

## First State Investments International Limited

### Form ADV Part 2A - Brochure

#### A Guide to Our Services

Updated August 2014

This brochure provides information about the qualifications and business practices of First State Investments International Limited (FSII). If you have any questions about the contents of this brochure, please contact us on +44 (0)131 473 2200 or [enquiries@firststate.co.uk](mailto:enquiries@firststate.co.uk). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about First State Investments International Limited is also available on the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

First State Investments International Limited  
23 St Andrew Square, Edinburgh, EH2 1BB, United Kingdom  
[www.firststateinvestments.com](http://www.firststateinvestments.com)

First State Investments International Limited is registered as an investment adviser with the SEC. Please note, registration as an investment adviser with the SEC does not imply a certain level of skill or training.

## **2. Material changes**

Further to the appointment of First State Investments (UK) Limited in July 2014 as the Alternative Investment Fund Manager (“AIFM”) for First State Investments Delaware Statutory Trust and the First State Investments Group Trust (together the “Funds”), First State Investments International Limited (“FSII”) is now the sub-advisor to these funds, some of which are then further sub-advised by First State Investments (Singapore) therefore the day to day portfolio management of the Funds will not change.

The changes referenced above are the only material changes we have identified since the last update of this brochure which was carried out in April 2014.

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#### 4. Advisory business

First State Investments International Limited (FSII) was incorporated in 1982. FSII is part of Colonial First State Global Asset Management ("CFSGAM"), the consolidated asset management business of the Commonwealth Bank of Australia. FSII is ultimately 100% owned by the Commonwealth Bank of Australia which is listed on the Australian Stock Exchange and is one of Australia's largest financial institutions.

FSII is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. We have historically specialised in investing in Asia Pacific and Global Emerging markets but continue to expand our range of investment strategies (which are covered in Section 8 of this document).

Where we provide discretionary investment management services through a separate account we agree the investment objectives with the client and they may specify investment restrictions which would be set out in their investment management agreement with FSII. In addition we may tailor the fees charged to clients and the type of reporting they receive.

FSII does not participate in wrap fee programs.

As at 31st August 2014, FSII had a total of USD 16.5 billion of client assets under management.

## 5. Fees and compensation

Fees and compensation are negotiated on a case by case basis with our clients. We either charge an advisory fee based on a percentage of funds under management or clients may choose to pay a fee with an element of percentage of funds under management and an element of performance based advisory fee.

Clients pay advisory fees quarterly in arrears and performance based fees are normally paid annually in arrears.

We will normally invoice clients direct for the fees they have incurred. We will not deduct fees directly from client accounts unless clients have explicitly instructed us to do so. This may be done after receipt and review of the invoice or fee calculation.

In addition to FSII's advisory fee, clients incur other fees and expenses charged by third parties in relation to their accounts, including custody fees, brokerage, foreign exchanges fees and other transaction costs.

Account termination provisions are specified in the individual client agreements; however, generally the client may terminate the agreement by providing us with written notice at our principal place of business.

## **6. Performance based fees and side by side management**

As described in the Fees and Compensation section, clients may choose a fee containing an element of a performance based advisory fee.

Where FSII outperforms the relevant benchmark or hurdle we may earn a higher fee from clients who pay a performance based fee.

We have clear and equitable trade allocation procedures to ensure fair treatment of all clients and avoid potential conflicts of interest for clients who elect to have different fee structures.

## 7. Types of clients

We provide investment advice to institutional investors, including:

- Pension plans
- Investment companies
- Endowments
- State and Municipal organisations
- Charitable organisations

FSII typically requires a minimum account size of US\$50 million for a separate account. Clients are generally 'qualified purchasers' as defined in section 2(a)(51)(A) of the Investment Company Act of 1940.

## 8. Methods of analysis, investment strategies and risk of loss

### Our approach to investing

Our approach to investing is driven by a focus on understanding our clients' investment needs, applying the skills of our specialist investment teams, and acting with integrity to meet or exceed our clients' expectations.

We aim to be a global leader in the markets in which we operate. We also seek to provide the best possible investment solutions for our clients.

The scale of our business, and the global reach of our resources, mean we have specialist investment teams which set their own style, which we believe promotes commitment and intellectual engagement.

We take the stewardship of our clients' assets seriously. We believe in clearly understanding each client's appetite for risk and returns over their chosen timeframe, and manage their investments to the highest standard of service, accountability and transparency.

