

# Fullerton Short Term Interest Rate Class D - USD Hedged

July 2020

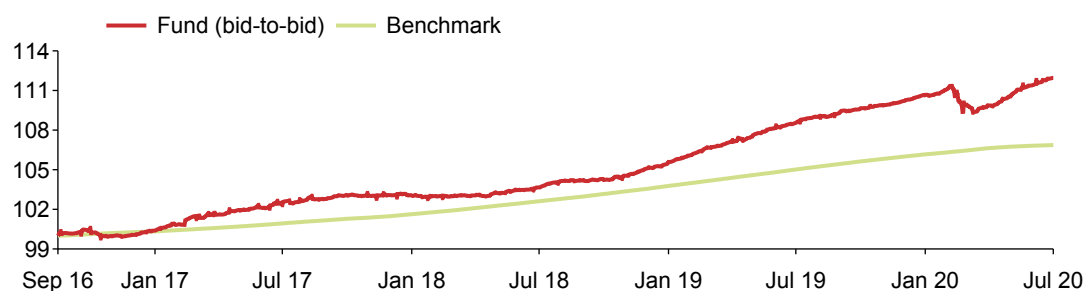
## Investment Objective

The investment objective of the Fund is to achieve medium-term capital appreciation for investors. The investments of the Fund will be broadly diversified with no specific industry or sectoral emphasis.

## Investment Focus and Approach

The Fund is primarily focused on fixed income securities and money market instruments. The Fund may invest in futures and derivatives for hedging purposes. The maturity limit of underlying securities is 5 years and all foreign currency denominated bonds are fully hedged back to SGD except for a 1% frictional currency limit.

## Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
<b>Fund (bid-to-bid)</b>	0.51	1.91	1.16	3.13	3.04	2.96	1.06
<b>Fund (offer-to-bid)</b>	-2.42	-1.06	-1.78	0.13	2.03	2.17	NA
<b>Benchmark</b>	0.05	0.22	0.67	1.76	1.92	1.73	0.17

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. Benchmark: 3-month SIBID.

Source: Fullerton Fund Management Company Ltd and Bloomberg.

## 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 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

## Inception date

15 Sep 2016

## Fund size

USD 647.38 million

## Base Currency

SGD

## Pricing Date

31 Jul 2020

## NAV\*

USD 1.12

## Management fee

Currently 0.50% p.a.

## Expense Ratio

0.53% p.a. (For financial year ended 31 Mar 2020)

## Minimum Initial Investment

None

## Minimum Subsequent Investment

None

## Preliminary Charge

Up to 3%

## Dealing day

Daily, up to 5pm (Singapore time)

## Bloomberg Code

FULSTID SP

## ISIN Code

SG9999015671

**For additional information on Fullerton and its funds, please contact:**

## Fullerton Fund Management Company Ltd

3 Fraser Street  
 #09-28 DUO Tower  
 Singapore 189352

T +65 6808 4688

F +65 6820 6878

[www.fullertonfund.com](http://www.fullertonfund.com)

UEN: 200312672W

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

## Market Review (Cont'd)

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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

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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 duration to 2 years and move up the SGD curve, capitalising on the more benign interest rate environment today. We continue to maintain a good allocation to overall credit beta, favouring SGD credit on relative valuations over Asian USD credit, which have rebounded significantly. In 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**

China	36.4%
Hong Kong	6.8%
India	5.2%
Malaysia	4.7%
Singapore	42.5%
Others	1.6%
Cash and cash equivalents	2.7%

**Top 5 Holdings**

Huarong Finance 2017 Co 3.2% Apr 2021	4.0%
Indian Oil Corp 4.1% Oct 2022	3.1%
Eastern Air Overseas HK 2.8% Nov 2020	3.0%
Vigorous Champ Intl Ltd 2.25% Feb 2021	2.8%
Keppel Corp Ltd 3.145% Feb 2022	2.8%

**Rating Breakdown**

A	31.2%
BBB	65.5%
BB	0.2%
C	0.5%
Cash and cash equivalents	2.7%

**Fund Characteristics**

Average coupon	3.3%
Average credit rating	BBB
Number of holdings	153
Average duration (years)	1.8
Yield to Worst	2.7%

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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