Fullerton Lux Funds – Asian High Yield Bonds - Class A (SGD) Dis

July 2020

Investment Objective

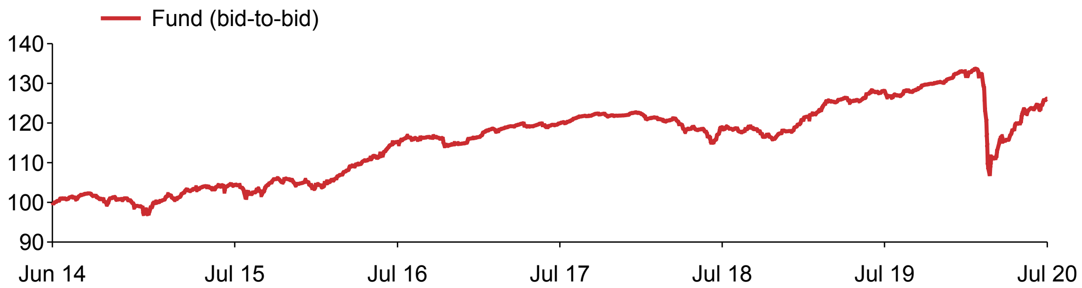
The investment objective of the Fund is to generate long term capital appreciation for investors by investing primarily in unrated or non-investment grade rated fixed income or debt securities, including convertibles, denominated primarily in USD and Asian currencies and primarily issued by companies, governments, quasi-governments, government agencies or supranationals in the Asian region. The Asian 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.

Investment Focus and Approach

The Investment Manager seeks to achieve the investment objective of the Fund by a combination of top-down macro research for duration or interest rate management and sector allocation, as well as bottom-up analysis for credit selection and yield curve positioning.

The Fund may use FDIs as part of the investment strategy, in addition to efficient portfolio management and hedging purposes.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	2.19	8.95	-4.39	-1.52	1.70	3.85	3.86	7.85
Fund (offer-to-bid)	-2.68	3.76	-8.94	-6.21	0.06	2.84	3.04	NA

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 5% 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 register a 1.3% return in SGD, led by the long end of the SGS curve, as the SGS yield curve bull

Inception date
16 Jun 2014

Fund size
SGD 181.50 million

Base Currency
USD

Pricing Date
31 Jul 2020

NAV*
SGD 9.54

Management fee
Up to 1.25% p.a.

Distributions paid per unit #
Mar 2019: SGD 0.120
Jun 2019: SGD 0.110
Sep 2019: SGD 0.110
Dec 2019: SGD 0.120
Mar 2020: SGD 0.110
Jun 2020: SGD 0.090

Preliminary Charge
Up to 5% of 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
AHIBUSD LX

ISIN Code
LU0712499218

The Fund is available for SRS subscription.

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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)

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, Taiwan are poised to benefit from the trend of technology export strength and 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. Slower economic growth in these countries will likely add pressure to corporate balance sheets. Specific lower-rated corporates in Indonesia and India may face liquidity stress as the domestic banking sector and liquidity transmission mechanism are less than ideal. That said, any rebound in developed market external demand could provide a strong tailwind for global trade and the region's exports.

In terms of investment strategies, we are cautiously optimistic. We will continue to increase overall credit beta, as the global economic activity turnaround continues, with a preference for selective BB rated and B+ issuers. 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 positive on supply and market technicals. Looking ahead, we expect coupon carry to anchor returns. Spread compression will take a breather, and the pace of spread tightening will moderate.

Country Breakdown

China	63.1%
Hong Kong	1.9%
India	9.4%
Indonesia	8.3%
Macau	1.8%
Mongolia	1.0%
Philippines	2.0%
Singapore	3.7%
Sri Lanka	3.0%
Cash and cash equivalents	5.8%

Rating Breakdown

A	0.4%
BBB	5.8%
BB	37.9%
B	49.8%
CCC	0.3%
Cash and cash equivalents	5.8%

Top 5 Holdings

Lenovo Group Ltd 5.875% Apr 2025	2.1%
Yuzhou Properties Co Ltd 8.5% Feb 2024	1.7%
Yanlord Land Hk Co Ltd 6.75% Apr 2023	1.6%
Agile Group Holdings Ltd 8.375% PERP	1.6%
Ronshine China 10.5% Mar 2022	1.5%

Fund Characteristics

Average duration (years)	2.4
Yield to Worst	7.0%

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.