

Why First State Investments for Asian Fixed Income?

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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.

	Annualised return	Annualised volatility	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 Fund	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.









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.

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

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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