For professional clients only

Quarterly Update | High Yield

First State Investments High Yield

Q4 2018 | Co-Portfolio Managers: Matt Philo & Jason Epstein

RISK FACTORS

This document is a financial promotion for The First State High Yield Strategy. This information is for professional clients only in the EEA and 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.**
- **Currency risk:** Changes in exchange rates will affect the value of assets which are denominated in other currencies.
- **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.
- **Currency hedged share class risk:** Hedging transactions are designed to reduce currency risk for investors. There is no guarantee that the hedging will be totally successful or that it can eliminate currency risk entirely.
- **Derivative risk:** The use of derivatives may result in gains or losses that are greater than an investment in the underlying asset.
- **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.

There are currently no investment funds available for this strategy in the EEA. Please contact your sales representative for more details.

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

"How ridiculous and how strange to be surprised at anything which happens in life."

– Marcus Aurelius

Thoughts on the Market

Perhaps it takes a disappointed father to find it "ridiculous" to be surprised by *anything* in life? Still, after decades labouring in the investment markets, Marcus' words seem apropos to the financial markets.

During the first week of 4Q-2018, at the end of U.S. market trading on October 3rd, the world of high yield was calm. The spread-to-worst of the ICE BAML US High Yield Constrained Index stood at the tight for the year, +327 bps. The S&P 500 was just 2% below its ***all-time*** high. WTI crude oil was priced at $75.96/bbl, a level last seen nearly four years prior. Even the Shanghai Composite Index was rallying sharply after nearing the -20% "bear-market" level the prior week. Yes, the yield on the 10-year UST bond was hitting levels last seen very early in the decade, but that seemed a potential reflection of a robust global economy?

Less than 3-months later, at the close of the **4th Quarter of 2018**, the robust conditions of early-October were a mere memory; and few investors with any hint of grey hair were the least bit surprised. Market corrections are as certain as taxes (let's leave death out of this), and typically occur when the fewest people are expectant and prepared.

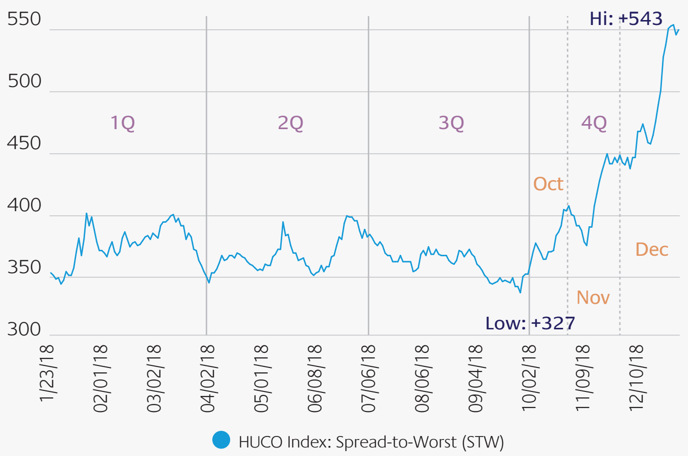
Exhibit 1 & 2, Map out much of the ensuing damage:

Exhibit 1: Returns of Various Assets

Asset Class	FY 2018	4Q'18	Dec'18	3Q'18	2Q'18	1Q'18
S&P 500	-4.39%	-13.52%	-9.03%	7.71%	3.43%	-0.76%
Emerging Market Stocks	-14.60%	-7.60%	-2.81%	-1.00%	-7.78%	1.24%
10-Year US Treasury	-0.03%	3.86%	3.01%	-1.10%	-0.30%	-2.39%
Investment Grade Corp	-2.25%	-0.06%	1.50%	0.96%	-0.94%	-2.20%
US High Yield Corp Bonds	-2.27%	-4.67%	-2.19%	2.44%	1.00%	-0.91%
Leveraged Loans	1.08%	-3.16%	-2.31%	2.00%	0.74%	1.58%
Euro High Yield Corps	-3.63%	-3.59%	-0.38%	1.67%	-1.21%	-0.48%
EM High Yield Corps	-2.29%	-0.14%	0.70%	1.59%	-3.26%	-0.44%
US High Yield by Rating						
BB US High Yield Corps	-2.57%	-3.05%	-1.40%	2.31%	-0.12%	-1.66%
B US High Yield Corps	-1.72%	-4.91%	-2.48%	2.32%	1.43%	-0.40%
CCC US High Yield Corps	-4.91%	-10.32%	-4.45%	2.80%	2.59%	0.55%

Source: JP Morgan, ICE BAML

Exhibit 2: 2018 STW of ICE BofA US High Yield Constrained Index



Source: ICE BAML indexes

4Q'18

A concise summary of the causes of this downside market correction begins, and ends with the admission that we really have no idea. However, there seem to be no shortage of pundits, on CNBC alone, that appear to possess great conviction regarding the specific, if often conflicting explanations!

We could cite the strong dollar (weak yuan), Chinese trade tensions, earnings warnings from the likes of CAT & PPG, the supposed onset of sustained central bank "QT", etc. The only problem being we would have no cohesive idea what we were talking about.

Instead we'll point out some significant market reversals that defined the 4th quarter correction:

WTI crude oil declined from its multi-year high of early Oct to within less than $1 of the Jan. 20, 2016 low of $41.48/bbl. This proved somewhat disruptive ("like a dog in an outhouse").

U.S. stock markets stopped trading up in a world of their own, first joining, and then leading global stock to the downside. The dramatic spin from JP Morgan read as follows: "...the S&P 500 just produced its worst December performance (-9.0%) since the Great Depression." Really? A -9% decline and we're conjuring up bread-lines?

The 10-year UST finally seemed to recall its role of "safe haven" in early–November, and its yield tumbled from 3.24% to 2.69% at year-end.

U.S. mid-term elections resulted in a split-chamber Congress, as expected by those who care.

At the risk of sounding "realistic" the 4th quarter financial market downside volatility seemed somewhat typical from our vantage point. The equity markets felt similar to the correction in the first quarter of 2018, UNTIL all financial markets hit the liquidity "air pocket" known as December.

December, the year's lightest trading volume month, has historically produced somewhat indiscriminate price moves if there is any meaningful price volatility. December, 2018 was no exception.

High Yield Market Commentary

The U.S. HY market, as represented by the ICE BofAML US High Yield Constrained Index (HUC0) delivered negative total returns of -2.2%, -4.7% & -2.3% for Dec'18, 4Q'18 & CY-2018, respectively.

For context, during the 21 years prior to 2018, only 2015 experienced a greater negative return during the month of December. For the fourth quarter, only 2008 & 2000 saw greater negative total returns than 4Q'18. Thus Dec'18 & 4Q'18 were statistical outliers from the standpoint of relative historical comparisons. All of which reminds us of Mark Twain:

"There are three kinds of lies: lies, damned lies, and statistics."

