

## Investment Companies Daily

### PAC LN (Upgrade to Neutral)

#### Pacific Assets:

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- It has now been just over three months since First State took responsibility for the management of Pacific Assets' portfolio on 1 July. In this period the trust's NAV has outperformed its MSCI AC Asia ex Japan Index (£) during July and August but subsequently lagged the benchmark during the strong markets of September.
- While Pacific Assets' NAV performance has also lagged the bulk of peers during this time, it is still very early days under First State's management. We like First State's sustainability strategy for Pacific Assets focusing on sustainable development as a source of long-term returns, with a heavy emphasis on selecting 'quality' companies at all times and also the focused approach of the trust - with only 47 holdings at 31/08/10. We feel that despite some similarities to Aberdeen's 'quality' driven approach, the sustainability strategy will provide an element of differentiation in a relatively crowded Asia Pacific ex Japan sector. Also, given the success of First State's Asia Pacific sustainability fund (which has a similar strategy and is also managed by David Gait) since its launch in December 2005 we would expect Pacific Assets' NAV performance against peers to eventually recover.
- The potential overhang of stock from the F&C savings scheme, which held approximately 30% of Pacific Assets' shares in issue prior to transfer of the management contract from F&C to First State, has now gone. Given the demand for First State products witnessed in the open-ended space, we feel that if the sustainability strategy does feed through to some good NAV performance against peers, our view is that the discount could narrow from its current 6.3%. We are therefore **upgrading** our recommendation from Underweight to **Neutral**.
- The risk to this view is that should Asian markets rally strongly, Pacific Assets' 'quality' approach could mean that its NAV performance is left behind both indices and peers.

#### Investment Companies Research

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J.P. Morgan Securities Ltd.

#### Upcoming events

Witan – Andrew Bell – Friday, 15 October – 12.30 start – The Howard, 34 Great King Street, Edinburgh

Princess Private Equity – Urs Wiattlisbach, Bjorn Seynsche – Thursday 21 October – 12.30 start – 10 Aldermanbury.

Vietnam Holdings Ltd – Min-Hwa Hu Kupfer, Jean-Christophe Ganz and Jay Vontibel – Thursday 4 November – 12.30 start – 10 Aldermanbury

Electra Private Equity – Hugh Mumford, Tim Syder, David Symondson and Monique Dumas – Wednesday 1 December – 12.30 start – 10 Aldermanbury

If you would like to attend any of these events please contact Andrew Worne on 020 7155 8149 or [andrew.worne@jpmorgan.com](mailto:andrew.worne@jpmorgan.com)

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## Pacific Assets

It has now been just over three months since First State took responsibility for the management of Pacific Assets' portfolio on 1 July. In this period the trust's NAV has outperformed its MSCI AC Asia ex Japan Index (£) during July and August but subsequently lagged the benchmark during the strong markets of September.

Table 1: Pacific Assets - Top 10 holdings at 31/08/2010

Company	Country	% of portfolio
MTR	Hong Kong	5.1
LG Corp	South Korea	4.7
Taiwan Semiconductor Manufacturing	Taiwan	4.3
Kasikornbank	Thailand	4.2
Manila Water	Philippines	4.2
E. Sun Financial Holding	Taiwan	4.2
Singapore Post	Singapore	4.0
Hong Kong & China Gas	Hong Kong	3.6
SMRT	Singapore	3.4
Transport International Holdings	Hong Kong	3.5
<b>Total</b>		<b>41.1</b>

Source: Company

While Pacific Assets' NAV performance has also lagged the bulk of peers during this time, it is still very early days under First State's management. We like First State's sustainability strategy for Pacific Assets focusing on sustainable development as a source of long-term returns, with a heavy emphasis on selecting 'quality' companies at all times and also the focused approach of the trust - with only 47 holdings at 31/08/10. We feel that despite some similarities to Aberdeen's 'quality' driven approach, the sustainability strategy will provide an element of differentiation in a relatively crowded Asia Pacific ex Japan sector. Also, given the success of First State's Asia Pacific sustainability fund (which has a similar strategy and is also managed by David Gait) since its launch in December 2005 we would expect Pacific Assets' NAV performance against peers to eventually recover.

