

Fullerton SGD Income Fund - Class D (USD) Hedged

July 2020

Investment Objective

The investment objective of the Fund is to generate long term capital appreciation and/or income for investors in SGD terms by investing primarily in fixed income or debt securities.

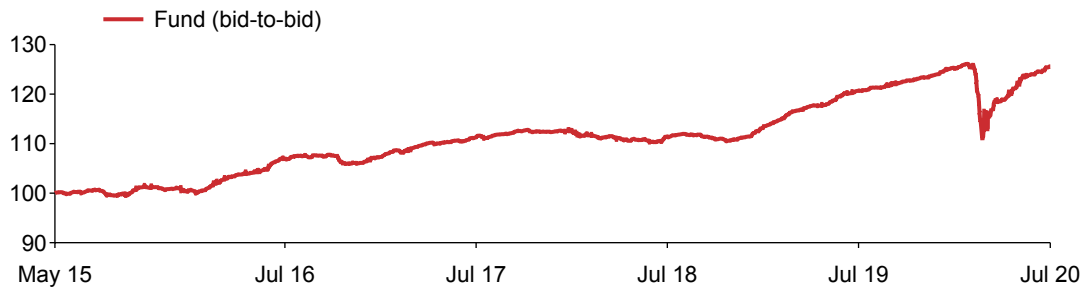
Investment Focus and Approach

The Managers seek to add value from interest rate accruals, selection of bonds and/or credits and duration management (optimisation of bond returns by selecting bonds with different terms to maturity). The Fund will invest in a diversified portfolio of primarily investment grade fixed income or debt securities having a minimum long term credit rating of BBB- by Fitch, Baa3 by Moody's or BBB- by Standard & Poor's (or their respective equivalents) and cash.

The Fund may also invest in non-investment grade bonds (i.e. bonds with a long term credit rating of less than BBB- by Standard & Poor's, Baa3 by Moody's or BBB- by Fitch (or their respective equivalents)) of up to 30% of its Net Asset Value.

The Fund may invest in Singapore Dollar and foreign currency denominated bonds including but not limited to US Dollar, Euro, Japanese Yen and Australian Dollar. The foreign currency denominated bonds will be fully hedged back to the Singapore Dollar except for a 1% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	1.33	5.60	0.31	4.08	4.11	4.53	4.48	4.31
Fund (offer-to-bid)	-1.62	2.53	-2.62	1.05	3.09	3.91	3.88	NA

Returns of more than 1 year are annualised. Returns are calculated on a single pricing basis in USD 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.

Source: Fullerton Fund Management Company Ltd.

Market Review

Optimism over vaccine progress and an agreement by the European Union leaders on a landmark 750 billion euro stimulus package underpinned risk sentiments, despite deteriorating relations between Beijing and Washington and a resurgence of virus cases globally. US dollar weakened to a two-year low as the continuing spread of Covid-19 in the US threatens to dampen the economic recovery. The poor performance of the greenback and record low US real yields also supported the rally in gold prices to a record high. The real yields on 10-year US Treasuries – which strip out expected consumer price changes from nominal bond yields – fell to -1%, a record low. The nominal US Treasury 10 year benchmark note also slid and ended the month at around 0.5%.

Asia continues to lead the growth recovery with most purchasing managers indexes (PMI) turning up across the board. Notably, China's economy returned to growth in the second quarter, in one of the world's earliest signs of recovery from the fallout of the pandemic. The country's gross domestic product grew 3.2 percent in the three months to the end of June, compared with the same period last year. Conversely, export-oriented economies such as Singapore suffered as the country entered into a technical recession for the first time since 2009, with two consecutive quarters of quarter-on-quarter contraction. The construction sector was the worst hit as the circuit breaker halted most construction activities, and other measures such as movement restrictions at foreign worker dormitories brought about workforce disruptions. The service sectors also shrank as global travel curbs had severely affected tourism-related areas, while outward-oriented services sectors such as wholesale trade were also adversely hit by falling external demand.

Against this backdrop, Singapore's non-government bonds (represented by the Markit iBoxx ALBI Singapore Non-Government TRI index) posted 1.7% returns in SGD terms. Singapore government bonds (as represented by the Markit iBoxx ALBI Singapore Government TRI index), also rose in value to

Inception date

19 May 2015

Fund size

USD 1,630.18 million

Base Currency

SGD

Pricing Date

31 Jul 2020

NAV*

USD 1.03

Management fee

Currently 0.8% p.a., Maximum 1% p.a.

Expense Ratio

0.87% p.a. (For financial year ended 31 Mar 2020)

Distributions paid per unit

Mar 2019: USD 0.010

Jun 2019: USD 0.010

Sep 2019: USD 0.010

Dec 2019: USD 0.010

Mar 2020: USD 0.006

Jun 2020: USD 0.014

Minimum Initial Investment

USD100,000

Minimum Subsequent Investment

USD100,000

USD100,000

Preliminary Charge

Up to 3%

Dealing day

Daily, up to 5pm (Singapore time)

Bloomberg Code

FULSGID SP

ISIN Code

SG9999013387

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* Figures have been truncated to 2 decimal places. The official price is published on Fullerton's website.

