

## First State Investments (US) LLC

### Form ADV Part 2A - Brochure

March 2020

This brochure provides information about the qualifications and business practices of First State Investments (US) LLC. If you have any questions about the contents of this brochure, please contact us on 212-497-9980 or ([samantha.rick@firststateinvestments.com](mailto:samantha.rick@firststateinvestments.com)). 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 (US) LLC is also available on the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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[www.firststateinvestments.com](http://www.firststateinvestments.com)

First State Investments (US) LLC 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.

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## 2. Material changes

First State Investments (US) LLC closed its Strategic Core Fixed Income and Strategic Absolute Return Fixed Income strategies to new investors. The office located in Louisville, KY will be closing with team members relocating to New York or offices of affiliates.

As a result of closing the strategies, First State Investments (US) LLC withdrew its CFTC registration as a commodity pool operator and commodity trading adviser.

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#### 4. Advisory business

First State Investments (US) LLC (“FSI US”) is a Delaware limited liability company formed in February 2014 and registered with the U.S. Securities and Exchange Commission in April 2015.

FSI US is part of First Sentier Investors (“FSI”), a standalone global investment management business, governed by a board initially comprising of representatives from FSI and Mitsubishi UFJ Trust and Banking. FSI US is ultimately 100% owned by MUFG.

FSI US offers investment advice primarily to institutions, with respect to fixed income securities.

FSI US provides ongoing discretionary investment management services to institutional clients through a separate account, based on customized investment objectives or guidelines, time horizons, risk tolerances and limitations of such clients. FSI US tailors the fees charged to clients and the type of reporting they receive.

FSI US is the investment manager to investment vehicles with U.S., and non-U.S., institutional investors (“Private Funds”). FSI US does not anticipate registering such investment vehicles under the U.S. Investment Company Act of 1940 and their shares or interests, as applicable, will not be registered under the U.S. Securities Act of 1933. Accordingly, the Private Funds will not be publicly offered in the United States.

FSI US is also the investment adviser to a U.S. mutual fund, First State Global Listed Infrastructure Fund (FLIIX).

FSI US does not participate in wrap fee programs.

As of December 31, 2019 FSI US had a total of \$1,578,433,489 of assets under management. This includes assets where we have sub-delegated discretion to an affiliate and assets where an affiliated manager has delegated authority to FSI US. Therefore, certain of the assets will also be included in the AuM reported by our affiliated managers.

## 5. Fees and compensation

Fees and compensation will be negotiated on a case by case basis with our clients. We will 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 will pay advisory fees quarterly in arrears, and performance based fees will normally be paid annually in arrears.

We will generally 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.

In addition to FSI US' advisory fee, clients will 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.

Generally the client may terminate the agreement by providing a written notice at the principal place of business. However, account termination provisions will be specified in the individual client agreements.

## **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 FSI US outperforms the relevant benchmark or hurdle, we will 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, but not limited to:

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

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

### A. 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.

In a client focused business, we recognize 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.

