



Pacific Assets Trust plc

Annual Report for the year ended 31 January 2018

[www.pacific-assets.co.uk](http://www.pacific-assets.co.uk)

# Contents

## Strategic Report

- 1 Financial Highlights
- 2 Key Information
- 3-5 Company Performance
- 6-8 Chairman's Statement
- 9-11 Investment Portfolio
- 12-17 Investment Manager's Review
- 18-19 Portfolio Focus
- 20-25 Business Review

## Governance

- 26-27 Board of Directors
- 28-35 Corporate Governance
- 36-40 Report of the Directors
- 41-42 Statement of Directors' Responsibilities
- 43-45 Audit Committee Report
- 46-48 Directors' Remuneration Report
- 49-53 Independent Auditor's Report

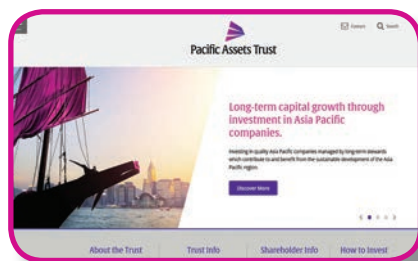
## Financial Statements

- 54 Income Statement
- 54 Statement of Changes in Equity
- 55 Statement of Financial Position
- 56-65 Notes to the Financial Statements

## Further Information

- 66 Shareholder Information
- 67-68 Glossary of Terms
- 69 How to Invest
- 70-74 Notice of the Annual General Meeting
- 75-76 Explanatory Notes to the Resolutions
- 77-78 Company Information

For more information about Pacific Assets Trust plc visit the website at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk) Please use the 'contact us' button to ask a question or to register for fact sheets, quarterly and annual reports, and webcasts.



## Strategic Report

# Financial Highlights

Net asset value  
per share total return<sup>†</sup>

**+12.8%\***

2017: +27.0%\*

Share price total return<sup>†</sup>

**+12.8%\***

2017: +22.2%\*

Benchmark<sup>†</sup>

**+27.0%\***

2017: +36.7%\*

Average discount of share  
price to net asset value  
per share during the year

**2.4%\***

2017: 2.2%\*

Dividend per share

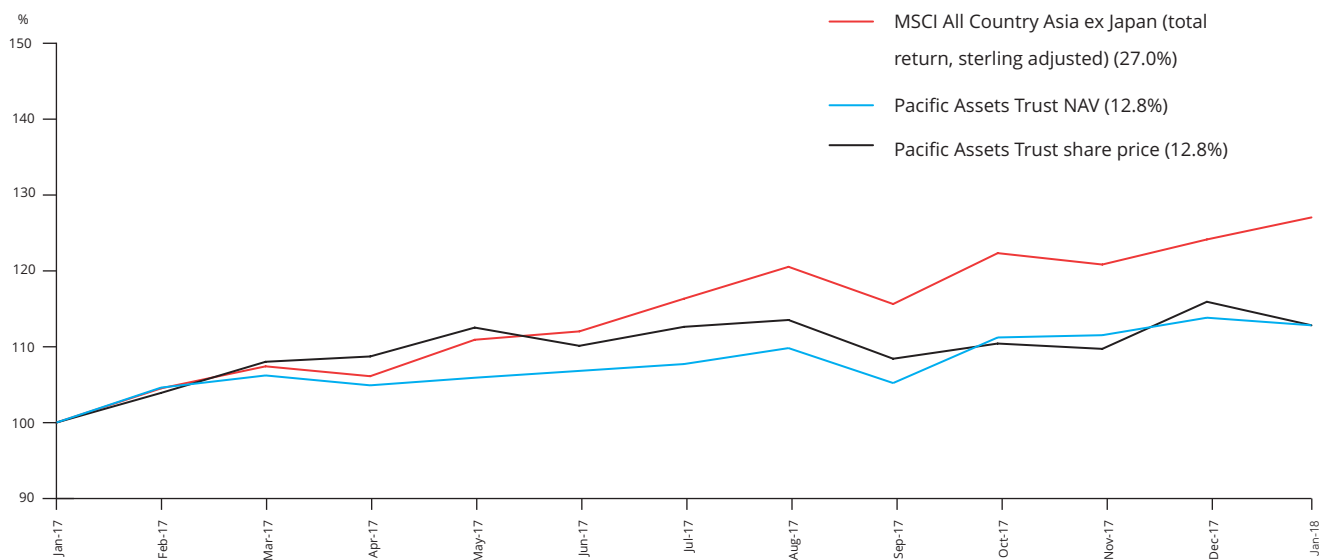
**2.6p**

2017: 2.6p

\* Source: Morningstar

† MSCI All Country Asia Ex Japan Index (total return, sterling adjusted). Also see Glossary beginning on page 67.

## Net Asset Value Total Return and Benchmark Performance for the Year to 31 January 2018



Source: Morningstar  
Rebased to 100 as at 31 January 2017

## Strategic Report

### Key Information

Pacific Assets Trust plc (the “Company”) aims to achieve long-term capital growth through investment in selected companies in the Asia Pacific region and the Indian sub-continent, but excluding Japan, Australia and New Zealand (the ‘Asia Pacific Region’). Up to a maximum of 20% of the Company’s total assets (at the time of investment) may be invested in companies incorporated and/or listed outside the Asia Pacific Region, (as defined above); at least 25% of their economic activities (at the time of investment) are within the Asia Pacific Region with this proportion being expected to grow significantly over the long term.

#### Investment Manager

Stewart Investors have been the Company’s Investment Manager since 1 July 2010 and they adopt a sustainable investment strategy in selecting the investments that make up the Company’s portfolio.

#### Investment Philosophy

Stewart Investors seek to invest only in good quality companies. They focus on the quality of management, franchise and financials. By analysing the sustainable development performance and positioning of companies they believe they can better measure less tangible elements of quality and identify less obvious risks.

Stewart Investors strives to make investment decisions with a minimum five-year time horizon. They have an absolute return mind-set and define risk as that of losing client money, rather than deviation from any benchmark index. They focus as much on the potential downside of investment decisions as on the anticipated upside. They believe that the identification of long-term sustainable development risks is an extremely important way of managing risk.

Their willingness to differ substantially from index weightings, both country and company, means they are not obliged to invest in any company or country if they have particular sustainability concerns.

#### What does Stewart Investors mean by Sustainable Development?

The root causes of the sustainable development challenges the world is facing are numerous and complex. In order to tackle these challenges both developed and developing countries will have to shift from a resource-intensive, consumption-driven, debt-dependent model of development and growth to a more sustainable one.

#### How does this apply to investment?

Stewart Investors invest in those companies which they believe are particularly well-positioned to deliver positive long-term returns in the face of the huge sustainable development challenges facing all countries today. These challenges include population pressure, land and water scarcity and degradation, resource constraints, income inequality, ethnic and gender inequalities and extreme levels of poverty.

Their emphasis is on sustainable development and not ‘green’, ‘clean tech’ or ‘ethical’ investing.

#### How to Invest

The Company’s shares are traded openly on the London Stock Exchange and can be purchased through a stock broker or other financial intermediary. The shares are available through savings plans (including investment dealing accounts, ISAs, Junior ISAs and SIPPs) which facilitate both regular monthly investments and lump sum investments in the Company’s shares. There are a number of investment platforms that offer these facilities. Further details can be found on page 69.

## Strategic Report

# Company Performance

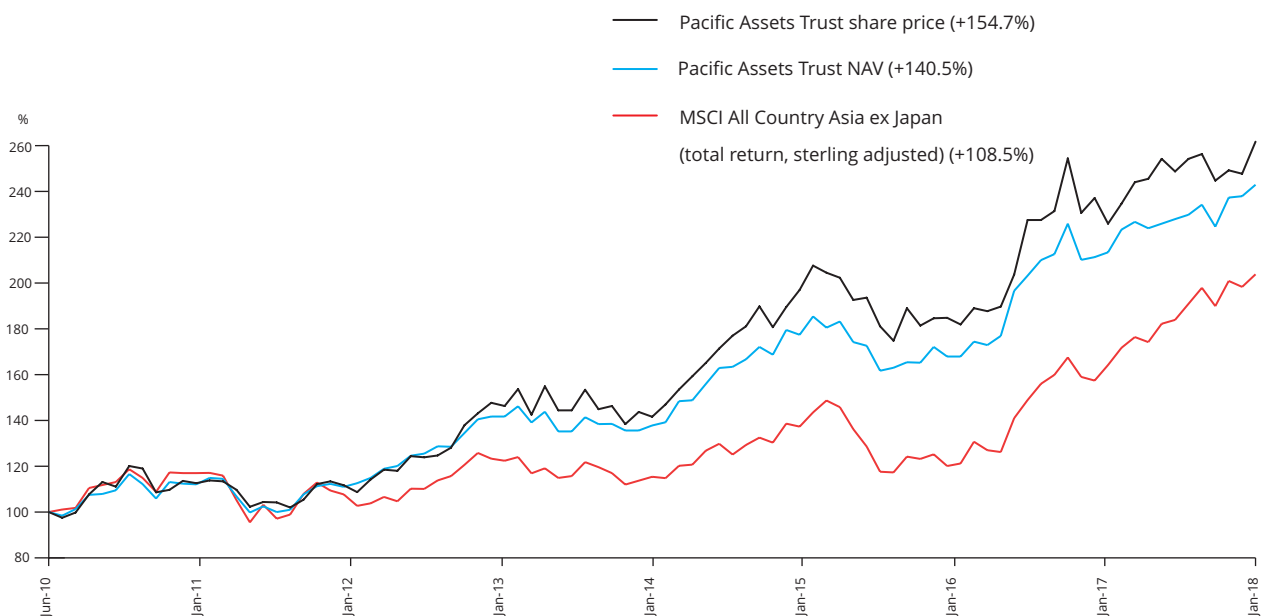
### Performance Summary

	As at 31 January 2018	As at 31 January 2017	% Change
Shareholders' funds	£320.7m	£287.2m	11.7%
Market capitalisation	£305.7m	£273.0m	12.0%
Performance	One year to 31 January 2018	One year to 31 January 2017	
Share price (total return)*	12.8%	22.2%	n/a
Net asset value per share (total return)*	12.8%	27.0%	n/a
MSCI All Country Asia ex Japan Index (total return, sterling adjusted)*	27.0%	36.7%	n/a
Average Discount of share price to net asset value per share*	2.4%	2.2%	n/a
Ongoing charges ratio†	1.3%	1.3%	n/a
Revenue return per share	2.6p	2.8p	(7.1%)
Dividend per share	2.6p	2.6p	-

\*Source: Morningstar

† See Glossary beginning on page 67

### Total Return Performance since the Date of Appointment of Stewart Investors as Investment Manager



Source: Morningstar

Rebased to 100 as at 30 June 2010

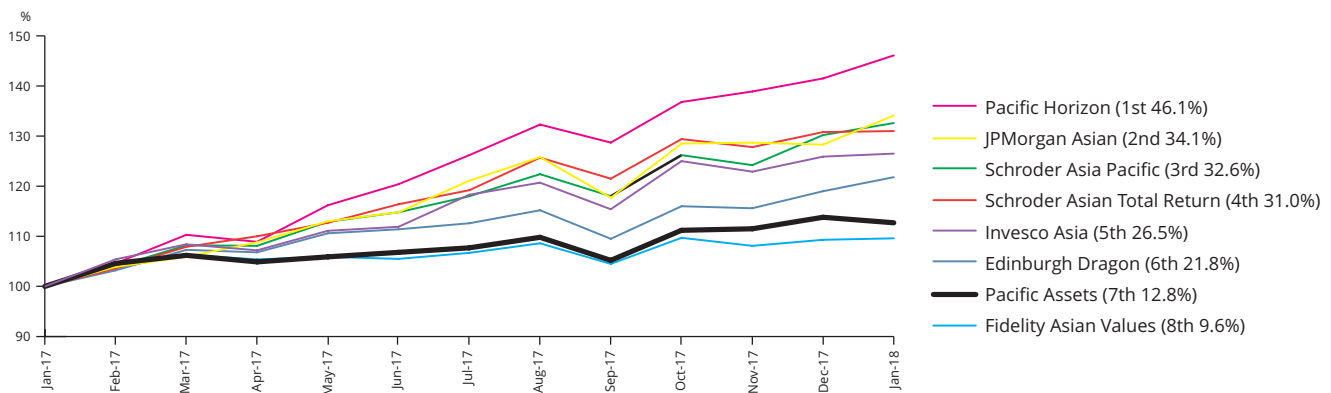
## Strategic Report

# Company Performance (continued)

### Performance Assessment

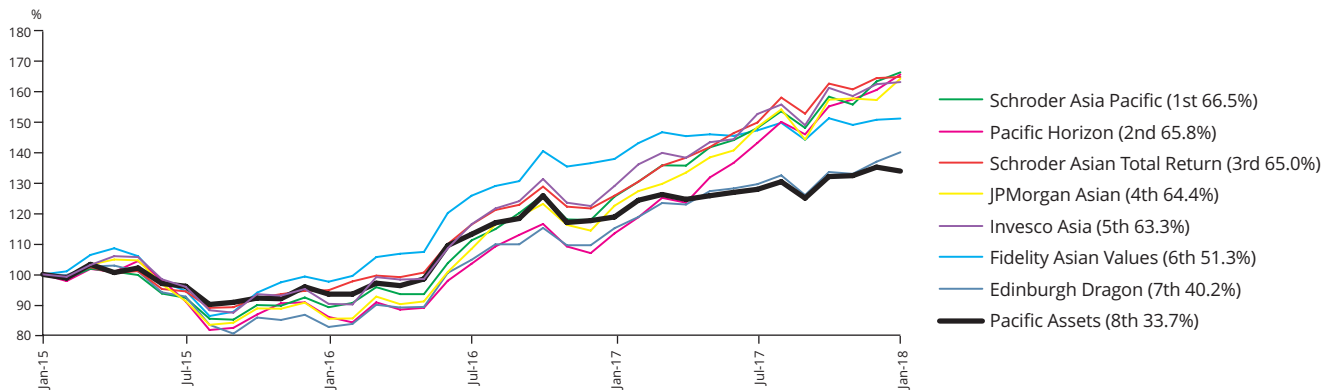
Pacific Assets Trust plc exists in a competitive environment and aims to be a leader in its peer group, defined by being consistently within the top third of that group measured by net asset value total return. The Company is committed to building a long-term investment record and will assess itself by reference to its peers on a rolling three to five-year basis.

### Peer Group NAV Total Return – 12 Months to 31 January 2018



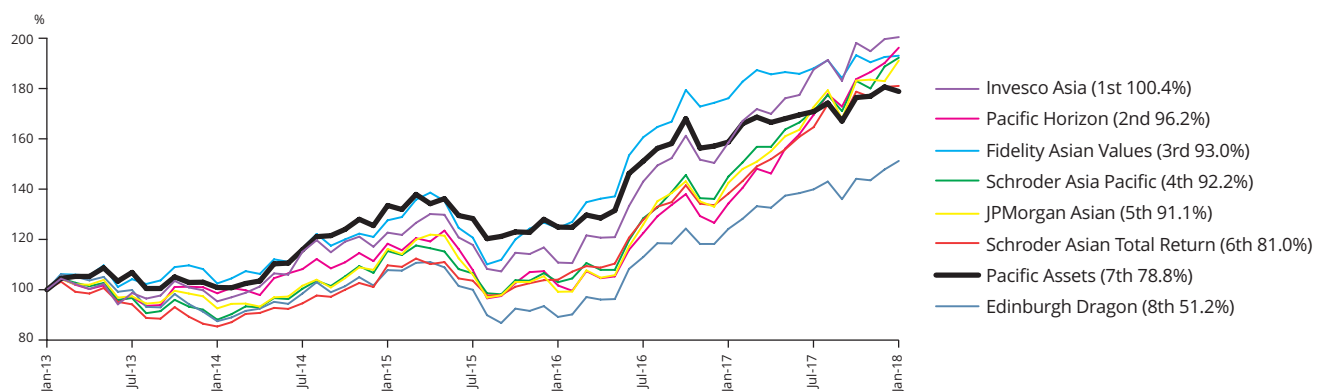
Source: Morningstar  
Rebased to 100 as at 1 January 2017

### Peer Group NAV Total Return – Three Years to 31 January 2018



Source: Morningstar  
Rebased to 100 as at 31 January 2015

### Peer Group NAV Total Return – Five Years to 31 January 2018



Source: Morningstar  
Rebased to 100 as at 31 January 2013

## Ten Year Record

31 January	Shareholders' funds £'000	Net asset value per share	Share price	Discount of share price to net asset value per share	Dividend per share	Ongoing charges
2008	152,105	128.5p	115.5p	10.1%	1.12p	1.5%
2009	87,760	74.2p	68.3p	8.0%	1.29p	1.6%
2010	135,254	114.3p	104.3p	8.8%	1.29p	1.6%
2011	160,086	137.0p	131.5p	4.0%	1.29p	1.6%*
2012	153,870	131.7p	115.3p	12.5%	2.60p	1.4%
2013	187,602	160.6p	147.5p	8.2%	2.60p	1.3%†
2014	186,287	159.4p	145.6p	8.7%	2.60p	1.3%†
2015	242,063	207.2p	196.3p	5.3%	2.60p	1.3%†
2016	228,326	191.2p	189.0p	1.1%	2.20p	1.3%
2017	287,202	240.2p	228.4p	4.9%	2.60p	1.3%
2018	320,731	267.6p	255.0p	4.7%	2.60p	1.3%

\*Excludes the costs attributable to the change in management arrangements amounting to £380,000.

†Excludes performance fees payable (2015: £1,798,000) (2014: £1,358,000) (2013: £627,000).



## Strategic Report

# Chairman's Statement



**"The Company's 12-month net asset value per share total return of +12.8% lagged the Benchmark's return of +27.0%. However, over the last five years, the annualised net asset value per share total return of +12.3% compares with the Benchmark return of +11.8%."**

### Investment Return

The Company's net asset value per share total return was +12.8% in the year to 31 January 2018. In the last five years the net asset value per share total return was +12.3% on an annualised basis. At the year-end the Company's net assets were £320.7 million. Five years ago, they were £187.6 million. Looked at in absolute terms such growth in value exceeds what one should expect the long-term return from equities to be, even allowing for the premium expected from investing in the economically dynamic Asia Pacific Region.

When measured against the Benchmark (the MSCI All Country Asia ex Japan Index measured on a total return, sterling adjusted basis), the Company's 12-month net asset value per share total return of +12.8% considerably lagged the Benchmark's return of +27.0%. Over the last five years, however, the annualised net asset value per share total return of +12.3% compares with the Benchmark return of +11.8%. Over the 12-month period, the Company's net asset value per share total return of +12.8% compares with the peer group of seven other Asian Investment Trusts' average return of +26.8%.

### Sustainable Long-Term Investing

As a Board, our duty is to ensure that the interests of our shareholders are protected, and to ensure that the management arrangements are fit for purpose. During the eight years that Stewart Investors have been managing your Company's portfolio, there has been minimal change to the investment team and their approach has remained consistent and focused, with a deep understanding of the businesses that they invest in, on behalf of the Company. While there has been recent underperformance, this consistency and focus has produced relative outperformance when looked at for longer periods.

Shareholders who have been long-term owners of the Company's shares will be familiar with what this approach means. They will be aware that with a portfolio

of shares bearing very little overlap with the leading components of the Benchmark, the investment returns, both positive and negative are likely to be at variance from the Benchmark. I was asked at a recent meeting by a shareholder what would make us think differently of our Investment Manager. My answer was that our greatest concern would be if they were to deviate from their long-established investment approach, and to start pursuing popular market trends.

We hear much about 'stewardship' and 'patient capital' these days in the investment world. The merit of a closed ended structure, such as an Investment Trust, is that a longer-term investment strategy can be accommodated with less risk of disruption. The Asian markets in which your Company is invested contain many thousands of possible investments. These cover a multitude of industries and a multitude of shareholder structures. The emergence of India and China as great driving forces of global expansion, brings with it a plethora of potential opportunity. The Company's investment policy is founded on the disciplines of intense company engagement, careful evaluation of a business's management's long-term strategies, and consideration of absolute investment risk. As shareholders in the Company, you need to be comfortable that this is the approach to investing in Asia that you are signed up to.

