For qualified investors only

Quarterly Update | High Yield

First State Investments High Yield

1Q 2018 | Co-Portfolio Managers: Matt Philo, Mike Elkins & Jason Epstein

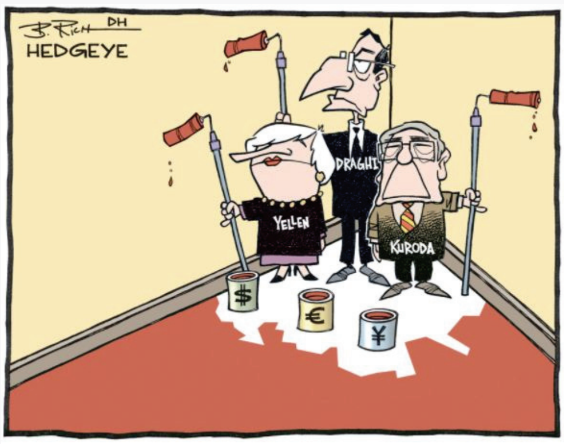
Thoughts on the Market

"Success is more a function of consistent common sense than it is of genius." *– An Wang*

Our high yield team focuses on the diligent implementation of our disciplined investment process. Our security selection is driven by bottom-up, value-based fundamental research; top-down analysis plays a secondary role. However, bottom-up credit work ultimately includes observations and conclusions regarding top-down issues specific to individual credits. Portfolio level risk management involves direct top-down analyses focused on trading liquidity, correlations, concentrations, etc. Our macro observations tend to be uncomplicated, utilitarian, blunt and fallible (of course).

We'll share a few of the key macro issues that are currently observed & debated among the three co-PM's of the high yield group. Hopefully, our views will prove to be honest and provocative, at the very least. We'll move from the broadest of topics to more credit specific views of leveraged credit in general, and our high yield asset class in particular. We cover Central Banks first (with the balance of our macro views on **page 3**: "**Concentrations, not Indictments**").

Central Banks

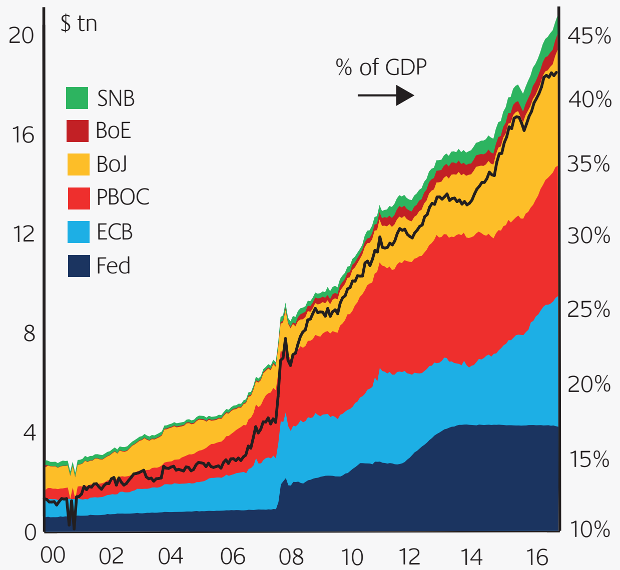


Source: HEDGEYE

Recent sell-side research estimates that major global CBs have expanded their aggregate balance sheets by $15-16 trillion since the 2008 Great Financial Crisis.

We aren't inclined to weigh in on the accuracy of sell-side estimates, the net addition to global liquidity or even the wisdom of "the trillions." We'll simply share a few thoughts.

A $20tn stockpile
Global CB balance sheet assets



Source: National Central Banks

Observations

#1: Absent the CB interventions of the previous decade, the broad spectrum of global financial market asset classes would not have attained their current price levels.

#2: The storyline of "QT" pundits (quantitative tightening) lies somewhere between naive and fanciful. In short, $20 trillion of stimulus injected directly into financial markets will not be methodically withdrawn regardless of the effects on global asset prices (the real "data" in former Fed Chair Yellen's term "data dependent").

#3: Mario Draghi's "Whatever it takes" speech remains our base case expectation for the CBs: "more of the same."

(Please see "**Concerns, Not Indictments**" on **page 3** for the balance of our narrowing focus, macro observations).

High Yield Market Commentary

Price volatility returned to the financial markets during the first quarter of 2018. The S&P 500 declined 10% in price in the two weeks between January 26th and February 8th, the first sell-off greater than 5% since June 2016.

The broad high yield market as represented by the ICE BofAML US Constrained High Yield index traded down in concert with stocks, declining 2.4% in price over the two weeks ending February 9th.

The causes of the financial market correction are open to debate. The New Year began with continued weakness in the U.S. dollar to a 3-year low, and a further increase in the 10-year US Treasury to a 4-year high. That seems as good a reason as any other. The ever popular "risk parity" strategy doesn't like itself when stock and bonds trade down together, but we have no way of knowing if that increased the sharpness of the two week sell-off.

Another interesting fundamental year-to-date has been an accelerating increase in 3-month LIBOR, but the majority of that increase occurred immediately following the low in the S&P 500. The 3-month LIBOR rate began the year at 1.69% and ended the first quarter at 2.31%, +62 bps. The 3-month T-bill increased "just" 36 bps, to 1.73%. Context is usually fun: the low in the 3-month T-bill was -0.025% on October 1, 2015. We still scratch our heads at negative interest rates despite Mario Draghi's assurances that they make perfect sense.

