

THE FIRST STATE DIVERSIFIED GROWTH FUND IS LEARNING FROM HISTORY

- When we say flexible, we really mean it
- Our focus on preserving capital is important, especially today
- An informed view, educated by history

The First State Diversified Growth Fund aims to deliver to our investors steady, long-term capital growth of inflation + 4% gross of fees over a five year rolling period, and we believe you need total flexibility to achieve this goal. Economies, political landscapes and investment markets all dramatically change over time; if we didn't have the flexibility to move anywhere across the spectrum of developed and emerging markets, be it in equities, fixed income, currencies and commodities, we wouldn't be able to squeeze the maximum value possible out of the opportunities we find.

This places us in the IA's Flexible Investment sector, giving us the broadest scope possible to seek out investment opportunities: no minimums must be held in equities, nor in bonds or currencies.

In our view, we wouldn't see the point of holding a mandatory 35% of the portfolio in a particular asset, say bonds, if we knew there was greater value to be found in other classes, such as equities or currencies. This broad view of asset allocation we refer to as our Neutral Asset Allocation (NAA), and we review it every six months, or in the instance a significant event occurs in the market that might change our economic outlook.

Then there's our dynamism when it comes to investing – part of the portfolio dedicated to finding short-term market inefficiencies to enhance returns. Every week we assess potential market dislocations. These may include finding certain pockets of value in an asset class or specific signals across return drivers such as the momentum of earnings; or it could be looking across the level, and changes, in interest rates globally.

Risk management is integral to protecting and growing our investors' capital. Whilst we don't shy away from risk - it's a contributing factor to how the fund achieves its return – we do however take careful steps to ensure we know exactly what risks

exist in the portfolio, and if we find any that are unwanted we take steps to protect against them. It ensures we do everything we can to meet an extremely important short-term objective for our investors – capital preservation; no one wants to lose money.

There may not be a better time for funds that seriously consider downside protection: markets are currently in the midst of the third longest bull-run in history; valuations across asset classes are beginning to look stretched; the Fed and other central banks around the world are hiking interest rates; the economic cycle has matured; steroidal QE programs are unwinding.

This doesn't necessarily mean recession, but sell-offs in certain assets are more likely now than they have been for a number of years.

Our investment process carefully considers and models market risks. One of the ways we can do this is by using history as a guide. By reaching into the past: by analysing major market events and the causes behind shocks to certain asset classes, we are able to model the risks these events posed at those times and stress test our portfolio today. This helps us understand the potential impacts so that if (and when) these arise again, our preparation means the portfolio should perform much better than the wider market or other funds.

In the upcoming series of articles we're going to explore some of the interesting events in history that have upset the apple-cart and dragged asset prices lower, highlighting what we learnt and how we prepare our portfolio today in case similar shocks were to arise.

For further information about the First State Diversified Growth Fund [click here](#).

Important Information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy, or completeness of the information. We do not accept any liability whatsoever for any loss arising directly or indirectly from any use of this information.

References to “we” or “us” are references to First State Investments.

In the UK, issued by First State Investments (UK) Limited which is authorised and regulated by the Financial Conduct Authority (registration number 143359). Registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB number 2294743. Outside the UK within the EEA, this document is issued by First State Investments International Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registered number 122512). Registered office: 23 St. Andrew Square, Edinburgh, EH2 1BB number SCO79063.

Certain funds referred to in this document are identified as sub-funds of First State Investments ICVC, an open ended investment company registered in England and Wales (“OEIC”). Further information is contained in the Prospectus and Key Investor Information Documents of the OEIC which are available free of charge by writing to: Client Services, First State Investments (UK) Limited, Finsbury Circus House, Finsbury Circus, London, EC2M 7EB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.firststateinvestments.com. Telephone calls may be recorded. The distribution or purchase of shares in the funds, or entering into an investment agreement with First State Investments may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key investor information documents (KIIDs), the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

First State Investments (UK) Limited and First State Investments International Limited are part of Colonial First State Asset Management (“CFSGAM”) which is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124. CFSGAM includes a number of entities in different jurisdictions, operating in Australia as CFSGAM and as First State Investments elsewhere. The Commonwealth Bank of Australia (“Bank”) and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of the Bank or its subsidiaries, and are subject to investment risk including loss of income and capital invested.