

Core Plus Strategy

Q1 2019

Highlights

- The Strategic Core strategy returned 3.26% gross of fees during the quarter, outperforming the Bloomberg Barclays Aggregate Index by 0.32%.¹
- Interest rate positioning added value, primarily from a long position in US rates during March. Wider US inflation breakevens also contributed.
- Securitized holdings were strong outperformers throughout the quarter. Spreads tightened across our ABS, CMBS, and non-agency MBS holdings.
- FX positioning outperformed in January. We were long the Norwegian Krone vs the Swedish Krona and the Euro. We were also long GBP vs the Euro and USD.
- Long positions in HY helped performance in January and February. Much of that outperformance was offset by material widening of HY energy holdings in March.
- We benefitted from long IG corporate positioning and good selection in February with most of that benefit offset by early March spread widening and unsuccessful short positions in AUD and European credit.

Market Review

US interest rates stabilized and moved sideways in January and February, before resuming the decline that began in November, 2018. Rate stabilization was achieved by a dovish Fed pivot in early January. Future rate hikes were shelved, with Chairman Powell saying “It’s a great time for the Fed to be patient, watch, and wait.” This dovish Fed turn demonstrates unprecedented monetary policy softening for a late cycle environment. New thinking was required as the Fed grew increasingly concerned that inflation expectations may be in the process of anchoring below 2%. Trailing realized inflation has been more powerful than Fed guidance in setting inflation expectations and the Fed wants to avoid the perception that 2% is an inflation ceiling. In March, weaker global economic data, particularly in the manufacturing sector, caused yields to turn sharply lower. The German PMI manufacturing survey slumped in March -2.9pts to 45.0, its lowest level since 2012. The European manufacturing PMI has fallen for

8 consecutive months. Rates found a bottom in late March as central banks sounded increasingly dovish around the globe. The Fed revealed it would halt balance sheet paydowns earlier than the market expected. For its part, the ECB lowered its growth and inflation projections and pushed expectations for a possible return to positive interest rates well into the future.

The US 10YR rate declined 28 bps to 2.41%, all of which occurred in March. Global rates followed the same pattern. German 10YR yields fell 31 bps to -0.07%, going negative for the first time since 2016. UK 10YR yields fell 27 bps to 1.00%. Australian 10YR yields continued to outperform global bond markets, falling 53 bps to 1.78%. Australian 10YR yields set a new all-time low in March. Japanese yields followed the global pattern but were more muted, falling 8 bps to -0.08%. Within Europe, French OATs tightened 7 bps to German Bunds. Italian BTPs widened 5 bps to Bunds, demonstrating stability after extreme volatility in 2018. As monetary policy stances eased around the globe, yield curve movements varied depending on the potential capacity for future rate cuts. Yield curves flattened in Europe where short rates may be as low as they can go while the 2-10 curve was fairly stable in the US. As parts of the US curve inverted – 10YR yields fell 3 bps below Fed Fund rates in late March – the 2YR fell 20 bps below Fed Funds to maintain its relationship to the 10YR. US Inflation breakevens climbed 17 bps to 1.88%, boosted by easier Fed policy and higher energy prices. Brent oil climbed 33% to 71.3 while WTI climbed 41% to 64.

Risk assets performed well across markets with stocks and commodities joining bond spread sectors in outperforming rates. Easier monetary policy was more effective at supporting risk assets than it was in boosting inflation expectations, explaining the different behaviour of rates vs spread markets. Investment grade corporates retraced 70% of their 4th quarter widening, tightening 32 bps to +119. HY corporates tightened 135 bps to +391 for a 65% retracement. EM had a full retracement, tightening 51 bps to +292, although it is worth noting that EM widened much less than most sectors in Q4. AAA CMBS tightened 18 bps to +87, underperforming comparable corporates after outperforming them in Q4. Mortgages continued tightening in response to rate volatility falling to an all-time low in March.

¹ 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%.

Portfolio Performance

The Strategic Core strategy returned 3.26% gross of fees during the quarter, outperforming the Bloomberg Barclays Aggregate Index by 0.32%. The one year return is 3.99% gross of fees, underperforming the Bloomberg Barclays Aggregate Index by 0.49%.

Interest Rates and FX

Our macro positions outperformed, driven primarily by a long position in US rates during March and favorable FX positioning in January. Our long US rates position was based on expectations for easier forward looking US monetary policy and the high correlation in recent months between 10YR yields and future Fed fund expectations. Weakening global growth in March provided an additional reason to position for lower rates.