We believe that being a responsible investor means incorporating the consideration of environmental, social and corporate governance (ESG) factors by embedding the United Nations Principles for Responsible Investment (PRI) into our overall business strategy. ESG considerations are an integral part of the investment process employed by all of our investment teams.

In a client focused business, we recognise that dedicated, talented and passionate people are the key to delivering investment success for our clients. It is only through our people, and the consistent, repeatable and robust business practices we have developed, that we are able to deliver successful outcomes for our investors.

All of our analysts and portfolio managers have a high level of performance-related incentives, which are directly linked to client outcomes. Performance of our funds against relevant benchmarks and competitors forms the major component of the performance measurement. The head of each asset class is also evaluated based upon the overall business success of their asset class. These measures ensure that the interests of our investment teams and clients remain firmly aligned.

### Key strategies

#### *Asia Pacific ex Japan equities*

Our First State Stewart investment team (responsible for the Asia Pacific, Emerging Markets, and Worldwide strategies) is one of the most stable and well-known in the industry, and includes individuals based in the Asian region as well as the UK. We employ a rigorous bottom-up research process which combines regular company visits with extensive fundamental analysis.

Our investment research aims to identify the highest quality companies with sustainable long-term earnings per share growth prospects and focuses on those stocks where we believe the market has incorrectly priced future growth potential.

We see a dynamic long-term picture emerging for Asia, including positive demographic trends in countries such as India which should contribute to a major expansion of consumer markets. Another encouraging factor is the entrepreneurial culture which is firmly entrenched across the region. We continue to find many high-quality companies with excellent management and strong business franchises focused on shareholder value.



### ***Emerging markets equities***

We have been managing global emerging markets equities since 1992 through both pooled and segregated portfolios.

Our investment management team has strong credentials in this asset class as each team member has first-hand knowledge of specific regions throughout the emerging markets. Our extensive contact with companies allows us to thoroughly assess company managements before making any stock decisions.

As with our other funds, we maintain a conservative style in what can be a volatile asset class, focusing on capital preservation as well as growth. We aim to produce consistent long-term outperformance, seeking out opportunities that allow us to invest in the highest quality companies in the emerging markets universe.

### ***Worldwide equities***

Our investment philosophy is founded on responsible stewardship. Most importantly we invest our clients' monies as if they were our own. We believe 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:
- We focus as much on capital preservation as on capital growth and regard ourselves as 'absolute return mind-set' investors. We specifically define risk as losing clients' money.
- This is reinforced by our indifference to benchmark composition and also to short-term relative index and peer group performance. We are not required to own any country, sector or individual stock.
- We only invest where we perceive managements operate businesses effectively and in the interests of all stakeholders. Companies which do not look after their customers, employees, suppliers and the larger community are unlikely to be rewarding long-term investments.
- We are long-term investors and have invested in some companies for over twenty years. This entails responsibilities as well as normal shareholders' rights and we engage extensively on environmental, labour and various governance issues.

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### ***Worldwide Sustainability***

We believe our job is to entrust our clients' capital to good quality companies with strong management teams and sound long-term growth prospects. All the First State Stewart investment strategies strive to integrate environmental, social and governance (ESG) considerations into every investment decision. Our sustainability strategies take this one step further by focusing on long-term sustainability themes as a key driver of the investment process.

- We aim to generate attractive long-term, risk-adjusted returns for our clients by investing in the shares of those companies which are particularly well positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate.
- We seek to invest only in good quality companies. Quality is measured through the lenses of quality of management, financials and the franchise. By analysing the sustainability performance and positioning of companies we can better
- measure less-tangible elements of quality and identify hidden risks.
- We are long-term investors. We strive to make investment decisions with a minimum five-year time horizon.
- We have an absolute return mind-set. That is, we define risk as losing money for our clients, rather than in terms of deviation from any benchmark Index.

### ***Emerging markets debt***

We believe that enhanced risk-adjusted returns in emerging debt markets are driven by forward-looking assessments of market conditions based on sound experience and skilled country selection.

Inefficiencies in emerging debt markets arise due to structural imbalances between the size of the investor base and the size of the market-making community, behavioral biases and competing investor agendas/ investment horizons. This results in spread and currency distortions that often do not reflect the true political, economic and repayment risk of countries. This offers opportunities for skilled investors to outperform the market on a risk-adjusted basis.

