

Fullerton SGD Heritage Balanced

February 2020

Investment Objective

The investment objective of the Fund is to generate regular income and long term capital appreciation for investors.

The Fund will invest primarily in a diversified portfolio of collective investment schemes, other investment funds, securities, including but not limited to fixed income securities, equities, real estate investment trusts (“REITs”), money market instruments and cash as deemed appropriate by us in accordance with its investment objective. In normal market conditions, the Fund aims to invest around 50% of the Fund’s NAV in Singapore securities (defined by country of risk) and/or SGD denominated securities, cash and cash equivalents, and/or non-SGD fixed income securities hedged back to SGD. The Fund may also invest in developed market equities (ex-Asia) for diversification reason.

Fund Information

Fund Size	SGD 58.89 million
Base Currency	SGD
Preliminary Charge	Currently up to 3%
Dealing Frequency	Every Business Day
Subscription Mode	Cash, SRS

Manager’s Commentary

Market Review

February was a month of two halves with the COVID-19 outbreak driving market volatility. Risk assets rallied in the first half of the month as investors took the outbreak in stride, expecting a quick rebound in risk appetite and activity. However, despite the peaking of new infections within China, a sudden spike in infection outside of China derailed risk sentiment, leading to sharp falls in risk assets in the second half of the month. Global equities (MSCI AC World Index) are down 8%, including a sharp tumble of almost 12% from the intra-month peak. Developed markets underperformed emerging markets during this month’s sell-off, reflecting relative positioning and COVID-19 concerns spreading outside of Asia. Asian equities (MSCI Asia ex Japan Index) are down 3%, having fallen 8% in the second half of the month from an intra-month peak. Safe haven assets performed well, with the 10yr US Treasury yield falling 36bps to 1.15%.

Investment Outlook

The impact of COVID-19 on economic growth is still uncertain. Historical analysis suggests a one to two quarter impact followed by a recovery and, importantly, resumption of underlying medium term trends. The extent of this outbreak as well as the strong containment measures and travel restrictions put in place do suggest the potential for a more protracted slowdown. However, this effect is likely to be concentrated amongst the more open economies and those that have a heavier reliance on tourism.

For the global economy as a whole, note that the pre-outbreak global growth dynamic was one characterised by a strong consumer, resilient labour markets and a recovering trade and manufacturing cycle following the US-China trade truce. Thus, given that growth was recovering from muted levels, and signs of excess in economic imbalances were limited, we would expect an eventual cyclical resumption of the growth recovery as opposed to a sharp downturn from here.

Policymakers are also wary of downside growth risks. We expect global monetary policy to remain accommodative, and policymakers to pre-emptively respond to slower growth prospects and inadvertent tightening of financial conditions from asset market volatility. Thus, we would expect policy to be supportive for markets, helping to buffer downside risks over the medium term. Indeed, in China, policymakers have already responded by easing liquidity and stabilising the exchange rate. Fiscal policy in Asia is also likely to be loosened to buffer the short term negative economic impact, as evidenced in Singapore and Hong Kong. In developed economies, it is still too early to gauge the spill-over economic impact, and thus policymakers have been relatively more sanguine so far. In addition, we observe that prior to the outbreak, despite the good performance of equities till that point, positioning was not crowded in Asian/EM equities, and sentiment indicators did not suggest excessive levels of exuberance on Asian/EM equities amongst the wider investment community.

Investment Strategy

On investment strategy, we continue to tap on Tactical Asset Allocation to navigate volatility. Bottom-up, we remained focused on stocks and credits with good fundamentals. We position the portfolio to benefit from medium term trends and also apply tactical overlays to manage near term risk. While we acknowledge the near term risks, our research highlights to us that epidemics tend to have a short term impact, but economic fundamentals will assert themselves over the medium term.

On the medium term picture, we remain constructive on risk assets. While the effects of the corona virus are likely to impose short term disruptions, the responses of policy makers have been swift and decisive. With the outbreak of the coronavirus, central banks continue to provide liquidity support. For example, China and Philippines have been quick to further ease monetary policy. In addition, we have witnessed governments, especially in Asia, respond with fiscal stimulus. For example, both Singapore and Hong Kong have responded with measures to provide help for businesses and stimulate consumption. With both fiscal and monetary policy working in concert, we expect economic growth over the medium term to be supported. Notwithstanding the constructive medium term trend, over the near term, markets are expected to remain volatile as investors react to the disruptions posed by the coronavirus outbreak. In terms of the portfolio strategy, we have held a higher level of cash and are actively looking for investment opportunities.