There is an alternative option for an investor who wishes to engage with this part of the world, to replicate the index of the largest companies on a passive, or an index tilted basis. In this recent period of ample liquidity this has been a successful approach, albeit punctuated by episodes of alarming volatility. Chinese internet stocks have dominant market capitalisation reflected in the Asian index and have been market leaders in the region for 18 months. A similar sectoral trend is evident in the United States. It is in the nature of markets that excesses of liquidity can cause distortions, sometimes lasting a long time.



Your Board is doing its job when challenging the Investment Manager closely on their investment decisions, on their mistakes and their successes, but we look at these through the prism of their well-articulated investment philosophy. In the evaluation of the Company's investment performance, we believe that a five-year time horizon is appropriate, which reflects the average holding period of the Company's investments with the portfolio turning over less than 21% within the last year.

There can be no satisfaction for either your Board or your Investment Manager in a competitive environment to report a second consecutive year of underperformance of both the Benchmark and of other Asian investment vehicles. However, we should not forget the complexity of the investment arena, the dynamics of different businesses, and the potential vagaries of the economic cycle. Against this background, it is consistency of thought and a strong awareness of the investment risks that are key to stewardship for shareholders.

#### **The Discount and Issuance**

The average share price discount to the net asset value per share during the year was 2.4% which compares to an average discount of 2.2% during the previous year. During the year, the Company was able to issue 325,000 new shares at a small premium to net asset value per share. Shareholder approval to renew the authority to both issue new shares and to repurchase existing shares will be sought at this year's Annual General Meeting.

#### **Revenue and Dividend**

As has been explained in previous reports to shareholders the generation of income from dividends remains a secondary objective for the Company. Many of the companies in which we are invested are relatively young businesses to which we are committed for the long term, where the future growth profile is more important than the generation of dividend income for shareholders. We seek to pay out the major part of income received to shareholders, but we would make a reminder that this can rise or fall from one year to another. For the current year, the Company's earnings per share were 2.6p compared with 2.8p for the previous year. The Board has taken a decision to recommend an unchanged annual dividend of 2.6p per share. This dividend will be paid on Wednesday, 4 July 2018 to shareholders on the register at Friday, 1 June 2018. The associated ex-dividend date will be Thursday, 31 May 2018.

#### **Management**

The Board formally reviews the Company's investment management arrangements annually. This review considers the stability of the Stewart Investors' team and the consistency of the investment process. We take note of relative performance against both the Benchmark and a peer group of investment companies. Such evaluation is typically over a five-year time horizon.

We also review the overall management costs. In this respect I can report that with effect from 1 February 2018, the fee payable to Frostrow Capital LLP, the Company's Manager, Administrator and Company Secretary, has been amended as follows: a fixed fee of £60,000 per annum; 0.11% per annum on net assets up to £150 million and 0.075% per annum on net assets between £150 million and £500 million. The fee payable was previously 0.15% per annum of the Company's net assets lower than or equal to £275 million, and 0.10% per annum of the amount of the Company's net assets in excess of £275 million.

#### **Annual General Meeting**

This year's Annual General Meeting will be held at 12 noon on Wednesday, 27 June 2018, and will again be held at etc. venues, St. Paul's, 200 Aldersgate Conference Centre, London EC1A 4HD. As well as the formal proceedings, there will be an opportunity for shareholders to meet the Board and the Investment Manager, and to receive an update on the Company's strategy and its key investments. I very much look forward to seeing as many shareholders as possible on that day.

Shareholders who are unable to attend are encouraged to return their forms of proxy to ensure their entitlement to vote is used.

#### **Key Information Document**

Shareholders may be aware that new regulations, the Packaged Retail and Insurance-based Investment Products ("PRIIPs") Regulation, came into effect from 1 January 2018. Under these regulations, the Company is required to prepare and publish a key information document ("KID") to help potential investors understand the nature, risk and costs of this product and to allow comparison with others.

## Strategic Report

# Chairman's Statement (continued)

The KID contains information about the Company in a highly prescribed format, both in terms of the calculation of the numbers and also the narrative, with limited ability to add additional context and explanations. The Board believes that the KID should therefore be considered in conjunction with other material produced about the Company including the annual, half year and quarterly reports and the monthly fact sheet which, *inter alia*, describe the Company's investment objective together with the investment philosophy of our Investment Manager. All of these documents are available at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk). The Board continues to keep this matter under review.

### Outlook

There is a higher level of uncertainty in all global markets with a related rise in volatility. The rise in inflationary expectations by previous standards remain quite modest, but the difficult question is how the gradual reversal of years of monetary ease and extreme debt accumulation will impact across asset classes that have risen, often exponentially, on a tide of liquidity.

The underlying growth characteristics found in Asia, and the attention to quality in the Company's portfolio may help to mitigate some of these risks. However, we believe that, during this period of adjustment to rising interest rates, a cautious outlook is justified.

**James Williams**

Chairman

29 March 2018

## Strategic Report

# Investment Portfolio

### as at 31 January 2018

Company	MSCI sector	Market valuation £'000	% of total assets less current liabilities	Country
Vitasoy International Holdings	Consumer Staples	19,451	6.0	Hong Kong
Tech Mahindra	Information Technology	18,894	5.9	India
Standard Foods	Consumer Staples	11,765	3.7	Taiwan
Marico	Consumer Staples	10,919	3.4	India
Chroma ATE	Information Technology	10,815	3.4	Taiwan
Taiwan Semiconductor Manufacturing	Information Technology	9,001	2.8	Taiwan
E.Sun Financial Holdings	Financials	8,692	2.7	Taiwan
Manila Water	Utilities	8,555	2.7	Philippines
Unicharm	Consumer Staples	8,232	2.6	Japan*
Kotak Mahindra Bank	Financials	8,096	2.5	India
<b>Ten largest investments</b>		<b>114,420</b>	<b>35.7</b>	
Housing Development Finance	Financials	8,069	2.5	India
Cyient	Information Technology	7,301	2.3	India
Ayala Corporation	Financials	6,504	2.0	Philippines
Dr. Reddy's Laboratories	Health Care	6,044	1.9	India
Bank of the Philippine Islands	Financials	6,021	1.9	Philippines
Dabur India	Consumer Staples	5,875	1.8	India
Cipla	Health Care	5,850	1.8	India
Bank OCBC NISP	Financials	5,768	1.8	Indonesia
United Plantations	Consumer Staples	5,585	1.8	Malaysia
Delta Electronics (Thailand)	Information Technology	5,516	1.7	Thailand
<b>Twenty largest investments</b>		<b>176,953</b>	<b>55.2</b>	
Delta Brac Housing Finance	Financials	5,235	1.6	Bangladesh
Uni-President Enterprises	Consumer Staples	5,117	1.6	Taiwan
Delta Electronics (Taiwan)	Information Technology	5,004	1.6	Taiwan
TI Financial Holdings	Financials	4,999	1.5	India
Mahindra & Mahindra	Consumer Discretionary	4,739	1.5	India
Selamat Sempurna	Consumer Discretionary	4,693	1.5	Indonesia
Public Bank	Financials	4,568	1.4	Malaysia
Koh Young Technology	Information Technology	4,525	1.4	South Korea
Oversea-Chinese Banking	Financials	4,063	1.3	Singapore
Kasikornbank	Financials	3,926	1.2	Thailand
<b>Thirty largest investments</b>		<b>223,822</b>	<b>69.8</b>	

\*Economic activity takes place principally in the Asia Pacific Region

## Strategic Report

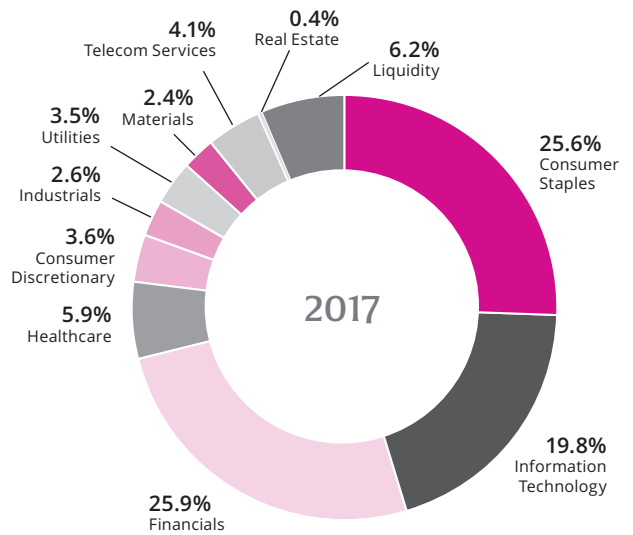
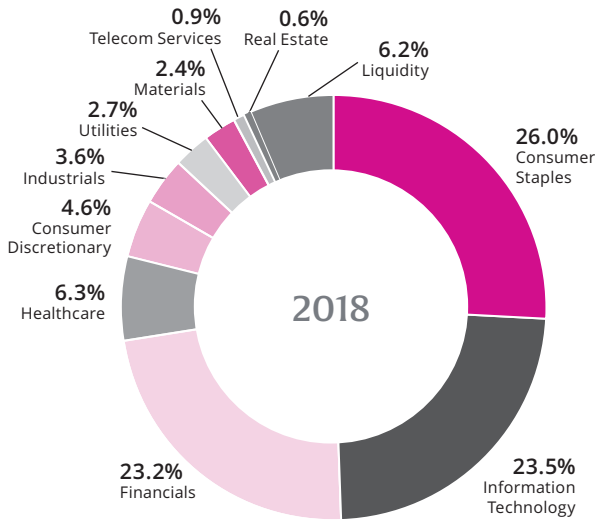
## Investment Portfolio (continued)

Company	MSCI sector	Market valuation £'000	% of total assets less current liabilities	Country
Hemas Holdings	Industrials	3,711	1.2	Sri Lanka
President Chain Store	Consumer Staples	3,634	1.1	Taiwan
Commercial Bank of Ceylon	Financials	3,630	1.1	Sri Lanka
Tata Consultancy Services	Information Technology	3,557	1.1	India
Infosys	Information Technology	3,542	1.1	India
Square Pharmaceuticals	Health Care	3,501	1.1	Bangladesh
BRAC Bank	Financials	3,451	1.1	Bangladesh
Nippon Paint	Materials	3,392	1.1	Japan*
Elgi Equipments	Industrials	3,380	1.0	India
Expeditors International of Washington	Industrials	3,233	1.0	United States*
<b>Forty largest investments</b>		<b>258,853</b>	<b>80.7</b>	
Info Edge (India)	Information Technology	3,218	1.0	India
Kalbe Farma	Health Care	3,108	1.0	Indonesia
Godrej Consumer Products	Consumer Staples	3,102	1.0	India
Tube Investments of India	Consumer Discretionary	2,982	0.9	India
Robinsons Retail Holdings	Consumer Staples	2,956	0.9	Philippines
Idea Cellular	Telecommunication Services	2,839	0.9	India
S H Kelkar and Co	Materials	2,580	0.9	India
Marico Bangladesh	Consumer Staples	2,381	0.7	Bangladesh
Giant Manufacturing	Consumer Discretionary	2,379	0.7	Taiwan
PChome Online	Information Technology	2,260	0.7	Taiwan
<b>Fifty largest investments</b>		<b>286,658</b>	<b>89.4</b>	
Mahindra Lifespace Developers	Real Estate	2,018	0.6	India
Sundaram Finance	Financials	1,904	0.6	India
China Mengniu Dairy	Consumer Staples	1,727	0.5	China
Dr. Lal PathLabs	Health Care	1,585	0.5	India
Advantech	Information Technology	1,579	0.5	Taiwan
Hero Supermarket	Consumer Staples	1,498	0.5	Indonesia
CT Holdings	Consumer Staples	1,462	0.4	Sri Lanka
Advanced Enzyme Technologies	Materials	1,273	0.4	India
Shanthi Gears	Industrials	1,243	0.4	India
<b>Total portfolio</b>		<b>300,947</b>	<b>93.8</b>	
<b>Net current assets</b>		<b>19,784</b>	<b>6.2</b>	
<b>Total assets less current liabilities</b>		<b>320,731</b>	<b>100.0</b>	

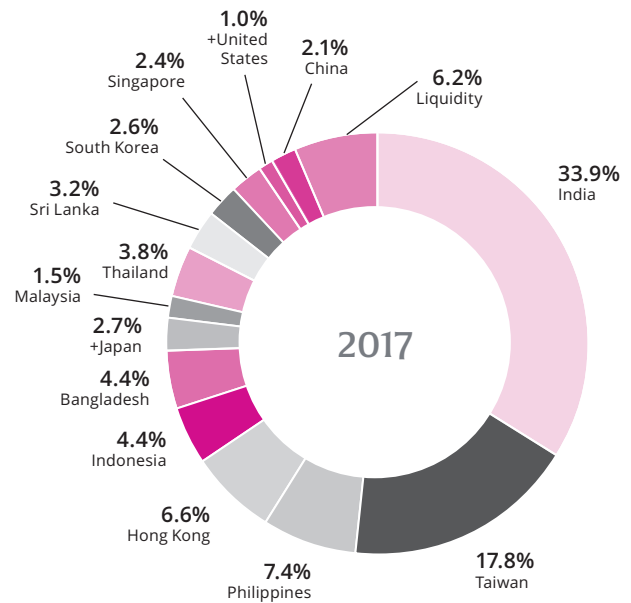
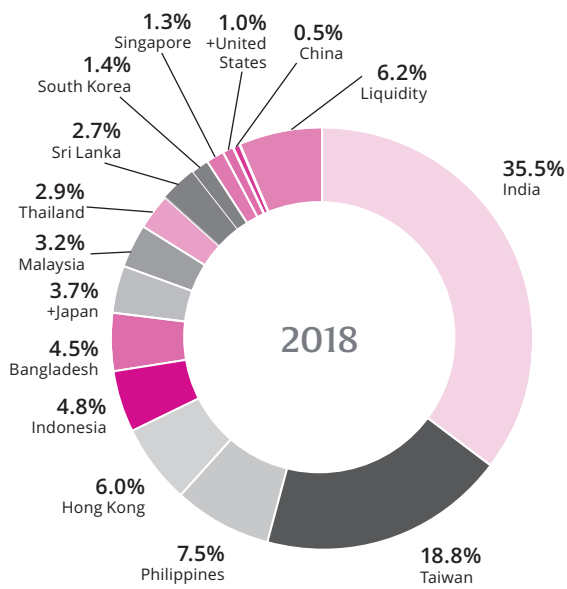
\*Economic activity takes place principally in the Asia Pacific Region

## Portfolio Distribution

### Sector Analysis



### Geographical Analysis



+ Economic activity principally within the Asia Pacific Region

## Strategic Report

# Investment Manager's Review

**"We remain as convinced as ever about the long-term returns to be generated from investing in Asia."**

Last year we highlighted our thoughts on investing by economic exposure rather than focusing too much on country of listing or incorporation. We have always been happy owning companies listed outside the Asia Pacific ex-Japan region if they make the majority of their money in Asia ex-Japan. It is with this same 'blank sheet of paper' approach (we are bottom-up investors with the freedom to ignore the large popular index companies) that we have spent time this year looking at the attractions of investing in Asia at all – what are the benefits for shareholders?

### Asia as a separate asset class?

Why is Asia still regarded as a separate asset class by investors? At first glance, it looks like an artificial construct, made up of 15 countries with very little in common, other than crude proximity on a global map. There is not even a daily flight between Beijing and Delhi. Thirty years ago, investors were attracted to the region by the alluring promise of economic convergence with the west and political reform. Today, these historic arguments are less convincing. For many Asian countries, economic convergence has largely happened. Taiwan now has a greater income per capita than Denmark. South Korea has a higher income per capita than Spain. China is now classified as a "high human development" country by the UN<sup>1</sup>. In terms of political reform, it is a similar story of progress and convergence. Thirty years ago, Asia was dominated by dictators and strongmen. Since then, investors have benefited from the development of democratic governance in many, though not all, countries. South Korea, for example, elected its first leader by popular vote in 1988, Taiwan in 1996 and Indonesia in 1998. There are, of course, plenty of exceptions. Economic convergence is still a long way off for some Asian countries and political reforms are by no means uniform. However, these exceptions are no longer reason alone to put such disparate countries into the same investment category.

### Family-controlled companies

Where then does that leave Asia as a separate asset class? Fortunately (for fund managers with Asian trusts like ourselves!), there is still at least one compelling reason for retaining Asia as a separate asset class: the region is home to the world's greatest collection of good quality, listed, family-controlled companies – and good family companies make for some of the very best investment opportunities around. Approximately two-thirds of listed Asian companies are controlled by families or their foundations. The opposite is true globally, with approximately two-thirds of listed companies having no identifiable long-term steward. Crucially, this prevalence of family-controlled companies is not limited to one part of Asia. It applies equally from Sri Lanka to Singapore to South Korea. It is perhaps the one feature that binds all Asian markets together.

### Patience pays

Why does this matter? For long-term investors, the attractions of family companies are threefold. Most significantly, the best companies require the ability to take long-term decisions that may not generate returns for many years or even decades. Vitasoy, a Hong Kong-based soya milk company held in the portfolio is a good example. They started selling soya milk into China in the early 1980s. By 2001 they were still loss-making. They persisted nonetheless and their patience was finally rewarded. Today, mainland China accounts for approximately 40% of group profits<sup>2</sup>.

This "crossing the river by feeling the stones" approach to business has been particularly rewarding for companies entering large, untested markets such as China, India and Indonesia. Poor quality companies have often rushed in quickly and tried to conquer the whole market in one giant leap, failing in the process. Good quality companies, such as Vitasoy, have taken a much more patient and measured approach that has paid off over the course of decades, rather than years

<sup>1</sup> Source: Briefing note for countries on the 2016 Human Development Report.

<sup>2</sup> Source: Vitasoy Annual Report FY2016/2017, page 19.



and months. They have only been able to act patiently because they have patient owners. In today's era of casino capitalism, having a patient owner is perhaps the greatest competitive advantage of them all, particularly given the collapse in time horizons of institutional investors. When all around are focused on next quarter's earnings and borrowing to buy back shares to meet management bonus hurdles, the ability to think and act long-term becomes a very valuable asset. It can't be easily replicated by ownerless competitors, eroded away by cheap capital or low-cost labour, disrupted by Amazon or stolen by cyber hackers!

The importance of long-termism is magnified by the severity of the sustainability challenges facing companies today. Sustainability challenges tend to sit just over the horizon. Asia's obesity epidemic will affect the profit that can be generated from selling products with high sugar, fat and salt content over a period of years rather than months, as a combination of government regulation and changing consumer preferences slowly takes hold. Climate change, the shift away from fossil fuels and internal combustion engines, will likewise impact miners, power stations and automobile manufacturers over the next decade rather than the next ten months. Those companies with patient long-term owners find it much easier to adjust their strategies accordingly. By contrast, ownerless companies struggle to "future-proof" or "horizon-scan."

#### Importance of corporate memories

As well as looking forward, another advantage of family companies is their ability to look backward, often a very long way. This is particularly useful when it comes to thinking about risk. For example, many family-owned Asian banks can draw upon their families' extensive experiences of historic crises and mistakes. Singapore's OCBC is a case in point (owned in the portfolio today). Owned by the Lee family, this is a bank that traces its roots to the early 1900s. Since then the bank has survived a number of "black swan" events, from Japanese occupation closing its Indonesian branches to the nationalisation of its Burmese branches (renamed the People's Bank No.14) and the relocation of its headquarters from Singapore to Mumbai during the Second World War. The 1997 Asian crisis and the more recent Global Financial Crisis are simply the latest in a long line of storms the bank has weathered. Such corporate memories make it much easier to run the bank in perpetual readiness for the next storm, rather than to assume there is only fair weather ahead. Many Asian family companies have similar stories to tell. It is perhaps the primary reason why there are so many net cash companies in Asia compared with elsewhere. While

the rest of the world is busy gearing up, many Asian families are doing the opposite. As one family steward told us recently, lazy balance sheets don't look so lazy when you are trying to steer your company through the eye of the storm.

