Stewart Investors
Sustainable Funds Group

Pacific Assets Trust plc

Quarterly Shareholder Update

Q2

1 April - 30 June 2021

Image location: Indonesia

Risk factors

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

Investing involves certain risks including:

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

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

All information included in this document has been sourced by Stewart Investors and is displayed as at 30 June 2021 unless otherwise specified and to the best of our knowledge is an accurate reflection as at this date.

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

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

Investment terms

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

Contents

Investment objective

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

Image location: Kolkata, India

We launched our first sustainable investment fund in 2005. At that time we were convinced all companies would need to adjust to operating in an increasingly carbon-constrained world, and more companies would need to develop solutions to make economies less carbon intensive. Our conviction has never waned, nor has the urgency of the carbon-reduction challenge.

An imperfect indication of how seriously we take decarbonisation is that the emissions intensity of each of our investment strategies has consistently been at least 60% below its respective benchmark index.*

We invest only in high quality companies contributing to a more sustainable future. This leads us to seek out companies with exceptional cultures, run by responsible stewards, and whose products, services and operations help reduce ecological footprints, or advance human development, or both, wherever possible.

Some companies we invest in are delivering, or directly enabling, the emission reductions needed to help meet global 1.5°C warming targets. Obvious examples include renewable energy companies. Less obvious examples include companies operating further up or down the energy supply chain, and companies facilitating energy efficiency, waste reduction and recycling. But even companies supporting other aspects of sustainable development, such as improved health or reduced inequality, need to reduce business-as-usual carbon emissions in their supply chains and operations.

We engage constructively as owners to encourage companies to do more and move faster to achieve sustainable development outcomes, including transitioning to a lower-carbon world. Our investment approach is bottom-up. We spend time understanding each company and its place in the economy from the ground up. We pick apart the fundamental attributes of each business. We do our best to understand the attitudes of the people who steward each company.

Our commitment

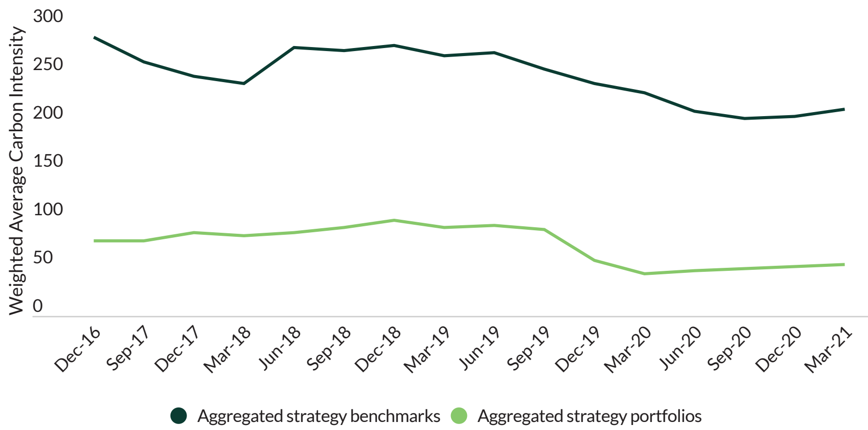
We will:

1. Allocate capital to high quality companies developing and implementing solutions to alleviate climate change and biodiversity loss, while not investing in fossil fuel companies[1].
2. Provide full transparency of our investments, and map these to Project Drawdown[2] climate change solutions to both illustrate how companies are contributing to emission reductions and to help inform and focus our engagement efforts.
3. Encourage companies to take positive actions and use their influence across their value chains to drive emission reductions, while also striving to ensure equitable treatment of all their stakeholders in the transition to a carbon-constrained economy[3].
4. Reduce emissions in our own operations and offset whatever emissions we cannot remove.

We also seek to understand how rising to the challenge of a carbon-constrained future might influence the quality of a company, and how each company can help the world achieve its carbon-reduction targets.

While metrics like carbon intensity may demonstrate alignment with our investment objective and the ambitions of society, we have never set strategy portfolio-level targets for carbon, or for other sustainable development challenges such as poverty alleviation, inequality or biodiversity loss. Nor are we likely to do so in future. A risk with distant targets is that we never arrive at our destination. Targets set for

Stewart Investors Sustainable Funds Group - aggregate strategy emissions intensity through time*



The chart (left) shows the weighted average carbon emissions intensity over the last five years for all of our strategy portfolios (light green line) versus the aggregated benchmark for each strategy (dark green line).

*Source: Stewart Investors and MSCI as at 31 March 2021.[4] Source for benchmark data: MSCI.

2050 are not as useful as action today. We prefer to focus on what we, and every company we invest in, can do in the here and now.

We support the good intentions behind net-zero emissions targets, although we are also convinced society needs to go further and faster than many pathways to net-zero imply. Top-down, whole-economy models of emission-reduction pathways have little relevance for our portfolios, which have zero direct exposure to fossil fuel companies. Such models may suggest our portfolios have already arrived at the 1.5°C world; we know this is not the case.

