



Stewart Investors  
Sustainable Funds Group

Pacific Assets Trust plc

# Quarterly Shareholder Update

1 July - 30 September 2021

# Q3



Image location: Mumbai, India

## Risk factors

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

Investing involves certain risks including:

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

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

All information included in this document has been sourced by Stewart Investors and is displayed as at 30 September 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](https://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.

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### 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: Indonesia

Strengthening political headwinds and a slowing economy have caused valuations to fall in China. We have used this weakness to add to the Chinese companies we initiated holdings in last year. We also purchased two new companies operating in China. The first manufactures and distributes savoury condiments, particularly soy sauce, and the second is the owner of the best known brand of domestic paint. Each of these companies have politically uncontentious franchises and stewards as well as strong balance sheets and good prospects for growth. We have not reduced our quality standards and we remain indifferent to many of the once popular companies operating in the internet, education, banking, property and insurance sectors which have fallen significantly. We sold **AK Medical** (Hong Kong) because of possible changes in product pricing that would reduce profitability. Outside of China, markets were generally strong particularly in India and this helped performance.<sup>1</sup>

Investor enthusiasm for Indian equities has been increasing. A third of the population has been vaccinated and economic momentum is accelerating in India. Regardless of strong gains we only reduced one Indian company for reasons of valuation. This was **Dr. Lal PathLabs** which had a temporary boost in operations and valuations from COVID testing. We are still convinced about the long-term prospects of Dr Lals but the shares had simply performed too well in a short period of time. We trimmed holdings in **Tech Mahindra**, **Tata Consultancy Services**, **Info Edge** and **Sundaram Finance** and we sold the holding in **Cyient** to fund higher conviction ideas. This included the purchase of India's leading internet-based exchange for basic industrial goods. This company is in the nascent stages of development, recording sales of only US\$70m last year. It has high-quality

people at the helm and an attractive network-based business model from which to help Indian small and medium-sized enterprises (SMEs) grow. Although India has performed well we are more concerned about valuation in other parts of the Trust portfolio.

During the quarter, we trimmed the Trust's holdings in **MediaTek** (Taiwan), and **Silergy** (Taiwan) which are involved in design of semiconductors. We also reduced **Hoya** (Japan) which is involved in the manufacture of mask blanks; a critical component in the semiconductor manufacturing process. Shortages of semiconductors has been well documented and demand is likely to be strong for some time but we are increasingly concerned about valuation, cyclicalty and sustainability in this industry. For valuation reasons only we trimmed our holdings in **Voltronic Power** (Taiwan), **Techtronic Industries** (Hong Kong). We also reduced **BRAC Bank** (Bangladesh) and sold out of **Hemas** (Sri Lanka) because of a deteriorating political outlook and to make room for a new holding in Indonesia.

We are pleased to have initiated a new holding in a manufacturer and distributor of natural health remedies in Indonesia. The company was founded more than seventy years ago and has that wonderful combination of family ownership with professional management. The franchise is dominant and the financials are robust, with a good balance sheet and improving profitability. We anticipate growth from new product development and entering new markets.

Please visit the Trust website to listen to the [latest webcast](#) where Chris McGoldrick provides an update on the Trust's performance and portfolio.

<sup>1</sup> Source: FactSet

# Proxy voting

## Pacific Assets Trust plc

During the quarter there were **233** resolutions from **31** companies to vote on. On behalf of the Trust, we voted against **four** resolutions.

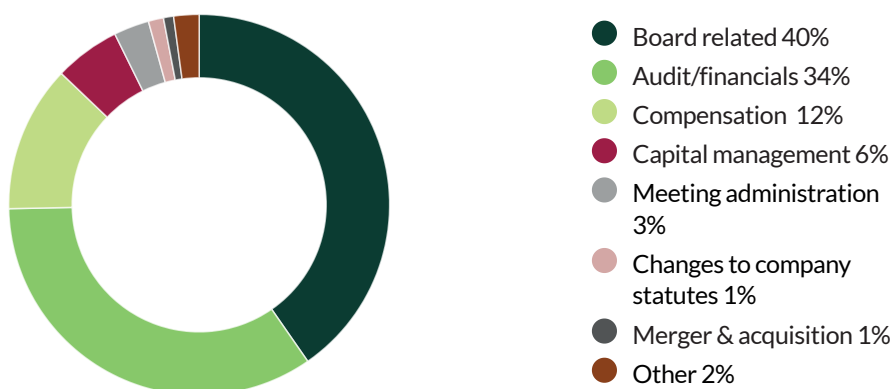
We voted against **Kasikornbank** and **Philippine Seven's** request for management to approve all other business matters before the annual general meeting (AGM) of shareholders (two resolutions). We consider ourselves active shareholders and prefer to vote on such matters at the AGM.