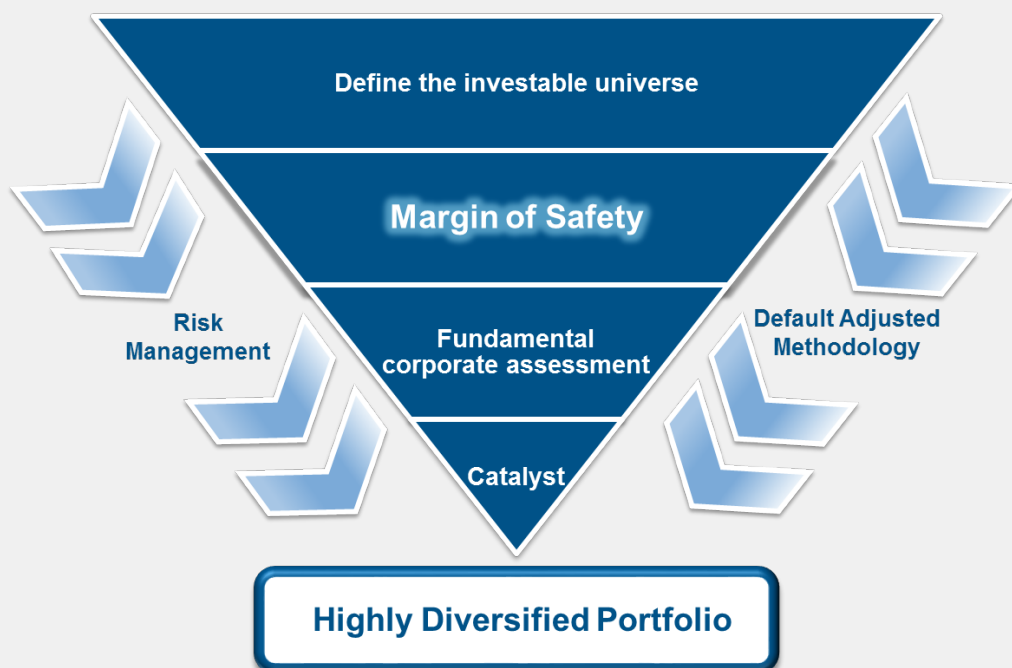
### HIGH YIELD

#### Investment Process

Our High Yield Team employs a fundamental, value-driven Investment Process in the High Yield asset class. We seek to maximize Risk Adjusted returns, and generate superior returns over a market cycle, with less volatility than the broad High Yield market. Our approach to this objective involves maximizing the Default Adjusted yield and spread of a diversified portfolio.

Our Investment Philosophy is rooted in the conviction that High Yield corporate fixed income investing is first, and foremost about Risk Control. Therefore, the initial, and most important fundamental step in our Investment Process is a disciplined, and quantitative calculation of every potential investments "Margin of Safety." The following diagram depicts the progression of our Investment Process, from the entire universe of non-investment grade, fixed income securities to the identification, at any given point in time, of the pool of securities that "fit" our stringent criteria for potential ownership.





### Investment Process Summary

While our Investment Process is rigorous in implementation, it is conceptually simple to summarize:

- **Minimum Yield Screen**, with “positive event potential” exceptions
- **Minimum Margin-of Safety**, requirements; quantified and stringently applied
- **Qualitative Fundamental Corporate Assessments**, to further safeguard against Default Risk
- **Default Adjusted Methodology**, focused on the spread premium necessary to overcompensate for Default Risk
- **Catalysts for Total Return**, expected to result in total returns above and beyond a coupon based yield

The following [Sub-Sections](#) describe each of these Investment Process steps in further detail.

### ***Identify the potential investable high yield universe***

Conceptually, our Investment Process begins by identifying the High Yield universe of potential interest; defined as any non-investment grade, fixed income security with a Spread-to-Worst (STW) greater than 200 basis points (2%) above the point on the government yield curve at the Worst Call Date (the Call Date with the lowest yield spread above the government yield curve). The conceptual logic behind a 200 basis point minimum STW is: +100 basis points of incentive not to own the comparable government bond, plus an assumed minimum default premium of +100 basis points to compensate for the risk inherent in even the safest non-investment grade, fixed income securities.

The only exception to this quantitative minimum spread are “special situations” with positive event expectations; for example, a bond we expect a company to buy back in the near-term, at a premium to the STW price for any number of reasons (e.g. bond covenants limiting a company’s ability to pay dividends to common stock, complete a merger with a another company, etc.).

### ***Margin-of-Safety***

The most important fundamental step of the Investment Process is a disciplined, and quantitative calculation of every potential investments Margin of Safety. Two critical metrics are involved in calculating an investments Margin of Safety:

1. Our proprietary, internal estimates of **Asset Coverage**, defined as the Real World value of a company relative to its gross debt obligations, and,
2. Our proprietary estimates of **Normalized Free Cash Flow** generation over the course of the complete forward looking economic cycle.

Margin of Safety is the most critical part of the Investment Process and the team strictly adheres to minimum Asset Coverage requirements for any investment to qualify for consideration as a portfolio constituent. Every High Yield security we purchase, and continue to own, must have an estimated minimum of 1.5 x asset coverage, with the majority having 2.0 x or greater.

### **Fundamental corporate assessment**

The key measures of Margin of Safety are supplemented with the downside protection of numerous Qualitative Fundamental Assessments to further safeguard against Default Risk.

Most importantly, we seek to invest in the bonds of Strategically Significant companies, defined as those with leading market shares, low-cost positions or other sustainable competitive advantage (barrier to entry).

Additional protective, qualitative assessments include:

- i) The competency and confidence in a company's management; both in terms of business execution, and predictability of their intention regarding balance sheet leverage.
- ii) Individual issues with desirable characteristics/attributes: e.g. secured, an advantageous covenant/s, highest coupon, opportune maturity date, etc.
- iii) Individual issues with protective bond covenants: controlling leverage metrics; dividend payments; subordinating liens and leveraging asset sales; and priority within a capital structure (e.g. limited subordination to debt ahead in the capital structure).

