Stewart Investors
Sustainable Funds Group

Pacific Assets Trust plc

Quarterly Shareholder Update

Q1

1 January - 31 March 2022

Image location: Market, Kota Bharu, Malaysia

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.**

Where featured, specific securities or companies are intended as an illustration of investment strategy only, and should not be construed as investment advice or a recommendation to buy or sell any security.

All information included in this document has been sourced by Stewart Investors and is displayed as at 31 March 2022 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: Phnom Penh, Cambodia

During the period, we trimmed four Indian-listed companies to control the country weighting. These were **Dr. Lal PathLabs**, **Elgi Equipments**, **Mahindra & Mahindra** and **Tata Communications**. Each of these companies have performed well and their reductions do not represent a change in view about their quality. We also trimmed **Dr. Reddy's Laboratories** (India) because of uncertainty over the prospects of its Russian subsidiary which only contributes approximately 8% to group sales but may face increasing challenges. We reduced **Advantech** (Taiwan), **Delta Electronics** (Taiwan), **Hoya** (Japan) and **Hualan Biological Engineering** (China) over concerns about near-term growth prospects. To control position size, we trimmed **Unicharm** (Japan), and we used the proceeds from a reduction in **Kotak Mahindra Bank** (India) to finance a new investment in Malaysia. We trimmed **Pidilite** (India) for reasons of valuation only. There were no complete sells from the Trust during the period.

The Trust invested in two new companies. Small position size means we will not mention these companies by name but we have owned each of the companies before. The first company is an extremely high-quality bank that is dominant in Malaysia and has small, but flourishing, contributions from Cambodia. The prospects for profitable loan growth in Malaysia are improving as the economy strengthens with rising commodity prices. The second company is a pharmaceutical and healthcare manufacturer and distributor. This family-run business was founded in 1966 and is essential for improving the health and hygiene outcomes of Indonesians across the archipelago. In addition to these new purchases, the Trust took advantage of recent weakness to increase the position size of **IndiaMART** (India) and **Techtronic Industries** (Hong Kong).

