

First State Greater China Growth A Acc

Morningstar Category Benchmark
MSCI AC Golden Dragon NR USD

Morningstar Qualitative Rating™



► **Elite**
Superior
Standard
Inferior
Impaired

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Executive Summary

People: Martin Lau is a seasoned fund manager in Greater China region. He is backed by equally experienced co-manager Ho Hsiu-Mei and a well resourced squad of 4 analysts.

Parent: First State Investments focusses on its key strengths and its compensation plan does a good job of aligning managers' interests with those of investors'.

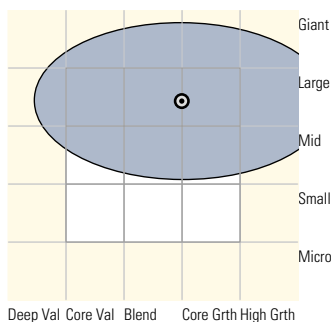
Process: The stock selection process here seeks high quality companies which offer sustainable earnings growth and are available at an attractive price.

Performance: The fund has been a stellar performer, beating both the benchmark and Morningstar category average since inception. It can lag in momentum-led rallies.

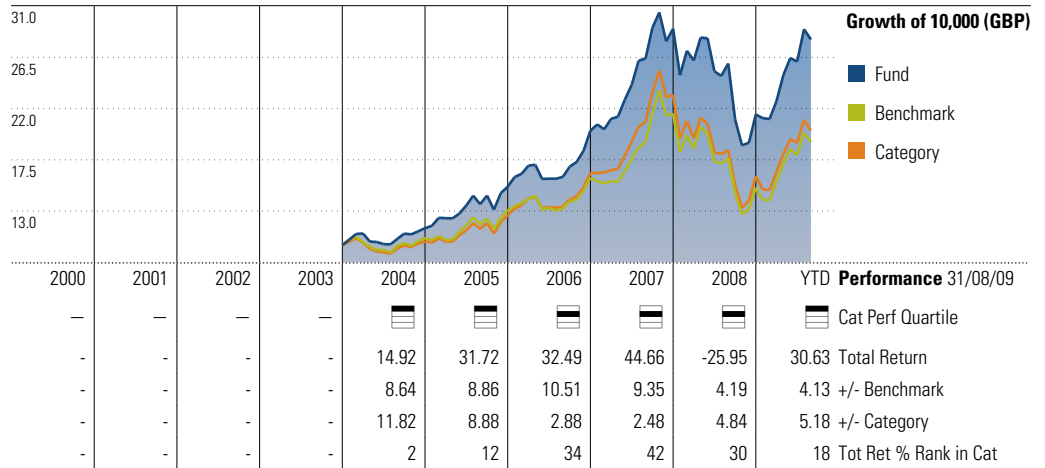
Price: This fund's TER is below the category median within its Greater China Equity peer group.

Role in Portfolio: The fund would be at most a niche player in a broader portfolio for European and UK investors.

Morningstar Style Box: Ownership Zone



● Centroid = weighted average of stock holdings
● Zone = 75% of fund's stock holdings
(as of 31/05/09)



Morningstar Opinion

18 Sep 2009 | First State Greater China Growth sets the standard for others to follow.

There are multiple reasons why we hold this fund in such high regard, not least its investment team. Lead manager Martin Lau has a wealth of experience, and has managed the Irish-domiciled version of the fund since 2002 and this UK-domiciled offering since its late 2003 inception. Lau is also co-manager of the shop's Asia Pacific Leaders Fund. Co-manager Ho Hsiu-Mei adds to the team's depth with her detailed knowledge of Taiwanese stocks. The duo is backed by a well-resourced squad of four analysts (with 11 years investment experience on average) and also leverages off the research efforts of the wider First State GEM/Asia-Pacific equities team based in Edinburgh, Singapore and Hong Kong. One of this team's hallmarks is its leader – Angus Tulloch – who has almost three decades investment experience, and has proven himself as one of the most astute stock pickers in the field.

The investment process employed here is not radically different from its peers, but distinguishes itself in its level of execution. The process has an emphasis on bottom-up stocks selection but macro views also play an important role in portfolio construction. For example, the team pared its exposure to industrials early this year in light of the concerns about over-supply. That said, the team is not

prone to making large-scale shifts. Indeed, Lau and Ho are disciplined buy-and-hold investors, demonstrated by a respectably low turnover ratio of roughly 40%. Consistent with the bottom-up investment philosophy, the duo tends to invest with conviction and willing to look past short-term noise. One such example is China Mengniu, the milk producer at the heart of the melamine contamination scare in 2008. Lau and the team remain convinced on the stock based on its attractive valuation and growth prospects.