#### Successful engagement built on partnership

A third advantage of family ownership for investors is less tangible but also important. The presence of a long-term steward opens the door for meaningful dialogue and engagement between investors, company owners and managers. Investor engagement can take many forms, but it is most successful when it is based on genuine partnership. It is hard to partner ownerless companies. By contrast, it is possible to establish long-term, lasting relationships with family-owned companies. Engagement then becomes less about confrontation and more about cooperation and collaboration built upon mutual respect. It is much easier to ask awkward questions around supply chain practices, environmental short-cuts or corporate governance concerns in such cases.

#### Not all family companies make for good investments

There are, of course, many caveats to the above arguments in favour of family companies. Not all good quality family stewards run good quality businesses and not all good quality businesses are family-run. Many of the latter manage to create an internal, self-perpetuating sense of purpose that can replicate some of the advantages that come from a family steward. Others can get a sense of stewardship from outside the company. A good example of this is Taiwan Semiconductor owned in the portfolio. Nominally an open register today, Asia's leading technology company has always taken its mandate, time horizon and sense of purpose from its Government origins. It was set up in 1987 by the Taiwanese Government and leased its first factory from the Ministry of Economic Affairs. Such examples are relatively rare though.

Unsurprisingly, for every good Asian family steward there is at least one poor one, intent on maximising value for themselves at the expense of minority shareholders and other stakeholders. Even those with good intentions can lose their way. Family companies tend to be too slow to modernise, while the old Chinese adage that "wealth never survives three generations" is sometimes proved true – although by no means always. The Tata Group (Tata Consultancy Services is held in the portfolio) in India is now into its eighth generation. The Ayala Group of the Philippines has been around even longer – three Ayala Group owned companies are held in the portfolio. It is particularly difficult for families to retain control of capital-intensive businesses over time

## Strategic Report

# Investment Manager's Review (continued)

without resorting to dual share class structures<sup>3</sup>. Twenty years ago we wrote letters to Asian stock exchanges complaining about dual share classes. Today it is something we welcome when done for the right reasons at the right companies.

### Benefits of active investment

Trying to sort out the good from the poor family stewards is a key part of the job of active Asian investors. It is hard to replicate using algorithms, artificial intelligence and big data<sup>4</sup>. It ultimately comes down to trust and judgement. Family control structures matter. Asian companies could do worse than copy the approach taken by Merck KGaA in Germany.

Founded in 1668, 70% of the voting shares are still owned by approximately 200 family shareholders. The reasons why they have been able to last thirteen generations are complex and no doubt include a healthy dose of good fortune. However, there are lessons for others. Most importantly, as the Chair of the Family Board puts it, success has stemmed "from the culture of trusteeship for future generations, the humility of the family and its members and a tradition of togetherness rather than conflict."<sup>5</sup> This is easier said than achieved. To help, they have built a very simple and effective control mechanism. No family member is allowed to own more than 5% of the family equity and all representatives on the Family Board, which controls Merck itself, must receive 50% of all votes before being elected. This mechanism is designed to avoid conflict and build consensus. It seems to have worked so far.

### Outlook: Asia's real attraction

In short, the presence of a family steward is no automatic guarantee of returns. It is, however, a powerful source of long-term competitive advantage for Asian companies and Asian investors in today's short-term world. This competitive advantage is becoming more important as Asia's businesses become ever more global. As a result, we remain as convinced as ever about the long-term returns to be generated from investing in Asia. Our conviction is not, however, based upon old arguments of economic convergence or political reform. Nor is it based upon favourable demographics, rising real wages or high savings rates. Instead, it is simply driven by the opportunity to partner with a very large

number of good quality Asian families as they patiently build their Asian and global businesses over the coming decades.

## The Portfolio

### Performance – 12 Months ended 31 January 2018

Over the past 12 months the total return of the Company's net asset value per share was +12.8%. This compares to a rise in the Benchmark of +27.0%.

While we are comfortable that such periods of relative underperformance are consistent with the Company's investment philosophy and long-term approach, it is always useful to understand the drivers of it; useful both for us as Investment Manager and for shareholders. The Half Year Report and Accounts contained a number of comments about performance and we don't want to cover exactly the same ground – the points we mentioned in October are still broadly relevant.

It is worth considering again the points on Samsung and the Chinese Internet companies. Despite the strength of many parts of Samsung, we find it hard to invest in a Company whose Head has recently spent time in Jail, accused of bribery, embezzlement and perjury. Unfortunately, this is not the first time the Head of the Group has been arrested, with his predecessor convicted on charges of financial wrongdoing and tax evasion in 2008. The market, on the other hand appears less concerned and the share price is close to an all-time high.

In the case of Chinese internet companies Alibaba, Tencent and Baidu there is much to be positive about, most notably the impressive levels of cashflows they generate and the breadth and depth of the businesses they are building. Cashflows from gaming at Tencent have been used to build businesses from search engines and music streaming to ride -sharing, electric cars and artificial intelligence. They even own a small stake in Tesla. It is a similar story for Alibaba and Baidu – they are impressive businesses.

With Alibaba, Tencent and Baidu we have four main concerns that have prevented us from investing.

<sup>3</sup> Where a company has more than one class of shares with one of the classes having particular rights (e.g. voting rights).

<sup>4</sup> Very large amounts of data which can be analysed by computers to reveal patterns and trends, especially about human behaviour.

<sup>5</sup> Source: 'Four centuries, one family', Brunswick review • issue 12 • 2017.

Most importantly, and firstly, we struggle with their corporate structures. While each is different, they share the same characteristic that investors can only buy shares in a listed company with no ownership of the most valuable assets of the business. Instead, they are asked to rely on a legal agreement that entitles the 'Listco' to a share of the profits from a separate company. While these arrangements have so far been honoured, there is no guarantee that will be the case in the future. We prefer to own shares in a business and believe that the purchase of a share comes with both rights and responsibilities. Positive engagement on governance issues is a powerful tool in driving shareholder value but we can't do this without owning a share.

A second concern is the political risk from investing in such high-profile entrepreneurs. We are particularly nervous about Emerging Markets billionaires who become politically connected. One of the first things we teach new analysts is that "well connected" is a weakness when conducting a "SWOT" analysis, rather than a strength. There are already signs of political involvement. For example, both Tencent and Baidu's CEOs serve in the 12th National People's Congress, while last year Alibaba purchased the South China Morning Post, Hong Kong's primary news outlet, promising to maintain editorial independence. We struggle to imagine how editorial independence and the long-term prospects of the Parent will not clash. We also prefer to invest alongside management and owners who have succeeded on their own, without the help of political connection.

Thirdly, we have concerns about each business model. For example, Tencent generates well over half of its profits from "virtual" revenues from on-line games. We struggle with gaming companies given their constant need to develop new "hits". We also find it hard to build conviction in the long-term viability of "virtual" revenues – defined as in-game purchases. We prefer to invest where we are able to find more evidence that the foundations are being built for sustainable growth.

Finally, the valuations are high. We believe that there is no single catch-all valuation methodology but do strive to pay sensible prices for our investments, believing that every company of sufficient quality has a fair value. In the case of the companies above, all of them trade above twenty-five times future earnings, despite the risks outlined above.

The "picks and shovels approach" is a phrase often used in the context of mining where investments are made in providers of equipment for the industry rather

than its end-product. We use this phrase to describe our approach to technology. We claim no advantage in predicting which product or software will come into fashion next, just as we claim no advantage in predicting political change. We back a number of high quality companies and management teams whose companies produce essential goods and services regardless of short-term technological trends.

Tata Consultancy Services (TCS) is one such company – providing a range of information technology services, digital and business solutions. It is benefitting from the wave of large companies attempting to "digitise" their businesses, for example, by moving to cloud-based applications. Its role has been to educate and adapt the business model of its clients to the latest technology. The largest market by sales is North America with the majority of work conducted in India, given the superior cost structure.

TCS has evolved, prospered and established itself as a leading Asian and global IT and business consulting franchise. It is the jewel in the Tata Group crown, and the Tata code of ethics instils a strong sense of commitment to sustainability, community and the ethos of the group. The parent group has also encouraged a culture of long-term thinking. This has enabled the management of TCS to develop a highly devolved business model to manage growth, cope with scale, and ensure the highest possible level of employee engagement. The company is well positioned to benefit from and contribute to innovation and informational, operational, resource and environmental efficiencies created by the digital economy.

Our focus on stewardship and capital preservation tends to mean that the Company underperforms a sharply rising market. This is very much the case currently. We are not risk averse but do set out to be obsessively risk aware – defining risk as that of losing client money rather than underperforming a benchmark.

The tables overleaf highlight the top 10 contributors to and detractors from the Company's performance over the 12 months to January 2018. As always it is worth highlighting the short time period here, bearing in mind that we set out to invest in companies over a minimum period of five years, and ideally much longer.

## Strategic Report

# Investment Manager's Review (continued)

### Contribution by investment

#### Top 10 Contributors to Performance for the Year ended 31 January 2018

Company	Absolute Contribution to Performance (%)
Chroma ATE	2.59
Tech Mahindra	1.61
Vitasoy International Holdings	1.23
Taiwan Semiconductor Manufacturing	1.21
Kotak Mahindra Bank	1.12
China Mengniu Dairy	0.96
Marico	0.94
Koh Young Technology	0.88
Housing Development Finance	0.81
Cyient	0.65

#### Top 10 Detractors from Performance for the Year ended 31 January 2018

Company	Absolute Contribution to Performance (%)
Dr Reddy's Laboratories	-0.81
Manila Water	-0.59
Idea Cellular	-0.40
PChome Online	-0.40
Delta Electronics (Thailand)	-0.34
Hero Supermarket	-0.28
Giant Manufacturing	-0.22
Lupin*	-0.21
Commercial Bank Of Ceylon	-0.18
Hemas Holdings	-0.16

\* Company not held at end of the year

It is hard to identify any consistent themes in the top contributors but one thing worth mentioning is that we have trimmed all but three of these positions (Tech Mahindra, Koh Young Technology, and Housing Development Finance). We strive to pay sensible prices for investments and believe that every company of significant quality has a fair value.

### Portfolio Transactions

#### New Positions:

**Advanced Enzyme Technologies:** An Indian supplier of enzymes – a crucial ingredient in the manufacturing of various end products such as paper, detergents, bio fuels, dairy and food products.

**Advantech:** A leading Taiwan industrial automation company with sustainable tailwinds.

**Dr Lal PathLabs:** A leading Indian medical diagnostic company.

**Infosys:** A leading Indian software services company.

**Kalbe Farma:** An Indonesian manufacturer and distributor of healthcare products.

**Mahindra & Mahindra:** One of India's most respected and successful industrial groups.

**Nippon Paint:** This Japanese company is Asia's largest paint manufacturer.

**President Chain Store:** The largest convenience store operator in Taiwan.

**Robinsons Retail Holdings:** A leading retail group offering fresh and healthy products at reasonable prices throughout the Philippines.

**Shanthi Gears:** An industrial gearbox manufacturer in India.

**Tata Consultancy Services:** The crown jewel of the Tata Group in India, TCS provides information technology services, and digital and business solutions.

**Uni-President Enterprises:** Founded as a humble flour mill in the 1960s, now an international food conglomerate based in Taiwan.

**United Plantations:** One of the highest quality owners of palm plantations in Malaysia.

#### Disposals:

**Bata Shoe:** A Bangladeshi shoe company that we had concerns was potentially under-investing in brand building like their Indian cousins.

**Cholamandalam:** An Indian financial company that is now fully valued.

**City Union Bank:** An Indian banking company that is now fully valued.

**DGB Financial Group:** A Korean-based financial holding company which we have replaced with higher conviction ideas.

**Dialog Axiata:** A Sri Lankan cellular services company. We believe the franchise faces sustainability headwinds.

**IDFC Bank:** An Indian bank that we were unable to build conviction in following the departure of a key steward.

**Linde India:** An Indian industrial gases company which we have replaced with higher conviction ideas.

**Lupin:** An Indian pharmaceutical going through the perfect storm; we are waiting for clearer skies to see how sturdy their ship is.

**Mahanagar Gas:** An Indian natural gases distribution company that is now fully valued.

**Sheng Siong:** A Singaporean grocery and fresh food supermarket retail chain, facing headwinds from the entry of eCommerce competitors.

**Tata Chemicals:** One of the largest chemical companies in India which we felt was trading on valuations that no longer reflected the strength of the franchise or its opportunity for long-term growth.

**XL Axiata:** An Indonesia-based mobile telecommunications services operator facing sustainable headwinds.

**Stewart Investors**

29 March 2018

## Strategic Report

# Portfolio Focus

These are examples of companies that we believe are driving sustainable development.

### Vitasoy

#### Sustainable goods and services

Companies that make and do things that are needed – healthcare, information technology, consumer, retail companies.

Contribute to economic development, human health and welfare, greater environmental efficiency.

#### Sustainable Development Goals supported

- Their plant-based beverages have offered sustainable nutrition since their establishment eighty years ago
- Plant-based diet has a lower environmental impact than an animal-based diet



#### Engaging on Sustainable Development Goals

- Continued improvement in packaging
- Reduction in sugar content



### BRAC Bank

#### Responsible finance

Companies that help people and enterprises save, borrow, invest and insure themselves against risks – banks and insurers.

Contribute to economic and social development.

#### Sustainable Development Goals supported

- World's largest non-governmental organisation as a steward provides a strong sense of purpose
- Target small and medium-sized enterprises (SMEs)



#### Engaging on Sustainable Development Goals

- Responsible growth
- Gender diversity





## Mahindra and Mahindra

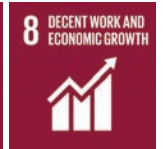
### Required infrastructure

Companies that provide the basic building blocks and service infrastructure societies need to develop and thrive – industrial, materials, logistics companies, utilities.

Contribute to better environmental outcomes, resource and operational efficiency, safety, logistics.

### Sustainable Development Goals supported

- Agricultural machinery and finance
- Developing new businesses  
e.g. clean energy, logistics



### Engaging on Sustainable Development Goals

- Auto emissions, especially from SUVs
- Tiny defence business



The Investment Manager supports the Sustainable Development Goals (SDGs). The SDGs identified above are as determined by the Company's lead portfolio manager and may be different to the SDGs identified for the same company by other Stewart Investors' portfolio managers. The full list of SDGs can be found on the United Nations website.

By way of background for those that have not yet heard of the SDGs, they are 17 goals with 169 targets that were launched in September 2015. Under each goal there is a description of why the goal is important, with some interesting statistics on sustainability performance. The targets to address the issues then range in specificity. For example under Goal 3: 'Ensure healthy lives and promote well-being for all at all ages', a specific target is by 2020 to halve the number of global deaths and injuries from road traffic accidents. There are of course targets that are far less measurable (or difficult to define) like 'End all forms of discrimination against all women and girls everywhere' under the gender equality goal. Looking at the gender outcomes as it relates to pay and Boards of companies in developed markets alone gives a sense of how far away we unfortunately are from achieving this goal.

The SDGs are clearly government and policy focused, as would be expected from a UN initiative. However, the UN seems to have been successful in engaging companies to explore what role they could play in helping the targets to be achieved. While the SDGs are not legally binding, governments are expected to take ownership and establish national frameworks for the achievement of each of the SDGs. Countries have the primary responsibility for follow-up and review.

## Strategic Report

# Business Review

The Strategic Report, set out on pages 1 to 25, contains a review of the Company's business model and strategy, an analysis of its performance during the financial year and its future developments and details of the principal risks and challenges it faces. Its purpose is to inform the shareholders in the Company and help them to assess how the Directors have performed their duty to promote the success of the Company.

## Investment Objective

The Company's investment objective along with Stewart Investors' investment approach is set out on page 2.

## Investment Policy

The Company invests in companies which Stewart Investors believe will be able to generate long-term growth for shareholders.

The Company invests principally in listed equities although it is able to invest in other securities, including preference shares, debt instruments, convertible securities and warrants. In addition, the Company may invest in open and closed-ended investment funds and companies.

The Company is only able to invest in unlisted securities with the Board's prior approval. It is the current intention that such investments are limited to those which are expected to be listed on a stock exchange or which cease to be listed and the Company decides to continue to hold or is required to do so.

Risk is diversified by investing in different countries, sectors and stocks within the Asia Pacific Region. There are no defined limits on countries or sectors but no single investment may exceed 7.5% of the Company's total assets at the time of investment. This limit is reviewed from time to time by the Board and may be revised as appropriate.

No more than 10% of the Company's total assets may be invested in other listed closed-ended investment companies unless such investment companies themselves have published investment policies to invest

no more than 15% of their total assets in other closed-ended investment companies, in which case the limit is 15%.

The Company has the power under its Articles of Association to borrow up to two times the adjusted total of capital and reserves. However, in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company was registered by the FCA as a Small Registered UK Alternative Investment Fund Manager ("AIFM") with effect from 1 April 2014. To retain its Small Registered UK AIFM status, the Company is unable to employ gearing. Notwithstanding this, the Company's approach is not to gear the portfolio.

The use of derivatives is permitted with prior Board approval and within agreed limits. However, Stewart Investors are unlikely to use derivatives.

## Dividend Policy

It is the Company's policy to pursue capital growth for shareholders with income being a secondary consideration. Many of the companies in which the Company invests are relatively young businesses to which the Company is committed for the long term. This means that the Company's Investment Manager is frequently drawn to companies where the future growth profile is more important than the generation of dividend income for shareholders.

## Business Model

The Company is an externally managed investment trust and its shares are premium listed on the Official List and traded on the main market of the London Stock Exchange, and is a small registered UK Alternative Investment Fund Manager under the European Union's Alternative Investment Fund Managers Directive.

As an externally managed investment trust all of the Company's day to day management and administrative functions are outsourced to service providers. As a result, the Company has no executive Directors, employees or internal operations.

The Board has retained responsibility for risk management and has appointed Stewart Investors to manage its investment portfolio. Company management, company secretarial and administrative services are outsourced to Frostrow Capital LLP.

## The Board

The Board of the Company comprises James Williams (Chairman), Charlotta Ginman, Sian Hansen, Terence Mahony and Robert Talbut. All of these Directors served throughout the year and are non-executive independent Directors.

Further information on the Directors can be found on pages 26 and 27.

## Board Focus and Responsibilities

With the day to day management of the Company outsourced to service providers the Board's primary focus at each Board meeting is reviewing the investment performance and associated matters, such as, *inter alia*, future outlook and strategy, gearing, asset allocation, investor relations, marketing, and industry issues.

In line with its primary focus, the Board retains responsibility for all the key elements of the Company's strategy and business model, including:

- Investment Objective, Policy and Benchmark, incorporating the investment guidelines and limits, and changes to these;
- whether the Company should employ gearing (as a small registered UK AIFM, the Company is currently precluded from utilising gearing at any time);
- review of performance against the Company's KPIs;
- review of the performance and continuing appointment of service providers; and
- maintenance of an effective system of oversight, risk management and corporate governance.

The Company's Investment Policy, including the related limits and guidelines, is set out on page 20.

Details of the principal KPIs, along with details of the principal risks, and how they are managed, follow within this Business Review.

Further information, including the remuneration and contractual terms of appointment, of the principal

service providers to the Company, being Stewart Investors, Frostrow Capital LLP and J.P. Morgan Chase Bank, the Company's Custodian who are responsible for the safekeeping of the Company's assets, are set out on page 38 in the Report of the Directors.

The Corporate Governance report, on pages 28 to 35, includes a statement of compliance with corporate governance codes and best practice, together with the outline of the internal control and risk management framework within which the Board operates.

## Board Diversity

The Board's policy on diversity, including gender, is to take this into consideration during the recruitment and appointment process. However, the Board is committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity, and therefore no targets have been set against which to report.

## Succession Planning

The Board regularly considers its structure and recognises the need for progressive refreshments.

During the year, the Board approved a Board and Audit Committee Composition and Succession Plan to ensure that (i) there is a formal, rigorous and transparent procedure for the appointment of new directors to the Board; and (ii) the Board is comprised of members who collectively display the necessary balance of professional skills, experience, length of service and industry/ Company knowledge. The plan will be reviewed annually and at such other times as circumstances may require.