We also worry many of the commitments being made rely on negative-emissions technologies and the persistence of abundant carbon sinks in the future; we think there are uncertainties associated with both things. We will continue to support a lower-carbon future by investing in relevant and proven solutions.

Companies and investors have been very quick to commit to net-zero targets and pathways. Investing for many years in companies achieving and enabling emission reductions has taught us that the further you have travelled, the harder it often becomes to make incremental progress. We will only make commitments we know are compatible with our ambitious sustainable investment objectives and with the decisions we make, and engagement activities we undertake, each day.

We will continue to critically assess the merits of our investment approach and the goals we set ourselves for helping achieve a lower-carbon, sustainable economy.

A Climate Change Statement Q&A is also available online alongside this statement.

[1] Consistent with 'Our position statement on harmful and controversial products and services'.

[2] Drawdown.org

[3] This includes voting for company and shareholder proposals that in our judgement are likely to promote sustainable development and responsible business practices.

[4] Weighted average carbon emissions intensity is based on the size of our holding and measures each company's greenhouse gas (GHG) emissions intensity (scope 1 & 2) per $m sales. Scope 1 covers all direct GHG emissions from sources that are owned or controlled by the reporting entity. Scope 2 covers indirect GHG emissions from the consumption of purchased electricity, heat or steam. Where company reported data is not available, emissions are estimated by an MSCI ESG Research carbon estimation model. Data for specific strategies and portfolios is available on request.

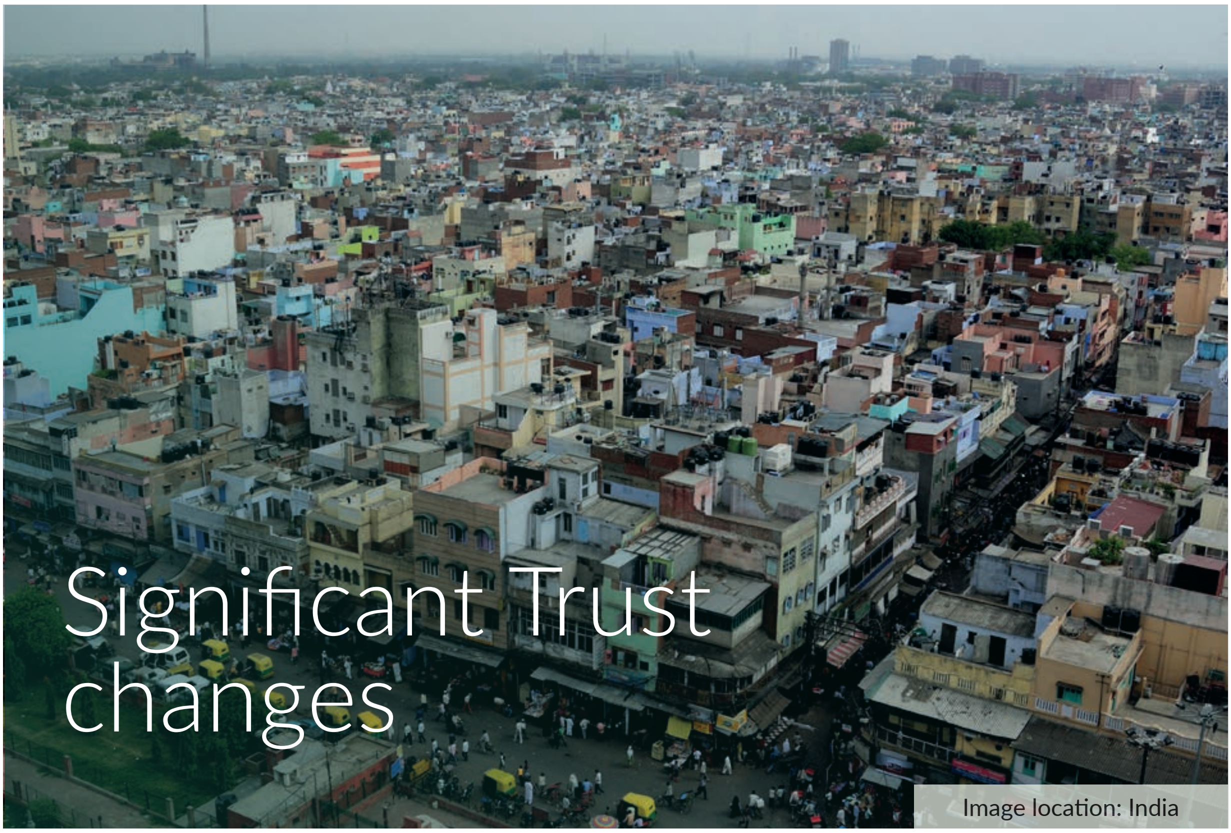


Image location: India

The Trust sold **Indigo Paints** (India) over the period. The company is an extremely high-quality franchise that listed at the start of the calendar year. Our knowledge of the industry, combined with admiration for the stewards, meant that we participated in the initial public offering which proved to be extremely popular. Accordingly, our allocation of the offering was small and strong initial performance meant that we were disinclined, despite believing in the quality of the business, to build the position size at higher valuations. In addition to this disposal we trimmed **Dr. Lal PathLabs** (India) and **Cyient** (India) for reasons of valuation. Conversely, we were able to increase the position size of **Tata Communications** (India), **Tata Consumer Products** (India), **Unicharm Indonesia** (Indonesia) and a business solution provider (Thailand) where valuations looked attractive and our conviction in the quality of the franchises have strengthened.

