Stewart Investors
Sustainable Funds Group

Pacific Assets Trust plc

Quarterly Shareholder Update

1 October - 31 December 2020

Q4

Image location:
Ram Jhula bridge, Rishikesh, India

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 31 December 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.

Investment terms

View our list of investment terms to help you understand the terminology within this document.

Human development pillars:

investing in companies contributing to and benefiting from sustainable development

Image location: Mumbai, India

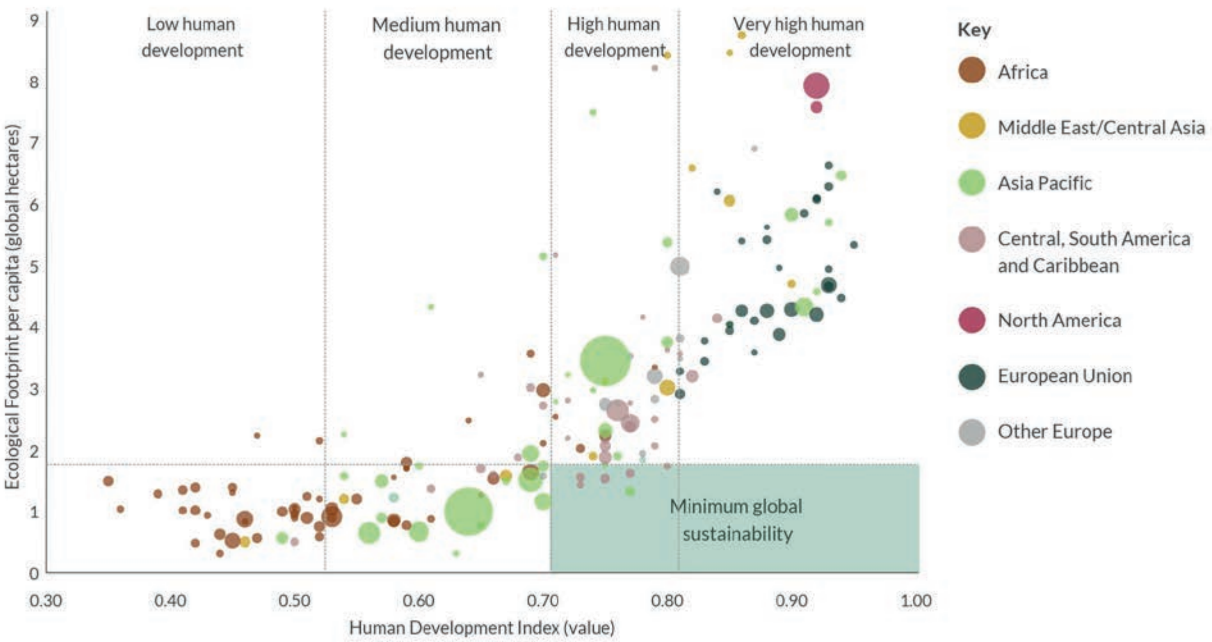
Since our first sustainable development-focused strategy launched in 2005, human development has been a key focus area given our long history of investing in Asia Pacific and emerging markets. Recently we have been expanding the way we assess and report on how our companies are contributing to various solutions to human development challenges. This builds upon our work mapping the contribution our companies are making to climate solutions featured in Project Drawdown.

The idea of 'sustainability' is simple and easy to understand. Yet at the same time, it is a concept which has spawned innumerable marginally different definitions. Each interpretation of the concept is inevitably imperfect and incomplete, and at the same time has something to offer. We do not presume that our own framework is the 'right' approach, let alone the only valid one.

How we think about sustainable development

Since 2012 we have used a framework developed by the Global Footprint Network for describing sustainability, which brings together the twin imperatives of human development and environmental sustainability. To us, combining these two high-level goals is a solid basis for understanding what sustainability is at its heart. This is a goal which economist Kate Raworth describes as providing "for every person's needs while safeguarding the living world on which we all depend."[1]

The graph below from the Global Footprint Network encapsulates this.[2] On its vertical axis, the graph uses the concept of 'ecological footprint' to plot humanity's use of the Earth's regenerative and absorptive capacity in terms of



Source: Global Footprint Network, 2019 National Footprint Accounts www.footprintnetwork.org and data.footprintnetwork.org/#/sustainableDevelopment?cn=all&yr=2016&type=BCpc,EFCpc. Latest country data for the Ecological footprint is 2016.

water, land, food and other natural resources.[3] On its horizontal axis, the graph uses a broad measure of human development – the Human Development Index (HDI) developed for the UN by economist Amartya Sen, and which includes metrics related to income, education and health.[4]

The bottom right quadrant (coloured light sage green) is the area of global sustainability: the zone in which a society has delivered 'high human development' but still lives within its environmental means. Unfortunately it is quite a lonely part of the graph!