## Strategic Report

# Business Review (continued)

### Key Performance Indicators

The Company's Board of Directors meets at least five times a year and at each meeting reviews performance against a number of key measures, as follows:

- Net asset value total return against the MSCI All Country Asia ex Japan Index (total return, sterling adjusted) (the "Benchmark")\*
- Net asset value total return against the peer group\*
- Average discount/premium of share price to net asset value per share over the year
- Ongoing charges ratio

\* Measured over a variety of time periods, in particular over three to five years

#### Net asset value total return – benchmark

The Directors regard the Company's net asset value total return as being the overall measure of value delivered to shareholders over the long term. Total return reflects both the net asset value growth of the Company and the dividends paid to shareholders. It should be noted that Stewart Investors' investment style is such that performance is likely to deviate materially from that of the Benchmark. The Board considers, however, that this remains an appropriate comparator.

During the year under review the net asset value per share showed a total return of +12.8% underperforming the Benchmark by 14.2%.

A full description of performance during the year under review and the investment portfolio is contained in the Investment Manager's Review commencing on page 12.

#### Net asset value total return – peer group

The Company exists in a competitive environment and aims to be a leader in its peer group, defined by being consistently within the top third of that group measured by net asset value total return. The Company is committed to building a long-term investment record and will assess itself by reference to its peers on a rolling three to five-year basis.

Over the three years ended 31 January 2018, the Company ranked eighth in its peer group of the Company and seven other investment trusts with a similar investment objective; over five years it was ranked seventh.

#### Discount/premium of share price to net asset value per share

The Board believes that an important driver of an investment trust's discount or premium over the long term is investment performance together with a proactive marketing strategy. However, there can be volatility in the discount or premium during the year. Therefore, the Board takes powers each year to buy back and issue shares with a view to limiting the volatility of the share price discount or premium.

During the year under review a total of 325,000 new shares were issued at an average premium of 1.2% to the prevailing cum income net asset value per share. New shares will only be issued at a premium to the Company's cum income net asset value per share at the time of issue. No shares were bought back by the Company. The Company's share price discount to net asset value per share was consistently narrower than the peer group average.

#### Average discount of share price to net asset value per share\* during the year ended

31 January 2018	31 January 2017
<b>2.4%</b>	<b>2.2%</b>
Peer group average discount <b>7.9%</b>	Peer group average discount <b>10.3%</b>

\* Source: Morningstar

#### Ongoing charges ratio

The Board continues to be conscious of expenses and works hard to maintain a sensible balance between strong service and costs.

As at 31 January 2018 the ongoing charges ratio was 1.3%. This ongoing charges ratio compares to the average of the Company's peer group of 1.0%, or 1.2% where the members of the peer group have a performance fee.

**Ongoing charges ratio† (excluding performance fees)**

31 January 2018	31 January 2017
<b>1.3%</b>	<b>1.3%</b>
Peer group average <b>1.0%</b>	Peer group average <b>1.1%</b>

† See Glossary beginning on page 67

## Risk Management

The Board is responsible for the management of the risks faced by the Company and the Board regularly reviews these risks and how risk is managed. The Board has categorised the risks faced by the Company under four headings as follows:

- Investment risks
- Financial risks
- Shareholder relations
- Operational risks (including cyber crime, corporate governance, accounting, legal, political and regulatory)

A summary of these risks and their mitigation is set out below:

### Investment Risks

By the nature of its activities, the Company's portfolio is exposed to fluctuations in market prices (from both individual security prices and foreign exchange rates) and due to the exposure to emerging markets in the Asia Pacific region, in which the portfolio companies operate, it is expected to have higher volatility than the wider market. As such investors should be aware that by investing in the Company they are exposing themselves to this risk.

To manage this risk the Board have appointed Stewart Investors to manage the portfolio within the remit of the investment objective and policy. The investment policy limits ensure that the portfolio is diversified reducing the risks associated with individual stocks and markets. Frostrow Capital LLP monitors compliance with the investment policy on a daily basis.

The Board on an ongoing basis, through monthly and quarterly reporting from Frostrow Capital LLP and Stewart Investors, monitors exposure to investments, performance, and compliance with the investment objective and policy.

At each Board meeting Stewart Investors provide an explanation of investment decisions, the make-up of the investment portfolio and the investment strategy.

### Investment Management Key Person Risk

There is a risk that the individual(s) responsible for managing the Company's portfolio may leave their employment or may be prevented from undertaking their duties.

The Board manage this risk by:

- appointing the Investment Manager, who operates a team environment such that the loss of any individual should not impact on service levels;
- receiving regular reports from the Investment Manager, such reports includes any significant changes in the make-up of the team supporting the Company;
- meeting the wider team, outside the designated lead manager, at both Board meetings and at the Investment Manager's offices;
- outside of regular Board meetings the Chairman is in regular contact with senior representatives of the Investment Manager; and
- delegating to the Engagement and Remuneration Committee, responsibility to perform an annual review of the service received from the Investment Manager, including, *inter-alia*, the team supporting the lead manager and succession planning.

### Financial Risks

In addition to market and foreign currency risks, discussed above, the Company is exposed to credit risk arising from the use of counterparties. If a counterparty were to fail, the Company could be adversely affected through either delay in settlement or loss of assets. The most significant counterparty the Company is exposed to is J.P. Morgan Chase Bank, the Custodian, which is responsible for the safekeeping of the Company's assets. Under the terms of the contract with J.P. Morgan Chase Bank the Company's assets are required to be segregated from its own assets.

## Strategic Report

### Business Review (continued)

Credit risk is managed by the Board through:

- reviews of the arrangements with, and services provided by, the Custodian to ensure that the security of the Company's custodial assets is being maintained;
- monitoring of the Custodian, including reviews of internal control reports and sub-custodial arrangements, as appropriate; and
- reviews of Stewart Investors' approved list of counterparties, the process for monitoring, and adding to, the approved counterparty list and the Company's use of those counterparties.

Further information on other financial risks, can be found in note 13 beginning on page 63.

#### Shareholder relations

The Company is also exposed to the risk, particularly if the investment strategy and approach are unsuccessful, that the Company underperforms its peer group and Benchmark resulting in the Company becoming unattractive to investors and a widening of the share price discount to net asset value per share.

In managing this risk the Board:

- reviews the Company's investment objective and policy and Stewart Investors' investment approach in relation to the investment performance, market and economic conditions and the operation of the Company's peers;
- regularly discusses the Company's future development and strategy;
- undertakes a regular review of the level of the Company's share price discount/premium to net asset value per share and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing, share issuance and share buy-backs, where appropriate; and
- reviews an analysis of the shareholder register at each Board meeting and is kept informed of shareholder sentiment.

#### Operational Risks (including cyber crime, corporate governance, regulatory, legal, political and, accounting risks)

The Board is reliant on the systems of the Company's service providers and as such disruption to, or a failure of, those systems could lead to a failure to comply with corporate governance requirements, law and regulations, leading to reputational damage and/or financial loss to the Company. This encompasses disruption or failure caused by cyber crime and covers dealing, trade processing, administrative services, financial and other operational functions.

To manage these risks the Board:

- receives a monthly report from Frostrow Capital LLP, which includes, *inter alia*, details of compliance with applicable laws and regulations;
- reviews internal control reports and key policies, including the disaster recovery procedures, of its service providers;
- maintains a risk matrix with details of risks to which the Company is exposed, the approach to those risks, key controls relied on and the frequency of the controls operation;
- receives updates on pending changes to the regulatory and legal environment and progress towards the Company's compliance with such changes; and
- has considered the increased risk of cyber-attacks and has received reports and assurance from its service providers regarding the controls in place.

The Board is aware that the UK's vote to leave the EU has introduced elements of political and economic uncertainty which may have practical consequences for the Company and its Investment Manager. Developments continue to be closely monitored by the Board.

Geopolitical risk to the Company is also kept under close review by the Board.



## Looking to the Future

The Board concentrates its attention on the Company's investment performance and Stewart Investors' investment approach and on factors that may have an effect on this approach.

The Board monitors the performance of the Company's investment portfolio compared to its Benchmark and also its peer group.

The Board is regularly updated by Frostrow Capital LLP on wider investment trust industry issues and regular discussions are held concerning the Company's future development and strategy.

A review of the Company's year, its performance and the outlook for the Company can be found in the Chairman's Statement on pages 6 to 8 and in the Investment Manager's Review on pages 12 to 17.

The Company's overall strategy remains unchanged.

By order of the Board

**Frostrow Capital LLP**

Company Secretary

29 March 2018

## Governance

# Board of Directors



### James Williams

Independent Non-Executive Chairman

Joined the Board in 2013 and became Chairman in June 2015

Remuneration: £35,000 pa

James has worked in investment management for over 45 years. He was formerly the Chief Investment Officer of Baring Asset Management. He was a founder in Asia of the Henderson Baring group. He has held several non-executive directorships, and is currently a Director of F&C UK High Income Trust plc.

Shareholding in the Company: 40,000



### Charlotta Ginman, FCA

Independent Non-Executive Director

Joined the Board in 2014

Remuneration: £28,500 pa

A Chartered Accountant, Charlotta is Chair of the Audit Committee and the Senior Independent Director. She is a non-executive Director and Chair of the Audit Committee of Polar Capital Technology Trust plc, Motif Bio plc and Keywords Studios plc. She is also a non-executive Director of Consort Medical plc and Unicorn AIM VCT plc. Charlotta has held senior positions in the investment banking and telecom sectors.

As three out of Charlotta's six non-executive directorships are with quoted investment companies that involve less time commitment than trading companies, Charlotta is able to devote sufficient time to all of her appointments.

Shareholding in the Company: 9,716



### Sian Hansen

Independent Non-Executive Director

Joined the Board in 2015

Remuneration: £25,000 pa

Sian is currently a non-executive Director of the JP Morgan Multi-Asset Trust PLC, a member of the Advisory Board of EBF International (Shanghai) Ltd and Cerno Capital PLC. She is also an Advisor to Oxford Investment Consultants, the research arm of the Oxford Technology Innovation Fund. Previously she was Executive Director of the Legatum Institute and before this, Managing Director of the UK think tank Policy Exchange. She is a Commissioner of The Women's Refugee Commission in the USA and a Trustee of The Almeida Theatre.

Shareholding in the Company: 4,680

## Governance

### Board of Directors (continued)



#### Terence Mahony

Independent Non-Executive Director

Joined the Board in 2004

Remuneration: £25,000 pa

Terence is Managing Director of TFM Management Limited, a firm of investment consultants based in Hong Kong. He has over 40 years' investment experience, the last 30 of which have been gained in Asia. He is also non-executive Vice Chairman of Vina Capital Group and a non-executive Director of Tau Capital plc, LIM Asia Special Situations Fund Limited, Polunin Capital EM Active Fund and VCAP Asset Managers Sdn. Bhd.

Shareholding in the Company: 25,000



#### Robert Talbut

Independent Non-Executive Director

Joined the Board in 2016

Remuneration: £25,000 pa

Robert is non-executive Chairman of Shires Income PLC and a non-executive Director of Schroder UK Mid Cap Fund PLC, and JP Morgan American Investment Trust plc. He is also Chairman of EFG Asset Management (UK) Limited and is an independent member of Aviva Group's Independent Governance Committee and an external adviser to Hiscox plc. Robert was formerly a director and Chief Investment Officer at Royal London Asset Management Limited.

Shareholding in the Company: 9,611

All Directors seek either appointment or re-appointment to the Board at the Annual General Meeting each year.

The table below sets out the number of scheduled Board and Committee meetings held during the year ended 31 January 2018 and the number of meetings attended by each Director.

	Board (5)	Audit Committee (3)	Engagement & Remuneration Committee (1)	Nomination Committee (1)
Number of meetings	5	3	1	1
James Williams	5	3	1	1
Charlotta Ginman	5	3	1	1
Sian Hansen	5	2	1	1
Terence Mahony	5	3	1	1
Robert Talbut	5	3	1	1

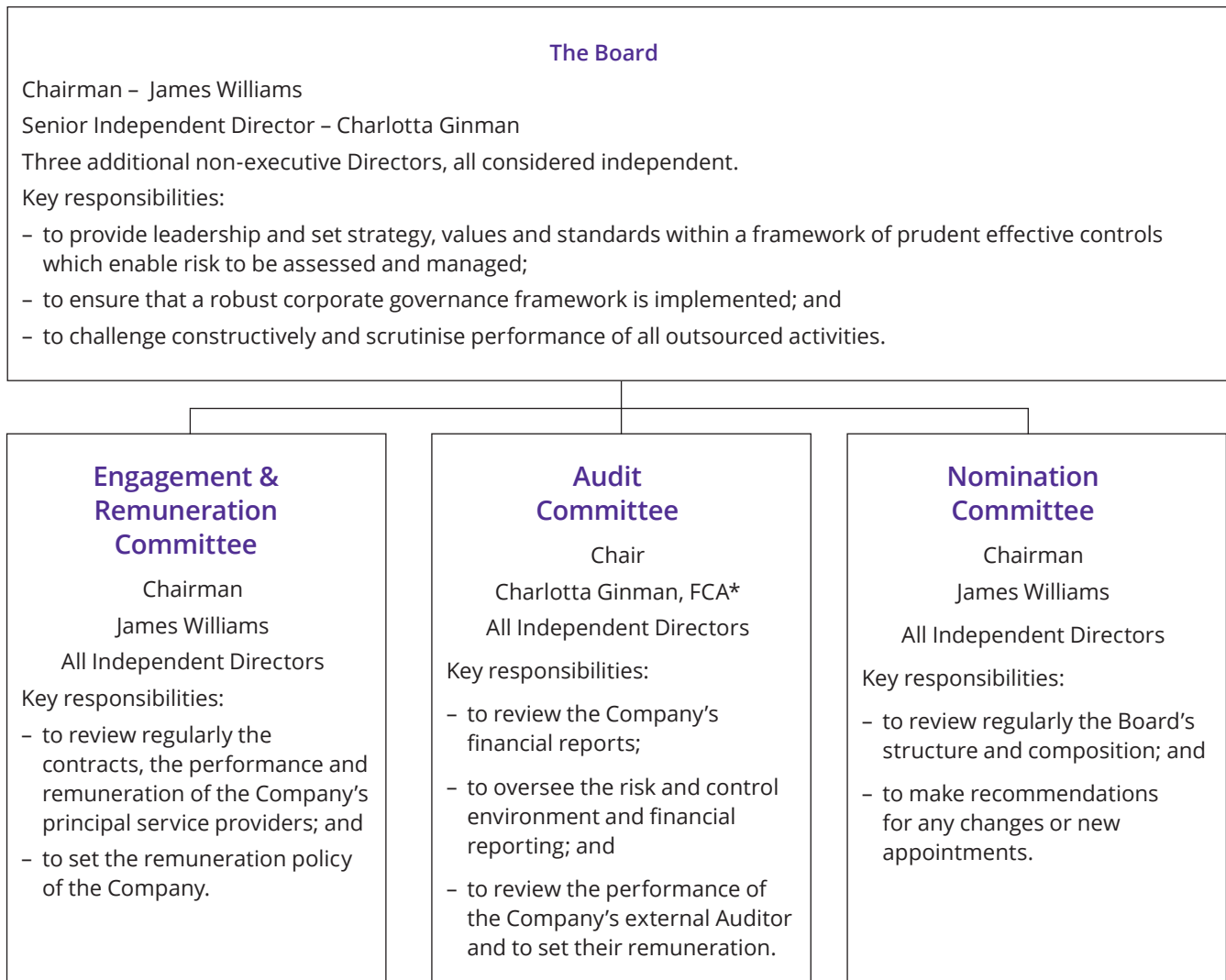
Other *ad hoc* meetings of the Board and Committees are held in connection with specific events as and when necessary. All the serving Directors attended the Annual General Meeting held on 29 June 2017.

## Governance

# Corporate Governance

## The Board and Committees

Responsibility for effective governance lies with the Board. The governance framework of the Company reflects the fact that as an investment company it has no employees and outsources portfolio management to Stewart Investors and Company management, company secretarial and administrative services to Frostrow Capital LLP.



\*The Directors believe that Charlotta Ginman has the necessary recent and relevant financial experience to Chair the Company's Audit Committee.

Copies of the full terms of reference, which clearly define the responsibilities of each Committee, can be obtained from the Company Secretary and will be available for inspection at the Annual General Meeting. They can also be found on the Company's website at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk).

### Corporate Governance Statement

The Corporate Governance Statement on pages 29 to 35, forms part of the Report of the Directors on pages 36 to 40.

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code'), and by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide') (which incorporates the UK Corporate Governance Code ('UK Code')), will provide better information to shareholders.

The Financial Reporting Council has confirmed that by following the AIC Code and the AIC Guide, boards of investment companies will meet their obligations in relation to the UK Code and paragraph 9.8.6 of the UK Listing Rules.

The AIC Code and AIC Guide address the principles set out in the UK Code as well as additional principles and recommendations on issues that are specific to investment trusts. The AIC Code can be viewed at [www.theaic.co.uk](http://www.theaic.co.uk).

### The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections covering:

- The Board
- Board Meetings and relations with Stewart Investors and Frostrow
- Shareholder Communications

### Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as follows:

The UK Code includes certain provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. Therefore with the exception of the need for an internal audit function which is addressed further on page 43, the Company has not reported further in respect of these provisions.

## Governance

# Corporate Governance (continued)

### The Board

AIC Code Principle	Compliance Statement
1. The Chairman should be independent.	The Chairman, James Williams, is completely independent of Stewart Investors and the Company's other service providers. The Board, through the Nomination Committee, formally reviews the Chairman each year and considers that he is independent both in character and judgement. There is a clear division of responsibility between the Chairman, the Directors, Stewart Investors, Frostrow Capital LLP and the Company's other third party service providers. The Chairman is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of its role.
2. A majority of the Board should be independent of the manager.	The Board consists of five non-executive Directors, each of whom is independent of Stewart Investors. No member of the Board is a Director of another investment company managed by Stewart Investors, nor has any Board member been an employee of the Company, Stewart Investors or any of the Company's service providers. One of the Directors (Mr Terence Mahony) has served on the Board for more than nine years from the date of his first election. Given the strongly independent mindset of Mr Mahony, the Board is firmly of the view that he can be considered to be independent.
3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	All Directors will submit themselves for annual re-election by shareholders. The individual performance of each Director standing for re-election is evaluated annually by the remaining members of the Board and, if considered appropriate, a recommendation is made that shareholders vote in favour of their re-election at the Annual General Meeting. The Board recommends that shareholders vote in favour of the re-election of all Directors at the Annual General Meeting.
4. The Board should have a policy on tenure, which is disclosed in the annual report.	The Board, meeting as the Nomination Committee, considers the structure of the Board and recognises the need for ongoing progressive refreshment. The Board subscribes to the view expressed within the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following formal performance evaluations, believes that each of the Directors is independent in character and judgement and that there are no relationships or circumstances which are likely to affect their judgement. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. In view of its non-executive nature, the Board considers that it is not appropriate for the Directors to be appointed for a specified term, although new Directors are appointed with the expectation that they will serve for a minimum period of three years subject to shareholder approval. The AIC Code states that any Director who has served for more than nine years is subject to annual re-appointment. All of the Company's Directors (who are not retiring from the Board) seek appointment or re-appointment at each Annual General Meeting. The terms and conditions of the Directors' appointments are set out in letters of engagement which are available for inspection on request at the office of Frostrow Capital LLP and at the Annual General Meeting.



