

FIRST STATE DIVERSIFIED GROWTH FUND

Multi Asset Solutions

Q1 2019 Review

The Fund aims to protect against UK inflation and provide capital growth by achieving a positive return (gross of fees and charges) of 4% in excess of UK RPI over rolling five-year periods.

The First State Diversified Growth Fund (DGF) returned 5.6%¹ during the quarter, as financial markets found renewed optimism towards growth assets. The equity rally can largely be attributed to the dovish nature of the US Federal Reserve, in conjunction with other central banks. The Neutral Asset Allocation ('NAA') provided strong performance contribution through equities, while the Dynamic Asset Allocation ('DAA') provided a small positive contribution. The UK Retail Price Index (RPI) fell by 0.4% over the same period.

The Fund has delivered 2.6% p.a. (net of fees and taxes) since the inception in June 2015, 0.3% p.a. above UK RPI, with a monthly volatility of 6.2%. For reference, over the same period the FTSE 100 delivered 5.8% p.a with a volatility of 10.5%.

Performance overview

Annual Performance (% in GBP) to 31 March 2019	12 months to 31/03/2019	12 months to 31/03/2018	12 months to 31/03/2017
First State Diversified Growth B GBP Acc	-4.50	1.45	14.36
UK Retail Price Index	2.21	3.51	2.73

Cummulative Performance (% in GBP) to 31 March 2019	3 month	6 month	YTD	1 year	2 year	Since Inception 23/06/2015
First State Diversified Growth B GBP Acc	5.63	3.20	5.63	-4.50	-3.12	10.08
UK Retail Price Index	-0.40	0.20	-0.40	2.21	5.80	8.97
Real Return	6.03	3.00	6.03	-6.71	-8.91	1.11

Source: Lipper IM / First State Investments (UK) Limited.

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the share class currency, the return may increase or decrease as a result of currency fluctuations.

Performance figures have been calculated since the launch date. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source: Lipper IM / First State Investments (UK) Limited.

RISK FACTORS

This document is a financial promotion for First State Diversified Growth Fund for professional clients only. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Currency risk:** changes in exchange rates will affect the value of assets which are denominated in other currencies.
- **Emerging market risk:** emerging markets may not provide the same level of investor protection as a developed market; they may involve a higher risk than investing in developed markets.
- **Derivative risk:** the use of derivatives may result in large price fluctuations and gains or losses that are greater than an investment in the underlying asset.
- **Credit risk:** the issuers of bonds or similar investments may not pay income or repay capital when due.
- **Interest rate risk:** interest rates affect the value of investments; if rates go up, the value of investments fall and vice versa.

Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

¹ Net of fees and tax for the B GBP Accumulation share class

Investment process

The investment process comprises two building blocks. The first, which we call Neutral Asset Allocation (NAA), sets longer-term, beta allocations on a long-only basis. The second part, which we call Dynamic Asset Allocation (DAA), allows us to exploit shorter-term alpha opportunities through proprietary strategies that aim to be uncorrelated to broader markets. Further, DAA strategies aim to help manage risk through protection strategies. We review the DAA on a weekly basis.

For a comprehensive description of the investment process, click [here](#)

