For qualified investors only

First State Investments

Quarterly Update | High Yield

First State Investments High Yield

Q4 2017 | Co-Portfolio Managers: Matt Philo, Mike Elkins & Jason Epstein

Thoughts on the Market

"I don't mind being hated, but I hate being misunderstood." – unknown

Barely one week into the new year, two of the most respected investors of investment grade "plus" fixed income publicly singled out high yield corporate bonds as a particularly poor investment. When respected peers make it a point to bash our entire asset class it would be worthy of reflection…if we knew why. We hold both of these investors in high regard and they provided a timely lead in for our quarterly high yield update.

Seasoned high yield portfolio managers are quite accustomed to negative comments about their asset class. High yield seems to be the Ford Edsel of fixed income. High yield's common moniker "junk bonds" is probably one reason for the "kick me" sign taped to the back of our asset class. Unfortunately, negative proclamations regarding high yield are rarely accompanied by tangible, supported reasoning. We can't claim to be experts in why our asset class usually seems out of favor nor do we claim to be experts in all other fixed income alternatives; however, we will clearly explain our strongly held views regarding our high yield debt asset class. Beginning with the ending:

1. We currently view the broad high yield market, and the average high yield bond (or loan) as either fairly valued or overvalued relative to our estimates of their default risk. This fundamental assessment explains why our Broad High Yield composite currently owns debt issued by just 16% of all the high yield bond issuers comprising the benchmark index, the ICE BofAML US High Yield Constrained Index.

2. We have yet to experience a market environment where our investment process can't identify a fully diversified high yield portfolio that overcompensates for estimated default risk; the current market posing no exception. Further, we don't fear market volatility or downside corrections; we calmly welcome the opportunities they present. We explain the "why" behind these statements in this relatively brief commentary.

Now, beginning with the beginning: the modern high yield market was first "institutionalized" in the 1970's based on the simple observation that investors were overcompensated for the average non-investment grade bond's default risk. However, what was a simple observation some four decades ago is no longer always, or perhaps even usually, true of the broad high yield market.

Nevertheless, we still believe it can always be true of a portfolio constructed and managed via the successful implementation of our investment philosophy and process; a high yield investment process that has not changed since its origin in the 1990s:
(1) mandatory minimum margin-of-safety requirements, and
(2) requisite yields/spreads that over-compensate for estimated default risk.

In other words, our investment process seeks to lend to corporations, (1) at relatively conservative loan-to-values (LTVs) based on accurate, real-world asset appraisals, and (2) at rates of return that overcompensate for overall credit risk. Our investment process would have been very familiar to commercial loan officers at any bank once upon a time; circa pre-1980s!

High Yield Market Commentary

The high yield markets experienced a cumulative pause during the final quarter of 2017. In fact, the broad high yield market as represented by the ICE BofAML US Constrained High Yield index experienced a modest 1.1% price decline in 4Q17; the first such quarter since 4Q15. Nevertheless, after including income 4Q17 managed a +41 basis point total return.

Energy was the strongest performing industry sector in the overall high yield market during the fourth quarter, driven by strong oil prices as reflected in WTI crude closing up 16% for the quarter at $60.42 a barrel, a level last seen in mid-July 2015. The breakout of oil prices led to strength in the weaker quality E&P credits; many of which don't fit our minimum margin-of-safety requirement of 1.5x asset coverage.

Telecommunications was the weakest performing industry sector in the overall High Yield market during the quarter. The primary credit drivers were wireless provider, Sprint Corp* & satellite operator, Intelsat S.A. Sprint sold off after merger discussions with T-Mobile were terminated; our portfolios were at a relative low-point in weighting relative to the indexes. Intelsat sold off due to refinancing concerns at the Holding Co level.

Last quarter we highlighted what we view as the most notable challenge presented by the high yield market: the narrowest "opportunity set" in our high yield market careers. The **"opportunity set"** is the pool of high yield securities that meet

* For illustrative purposes only. Reference to the names of companies within this communication is merely for explaining the investment strategy, and should not be construed as investment advice or an investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of First State Investments.

both our minimum margin-of-safety requirements, and over-compensate in yield and spread, for our estimates of their individual default risks. In fact, this market dynamic tightened somewhat further during the fourth quarter. Therefore, the ongoing disciplined implementation of our investment process continues to result in a Broad High Yield portfolio with issuer counts towards the lower end of the ranges we highlight as typical. This portfolio positioning is neither a positive or negative in the absolute as in our estimation our portfolios remain very comfortably fully diversified. Please see **"Analysis: Opportunity Set"** on page 3 for additional commentary on the high yield market.

Portfolio Positioning

Most notable, is our issuer count remaining towards the lower boundary of our typical range, with 137 issuers in the Broad High Yield composite at year-end. In answer to a logical question related to our issuer count: we estimate our current Broad High Yield model portfolio would start to require more issuers around $4 billion in AUM. That is a dynamic estimate that will change with time; most notably, should the overall market experience any noticeable sell-off, and there will be an associated broadening of the opportunity set.

Another noteworthy portfolio characteristic is our ability to maintain a relative overweight in our top 10 holdings presenting greater yield and spread than the overall index. Specifically, in the Broad High Yield composite this overweight amongst our top 10 holdings accounts for 20.1% of the composite, with a 7.74% YTW. The benchmark weight in the same credits is 4.3%, making our active bet in high conviction, higher yielding credits a meaningful 15.8%. This is simply a reflection of calmly following our investment process and carefully managing all related portfolio risks.