The first quarters of 2016, 2009 & 2001 posted total returns of +3.2%, +5.5% & +5.8%, respectively. All of which, we expect, are similarly entirely random occurrences.

ENERGY

The REAL story in the U.S. high yield market in 2018 was the Energy sector. The Energy sector (including E&P, Oilfield Service, Gas Distribution & Refining) is the largest sector in the high yield market, accounting for 15% of the HUC0 Index market value.

The somewhat distant 2nd & 3rd largest Industry sectors are Healthcare (11%) & Telecommunications (9%).

The Energy sector also experienced the weakest total returns of any HUC0 Index sector Dec'18, 4Q'18 and thus, CY-2018. On a sector weighted return basis, Energy accounted for 28%, 32% & 45% of the Index returns during Dec'18, 4Q'18 and CY-2018, respectively.

Which brings us back to Mark Twain and "statistics," again. At the end of 3Q'18, Energy (as represented by the ICE BAML US High Yield Energy Index, HUEN) had outperformed the overall high yield index by 83 bps. Energy's primary weakness was during the precipitous, -44% decline in the price of WTI crude oil between Oct-3rd and Dec-24th (not quite 12 weeks).

Now we'll make the final, and most important observations about the Energy sector as it related to the performance of our FSI High Yield Composites, using the Broad High yield Composite as an example. For the full year, calendar 2018, the Energy sector was the #1 contributor to positive performance relative to the benchmark index. Strong security selection overwhelmed a modest drag from sector weighting. The same dynamic in the fourth quarter also made the Energy sector the #1 contributor to positive performance relative to the benchmark index. Only in the thinly traded month of December did the Energy sector briefly make an appearance as the worst performance drag, relative to the benchmark index, Time will tell, but we are confident the month of December was a function of indiscriminate/undifferentiated selling across the Energy sector, during the least liquid trading month of the year. Obviously, we attempted to take advantage of that inefficiency, primarily through relative value swaps within our overall sector holdings.

Big Picture, we remain very constructive on the absolute and relative value of unleveraged, long-only, high yield investment opportunities. In our opinion, there is no better segment of the fixed income, credit markets. We believe our Composite portfolios are cheap and should prove resilient should the global economy weaken and/or credit availability tighten. A view that presents the opportunity to remind readers:

We have yet to experience a market environment where our investment process can't identify a fully diversified high yield portfolio that overcompensates for estimated default risk; the current market posing no exception. Further, we don't fear market volatility or downside corrections; we calmly welcome the opportunities they present.

Summary: Our primary high yield market index, the ICE BofAML US High Yield Constrained Index (HUC0), began the third quarter, **30-Sep-2018** as follows:

A yield-to-worst of 6.29%, **spread-to-worst of +339 bps**, duration-to-worst of 4.0 and an **average price of 98.52**.

As of **31-Dec-2018**, the HUCO Index presented:

A yield-to-worst o 7.95%, **spread-to-worst of +539 bps**, duration-to-worst of 4.3 and an **average price of 92.31**.

U.S. High Yield is On Sale!

Portfolio Positioning

While our primary high yield index benchmark's STW widened by +200 bps during the fourth quarter, the relative positioning of our various High Yield Composites remained roughly the same: **Broad HY**, 7 bps tighter than its benchmark index; **Select HY**, 40 bps wider; **Quality HY** 27 bps wider; **Short Duration HY**, 11 bps wider; and **Defensive HY** 12 bps wider.

This apparent relative value stability masked some meaningful changes amongst our Composites' holdings.

For example, we sold down Donnelly Financial (DFIN), a top-10 holding as of 30-Sep-2018. DFIN creates and distributes financial documents to investors and regulators, largely on behalf of investment companies & banks. The most profitable business segment is documentation for primary security issuance, and new issuance across asset classes has declined, precipitously. At the extreme, there were zero high yield new issues in December, for the first time since Nov-2008.

We also sold the majority of our risk in Frontier Communications (FTR), a top-5 holding as of 30-Sep-2018. FTR, a wireline telecommunication carrier (ILEC) reported very disappointing 3rd quarter operating results on Nov 6th and we sold the majority of our bonds. In short, despite aggressive capital expenditures FTR seems unable to stem subscriber losses, calling into question the future free cash flow we had previously forecast.

In terms of new credits additions to our Composites, we found value in healthcare, media, technology, E&P and steel.

Finally, we hope that this quarters **"Analysis"** topic is helpful in understanding ***Risk:*** First as measured by the two major Rating Agencies, and Second, as compared to our proprietary, real-world methodology. We find the apparent "cage match" being quietly waged between Moody's and Standard & Poor's to be very "informative."

Please see: **"Analysis: "In this Corner..."** below.

Composite Performance Summary

High Yield Composites - Annualized

4TH Quarter 2018 30/09/2018	4Q-2018	Dec-18	2018	Since Inception May 1, 2017	Inception Date
Broad High Yield	**-4.62%**	**-2.45%**	**-1.62%**	**+1.47%**	**30/04/2017**
ICE BofAML US High Yield Constrained Index	*-4.67%*	*-2.19%*	*-2.27%*	*+0.68%*	
Excess (a)	*+0.05%*	*-0.26%*	*+0.65%*	*+0.79%*	
Select High Yield	**-5.45%**	**-2.91%**	**-2.06%**	**+1.18%**	**30/04/2017**
ICE BofAML US High Yield Constrained Index	*-4.67%*	*-2.19%*	*-2.27%*	*+0.68%*	
Excess (a)	*-0.78%*	*-0.72%*	*+0.21%*	*+0.50%*	
Quality High Yield	**-4.15%**	**-2.19%**	**-1.34%**	**+1.65%**	**30/04/2017**
ICE BofAML BB-B US High Yield Constrained Index	*-3.87%*	*-1.89%*	*-2.04%*	*+0.73%*	
Excess (a)	*-0.28%*	*-0.30%*	*+0.71%*	*+0.92%*	
Short Duration High Yield	**-2.73%**	**-1.60%**	**+0.53%**	**+1.98%**	**30/04/2017**
ICE BofAML 1-5 Yr BB-B US Cash Pay HY Constrained Index	*-2.63%*	*-1.57%*	*+0.67%*	*+1.97%*	
Excess (a)	*-0.10%*	*-0.03%*	*-0.15%*	*+0.02%*	
Defensive High Yield	**-3.75%**	**-2.02%**	**-0.83%**	**+1.81%**	**30/04/2017**
ICE BofAML BB-B US High Yield Constrained Index	*-3.87%*	*-1.89%*	*-2.04%*	*+0.73%*	
Excess (a)	*+0.12%*	*-0.13%*	*+1.21%*	*+1.08%*	

Past performance is not indicative of future performance. Performance figures do not reflect the deduction of investment advisory fees. A client's return will be reduced by the investment fees. If a client placed $100,000 under management and a hypothetical gross return of 10% were achieved, the investment assets before fees would have grown to $259,374 in 10 years. However, if an advisory fee of 1% were charged, investment assets would have grown to $234,573, or an annual compounded rate of 8.9%.