FX positioning outperformed in January. We were long the Norwegian Krone (NOK) vs the Swedish Krona (SEK) and the Euro. We were also long GBP vs the Euro and USD. NOK outperformed SEK and EUR as the Norges Bank raise its key policy rate 25bp to 1.0% and signaled a further rate rise later this year, in contrast to the majority of other G10 central banks. GBP outperformed USD and EUR as the UK parliament chose to extend the Article 50 deadline from 29 March to 31 October, reducing the probability of a 'hard/chaotic Brexit' and at the same time increasing the chance of a 2nd referendum later in the year on leaving the EU.

Additional positions that added value were a long position in US inflation breakevens and a long position in France vs Germany. Breakevens outperformed in January and February as easier monetary policy supported the inflation outlook and energy prices moved higher. We gave back some of our gains in March as breakevens fell in sympathy with sharply lower nominal yields during the growth scare but we remain bullish on US breakevens going forward. French yields widened disproportionately to other spreads in December as the Yellow-Vest protests became more violent. French President Macron offered concessions to the protesters that hurt the budget outlook, further widening spreads. Since January, conditions have been favorable for French/German spreads to trade more in line with other sovereigns and we took advantage of that.

Securitized Sectors

Our securitized holdings were strong outperformers throughout the quarter. Relative value was quite attractive after the broad market spread widening in Q4 2018. Non-agency securitized sectors were particularly attractive entering 2019 because spreads were not threatened by heavy supply pressure or fundamental concerns. We increased our market value, spread duration contribution, and the variety of spread sectors we were long. Spreads tightened across our ABS, CMBS, and non-agency MBS holdings.

Our biggest winners included fixed rate CMBS, data center ABS, structured settlement ABS, and re-performing loan (RPL) CMOs. CMBS followed corporates spreads tighter. Data center ABS tightened in general and provided security specific outperformance in this sub-sector that is new enough to be inefficiently priced by issuer. We had sold our structured settlement ABS before the Q4 widening and were able to replace those positions in Q1 at attractive levels. Re-performing loan

CMO deals performed particularly well in Q1 as they are one of the few non-agency securitized sectors that have seen significant supply growth. RPL issuers that needed to sell in the 4th quarter forced spreads wider, setting up attractive opportunities to add before supply and broad market spread pressure retreated in Q1. Spread widening in Q4 created opportunities to buy floaters at discount dollar prices in the Single Family Rental (SFR), CMBS, and RPL sectors. We were neutral agency MBS.

Corporate Markets

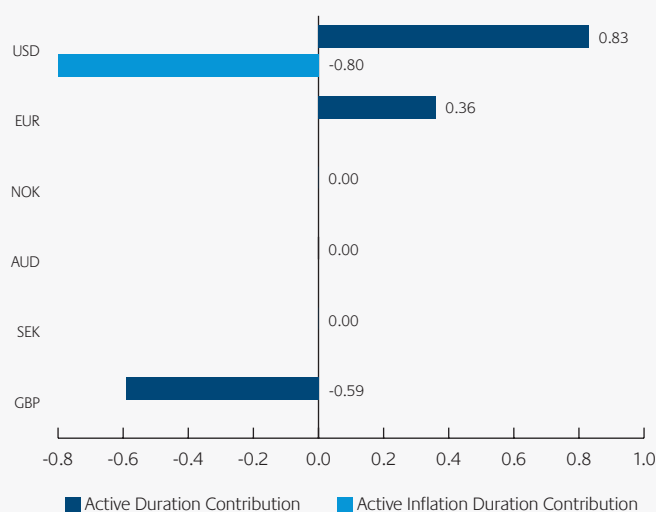
We modestly added value in credit during the quarter. Overall credit markets did extremely well with IG corporates retracing 70% of their 4th quarter widening, tightening 32 bps to +119. HY corporates tightened 135 bps to +391 for a 65% retracement. Our long positions in HY helped performance in January and February. Likewise, we benefitted from long IG corporate positioning and good selection in February. Another favorable development was the steepening of the 10/30 IG curve. We moved neutral our overall exposure to US IG and HY in early March as we grew concerned about how sharp the rally had been, the extent of positive trade news that appeared to be priced into the market, and weak global manufacturing data. Ultimately these moves to neutral proved premature as dovish central bank rhetoric sustained credit market performance.

We had some positions that detracted from performance as we did not fully anticipate the global spread rally that occurred. We implemented short credit positions with European and Australian Itraxx that underperformed when spreads continued to tighten. Much of our Jan/Feb HY outperformance was offset by material widening of our HY energy holdings in March.

