Level 1 Disclosure Policy

Annual update

September 2017

Contents

*This directive will not apply following the introduction of Directive 2014/65/EU on Markets in Financial Instruments (MiFID II) on 3rd January 2018

Introduction

This document provides the disclosure required by Level One of The Investment Association's Pension Fund Disclosure Code (endorsed by the Pension and Lifetime Savings Association) and of the Collective Investment Schemes (CIS) Disclosure Code of the The Investment Association and Depositary and Trustee Association, the aim of which is to provide information on how investment managers make choices between trading counterparts and trading venues. In achieving this, we disclose information regarding our house policies, processes and procedures in relation to the management of costs incurred on behalf of clients and, in respect of the provisions of the Markets in Financial Instruments Directive (MiFID), appropriate information on our execution policy.

This document covers the policies, procedures and controls for the relevant First State Investments ('FSI') entities listed below:

- First State Investments (UK) Limited
- First State Investments International Limited
- First State Investment Management (UK) Limited.

There are two distinct types of disclosures covered by the Code:

Level One: House policies, processes and procedures in relation to the management of costs incurred on behalf of clients.

Level Two: Client specific information, including a breakdown of transactions by counterparties, disclosure of amount of commissions generated on those transactions and how much of that commission is used for non-execution services. This also includes firm-wide disclosures of trading volumes and average commission rates for all clients and a comparison with the client's rates. This disclosure is made on a six monthly basis, for the periods ending June and December, and is available upon request.

*Note that separate disclosures are made under the Code in respect of the Stewart Investor's division of the entities referred to above. These are available on request

Execution venues and methods of trading

In meeting our obligation to take all reasonable steps to obtain, on a consistent basis, the best possible result for the execution of orders, we may use one or more of the following venue types when executing an order:

- Regulated Markets
- Multilateral Trading Facilities
- Systematic Internalisers
- Third party investment firms acting as Market Makers or other liquidity providers, and/or
- Non-EU entities performing similar functions.

We believe that these venues or sources of liquidity enable us to obtain, on a consistent basis, the best possible result for orders we execute on behalf of our clients. We will assess which venues within this list are likely to provide the best possible result for our clients on a transaction-by-transaction basis.

We will generally place or transmit orders to third-party investment firms for execution. In doing so, we will take all reasonable steps to obtain the best possible result. The entities, with which such orders may be placed, are specifically approved by us after review in accordance with our policy and they must have execution arrangements that enable them to comply with our obligations. We may also place such orders with our affiliate companies around the world for execution, in which case those affiliates will also adhere to this policy.

In certain financial instruments there may only be one execution venue. In executing a trade in such circumstances, we will presume that we have provided the best possible result in respect of these types of financial instruments.

In respect of financial instruments which can be traded on a Regulated Market or a Multilateral Trading Facility, some orders may be executed outside of a Regulated Market or Multilateral Trading Facility where we believe we can achieve the best possible result for execution by doing so.

In selecting the most appropriate venues for the purpose of executing orders, we will take into account the various factors which we believe are relevant to the order, which may include those set out below. In doing so, we will assess what we reasonably believe to be our clients' best interests in terms of executing the relevant order. In conducting this assessment we will take into account all such other factors as we believe may be appropriate including, the ability of the venue to manage complex orders, the speed of execution, the creditworthiness of the venue and the quality of any related clearing and settlement facilities.

We have set out below information on the criteria which determines how we select the different venues on which we may execute orders and have identified those venues on which we will most regularly seek to execute orders, and which we believe offer the best prospects for affording best execution. We will also assess on a regular basis the quality of execution afforded by those venues on which we execute orders and whether we need to change our execution arrangements.

While we will take all reasonable steps, based on those resources available to us, to satisfy ourselves that we have processes in place that can reasonably be expected to lead to the delivery of best execution, we cannot guarantee that we will always be able to provide best execution of every order executed.

Our policy in providing best execution is, so far as possible and subject to the processes set out in this section, to exercise the same standards and operate the same processes across all the different markets and financial instruments on which we execute orders.