The first quarter total return of the broad high yield market was -0.91%, with a -2.42% price decline partially offset by 1.51% of income return. The index yield increased +51 bps to 6.35% but the spread-to-worst by only +11 bps to +384, due to a 40 bps increase in the comparable US Treasury rate. In terms of the Index rating tranches, the BB, B & CCC sub-indexes generated total returns of -1.7%, -0.4% & +0.55% respectively. The underperformance of BB credits was largely due to higher Treasury rates given its longer duration and a quarterly income return disadvantage of -60 bps.

Relative sector weakness during the quarter can be looked at in two ways. In terms of absolute total return, the Banking, Cable & Restaurant sectors' total returns of -2.6% each were the worst performers. Factoring in sector weights within the broad index, Cable and Energy accounted for 35% of the market's decline.

Portfolio Positioning

We always strive to take advantage of the relative value opportunities presented by any noticeable market correction, and the first quarter proved a success on that front. One noticeable theme around the market low was a moderate rotation out of relative safety, and into relative risk in the E&P sector. WTI crude oil also traded down -10.6% during the two week correction, and as of this writing has broken above this year's January high.

We have seen issuer count increase modestly as a result of select new issues that were attractive based on our investment process, and a few new net secondary additions. Our Broad High Yield composite issuer count increased to 154, above the lower end of our typical issuer count range for the first time in a couple of quarters. However issuer count still reflects the historically narrow opportunity set presented by the current high yield market. The "opportunity set" is the pool of high yield securities that meet both our minimum margin-of-safety requirements, and over-compensate in yield and spread, for our estimates of their individual default risks.

Credit selection drove benchmark outperformance: most noticeable in Broad High Yield given its optimal portfolio is running at a yield and spread somewhat below benchmark.

Composite Performance Summary

As of March 31, 2018

	Mar-2018	1Q-2018	YTD-2018	Since inception May-01-2017	AUM ($m)
FSI Broad High Yield *BofA Merril Lynch US High Yield Constrained Index*	-0.26 *-0.62*	-0.17 *-0.91*	-0.17 *-0.91*	3.97 *2.54*	233
Outperformance	**0.35**	**0.74**	**0.74**	**1.43**	
FSI Select High Yield *BofA Merril Lynch US High Yield Constrained Index*	-0.25 *-0.62*	0.06 *-0.91*	0.06 *-0.91*	4.17 *2.54*	75
Outperformance	**0.36**	**0.97**	**0.97**	**1.64**	
FSI Quality High Yield *BofA Merril Lynch BB-B US High Yield Constrained Index*	-0.27 *-0.56*	-0.27 *-1.11*	-0.27 *-1.11*	3.88 *2.18*	158
Outperformance	**0.29**	**0.84**	**0.84**	**1.70**	
FSI Short Duration High Yield *BofA Merril 1-5 yr BB-B US Cash Pay Yield Constrained Index*	0.12 *-0.06*	0.39 *0.14*	0.39 *0.14*	3.19 *2.76*	56
Outperformance	**0.18**	**0.24**	**0.24**	**0.43**	
FSI Defensive High Yield *BofA Merril Lynch BB-B US High Yield Constrained Index*	-0.17 *-0.56*	-0.11 *-1.11*	-0.11 *-1.11*	3.77 *2.18*	213
Outperformance	**0.39**	**1.00**	**1.00**	**1.60**	

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.

Analysis: "Concerns, not Indictments"

Global Debt Levels

By all reports it seems global debt sits at an all-time high. A recent Bloomberg news report cited an estimate of $237 trillion, or 318% of global GDP. Armed with an internet search engine one could conclude that some estimates suggest global debt increased $88 trillion since 2007, versus a $21 trillion increase in GDP. We have no opinion as to even the ballpark accuracy of such figures but "all time high" sounds about right. As does an ever increasing, record high debt resulting in a diminishing increase in global GDP. It seems highly probable that total global debt, and global debt/GDP are both significantly higher than the pre-GFC levels of 2007.

The Federal Reserve is also in the business of tracking debt levels and we find their tally of "consumer credit outstanding" to be noteworthy. As of February 2018, total U.S. consumer credit outstanding appears to be an all-time record $3.9 trillion; ditto for its subcomponents: Revolving (credit cards) and Non-revolving (primarily auto and student loans). We observe this situation and wonder how much debt represents too much burden on consumers, in general.

Finally, exploding U.S. Federal government deficits & debt is well covered. Obviously, the U.S. has plenty of company with most other countries seemingly in the same situation. Japan is certainly one high profile example, among so many.

Observations

#1: In general, the financial markets exhibit impressive complacency regarding the record high level of global debt.

#2: We can defend this complacency primarily in contrast to the debt problems that resulted in the GFC: the "toxic" MBS structured product that triggered the GFC represented a global distribution of a highly leveraged, but U.S. specific housing bubble. The greater financial crisis was the result of undercapitalized banks using extreme leverage; along with many other financial market participants (e.g. hedge funds). By comparison, the record high debt of today is much more widely distributed, and less leveraged (hopefully).

#3: Our concerns regarding current markets largely involves Correlation and Liquidity. The "toxic" MBS structured products pre-GFC have been replaced by a myriad of other "financial innovations" today, e.g. exponential growth of: **passive investment** strategies, **risk parity** strategies, **private credit funds**, and **derivative swaps** (assuming zero systemic risk).

Our concern is **not** an indictment of any of these investment strategies, per se. Our concerns involves two common tendencies in any complacent bull market:

- Correlation, meaning too many investors "betting the same way" and/or relying on back tested models that are not immune to an "off-model" event/trend.
- Liquidity, meaning too much money in pursuit of higher returns in over-crowded and/or relatively illiquid asset classes.