Environmental, Social, and Governance ("ESG") is another important category of qualitative assessments that further bolster downside Default Risk Protection. Many ESG factors are fully captured in our fundamental credit analysis and Investment Process. Key factors such as corporate governance, business practices, industry and contingent liabilities related to environmental issues are researched thoroughly and factored into the Investment Process. Third party specialists that have developed specialized ESG rating methodologies are also used to supplement core credit analysis. ESG Risk receives further diligence through direct interaction with management and the analysis of regulatory filings.

Any and all of these Fundamental Corporate Attributes can offer additional protection against default, incremental to the key measures of Margin of Safety.

### **Default adjusted methodology**

Our minimum Margin of Safety standard is integrated into a dynamic Default Adjusted Methodology, focused on the appropriate yield and spread necessary to overcompensate for the Default Risk in, and between Risk Groups.

We use a Risk Group categorization methodology in our Default Adjusted approach to comparing the relative value of credits that meet our Margin of Safety requirement, but present very different estimated Default Risks.

The methodology assigns every potential investment security that meets our Margin of Safety requirements, to one of four Risk Groups, dependent on the team's estimation of its Default Risk, based on measures of i) excess asset coverage, and ii) free cash flow generating capability, as follows:

Risk Group	Asset coverage	Cash flow volatility	"Normal" annual default rate
I	2.0x minimum	Low	1%
II	2.0x minimum	Medium	2%
III	1.5x minimum	High	4%
IV	Anticipate restructuring or default		

### Catalysts for total return

The team will not own any security that fails to meet our stringent, minimum Margin of Safety requirements, or fails to over-compensate for our estimation of Default Risk.

However, once securities pass the "downside protection" steps in our Investment Process, we look for Catalyst for Total Return; attributes and events that we expect to lead to overall credit improvement over the short-intermediate term, and are likely to result in relative spread tightening, and total returns above and beyond the return from income (coupon).

We identify three common Total Return Catalysts (drivers of credit improvement):

#### "Actual free cash flow" generation

- Equal to, or greater than 5% of Gross Debt per year, and not returned to shareholders; Whether a company chooses to accumulate cash, pay down debt or purchase additional assets.

#### Corporate restructuring

- A strategic operational improvement plan that we understand, judge to make sense, and is in the process of being implemented by management that we view as highly competent.

#### Financial restructuring

- Commonly an equity raise; but also, any favourable balance sheet change

## B. Investment risk

Investing in securities involves a risk of loss that clients should be prepared to bear. Investments that we make are focused on securities of issuers that we believe are undervalued or inexpensive, relative to other investments. These types of securities present risks, in addition to the general risk of investing in equity and bond securities. These securities are generally 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 favor 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 equity style mandates.

### *Asset-backed securities risk*

Risks include the effects of general and local economic conditions on asset values, the conditions of specific industry segments, the ability of the obligors to make payments including such factors as the level of personal income and the unemployment rate. Additionally, investments in asset-backed securities rely, to some extent, on the representations and warranties of the seller. In some cases, seller fraud can occur and there can be no assurance that the seller has adequate resources to compensate investors for their losses.

### *Bank loan risk*

Unlike publicly traded common stocks which trade on national exchanges, there is no central place or exchange for loans to trade. Loans trade in an over-the-counter market, and confirmation and settlement, which are effected through standardized procedures and documentation, may take significantly longer than seven days to complete. Loans trade in an over-the-counter market and are confirmed and settled through standardized procedures and documentation. Extended trade settlement periods may, in unusual market conditions with a high volume of shareholder redemptions, present a risk to shareholders regarding the fund's ability to pay redemption proceeds within the allowable time periods stated in this prospectus. The secondary market for loans also may be subject to irregular trading activity and wide bid/ask spreads. The lack of an active trading market for certain loans may impair the ability of the portfolio to realize full value in the event of the need to sell a loan and may make it difficult to value such loans. There may be less readily available, reliable information about certain loans than is the case for many other types of securities, and the strategy's portfolio managers may be required to rely primarily on their own evaluation of a borrower's credit quality rather than on any available independent sources. Loans may not be considered to be "securities" for purposes of the anti-fraud protections of the federal securities laws, including those with respect to the use of material non-public information, so that purchasers, such as the fund, may not have the benefit of these protections.

### *Call risk*

When interest rates are low, issuers may repay the obligation underlying a "callable security" earlier than expected, thereby affecting the investment's average life and perhaps its yield. A portfolio may have to reinvest the proceeds from the called security at the current, lower rates.