Market review

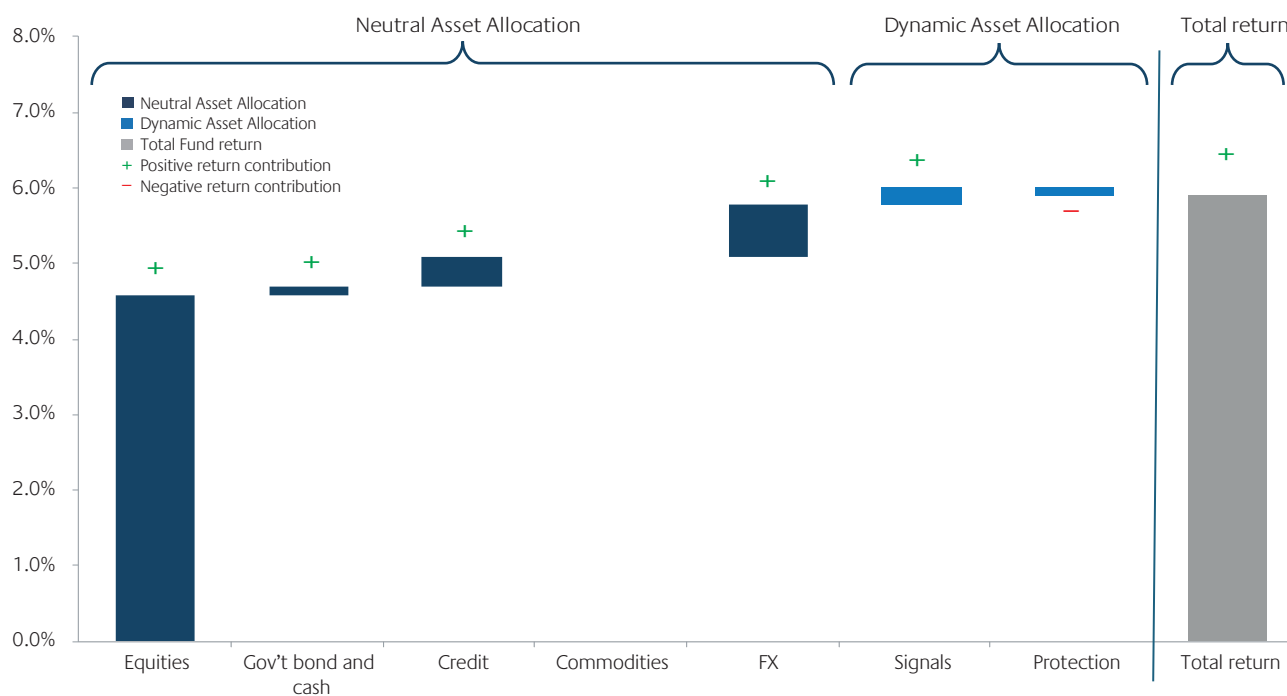
Financial markets dispelled concerns regarding slowing global growth and global trade disputes seen in Q4-18 as lower-for-longer interest rates in the US buoyed growth assets.

Developed and emerging market equities provided double digit returns, or close to, while global bonds were broadly flat and commodity indices fell. This is the strongest equity market start to a year in over twenty years.

Portfolio performance and attribution

The NAA drove performance, as shown in Figure 1, in Q1-19. This was primarily a result of equity exposures, whilst exposure to both government bonds and high yield credit provided a small contribution. DAA positions provided a slight positive return.

Figure 1: Quarter-end performance contribution to 31 March 2019



Source: First State Investments as of 31 March 2019. Month end data since inception.

Figure 2 provides a decomposition of ex-ante risk, as well as return contribution for the quarter and the last year. UK and Global (ex-UK) equities added 4.6% over the quarter, while exposure to government and corporate credit added to returns as yields moved lower.

Currency hedging of the US and European equity holdings helped offset the impact of a rising Sterling over the quarter.

Within the DAA positioning, equities detracted 1.8%, while bond and currency exposures offset the impact, providing a return of 1.7% and 0.4%, respectively.

Figure 2: DGF return contribution

	Risk Contribution (%)	Contribution to 3m return (%)	Contribution to 1 yr return (%)
UK equities	1.25	1.28	1.07
World (ex UK) equities	4.35	3.31	2.38
Government bonds and cash	0.02	0.13	0.50
Inflation-linked bonds	0.00	0.00	1.08
Emerging market bonds (HC)	0.00	0.00	0.22
Emerging market bonds (LC)	0.30	-0.02	-0.16
Corporate bonds	0.14	0.39	0.29
Commodities	0.00	0.00	0.00
Currency hedging	-1.17	0.68	-1.75
Protection strategies	0.00	-0.11	-0.29
Other	0.00	0.00	0.00
Investment Signals			
Equities	-0.20	-1.79	-4.32
Bonds	2.06	1.66	1.36
Currencies	0.61	0.36	-3.29
	7.35	5.90	-2.89

Source: First State Investments. Gross performance contribution might differ from official performance, due to data source, pricing, and timing.

