AN INTRODUCTION TO CURRENCY HEDGED SHARE CLASSES
July 2018

Introduction
First State Investments (FSI) offers a range of currency hedged share classes designed to help our investors reduce the potential impact of foreign exchange rates on their investment returns. Here we explain how and why an investor might use hedged share classes and the potential risks involved. For further information please refer to the prospectus which can be found on the website www.firststate.com

What is currency risk?
Fund managers buy assets in the hope they will go up in value to generate a return for their investors. If they buy assets in different currencies to the money their investors give them, and/or the fund is valued (‘based’) in a different currency, any changes in the exchange rates between them may add to, or reduce, returns. This is known as currency risk.

What is currency hedging?
Currency hedging is a technique used which aims to minimise the impact of changes in exchange rates, on your investment.

Why invest using currency hedged share classes?
FSI offer funds that invest internationally, so our investors may be exposed to currency risk. A currency hedged share class aims to help minimise (but it won’t completely eliminate) the impact these exchange rate changes may have on an investor’s returns.

What types of share classes does First State offer?
FSI offer two types of hedged share classes, as well as offering share classes that are not currency hedged.

1. Hedged – Net Asset Value (“NAV”) hedged share classes
- Funds are usually valued in one particular currency, known as its base currency. If the money you want to invest is a different currency to this – for example if you are investing Euros (EUR) in a Pound Sterling (GBP) ‘based’ fund – NAV hedging will help minimise any fluctuations in the EUR/GBP exchange rate. In other words, it will aim to give you similar returns to whatever the fund’s main ‘base’ currency returns are. This therefore means the investment managers view on currencies will still be reflected in the performance of this hedged share class.
- **Important:** It won’t get rid of all currency risk - a fund manager’s strategy may lead them to make specific decisions to investments in different currencies to the ‘base currency’ of the fund, so check what the fund invests in and make sure you’re comfortable with any currency risks it may be taking. Details of additional risks can be found in the Additional Risks section.

2. Hedged – Portfolio hedged share classes
- This method hedges movements in the currencies in which the Fund’s assets are denominated against the currency of the hedged share class. The aim is to reduce the currency differences in the portfolio. However, this hedging will be subject to the same limitations as those set out above in relation to NAV hedged share classes.
3. Unhedged
~ No currencies are hedged. This means in addition to the rises and falls in the value of the portfolio's investments, your returns may be boosted or reduced by: (a) any changes in exchange rates that the portfolio may be exposed to; and (b) any changes in exchange rates between the base currency and the currency of the share class (if different).

What are the potential impacts of using currency hedged share classes on performance?

The following graph shows the potential differences in performance between NAV hedged share class and unhedged due to changes in exchange rates. It also highlights how NAV hedging aims to track the performance of the base currency (USD), but will not do so completely. You'll see the performance of the NAV hedged class doesn't exactly perform in line with the base currency, please see the sections below which explain why this is.

What are the potential risks posed both to investors and performance through the use of currency hedged share classes?

~ Hedged share classes have additional costs to unhedged share classes. These are charged at an individual share class level and will erode a small proportion of an investor’s potential returns.

~ While currency hedged share classes aim to protect investors from adverse movements in currencies, they remove the possibility of profiting from them.

~ Share class hedging cannot eliminate all currency risks. See the section below for a list of additional risks.

Further Information. For more details regarding the risks associated with investment, please refer to the prospectus.

What are the potential impacts of using currency hedged share classes on performance?

The following graph shows the potential differences in performance between a portfolio hedged share class and an unhedged share class due to changes in exchange rates. It also highlights how portfolio hedging makes the hedged share class perform differently to the performance of the base currency (GBP) and an unhedged class. Please see the sections below which explain potential risks posed by the performance of currency hedged share classes.

Hedged share classes available:

**UK ICVC** ~ all hedged share classes have ‘Hedged’ in the share class name:

**NAV Hedging:**
1. First State Diversified Growth Fund
2. First State Emerging Markets Bond Fund

**Portfolio Hedging:**
1. First State Global Listed Infrastructure Fund
2. First State Global Property Securities Fund
3. First State Japan Focus Fund

**Irish VCC:**

**NAV Hedging:**
Within the VCC NAV hedged share classes can be identified by the presence of “Hedged N” at the end of the share class name and a list of funds and share classes available can be found in the prospectus

**Portfolio Hedging:**
Within the VCC Portfolio hedged share classes can be identified by the presence of “Hedged P” at the end of the share class name and a list of funds and share classes available can be found in the prospectus.

Graphs are hypothetical and for illustrative purposes only, they do not represent the performance of any of FSI’s fund range.