Table 2: First State Asia Pacific Sustainability fund returns to 31 August 2010 (%)

	3 months	6 months	1 year	3 years	Since launch
FSI Asia Pacific Sustainability Fund	6.0	11.6	29.0	46.9	100.4
MSCI AC Asia Pacific ex Japan Index (£)	0.5	2.5	21.1	20.5	65.0
Weighted average AIC Asia Pacific ex Japan sector NAV performance	2.8	8.9	30.4	32.4	n/a

Source: Company/J.P. Morgan Net of tax and fees

The potential overhang of stock from the F&C savings scheme, which held approximately 30% of Pacific Assets' shares in issue prior to transfer of the management contract from F&C to First State, has now gone. Given the demand for First State products witnessed in the open-ended space, we feel that if the sustainability strategy does feed through to some good NAV performance against peers, the discount could narrow from its current 6.3% (price 123.7p @ 11.00). We are therefore **upgrading** our recommendation from Underweight to **Neutral**. The risk to this view is that should Asian markets rally strongly, Pacific Assets' 'quality' approach could mean that its NAV performance is left behind both indices and peers.

Figure 1: PACA NAV perf and dis rel to sector

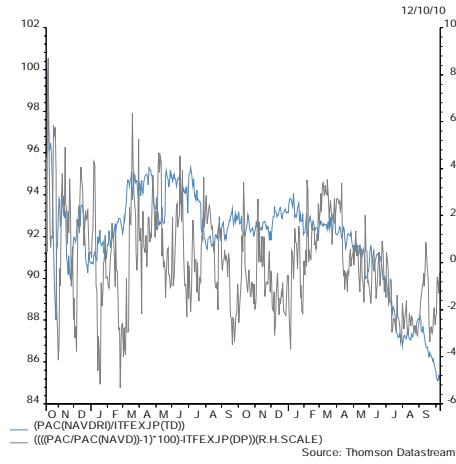
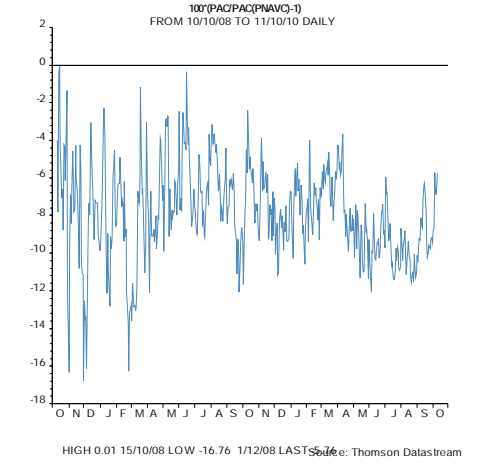


Figure 2: Discount to cum-income NAV



## Recent investment companies research

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Please click on the date to access the document.

### Daily Notes

[11 October 2010](#): J.P.Morgan View, European Equity Strategy (Investment Company mining exposure)

[8 October 2010](#): BGFDF LN (Finals and upgrade to O/W, MJT LN downgrade to Neutral)

[7 October 2010](#): AIFM update, AAS/AOT/SJG LN (Finals), KIT LN (Debentures), JDT/JDTZ LN (Reconstruction)

[6 October 2010](#): ICTA/ICTB LN (Tax treatment of B shares), SEC LN (Finals inc fee arrangements and continuation votes)

[5 October 2010](#): SR/ LN (Manager meeting)

### Listed Private Equity

[30 September 2010](#): 3i Group: Pre-Close Briefing - No surprises, but 30 Sep NAV shaved from 335p to 331p

[27 September 2010](#): 3i Group: £18.3m acquisition of MIM, a private equity debt fund manager with £3.7bn of AuM – ALERT

[27 September 2010](#): European Listed Private Equity Bulletin: III LN, GPE LN, LMS LN, APEF LN, DBA GR, JPEL LN, HPEQ LN, HVPE LN, NBPE LN, PIN LN, PEY LN, SEP LN, MF FP, CCAP NA, CPMBV FH

### Listed Property Funds

[8 October 2010](#): CBRE Index (Sept) & Q3 analysis, APT (Refinancing & manager meeting), IRET (Debt reorganisation)

[3 September 2010](#): FCPT (Interims), IPI (Q2 NAV)