We use this framework to help think about the sustainability positioning of individual companies. Our aim is to find companies which are contributing to and benefiting from sustainable development. That means we look for business models which help move societies from north to south on the chart by reducing environmental impact, and from west to east by improving human development outcomes.

To deepen our understanding we are in the process of evaluating companies on their contribution to environmental solutions using an external framework developed by Project Drawdown which identified 80 climate change solutions. We are continuing this work by doing the same for human development. However, a comparable framework to Project Drawdown does not exist and so we have instead expanded on the components of the HDI.

Deepening our understanding of human development

The HDI used in the chart works well as a high level measure. Countries which score well on it genuinely do tend to be delivering for their citizens, and vice versa. However, like all metrics it has its limitations. Many companies which we believe to be sustainable do not map directly to any of its constituent components – income, education and health – and so we have spent some time thinking about how we would expand this idea.

Taking inspiration from many different sources, we have determined 10 broad pillars which we believe encapsulate the essence of human development in a slightly more detailed way, and to which we could readily map companies. We believe that our investee companies should all be contributing in a tangible way to at least one of the ten pillars.

10 pillars of human development

- Nutrition
- Health & wellbeing
- Water & sanitation
- Education
- Information & connectivity
- Energy & electricity
- Income & employment
- Financial inclusion
- Housing
- Standard of living

These pillars cover a range of areas which we believe to be central to the spirit of sustainable human development, and quality of life for people around the world, particularly in less developed markets. Most of them are self-explanatory and link back in clear ways to Sen's concept of 'development as freedom'[5] and the HDI. To elaborate on probably the least self-evident pillar and to illustrate our thinking more generally, our conception of 'Standard of living' is an idea inspired by the late Hans Rosling's work. It is approximated in the HDI as GDP per capita.

At its heart, it refers to people's ability, through the ownership of private goods, to attain a higher quality of life. As shown below, Rosling's exceptional book *Factfulness* illustrated this with reference to transport, cooking equipment and sleeping arrangements.[6] We could equally refer to ownership of air conditioning – which in many tropical markets has clear links to educational attainment and labour productivity – or to family possession of white goods – which have been instrumental in allowing women to enter the workforce in many societies around the world.

Demonstrating positive impacts on human development

To test and demonstrate our approach we have begun analysing companies against the pillars and will soon roll this out fully and across all strategies. Below are two examples for the Trust.

Source: Gapminder and Dollar Street - Free material from www.gapminder.org, CC-by license.

The Trust holds a position in a leading provider of medicines in Bangladesh. With over 700 drugs and the only truly nationwide distribution system, the company has a focus on anti-infectives, as well as treatments for the non-communicable diseases which are now the leading causes of illness in Bangladesh.

In a country in which the annual medical spend was a paltry USD36 per person per year in 2017[7], the company is well-positioned to continue to deliver access to medicines in a society which desperately needs it. It maps neatly onto the 'Health & wellbeing' pillar.

Another example is 'Housing'. Population growth and rapid urbanisation has put huge strain on infrastructure and housing stocks in emerging markets cities, and today approximately 880m people globally are classified as slum-dwellers.[8] This is a tragedy, not just for the quality of life for those millions of people, but for society: the ability to get an education, to access employment and to deliver social justice is tightly linked to adequate housing.

The Trust holds a position in a company, which since 1977 has financed an incredible 7.8m housing units in India, with an average loan size of USD35,700.[9] Last year, 37% of their loans by volume were in the affordable housing segment, with an average loan size of just $15,000[9] – loans aimed at helping people upgrade their quality of housing at the bottom of the pyramid (poorest part of society).

These are just two of the many tangible and inspiring ways that each of our companies are contributing to solving the world's human development challenges.

Sustainable investing as an enabler of human development

Many of the contributions which our companies are making to sustainable human development are not ground-breaking. Most are not eye-catching or headline-grabbing. But they are no less powerful or important for that.

It is the essential medicines in Bangladesh and the first time mortgages in India that are helping and will continue to help hundreds of millions of people to live longer, better and healthier lives.

We continue to believe that the best way to allocate capital responsibly and productively over the long term is to find companies which are contributing to and benefiting from sustainable development. With our new frameworks, we have powerful tools to analyse and find such companies, and to communicate their contributions to clients.

We look forward to continuing to do so in coming months and years.

[1] Raworth, Kate. Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist. Chelsea Green Publishing, 2017.

[2] Global Footprint Network, 2019 National Footprint Accounts www.footprintnetwork.org and data.footprintnetwork.org/#sustainableDevelopment?cn=all&yr=2016&type=BCpc,EFCpc. Latest country data for the Ecological footprint is 2016.

