First State Investments 首域投資

First State Asian Quality Bond Fund

Monthly Review and Outlook

July 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

Investors continued to monitor Covid-related developments, particularly the rising number of new cases as Asian economies gradually reopened. This resulted in a cautious market tone early in the month. Later, European Union leaders agreed on a landmark €750 billion stimulus package, aimed at containing the unprecedented economic downturn in the region. This helped support credit markets worldwide. Confidence was also buoyed by encouraging progress on the vaccine front. Various companies worldwide continue to develop drugs to help combat the spread of Covid-19. These factors resulted in an upturn in sentiment during the month.

By the end of July, the JACI IG Index had risen 2.13%. As well as narrowing credit spreads, returns were supported by lower US Treasury yields. There was significant interest in comments from the US Federal Reserve following its scheduled meeting late in the month. It seems clear that officials are willing to do 'whatever it takes' to support the world's largest economy through the coronavirus pandemic. This suggests policy settings in the US could be eased further in due course.

The quarterly corporate earnings reporting season also got underway in the US during July. By month end, around 60% of listed companies had released their latest financial results. Whilst not affecting for Asian issuers directly, local investors looked at the earnings to see how ongoing disruptions are affecting major global corporations. A number of high profile firms – including General Motors, General Electric, Starbucks and Nike – reported losses, underlining the adverse impact of social distancing and other restrictions.

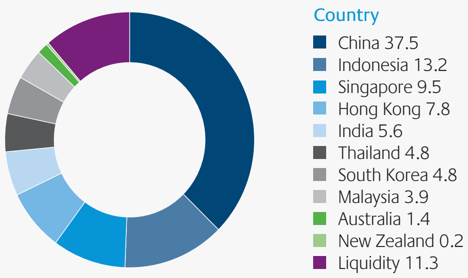
Asian companies continued to issue new securities, using strong demand for credit as an opportunity to raise fresh capital and, in some cases, bolster their balance sheets. Most of these new issues were well-received by the market; companies are not having to offer any new issue premium at all currently. In some cases, new issues are being priced at a premium to those in the secondary market, highlighting the appeal of credit in a lower yield environment. Despite lower overall yields from corporate bonds due to narrowing spreads and lower Treasury yields, investors continue to look towards the asset class for income.

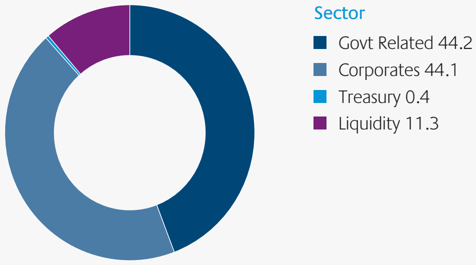
Despite the overall positive tone, geopolitical concerns resurfaced during the month. The US ended its preferential economic treatment of Hong Kong, for example, reflecting a broader standoff with China. The two superpowers also ordered the bilateral closure of consulates in a diplomatic skirmish and US President Trump indicated that TikTok and other Chinese-owned apps will shortly be banned in America. This suggested the US is starting to take a harder line on all Chinese companies, irrespective of whether they pose any national security risk. The repercussions of any further uptick in tensions between the US and China could have important implications for financial markets worldwide. Corporate bonds, for example, could see bouts of volatility as geopolitical tensions flare up periodically and as risk appetite is quickly eroded.

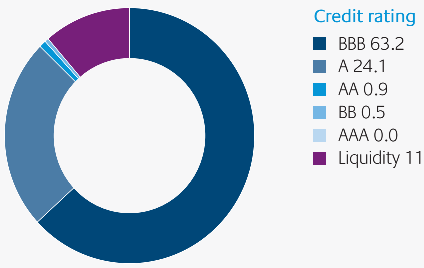
	Cumulative Performance in USD (%) [1]					
	3 mths	YTD	1yr	3yrs	5yrs	Since inception
Class I (USD - Acc)	5.9	4.7	7.1	15.8	25.1	89.6
Benchmark*	5.6	5.7	8.5	18.5	29.9	145.8

	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	%
Pertamina Persero PT	6.1
Perusahaan Listrik Negara	5.2
China Overseas Land & Investment Ltd	4.1
China Huarong	3.9
DBS Group Holdings Ltd	3.4
Bank of Communications Co Ltd	3.2
Sinochem Hong Kong (Group) Co Ltd	3.0
United Overseas Bank Ltd	2.8
PTT PCL	2.5
India (Republic of)	2.3

Performance Review

The First State Asian Quality Bond Fund returned 2.32% for the month of July 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 20bps for the month to 240bps along with rally in US Treasury which saw the 10-year hitting a low of 0.53%.

On a year-to-date basis, the strong positive return for the fund was largely due to the spectacular rally in US Treasury. While spreads have recovered strongly from the March lows, they are still wider than the levels at the start of the year.

On a relative basis, the fund continued to make up lost ground. Our overweight in Indonesia did really well in July. Our exposures in CNY and SGD further boosted performance as these two currencies continued to strengthen against the US dollar.

Portfolio Positioning

There were few changes to overall portfolio positioning, with a defensive bias being maintained. The recovery in spreads since March has been quite extraordinary, especially considering the risk of a 'second wave' of virus infections and ongoing economic restrictions. This trend cannot persist indefinitely. We are mindful that sentiment could turn quickly and are therefore looking to preserve gains that have recently been made.

Regional and company-specific news flow and evolving valuations did, however, result in some changes to individual positions. We trimmed the Fund's holdings in recent new issues from Indonesian power utility PT Perusahaan Listrik Negara early in the month, for example, amid rising cases of Covid-19 in the country. On the buy side, Thaioil Power Company was added to the portfolio. The relative value of this issue had improved after lagging the broader market rally recently.

At the same time, we increased the Fund's exposure to the Chinese yuan and Singaporean dollar. We believe recent strength versus the US dollar could persist and also expect these two currencies to outperform others in Asia.

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

[1] Source: Lipper & First State Investments, Nav-Nav (USD total return) as at 31 July 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.

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.

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.