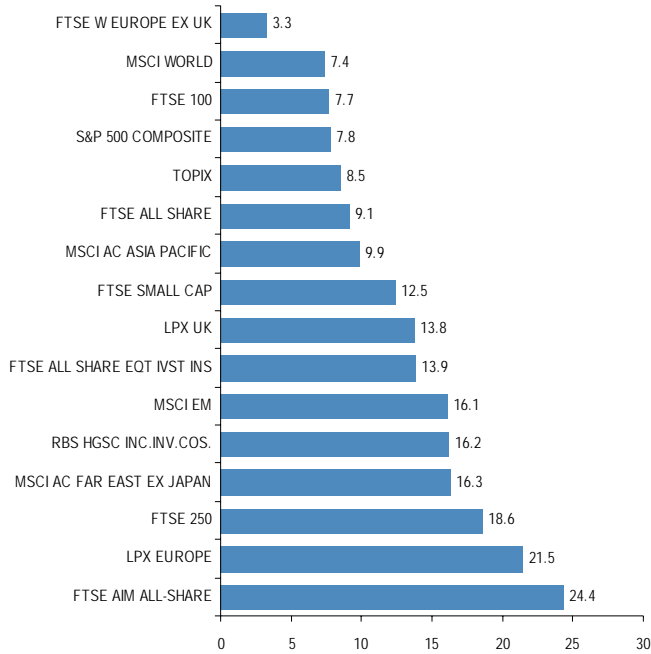
[31 August 2010](#): UKCM (Interims), TEIF (Q2 NAV & interims), MERE (Q2 NAV & interims)

### Listed Hedge Funds

[11 August 2010](#): Listed Hedge Funds Dispatch - ABR, Listed vs UCITS, Big get bigger, FOHF liquidity improves, Single manager updates (BGHL, CAEL, NBDD, BHMG, BHGG, BABS), Corporate activity, H1 performance

## Sector and market performance

YTD market performance (£, %)



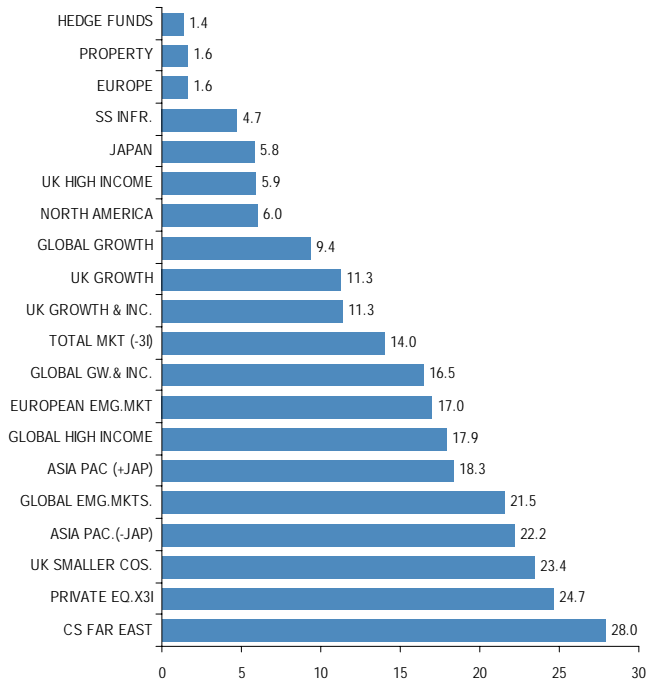
Investment Companies sector performance & discount (RHS)



Source: Thomson Datastream

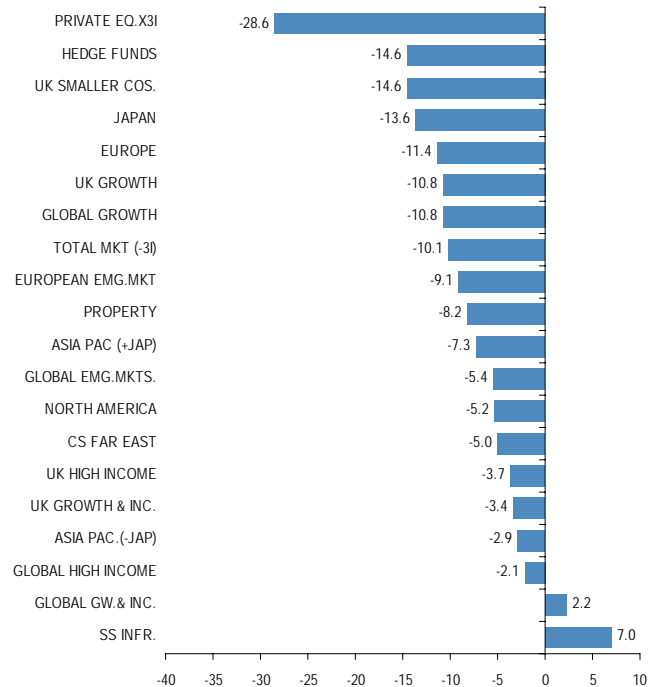
Source: Thomson Datastream

Investment Companies sector price changes YTD (%)