We supplemented these additions with four new purchases. Two of these companies are classified as A-Share companies (RMB-denominated equity shares of China-based companies that trade on the Shanghai and Shenzhen stock exchanges) which the Trust accesses through the stock connect programme. Last year we were able to add a number of new Chinese companies to the Trust and these new purchases bring the number of privately-founded businesses operating in mainland China, held in the portfolio, to seven. Each of these franchises are contributing to, and benefitting from, the sustainable development challenges facing the country. Although each company operates in different sectors, the commonality between them are high-quality, founder-managed stewards, with whom we are aligned through their equity exposure, managerial input and the high-quality cultures they have created. Moreover, each company is far from the commanding heights of political power and is propelled by strong sustainability tailwinds as well as sufficiently high-quality franchises to win market share from domestic and foreign competitors.

In addition to these new investments in China, we also invested in a general insurance franchise in India. This company is founded and managed by a family for whom we have the greatest respect. Here, we are extremely confident of the quality of the stewardship as well the strong opportunity for growth from this competitive but underpenetrated industry. We also initiated a holding in a high-quality engineering business which has recently suffered governance setbacks but is now stewarded by a high-quality family that can maximise the opportunities from this strong franchise. The summation of these transactions means that cash at the end of the period is 4%.

Source for company information: Stewart Investors investment team and company data. Named new investments disclosed relate to holdings with a portfolio weight over 1%.

Proxy voting

Pacific Assets Trust plc

During the quarter there were **321** resolutions from **31** companies to vote on. On behalf of the Trust, we voted against **12** resolutions.

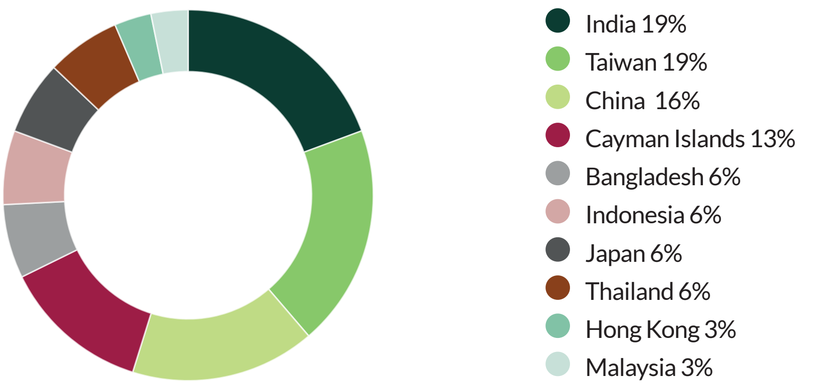
We voted against **Humanica Public**'s request for management to approve all other business matters before the annual general meeting (AGM) of shareholders. We consider ourselves active shareholders and prefer to vote on such matters at the AGM. (one resolution)

We voted against **Pentamaster International**, **Vinda International** and **AK Medical Holdings**' request to repurchase issued shares, and issue shares without pre-emptive rights, as the share discount rate had not been disclosed and the share issuance was excessive. (six resolutions)

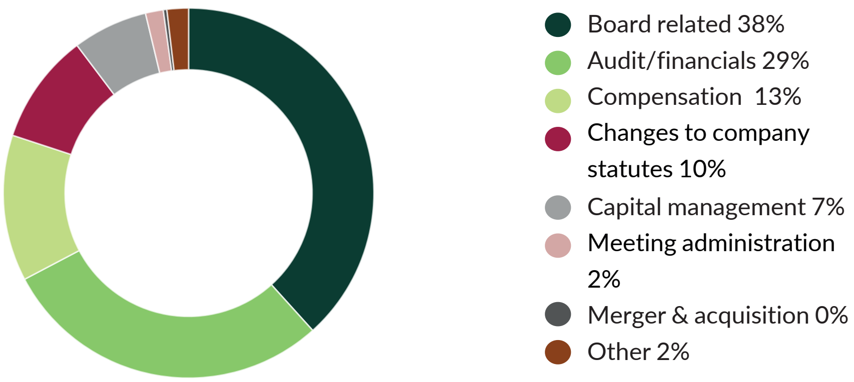
We voted against **Shenzhen Inovance Tech**'s request to adopt a long-term stock ownership incentive plan as there was a lack of disclosure and transparency on the plan. We also voted against their request to elect an individual to their Supervisory Council as we do not believe they are truly independent. (four resolutions)

We voted against **Selamat Sempurna**'s request appoint an independent auditor and the authority to set the auditor fees. At the time of voting the company had not disclosed its proposed auditor. (one resolution)

Proxy voting by country of origin



Proxy voting by proposal categories



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

Interactive holdings map

Explore how the companies in the Trust are contributing to sustainable development.

