Results analysis: Pacific Assets

PAC has produced another year of absolute returns, yet trades at a wide discount...

Update
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- **Pacific Assets (PAC) has released its financial results for the year ending 31/01/2025. Over the year, the trust saw its NAV increase by 9.7% on a total return basis, which compares a return of 22.3% for the trust's comparator benchmark, the MSCI AC Asia ex Japan Index, and 15.6% for the average of the peer group. PAC also aims to beat UK CPI +6% as its performance objective, which rose 8.8% in the same period.**

- **As a result, the trust has now delivered positive absolute returns in eight of the past nine financial years. This has contributed to strong long-term cumulative outperformance, with PAC having returned 52.1% over five years to 31/01/2025, versus the benchmark return of 27%.**

- **The good absolute performance track record reflects the managers', Doug Ledingham and David Gait's, strong focus on risk. However, this can lead to the trust lagging in strong market rallies. In the financial year, relative performance was primarily driven by the India and China allocations. Doug and David hold a large number of Indian companies, although the market's multi-year bull run came to an end in the latter part of 2024, causing a headwind. The managers' low allocation to Chinese companies also became a relative headwind as the country rallied on the back of several government stimulus measures.**

- **Doug and David added to their China allocation during the year, which stood at 10.4% at the year end, having been less than 1% five years ago. The managers are currently invested in eight Chinese companies which they believe to be high quality franchises. However economic exposure is much higher than this across the portfolio when considering revenue generation. As a result of these changes, turnover increased by circa a third to 24.7% as the managers found several new, long-term opportunities during the market volatility.**

- **PAC's average share price discount over the year was 11.5%, considerably wider than the 6.4% of the previous year and the average of the past five years. As at time of writing, the discount is now 12.9%. The board began buying back shares in the second half of the year, and repurchased 370k, or 0.3%, by the year end. Buybacks have continued since.**

- **The trust's revenue rose in the year from 4.3p to 5.3p per share which enabled an increase in the dividend from 4p to 4.9p, offering a historic yield of c. 1.5%.**

- **As part of a natural evolution of the management team, the trust's two managers, David Gait and Doug Ledingham will be swapping roles, with Doug stepping up to lead manager and David Gait assuming the co-manager role, effective 01/07/2025.**

- **Chairman Andrew Impey reflected on the market background, stating the managers' "approach is well-suited to delivering sustainable value for shareholders, even in a more complex and fast-evolving regional landscape".**

Kepler View

These annual results mark a return to strong absolute returns for **Pacific Assets (PAC)**, which has now produced positive returns in eight of its past nine financial years. Whilst relative performance is behind the formal benchmark, the trust did outperform its goal of delivering returns above inflation (as measured by CPI +6%), and is cumulatively ahead of both comparators over the long-term, despite the recent pickup in inflation and market volatility. Since Stewart Investors were appointed managers in 2010, the trust has returned over 300%, versus 260% and 156.8% for CPI +6% and the benchmark respectively. In our view, this is a strong demonstration of the strengths of the managers' approach, protecting capital in challenging periods through a strong focus on risk to deliver strong cumulative outperformance returns over the long-term.

We believe this performance profile could be particularly interesting in the light of the current market backdrop. Whilst the managers don't manage the portfolio for the macro, global markets, particularly Asian, have sold off sharply in the weeks following the financial year end as a result of geopolitical issues. As such, PAC could well provide investors a way to manage potential volatility, providing investors exposure to the structural growth opportunities of Asia, but with a strong focus on risk that will help protect on the downside.

This opportunity is considerably enhanced by the current discount in our opinion. The trust traded at an average discount during the year that was wider than any of the previous five, following a trend of the wider sector. The discount has remained wide since, which we believe reflects broader sentiment towards the region, and doesn't account for the trust's risk-focussed approach, which has the potential to considerably outperform in a challenging environment. Furthermore, much of the negativity surrounding Asia is arguably priced into markets, therefore – and with the proviso that nothing is guaranteed and this is a volatile market – the portfolio supported by the wide discount, could easily surprise to the upside from here.

Doug and David's recent additions could support this recovery. They have added notably to China over the year, capitalising on depressed valuations to purchase high-quality companies with good franchises at attractive valuations. We believe this demonstrates their willingness to look at all opportunities, so long as they pass their strict criteria, and it adds a bit more balance to the portfolio which had previously had quite exaggerated positioning. China has performed well in the past few months as the government has announced a series of stimulus measures. Should this continue in 2025, we believe it could lend additional support for further PAC's strong absolute returns.

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