For qualified investors only

First State Investments

Quarterly Update | High Yield

First State Investments High Yield

Q4 2019 | Co-Portfolio Managers: Matt Philo & Jason Epstein

"It is not the responsibility of the Federal Reserve – nor would it be appropriate – to protect lenders and investors from the consequences of their financial decisions"

– Dr. Ben Bernanke, August 17, 2007

"Without big banks, socialism would be impossible."

– Vladimir Lenin, October 14, 1917

Thoughts on the Market

The **U.S. High Yield market**, as represented by the ICE BofAML US High Yield Constrained Index (HUC0) posted a **+2.6% Q4'19** total return ('**TR**'), and a **+14.4%** total return for **the full-year 2019**. The strong 2019 represented the fourth best annual return since the post-GFC recovery in 2009; modestly trailing the +17.5%, +15.6% and +15.1% total returns of 2016, 2012 and 2010, respectively.

In the fixed income markets during **Q4'19**, a prominent trend reversal was the sell-off **in U.S. Treasuries**. ***Exhibit 1, below*** highlights modest weakness in the UST 10-Year, which reflects a 25 bp increase in yield. **Investment Grade corporates** ('**IG**'), as represented by the ICE BofAML US Corporate Index (C0A0) proved extremely resilient in the face of higher rates: the +1.15% total return included +21 bps of positive price return, despite its 7.51 spread duration.

The STW of the C0A0 Index tightened 21 bps during the quarter, to a STW of +99 bps, versus a post-GFC tight of +88 bps on Feb. 2, 2018. **U.S.** and **Emerging Market equities** traded higher throughout the quarter, seemingly boosted by any and all accommodative monetary actions, or statements by the GCBs. From the perspective of a 30+ year veteran, (and long ago, value equity PM) there seems to be two simple ingredients to ever higher, record-high, stock markets: ▶ unlimited money printing, and ▶ unlimited conviction that game theory favors a no-price-too-high wager on the GCB-put. ***A Brave New World?***

Meanwhile, U.S. High Yield ('**HY**') presented a very interesting dichotomy in October and November, relative to the "one-way, up" equity markets. The **U.S. Broad High Yield market**, as represented by the ICE BofAML US High Yield Constrained Index (**HUC0**) experienced **-52 bp in price decline during Oct-Nov**, but posted a solid +2.61% total return for Q4'19; after a 157 bp price increase in December, and 166 bps of income for the quarter. Interestingly, while ***CCC U.S. High Yield*** (HUC3) posted the strongest, +3.43% total return of the three, rating-based tranches during 4Q'19, it was achieved after -331 bp in price decline during Oct-Nov, a +464 bp price rally in December, and 225 bps of income, for the quarter.

Exhibit 1: Returns of Various Assets

Asset Class	CY 2019	4Q'19	3Q'19	2Q'19	1Q'19	CY 2018	3-Yrs '19
S&P 500	**31.48%**	**9.06%**	1.70%	4.30%	13.65%	-4.39%	**15.25%**
Emerging Market Stocks	**18.63%**	**11.74%**	-4.13%	0.73%	9.94%	-14.28%	**11.89%**
10-Year US Treasury	**8.91%**	**-1.77%**	3.18%	4.23%	3.10%	-0.03%	3.58%
Investment Grade Corp	**14.23%**	**1.15%**	3.07%	4.35%	5.01%	-2.25%	***5.95%***
US High Yield Corp Bonds	**14.41%**	**2.61%**	1.22%	2.57%	7.40%	-2.27%	**6.33%**
Leveraged Loans	8.64%	1.85%	1.03%	1.63%	3.89%	1.08%	4.61%
Euro High Yield Corps	11.29%	1.98%	1.30%	2.33%	5.28%	-3.63%	4.62%
EM High Yield Corps	**13.49%**	**4.15%**	-0.27%	3.08%	5.98%	-2.29%	***6.45%***
US High Yield by Rating							
BB US High Yield Corps	**15.74%**	2.39%	2.05%	3.17%	7.36%	-2.57%	**6.55%**
B US High Yield Corps	**14.26%**	2.89%	1.11%	2.31%	7.35%	-1.72%	**6.27%**
CCC US High Yield Corps	9.56%	**3.43%**	-2.38%	0.58%	7.89%	-4.91%	4.42%

Source: JP Morgan, ICE BAML

Finally, European High Yield (HE00) and EM High Yield Corporates (EMHB) were spared the **Oct-Nov price weakness** of U.S. High Yield (HUC0). **EM High Yield Corporates** posted a stand-out **+4.15% total return in Q4'19**, to only trail U.S. High Yield by -92 bps in 2019. **European High Yield** noticeably lagged U.S. High Yield by -63 bps in Q4'19, and -315 bps for all of 2019. However, most of the European High Yield lag is due to **income returns ~60% below U.S. High Yield** (-59 bps in Q4'19, and -258 bps in 2019).

'NIRP' hasn't been kind to average coupons of EU HY.

High Yield Market Commentary

The U.S. ***High Yield market*** , as represented by the ICE BofAML US High Yield Constrained Index (HUC0) posted a **+2.6% Q4'19** total return, and **+14.4% full-year 2019** total return. The strong **2019** represented the ***fourth best annual return*** since the post-GFC recovery in 2009; modestly trailing the +17.5%, +15.6% and +15.1% total returns of 2016, 2012 and 2010, respectively.

For the overall High Yield market, accounting for the relative weights of industry sectors:

The **strongest** performing industry sectors in **Q4'19** were Energy, Healthcare, and Telecommunications. The **weakest** performing sectors for the overall market were Leisure, Hotels, and Media.

The **strongest** performing industry sectors for **all of 2019** were Healthcare, Telecommunications, and Cable TV. The **weakest** performing sectors for the overall market were Airlines, Entertainment, and Publishing.

For **4Q'19**, the BB, Single-B and CCC & Below rated tranches improved in performance as average rating declined, with total returns of **+2.39% for BB, +2.89% for Single-B** and **+3.43% for CCC & Below**.

