

Fullerton USD Income Fund - Class B (USD)

May 2022

Investment Objective

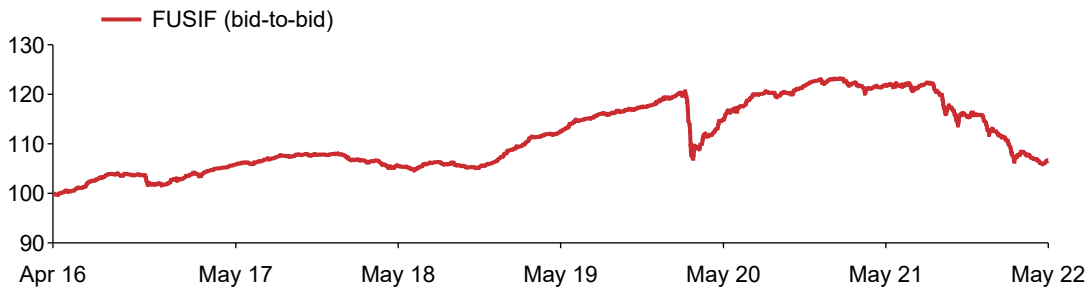
The investment objective of the Fund is to generate long term capital appreciation and/or income for investors by investing primarily in fixed income or debt securities.

Investment Focus and Approach

The Fund will invest in a diversified portfolio of primarily investment grade fixed income 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 of up to 30% of its Net Asset Value. Non-rated bonds are permitted if they meet the Managers' internal equivalent rating of investment grade. The Fund aims to invest at least 50% of Net Asset Value in USD denominated bonds. The Fund will be broadly diversified with no specific geographical or sectoral emphasis.

The Managers may use Financial Derivative Instruments for hedging and efficient portfolio management purposes.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	-0.23	-3.47	-7.74	-12.50	-1.77	0.17	1.06	5.13
Fund (offer-to-bid)	-3.13	-6.29	-10.42	-15.05	-2.73	-0.42	0.58	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. 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. Despite the central bank's hawkish stance, the markets were focused instead on Chairman Powell's statement that a 75bps hike was not being actively considered. Against such a backdrop, the benchmark US Treasury 10-year yield ended the month at 2.8%, 9bps below the level from one month ago.

Elsewhere, hawkish ECB comments and strong inflation data saw the market raise expectations for ECB tightening this year. Over in China, Premier Li signalled that the country was faring worse than 2020 amid the COVID-19 pandemic. Signs of reopening in the Chinese economy became evident towards the end of May, as Beijing and Shanghai reduce restrictions amid 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. 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. 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 Apr 2016

Fund size

USD 539.59 million

Base Currency

USD

Pricing Date

31 May 2022

NAV*

USD 0.85

Management fee

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

Expense Ratio

0.89% 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 0.009

Mar 2022: USD 0.008

Minimum Initial Investment

None

Minimum Subsequent Investment

None

Preliminary Charge

Up to 3%

Dealing day

Daily, up to 5pm (Singapore time)

Deadline

1pm (CET); 5pm (Singapore time) on each Business Day

Bloomberg Code

FULUSIB SP

ISIN Code

SG9999015176

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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

China'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.

Elsewhere, 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.

Overall, we retain a negative US duration stance and see near-term risks to higher US Treasury yields. We aim to keep the Fund's duration at around 3 years on average. We are also utilising US Treasury futures to manage interest rate volatility. Within the broader investment grade credit space, we prefer to focus on relative valuation trades rather than strong directional calls. We also favour the BBB bloc where there is some spread cushion to offset rising rates. In terms of the Asian high yield sector, we favour the higher-yielding markets such as India, and Indonesia and look for higher risk premiums to increase our exposure.

In terms of the China property sector, we think the policy easing measures are likely to disproportionately benefit the stronger developers. On that note, we continue to favour the better-quality developers, with more modest allocation to the high yield names. Policy lag also 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 credit differentiation to remain a key investment theme.

Geographical Breakdown

Australia	1.8%
China	30.2%
France	1.2%
Hong Kong	8.6%
India	12.2%
Indonesia	15.7%
Korea	4.3%
Malaysia	2.0%
Singapore	12.9%
Supranational	1.8%
UK	1.2%
Others	4.5%
Cash and cash equivalents	3.4%

Top 5 Holdings

Nanyang Commercial Bank 3.8% Nov 2029	1.4%
Listrindo Capital Bv 4.95% Sep 2026	1.3%
Parkway Pantai 4.25% PERP	1.1%
Adani Transmission Ltd 4% Aug 2026	1.1%
Yuexiu REIT MTN Co 2.65% Feb 2026	1.1%

Rating Breakdown

AAA	1.8%
AA	2.3%
A	11.1%
BBB	64.3%
BB	11.5%
B	5.5%
Cash and cash equivalents	3.4%

Fund Characteristics

Average coupon	3.9%
Average credit rating	BBB
Number of holdings	351
Average duration (years)	2.8
Yield to Worst	4.8%

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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