However, the diversity in those markets and instruments, and the kind of orders that we carry out may mean that different factors will have to be taken into account when we assess the nature of our execution policy in the context of different instruments and different markets. For example, there is no formalised market or settlement infrastructure for over-the-counter transactions. In some markets, price volatility may mean that the timeliness of execution is a priority, whereas in other markets that have low liquidity, the fact of execution may itself constitute best execution. In other cases, our choice of venue may be limited (even due to the fact that there may only be one platform/market upon which we can execute orders) because of the nature of the order or other requirements.

In the absence of specific client instructions, we may consider the following factors to determine the manner in which orders will be executed:

- price
- costs
- speed
- likelihood of execution or settlement

- size of the order
- nature of the order
- any other consideration relevant to the efficient execution of the order.

We will determine the relative importance of each factor using the following criteria:

- client characteristics, including their regulatory client categorisation
- the characteristics and nature of each order, including whether any specific instructions are given
- the characteristics of the financial instruments that are the subject of the order
- the characteristics of the execution venues to which the order can be directed.

Ordinarily, price will merit a high relative importance in obtaining the best possible result for professional clients. In our experience, the next most important factor after price is typically the liquidity of the market. However, in certain circumstances, for some client orders, financial instruments or markets, we (acting in what we reasonably believe to be the client's best interests) may decide that other factors may be more important in determining the best possible execution result in accordance with our order execution policy.

Trades may also be executed via our dealing desks outside of the United Kingdom ('UK'), for example Hong Kong. The dealing desks outside the UK follow similar policies, processes and procedures.

Broker selection

All brokers used by the Dealing Team must be 'approved brokers'. All approved brokers are subject to a full due diligence check to be made prior to establishing Terms of Business.

The due diligence criteria that brokers are assessed on are:

- financial strength, profitability, and leverage
- market comparison of commission rates
- ability to execute trades at the best price
- ability to settle trades in a timely manner
- screening against various regulatory and sanctions issues.

The due diligence approval process includes a specific authorisation as to the level of counterparty risk which FSI is prepared to accept with each individual broker.

The approved broker list is regularly reviewed to ensure it only comprises those brokers with whom we have an active intention to continue to do business in the future. Contributing to this assessment is an ongoing re-evaluation of each approved broker on a rolling basis to ensure they continue to meet our criteria for remaining approved brokers.

The primary rationale for broker selection on each individual trade is to achieve best execution.

Brokers are selected initially and on an ongoing basis using the criteria established within the commission targeting policy described below. FSI's view is that the added value to the client of ancillary research and analysis determines its policy of dealing with full service brokers. FSI may make use of commission sharing arrangements as described under 'Purchase of Research' below.

To ensure that there is proactive management of dealing costs and that the most cost effective and suitable service is obtained from its approved brokers, a Commission Targeting policy has been established. Targets are established in line with the process as described in the 'Broker review' section below, on the basis that all trading is commission-bearing, with appropriate adjustments made if any net trades are conducted.

Broker review

The Commission Targeting policy aims to achieve a position where trades are allocated to those brokers that can offer the highest quality and most cost effective services globally.

Each quarter the Dealing Team and each of the investment teams undertake a review of all approved brokers, based on key service elements. Each element is weighted, based on FSI's assessment of the importance of those services which are required.

The key elements reviewed are for the provision of:

- research services
- execution services.

Based on the outcome of this review each approved broker is allocated a commission target for the following quarter. On an ongoing basis the quarterly review targets are then reassessed.

Commission targets are monitored on a quarterly basis by the Dealing Team to identify variance in the proposed targets and those achieved in the period. There is no specific limit of acceptable variance set, as we don't seek to limit the Dealing desk's key focus on best execution for individual trades, however regular review ensures that reasons for variance are investigated and understood and any appropriate action taken.

The Dealing Team is responsible for agreeing the commission rates, whether full service or execution only, with each broker across each market. FSI's standard practice is to adopt fixed full service rates per market, with commission allocated via the targeting process being used to manage the level of commission payment made for research services to that broker.