Composite Performance Summary

FSI Institutional Composite and Benchmark Returns As of December 31, 2017	Dec-17 1 month	4Q-17 3 months	Since Inception 5/01/17*	AUM ($m)
BROAD High Yield	**0.54**	**0.78**	**4.15**	**243**
BofA Merrill Lynch US High Yield Constrained Index: HUC0	0.29	0.41	3.48	
Composite vs. Benchmark	**+0.25**	**+0.37**	**+0.67**	
SELECT High Yield	**0.66**	**0.83**	**4.11**	**76**
BofA Merrill Lynch US High Yield Constrained Index: HUC0	0.29	0.41	3.48	
Composite vs. Benchmark	**+0.37**	**+0.41**	**+0.64**	
QUALITY High Yield	**0.49**	**0.76**	**4.16**	**168**
BofA Merrill Lynch BB-B US High Yield Constrained Index: HUC4	0.20	0.39	3.33	
Composite vs. Benchmark	**+0.29**	**+0.37**	**+0.83**	
SHORT DURATION High Yield	**0.34**	**0.39**	**2.79**	**40**
BofA Merrill 1-5 yr BB-B US Cash Pay HY Constrained Index: JVC4	0.23	0.32	2.61	
Composite vs. Benchmark	**+0.11**	**+0.06**	**+0.18**	
DEFENSIVE High Yield	**0.46**	**0.69**	**3.89**	**208**
BofA Merrill Lynch BB-B US High Yield Constrained Index: HUC4	0.20	0.39	3.33	
Composite vs. Benchmark	**+0.26**	**+0.30**	**+0.56**	

Note: Past performance is not indicative of future performance. Performance figures do not reflect the deduction of investment advisory fees. A client's return will be reduced by the investment fees. If a client placed $100,000 under management and a hypothetical gross return of 10% were achieved, the investment assets before fees would have grown to $259,374 in 10 years. However, if an advisory fee of 1% were charged, investment assets would have grown to $234,573, or an annual compounded rate of 8.9%.
The assets within the Short Duration High Yield Composite and Quality High Yield Composite have been combined to create the FSI Defensive High Yield Composite. The assets within the Select High Yield Composite and the Quality High Yield Composite have been combined to create the Broad High Yield Composite.

*Source: BofAML Indices and First State Investments as of 12/31/17

Analysis: “Opportunity Set”

The Opportunity Set remains narrow...

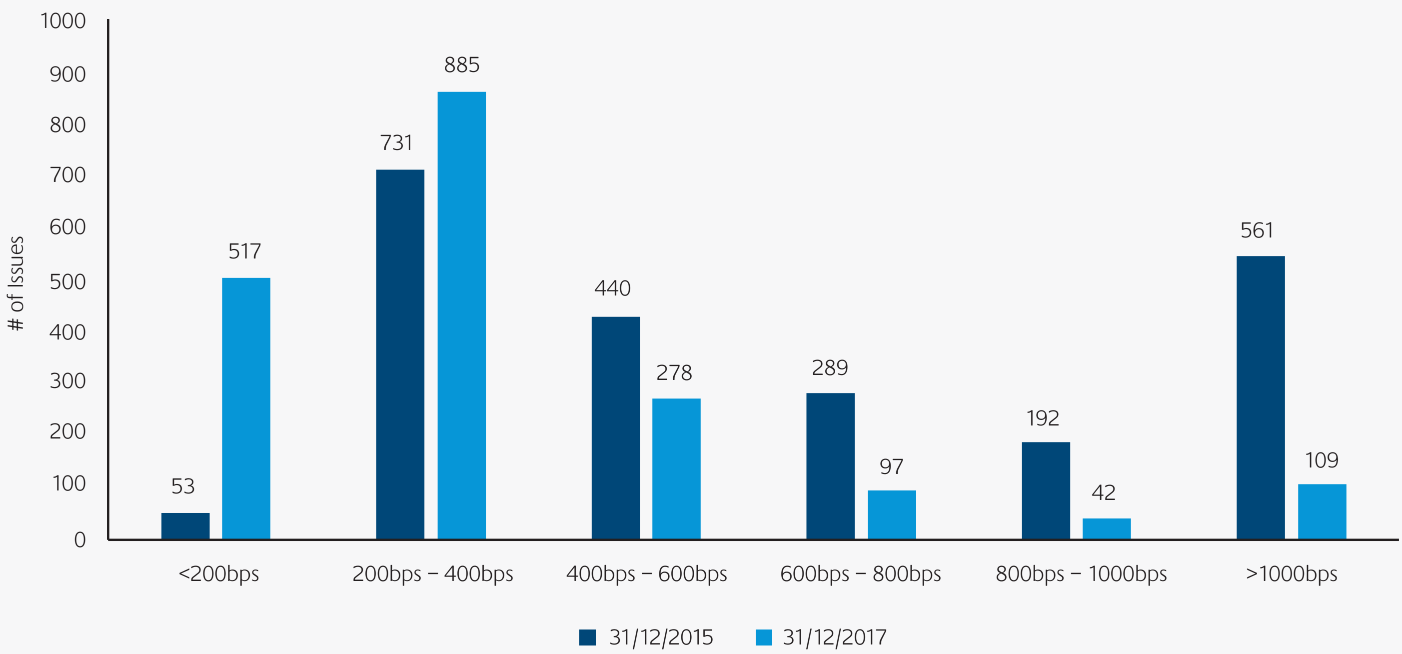
Currently, the most challenging high yield market dynamic is the narrow opportunity set of high yield securities that we find attractive, based on our disciplined investment process.

We can’t emphasize enough the severe challenge this dynamic presents to high yield managers with $10 billion, $20 billion or more in high yield AUM.

