Collins Stewart
Independent thinking

Pacific Assets Trust

In search of sustainable growth

29 October 2010

The appointment of First State has dramatically altered the investment philosophy and risk profile of Pacific Assets Trust. The focus is on the identification of quality companies that can deliver sustainable long-term growth and the new managers can demonstrate an outstanding long-term record of superior risk-adjusted returns. Although we would now typically expect the company to lag in liquidity-fuelled short-term rallies, we see undoubted potential for it to establish itself as a core holding for investors looking for Asian exposure. BUY.

Focus on sustainability: The manager aims to build a portfolio of companies that can outperform over the long-term, notwithstanding the huge development challenges that face the region over the next few years. The management team is experienced and the depth of resource impressive (and we welcome the announcement that the managers have bought 340,000 shares in the past month). Stock selection focuses on identifying attractively valued companies, with good management, strong franchises and which can deliver sustainable cash generation. The resultant portfolio will bear little resemblance to the benchmark; at the end of July, the top 10 investments represented 40% of NAV, but less than 4% of the index.

Superior risk-adjusted returns: First State can demonstrate an outstanding performance record, with a long-term compound outperformance of benchmark of c7%. A notable feature of this has been that the best periods of outperformance of peers and benchmark have been during more challenging markets. This reflects a strong focus on quality and capital preservation and a philosophy that risk analysis should focus on the risk of losing money rather than the deviation from the benchmark. The manager expects to outperform the benchmark by 1.75% per annum over a rolling 3-year period.

Portfolio rebalanced: On assuming responsibility, the managers made significant changes to the investment portfolio, with 45 of the 52 inherited positions sold, and this process is now effectively complete. It is estimated that these changes cost around 0.3% of NAV.

Investment outlook: The manager remains extremely cautious about the global backdrop. De-leveraging has a long way to go, while Asia is vulnerable to the "financial largesse being doled out in the West". There is evidence of rising inflation across the region while asset price inflation, particularly in China, is an additional concern.

No longer a high beta play: Traditionally, Pacific Assets has given investors a higher beta exposure to Asian markets and it was a constituent of our bear market rally portfolio which we recommended at the beginning of March 2009 (see page 4). However, given the new investment philosophy, we would now expect the company to lag during liquidity-fuelled rallies and accordingly for investors looking for a higher beta exposure to Asian markets we would now introduce JPMorgan Asian into our higher beta portfolio.

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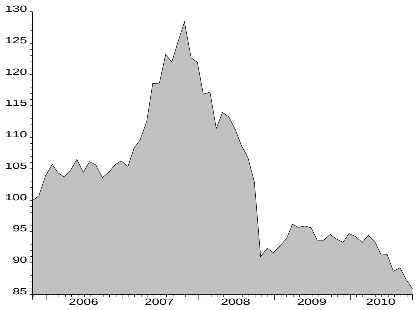
Market stats at cob 28 October 2010

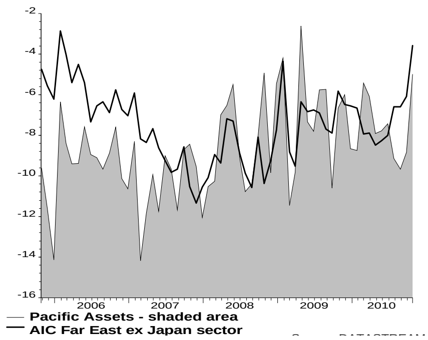
Price	124¾p
Discount	5%
Dividend Yield	1%
Equity exposure (% of NAV)	96%
Market capitalisation	£146m
Manager	David Gait (since July 2010)

NAV vs peer group (total return)



Source: Thomson Financial Datastream

Discount (%)



Source: Thomson Financial Datastream

Skin in the game

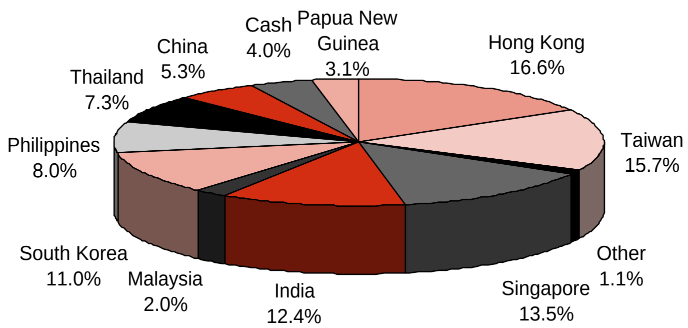
Director (appointed)	Fee	Investment
David Nichol (1985)	£23,333	£ 49,900
Richard Horlick (2005)	£17,500	£ 0
Stuart Leckie (2001)	£17,500	£124,750
Terence Mahony (2004)	£17,500	£ 0
Nigel Rich (1997)	£19,500	£ 31,187