In addition to the review of business activity with brokers, FSI annually conducts due diligence on existing brokers to ensure they remain appropriate counterparties with which we seek to do business, and that counterparty risk remains at an acceptable level.

Variations in rates of commission

Commission paid is governed by our standard commission rates, which are agreed with all approved brokers. The rates are based on each market, with the highest rate paid on an actively-traded market being 70 basis points and the lowest 18 basis points. Where we can execute trades via alternative trading systems, we generally pay execution-only commission rates of between 4 and 18 basis points. Commission paid for programme trades is at lower execution-only rates, priced individually on each trade based on the characteristics of the portfolio being traded.

Commission recapture/directed commissions

FSI does not use any commission recapture or directed commission agreements for any UK Pension portfolios that it manages.

Dealing efficiency monitoring

Currently the Dealing Team conduct testing of trades on a daily basis reviewing that day's trading activity, and a fully comprehensive review using third party transaction cost analysis services is conducted on a quarterly basis. This analysis includes measurement of the impact of both explicit and implicit costs, and is used as part of the ongoing measurement of the ability of brokers to achieve best execution – the results of this being a key input into the selection of brokers both for individual trades and their longer-term inclusion in the commission targeting process via the quarterly broker reviews.

The Risk & Compliance division performs a monitoring programme in respect of FSI's investment and dealing activity. This would include best execution.

Conflicts of interest

It is FSI's responsibility to ensure that its systems, controls and procedures are robust and adequate to identify and manage any conflicts of interest that may arise.

All FSI employees should be aware of the circumstances that may give rise to a conflict and be able to identify when a potential or actual conflict arises.

A conflict of interest may arise when FSI is in a 'fiduciary relationship' – for example, when FSI is:

- acting for another
- exercising a discretion
- where a position of vulnerability exists.

A conflict of interest may arise within a fiduciary relationship where:

- FSI's interest conflicts with its duty to its clients
- FSI's interest to one client conflicts with its duty to another client
- FSI owes a duty of confidentiality to one party but has the obligations to have undivided loyalty to all its clients.

Conflicts of interest may be actual, perceived or potential conflicts, all of which must be managed to ensure that the quality of the service provided to clients is not materially lessened.

FSI employees are required to:

- Identify any actual or potential conflicts of interest in their business area
- Assess and evaluate the risk posed by those conflicts of interest
- Decide how to manage those conflicts (e.g. disclosure, managing and/or avoiding the conflict)
- Report the conflict to their line manager and the Head of Risk & Compliance EMEA
- Record the action taken
- Monitor the conflict on an on-going basis if required.

The Risk & Compliance department is responsible for adding the potential or actual conflict to the conflicts of interest register. The register records details of the conflict and the steps taken to manage and monitor it appropriately.

To avoid any conflicts of interest where orders for more than one client are aggregated, a trade allocation policy has been established to avoid any client being treated in an inequitable manner.

All order allocations are specified prior to orders being placed with a counterparty. Upon execution of the order, the full allocation will be met unless specific and valid circumstances dictate otherwise. Where an order is partially executed, any stocks acquired are allocated on a pro rata basis founded on the designated pre order allocations.

The reallocation of executed orders is only permitted if there is an appropriate reason and it can be shown that no client will be disadvantaged in any way. Once a trade has been executed and booked out by the counterparty the trade will be allocated to the appropriate portfolio immediately.

Purchase of research

FSI places strong emphasis on proprietary research and direct contact with the companies in which we invest. Fund Managers and Analysts develop in-depth knowledge of companies and countries through frequent research trips.

Internally produced research is augmented through the use of external research. The use of external research is based on what it adds to our investment process: in cases where this includes a significant volume of modelling or data filtering, FSI has formed the view that external providers are better placed at providing such research effectively and efficiently. Such research is only used where it is demonstrated to add further information of value to our assessment of companies.

All externally provided research is paid for as a part of the agreed standard commission or, for fixed income business, as part of the transaction spread.

