First State Asian Quality Bond Fund

Monthly Review and Outlook

June 2020

- The Fund invests primarily in debt securities of governments and corporate issuers organised, headquartered or having their primary business operations in Asia.
- The Fund's investments may be concentrated in a single, small number of countries or specific region which may have higher volatility or greater loss of capital than more diversified portfolios.
- The Fund invests in emerging markets which may have increased risks than developed markets including liquidity risk, currency risk/control, political and economic uncertainties, high degree of volatility, settlement risk and custody risk.
- The Fund invests in sovereign debt securities which are exposed to political, social and economic risks.
- The Fund invests in debts or fixed income securities which may be subject to credit, interest rate, currency and credit rating reliability risks which would negatively affect its value. Investment grade securities may be subject to risk of being downgraded and the value of the Fund may be adversely affected. The Fund may invest in below investment grade, unrated debt securities which exposes to greater volatility risk, default risk and price changes due to change in the issuer's creditworthiness.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
- For certain share classes, the Fund may at its discretion pay dividend out of capital or pay fees and expenses out of capital to increase distributable income and effectively a distribution out of capital. This amounts to a return or withdrawal of your original investment or from any capital gains attributable to that, and may result in an immediate decrease of NAV per share.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

Market Review

Favourable market sentiment from May continued well into June, enabling Asian credit to make further progress. Investors seemed willing to look through the current period of weaker corporate earnings towards a 'normalisation' of economic conditions and profitability as virus-related restrictions are lifted. More detail was also released about how the Federal Reserve will buy US corporate bonds as part of its asset purchase program. The European Central Bank and the Bank of Japan are also buying corporate securities as part of their own programs, providing a tailwind for credit markets globally. Other investors appear comfortable buying corporate bonds in the knowledge that valuations will likely be propped up by central banks on any sign of weakness.

That said, the mood changed a little later in the month reflecting concern over a potential second wave of virus cases in China and elsewhere. This resulted in some profit taking, but did not prevent the market from delivering positive returns in the month as a whole. The JACI Index returned 2.07% in June, matching the return from May and extending gains in the June quarter to more than 6%.

Fixed income markets were relatively quiet outside Asia. US Treasury yields traded in a narrow range, for example, and closed the month almost unchanged. Policy settings by major central banks have had their desired effect, dampening previous volatility and enabling government bond yields to stabilise.

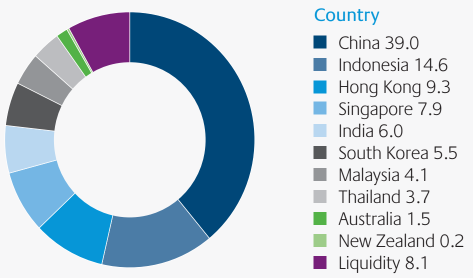
There was some encouraging news on the economic front in China, where both manufacturing and non-manufacturing areas of the economy continued to rebound. PMI surveys were ahead of expectations in both areas, suggesting there could be some emerging momentum in the world's second largest economy. Chinese economic data for the June quarter will be released in mid-July and will be closely monitored. China is ahead of other countries, having implemented and subsequently removed lockdowns earlier than elsewhere. Accordingly, global investors are looking towards China as a roadmap to see how other economies might respond as restrictions are gradually lifted.

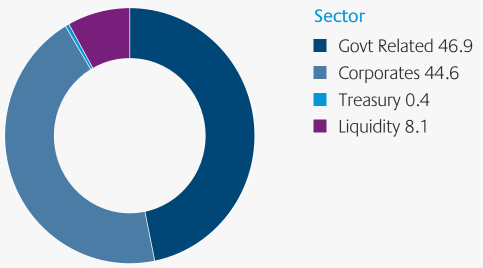
Companies continued to tap into the strong demand for credit by issuing large volumes of new bonds. With record low government bond yields and narrowing spreads, borrowing costs are currently relatively low for companies. Several are therefore looking to bolster their balance sheets, particularly given the likelihood of an extended period of below-average revenues due to ongoing virus-related disruptions. Many of the new issues in June were priced with minimal new issue premium, underlining the strong demand for credit as investors continued to search for yield.

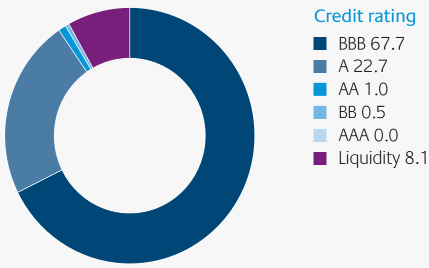
	Cumulative Performance in USD (%) [1]					
	3 mths	YTD	1yr	3yrs	5yrs	Since inception
Class I (USD - Acc)	4.6	2.3	5.2	13.6	22.7	85.3
Benchmark*	4.4	3.5	6.8	16.6	27.7	140.7

	Calendar Year Performance in USD (%) [1]				
	2019	2018	2017	2016	2015
Class I (USD - Acc)	10.9	-1.3	5.6	3.4	0.9
Benchmark*	11.0	0.0	5.5	4.5	2.2

Asset Allocation (%) [1]







Top 10 Issuers (%) [1]

Issuer Name	%
Perusahaan Listrik Negara	6.6
Pertamina Persero PT	6.1
China Overseas Land & Investment Ltd	4.3
China Huarong	4.0
DBS Group Holdings Ltd	3.6
Bank of Communications Co Ltd	3.4
Sinochem Hong Kong (Group) Co Ltd	3.2
United Overseas Bank Ltd	3.0
India (Republic of)	2.5
Ping An Insurance Group Co of China Ltd	2.3

Performance Review

The First State Asian Quality Bond Fund returned 1.37% for the month of June on a net-of-fees basis.