[3] Source: https://www.footprintnetwork.org/our-work/ecological-footprint/

[4] Source: http://hdr.undp.org/en/content/human-development-index-hdi

[5] According to 1998 Nobel prize winner, Amartya Sen, freedom is both the primary objective of development, and the principal means of development.

[6] Hans Rosling, Factfulness: Ten Reasons We're Wrong About The World - And Why Things Are Better Than You Think.

[7] Figure as of 2017. Source: https://www.theglobaleconomy.com/Bangladesh/health_spending_per_capita/

[8] Source: https://oxfordbusinessgroup.com/overview/urban-adaptation-rapid-urbanisation-and-young-growing-populations-put-pressure-emerging-2

[9] Source: company data.

Source for company information: Stewart Investors investment team and company data.

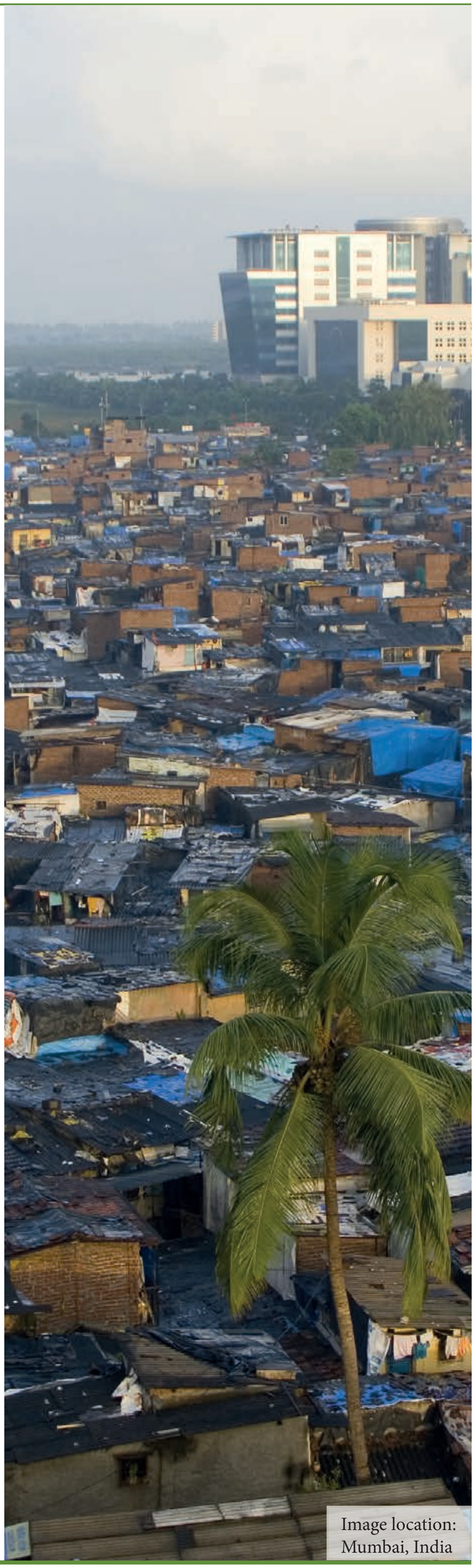


Image location: Mumbai, India

Significant Trust changes

Image location: Toyko, Japan

It has been a stronger quarter for the Trust as a number of the newer investments contributed positively and recent detractors, Mahindra & Mahindra and Tech Mahindra, rebounded with improved operations and prospects.[1]

The Japanese-listed businesses also contributed well over the period. Such was the enthusiasm for one Japanese-listed business - Nippon Paint - that we divested the entire position as the earnings multiple tipped into triple figures. We also sold our small position in Astral Poly Technik as, again, valuations reached levels that discounted near perfect execution far into the future.

In 2017 the board of the Trust met with the CFO of President Chain Store (PCS), a Taiwanese convenience store operator. Here we engaged the company on improving the quality of their cash flows and sustainability positioning by reducing the proportion of sales that are derived from tobacco. At the same time they committed to improving the size and quality of their fresh food portfolio. Over the last few years we have continued to engage on these topics. However, while there is some evidence of positive change, the pace of change is not happening fast enough to offset the increasingly strong headwinds facing the franchise. It is for this reason that we sold the Trust's holding in PCS.

Despite these disposals, cash did not rise meaningfully over the period as we increased the position size of a number of names where we have growing conviction: Naver, Vinda, Syngene, Tube Investments of India, AK Medical, Tata Consumer Products and Techtronic Industries.

The Trust also purchased three new franchises: Pentamaster, HDFC Life and Infosys.
Pentamaster is a niche manufacturer of testing machines used in the semiconductor, auto and medical industries. We are attracted by the founder's long-term time horizon and ability to evolve continually their product portfolio toward higher-margin, higher-value products. Pentamaster's testing machines are critical pieces of infrastructure for their clients and well-positioned to benefit from the increasing ubiquity of sensors in our daily lives.