The assets within the FSI Short Duration High Yield Composite and FSI Quality High Yield Composite have been combined to create the FSI Defensive High Yield Composite. The assets within the FSI Select High Yield Composite and the FSI Quality High Yield Composite have been combined to create the FSI Broad High Yield Composite.

Analysis: “In this Corner…”

We are always surprised by the relatively dramatic divergence between the Moody’s and Standard & Poor’s ratings of the credits in our model portfolios; despite our complete indifference as to such ratings, except as they may relate to “trading technicals” (e.g. forced selling of new fallen angels or CCC’s). Nor do we care to be “experts” in either rating agency’s methodology/logic. We simply find this “open feud” to be somewhat entertaining & revealing.

It’s hard to miss “official” rating differentials between BB & B rated credits of ~20%, across all three of our High Yield Composites (**see: “MDY – S&P”** in the following table).

For example, in our Broad High Yield Composite, Moody’s rates 23% of the portfolios market value of credits “BB” ≈ 1/2 the 45% “BB” weight relying on S&P ratings! Note: The majority of the BB “differential” is reversed in the respective single-B weights, but the CCC differential is still significant, to us.

	RATING AGENCIES					‘FSI’
Broad High Yield Composite	**Moody’s Rating (MDY)**	**S&P Ratings (S&P)**	**MDY - S&P**		**Broad** High Yield Composite	**FSI Proprietary Risk Groups**
BB	**23%**	**45%**	-22%		**1**	**11%**
B	65%	47%	+18%		2	75%
CCC	12%	8%	+4%		3	15%
	100%	100%			T	100%
Quality High Yield Composite	**Moody’s Rating (MDY)**	**S&P Ratings (S&P)**	**MDY - S&P**		**Quality** High Yield Composite	**FSI Proprietary Risk Groups**
BB	**29%**	**50%**	-21%		**1**	**13%**
B	67%	49%	+18%		2	80%
CCC	4%	1%	+3%		3	6%
	100%	100%			T	100%
Select High Yield Composite	**Moody’s Rating (MDY)**	**S&P Ratings (S&P)**	**MDY - S&P**		**Select** High Yield Composite	**FSI Proprietary Risk Groups**
B	**16%**	**39%**	-23%		**1**	**8%**
B	62%	43%	+19%		2	67%
CCC	22%	18%	+4%		3	25%
	100%	100%			T	100%

Before we disparage the rating agencies (and we will) we’ll admit there are probably methodical arguments why S&P sees BB’s everywhere, while Moody’s operates in a sea of B’s. Nevertheless, it seems prudent to keep the holiday parties of these two agencies separate; the risk of heated argument seems too high!

The **serious purpose** to pointing out the great divergence between the two primary ratings of corporate bonds: **For over 20 years we have found BOTH ≈ useless as credit risk assessments.**

HOWEVER, ***“useless”*** can be very ***“useful”*** since a large number of high yield managers (aka competitors) put significant weight on “official” ratings. The more other investors make investment decisions based on Moody’s and/or S&P ratings, the greater our chance of identifying mispriced credit risk.

The following are just three examples each, of credits we cover* that demonstrate “Over-Rating” or “Under-Rating” by Moody’s and Standard & Poor’s:

Company	Credit	STW	MDY	S&P	Industry	Risk Group	Assigned "Rating"
OVER-RATED							
HERTZ	HTZ 2nd Lien 7.625% '22	555	B1	B+	Services	3.3	CCC
ENDO HEALTH	ENDP 1st Lien 5.875% '24	369	Ba2	BB -	Pharmaceuticals	2.6	B-
COMMERCIAL METALS	CMC Sr Unsec 5.75% '26	426	Ba2	BB+	Steel Producer	2.3	B
UNDER-RATED							
REYNOLDS GROUP	REYNOL Sr Unsec 7% '24	433	Caa1	B-	Packaging	2.3	B
JAGGED PEAK	JAG Sr Unsec 5.875% ‘26	322	B3	B	Energy E&P	1.6	BB-
EP ENERGY	EPENEG 1st Lien 7.75 % '26	659	B1	B	Energy E&P	1.6	BB-

* For illustrative purposes only. Reference to the names of each company mentioned in this communication is merely for explaining our research process, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of First State Investments.

Our internal **“Risk Group”** rating is meant to be real-world accurate & timely; and it’s the single most important credit judgment we make in implementing our investment process.

Interestingly, a client requested we ***“assign”*** *rating agency nomenclature equivalent* to our numerical Risk Groups, so we utilized a “notching” scale to accommodate that request. The result is *an “S&P” formatted equivalent “rating”* for each of our numerical risk groups. It’s unnecessary, but may be an easy optical comparison to the views of Moody’s and S&P.

Proprietary FSI High Yield Risk Groups:

For over 20 years, **we have adhered to a proprietary “risk categorization” methodology that has served us well through multiple, full credit cycles.**

We categorize every credit to **1 of 4** ** **“Risk Groups”** based on our estimate of its annual default risk, which is a function of: **(1) Asset Coverage, (2) Volatility** of free-cash-flow, and **(3)** Relative **“Strategic Value”**

Risk Group	Asset coverage	Cash flow volatility	"Strategic Value"
1.0-1.6	**2.0x minimum**	**Low**	**Substantial**
2.0-2.6	**2.0x minimum**	**Medium**	**Meaningful**
3.0-3.6	**1.5x minimum**	**High**	**Moderate**
4	**Anticipate restructuring or default**		

(1) Asset Coverage is defined as our proprietary calculation of an issuer’s Asset Value (EV), divided by the total forecasted amount of debt, plus debt-equivalent obligations at the relevant issuing entity (obligor).

The ultimate goal of our **Asset Value** estimate is to accurately forecast ***the enterprise value that would be realized through an organized “real-world” Auction Process,*** in a less than ideal operating environment. Asset Value is typically calculated using multiple valuation methodologies; the primary methods estimate the present value of a company’s forecasted free cash flow generating capability.

(2) Volatility of a company’s free-cash-flow relative to its industry and the greater economic cycle.

(3) “Strategic Value” is the relative strategic significance of a company in its industry sector: relative market shares, relative cost positions or other sustainable competitive advantages (barriers to entry). Without getting into details, there are numerous other qualitative fundamental assessments that can further safeguard against default risk, (management &, protective covenants).

