

First State Regional China Fund

Quarterly Investment Report

31 March 2019

Investment objective and strategy

The Fund aims to achieve long term capital appreciation and invests all or substantially all of its assets in the First State Greater China Growth Fund (the "Underlying Sub-Fund"), under the Dublin registered First State Global Umbrella Fund plc.

The Underlying Sub-Fund invests primarily (at least 70% of its net asset value) in equity securities or equity-related securities issued by companies with either assets in, or revenues derived from, the People's Republic of China, Hong Kong, and Taiwan and which are listed, traded or dealt in on regulated markets in the People's Republic of China, Hong Kong, Taiwan, the U.S., Singapore, Korea, Thailand and Malaysia or in a member state of the OECD.

Fund Information

Fund Size (\$m)	501.6
Benchmark	MSCI Golden Dragon Index
Number Of Holdings	48

Available share classes

Share class	Inception date	Nav/per share	ISIN code
Class A (Acc)	01 November 1993	\$3.9832	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 investments 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.

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

Cumulative performance in SGD (%)^

	Since incept.	5yrs	3yrs	1yr	3mths
Fund (Ex initial charges)	725.5	68.2	56.2	-1.1	14.1
Fund (Inc initial charges)	684.3	59.8	48.4	-6.0	8.4
Benchmark	222.4	68.0	52.4	-0.2	14.7

Annualised performance in SGD (%)^

	Since incept.	10yrs	5yrs	3yrs	1yr
Fund (Ex initial charges)	8.7	12.1	11.0	16.0	-1.1
Fund (Inc initial charges)	8.4	11.5	9.8	14.1	-6.0
Benchmark	4.7	10.3	10.9	15.1	-0.2

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

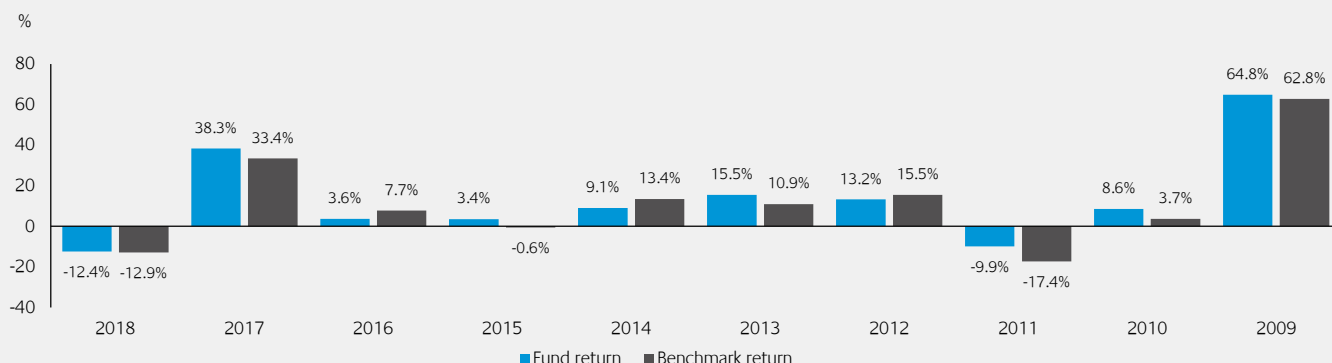
Market Review

The MSCI Golden Dragon Index increased in US dollar terms over the period. China was the best performer, up 17.7% over the period, followed by Hong Kong, which rose by 15.6%. Taiwan underperformed, but still increased by 9.0% over the quarter.

Performance Review

On portfolio holdings, China Merchant Bank increased on the back of strong earnings results. Asset quality has improved after the implementation of more conservative lending policies; and its high margin retail business grew strongly. AIA Group strengthened, as its newly-approved branches in Tianjin, Shijiazhuang and Hebei led to expectations of accelerated growth in China. On the negative side, Dairy Farm International weakened, as its Southeast Asian food business, which accounts for around half of sales, struggled amid increased competition among supermarkets and high operating costs. Minth Group was lower on trade war concerns.

Calendar Year Performance (% in SGD) to 31 March 2019



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 2019. Investment involves risks, past performance is not a guide to future performance.

Portfolio Review

We initiated a position in Zhejiang Chint, one of the leading low voltage electrical equipment (LVEE) manufacturers in China. The company has a stable business and a dominant market share in the low to medium end of the market, with better profitability and operational efficiency than other local players due to economies of scale. We also purchased Beijing Thunisoft, a software company that provides information systems to governments and corporates. The company has a capable management team with a strong engineering culture and has reasonable growth visibility over the next few years as local courts upgrade their systems.

We disposed of Qingdao Haier on expensive valuations and on concerns about growth in the home appliances sector.