Contact

Alan Brierley
+44 (0) 20 7523 8091
ABrierley@collinsstewart.com

Portfolio at 30 September 2010

Geographic exposure



Source: Thomson Financial Datastream

Top 10 holdings

	Country	% of NAV
E Sun Financial Holding	Taiwan	4.5
Kasikombank	Thailand	4.5
Singapore Post	Singapore	4.1
MTR	Hong Kong	4.0
Taiwan Semiconductor	Taiwan	3.8
Hong Kong & China Gas	Hong Kong	3.5
Transport International	Hong Kong	3.3
Swire Pacific	Hong Kong	3.3
Oil Search	Papua New Guinea	3.3
SMRT	Singapore	3.2
Sub-total		37.5

Source: Company data

London
Collins Stewart Europe Limited
88 Wood Street
London
EC2V 7QR
+44 (0)20 7523 8000

New York
Collins Stewart LLC
350 Madison Avenue
New York, NY
10017
+1 212 402 6000

Paris
Collins Stewart Europe Limited
89-91 Rue du Faubourg
Saint-Honoré
75008 Paris
+33 1 4924 1917

Dublin
Collins Stewart Europe Limited
South Dock House
Hanover Quay
Dublin 2
+353 (0)1 635 0210

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Collins Stewart Europe Limited
7 Avenue Pictet de Rochemont
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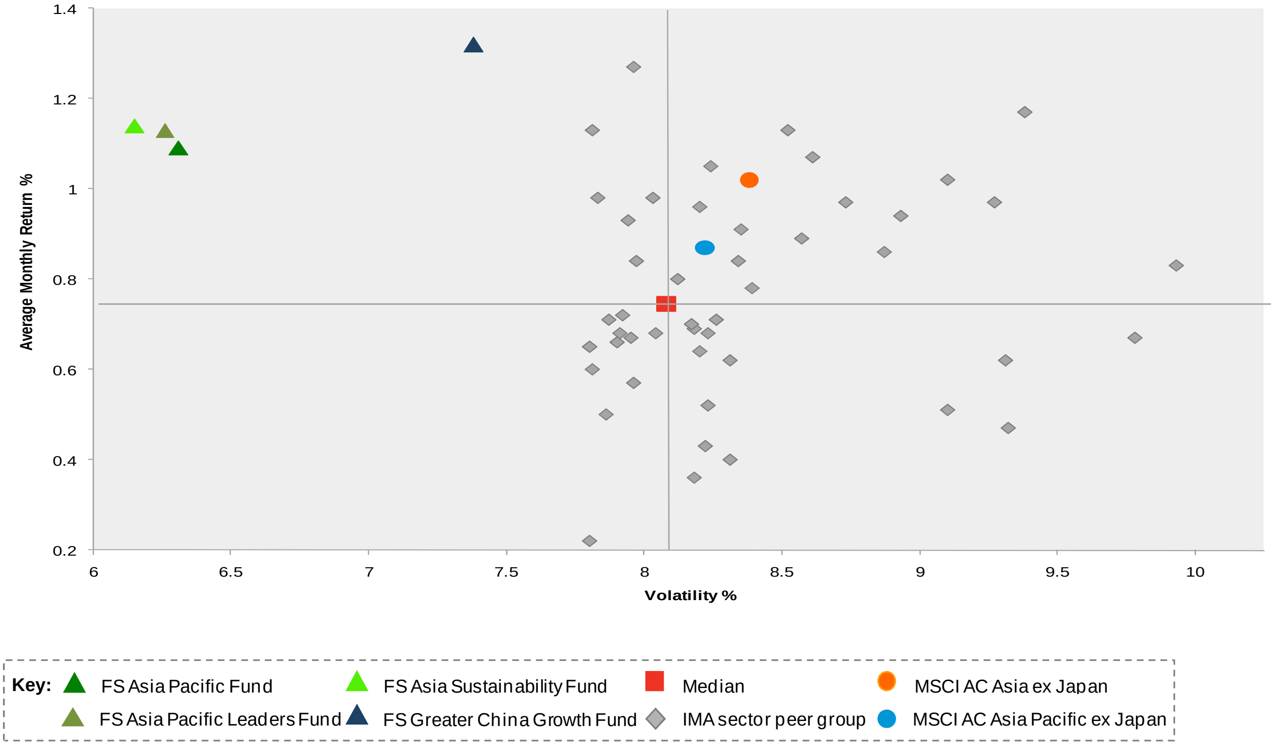
Switzerland
+41 22 707 0080