Through our analysis and judgment based on decades of collective experience, we carefully assess the market environment and set the most appropriate risk profile for our portfolios in light of prevailing market sentiment. Similarly, through skilled relative value analysis we identify country mispricing – when consensus views are either too bullish or too bearish on a given country relative to another – and benefit through the appropriate positioning of our portfolios.

### **General investment risk**

Investing in securities involves a risk of loss that clients should be prepared to bear. Your investments are focused on securities of issuers that we believe are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risk of investing in equity and bond securities. These securities generally are selected on the basis of an issuer's fundamentals relative to current market price and are subject to the risk of misestimating certain fundamental factors. In addition, during certain time periods market dynamics may favour securities of issuers that do not display strong fundamentals relative to market price based upon positive price momentum and other factors. Disciplined adherence to our investment approach during such periods may result in significant underperformance relative to overall market indices and other managed investments that pursue growth style investments and/or flexible style mandates.

### **Foreign investment risk**

Maintaining assets in foreign countries may involve higher costs and greater risks than those associated with similar investments in the UK or your home jurisdiction, particularly in the case of

assets maintained in emerging countries. Investments in securities of issuers located in emerging markets can be more speculative than investments in securities of issuers located in developed countries and are subject to certain special risks.

### **Custody risk**

The scope and range of custodial services offered in many foreign countries, in particular, less developed or developing nations, known as “emerging markets”, may be limited. As a result, your assets may be maintained with banks, brokers and other financial institutions offering more limited custody services, and possessing less experience, less developed procedures for safekeeping of assets, poorer capitalisation, and greater risks of bankruptcy, insolvency and fraud, than would typically be the case in other jurisdictions.

### **Political & economic risk**

The political and economic structures in many emerging markets may be in their infancy and developing rapidly, as such countries may lack the social, political and economic characteristics of more developed countries. Certain of these countries have in the past failed to recognise private property rights and have at times nationalised and expropriated the assets of private companies. Many emerging markets have experienced substantial and in some periods, extremely high rates of inflation for many years. Continued inflation may adversely affect the economies and securities markets of such countries. In addition, unanticipated political or social developments may affect the value of your investments in these countries.

### **Liquidity risk**

The small size, limited trading volume and relative inexperience of the securities markets in some countries may make investments in such countries illiquid and more volatile than investments in more developed countries. Your assets may be invested in illiquid or restricted securities for which there is no established resale market. These securities may only be able to be liquidated at disadvantageous prices.

### **Currency risk**

A portion of your assets may be invested in equity or bond securities denominated in currencies other than the base currency of your account and in other financial instruments, the prices of which are determined with reference to currencies other than the base currency of your account. Currency exchange rates can also be affected unpredictably by intervention, or the failure to intervene, by foreign governments or central banks. These factors may affect the value of your investments.

Forward currency contracts may be utilised to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective. Further, by engaging in cross hedging transactions, the risk of imperfect correlation between the subject currencies will be assumed. These practices may present risks different from or, in addition to, the risks associated with investments in foreign currencies.

### **Market risk**

Trading and investment strategies are subject to market risk. There can be no assurance that what is perceived as an investment opportunity will not, in fact, result in substantial losses as a result of one or more of a wide variety of factors. Certain general market conditions for example, a reduction in the volatility or pricing inefficiencies in the markets in which your assets are invested, could materially reduce your profit potential. Where the portfolio or fund we manage for you includes bond (or debt) securities, these will also be affected by movements in interest rates. In general, if interest rates rise the value of such securities will fall, and if interest rates fall the value of such securities will rise.

## **9. Disciplinary information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our company or the integrity of our management. At the present time, we do not have any material legal, financial or other disciplinary items to report to you.

## 10. Other financial industry activities and affiliations

FSII is part of the CBA Group which is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. In some cases, FSII has business arrangements with related persons/companies to the FSII advisory business or to their clients. In some cases, these business arrangements may create potential conflicts of interest, or the appearance of a conflict of interest between FSII and a client. Recognised conflicts of interest are discussed in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) of this Brochure.

### **Affiliated broker dealer**

FSII is associated with a broker dealer, Commonwealth Australia Securities LLC ("CAS"). CAS is a broker dealer registered under the US Securities Exchange Act of 1934 and a member of FINRA. FSII has entered into a services agreement with CAS to facilitate the distribution of funds managed by FSII.

