Results analysis: Pacific Assets

PAC has introduced new strategic initiatives that have improved the trust's investment case.

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- **Pacific Assets (PAC) has released its half-year results for the period ending 31/07/2025. Over the period, NAV decreased by 3.7% on a total return basis, compared to an increase of 9.5% for the trust's benchmark, the MSCI AC Asia ex Japan Index.**
- **Over the longer-term, performance remains robust, with PAC having delivered five-year returns of 44.6% versus the formal benchmark of 28% to 31/07/2025.**
- **Performance in the period was mostly attributable to the trust's Indian holdings, with manager Doug Ledingham having identified a large number of high-quality, well-managed companies in that country. Whilst their operational performance was robust, market sentiment impacted share prices and detracted from returns. Positives primarily centred around firms linked to the AI trade, such as Taiwanese firms ChromaATE and Delta Electronics.**
- **PAC previously had an alternative performance objective of beating UK CPI +6%. This increased 5.5% in the period but has subsequently been retired as a comparator following the proposed introduction of a performance-related tender offer.**
- **The conditional tender offer will allow investors to redeem up to 25% of share capital at NAV, less 2%, should the company fail to beat its benchmark plus 0.5%p.a. over a seven-year period. The trigger point will be in three years' time. From the beginning of the assessment period to 30/09/2025, PAC's NAV TR was 9.3%, versus 19.9% for the index.**
- **The ongoing share buy-back programme, intended to manage the discount, will be unaffected by the tender offer. In the period, over 2.2m shares were repurchased, equivalent to c. 1.9% of the opening share count, at an average discount of 12.6%. A further 1.7m shares have been bought back since, as part of an increasing pace and scale of buybacks.**
- **The share price return in the period was 0.3% on a TR basis. This contributed to the discount narrowing from 14.4% at the beginning of the period, to 10.9% at the close.**
- **Announced alongside the results has been a reduction in the management fee. A tiered structure has been introduced, with this now based on the lower of market capitalisation or NAV, further incentivising the management team to narrow the discount. The new structure will attract a fee of 0.75% on the first £500m of assets, before dropping to 0.65%. This is lower than the 0.85% flat fee previously.**
- **Doug and the team identified several new stocks in the period, most notably in China as the government approach to regulating the private sector has evolved. Recent additions include internet giant Alibaba, after seeing reduced governance risk, and S.F. Holding, a leading logistics firm which is still founder-led, a sought-after trait of the team, with the founder focused on building an enduring franchise.**
- **As already announced, the period post-results saw the resignation of co-manager David Gait, who has been replaced by Jack Nelson. Doug Ledingham remains lead manager, a position he was promoted to in July 2025 as part of natural succession planning.**

- **Chairman Andrew Impey commented on the governance changes: "A revised, competitive investment management fee [and] newly introduced Conditional Tender Offer further aligns the portfolio manager with shareholders," whilst delivering a statement of confidence in the team, following extensive engagement, acknowledging that the manager's, "clearly differentiated investment process has delivered robust, long-term, risk-adjusted returns."**

Kepler View

As **Pacific Assets (PAC)** is notable for manager Doug Ledingham and the team's very long-term investment horizon, a set of half-year results is unlikely to reflect significant portfolio changes. However, these results are in our view significant, following the proposal of several shareholder-friendly initiatives by the board which we believe are very positive and should improve the appeal of the trust over both near and longer-term time horizons.

The implementation of a conditional tender helps reduce discount risk in our view. The timeline is a pragmatic compromise between the manager's long-term focus, and the awareness of recent returns, with the seven-year overall period reflecting the former, and having the first trigger point in three years' time accounting for the latter. Furthermore, this timeline cannot face any accusations of cherry picking either in our view, as the first c. four years already gone have given the managers an ambitious target to catch up. That said, the trust has had many periods over the long-term where outperformance of this magnitude has been delivered, demonstrating it is possible for the team to claw back performance.

Although NAV performance has been challenging in the period, long-term returns remain solidly ahead of benchmark. The team has made a number of changes in the near-term which have narrowed some of the factors that affected this underperformance, most notably through additions to China. This has long been an underweight allocation in the portfolio, as a result of concerns over corporate governance and government interference. The manager acknowledges the situation has evolved in the past few months and has added to several opportunities accordingly. These continue to be in-line with his focus on quality, including quality management teams, and should therefore reduce the portfolio's relative country risks, whilst also widening potential performance contributors going forward. This means the trust is arguably in a better position to capture the ongoing success stories in the region, whilst also maintaining the quality focus that has supported long-term returns, especially in more volatile times.

The reduction in the management fee is also positive and will have ongoing cumulative benefits. Whilst the scale may not have a material impact early on, these can accumulate over the years, whilst also sending a positive signal to investors and further aligning their interests with managers. The change will also bring the trust closer in line to the peer group on charges too and reduce this as a potential hurdle to investment.

We think these changes could help increase demand for the shares and so could help narrow the discount. PAC currently has the widest discount in the peer group (as at 01/10/2025) which we believe could present an opportunity, making a compelling entry point and potentially adding to the long-term total return potential from the trust.

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