We voted against the election of two directors at **Dabur** as we do not believe they are truly independent. (two resolutions)

### Proxy voting by country of origin



### Proxy voting by proposal categories



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 chart numbers may not add to 100 due to rounding.



**In a recent essay<sup>1</sup>, Santa Fe economist Brian Arthur challenges economists to describe the world in more than algebraic terms. He believes they should extend their vocabulary (and minds) to include verbs, alongside their highly prized nouns, to allow the underlying processes, context and organic nature of complex systems to be described in full technicolour.**

Arthur's argument is well founded, and applies to the investment industry as much as any other economic realm.

As it stretches to reduce all things to a model, classical economic theory uses quantifiable nouns (amounts, levels and rates) as a base language. The resulting models – inspired by the robustness of physics – ideally deliver clarity and “scientific” logic, but often at a cost. A single-minded approach to narrative effectively sieves what it cannot quantify, and in so doing, easily skips over the natural disorder of people and processes that live behind the numbers.

Unlike the universal laws that govern physics, economies are messy and complex. Humans simply do not behave in the predictable fashion of atoms and neutrons. And herein lies the limitation of a solitarily, algebraic perspective of the world, a perspective that abstracts people and their unique behaviours and motivations, and reduces them to symbolic quantities for comparison and theorisation.

### **Algebra and the language of nouns**

The investment industry has long faced pressure to forego the mess of narrative and embrace the purity of algebra and the language of nouns. Efficient Market Hypothesis, Modern Portfolio Theory<sup>2</sup> and the Capital Asset Pricing Formula<sup>3</sup> are just some of the popular Newtonian laws<sup>4</sup> of the finance classroom, while sharp-edged nuggets – Active Share, Tracking Error, Information ratio, Sharpe ratio – constitute the industry's trusty algebra.

To complicate matters further, unlike in economics – where there is often agreement on the definition of key nouns – in our industry Risk, arguably the most important noun, has taken on a multitude of definitions. In its most dangerous form it is abstracted, quantified and expressed in relation to another algebraic symbol. Unfortunately it is rarely defined as absolute loss against absolute wealth.

There's a case to be made that our industry prefers the simplicity of ratios for the simple reason that they travel well. Stories, on the other hand, take time and effort to translate across a throng of intermediaries. Comparatively, there is far less friction in the language of ratios, ratings and rankings: What's the portfolio P/E? What's the active share? What's the tracking error? What's the ESG score? How big is the investment team? Unfortunately, the quantified answers to these questions quietly sieve out people, their history and culture, and their motivations.

### **A Darwinian approach**

It doesn't travel as readily, but at Stewart Investors our philosophy has long favoured a Darwinian approach to understanding the quality of people, franchise and financials, and to debating the future.

In *On the Origin of Species*, Darwin took some 480 pages and roughly 120,000 words to articulate his theory of evolution. His work treated biology as a science where verbs and adjectives bring our gloriously complex world to life. Similarly, our philosophy and culture embrace the context, actions, motives and stories behind the numbers, because we believe human nuance informs long-term returns. Put another way: numbers, ratios and rankings are backward looking, but money is made, and most importantly protected, by looking forward. Successfully allocating capital into a largely unknowable future requires embracing and truly valuing the unquantifiable nouns our industry has trouble pinning down.

Quality is an emergent property. It is never static. Any attempt to reduce it to a simple ratio or statistic is, in our view, not only inappropriate, but also dangerous for one's capital. Ratios sterilize the magic, organic, complex nature of businesses. When this approach is taken, as it so often is, our favourite topics (enduring qualities like culture, purpose and passion) are supplanted by numerators and denominators that are largely meaningless to anyone trying to understand a company's ability to protect and grow capital over a decade or longer.

### Unquantifiable factors

Indeed, our view is that the unquantifiable factors are what enable high-quality companies to enjoy success far beyond the time periods that traditional economic and financial theory seek to quantify.