Returns in country specific funds—especially ones focused on emerging markets such as this—will be volatile and should therefore be seen as niche player in a diversified portfolio. That being said, Lau and the team have done a stellar job for investors. The fund has consistently beaten its category median in every calendar year since its inception. More impressively the fund has displayed a lower level of volatility (as measured by standard deviation) compared to peers and has demonstrated its resilience in times of market turmoil. We note, however that the style may hold it back a bit in momentum-led rallies.

The TER is well below its category average, making it fairly attractive over more expensive peers. Whilst it's debatable if investors outside of Asia need a dedicated China fund, for those that do First State Greater China Growth's impressive investment team, robust process and enviable track record make it the standout choice.

Morningstar Category™	Greater China Equity
IMA Sector	Asia Pacific Excluding Japan
Manager's Benchmark	100% MSCI AC Golden Dragon NR USD
Inception Date	01/12/2003
12 Month Yield %	1.31

ISIN	GB0033874107
Domicile	United Kingdom
Legal Status/UCITS	Open Ended Investment Company
Base Currency	GBP
Total Net Assets	GBP 245.05 Mil

First State Greater China Growth A Acc

Morningstar Category Benchmark

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Manager	Martin Lau
Manager Start	01/12/03
Average Tenure	5.81
Avg Yrs Experience	17
Longest Tenure	5.81

Other Funds Managed

- First State China Growth
- First State Hong Kong Growth
- First State Asia Pacific Leaders

Number of Analysts 19

Management Company
First State Investments (UK) Ltd

Total Assets Under Mgt	GBP 63 Bil
Total Assets in Strategy	GBP 186 Mil

No Holdings (Range)	40-70
Max Position Size	10%
Sector Constraints	30%
Tactical Use of Cash	No
Hedging Policy	Unhedged
Manager's Benchmark	100% MSCI AC Golden Dragon NR USD

People

This team is part of the GEM/Asia Pacific equity group led by Angus Tulloch in Edinburgh. That group, formerly Stewart Ivory, has been run as an autonomous unit since First State acquired it in early 2000. The team is rock solid with all members highly experienced in their respective focused areas and has exemplary resources. Its autonomy within First State helps keep the team intact by allowing members to participate in the group's long-term investment and commercial success. This proves by the team's strong track record in managing Asia Pacific and

Parent

First State Investment is a specialist asset management business, and part of Colonial First State Global Asset Management, the funds management arm of the Commonwealth Bank of Australia. As at December 2008, it had GBP 63 billion under management. In 2006, the firm took the rather unusual step of winding down its UK equities capability realizing it was unlikely to generate the scale necessary to become a serious player in what is a very crowded investment market. We commend this move and believe investors would benefit if more firms were to follow this action. This allows First State to concentrate

Process: Investment Approach

The process targets high quality companies which offer sustainable earnings growth and which the team believes are available at attractive prices. Lau and Ho pick stocks on a bottom-up basis but also take into account the macroeconomic environment. The managers will only invest in quality companies which they believe have the potential to deliver sustainable growth in the long term, using free cash flow growth as their key measure to avoid

Global Emerging equities; it has run Asia-Pacific ex-Japan equities since June 1988. Fund manager Martin Lau has 14 years investment experience and he has been with First State for 7 years. Lau also manages several other single country funds in the region and co-manages the Asia Pacific Leaders fund. Ho Hsiu-Mei was appointed as the co-manager in early 2007 and the 19 years investment experience under her belt focusing on Taiwan and tech stocks should hold the fund in good stead. The broader team consists of 19 managers and analysts based in Edinburgh, Hong Kong, and Singapore.

on areas where the firm believes it enjoys a competitive advantage – such as Asia-Pacific and global emerging markets equities, global resources, infrastructure and global REIT's. The group's investment teams are structured such that team members are given a sense of portfolio ownership by way of team-focused incentives. The global emerging markets team has a remuneration structure based on 1 and 3 year performance (skewed towards the longer end), while all team members are eligible for a long-term profit share scheme, which is invested into team managed funds. We feel this shows a clear level of alignment with investors.

earnings accounting issues. This criterion helps to ensure they do not invest in speculative stocks with unrealistic growth rates. The managers use metrics such as price-to-earning ratios and price-to-book ratios to ensure they are gaining some value in the purchase of long-term growth stocks. In securing quality the team targets companies with pricing power and competitive advantage as well as proven top management, they place a heavy emphasis on meeting company management and perform around 750 visits a year. The portfolio typically holds 40-70 stocks.