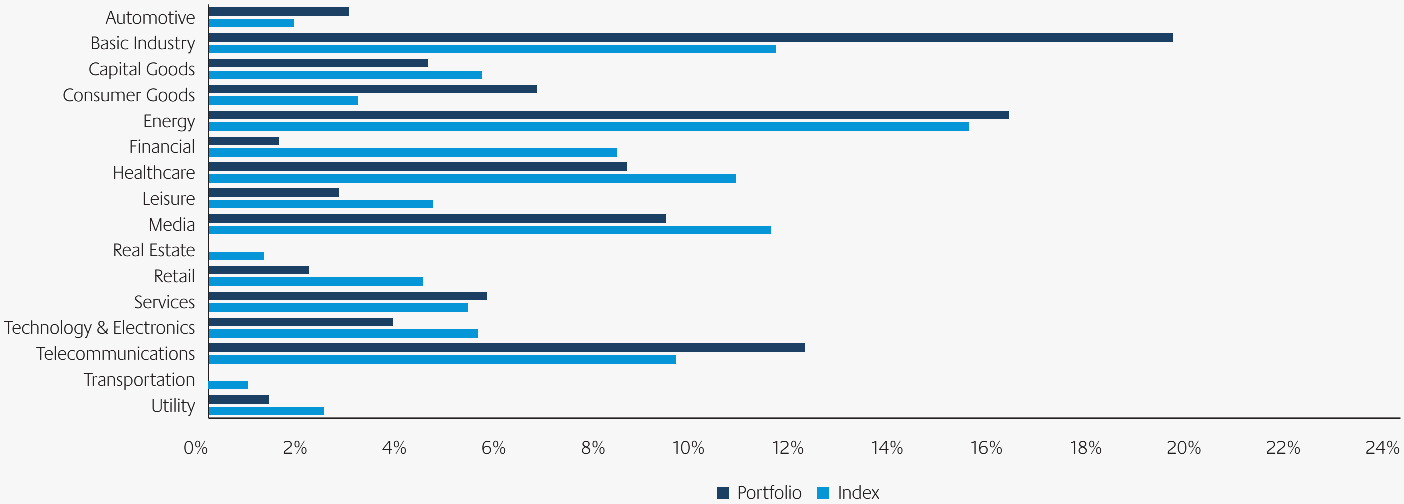
** **Note:** Risk Groups **1** to **3** each have *3-sub-ratings* of “*Strong*”, “*Neutral*” & “*Weak*” as in: **1.0** = “*Strong Group 1*”, **1.3** = “*Neutral Group 1*” & **1.6** = “*Weak Group 1*” and, correspondingly RG **2.0**, **2.3**, **2.6** & RG **3.0**, **3.3**, **3.6**

Broad High Yield

Characteristics

	Broad	Index
Yield to Worst*	7.80%	7.87%
Spread to Worst (bps)	524	537
Duration to Worst (years)	4.13	4.17
# of Issuers	134	
Avg. Rating	B1/B+	

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	2.8%
BB+	2.8%
BB	16.8%
BB-	20.5%
B+	13.6%
B	14.5%
B-	14.9%
CCC+	6.4%
CCC	1.7%
CCC-	0.0%
Other	1.4%

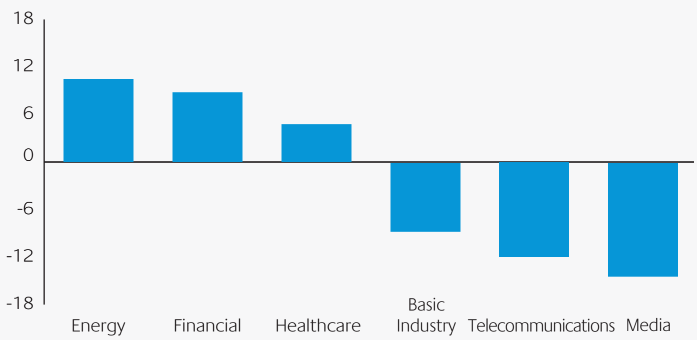
Breakdown by Country

	Risk Contribution %
United States	88.1%
Canada	5.4%
France	2.3%
Australia	1.0%
Ireland	1.0%
United Kingdom	1.0%
Israel	0.7%
Netherlands	0.3%
Other	0.0%

Top 10 Issuers

	Market Value %
Asurion	2.39%
Sprint	2.29%
Bausch Health	2.11%
Clear Channel Outdoor	2.07%
Coeur Mining	2.07%
Brookfield Residential Properties	1.91%
Stars Group	1.87%
Jagged Peak Energy	1.84%
Endo Finance	1.77%
Frontier Communications	1.74%

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

Positive Contributors (top three):

Endeavor Energy Resources (ENDENR): Endeavor bonds outperformed in the 4th quarter due to market speculation that the company is for sale. It was reported in October that the company was exploring a sale after getting takeover interest, and it was further reported in December that Shell is the likely buyer for the company, which controls more than 300,000 acres in the Permian Basin. With high quality acreage and <$1bn of net debt against an asset value of $10bn+, we've liked the bonds as a defensive energy holding, and the bump in prices related to a possible takeout has been a pleasant surprise in an otherwise difficult energy trading environment.

Asurion (ASUCOR): Asurion term loans outperformed during the 4th quarter due to the company's defensive business model coupled with the term loans' above market yields. Asurion's defensive business profile is underpinned by its recurring, subscription-based, revenue model, strong margins and free cash flow conversion. Asurion term loans offer high yields due to the company's elevated leverage, but we remain comfortable with the company's balance sheet given our assessment that the company has robust asset value and healthy free cash flow generation. In early November, Asurion reported strong 3Q results with EBITDA generation that handily beat management's budget and meaningful sequential deleveraging.

Beacon Roofing Supply (BECN): Beacon outperformance was due to strong free cash flow generation during the company's fourth fiscal quarter and cash deployment towards repaying secured debt ahead of the bonds. Management also indicated that they would continue to prioritize deleveraging the balance sheet and detailed its assumptions embedded in its 2019 outlook regarding inclement weather which the market received positively. We remain constructive on the roofing industry due to its significant exposure to repair and remodeling markets and the less cyclical nature of demand for those products.

Negative Contributors (bottom three):

Chesapeake Energy (CHK): Chesapeake underperformance during the quarter was due mainly to the weakness in oil prices. Crude oil prices fell from $73 / bbl to $45 / bbl in the quarter due to mounting supply concerns from both the US and OPEC+. In addition, the company announced an acquisition during the quarter, agreeing to buy WildHorse for $3.6bn. This acquisition, was meant to be a step forward for the company, in that it would continue to move their resource base from gas to oil, and would be deleveraging given the deal is largely for stock. However, oil prices overwhelmed the company, and issues of leverage remained causing CHK bond prices to trade down with the price of oil. Subsequent to quarter end, CHK bond prices have recovered the vast majority of the price decline in Q4.

