Quarterly update

Emerging Market Debt

First State Emerging Market Debt

Q3 2018 Review

RISK FACTORS

This document is a financial promotion for First State Emerging Markets Bond Fund for professional clients only in the EEA or elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Credit risk:** the issuers of bonds or similar investments may not pay income or repay capital when due.
- **Interest rate risk:** interest rates affect the value of investments; if rates go up, the value of investments fall and vice versa.
- **Emerging market risk:** emerging markets may not provide the same level of investor protection as a developed market; they may involve a higher risk than investing in developed markets.
- **Charges to capital risk:** the fees and expenses may be charged against the capital property. Deducting expenses from capital reduces the potential for capital growth.
- **Below investment grade risk:** below investment grade debt securities are speculative and involve a greater risk of default and price changes than investment grade debt securities due to changes in the issuer's creditworthiness. In periods of general economic difficulty, the market prices may fluctuate and decline significantly.

Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

Market review and portfolio strategy over the reporting period

Emerging market (EM) debt (JPM EMBI global diversified in US$) markets experienced a volatile third quarter but delivered a positive return of 2.3% over the period as the EM risk premium (spread) fell from 3.69% to 3.35%. 10-year US Treasury yields rose in the quarter from 2.86% to 3.06%, but this was more than off-set by the lower risk premium, and the yield on EM debt fell from 6.53% to 6.41%. The 2.65% return on EM high-yield (HY) countries was higher than the return on higher-quality investment grade EM countries (1.97%) as EM HY spreads retraced some of the widening of the previous quarter.

Annual Performance (% in USD) to 30 September 2018

Period	12 mths to 30/09/18	12 mths to 30/06/17	12 mths to 30/09/16	12 mths to 30/09/15	12 mths to 30/09/14
First State Emerging Markets Strategy USD	**-2.52**	**4.53**	**15.02**	**-0.22**	**8.56**
JPMorgan EMBI Global Diversified	-0.19	4.61	16.20	-0.62	9.67

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the share class currency, the return may increase or decrease as a result of currency fluctuations.

Performance data is calculated on a net basis by deducting fees (a model fee of 60bps has been applied) from a gross of fee return. The internally calculated gross of fee return excludes all costs (e.g. custody costs), save that it does not exclude costs associated with buying or selling securities within the portfolio. Income is re-invested on a gross of tax basis. Source: Lipper IM / First State Investments (UK) Limited.

Quarterly update

The global environment and the US dollar remained important drivers for EM debt in the third quarter. The rallying dollar in August put EM currencies, in particular the Argentine peso and the Turkish lira, under pressure. Both countries have large current account deficits and are dependent on international capital flows. In Turkey, market perception was that monetary policy was too loose given rising inflation. In Argentina, the intermittent intervention in the FX market by the Central Bank to support the peso raised questions on the currency strategy. In the end, both countries alleviated some investor concerns, with Turkey's Central Bank raising interest rates from 6.25% to 24% in September, and Argentina renegotiating its IMF[1] program with much clearer definition of monetary and currency policy. The lira rallied in September as a result of the rate hike. Other EM countries such as Russia or Indonesia also responded to currency pressure by raising interest rates.

Strong and rising oil prices led to outperformance of many hydrocarbon export countries such as Ecuador (+8.2%), Iraq (+7.3%), Gabon (+7.6%) and Bolivia (+6.7%). The worst performers in the quarter were Zambia (-16.6%) where an IMF rescue program looks less likely, and Costa Rica (-5.3%), where the fiscal reform was delayed.

Throughout the quarter, the Strategy remained selective in high yield countries where domestic developments were unfavourable or where demand/supply dynamics ahead of new issuances were less positive. Given our constructive view on oil, we added exposure in Kazakhstan, Ecuador and GCC countries[2]. We also added tactically to the Argentinean position in early September but took some profit after the announcement of the revised IMF program.