The positive return was largely attributed to the continued rally in credit which saw the JACI IG spread narrowed by 13bps for the month.

On a year-to-date basis, the strong positive return for the fund was largely due to the spectacular rally in US Treasury, which more than offset the spread widening that took place during end February to March.

On a relative basis, the fund lags the index on a year-to-date basis despite recovering a significant part of the underperformance during the second quarter as spreads recovered from the lows. Nevertheless, our tactical trades in US duration has added value throughout this year.

Portfolio Positioning

We continued to assess new issues on their individual merits, but overall there was limited activity in the portfolio during the month. We did participate in the dual tranche offering from Indonesian power utility PT Perusahaan Listrik Negara, however, which issued new 10- and 30-year bonds. A small short duration position was also maintained in the US Treasury market, as we continue to believe yields could trend higher as the economy continues to gradually reopen. Anticipation of an increase in the supply of Treasury bonds could exert further upward pressure on yields and weigh on valuations, in our view. New issuance seems likely to rise as the US government starts to fund its massive fiscal spending packages.

Q3 2020 Investment Outlook

What started as a health crisis has now morphed into an economic crisis as COVID-19 continues to impair business activities, increase unemployment and erode consumer's confidence. The pandemic is also likely to have a far-reaching impact on society, even after restrictions are lifted. Hence it is plausible that financial markets could continue to react to the number of new cases and fatalities, the progress made on developing a vaccine, and concerns around a second wave of infections.

Prospects for an economic recovery in the months ahead remain unclear, particularly as there have been signs that economies that are reopening are facing heightened risks of another round of widespread infections. Lockdowns seem likely to be re-introduced in some areas, bringing unintended consequences including poverty, mental distress and a dysfunctional society. Central banks and governments have rolled out large monetary and fiscal stimulus packages to help soften the blow of virus-related closures and disruptions. The level of support has been unprecedented; authorities seem willing to do whatever it takes to prevent a complete collapse in economies.

[1] Source: Lipper & First State Investments, Nav-Nav (USD total return) as at 30 June 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. Fund inception date: 14 July 2003. Performance is based on First State Asian Quality Bond Fund Class I (USD - Acc) is the non-dividend distributing class of the Fund. * The benchmark displayed is the JP Morgan Asia Credit Investment Grade Index.

Equity and credit markets have been quick to acknowledge the scale of these support packages. Some stock markets, for example, have recovered in a 'V' shape, rebounding close to pre-virus levels. It appears investors are willing to look through expectations of weaker corporate earnings towards a 'normalization' in economic conditions and profitability as virus-related restrictions are lifted. We acknowledge that economies will recover in due course and that the pandemic will eventually pass, but we are becoming increasingly uncomfortable with overall level of debt globally. It seems likely that some countries will be unable to service their debt repayment obligations in the future. If and when this occurs, it could trigger a new financial crisis that dwarfs anything we have seen before.

November's US Presidential election is another development that will increasingly affect sentiment in the months ahead. There could be some volatility in risk assets as candidates' campaigns gather steam and as their policies are announced. Speeches made by the two forerunners – Republican Donald Trump and Democrat Joe Biden – will be closely scrutinised. Markets could enter a 'risk off' phase if Biden maintains his current lead in national polls and looks likely to take control of the Senate and the White House. He has proposed more than U$3 trillion of new taxes and tighter regulations, which could act as a headwind for large parts of the economy. On the other hand, if Trump looks like being re-elected, risk assets could conceivably rally further as investors embrace his progressive economic policies. All of that said, market price action brought about by the US election could prove temporary. Back in 2016, markets perceived a Trump victory to be "unthinkable" prior to the election, but both equities and credit rallied strongly and US Treasury yields rose after Trump won; the opposite of what markets had anticipated. Ultimately, investors must focus on what can be realistically be achieved by the US economy without focusing too much on the promises of the two Presidential candidates.

All in all, the third quarter of 2020 starts with even more uncertainty than we saw back in April. Accordingly, given the strong recovery in Asian Investment Grade credit in the second quarter, we have become more cautious and are looking to preserve the gains that have already been made. Avoiding defaults and deteriorating issuers is likely to become even more important for investors in the months ahead, underlining the importance of careful issuer selection and ongoing monitoring. We are not anticipating a repeat of March's meltdown in credit markets, but that episode nonetheless reinforced the importance of maintaining exposure to high quality, liquid investments during periods of stress.