The inverse relationship was evident for full year 2019, with total returns of +15.74% for BB, +14.26% for Single-B and a distant +9.46% for CCC & Below. The CCC & Below tranche was barely price return positive for 2019, with 95% of its total return from income.

Summary:

HUC0 Index characteristics at the end of **Q3'19, Q4'19**, & **Jan. 23, '20:**

As of **September 30, 2019:**
Yield-to-worst of 5.87%, **spread-to-worst of +420 bps**, duration-to- worst of 3.3, and average price of 99.16

As of **December 31, 2019:**
Yield-to-worst of 5.41%, **spread-to-worst of +372 bps**, duration-to- worst of 3.0, and average price of 100.74

As of **Monday, January 27, 2020:**
Yield-to-worst of 5.70%, **spread-to-worst of +422 bps**, duration-to-worst of 3.2, and average price of 99.97

High Yield Composite Performance - Annualized

As of December 31, 2019	Fixed Income Composite Performance - Annualized						*Inception April 30, 2017*
	2019	**4Q'19**	**3Q'19**	**2Q'19**	**1Q'19**	**2018**	**Since Inception (Annualized)**
Broad High Yield	**16.09%**	**2.72%**	**2.07%**	**3.01%**	**7.49%**	**-1.62%**	**6.72%**
ICE BofAMLUS HY ConstIdx	14.41%	2.61%	1.22%	2.56%	7.40%	-2.27%	5.62%
ActivePerformance	*1.68%*	*0.11%*	*0.85%*	*0.45%*	*0.09%*	*0.65%*	*1.10%*
Select High Yield	**16.55%**	**2.78%**	**2.01%**	**3.06%**	**7.86%**	**-2.06%**	**6.69%**
ICE BofAMLUS HY ConstIdx	14.41%	2.61%	1.22%	2.56%	7.40%	-2.27%	5.62%
ActivePerformance	*2.14%*	*0.18%*	*0.78%*	*0.49%*	*0.46%*	*0.21%*	*1.07%*
Quality High Yield	**15.75%**	**2.68%**	**2.12%**	**2.97%**	**7.20%**	**-1.34%**	**6.72%**
ICE BofAMLBB-B US HY Constrldx	15.10%	2.58%	1.68%	2.82%	7.34%	-2.04%	5.90%
ActivePerformance	*0.64%*	*0.11%*	*0.45%*	*0.15%*	*-0.14%*	*0.71%*	*0.83%*
Short Duration High Yield	**10.84%**	**2.12%**	**1.37%**	**1.76%**	**5.22%**	**0.53%**	**5.22%**
ICE BAM 1-5 YR BB-B US Cash Pay HY Idx	10.98%	2.04%	1.20%	1.88%	5.49%	0.67%	5.26%
ActivePerformance	*-0.14%*	*0.08%*	*0.17%*	*-0.12%*	*-0.27%*	*-0.15%*	*-0.04%*

The ***Inception Date*** *of the FSI High Yield Composites was* ***May 1, 2017****. Past Performance is not indicative of future performance. The performance of the Broad High Yield Composite is hypothetical, as the assets of the Select High Yield strategy and the Quality High Yield strategy have been combined to create the Broad High Yield strategy. Composite returns 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 7% were achieved, the investment assets before fees would have grown to $196,715 in 10 years. However, if an advisory fee of 0.4% were charged, investment assets would have grown to $188,987, or an annual compounded rate of 6.6%. Note: due to rounding percentages may not precisely reflect the absolute figures*

Portfolio Positioning

The industry sectors producing the biggest impacts within our High Yield Composites are often very different than the overall market, due to our individual credit overweight's and cumulative bond picking results.

For our **Broad High Yield composite**, the industry sectors making the **strongest** contributions to portfolio performance for **Q4'19** were **Services**, (e.g. see: ***GEO Group*** in "Broad HY, Positive Contributors"), **Consumer Products**, (e.g. see: ***Vista Outdoor*** in "Broad HY, Positive Contributors") and **Energy**, (e.g. see: ***Laredo Petroleum*** in "Broad HY, Positive Contributors").

Conversely, the sectors making the **weakest** contributions to performance for **Q4'19** included **Metals/Mining Ex-Steel**, **Retail**, (e.g. see: ***GrubHub*** in "Broad HY, Negative Contributors") and **Financial** (due to our 5.1% underweight relative to the index).

For our **Broad High Yield composite** during **all of 2019**, the industry sectors making the **strongest** contributions to portfolio performance, were **Energy**, ***Consumer Products*** and **Telecommunications**. Energy performance was the result of superior security selection in **E&P**, and a combination of solid security selection and a meaningful underweight in **Energy Services**. Telecommunications performance benefited from four holdings, in particular: a global communications satellite operator; structurally senior debt at an underleveraged subsidiary of CenturyLink; an asset rich wireless provider based in Chicago; one of the largest high yield issuers that we expect to successfully merge with T-Mobile US.

Conversely, the sectors making the **weakest** contributions to performance for **all of 2019**, included **Financial** (due to our avg. 5.9% underweight relative to the index), **Retail**, (e.g. see: GrubHub in "Broad HY, Negative Contributors") and **Utility**.

Our team became relatively active in the portfolios during the second half of the year as the U.S. high yield market was "sneaky" soft from July-November; with each month experiencing small benchmark index price declines. November was a particularly busy month with a heavy bias toward net buying. We bought only a few new issues during Q4'19, and one of those was a new issue Term Loan. We **added four new Term Loan holdings** as weakness in that market segment presented select buying opportunities. Our **E&P exposure** was actively traded based on relative value, and net exposure **increased**, as bond prices lagged the run-up in WTI crude prices during November-December. Other notable trends included a concerted effort to decrease, and exit exposure to select Metals/Mining credits; while increasing our weights in some of our Telecommunications holdings. **As always**, all of our portfolio changes were simply the result of our team letting our investment process highlight potential portfolio changes, and then, agreeing on the proper course to maintain optimal, default-adjusted portfolios.

