First State Regional China Fund

Quarterly Investment Report

31 March 2018

Investment objective and strategy

To invest all or substantially all of its assets in the First State Greater China Growth Fund, a Dublin-domiciled fund.

Fund Information

Fund Size (S$m)	489.9
Benchmark	MSCI Golden Dragon Index
Number Of Holdings	47

Available share classes

Share class	Inception date	Nav/per share	ISIN code
Class A (Acc)	01 November 1993	S$4.0274	SG9999000194

About First State Stewart Asia

First State Stewart Asia (FSSA) is an autonomous investment management team within First State Investments, with offices in Hong Kong, Singapore and Edinburgh.

FSSA are Asia Pacific specialists, managing US$25.0billion* across a range of single country and regional Asia Pacific equity strategies on behalf of institutional and wholesale clients globally.

The team has achieved relatively outstanding risk-adjusted returns in this asset class over the long-term and are recognised for their conservative, long-term investment approach.

* Source: First State Investments as at 31 March 2018.

Our Investment Philosophy

Our investment philosophy is founded on the concept of stewardship. Most importantly we invest our clients' funds as if they were our own. Underpinning this is the belief that investment ought to have a social purpose, this being the efficient allocation of clients' assets to high quality companies at sensible prices.

Our approach has a number of key features:

- Absolute return mind-set
- Long-term investing
- Bottom-up stock selection
- Quality companies
- Sensible valuations
- Benchmark indifference

Performance | 31 March 2018

Cumulative performance in SGD (%)^

	Since incept.	5yrs	3yrs	1yr	3mths
Fund (Ex initial charges)	734.7	82.1	36.2	26.7	1.0
Fund (Inc initial charges)	693.0	73.0	29.4	20.4	-4.0
Benchmark	223.1	79.6	29.8	22.5	0.1

Annualised performance in SGD (%)^

	Since incept.	10yrs	5yrs	3yrs	1yr
Fund (Ex initial charges)	9.1	8.1	12.7	10.8	26.7
Fund (Inc initial charges)	8.8	7.5	11.6	9.0	20.4
Benchmark	4.9	6.0	12.4	9.1	22.5

^ The performance prior to 18 Oct 02 is in relation to the Fund before its conversion to a feeder fund.

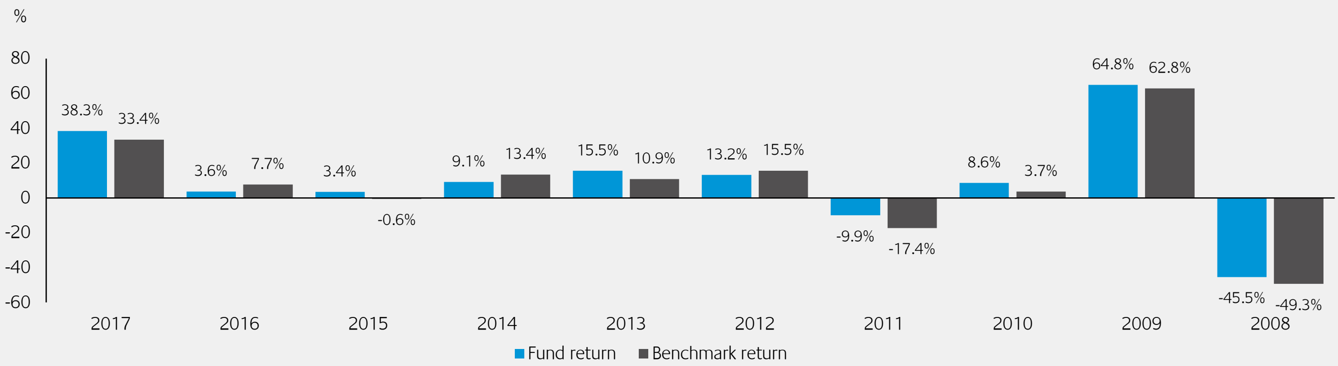
Market Review

The Greater China equity markets increased over the quarter. The MSCI Golden Dragon Index increased by 2.1% in US dollar terms over the period. Taiwan was the best performer, up 5.7% over the period, followed by China, which rose by 1.8%. Hong Kong was the weakest, declining by 1.4% over the quarter.

Performance Review

On portfolio holdings, CSPC Pharmaceutical rallied on better than expected earnings boosted by the inclusion of its flagship NBP product on China's National Reimbursement Drug List. ENN Energy outperformed, driven by higher growth expectations for the year ahead. China's environmental policies and "coal-to-gas" projects for local governments should continue to fuel higher levels of gas consumption. On the negative side, Minth Group weakened on softer than expected results and fears of US protectionism impacting its North American business, while China Taiping Insurance fell back on profit-taking.