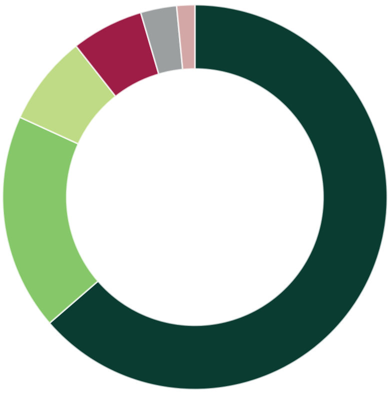
Proxy voting

Pacific Assets Trust plc

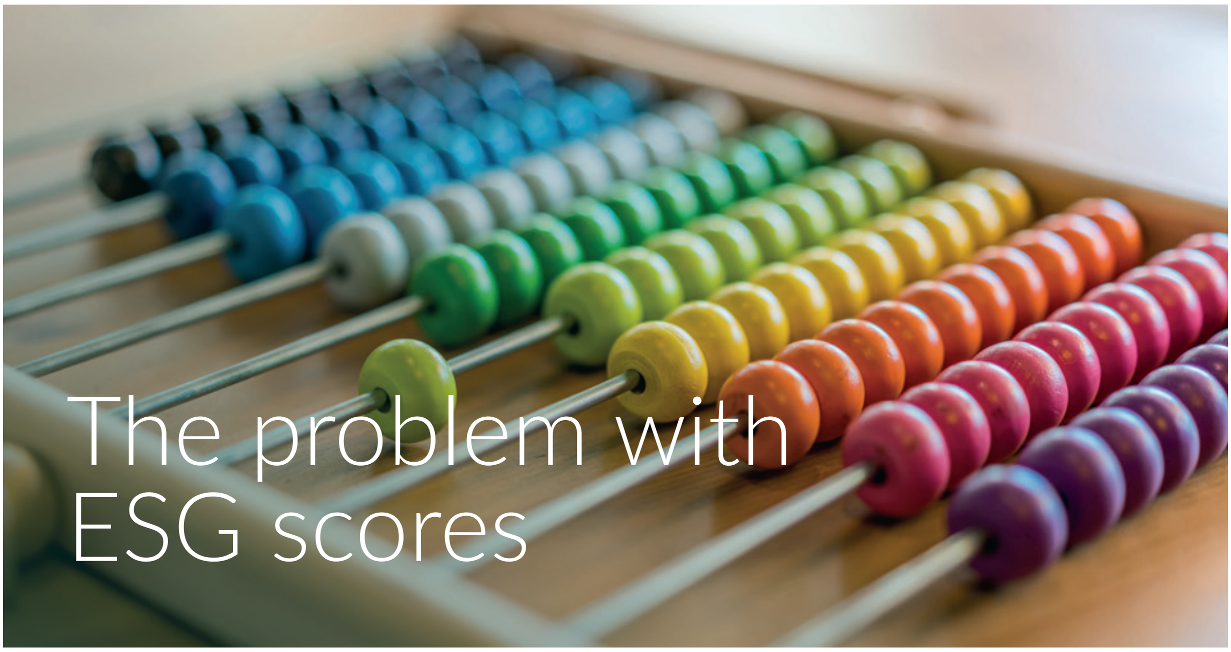
During the quarter there were **66** resolutions from **12** companies to vote on. On behalf of the Trust, we did not vote against any resolutions.

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.



The problem with ESG scores

Sustainable investing is facing a wave of new regulation, seeking to improve transparency and standardise reporting requirements for sustainability funds. The intentions behind these regulations are laudable; to reduce greenwashing, help separate the wheat from the chaff, and reorient capital towards more sustainable companies.

However, as with many regulations, there is a risk of unintended consequences. One of the key risks we see, is that investors are increasingly turning to third-party environmental, social and governance (ESG) data providers to help them with their analysis, and more worryingly, to help them decide whether a company is sustainable or not.

Some ESG data can be useful in certain circumstances, but an over reliance on simplistic ESG scores can be a dangerous strategy, especially when using them to build investment portfolios. Relying too heavily on ESG scores is also unlikely to help reorient capital towards more sustainable companies.

Why, what is the problem?

Unfortunately, ESG data suffers from a multitude of flaws, and in our view, does not focus on the areas that matter. One of the main challenges is that ESG scoring methodologies tend to focus on how well companies manage their internal processes, rather than the real-world impacts of their products and services.

Here are a couple of examples:

> PepsiCo*, the maker of soft drinks and snacks, tends to score quite favourably on ESG assessments. It has great disclosure in areas like its health and safety policies, Board diversity, and climate targets. These things are all very important, but they don't answer the vital question; do Pepsi's products make the world healthier and more sustainable?

> British American Tobacco* has been recognised as a leader on the Dow Jones Sustainability index for the last 20 years. This accolade is based on ESG scores from S&P. With sales of over 600 billion cigarettes each year, is it really a sustainable company?

Secondly, when you look at the scores themselves, there are often large variations between the scores and ratings from different ESG data providers. One company may be rated as best in class by one provider and worst in class by another. This is because each provider has their own methodology, with different areas of emphasis.

*For illustrative purposes only. Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and Stewart Investors does not necessarily maintain positions in such companies. Any fund or stock mentioned in this presentation does not constitute any offer or inducement to enter into any investment activity nor is it a recommendation to purchase or sell any security.

These issues are compounded by the fact there are gaps and a lack of consistency in the source data being collected from the companies being assessed. When ESG data providers cannot find the data they need, they use estimates, which sometimes result in strange outcomes.

Finally, there are inherent biases in the scores, with larger, developed market companies tending to score better than smaller companies, especially in emerging markets. Smaller companies often lack the resources needed to produce lengthy sustainability reports, and so are at risk of being penalised for their lack of data.

