on a wide range of sustainability topics. We have commissioned and undertaken our own research into challenges within the palm oil and soy supply chains and have conducted extensive engagement on the topic of deforestation. We have also engaged a number of consumer companies on sugar content in their product portfolios and plastic packaging, and will soon begin a new round of research and engagement on the use of agricultural chemicals, as well as the importance of supporting smallholder farmers.

In summary, the future of food and sustainable agriculture offers a myriad of investment opportunities that can benefit our clients, and at the same time, help to support and promote a more sustainable and resilient food system. We believe this can be a positive situation for all, but there are many hard yards still to be covered.

[1] Source: https://www.ipcc.ch/srccl/chapter/summary-for-policymakers/
[2] Source: https://globalforestatlas.yale.edu/land-use/industrial-agriculture
[3] Source: http://www.fao.org/about/meetings/soil-erosion-symposium/key-messages/en/
[4] Source: https://www.prb.org/2020-world-population-data-sheet/
[5] Source: https://www.wri.org/blog/2018/12/how-sustainably-feed-10-billion-people-2050-21-charts

[6] Source: http://www.fao.org/3/ap106e/ap106e.pdf
[7] Source: https://www.bmj.com/content/365/bmj.l2110
[8] Source: https://www.europeanscientist.com/en/agriculture/majority-of-the-worlds-population-depends-on-imported-food/
[9] Source: http://www.fao.org/3/a-i6583e.pdf
[10] Source: www.drawdown.org
[11] Source: Bank of America Global Research based on various sources: Markets and Markets, Global Market Insights, Grand View Research
[12] Source: Bank of America Global Research based on various sources: Markets and Markets, Global Market Insights, Grand View Research. Reprinted by permission. Copyright © 2020 Bank of America Corporation ("BAC"). The use of the above in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided "as is" and none of BAC or any of its affiliates warrants the accuracy or completeness of the information.
[13] Source: https://www.businesswire.com/news/home/20200305005401/en/Global-Plant-Based-Protein-Market-Estimated-Reach-US35.54
[14] Source: https://www.cnbc.com/2019/09/02/beyond-meat-uses-climate-change-to-market-fake-meat-substitutes-scientists-are-cautious.html
[15] Source: https://www.aem.org/news/vertical-farming-how-plant-factories-stack-up-against-field-agriculture
[16] Source: https://www.grandviewresearch.com/industry-analysis/food-waste-management-market
[17] Source: https://www.foodsource.org.uk/building-blocks/soy-food-feed-and-land-use-change

Source for company information: Stewart Investors investment team.

The European Commission Renewed Sustainable Finance Strategy Consultation

On 8 April, the European Commission published a consultation on its renewed and ambitious sustainable finance strategy, which it aims to adopt in the second half of this year. The consultation comes as a follow-up to the initial Sustainable Finance Action Plan which was published in March 2018. As a business, we are extremely supportive of such proactive government engagement – it is something we would not have believed as little as five years ago. However, there is a risk that so much is being released with indigestible explanation and unrealistic time frames for implementation that both financial institutions and investors might in fact be dis-incentivised to engage with sustainable investment.

Please visit our microsite to read our full response: https://sfg.stewartinvestors.com/european-sustainable-finance-consultation

Trip report

Due to the ongoing pandemic, we have had to cancel several research trips planned this year. We therefore do not have any trip reports to share for this quarterly report.

On a practical basis, the team have been committed to working flexibly, including remotely, for many years and are adept at multi-location meetings. As a result, there has been minimal disruption to the investment process from home confinement.

Over the quarter, the team have managed to replace these trips with 88 company meetings via video conference.

Image location: Tokyo

Statement on racism and racial diversity

We recognise the existence of inequality and institutional racism across the world – we share the horror felt by so many as we have witnessed events that highlight the inequality, prejudice and sheer injustice faced by members of the black community the world over.