Calendar Year Performance (% in SGD) to 31 March 2018



Source: Lipper and First State Investments, single pricing basis with net income reinvested. Unless otherwise specified, all information contained in this document is as at 31 March 2018. Investment involves risks, past performance is not a guide to future performance.

Portfolio Review

We initiated a position in Silergy Corp, the largest analogue integrated circuit (IC) designer in Asia. Although Silergy is still small, we believe that its better-performing products, competitive pricing and good sales support should help it gain share in a market that has historically been dominated by incumbents in the West. We also purchased Mediatek, which had showed signs of a turnaround. Although the recovery is unlikely to follow a straight line, the smartphone business and other new growth areas seem to be progressing well.

We divested Giant Manufacturing on concerns around the level of competition in the industry. The bike sharing economy is here to stay and sales seem to have bottomed; however, capital raises by tech owners like Alibaba means that competition is likely to remain fierce.

Stock Spotlight

Incomes in China have been rising steadily over the past few decades. Rapid economic growth has lifted more than 800 million[1] people out of poverty, with an increasing number of families each year crossing the threshold into affluence. This rise in disposable income has shifted the nature of consumption in China. Families are trading up to buy premium versions of cars, home appliances, food products and even alcohol.

We believe **China Mengniu Dairy**, one of the two largest dairy companies in China, is well-positioned to tap into this 'premiumisation' trend. Mengniu is part of the stable of companies under state-owned entity China National Oils, Foodstuffs and Cereals Corp (COFCO), China's largest food processing company. It also has long-term strategic partnerships with European companies: Arla Foods since 2012 and Danone Group – the world's biggest dairy company – since 2014.

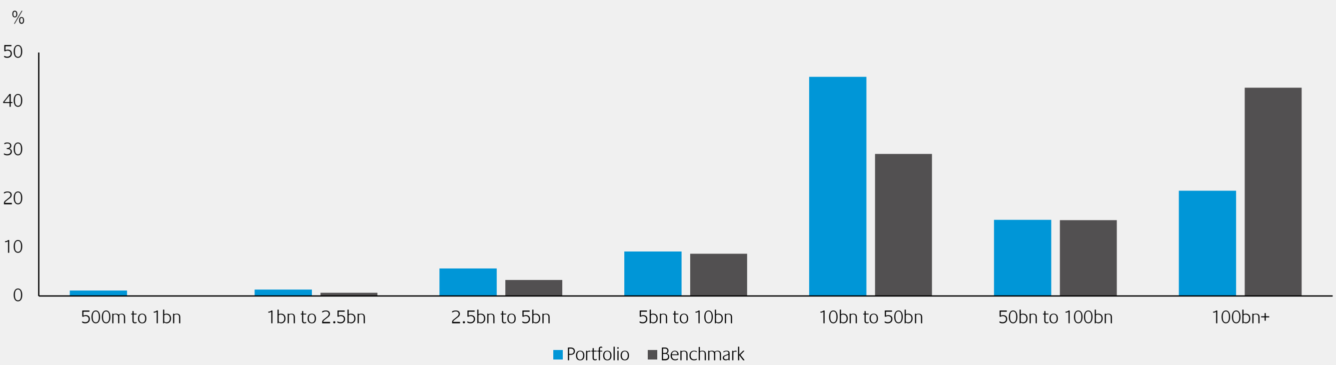
Despite being among the world's largest market for dairy, China's per capita consumption of yoghurt, ice-cream and cheese – higher margin products compared to milk – is still relatively low. Mengniu's margins are much lower relative to global dairy businesses as a result. However, as incomes continue to rise, the growing middle-class appetite for premium yoghurts, ice-creams, beverages and other non-dairy health products, particularly with the launch of healthier versions and local flavours, should provide a structural tailwind for Mengniu.

In 2016, after a challenging period which included a substantial fall in profits at subsidiary companies Yashili and China Modern Dairy, Mengniu replaced its CEO, introduced new incentives for its sales team and re-positioned itself as a healthy product provider.

In a stark turnaround, most of its key businesses and product lines delivered strong growth in 2017. Improvements to the product mix resulted in a healthy expansion in margins. Operating cash flow soared due to better inventory management and the company is spending more on brand building to support future growth. We believe margins could improve further from here, which could trigger a re-rating in the shares.