Big picture, our investment process currently leads us to be **overweight** *Consumer Products, Energy-E&P* (largely offset by underweights in *Energy Services*), and ***Pharmaceuticals*** (largely offset by an underweight in *Healthcare Facilities*). Our constant, and largest sector **underweights** remains ***Financial***. Our other meaningful underweight is ***Media***, which includes *Advertising, Cable TV and Media Content*.

All four of **our High Yield Composites outperformed** their benchmark indexes during **Q4'19**. Broad High Yield, Select High Yield, and Quality High Yield have also outperformed in **2019** and **Since Inception**. Just 3-months from our 3-year, performance milestone, these **Core Composites** are in the **first** *or* **second-decile** of their respective **eVestment peer groups**; see Chart, *below*.

Short Duration High Yield has modestly lagged (-4 bp) its benchmark index **Since Inception**, however we are satisfied with performance given the strategy's emphasis on relative safety and low volatility. Additionally, Short Duration High Yield is a respectable **30th percentile** in its **eVestment peer group, Since Inception.**

As Co-Heads of the First State Investments High Yield Group, we want to take this opportunity to thank all of our **Team partners** for driving our Group's performance, with unusual diligence, cheerfulness and COMPLETE commitment to our investment process. Ours is truly a **Team effort**, and we've never worked with as talented and cohesive a Team of investment professionals.

eVestment High Yield Peer Group Percentile Rankings

Returns as of December 31, 2019

Product Name	2019	%ile	4Q'19	%ile	3Q'19	%ile	2Q'19	%ile	1Q'19	%ile	2018	%ile	Since Inception	%ile
eVestment US High Yield Fixed Income														
Broad High Yield Composite	16.09	15	2.72	35	2.07	12	3.01	23	7.49	26	-1.62	44	6.73	9
Select High Yield Composite	16.55	9	2.78	30	2.01	17	3.06	18	7.86	11	-2.06	56	6.69	10
eVestment US High Yield - Quality Bias														
Quality High Yield Composite	15.76	30	2.68	29	2.12	14	2.97	40	7.20	48	-1.34	35	6.73	13
eVestment US High Yield - Short Duration														
Short Duration High Yield Composite	10.85	23	2.12	24	1.38	38	1.77	48	5.22	37	0.53	59	5.22	30

PostScript:

Our "Swan Song" Analysis of Global Central Banks:

Note to Reader: If you've lost interest in the repetitive activities of Global Central Banks, please skip ahead to **"High Yield Market Commentary."**

We reluctantly share out thoughts regarding the highest profile, macro dynamic during the quarter. We'll preface our comments by admitting our views are based on common sense, rather than first-hand, knowledge, or even expertise regarding the latest area of increased **GCB mania**. As backdrop, the Fed officially began cutting the discount rate on **July 31st**, having verbally performed its 180° dovish U-turn in **mid-January**, a full year prior to this investor letter.

At market close on **Friday, Sep. 13, 2019:** the **High Yield Index offered a** 5.82% YTW and ***+397 bp STW***, trading towards the tight end of its STW range; the **NASDAQ 100** had been trading "range bound" since the end of April; interestingly, the **10-Yr UST bond's yield** had increased from its 2019 low of 1.46%, to 1.90% in just the previous 8 trading days, (an ~4 pt. decline). *Still, just another week during the great bull market.*

The following week, the typically sedate **"repo rate"** shook the foundation of the financial markets when it **soared** from ~2%, to as high as 9%, ***on Sep. 17th***. The repo market has most commonly served as a source of liquidity for large, universal banks to finance trading and speculative investment positions. Turmoil in the **multi-trillion dollar repo markets** amounts to one massive and non-transparent uncertainty.

All most investors know, for sure, is that **dysfunctional repo markets** were at the center of the GFC and the Lehman bankruptcy; along with isolated financial scandals such as Refco & MF Global. After the 2010's **"Decade of Debt,"** today's repo markets are larger and more global; including China and offshore financial centers (e.g. Cayman, Luxembourg, Singapore etc.).

The Fed is reported to have now funneled $500 billion into the repo market, to control repo rates and the availability of repo liquidity. The Fed's support, in the form of daily and longer-term repo loans, and outright purchases of Treasury bills, ***does not* seem outsized in size or scope**, in the context of the broader GCB monetary stimulus of the past decade.

What does seems significant, to us, is the rapid response by the Fed, coupled with reports that the Fed is considering lending directly to smaller "financial institutions" and hedge funds. ***We view the following as the significant takeaways from this latest liquidity incident:***

- the universal banks that control, and own the GCBs have effectively **bypassed the need for Government approvals** of financial bailouts,
- as is typical, U.S. legislation such as the "Dodd-Frank Wall Street Reform and Consumer Protection Act" was also drafted, and amended to expand the Fed's **autonomy, and scope of monetary policy implementation**, *and,*
- the past decade has been a favorable environment for bank lobbyists to utilize political clout to **systematically amend other regulatory impediments** to full GCB autonomy.

Is a fully independent GCB system a **net positive**, or **net negative**, at this point, in this monetary cycle**?**

Our Conclusion: a **net positive**, given we see no possible unwinding of the great monetary experiment that defined the Decade of Debt. **The good news?** This evolution of a GCB system with full autonomy of unilateral action should render future analysis of that system an exercise in redundancy, to which neither the writers, nor readers of our future high yield commentaries need be subjected.

Fortunately, the macro backdrop of an ever expanding global money supply plays no meaningful role in the disciplined implementation of our investment process. **Fortunately**, because investment strategies that rely on top-down predictions of the next economic recession, and/or credit crunch have been brutal reminders that *"being early is a lot like being wrong."*

"Swan Song" GCB Summary: In our opinion, global financial markets have remained resilient at relatively lofty levels due to the actions and statements of the GCBs. Our long-held view has been that the massive monetary stimulus of the past decade ***cannot be reversed; only accelerated.*** GCBs will not voluntarily stop "QE" (encompassing financial asset purchases, negative interest rates etc.) **until, 1)** The GCBs, themselves decide to **reset** the global fiat currency system, and clear the decks, so to speak, (***Gold***, anyone?), or **2)** The GCB system ***loses control*** of interest rates, inflation, and by definition, the global economy. Given those alternative options, **the current status quo qualifies as the solid ground**.

