Fullerton SGD Income Fund - Class D (USD) Hedged

May 2022

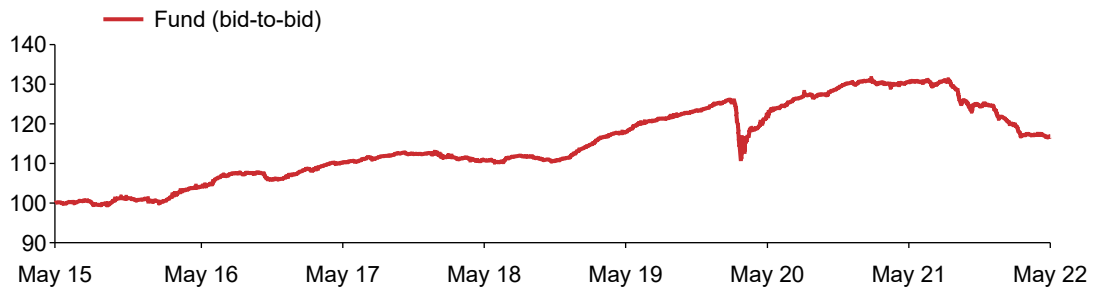
Investment Objective

The investment objective of the Fund is to generate long term capital appreciation and/or income for investors in SGD terms by investing primarily in fixed income or debt securities.

Investment Focus and Approach

The Managers seek to add value from interest rate accruals, selection of bonds and/or credits and duration management (optimisation of bond returns by selecting bonds with different terms to maturity).
The Fund will invest in a diversified portfolio of primarily investment grade fixed income or debt securities having a minimum long term credit rating of BBB- by Fitch, Baa3 by Moody's or BBB- by Standard & Poor's (or their respective equivalents) and cash.
The Fund may also invest in non-investment grade bonds (i.e. bonds with a long term credit rating of less than BBB- by Standard & Poor's, Baa3 by Moody's or BBB- by Fitch (or their respective equivalents)) of up to 30% of its Net Asset Value.
The Fund may invest in Singapore Dollar and foreign currency denominated bonds including but not limited to US Dollar, Euro, Japanese Yen and Australian Dollar. The foreign currency denominated bonds will be fully hedged back to the Singapore Dollar except for a 1% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	-0.37	-2.44	-6.23	-10.58	-0.32	1.18	2.24	4.34
Fund (offer-to-bid)	-3.27	-5.28	-8.96	-13.19	-1.30	0.58	1.81	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 3% which may or may not be charged to investors.
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.

Singapore government bonds declined in May, underperforming US Treasuries against an uptick in US recession fears. The benchmark 10-year Singapore government note underperformed other tenors, with their yields up 18 bps while the 30-year yield ended the month largely flat. SGD credit also fell, according to the Markit iBoxx indices, but fared better than the SGS peers.

In contrast, 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. The benchmark US Treasury 10-year yield ended the month at 2.8%, 9bps below the level from one month ago.

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. The 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
19 May 2015

Fund size
USD 1,172.45 million

Base Currency
SGD

Pricing Date
31 May 2022

NAV*
USD 0.89

Management fee
Currently 0.8% p.a., Maximum 1% p.a.

Expense Ratio
0.88% p.a. (For financial year ended 31 Mar 2021)

Distributions paid per unit #
Dec 2020: USD 0.010
Mar 2021: USD 0.010
Jun 2021: USD 0.010
Sep 2021: USD 0.010
Dec 2021: USD 0.010
Mar 2022: USD 0.010

Minimum Initial Investment
USD100,000

Minimum Subsequent Investment
USD100,000

Preliminary Charge
Up to 3%

Dealing day
Daily, up to 5pm (Singapore time)

Bloomberg Code
FULSGID SP

ISIN Code
SG9999013387

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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.

Investment Strategy

Currently, we are keeping our eyes on three key themes that are affecting our growth-inflation outlook. Firstly, the Russian invasion of Ukraine is turning out to be more protracted than many initially expected. On that note, we do not rule out more sanctions and disruptions in Russian energy supply, which increase stagflation risks and could potentially tilt parts of Europe into recession, given their heavier reliance on Russian energy imports.

Secondly, the China 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 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, tax reductions, coupled with targeted monetary policy easing measures.

Property policy relaxation is also gaining momentum, including the reduction in the mortgage rate floor and a 15bps cut to the 5-year loan prime rate. More Chinese cities have also announced property easing measures, such as lower mortgage rates and reduction in down payment ratios. We expect more easing measures by the local governments to follow suit. Notably, select property developers have also receive 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 will likely only be felt later in the year. We expect the property sector recovery to be gradual and potentially stabilise in Q3-Q4, with a pick-up in mortgage loans and property sales.

Thirdly, 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.

On that note, we remain cautious on US duration and see near-term risks to higher US Treasury yields. We aim to keep the Fund's average duration to under 4 years. We are also tactically using bond futures to manage interest rate volatility. Likewise, in Singapore, inflation pressures are on the rise as the economy re-opens. The country's core inflation is expected to stay above targets in 2022, fueled by both "imported" inflation and domestic wage pressure. Given the expectation of relatively sticky core inflation, and MAS also tends to react preemptively to inflation pressure, we anticipate a further steepening of the SGD NEER in October.

Overall, we have a bias towards more defensive credits with lower spread volatility. We continue to look for attractively priced new issues and rotate into higher yields. Within the broader investment grade credit space, we prefer to focus on relative valuation trades rather than strong directional calls. In terms of the Asian high yield sector, we think a larger risk premium is justified. We are looking for better entry levels to increase our exposure to higher-yielding markets such as India, and Indonesia. In terms on the China real estate sector, we believe the recent 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 for the sector.

Geographical Breakdown

Australia	4.2%
China	17.6%
France	6.2%
Hong Kong	10.4%
India	5.2%
Indonesia	3.7%
Korea	1.9%
Malaysia	1.1%
Philippines	1.9%
Singapore	32.6%
Switzerland	4.7%
UK	4.1%
Others	4.0%
Cash and cash equivalents	2.3%

Rating Breakdown

AA	0.5%
A	12.0%
BBB	68.2%
BB	11.6%
B	5.2%
C	0.2%
Cash and cash equivalents	2.3%

Top 5 Holdings

AIA Group Ltd 2.9% PERP	1.8%
Huarong Finance 2017 Co 3.8% Nov 2025	1.6%
SPH REIT 4.1% PERP	1.6%
Frasers Property Treasury Pte Ltd 4.25% Apr 2026	1.6%
Shangri-La Hotel Limited 4.5% Nov 2025	1.5%

Fund Characteristics

Average coupon	4.0%
Average credit rating	BBB
Number of holdings	334
Average duration (years)	3.6
Yield to Worst	4.5%

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 taking into account the hedging cost. Not guaranteed. Past performance is not necessarily indicative of future performance.