We do not pretend to be experts in any investment class except leveraged credit in general, and high yield in particular. As such we will briefly mention our concerns about the "Direct Lending" market, which involves high yield lending.

Direct Lending Credit Funds

What do veteran investors of publicly traded corporate securities know about Private Lending? Not enough to be experts – more than enough to observe potential concerns.

We observe too much capital raised relative to the size of the quality opportunity set of the asset class. We suspect that a typical inflection point has passed and newer funds are likely unattractive as excess demand compromises underwriting standards and pricing. Direct Lending also presents a couple of inherent structural disadvantages, through the lens of our high yield investment process.

Observations

#1: The mantra of direct lending proponents remains: significant yield premium, secured loans, stronger covenants, shorter average maturities and no mark-to-market "nuisance."

#2: We see familiar looking bull-market trends in direct lending: increasingly greater amounts of capital raised, a slew of new multi-billion marquee funds and unproven manager entrants. The risk of subpar underwriting and pricing looks real to us.

#3: It is natural for us to wonder about private lending because our high yield investment process begins with a mechanical screen that would immediately eliminate most direct lending from consideration. We typically avoid high yield issuers with less than 150 mm of bonds; not primarily because of trading liquidity concerns, but rather our experience that the issuers tend to be less strategic in their industries; in terms of market share, costs or other sustainable competitive advantage.

#4: The lack of tradable liquidity in the direct lending market would also eliminate one of the critical advantages of our investment process. We are typically light on credit risk when our market corrects from relatively full valuation levels. Our ability to rotate into greater credit risk on market breaks is the opportunity to position for our strongest total return periods.

Summary

Simple is Good. We like the outlook for long only high yield. The spread-to-worst of the high yield market, recently ranging between +350 to +400 bps is attractive given our base case outlook for continued low credit default rates.

We employ no leverage and believe inevitable market corrections represent total return opportunities.

The dual focus of our investment process on stringent, minimum margin of safety requirements, and pricing that overcompensates for estimated default risk is, by nature contrarian in implementation. We believe that the successful implementation of our investment process achieves:

- Lower downside volatility than the overall market
- Superior total returns over a full market cycle.

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 100bps[2].

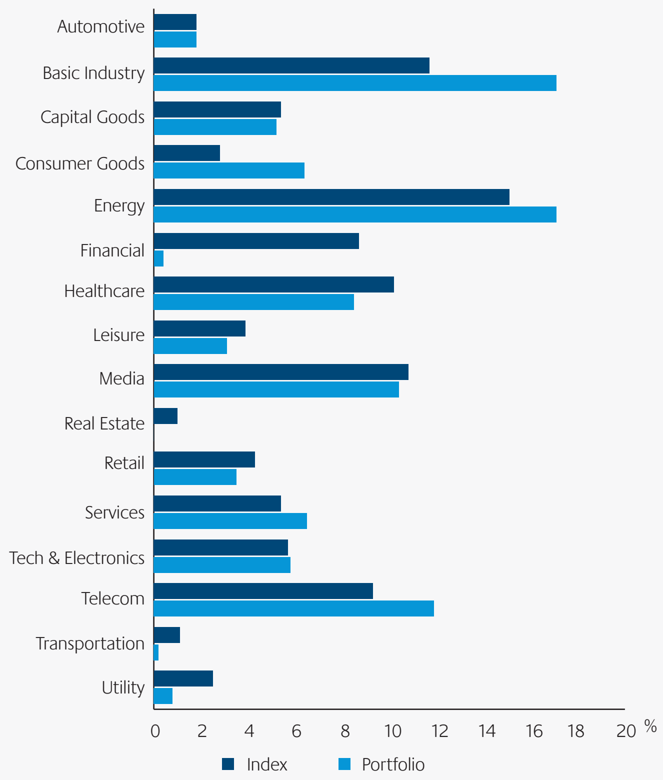
Composite Performance

Broad High Yield returned -0.17% for 1Q18, which outperformed the ICE BofA Merrill Lynch US High Yield Constrained Index by 74bps. Since inception on May 1st, 2017, FSI Broad High Yield has outperformed its Index by 143bps[3].

Characteristics

	Broad	Index
Yield to Worst	6.20%	6.40%
Spread to Worst (bps)	368	390
Duration to Worst (years)	3.97	4.05
# of Issuers	154	•
Avg. Rating	B2/B+	B1

Sector weightings: Portfolio, Benchmark



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.

3. Past performance is not an indication of future performance.

Breakdown by Rating

	Market Value %
BBB-	0.8
BB+	7.1
BB	12.7
BB-	23.3
B+	18.2
B	18.4
B-	14.8
CCC+	2.5
CCC	0.6
CCC-	0.0
Other	1.6

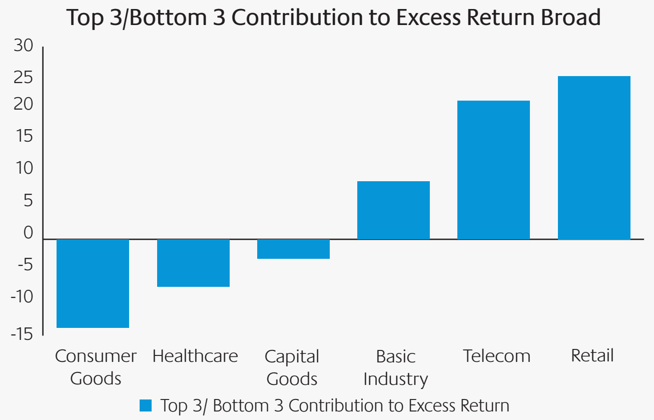
Breakdown by Country

	Risk Contribution %
United States	84.8
Canada	6.7
Luxembourg	2.6
Great Britain	2.3
New Zealand	0.7
Ireland	0.7
France	0.4
Other	1.9

