Fullerton Short Term Interest Rate Fund - Class R (SGD)

May 2022

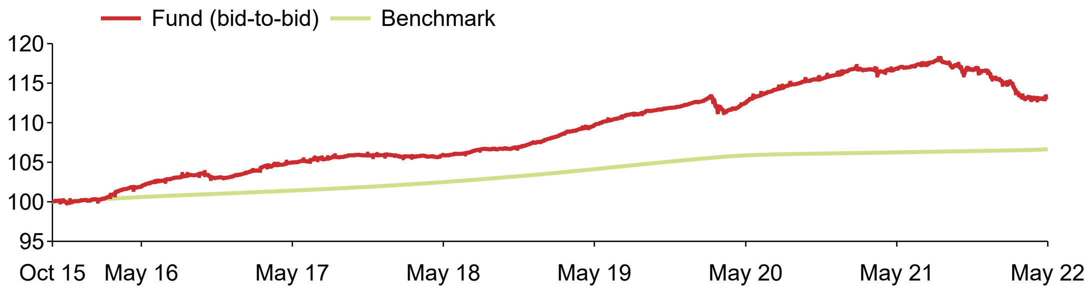
Investment Objective

The investment objective of the Fund is to achieve medium-term capital appreciation for investors. The investments of the Fund will be broadly diversified with no specific industry or sectoral emphasis.

Investment Focus and Approach

The Fund is primarily focused on fixed income securities and money market instruments. The Fund may invest in futures and derivatives for hedging purposes. The maturity limit of underlying securities is 5 years and all foreign currency denominated bonds are fully hedged back to SGD except for a 1% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.29	-1.47	-2.93	-3.03	1.09	1.54	1.92	1.29
Benchmark	0.06	0.13	0.21	0.36	0.80	1.01	0.98	0.15

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.
Benchmark: 3-month SIBID.
Source: Fullerton Fund Management Company Ltd and Bloomberg.

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
15 Oct 2015

Fund size
SGD 1,279.18 million

Base Currency
SGD

Pricing Date
31 May 2022

NAV*
SGD 1.13

Management fee
Currently 0.30% p.a.

Expense Ratio
0.33% p.a. (For financial year ended 31 Mar 2021)

Minimum Initial Investment
SGD100,000

Minimum Subsequent Investment
None

Preliminary Charge
Not applicable for Class R

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

Bloomberg Code
FULSTIS SP

ISIN Code
SG9999014633

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

Looking ahead, 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 are also tactically using bond futures to manage interest rate volatility. We aim to keep the Fund's average duration to under 2 years. Likewise in Singapore, inflation pressures are on the rise as the economy re-opens. Core inflation is expected to stay above targets in 2022, fuelled by both "imported" inflation and domestic wage pressure. Given the expectation of relatively sticky core inflation, coupled with the likelihood that the MAS tends to react preemptively to inflation pressure, we anticipate a further steepening of the SGD NEER in October. Overall, we have a bias towards shorter- dated bonds and more defensive credits with lower spread volatility, such as SGD credit in lieu of USD credit. We continue to look for attractively priced new issues and reinvest into higher yields.

In terms of China, the country'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. 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.

Geographical Breakdown

China	36.2%
France	1.5%
Germany	1.3%
Hong Kong	6.1%
India	4.2%
Indonesia	1.9%
Korea	2.2%
Malaysia	2.5%
Singapore	40.7%
Switzerland	1.6%
Others	1.1%
Cash and cash equivalents	0.7%

Rating Breakdown

AA	0.2%
A	31.7%
BBB	67.1%
C	0.3%
Cash and cash equivalents	0.7%

Top 5 Holdings

Shenhua Overseas Capital 3.875% Jan 2025	2.9%
Indian Oil Corp 4.1% Oct 2022	2.3%
Shangri-La Hotel Limited 4.5% Nov 2025	2.1%
City Developments Ltd 2.8% Jun 2023	1.7%
Hotel Properties Ltd 3.8% Jun 2025	1.7%

Fund Characteristics

Average coupon	3.0%
Average credit rating	BBB
Number of holdings	188
Average duration (years)	1.7
Yield to Worst	3.4%

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.