For example, Marico, an Indian Consumer company, has been held by the Trust for close to two decades. With innovative and often unique long-term cultures, this business has nurtured world-class franchises and generated 30%<sup>5</sup> (GBP) returns a year<sup>6</sup> while also making the world a better place, we believe, by improving the health and well-being of people around the globe.

We've found some of the most attractive investment opportunities arise when a company changes management. In these situations, historic ratios become even more meaningless. We build our conviction by talking to people and lining their vision of the future up against comparable franchises and cultures across the globe. A small team of geographic and sector generalists is an important resource in this type of pattern recognition.

From a capital protection perspective, the Trust has not been invested in many companies commonly perceived as high quality (high ROEs, no debt, smooth earnings growth) because we weren't comfortable with supposedly unquantifiable "squishy stuff" like culture, time horizon and alignment. Many of the large Chinese internet companies fall into this category. With large addressable markets, attractive margins and sky-high returns on capital, they tick all the quantitative boxes. However, the algebra can be meaningless in an environment where the rules of the game can change overnight for companies that are misaligned with the Chinese Communist Party's ambitions for China.

### Focus on Quality

Our focus on quality and people leads us to embrace stories and narrative. Our investment reports often have sections that run for pages without mentioning many numbers. Anyone observing our investment debates would hopefully also notice how much time we spend deep in the weeds, focusing on the key determinants of quality: culture, values and behaviours.

This is also true for how we think about and incorporate ESG and sustainability into our analysis: we find it impossible to separate our consideration of these things from discussions about quality. We believe our industry's desire to create new "quantifiable nouns" threatens to replace the living, dynamic nature of companies, and their people, with colour-coded algebra. In fact, our view is that the long list of AAA-rated ESG companies that fail to meet our quality and sustainability requirements reflects the imperative data providers have to force others to see companies through their kaleidoscope of ill-defined, templated, quality.

As with the companies we seek out, independence of thought and the ability to zig when others zag carries the cost of being different. But our view is that long-term success often comes from a willingness to be different.

We also believe, based on past experience and performance as much as anything else, that Stewart Investors' unconventional comfort in prose over numbers – along with our preference for debating the future over quantifying the past – will continue to result in unconventional portfolios capable of delivering attractive long-term returns to our shareholders.

Doug Ledingham  
October 2021

<sup>1</sup> W. Brian Arthur, Santa Fe Institute; Economics in Nouns and Verbs.

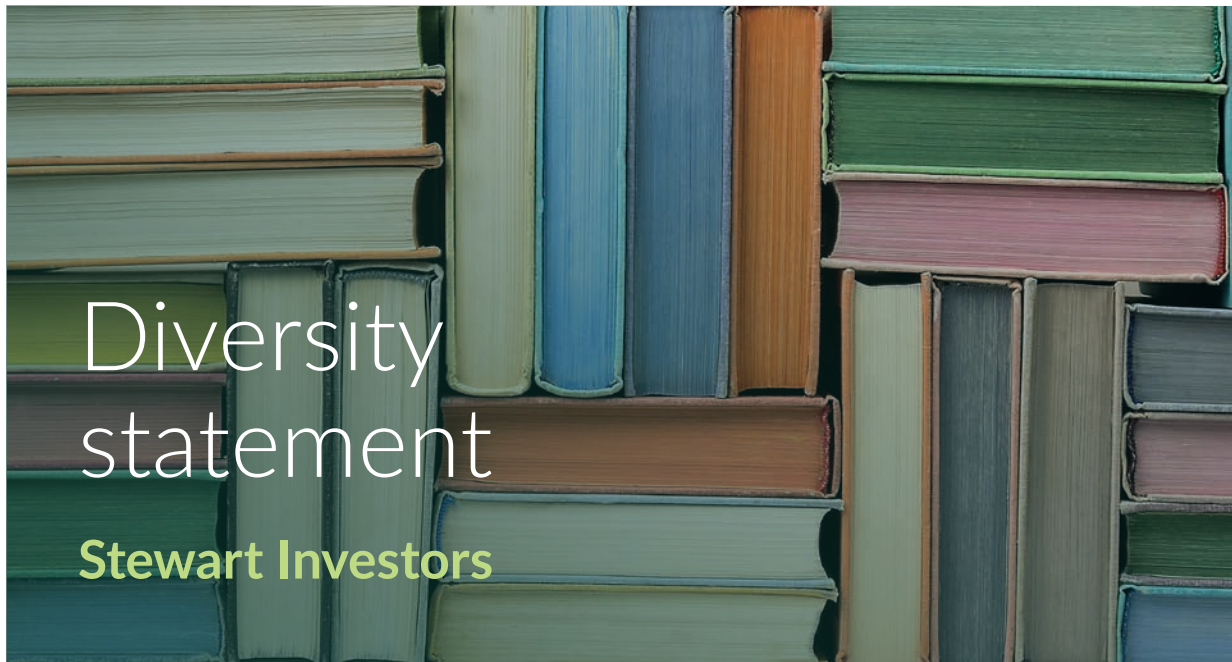
<sup>2</sup> [Modern Portfolio Theory](#) is a practical method for selecting investments in order to maximize their overall returns within an acceptable level of risk, Investopedia.