Key drivers of performance over the period:

- NAA positions added 5.8%, primarily driven by returns from US and UK equities.
 - UK equities added 1.3% while global equities added 3.3%.
 - Developed market government bonds and cash contributed 0.1%.
 - Corporate bonds added 0.4%.
- DAA positions added 0.1%, with gains within bonds and currencies offsetting equity positioning.
 - Positions informed by our equity signals detracted 1.8%. This was due to the preference to reduce exposure in favour of other asset classes in a rising market.
 - Bond positioning added 1.7%; the bulk of performance came from emerging markets. Long positions in Mexico, India and South Africa were the largest contributors. Short duration positions in Hungary and Korea were small detractors.
 - Currency positions added 0.4% to performance. This was due to a long position in JPY and short EUR position.
 - We saw a modest loss from protection strategies. This position relates to ongoing Brexit-related uncertainty and is an insurance policy we will likely hold until we have more clarity.

Portfolio positioning

Neutral Asset Allocation ('NAA') positioning

There were no changes to the NAA during the quarter. The next NAA review will be conducted in May 2019.

Figure 3: DGF Neutral Asset Allocation

DGRF NAA	May-18		Nov-18	Change
Liquid securities	10.0%	▼	5.0%	-5.0%
Short-dated gilts	15.0%	▲	27.0%	12.0%
Long-dated gilts	0.0%	–	0.0%	0.0%
Global government High yield	25.0%	▼	0.0%	-25.0%
High yield	0.0%	▲	10.0%	10.0%
EM local currency bonds	5.0%	▲	8.0%	3.0%
EM hard currency bonds	5.0%	▼	0.0%	-5.0%
UK Equities	7.0%	▲	12.5%	5.5%
World (ex-UK) Equities	28.0%	▲	37.5%	9.5%
Commodities	5.0%	▼	0.0%	-5.0%
Total	100.0%		100.0%	

Source: First State Investments

Dynamic Asset Allocation ('DAA') positioning

We began the quarter with a preference to reduce equity exposure in the short-term. This provided a reduction in exposure of 24% from the NAA. Over the quarter we added 5% equity exposure, ending the quarter with a reduction of 19%. This was primarily through the unwinding of our short position in emerging markets.

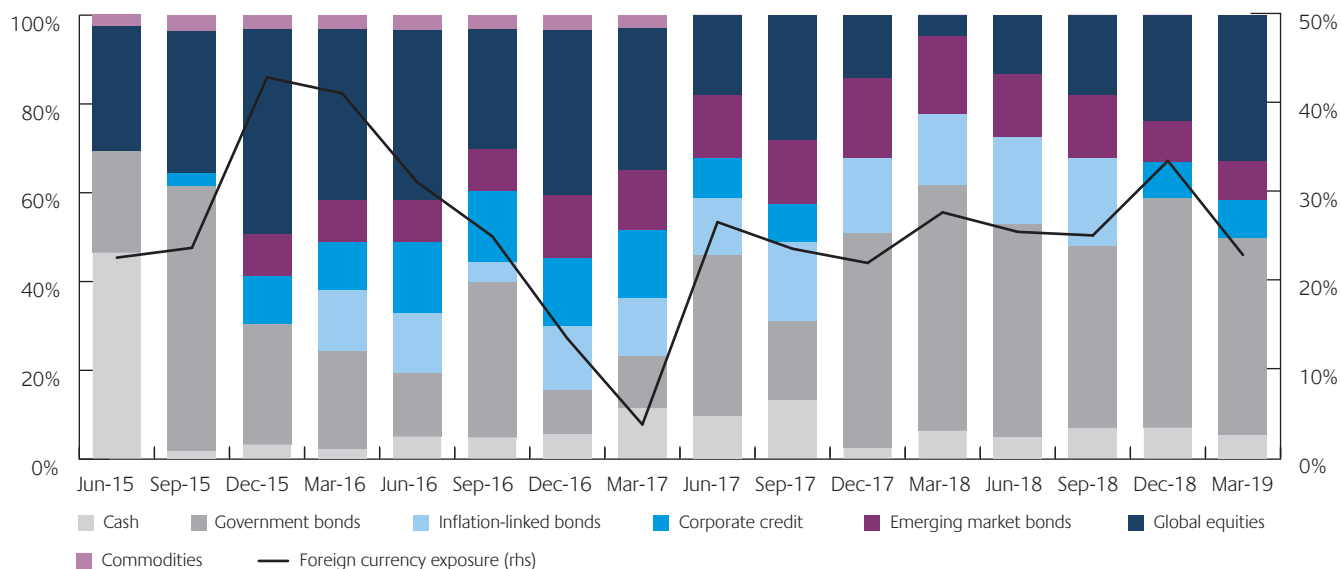
Within fixed income we added 1.0 year of duration over the quarter. The Fund began the quarter with a duration exposure 3.0. During the quarter, our views pointed to a supportive environment for fixed income over the short-term. We added 1.0 year of duration in Japan, removing a short position in UK rates and reducing our long position in emerging markets.

