

MAKING THE GRADE: FIRST STATE

BY MATT GOODBURN

With just 134 funds in Citywire Selection plucked from a universe of more than 2,200, inclusion in the final list alone could be considered a job well done. But that 134 is honed to produce just 20 star picks and inclusion here means a manager has to be mining a very rich vein of performance. Step forward First State.

First State Investments has claimed four spots in the latest round of 20 star picks, with no other group appearing more than once in the list. The four are Angus Tulloch's Asia Pacific Leaders, Jonathan Asante's Global Emerging Markets Leaders, Martin Lau's Greater China Growth and Peter Meany's Global Listed Infrastructure fund.

Add to that David Gait's Indian Subcontinent fund, Joanne Warner's Global Resources and Susie Rippingall's Scottish & Oriental Smaller Companies trust, and you have seven in the combined list – again, a total that is more than any other group.

SIMPLE BUT EFFECTIVE

So what is so special about the investment process that is

driving performance at First State? Not only do the funds outperform over the long term but they are also adept at preserving capital when markets are falling, as they have been doing over the past few weeks. The process is a relatively simple but effective one, shaped by the group's head of Asian equities Angus Tulloch over 23 years at the firm. Analysing a company's long-term corporate history is critical in making sure it is minority shareholder-friendly and has a track record of being run in a socially responsible way.

Strong social governance is a key consideration for the group's managers as, over the long term, they are convinced that companies run in this way will outperform their peers.

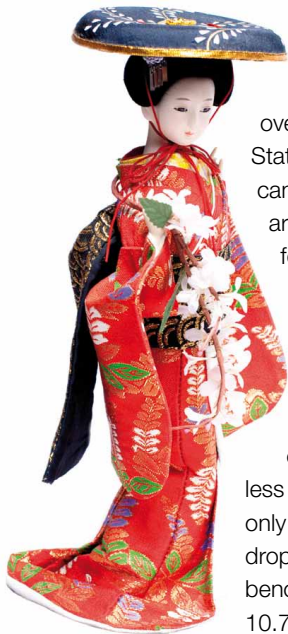
There is no one valuation discipline but company accounts are

PERFORMANCE THIS YEAR TO 18 AUGUST FOR ALL FIRST STATE FUNDS IN CITYWIRE SELECTION

Name	% Growth (31/12/2010 To 18/08/2011)
First State Global Emerging Markets Leaders	-10.75
MSCI EM (Emerging Markets)	-13.59
First State Asia Pacific Leaders	-8.72
FTSE AW Asia Pacific ex Japan	-11.14
First State Global Resources	-17.52
LCI HSBC Global Mining/MSCI ACWI Energy (75:25)	-14.76
First State Greater China Growth	-10.92
MSCI Golden Dragon	-13.92
First State Indian Subcontinent	-11.86
MSCI India	-24.4
First State Global Listed Infrastructure	-5.64
UBS Global Infrastructure & Utilities 50-50	-6.08
Scottish Oriental Smaller Companies Trust	-7.10
MSCI AC Asia ex-Japan Small Cap	-18.90

scrutinised closely and the teams tend to take a three to five-year investment view. Turnover is typically lower than many of their peers, too, and all the investment teams are encouraged to invest in their own funds to keep their interests tightly aligned with their investors.

State-run enterprises such as the Bric energy and financial giants tend to be avoided because First State managers believe minority shareholders are the last investors to benefit from corporate profits and they rarely invest at a company's initial public offering unless they already know the management team has an established track record. In Asante's case, he prefers the comfort of seeing a 10-year track record before investing.



VOLATILITY TEST

It is in choppy markets like the ones we have been experiencing over the past few weeks that First State's capital preservation credentials can be fully put to the test. As equities are sold down on global slowdown fears, the type of company First State managers look to invest in should offer a degree of insulation from the worst of the falls, and year-to-date figures bear this out.