We provide full transparency of Trust holdings and their investment rationales via an interactive map on the Trust's website, including their contribution to the Sustainable Development Goals.

We believe sustainability is core to any company's business model, not an optional extra. We look for businesses whose success is tied to the social and environmental benefits they deliver, whether the provision of basic sanitation products or advanced engineering software.

Dr. Reddy's: making a difference through science and innovation

Sashi Reddy and David Gait spoke to G. V. Prasad, Chairperson and Managing Director at Dr. Reddy's an Indian pharmaceutical company held in the Trust.

Dr. Reddy's is an entrepreneurial generic pharmaceutical company that is committed to providing affordable and innovative medicines. They offer a wide portfolio of products including active pharmaceutical ingredients (API), custom pharmaceutical services, generics and biosimilar.

In the interview, they discuss Dr. Reddy's history, culture and journey to date, the importance of accessible and affordable medicines, and the current COVID-19 vaccine rollout in India.

> Watch the full interview

Good Old-Fashioned

We often introduce ourselves to Trust shareholders, prospective clients, friends and strangers as "good old-fashioned, long-term investors". In an environment where returns are counted by the day, there is a tendency to equate this approach with being stuck in the past and out of touch with the future. Let's challenge this perception.

We are long term investors

In practice, this means our starting point in any investment journey is to peer at least ten years into the future. We sometimes have a clear idea of what this future should look like and sometimes we don't. Where we do, we decide to pursue our enquiry further or we stop straight away. Companies that are poorly positioned from a sustainable development standpoint or show little will to evolve fall into the latter category. If a business and its direction of travel fits well with the sustainable development of the economies they operate in, we continue on our path of enquiry. This is still just the starting point of our journey, akin to the first few hundreds of thousands of years after the big bang. Matter as we know it is yet to be formed.

Finance literature is usually accompanied with a caveat emptor that past performance may not reflect future returns. To our simple minds, it is impossible to comprehend the future of anything without knowing its history. Physicists would be scratching their heads if they were asked to predict the future of our universe without any knowledge of its evolution until now. Companies are no different.

So what in the past are we looking for?

Histories of people, companies and economies

The backbone of our investment philosophy is to find owners and management teams with integrity, competence and humility. But why are people important? People create businesses, run them, and can destroy them. Most importantly, we believe that the best managers think ten years ahead and start shaping their business today in order to remain relevant. Any conversation around sustainable development with managers is meaningless if timeframes are ten months and not ten years. Unless we peer into their past we have no way of coming to any reliable conclusions about whether we are backing the right people.

The evidence that companies can address opportunities and risks down the road mostly lies in their culture. Becoming historians is key to understanding company cultures. The tracks they have left, the speed at which they have travelled and the paths they have chosen gives away many clues as to how companies might navigate the future. The best businesses thrive over decades because of these evolutionary dispositions in their culture. Similarly, our views on most topics don't stand still. We take a Bayesian approach and update them when there is sufficient evidence and reason to do so.[1]

Sustainable development of economies is more than just a catchphrase. At the heart of it is imagining a future that will be underpinned by more equitable societies, less resource-intensive consumption and the benefits of development reaching everyone. Investing behind this future requires an understanding of what did not work in the past and why. A reading of economic histories and an awareness of cultural nuances is key to predicting the twists and turns in the developmental paths nations take. History also reminds us to pay attention to political systems and their checks and balances. These are risks we simply cannot ignore over the long term. Hence we favour companies that build themselves away from political patronage and thrive on their own merit.

Good old-fashioned – surviving the test of time

As investors looking for growth, our choice is primarily between quality businesses which can continuously evolve and the disruptors. In our view, the current investment climate heavily favours the latter, a feature of investment bubbles. We are happy to back the disruptors for whom profits today is a choice. And their postponement to the future is evidence of long-term thinking and strategy. However, we struggle with businesses where generating profits is outside of their control even if they are well-positioned for sustainable development. Not taking the risk to invest in such businesses is often construed as being old-fashioned. But this old-fashioned approach has worked for us and our clients over many cycles and through many investment bubbles. On the contrary, we should be questioned if we stray away from our tried and tested path.

Milkomeda is not a figment of my imagination. Scientists predict that our galaxy, the Milky Way, will collide and merge with its cosmic neighbor Andromeda roughly 4.5 billion years in the future[2]. Such predictions would not be possible without a precise understanding of the evolution of these galaxies, their surroundings and literally, their pace and direction of travel. Similarly, our portfolios are designed to contribute to, and benefit from, a sustainable future helped by a sound analysis of the history of people, companies and economies. “Good old-fashioned” has survived the test of time because it always had its eyes firmly set on the future. And the past has served it as a remarkable place of reference and learning.