We reduced foreign currency exposure in the lead up to the March 2019 Brexit deadline, by hedging some currency exposures in the US and UK. Within emerging markets we shifted our exposure from Asia to Europe, and added to Nordic exposures (SEK and NOK).

Combined NAA and DAA fund portfolio positioning

The Fund has an equity exposure of 33%; we prefer the UK, US and Europe over emerging markets. The duration (interest rate risk) of the Fund is focused on emerging markets where we see the best opportunities. Foreign currency of the Fund decreased over the quarter to 23%.

Figure 4: Asset allocation

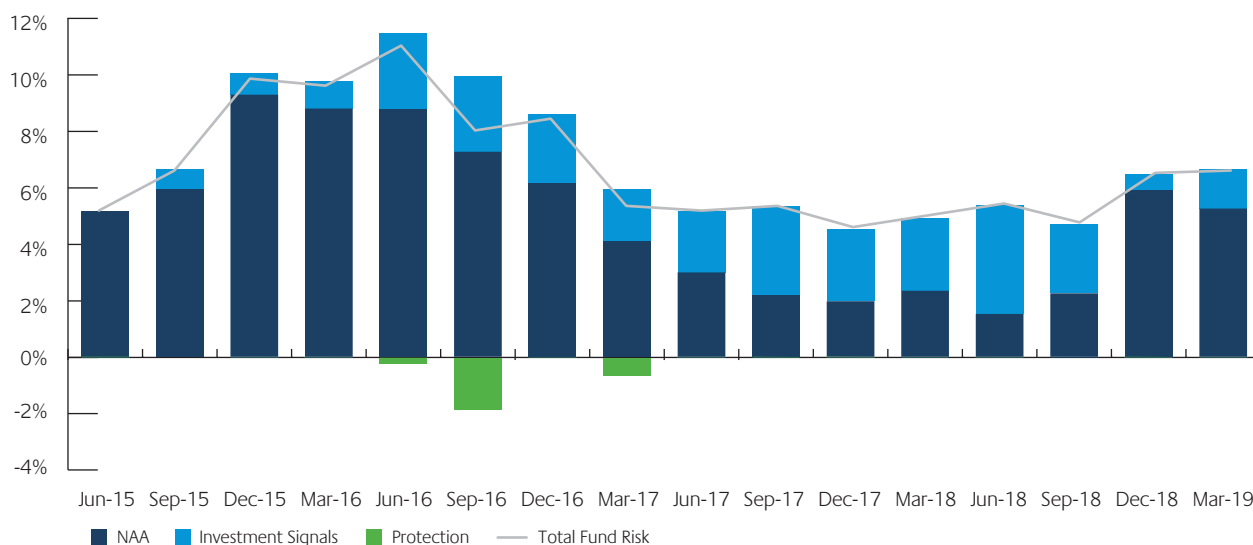


Source: First State Investments

Given equity and bond valuations, we continue to believe the NAA will be unlikely to deliver the required return to meet the Fund's objective

of RPI + 4% over a rolling 5 year period. To bridge this shortfall we have increased our risk budget to DAA (see figure 5 below).