HDFC Life Insurance is India's leading private sector life insurance company. Life insurance has always played a pivotal role in providing protection and acting as a social security net in India. Both these factors are key to the sustainable development of economies. Majority owned by the high quality HDFC group, the company's culture, competence and long-term stewardship are outstanding. The life insurance sector is well positioned for strong growth in the coming decades given the twin inflexion points of rising incomes and more efficient technology led distribution. We are particularly excited about HDFC Life's aspiration to reach the bottom of the pyramid with more affordable products which, if successful, could be life changing for these communities.

Infosys, a leading Indian IT services provider, has spent the best part of the last decade trying to get management succession right. The appointment of Salil Parekh a few years ago ushered in much needed stability in leadership. With a founder-stewarded board and a quality professional management team, Infosys is now well positioned to return to its former glory days of being a technology bellwether. Infosys' contribution to sustainable development of economies it operates in is exemplary. We are particularly excited by its aspiration to train 10 million individuals with digital skills in the coming decade.

[1] **These figures refer to the past. Past performance is not a reliable indicator of future results.**

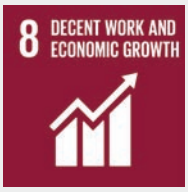
Please view the data sheet on page 16 for full performance tables.

Source for company information: Stewart Investors investment team and company data.

Techtronic Industries

Country	Hong Kong
Company size	USD28bn market capitalisation
Shareholders since	March 2020
Description	Techtronic designs, manufactures and markets power tools, outdoor power equipment, accessories, hand tools, layout and measuring tools and floor-care appliances
Stewardship	Pudwill family own 23%

Relevant Sustainable Development Goals:



SDG 8: Decent Work & Economic Growth

- Employs 34,000 people

SDG 13: Climate Action

- No emission cordless drills. 39% reduction in product packaging
- +200% increase in battery collection for recycling

Areas for engagement:

> Gender diversity

> Colbalt in the supply chain

Rationale:

Techtronic is dominant internationally in an array of power, hand, measuring and trade tools for both home and commercial use. They have ownership of strong brands in consolidated areas which results in pricing power. We believe they are in a good position to grow organically and by acquisition. We believe risks to the company include lower cost competition from China and economic cyclicality.

Source for company information: Stewart Investors investment team and company data. 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: Hong Kong

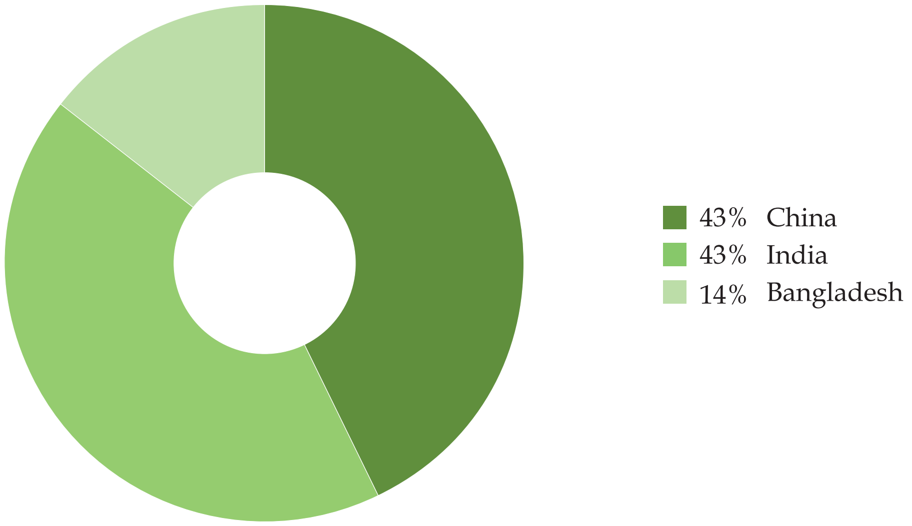
Proxy voting

During the quarter for the Pacific Assets Trust there were 38 company resolutions to vote on. On behalf of shareholders, we voted against one resolution relating to corporate structure.