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Value Measures	Fund	Rel Cat
Price/Earnings	16.33	1.33
Price/Sales	1.71	1.37
Price/Book	1.97	1.05
Price/Cash Flow	6.81	1.28
Dividend Yield %	1.87	0.52

Growth Measures	Fund	Rel Cat
Long-Term Earnings	18.52	0.78
Historical Earnings	-21.32	0.52
Sales	-16.12	0.42
Cash Flow	2.72	-0.09
Book Value	-13.45	0.40

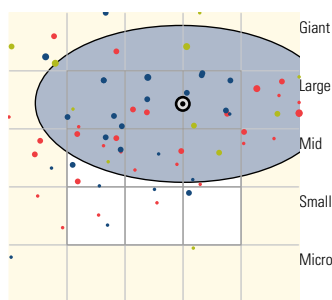
Average Market Cap GBP 3450.01 Mil

Process: Portfolio Positioning

The team's emphasis on quality and sustainable growth yields a portfolio populated with both value and growth names. The portfolio has a defensive feel to it as at March 2009, reflecting the team's cautiousness on Chinese economy's prospects. The portfolio was overweight to consumer related stocks, both discretionary and staples, with the greatest overweight to the former. Hengan, a hygiene product manufacturer is one such illustration. The manager remained cautious on financials when we spoke to him earlier this year, believing that the market was too complacent about banks, particularly the large state-owned institutions. Another concern was the aggressive

lending adopted by banks; this could lead to a rise in non-performing loans over the medium term. Within financials, property names were starting to look attractive to the team in light of their conviction in the potential for asset reflation. Within the energy sector, CNOOC remained the preferred option. Though the weighting was trimmed in April 2009 due to price strength, Lau and the team believed the firm was one of the premier explorers globally. China Resources Power is another stock the team was adding to in early 2009. The team expected an increasing number of Chinese resources firms to look overseas to secure raw materials (Australia is fertile ground for many firms) to feed the insatiable demand for urbanisation.

Morningstar Holdings Based Style Map



Deep Val Core Val Blend Core Grth High Grth

● Centroid = weighted average of stock holdings
 ● Zone = 75% of fund's stock holdings
 (as of 31/05/09)

World Regions	% Equity
Greater Europe	0.99
Americas	3.15
Greater Asia	95.87

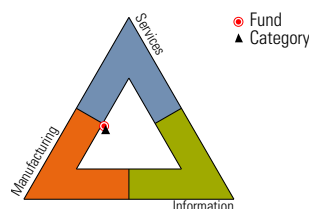
Top 5 Countries	% Equity
Hong Kong	40.83
China	26.21
Taiwan	22.62
Singapore	6.21
Cayman Islands	2.12

Market Maturity	% Equity
Developed Markets	73.79
Emerging Markets	26.21
Not Classified	0.00

Asset Allocation	% Assets	long %	short %	net %
Stocks	95.15	95.15	0.00	95.15
Bonds	0.00	0.00	0.00	0.00
Cash	4.85	0.00	0.00	4.85
Other	0.00	0.00	0.00	0.00

Top Holdings	% Assets
Taiwan Semiconductor Manufacturing	4.53
Cheung Kong Holdings, Ltd.	3.93
Hengan International Group Co. Ltd.	3.80
Yantai Changyu Pioneer Wine Compan...	3.71
Jardine Matheson Hldgs Ltd	3.51
Chunghwa Telecom Company, Ltd.	3.35
China Resources Power Holdings Co....	2.76
Dairy Farm International Hldgs Ltd	2.39
Wing Hang Bank, Ltd.	2.32
China Vanke Co.,Ltd.	2.32
China Resources Enterprise Ltd	2.18
China Oilfield Services Limited	2.08
Espirit Holdings Limited	1.92
Delta Electronics, Inc.	1.91
China Merchants Bank Co.,limited	1.91
China Telecom Corporation Limited	1.89
China Communications Services Corp...	1.83
President Chain Store Corporation	1.82
Kingboard Chemical Holdings Ltd.	1.73
China BlueChemical Ltd.	1.67
Total Equity/Bond Holdings	72/0
Assets in Top 10 Holdings %	32.63

Sector Delta



Sector Weightings	% Equity	Rel Cat
Information	18.06	0.91
Software	0.13	0.39
Hardware	9.06	1.03
Media	0.00	0.00
Telecommunications	8.87	0.84
Service	40.20	1.05
Healthcare	1.01	1.63
Consumer Services	10.53	2.35
Business Services	5.53	1.46
Financial Services	23.13	0.79
Manufacturing	41.74	0.99
Consumer Goods	20.44	1.24
Industrial Materials	10.13	0.84
Energy	6.83	0.62
Utilities	4.34	1.78