EP Energy (EPENEG): EP Energy underperformance during the quarter was due largely to bond prices falling across the capital structure as a result of falling energy prices, as mentioned above. We have comfort in our position because we own the 1.125 lien bonds, which are well covered by the proved value of the assets. However, the overall leverage of the structure at more than 6x, has investors questioning the future of the company given the current commodity outlook. We remain comfortable in our bond position, and have experienced a nice rebound in our position so far in 2019.

Halcon Resources (HKUS): Halcon underperformance during the quarter was due largely to bond prices falling in concert with falling energy prices, as mentioned earlier. Halcon is one of the more leveraged names in the sector, and is in the process of a multi-year transformation and investment story in the Permian Basin. Given the lower oil prices, the bonds have traded down to reflect the heightened risk in the Company. We were not comfortable with these risks moving into 2019, and took the opportunity to exit the name in the 4th quarter.

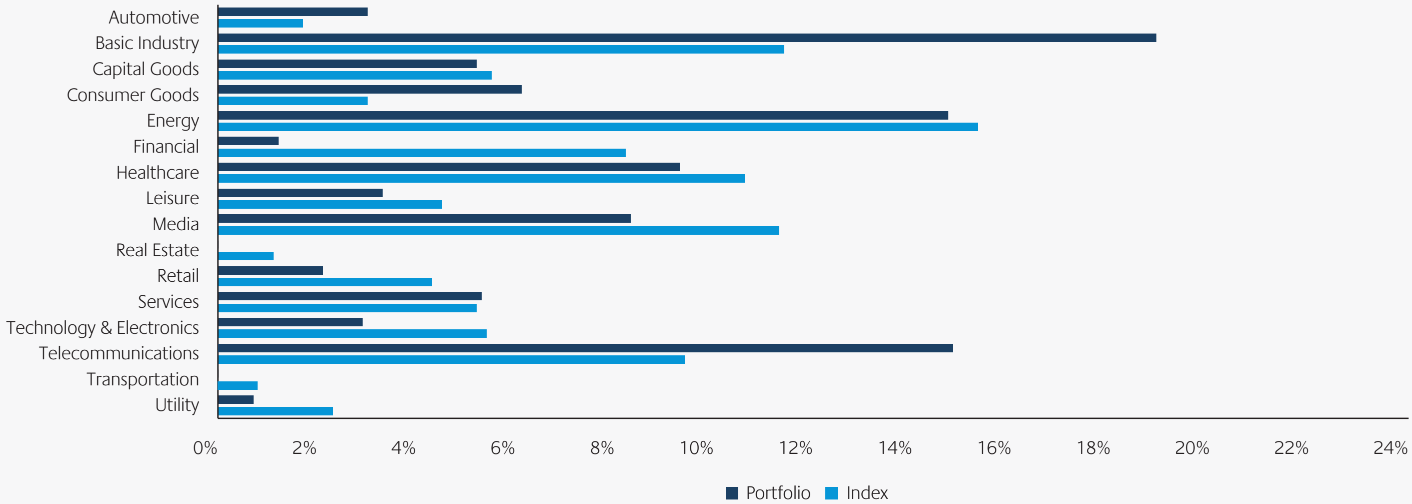
Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

Select High Yield

Characteristics

	Select	Index
Yield to Worst*	8.27%	7.87%
Spread to Worst (bps)	571	537
Duration to Worst (years)	4.21	4.17
# of Issuers	109	
Avg. Rating	B2/B+	

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	2.4%
BB+	1.1%
BB	14.9%
BB-	19.0%
B+	11.5%
B	12.7%
B-	15.7%
CCC+	13.3%
CCC	3.8%
CCC -	0.0%
Other	1.3%

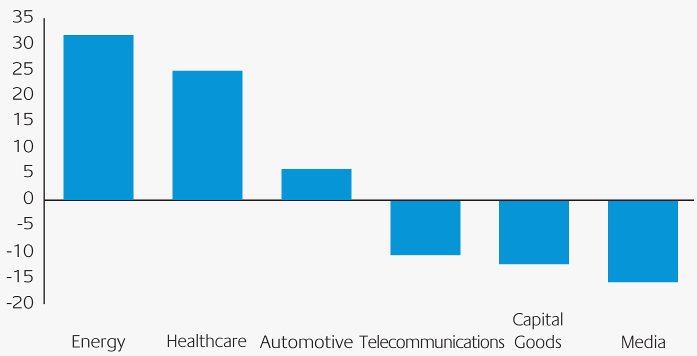
Breakdown by Country

	Risk Contribution %
United States	88.4%
Canada	5.1%
Ireland	2.1%
France	2.0%
Australia	1.0%
United Kingdom	1.0%
Israel	0.4%
European Union	0.0%
None	0.0%

Top 10 Issuers

	Market Value %
Clear Channel Outdoor	2.62%
Intelsat	2.61%
Coeur Mining	2.56%
Sprint	2.53%
Endo Finance	2.47%
Iridium Communications	2.37%
Asurion	2.25%
Bausch Health	2.21%
NuFarm Australia	2.02%
Brookfield Residential Properties	2.02%

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

Positive Contributors (top three):

Asurion (ASUCOR): Asurion term loans outperformed during the 4th quarter due to the company's defensive business model coupled with the term loans' above market yields. Asurion's defensive business profile is underpinned by its recurring, subscription-based, revenue model, strong margins and free cash flow conversion. Asurion term loans offer high yields due to the company's elevated leverage, but we remain comfortable with the company's balance sheet given our assessment that the company has robust asset value and healthy free cash flow generation. In early November, Asurion reported strong 3Q results with EBITDA generation that handily beat management's budget and meaningful sequential deleveraging.

Beacon Roofing Supply (BECN): Beacon outperformance was due to strong free cash flow generation during the company's fourth fiscal quarter and cash deployment towards repaying secured debt ahead of the bonds. Management also indicated that they would continue to prioritize deleveraging the balance sheet and detailed its assumptions embedded in its 2019 outlook regarding inclement weather which the market received positively. We remain constructive on the roofing industry due to its significant exposure to repair and remodeling markets and the less cyclical nature of demand for those products.

Endeavor Energy Resources (ENDENR): Endeavor bonds outperformed in the 4th quarter due to market speculation that the company is for sale. It was reported in October that the company was exploring a sale after getting takeover interest, and it was further reported in December that Shell is the likely buyer for the company, which controls more than 300,000 acres in the Permian Basin. With high quality acreage and <$1bn of net debt against an asset value of $10bn+, we've liked the bonds as a defensive energy holding, and the bump in prices related to a possible takeout has been a pleasant surprise in an otherwise difficult energy trading environment.