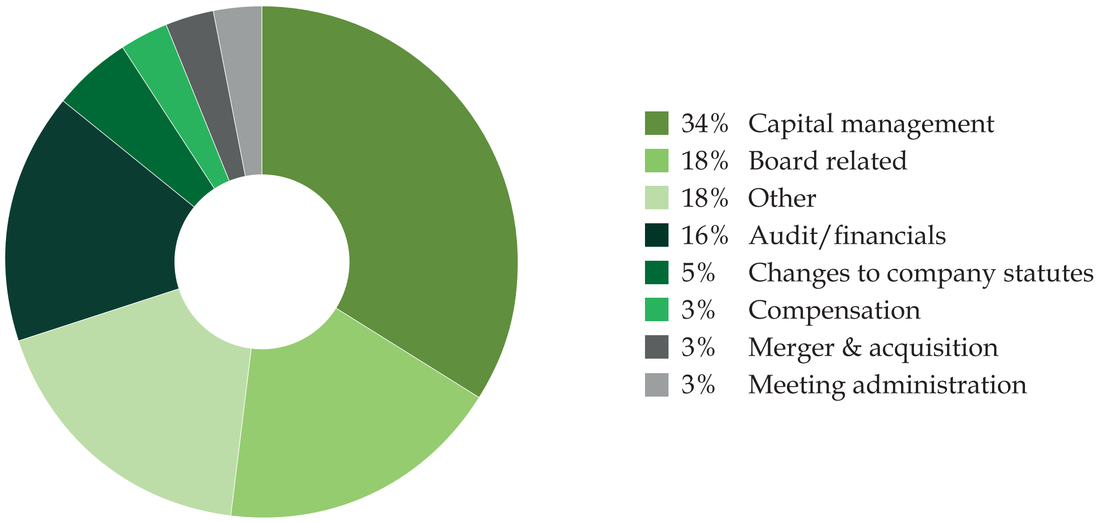
- We voted against the election of a director to the Board of **Centre Testing International** as we do not believe the director is truly independent to sit on the audit committee. (one resolution)

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 and company data. Numbers may not add to 100 due to rounding.

Asia: Playing the Long Game

Image location: Hong Kong

Time-horizons matter. In a world beset by an ever-expanding list of developmental, environmental and economic challenges, a long-term mind-set is crucial if companies are to not only survive, but contribute and benefit from the necessary changes required over the coming decades. But with the average tenure of a CEO now close to five years[1], and the average holding period for a stock less than six months[2], time horizons are collapsing when they should be expanding. In 2020, lockdowns, loose monetary policy by central banks and stock market euphoria combined to create an environment plagued with short-term pressures. We believe being able to think and act for the long-term is one of the strongest, and rarest, assets a company can have today.

In the two hundred or so corporate meetings we conducted this year we focused more than ever on understanding where management teams were making long-term decisions that required sacrificing near-term profitability in order to improve value-creating opportunities in the years to come. These decisions tend to reflect time-horizon and sense of purpose, especially at a time of crisis. If time horizon is short and sense of purpose ambiguous then such tough, long-term decisions are near impossible to make and long-term success, and survival, is compromised.

It is for that reason that we believe, over the long term, stock prices closely match growth in underlying business value, and, over that time frame, it is the quality of the people that influence whether value is created or destroyed. Brand strength, technological lead or the attractiveness of a platform are essential but not sufficient ingredients of long-term success. For even unique assets that are not nurtured and invested in, will succumb to deterioration and see any associated excess profitability competed away.

In 2020, companies capable of looking through next quarter's expectations and next year's results, and continued making long-term decisions, have been able to compound their competitiveness relative to peers. We have seen many of our companies gain market share, launch new products and partake in opportunistic mergers and acquisitions (M&A).

The value of a long-term approach

Techtronic Industries provides an example of the benefits of being able to play the Long Game. We own the Hong-Kong listed manufacturer of power tools as we like their collection of brands, proven track record of innovation and leadership in an industry well-placed to deliver attractive long-term growth. The power tool market is relatively consolidated with Techtronic's major competitor being a large US company (known for their black and yellow tools). Unlike Techtronic, which is majority owned by the Pudwill family, their US competitor has no long-term owner, or discernible culture, and so serves at the pleasure of short-term shareholders. Watching how these companies have managed themselves through 2020 provides a great insight into the outcomes of time-horizon and, in our eyes, quality.

During the depths of the COVID-induced panic, in line with their historic behaviour and true to their goal of achieving global leadership, Techtronic's management made some important long-term decisions (see quote below).

In contrast, their competitor announced an 'initiative' to cut USD1bn in costs.[4] Any business with that kind of excess has either been materially mismanaged or is cutting into muscle rather than fat. While the long-term impact on their brand and innovation capabilities are unquantifiable there is little doubt that key

> "We invested more in manufacturing capacity. We also invested aggressively in even more product development. We wanted to accelerate product development because we felt there were so many opportunities for us to capture market share and to increase the pace in which we are achieving global leadership in the tool market. And we also decided to invest heavily in rolling out more salespeople. We wanted - we felt strongly that if our customers, if our retail partners and our distributors were open for business during the virus, then we had to be in those stores, in those showrooms, helping our customers sell through their products and helping the end users select the right tools."

Techtronic CEO, August 2020.[3]

assets are being under-invested in to save this year's bonus. Such behaviour tends to be the rule rather than the exception for companies with no mission, overriding purpose or long-term destination in mind.