### **Associated Investment Advisers**

Colonial First State Asset Management (Australia) Limited (CFSAMA) is a registered investment adviser and is an associate of FSII. CFSAMA was incorporated in 2005 and is a wholly owned subsidiary of the CBA Group. CFSAMA is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. FSII has appointed CFSAMA to act as a sub-adviser and provide discretionary investment management services to the Investment Manager in respect of the First State Investments Global Property Securities Fund and the First State Investments Global Infrastructure Fund, both series of First State Investments Delaware Statutory Trust.

First State Investments (Singapore) (FSIS) is licensed by the Monetary Authority of Singapore in the conduct of its investment business in Singapore and is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC"). FSIS was incorporated in 1969 and is a wholly owned subsidiary of the CBA Group. FSIS provides portfolio construction and investment management services to a range of institutional clients and funds.

FSII has appointed FSIS to act as a Sub-Adviser and provide discretionary investment management services to the Investment Manager in respect of the following funds and certain client portfolios:

- First State Investments Global Emerging Markets Leaders Fund, a series of First State Investments Delaware Statutory Trust; and
- First State Investments Global Emerging Markets Leaders Fund, an Illinois Group Trust.

### 11. Code of ethics

FSII has adopted a Code of Ethics (the “Code”) that requires all Supervised Persons (including Access Persons) to:

- Act with integrity, competence and in an ethical and professional manner;
- Always act in the best interests of our clients;
- Comply with all applicable US federal securities laws, as well as all other applicable laws and regulations; and
- Promptly report any violation of the Code of Ethics.

#### **Definitions:**

**Supervised Person:** is any partner, officer, director (or other person occupying a similar status or performing similar functions), or employee of an investment adviser, or other person who provides investment advice on behalf of the investment adviser and is subject to the supervision and control of the investment adviser.

**Access Person:** is a supervised person who has access to non-public information regarding clients' purchase or sale of securities, is involved in making securities recommendations to clients or who has access to such recommendations that are non-public.

All Supervised Persons have received a copy of the Code and are required on an annual basis to confirm that they have read and understood the content.

The Code includes policies which will ensure the standards detailed above are adhered to and include:

#### **Protection of Material Non-public Information**

It is a crime in the U.S. and many other countries to transact in a company's securities while in possession of material non-public information about the company. Questions regarding perceived material information should be directed to a member of the FSII Risk & Compliance staff. Supervised Persons are responsible for safeguarding non-public information relating to securities recommendations, fund and client holdings. As such, Supervised Persons should not trade based on FSII's confidential and proprietary investment information. Other types of information (e.g., marketing plans, employment issues, client identities, etc.) may also be confidential and should not be shared with individuals outside FSII (except those retained to provide services for FSII).

#### **Personal Securities Trading**

An investment adviser is required to designate the categories or sub-categories of persons covered by its Code or portions of its Code. Rule 204A-1 requires this Code to cover FSII's 'Supervised Persons'. A subset of these Supervised Persons, known as 'Access Persons', are required to comply with specific reporting requirements in relation to personal account trading. Rule 204A-1, contains a presumption that, if the firm's primary business is providing investment advice, then all of its directors, officers and partners are Access Persons.

All FSII Supervised Persons are subject to personal trading restrictions as required. There are additional pre-clearance and reporting requirements applicable to Access Persons.

Additional personal trading restrictions also apply, through policies adopted outside the Code, to all FSII personnel and their associates such as their partner. In summary, generally pre-approval is required for transactions in listed securities other than immaterial amounts. These restrictions operate in addition to the requirements of this Code and their effectiveness is monitored by the relevant global Risk & Compliance teams.

### Gifts and Gratuities

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships; not to gain unfair advantage with clients or vendors. No gift or entertainment should ever be offered, given, provided or accepted by any FSII Supervised Person unless it: (i) is unsolicited, (ii) is not a cash gift, (iii) is consistent with customary business practices, (iv) is not excessive in value, (v) cannot be construed as a bribe or payoff and is given or accepted without obligation, and (vi) does not violate applicable laws or regulations.

### Conflicts of Interest

In the discharge of its fiduciary duties FSII has in place policies and procedures to manage actual or perceived conflicts of interest. In summary this involves:

- Putting in place controls to ensure the impact of the actual or potential conflict is reduced to an acceptable level; and/or
- Disclosing all material facts concerning any actual or potential conflict that may arise; or
- If an actual or potential conflict cannot be effectively managed by either disclosure or control then the situation must be avoided.

