

MEDIA RELEASE

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First State's Asante is cautious on concerns over full valuations, inflationary outlook and continued potentially excessive risk taking by some market participants

Jonathan Asante, manager of the £1.8bn **First State Global Emerging Markets Leaders Fund**, says that his portfolio is positioned as defensively as it was a year ago, given the current market risks and many quality companies still appearing fully valued.

The First State Global Emerging Markets Leaders Fund, rated AAA by OBSR and AA by Standard & Poor's, aims to achieve long-term capital growth through investing predominantly in equities of large and mid capitalisation companies across global emerging markets.

Jonathan Asante comments:

'On a recent visit to India we were privileged to meet some senior executives from the Tata Group, a company we regard highly. Some of the people we met expressed concern that the role of banking in the world had become dangerously unbalanced because the tail of financial intermediation now actually wagged the dog of the real economy it was supposed to serve. People who have run real businesses for decades in emerging markets find this highly perplexing. Sadly, recent solicitations offering ways to avoid paying tax in Latin America suggest to us that none of the incentives at the 'casino' end of the world's financial services sector have really changed much at all. The need to separate the investment banks from the utility end of banking to protect the tax payer looks even greater. Disappointingly, a leading politician recently indicated to us this was unlikely to happen because the investment banking lobby had just become too powerful.'

Asante says that whilst what he sees as some market participants' focus on short term gains continues to be a matter of concern, his currently defensive positioning is also due to many quality companies remaining fully valued and the uncertainty of whether the ongoing monetary tightening across the developing world brings rising inflation under control:

'Developing world policy makers, who are now much more important than they were 10 years ago, have grasped the nettle of trying to stop some of the excesses created by the printing of the US Dollar. While this is complicated by the non-cooperation of some of the global banks, the Chinese at least have many levers to pull to help them succeed because the government owns their financial system. We do not know if the central planners really believe they can permanently cap inflation and keep growth going at the same time, but we should all wish them the best of luck. Were this perceived to be failing there could be difficult consequences for many companies and economies globally.'

Asante continues to be generally cautious on the largest emerging markets, the so-called BRIC economies, where some of the best-established and well-run companies remain fully valued in his view:

'We believe that valuations of good quality companies in those markets are expensive and we currently tend to focus more of our attention on some of the smaller markets, such as Taiwan and South Africa. We expect that over the next three to five years the worst performance will come from cyclical and what we regard as poor quality companies, many of which are large constituents of the GEM benchmark index by capitalisation.'

Asante concludes that he continues to favour emerging market companies with more defensive profiles, as well as developed world companies which derive a large part of their revenues from emerging markets.

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Notes to editors:

About First State Investments

First State Investments provides specialist asset management services to wholesale and institutional investors across a diverse range of asset classes, including Asia Pacific and global emerging market equities, global equities, property securities, infrastructure and global natural resources. First State has more than 190 staff in London and Edinburgh and provides a range of specialist investment products to investors. First State is part of Colonial First State Global Asset Management, the consolidated asset management business of the Commonwealth Bank of Australia. Colonial First State Global Asset Management is Australia's largest fund manager. It employs investment professionals in Sydney, London, Edinburgh, Hong Kong, Singapore, Jakarta and Tokyo. Colonial First State Global Asset Management is a signatory to the United Nations' Principles for Responsible Investment, a voluntary program which encourages best practice in environmental, social and corporate governance issues.

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