As we sit at our desks and analyse companies, we recognise we do not have all the answers on this issue. Indeed, we approach this issue with so much to learn, especially as it relates to the experiences of so many. These long-standing issues stem from a centuries-old and complex cultural and historical context. In some cases our team members have also experienced the unjust and unfair effects of racism, both in and outside the workplace. But this can only be an excuse for so long.

As investors, we have always favoured companies that understand the need to, and live by the principles of, operating in the right way. While this may sound vague, we know what it looks like. It is as simple as showing an open mind to diversity, through to more complicated matters of respecting all communities and supporting their advancement, not abusing minorities or human rights, as well as operating within an explicit or implicit licence to operate.

On top of that, it is about looking for companies that understand the links between poverty, disadvantage, accessibility to services, basic human rights and climate change. We have long sought out and invested in companies which build necessary goods and services, such as providing clean reliable water, sanitation, access to medicines and healthcare, and essentials, such as soap and personal care goods. Added to this in recent years are internet access, mobile telephony, clean electricity, basic banking services and micro insurance. Our hope is that our clients' capital can support companies which sustain and advance the livelihoods of those most in need of these services and who face the greatest challenges, regardless of ethnicity.

Although this is an integral part of our investment philosophy, there is much more we can and should be doing to play our part in addressing racism and racial diversity.

We plan to:

- Educate ourselves better as investors and not shy away from the complex issues particularly around caste, ethnicity, Black Economic Empowerment (BEE), specific challenges faced by indigenous communities, as well as similarly localised issues of race. We will educate ourselves by listening, discussing, sharing, understanding, analysing and commissioning research where necessary.

- Engage more persistently on diversity in all forms with companies. For example, we have written to many companies about racial diversity on boards over the past 20 years, but we have not been active enough in following up or taking tough decisions. We need to work harder with the companies we invest in as genuine partners.

- Educate ourselves better as people. A few years ago every Sustainable Funds Group team member took part in a two-day course on unconscious bias. It is time to revisit and challenge our biases as individuals.

- Stand firm and be prepared to call out racism when we see it. In the past, we may not have been firm enough on this issue. We will work towards a clear mechanism for identifying and addressing racial bias that allows us to engage with the relevant parties in a constructive manner. Often these parties are external, which creates its own challenges, but we need to learn how to overcome them.

Unequivocally it is time for change, and for us as an investment team, there is much we can and will be doing to play our part in this change.

Our position on harmful and controversial products and services

All members of Stewart Investor's investment team sign our Hippocratic Oath, which includes the commitment that we will not pursue risk-adjusted returns to the extent that our actions will knowingly harm others. In accordance with our investment philosophy and strategy, the investment team is responsible for avoiding the allocation of client capital to harmful activities.

We do not use quantitative thresholds in the quality assessment of companies in our investment process. For example, we prefer companies to manage their balance sheets conservatively but do not set specific debt thresholds. Our analysts and portfolio managers must be able to justify, and are accountable for, the decisions they make.

However, for harmful products and controversial industries, we appreciate that our clients reasonably expect clarity on what exposures they may have to negative activities. Please find more information on the activities and practices we find inconsistent with our investment philosophy on our microsite: https://sfg.stewartinvestors.com/our-position-on-harmful-and-controversial-products-and-services

This position statement does not represent any change to our investment process. It is merely an articulation of our approach.

Good Money Week

We are proud to partner with Good Money Week - the UK national campaign to help people find sustainable options for banking, pensions, savings and investments which are good for people and the planet.

Now in its 12th year, the 2020 Good Money Week will look at how money can support a green and fair recovery after the pandemic, ensuring we build back in a way that works for people, the planet, health and wealth.

In support of the campaign, Lorna Logan explains in a short video what sustainable investment is, why it's important and the approach we take to support it. To watch the video please visit our microsite: https://sfg.stewartinvestors.com/good-money-week

Good Money Week runs from 24-30 October 2020.