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Trailing (GBP)	Total Rtn %	+/- Bmark	+/- Cat	%Rnk in Cat
3 Mo	6.15	2.89	2.46	15
6 Mo	33.09	-3.60	-2.29	62
1 Yr	8.10	0.22	-0.66	53
3 Yr Annualised	20.60	7.64	6.96	5
5 Yr Annualised	21.58	7.77	6.45	7
10 Yr Annualised	-	-	-	-

MPT Stats	3 Yr	Rel Cat	5 Yr	Rel Cat
R-Squared	93.84	1.01	92.38	1.01
Beta	0.88	0.89	0.89	0.91
Alpha	6.90	6.11	7.47	4.61

Volatility & Risk Adj Returns	3 Yr	Rel Cat	5 Yr	Rel Cat
Std Deviation	25.42	0.87	21.80	0.89
Mean	1.84	1.28	1.84	1.29
Sharpe Ratio	0.69	1.57	0.80	1.54
Information Ratio	0.88	5.18	1.03	4.29
Treynor Ratio	13.41	2.42	18.10	1.79

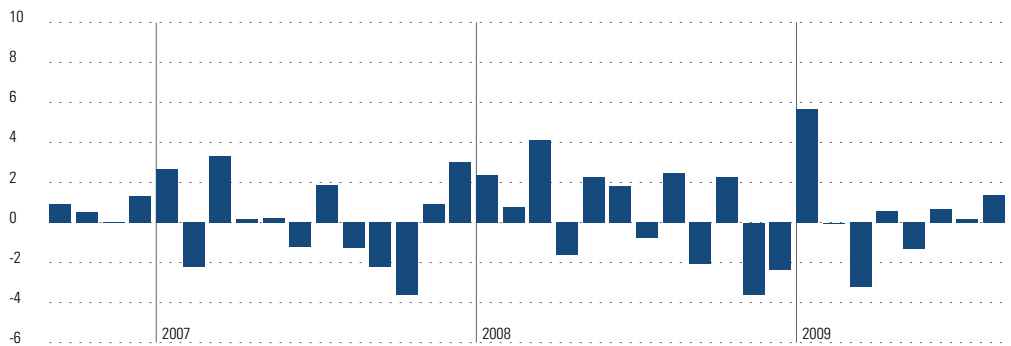
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Performance Analysis

It's hard to fault performance here given the fund's mandate: the fund has delivered strong relative performance over virtually all time periods since inception, particularly so in down markets. This owes much to the team's relentless focus on avoiding the more speculative areas, targeting firms with sustainable growth and paying close heed to downside risks. However, its focus on China and Taiwan makes the fund extremely high risk in an absolute sense. This was demonstrated clearly in 2008.

Whilst the fund beat its average Greater China peer by nearly 5%, it still lost 25.95% in absolute terms as the region sank like a stone. The fund's overweight positions in defensive sectors including utilities and consumer staples last year helped cushion it against greater losses. Stocks like fast food chain Café de Coral and electricity supplier CLP Holdings were among the winning picks. Exposure to a number of Hong Kong property plays (a long term favorite of the fund) disappointed. Given the team's disciplined approach investors should expect the fund to potentially lag in momentum driven markets.

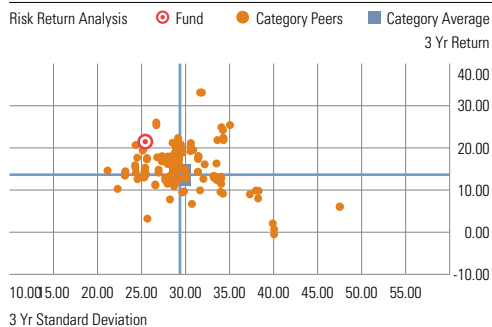
Monthly Return vs Morningstar Category (GBP)



Risk & Return

Country specific funds will display higher volatility compared to more diversified offerings and this is especially the case for funds focused on emerging markets such as China. Investors should expect a bumpy ride –

the fund enjoyed healthy double digit returns in 2006 and 2007, only to lose over 25% in 2008. Even so, First State has done a commendable job to keep standard deviation (a measure of volatility) lower than its typical peer's. Additionally the fund has shown an ability to weather down markets better than most, adding to its appeal.



Morningstar Rating™ (Rel Cat)	Morningstar Return	Morningstar Risk	Morningstar Rating
3 Year	High	Bel avg	★★★★★
5 Year	High	Bel avg	★★★★★
Overall	High	Bel avg	★★★★★

Price

Competitively priced. The TER is below the category median.

Initial Sales Charge %	4.00
Max. Annual Management Fee %	1.75
Total Expense Ratio %	1.84