<sup>3</sup> The [Capital Asset Pricing Model \(CAPM\)](#) describes the relationship between systematic risk and expected return for assets, particularly stocks. CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital, Investopedia.

<sup>4</sup> Newton's laws of motion are three laws that describe the relationship between the motion of an object and the forces acting on it.

<sup>5</sup> Source FactSet: Marcio annualised (total) return over 20 years (including dividends), up to 30/09/2021 – market price.

<sup>6</sup> Past performance is not indicative of future performance. This information is provided for illustrative purposes and does not constitute any offer or inducement to enter into any investment activity.



# Diversity statement

## Stewart Investors

### Our beliefs

Diversity<sup>1</sup> is an integral part of sustainable development and is important to us as investors, employers and as members of society.

Our investment approach leads us to invest in companies run by responsible stewards that advance human development within ecological boundaries. We believe that understanding and making progress on diversity is an essential part of building an exceptional corporate culture and that greater diversity and inclusion of perspectives helps to generate better ideas and leads to better decision-making. The willingness of founders and managers to create a genuinely inclusive environment, seeking a diverse range of perspectives in which all members of the community feel they belong and are treated equitably, is a strong signal that a company is likely to evolve in a way that increases the likelihood of success over the long term.

We commit to:

- > Allocate capital to high-quality companies that are continually improving their own approaches to diversity.
- > Use our influence as investors to encourage companies to take positive diversity actions through (direct and collaborative) engagement, proxy voting and policy advocacy.
- > Continue to evolve our own approach to diversity as a firm, including hiring, remuneration and career progression.
- > Report transparently and regularly on our own successes and failures as an employer, an investor and within our communities.

### Governance

Our team and Board are accountable for ensuring we execute our corporate sustainability and investment responsibilities in a way that is aligned with our philosophy and our commitments. Stewart Investors also participates in, and is subject to, the governance arrangements of First Sentier Investors (FSI), a global asset management group of which our brand is part of.

<sup>1</sup> We define diversity as including, but not limited to, individual and group differences based on gender and gender expression, race, ethnicity, nationality, age, physical ability / disability, neurodiversity and other health conditions, sexual orientation, class, religious belief, and political perspective.





## Other news

### India Plastics Pact

In July 2018, we hosted an interactive forum in Mumbai with eleven Indian consumer goods companies to discuss the challenges around plastic waste and how they could best work together to improve the situation in India. A key output that stemmed from the forum was the need for a new industry body to work with government and agree on industry wide targets. The briefing and output papers from this forum are available [online](#).

Since the forum, we are delighted to have supported and part-funded WRAP (a global sustainability charity), who have experience in rolling out Plastic Pacts globally, in the operational costs to develop and launch an India Plastics Pact.

For more information on the India Plastics Pact, which launched on 3 September 2021, please visit the Pact's [website](#).

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### A Responsible Investment Leader

We are proud to share that the Responsible Investment Association Australasia (RIAA) has recognised Stewart Investors as a Responsible Investment Leader 2021.

This acknowledges our commitment to responsible investing; our explicit consideration of environmental, social and governance factors in investment decision making, our strong and collaborative stewardship; and our transparency in reporting activity, including the societal and environmental outcomes being achieved.

> [Read the full article](#)

# Interactive holdings map



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

We provide full transparency of company 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.