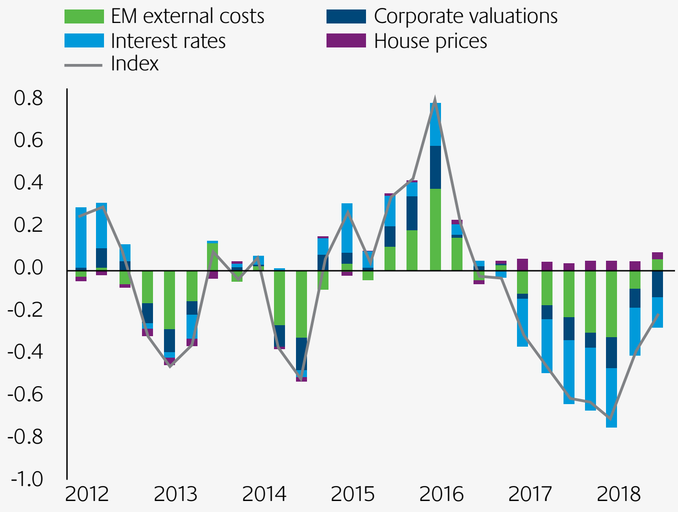
Market outlook and portfolio implications

We broadly expect a continuation of the somewhat challenging global environment for EM in the next quarter. While global growth remains solid, we believe US growth will continue to outperform other regions. Given the expansionary US fiscal policy, we also see the Fed continuing to move toward a less accommodating policy stance and diverge from the other G3 Central Bank policies. This policy divergence is likely to keep the US dollar supported, particularly against some EM currencies. We expect that EM growth numbers will show some temporary slowdown in the near term given that financial conditions in systemically important EM countries (ex-China) have tightened as a result as the interest rate rises in the third quarter.

1 International Monetary Fund

2 Gulf Cooperation Council (GCC), political and economic alliance of six Middle Eastern countries—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman.

Emerging Market (Excluding China) Financial Conditions Index - (Z-scores over 1996–2018: Q3)

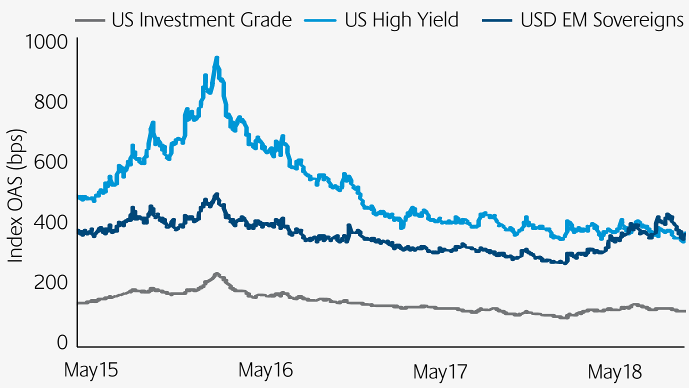


Source: IMF, Global Financial Stability Report, October 2018

US foreign policy, in particular Iranian sanctions and the trade war with China, will continue to be a key driver for global markets and a source of volatility. Given this global backdrop, we expect market volatility to remain high and economic and asset price performance among EM countries to be very diverse. Tightening of dollar liquidity remains a headwind for EM and in particular for EM countries with high external debt, current account deficits and low reserve buffers. The effect of the Iran sanctions, however, could be positive for EM hydrocarbon exporters if the sanctions tilt the supply/demand balance sufficiently to keep the oil price at current levels or increase it further.

While we expect the external environment for many EM countries to remain challenging, valuation of EM debt has adjusted and EM HY spreads in particular have widened relative to US HY credit. We believe that at current levels of risk premium and the absolute yield level, the asset class has largely priced in the less favourable external environment and we see pockets of value in select segments of the market.

EM valuations: widening of EM Sovereigns relative to US Investment Grade and US High Yield



Source: Barclays as at October 2018. OAS refers to the Option Adjusted Spread of each index

Quarterly update

We also expect the technical position of EM debt to improve in Q4: EM sovereigns have already issued more than $120 billion debt year to date. For the remainder of the year, EM gross sovereign issuance is expected to be between $20 and $30 billion, and on a net basis (after repayments and coupon payments), most estimates are that net issuance will be small or even negative for EM sovereigns. This will create a much stronger technical position for the asset class than was prevalent in the previous quarters.

We anticipate that the external environment will remain an important driver for the performance of the asset class and that the divergence in economic performance and vulnerability of the various EM countries argues for careful country and asset selection. The Strategy remains cautiously positioned, particularly in duration, and we generally have a preference for shorter-dated bonds where we see more attractive risk/reward than in longer-dated bonds. The Strategy also retains a bias for select oil credits; currently we are overweight relative to the benchmark in credits such as Kazakhstan, Colombia or Qatar within investment grade countries. In HY, lower quality oil credits, we prefer countries with IMF engagement or potential for closer cooperation with the IMF. Given divergent credit trends among countries, the Strategy will be selective particularly in the HY space.

For further institutional enquiries contact institutionalenquiries@firststate.co.uk

For wholesale enquiries contact enquiries@firststate.co.uk

MAR00342_EU/UK_10/18