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LETTER FROM THE CEO // QUARTERLY LETTER

31 March 2016

Greetings Investors,

As I kick off my quarterly letter to shareholders, I've been reflecting on a topic that has been asked by many people with whom we've met over the past year – namely, how do *we* think about valuation for our business? I see this as an important topic, both because it is on the minds of investors, and because it informs our strategic investment in the business – in terms of new affiliates and in terms of operating expenses. This letter will attempt to elucidate our thinking about valuation.

As owner/operators it strikes us that the valuation of our business should have a *floor* equal to a market multiple on the earnings we receive from our portfolio of boutiques. Of course we take those earnings in as revenue, and then reduce them by our expenses to come up with our NPAT. It seems that the market focuses more on our bottom line than the earnings from the portfolio. We think this misses a key element of the fundamental long-run value inherent in our business.

The bulk of our earnings and revenue come from our Core and Growth boutiques, which are independent businesses. These businesses would continue to thrive even if Pacific Current ceased to exist. Moreover, their aggregate earnings are highly diversified, and most have had strong historical growth. Over the past five years our Core boutiques have had compounded annual growth in FUM ranging from 11% to 54%, and we believe their growth prospects remain robust. To our way of thinking these earnings should therefore be valued in their own right.

When looking at our corporate overhead, we view it as an asset, not a liability. Of course to calculate our NPAT, we deduct the expenses associated with our overhead from our revenues (which are largely the earnings from our portfolio). But the overhead of PAC exists to drive additional growth above the already high rates of organic growth we expect from our portfolio. A core purpose of our corporate overhead is to identify new investments and provide PAC ongoing access to capital markets. So, as analysts of our business, the question becomes what is the NPV of future accretive investments that we might make relative to the costs of that overhead? If the present value of future investments exceeds the present value of the cost of our overhead, then overhead becomes an asset, not a liability. For example, one can look at an investment like Aperio and take a view as to their growth prospects and the likely long-run accretion from such an investment, and then determine the expectation that our team will continue to find and close accretive investments of this type.

If one considers our expenses as investments in future accretive earnings, then the real question becomes how much *additional value* do you assign to the overhead of the business, and at what rate might you decrement future additional earnings for those costs? We believe that the sum of this analysis should be *additive* to the value placed on the earnings from our portfolio.

One benefit to thinking of valuation in this way is that it cuts through much of the complexity in our financial reporting. It causes the analyst to focus on the much more straightforward earnings contribution from the portfolio. Moreover, the one-time, and non-cash expense items which we attempt to normalize when we report are nearly always "below the line" of earnings coming from our portfolio. (I should note here that from time to time our companies will have

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one-time expenses embedded in their earnings – like transaction costs at RARE this year – but we generally expect those to be infrequent occurrences.)

This valuation methodology requires analysts to evaluate our team's ability to consummate attractive investments. We believe our team's track record clearly demonstrates an ability to add value through new investments. It also requires investors to consider our ability to finance those deals, so analysis of the balance sheet and access to capital markets are important considerations. Taken together, we think this is a more accurate and more transparent way to value our business.

As always, we appreciate the support of our shareholders, and hope this discussion helps you better understand our business and the strategic investments we make in it.

Sincerely,

Tim Carver, Chief Executive Officer