### *Credit risk*

Failure of an issuer to make timely interest or principal payments or a decline in the credit quality of a bond can cause a bond's price to fall.

### *Currency risk*

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

Forward currency contracts may be utilized 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 present risks different from, or in addition to, the risks associated with investments in foreign currencies.

### *Derivatives risk*

A small investment in derivatives could have a potentially large impact on a portfolio's performance. The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that changes in the value of a derivative held by the strategy will not correlate with the underlying instruments, or the portfolio's other investments. Derivative instruments also involve the risk that a loss may be sustained as a result of the failure of the counterparty, to the derivative instruments, to make required payments or otherwise comply with the derivative instruments' terms. Certain types of derivatives involve greater risks than the underlying obligations because, in addition to general market risks, they are subject to illiquidity risk, counterparty risk, and credit risk. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments, as they may fluctuate in value more than the underlying instrument.

### *Distressed securities risk*

An investment in the securities of companies that are experiencing significant financial or business difficulties, including companies involved in debt restructurings, bankruptcy, or other reorganization and liquidation proceedings, may result in significant returns, but typically involve a high degree of risk. Among the problems involved in investments in such issuers are:

- (i) it may be difficult to obtain information from such issuers who may be necessary to properly evaluate an investment;
- (ii) restructurings or reorganizations may be substantially delayed or fail to be completed;
- (iii) dividends, interest, or other disbursements may not be paid by the issuer; and
- (iv) client accounts may bear certain expenses to protect their investment in the course of negotiations surrounding any potential reorganization.

### *Emerging markets risk*

The political and economic structures in many emerging markets are in their infancy and developing rapidly. Such countries tend to lack the social, political and economic characteristics of more developed countries. A number of these countries have, in the past, failed to recognize private property rights and have, at times, nationalized 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 can adversely affect the economies and securities markets of such countries. In addition, unanticipated political or social developments can affect the value of investments in these countries.

### *High yield securities risk*

Issuers of high yield securities generally have more limited revenue and cash flows, higher leverage in their capital structures, and less access to capital markets, than companies issuing investment grade debt. Therefore, investing in high yield corporate bonds entails increased credit risk, a higher probability of default, and higher liquidity risk. High yield issues also tend to have higher return volatility, and somewhat less interest rate risk, given the shorter duration of such issues compared to investment grade corporate bonds.

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. Client 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.

### *Interest rate risk*

Prices of debt securities tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect the prices of these securities and, accordingly, the value of a client's investment. The longer the effective maturity and duration of the strategy's portfolio, the more the value of a client's investment is likely to react to interest rates. Mortgage-related securities can have more interest rate sensitivity than other bonds because of prepayments and other factors, and carry additional risks and tend to be more volatile than other types of debt securities due to unexpected changes in interest rates.

### *Illiquidity risk*

A portfolio may hold securities that are illiquid and cannot be transferred or redeemed for a substantial period of time, and there may be little or no near-term cash flow available to investors in the interim. A

portfolio may not receive any distributions representing the return of capital on an illiquid security for an indefinite period of time.

### *Leverage risk*

Derivatives and other investments involve a degree of leverage. Generally, leverage may occur when, in return for the potential to realize higher gain, an investment exposes the investor to a risk of loss that exceeds the amount invested. If FSI US uses derivatives for leverage, the value of a portfolio will tend to be more volatile, resulting in larger gains or losses in response to the fluctuating prices of its investments.

### *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 assets are invested, could materially reduce profit potential. Where the portfolio or fund we manage for clients 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.

### *Mortgage-backed securities*

Risks include the effects of general and local economic conditions on real estate values, the conditions of specific industry segments, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants, which in turn may be affected by local conditions such as oversupply, or a reduction of, available space, the ability of the owner to provide adequate maintenance and insurance, changes in management of the underlying commercial property, energy costs, government regulations with respect to environmental, zoning, rent control, bankruptcy and other matters, real estate and other taxes, and prepayments of the underlying commercial or residential mortgage loans.

### *Short selling*

A portfolio may engage in short selling. Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in securities. There can be no assurance that the security necessary to cover a short position will be available for purchase, nor that the price of the underlying security will not increase, thus increasing the cost of buying those securities to cover the short position.

## 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, FSI US does not have any material legal, financial, or other disciplinary items to report.



