

Fullerton Lux Funds – RMB Bonds - Class R (USD)

May 2022

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.

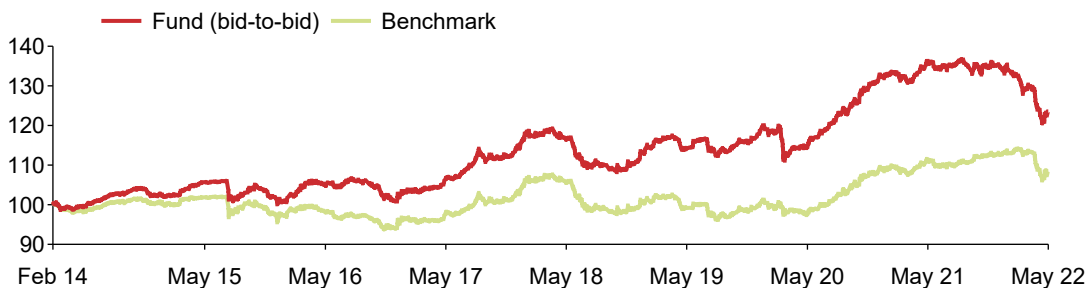
Investment in onshore RMB (CNY) bonds may include bonds traded in both the China interbank bond market and Stock Exchanges in the People's Republic of China ("PRC") and will be made through the Manager's qualified foreign institutional investor ("QFII") and/or Renminbi qualified foreign institutional investor ("RQFII") quota.

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	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	-0.72	-6.75	-8.42	-9.36	2.64	2.96	2.59	5.64
Benchmark	-0.65	-5.01	-3.63	-2.66	3.04	2.04	0.99	4.64

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. Past performance is not indicative of future returns.

Benchmark: CNH Overnight Deposit Rate

Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

Market moves in May were dominated by the continued Russia-Ukraine conflict, rising US recession fears and the slowdown in China. On the latter, China Premier Li signalled that the country was faring worse than in 2020 amid the COVID-19 pandemic. The People's Bank Of China (PBOC) kept the 1-year MLF rate unchanged but subsequently cut the 5-year LPR rate (which is tied to mortgage rates).

Across the Atlantic, 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, beginning on 1 June. The benchmark US Treasury 10-year yield ended the month at 2.8%, 9bps below the level from one month ago.

Against such a backdrop, CNH credit rose (+0.7% as measured by the iBoxx ALBI China Offshore Index in CNH). China's sovereign bonds were mostly range-bound, with the yield on the country's benchmark 10-year note hovering slightly under 2.8%. The Chinese yuan weakened against the greenback, weighed down by the country's draconian lockdowns. That said, signs of reopening in the Chinese economy became evident towards the end of May, as Beijing and Shanghai reduced restrictions amid the 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.

Inception date

25 Feb 2014

Fund size

USD 38.88 million

Base Currency

USD

Pricing Date

31 May 2022

NAV*

USD 12.35

Management fee

Up to 0.5% p.a.

Preliminary Charge

Not applicable for Class R

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

FRMBRUA LX

ISIN Code

LU1022012212

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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. We believe the worst of the city lockdowns was in April and we have observed a steady resumption of economic activity from May and June onwards. The Chinese economy remains at risk of repeated outbreaks and consequent lockdowns, which will hamper the country's economic recovery.

Broadly, we observed a step up in China's 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 the property policy relaxation is also gaining momentum. Looking ahead, we expect China's monetary and fiscal policy to focus on stabilising growth. Policy support could intensify should China's growth downshifts materially.

In terms of investment strategies, we retain a bias towards RMB assets - split between CNH credit, CNY rates and SOE names - with a smaller allocation to USD credit. Overall, we remain cautious on duration and aim to keep the Fund's duration under 3 years on average. China government bond yields are likely to be range-bound, supported by China's growth downturn but supply risk is an overhang. In contrast, we still see upside risks to inflation, especially on the supply-side and hence, there are near-term risks to higher US Treasury yields. With inflation still elevated, policymakers are likely to remain under pressure to keep up a steady pace of hikes. At the same time, there is a clear trade-off between inflation and growth, with taming inflation taking priority. That said, we think near-term recession risks are still manageable and kept at bay by the resilience of the private sectors, relatively healthy savings rates and tight labour markets.

Currency-wise, while we expect the RMB currency to trade in a greater range, we believe the sharp depreciation move is probably behind us. We think the Chinese policymakers are unlikely to pursue active RMB weakness and appear comfortable for market forces to drive near-term RMB moves. Elsewhere, we observed that the recent policy easing for the China property sector has stepped-up. We expect more easing measures by the local governments to follow. Notably, select property developers have also received approvals to issue onshore (CNY) bonds together with credit risk mitigation warrants (a type of credit protection instrument). Overall, policy lag suggests the impact from the easing measures on China's housing sector will likely only be felt later in the year. We expect the property sector recovery to be gradual and we continue to exercise prudence. The recent policy easing measures are also 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.

Rating Breakdown

AAA	2.7%
AA	12.9%
A	34.0%
BBB	36.0%
BB	11.0%
B	3.9%
Cash and cash equivalents	-0.5%

Top 5 Holdings

Export-Import Bank Korea 2.8% Mar 2024	4.8%
China Development Bank 3.39% Jul 2027	4.1%
China Government Bond 3.27% Nov 2030	4.0%
HSBC Bank China Co Ltd 3.6% Apr 2024	3.9%
First Abu Dhabi Bank 3.4% Aug 2025	2.7%

Fund Characteristics

Average duration (years)	2.7
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.

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For EU investors:

This is a marketing communication. The investment which is promoted concerns the acquisition of shares in a fund. The Fund is actively managed with reference to the benchmark, "CNH Overnight Deposit Rate", for performance comparison purpose. You should read the prospectus and the key investor information before making any final investment decision. A summary of investor rights can be found in the prospectus. A copy of the prospectus and the key investor information is available in English and other languages (as applicable), and can be obtained from the registered office of the Fund or at www.fullertonfund.com. The Management Company of the Fund is Lemanik Asset Management S.A. ("Lemanik"). Please note that Lemanik may terminate the marketing arrangements of the Fund in accordance with Article 93a of Directive 2009/65/EC.

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