Perhaps, the caveat emptor should read “Ignoring the past can be risky for future returns”.

[1] Bayesian approach refers to the theory of conditional probability by 18th century mathematician Thomas Bayes.

[2] Source: space.com

Paying a fair corporate tax rate matters

Paying a fair rate of corporate tax is an important contribution that companies make to society. If companies are proactively seeking to minimise their tax payments, this should be seen as a red flag.

Economists at the International Monetary Fund estimate that global corporate tax avoidance costs governments between US$500 and US$600bn every year.[1] This includes $200bn in revenues being channelled away from low-income economies, which is more than these countries receive in foreign aid each year.[2] These vital resources could be spent on improving education, health and social services, as well as supporting sustainable development and contributing to a fairer and more equal society.

As governments around the world continue to ratchet up higher levels of debt following the Covid-19 crisis, this loss of tax revenue becomes even more critical. Since the 2008 global financial crisis, large companies have been paying lower rates of tax on average.[3] Big tech firms in the US have come under the spotlight for their tax avoidance antics. A study by the UK transparency campaign Fair Tax Mark, found that six of the largest tech firms, including Amazon, Facebook and Google, have been 'aggressively avoiding' the payment of taxes, totalling US$100bn over the past decade.[4] Regulators are starting to pay attention, especially in Europe and the UK. Governments are beginning to roll out digital taxes.

Legal loopholes

Corporations today can legally avoid or minimise their tax bill in various ways. For example, they can set up foreign subsidiaries in tax havens, such as the Cayman Islands, or use transfer-pricing to shift profits from one division to another. These tactics may be seen by some as 'sensible business'. Some investors even celebrate when companies pay minimal tax. On the contrary, we believe that deliberate and systematic tax avoidance strategies can contribute to inequality, weaken our social fabric and reduce the ability of governments to make societies fairer and safer for all citizens.

> As long-term investors, we seek to invest in high-quality companies that are well placed to benefit from and contribute to sustainable development. We look for companies led by exceptional people, who have strong ethics and long-term time horizons

Paying a minimal amount of tax today may benefit companies in the short-term, but does not help build economic strength in the long-term. Studies have shown that higher taxation is associated with higher spending in health care and education, particularly in low-income countries, as well as helping to build a more responsive, accountable and capable state.[5] The Austrian economist Joseph Schumpeter famously explored the link between tax and more responsible spending by governments over a century ago.[6]

A low tax rate is a risk

Paying low levels of tax can also be a source of significant risk to future cash flows within companies. In India, for instance, the government has been charging an additional 18% interest rate on disputed balances over years – this can quickly compound into a serious liability.[7] It can also lead to reputational damage for companies. Ultimately, a dollar or rand or rupee of earnings at the legitimate company tax rate is worth more to us than the same earnings at a tax rate half the level or less.

When we come across a company proactively trying to minimise their tax payments, it is a red flag for us.

If the management team is comfortable to cut corners in tax, they may be more likely to cut corners elsewhere.

As such, tax is a key topic that we raise with companies as part of our engagement activities.

We actively engage on tax

One of our most prominent tax engagements in the past decade involved a large pharmaceutical company. This company used complex structures to reduce tax rates to mid-single digits that lasted for nearly a decade. We felt these structures violated the spirit of the law and increased the risk to future cash flows. Lengthy engagement did not lead to much progress and we were left with no choice but to sell our holdings. Today, many years later, governments are demanding half a billion dollars in back taxes from the company. The company is also fighting several antitrust cases and had failed to report a material related party transaction – a stark reminder that governance lapses do not happen in isolation.

Assessing tax rates on their own is obviously not enough to make a full assessment of the quality of the management or the financials of a business. However, it is a very useful piece in the "quality assessment jigsaw puzzle" that investors should consider during their appraisal of a company.

[1] International Monetary Fund, Tackling Tax Havens Finance & Development, September 2019, vol. 56, No. 3.

[2] International Centre for Tax and Development. Corporate tax avoidance and development: opening Pandora's box. September 2014.

[3] Multinationals pay lower taxes than a decade ago. Financial Times. March 2018.

[4] The Silicon Six and their $100 billion global tax gap. Fair Tax. December 2019.

[5] Source: https://www.odi.org/sites/odi.org.uk/files/resource-documents/11695.pdf

[6] Joseph Schumpeter, *The Crisis of the Tax State*, p 99-140 in The Economics and Sociology of Capitalism (1918).

[7] Reducing income tax disputes in India. Deloitte Tax Policy Paper 6. February 2020.

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

Avoiding the perils and pitfalls for high impact healthcare investment

Investing in healthcare companies seems an obvious choice for sustainable investors. After all, any company that helps cure disease, and improve health and wellbeing must be making a positive contribution to sustainable development.