We have since seen Techtronic continue to gain market share - a trend that is likely to continue as they remain focused on building long-term assets while peers focus on preserving their bottom-line. Another tangible outcome of Techtronic's divergent approach, and a major reason why we like the company, is their unassailable leadership in battery technology. A relentless focus on research and development (R&D), where they spend twice as much as a percentage of sales versus competitors, has steadily compounded to a point where Techtronic are now one of the largest manufacturers of batteries globally. Their leading battery-powered range has improved safety and environmental outcomes for consumers, as well as improving franchise strength by locking users onto their platform, helping to ensure repeat purchases. The strength of their battery ecosystem and the attractive positioning of the franchise for sustainable development are outcomes of numerous decisions to forgo short-term profitability in order to build something great, and enduring, in the long-term.

We believe Techtronic's long-term mind-set, innovative culture and competent management will continue to deliver long-term success. These enduring factors will not be evidenced in ESG scores or fit conveniently into a model but continues to be key to our conversations and analysis.

Culture as a competitive advantage

In our March letter – COVID-19 and Investment returns in Asia - we highlighted that the Trust's Indian IT companies had frustratingly failed to protect capital during the market sell-off. Tech Mahindra, Tata Consultancy Services (TCS), Cyient and Infosys all help corporates across the world to evolve and enhance their business models through the use of technology. These companies saw large portions of their market capitalisations wiped away in short order as the market assumed pressure exerted by large-scale lockdowns would force corporates to curtail investments and consequently reduce the Indian IT companies' cash flows. We spoke with each of these companies throughout the depths of the sell-off. Like us, they had little idea of what lay ahead. All they could point to was the resilience and adaptability of their cultures as well as their determination to be reliable partners to customers.

We have watched these companies adapt and maintain their relevance to customers through many economic and technological cycles but it is only in the depths of a crisis where great cultures can truly be appreciated. Within a couple of weeks these companies had reengineered themselves from centralised structures housed in vast campuses to a form of extreme decentralisation, with hundreds of thousands of engineers not only working from home, but continuing to support customers' mission-critical activities. Such change would have been impossible without cultures that empower employees and are genuinely focused on delighting customers.

We could also point to TCS's industry-leading attrition levels as evidence of their quality: an outcome of loyal and empowered engineers. Such an employee base tends to be cheaper to maintain, more productive and capable of preserving long-term relationships with customers. We think it comes as no surprise that TCS can maintain industry-leading margins while also being voted one of the best places to work in both the US and India.[5]

Thanks to what they have learned this year, TCS has committed to a '25-by-25' strategy which aims for only 25% of its workforce to be in an office by 2025. This model will likely prove both lucrative to margins and improve TCS's access to a greater pool of high-quality talent with more working mothers able to enter, and remain in, the workforce. We hope to see more women enter the higher echelons of these businesses: a topic we continue to engage them on.

Rather than the envisioned pain, COVID-19 served as a catalyst in increasing the appreciation and urgency for all businesses to have technology at their core. We believe this has the potential to start a multi-year technology investment cycle of which Tech Mahindra, TCS and Infosys should be leaders, and major beneficiaries. Despite strong recoveries in share prices, we believe these businesses continue to be attractively valued for their quality and growth opportunities.

Time is on the side of our financial companies

With lockdowns destroying economic activity and central bankers holding rates low, now is certainly not a boon time for banks. With that, many of our financial holdings were detractors to performance last year. However, as with previous crises, we are seeing high quality financial institutions prosper and position themselves favourably for the eventual recovery.

The Trust's four largest financial holdings HDFC, Kotak Mahindra, Bank OCBC NISP and Sundaram Finance, have a cumulative two hundred years' of experience under their belt. Surviving this long in such a cyclical, heavily-leveraged, industry is no easy feat and entirely the result of the quality of people.

Each of them continually sits in the highest ranks for asset quality – a function of patience and discipline. But despite the quality of underwriting, these lenders continually choose to hold more capital and build provisions far earlier and more aggressively than their peers. Such conservatism supresses short-term profitability but promotes long-term survival. Decisions like these can only be made with a mind-set that is intent on playing the Long Game.

Their hard-earned reputations for strength at time of crisis does not go unnoticed by depositors who race to hand over hard-earned savings at the expense of lower quality peers who consequently face capital withdrawals and see borrowing costs rise. Kotak, HDFC, OCBC NISP and Sundaram now sit on strong, low cost capital bases, and have improved their already strong relative competitiveness at the bottom of the cycle: a behaviour we have seen time and time again. We believe each of them should be able to compound at an attractive rate from here as they benefit from industry consolidation as well as the growing penetration of financial products in their respective economies.