Even more importantly, this market environment is one where managers that “closet-index” or lack an effective and disciplined investment process are heading towards a reckoning that will prove painful to disastrous for their investors. **“Buyer Beware.”**

The following bar graph quantifies the broad migration of credit spreads within the high yield market over the past two years (only weeks before the early February 2016 market low):

U.S. High Yield Market Spread Migration (Since year end 2015)



Source: BofAML as of 12/31/2017

The broad migration of credit spreads within the high yield market over the past two years highlight the dynamic behind the current market’s narrow opportunity set:

- **80% decline** in the number of issuers with **STWs > 800 bps**
- **76% & 65% declines** in the number of issuers with **STWs >600 bps & 400 bps**, respectively
- **73%** of issuers now have **STWs <400 bps** (up from 35% at the end of 2015)
- **27%** of issuers now have **STWs <200 bps** (up from just 2% at the end of 2015)

The percentage of issuers offering a spread-to-worst, rate premium less than 200 basis points is one of the most transparent indications of the current market’s narrow “opportunity set.” This percentage is of particular interest to us because our investment process requires a **minimum spread of +200 bps** to invest in even our safest high yield bonds. In other words, the sub-200 bps segment of the market is largely eliminated from consideration by our investment process.

The following table tracks the relative size of this "sub- 200 bps" market segment over time:

BAML US HY Constrained	4Q17 End	3Q17 End	Year-End 2016	Near 2016 Bottom	Near Peak 30 June 2014	Near Peak 31 May 2007
% issues priced <+200 STW	27.5%	28.8%	11.7%	1.0%	12.0%	41.9%
# issues priced <+200 STW	517	539	229	23	271	762
# issues in HUC0 Index	1882	1873	1949	2248	2255	1819
Yield to Worst	5.84	5.47	6.17	9.20	5.01	7.47
Spread to Worst	373	368	439	780	372	258
US Treasury Yield	2.11	1.79	1.78	1.40	1.29	4.89
Avg Price	$100.59	$101.77	$99.59	$87.07	$105.65	$101.46
LIBOR 3-Month	1.69	1.33	1.00	0.61	0.23	5.36

*Source: BofAML Indices and Bloomberg as of 12/31/17

At the **market peak of May 2007**, an eye-opening 42% of issues offered a STW <200 bps. **However**, in that market environment CASH was a viable alternative to "mispriced" high yield: with the 3-month T-bill offering a 4.73% coupon equivalent yield vs. the BB-rated, sub-sector of HUC0 offering a 6.77% YTW, +185 STW. It was a time when clients tolerated "cash" holdings of 15-20%.

At the next **market peak around June 2014** a reasonable 12% of issues presented a STW <200 bps; a market environment where our investment process resulted in an issuer count more than twice the number today.

Near the **early-2016 market low**, after a 1.5 year market correction only 1% of issues breached 200 bps. At the **beginning of 2017** it was back to the 12% level of sub-200 bp credits.

Over the next 9 months "the squeeze was on" and this troublesome segment of our market roughly doubled, to the **present 27-28% of issuers**.

In summary, currently upwards of 30% of high yield credit are priced at a sub-200 bp STW. Given that our investment process typically excludes 20-25% of the remaining high yield universe due to insufficient margins-of-safety, approximately half the high yield market is currently "out of play." Given the overall high yield market is broadly fully valued our investment process results in the narrowest "opportunity set" in our high yield careers.

Note: All market information above sourced from Bloomberg

Broad High Yield[1]

This strategy has the widest high yield market opportunity set. The benchmark is the ICE Bank of America Merrill Lynch US High Yield Constrained Index. The excess return target is 100bp[2].

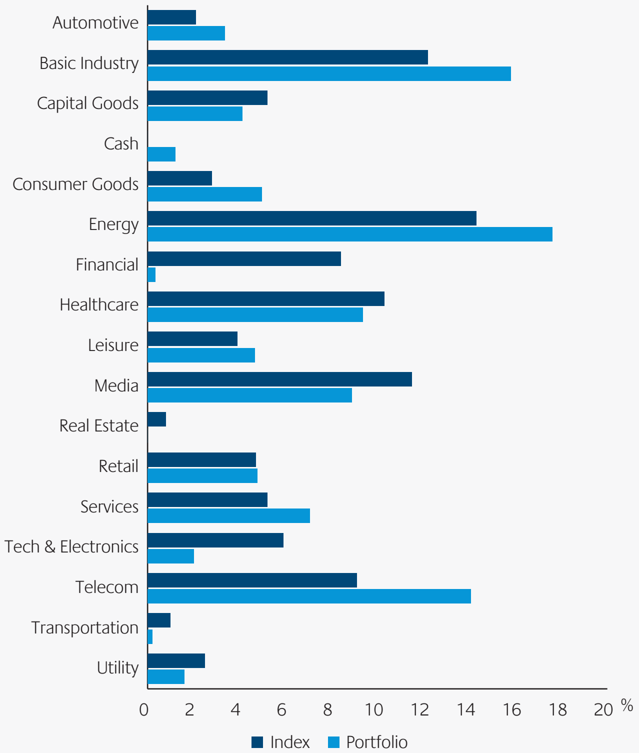
Composite Performance

Broad High Yield returned 0.78% for 4Q17, which outperformed the ICE BofA Merrill Lynch US High Yield Constrained Index by 37bp. Since inception on May 1st, 2017, FSI Broad High Yield has outperformed its Index by 67 bps.