Please refer to our website for more details.

Market Review (Cont'd)

register a 1.3% return in SGD, led by the long end of the SGS curve, as the SGS yield curve bull flattened.

Asian credit markets (as measured by the JACI Composite Index) returned 2.2% in USD terms, with performance driven mainly by spread returns. The investment-grade sector (as measured by the JACI Investment Grade Index) returned 2.1% in USD terms. The high yield sector (as measured by the JACI Non-Investment Grade index) outperformed with a return of 2.4% in USD terms. From a country standpoint, Sri Lanka was the outperformer in the region, while Korea and Taiwan lagged. By sectors, infrastructure and financial were the laggards while the TMT and oil & gas sectors outperformed.

Investment Strategy

As we move through the second half of 2020, growth divergence between regions and countries as well as performance differentiation between the sector winners and losers, will emerge. These will provide significant investment opportunities for bond investors. In terms of fundamentals, China has recovered sooner than the rest of the global economy. The latest PMI data for the country points to further expansion, alongside a variety of other economic data that showed momentum of a robust economic rebound. While some risks of an outbreak resurgence have emerged, the Chinese authorities appear to have the situation mostly under control. Elsewhere, North Asian countries such as Korea and Taiwan are poised to benefit from the trend of technology export strength, induced by the pandemic. South Asian countries, such as India, Indonesia, and the Philippines, will lag as infection rates remain stubbornly sticky, and fiscal constraints hamper policy responses. That said, any rebound in developed market external demand could provide a strong tailwind for global trade and the region's exports. Overall, Asia is better poised to weather the economic and medical challenges spurred by the virus outbreak relative to other emerging market regions.

We expect Q2 to mark the trough in growth for Singapore. The country's economic recovery in the second half of this year is likely to be bumpy and uneven. Sectors such as construction, tourism, and retail are lagging while others such as pharmaceutical exports and segments of the financial services sector are experiencing a quicker rebound. The aggressive fiscal measures will aid the cyclical recovery, while monetary policy will play a supporting role. We expect Monetary Authority of Singapore (MAS) to stand pat at the next monetary policy committee (MPC) meeting in October and adopt a stable monetary policy, with no change to the Singapore dollar's nominal effective exchange rate (S\$ NEER) slope or band, barring any significant deterioration in economic conditions.

Overall, the spread differential between the US and Asian credit remains compelling, especially considering the latter's more favourable fundamentals currently. On the technical side, new dollar-bond issuances from diverse offerings continue to draw strong demand, although pricing concessions have dipped as risk appetite improved. The postponement of capex spending driven by the uncertainties surrounding the pandemic is also positive on supply and market technicals.

In terms of investment strategies, we remained positive on duration with the intention to extend the overall duration, which has drifted lower as portfolio flows returned to the Fund, to 4 years at least, capitalizing on the more benign interest rate environment today. We continue to maintain a good allocation to the high yield sector, capped at the 30% aggregate limit, focusing on short-dated bonds offering attractive carry. Elsewhere, we prefer to allocate risk to SGD credit on relative valuations over Asian USD credit, which have rebounded significantly. On the same vein, the scarcity of SGD new issues will also be supportive of secondary prices. Lastly, our focus on identifying issuers of sound credit fundamentals, which have lagged the recent risk rally, remains a key investment theme ahead.

Country Breakdown

Australia	4.9%
China	29.6%
France	7.1%
Germany	2.2%
Hong Kong	5.3%
India	3.8%
Indonesia	3.5%
Japan	1.1%
Korea	1.5%
Malaysia	1.8%
Netherlands	1.4%
Philippines	1.2%
Singapore	21.4%
Switzerland	6.8%
UK	4.8%
Others	2.5%
Cash and cash equivalents	1.1%

Top 5 Holdings

National Australia Bank 4.15% May 2028	1.4%
Huarong Finance 2017 Co 3.8% Nov 2025	1.3%
Commerzbank AG 4.875% Mar 2027	1.3%
Sph Reit 4.1% Feb 2168	1.2%
Credit Agricole SA 3.8% Apr 2031	1.1%

Rating Breakdown

AA	0.5%
A	11.1%
BBB	57.9%
BB	13.8%
B	15.1%
CCC	0.2%
CC	0.2%
C	0.2%
D	0.1%
Cash and cash equivalents	1.1%

Fund Characteristics

Average coupon	5.0%
Average credit rating	BBB
Number of holdings	472
Average duration (years)	4.0
Yield to Worst	4.6%

Credit Rating : Where the security is not rated by external rating agencies, Fullerton's internal rating methodology will apply.

Yield to Worst (YTW): Refers to YTW in base currency taking into account the hedging cost. Not guaranteed. Past performance is not necessarily indicative of future performance.

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