ANALYSIS: "EASY ANSWERS" – WHY HIGH YIELD? WHY NOW?

It wouldn't be a New Year if market pundits and credit strategists weren't **taking pot-shots** at **Long-only, High Yield**! **Meanwhile**, it's *relatively rare that the* higher fee, higher risk, **Private Credit Fund strategies** *are even mentioned*: ***almost ALL of which have transitioned from*** reasonable, higher risk/higher return, illiquid credit alternatives, ***to***, in our opinion, unreasonable risk/return propositions for investors; while the private credit fund managers continue to benefit from high management fees, on leveraged funds, with multi-year, lock-up terms. **What could go wrong** when **$1 trillion** is **pushed into an asset class of small, private loans** *with* **zero secondary market liquidity**, that, *in our opinion* **utilize rather aggressive leverage?!**

As of Monday, **January 27, 2020** the **HUC0 HY Index** Offered:
Yield-to-worst of 5.70%, **spread-to-worst of +422 bps**, duration-to-worst of 3.2, average price of 99.97

Contrary to most market commentary perspective, **High Yield history didn't begin in 2019**. **During 2018**, the same index traded **tighter than +350 STW** in ***January, April, June*** and ***October*** , *with a* **STW low of +327 bps**. In **October, 2017** the same index's **STW was +352 bps**; and in **June 2014**, **+354 bps**.

At the **REAL credit cycle peaks**, the *low in* **STW was +251 bps** in **June, 2007**, and the *tight in* **STW was +244 bps** in **October, 1997**; *both* still fresh, in memory.

So today, how can we defend our views that, **Our High Yield composites** are not only **attractive in the absolute**, but offer **the best relative value in all of Fixed Income? Simply** and **Methodically**:

The **Current High Yield Market** allows us to own a **diversified portfolio**, holding **only** credits that "**fit our process**" ***and*** offer interest rate ***spread premiums that overcompensate for*** our estimate of **every credit's annual default risk**. "**Never buy credit risk at the wrong price.**"

Yes, **UST rates are low**. We can't control that, but we don't need to. **We need only care about interest rate spreads**. **Why?** Because **credit default rates are absolute**, *as are the* **interest rate spreads that protect us** against each credit's estimated annual default risk. ***UST rates are*** a random variable, ***unrelated to the default-adjusted, relative value assessments of our investment process*** .

In addition:
We employ no leverage.
We offer attractive running yields.

> **Income return** accounted for **48%** of **U.S. High Yield's 2019 TR** of +14.41%. By way of comparison, **income return** accounted for **30%** of **U.S. High Grade's 2019 TR** of 14.23%. As of **January 27th**, the **current yield** (avg. coupon/avg. price) of the **U.S. *High Yield* Index** (HUC0) was a ***robust 6.3%***, versus the **U.S. High Grade Index** (C0A0) **current yield** of ***3.7%***. This **+2.6% High Yield, income advantage** represents a notable "***wind at our backs***" as high yield managers.

Most Importantly: **we do not fear corrections *or* outright down cycles because our investment process forces us to be CONTRARIAN investors. We expect to be underweight credit risk *relative to the benchmark index and our peer competitors* in market corrections. As a result, we have invariably been in a relative risk position that leads us to welcome *the resultant* opportunities to increase our portfolios' YTW *and* total-return upside.**

The **Case for High Yield** is **that simple**, and **Simple is Good**.

Analysis: Why High Yield? Why Now?

Executive Summary:

The full "**Analysis: Why High Yield? Why Now?**" endeavors to **defend our consistent views of recent Quarters:**

- ► We continue to view **our High Yield composites** as **attractive in the absolute**, *and* **the best relative value in all of Fixed Income**.
- ► Our **High Yield Composites all** present **spread premiums that comfortably overcompensate for** our estimates of annual **default risk**, **for every portfolio holding**.
- ► We **don't fear market volatility** *or* **downside corrections**; **we calmly welcome the opportunities they present**.

This Credit Cycle in Numbers:

Since 2009: non-financial US corporate debt has increased by +$4.3trln, representing +66% of its initial size; on both measures, **new records** *relative to* **the two previous credit cycle peaks** in **2000**, and **2008**. Among the **top contributors** *of overall* **debt growth in recent years:**

1. The **Leveraged Loan Market** has increased in size by **70-75%** since the end of 2013, recently surpassing the size of the U.S. HY Market. We believe ***the overall risk of the loan market has increased this cycle*** as a result of: ***rapid growth***, the ***prevalence of Loan-Only financings***, and ***weaker, "covenant light" protections***.

2. The ***explosive growth*** *of the* **Private Debt Market** has likely cannibalized some corporate issuer demand from the high yield market; especially financings for **LBOs**. BofA estimates the **private debt market** is now approaching the size of the U.S. high yield market at **$1 trillion;** *having grown by over 70% over the past three years alone*. Meanwhile, the **private debt markets offer** ***virtually zero secondary market liquidity***.

3. **BBB Corporates,** the lowest-rated segment of U.S. investment grade corporates, **increased to record size** during this credit cycle: ***in the absolute*** ($2.3trln), ***as a percent of IG*** (60%), and ***as a percentage of HY*** (220%).

Summary Case for U.S. High Yield:

As a result of the dramatic growth of **other** risk credit markets, we observe the **High Yield market** ***has been spared its typical influx of the weakest quality new issuance during this great credit boom***. In fact, **public High Yield** *is the* **only U.S. credit sector** *with a* **negative growth rate** *over the past three years*, (*and six years*). Importantly, we observe that the **average credit quality of the High Yield market** is meaningfully **stronger than historic credit cycle norms**.

The **High Yield Market**, as represented by the ICE BofAML US High Yield Constrained Index (HUC0), offers a **Spread to Worst (STW) of +422 bp** as of **January 27, 2020**. ***For context***, *the* ***current STW*** *is just* ***2 bp below the median STW since the inception of our HY Composites***, *including the late-2018 sell-off to a +548 bp STW.*

TRUE: In our judgment, and from the perspective of **our disciplined investment process**, **the current HY market leads to optimal, High Yield Composite portfolios representing the most attractive, relative value in all of Fixed Income**.

