Strategic Core Fixed Income

Commentary

2nd Quarter 2019

About First State Investments

We are a global asset manager with established offices across the US, Europe, Australia and Asia Pacific regions. As of December 2018, we manage $144 billion of asset under management (AUM) globally, including $55 billion in Fixed Income and Multi-Asset strategies.

Fixed Income Capabilities

Global Fixed Income

Strategic Core

Strategic Absolute Return

High Yield

Global Corporate Credit

Emerging Market Debt

Cash Management

Team

Steve Johnson
Head of Global Fixed Income (32)

Ken Bowling
Head of PMs (27)

Steve Willer
Portfolio Manager (24)

John Brennan
Head of Structured (26)

Mike Arnold
Head of Credit (17)

Global Fixed Income Platform:

Over 50 investment professionals located in the U.S., Australia, Asia and Europe covering all fixed income markets

First State Investments Core Fixed Income Composite. Past Performance is not indicative of future performance. 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 5% were achieved, the investment assets before fees would have grown to $162,889 in 10 years. However, if an advisory fee of 0.4% were charged, investment assets would have grown to $156,490, or an annual compounded rate of 4.6%.

Performance Highlights

- The Core Plus strategy returned 3.19%, outperforming the BB US Aggregate Index by 0.11% during the quarter.
- Interest rate positioning outperformed, primarily due to long positions in global rates. A steeper US curve and favorable country spread positions also contributed.
- Securitized positions added value. ABS tightened across most sub-sectors. Re-performing loan MBS outperformed most fixed income sectors.
- IG corporates broke even as tightening in US 30YR positions was offset by underperformance from short positions in European and Australian credit.
- HY underperformed in the quarter. We were long in May when spreads were widening.
- FX positions were positive, buoyed by Yen strengthening due to a trade concern related flight to quality. NOK appreciated as the Norges Bank raised the policy rate despite dovish monetary policy almost everywhere else.

Returns (Gross of fee)

As of June 30, 2019	2Q19	YTD	1yr	3yr	Since Incep.
Strategic Core Fixed Income	3.19	6.56	7.70	2.28	3.32
Barclays US Aggregate	3.08	6.11	7.87	2.31	3.22
Relative performance	0.11	0.45	-0.17	-0.03	0.10

Strategy Characteristics

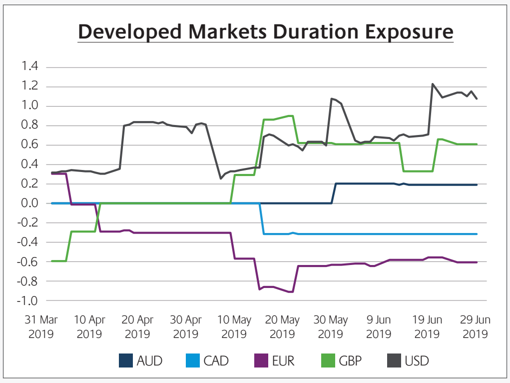
Key Characteristics	
Yield to Worst	2.75%
Modified Duration	6.45
Spread (OAS)	135
Average credit rating	A
Number of issuers	173
Sector Weights	
Cash	1.0%
Government	7.7%
Investment Grade Corp Bonds	38.8%
HY Bonds	13.5%
Structured Securities	41.2%

Fixed Income Commentary for the period ending June 30, 2019

- Interest rates fell around the globe. Australia continues to outperform global bond markets with its 10YR yield declining 46 bps to 1.32%, a new all-time low. The US was not far behind with its 10YR yield falling 40 bps to 2.01%. German 10 YR yields set a new all-time low at -0.33%. UK yields declined 17 bps to 0.83% as Brexit remains unresolved. Japan stands out globally for its low volatility but its 8 bp decline to -0.16% is consistent with global trends.
- The global economy has been slowing in general. The bigger concern are what trade tensions may do to exacerbate a slowdown. The move lower in rates was precipitated by the collapse in the US/China trade talks in early May. The US/China dialogue was more constructive at the G20 meeting in late June but underlying issues remain unsolved. Meanwhile tensions between Japan and South Korea escalated at the G20. Brexit supporter Boris Johnson is expected to become the new prime minister, increasing the likelihood the UK will leave the EU on October 31 without a withdrawal agreement.
- Spread sectors were volatile during the quarter. Spreads generally tightened in April, widened in May, and tightened again in June. The end result was slightly tighter spreads overall. US IG corporates tightened 4 bps to +115. IG corporate bond spreads are not far below their average for the last 6 years. This is in contrast to IG CDX at +53 which is not far from its January 2018 low. HY tightened 14 bps, following the same monthly pattern. HY corporate bonds and HY CDX are both midway between their average and low points over the last 6 years. The CMBS and EM sectors behaved similarly. Interest rate volatility bounced off all-time lows set in March.
- Global monetary policy took a substantial dovish turn during the quarter, particularly in June. Australia led the way with the RBA cutting rates in June. RBA comments prepared the market for an additional cut in July, which would be the first back to back cuts by the RBA since 2012. ECB President Draghi's dovish speech on June 17 was a pivotal moment. He gave a higher sense of urgency for further monetary easing, pointing to more deposit rate cuts and the possibility of reopening the asset purchasing program. The market forced the Fed's hand regarding policy easing. Market pricing in April and May indicated a 20% chance of a July rate cut. By mid-June, market pricing indicated 100% chance of a July cut, including a 15% chance of a 50 bp cut. Fed President Powell stopped equivocating, using the June FOMC meeting to firmly commit towards an easier monetary policy path.