However, the interplay between patients, doctors, governments and healthcare companies brings potholes and landmines for sustainability-focused investors. Consider the US$4.45bn healthcare companies spent on lobbying in the US over the 22 years to March 2020[1]; a third higher than the next highest spending industry. Or that some companies spend more on marketing than they do on research and development (R&D), despite using R&D as justification for high prices.[2] Or the finding of a 2014 study that doctors receiving payments from pharma companies prescribe more of the pharma companies' drugs, even when cheaper generics are available.[3]

Like any other sector, healthcare has good and bad companies; some have a history of scandals going back decades.[4] While rules are tightening globally in some of these areas, the difficulty of finding truly sustainable healthcare companies remains.

While these issues are real, good operators in the industry provide significant tangible benefits. We believe there are four points to be considered when looking for sustainable healthcare companies:

1. Healthcare is about human health outcomes, not about Global Industry Classification Standard (GICS) sectors or benchmarks.
2. The business model of a sustainable healthcare company should deliver access and affordability, preferably to large underserved markets.
3. Sustainability and corporate quality are deeply intertwined - for good and for bad.
4. Stewardship, ethical leaders and strong cultures are as important as any quantitative factor in assessing healthcare companies.

This article explores the areas outlined above across the Sustainable Funds Group. You can explore the healthcare companies owned in the Trust by visiting the interactive map and filtering on Sustainable Development Goal 3 - Good Health and Wellbeing.

Healthcare is about human health outcomes, not about GICS sectors or benchmarks

As long-term, bottom-up investors, we are primarily concerned with the quality and sustainable development contribution of individual companies, rather than seeking exposure to themes or sectors. This gives us the luxury of not needing to invest in any healthcare companies, but the responsibility of ensuring that we have validated the actual sustainable development contribution of each company when we do.

It also means we are not constrained by GICS sectors or benchmark weights and so can take a broad view of health and wellbeing across the system, and around the world. Rather than seeing a GICS sector dominated by large pharmaceutical companies, we have found medical device companies, diagnostics companies and generic medicine manufacturers, all making real contributions to improving access and reducing costs. Square Pharmaceuticals for example has a product portfolio of basic medicines including those for leading non-communicable diseases as well as anti-infectives. The company has the largest market share in Bangladesh, where medical spend is $40 per person per year.[5]

This broad view also includes companies like Dr. Reddy's. Dr. Reddy's is an entrepreneurial generic pharmaceutical company that is committed to providing affordable and innovative medicines. They offer a wide portfolio of products including active pharmaceutical ingredients (API), custom pharmaceutical services, generics and biosimilar. Their generic division produces more than 400 low cost versions of life saving drugs in 80 countries, mostly emerging markets and the US.[5]

Business models should deliver access and affordability to underserved markets

This broad view means we must understand how a company's business model supports lowering health system costs, expanding access and producing real world health outcomes. It also recognises that prevention is better than cure with many healthcare company business models being reliant on preventive approaches not being adopted.

Instead, we believe that companies seeking to support large and underserved addressable markets, or disrupt rent-seeking incumbents, are more likely to deliver long-term revenue growth. Underserved markets are often developing markets where affordability and access are critical for underpinning a sustainable business model. Lastly, we believe business models which reduce overall system costs will be more resilient as they are likely to benefit from, rather than be targeted by, regulatory interventions.

An example of a high impact health outcome in large addressable markets is vision correction, with 4.6bn people globally requiring it and almost 60% not having access.[6] Vision correction is also one of the most important interventions which can be made to support quality education, showing the interrelationship of different aspects of human development.

Hoya is a leading global med-tech company, manufacturing lenses for eyeglasses, contact lenses, medical devices as well as key components for semiconductor devices and other electronic equipment. Hoya's lens business helps improve vision which dramatically improves people's quality of life as well as supporting mental well-being.

Sustainability and business quality are deeply intertwined

In addition to making a contribution to sustainable development, company quality is also essential. For us, quality of franchise, management and financials are considered for every company, and we only invest in companies that offer both quality and sustainability. We don't view these as competing items to be balanced, rather quality and sustainability are almost always interlinked, particularly in high-impact sectors like healthcare.

We believe a franchise that depends on boosting prices of patented medications, and consequently limiting access, is inherently weak. We regularly discuss the risks of companies overearning, given the privileged and trusted positions they hold, and recognise the risks that overearning today invites in regulation and competition tomorrow. Traditional considerations, viewed over the long term, such as the proportion of recurring revenues, R&D spend and the sustainability of margins also help us understand the quality of these businesses.

Diagnostic companies are a good example. These companies make up around 5% of total hospital costs but can influence 60-70% of healthcare decision-making.[7] While there is the potential in some healthcare systems to incentivise overuse of diagnostics, the overall value to the health system is significant and extends well beyond detection of disease to include early intervention, better selection of treatments and, in the case of infectious diseases like COVID-19, has been critical in tracing and isolating cases to prevent further spread. These companies also tend to have resilient business models due to recurring revenues from consumables.

