

# Fullerton Lux Funds - Asian Currency Bonds - Class I (EUR)

July 2020

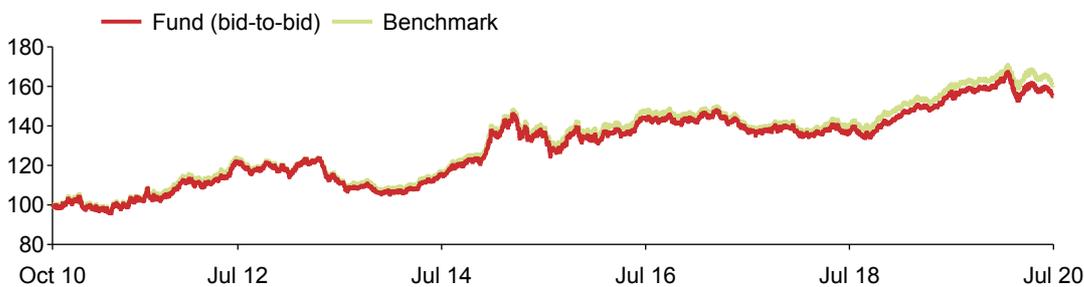
## Investment Objective

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

## Investment Focus and Approach

The Fund seeks to achieve its objective by investing in fixed income or debt securities, including convertibles, denominated primarily in Asian currencies and primarily issued by companies, governments, quasi-governments, government agencies or supranationals in the Asian region. These countries may include, but are not limited to China (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines and Vietnam. The Investment Manager seeks to generate alpha through interest rate, credit and currency strategies by evaluating the relative value across markets and the outlook for credit. These views form the basis for formulating their duration, bond market allocation, currency and credit strategies. The Fund will be permitted to invest in fixed income or debt securities which are unrated or rated non-investment grade.

## Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
<b>Fund (bid-to-bid)</b>	-2.90	-3.58	-4.92	-0.96	4.01	2.77	4.57	7.70
<b>Fund (offer-to-bid)</b>	-7.53	-8.17	-9.45	-5.67	2.34	1.78	4.05	NA
<b>Benchmark</b>	-3.12	-4.07	-3.55	0.33	4.81	3.14	4.95	7.49

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 5% which may or may not be charged to investors.

Benchmark: Markit iBoxx ALBI Index

With effect from 1 May 2016, the benchmark has been changed to Markit iBoxx ALBI Index.

Prior to 1 May 2016, the index was HSBC Asian Local Bond Index.

Source: Fullerton Fund Management Company Ltd and Markit.

## 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. Amid the USD weakness, most Asian currencies appreciated against the greenback, with the exception of the Thai baht and the Indonesian rupiah. 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 per cent in the three months to the end of June, compared with the same period last year. Conversely, export-oriented economies such as Singapore and Korea suffered as both countries slipped into recession as the countries reeled from the coronavirus pandemic impact. Elsewhere, Bank Indonesia lowered interest rates for a second month to bolster economic growth, and signaled further easing will depend on inflation and how the recovery from the coronavirus unfolds. Malaysia's central bank cut its benchmark interest rate to a record low and warned of lingering downside risks to an economy reopening after months of lockdown.

Against such a backdrop, Asian local currency bonds, represented by the Markit iBoxx ALBI Index,

## Inception date

06 Oct 2010

## Fund size

EUR 106.13 million

## Base Currency

USD

## Pricing Date

31 Jul 2020

## NAV\*

EUR 15.51

## Management fee

Up to 0.6% p.a.

## Preliminary Charge

Up to 5% subscription amount (equivalent to a max of 5.26315% of the Net Asset Value per share)

## Dealing day

Daily

## Deadline

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

## Bloomberg Code

ACBIEUA LX

## ISIN Code

LU0543883226

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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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returned 1.7% in USD terms, supported by favorable currency and duration gains. Indonesia was the best performing market, followed closely by Malaysia which benefited from steady portfolio flows and positive duration gains as the central bank eased further during the month. At the other end of the spectrum, Chinese onshore bonds retreated, as rate cut expectations eased somewhat, after official data suggests a robust economic recovery momentum going into the second half of the year.

## Investment Strategy

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As we move through the second half of 2020, growth divergence between regions and countries and 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. 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 as well as an uptick in global automobile sales 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.

We expect duration performance in Q3 to be driven predominantly by portfolio flows rather than policy actions, which are nearing the end of the easing cycle. In the same vein, markets with favourable bond demand-supply dynamics, such as China and the Philippines are preferred. Within currencies, we are more cautiously positioned given August's seasonality and the ongoing US-China tensions. We expect the recent trend of USD weakness to still have some room to run, and are maintaining our modest underweight in the USD/HKD currency bloc. Asian currencies could also benefit from positive portfolio flows into the region's capital markets, particularly for the North Asian economies, such as China, which are leading the global economic recovery from the pandemic. We also expect carry currencies such as the Indian rupee and the Philippines peso to continue to hold up well. Elsewhere, we have taken profits and turned neutral in markets such as Singapore, as bond valuations, particularly in the long end, are looking increasingly expensive.

We continue to maintain a good allocation to the spread sectors, with exposure primarily in Asian USD, SGD and CNH credit. The spread differential between the US and Asian credit remains compelling, especially considering the latter's more favourable fundamentals.

**Country Breakdown**

China	23.5%
Germany	1.3%
India	9.9%
Indonesia	11.8%
Korea	9.8%
Malaysia	11.3%
Philippines	10.2%
Singapore	10.8%
Supranational	2.2%
Thailand	6.5%
Others	1.7%
Cash and cash equivalents	1.1%

**Top 5 Holdings**

Republic Of Philippines 6.25% Jan 2036	3.4%
India Government Bond 6.18% Nov 2024	2.7%
Korea Treasury Bond 3% Sep 2024	2.6%
India Government Bond 6.68% Sep 2031	2.3%
Singapore Government 3.375% Sep 2033	2.2%

**Rating Breakdown**

AAA	9.9%
AA	9.6%
A	27.5%
BBB	46.2%
BB	3.4%
B	2.2%
C	0.1%
Cash and cash equivalents	1.1%

**Fund Characteristics**

Average duration (years)	7.7
Yield to Worst	3.7%

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

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