### Outside business interests and affiliations

To manage conflicts of interest, inside information and other compliance and business issues, FSII maintains a record of its Supervised Persons serving as officers or members of the board of any other entity. Advice must be obtained through the Chief Compliance Officer and management where there is a perceived potential conflict of interest. FSII can deny approval where the perceived conflict of interest cannot be managed effectively. This prohibition does not apply to service as an officer or board member of any parent or subsidiary of FSII or any not-for-profit or charitable foundation, organisation or similar entity.

FSII may from time to time invest in the same securities that Colonial First State Asset Management (Australia) Limited and/or First State Investments (Singapore) Limited is also currently invested. Portfolio management and security recommendations are undertaken at an investment strategy level and each investment team managing these strategies is organised separately. Information barriers and other controls exist between investment teams to manage any potential conflicts that may arise.

You may request a copy of our Code of Ethics by writing to the Chief Compliance Officer, First State Investments International Ltd., 30 Cannon Street, London, EC4M 6YQ, UNITED KINGDOM.



## 12. Brokerage practices

### Order Aggregation and Allocation

FSII seeks to aggregate and allocate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders; (2) treat all clients fairly and equitably over time; and (3) not systematically advantage or disadvantage any single client or group of clients.

FSII follows policies and procedures pursuant to which it may combine or aggregate purchase or sale orders for the same security for multiple client accounts (also known as a bunched order) so that the orders can be executed at the same time. FSII aggregates orders when FSII considers doing so appropriate and in the interests of its clients. FSII's client accounts may be included in the aggregated orders with clients of FSII's affiliated advisers.

When orders are aggregated, the orders may be placed with one or more brokers for execution. When a bunched order is filled, FSII generally will allocate the securities purchased or proceeds of sale pro rata among the participating client accounts based on the pre-trade allocation. Adjustments or changes may be made under certain circumstances, such as to avoid small allocations or to satisfy cash flows and guidelines. If an order at a particular broker is filled at several different prices, through multiple trades, generally all participating client accounts will receive the average price.

Although allocating orders among FSII clients may create potential conflicts of interest because FSII may receive greater fees or overall compensation from some clients than received from other clients, allocation decisions will not be made based on such greater fees or compensation. When an investment opportunity is suitable for two or more clients, allocations will be made in a fair and equitable manner, and will take the following factors, among others, into consideration: the relative size of the client account, available cash for investment, investment objectives and restrictions, liquidity considerations, legal and regulatory restrictions, portfolio risk/return objectives, investment horizons, and client instruction.

### Counterparty Approval

FSII has a rigorous counterparty approval process to ensure that we use suitable, reliable counterparties (brokers) when dealing on behalf of clients. In order to ensure that they are suitable and reliable we have adopted an approved list of counterparties which have been reviewed and considered to be appropriate for us to deal with on behalf of our clients.

The process of approving new counterparties is the responsibility of the business management team who work with the compliance, finance and legal teams in assessing the suitability of a new counterparty using the following criteria:

- financial strength
- profitability
- leverage
- ethical standards
- terms of business
- acceptance of our standard commission rates

The business management team conduct a rolling programme of counterparties and each counterparty is reviewed at least annually.

FSII's Investment Committee is responsible for the oversight of all counterparties.



### Use of Dealing Commission

FSII's policy is that all externally provided execution and research services are paid for as a part of the agreed standard commission. This may include situations where the dealing commission on a particular trade or series of trades is shared, such that a portion of the commission paid is used to purchase third-party research or execution services. Such arrangements may be entered into in order to more efficiently implement our commission targeting policy, particularly in increasing the diversity of our use of providers of research, and to allow maximum flexibility in the selection of execution counterparties, including where a research service provider does not also provide an execution service.

Where we execute orders through a broker or other person and those broker's or other person's charges are passed on to our customer in return for which research services in addition to the customer order execution are received, we must have reasonable grounds to be satisfied that those research services:

- are related to the execution of trades on behalf of our customers or comprise the provision of research,
- will reasonably assist us providing services to our customers on whose behalf the orders are being executed and
- do not, or are not likely to, impair our compliance with our duty to act in those customers' best interests.