[1] World Bank, 2017

Market Capitalisation Breakdown (SGD)



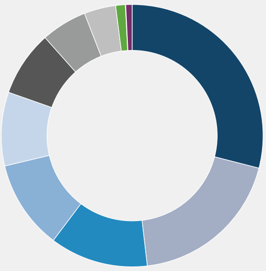
Data source: For illustration purposes only. Portfolio weights may not add up to 100% as cash holdings are excluded and full coverage of stocks is not always available. This information is calculated by First State Investments. Past performance is not indicative of future performance. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First State Investments' portfolios at a certain point in time, and the holdings may change over time.

Portfolio Allocation | 31 March 2018

Ten Largest Holdings as at 31 March 2018

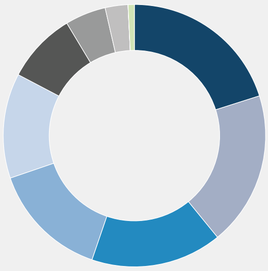
Stock Name	Country	Sector	Portfolio Weight (%)	Index Weight (%)
Taiwan Semiconductor (TSMC)	Taiwan	Information Technology	7.3	7.4
Tencent Holdings Ltd.	China	Information Technology	6.5	10.5
CSPC Pharmaceutical Group Ltd.	China	Health Care	4.7	0.4
ENN Energy Holdings Limited	China	Utilities	3.9	0.2
China Merchants Bank Co., Ltd. Class H	China	Financials	3.9	0.6
AIA Group Limited	Hong Kong	Financials	3.9	3.6
AAC Technologies Holdings Inc.	China	Information Technology	3.7	0.5
China Taiping Insurance Holdings Co., Ltd.	China	Financials	3.3	0.2
Shenzhou International Group Holdings Ltd.	China	Consumer Discretionary	3.0	0.3
Gree Electric Appliances, Inc. of Zhuhai Co., Ltd. Class A	China	Consumer Discretionary	2.9	0.0

Sector Breakdown



- Information Technology **29.0%** (38.3%*)
- Consumer Discretionary **19.2%** (8.5%*)
- Financials **12.1%** (23.5%*)
- Health Care **11.0%** (1.6%*)
- Consumer Staples **9.1%** (2.3%*)
- Industrials **8.1%** (5.1%*)
- Real Estate **5.7%** (7.9%*)
- Utilities **3.9%** (3.2%*)
- Materials **1.2%** (2.9%*)
- Other **0.0%** (6.7%*)
- Cash **0.8%** (0.0%*)

Share Class Breakdown



- P Chip **20.1%**
- Taiwan **19.0%**
- China A Shares **16.2%**
- Hong Kong **14.5%**
- Red Chips **12.9%**
- China H Shares **8.7%**
- Singapore **5.0%**
- US Listed **2.8%**
- China B Shares **0.0%**
- Cash **0.8%**

*Benchmark weight

Sector and Share Class classifications provided by Factset and First State Investments.

+ Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%.

Outlook

The China equity market has had a weak start to the year. Trade tensions between the US and China are likely to remain a key focus point in the shorter term, as both sides escalate tariff measures as a negotiating tactic. We expect continued market volatility in the meantime, until actual implementation takes place and the impact can be quantified. Domestically, the fundamental outlook for the Chinese economy remains steady. In the past two years, capacity closures and deleveraging efforts in the traditional materials sectors have led to significant improvements in the debt-to-asset ratio, thus reducing the level of systemic risk and banking NPL ratios.

Meanwhile, China's economic rebalancing continues. China's new economy sectors are leading fixed asset investment growth, which should help the transition towards a more balanced, consumption-driven and services-led economy. In 2017, the gap between GDP contribution by final consumption and gross capital formation (or investment) widened to 27% - the largest gap since such data became available in 2009. Of the 6.9% real annual growth figure in 2017, final consumption makes the largest contribution to the economy – around a 60% contribution compared to 32% from capital formation and just 8% from net exports. We expect Chinese equities to remain constructive over the longer term, and continue to look for well-managed players with reasonable growth expectations and conservative balance sheets.

Our long-term investment themes:

-Dominant consumer franchises such as Gree Electric and China Mengniu Dairy.

-Companies that should benefit from the rise in health care spending: China Resources Phoenix Health Care and Yunnan Baiyao.

-Smart technology companies such as Advantech and Taiwan Semiconductor on the consumer side as well as industrial automation companies Shenzan Inovance and Midea Group's Kuka.

-Global competitive exporters which are leaders in their sectors such as Minth Group and Fuyao Glass.