Some ESG data can be useful in certain circumstances, but an over reliance on simplistic ESG scores can be a dangerous strategy

So how do we assess whether a company is sustainable or not?

At Stewart Investors, we look to invest in companies that are well placed to contribute to, and benefit from, sustainable development. We look for companies that can help reduce our ecological footprint, or advance human development, or ideally both. These attributes are difficult to identify by relying solely on ESG scores. As William Cameron said in 1963:

"*Not everything that counts can be counted, and not everything that can be counted counts.*"

We prefer to do our own research, which is highly qualitative in nature and based on a wide variety of information sources, including bespoke commissioned research. We take a broad and rounded approach to assessing the sustainability credentials of a company, by asking a variety of questions, for example:

- How do the products and services contribute to sustainable development? Are they helping us solve difficult problems, meet vital needs, and do more with less?
- How does the management team think about sustainability and how do they act upon their beliefs? Do the company's leaders act with integrity and honesty? What is their time horizon? How do they treat all of their stakeholders, e.g. employees, suppliers, customers, and the communities where they operate?
- How does the company manage the positive and negative impacts of its operations? Is it actively managing its carbon and water footprint, and reducing its waste – what is the overall direction of travel?
- How adaptable is the company to changing sustainability trends? How is it placed to benefit from sustainability tailwinds and navigate sustainability headwinds, e.g. changing regulations?

None of these things can be easily captured in a single metric or ESG score. Instead, we prefer to use sensible judgement, and base our analysis on a broad base of both qualitative and quantitative evidence.

Collaborative engagement

Tackling conflict mineral content in the semiconductor supply chain

> *"As a shareholder you should want us to care about conflict minerals ... to address it".*
>
> Brian Krzanich, CEO of Intel, 2014.

We were overwhelmed with the support this initiative received, totalling 160 investors with collective assets under management of US$6.59 trillion[1]. It is clear that the investor community recognises the challenges of mineral sourcing within the semiconductor supply chain, and believes more action is required in order to develop conflict mineral-free supply chains and improve industry practice.

A brief recap of the conflict mineral issue

There have been five broad trends impacting the sourcing of Tin, Tungsten, Tantalum, Gold and Cobalt (known as conflict minerals (CMs)):

- The mining of these minerals has shifted from Australia and Canada to central Africa.
- Smelting & refining (SORs) capacity has moved to Asia. SOR ownership is increasingly Chinese.
- Frameworks on mineral traceability have stagnated. The OECD guidance is over five years old.
- Regulation and public opinion are forcing greater scrutiny of complex supply chains.
- High demand for semiconductors could encourage corner cutting in the sourcing of minerals.

Examination of a small sample of conflict mineral statements suggests that progress has been disappointing since an academic study of 1300 companies in 2015 found:

> *"The reports ultimately reveal shallow, almost cynical, compliance with poorly crafted rules built on a regulatory paradigm better suited to simpler contexts".*
>
> The Conflict Minerals Experiment.
> Jeff Schwartz. P133.

Despite valiant efforts, some conflict mineral statements show that progress is slow and that confidence in companies' ability to track the provenance and integrity of minerals is low.

To this point, a central and candid sentence in the conflict mineral statement of one large American equipment manufacturer in 2021 has not meaningfully changed since the company started producing their SD form[2] for the SEC in 2014:

> *"For the significant majority of smelters reported by the Surveyed Suppliers, there is inadequate information available to assess the source of the conflict minerals they process. Therefore, for Covered Products manufactured in 2020... concluded in good faith that it lacks sufficient information to trace the chain of custody of any conflict minerals contained in its Covered Products up through the supply chain to a specific smelter or, in turn, to a country or mine of origin".*

The problem has not gone away and the associated human rights abuses are still evident. Only at the beginning of April we became aware of a crowd funding initiative to help finance legal proceedings against large technology brands by families from the Congo[3]. This points to intensifying reputational headwinds.