VALUATION: our High Yield Composites all present **spread premiums** that comfortably **overcompensate for** our estimates of **annual default risk**, of **every** portfolio holding,

INCOME YIELD ADVANTAGE, over most other liquid, fixed income alternatives; providing an ***attractive, default adjusted*** **"wind at our back."**

SIMPLE IS GOOD: our portfolios employ **no leverage** and typically present **solid trading liquidity**.

The CONTRARIAN RISK ROTATION: **Most importantly**, our **disciplined investment process forces us to be Contrarian "lenders"** relative to the short-term, and long-term credit cycle. We capitalize "**Contrarian**" because we believe it **represents THE Critical, Differentiating Advantage** of **our Investment Process**: relative to other high yield managers, ***and*** relative to most of the "illiquid" investment strategies, (that populate like deer during every bull market in credit). **It's also the reason we can say**, "***We don't fear market volatility or downside corrections***; ***to the contrary***, ***we calmly welcome the opportunities they present***."

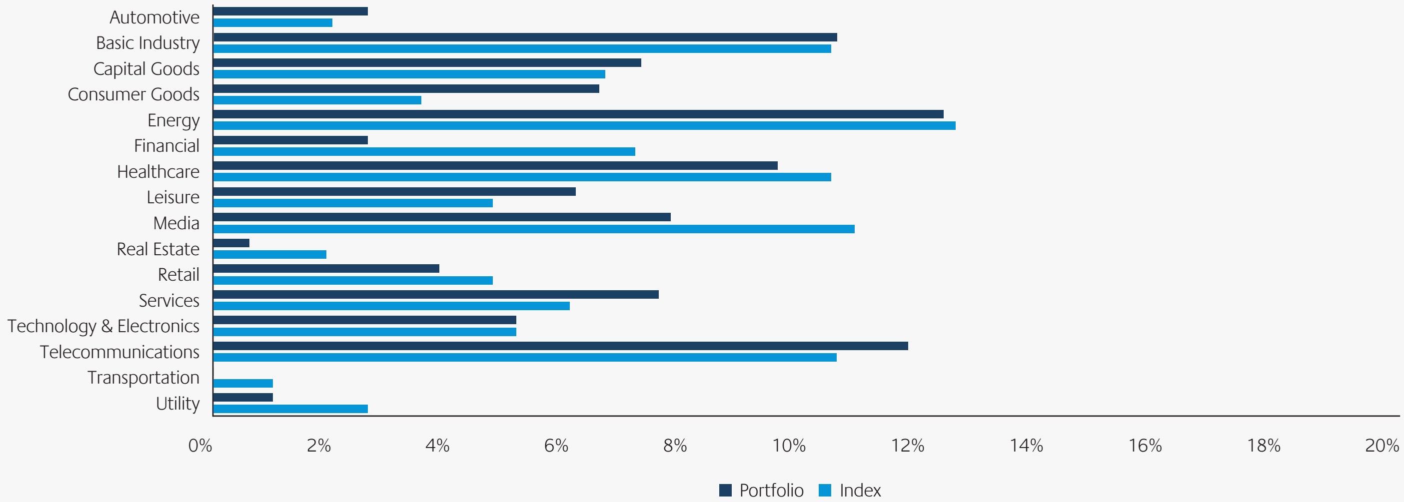
Broad High Yield

Characteristics

	Broad	Index*
Yield to Worst	5.01%	5.41%
Spread to Worst (3yr Discount Margin)	335	372
Duration to Worst (avg. 3 year)	2.93	3.00
# of Issuers	151	
AUM	151	
Avg. Rating	B1/BB-	

* Index as of quarter end rebalance

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Portfolio
BBB-	2.4
BB+	5.0
BB	16.8
BB-	23.0
B+	17.6
B	16.8
B-	7.6
CCC+	2.6
CCC	1.6
CCC-	0.0
Other*	1.4

* CC, C, D & NR

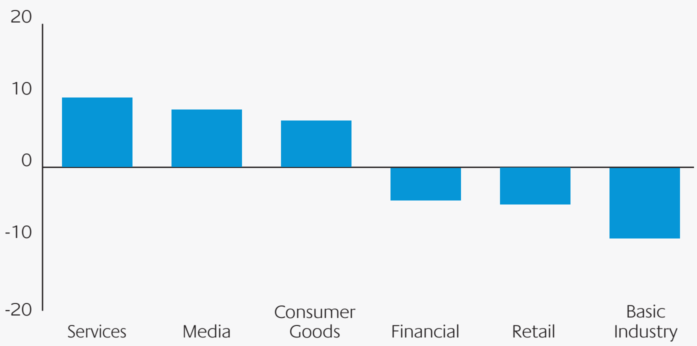
Breakdown by Country

	Risk Contribution %
United States	89.9
Canada	4.3
Greece	1.6
Australia	1.5
United Kingdom	1.0
Luxembourg	0.7
France	0.5
Italy	0.3
Brazil	0.1

Top 10 Issuers

	Portfolio
Sprint	2.4
US Cellular	2.0
Bausch Health	1.9
Horizon Therapeutics	1.8
Asurion	1.7
Geo Group	1.6
Icahn Enterprises	1.5
Telesat	1.5
NuFarm	1.5
Reynolds Group	1.4

Top 3/Bottom 3 Contribution to Excess Return



* The Broad High Yield strategy is a hypothetical portfolio. The assets of the Select High Yield strategy and the Quality High Yield strategy have been combined to create the characteristics of the Broad High Yield strategy.

Sector & Issuer

Positive Contributors (top three):

GEO Group (GEO): "GEO" (a real estate investment trust "REIT" that manages secure institutions, ICE processing centers, and community reentry facilities around the globe), reported solid 3Q'19 earnings, and modestly increased forward guidance for full year, 2019. Compared to the previous year, fiscal 2019 revenues, adj. EBITDA and adj. funds from operations are now projected to increase 7%, 9% and 10%, respectively. The company generates predictable and substantial discretionary free cash flow, maintains strong liquidity and has modest debt maturities before 2024.

