

Fullerton Lux Fund - Asian Short Duration Bonds Class R (USD) Dist

July 2020

Investment Objective

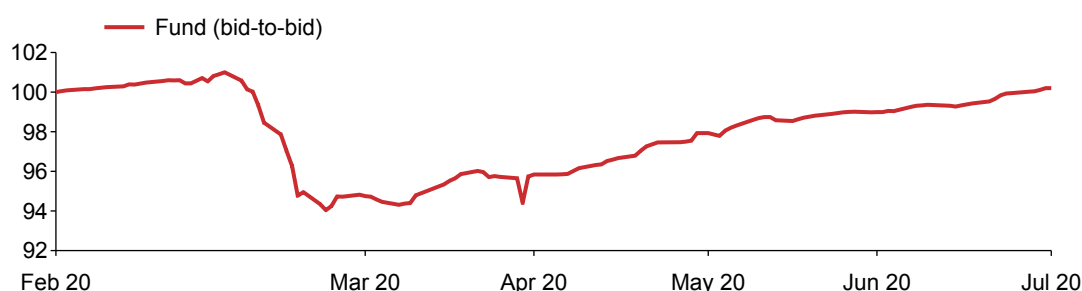
The investment objective of the Fund is to generate long term capital appreciation and/or income returns for investors.

Investment Focus and Approach

The Investment Manager seeks to achieve the objective of the Fund by investing in short duration fixed income or debt securities 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, Pakistan and Vietnam.

Performance (%)



| | 1 mth | 3 mths | 6 mths | Sl. Ret. |
|----------------------------|-------|--------|--------|----------|
| Fund (bid-to-bid) | 1.21 | 4.55 | - | 0.20 |
| Fund (offer-to-bid) | -3.60 | -0.43 | - | -4.57 |

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 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 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

Inception date

05 Feb 2020

Fund size

USD 115.36 million

Base Currency

USD

Pricing Date

31 Jul 2020

NAV*

USD 9.95

Management fee

Up to 0.4% p.a.

Distributions paid per unit

Jun 2020: USD 0.070

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

FASRRUD LX

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.

Market Review (Cont'd)

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 around 3 years on average. The revival of US-China tensions and the US Federal Reserve's (Fed) market stabilisation 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 20% 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

| | |
|---------------------------|-------|
| China | 44.7% |
| Hong Kong | 9.4% |
| India | 6.9% |
| Indonesia | 8.6% |
| Korea | 2.3% |
| Malaysia | 2.3% |
| Qatar | 1.3% |
| Singapore | 19.0% |
| Supranational | 1.1% |
| Others | 2.6% |
| Cash and cash equivalents | 1.8% |

Rating Breakdown

| | |
|---------------------------|-------|
| AAA | 1.1% |
| AA | 0.3% |
| A | 24.6% |
| BBB | 52.2% |
| BB | 11.4% |
| B | 8.4% |
| CCC | 0.2% |
| Cash and cash equivalents | 1.8% |

Top 5 Holdings

| | |
|--|------|
| PCCW Capital No 4 Ltd 5.75% Apr 2022 | 2.3% |
| ASTLC 3A A2 4.65% Jul 2026 | 2.1% |
| Chinalco Capital Holding 4% Aug 2021 | 2.0% |
| Franshion Brilliant Ltd 3.6% Mar 2022 | 1.8% |
| Cnac Hk Finbridge Co Ltd 4.625% Mar 2023 | 1.4% |

Fund Characteristics

| | |
|--------------------------|------|
| Average credit rating | BBB |
| Average duration (years) | 2.6 |
| Yield to Worst | 3.6% |

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.

Disclaimer: Important Information: This publication is for information only and does not constitute legal or tax advice, nor is it an offer for shares or invitation to apply for shares of the Fund. The information in this publication pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient.

The value of shares in the Fund and any accruing income from the shares may fall or rise. Any past performance, prediction or forecast is not indicative of future or likely performance. Any past payout yields and payments are not indicative of future payout yields and payments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations. The Fund may use or invest in financial derivative instruments. An investment in the Fund entails risks which are described in the Fund's prospectus and Key Investor Information Document.

Distributions (if any) may be declared at the absolute discretion of the investment manager and are not guaranteed. Distribution may be declared out of income and/or capital of the Fund, in accordance with the prospectus. Where distributions (if any) are declared in accordance with the prospectus, this may result in an immediate reduction of the net asset value per unit in the Fund.

No shares of the Fund may be directly or indirectly offered or sold to residents of the United States of America.

Subscriptions to shares of the Fund may only be made on the basis of the current Key Investor Information Document (KIID), the full prospectus of the Fund, accompanied by the latest available audited annual report and the latest semi-annual report, if published thereafter. The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The prospectus, the KIID, the articles of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

Applications must be made on the application form accompanying the prospectus, which can be obtained from the investment manager, the representative in Switzerland, and approved distributors. You should read the prospectus and seek advice from a financial adviser before investing. If you choose not to seek advice, you should consider whether the Fund is suitable for you.

Issued by Fullerton Fund Management Company Ltd. (UEN: 200312672W), 3 Fraser Street #09-28 DUO Tower Singapore 189352.

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