Top 10 Issuers

	Market Value %
Altice International	2.57
Donnelley Financial	2.56
Valeant Pharmaceuticals	2.46
Frontier Communications	2.25
Horizon Pharma	1.83
Couer Mining	1.80
Encompass Health	1.67
Sprint Corp	1.63
Asurion	1.49
SM Energy	1.45

Sector & Issuer Commentary



Positive Contributors (top three):

Rite Aid (RAD): Provided outsized returns during the quarter after announcing in February plans to merge with Albertsons in a combined $24bn transaction. Rite Aid will continue with its previously announced store divestment and debt pay-down plan which underpinned our original investment thesis. Under the terms of the merger we believe our bonds benefit from a 101 change of control put covenant. Furthermore, given other restricted covenants we see additional price appreciation in our bonds and expect them to be refinanced at their call price by late 2018 or early 2019.

Frontier Communications (FTR): Strong performance in Frontier bonds was driven by a number of factors including signs of stabilization in 4Q17 operating results, a much welcomed elimination of its common stock dividend and most notably capital market activities. We have long expected Frontier would seek to exchange near-term maturities for secured securities. During the quarter, 1st lien lenders agreed to create junior lien capacity which enabled the company to execute a cash paid premium tender offer which included our notes and was financed with a new 2nd lien bond issuance. All of which helped clear the company's maturity runway conceivably through 2021.

Meredith (MDP): Meredith Corp issued bonds during the quarter to fund its acquisition of Time Inc. The bonds were issued at a concession and rallied in the weeks following issuance, driven by investor appetite for the credit, which benefits from relatively moderate pro forma leverage and strong synergy potential.

Negative Contributors (bottom three):

Cincinnati Bell (CBB): Underperformed after releasing lackluster 4Q17 earnings which were further complicated by its mid-quarter closing on its OnX acquisition and also included a change in a portion of its GAAP revenue accounting methodology. The company is yet to close (2H18 expected) on the Hawaiian Telecom merger which is further clouding projections and estimated pro forma leverage estimates. In light of acquisition integration risks and relative pricing our Cincinnati Bell position was meaningfully reduced in the quarter. We remain constructive on the company's fiber centric broadband-cable and telecom services strategies and will closely monitor its bonds for better relative and absolute value opportunities.

Simmons Foods (SIMFOO): Weak performance during the quarter was driven by continued concern over the company's ability to execute its extensive capital spending program amidst near term inflationary pressures. As well, the pricing of a higher quality competitor's bond issue at relatively attractive levels and the market's aversion to duration risk weighed on bond levels.

Altice International (ALTICE): Altice International bonds underperformed during the quarter after reporting somewhat disappointing 4Q17 results. The quarter was also complicated by the company's announcement in early January to spin-off its US subsidiary and in the process use cash proceeds to pay down debt at its Holdco unit and move some assets among its varied subsidiaries. All in all we believe management remains very focused on de-leveraging as it is widely thought to be the desired means to improve the company's share price. Cable multiples also contracted during the period which further weighed on the company's bonds. We remain optimistic the company is close to announcing further sizeable non-core asset sales that have been earmarked to pay down debt.

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 150bps[4].

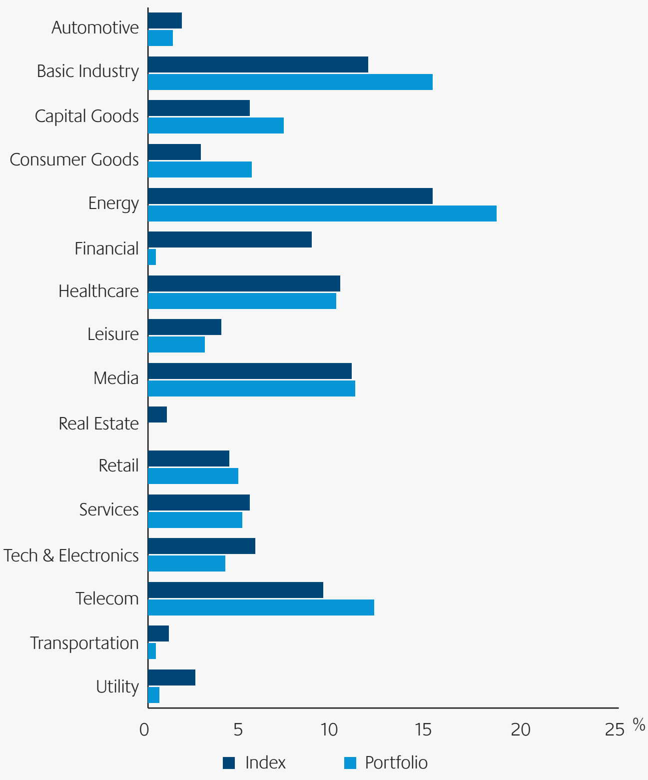
Composite Performance

Select High Yield returned 0.06% for 1Q18 which outperformed the ICE BofA Merrill Lynch US High Yield Constrained Index by 97bps. Since inception on May 1st, 2017, FSI Select High Yield has outperformed its Index by 164bps[5].

