

Fullerton USD Income Fund - Class R (SGD Hedged)

November 2020

Investment Objective

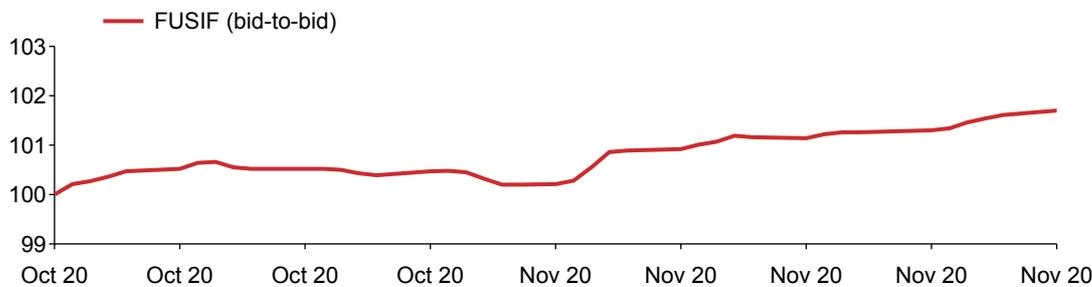
The investment objective of the Fund is to generate long term capital appreciation and/or income for investors by investing primarily in fixed income or debt securities.

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	Sl. Ret.
Fund (bid-to-bid)	1.49	-	-	1.70
Fund (offer-to-bid)	-1.46	-	-	-1.26

Returns of more than 1 year are annualised. 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.

Source: Fullerton Fund Management Company Ltd

Market Review

Asian credit and currencies rose as news of a vaccine breakthrough added to optimism fueled by the US election outcome. The good news were however tempered by a surge in global virus infections. Moderna Inc. and Pfizer Inc. announced promising clinical trial results even as countries from the US to Korea imposed stricter restrictions to combat the infection. Later in the month, OxfordAstraZeneca also reported that late-stage trials showed its COVID-19 vaccine is highly effective. Over in the US, risk appetite was also boosted after US President Donald Trump agreed to cooperate in a transition of power to Joe Biden. US Treasuries were little changed during November as upward pressure on yields stemming from promising Covid-19 vaccines and record highs for U.S. stocks was offset by virus-related harm to economic activity and lack of fiscal stimulus. The benchmark US Treasury 10 year note ended the month around 0.84%.

A series of high-profile defaults involving state-owned companies in China has jolted the credit market and rattled investors. This was further exacerbated by President Trump's executive order barring US Persons from investing in a list of companies with ties to the Chinese military. Nevertheless, China's economic rebound gathered pace in October, cementing the country's status as the only major economy tipped to grow this year. Likewise, the yuan climbed to the strongest level in more than two years.

Asian credit primary market moderated after it had one of its busiest months in October. Asian credit advanced, led by the high yield sector, as credit spread tightened in terms of performance. Cyclical sectors such as metal and mining, consumer discretionary outperformed, spurred by the vaccine progress. Similarly, countries such as Sri Lanka, Macau which are likely to benefit significantly from the vaccine development, led the rally, although Sri Lanka sold off towards the end of the month following Fitch's rating downgrade by one notch. Elsewhere, North Asian countries such as Korea, China, and the industrial sector lagged.

Inception date

05 Oct 2020

Fund size

SGD 908.71 million

Base Currency

USD

Pricing Date

30 Nov 2020

NAV*

SGD 1.02

Management fee

Currently 0.5% p.a., Maximum 1% p.a.

Expense Ratio

-

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

FULUSIS SP

ISIN Code

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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.

Investment Strategy

As we approach the new year, global growth recovery could slow, particularly in Europe and the US, given the ongoing wave of virus infection. But the outlook for the rest of 2021 appears brighter, as the prospects of a successful vaccine should allow mobility to rise without generating another wave of infections. With the recent news of successful vaccine trials and efficacy rates at the upper end of expectations, large scale vaccinations and the possibility of a faster return to economic normalcy appear increasingly likely.

We remained constructive on the Asian USD credit market. Credit spreads could tighten further, particularly in the high yield sector, which we have been increasing exposure towards, on favourable vaccine-related news, despite the substantial rally since late March. Bond supply for next year is also manageable, with most of the issuance focused on refinancing rather than aggressive expansion or capital spending. Supply from the high yield sector should also moderate due to regulatory constraints. Similarly, demand dynamics are also favourable with the major central banks, including the US Federal Reserve, committed to maintaining accommodative policies and are likely to stay on hold for the considerable future. A "lower-for-longer" rate environment should force a more aggressive push for carry and yield, supporting markets with positive real yields, including Asian credit.

In terms of duration, we have adopted a negative duration stance, with average duration firmly under the four-year mark and positioning for future yield curve steepening. The potential for promising vaccine results, larger US Treasury issuance make for attractive risk/reward to position for higher yields. Likewise, we are also looking to increase allocation modestly to the higher-yielding Asian local currency bonds with attractive carry. As we advance through the next year, markets may extend their optimism towards South Asian countries and cyclical sectors that have been lagging, alongside greater clarity on the vaccine rollouts.

Geographical Breakdown

Australia	2.8%
China	42.7%
France	2.3%
Hong Kong	7.6%
India	7.7%
Indonesia	11.5%
Korea	1.8%
Malaysia	4.7%
Philippines	1.1%
Singapore	9.1%
Switzerland	1.5%
Others	5.0%
Cash and cash equivalents	2.1%

Top 5 Holdings

Perusahaan Listrik Negara 4.125% May 2027	1.2%
Nanyang Commercial Bank 3.8% Nov 2029	1.2%
Listrindo Capital Bv 4.95% Sep 2026	1.1%
Malayan Banking Bhd 3.905% Oct 2026	1.0%
Parkway Pantai 4.25% PERP	0.9%

Rating Breakdown

AAA	0.6%
AA	0.5%
A	13.7%
BBB	58.8%
BB	12.2%
B	11.9%
CCC	0.3%
Cash and cash equivalents	2.1%

Fund Characteristics

Average coupon	4.5%
Average credit rating	BBB
Number of holdings	420
Average duration (years)	3.9
Yield to Worst	3.5%

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.

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