What have we done so far?

With the support from signatory investors, on 30 November 2021, we wrote to 29 companies. In the letter, we have encouraged the companies to:

- Develop and invest in technological solutions to improve traceability, possibly blockchain.
- Increase transparency and reporting on minerals from mine to product.
- Encourage and participate in industry wide collaboration to improve industry practices.
- Impose and enforce harsher sanctions on non-compliance.
- Reduce demand for new materials by improving recycling initiatives.

To date we have received a response from 21 of the companies. We have requested meetings with all the companies that have responded to the letter, and to date we have had meetings with eight companies.

What have we found?

> The industry made an early decision to trace minerals in the downstream from smelters or refiners (SORs) and not in the upstream, from the mines. This means that the problem of mineral mixing before the minerals arrive at the SORs materially hinders the tracing of mineral provenance from mine to product.

> The industry places a heavy reliance on the processes and assurances provided by the Responsible Mineral Initiative (RMI). Yet the RMI states clearly: "This assurance process does not result in a material certification nor does it determine that material at the company is "conflict-free" or is otherwise free of human rights abuses in the supply chain".

> Despite relying on suppliers for information, there is little industry collaboration. One foundry said fears of collusion, as with price fixing, was an issue and an explanation.

> The RMI is considered to be the pinnacle of industry collaboration and yet some companies had little knowledge of the RMI. We note the RMI represents ten industries and is not dedicated to semiconductors.

> Conflict minerals remain an issue still to be integrated into many senior executive committee agendas.

> Few companies appear to be going beyond the requirements prescribed by OECD framework, as adopted by the RMI.

> No company interviewed, so far, has committed budget for research on conceptual/unproven technological solutions, like blockchain. A chicken and egg scenario was commented on here.

Have we achieved anything?

> Many companies have asked for suggestions on how they could do more and we have been asked to share any good ideas/better practices we may identify during this engagement.

> One company, which was previously unfamiliar with the RMI, now plans to pay for RMI services.

> A foundry stated that this letter, with the weight of interest from investors, will raise the prominence and profile of the conflict minerals issue to the board level.

> Another foundry suggested they would consider committing budget to research on conflict minerals tracing.

Conclusion

It is extremely early days for this multi-year engagement but it is clear that tracing mineral provenance is an extremely complex challenge for companies. Progress is slow. While there is a unanimous desire to improve practices, some companies are more eager and able to meet this challenge than others. Surprisingly, the strength of ambition to improve practices has been independent, so far, of company size or industry prominence. This may point to complacency within certain areas of the industry.

We will continue to update you on any progress we make and any challenges we encounter.

[1] As at 30 November 2021

[2] An SD form is a specialised disclosure report used for investment disclosure reports outside the typical filing categories for the U.S. Securities and Exchange Commission (SEC) forms. SD reports include Conflict Minerals Disclosures and Responsible Sourcing reports.

[3] International Rights Advocates. Multinational companies are liable for human rights abuses within their supply chains

Reference material

- Capturing conflict mineral trade in DRE.
- Conflict minerals: The truth behind your smartphone.
- Congo Stories, Battling Five Centuries of Exploitation and Greed, 2018. John Prendergast and Fidel Bafilemba.
- The Conflict Mineral Experiment, 2015, J Schwartz.
- OECD Due Diligence Guidance, 3rd Edition.
- https://www.responsiblemiwneralsinitiative.org/
- The Rare Metals Wars, Dark Side of Clean Energy and Digital Tech, 2020, G Pitron

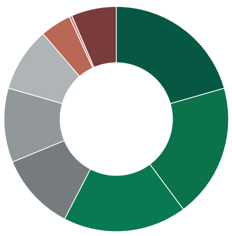
Pacific Assets Trust plc GBP - 31 March 2022