Laredo Petroleum (LPI): Laredo Petroleum outperformed after reporting strong 3Q19 results that beat expectations and guiding FCF generation going forward. Further, the company announced two small bolt-on acquisitions, one in Howard County and the second around Laredo's existing footprint. The expansions addressed investor concern regarding inventory runway (2+ years of tier 1 well locations added), and are set to accelerate the company's oil cut as a percentage of production from low 30% to greater than 40% which was taken positively by credit investors as the inventory and high gas production have been investor overhangs on the name historically.

Vista Outdoor (VSTO): Vista Outdoor outperformed during the quarter as the earnings story seemed to stabilize, and investors put more weight in the company's asset value. VSTO is progressing on their margin improvement plan and should continue to improve if/when tariffs roll off as part of any US/China trade deal. Leverage remains high in the business, however we believe that the asset value in the remaining businesses well covers the debt, and the possible catalyst of a deleveraging asset sale continues to make these bonds attractive.

Negative Contributors (bottom three):

GrubHub (GRUB): GrubHub bonds sold-off after reporting disappointing 3Q19 results. Competitive dynamics deteriorated sharply during the 3rd quarter, with competition no longer simply moderating GrubHub's strong top-line growth, but rather starting to erode the company's existing customer base. As a result, the company decided to pursue a change in strategy, namely an aggressive growth plan that will significantly pressure near-term EBITDA and FCF. Our comfort with the credit stemmed from its profitable, measured approach to growth and we no longer felt comfortable underwriting the risk once the company decided to pursue the strategy of its irrational peers. Industry consolidation could help drive improved competitive dynamics, but M&A may not benefit GrubHub bondholders given its competitors' weak balance sheets and weak Change of Control language in GrubHub bonds.

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Intelsat (INTEL): Intelsat underperformed during the fourth quarter after the FCC changed course and decided to hold a public auction for C-Band spectrum, as opposed to letting the satellite companies of the C-Band Alliance ("CBA") perform a private auction. The market was anticipating a private auction by the CBA which would have resulted in higher proceeds, but after public pushback from Louisiana Senator John Kennedy, the FCC proceeded with a public auction. Additionally, prominent members of Congress have pushed for at least 50% of proceeds to be given to the US Treasury for rural infrastructure buildout, further reducing proceeds to Intelsat. We believe the move down in bonds was overdone and remain optimistic that despite an FCC run auction and pushback from Congress on allocation of proceeds, Intelsat will be appropriately compensated for relinquishing their spectrum.

Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

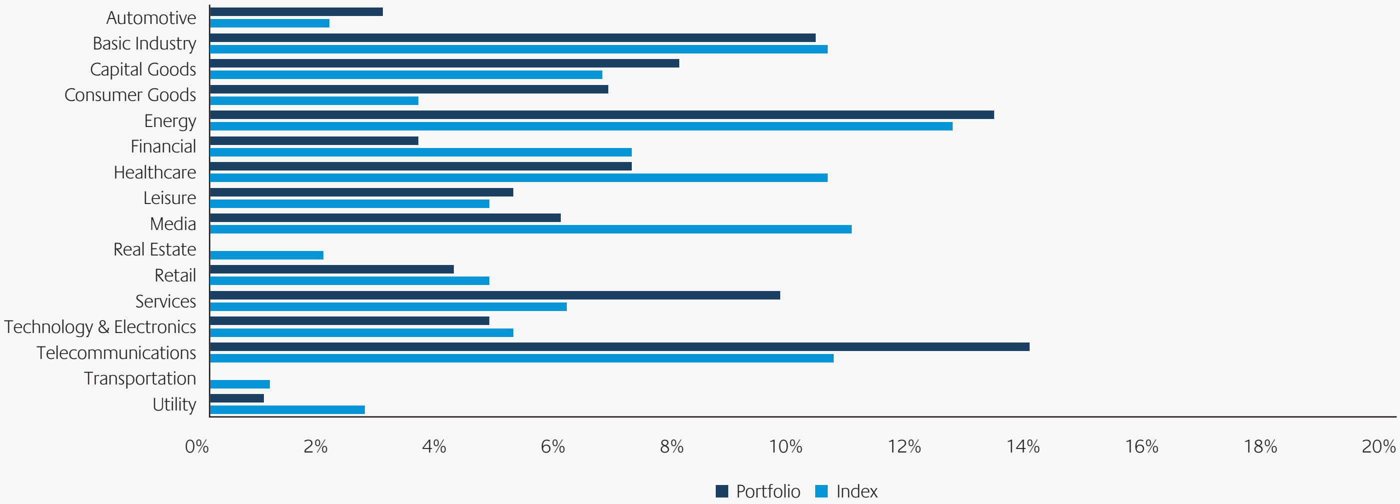
Select High Yield

Characteristics

	Select	Index*
Yield to Worst	5.45%	5.41%
Spread to Worst (3yr Discount Margin)	379	372
Duration to Worst (avg. 3 year)	2.96	3.00
# of Issuers	123	
AUM	65	
Avg. Rating	B1/B+	

*Index as of quarter end rebalance

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Portfolio
BBB-	1.7
BB+	3.7
BB	12.9
BB-	21.5
B+	16.6
B	18.2
B-	10.0
CCC+	6.1
CCC	3.6
CCC-	0.0
Other*	1.4

* CC, C, D & NR

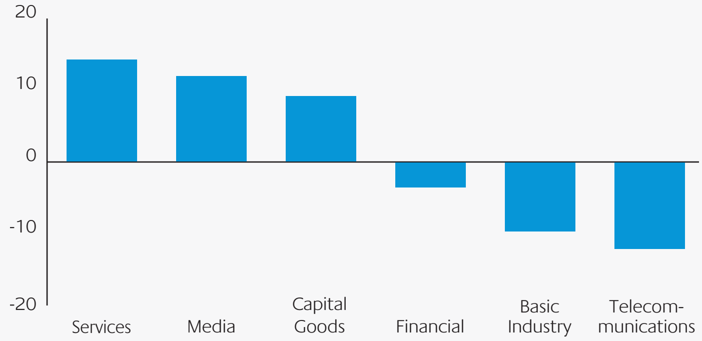
Breakdown by Country

	Risk Contribution %
United States	89.8
Canada	3.6
Greece	1.8
Australia	1.4
Luxembourg	1.4
United Kingdom	1.0
France	0.4
Italy	0.4
Brazil	0.1