Characteristics

	Broad	Index
Yield to Worst	5.61%	5.84%
Spread to Worst	348	373
Duration to Worst	3.79	3.82
# of Issuers	144	864
Avg. Rating	B2/B+	B1

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
A+ (Cash)	1.2%
BBB-	0.8%
BB+	5.6%
BB	11.1%
BB-	25.6%
B+	22.5%
B	17.3%
B-	12.3%
CCC+	3.0%
CCC	0.6%

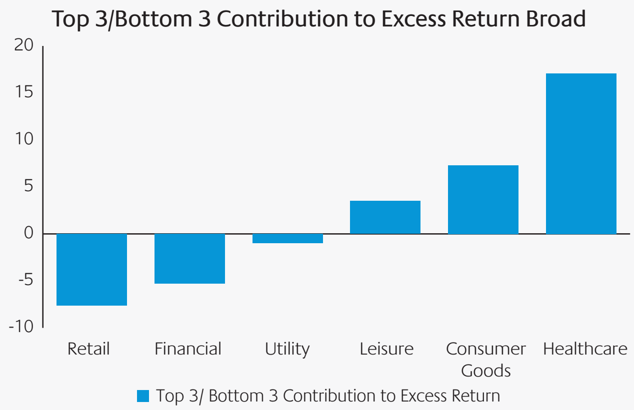
Breakdown by Country

	Risk Contribution %
United States	92.0%
Canada	3.5%
France	3.4%
United Kingdom	0.5%
Zambia	0.5%

Top 10 Issuers

	Market Value %
Altice International	3.0%
Valeant Pharmaceuticals International Inc	2.5%
Donnelley Financial Solutions Inc	2.4%
Intelsat SA	2.4%
Cincinnati Bell Inc	2.3%
Frontier Communications Corp	2.2%
Peabody Energy Corp	2.0%
Parsley Energy LLC	1.9%
Rite Aid Corp	1.9%
Kindred Healthcare Inc	1.7%

Sector & Issuer Commentary



1. The assets within the FSI Select High Yield Composite and the FSI Quality High Yield Composite have been combined to create the FSI Broad High Yield Composite.

2. Return target is solely intended to express an objective or target for a return on your investment and represents a forward-looking statement. It does not represent and should not be construed as a guarantee, promise or assurance of a specific return on your investment. Actual returns may differ materially from the performance objective, and there are no guarantees that you will achieve such returns. Please refer to the disclaimer page for additional information.

Top Positive Issuer Contributors:

Kindred Healthcare (KND): Performance bounced back in the quarter after having underperformed in the 3Q. Our conviction in the name was rewarded with a solid 3Q earnings report coupled with a major improvement in liquidity used to deleverage. Furthermore, late in the quarter it was announced that the company entered into definitive agreement to be purchased by Humana and private equity firms TPG and Welsh, Carson, Anderson & Stowe which drove the bond prices higher to near their yield to call and make whole prices.

Valeant Pharmaceuticals (VRXCN): Strong performance was driven by management's continued execution of its operating turn-around plan. The company has delivered on de-leveraging commitments, stabilized earnings and has greatly improved its maturity schedule. An important milestone was achieved when the company was able to access the unsecured debt market in mid-December.

Cincinnati Bell (CBB): Cincinnati Bell rebounded off of its poor performance in the prior quarter. The market gained much needed confidence from the company's 3Q earnings report which beat revenue and EBITDA expectations and showed favorable trends in its fiber centric broadband and video subscriber growth. Attention will turn to the integration of OnX and the closing of the Hawaiian Telecom acquisition in the 4Q17 and 2018, respectively.

Top Negative Issuer Contributors:

Rite Aid (RAD): Bonds were under pressure as the market was concerned that Amazon would enter the retail pharmacy space and threaten Rite Aid's business model. In addition, there was general weakness in the retail sector due to uncertainty regarding how the holiday season would shape up. The company's securities continue to lag due to a lack of disclosure regarding the use of proceeds from their large asset sale and ambiguity on their future operating results.

Frontier Communications (FTR): Bonds were under pressure as operating results which showed signs of sequential improvement but were not nearly enough to convince the market of an organic turn-around. Furthermore, the board's decision to continue to pay a common stock dividend remains a source of contention in light of the company's ensuing liquidity requirements.

Sprint (S): Sprint was very much in the spotlight and underperformed as a result of its decision to discontinue merger discussions with T-Mobile. A merger and anticipated credit and operating improvements resulting from the combined entity had become partially priced into Sprint bonds. When the deal was surprisingly called off, Sprint bonds re-priced lower to more accurately reflect its stand-alone credit profile.

Note: Securities discussed are the largest positive and negative contributors for the specific sectors.

Select High Yield

This is a more concentrated strategy in high conviction ideas. The benchmark is the ICE Bank of America Merrill Lynch US High Yield Constrained Index. The excess return target is 150bp[3].

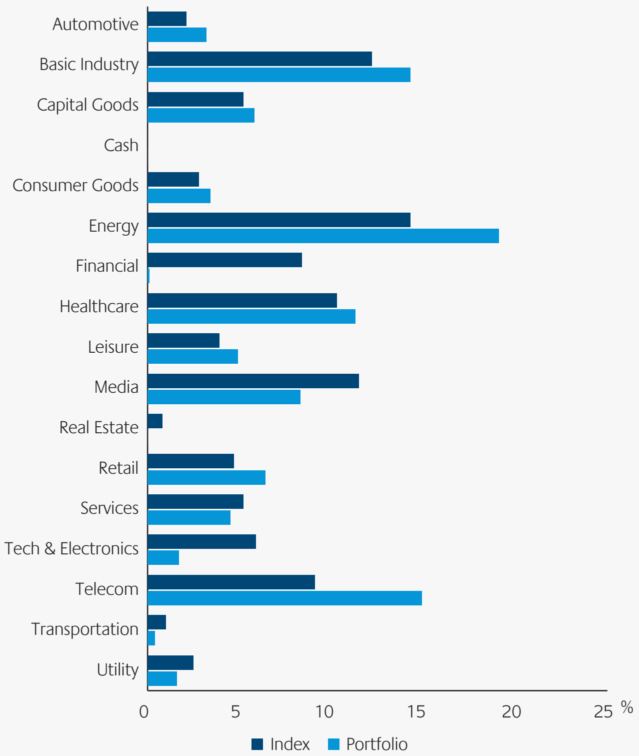
Composite Performance

Select High Yield returned 0.66% for 4Q17 which outperformed the ICE BofA Merrill Lynch US High Yield Constrained Index by 37 bps. Since inception on May 1st, 2017, FSI Select High Yield has outperformed its Index by 64 bps.

