FULLERTON FUND MANAGEMENT

Fullerton Short Term Interest Rate Fund - Class R1 (SGD)

October 2024

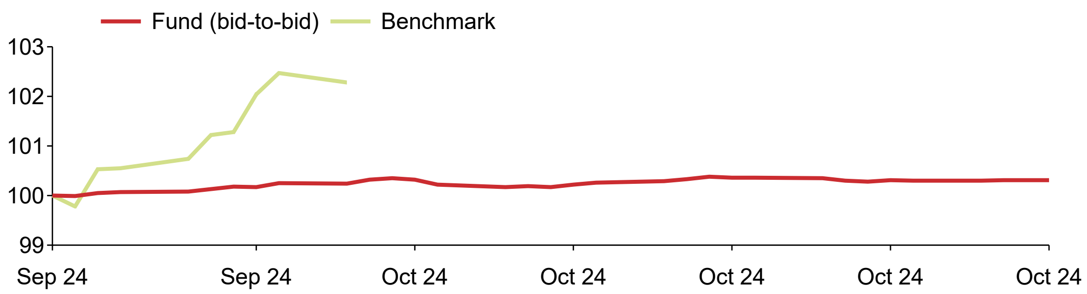
Investment Objective

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 5% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	SI. Ann.Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.06	-	-	0.31	-

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

In Singapore, the Monetary Authority of Singapore (MAS) maintained its S$NEER policy stance, meeting market expectations. This decision was underpinned by a constructive growth outlook and balanced inflation risks. MAS also acknowledged considerable uncertainty around the 2025 economic outlook, despite forecasting growth at the potential rate. Inflation projections for 2025 were also balanced, with core and headline inflation expected within a 1.5-2.5% range, a slight shift from previous assessments that emphasised inflationary pressures more strongly.

Across the Atlantic, the US fixed income market experienced notable volatility in October, driven by stronger-than-expected economic data and shifting political dynamics. US Treasury yields rose significantly and the upward movement was partly attributed to robust non-farm payrolls and retail sales figures, which exceeded market expectations. Additionally, the possibility of a second Trump presidency introduced further uncertainty, contributing to higher US Treasury yields.

Amid these dynamics, both US Treasuries and Singapore Government Securities (SGS) experienced yield increases, with SGS outperforming Treasuries over the month. The 10-year SGS yield rose 21 basis points to 2.8%, and the 2-year SGS increased by 25 basis points to 2.7%. By contrast, the US 10-year Treasury yield climbed by a notable 50 basis points to 4.3%, while the 2-year rose 53 basis points to 4.2%. Non-government bonds in Singapore also saw modest price declines but outperformed SGS, as captured by the Markit iBoxx ALBI Singapore indices.

In the Asian credit market, high-yield bonds outpaced investment-grade bonds, as reflected in the JP Morgan Asian Credit Index (USD terms). High-yield credits benefitted from tighter credit spreads and were less impacted by duration-related losses, allowing the sector to post gains. Meanwhile, investment-grade credit spreads also narrowed, though the rise in US Treasury yields offset much of this spread compression with the investment grade sector ended the month in the red.

Inception date
17 Sep 2024

Fund size
SGD 889.23 million

Base Currency
SGD

Pricing Date
31 Oct 2024

NAV*
SGD 1.00

Management fee
0.25% p.a.

Minimum Initial Investment
SGD 25,000,000

Minimum Subsequent Investment
None

Preliminary Charge
Not applicable for Class R1

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

Bloomberg Code
FULSTR1 SP

ISIN Code
SGXZ25895699

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.

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Investment Strategy

The U.S. Treasury market has been marked by election-related volatility and a sharp rise in yields. However, our Fund remains relatively insulated from this volatility, with around 50% of its holdings in SGD credits, where credit spreads have been stable, and Singapore Government Securities (SGS) yields have lagged the recent increase in U.S. Treasury yields.

In terms of portfolio positioning, we have been extending duration for most of the year, by drawing down our investment in MAS/SITB bills which coincided with the decline in cash rate into longer-dated corporate bonds to lock in yields before interest rate cuts extend further. With average duration close to 2 years on average, we are comfortable with the current duration stance. The Fund continues to see good interest and steady inflows, where we continue to put the proceeds to work, via the secondary and primary market.

We believe investment grade credit spreads can remain tight to stable, supported by favourable market technicals and resilient economic growth. The US economy remains healthy, with growth expected to remain above the 2% trend. Inflation is stabilising near the Fed's target, and the gradual rise in unemployment supports the Fed's projection of a policy rate around 3.4% by the end of 2025. A ramp-up in China’s policy easing should keep the economy running at an above-potential pace this quarter and next. What is noteworthy has been the breadth and coordination of China’s recent measures—encompassing fiscal, monetary, housing, and equity market support—which aims to establish a growth floor, mitigate downside risk and prevent further economic deterioration. These policies, however, will take time to yield results, and there is no quick fix. Investors will closely watch upcoming government meetings for further clarity, including the NPC Standing Committee meeting in early November and the Politburo and Central Economic Work Conference (CEWC) meetings later in the year.

Elsewhere, the fund has tactical modest investments in AUD credits and CNH credits. The AUD-denominated credit exposure is bolstered by its attractive relative valuations as the Reserve Bank of Australia is likely to be one of the later central banks to initiate easing in this cycle. This positioning not only offers relative value but benefits also from lower AUDSGD hedging costs versus USDSGD hedging costs. In contrast, CNH-denominated credits benefitted from hedging gains when hedged back to SGD, enhancing their attractiveness as an investment.

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Geographical Breakdown

Australia	5.2%
China	15.9%
France	2.2%
Germany	4.4%
Hong Kong	7.6%
India	2.2%
Indonesia	2.5%
Japan	1.3%
Korea	6.3%
Macau	2.8%
Malaysia	3.7%
Philippines	1.6%
Qatar	1.4%
Singapore	34.9%
UK	4.1%
Others	1.5%
Cash and cash equivalents	2.5%

Rating Breakdown

AAA	2.7%
AA	1.7%
A	29.8%
BBB	62.9%
C	0.4%
Cash and cash equivalents	2.5%

Top 5 Holdings

Macquarie Group Ltd 4.5% Aug 2026	3.5%
Singapore Government 2.875% Jul 2029	2.7%
Hotel Properties Ltd 3.8% Jun 2025	2.4%
Deutsche Bank Ag 4.4% Apr 2028	2.2%
Shangri-La Hotel Limited 4.5% Nov 2025	2.1%

Fund Characteristics

Average coupon	3.7%
Average credit rating	BBB
Number of holdings	143
Average duration (years)	1.9
Yield to Worst	4.9%

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.