Kingmed Diagnostics, for example, is a leading independent clinical testing laboratory in China providing innovative healthcare devices that improve the health and quality of life for people in China and beyond.

Stewardship and ethical leaders are essential

Healthcare companies often become most important in times of crisis for individuals or societies. The temptation to exploit this vulnerability has resulted in a series of pricing scandals, infamously including Mylan, the maker of Epipens, increasing prices six-fold in 2008 and deliberately misleading the US government to avoid paying rebates. These actions damaged its reputation and resulted in a US$465m settlement with the US Justice Department.[8]

The US opioid crisis and the role of the Sackler family-backed Perdue Pharma is another example where short termism and a failure of stewardship came with tragic consequences, resulting in the company facing criminal charges and billion dollar fines for actions taken to turbocharge sales of OxyContin.[9]

While a good business model can help, taking the long view requires excellent and ethical management and stewardship, another key factor in our quality assessment.

One example is Dr. Lal PathLabs, an Indian pathology provider with partners in 22 countries, which performs more than 100,000 diagnostic tests per day.[5] The company's services offer early detection and intervention for illnesses which otherwise might result in costly hospitalisations. The Chairman has said that their strategy prioritises patient numbers over pricing, driving both access and affordability, while underpinning the growth and market leadership of the company for years to come.[5]

Looking to the future of healthcare

One final area of sustainable healthcare investment which is important to touch on is the future. While access and affordability in underserviced markets remain powerful long-term drivers for growth in sustainable healthcare companies, COVID-19 has given us a window into the challenges the health system faces and has also accelerated some positive trends.

Positioning

While our healthcare investment by GICS classification ranges from 3% to 29% across strategies[10], our approach to healthcare investment indicates that we:

- Invest in more companies contributing to good health and wellbeing outcomes than is indicated by the GICS sector.
- Completely avoid the mega-cap, big pharma companies which comprise a substantial proportion of the MSCI global indices health care companies.[11]

The best way to explore the healthcare companies owned in the Trust is by visiting the interactive map and filtering on Sustainable Development Goal 3 - Good Health and Wellbeing.

The investment implications of our approach are twofold. Firstly, different to popular perception of healthcare performance during 2020, COVID-19 didn't lift all of our healthcare companies but roughly split our holdings into relative 'winners' through stimulated demand, for example in diagnostics, and 'losers' through deferred demand for anything to do with elective surgeries. As these trends reverse we expect the short-term implications for our companies could be the same. However, none of our investments were made with COVID in mind or to ride a COVID wave, rather like all our investing, it was focused on the long term, where we still invest on the expectation that all the companies we invest in will do well.

The second implication relates to valuation and whether healthcare as a sector globally is currently overvalued or whether we are overexposed. We are concerned by valuations across the market; indeed a core part of our investment philosophy is capital preservation. In this respect, our healthcare companies are similar to every company we invest in. They are high quality, offer reasonably predictable growth supported by long-term sustainability tailwinds and carry less debt.

Healthcare investment offers opportunity and impact, but not by ticking a box

Systemic issues and the practices of some companies can make healthcare investment a challenge for sustainable investors. But finding business models which succeed by reducing costs and increasing access, can produce real benefits in global health systems and for investors.

While ethical and long-term stewardship are fundamental requirements for all the companies we invest with, in healthcare it is literally the difference between life and death. However, these qualitative factors cannot be metricated, and do not appear in ESG scores. Nor should they be taken as a given because a company appears in a given GICS sector. They can only be assessed over time, with experience and mistakes as guides.

[1] Source: Investopedia. 'Which Industry spends the most on lobbying?' May 2020.

[2] Source: Regulatory Affairs Professionals Society. 'Do Biopharma Companies Really Spend More on Marketing Than R&D?' July 2019.

[3] Source: Engelberg, J. Parsons, C.A. and Tefft, N. 'Financial Conflicts of Interest in Medicine' January 2014.

[4] Source: Drugwatch. 'Big pharma and medical device manufacturers.'

[5] Source: Stewart Investors investment team and company data.

[6] Source: EssilorLuxottica. Capital Market Day presentation, September 2019.

[7] The Lewin Group - The Value of Diagnostics Innovation, Adoption and Diffusion into Health Care (2005)

[8] Source: The United States Department of Justice. 'Mylan agrees to pay $465 million to resolve false claims act liability for underpaying EpiPen rebates.' August 2017.

[9] Source: The Guardian. 'Purdue Pharma pleads guilty to criminal charges related to US opioid crisis.' November 2020.

[10] Source: Stewart Investors.

[11] Source: MSCI.

Update to our position on harmful and controversial products and services

We have updated our position on harmful and controversial products and services to provide more clarity on the 0% revenue threshold we have for tobacco production and controversial weapons. In addition, we will disclose any material exposures above agreed thresholds on our website.

FAIRR Initiative

We have signed up to the FAIRR Initiative, an investor network that raises awareness of the ESG risks and opportunities in the global food sector.

