

Fullerton Asia Income Return Fund - Class B (USD)

May 2022

Investment Objective

The investment objective of the Fund is to generate regular income and long term capital appreciation for investors by investing in equities, fixed income, cash and other permissible investments.

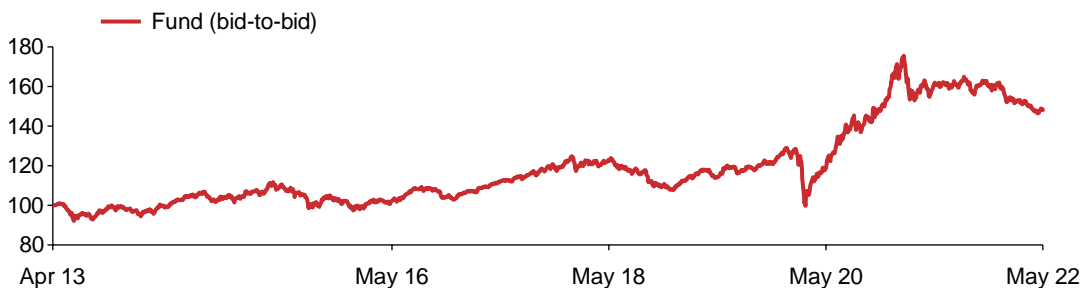
Investment Focus and Approach

The Fund may invest in collective investment schemes and other investment funds (including exchange traded funds ("ETFs")), securities and/or hold cash, in accordance with its investment objective and asset allocation strategy, as we deem appropriate.

We may use FDIs (including, without limitation, treasury, bond or equities futures, interest rate swaps and foreign exchange forwards) for hedging, efficient portfolio management, optimising returns or a combination of all three objectives.

The Fund may also invest in other Authorised Investments.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	-0.50	-3.18	-8.25	-8.81	8.89	5.64	4.33	9.76
Fund (offer-to-bid)	-4.33	-6.91	-11.78	-12.31	7.48	4.81	3.88	NA

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 4% which may or may not be charged to investors.

Fullerton Total Return Fund (FTRF) updated its name to Fullerton Asia Income Return (FAIR) on 21 December 2017.

Source: Fullerton Fund Management Company Ltd.

Market Review

Weakness in equity after a bounce in March resumed in April and into May before market technical prompted a short cover rally. MSCI AC World and S&P 500 indices managed to close the month flat while MSCI Asia and MSCI Europe recovered from short term oversold positions to return 0.5% and 0.8% respectively in dollars. The ascend of DXY, the dollar index, may have paused after a 17% rally since May 2020.

Monetary policy tightening by global central banks is likely to weigh on equity as inflation remains the key focus. Fed fund futures one year forward has priced in another 2 percentage points rate hikes to 3% and ECB President Lagarde has backed calls for policy normalisation. This is taken to mean two 25 bps hikes to its deposit facility rate, bringing it to zero later this year. Central banks now see the urgency to tighten policy to curb excess demand amid rising prices. CPI inflation in US remains above 8% and the Fed's preferred measure PCE inflation rate has averaged 5% since December 2021. In Europe, despite an unemployment rate of just under 7%, the higher energy cost has pushed CPI inflation to above 8% in May.

The peak in inflation this cycle appears within reach but it would be difficult to push it back to the pre-COVID level of 2%. For the time being, central banks rhetoric remain hawkish, which is why we fear narrative of stagflation will turn into recession if the Fed continues to tighten into next year. Meanwhile, bond yields have raced ahead to price in higher rates. It is not surprising that for May, JACI Investment Grade Index returned just 0.2% (in dollars) and the fear of recession along with successive 50 bps hikes in rates drove JACI High Yield Index down 2.8% (in dollars).

Inception date

15 Apr 2013

Fund size

USD 104.43 million

Base Currency

USD

Pricing Date

31 May 2022

NAV*

USD 0.99

Management fee

Currently 1.2% p.a.