Top 10 Issuers

	Market Value %
Sprint	2.8
Geo Group	2.1
Iridium	2.1
Asurion	1.9
Assured Partners	1.9
Bausch Health	1.9
Centurylink	1.8
US Cellular	1.8
NuFarm	1.7
Horizon Therapeutics	1.7

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

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Icahn Enterprises (IEP): Icahn Enterprises Holdings L.P. (95% owned by Carl Icahn), owns interests in subsidiary companies with both private and public company investments. Public market investments are currently valued well in in excess of 2x net holding company debt; other private subsidiary investments (primarily Icahn Automotive) provide additional, substantial asset coverage. Investment fund performance was weak in 3Q'19, primarily due to a net short positioning; however, not a meaningfully negative for its public bonds. Current capital markets have been providing the opportunity to call, and refinance near-term, higher coupon debt.

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Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

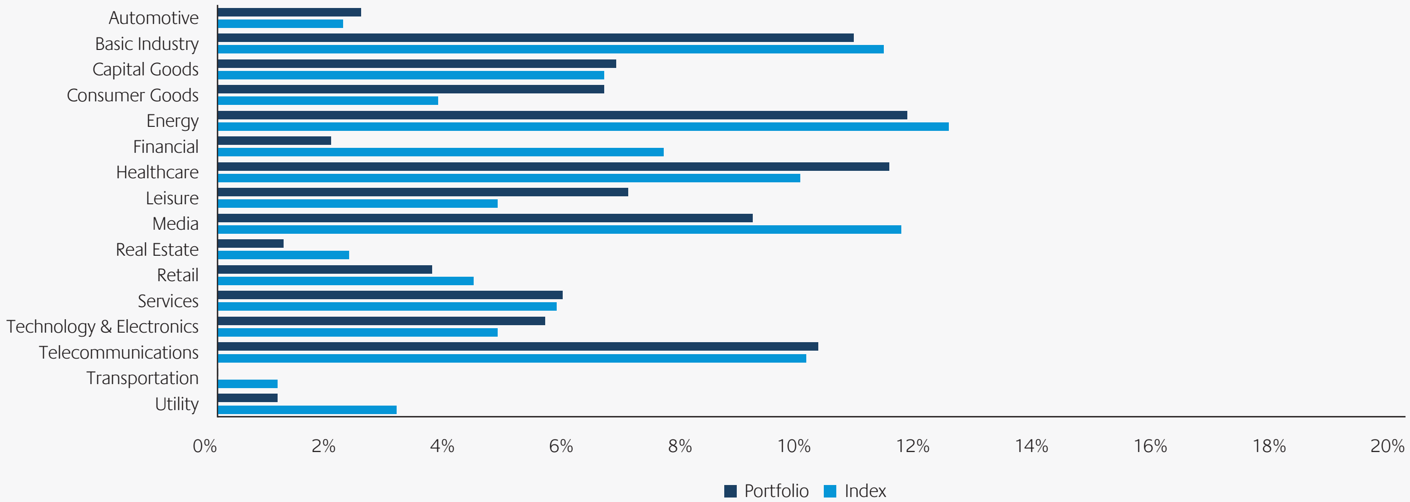
Quality High Yield

Characteristics

	Quality	Index*
Yield to Worst	4.67%	4.53%
Spread to Worst (3yr Discount Margin)	301	283
Duration to Worst (avg. 3 year)	2.92	3.03
# of Issuers	146	
AUM	86	
Avg. Rating	B1/BB-	

* Index as of quarter end rebalance

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Portfolio
BBB-	3.0
BB+	5.9
BB	19.8
BB-	24.1
B+	18.4
B	15.8
B-	5.7
CCC+	0.0
CCC	0.0
Other*	1.3

* NR & NA

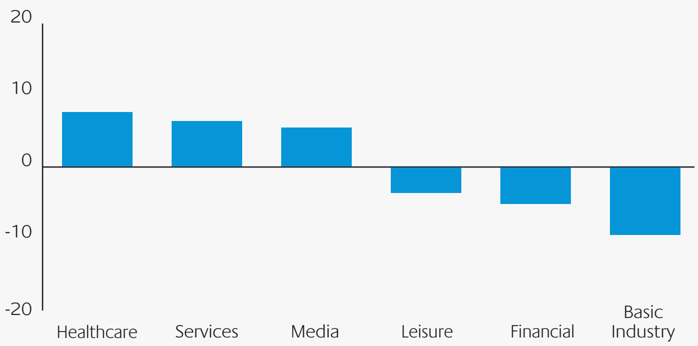
Breakdown by Country

	Risk Contribution %
United States	89.7
Canada	5.2
Australia	1.6
Greece	1.4
United Kingdom	1.1
France	0.7
Italy	0.3
Brazil	0.1

Top 10 Issuers

	Market Value %
US Cellular	2.2
Sprint	2.1
Bausch Health	1.9
Horizon Therapeutics	1.9
Charter Communications	1.7
Telesat	1.6
Icahn Enterprises	1.5
CSC Holdings	1.5
Asurion	1.5
Sirius XM Radio	1.4

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

Positive Contributors (top three):

Horizon Pharma (HZNP): HZNP's strong performance over the quarter was mainly led by the FDA Advisory Committee's unanimous support for its Thyroid Eye Disease (TED) drug Teprotumumab. Tepro, which is the second big drug in the company's orphan and rheumatology portfolio, could see peak sales of >$700mn (per company's projections) resulting in >50% top-line growth. With a conservatively leveraged balance sheet, strong cash flow generation and no imminent litigation risk, HZNP continues to perform well among pharmaceutical peers.