Characteristics

	Select	Index
Yield to Worst	6.62%	6.40%
Spread to Worst (bps)	410	390
Duration to Worst (years)	3.97	4.05
# of Issuers	110	•
Avg. Rating	B2/B-	B1

Sector weightings: Portfolio, Benchmark



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Breakdown by Rating

	Market Value %
BBB-	0.3
BB+	3.2
BB	10.3
BB-	18.4
B+	17.6
B	17.6
B-	20.7
CCC+	7.7
CCC	1.9
CCC-	0.0
Other	2.3

Breakdown by Country

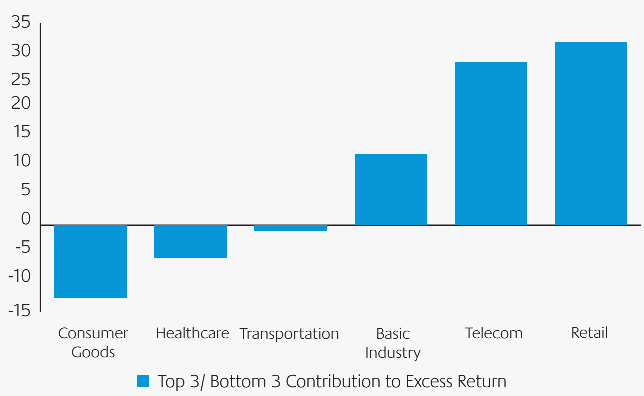
	Risk Contribution %
United States	84.2
Canada	7.5
Luxembourg	2.7
Great Britain	2.0
New Zealand	1.1
Ireland	0.5
Other	2.0

Top 10 Issuers

	Market Value %
Valeant Pharmaceuticals	3.85
Altice International	2.73
BWAY	2.59
Donnelley Financial	2.49
Frontier Communications	2.49
Horizon Pharma	2.08
Clear Channel Outdoor	2.01
Halcon Resources	1.98
Cheasapeake Energy	1.96
Couer Mining	1.76

Sector & Issuer Commentary

Top 3/Bottom 3 Contribution to Excess Return Select



Positive Contributors (top three):

Frontier Communications (FTR): Strong performance in Frontier bonds was driven by a number of factors including signs of stabilization in 4Q17 operating results, a much welcomed elimination of its common stock dividend and most notably capital market activities. We have long expected Frontier would seek to exchange near-term maturities for secured securities. During the quarter, 1st lien lenders agreed to create junior lien capacity which enabled the company to execute a cash paid premium tender offer which included our notes and was financed with a new 2nd lien bond issuance. All of which helped clear the company's maturity runway conceivably through 2021.

Rite Aid (RAD): Provided outsized returns during the quarter after announcing in February plans to merge with Albertsons in a combined $24bn transaction. Rite Aid will continue with its previously announced store divestment and debt pay-down plan which underpinned our original investment thesis. Under the terms of the merger we believe our bonds benefit from a 101 change of control put covenant. Furthermore, given other restricted covenants we see additional price appreciation in our bonds and expect them to be refinanced at their call price by late 2018 or early 2019.

Endo International (ENDP): Provided solid performance in the period under heightened volatility. The name has been heavily out of favor and was particularly depressed in value at year-end having become a poster child for the media and state driven opioid litigation. Our holdings in the company's shortest maturity benefited in the market's beginning year rally and we used the opportunity to divest our unsecured bond position at attractive levels. Although the company continues to deliver solid operating results and boasts attractive FCF characteristics, great uncertainty looms over litigation exposures and durability questions surrounding a few core pharmaceutical products. As such we have repositioned our holdings into the company's first lien bonds.

Negative Contributors (bottom three):

Cincinnati Bell (CBB): Underperformed after releasing lackluster 4Q17 earnings which were further complicated by its mid-quarter closing on its OnX acquisition and also included a change in a portion of its GAAP revenue accounting methodology. The company is yet to close (2H18 expected) on the Hawaiian Telecom merger which is further clouding projections and estimated pro forma leverage estimates. In light of acquisition integration risks and relative pricing our Cincinnati Bell position was meaningfully reduced in the quarter. We remain constructive on the company's fiber centric broadband-cable and telecom services strategies and will closely monitor its bonds for better relative and absolute value opportunities.

Simmons Foods (SIMFOO): Weak performance during the quarter was driven by continued concern over the company's ability to execute its extensive capital spending program amidst near term inflationary pressures. As well, the pricing of a higher quality competitor's bond issue at relatively attractive levels and the market's aversion to duration risk weighed on bond levels.

Valeant Pharmaceuticals (VRXCN): Valeant's 1Q18 under performance was in part due to its strong performance realized in 4Q17. Having the benefit of hindsight, it appears the valuation in both the company's stock and bonds became overly optimistic. 2018 earnings expectations needed to come down and management re-set more appropriate targets on its 4Q17 earnings call held in late February. The company's operating turnaround remains on track and near-term maturities have been refinanced allowing for an adequate runway. However, the much anticipated growth phase remains a 2019-2020 "show-me" event. While we expect the company to execute on new product initiatives we also anticipate up and down challenges and opportunities will follow.

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 100bps[6].