Fund Size £438m Number of Holdings 65

Ten Largest Holdings

Stock Name	Portfolio Weight (%)	**Comparator Index Weight (%)
CG Power & Industrial Solutions Ltd	5.6	0.0
Tube Investments of India Limited	5.3	0.0
Mahindra & Mahindra	4.2	0.1
Marico Limited	3.3	0.1
Voltronic Power Technology Corp	2.7	0.0
Koh Young Technology Inc	2.6	0.0
Hoya Corp.	2.6	0.0
Techtronic Industries Co., Ltd.	2.4	0.3
Unicharm Corporation	2.3	0.0
Tata Consumer Products	2.3	0.1
Total	**33.3**	**0.6**

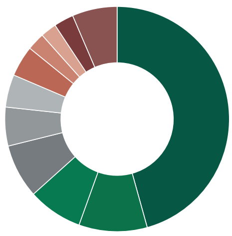
Sector Breakdown



- Consumer Staples 20.6% (4.8%*)
- Information Technology 19.2% (24.7%*)
- Industrials 17.8% (6.6%*)
- Financials 11.2% (20.7%*)
- Consumer Discretionary 10.7% (13.3%*)
- Health Care 9.2% (3.9%*)
- Communication Services 4.5% (10.0%*)
- Materials 0.4% (5.6%*)
- Other 0.0% (10.3%*)
- Cash and Cash Equivalents 6.5% (0.0%*)

**Comparator Index Weight

Country Breakdown



- India 45.7% (15.0%*)
- Taiwan 9.8% (18.3%*)
- China 7.9% (34.5%*)
- Japan 7.8% (0.0%*)
- Indonesia 5.6% (2.0%*)
- South Korea 4.7% (14.4%*)
- Hong Kong 4.4% (7.3%*)
- Malaysia 2.6% (1.7%*)
- Bangladesh 2.3% (0.0%*)
- Other 2.8% (6.7%*)
- Cash and Cash Equivalents 6.5% (0.0%*)

**Comparator Index Weight

Cash Equivalents may include T-Bills.

Market Capitalisation (% in GBP)

	0 to 500m	500m to 1bn	1bn to 2.5bn	2.5bn to 5bn	5bn to 10bn	10bn to 50bn	50bn to 100bn	100bn+
Portfolio Weight	7.3	8.3	16.3	18.0	14.5	22.4	2.7	4.0
Benchmark Weight	0.0	0.1	2.2	7.9	13.9	38.5	9.9	27.5

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)
CG Power & Industrial Solutions Ltd	5.6	278
Tube Investments of India Limited	5.3	159
Voltronic Power Technology Corp	2.7	96

Bottom Three Contributing Stocks

Stock name	Portfolio Weight (%)	Value Added (bps)
Vitasoy International Holdings	2.0	-184
Vinda International Holdings	1.7	-62
Guangzhou Kingmed Diagnostics Group	0.8	-53

Annual Performance (% in GBP)

	12 mths to 31/03/22	12 mths to 31/03/21	12 mths to 31/03/20	12 mths to 31/03/19	12 mths to 31/03/18
NAV	4.7	48.4	-16.7	11.6	3.6
Share Price	1.1	48.3	-25.9	19.8	1.1
Consumer Price Index (CPI) +6%	12.7	6.6	8.0	8.1	9.0
MSCI AC Asia ex Japan Index	-10.6	41.4	-9.0	2.0	12.2

Cumulative Performance (% in GBP) to 31 March 2022

	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	6 mths	3 mths
NAV	239.4	202.1	49.7	29.4	4.7	-5.9	-8.3
Share Price	228.6	189.8	34.6	11.1	1.1	-12.2	-13.7
Consumer Price Index (CPI) +6%	159.8	121.3	52.9	29.7	12.7	6.5	2.7
MSCI AC Asia ex Japan Index	132.2	112.3	31.6	15.0	-10.6	-6.9	-5.4

Past performance is not a reliable indicator of future results.

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

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