> [Visit map](#)



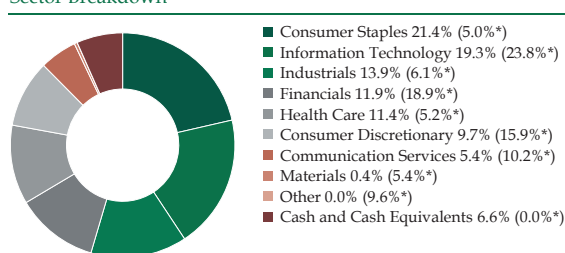
## Pacific Assets Trust plc GBP - 30 September 2021

Fund Size £465m Number of Holdings 63

## Ten Largest Holdings

Stock Name	Portfolio Weight (%)	**Comparator Index Weight (%)
Tube Investments of India Limited	4.8	0.0
Mahindra & Mahindra Ltd.	3.8	0.1
Hoya Corp.	3.5	0.0
Voltronic Power Technology Corp	3.4	0.0
Marico Limited	3.3	0.1
Unicharm Corporation	3.2	0.0
Housing Development Finance Corporation Limited	2.9	0.9
Vitasoy International Holdings	2.5	0.0
Techtronic Industries Co., Ltd.	2.4	0.4
Kotak Mahindra Bank Limited	2.3	0.2
<b>Total</b>	<b>32.1</b>	<b>1.7</b>

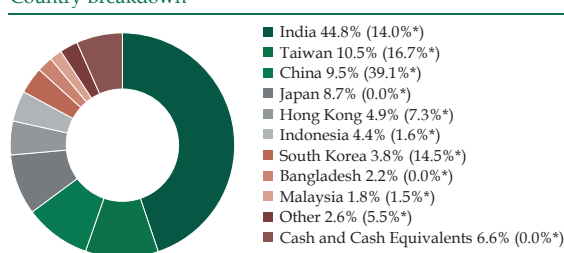
## Sector Breakdown



\*\*Comparator Index Weight

Cash Equivalents may include T-Bills.

## Country Breakdown



\*\*Comparator Index Weight

## 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	5.1	7.9	13.2	16.0	17.8	26.3	2.9	4.0
Benchmark Weight	0.0	0.1	2.1	8.0	12.4	39.0	8.0	30.4

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	4.8	330
Dr Lal Pathlabs Ltd	2.2	202
Voltronic Power Technology Corp	3.4	181

## Bottom Three Contributing Stocks

Stock name	Portfolio Weight (%)	Value Added (bps)
Vitasoy International Holdings	2.5	-170
Hualan Biological 'A'CNY1	0.9	-97
Philippine Seven PHPI	1.1	-63

## Annual Performance (% in GBP)

	12 mths to 30/09/21	12 mths to 30/09/20	12 mths to 30/09/19	12 mths to 30/09/18	12 mths to 30/09/17
NAV	27.6	3.1	9.6	11.4	5.6
Share Price	36.4	-8.6	12.3	9.3	5.8
Consumer Price Index (CPI) +6%	9.5	6.4	8.0	9.0	9.2
MSCI AC Asia ex Japan Index	9.7	12.3	2.2	4.4	18.8

## Cumulative Performance (% in GBP) to 30 September 2021

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mths	3 mths
NAV	260.7	261.5	69.6	44.2	27.6	11.2	5.1
Share Price	274.3	265.9	61.7	40.0	36.4	15.2	4.7
Consumer Price Index (CPI) +6%	144.0	117.2	49.8	25.9	9.5	5.9	2.7
MSCI AC Asia ex Japan Index	149.5	161.3	56.1	25.9	9.7	-3.9	-7.1

## Past performance is not a reliable indicator of future results.

Source for Trust: Lipper IM/Bloomberg/Trust Administrator. The NAV performance data is calculated on a net basis after deducting all fees (e.g. investment management fee) and costs (e.g. transaction and custody costs) incurred by the Trust. The NAV includes dividends reinvested on a net of tax basis.

\*\*Source for comparator MSCI AC Asia ex Japan Index and CPI data: FactSet. Comparator index calculated on an income reinvested net of tax basis. It is shown to provide additional context for investors seeking exposure to the region.

CPI data is quoted on a one month lag. Performance calculated from when Stewart Investors became Investment Manager of the Trust on 1 July 2010.

Contributions are calculated at the investee company level before the deduction of any fees incurred at Trust level (e.g. the management and administration fee) but after the deduction of transactional costs. Contribution data is calculated from the full portfolio and includes cash.

Any stocks held/listed in non-index or regional countries have at least 25% of their economic activities (at the time of investment) within the Asia Pacific region

## Important information

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

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