For the equity sub-portfolio, we are tilted towards REITs vis-à-vis Asia Equities. Historically, REITs do not have a relatively high sensitivity to the broad equity market. For example, we estimate that the beta of REITs to Asia Equities is about 0.5. This means that during an equity correction, REITs tend to be more defensive compared to board equity market. REITs tend to demonstrate a relatively more defensive characteristic because REITs are cushioned with a relatively high rental yield which offer investors a buffer against capital losses. During this volatile period, we remained focused on risk management, both on the upside and downside. As disciplined investors, we rely on our comprehensive suite of quantitative indicators and apply investment judgment to navigate this challenging period.

Performance (%)

	1 mth	3 mths	6 mths	1 yr	3 yrs p.a.	5 yrs p.a.	Since Inception
A-SGD (bid-to-bid)	-1.61	0.71	2.33	-	-	-	6.63
A-SGD (offer-to-bid)	-4.47	-2.22	-0.65	-	-	-	3.53
B-SGD (bid-to-bid)	-1.61	0.71	2.33	-	-	-	6.63
B-SGD (offer-to-bid)	-4.47	-2.22	-0.65	-	-	-	3.53

Returns are calculated on a single pricing basis in SGD with net dividends and distributions (if any) reinvested. Offer-to-bid returns include an assumed preliminary charge of 3% which may or may not be charged to investors.

Asset Allocation (%)

Equities	20.6
REITs	28.5
Fixed Income	43.5
Cash and cash equivalents	7.4

Country Exposure (%)

Singapore	41.0
China	24.7
Developed Markets	9.7
India	5.1
Hong Kong	5.0
Indonesia	4.4
Korea	3.5
Taiwan	2.9
Thailand	1.3
Malaysia	0.7
Philippines	0.7
Others	1.1

Sector Exposure (%)

Real Estate	45.4
Financials	22.4
Communication Services	5.2
Information Technology	5.2
Industrials	4.9
Consumer Discretionary	4.5
Energy	3.9
Materials	3.1
Utilities	1.6
Consumer Staples	1.3
Health Care	1.0
Government	0.8
Asset Backed Securities	0.7
Diversified	0.0

Top 5 Holdings (Equities, % of NAV)

Tencent Holdings	1.6
Alibaba Group Holding	1.6
Taiwan Semiconductor Manufacturing	1.5
Samsung Electronics - Pref	0.8
Ping An Insurance Group	0.6

Top 5 Holdings (REITs, % of NAV)

Ascendas Real Estate Investment Trust	5.9
Capitaland Mall Trust	3.9
Capitaland Commercial Trust	3.3
Mapletree Logistics Trust	3.2
Mapletree Industrial Trust	3.0

Top 5 Holdings (Fixed Income, % of NAV)

Credit Agricole 3.8% Apr 2031	0.4
SPH Reit 4.1% PERP	0.4
Huarong Finance 2017 Co 3.8% Nov 2025	0.4
HSBC Holdings 5% PERP	0.4
Parkway Pantai 4.25% PERP	0.3

Dividend History³

	Dividend / share	Record Date
Class B	SGD 0.0035	31 Jan 2020
Class B	SGD 0.0036	28 Feb 2020

Fund Statistics

Fixed Income	
Duration	4.5 years
Average Credit Rating ¹	BBB-
Yield-to-Worst ²	4.1%
Equities	
Dividend Yield	2.3%
Price to Book	1.9x
Price to Earnings	15.5x
S-REITs	
Dividend Yield	4.6%
Price to Book	1.2x
Price to Earnings	13.1x

Fund Details

	Class A	Class B (Distribution)
Inception Date	21 May 2019	21 May 2019
NAV per Unit⁴	SGD 1.07	SGD 1.04
Management Fee	Currently 0.88% p.a.	Currently 0.88% p.a.
Initial Investment	None	None
Subsequent Investment	None	None
ISIN Code	SGXZ83598466	SGXZ62136783
Bloomberg Code	FULSHBA SP	FULSHBB SP

	Class B1 (Distribution)	Class B2 (Distribution)
Inception Date	To be incepted	To be incepted
NAV per Unit⁴	To be incepted	To be incepted
Management Fee	Currently 0.88% p.a.	Currently 0.45% p.a.
Initial Investment	None	USD 1 million
Subsequent Investment	None	USD 1 million
ISIN Code	SGXZ55074637	SGXZ54897970
Bloomberg Code	FULSH1B SP	FULSHBU SP

Note: All fund data are sourced from Fullerton, Bloomberg dated as at 29 Feb 2020, unless otherwise stated.

1. Where the security is not rated by external rating agencies, Fullerton's internal rating methodology will apply.
2. Refers to Yield-to-Worst in base currency, before hedging.
3. Please refer to our website for more details on the dividend payouts.
4. Figures are truncated to 2 decimal places. Please refer to Fullerton's website for official price.

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