Where commissions are used to pay for research services they must meet the following conditions:

- add value to our investment or trading decisions by providing new insights that inform us when making such decisions about our customers' portfolios;
- represent original thought, in the critical and careful consideration and assessment of new and existing facts, and do not merely repeat or repackage what has been presented before;
- have intellectual rigour and do not merely state what is commonplace or self-evident; and
- involve analysis or manipulation of data to reach meaningful conclusions.

No arrangements regarding the use of dealing commission may be entered into that could compromise our ability to provide best execution to our customers.

The following is a list of examples of goods or services relating to execution which are specifically highlighted as not meeting the requirements for execution or research goods or services and are therefore not accepted by FSII:

- services relating to the valuation or performance measurement of portfolios;
- computer hardware;
- connectivity services such as electronic networks and dedicated telephone lines;
- seminar fees;
- subscriptions for publications;
- travel, accommodation or entertainment costs;
- computer software including order and execution management systems and office administrative computer software, such as word processing or accounting programmes;
- membership fees to professional associations;
- purchase or rental of standard office equipment or ancillary facilities;
- employees' salaries;
- direct money payments;
- publicly available information; and
- custody services relating to designated investments belonging to, or managed for, customers other than those services that are incidental to the execution of trades.

### **Commission targeting & allocation**

Each team within our broader business is responsible for managing their target allocation of commission for research services to counterparties, within the broad principles established below.

On a regular basis, each team should meet to review the services of counterparties used by that team and to plan an appropriate targeted allocation of commission to each counterparty. The system is designed to allocate more business to brokers who provide good quality research and dealing (including execution and settlement services).

The equity dealing desk is responsible for agreeing the commission rates, whether full service or execution only, with each broker across each market. FSII's standard practice is to adopt fixed full service rates per market, with commission allocated via the targeting process being used to manage the level of commission payment made for research services to that broker.

### **Commission unbundling**

As part of their regular commission targeting process, which includes an evaluation of the research used by each team in their overall investment process, each team should decide which of their research services they receive they would like to allocate separate to the allocation of execution (which is done with the input of dealers on the basis of best execution).

Each research service that meets the regulatory criteria outlined above, will then be included in the allocation for each team for use of commission sharing. The investment business team reviews non-executing providers of research services and maintains a list of approved research services providers. Following the decisions reached by each investment team on the allocation of payments for research services, the investment business team calculates the resultant commission target required to be paid through commission sharing and provides this to the equity dealing desk, for subsequent generation from a panel of approved commission sharing brokers, the individual selection of which is by the equity dealing desk on the basis of best execution.

The achievement by the dealing desk of commission targets is monitored regularly both to ensure team commission targets are achieved, and that sufficient amounts of commission sharing research services credits are generated appropriately per desk to meet the services required by each team.

### **Directed commission**

There are different procedures for dealing with any directed commissions. Where we utilise commission sharing arrangements, we are seeking to pay for services for which we have contracted out of commission generated on our clients' accounts in accordance with the rules. In the case of directed commission we are instructed by the client to generate commission on the clients' account to pay for a service for which the client has contracted.

First State Investments will not enter into such arrangements if we believe they will add complexity to the management of dealing commission and where they may conflict with our obligations regarding best execution. We must ensure that if any such directed commission arrangements are entered into, we are satisfied that such commissions can be generated in the client's account within a normal amount of turnover without allowing that client to benefit from services received and paid for from our other clients. There must be sufficient free, undirected business to ensure that the client is paying towards the research and other services which we obtain from brokers to manage the account. We must not enter into such arrangements unless the liability for payment for the services which the client has purchased remains with the client and does not become a liability of First State. We must be clear at all times that while we can use best endeavours to achieve a commission target, we cannot guarantee it.

Any directed commission arrangement must be approved by the Head of Institutional Business Development, the Head of the relevant investment team, Head of Risk & Compliance, and Head of Business Management Investments.

The agreement must be documented either within the investment management agreement or in a side-letter from the client clearly giving us instructions, which must be retained by Legal along with the investment management agreement. We must acknowledge receipt of the letter in writing, including a statement that we will use our best endeavours to comply with the clients wishes but make it clear that the ultimate liability rests with the client.

The Equity Dealing team will monitor progress on meeting the established targets, as with all uses of dealing commission. This will be reviewed periodically by the Business Management team.