Characteristics

	Select	Index
Yield to Worst	5.96%	5.84%
Spread to Worst	383	373
Duration to Worst	3.88	3.82
# of Issuers	104	
Avg. Rating	B2/B+	B1

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	0.3%
BB+	2.5%
BB	10.4%
BB-	22.9%
B+	21.0%
B	18.7%
B-	14.2%
CCC+	8.1%
CCC	1.9%

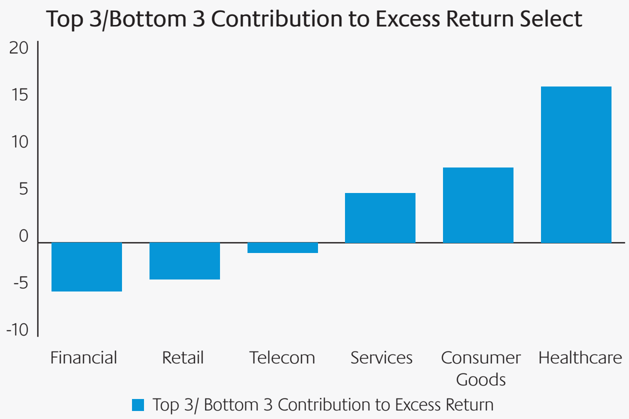
Breakdown by Country

	Risk Contribution %
United States	90.5%
France	5.2%
Canada	3.3%
Ireland	0.6%
United Kingdom	0.4%
Australia	0.1%

Top 10 Issuers

	Market Value %
Valeant Pharmaceuticals International Inc	3.5%
Altice International	3.3%
Frontier Communications Corp	2.9%
Intelsat SA	2.9%
Halcon Resources Corp	2.8%
Endo International PLC	2.6%
Bway	2.6%
Donnelley Financial Solutions Inc	2.5%
Cincinnati Bell Inc	2.3%
Rite Aid Corp	2.0%

Sector & Issuer Commentary



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Valeant Pharmaceuticals (VRXCN): Strong performance was driven by management's continued execution of its operating turn-around plan. The company has delivered on de-leveraging commitments, stabilized earnings and has greatly improved its maturity schedule. An important milestone was achieved when the company was able to access the unsecured debt market in mid-December.

Cincinnati Bell (CBB): Cincinnati Bell rebounded off of its poor performance in the prior quarter. The market gained much needed confidence from the company's 3Q earnings report which beat revenue and EBITDA expectations and showed favorable trends in its fiber centric broadband and video subscriber growth. Attention will turn to the integration of OnX and the closing of the Hawaiian Telecom acquisition in the 4Q17 and 2018, respectively.

Top Negative Issuer Contributors:

Endo International (ENDP): Despite reporting better than expected 3Q earnings and reaffirmation of its 4Q17 revenue and EBITDA projections the company's performance was hampered by very negative investor sentiment hanging over the generic drug sector. Industry wide pricing pressure along with the opioid drug abuse epidemic have been heavily covered by the media, raising investor anxieties.

Frontier Communications (FTR): Bonds were under pressure as operating results which showed signs of sequential improvement but were not nearly enough to convince the market of an organic turn-around. Furthermore, the board's decision to continue to pay a common stock dividend remains a source of contention in light of the company's ensuing liquidity requirements.

Rite Aid (RAD): Bonds were under pressure as the market was concerned that Amazon would enter the retail pharmacy space and threaten Rite Aid's business model. In addition, there was general weakness in the retail sector due to uncertainty regarding how the holiday season would shape up. The company's securities continue to lag due to a lack of disclosure regarding the use of proceeds from their large asset sale and ambiguity on their future operating results.

Note: Securities discussed are the largest positive and negative contributors for the specific sectors.

Quality High Yield

This strategy is focused on the higher quality segment of the high yield market. The benchmark is the ICE Bank of America Merrill Lynch US High Yield BB-B Constrained Index. The excess return target is 100bp[4].

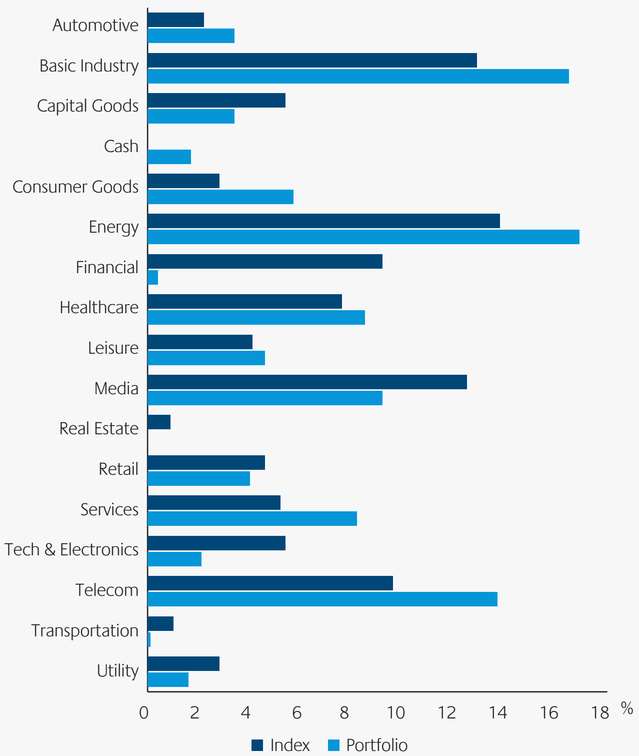
Composite Performance

Quality High Yield returned 0.76% for 4Q17 which outperformed the ICE BofA Merrill Lynch BB-B US High Yield Constrained Index by 37bps. Since inception on May 1st, 2017, FSI Quality High Yield has outperformed its Index by 83bps.

