

Why First State Investments for Asian Fixed Income?

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- First State Asian Quality Bond Fund invests in debt securities of issuers organised, headquartered or having their primary business operations in Asia.
- The Fund invests in emerging markets which may involve a greater risk than developed markets including sharp price movements, liquidity risk and currency risk. The Fund may invest in below investment grade and unrated debt securities. This exposes the Fund to greater liquidity risk, default risk and price changes due to change in the issuer's creditworthiness. The Fund invests in fixed income securities which may be impacted by movement in interest rates. It is possible that the entire value of your investment could be lost.
- For the monthly distributing Shares Class, any fees and expenses relating to this Share Class may be paid out of capital resulting in an increase in distributable income. At times the dividend may be paid out of capital. This amounts to a partial return of an investor's original investment, or from any capital gains attributable to that original investment, and may result in an immediate decrease of the Net Asset Value per share.
- You should not base your investment decision solely on this document. You should not invest unless the intermediary who sells it to you has advised you that the Fund is suitable for you and explained how it is consistent with your investment objectives.

Asia boasts some of the fastest growing economies and is a major contributor to global economic growth. The Asian Fixed Income investment universe has seen significant growth recently, and is forecast to continue. We believe that Asian Fixed Income should be a core allocation for global investors seeking superior returns.

For First State Investments, we seek to differentiate ourselves via our philosophy. Our philosophy is focused on generating returns through the compounding of credit spreads and actively seeking alpha opportunities in an evolving universe. Our investments are always backed by high quality credit research, whilst our decision making focuses on liquidity, risk management and value. The output has been better risk-adjusted returns not just against other peers, but against other asset classes through the cycle.

	5yrs Annualised return	5yrs Annualised volatility	5yrs Sharpe ratio
USD Cash (Risk-Free)	0.1%	0.0%	-
5-year US Treasury	1.7%	2.6%	0.6
Asian USD Investment Grade	5.4%	3.8%	1.4
Asian USD High Yield	8.9%	5.1%	1.7
First State Asian Quality Bond Fund¹	5.1%	3.5%	1.4
US Investment Grade	2.9%	2.7%	1.4
US High Yield	7.2%	5.7%	1.2
EM USD Sovereign	6.6%	6.3%	1.0
EM USD Corporate	6.0%	4.4%	1.3
Global Equities	8.6%	11.5%	0.7
US Equities	13.6%	10.3%	1.3
EM Equities	0.9%	16.3%	0.0
Asia Ex-Japan Equities	4.5%	15.3%	0.3

Source: Bloomberg, First State Investments, Markit, JP Morgan, Barclays, MSCI, S&P as at 30 September 2016.

¹ The Fund's calendar year performance: 0.9% (2015); 6.8% (2014); -3.0% (2013); 9.1% (2012); 2.5% (2011).









Our flagship fund, the First State Asian Quality Bond Fund ('the Fund') was launched in 2003. The Fund has a track record of investing in Asia, from Asia that is the envy of the peer group. The key differentiator of this strategy is that it is Investment Grade only. The peer group is almost entirely mixed grade. The strength of this strategy is the approach to building portfolios in a balanced manner and the highly experienced team that manages the strategy with our commitment to Responsible Investment practices.

Building balanced portfolios

As an organisation, our Fixed Income approach is focused on balancing the risks. At a portfolio level this recognises that even within Asian Fixed Income, correlations change. By balancing the risks through diversification, country selection and superior stock selection skills. This balanced risk approach complements perfectly our commitment to better risk-adjusted returns.

Team experience

The team that manages the Fund is one of the most experienced team in the region. Amongst the investors in the team the average tenor of experience is nineteen years and the entire team average fifteen. Asia has evolved rapidly as an investment market in recent decades and has not been without its issues. The team at First State Investments has the experience and knowledge of Asia that better equips us for the future in the fastest growing region in the world.

 <p>Jamie Grant Head of Asian Fixed Income 20+ years experience Rates, Credit, FX Hong Kong</p>	 <p>Nigel Foo Senior Portfolio Manager 19 years experience Rates, Credit, FX Singapore</p>	 <p>Nicole Hsieh Senior Portfolio Manager 17 years experience Rates, Credit, FX Hong Kong</p>	 <p>Eli Djurfanto Head of Indonesia Fixed Income 20+ years experience Rates, Credit, FX Indonesia</p>
 <p>Judy Kwok-Cheung Senior Credit Analyst 18 years experience Asia Credit – IG & HY Hong Kong</p>	 <p>Adrian Au Senior Manager Credit Analyst 20+ years experience Asia Credit – IG & HY Hong Kong</p>	 <p>Kai Chang Portfolio Dealer 6 years experience Rates, Credit, FX Hong Kong</p>	 <p>Clarissa Sopotro Fixed Income Analyst 1 years experience Rates, Credit, FX Indonesia</p>

Source: First State Investments, as at 30 September 2016.

Approach to credit analysis

The role of our credit analysts is to assess the standalone risk associated with an individual borrower. For each borrower, our analysts conduct financial analysis, review their positioning and strategy in the market, conduct industry analysis, consider the opinions of the ratings agencies, and review all relevant market-based research.

Our competitive edge comes from unique additions to our credit process that not only means we have never experienced a default in our Asian Investment Grade funds, but shows our commitment to thinking about risk differently. These additions include:

- Use of a quantitative tool to assist us in focusing where risks are changing for an issuer.
- The incorporation of an Environmental, Social and Governance ('ESG').
- For each security we invest in, the bond indenture is reviewed.
- At the company level, an assessment of the quality of information available compared to our globally expected best practice.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
First State USD Credit	0	0	0	0	0	0	0	0	0	0	0
Investment Grade Default (S&P)	0	0	14	11	0	1	0	0	0	0	26
Investment Grade Default (Moody's)	0	0	14	11	2	1	1	1	2	0	32

Source: S&P, Moody's and First State Investments, as at 30 September 2016.

Responsible Investment

A topic that is of growing importance to Asian Investors is asset manager's approach to Responsible Investment, namely an assessment of the Environmental, Social and Governance ('ESG') factors. Whilst relatively new to some, at First State Investments we have over ten years of track record incorporating this assessment in our approach. Our credit analysts incorporate an assessment of the ESG factors into their risk assessment. Defaults in the credit market often come from non-financial factors such as poor governance for example. As a market leader in this field we can confidently say that not one of our investments occur without an assessment of the ESG factors, driven by our commitment to Responsible Investment and our belief in thinking about risks differently. In our experience non-financial risks if left unchecked, can become financial.

Conclusion

For many global investors Asian Fixed Income remains underinvested. We believe that this needs to be changed. An allocation to Asian Fixed Income should be a strategic allocation for investors, via credible investment teams. With a commitment to Asia longer than most, a highly experienced team, a world class approach to credit analysis (embedding ESG in the process) and a fund focused solely on Asia Investment Grade, we believe First State Asian Quality Bond Fund is the perfect place for investors to start.

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