Fullerton Lux Funds – RMB Bonds - Class A (SGD)

July 2020

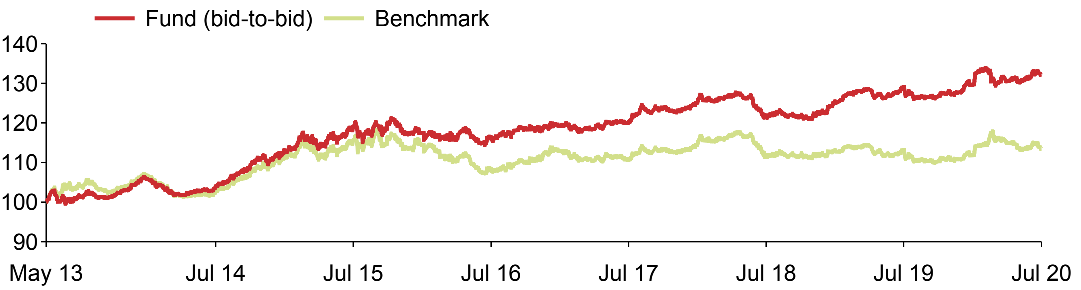
Investment Objective

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

Investment Focus and Approach

The Investment Manager seeks to achieve the objective of the Fund by investing primarily in RMB denominated bonds (both onshore RMB (CNY) and offshore RMB (CNH)), money market instruments, certificates of deposits, term deposits, credit linked bonds and convertibles. The Fund's investments may also include, but are not limited to, USD denominated bonds, credit linked notes, currency forwards and cross currency swaps.
Investment in onshore RMB (CNY) bonds may include bonds traded in both the China interbank bond market and Stock Exchanges in the People's Republic of China ("PRC") and will be made through the Manager's qualified foreign institutional investor ("QFII") and/or Renminbi qualified foreign institutional investor ("RQFII") quota.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.27	1.22	1.91	2.45	3.23	2.09	3.92	4.51
Fund (offer-to-bid)	-4.50	-3.60	-2.95	-2.43	1.56	1.10	3.22	NA
Benchmark	-0.47	-1.39	1.42	0.42	0.81	-0.39	1.75	4.60

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.
Benchmark: CNH Overnight Deposit Rate
Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

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. Gross domestic product grew 3.2 per cent in the three months to the end of June, compared with the same period last year. Likewise, the country's factory deflation eased as the economic recovery continued, while consumer inflation ticked up. Profits at the country's large industrial companies also rose by double-digit percentage points from a year earlier in June.

Renewed U.S.-China tensions have ignited a fresh push by China to reduce reliance on the greenback and promote the renminbi's global use. The Wealth Management Connect, which facilitated cross-border investments among Hong Kong residents, Macau, and southern China, was announced. A top Chinese official also said the country would introduce direct trading between the renminbi and additional currencies, providing a further boost to the renminbi's international use. The offshore renminbi strengthened to 6.9892/USD amid USD weakness. US dollar weakened to a two-year low as the continuing spread of Covid-19 in the US threatens to dampen the economic recovery.

As the month came to a close, top Chinese leaders said at the Politburo meeting that monetary policy must be "precisely targeted" while being "more flexible and moderate". The Politburo also pledged to ensure "reasonable growth" in money supply and social financing, given a "severe and complex" economic situation. Against this backdrop, the CNH bond market was flat (in CNH terms, as measured by the iBoxx ALBI China Offshore Index). Elsewhere, China's 10-year government bonds retreated towards the end of the month. The yield on Chinese sovereign debt due in a decade increased by 12 basis points to just under 3% as of 31st July 2020.

Inception date
07 May 2013

Fund size
SGD 85.37 million

Base Currency
USD

Pricing Date
31 Jul 2020

NAV*
SGD 13.21

Management fee
Up to 0.8% p.a.

Preliminary Charge
Up to 5%

Dealing day
Every Business Day

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

Business Day
Business Day for this Fund is a week day on which banks are normally open for business in China, Hong Kong SAR, Luxembourg and Singapore.

Bloomberg Code
FRMBSAC LX

ISIN Code
LU0913974126

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.

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. 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. We expect China's growth recovery to continue into Q3, underpinned by strong policy support, increased fiscal impetus through large infrastructure projects and policy incentives targeting Small and Medium-sized Enterprises (SMEs). Any rebound in developed-market external demand could also provide a strong tailwind for the country's exports. That said, we are mindful an increase in labour market slack could pose challenges to domestic consumption in the near term.

On the investment strategy, we are maintaining duration between 2.5 years to 3 years. We believe recent speculations of whether the accommodative monetary policy in China might be nearing its end, are overdone. We think the policymakers' reticence is partly due to increasing concerns about corporates arbitraging between cheap funding costs and higher returns from investment in structured deposits. We expect monetary easing to continue, but it will be more calibrated to stabilise employment and avoid the risk of another debt-fueled asset bubble as we had experienced in the past. Disinflationary pressures from favourable base effects and soft domestic demand also open up room for further monetary easing.

We continue to maintain a good allocation to overall credit beta, with aggregate high yield exposure at around 20%. The Fund’s RMB exposure are primarily in short-dated CNH credit with attractive carry and longer-dated CNY bonds which are more sensitive to further monetary easing. The current attractive CGB (Chinese government bond) spread over U.S. Treasuries and stability of the renminbi against the CFETS basket could also attract foreign investors to the CNY bond markets, especially with the continuing bond index inclusions. Allocation to Asian USD credit remains a key investment theme, taking advantage of the high USDRMB hedging gains currently as well as the favourable demand-supply dynamics. New USD bond issuances from diverse offerings continue to draw strong demand, although pricing concessions have dipped as risk appetite improved. The supply picture also remains favourable. The postponement of capital spending driven by the uncertainties surrounding the pandemic is positive on supply and market technicals.

Rating Breakdown

AAA	0.5%
AA	7.6%
A	38.7%
BBB	31.6%
BB	7.1%
B	12.9%
Cash and cash equivalents	1.6%

Top 5 Holdings

Busan Bank 4.85% May 2021	3.6%
Sinopec Century Bright 4.2% Oct 2021	2.9%
China Cinda Asset Mgmt 4.6% Sep 2025	2.5%
Shimao Property Hldgs 5.75% Mar 2021	2.5%
China National Petroleum Co 4.69% Jan 2022	2.5%

Fund Characteristics

Average duration (years)	2.5
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.