Stock Spotlight

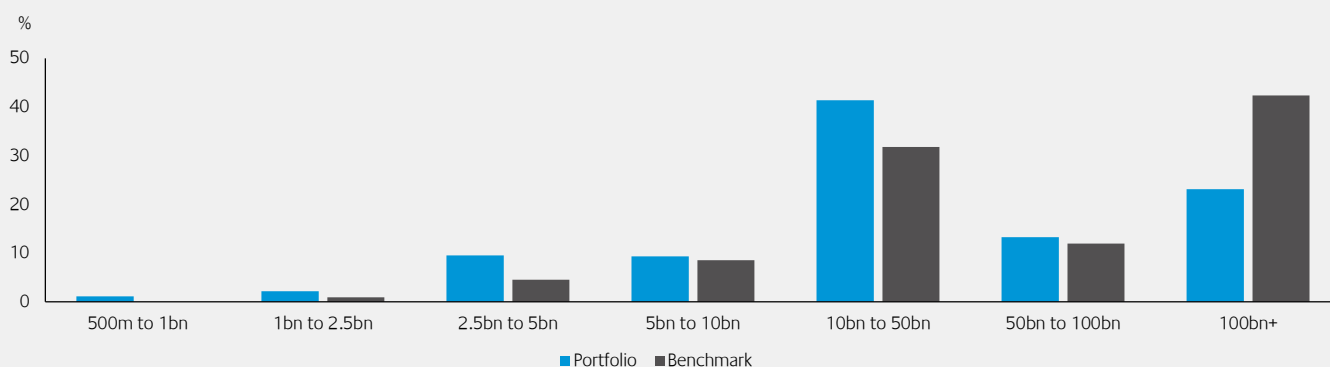
Yunnan Baiyao is a leading traditional Chinese medicine brand, with a protected patent on the 'miracle drug' Baiyao, which was invented more than 100 years ago. Its bandages and pain relief lead in each of their respective markets, while its foray into consumer goods – predominantly toothpaste – represents a growing percentage of revenue.

Earnings are extremely defensive due to its strong pricing power and high exposure to the over-the-counter drug and toothpaste market. The business had decent top-line growth in 2018, with revenue up and operating profit margins steady. Dividends increased by 33%, giving a 2.3% dividend yield.

We believe further improvements could be made as a result of reforms at the company. Yunnan Baiyao, formerly a fully state-owned enterprise, is a pioneer in shareholder reforms. In December 2016, private capital from New Huadu and Jiangsu Yuyue was injected into a holding company which owned Yunnan Baiyao, thus reducing government ownership.

In November 2018, Baiyao further announced that it would acquire the holding company to achieve a full listing at the operating entity level. At that point, 20 million shares were bought back – 1.92% of the total outstanding – to introduce a share incentive programme for employees. This should serve to boost morale and align management interests, and unlock the company's growth potential.

Market Capitalisation Breakdown (SGD)

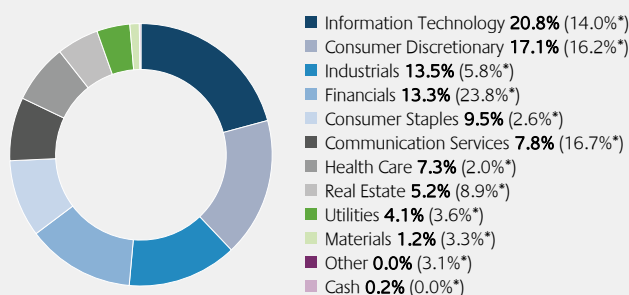


Data source: For illustration purposes only. Portfolio weights may not add up to 100% as cash holdings are excluded and full coverage of stocks is not always available. This information is calculated by First State Investments. Past performance is not indicative of future performance. Reference to specific 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.

Ten Largest Company Holdings as at 31 March 2019

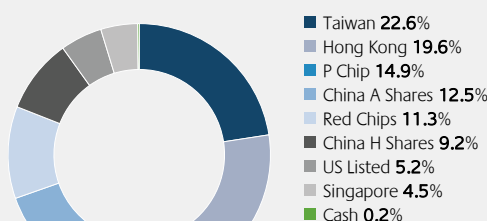
Stock Name	Country	Sector	Portfolio Weight (%)	Index Weight (%)
Taiwan Semiconductor (TSMC)	Taiwan	Information Technology	7.2	6.7
Tencent Holdings Ltd.	China	Communication Services	5.8	9.0
AIA Group Limited	Hong Kong	Financials	5.2	4.1
China Merchants Bank Co., Ltd. Class H	China	Financials	4.9	0.7
ENN Energy Holdings Limited	China	Utilities	4.1	0.3
China Mengniu Dairy Co. Ltd.	China	Consumer Staples	3.9	0.4
CSPC Pharmaceutical Gp Ltd.	China	Health Care	3.6	0.3
Advantech Co., Ltd.	Taiwan	Information Technology	3.5	0.1
Shanghai International Airport	China	Industrials	3.2	0.0
ASM Pacific Technology Limited	Hong Kong	Information Technology	2.9	0.1

Sector Breakdown*



*Benchmark weight

Share Class Breakdown*



Sector and Share Class classifications provided by Factset and First State Investments. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, if any, typically include only the main domestic-listed security. The above Fund weightings may or may not include reference to multiple securities.

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

Outlook

The Chinese equity market corrected sharply in 2018. We took advantage of market weakness to add to our high quality portfolio holdings; and have started to reassess the companies on our watch-list which look more attractive on valuation metrics.

However, we remain cautious in our outlook for the coming year and expect market volatility to continue over the short term. Although the progress towards an entente cordiale between China and the US is encouraging, there remains a wide gulf between the two countries on a broad range of issues, which will take time to resolve.

In response to trade war uncertainties and slowing growth, we expect the Chinese government to continue its targeted approach to bolster the economy, with policies designed to ease conditions for businesses and households, while maintaining its line of attack on debt reduction. In addition, ongoing structural reforms should continue to enhance market-based efficiencies and improve corporate profitability in the state-owned sector.

On a longer-term basis, we believe that China's growth story remains intact. Chinese companies have been focusing more on research and development, and product innovation, in order to compete with global peers. Meanwhile, the structural trends of consumption upgrading and healthcare spending should persist as incomes continue to rise.

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 **Shenzhen Inovance** and **Midea Group's Kuka**.
- Globally competitive exporters which are leaders in their sectors such as **Minth Group** and **Fuyao Glass**.

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.

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