Fullerton USD Income Fund - Class R (SGD Hedged)

February 2024

Investment Objective

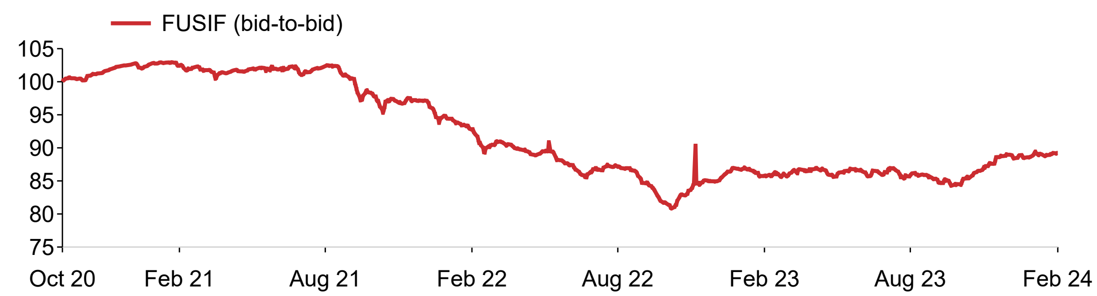
The investment objective of the Fund is to generate long term capital appreciation and/or income for investors by investing primarily in fixed income or debt securities.

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 its 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	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.01	2.61	3.62	4.03	-4.48	-3.29	5.42

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.
Source: Fullerton Fund Management Company Ltd

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. 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%.

Asian USD credits exhibited modest gains, as reflected in the JP Morgan Asian Credit Index in USD. This uptick was underpinned by tighter credit spreads, although there were some setbacks attributable to duration-related losses. 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.

Performance differentials were evident within sectors, with longer-duration segments such as sovereigns and quasi-sovereigns lagging. In contrast, sectors characterised by high-yield issuers, including real estate, consumer, and metals and mining, witnessed a rally over the course of the month. Likewise, high-yield sovereign markets, exemplified by the likes of Sri Lanka and Pakistan, outpaced counterparts such as Malaysia and Indonesia, which faced a comparatively subdued performance.

Inception date
05 Oct 2020

Fund size
SGD 377.41 million

Base Currency
USD

Pricing Date
29 Feb 2024

NAV*
SGD 0.79

Management fee
Currently 0.5% p.a., Maximum 1% p.a.

Expense Ratio
0.56% p.a. (For financial year ended 31 Mar 2023)

Distributions paid per unit #
Sep 2022: SGD 0.007
Dec 2022: SGD 0.007
Mar 2023: SGD 0.006
Jun 2023: SGD 0.010
Sep 2023: SGD 0.010
Dec 2023: SGD 0.010

Minimum Initial Investment
None

Minimum Subsequent Investment
None

Preliminary Charge
Not applicable for Class R

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

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

Bloomberg Code
FULUSIS SP

ISIN Code
SGXZ45197746

For additional information on Fullerton and its funds, please contact:
Fullerton Fund Management Company Ltd
3 Fraser Street
#09-28 DUO Tower
Singapore 189352
T +65 6808 4688
F +65 6820 6878
www.fullertonfund.com
UEN: 200312672W

* 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

Looking ahead, the Asian credit markets are poised to benefit from positive undercurrents in risk sentiment, buoyed by attractive all-in yields and stable fundamentals. The consensus surrounding anticipated Federal Reserve rate cuts in 2024 has further bolstered this optimism, with technical indicators holding firm. The recent upswing in US treasury yields has created attractive entry points for discerning investors, while at the same time supply headwinds are manageable. Our outlook maintains that, unless the macroeconomic backdrop shifts materially negative, valuations on Asian credits should remain well-supported.

In terms of our investment strategy, we have been increasing our high yield allocation selectively, focusing on segments that offer relatively attractive all-in yields because of the potential of a technical squeeze in the high yield market, which could further reinforce valuations. Duration-wise, we aim to capitalise on opportunities emerging from higher bond yields, to extend duration, which may potentially contribute to a more favourable risk-reward outcome going forward. Recently, we had extended duration, notably in selected credits where our analysts have a positive view, and through the acquisition of longer-dated new issues in the primary market.

In navigating the Chinese market, we have chosen to be cautious in vulnerable sectors such as real estate, and Local Government Financing Vehicles (LGFV) - which we perceive as most susceptible to distress risks, given the ongoing weakness in the country's property sector and the absence of significant policy surprises in the recently concluded "Two Sessions." An additional aspect of our strategy involves investments in Japanese and Australian financial institutions, chosen for their robust credit fundamentals and attractive relative valuations. We anticipate that the Bank of Japan's policy normalisation could act as a tailwind, fostering improvements in profits for Japanese megabanks, especially in their core business. In the Australian context, our assessment indicates that banks have amassed sufficient capital buffers, and any potential asset-quality deterioration is expected to be minimal, with little implications for credit ratings.

FULLERTON FUND MANAGEMENT

Geographical Breakdown

Australia	3.4%
China	21.5%
France	2.0%
Hong Kong	8.2%
India	11.3%
Indonesia	14.5%
Japan	3.6%
Korea	8.5%
Macau	2.5%
Malaysia	1.7%
Philippines	3.0%
Singapore	4.5%
Supranational	2.6%
Switzerland	1.4%
Thailand	1.9%
UK	3.0%
Others	1.9%
Cash and cash equivalents	4.4%

Rating Breakdown

AAA	2.6%
AA	3.1%
A	16.1%
BBB	59.4%
BB	10.8%
B	3.5%
CCC	0.1%
Cash and cash equivalents	4.4%

Top 5 Holdings

Nanyang Commercial Bank 3.8% Nov 2029	1.6%
Republic Of Philippines 5.5% Jan 2048	1.4%
Export-Import Bank Korea 8% May 2024	1.2%
Tencent Holdings Ltd 3.84% Apr 2051	1.1%
Shinhan Financial Group 2.875% PERP	1.1%

Fund Characteristics

Average coupon	4.2%
Average credit rating	BBB
Number of holdings	268
Average duration (years)	4.1
Yield to Worst	5.8%

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.