## The Board (continued)

AIC Code Principle	Compliance Statement
5. There should be full disclosure of information about the Board.	<p>The Directors' biographical details, set out on pages 26 and 27 of this Report, demonstrate the wide range of skills and experience that they bring to the Board.</p> <p>Details of the length of service of each Director are set out on page 47.</p> <p>Details of the Board's Committees and their composition are set out on page 28 of this Report.</p> <p>The Audit Committee membership comprises all of the Directors, all of whom are considered independent. The Chairman of the Company is a member of the Audit Committee, but does not chair it. His membership of the Audit Committee is considered appropriate given the Chairman's extensive knowledge of the financial services industry.</p> <p>The Engagement &amp; Remuneration Committee is comprised of the whole Board, all Directors are considered independent. The Chairman of the Company acts as Chairman of this Committee in light of the remit of the Committee.</p> <p>Please see principle 9 for details of the Nomination Committee.</p>
6. The Board should aim to have a balance of skills, experience, length of service and knowledge of the company.	<p>The Nomination Committee considers annually the skills possessed by the Board and identifies any skill shortages to be filled by new Directors.</p> <p>When considering new appointments, the Board reviews the skills of the Directors and seeks to add persons with complementary skills or who possess the skills and experience which fill any gaps in the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively.</p> <p>The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the Board. When Board positions become available as a result of retirement or resignation, the Company will ensure that a diverse group of candidates is considered.</p> <p>During the year the Board adopted a Board and Audit Committee Composition and Succession Plan. See page 21 for further details.</p>
7. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.	<p>During the year an external independent review of the Board, its committees and individual Directors (including each Director's independence) was carried out by an independent third party, Lintstock.</p> <p>The Board reviewed the report from Lintstock in September 2017 and the Chairman is leading on implementing those changes recommended by the report that the Board considered should be made. The review concluded that the Board worked in a collegiate efficient and effective manner, and did not identify any material weaknesses or concerns.</p> <p>The Board is satisfied that the structure, mix of skills and operation of the Board continue to be effective and relevant for the Company.</p> <p>The Board has agreed that a further independent review will be commissioned in 2020.</p>
8. Director remuneration should reflect their duties, responsibilities and the value of their time spent.	<p>The Engagement &amp; Remuneration Committee reviews the fees paid to the Directors annually and compares these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the level of commitment and responsibility of each Board member. It also reflects the additional commitment of the Company acting as its own AIFM. Details on the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Report on pages 46 to 48 and in note 4 to the Accounts (which can be found on page 59).</p> <p>As all of the Directors are non-executive, the Board considers that it is acceptable for the Chairman of the Company to chair meetings when discussing Directors' fees. The level of fees paid to the Directors is set by all Directors collectively; the Chairman does not take part in discussions regarding his own remuneration. The Board annually takes advice from external independent advisers on Directors' remuneration.</p>

## Governance

# Corporate Governance (continued)

### The Board (continued)

AIC Code Principle	Compliance Statement
9. The Independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	<p>The Nomination Committee is comprised of the whole Board, all Directors being independent. Subject to there being no conflicts of interest, all members of the Committee are entitled to vote on candidates for the appointment of new Directors and on recommending for shareholders' approval the Directors seeking election and re-election at the Annual General Meeting.</p> <p>Details of the Board's commitment to Diversity are set out on page 21.</p>
10. Directors should be offered relevant training and induction.	<p>New appointees to the Board are provided with a full induction programme. The programme covers the Company's investment strategy, policies and practices. The Directors are also given key information on the Company's regulatory and statutory requirements as they arise including information on the role of the Board, matters reserved for its decision, the terms of reference of the Board Committees, the Company's corporate governance practices and procedures and the latest financial information. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses where appropriate.</p> <p>The Directors have access to the advice and services of a Company Secretary through its appointed representative which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.</p> <p>There is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense.</p>
11. The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.

### Board Meetings and relations with Stewart Investors and Frostrow

12. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meets formerly at least five times each year. A representative of Stewart Investors attends four of these meetings; representatives from Frostrow Capital LLP are in attendance at each Board meeting. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.
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### Board meetings and relations with Stewart Investors (continued)

AIC Code Principle	Compliance Statement
13. The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry	<p>The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments, the markets in which transactions may be undertaken, the amount or proportion of the assets that may be invested in any category of investment or in any one investment, and the Company's share issuance and share buy-back policies.</p> <p>The Board, at its regular meetings, undertakes reviews of key investment and financial data, revenue projections and expenses, analyses of asset allocation, transactions and performance comparisons, share price and net asset value performance, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues.</p> <p>The Chairman is responsible for ensuring that the Board receives accurate, timely and clear information. Representatives of Stewart Investors and Frostrow Capital LLP report regularly to the Board on issues affecting the Company.</p>
14. Boards should give sufficient attention to overall strategy.	The Board is responsible for strategy and has established an annual programme of agenda items under which it reviews the objectives and strategy for the Company at each meeting.
15. The Board should regularly review both the performance of, and contractual arrangements with, the investment manager and the manager.	<p>The Engagement &amp; Remuneration Committee meets at least once a year. It reviews annually the performance of Stewart Investors and Frostrow Capital LLP. The Committee considers the quality, cost and remuneration method of the services provided by Stewart Investors and Frostrow Capital LLP against their contractual obligations and the Board receives regular reports on compliance with the investment restrictions which it has set. It also considers the performance analysis provided by Stewart Investors and Frostrow Capital LLP. Details of the fee arrangements with Stewart Investors and Frostrow Capital LLP can be found in the Report of the Directors on pages 37 and 38.</p> <p>The Audit Committee reviews the compliance and control systems of both Stewart Investors and Frostrow Capital LLP in operation insofar as they relate to the affairs of the Company and the Board undertakes periodic reviews of the arrangements with and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.</p>
16. The Board should agree policies with the investment manager and the manager covering key operational issues.	<p>The Investment Management Agreement between the Company and Stewart Investors sets out the limits of Stewart Investors' authority, beyond which Board approval is required. The Board has also agreed detailed investment guidelines with Stewart Investors, which are considered at each Board meeting.</p> <p>The Board has delegated discretion to Stewart Investors to exercise voting powers on its behalf.</p> <p>The Board has reviewed Stewart Investors' Stewardship Policy, which includes its Corporate Governance and Voting Guidelines, and which is published on Stewart Investors' website: <a href="http://www.stewartinvestors.com">www.stewartinvestors.com</a>, and is satisfied with their approach.</p> <p>Reports on commissions paid by Stewart Investors are submitted to the Board regularly.</p>

## Governance

# Corporate Governance (continued)

### Board meetings and relations with Stewart Investors (continued)

AIC Code Principle	Compliance Statement
17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	<p>The Board considers any imbalances in the supply of and the demand for the Company's shares in the market and takes appropriate action when considered necessary.</p> <p>The Board considers the discount or premium to net asset value per share of the Company's share price at each Board meeting and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the previous twelve months.</p> <p>The Board reviews regular reports from Stewart Investors on marketing and shareholder communication strategies. It also considers its effectiveness as well as measures of investor sentiment and any recommendations on share buy-backs and issuance.</p>
18. The Board should monitor and evaluate other service providers.	<p>The Engagement &amp; Remuneration Committee reviews, at least annually, the performance of all the Company's third party service providers, including the level and structure of fees payable and the length of the notice period, to ensure that they remain competitive and in the best interests of shareholders.</p> <p>The Audit Committee reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon, as well as reviewing their various policies, including anti-bribery and corruption, to address the provisions of the Bribery Act 2010, and also regarding the prevention of the facilitation of tax evasion.</p>

### Shareholder Communications

19. The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.	<p>A detailed analysis of the substantial shareholders in the Company is provided to the Directors at each Board meeting. Representatives of Stewart Investors regularly meet with institutional shareholders and private client asset managers to discuss strategy and to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting.</p> <p>Regular reports from the Company's corporate stockbroker are submitted to the Board on investor sentiment and industry issues.</p> <p>Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the offices of Frostrow Capital LLP. All shareholders are encouraged to attend the Annual General Meeting, where they are given the opportunity to question the Chairman, the Board and representatives of Stewart Investors. Stewart Investors will make a presentation to shareholders covering the investment performance and strategy of the Company at the forthcoming Annual General Meeting. The Directors welcome the views of all shareholders and place considerable importance on communications with them</p>
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**Shareholder Communications (continued)**

AIC Code Principle	Compliance Statement
<p>20. The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.</p>	<p>All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from Stewart Investors, Frostrow Capital LLP, the Auditor, legal advisers and corporate stockbroker.</p>
<p>21. The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.</p>	<p>The Company places great importance on communication with shareholders and aims to provide them with a full understanding of the Company's investment objective, policy and activities, its performance and the principal investment risks by means of informative Annual and Half Year Reports. This is supplemented by the publication, through the London Stock Exchange, of the daily net asset value of the Company's shares and the monthly fact sheet.</p> <p>The Annual Report provides information on Stewart Investors' investment performance, portfolio risk and operational and compliance issues. Further details on the risk/reward balance are set out in note 13 to the Financial Statements beginning on page 63. Details of the principal risks identified by the Board and the actions taken to mitigate them can be found in the Strategic Report on pages 23 and 24. The Directors' statement on the long-term viability of the Company is set out on page 37.</p> <p>The Company's website, <a href="http://www.pacific-assets.co.uk">www.pacific-assets.co.uk</a>, is regularly updated with monthly fact sheets and provides useful information about the Company including the Company's financial reports and announcements.</p>

By order of the Board

**Frostrow Capital LLP**  
 Company Secretary  
 29 March 2018

## Governance

# Report of the Directors

The Directors present this Annual Report on the affairs of the Company together with the audited financial statements and the Independent Auditor's Report for the year ended 31 January 2018.

## Business and Status of the Company

The Company is registered as a public limited company in Scotland (Registered Number SC091052) and is an investment company within the terms of Section 833 of the Companies Act 2006 (the 'Act'). Its shares are premium listed on the Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange, which is a regulated market as defined in Section 1173 of the Act.

The Company has applied for and been accepted as an approved investment trust under Section 1158 of the Corporation Taxes Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. This approval relates to accounting periods commencing on or after 1 February 2012. The Directors are of the opinion that the Company has conducted its affairs so as to be able to retain such approval.

It is the Directors' intention that the Company should continue to manage its affairs so as to be a qualifying investment for inclusion in the stocks and shares components of an Individual Savings Account ('ISA') and Junior ISA.

The Company is a member of the Association of Investment Companies ('AIC').

## Alternative Performance Measures

The Financial Statements (on pages 54 to 65) set out the required statutory reporting measures of the Company's financial performance. In addition, the Board assesses the Company's performance against a range of criteria which are viewed as particularly relevant for investment trusts, which are summarised on page 3 and explained in greater detail in the Strategic Report, under the heading 'Key Performance Indicators' on page 22.

Definitions of the terms used and the basis of calculation adopted are set out in the Glossary beginning on page 67.

## Annual General Meeting

**THE FOLLOWING INFORMATION TO BE DISCUSSED AT THE FORTHCOMING ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt about the action you should take, you should seek advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended). If you have sold or transferred all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents, including the form of proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting.

Resolution 11 Authority to allot shares

Resolution 12 Authority to disapply pre-emption rights

Resolution 13 Authority to buy back shares

Resolution 14 Authority to hold General Meetings (other than the AGM) on at least 14 working days' notice

The full text of the resolutions can be found in the Notice of Annual General Meeting on pages 70 to 74. Explanatory notes regarding the resolutions can be found on pages 75 and 76.

## Results and Dividend

The results attributable to shareholders for the year are shown on page 3. Details of the Company's dividend record can be found on page 5.



## Capital Structure

As at 31 January 2018 there were 119,873,386 shares of 12.5p each in issue (2017: 119,548,386). All shares rank equally for dividends and distributions. Each shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every share held. Details of the substantial shareholders in the Company are listed on page 38.

The giving of powers to issue or buy-back the Company's shares requires the relevant resolution to be passed by shareholders. Proposals for the renewal of the Board's current powers to issue and buy-back shares are detailed on pages 75 and 76.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no restrictions on voting rights; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

## Viability Statement

The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified, and the steps taken by the Board to manage these, are detailed on pages 23 to 25.

The Company is a long-term investor and the Board believes it is appropriate to assess the Company's viability over a five year period in recognition of our Investment Manager's long-term horizon and also what we believe to be investors' horizons, taking account of the Company's current position and the potential impact of the principal risks and uncertainties as shown on pages 23 and 24.

The Directors also took into account the liquidity of the portfolio when considering the viability of the Company over the next five years and its ability to meet liabilities as they fall due.

The Directors do not expect there to be any significant change in the principal risks that have been identified and the adequacy of the controls in place. Also the Directors do not envisage any change in strategy or objectives or any events that would prevent the Company from continuing to operate over that period as the Company's assets are liquid, its commitments are limited and the Company intends to continue to operate as an investment trust. The Directors believe that only a substantial financial crisis affecting the global economy could have an impact on this assessment.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five year period.

## Principal Service Providers

### Investment Manager

The Company's investment portfolio is managed by Stewart Investors which had approximately £22.8 billion in assets under management as at 31 December 2017. Stewart Investors are engaged under the terms of an Investment Management Agreement (the "IMA") effective from 1 February 2015. The IMA is terminable by six months' notice. Stewart Investors have complied with the terms of the IMA throughout the year to 31 January 2017. A management fee of 0.9% per annum of net assets is payable.

### Manager

Frostrow Capital LLP acts as the Company's Manager, Company Secretary and Administrator. It is an independent provider of services to the investment companies sector and currently has 11 other investment trust clients whose assets totalled approximately £7.5 billion as at the date of this report.

Frostrow Capital LLP provides company management, company secretarial and administrative services to the Company under the terms of a Management, Administrative and Secretarial Services Agreement, effective from 1 February 2015. During the year under review a fee of 0.15% per annum of net assets, which are lower than or equal to £275 million, and 0.10% per annum of net assets, in excess of £275 million, is payable for these services. With effect from 1 February 2018 the following amended fee arrangements have been agreed:

## Governance

### Report of the Directors (continued)

a fixed fee of £60,000 per annum plus 0.11% per annum of net assets, which are lower than or equal to £150 million, plus 0.075% per annum of net assets, in excess of £150 million up to £500 million. Frostrow's appointment can be terminated by either party by giving six months' notice.

Further details of the fees payable to Stewart Investors and Frostrow Capital LLP are set out in note 3 to the accounts on page 58.

#### Custodian

J.P. Morgan Chase Bank have been appointed as the Company's Custodian. The Custodian's fees are charged according to the jurisdiction in which the holdings are based. Variable transaction fees are also chargeable.

#### Investment Manager and Manager Evaluation and Re-Appointment

The review of the performance of Stewart Investors as Investment Manager and Frostrow Capital LLP as Manager is a continuous process carried out by the Board with a formal evaluation being undertaken each year. As part of this process the Board monitors the services provided by the Investment Manager and the Manager and receives regular reports and views from them. The Board also receives comprehensive performance measurement reports to enable it to determine whether or not the performance objective set by the Board has been met.

The Board believes the continuing appointment of Stewart Investors and Frostrow Capital LLP, under the terms described above, is in the interests of shareholders. In coming to this decision the Board also took into consideration the following additional reasons:

- the quality and depth of experience of Stewart Investors and the level of performance of the portfolio in absolute terms and also by reference to the MSCI All Country Asia ex Japan Index (total return, sterling adjusted) and the Company's peer group over the medium to longer term; and
- the quality and depth of experience of the management, administrative and company secretarial team that Frostrow Capital LLP allocates to the Company.

## Directors

#### Directors' and Officers' Liability Insurance Cover

Directors' and Officers' liability insurance cover was maintained by the Board during the year ended 31 January 2018. It is intended that this policy will continue for the year ending 31 January 2019 and subsequent years.

#### Directors' Indemnities

As at the date of this report, a deed of indemnity has been entered into by the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his role as a Director of the Company. Each Director is indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the offices of Frostrow during normal business hours and will be available for inspection at the Annual General Meeting.

## Substantial Interests in Share Capital

As at 28 February 2018, being the latest practicable date before publication of the Annual Report, the Company was aware of the following substantial interests in the voting rights of the Company:

	Number of shares held	%
Investec Wealth & Investment (Ire)	9,271,585	7.7
Speirs & Jeffrey Stockbrokers	8,041,537	6.7
Brewin Dolphin	7,805,050	6.5
Investec Wealth & Investment	6,337,889	5.3
Smith & Williamson	5,840,192	4.9
Charles Stanley Stockbrokers	5,553,404	4.6
Alliance Trust Savings	5,100,109	4.3
Hargreaves Lansdown	4,756,120	4.0
Rathbones	4,146,140	3.5

## Beneficial Owners of Shares – Information Rights

The beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Equiniti, or to the Company directly.

## Electronic Proxy Voting

Legislation is in force which permits shareholders to submit proxy forms electronically.

To submit a proxy form via the internet, an internet-enabled PC with Internet Explorer 4 or Netscape 4 or above will be required. Shareholders will require their Voting ID, Task ID and Shareholder Reference Number which can be found on the personalised proxy form which accompanies this report, to access this service. Before a proxy can be appointed, shareholders will be asked to agree to the terms and conditions for electronic proxy appointment. The use of the electronic

proxy appointment service offered through Equiniti Limited, the Company's registrars, is entirely voluntary. Shareholders can continue to submit their proxy form by post if they wish.

## Modern Slavery Act 2015

The Company does not provide goods or services in the normal course of business, and as a financial investment vehicle does not have customers. The Directors do not therefore consider that the Company is required to make a statement under the Modern Slavery Act 2015 in relation to slavery or human trafficking.

## Anti-Bribery and Corruption Policy

The Board has adopted a zero tolerance approach to instances of bribery and corruption. Accordingly, it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private, in the United Kingdom or abroad to secure any improper benefit for themselves or for the Company.

The Board applies the same standards to its service providers in their activities for the Company.

A copy of the Company's Anti Bribery and Corruption Policy can be found on its website at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk). The policy is reviewed annually by the Audit Committee.

## Prevention of the Facilitation of Tax Evasion

During the year and in response to the implementation of the Criminal Finances Act 2017, the Board adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A copy of the Company's policy on preventing the facilitation of tax evasion can be found on the Company's website [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk). The policy is reviewed annually by the Audit Committee.

## Political Donations

The Company has not in the past and does not intend in the future to make political donations.

## Governance

# Report of the Directors (continued)

### Corporate Social Responsibility (CSR), Community and Employee Responsibilities, Emissions, Environmental and Ethical Policy (EEE)

The Company's investment activities and day to day management is delegated to the Investment Manager and other third parties. As an investment trust, the Company has no direct social, community, employee or environmental responsibilities. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly managed and invested. As detailed above, the management of the portfolio has been delegated to the Company's Investment Manager.

In light of the nature of the Company's business there are no relevant human rights issues and the Company does not have a human rights policy. The Company does not maintain premises, hold any physical assets or operations and does not have any employees. Consequently, the Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Board has noted the Investment Manager's report on greenhouse gas emissions on its own operations and the views of the Investment Manager on CSR and EEE which it adheres to in engaging with the underlying investee companies and in exercising its delegated responsibilities in voting. The Investment Manager engages with the Company's underlying investee companies in relation to their corporate governance practices and in developing their policies on social, community and environmental matters.

### Corporate Governance

The Corporate Governance report, which includes the Company's Corporate Governance policies is set out on pages 29 to 35.

### Common Reporting Standard (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the Company to provide certain additional details to HMRC in relation to certain shareholders. The reporting obligation began in 2016 and will be an annual requirement going forward. The Registrars, Equiniti, have been engaged to collate such information and file the reports with HMRC on behalf of the Company.

### Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

By order of the Board

**Frostrow Capital LLP**  
Company Secretary

29 March 2018

## Governance

# Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and

have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, which is maintained by the Company's Investment Manager. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Going Concern

The Directors, having made relevant enquiries, are satisfied that it is appropriate to prepare the financial statements on the going concern basis as the net assets of the Company consist of liquid securities.

## Disclosure of Information to the Auditor

So far as the Directors are aware, there is no relevant information to which the Auditor is unaware. The Directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of such information.

## Responsibility Statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and

## Governance

# Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements (continued)

- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

**James Williams**  
Chairman

29 March 2018



## Governance

# Audit Committee Report for the year ended 31 January 2018

## Introduction from the Chair

I am pleased to present my third formal report to shareholders as Chair of the Audit Committee, for the year ended 31 January 2018.

## Composition and Meetings

The Committee, which comprises the whole Board (all Directors are independent non-executive), met three times during the year. Attendance by each Director is shown in the table on page 27. I was appointed Chair of the Committee in 2015. I am a Fellow of the Institute of Chartered Accountants in England and Wales and am also the Chair of the Audit Committee of three other public companies; the other Committee members have a combination of financial, investment and other relevant experience gained throughout their careers. The Company Chairman's membership of the Committee is considered appropriate given his extensive knowledge of the financial services industry.