Team update

On 6 August 2020, Douglas Ledingham relocated back to Edinburgh from Sydney having spent almost four years there. Due to current working restrictions Doug is currently working remotely from home like the rest of the business.

First State Investments rebrand to First Sentier Investors – 22 September 2020

On the 22 September 2020, First State Investments, a stand-alone asset management business and the home of investment teams including Stewart Investors, rebranded to First Sentier Investors. The brand change was part of a global re-branding programme which began in 2019 following the company’s acquisition by Mitsubishi UFJ Trust and Banking Corporation, a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. At that time, the company decided to adopt a single corporate global brand name, and the business has operated as First Sentier Investors in Australia since September 2019.

There is no change to the branding of Stewart Investors or to the way this team manages client assets.

Glossary

Active investors: take a hands-on approach, typically making portfolio decisions based on their own analysis as opposed to passive investors who buy shares based on index constituents and weightings.

Bottom of the pyramid: the poorest group in a society.

Compound annual growth rate (CAGR): a statistic that measures the compound annual return of metrics over a set period of time, assuming gains are reinvested (i.e. compounding effect).

Fabless: a company which designs microchips but contracts out their production rather than owning its own factory.

Headwinds: conditions which slow growth or progress.

Indoor vertical farming: the practice of growing produce stacked one above another in a closed and controlled environment. By using growing shelves mounted vertically, it significantly reduces the amount of land space needed to grow plants compared to traditional farming methods.

In specie transfer: transfer of the ownership of an asset without the need to convert the asset to cash.

Monoculture: the agricultural practice of producing or growing a single crop, plant or livestock species, variety, or breed in a field or farming system at a time.

Paris Agreement: The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. It also aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts. The Paris Agreement is the first-ever universal, legally-binding global climate change agreement, adopted at the Paris Climate Conference (COP21) in December 2015.

Subsistence agriculture: when farmers produce just enough food to feed their families with little left to sell on.

Sustainable development: economic and social development without using up the world's natural resources. It aims for high human development with a sustainable environmental footprint.

Tailwinds: conditions favourable to growth or progress.

Trust update

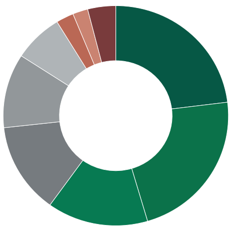
Pacific Assets Trust plc GBP - 30 September 2020

Trust Size £368m **Number of Holdings** 60

Ten Largest Holdings

Stock Name	Portfolio Weight (%)	**Comparator Index Weight (%)
Vitasoy International Holdings	4.8	0.0
Hoya Corp.	4.3	0.0
Unicharm Corporation	3.7	0.0
Tech Mahindra Limited	3.4	0.1
Mahindra & Mahindra Ltd.	3.3	0.1
Marico Limited	3.0	0.0
Dr Lal Pathlabs Ltd	2.7	0.0
Voltronic Power Technology Corp	2.7	0.0
Tube Investments of India Limited	2.6	0.0
Housing Development Finance Corporation Limited	2.5	0.7
Total	**33.0**	**0.9**

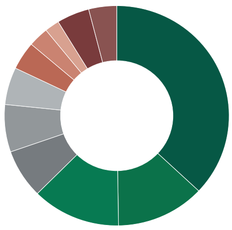
Sector Breakdown



- Information Technology 23.0% (20.5%*)
- Consumer Staples 22.4% (5.1%*)
- Health Care 14.5% (4.8%*)
- Financials 13.3% (17.3%*)
- Industrials 10.9% (5.3%*)
- Consumer Discretionary 7.1% (20.9%*)
- Communication Services 2.5% (12.5%*)
- Materials 2.2% (3.8%*)
- Other 0.0% (9.9%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

**Comparator Index Weight

Country Breakdown



- India 37.0% (9.2%*)
- Taiwan 12.8% (14.1%*)
- Japan 12.7% (0.0%*)
- China 7.2% (46.7%*)
- Hong Kong 7.0% (7.9%*)
- Indonesia 5.5% (1.4%*)
- Bangladesh 4.1% (0.0%*)
- South Korea 2.9% (13.4%*)
- Philippines 2.1% (0.8%*)
- Other 4.7% (6.4%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

**Comparator Index Weight

Cash Equivalents may include T-Bills.

