Fullerton USD Income Fund Class D - EUR Hedged

July 2020

Investment Objective

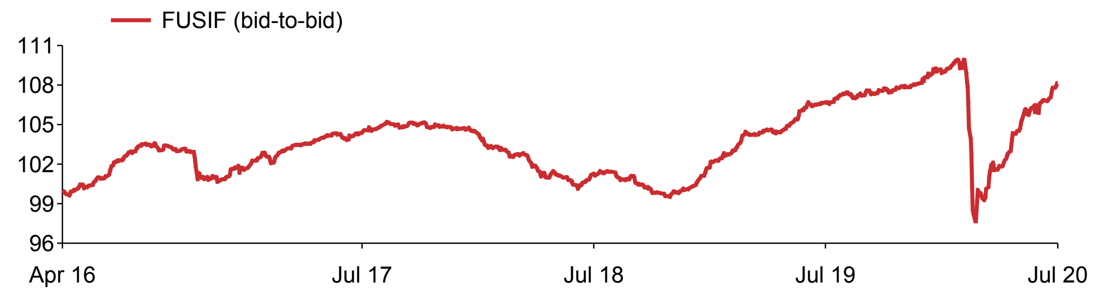
The investment objective of the Fund is to generate long term capital appreciation and/or income for investors by investing primarily in fixed income or debt securities.

Investment Focus and Approach

The Fund will invest in a diversified portfolio of primarily investment grade fixed income 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 of up to 30% of its Net Asset Value. Non-rated bonds are permitted if they meet the Managers' internal equivalent rating of investment grade. The Fund aims to invest at least 50% of Net Asset Value in USD denominated bonds. The Fund will be broadly diversified with no specific geographical or sectoral emphasis.

The Managers may use Financial Derivative Instruments for hedging and efficient portfolio management purposes.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	2.13	6.17	-0.81	1.38	1.19	1.84	5.23
Fund (offer-to-bid)	-0.84	3.08	-3.70	-1.57	0.20	1.14	NA

Returns of more than 1 year are annualised.
Returns are calculated on a single pricing basis in EUR 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
15 Apr 2016

Fund size
EUR 494.95 million

Base Currency
USD

Pricing Date
31 Jul 2020

NAV*
EUR 1.00

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

Expense Ratio
0.88% p.a. (For financial year ended 31 Mar 2020)

Distributions paid per unit #
Mar 2019: EUR 0.002
Jun 2019: EUR 0.003
Sep 2019: EUR 0.003
Dec 2019: EUR 0.004
Mar 2020: EUR 0.004
Jun 2020: EUR 0.008

Minimum Initial Investment
None

Minimum Subsequent Investment
None

Preliminary Charge
Up to 3%

Dealing day
Daily, up to 5pm (Singapore time)

Deadline
1pm (CET); 5pm (Singapore time) on each Business Day

Bloomberg Code
FULUSID SP

ISIN Code
SG9999015192

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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. Asia appears to be better poised to weather the economic and medical challenges spurred by the virus outbreak relative to other emerging market regions.

The spread differential between the US and Asian credit remains compelling, especially considering the latter's more favourable 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.

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 supply picture remains favourable. The postponement of capital spending driven by the uncertainties surrounding the pandemic is also a positive on supply and market technicals.

In terms of investment strategies, we remain positive on duration and are comfortable maintaining a duration between 4 years to 4.5 years. The revival of US-China tensions and the US Federal Reserve's (Fed) market stabilization measures will anchor US Treasury demand. We are also mindful that supply risk remains elevated with increases to coupon auction sizes, particularly in the long end. Elsewhere, the Fund continues to favour the high yield sector, with total exposure around 24% in aggregate, focusing on the short-dated papers for their attractive coupon carry, which will help anchor returns in this downturn. Slower economic growth will likely add pressure to corporate balance sheets; credit differentiation will be the critical driver in performance differentiation within the high yielders. Exposure to Asian local currency bonds is predominantly in SGD credit (hedged back to USD). Otherwise, exposure to the local currency bonds in Indonesia and India, which are still grappling with their pandemic issues, is modest and will be maintained at the current levels.

Country Breakdown

Australia	2.3%
China	39.1%
France	2.6%
Hong Kong	6.8%
India	7.9%
Indonesia	13.7%
Korea	1.9%
Malaysia	5.4%
Philippines	1.6%
Singapore	8.5%
Switzerland	1.7%
Thailand	1.2%
Others	5.5%
Cash and cash equivalents	1.7%

Rating Breakdown

AAA	0.5%
AA	0.9%
A	13.4%
BBB	59.4%
BB	13.1%
B	10.9%
CCC	0.0%
Cash and cash equivalents	1.7%

Top 5 Holdings

Perusahaan Listrik Negara 4.125% May 2027	1.4%
Listrindo Capital Bv 4.95% Sep 2026	1.3%
Nanyang Commercial Bank 3.8% Nov 2029	1.2%
Malayan Banking Bhd 3.905% Oct 2026	1.2%
Parkway Pantai 4.25% PERP	1.0%

Fund Characteristics

Average coupon	4.6%
Average credit rating	BBB
Number of holdings	390
Average duration (years)	4.3
Yield to Worst	3.9%

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. Not guaranteed. Past performance is not necessarily indicative of future performance.