### **Role of the Investment Committee**

The First State Investments Committee has responsibility for oversight in relation to all relevant funds and portfolios under the management of FSII. This includes a formal review of the use of counterparties, counterparty risk and associated issues.

### 13. Review of accounts

We regularly review client accounts. The frequency of that review is determined by the requirements of the client and the nature of the mandate and includes periodic reviews of performance, investment activity and outlook. Normally these reviews would be carried out by the named portfolio managers, other qualified members of the investment team, together with the relationship manager, or in some cases, by the relationship manager directly. The named portfolio manager or senior member of the investment team and the primary relationship manager will normally discuss with the client on at least an annual basis.

Periodic written data, including valuations and transaction information, is usually provided on a monthly basis and may be supplied to the client or the client's custodian for accounting or reconciliation purposes. In addition, clients normally receive quarterly reports, either following a standard First State Investment template, or tailored to suit the individual client or mandate requirements.

Clients are also invited to participate in a quarterly webcast where the investment team reviews the quarterly performance or discusses a topic relevant to the clients, and clients also receive a replay link by email after the webcast has taken place.

The First State Investment Committee has responsibility in relation to all relevant funds and portfolios under the management of FSII and regularly reviews performance, counterparty risk and associated issues, breaches of investment guidelines and any general dealing or operational factors which may affect the funds that we manage.

In the event of a major market dislocation, or similar event, client accounts would be reviewed and appropriate action and communication undertaken promptly.

#### **14. Client referrals and other compensation**

FSII does not enter into agreements with third parties for the referral of new clients in the US.

FSII does not receive any economic benefit from anyone who is not a client for providing investment advice.

## 15. Custody

Because FSII is authorised to deduct fees from private fund accounts, FSII is deemed to have custody of these private fund assets within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940. Physical custody of private fund assets is at a broker-dealer, bank or other qualified custodian.

All clients should receive account statements directly from the broker-dealers, banks, trustees, or other qualified custodians with whom they have accounts. We strongly urge all clients to compare the reports they receive from FSII to the statements they receive from their broker-dealers, banks, trustees or custodians. Any issues or discrepancies should be communicated to us promptly so that we may investigate.

## **16. Investment discretion**

We accept discretionary authority to manage securities accounts on behalf of clients through the negotiation, agreement and execution of an Investment Management Agreement which sets out the investment objectives of the client and any limits that the client may wish to impose on our discretionary authority.

For instance, clients may restrict the type of securities that may be included in the portfolio, or place limits on borrowing, underwriting or limit investment in particular securities.

Each Investment Management Agreement will contain specific provisions that both parties, and in some cases, multiple parties, will agree to.

From time to time, we may also accept client mandates on a sub-advisory basis.

## 17. Voting client securities

The concept of stewardship is at the heart of FSII's investment approach. We believe our job is to allocate our clients' capital in accordance with the investment process and philosophy that has been agreed with our clients. FSII is in a position to influence the environment, social and governance performance of companies via discussions with management or the board of directors and through the exercising of proxy votes. The exercising of the voting rights must be in the best interests of our customers.

FSII has in place a comprehensive corporate engagement policy that describes how we vote on various issues. Subject to specific client directions, we will exercise every vote in accordance with that policy. Occasionally exceptions arise. The key criteria for how we vote is what we consider to be the best interests of our clients.

Where a portfolio manager or analyst making a proxy voting decision, or FSII as a whole, has a potential material conflict, such instructions will be forwarded to the Head of Investment Business for agreement with the course of action to be taken. Following advice from the Risk & Compliance and Legal teams, where it is determined a material conflict does in fact exist, the final decision on how to vote such securities will be made by the Head of Investment Business.

The authority and responsibility for exercising proxy votes will be defined within the investment management agreement executed between FSII and each discrete mandate client. However, FSII may still receive proxy voting instructions from each discrete mandate client on a case by case basis (provided FSII is notified in a timely manner) or alternatively, the discrete mandate client may instruct their custodian directly.

Wherever a discrete mandate client delegates responsibility for exercising proxy votes and if requested by the client, FSII will report back to the client how votes were cast on their behalf.

Our corporate engagement or additional information regarding how we vote on the clients' securities can be obtained by writing to our Chief Compliance Officer.



## **18. Financial information**

FSII does not require prepayment of any advisory fees. Presently, FSII has no financial commitments or obligations that would interfere with our obligations to our clients. FSII has never filed for bankruptcy protection.

For further information

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