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PACIFIC CURRENT GROUP

FROM OUR CEO

Over the past months, PAC has provided several Strategic Transaction updates on developments related to the potential sale of its business. The common thread behind the interest in acquiring PAC is that the prospective buyers believe the public markets have systematically undervalued our business. We have said, for some time, that PAC's trading price has not fully reflected the actual value of our business, and we have actively sought to address this. Of course, determining the fair value of any business is made challenging by the extent to which it is necessary to rely on informed judgment in the valuation process as opposed to using only objective inputs.

PAC undertakes a rigorous process to value all our portfolio boutiques semi-annually. On an annual basis, this work is both reviewed by an independent valuation firm and audited by PAC's auditor. The Australian accounting standards require us to value assets assuming they are "in use" or held in perpetuity. Our primary approach to valuation is to forecast our portfolio companies' future FUM, revenues, expenses, and profits and then calculate the net present value of those assets using discount rates we believe appropriately reflect the risk of each company. Some of these valuation inputs can be determined with great accuracy while others are more subjective and driven by our collective experience.

The strength of the valuation process we employ is the rigor and consistency with which we apply it, along with the scrutiny it receives from outside parties. The result of the analysis is a very precise value of each portfolio asset as well as our aggregate portfolio of assets. This precision can be easily confused for accuracy, as the valuation process is not designed to determine the "true" value of any asset, but rather produce informed estimates of value. Indeed, for each asset we own there is a broad range of justifiable valuations that are suitable, with our estimates of fair value generally falling near the approximate mid-point in a broader valuation range. As an example, an asset we believe is worth $50 million might be viewed as being worth $40 million or $60 million by a similarly thoughtful party with the same *expectations for the business, but merely a different view of the risk of the business.*

Experience has taught us that if one of our portfolio companies is performing well and decides to sell part or all of its business, it is likely to do so at a price above our carrying value, in part because it will generally engage in a competitive process designed to find the highest price the market is willing to pay. Alternatively, if a manager is not performing well but decides to sell, we expect the likely result will be a lower valuation than our estimate of fair value because of limited interest among buyers for underperforming firms.

It is also worth remembering that as minority investors we typically do not have the right to unilaterally sell our stakes in individual portfolio companies without their consent. The practical implication of this is that it is not possible for us to obtain meaningful liquidity by selling off boutique investments one at a time.

Shareholders are cautioned to not view our (or anyone else's) estimates of fair value as the last word on value, but rather merely as informed and rigorously reviewed estimates of what value looks like, assuming our assessments of risk our appropriate, the future financial results align with our current financial forecasts, and we continue to own the asset indefinitely.

PAUL GREENWOOD, CEO & CIO

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