Characteristics

	Quality	Index
Yield to Worst	5.44%	5.09%
Spread to Worst	333	297
Duration to Worst	3.76	3.97
# of Issuers	136	
Avg. Rating	B1/B+	BB3

Sector weightings: Portfolio, Benchmark



Breakdown by S&P Rating

	Market Value %
A+	1.7%
BBB-	1.0%
BB+	7.0%
BB	11.4%
BB-	26.8%
B+	23.2%
B	16.7%
B-	11.5%
CCC+	0.6%

Breakdown by Country

	Risk Contribution %
United States	89.8%
France	5.3%
Canada	3.6%
Ireland	0.6%
United Kingdom	0.6%

Top 10 Issuers

	Market Value %
Altice International	2.9%
Donnelley Financial Solutions Inc	2.4%
Cincinnati Bell Inc	2.3%
Intelsat SA	2.1%
Valeant Pharmaceuticals International Inc	2.1%
Peabody Energy Corp	2.0%
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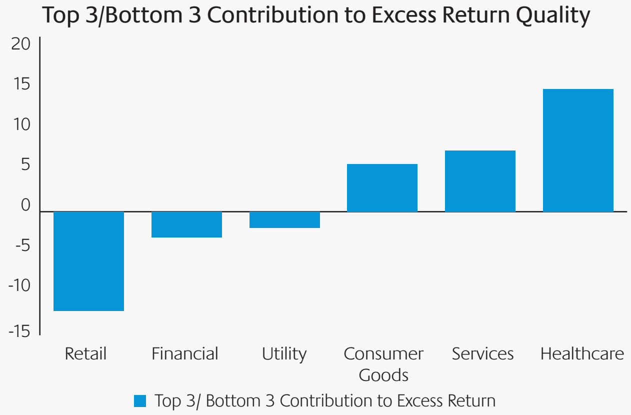
Sector & Issuer Commentary



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Note: Securities discussed are the largest positive and negative contributors for the specific sectors.

Short Duration High Yield

This is a more defensive strategy with limited interest rate exposure. The benchmark is the ICE Bank of America Merrill Lynch 1-5 Year BB-B Cash Pay High Yield Constrained Index. The excess return target is 100bp[5].

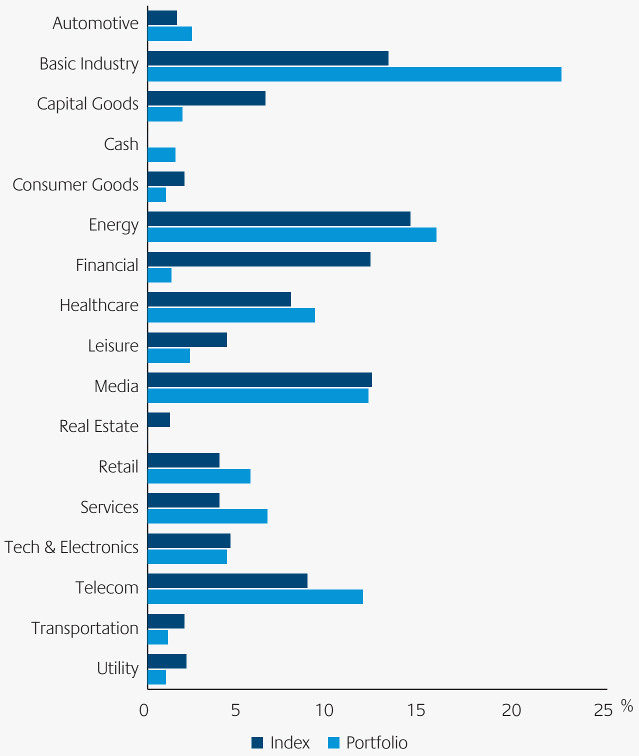
Composite Performance

Short Duration High Yield returned 0.39% for 4Q17 which outperformed the ICE BofA Merrill Lynch 1-5 yr BB-B US Cash Pay High Yield Constrained Index by 6bps. Since inception on May 1st, 2017, FSI Short Duration High Yield has outperformed its Index by 18bps.

Characteristics

	Short Duration	Index
Yield to Worst	4.84%	4.71%
Spread to Worst	298	279
Duration to Worst	1.98	2.18
# of Issuers	88	
Avg. Rating	B1/BB-	B1

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
A+	1.5%
BBB-	0.8%
BB+	12.8%
BB	11.0%
BB-	23.3%
B+	25.7%
B	14.5%
B-	10.0%
CCC+	0.4%

Breakdown by Country

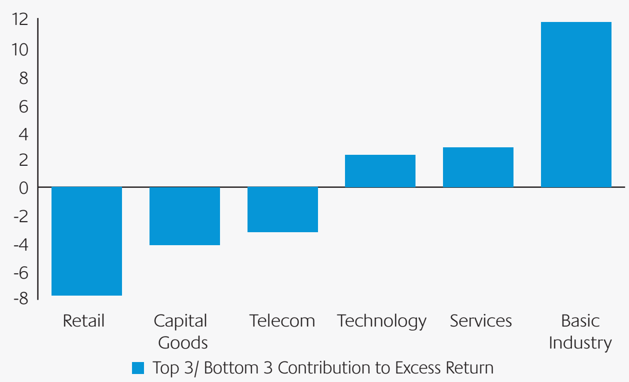
	Risk Contribution %
United States	88.9%
France	5.6%
Canada	3.2%
Ireland	1.1%
Australia	0.8%
United Kingdom	0.4%

Top 10 Issuers

	Market Value %
Taylor Morrison Home Corp	2.7%
Intelsat SA	2.5%
CSC Holdings	2.5%
Altice International	2.3%
Bluescope Steel	2.2%
Valeant Pharmaceuticals International Inc	2.0%
Hecla Mining Co	2.0%
Peabody Energy Corp	2.0%
Penske Automotive Group	1.9%
SM Energy Co	1.9%

Sector & Issuer Commentary

Top 3/Bottom 3 Contribution to Excess Return Short Duration



5. Return target is solely intended to express an objective or target for a return on your investment and represents a forward-looking statement. It does not represent and should not be construed as a guarantee, promise or assurance of a specific return on your investment. Actual returns may differ materially from the performance objective, and there are no guarantees that you will achieve such returns. Please refer to the disclaimer page for additional information.