Figure 5: Portfolio ex-ante risk



Source: First State Investments

Market outlook

Our market outlook remains unchanged from last quarter. We still expect that monetary and fiscal policies will continue to dominate, and trade tensions will periodically rattle the investment landscape.

Global growth appears to be slowing and nearing its final state. This is being led by the US; although we expect it to continue to outpace other developed markets. US fiscal stimulus is fading and signs that the economy is at the very late stages of the cycle may begin to appear.

Monetary policy shifts are expected to aid economic growth and be welcomed by financial markets. Central banks have turned dovish almost in unison. We expect this to weigh on the USD and benefit emerging market assets; especially bonds and currencies. Chinese efforts to stimulate growth should feed through to global growth and provide some respite from the late cycle US growth. Strong returns so far in 2019 make us cautious and we expect greater volatility for the rest of the year.

A summary of the Fund's positions, along with changes over the quarter, can be seen in Figure 6.

Figure 6: Fund positioning and quarterly changes

Equity allocation by region	NAA	DAA	NAA + DAA = Portfolio as at March 2019	3m change
UK	13.2%	-2.7%	10.5%	▼ -7.5%
US	13.4%	-2.9%	10.5%	▲ 4.2%
Eurozone	10.3%	4.7%	14.9%	▼ -2.6%
Japan	5.1%	4.2%	9.3%	▲ 1.2%
Other Developed Markets	2.0%	-20.0%	-18.1%	▼ -3.3%
Emerging Markets	7.7%	-2.0%	5.7%	▲ 16.7%
	51.7%	-18.8%	32.9%	▲ 8.8%

Duration contribution* by region	NAA	DAA	NAA + DAA = Portfolio as at March 2019	3m change
UK	0.2	0	0.2	▲ 1.2
US	0.3	-0.8	-0.5	▲ 0.0
Eurozone	0	1.4	1.3	▼ -0.2
Japan	0	0.6	0.6	▲ 0.6
Other Developed Markets	0	0.5	0.5	▲ 0.4
Emerging Markets	0.3	2.4	2.7	▼ -1.1
	0.8	4	4.8	▲ 0.9

Currency exposure* by region	NAA	DAA	NAA + DAA = Portfolio as at March 2019	3m change
UK	75.8%	1.5%	77.2%	▲ 10.6%
US	-1.9%	5.8%	3.9%	▼ -0.8%
Eurozone	0.6%	-7.0%	-6.4%	▼ -1.9%
Japan	4.2%	-8.2%	-4.0%	▼ -6.0%
Other Developed Markets	4.8%	4.0%	8.8%	▲ 10.3%
Emerging Markets	16.8%	3.7%	20.4%	▼ -12.2%
	100.0%	0.0%	100.0%	0.0%

Source: First State Investments

For further institutional enquiries contact institutionalenquiries@firststate.co.uk

For wholesale enquiries contact enquiries@firststate.co.uk

Important Information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy, or completeness of the information. We do not accept any liability whatsoever for any loss arising directly or indirectly from any use of this information.

References to "we" or "us" are references to First State Investments.

In the UK, issued by First State Investments (UK) Limited which is authorised and regulated by the Financial Conduct Authority (registration number 143359). Registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB number 2294743. Outside the UK within the EEA, this document is issued by First State Investments International Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registered number 122512). Registered office: 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Certain funds referred to in this document are identified as sub-funds of First State Investments ICVC, an open ended investment company registered in England and Wales ("OEIC"). Further information is contained in the Prospectus and Key Investor Information Documents of the OEIC which are available free of charge by writing to: Client Services, First State Investments (UK) Limited, Finsbury Circus House, Finsbury Circus, London, EC2M 7EB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.firststateinvestments.com. Telephone calls may be recorded. The distribution or purchase of shares in the funds, or entering into an investment agreement with First State Investments may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key investor information documents (KIIDs), the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

First State Investments (UK) Limited and First State Investments International Limited are part of Colonial First State Asset Management ("CFSGAM") which is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124. CFSGAM includes a number of entities in different jurisdictions, operating in Australia as CFSGAM and as First State Investments elsewhere. The Commonwealth Bank of Australia ("Bank") and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of the Bank or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

MAR000456_0419_EU/UK