## Role and Responsibilities of the Audit Committee

1. **To review the Company's half-year and annual financial statements** together with announcements and other filings relating to the financial performance of the Company .
2. **To review the risk management and internal control processes** of the Company and its key service providers. As part of this review the Committee again reviewed the appropriateness of the Company's antibribery and corruption policy.
3. **To recommend the appointment of an external Auditor**, and agreeing the scope of its work and its remuneration, reviewing its independence and the effectiveness of the audit process.
4. **To consider any non-audit work to be carried out by the Auditor.** The Audit Committee reviews the need for non-audit services to be performed by the Auditor in accordance with the Company's non-audit services policy, and authorises such on a case by case basis having given consideration to the cost effectiveness of the services and the objectivity of the Auditor.
5. **To consider the need for an internal audit function.** Since the Company delegates its day-to-day operations to third parties and has no employees, the Committee has determined there is no requirement for such a function.

The Committee's 'terms of reference are available for review on the Company's website at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk).

## Significant Issues Considered by the Audit Committee during the Year

### Financial Statements

The Board has asked the Committee to confirm that in its opinion the Board can make the required statement that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy. The Committee has given this confirmation on the basis of its review of the whole document, underpinned by involvement in the planning for its preparation and review of the processes to assure the accuracy of factual content.

### Significant Reporting Matters

#### Valuation of the Company's Investments

During the year the Committee reconfirmed its understanding of the processes in place to record investment transactions and to value the investment portfolio. It was noted that established pricing vendors were used to source and also to verify the prices of the Company's investments. The correct recording of investment transactions was established through regular reconciliations by the Company's Manager, of both cash and securities with the Company's Custodian.

#### Existence and Ownership of Investments

The Committee also received assurance that all investment holdings and cash/deposit balances had been agreed by the Company's Manager to an independent confirmation from the Custodian or relevant bank.

## Governance

# Audit Committee Report (continued)

## for the year ended 31 January 2018

### Other Reporting Matters

#### Investment Performance

The Committee also gained an overall understanding of the performance of the investment portfolio both in capital and revenue terms through ongoing discussions and analysis with and the Company's Investment Manager and also with comparison to suitable key performance indicators (see page 22).

#### Recognition of Revenue from Investments

The Committee took steps to gain an understanding of the processes in place to record investment income and transactions. The Committee sought and received confirmation from the Company's Manager that all dividends both received and receivable had been accounted for correctly. The Committee noted and took comfort from the segregation of duties in place between the Company's Manager and the Custodian.

#### Accounting Policies

During the year the Committee ensured that the accounting policies, as set out on pages 56 to 58, were applied consistently throughout the year. In light of there being no unusual transactions during the year or other possible reasons, the Committee agreed that there was no reason to change the policies.

#### Going Concern

Having reviewed the Company's financial position and liabilities, the Committee is satisfied that it is appropriate for the Board to prepare the financial statements on the going concern basis. Further detail is provided on page 41.

#### Internal Controls and Risk Management

At each of its meetings during the year the Committee reviewed the effectiveness of the Company's risk management and internal controls systems as contained in the Company's schedule of key risks as described on pages 23 and 24. No significant weaknesses were identified in the year under review. The Committee noted that the Company is reliant on the systems of the Company's various service providers and that a disruption to, or a failure of, those systems could seriously affect the Company. As a result, the Committee paid particular attention on the risk of cybercrime during the year and representatives from J.P. Morgan Chase

Bank, the Company's Custodian, and from Equiniti, the Company's Registrars, were invited to make a presentation to the Committee and answer questions on this subject.

### Taxation

The Committee approached and dealt with ensuring compliance with Section 1158 of the Corporation Tax Act 2010, by seeking and receiving confirmation from the Company's Manager that the Company continues to meet the eligibility conditions on a monthly basis.

The Committee also monitored closely the position with regard to the reclamation of withholding tax. The Company employs a number of specialist local agents (in jurisdictions such as Taiwan, India and Bangladesh) to assist in the process.

### Viability Statement

The Board is required to make a longer-term viability statement in relation to the continuing operations of the Company. The Committee reviewed papers produced in support of the statement made by the Board which assesses the viability of the Company over a period of five years. The Company is a long-term investor and the Committee believes that is appropriate to recommend to the Board that the Company's viability should be assessed over a five-year period, also taking account of the Company's current position and the potential impact of the Company's principal risks and uncertainties as shown on pages 23 and 24.

### External Auditor

#### Meetings:

This year the nature and scope of the audit together with KPMG LLP's audit plan were considered by the Committee on 28 September 2017. I, as Chair of the Committee, had a meeting with them specifically to discuss the audit and any issues that arose (of which there were none of any significance). The Committee then met KPMG LLP on 21 March 2018 to formally review the outcome of the audit and to discuss the limited issues that arose. The Committee also discussed the presentation of the Annual Report with the Auditor and sought their perspective.

### Independence and Effectiveness:

In order to fulfil the Committee's responsibility regarding the independence of the Auditor, the Committee reviewed:

- the senior audit personnel in the audit plan for the year,
- the Auditor's arrangements concerning any conflicts of interest,
- the extent of any non-audit services, and
- the statement by the Auditor that they remain independent within the meaning of the regulations and their professional standards.
- Auditor independence

In order to consider the effectiveness of the audit process, the Committee reviewed:

- the Auditor's fulfilment of the agreed audit plan,
- the report arising from the audit itself, and
- feedback from the Company's Manager.

During the year the Auditor provided no non-audit services to the Company, the Committee continues to keep this under close review (2017: the Auditor received £12,000 for such services). See note 4 on page 59 for further details. The Company's policy on the provision by the Auditor of non-audit services to the Company can be found below.

The Committee is satisfied with the Auditor's independence and the effectiveness of the audit process, together with the degree of diligence and professional scepticism brought to bear.

### Non-Audit Services

The Company operates on the basis whereby the provision of all non-audit services by the Auditor has to be pre-approved by the Audit Committee. Such services are only permissible where no conflicts of interest arise, the service is not expressly prohibited by audit legislation, where the independence of the Auditor is not likely to be impinged by undertaking the work and the quality and the objectivity of both the non-audit work and audit work will not be compromised. In particular, non-audit services may be provided by the Auditor if they are inconsequential or would have no direct effect on the Company's financial statements and the audit firm would not place significant reliance on the work for the purposes of the statutory audit. Assistance with the reclamation of Taiwanese withholding tax was transferred from KPMG to Grant Thornton Taiwan during the year.

### Audit Tender Process

A formal competitive tender for the Company's statutory audit was held during the year. It was agreed that I, as the Chair of the Audit Committee, would lead the process supported by Frostrow Capital and such other members of the Committee who wished to participate. The selection of the firms to be invited to tender was carried out by the Committee seeking views from the members of the Board and others with experience of using and working with a variety of audit firms. The Committee also actively considered and expressed a positive preference that smaller firms be considered. The six candidates who were invited to tender were therefore a mix of large and small/medium firms, three of which presented to a Sub-Committee of the Audit Committee in December 2017. Following the presentations, the preferred candidate made a further presentation to the Board in January 2018, where it was agreed to re-appoint KPMG LLP; their proposed audit fee was also agreed.

This was the first opportunity for the Directors to meet formally with John Waterson, the new Audit Partner at KPMG LLP, who had taken over from Richard Hinton during the year. It was agreed that KPMG LLP had performed very well in previous audits and their knowledge of the Company and its operations together with the combination of a fresh set of eyes, due to the change of Audit Partner, and the experience of the Audit team were the principal reasons why they had been successful.

The Company's Auditor is required to rotate partners every five years and it is proposed that Mr Waterson should serve until the AGM in 2022, provided shareholders approve the continued appointment of KPMG LLP. In accordance with the current legislation, the Company will need to re-tender for a new auditor at least every 10 years and will have to change its auditor after 20 years.

### Effectiveness of the Committee

Lintstock, an independent third party, commented on the effectiveness of the Committee as part of their evaluation of the Board (see page 31). In particular the management of Committee meetings in terms of the annual cycle of work, the meeting agenda and the input during meetings was rated highly.

**Charlotta Ginman, FCA**

Chair of the Audit Committee

29 March 2018

## Governance

# Directors' Remuneration Report for the year ended 31 January 2018

### Statement from the Chairman

I am pleased to present the Directors' Remuneration Report to shareholders. This report has been prepared in accordance with the requirements of the Companies Act 2006.

The Directors' Remuneration Report is subject to an annual advisory vote and therefore an Ordinary Resolution for the approval of this report will be put to shareholders at the Company's forthcoming Annual General Meeting (AGM).

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such and the Auditor's audit opinion is included in its report to shareholders on pages 49 to 53.

As noted in the Strategic Report, all of the Directors are non-executive and therefore there is no Chief Executive Officer. The Company does not have any employees. There is therefore no CEO or employee information to disclose.

The Engagement & Remuneration Committee considers the framework for the remuneration of the Directors. It reviews the ongoing appropriateness of the Company's remuneration policy and the individual remuneration of Directors by reference to the activities of the Company and comparison with other companies of a similar structure and size. This is in-line with the AIC Code.

The Engagement & Remuneration Committee met once during the year and it was agreed that no change should be made to the level of fees paid to the Directors during the forthcoming year which are as follows: Chairman £35,000 pa; Chair of the Audit Committee £28,500 pa; Director £25,000 pa. The last increase to the fees paid to the Directors had taken effect from 1 February 2017.

### Directors' Fees

The Directors, as at the date of this report, and who all have served throughout the year, received the fees listed in the table on page 47. These exclude any employer's national insurance contributions, if applicable. No other forms of remuneration were received by the Directors and so fees represent the total remuneration of each Director.

No communications have been received from shareholders regarding Directors' remuneration.

Article 117 of the Company's Articles of Association provides that Directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.

Under HMRC guidance, travel expenses and other out of pocket expenses may be considered as taxable benefits for the Directors. Where expenses reimbursed to the Directors are classed as taxable under HMRC guidance, they are shown in the taxable expenses column of the Directors' remuneration table along with the associated tax liability which is settled by the Company.

### Approval

A resolution to approve the Remuneration Report was put to shareholders at the AGM of the Company held on 29 June 2017. Of the votes cast, 97.5% were in favour and 2.5% were against; this resolution will be put to shareholders again this year. A binding resolution to approve the Remuneration Policy was last put to shareholders at the AGM held on 29 June 2017. Of the votes cast 97.3% were in favour and 2.7% were against. A resolution to approve the Remuneration Policy will be put to shareholders at the AGM to be held in 2020. The Directors Remuneration Policy as set out on page 48 will apply until it is next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or when the Directors Remuneration Policy is varied in which case shareholder approval for the new Directors' Remuneration Policy will be sought.

## Directors' Remuneration for the Year (audited information)

The Directors who served in the year (unless where stated) received the following remuneration:

	Date of Appointment to the Board	2018			2017		
		Fixed Fees £	Taxable Expenses £	Total Remuneration £	Fixed Fees £	Taxable Expenses £	Total Remuneration £
James Williams	1 October 2013	35,000	-	35,000	32,000	1,018	33,018
Charlotta Ginman	9 October 2014	28,500	-	28,500	26,000	-	26,000
Sian Hansen	3 August 2015	25,000	-	25,000	23,000	-	23,000
Terence Mahony	1 February 2004	25,000	-	25,000	23,000	-	23,000
Nigel Rich*	1 January 1997	-	-	-	10,000	-	10,000
Robert Talbut	23 September 2016	25,000	340	25,340	8,161	106	8,267
		138,500	340	138,840	122,161	1,124	123,285

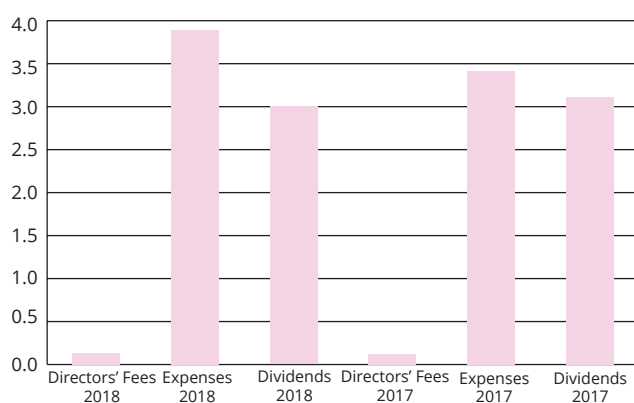
\*Retired 29 June 2016

## Loss of Office

Directors do not have service contracts with the Company but are engaged under Letters of Engagement. These specifically exclude any entitlement to compensation upon leaving office for whatever reason.

## Relative Cost of Directors' Remuneration

The bar chart below shows the comparative cost of Directors' fees compared with the level of dividend distribution and Company expenses for the years ended 31 January 2017 and 2018.



## Directors' Interests in Shares (audited information)

The Directors interests in the share capital of the Company are shown in the table below:

		Number of shares held	
		31 January 2018	31 January 2017
James Williams	Beneficial	40,000	40,000
Charlotta Ginman	Beneficial	9,716	9,716
Sian Hansen	Beneficial	4,680	4,680
Terence Mahony	Beneficial	25,000	25,000
Robert Talbut	Beneficial	9,611	4,729
Total		89,007	84,125

Since the year end there have not been any changes in the Directors' interests.

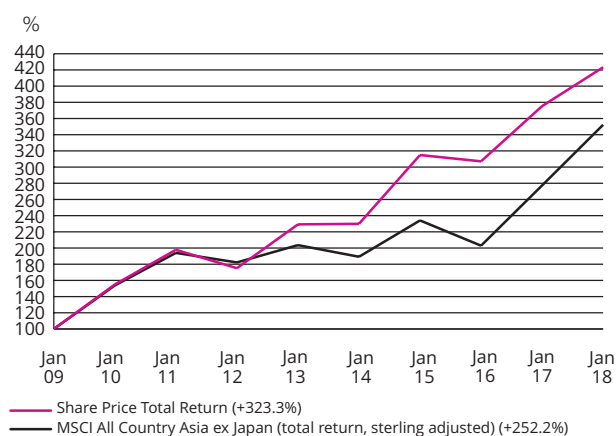
## Governance

# Directors' Remuneration Report (continued)

## Share Price Total Return

The Company's Benchmark is the MSCI All Country Asia ex Japan Index on a total return, sterling adjusted basis. The Board has adopted this index as a comparison for the Company's performance. In accordance with statutory reporting purposes this report is required to compare the Company's share price total return to that of the benchmark index. The chart below provides this comparison.

## Total Shareholder Return for the Nine Years to 31 January 2018



Source: Morningstar  
Rebased to 100 as at 31 January 2009

## Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a binding shareholder vote every three years. It is due to be brought before shareholders again at AGM to be held in 2020. There have been no changes to the Company's Remuneration Policy compared to the year ended 31 January 2017 and no changes are proposed for the year ending 31 January 2019. If, however, the Remuneration Policy is varied, shareholder approval for the new Remuneration Policy will be sought at the next AGM following such variation. The Board has agreed that there will be a formal review before any change to the Directors Remuneration Policy; and at least once a year the Directors Remuneration Policy will be reviewed to ensure that it remains appropriate.

The Directors' Remuneration Policy provides that fees payable to the Directors should reflect the time

spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. Directors are remunerated in the form of fees payable monthly in arrears, paid to the Director personally. There are no long-term incentive schemes, bonuses, share option schemes or pension arrangements and the fees are not specifically related to the Directors' performance, either individually or collectively. The Company does not have any employees.

The remuneration for the non-executive Directors is determined within the limits set out in the Company's Articles of Association. The present limit is £200,000 in aggregate per annum.

Any new Director being appointed to the Board that has not been appointed as either Chairman, Chair of the Audit Committee or Senior Independent Director will, under the current level of fees, receive £25,000 pa.

None of the Directors has a service contract. The terms of their appointment provide that Directors shall retire and be subject to election at the first AGM after their appointment and to re-election annually thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

## Annual Statement

On behalf of the Board, I confirm that the Remuneration Policy, set out above, and the Remuneration Report summarise, as applicable, for the year to 31 January 2018:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions have been taken.

**James Williams**  
Chairman  
29 March 2018





## Governance

# Independent Auditor's Report to the members of Pacific Assets Trust plc

## 1. Our opinion is unmodified

We have audited the financial statements of Pacific Assets Trust Plc ("the Company") for the year ended 31 January 2018 which comprise the Income Statement, Statement of Changes in Equity and Statement of Financial Position and the related notes, including the accounting policies in note 1.

### In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 January 2018 and of its return for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 9 June 2008. The period of total uninterrupted engagement is for the 10 financial years ended 31 January 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

**Materiality:** £3.2m (2017: £2.9m)  
financial statements as a whole 1% (2017: 1%) of Total Assets

### Risks of material misstatement vs 2017

**Recurring risks** Carrying value of quoted investments ◀ ▶

## 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017), in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

## Governance

# Independent Auditor’s Report (continued)

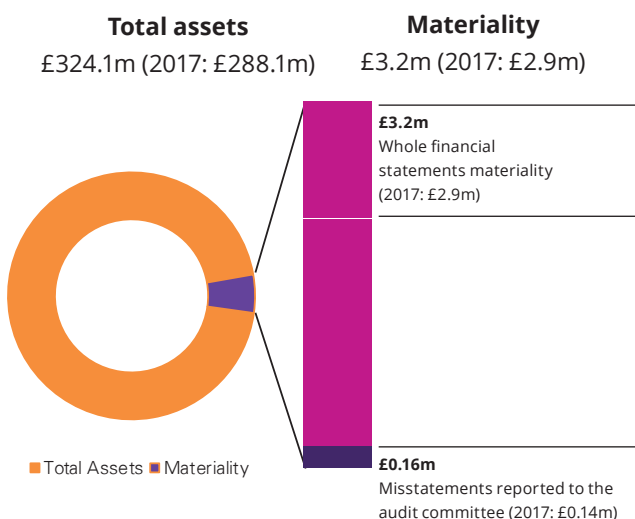
	The risk	Our response
<p><b>Carrying value of quoted investments</b> (£300.9 million; 2017: £269.5 million)</p> <p><i>Refer to page 43 (Audit Committee Report), pages 56 to 58 (accounting policy) and pages 54 to 65. (financial disclosures).</i></p>	<p><b>Low risk, high value:</b></p> <p>The Company’s portfolio of quoted investments makes up 92.9% of the Company’s total assets (by value) and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to requiring a significant level of judgement, because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Tests of detail:</b> Agreeing the valuation of 100 per cent of investment in the portfolio to externally quoted prices; and</li> <li>• <b>Enquiry of custodians:</b> Agreeing 100 per cent of the investment holdings in the portfolio to independently received third party confirmations from investment custodians.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>• We found the carrying amount of quoted investments to be acceptable (2017: acceptable).</li> </ul>

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £3.2m (2017: £2.9m), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.16m (2017: £0.14m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at KPMG’s office in London.



## 4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 41 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

## 5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 37 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- The Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

## Governance

# Independent Auditor's Report (continued)

## 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on pages 41 to 42, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

### Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors, the manager and the administrator (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team which included individuals with experience relevant to those laws and regulations, and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

## 8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **John Waterson (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

St Vincent Plaza  
319 St Vincent Street  
Glasgow  
G2 5AS

29 March 2018

## Financial Statements

### Income Statement

#### for the year ended 31 January 2018

	Notes	Year ended 31 January 2018			Year ended 31 January 2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	8	-	35,915	35,915	-	59,386	59,386
Exchange differences		-	(652)	(652)	-	643	643
Income	2	4,882	-	4,882	5,125	-	5,125
Investment management and management fees	3	(809)	(2,426)	(3,235)	(703)	(2,110)	(2,813)
Other expenses	4	(651)	-	(651)	(605)	-	(605)
<b>Return on ordinary activities before taxation</b>		<b>3,422</b>	<b>32,837</b>	<b>36,259</b>	<b>3,817</b>	<b>57,919</b>	<b>61,736</b>
Taxation on ordinary activities	5	(351)	(103)	(454)	(425)	(48)	(473)
<b>Return after taxation attributable to equity shareholders</b>		<b>3,071</b>	<b>32,734</b>	<b>35,805</b>	<b>3,392</b>	<b>57,871</b>	<b>61,263</b>
<b>Return per share (p)</b>	<b>7</b>	<b>2.6</b>	<b>27.3</b>	<b>29.9</b>	<b>2.8</b>	<b>48.4</b>	<b>51.2</b>

The Total column of this statement represents the Company's Income Statement. The Revenue and Capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies (AIC).