Outlook

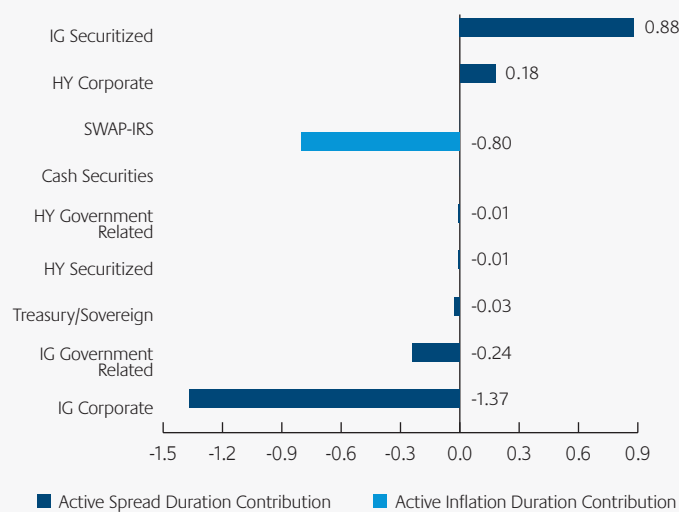
The key market driver heading into the second quarter is the continued shift in central banks towards a more dovish (or at least less hawkish) stance. This is a global phenomenon. The Fed and the ECB get the most attention as they retreat from policy tightening. The RBA and RBNZ may initiate new policy easing measures as rate cuts become more likely later in 2019. Easier policy seems likely to continue supporting risk markets. We are more skeptical of risk markets in Europe than places where central banks appear to have some ammunition left. One thing to watch in Q2 is the differential reaction to easier policy between rate and spread markets. Spread markets behaved in a "risk on" fashion in March while rate markets behaved in a "risk off" fashion. At some point, it seems rates will need to head higher if spreads are going to continue to tighten. This is particularly true given the flatness of the US yield curve. US rate volatility hit a record low in March and has reached the point where it should be hard to fall further. Economic numbers have shown some inconsistency with global manufacturing slowing in March while labor markets remain quite strong. Headline inflation will be supported throughout Q2 as energy price increases flow through the data. Core inflation numbers have been slightly softer than expected. Politics should stay in the news as Brexit drones on and the US awaits the Mueller report. Thus far, financial markets and economic developments have been immune to political headlines and there is no expectation for that to change in Q4.

Active Duration Contribution by Currency



Source: First State Investments; As of September 30, 2018

Active Spread Duration Contribution



Source: First State Investments; As of September 30, 2018

Important Information

This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors who qualify as qualified purchasers under the Investment Company Act of 1940, as accredited investors under Rule 501 of SEC Regulation D under the US Securities Act of 1933, and as qualified eligible persons as defined under CFTC Regulation 4.7. It is not to be distributed to the general public, private customers or retail investors in any jurisdiction whatsoever.

This presentation is issued by First State Investments (US) LLC ("FSI" or "First State Investments"). The information included within this presentation is furnished on a confidential basis and should not be copied, reproduced or redistributed without the prior written consent of FSI or any of its affiliates.

This document is not an offer for sale of funds to US persons (as such term is used in Regulation S promulgated under the 1933 Act). Fund-specific information has been provided to illustrate First State Investments' expertise in the strategy. Differences between fund-specific constraints or fees and those of a similarly managed mandate would affect performance results. This material is provided for information purposes only and does not constitute a recommendation, a solicitation, an offer, an advice or an invitation to purchase or sell any fund and should in no case be interpreted as such.

Any investment with First State Investments should form part of a diversified portfolio and be considered a long term investment. Prospective investors should be aware that returns over the short term may not match potential long term returns. Investors should always seek independent financial advice before making any investment decision. The value of an investment and any income from it may go down as well as up. An investor may not get back the amount invested and past performance information is not a guide to future performance, which is not guaranteed.

Certain statements, estimates, and projections in this document may be forward-looking statements. These forward-looking statements are based upon First State Investments' current assumptions and beliefs, in light of currently available information, but involve known and unknown risks and uncertainties. Actual actions or results may differ materially from those discussed. Actual returns can be affected by many factors, including, but not limited to, inaccurate assumptions, known or unknown risks and uncertainties and other factors that may cause actual results, performance, or achievements to be materially different. Readers are cautioned not to place undue reliance on these forward-looking statements. There is no certainty that current conditions will last, and First State Investments undertakes no obligation to publicly update any forward-looking statement.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.

Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of FSI.

The comparative benchmarks or indices referred to herein are for illustrative and comparison purposes only, may not be available for direct investment, are unmanaged, assume reinvestment of income, and have limitations when used for comparison or other purposes because they may have volatility, credit, or other material characteristics (such as number and types of securities) that are different from the funds managed by First State Investments.

For more information please visit www.firststateinvestments.com. Telephone calls with FSI may be recorded.

MAR00454_0419_US