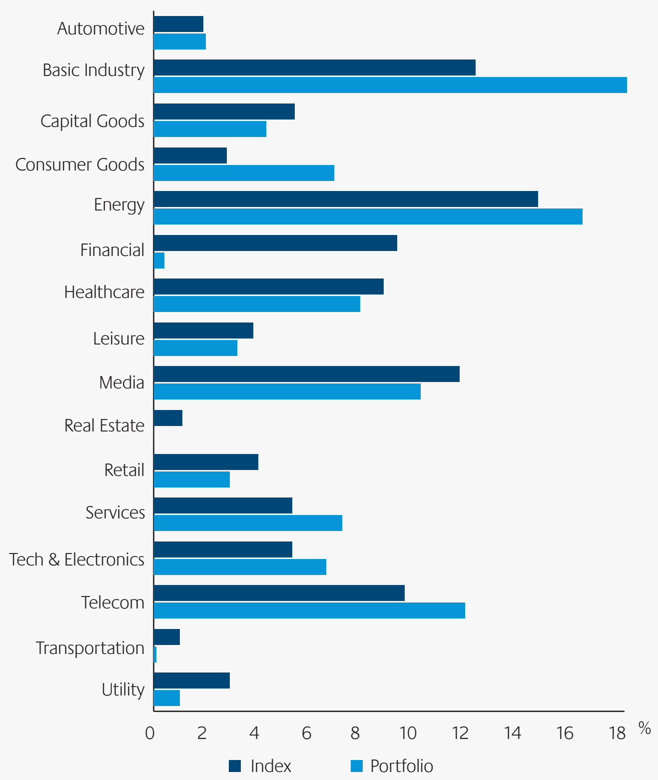
Composite Performance

Quality High Yield returned -0.27% for 1Q18 which outperformed the ICE BofA Merrill Lynch BB-B US High Yield Constrained Index by 84bps. Since inception on May 1st, 2017, FSI Quality High Yield has outperformed its Index by 170bps[7].

Characteristics

	Quality	Index
Yield to Worst	6.00%	5.69%
Spread to Worst (bps)	348	318
Duration to Worst (years)	3.96	4.21
# of Issuers	144	•
Avg. Rating	B1/BB-	BB3

Sector weightings: Portfolio, Benchmark



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Breakdown by S&P Rating

	Market Value %
BBB-	1.0
BB+	8.9
BB	13.8
BB-	25.6
B+	18.5
B	18.7
B-	12.0
Other	1.5

Breakdown by Country

	Risk Contribution %
United States	85.1
Canada	6.3
Luxembourg	2.5
Great Britain	2.4
Ireland	0.7
France	0.6
New Zealand	0.5
Other	1.8

Top 10 Issuers

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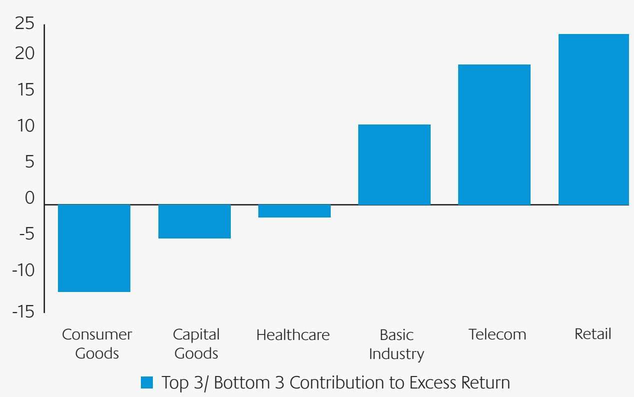
Donnelley Financial	2.59
Altice International	2.49
Frontier Communications	2.14
Couer Mining	1.81
Valeant Pharmaceuticals	1.80
Horizon Pharma	1.71
Encompass Health	1.68
Sprint Corp	1.59
Callon Petroleum	1.51
Asurion	1.51

Sector & Issuer Commentary



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Altice International (ALTICE): Altice International (e.g. Altice Financing SA and Altice Finco SA) bonds underperformed during the quarter driven by deteriorating investor sentiment regarding the cable sector, as highlighted by declines in the equities of ATCNA (Altice International's parent) and cable peers. Headlines regarding potential asset sales benefited Altice International bonds differentially; the bonds with the tightest covenants outperformed the rest of the structure, while those with the weakest covenants underperformed.

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 75bps[8].

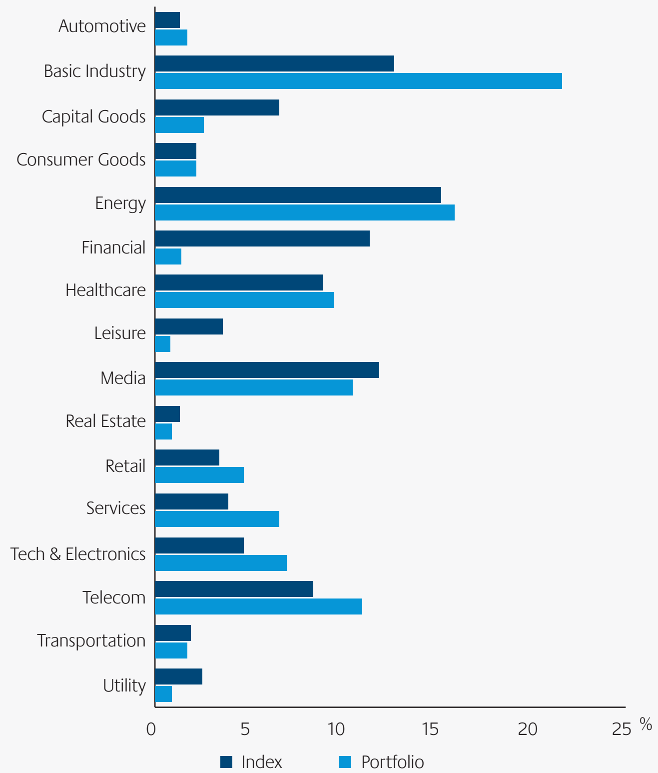
Composite Performance

Short Duration High Yield returned 0.39% for 1Q18 which outperformed the ICE BofA Merrill Lynch 1-5 yr BB-B US Cash Pay High Yield Constrained Index by 24bps. Since inception on May 1st, 2017, FSI Short Duration High Yield has outperformed its Index by 43bps[9].