Looking forward

2020 has proven that forecasting, especially over the short-term, is of little use and time is best spent on factors we can control. Growing political and environmental risks, combined with accelerating technological and consumption trends, mean time-horizons matter more than ever. We continue to allocate our shareholders' capital to companies where we trust high-quality, aligned, long-term stewards to build enduring franchises capable of generating attractive amounts of cash-flow over the years, decades and generations to come.

[1] Source: https://www.pwc.com/gx/en/news-room/press-releases/2019/ceo-turnover-record-high.html#:~:text=The%20study%2C%20which%20analyzed%20CEO,over%20the%20time%20period%20analyzed

[2] Source: https://www.reuters.com/article/us-health-coronavirus-short-termism-anal/buy-sell-repeat-no-room-for-hold-in-whipsawing-markets-idUSKBN24Z0XZ

[3] Source: S&P Capital IQ. Q2 2020 Techtronic Industries earnings call script 13 August 2020.

[4] Source: Company data: Q1 2020 financial results.

[5] Source: https://www.tcs.com/tcs-recognized-as-number-one-top-employer-in-the-united-states-2020 and https://www.top-employers.com/en-GB/companyprofiles/in/tata-consultancy-services-india/

Source for company information: Stewart Investors investment team and company data.

Diversity: An indicator of distinctive cultures

One of the key tenets of our investment philosophy has long been a focus on the cultures and people behind businesses. We believe that franchises that are successful over the long term are built on the backs of unique cultures that have the wherewithal to resist short-term pressure in favour of nurturing a sustainable business over decades, have the ability to think diversely about the opportunities ahead and the risks they might face, and the operational focus to deliver on their strategies year after year.

In the process of analysing companies and meeting with management teams, we spend a lot of time looking out for these markers of distinctive cultures. This takes the form of studying histories, understanding how succession has evolved over time, and looking at remuneration structures amongst many other things.

Why do we think about diversity?

Considering diversity within organisations is also a key part of understanding cultures better. For us, the willingness of founders and managers to go out of their way to foster an inclusive environment, seeking a diverse range of viewpoints, is suggestive of a culture where leaders are open to being challenged, are always on the lookout for new perspectives, and are planning for their next decade of growth when the profile of incoming talent will continue to evolve.

This diversity of thought comes in many different forms. Some examples of areas we focus on include the range of experiences on the Board, management or Board members from different countries as companies expand operations across new geographies, and gender diversity within the organisation.

Why and how we are engaging on gender diversity?

We believe we invest in some of the highest quality companies in our Asia Pacific universes. Even with these companies, gender diversity remains a work in progress, especially on senior management teams and the Board. This is a topic that is relevant to companies across our investment universe, and in our minds, a first step towards thinking about diversity of thought more broadly.

We are by no means experts on this topic, particularly from within the glass houses of the investment industry. As such, we worked with the University of Technology in Sydney to commission a report on policies and tools around the recruitment and retention of women through their careers to compile a set of ideas that have had clear cases of success. We went on to share this research with some of the companies we invest in, on behalf of clients, and continue to have conversations on where they might be following different strategies and areas of improvement.

Next steps

Given our focus on cultures and people behind businesses, gender diversity continues to be an area of engagement for us with many of the companies we invest in. The solutions to bring about change are long term and require incremental changes to deliver tangible outcomes. We expect to continue having these conversations with companies over the next few years, and to continue learning from their successes ourselves.

Team update

We are delighted to welcome two new investment analysts to the Sustainable Funds Group.

In November 2020, Hanna Ranstrand joined the team based in Sydney. Hanna holds an MCom with Excellence in Global Sustainability and Social Enterprise from the University of New South Wales and a BCom in Finance from McGill University. Hanna had previously gained internship experience with the Sustainable Funds Group in Singapore, Edinburgh, London and Sydney. She also completed an internship with Jiarong Technology, a Chinese company that develops membranes for wastewater treatment.

In January 2021, Anya Prakash joined the team based in Edinburgh (albeit remotely due to current circumstances). Anya gained internship experience with Stewart Investors in 2018. She holds a BA in Philosophy from Wellesley College, Massachusetts, and a Graduate Diploma in Law from City University of London. She also completed an internship with asset management firm Grantham Mayo Van Otterloo & Co. in September 2016 and has gained professional experience working for law firms in Singapore and London.

Both Hanna and Anya are responsible for generating investment ideas for the sustainability strategies across all sectors in both emerging and developed markets.

New Morningstar Environmental Social and Governance (ESG) Commitment Level – Pacific Assets Trust awarded their top accolade of 'Leader'

We are pleased to share that Morningstar, the independent financial research and ratings firm, has awarded Pacific Assets Trust the top accolade of 'Leader' for their new ESG Commitment Level.