All revenue and capital items in the Income Statement derive from continuing operations.

The Company had no recognised gains or losses other than those shown above and therefore no separate Statement of Other Comprehensive Income has been presented.

### Statement of Changes in Equity

#### for the year ended 31 January 2018

	Ordinary Share Capital Note	Share premium £'000	Capital Redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000	
At 31 January 2016		14,931	4,713	1,648	14,572	187,312	5,150	228,326
Return after taxation		-	-	-	-	57,871	3,392	61,263
Ordinary dividends paid	6	-	-	-	-	(2,628)	(2,628)	(2,628)
Issue of shares		13	228	-	-	-	-	241
At 31 January 2017		14,944	4,941	1,648	14,572	245,183	5,914	287,202
Return after taxation		-	-	-	-	32,734	3,071	35,805
Ordinary dividends paid	6	-	-	-	-	(3,112)	(3,112)	(3,112)
Issue of shares		40	796	-	-	-	-	836
At 31 January 2018		14,984	5,737	1,648	14,572	277,917	5,873	320,731

The accompanying notes are an integral part of these statements.

## Financial Statements

# Statement of Financial Position

as at 31 January 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	8		300,947		269,539
<b>Current assets</b>					
Debtors	9	307		221	
Cash and cash equivalents		22,824		18,300	
		23,131		18,521	
<b>Creditors (amounts falling due within one year)</b>	10	(3,347)		(858)	
<b>Net current assets</b>			<b>19,784</b>		<b>17,663</b>
<b>Net assets</b>			<b>320,731</b>		<b>287,202</b>
<b>Capital and reserves</b>					
Called up share capital	11		14,984		14,944
Share premium account			5,737		4,941
Capital redemption reserve			1,648		1,648
Special reserve			14,572		14,572
Capital reserve			277,917		245,183
Revenue reserve			5,873		5,914
<b>Equity shareholders' funds</b>			<b>320,731</b>		<b>287,202</b>
<b>Net asset value per Ordinary Share (p)</b>	12		<b>267.6p</b>		<b>240.2p</b>

The financial statements on pages 54 to 65 were approved, and authorised for issue, by the Board of Directors on 29 March 2018 and signed on its behalf by:

**James Williams**

Chairman

The accompanying notes are an integral part of these statements.

Pacific Assets Trust plc – Company Registration Number: SC091052 (Registered in Scotland)



## Financial Statements

# Notes to the Financial Statements

### 1. Accounting Policies

A summary of the principal accounting policies adopted is set out below.

#### (a) Basis of Accounting

These financial statements have been prepared under UK Company Law, FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland', and in accordance with guidelines set out in the Statement of Recommended Practice ('SORP'), issued in November 2014 and updated in January 2017, for Investment Trust Companies and Venture Capital Trusts issued by the Association of Investment Companies ('AIC'), the historical cost convention, as modified by the valuation of investments at fair value through profit or loss, and on a going concern basis, as set out on page 41.

The Company has taken advantage of the exemption from preparing a Cash Flow Statement under FRS 102, as it is an investment fund whose investments are substantially all highly liquid and carried at fair (market) value.

The Company's financial statements are presented in sterling, being the functional and presentational currency of the Company. The Company's investments are made in foreign currencies, however the Board considers the Company's functional currency to be sterling. In arriving at this conclusion, the Board considered that the shares of the Company are listed on the London Stock Exchange, it is regulated in the United Kingdom and pays dividends and expenses in sterling. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

#### *Presentation of the Income Statement*

In order to reflect better the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1158 of the Corporation Tax Act 2010.

#### (b) Valuation of Investments

Investments are measured initially, and at subsequent reporting dates, at fair value, and are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned. For quoted securities fair value is either bid price or last traded price, depending on the convention of the exchange on which the investment is listed. Changes in fair value and gains or losses on disposal are included in the Income Statement as a capital item.

In addition, for financial reporting purposes, fair value measurements are categorised into a fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 – Quoted prices in active markets;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data), either directly or indirectly.
- Level 3 – Inputs are unobservable (ie for which market data is unavailable).

#### (c) Income

Dividends receivable are recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. Foreign dividends are grossed up at the appropriate rate of withholding tax.

Special dividends of a revenue nature are recognised through the revenue column of the Income Statement. Special dividends of a capital nature are recognised through the capital column of the Income Statement.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash the amount of the stock dividend is recognised in the revenue column.

#### **(d) Expenses and Interest**

All expenses and interest are accounted for on an accruals basis. Expenses and interest are charged to the Income Statement as a revenue item except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long-term returns, when they are split as follows:

- Investment Management and Management fees payable have been allocated 25% to revenue and 75% to capital.
- Transaction costs incurred on the purchase and sale of investments are taken to the Income Statement as a capital item, within gains on investments held at fair value through profit or loss.

#### **(e) Taxation**

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue as set out in note 5 to the financial statements. The standard rate of corporation tax is applied to taxable net revenue. Any adjustment resulting from relief for overseas tax is allocated to the revenue reserve.

#### **(f) Deferred Taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the Statement of Financial Position date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods. Deferred tax is measured without discounting and based on enacted tax rates. Due to the Company's status as an investment trust, and the intention to meet the conditions required to obtain approval under Section 1158 of the Corporation Tax Act 2010 the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

#### **(g) Foreign Currencies**

Transactions denominated in foreign currencies are translated into sterling at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the statement of financial position. Profits or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or revenue column of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

#### **(h) Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash and demand deposits readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

#### **(i) Dividend Payments**

Dividends paid by the Company on its shares are recognised in the financial statements in the year in which they are paid and are shown in the Statement of Changes in Equity.

## Financial Statements

### Notes to the Financial Statements (continued)

#### (j) Reserves

##### *Capital redemption reserve*

This reserve arose when ordinary shares were redeemed by the Company and subsequently cancelled, at which point the amount equal to the par value of the ordinary share capital was transferred from the ordinary share capital to the Capital Redemption Reserve.

##### *Special reserve*

The Special Reserve arose following court approval in February 1999 to transfer £24.2 million from the share premium account.

##### *Capital reserve*

The following are accounted for in this reserve: gains and losses on the disposal of investments; changes in the fair value of investments; and, expenses and finance costs, together with the related taxation effect, charged to capital in accordance with note (d) on page 57. Any gains in the fair value of investments that are not readily convertible to cash are treated as unrealised gains in the capital reserve.

##### *Revenue reserve*

The Revenue Reserve reflects all income and expenses that are recognised in the revenue column of the Income Statement.

##### *Distributable reserves*

The Special and Capital Reserves are distributable by way of dividend and can be used to fund any repurchases of the company's own shares. It is, however, the Board's current policy to only pay dividends out of the Revenue Reserve.

## 2. Income

	2018 £'000	2017 £'000
<b>Income from investments</b>		
Overseas Dividends	4,882	5,125

## 3. Investment Management and Management Fees

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee						
– Stewart Investors	697	2,090	2,787	601	1,805	2,406
Management fee – Frostrow	112	336	448	102	305	407
	809	2,426	3,235	703	2,110	2,813

## 4. Other Expenses

	2018 £'000	2017 £'000
Directors' fees	139	122
Auditor's remuneration for:		
– annual audit	21	21
– other services relating to taxation*	-	12
Custody fees	212	184
Printing and postage	27	27
Registrar fees	38	37
Broker retainer	30	30
Listing fees	24	19
Legal and professional fees	58	60
Other expenses	102	93
<b>Total expenses</b>	<b>651</b>	<b>605</b>

\* Includes costs in relation to the provision of Taiwanese tax guarantor and pre-approval services of £12,000 in 2017. The cost of these services provided by Grant Thornton Taiwan during 2018 are included in legal and professional fees.

## 5. Taxation

### (a) Analysis of Charge in the Year

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas taxation	495	103	598	471	48	519
Overseas tax recoverable	(144)	-	(144)	(46)	-	(46)
	351	103	454	425	48	473

Overseas tax arose as a result of irrecoverable withholding tax on overseas dividends.

## Financial Statements

# Notes to the Financial Statements (continued)

### (b) Reconciliation of Tax Charge

The revenue account tax charge for the year is lower than the standard rate of corporation tax in the UK of 19.0% (2017: 20.0%).

The differences are explained below:

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Total return on ordinary activities before tax	3,422	32,837	36,259	3,817	57,919	61,736
Corporation tax charged at 19.0% (2017: 20.0%)*	650	6,239	6,889	763	11,584	12,347
Effects of:						
Non-taxable (gains) on investment	-	(6,824)	(6,824)	-	(11,877)	(11,877)
Non-taxable exchange differences	-	124	124	-	(129)	(129)
Unutilised management expenses	277	461	738	262	422	684
Income not subject to corporation tax	(927)	-	(927)	(1,025)	-	(1,025)
Overseas taxation	495	103	598	471	48	519
Overseas tax recoverable (Taiwan)	(144)	-	(144)	(46)	-	(46)
Tax charge for the year	351	103	454	425	48	473

\*An average rate of 19.6% was applicable for the year ended 31 January 2017 due to the corporation tax rate being reduced to 19% from 20% on 1 April 2015.

As at 31 January 2018 the Company had unutilised management expenses and other reliefs for taxation purposes of £35,657,000 (2017: £31,771,000). It is not anticipated that these will be utilised in the foreseeable future and as such no related deferred tax asset has been recognised. The reduction in the standard rate of corporation tax to 17.0% was substantively enacted on 15 September 2016 and will be effective from April 2020.

## 6. Dividends

Amounts recognised as distributable to shareholders for the year ended 31 January 2018, were as follows:

	2018 £'000	2017 £'000
- final dividend paid for the year ended 31 January 2016 of 2.2p per share	-	2,628
- final dividend paid for the year ended 31 January 2017 of 2.6p per share	3,112	-

In respect of the year ended 31 January 2018, a dividend of 2.6p has been proposed and will be reflected in the Annual Report for the year ending 31 January 2019. Details of the ex-dividend and payment dates are shown on page 7.

The Board's current policy is to only pay dividends out of revenue reserves. Therefore the amount available for distribution as at 31 January 2018 is £5,873,000 (2017: £5,914,000).

The dividends payable in respect of both the current and the previous financial year, which meet the requirements of Section 1158 CTA 2010, are set out below:

	2018 £'000	2017 £'000
Revenue available for distribution by way of dividend for the year	3,071	3,392
Proposed dividend of 2.6p per share (2017: 2.6p) (to be approved at the AGM)	(3,117)	(3,112)
Transfer (from)/to revenue reserves	(46)	280

## 7. Return per Share

The Return per share is as follows:

	2018			2017		
	Revenue pence	Capital pence	Total pence	Revenue pence	Capital pence	Total pence
Basic	2.6	27.3	29.9	2.8	48.4	51.2

The total return per share is based on the total return attributable to shareholders of £35,805,000 (2017: £61,263,000).

The revenue return per share is based on the net revenue return attributable to shareholders of £3,071,000 (2017: £3,392,000).

The capital return per share is based on the net capital return attributable to shareholders of £32,734,000 (2017: return of £57,871,000).

The total return, revenue return and the capital return per share are based on the weighted average number of shares in issue during the year of 119,737,016 (2017: 119,456,036).

The calculations of the returns per Ordinary Share have been carried out in accordance with IAS 33 Earnings per Share.

## 8. Investments

	2018 £'000	2017 £'000
<b>Investments</b>		
Investments listed on recognised investment exchanges	300,947	269,539
<b>Valuation at start of year</b>	269,539	205,366
Less: valuation gains at start of year	(90,470)	(42,792)
Cost at start of year	179,069	162,574
Purchases at cost	62,675	46,303
Disposal proceeds	(67,183)	(41,516)
Gains on disposals	26,493	11,708
Cost at end of year	201,054	179,069
Add valuation gains at end of year	99,893	90,470
<b>Valuation at end of year</b>	<b>300,947</b>	<b>269,539</b>



## Financial Statements

### Notes to the Financial Statements (continued)

	2018 £'000	2017 £'000
<b>Analysis of capital gains and losses</b>		
Gains on disposal	26,493	11,708
Movement in investment holding gains	9,422	47,678
<b>Gains on investments</b>	<b>35,915</b>	<b>59,386</b>

During the year the Company incurred transaction costs on purchases of £113,000 (2017: £103,000) and transaction costs on sales of £189,000 (2017: £121,000).

#### 9. Debtors

	2018 £'000	2017 £'000
Accrued income	103	165
Overseas tax recoverable	174	38
Other debtors	30	18
	<b>307</b>	<b>221</b>

#### 10. Creditors: Amounts Falling Due Within One Year

	2018 £'000	2017 £'000
Amounts due to brokers	2,408	-
Investment management fee – Stewart Investors	723	642
Management fee – Frostrow	115	106
Other creditors	101	110
	<b>3,347</b>	<b>858</b>

#### 11. Share Capital

	2018 £'000	2017 £'000
<b>Allotted and fully paid:</b>		
119,873,386 Ordinary shares of 12.5p each (2017: 119,548,386)	14,984	14,944

During the year 325,000 (2017: 100,000) Ordinary shares were issued raising net proceeds of £836,000 (2017: £240,000).

The capital of the Company is managed in accordance with its investment policy which is detailed in the Strategic Report on page 20.

The Company does not have any externally imposed capital requirements.

## 12. Net Asset Value Per Share

The net asset value per share of 267.6p (2017: 240.2p) is calculated on net assets of £320,731,000 (2017: £287,202,000), divided by 119,873,386 (2017: 119,548,386) shares, being the number of shares in issue at the year end.

## 13. Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances and debtors and creditors that arise directly from its operations. As an investment trust the Company holds an investment portfolio of financial assets in pursuit of its investment objective.

Fixed asset investments (see note 8 on pages 61 and 62) are valued at fair value in accordance with the Company's accounting policies. The fair value of all other financial assets and liabilities is represented by their carrying value in the Statement of Financial Position shown on page 55.

All investments have been classified as Level 1 (2017: All Level 1).

The main risks that the Company faces arising from its financial instruments are:

- (i) market risk, including:
  - Other price risk, being the risk that the value of investments will fluctuate as a result of changes in market prices;
  - interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates;
  - foreign currency risk, being the risk that the value of financial assets and liabilities will fluctuate because of movements in currency rates;
- (iii) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and
- (iv) liquidity risk, being the risk that the Company will not be able to meet its liabilities when they fall due. This may arise should the Company not be able to liquidate its investments. Under normal market trading volumes the investment portfolio could be substantially realised within a week.

### Other price risk

The management of price risk is part of the investment management process and is typical of equity investment. The investment portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on how the investment portfolio is managed is set out on page 2. Although it is the Company's current policy not to use derivatives they may be used from time to time, with prior Board approval, to hedge specific market risk or gain exposure to a specific market.

If the investment portfolio valuation rose or fell by 10% at 31 January 2018 (31 January 2017: 10%), the impact on the net asset value would have been £30.0 million (2017: £27.0 million). The calculations are based on the investment portfolio valuation as at the respective Statement of Financial Position dates and are not necessarily representative of the year as a whole.

### Interest rate risk

#### *Floating rate*

When the Company retains cash balances the majority of the cash is held in overnight call accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

## Financial Statements

### Notes to the Financial Statements (continued)

#### Foreign currency risk

The Company invests in overseas securities and holds foreign currency cash balances which give rise to currency risks. Foreign currency risks are managed alongside other market risks as part of the management of the investment portfolio. It is currently not the Company's policy to hedge this risk on a continuing basis but it can do so from time to time.

#### Foreign currency exposure:

	2018				2017			
	Investments £'000	Cash £'000	Debtors £'000	Creditors £'000	Investments £'000	Cash £'000	Debtors £'000	Creditors £'000
Bangladesh taka	14,567	-	-	-	12,501	479	-	-
Hong Kong dollar	21,178	-	-	-	24,741	-	-	-
Indian rupee	114,009	1	53	-	97,192	1	-	-
Indonesian rupiah	15,068	-	-	(1)	12,695	-	-	-
Japanese yen	11,624	-	23	-	7,863	-	22	-
Korean won	4,525	-	26	-	7,761	-	143	-
Malaysian ringgit	10,153	-	-	(809)	4,155	-	-	-
New Taiwanese dollar	60,245	32	175	(5)	51,013	33	38	-
Philippine peso	24,036	-	-	(693)	21,556	-	-	-
Singapore dollar	4,063	-	-	-	6,850	-	-	-
Sri Lankan rupee	8,804	-	-	-	9,241	-	-	-
Thai baht	9,442	-	-	(900)	11,040	-	-	-
US dollar	3,233	3,724	-	-	2,931	4,210	-	-
<b>Total</b>	<b>300,947</b>	<b>3,757</b>	<b>277</b>	<b>(2,408)</b>	<b>269,539</b>	<b>4,723</b>	<b>203</b>	<b>-</b>

At 31 January 2018 the Company had £19,067,000 of sterling cash balances (2017: £13,577,000).

During the year sterling strengthened by an average of 7% (2017: weakened by 12%) against all of the currencies in the investment portfolio (weighted for exposure at 31 January), if the value of sterling had strengthened against each of the currencies in the portfolio by 10%, the impact on the net asset value would have been negative £27.5 million (2017: negative £25.0 million). If the value of sterling had weakened against each of the currencies in the investment portfolio by 10%, the impact on the net asset value would have been positive £33.6 million (2017: positive £30.5 million). The calculations are based on the investment portfolio valuation and cash balances as at the year end and are not necessarily representative of the year as a whole.

#### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represents the maximum credit risk exposure at the statement of financial position date, and the main exposure to credit risk is via the Company's Custodian who is responsible for the safeguarding of the Company's Investments and cash balances.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2018 £'000	2017 £'000
Cash and cash equivalents	22,824	18,300
Interest, dividends and other receivables	307	221
	23,131	18,521

All the assets of the Company which are traded on a recognised exchange are held by J.P. Morgan Chase Bank, the Company's Custodian. Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. The Board monitors the Company's risk as described in the Strategic Report on pages 23 and 24.

The credit risk on cash is controlled through the use of counterparties or banks with high credit ratings, rated AA or higher, assigned by international credit rating agencies. Bankruptcy or insolvency of such financial institutions may cause the Company's ability to access cash placed on deposit to be delayed, limited or lost.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses.

#### *Liquidity risk*

Substantially all of the Company's portfolio would be realisable within one week, under normal market conditions, and as such liquidity risk is not considered a material risk.

## 14. Related Party Transactions

The following are considered to be related parties:

- Stewart Investors
- The Directors of the Company

The Company employs Stewart Investors as its Investment Manager. During the year ended 31 January 2018, Stewart Investors earned £2,787,000 (2017: £2,406,000) in respect of Investment Management fees, of which £723,000 (2017: £642,000) was outstanding at the year end. All material related party transactions have been disclosed on page 47 and in notes 3 and 4 on pages 58 and 59. Details of the remuneration of all Directors can be found on page 47.

## Further Information

# Shareholder Information

## Financial Calendar

31 January	Financial Year End
March	Final Results Announced
June	Annual General Meeting
July	Dividend Payable
31 July	Half Year End
September	Half Year Results Announced

## Annual General Meeting

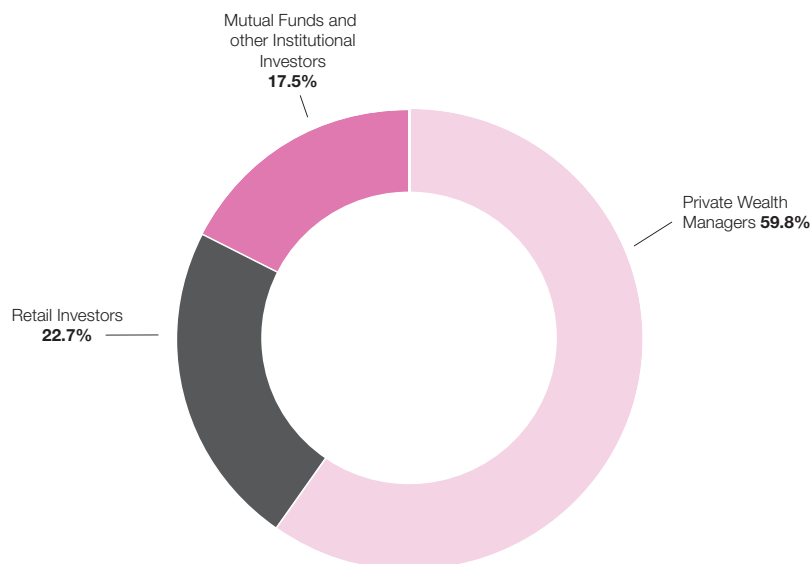
The Annual General Meeting of Pacific Assets Trust plc will be held at etc. venues St. Paul's, 200 Aldersgate Conference Centre, London EC1A 4HD on Wednesday, 27 June 2018 at 12 noon.