Characteristics

	Short Duration	Index
Yield to Worst	5.40%	5.22%
Spread to Worst (bps)	310	290
Duration to Worst (years)	2.23	2.31
# of Issuers	95	•
Avg. Rating	B1/BB-	BB3

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	2.4
BB+	11.8
BB	10.9
BB-	24.1
B+	19.2
B	15.4
B-	14.7
Other	1.5

Breakdown by Country

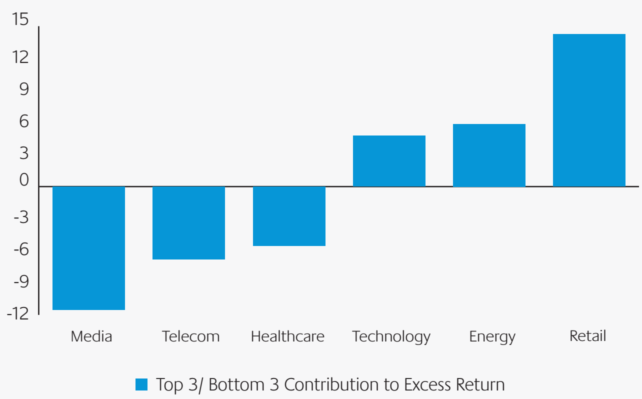
	Risk Contribution %
United States	83.2
Canada	5.7
Great Britain	2.8
Ireland	2.7
Luxembourg	2.1
Australia	1.7
Other	1.9

Top 10 Issuers

	Market Value %
Frontier Communications	2.93
First Data	2.23
Altice International	2.08
Encompass Health	2.03
CNX Resources	1.98
RSP Permian	1.94
Valeant Pharmaceuticals	1.88
Intelsat	1.76
Antero Resources	1.68
BlueScope Steel	1.65

Sector & Issuer Commentary

Top 3/Bottom 3 Contribution to Excess Return Short Duration



8. 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.

9. Past performance is not an indication of future performance.

Positive Contributors (top three):

Rite Aid (RAD): Provided outsized returns during the quarter after announcing in February plans to merge with Albertsons in a combined $24bn transaction. Rite Aid will continue with its previously announced store divestment and debt pay-down plan which underpinned our original investment thesis. Under the terms of the merger we believe our bonds benefit from a 101 change of control put covenant. Furthermore, given other restricted covenants we see additional price appreciation in our bonds and expect them to be refinanced at their call price by late 2018 or early 2019.

Frontier Communications (FTR): Strong performance in Frontier bonds was driven by a number of factors including signs of stabilization in 4Q17 operating results, a much welcomed elimination of its common stock dividend and most notably capital market activities. We have long expected Frontier would seek to exchange near-term maturities for secured securities. During the quarter, 1st lien lenders agreed to create junior lien capacity which enabled the company to execute a cash paid premium tender offer which included our notes and was financed with a new 2nd lien bond issuance. All of which helped clear the company's maturity runway conceivably through 2021.

A Schulman (SHLM): A Schulman bonds outperformed during the quarter, driven by the company's announcement of an agreement to be purchased by LyondellBasell. LyondellBasell indicated that it plans to redeem the A Schulman bonds following deal closing and the bonds are now trading to their first call date.

Negative Contributors (bottom three):

Standard Industries (BMCAUS): Standard Industries weak performance during the quarter was driven by disappointing earnings results on the back of inflationary pressures, and by the longer duration of this position relative to the rest of the portfolio.

CommScope (COMM): CommScope underperformed in the period as 1Q18 guidance was modestly below expectations. Although, the market largely overlooked the Q1 figure. More importantly, FY 2018 guidance was in line and implies EBITDA growth at a high-single-digit-percentage rate vs 2017. The decline in CommScope bonds is thought to be primarily duration related. Rising interest rates in the quarter coupled with modest spread expansion reduced the likelihood that the bonds will be refinanced at the earliest call prior to maturity.

Dish Corp (DISH): Dish bonds underperformed during the quarter driven by deteriorating investor sentiment regarding the satellite cable sector and weak 4Q17 results in late February. Dish 4Q17 results missed street expectations on both the top-line and bottom-line, driven primarily by lower than expected ARPU.

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

Defensive High Yield[10]

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 100bps[11].

