FULLERTON FUND MANAGEMENT

Fullerton Lux Funds – Asian Short Duration Bonds - Class R (SGD-Hedged)

May 2022

Investment Objective

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

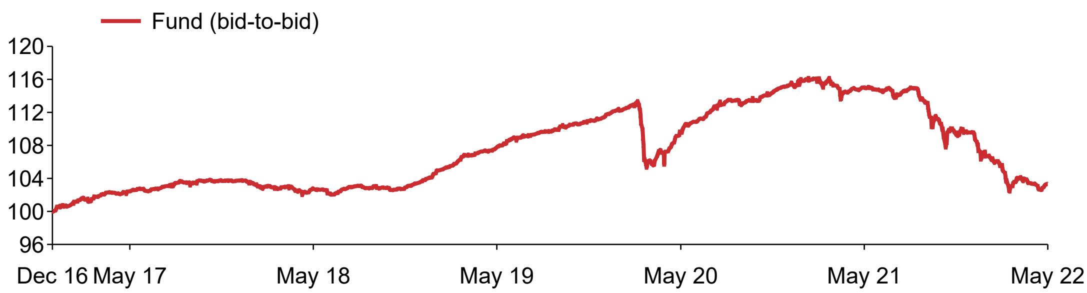
Investment Focus and Approach

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.

SFDR Classification:
Article 8 fund.
In line with its ESG methodology, the fund promotes environmental characteristics but does not commit to make environmentally sustainable investments as defined in the taxonomy regulation.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	-0.04	-2.03	-5.72	-10.20	-1.40	0.17	0.60	3.81

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. Past performance is not indicative of future returns. Source: Fullerton Fund Management Company Ltd.

Market Review

Market moves in May were dominated by the slowdown in China, the continued Russia- Ukraine conflict and rising recession fears.US Treasuries rallied led by the front-end, and halted five straight months of losses, even as the US Federal Reserve (Fed) unanimously hiked rates by 50bps earlier in the month. The Fed also announced the start of its quantitative tightening programme, slated to begin on 1 June. Despite the central bank's hawkish stance, the markets were focused instead on Chairman Powell's statement that a 75bps hike was not being actively considered. Against such a backdrop, the benchmark US Treasury 10-year yield ended the month at 2.8%, 9bps below the level from one month ago.

Elsewhere, hawkish ECB comments and strong inflation data saw the market raise expectations for ECB tightening this year. Over in China, Premier Li signalled that the country was faring worse than 2020 amid the COVID-19 pandemic. Signs of reopening in the Chinese economy became evident towards the end of May, as Beijing and Shanghai reduce restrictions amid stabilisation in infection rates.

Asian credit fell, based on the JP Morgan Asian Credit Index, due primarily to wider credit spreads while the US Treasury rally provided some offsets. The investment grade sector delivered gains and outperformed the high yield peers which declined. Sector-wise, financials, industrials and utilities rose in value while the real estate sector remained the key performance laggard, weighed down by China's draconian lockdowns. Chinese policymakers also announced several policy easing measures to stabilise the property sector during the month. They reduced key interest rates, supported bond sales by Chinese builders and introduced new hedging tools to mitigate debt risk.

Inception date
28 Dec 2016

Fund size
SGD 136.25 million

Base Currency
USD

Pricing Date
31 May 2022

NAV*
SGD 10.33

Management fee
Up to 0.4% p.a.

Preliminary Charge
Not applicable for Class R

Dealing day
Daily

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

Bloomberg Code
FASRSHC LX

ISIN Code
LU1293085673

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* Figures have been truncated to 2 decimal places. The official price is published on Fullerton's website.

Investment Strategy

China's COVID situation remains on our radar, despite some recent easing of lockdown restrictions. The Chinese economy remains at risk of repeated outbreaks and consequent lockdowns which will hamper the country's economic recovery. That said, we believe the worst of the city lockdowns was in April and we observed a steady resumption of economic activity from May and June onwards. Likewise, we have observed a step up in policy easing measures lately, although the magnitude (to date) is still smaller than in 2020. New policy initiatives are most notable in infrastructure investments, while property policy relaxation is also gaining momentum.

Elsewhere, there remains significant uncertainty around inflation which is key to our US Treasury view. At the same time, there is a clear trade-off between inflation and growth, with taming inflation taking priority. Overall, we still see upside risks to inflation, especially on the supply-side. With inflation still elevated, policymakers are likely to remain under pressure to keep up a steady pace of hikes. That said, we think near-term recession risks are still manageable and kept at bay by the resilience of the private sectors, relatively healthy saving rates and tight labour markets.

Looking ahead, we expect coupon carry to be the dominant source of returns. Elsewhere, we retain a negative US duration stance and see near-term risks to higher US Treasury yields. We aim to keep the Fund's duration at around 2 years, by hedging out the US duration in the 3–5-year space. Within the broader investment grade credit space, we prefer to focus on relative valuation trades rather than strong directional calls. We also favour the BBB bloc where there is some spread cushion to offset rising rates. In terms of the Asian high yield sector, we favour the higher-yielding markets such as India, and Indonesia and look for higher risk premiums to increase our exposure.

In terms of the China property sector, we think the policy easing measures are likely to disproportionately benefit the stronger developers. On that note, we continue to favour the better-quality developers, and we expect credit differentiation to remain a key investment theme. Policy lag also suggests the impact from the easing measures will likely only be felt later in the year. We expect the property sector recovery to be gradual.

Geographical Breakdown

China	40.2%
Hong Kong	11.2%
India	10.7%
Indonesia	13.6%
Korea	3.1%
Malaysia	1.6%
Singapore	15.6%
Supranational	1.2%
Others	0.7%
Cash and cash equivalents	2.1%

Rating Breakdown

AAA	1.2%
AA	1.4%
A	15.5%
BBB	64.3%
BB	10.4%
B	5.1%
Cash and cash equivalents	2.1%

Top 5 Holdings

CICC Hong Kong Finance 2016 1.625% Jan 2024	3.0%
Nanyang Commercial Bank 3.8% Nov 2029	2.9%
Weibo Corp 3.5% Jul 2024	2.5%
Sarana Multi Infrastruktur 2.05% May 2026	1.8%
Yili Holding Investment 1.625% Nov 2025	1.6%

Fund Characteristics

Average credit rating	BBB
Average duration (years)	1.7
Yield to Worst	4.6%

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.