

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

February 2024

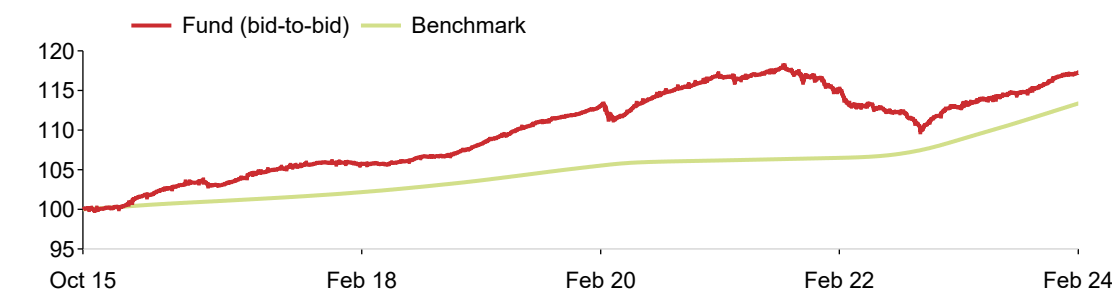
Investment Objective

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	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	0.18	1.06	2.24	3.90	0.16	1.61	1.93	1.34
Benchmark	0.33	1.05	2.12	4.24	2.21	1.80	1.51	0.36

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: 3M SORA + 0.60% p.a.

With effect from 1 August 2023, the benchmark is 3M SORA + 0.60% p.a. From inception till 31 July 2023, the benchmark was 3M SIBID.

Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

Global bond yields ground higher in February, amid pushback from central bank speakers over near-term rate cuts and ongoing strength in activity and labour market data in the US. January's nonfarm payrolls in the US surpassed expectations, complemented by the US ISM Services index showing further expansion. The minutes of the January FOMC meeting revealed some officials' concern about cutting rates too soon. Expectations for Fed rate cuts diminished, briefly aligning with the Fed's December projection of three quarter-point cuts for the year. Any anticipation of a March move was abandoned.

In Singapore, the Ministry of Trade and Industry revised its Q4 GDP advance estimate downward and maintained the official 2024 GDP growth forecast range of 1.0-3.0%. The outlook anticipates softer growth in the first half, followed by a recovery in the second half of the year. Inflation-wise, Singapore's core CPI unexpectedly cooled to 3.1% year-on-year in January, down from 3.3% in December, primarily attributed to the volatile travel component. Additionally, headline inflation declined to 2.9% year-on-year from 3.7% in December.

Against such a backdrop, US Treasury yields climbed, with the yield on the 10-year Treasury reaching 4.3%, 34 basis points higher than the previous month. Concurrently, the 2-year US Treasury yield rose by 41 basis points, closing the month at 4.6%. In a parallel trend, Singapore also witnessed an increase in yields across the curve, led by the front-end. Yields for the 2-year Singapore Government Securities (SGS) and 10-year SGS rose by 22 and 19 basis points, concluding the month at 3.4% and 3.1%, respectively. In contrast, Singapore's non-government sector experienced modest gains, as reflected in the Markit iBoxx ALBI Singapore Non-government index. Elsewhere, the performance of Asian USD credits exhibited a mixed pattern, as indicated by the JP Morgan Asian Credit Indices. Notably, the high-yield sector recorded strong gains, propelled by the tightening of credit spreads, even though losses associated with duration somewhat dampened the overall performance. On the flip side, the investment-grade sector faced modest losses, attributed to higher US Treasury yields which overshadowed the tighter credit spreads.

Inception date

29 Oct 2015

Fund size

SGD 721.15 million

Base Currency

SGD

Pricing Date

29 Feb 2024

NAV*

SGD 1.17

Management fee

Currently 0.30% p.a.

Expense Ratio

0.33% p.a. (For financial year ended 31 Mar 2023)

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

Developed market (DM) central banks have generally put easing on the agenda for 2024 while pushing back on expectations for imminent cuts. Simultaneously, markets have recently priced out early DM policy rate cuts as the inflation data remain sticky, with growth momentum showing resilience, and central bankers responding by guiding towards more policy easing patience. Nevertheless, the consensus remains that a significant easing cycle may commence around mid-2024.

In the United States, upside surprises to inflation and resilient labour market readings have also prompted Fed officials to signal they are in no rush to ease policy. Current market pricing is aligned with the mid-year easing commencement that we think is most likely. We believe the Fed sees the risk of cutting too early as outweighing the risk of cutting too late. The notable deflation in core goods prices observed in the latter part of 2023 was a major contributor to the decline in core inflation. The "last-mile" of disinflation, especially in the service sector, may prove to be more persistent.

Turning to Singapore, we remain comfortable with our view that the MAS will leave its FX policy settings unchanged this year. This decision is grounded in the focus on anchoring inflation expectations, especially as the nation adjusts to the Goods and Services Tax (GST) increase and other regulated price changes. Nonetheless, the moderate core inflation figures reported in January are promising, hinting that inflation expectations have not spiraled out of control.

In terms of investment strategy, our approach involves a gradual increase in the Fund's duration as higher bond yield leads to potentially improved risk-reward outcomes. The target duration is in the approximately 2-year range. We adopt a barbell approach, purchasing short-dated MAS bills with attractive carry while simultaneously extending duration through new issues, notably in the 3-5 year tenure. New issues are primarily funded by MAS bills, intending to drawdown for the new issues and as cash rates decline. Despite tight credit spreads, the all-in yields remain appealing, and risk assets more broadly still remain on an uptrend. Positive risk sentiments, loose financial conditions, and elevated yields are likely to support valuations in the short term. The consensus around anticipated rate cuts in 2024 have also contributed to a rally, with technical indicators remaining firm. The recent uptick in US treasury yields has provided attractive entry points for investors. We maintain the view that unless the macroeconomic backdrop turns notably negative, investment-grade credit spreads could persist at tight levels.

Geographical Breakdown

Australia	1.8%
China	25.6%
France	2.6%
Germany	2.7%
Hong Kong	4.8%
India	2.1%
Indonesia	1.5%
Japan	1.7%
Korea	7.6%
Malaysia	2.2%
Qatar	1.4%
Singapore	40.8%
Switzerland	3.3%
UK	2.6%
Cash and cash equivalents	-0.7%

Top 5 Holdings

MAS Bill 0% Apr 2024	6.9%
MAS Bill 0% Mar 2024	2.9%
Ping An Intl Fin Leasing 2.5% Aug 2024	2.9%
Hotel Properties Ltd 3.8% Jun 2025	2.9%
UBS AG 5.125% May 2024	2.8%

Rating Breakdown

AAA	11.2%
AA	2.9%
A	44.1%
BBB	42.0%
C	0.5%
*Cash and cash equivalents	-0.7%

Fund Characteristics

Average coupon	2.9%
Average credit rating	A
Number of holdings	126
Average duration (years)	1.0
Yield to Worst	4.7%

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.

*Negative balances are due to cross month trades, and subscriptions/redemptions.

YTW includes one legacy bond.

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