Morningstar assessed 100 plus strategies and 40 asset managers to analyse how they incorporated ESG factors into their investment processes and organisations. We are delighted to see the emergence of a more qualitative approach when considering the ESG credentials of asset managers and their investment strategies.

New sustainability interactive map

Over the last couple of months we have developed an interactive map on the Trust's website which allows shareholders to easily access detail on all the companies held within the Trust and how they are contributing to sustainable development.

https://www.pacific-assets.co.uk/trust-information/interactive-holdings-map/

AIC feedback request on ESG Disclosures

The Association of Investment Companies (AIC) asked for feedback from management groups working with AIC members on options for member companies to disclose their approach to ESG on the AIC website. Stewart Investors responded on behalf of the Trust, supporting improved freeform disclosures with an ability to link to other information sources, and flagged the challenges of third party ratings. On the basis of feedback, the AIC reported they have decided to go ahead with this initiative and plan to create an online mechanism for each member company to provide a short, company-specific, disclosure, setting out headline points in the first quarter of 2021.

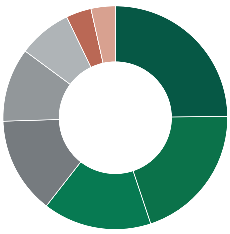
Pacific Assets Trust plc GBP - 31 December 2020

Trust Size £412m Number of Holdings 59

Ten Largest Holdings

Stock Name	Portfolio Weight (%)	*Comparator Index Weight (%)
Hoya Corp.	4.4	0.0
Vitasoy International Holdings	4.0	0.0
Unicharm Corporation	3.3	0.0
Mahindra & Mahindra Ltd.	3.3	0.1
Tube Investments of India Limited	3.2	0.0
Housing Development Finance Corporation Limited	3.1	0.9
Dr Lal Pathlabs Ltd	2.8	0.0
Marico Limited	2.8	0.0
Tech Mahindra Limited	2.8	0.1
Voltronic Power Technology Corp	2.7	0.0
Total	**32.4**	**1.1**

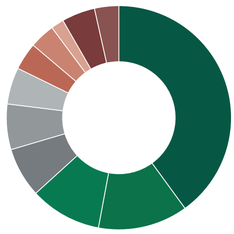
Sector Breakdown



- Information Technology 24.8% (23.1%*)
- Consumer Staples 20.1% (5.0%*)
- Financials 15.6% (17.9%*)
- Health Care 14.0% (5.0%*)
- Industrials 10.7% (5.3%*)
- Consumer Discretionary 7.7% (19.1%*)
- Communication Services 3.6% (11.5%*)
- Other 0.0% (13.2%*)
- Cash and Cash Equivalents 3.5% (0.0%*)

*Comparator Index Weight

Country Breakdown



- India 40.0% (10.4%*)
- Taiwan 12.9% (14.3%*)
- Japan 10.3% (0.0%*)
- China 7.2% (44.2%*)
- Hong Kong 6.6% (7.4%*)
- Indonesia 5.3% (1.5%*)
- South Korea 3.9% (15.2%*)
- Bangladesh 3.7% (0.0%*)
- Philippines 1.9% (0.8%*)
- Other 4.8% (6.1%*)
- Cash and Cash Equivalents 3.5% (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	7.0	6.7	16.7	8.8	24.1	27.8	1.1	4.5
*Comparator Index Weight	0.0	0.1	2.5	7.7	12.1	35.0	6.9	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.**	0.0	183
Hoya Corp.	4.4	164
Shenzhen Inovance Technology Co Ltd A	1.4	159

*** Not held at end of Period*

Bottom Three Contributing Stocks

Stock name	Portfolio Weight (%)	Value Added (bps)
Oversea-Chinese Banking Corporation Limited	0.7	-57
Philippine Seven PHP1	1.9	-55
Kasikornbank Public Co. Ltd.	1.1	-53

Annual Performance (% in GBP)

	12 mths to 31/12/20	12 mths to 31/12/19	12 mths to 31/12/18	12 mths to 31/12/17	12 mths to 31/12/16
NAV	21.2	2.1	5.3	15.0	22.8
Share Price	16.9	-0.8	8.9	10.4	28.5
Consumer Price Index (CPI) +6%	6.5	7.7	8.6	9.4	7.4
MSCI AC Asia ex Japan Index	21.2	13.6	-9.1	29.5	25.8

Cumulative Performance (% in GBP) to 31 December 2020

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mths	3 mths
NAV	216.6	83.9	83.9	30.3	21.2	20.9	12.0
Share Price	230.7	79.2	79.2	26.4	16.9	21.4	20.5
Consumer Price Index (CPI) +6%	126.7	119.1	46.4	24.6	6.5	3.4	1.8
MSCI AC Asia ex Japan Index	155.2	103.8	103.8	25.2	21.2	18.6	12.2

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.

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