Derivatives

FSI may make use of derivatives when managing portfolios on behalf of clients. Derivatives may be used for the purposes of efficient portfolio management which is to reduce risk or cost to a fund, or to generate additional capital or income with no, or an acceptable low level of, added risk. The types of derivatives which may be utilised include purchased and written options, futures, currency forwards, interest rate swaps and contracts for difference.

Access to and allocation of Initial Public Offerings and Underwriting

FSI can participate in sub underwriting in discretionary managed pension portfolios, provided the relevant Investment Management Agreement permits such activity.

All IPO applications are made through the Dealing Team. Where more than one Fund Manager wishes to participate in an IPO on behalf of those clients who are deemed appropriate, an aggregate application for the offer will be placed.

Allocations of shares received through an IPO or sub underwriting contract must be allocated in a fair manner and ensure that no client is treated in a manner that could be seen as being preferential. In the same way, all order allocations must be agreed and recorded prior to assignment and allocated on a pro rata basis.

To avoid any conflicts of interest where orders for more than one client are aggregated, a policy of allocation has been established to avoid any client being treated in an inequitable manner.

All order allocations are specified prior to orders being placed with a counterparty. Upon execution of the order the full allocation will be met unless specific and valid circumstances dictate otherwise. Where an order is partially executed, any stocks acquired are allocated on a pro rata basis founded on the designated order allocations.

The reallocation of executed orders is only permitted if there is an appropriate reason and it can be shown that no client will be disadvantaged in any way. Once a trade has been executed and booked out by the counterparty the trade will be allocated immediately.

Custody services

When FSI appoints or changes a custodian, a process of due diligence is undertaken to ensure that the potential Custodian would be satisfactory for FSI's requirements. This process includes due diligence visits by Senior Management and the Risk & Compliance Department and the assessment would include:

- breadth of sub-custodial network
- efficiency of systems and processes

- pricing (safekeeping and transactional)
- provisioning of peripheral services (foreign exchange, securities lending etc.) at better than competitive market rates
- strength of relationship
- financial position.

On an ongoing basis, service review meetings are held with all custodians quarterly or half yearly to address current and developmental issues. In such cases where FSI has appointed a custodian on behalf of a client a further annual review of the operation's sites would be undertaken.

Communication links are also well established between operations teams and operations/account management at each custodian to ensure there is active communication throughout each business day. An escalation process exists with our custodians, thereby enabling the swift resolution of any problematic issues.

Placing of deposits

FSI will place deposits either through direct placements with banks, through the use of money market brokers or via the use of money market funds. Money market brokers are used to analyse the market on behalf of FSI and identify the best rates for the specified amounts and time period required.

FSI will only deposit monies with institutions with a short term credit rating classified as upper or medium grade.

There are limits to the maximum amount that can be deposited with each counterparty.

FSI may deposit money with associates on behalf of UK Pension Fund clients.

Money market funds specifically approved by each client may be used by FSI to assist the cash management process.

Foreign exchange transactions

FSI may execute foreign exchange trades on behalf of its clients, in order to ensure the timely and effective settlement of trading and other cash flows in the underlying portfolios, or to hedge portfolios in line with clients' requirements.

FSI's focus is on ensuring best execution, which we define as the best price for each order relative to the market circumstances at the time. Each foreign exchange order is market-tested with several counterparties in order to establish the best price available. Unless prevented from doing so by client agreements or regulatory issues, such counterparties may involve associates of FSI, but only on the basis that such use is commercial and satisfies best execution requirements. Counterparties are approved in a similar manner to approved brokers, with an evaluation of financial strength being key. Counterparty risk is controlled through the adoption of counterparty limits.

MiFID – First State Investments’ execution policy

We will monitor the effectiveness of our order execution arrangements and policy to identify and where appropriate, correct any deficiencies. We will assess whether the execution venues included in this policy provide the best possible result for clients or whether we need to make changes to our execution arrangements from time to time. We will review our order execution arrangements and policy at least annually or whenever we are unable to obtain the best result for the execution of orders on a consistent basis. We will agree any material changes to our order execution policy with the client.