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ORBCOMM (ORBC): Orbcomm underperformed in the fourth quarter following mixed 4Q results and 2020 guidance as a result of the slowdown in the North America transport market, namely industrial trucking. As a provider of satellite IoT solutions for transport containers, Orbcomm saw orders slow as companies pushed-out their container orders following large declines in volume. The Orbcomm bond is a small, illiquid issue with only one market-maker who was a seller which led to it getting marked down. Fundamentals remain intact and Orbcomm still expects revenue and EBITDA growth through 2020 from new order wins in other end markets including maritime shipping, heavy equipment, and government.

Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

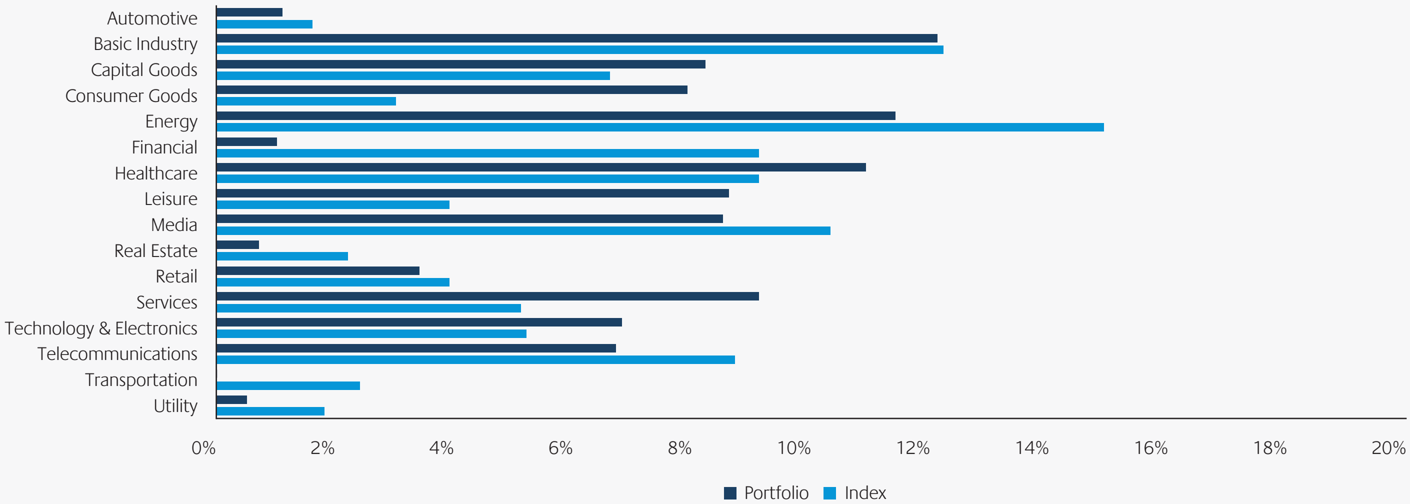
Short Duration High Yield

Characteristics

	Short Duration	Index*
Yield to Worst	4.01%	4.35%
Spread to Worst (3yr Discount Margin)	242	267
Duration to Worst (avg. 3 year)	1.26	1.76
# of Issuers	102	
AUM	36	
Avg. Rating	B1/BB-	

*Index as of quarter end rebalance

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Portfolio
BBB-	3.3
BB+	2.6
BB	19.8
BB-	22.0
B+	21.8
B	19.6
B-	6.4
CCC+	0.0
CCC	0.0
Other*	1.3

*NR & NA

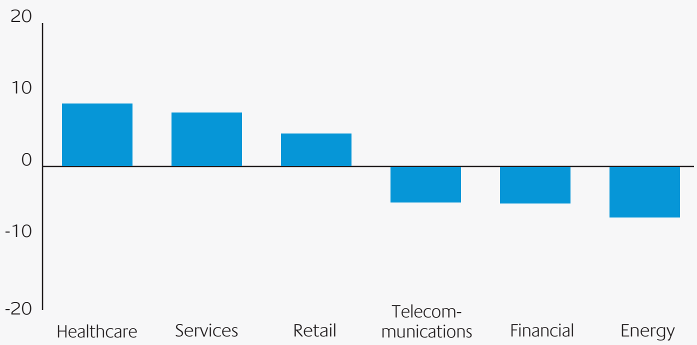
Breakdown by Country

	Risk Contribution %
United States	97.4
Canada	1.9
France	0.5
Brazil	0.2

Top 10 Issuers

	Market Value %
Bausch Health	2.5
Reynolds Group	2.5
Stars Group	2.3
Sprint	2.2
Dell	2.1
TransDigm	1.9
Asurion	1.8
Albertsons	1.6
Refinitiv	1.6
Nielsen Holdings	1.6

Top 3/Bottom 3 Contribution to Excess Return



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Bausch Health (BHCCN): Bausch health reported another quarter of strong results that beat street estimates for revenue and EBITDA in November. In addition to these strong results, the company reported that it has resolved the 2015 US securities class action suit related to the sharp drop in the then Valeant's stock price. The debt-funded c. $1.2bn settlement, while large and leveraging, resolved one of the largest unknown litigation liabilities faced by BHCCN (it remains free of the opioid and generic drug pricing litigations faced by most pharmaceutical peers). The company issued $2.5bn of new notes, using half of the proceeds to fund the settlement and the remainder to partially redeem 2023 notes.

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Oasis Petroleum (OAS): Oasis Petroleum underperformed after investor concerns arose that Bakken crude and natural gas differentials would drag on 3Q19 hydrocarbon price realizations as offtake capacity remained challenged in the basin, especially on the gas side. This came following results from Northern Oil and Gas (which has a meaningful portion of its minority working interests in Oasis wells) reporting weak realizations and delays/well shut-ins during 3Q19 related to heavy rain forcing production halts. We sold Oasis bonds ahead of earnings on this news to remove the risk related to the basin exposure, which we saw as downside skewed.

Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

Co-Portfolio Managers: High Yield

Jason Epstein
Senior Portfolio Manager

Jason joined First State Investments in September 2016. He has 18 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.

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.