We have also supported and co-signed their global investor statement Where's the beef?, which urges G20 governments to help build a more transparent, resilient and sustainable global food system, and disclose specific targets for reducing agricultural emissions within their Nationally Determined Contributions (NDCs) in the lead up to the UN Climate Change Conference (COP26) later this year.

The magic of microbes

We spoke to the Chief Science Officer of Chr. Hansen, a manufacturer of natural ingredients for the food and agricultural industries, about the challenges of sustainable development and how microbes can play a vital role in building a more sustainable future. While not directly related to the Trust, we wanted to share the wider message and themes in the discussion for interest. Watch the discussion here.

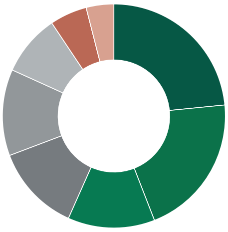
Pacific Assets Trust plc GBP - 30 June 2021

Trust Size **£441m** **Number of Holdings** **63**

Ten Largest Holdings

Stock Name	Portfolio Weight (%)	**Comparator Index Weight (%)
Tube Investments of India Limited	4.1	0.0
Hoya Corp.	3.9	0.0
Mahindra & Mahindra Ltd.	3.6	0.1
Vitasoy International Holdings	3.5	0.0
Marico Limited	3.3	0.0
Unicharm Corporation	3.0	0.0
Voltronic Power Technology Corp	2.9	0.0
Techtronic Industries Co., Ltd.	2.8	0.3
Dr Lal Pathlabs Ltd	2.7	0.0
Housing Development Finance Corporation Limited	2.7	0.8
Total	**32.5**	**1.2**

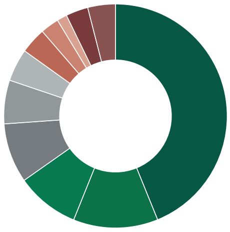
Sector Breakdown



- Information Technology 23.4% (23.2%*)
- Consumer Staples 20.6% (4.8%*)
- Industrials 12.6% (6.0%*)
- Financials 12.6% (17.6%*)
- Health Care 12.5% (5.3%*)
- Consumer Discretionary 8.9% (18.5%*)
- Communication Services 5.4% (11.2%*)
- Other 0.0% (13.4%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

**Comparator Index Weight

Country Breakdown



- India 43.8% (11.3%*)
- Taiwan 12.3% (15.8%*)
- China 9.1% (42.9%*)
- Japan 8.6% (0.0%*)
- Hong Kong 6.3% (7.3%*)
- South Korea 4.7% (15.1%*)
- Indonesia 3.8% (1.3%*)
- Bangladesh 2.7% (0.0%*)
- Malaysia 1.5% (1.4%*)
- Other 3.2% (4.9%*)
- Cash and Cash Equivalents 4.0% (0.0%*)

**Comparator Index Weight

Cash Equivalents may include T-Bills.

Market Capitalisation (% in GBP)

	0 to 500m	500m to 1bn	1bn to 2.5bn	2.5bn to 5bn	5bn to 10bn	10bn to 50bn	50bn to 100bn	100bn+
Portfolio Weight	6.1	5.2	16.4	14.8	22.4	25.3	1.2	4.6
Benchmark Weight	0.0	0.1	2.0	7.2	12.4	36.5	8.0	33.9

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

Contribution Analysis - 12 Months

Top Three Contributing Stocks

Stock Name	Portfolio Weight (%)	Value Added (bps)
Tube Investments of India Limited	4.2	311
Tech Mahindra Limited	2.1	232
Dr Lal Pathlabs Ltd	2.7	209

Bottom Three Contributing Stocks

Stock name	Portfolio Weight (%)	Value Added (bps)
Philippine Seven PHP1	1.4	-76
Vitasoy International Holdings	3.5	-63
Hualan Biological 'A'CNY1	0.9	-49

Annual Performance (% in GBP)

	12 mths to 30/06/21	12 mths to 30/06/20	12 mths to 30/06/19	12 mths to 30/06/18	12 mths to 30/06/17
NAV	31.0	-3.6	8.8	9.5	15.9
Share Price	31.3	-11.8	16.8	6.3	22.1
Consumer Price Index (CPI) +6%	8.4	6.7	8.3	8.7	9.2
MSCI AC Asia ex Japan Index	24.9	4.7	3.2	8.1	30.4

Cumulative Performance (% in GBP) to 30 June 2021

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mths	3 mths
NAV	243.1	198.4	74.5	37.4	31.0	8.4	5.8
Share Price	257.7	214.2	75.6	35.3	31.3	8.1	10.0
Consumer Price Index (CPI) +6%	137.6	115.7	48.7	25.2	8.4	4.8	3.1
MSCI AC Asia ex Japan Index	168.6	129.4	90.5	35.1	24.9	5.3	3.5

Past performance is not a reliable indicator of future results.

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

Important information

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