Top Positive Issuer Contributors:

Kindred Healthcare (KND): Performance bounced back in the quarter after having underperformed in the 3Q. Our conviction in the name was rewarded with a solid 3Q earnings report coupled with a major improvement in liquidity used to deleverage. Furthermore, late in the quarter it was announced that the company entered into definitive agreement to be purchased by Humana and private equity firms TPG and Welsh, Carson, Anderson & Stowe which drove the bond prices higher to near their yield to call and make whole prices.

Dominion Diamond (NORACQ): Strong performance for the quarter was driven by participation in the new issue that the company brought to market in October. The deal priced attractively relative to bonds issued by its major peer, Petra Diamonds, and outperformed due to its operations in more favorable mining jurisdictions, equity contribution from its new sponsor implying sizable asset value underpinning the bonds, and the sponsor's track record of extending mine life at previous investments which it plans to pursue at Dominion.

Consol Energy (CNX): The company was able to effectuate the spin of their coal business to shareholders in the fourth quarter. In concert with that, investors have recognized the prospects for medium-term deleveraging of the standalone natural gas business, as well as the lower volatility of the business. In addition, the bonds are likely to be called in the first half of 2018, and the bond price has moved to reflect yield to call levels.

Top Negative Issuer Contributors:

Rite Aid (RAD): Bonds were under pressure as the market was concerned that Amazon would enter the retail pharmacy space and threaten Rite Aid's business model. In addition, there was general weakness in the retail sector due to uncertainty regarding how the holiday season would shape up. The company's securities continue to lag due to a lack of disclosure regarding the use of proceeds from their large asset sale and ambiguity on their future operating results.

Frontier Communications (FTR): Bonds were under pressure as operating results which showed signs of sequential improvement but were not nearly enough to convince the market of an organic turn-around. Furthermore, the board's decision to continue to pay a common stock dividend remains a source of contention in light of the company's ensuing liquidity requirements.

Endo International (ENDP): Despite reporting better than expected 3Q earnings and reaffirmation of its 4Q17 revenue and EBITDA projections the company's performance was hampered by very negative investor sentiment hanging over the generic drug sector. Industry wide pricing pressure along with the opioid drug abuse epidemic have been heavily covered by the media, raising investor anxieties.

Note: Securities discussed are the largest positive and negative contributors for the specific sectors.

Defensive High Yield[6]

This is a defensive strategy that focuses on the higher quality segment of the high yield market with more limited interest rate exposure. The benchmark is the ICE Bank of America Merrill Lynch BB-B US High Yield Constrained Index. The excess return target is 100bp[7].

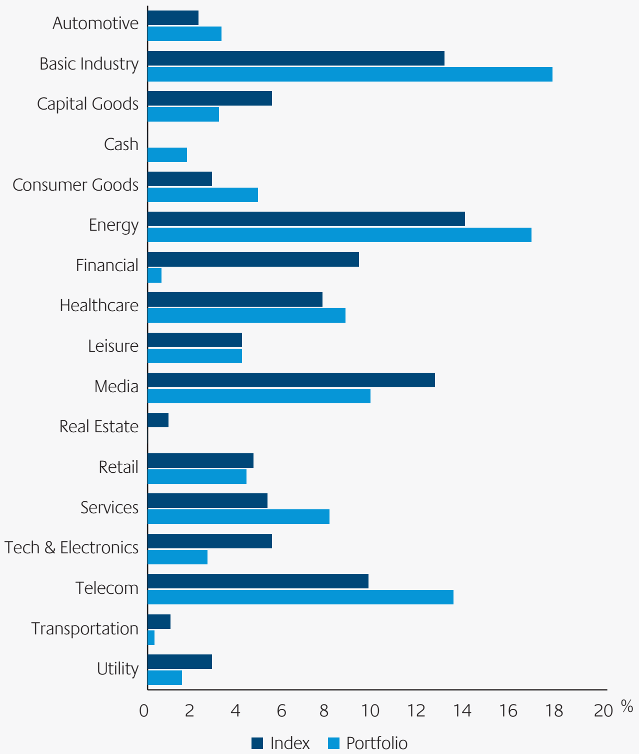
Composite Performance

Defensive High Yield returned 0.69% for 4Q17 which outperformed the ICE BofA Merrill Lynch BB-B US High Yield Constrained Index by 30bps. Since inception on May 1st, 2017, FSI Defensive High Yield has outperformed its Index by 38bps.

Characteristics

	Defensive	Index
Yield to Worst	5.33%	5.09%
Spread to Worst	326	297
Duration to Worst	3.41	3.97
# of Issuers	152	
Avg. Rating	B1/BB-	BB3

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
A+	1.7%
BBB-	1.0%
BB+	8.2%
BB	11.3%
BB-	26.1%
B+	23.7%
B	16.3%
B-	11.2%
CCC+	0.6%

Breakdown by Country

	Risk Contribution %
United States	89.6%
France	5.3%
Canada	3.6%
Ireland	0.7%
United Kingdom	0.6%
Australia	0.1%

Top 10 Issuers

	Market Value %
Altice International	2.7%
Intelsat SA	2.2%
Donnelley Financial Solutions Inc	2.2%
Valeant Pharmaceuticals International Inc	2.1%
Peabody Energy Corp	2.0%
Parsley Energy LLC	1.9%
Cincinnati Bell Inc	1.9%
Frontier Communications Corp	1.8%
Rite Aid Corp	1.7%
Kindred Healthcare Inc	1.7%