Negative Contributors (bottom three):

Halcon Resources (HKUS): Halcon underperformance during the quarter was due largely to bond prices falling in concert with falling energy prices, as mentioned earlier. Halcon is one of the more leveraged names in the sector, and is in the process of a multi-year transformation and investment story in the Permian Basin. Given the lower oil prices, the bonds have traded down to reflect the heightened risk in the Company. We were not comfortable with these risks moving into 2019, and took the opportunity to exit the name in the 4th quarter.

Denbury Resources (DNR): Denbury underperformance during the quarter was due mainly to the weakness in oil prices, as mentioned earlier. In addition, the company announced an acquisition during the quarter, agreeing to buy Penn Virginia for $2.0bn. The acquisition, while furthering the enhancing oil recovery focus of the company, also adds exposure to shale drilling in the Eagle Ford Basin. While the transaction is slightly deleveraging for the company, the oil price decline in the quarter overwhelmed bonds due to the leverage at the company and the need for acquisition financing. Subsequent to quarter end, DNR bond prices have recovered nicely, and we remain comfortable with our position, in both the 2nd lien and unsecured bonds.

Hearthside Food Solutions (MTRMGR / HEFOSO): Hearthside underperformance was driven by the announcement of a transformative acquisition which delays the company's deleveraging of its balance sheet. The acquisition was financed with a sizable amount of secured debt which was priced in a challenging leveraged loan market and consequently repriced bond levels lower. The market's broader aversion to CCC-rated bonds during the quarter also contributed to its performance. However, the sponsor group contributed additional equity as part of this transaction which, together with its initial investment, implies meaningful value behind the bonds. Further, we remain positive on the longer term prospects of Hearthside's business due to its exposure to increasing innovation investment at large food companies, a seasoned management team and on-trend category focus.

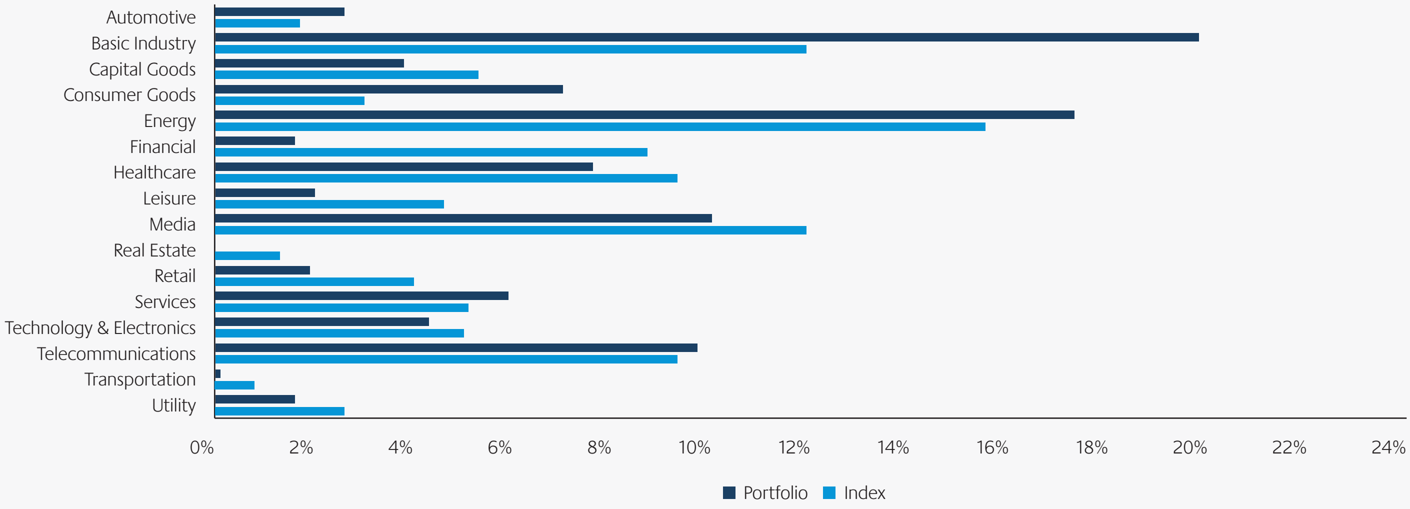
Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

Quality High Yield

Characteristics

	Quality	Index
Yield to Worst*	7.41%	7.14%
Spread to Worst (bps)	485	463
Duration to Worst (years)	4.08	4.26
# of Issuers	114	
Avg. Rating	B1/BB-	

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	3.0%
BB+	4.2%
BB	18.3%
BB-	21.7%
B+	15.3%
B	16.0%
B-	14.2%
CCC+	0.8%
Other	1.5%

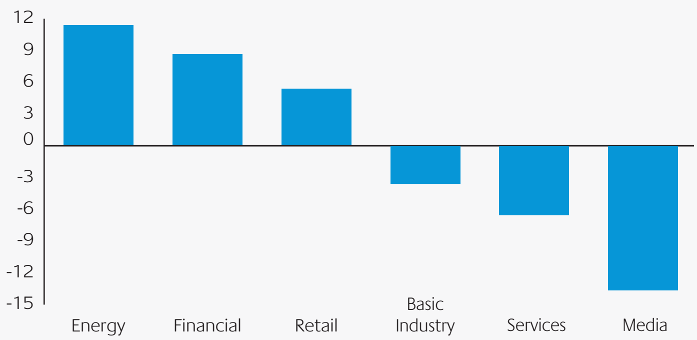
Breakdown by Country

	Risk Contribution %
United States	87.9%
Canada	5.6%
France	2.6%
United Kingdom	1.1%
Israel	1.1%
Australia	1.1%
Netherlands	0.7%

Top 10 Issuers

	Market Value %
Asurion	2.50%
Sprint	2.09%
Bausch Health	2.03%
Stars Group	1.89%
Jagged Peak Energy	1.85%
Brookfield Residential Properties	1.82%
Frontier Communications	1.70%
Coeur Mining	1.68%
Clear Channel Outdoor	1.63%
CSC Holdings	1.53%

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

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Negative Contributors (bottom three):

EP Energy (EPENEG): EP Energy underperformance during the quarter was due largely to bond prices falling across the capital structure as a result of falling energy prices, as mentioned above. We have comfort in our position because we own the 1.125 lien bonds, which are well covered by the proved value of the assets. However, the overall leverage of the structure at more than 6x, has investors questioning the future of the company given the current commodity outlook. We remain comfortable in our bond position, and have seen a nice rebound in our position so far in 2019.