Portfolio Summary: Interest Rates

- Interest rate positioning contributed +24 bps to the Core Plus strategy during the quarter.
- Long positions in US, Australian, and UK rates added value. Yield curve steepener positioning in the US was positive as the 2-10 curve appears to have bottomed.
- Country spread positioning was favorable with the US outperforming Canada, the US outperforming Germany, and the UK outperforming Germany. We took a small loss when Italy tightened vs Germany in April.
- Our long position in US breakevens produced a small loss. Energy was a key inflation driver with oil prices -16.5% in May before recovering +9.0% in June.
- Financing costs associated with long future positions creates a small persistent drag in performance but creates space to overweight desirable sectors.



Source: First State Investments

First State Investments

Strategic Core Fixed Income

Portfolio Summary

2nd Quarter 2019

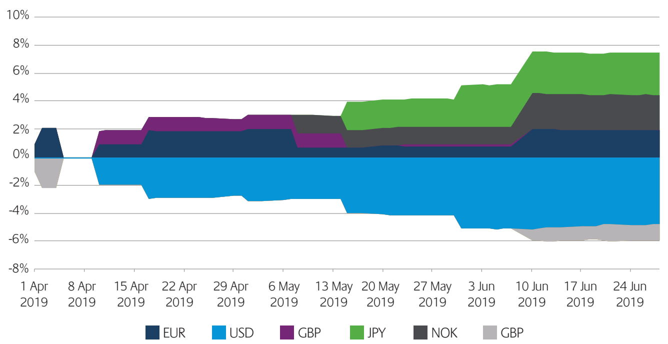
Currency

- Currency positioning contributed +5 bps to the Core Plus strategy during the quarter.
- Our long Yen position gained as trade concerns produced a flight to quality.
- Increased speculation of FED Fund cuts led to a slight weakening of the US dollar (-1%) over the quarter, and a bounce in the Euro from its lows. NOK appreciated as the Norges Bank raised the policy rate despite dovish monetary policy almost everywhere else.

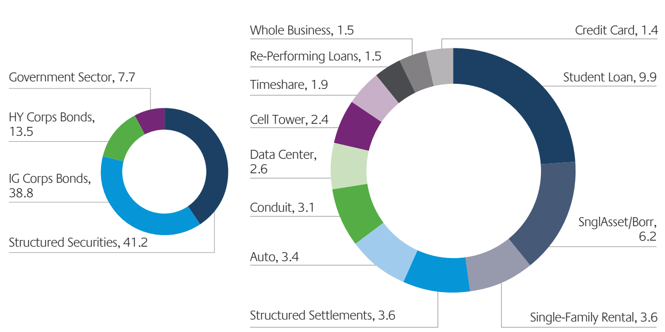
Securitized

- Securitized positioning contributed +9 bps to the Core Plus strategy during the quarter.
- Our ABS holdings tightened across most sub-sectors. Re-performing loan MBS outperformed most fixed income sectors. Short positions in agency MBS net detracted from performance.
- Short positions in low coupon agency MBS benefited performance as interest rate volatility rose off historical low levels but this was overwhelmed by good performance by the high coupon bonds held in the index.

Currency



Market Value Allocation



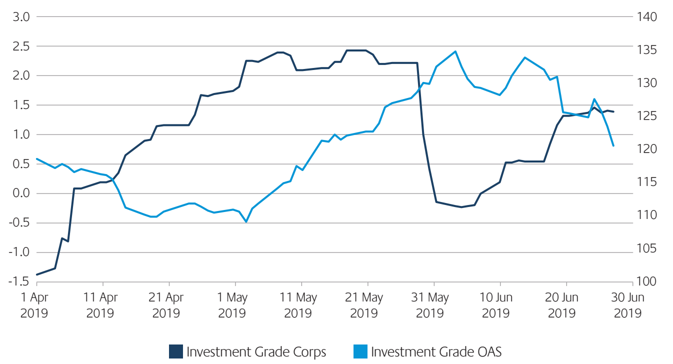
Corporates

- IG corporate positioning contributed -1 bps to the Core Plus strategy during the quarter.
- Long positions in US IG hurt the fund in May as spreads widened. This was offset by tighter spreads and favorable name selection in June when easier monetary policy expectations produced tighter spreads.
- Overweight positions in 30YR US IG holdings outperformed in June.
- Short positions in European and Australian corporates underperformed as spreads tightened.

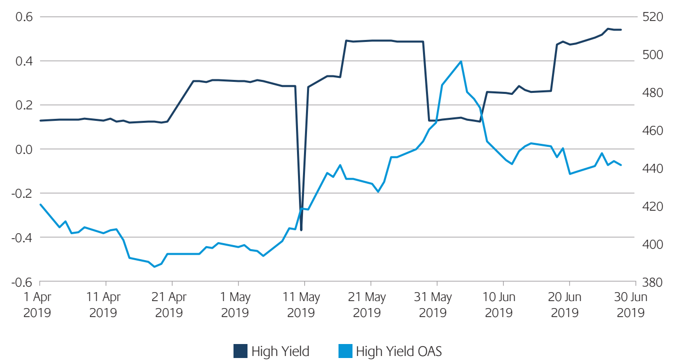
High Yield

- HY corporate positioning contributed -17 bps to the Core Plus strategy during the quarter.
- Long positions in HY hurt the fund in May as spreads widened in general and our holdings underperformed. Performance partially recovered in June as HY spreads recovered.
- We increased the granularity of our HY holdings in June to minimize the impact from individual bonds.

Active Spread Duration



Active Spread Duration



Source: First State Investments