Market Capitalisation (% in GBP)

	0 to 500m	500m to 1bn	1bn to 2.5bn	2.5bn to 5bn	5bn to 10bn	10bn to 50bn	50bn to 100bn	100bn+
Portfolio Weight	9.1	5.3	19.0	15.3	14.8	27.9	2.1	2.3
** Comparator Index Weight	0.0	0.1	3.5	8.9	12.7	33.8	5.3	35.7

FactSet does not always have full stock coverage; weights may not total 100%

Contribution Analysis - 12 Months

Top Three Contributing Stocks

Stock Name	Portfolio Weight (%)	Value Added (bps)
Nippon Paint Co., Ltd.	2.2	135
Unicharm Corporation	3.7	120
Hoya Corp.	4.3	116

Bottom Three Contributing Stocks

Stock name	Portfolio Weight (%)	Value Added (bps)
Kotak Mahindra Bank Limited	2.0	-111
Kasikornbank Public Co. Ltd.	0.8	-102
Sundaram Finance Ltd	1.3	-86

Annual Performance (% in GBP)

	12 mths to 30/09/20	12 mths to 30/09/19	12 mths to 30/09/18	12 mths to 30/09/17	12 mths to 30/09/16
NAV	3.1	9.6	11.4	5.6	30.4
Share Price	-8.6	12.3	9.3	5.8	32.4
Consumer Price Index (CPI) +6%	6.4	8.0	9.0	9.2	6.8
MSCI AC Asia ex Japan Index	12.3	2.2	4.4	18.8	36.2

Cumulative Performance (% in GBP) to 30 September 2020

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mths	3 mths
NAV	182.8	162.8	73.4	25.9	3.1	29.4	8.0
Share Price	174.5	154.9	57.1	12.2	-8.6	25.3	0.8
Consumer Price Index (CPI) +6%	122.8	119.9	46.1	25.2	6.4	3.0	1.6
MSCI AC Asia ex Japan Index	127.5	105.8	93.9	19.8	12.3	23.9	5.8

Past performance is not a reliable indicator of future results.

Source for Trust: Lipper IM/Bloomberg/Trust Administrator. The NAV performance data is calculated on a net basis after deducting all fees (e.g. investment management fee) and costs (e.g. transaction and custody costs) incurred by the Trust. The NAV includes dividends reinvested on a net of tax basis.
**Source for comparator MSCI AC Asia ex Japan Index and CPI data: FactSet. Comparator index calculated on an income reinvested net of tax basis. It is shown to provide additional context for investors seeking exposure to the region.
CPI data is quoted on a one month lag. Performance calculated from when Stewart Investors became Investment Manager of the Trust on 1 July 2010.
Contributions are calculated at the investee company level before the deduction of any fees incurred at Trust level (e.g. the management and administration fee) but after the deduction of transactional costs. Contribution data is calculated from the full portfolio and includes cash.
Any stocks held/listed in non-index or regional countries have at least 25% of their economic activities (at the time of investment) within the Asia Pacific region

Important information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision.

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Pacific Assets Trust plc ("The Trust") is an investment trust, incorporated in Scotland with registered number SC091052, whose shares have been admitted to the Official List of the London Stock Exchange plc. The Trust is a Small Registered UK Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive. The Trust has delegated certain portfolio management responsibilities to First Sentier Investors (UK) IM Limited. Further information is available from Client Services, Stewart Investors, 23 St Andrew Square Edinburgh, EH2 1BB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.pacific-assets.co.uk. Telephone calls with Stewart Investors may be recorded.

The distribution or purchase of shares in the Trust, or entering into an investment agreement with Stewart Investors may be restricted in certain jurisdictions.

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