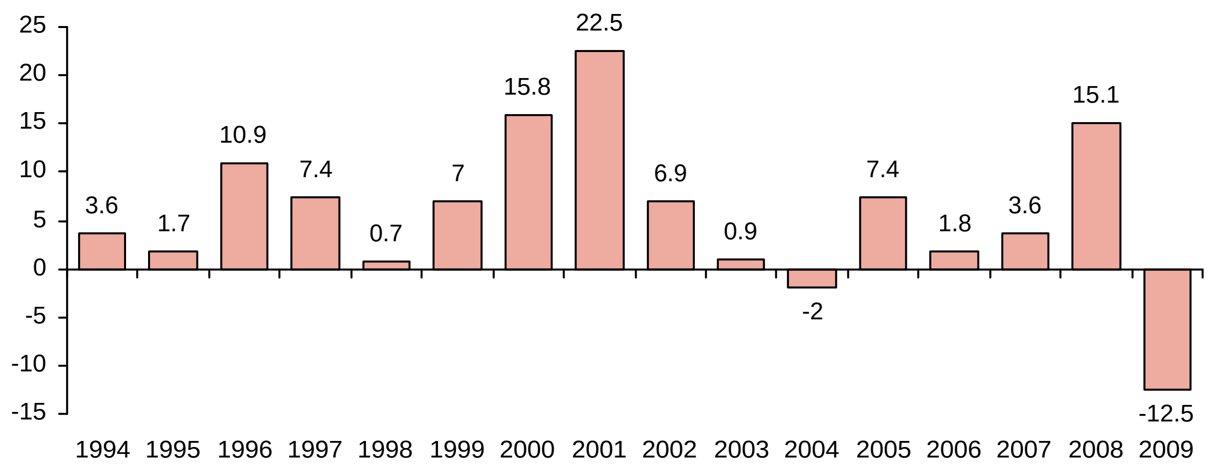
Performance

Risk/Return profiles of First State Asian Funds (3 years to 30 June 2010)



Source: Reuters Hindsight, bid to bid, net income reinvested, in GBP as at 30 Jun 10

First State Asian Pacific Fund vs MSCI Asia Pacific ex Japan index (% out/underperformance)



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Collins Stewart Europe Limited
88 Wood Street
London
EC2V 7QR
+44 (0)20 7523 8000

New York
Collins Stewart LLC
350 Madison Avenue
New York, NY
10017
+1 212 402 6000

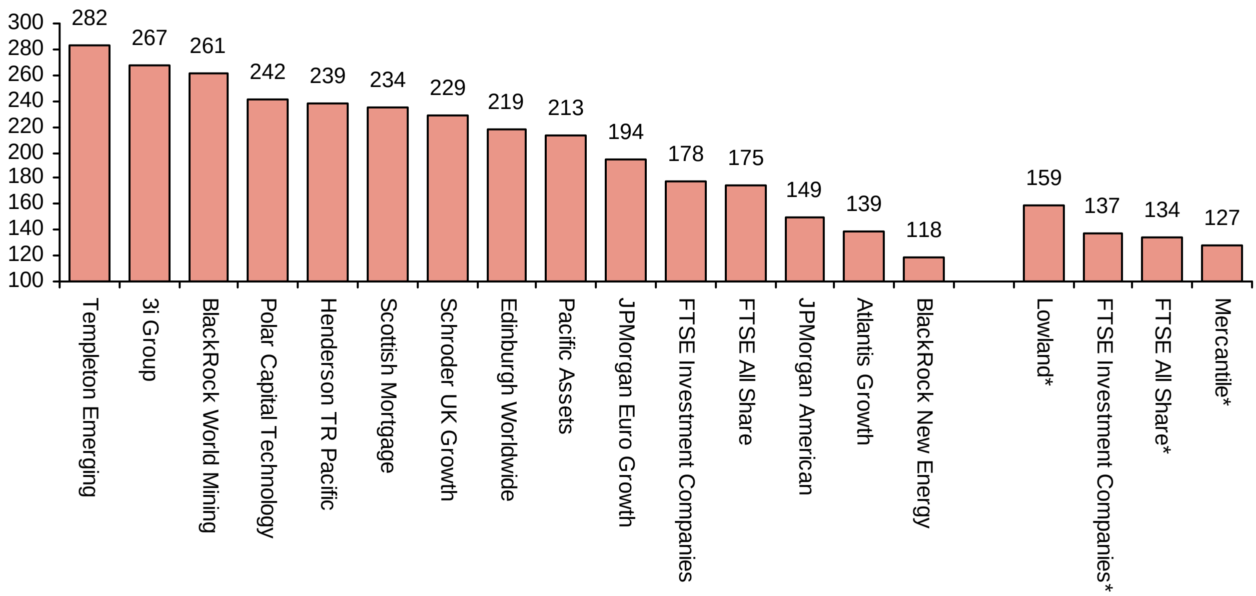
Paris
Collins Stewart Europe Limited
89-91 Rue du Faubourg
Saint-Honoré
75008 Paris
+33 1 4924 1917