## 10. Other financial industry activities and affiliations

FSI US is part of the MUFG group, which is one of Japan's leading providers of integrated financial services. In some cases, FSI US has business arrangements with related persons/companies to the FSI US advisory business or to their clients. In some cases, these business arrangements create potential conflicts of interest or the appearance of a conflict of interest between FSI US and a client. Recognized 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 dealers

FSI US is associated with several broker dealers: MUFG Securities Americas Inc., Unionbanc Investment Services, LLC, Mitsubishi UFJ Securities International plc, and MUFG Securities EMEA Plc.

As appropriate and in accordance with regulation and client agreements, FSI US will on an arm's length basis, utilize the services of the affiliated broker dealers. FSI US will execute client transactions only when consistent with its duty to place the interests of clients first and to seek best execution (please see Item 12 – Brokerage Practices).

### Affiliated investment advisers

First Sentier Investors (Australia) IM Ltd ("FSI AIM") is an SEC registered investment adviser and is an affiliate of FSI US. FSI AIM is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. Employees of FSI US provide U.S. marketing and solicitation services for the advisory services of FSI AIM.

First State Investment International Limited ("FSII") is a registered investment adviser, and is an affiliate of FSI US. FSII is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. Employees of FSI US provide U.S. marketing and solicitation services for the advisory services of FSII.

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"). Employees of FSI US provide U.S. marketing and solicitation services for the advisory services of FSIS.

First State Investments (Hong Kong) Limited ("FSI HK"), an affiliate of FSI US is licensed by the Securities and Futures Commission in Hong Kong and is an SEC registered investment adviser. FSI HK is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. Employees of FSI US provide U.S. marketing and solicitation services for the advisory services of FSI HK.

First State Infrastructure Managers (International) Limited ("FSIMIL"), is a registered investment adviser, and is an affiliate of FSI US. FSIMIL offers investment advice primarily to institutions with respect to unlisted infrastructure assets.

FSI US serves as a sub-adviser for accounts, funds, or clients for which one or more FSI affiliates serve as investment manager or investment adviser and FSI US has appointed one or more FSI affiliates as sub-adviser. FSI US also provides and receives services in the areas of legal and compliance, risk management, human resources, finance, information technology, trade support, back and middle office support, and sales and marketing.



## 11. Code of ethics

FSI US has adopted a Code of Ethics (the “Code”) that requires FSI US, and all employees, affirmatively exercise authority and responsibility for the benefit of clients, and not participate in any activities that may conflict with the interests of clients except in accordance with the Compliance Manual. In addition, employees must avoid activities, interests and relationships that might interfere, or appear to interfere, with making decisions in the best interests of the FSI US’ clients.

The Code contains policies and procedures that, among other things:

- prohibits employees from taking personal advantage of opportunities belonging to clients;
- prohibits trading on the basis of material nonpublic information;
- places limitations on personal trading by employees and impose preclearance and reporting obligations with respect to trading;
- requires initial and annual reports of securities holdings and monthly transaction reports by employees;
- places limitations on gifts and entertainment received;
- places limitations on the outside business activities conducted by employees; and
- requires employees to maintain in confidence, information about FSI US and investors.

### 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. Employees are responsible for safeguarding non-public information relating to securities recommendations, fund and client holdings. As such, employees should not trade based on FSI US’ 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 FSI US (except those retained to provide services for FSI US).

### Personal securities trading

The Code of Ethics governs personal trading by all employees and members of their household. Employees are permitted to maintain personal securities accounts, provided that such accounts are disclosed to FSI US and that any personal trading is consistent with applicable law and the Code of Ethics.

In summary, pre-approval is required for all transactions in reportable securities and all positions must be held for 60 days. Portfolio managers and research analysts may not invest in any equity security that is, or may be, held by a Private Fund or other portfolio for which he or she has responsibility.

### 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 FSI US employee 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 FSI US 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**

To manage conflicts of interest, inside information, and other compliance and business issues, FSI US maintains a record of its employees serving as officers or members of the board of any other entity. Permission must be obtained through the Chief Compliance Officer and management prior to engaging in any outside business activity. FSI US can deny approval where the perceived conflict of interest cannot be managed effectively.

To request a copy of the FSI US Code of Ethics please write to the Chief Compliance Officer, First State Investments (US) LLC 10 East 53<sup>rd</sup> Street, 21st Floor New York, NY 10022.

## 12. Brokerage practices

### Order aggregation and allocation

FSI US 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.