Expense Ratio

1.58% p.a. (For financial year ended 31 Mar 2021)

Distributions paid per unit

Dec 2021: USD 0.005

Jan 2022: USD 0.004

Feb 2022: USD 0.004

Mar 2022: USD 0.004

Apr 2022: USD 0.004

May 2022: USD 0.004

Minimum Initial Investment

None

Minimum Subsequent Investment

None

Preliminary Charge

Up to 4%

Dealing day

Daily, up to 5pm (Singapore time)

Bloomberg Code

FULFTRB SP

ISIN Code

SG9999010219

For additional information on Fullerton and its funds, please contact:

Fullerton Fund Management Company Ltd

3 Fraser Street
 #09-28 DUO Tower
 Singapore 189352

T +65 6808 4688

F +65 6820 6878

www.fullertonfund.com

UEN: 200312672W

* 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 Outlook

In the US, the economy is running on overdrive and the labour market remains very tight. The Fed's quantitative tightening in the form of c.US\$1 trillion balance sheet assets reduction annually when fully implemented, will withdraw liquidity from market. Coupled with a Russia-Ukraine conflict which compounded the shortage in energy, the likely result is lower price-to-earnings multiples for equity over-time so we remain negative on risk-assets which have not taken into account the new paradigm.

Given the record level of indebtedness by government, corporate and household sectors, the likelihood of Fed successfully engineering a soft landing will be difficult. The pace of hikes and Fed's communication will be key to market's performance. On the other hand, market should be relieved that the Chinese government has ended the lockdown imposed on Shanghai and other cities. Its CNY14.8 trillion (US\$2.3 trillion) proposed infrastructure spending to kickstart the economy should commence within months. More is expected to follow since in the April Politburo meeting China's leaders have pledged to meet its growth target of around 5.5% this year. Downside risks will escalate the longer China withholds from stimulating its economy.

Investment Strategy

The Fund continues to underweight equity, given our more cautious stance on risk assets, but will adjust tactically the exposure from time to time. Global central banks have few alternatives but to tighten financial conditions aggressively to anchor inflation and inflation expectations. In fixed income, we are positive on duration when 10-year Treasury yield is above 3% as the risk of a recession will increase if central banks continue to hike in a declining growth momentum. In Asia credit, the Fund is defensively positioned after building up some exposure to government bonds to hedge against volatility in risk assets. The Fund continues to hold higher than normal level of cash to cushion against market volatility. Given how much dollar has risen, further gains will be more event dependent. In the meantime, dollar may just trade in a range with other major currencies.

Sector Breakdown (Equities)		Geographical Breakdown (Equities)		Asset Allocation	
Communication Services	34.9%	Australia	1.0%	Fixed Income	30.2%
Consumer Discretionary	8.8%	China	6.9%	Equities	18.9%
Consumer Staples	1.8%	India	5.7%	Commodities	7.8%
Energy	14.1%	Indonesia	5.1%	Cash and cash equivalents	43.1%
Financials	14.0%	Singapore	36.3%		
Industrial	10.0%	Taiwan	3.7%		
Information Technology	15.9%	Thailand	2.5%		
Others	0.5%	US	38.9%		
		Others	0.1%		

Ratings Breakdown (Fixed Income)

AA	0.2%
A	26.9%
BBB	72.3%
BB	0.6%

Geographical Breakdown (Fixed Income)

Australia	2.8%
China	29.2%
Hong Kong	11.1%
India	5.6%
Indonesia	14.2%
Japan	2.0%
Korea	8.7%
Malaysia	3.6%
Philippines	2.8%
Singapore	14.7%
Thailand	1.6%
UK	2.0%
US	1.1%
Others	0.9%

Top 5 Holdings (Equities, as % of NAV)

SPDR Straits Times Index ETF	7.2%
Energy Select Sector SPDR Fund	3.5%
iShares MSCI World ETF	2.2%
Consumer Staples Select Sector SPDR Fund	2.1%
NikkoAM Straits Trading Asia Ex Japan REIT ETF	1.8%

Top 5 Holdings (Fixed Income, as % of NAV)

Keppel Corp Ltd 2.459% Jun 2025	0.3%
Oversea-Chinese Banking 1.832% Sep 2030	0.2%
Shinhan Financial Group 3.34% Feb 2030	0.2%
Republic Of Indonesia 8.5% Oct 2035	0.2%
Shenhua Overseas Capital 3.875% Jan 2025	0.2%

Country and Sector breakdown (Equities) does not include derivatives.

Credit Rating : Where the security is not rated by external rating agencies, Fullerton's internal rating methodology will apply.

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