Dublin
Collins Stewart Europe Limited
South Dock House
Hanover Quay
Dublin 2
+353 (0)1 635 0210

Geneva
Collins Stewart Europe Limited
7 Avenue Pictet de Rochemont
1207 Geneva
Switzerland
+41 22 707 0080

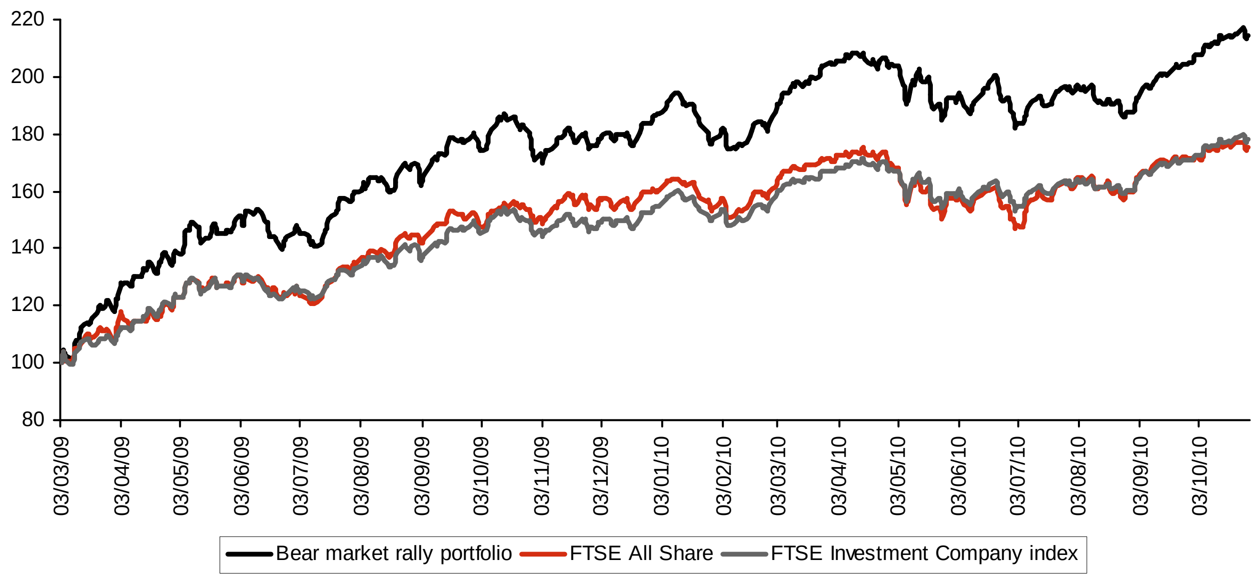
Our higher beta portfolio

Price total return since 3 March 2009 (*22 July 2009) (base = 100)



Source: Thomson Financial Datastream

Performance of our higher beta portfolio (price total return, base = 100)



Source: Thomson Financial Datastream

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Collins Stewart Europe Limited
88 Wood Street
London
EC2V 7QR
+44 (0)20 7523 8000

New York
Collins Stewart LLC
350 Madison Avenue
New York, NY
10017
+1 212 402 6000

Paris
Collins Stewart Europe Limited
89-91 Rue du Faubourg
Saint-Honoré
75008 Paris
+33 1 4924 1917

Dublin
Collins Stewart Europe Limited
South Dock House
Hanover Quay
Dublin 2
+353 (0)1 635 0210

Geneva
Collins Stewart Europe Limited
7 Avenue Pictet de Rochemont
1207 Geneva
Switzerland
+41 22 707 0080

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Recommendations	Buys	Sells	Hold/Neutral
Percentage of Total	59%	10%	31%
Percentage of which in Corporate Client stocks	15%	0%	2%

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