On occasion, FSI US will decide to purchase or sell the same security for multiple client accounts (including separate accounts, Private Funds, registered funds, and sub-advised accounts). When appropriate, and in accordance with policies and procedures pursuant it will 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. FSI US aggregates orders when FSI US considers doing so is in the interests of its clients. FSI US' client accounts may be included in the aggregated orders with clients of FSI US' affiliated advisers.

When orders are aggregated, the orders may be placed with one or more brokers for execution. When a bunched order is filled, FSI US 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 FSI US clients creates potential conflicts of interest because FSI US could 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.

FSI US will, from time to time, invest in the same securities that its affiliates are also currently invested. Portfolio management and security recommendations are undertaken at an investment strategy level and each investment team managing these strategies is organized separately. Information barriers and other controls exist between investment teams to manage any potential conflicts that may arise.

### Counterparty approval

FSI US 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 CFSGAM Fixed Income Best Execution Committee. The criteria used to assess each counterparty can be grouped into 5 main categories:

- Market execution factors (liquidity and pricing capabilities);
- Coverage and support;
- Financial strength;
- Operational capability;
- Ethical standards.

The weightings assigned to each category will vary depending on the individual asset sector, its requirements, and nuances.

In choosing brokers and deals for specific transactions, FSI US seeks “best execution”, which involves determining the above factors relative to the market and order characteristics at that specific point in time. In evaluating whether a broker or dealer will provide best execution for any specific order, FSI US considers a number of other factors including, but not limited to:

- (1) the size and type of transaction;
- (2) access to liquidity;
- (3) execution efficiency;
- (4) capital utilization;
- (5) the value of brokerage and services provided by the broker;
- (6) clearance and settlement services;
- (7) financial responsibility/counterparty credit statistics;
- (8) responsiveness to inquiries or issues;
- (9) confidentiality;
- (10) knowledge of the specific security and its industry group;
- (11) the availability of securities to borrow for short sales;
- (12) block trading capabilities;
- (13) access to markets; and
- (14) the ability to limit market impact.

### **Cross transactions**

When deemed in the best interest of the client, FSI US will utilize the services of ICAP CrossTrade for the execution of equal and opposite orders on the same instrument at an independent live mid-market price. In the event of execution of a trade, brokerage is charged at 0.01% on both the buy and the sell leg of the trade. Neither FSI US nor any related party receives any compensation as a consequence of such 'cross' transactions.

Cross trades will only be executed for clients that are not plans, trusts or retirement accounts governed by the Employee Retirement Income Security Act of 1974, as amended or funds registered with the SEC under the Investment Company Act of 1940.

### **Use of dealing commission**

FSI US does not expect to use soft dollars.

### **Directed brokerage**

At this time, FSI US does not accept client directed brokerage arrangements.

### **13. Review of accounts**

FSI US regularly reviews 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, will be 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 will receive quarterly reports, either following a standard First State Investment template, or tailored to suit the individual client or mandate requirements. Quarterly factsheets will be produced and sent out to the investors of the Private Funds.

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**

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

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

## 15. Custody

Because FSI US is authorized to deduct fees from the Private Funds' accounts and because FSI US provides payment instructions to the custodians of the Funds, FSI US is deemed to have custody of the Private Funds' assets within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940. Physical custody of the Private Funds' assets is with a qualified custodian.

FSI US generally does not maintain custody of the assets of our clients with separately managed accounts. Instructions to facilitate payment of fees are generally initiated by the client through the client's custodian.

All clients should receive account statements directly from the broker-dealers, banks, trustees, or other qualified custodians with whom they have accounts. FSI US strongly urges all clients to compare the reports they receive from FSI US to the statements they receive from their broker-dealers, banks, trustees or custodians. Any issues or discrepancies should be communicated to FSI US promptly for investigation.

## **16. Investment discretion**

FSI US will 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 the 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.

FSI US also accepts client mandates on a sub-advisory basis.



## 17. Voting client securities

The concept of stewardship is at the heart of FSI US' investment approach. FSI US 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.

FSI US has in place a comprehensive corporate engagement policy that is designed to ensure proxies are voted in the best interests of its clients. Subject to specific client directions, FSI US will exercise every vote in accordance with that policy.

Where a portfolio manager or analyst making a proxy voting decision, or FSI US as a whole, has a potential material conflict, such instructions will be forwarded to the Chief Investment Officer 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 Chief Investment Officer.

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

FSI US' voting policy is available upon request. A client may obtain a record of FSI US' voting for such client by contacting Chief Compliance Officer, at 212-497-9980.

## **18. Financial information**

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

For further information

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