In the year to 18 August, six of the seven funds have fallen by less than their respective indices, with only Warner's Global Resources fund dropping by more than its composite benchmark. Asante's fund has fallen by 10.7% compared to a fall of 13.6% by its benchmark, while Tulloch's Asia Pacific

Leaders is down by 8.7% versus a benchmark fall of almost 11.2%. Martin Lau's Greater China Growth fund is exactly 3% better off than his MSCI Golden Dragon index, while David Gait has suffered less than half the losses of the MSCI India benchmark at 11.8%, compared to a loss of 24.4% by the index.

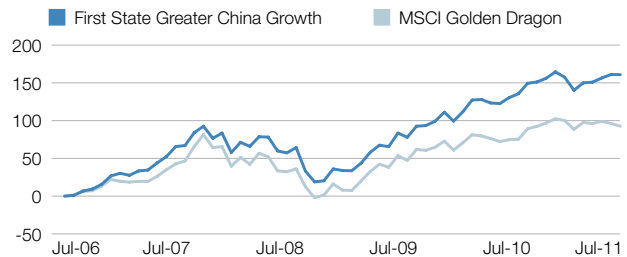
Finally, Peter Meany's infrastructure fund has lost 5.6% this year, compared to his benchmark's 6.1% fall.

No one wants to see losses in real terms, but the fact these funds are doing a decent job of preserving capital in these volatile times bodes well for their continued success over the longer term when a little more stability returns to the markets.

As of January 2012, the Greater China Growth and Indian Subcontinent funds will be soft-closed to investors.

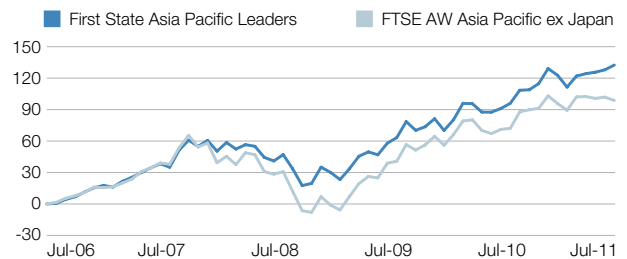
FIRST STATE GREATER CHINA GROWTH VERSUS MSCI GOLDEN DRAGON

Source: Lipper



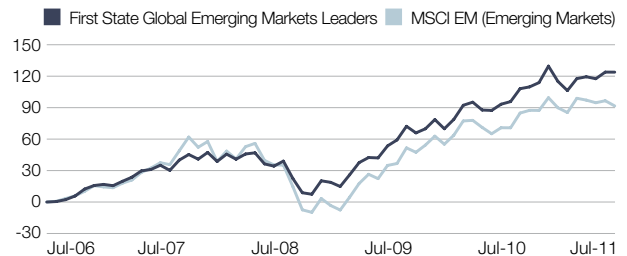
FIRST STATE ASIA PACIFIC LEADERS VERSUS FTSE AW ASIA PACIFIC EX JAPAN

Source: Lipper



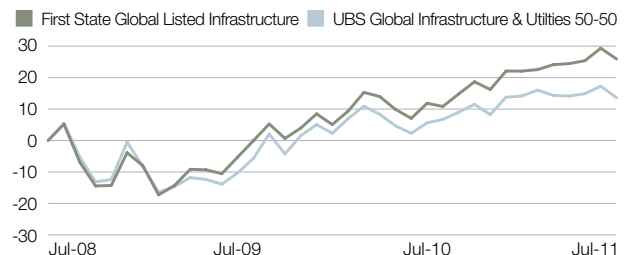
FIRST STATE GLOBAL EMERGING MARKETS LEADERS VERSUS MSCI EM (EMERGING MARKETS)

Source: Lipper



FIRST STATE GLOBAL LISTED INFRASTRUCTURE VERSUS UBS GLOBAL INFRASTRUCTURE & UTILITIES 50-50

Source: Lipper



IT IS IN CHOPPY MARKETS THAT FIRST STATE'S CREDENTIALS CAN BE FULLY PUT TO THE TEST