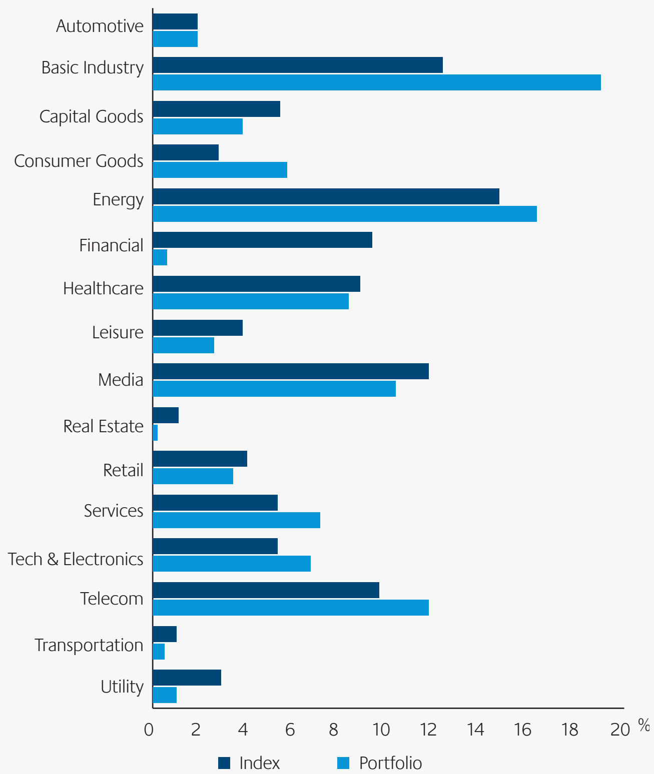
Composite Performance

Defensive High Yield returned -0.11% for 1Q18 which outperformed the ICE BofA Merrill Lynch BB-B US High Yield Constrained Index by 100bps. Since inception on May 1st, 2017, FSI Defensive High Yield has outperformed its Index by 160bps[12].

Characteristics

	Defensive	Index
Yield to Worst	5.84%	5.69%
Spread to Worst (bps)	338	318
Duration to Worst (years)	3.51	4.21
# of Issuers	161	•
Avg. Rating	B1/BB-	BB3

Sector weightings: Portfolio, Benchmark



10. 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.

11. 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.

12. Past performance is not an indication of future performance.

Breakdown by Rating

	Market Value %
BBB-	1.4
BB+	9.7
BB	13.0
BB-	25.2
B+	18.7
B	17.9
B-	12.7
Other	1.4

Breakdown by Country

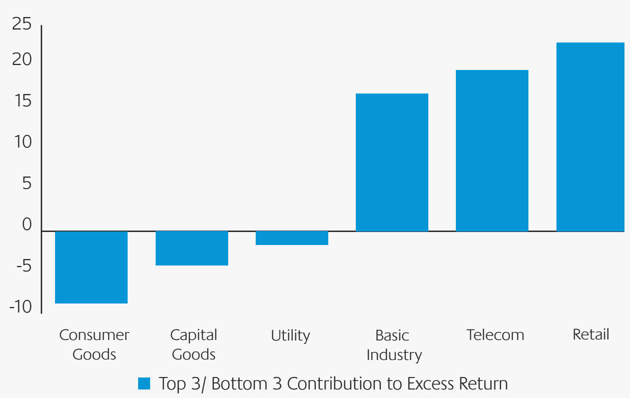
	Risk Contribution %
United States	85.9
Canada	5.8
Luxembourg	2.4
Great Britain	2.2
Ireland	0.7
France	0.5
Australia	0.4
New Zealand	0.3
Other	1.8

Top 10 Issuers

	Market Value %
Altice International	2.38
Frontier Communications	2.34
Donnelley Financial	2.17
Valeant Pharmaceuticals	1.82
Encompass Health	1.77
First Data	1.69
Horizon Pharma	1.56
Sprint Corp	1.47
Laredo Petroleum	1.44
SM Energy	1.44

Sector & Issuer Commentary

Top 3/Bottom 3 Contribution to Excess Return Defensive



Positive Contributors (top three):

Rite Aid (RAD): Provided outsized returns during the quarter after announcing in February plans to merge with Albertsons in a combined $24bn transaction. Rite Aid will continue with its previously announced store divestment and debt pay-down plan which underpinned our original investment thesis. Under the terms of the merger we believe our bonds benefit from a 101 change of control put covenant. Furthermore, given other restricted covenants we see additional price appreciation in our bonds and expect them to be refinanced at their call price by late 2018 or early 2019.

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Meredith (MDP): Meredith Corp issued bonds during the quarter to fund its acquisition of Time Inc. The bonds were issued at a concession and rallied in the weeks following issuance, driven by investor appetite for the credit, which benefits from relatively moderate pro forma leverage and strong synergy potential.

Negative Contributors (bottom three):

Cincinnati Bell (CBB): Underperformed after releasing lackluster 4Q17 earnings which were further complicated by its mid-quarter closing on its OnX acquisition and also included a change in a portion of its GAAP revenue accounting methodology. The company is yet to close (2H18 expected) on the Hawaiian Telecom merger which is further clouding projections and estimated pro forma leverage estimates. In light of acquisition integration risks and relative pricing our Cincinnati Bell position was meaningfully reduced in the quarter. We remain constructive on the company's fiber centric broadband-cable and telecom services strategies and will closely monitor its bonds for better relative and absolute value opportunities.

Simmons Foods (SIMFOO): Weak performance during the quarter was driven by continued concern over the company's ability to execute its extensive capital spending program amidst near term inflationary pressures. As well, the pricing of a higher quality competitor's bond issue at relatively attractive levels and the market's aversion to duration risk weighed on bond levels.

Altice International (ALTICE): Altice International (e.g. Altice Financing SA and Altice Finco SA) bonds underperformed during the quarter driven by deteriorating investor sentiment regarding the cable sector, as highlighted by declines in the equities of ATCNA (Altice International's parent) and cable peers. Headlines regarding potential asset sales benefited Altice International bonds differentially; the bonds with the tightest covenants outperformed the rest of the structure, while those with the weakest covenants underperformed.

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

Co-Portfolio Managers: High Yield

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.

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.

Disclaimer