## Dividend

A dividend is normally paid annually following approval at the Annual General Meeting. Shareholders who wish to have dividends paid directly into a bank account, rather than by cheque to their registered address, can complete a mandate form for the purpose. Mandates may be obtained from the Company's Registrars, Equiniti Limited, on request.

## Profile of the Company's Ownership

### % of shares held at 31 January 2018



Source: Richard Davies Investor Relations

## Share Prices

The Company's shares are listed on the London Stock Exchange under 'Investment Companies'. The price is given daily in the Financial Times and other newspapers.

## Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrars, Equiniti Limited, under the signature of the registered holder.

## Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained on the Company's website at [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk) and is published daily via the London Stock Exchange.

## Further Information

# Glossary of Terms

### AIFMD

The Alternative Investment Fund Managers Directive (the 'Directive') is a European Union Directive that entered into force on 22 July 2013. The Directive regulates EU fund managers that manage alternative investment funds (this includes investment trusts).

### Discount or Premium

A description of the difference between the share price and the net asset value per share. The size of the discount or premium is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share the result is a premium. If the share price is lower than the net asset value per share, the shares are trading at a discount.

### Gearing

The term used to describe the process of borrowing money for investment purposes. The expectation is that the returns on the investments purchased will exceed the finance costs associated with those borrowings.

There are several methods of calculating gearing and the following has been selected:

Total assets, less current liabilities (before deducting any prior charges) minus cash/cash equivalents divided by shareholders' funds, expressed as a percentage.

### MSCI Disclaimer

The MSCI information (relating to the Benchmark) may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and

the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation lost profits) or any other damages. ([www.msci.com](http://www.msci.com)).

### Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities. The NAV is also described as 'shareholders' funds' per share. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply of the shares.

### Net Asset Value Total Return

The theoretical total return on an investment over a specified period assuming dividends paid to shareholders were reinvested at net asset value per share at the time the shares were quoted ex-dividend. This is a way of measuring investment management performance of investment trusts which is not affected by movements in discounts or premiums.



## Further Information

### Glossary of Terms (continued)

#### Ongoing Charges Ratio

Ongoing charges are calculated by taking the Company's annualised operating expenses as a proportion of the average daily net asset value of the Company over the year. The costs of buying and selling investments are excluded, as are interest costs, taxation, cost of buying back or issuing ordinary shares and other non-recurring costs.

	31 January 2018 £'000	31 January 2017 £'000
Operating expenses	3,886	3,418
Average net assets during the year	309,753	265,236
Ongoing charges	1.3%	1.3%

#### Share Price Total Return

The change in capital value of a company's shares over a given period, plus dividends received, expressed as a percentage of the opening value.

## Further Information

### How to Invest

#### Retail Investors advised by IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers (IFAs) in the UK to ordinary retail investors in accordance with the Financial Conduct Authority (FCA) rules in relation to non-mainstream investment products and intends to continue to do so. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

#### Equiniti – Share Dealing Service

An internet and telephone dealing service is available through the Company's registrar, Equiniti. This provides a simple way for UK shareholders of Pacific Assets Trust plc to buy or sell the Company's shares. For full details and terms and conditions simply log onto [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing) or call 03456 037037 between 8.00am and 4.30pm Monday to Friday. This service is only available to shareholders of Pacific Assets Trust plc who hold shares in their own name, with a UK registered address and who are aged 18 and over.

Shareview Dealing is provided by Equiniti Financial Services Limited which has issued and approved the preceding paragraph. Equiniti Financial Services Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA is registered in England and Wales with number 6208699. Equiniti Financial Services Limited is authorised and regulated by the Financial Conduct Authority.

#### Investment Platforms

The Company's shares are traded openly on the London Stock Exchange and can be purchased through a stock broker or other financial intermediary. The shares are available through savings plans (including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs) which facilitate both regular monthly investments and lump sum investments in the Company's shares. There are a number of investment platforms that offer these facilities. A list of some of them, that is not comprehensive nor constitutes any form of recommendation, can be found below:

AJ Bell Youinvest	<a href="http://www.youinvest.co.uk/">http://www.youinvest.co.uk/</a>
Alliance Trust Savings	<a href="http://www.alliancetrustsavings.co.uk/">http://www.alliancetrustsavings.co.uk/</a>
Barclays Stockbrokers	<a href="https://www.barclaysstockbrokers.co.uk/">https://www.barclaysstockbrokers.co.uk/</a>
Bestinvest	<a href="http://www.bestinvest.co.uk/">http://www.bestinvest.co.uk/</a>
Charles Stanley Direct	<a href="https://www.charles-stanley-direct.co.uk/">https://www.charles-stanley-direct.co.uk/</a>
Club Finance	<a href="http://www.clubfinance.co.uk/">http://www.clubfinance.co.uk/</a>
FundsDirect	<a href="http://www.fundsdirect.co.uk/Default.asp">http://www.fundsdirect.co.uk/Default.asp</a>
Halifax Share Dealing	<a href="http://www.halifax.co.uk/Sharedealing/">http://www.halifax.co.uk/Sharedealing/</a>
Hargreaves Lansdown	<a href="http://www.hl.co.uk/">http://www.hl.co.uk/</a>
HSBC	<a href="https://investments.hsbc.co.uk/">https://investments.hsbc.co.uk/</a>
iDealing	<a href="http://www.idealing.com/">http://www.idealing.com/</a>
Interactive Investor	<a href="http://www.iii.co.uk/">http://www.iii.co.uk/</a>
IWEB	<a href="http://www.iweb-sharedealing.co.uk/share-dealing-home.asp">http://www.iweb-sharedealing.co.uk/share-dealing-home.asp</a>
Saga Share Direct	<a href="https://www.sagasharedirect.co.uk/">https://www.sagasharedirect.co.uk/</a>
Selftrade	<a href="http://www.selftrade.co.uk/">http://www.selftrade.co.uk/</a>
The Share Centre	<a href="https://www.share.com/">https://www.share.com/</a>
Saxo Capital Markets	<a href="http://uk.saxomarkets.com/">http://uk.saxomarkets.com/</a>
TD Direct Investing	<a href="http://www.tddirectinvesting.co.uk/">http://www.tddirectinvesting.co.uk/</a>

#### Risk warnings

Past performance is no guarantee of future performance. The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined by the changing conditions in the relevant stock markets in which the Company invests and by the supply and demand for the Company's shares. As the shares in an investment trust are traded on a stock market, the share price will fluctuate in accordance with the supply and demand and may not reflect the underlying net asset value of the shares; where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons investors may not get back the original amount invested. Although the Company's shares are denominated in sterling, it may invest in stocks and shares which are denominated in currencies other than sterling and to the extent they do so, they may be affected by movements in exchange rates. As a result the value of your investment may rise or fall with movements in exchange rates. Investors should note that tax rates and reliefs may change at any time in the future. The value of ISA tax advantages will depend on personal circumstances. The favourable tax treatments of ISAs may not be maintained.

## Further Information

# Notice of the Annual General Meeting

Notice is hereby given that the thirty-second Annual General Meeting of Pacific Assets Trust Public Limited Company will be held at etc. venues St. Paul's, 200 Aldersgate Conference Centre, London EC1A 4HD on Wednesday, 27 June 2018 at 12 noon for the following purposes:

### Ordinary Business

To consider and, if thought fit, pass the following as Ordinary Resolutions:

1. That the Report of the Directors and Accounts for the year ended 31 January 2018 together with the Report of the Auditors thereon be received.
2. To receive and approve the Directors' Remuneration Report for the year ended 31 January 2018.
3. That a final dividend for the year ended 31 January 2018 of 2.6p per share be declared.
4. That Ms M C Ginman be re-elected as a Director.
5. That Mrs S E Hansen be re-elected as a Director.
6. That Mr T F Mahony be re-elected as a Director.
7. That Mr R E Talbut be re-elected as a Director.
8. That Mr J P Williams be re-elected as a Director.
9. That KPMG LLP be re-appointed as Auditor to hold office from the conclusion of the meeting to the conclusion of the next Annual General Meeting at which accounts are laid.
10. That the Audit Committee be authorised to determine KPMG LLP's remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions, of which resolutions 12, 13 and 14 will be proposed as Special Resolutions.

### Authority to Allot Shares

11. That, the Board of Directors of the Company (the 'Board') be and it is hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act

2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,498,417 provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2019 or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Board may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

### Disapplication of Pre-emption Rights

12. That, subject to the passing of resolution 11 proposed at the Annual General Meeting of the Company convened for 27 June 2018 ('Resolution 11'), the Board of Directors of the Company (the 'Board') be and it is hereby generally empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of 12.5 pence each in the capital of the Company ('Ordinary Shares')) for cash either pursuant to the authority conferred on them by such Resolution 11 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

the allotment of equity securities up to an aggregate nominal amount of £1,498,417, and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held

in 2019 or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

(iv) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2019 or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company may before such expiry enter into a contract to purchase Ordinary Shares which will or may be completed wholly or partly after such expiry and a purchase of Ordinary Shares may be made pursuant to any such contract.

## Authority to Repurchase Shares

13. That, the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (as defined in section 693(4) of the Act) of ordinary shares of 12.5 pence each in the capital of the Company ('Ordinary Shares') for cancellation on such terms and in such manner as the board of directors may determine provided that:

- (i) the maximum aggregate number of Ordinary Shares which may be purchased is 14.99% of the number of Ordinary Shares in issue immediately prior to the passing of this resolution;
- (ii) the minimum price which may be paid for an Ordinary Share is 12.5 pence (exclusive of associated expenses);
- (iii) the maximum price which may be paid for an Ordinary Share (exclusive of associated expenses) shall not be more than the higher of: (a) an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the Ordinary Share is purchased; and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange for an Ordinary Share; and

## General Meetings

14. That any General Meeting of the Company (other than the Annual General Meeting of the Company) shall be called by notice of at least 14 working days in accordance with the provisions of the Articles of Association of the Company provided that the authority shall expire on the conclusion of the next Annual General Meeting of the Company, or, if earlier, on the expiry 15 months from the date of the passing of this resolution.

### By order of the Board

**Frostrow Capital LLP**  
Company Secretary  
29 March 2018

### Registered office

16 Charlotte Square  
Edinburgh  
EH2 4DF

## Further Information

# Notice of the Annual General Meeting (continued)

## Notes

1. If you wish to attend the Annual General Meeting in person, you should arrive at the venue for the Annual General Meeting in good time to allow your attendance to be registered. It is advisable to have some form of identification with you as you may be asked to provide evidence of your identity to the Company's registrar, Equiniti Limited (the 'Registrar'), prior to being admitted to the Annual General Meeting.
2. Members are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Annual General Meeting. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent a member. To be validly appointed a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If members wish their proxy to speak on their behalf at the meeting, members will need to appoint their own choice of proxy (not the chairman of the Annual General Meeting) and give their instructions directly to them.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact the Registrar on 0371 384 2466. Lines are open between 8.30 am and 5.30 pm, Monday to Friday, the Registrars' overseas helpline number is +44 121 415 7047.

A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the abstain option when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" the resolution.

The appointment of a proxy will not prevent a member from attending the Annual General Meeting and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 overleaf.

3. A proxy form for use in connection with the Annual General Meeting is enclosed. To be valid any proxy form or other

instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand by the Registrar at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Registrar on 0371 384 2466. Other service providers' costs may vary. Lines are open between 8.30 am and 5.30 pm, Monday to Friday, The Registrars' overseas helpline number is +44 121 415 7047.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message.

Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
6. Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).
7. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30 p.m. on 25 June 2018 (or, if the Annual General Meeting is adjourned, at 6.30 p.m. on the day two working days prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.
8. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "2006 Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.
9. Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this notice of Annual General Meeting is available from [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk).
10. Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.
11. As at 29 March 2018 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 119,873,386 ordinary shares carrying one vote each. Accordingly, the total voting rights in the Company at 29 March 2018 were 119,873,386 votes.
12. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.
13. Under section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Members who have any queries about the Annual General Meeting should contact Frostrow Capital LLP, the Company Secretary, at 25 Southampton Buildings, London WC2A 1AL.

Members may not use any electronic address provided in this notice or in any related documents (including the accompanying proxy form) to communicate with the Company for any purpose other than those expressly stated.

## Further Information

# Notice of the Annual General Meeting (continued)

14. The following documents will be available for inspection at the offices of Frostrow Capital LLP, the Company's Company Secretary, 25 Southampton Buildings, London WC2A 1AL during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this notice and at the venue of the Annual General Meeting from 9.45 a.m. on the day of the Annual General Meeting until the conclusion of the Annual General Meeting:
  - 14.1 copies of the Directors' letters of appointment; and
  - 14.2 copies of the Directors' deeds of indemnity.
  
15. Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 16 May 2018, being the date six clear weeks before the meeting, and (in the case of a matter to be included on the business only) must be accompanied by a statement setting out the grounds for the request.



## Further Information

# Explanatory Notes to the Resolutions

### Resolution 1 – To receive the Annual Report and Accounts

The Annual Report and Accounts for the year ended 31 January 2018 will be presented to the AGM. These accounts accompanied this Notice of Meeting and shareholders will be given an opportunity at the meeting to ask questions.

### Resolution 2 – Remuneration Report

The Directors' Remuneration Report is set out in full in the Annual Report on pages 46 to 48. The Directors' Remuneration Policy is set out on page 48.

### Resolution 3 – The Declaration of a Final Dividend for the year ended 31 January 2018

Resolution 3 seeks shareholder approval for the paying of a final dividend of 2.6p per share for the year ended 31 January 2018.

### Resolutions 4 to 8 – Re-election of Directors

Resolutions 4 to 8 deal with the re-election of each Director. Biographies of each of the Directors can be found on pages 26 and 27.

The Board has confirmed, following a performance review, that the Directors standing for election and re-election continue to perform effectively.

### Resolutions 9 and 10 – Re-appointment of Auditor and the determination of its remuneration

Resolutions 9 and 10 relate to the re-appointment of KPMG LLP as the Company's independent Auditor to hold office until the next AGM of the Company and also authorises the Audit Committee to set its remuneration.

### Resolutions 11 and 12

Ordinary Resolution 11 in the Notice of Annual General Meeting will renew the authority to allot the unissued share capital up to an aggregate nominal amount of £1,498,417 (equivalent to 11,987,338 shares, or 10% of the Company's existing issued share capital on 29 March 2018, being the nearest practicable date prior to the signing of this Report). Such authority will expire on the date of the next AGM or after a period of 15 months from the date of the passing of the resolution, whichever

is earlier. This means that the authority will have to be renewed at the next AGM.

When shares are to be allotted for cash, Section 551 of the Companies Act 2006 (the "Act") provides that existing shareholders have pre-emption rights and that the new shares must be offered first to such shareholders in proportion to their existing holding of shares. However, shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing shareholders. Special Resolution 12 will, if passed, give the Directors power to allot for cash equity securities up to 10% of the Company's existing share capital on 29 March 2018, as if Section 551 of the Act does not apply. This is the same nominal amount of share capital which the Directors are seeking the authority to allot pursuant to Resolution 11. This authority will also expire on the date of the next AGM or after a period of 15 months, whichever is earlier. This authority will not be used in connection with a rights issue by the Company.

The Directors intend to use the authority given by Resolutions 11 and 12 to allot shares and disapply pre-emption rights only in circumstances where this will be clearly beneficial to shareholders as a whole. The issue proceeds would be available for investment in line with the Company's investment policy. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Shares will only be issued at a premium to the Company's cum income net asset value per share at the time of issue.

### Resolution 13

The Directors wish to renew the authority given by shareholders at the previous AGM. The principal aim of a share buy-back facility is to enhance shareholder value by acquiring shares at a discount to net asset value, as and when the Directors consider this to be appropriate. The purchase of shares, when they are trading at a discount to net asset value per share, should result in an increase in the net asset value per

## Further Information

# Explanatory Notes to the Resolutions (continued)

share for the remaining shareholders. This authority, if conferred, will only be exercised if to do so would result in an increase in the net asset value per share for the remaining shareholders and if it is in the best interests of shareholders generally. Any purchase of shares will be made within guidelines established from time to time by the Board. It is proposed to seek shareholder authority to renew this facility for another year at the AGM.

Under the current Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed the higher of (i) 105% of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. The minimum price which may be paid is 12.5p per share. Shares which are purchased under this authority will be cancelled.

Special Resolution 13 in the Notice of AGM will renew the authority to purchase in the market a maximum of 14.99% of shares in issue on 29 March 2018, being the nearest practicable date prior to the signing of this Report, (amounting to 17,969,020 shares). Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is earlier. This means in effect that the authority will have to be renewed at the next AGM or earlier if the authority has been exhausted.

### Resolution 14

Special Resolution 14 seeks shareholder approval for the Company to hold General Meetings (other than the AGM) on at least 14 working days' notice.

### Recommendation

The Board considers that the resolutions detailed above are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming AGM as the Directors intend to do in respect of their own beneficial holdings totalling 89,007 shares.

## Further Information

# Company Information

### Directors

J P Williams (Chairman)\*  
 M C Ginman, FCA\*\*  
 S E Hansen  
 T F Mahony  
 R E Talbut

\*Chairman of the Engagement & Remuneration and Nomination Committees

\*\*Chair of the Audit Committee and Senior Independent Director

### Registered Office

16 Charlotte Square  
 Edinburgh EH2 4DF

Website: [www.pacific-assets.co.uk](http://www.pacific-assets.co.uk)

Company Registration Number  
 SC091052 (Registered in Scotland)

The Company was incorporated in Scotland on  
 21 December 1984. The Company was incorporated as  
 Pacific Assets Trust Public Limited Company.

### Investment Manager

Stewart Investors  
 23 St. Andrew Square  
 Edinburgh EH2 1BB  
 Telephone: 0131 473 2200

Website: [www.stewartinvestors.com](http://www.stewartinvestors.com)

Authorised and regulated by the Financial Conduct Authority.

### Manager, Company Secretary and Administrator

Frostrow Capital LLP  
 25 Southampton Buildings  
 London WC2A 1AL  
 Telephone: 0203 008 4910

Email: [info@frostrow.com](mailto:info@frostrow.com)

Website: [www.frostrow.com](http://www.frostrow.com)

Authorised and regulated by the Financial Conduct Authority.

### Custodian Bankers

J.P. Morgan Chase Bank  
 125 London Wall  
 London EC2Y 5AJ

### Independent Auditor

KPMG LLP  
 15 Canada Square  
 London  
 E14 5GL  
 United Kingdom

### Registrars

Equiniti Limited  
 Aspect House  
 Spencer Road  
 Lancing  
 West Sussex  
 BN99 6DA  
 Shareholder Helpline: 0871 384 2466\*  
 Broker Helpline: 0871 384 2779\*

\*Calls to these numbers are charged at 8p per minute plus network extras. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrars quoting your shareholder reference number. Registered shareholders can obtain further details of their holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk)

### Brokers

Canaccord Genuity Limited  
 88 Wood Street  
 London EC2V 7QR



## Further Information

# Company Information (continued)

### Solicitors

Dickson Minto W.S.  
16 Charlotte Square  
Edinburgh EH2 4DF

### Identification Codes

Shares:	SEDOL:	0667438
	ISIN:	GB0006674385
	Bloomberg:	PAC LN
	EPIC:	PAC

### Global Intermediary Identification Number (GIIN)

MAEPFZ.99999.SL.826

### Legal Entity Identifier (LEI)

2138008U8QPGAESFYA48

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The Association of  
Investment Companies



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