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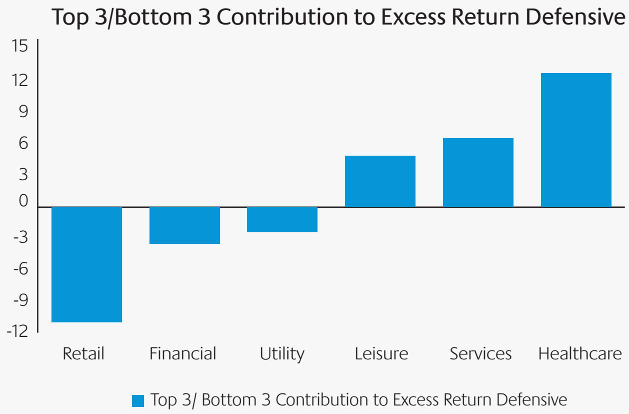

6. The assets within the FSI Short Duration High Yield Composite and FSI Quality High Yield Composite have been combined to create the FSI Defensive High Yield Composite.

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Cincinnati Bell (CBB): Cincinnati Bell rebounded off of its poor performance in the prior quarter. The market gained much needed confidence from the company's 3Q earnings report which beat revenue and EBITDA expectations and showed favorable trends in its fiber centric broadband and video subscriber growth. Attention will turn to the integration of OnX and the closing of the Hawaiian Telecom acquisition in the 4Q17 and 2018, respectively.

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Sprint (S): Sprint was very much in the spotlight and underperformed as a result of its decision to discontinue merger discussions with T-Mobile. A merger and anticipated credit and operating improvements resulting from the combined entity had become partially priced into Sprint bonds. When the deal was surprisingly called off, Sprint bonds re-priced lower to more accurately reflect its stand-alone credit profile.

Frontier Communications (FTR): Bonds were under pressure as operating results which showed signs of sequential improvement but were not nearly enough to convince the market of an organic turn-around. Furthermore, the board's decision to continue to pay a common stock dividend remains a source of contention in light of the company's ensuing liquidity requirements.

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The High Yield Team

Matt Philo, CFA

Senior Portfolio Manager, Head of High Yield

Matt joined First State Investments in May 2016. He has 30 years of industry experience.

He was Executive Managing Director & Head of High Yield at MacKay Shields LLC.

He managed the Mainstay High Yield Corporate Bond Fund (MYHIX) from December 2000 through May 2014.

Matt has an MBA in finance from New York University and a BA from University at Albany SUNY. Matt is a CFA Charterholder.

Michael Elkins

Senior Portfolio Manager

Mike joined First State Investments in September 2016. He has 23 years of industry experience and has been managing high yield since 1997.

He was Portfolio Manager for Avenue Capital Group. Mike managed high yield bond and loan investments.

Mike was a High Yield Portfolio Manager at ABP Investments U.S. Inc. and helped ABP build its in-house High Yield capabilities. He was also a Portfolio Manager at UBK Asset Management.

Mike has an MBA from the Goizueta Business School, Emory University and a BA from George Washington University.

Jason Epstein

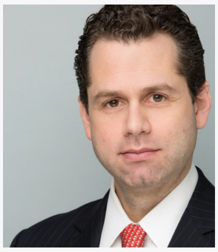
Senior Portfolio Manager

Jason joined First State Investments in September 2016. He has 17 years of industry experience.

He was a Managing Director with Oak Hill Advisors where he was responsible for managing a team of analysts covering a broad range of sectors.

Prior to Oak Hill, Jason was an analyst within investment banking at Credit Suisse First Boston where he was a member of both the Financial Sponsors and Technology groups.

Jason has a BS in Economics from The Wharton School, University of Pennsylvania.



David Licht

Senior Analyst

David joined First State Investments in November 2016. He has over 19 years of industry experience.

He was a Senior Vice President with Avenue Capital Group. Over a 9-year period, David was held accountable for investments in a variety of sectors and was also the CEO of a portfolio on-line gaming company where he gained unique operational and managerial experience.

Prior to joining Avenue, David was a Senior Portfolio Manager at ABP Investments. At ABP, David managed approximately $5.0 billion and a team of analysts.

David has a BBA from the University of Michigan Ross School of Business and received his CPA in 1998.

Linda Grillo

Head High Yield Trader

Linda joined First State Investments in May 2016. She has 28 years of industry experience.

She was Co-Head of High Yield Trading at GoldenTree Asset Management LP.

Prior to joining GoldenTree Asset Management LP, Linda was Director and Head Trader, High Yield with MacKay-Shields Financial Corporation.

Linda holds a Bachelor of Arts in Economics from Brooklyn College.

Ryan Spitz, CFA

Analyst

Ryan joined First State Investments in April 2017. He has over 10 years of industry experience.

He was a Global Credit Analyst with Stone Harbor Investment Partners responsible for covering U.S. and European high yield.

Ryan holds a Bachelor of Arts in Philosophy with a minor concentration in Economics from Lafayette College and is a CFA Charterholder.

Jonathan Mann, CFA
Analyst

Jon joined First State Investments in June 2017. He has 8 years of fixed income investment experience.

He was a Corporate Credit Research Analyst at Henderson Global Investors.

Prior to joining Henderson, Jon spent 3 years as a Corporate Credit Research Analyst at JPMorgan Chase & Co.

Jon has a BA, magna cum laude, in Economics-Mathematics from Columbia College, and is a CFA Charterholder.

Joyce Huang, CFA
Client Portfolio Manager

Joyce joined First State Investments in July 2017. She has 13 years of industry experience.

She was a Senior Investment Strategist at BNY Mellon Investment Management. Joyce was also a Senior Portfolio Specialist for multi-sector strategies at Standish Mellon.

Joyce has a BS in Economics from the Wharton School at the University of Pennsylvania and is a CFA Charterholder.