Source: Thomson Datastream

Investment Companies sector discounts (%)



Source: Thomson Datastream

## Investment Companies Calendar

Company	Date	Details
Invesco Leveraged High Yield	13-Oct-10	Dividend Ex Date 2.50 GBX
Henderson Global Property	13-Oct-10	Dividend Ex Date 0.80 GBX
Henderson EuroTrust	13-Oct-10	Dividend Ex Date 7.00 GBX
F&C Commercial Property	13-Oct-10	Dividend Ex Date 0.50 GBX
Edinburgh New Income	13-Oct-10	Dividend Ex Date 1.30 GBX
British & American	13-Oct-10	Dividend Ex Date 2.70 GBX
Damille Investments	14-Oct-10	Dividend Ex Date 7.00 GBX
Infrastructure India	18-Oct-10	Extraordinary General Meeting
Standard Life Euro Private Equity	29-Oct-10	Shares Conversion
Jupiter Dividend & Growth	29-Oct-10	Extraordinary General Meeting
Gartmore Fledgling Trust	29-Oct-10	Continuation resolution

Source: Morningstar

## Buybacks

Company	Type	Currency	Date	Treasury	No of shares	Price	Value(£)	No. shares outstanding	(%)
AcenciA Debt Strategies	Ordinary	£	12-Oct		40,000	80.13	32,052	152,156,992	0.03
Alternative Inv. Strategies	Ordinary	£	08-Oct	T	100,000	102.00	102,000	195,400,604	0.05
Altin AG	Ordinary	\$	11-Oct	T	4,500	53.95	152,636	4,293,798	0.10
Castle Alternative Invest	Ordinary	CHF	11-Oct		35,500	13.13	303,589	34,507,449	0.10
Gartmore European	Ordinary	£	08-Oct	T	38,249	594.52	227,398	22,403,611	0.17
Jupiter Primadona Growth	Ordinary	£	11-Oct	T	7,000	1000.00	70,000	4,196,215	0.17
Martin Currie Portfolio	Ordinary	£	08-Oct		24,000	118.74	28,498	111,708,427	0.02
Saltus Euro Debt Strategies	Ordinary	£	08-Oct		20,000	50.00	10,000	41,566,194	0.05
Scottish Investment Trust	Ordinary	£	08-Oct		25,000	459.50	114,875	118,694,926	0.02
TR European Growth	Ordinary	£	08-Oct		16,000	381.50	61,040	51,208,229	0.03

Source: Morningstar

## Share issues

Trust	Type	Date	Amount	Price	Value (£)	Type
Fidelity China Special	Ords	11/10/2010	3,750,000	116	4,350,000	Allotment
JPMorgan Global Emerg Mkts Inc	Ords	11/10/2010	300,000	111	333,750	Allotment
Personal Assets	Ords	11/10/2010	650	30,600	198,900	Allotment

Source: Morningstar

## Share notifications

Company	Class	Notifier	Date	B/S	Shares	%	Resulting holding (%)
Baillie Gifford Japan Trust	Ord	Dimond (Paul S)	8-Oct	B	11	0	0.00
Dunedin Income Growth Investment Trust	Ord	Scott (John Philip Henry Schomberg)	8-Oct	B	58	0	0.02
Foreign & Colonial Investment Trust Plc	Ord	Clementi (David)	8-Oct	B	256	0	0.00
Invesco Property Income Trust Ltd	Ord	Rensburg Sheppards IM Limited	8-Oct	S	15,000	0.01	1.81
Melchior Japan Investment Trust Plc	Ord	Lim Asia Arbitrage Fund Incorporated	7-Oct	-	-	0	0.00
Melchior Japan Investment Trust Plc	Ord	Weiss Asset Management	7-Oct	-	-	0	26.72
SVM UK Active Fund Plc	Ord	East Riding Of Yorkshire Council	4-Oct	S	500,000	1.55	10.86

Source: Citywatch

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Neutral - the total return on the security is not expected to outperform or underperform the sector\* by 5% or more over the next six months.

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Underweight - the risk-adjusted total return on the security is expected to underperform the sector over the next six months.

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### **RECOMMENDATION HISTORY**

12 months recommendation changes for Pacific Assets Trust PLC;

No changes in recommendation over the last 12 months.

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