Chesapeake Energy (CHK): Chesapeake underperformance during the quarter was due mainly to the weakness in oil prices. Crude oil prices fell from $73 / bbl to $45 / bbl in the quarter due to mounting supply concerns from both the US and OPEC+. In addition, the company announced an acquisition during the quarter, agreeing to buy WildHorse for $3.6bn. This acquisition, was meant to be a step forward for the company, in that in would continue to move their resource base from gas to oil, and would be deleveraging given the deal is largely for stock. However, oil prices overwhelmed the company, and issues of leverage remained with CHK bond prices trading down with the price of oil. Subsequent to quarter end, CHK bond prices have recovered the vast majority of the price decline in Q4.

Qwest Corp (CTL): Qwest Corp is a wholly owned subsidiary of CenturyLink Inc. and provides wireline telecommunications services via 6+ mm access lines in 14 Midwestern states. The Qwest Corp subsidiary is leveraged 1.7x Gross Debt/EBITDA and generates substantial free cash flow, most recently utilized to repay $1.3B of Qwest Corp debt. Qwest capital structure is self-sustaining and free cash flow positive despite operating in a slowly declining industry. Qwest's parent, CenturyLink carries Gross Debt/EBITDA of 4.2x and does not meet our minimum asset coverage test of 1.5x. Long-dated CenturyLink Senior notes traded down -13% during the 4th quarter. We believe our long-dated Qwest Corp Senior notes (which share the bond ticker CTL) traded down -11% in price due to the market's disinterest in differentiating between the credits of very different risk. We are not a seller; likely just the opposite.

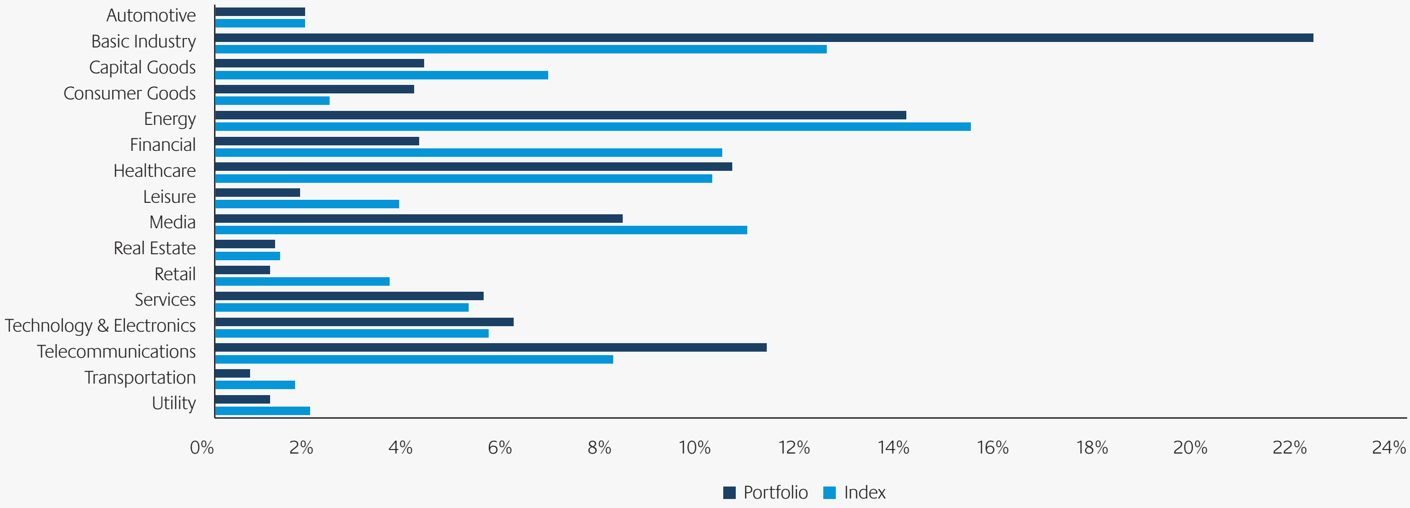
Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

Short Duration High Yield

Characteristics

	Short Duration	Index
Yield to Worst*	7.02%	6.91%
Spread to Worst (bps)	452	448
Duration to Worst (years)	2.64	2.61
# of Issuers	91	
Avg. Rating	B1/ BB-	

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	2.60%
BB+	6.40%
BB	20.00%
BB-	23.10%
B+	19.30%
B	8.50%
B-	12.80%
CCC+	1.70%
Other	2.50%

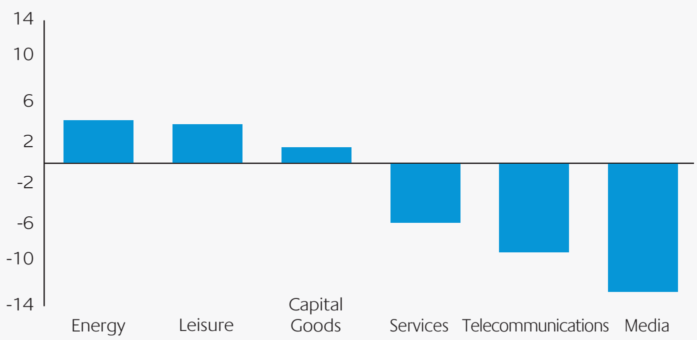
Breakdown by Country

	Risk Contribution %
United States	91.70%
Canada	4.70%
United Kingdom	1.50%
France	0.90%
Ireland	0.80%
Israel	0.30%
Australia	0.20%

Top 10 Issuers

	Market Value %
CSC Holdings	2.88%
Hecla Mining	2.60%
Level 3	2.48%
Icahn Enterprises	2.15%
Sprint	2.12%
Asurion	2.10%
Univar	2.07%
Clear Channel Outdoor	2.04%
Wesco Distribution	2.01%
Bausch Health	1.96%

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

Positive Contributors (top three):

Lifepoint Health (LPNT): Lifepoint Health outperformance in the quarter was driven by the takeout of the bonds. LPNT completed the sale of the company to Apollo-backed Regional Care Hospital Partners. The combined business has high yield bonds outstanding under the ticker RGCARE, however we do not own any of the issuer.

Sunoco (SUN): Sunoco outperformance in the quarter was driven by a combination of factors. Sunoco's business profile is very defensive for an energy company, and the company has both a strong equity owner and is not overleveraged. In addition, we sold Sunoco bonds midway through the quarter, and so we were not hit by market prices falling in concert with falling energy prices.

PQ Corp (PQCOR): PQ Corp 1st lien notes performed well during the 4th quarter. The notes performed well in a volatile market environment owing to a number of defensive characteristics, including the company's diversified and relatively defensive end-market exposure, the notes 1st lien ranking and their short duration. Additionally, PQ Corp generates solid free cash flow and remains focused on deleveraging to its target range of 3.0x-3.5x.

Negative Contributors (bottom three):

Antero Resources (AR): Antero Resources underperformance in the quarter was due to falling energy prices. Prior to Q4, Antero bonds had been trading at very tight levels, anticipating a medium-term move to investment grade. However, with falling oil prices as mentioned above, concerns mounted that leverage might be higher than anticipated. In addition, the company has continued to take equity friendly steps in order to boost its sagging stock price. AR bonds largely have recovered so far in the first quarter, and we remain a holder of the bonds.

Oasis Petroleum (OAS): Oasis Petroleum underperformance in the quarter was due to falling oil prices. 2018 has largely been a transformative year for Oasis as they have been able to decrease leverage meaningfully while diversifying their acreage into the Permian Basin as well as their historical core Bakken holdings. OAS bonds fell in the 4th quarter due to concerns surrounding their leverage as oil prices remained at the $45/bbl level. OAS bonds largely have recovered so far in the first quarter, and we remain a holder of the bonds.

NCI Building Systems (NCS): NCI Building Systems underperformance was driven by the market's aversion to cyclical industries in the 4th quarter and NCI's leveraged balance sheet after merging with Ply Gem during the quarter. While later cycle, we viewed NCI's loan price movements as implying more meaningful deterioration in construction markets which have yet to materialize and we believe the relative value proposition of the loans is still intact. NCI term loan prices did recover somewhat subsequent to the end of the quarter.

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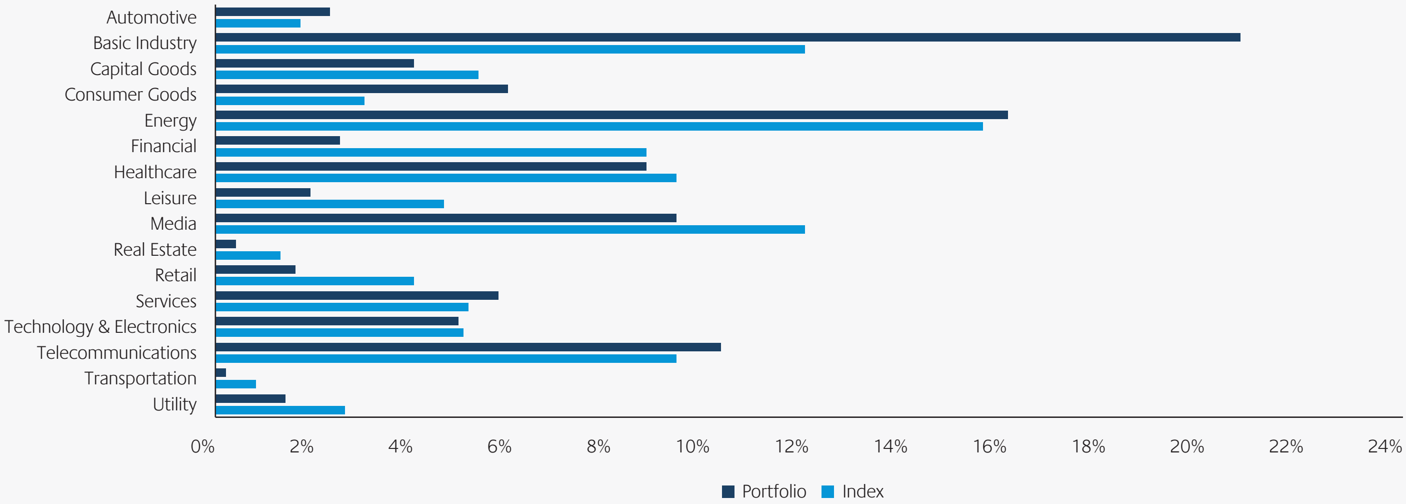
Defensive High Yield

Characteristics

	Defensive	Index
Yield to Worst*	7.26%	7.14%
Spread to Worst (bps)	473	463
Duration to Worst (years)	3.55	4.26
# of Issuers	124	
Avg. Rating	B1/BB-	

Sector weightings: Portfolio, Benchmark



Breakdown by Rating

	Market Value %
BBB-	2.9%
BB+	5%
BB	18.9%
BB-	22.2%
B+	16.8%
B	13.2%
B-	13.7%
CCC+	1.2%
Other	1.9%

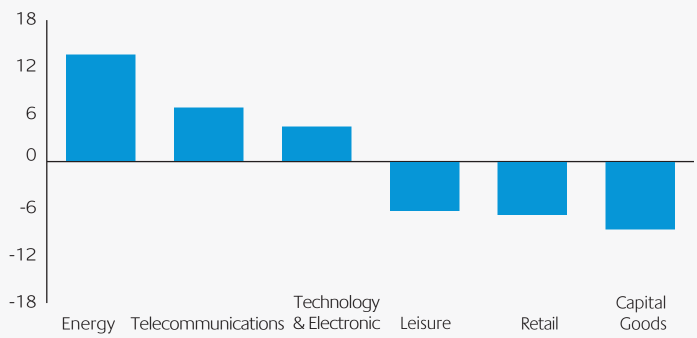
Breakdown by Country

	Risk Contribution %
United States	89.30%
Canada	5.20%
France	2.00%
United Kingdom	1.30%
Israel	0.80%
Australia	0.70%
Ireland	0.30%

Top 10 Issuers

	Market Value %
Asurion	2.35%
Sprint	2.10%
CSC Holdings	2.03%
Bausch Health	2.00%
Clear Channel Outdoor	1.79%
Brookfield Residential Properties	1.70%
Hecla Mining	1.67%
The Stars Group	1.61%
Frontier Communications	1.59%
Geo Group	1.55%

Top 3/Bottom 3 Contribution to Excess Return



Sector & Issuer

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Note: Securities discussed are the largest positive and negative contributors for the specific High Yield strategy.

Co-Portfolio Managers: High Yield

Jason Epstein
Senior Portfolio Manager

Jason joined First State Investments in September 2016. He has 17 years of industry experience.

He was a Managing Director with Oak Hill Advisors where he was responsible for managing a team of analysts covering a broad range of sectors.

Prior to Oak Hill, Jason was an analyst within investment banking at Credit Suisse First Boston where he was a member of both the Financial Sponsors and Technology groups.

Jason has a BS in Economics from The Wharton School, University of Pennsylvania.

Matt Philo, CFA
Senior Portfolio Manager,
Head of High Yield

Matt joined First State Investments in May 2016. He has 30 years of industry experience.

He was Executive Managing Director & Head of High Yield at MacKay Shields LLC.

He managed the Mainstay High Yield Corporate Bond Fund (MYHIX) from December 2000 through May 2014.

Matt has an MBA in finance from New York University and a BA from University at Albany SUNY. Matt is a CFA Charterholder.

Important Information:

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