Fullerton Lux Funds – Asian High Yield Bonds - Class A (SGD) Dis

January 2021

Investment Objective

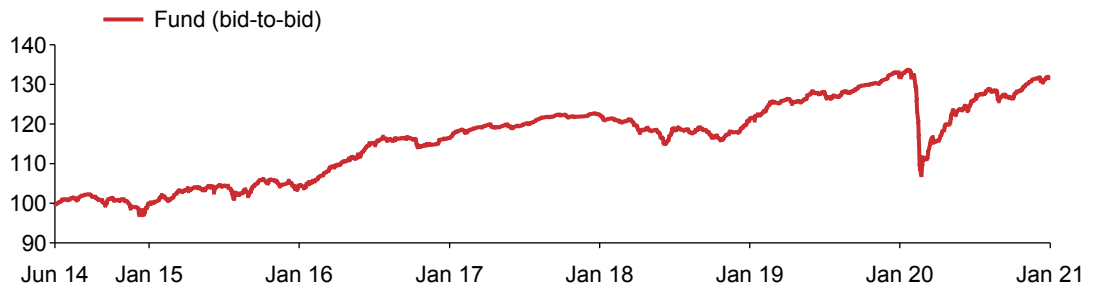
The investment objective of the Fund is to generate long term capital appreciation for investors by investing primarily in unrated or non-investment grade rated fixed income or debt securities, including convertibles, denominated primarily in USD and Asian currencies and primarily issued by companies, governments, quasi-governments, government agencies or supranationals in the Asian region. The Asian countries may include, but are not limited to, China, (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines and Vietnam.

Investment Focus and Approach

The Investment Manager seeks to achieve the investment objective of the Fund by a combination of top-down macro research for duration or interest rate management and sector allocation, as well as bottom-up analysis for credit selection and yield curve positioning.

The Fund may use FDIs as part of the investment strategy, in addition to efficient portfolio management and hedging purposes.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
Fund (bid-to-bid)	0.03	4.13	4.34	-0.23	2.49	4.73	4.23	7.67
Fund (offer-to-bid)	-4.74	-0.83	-0.63	-4.98	0.84	3.72	3.47	NA

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. Offer-to-bid returns include an assumed preliminary charge of 5% which may or may not be charged to investors.
Source: Fullerton Fund Management Company Ltd.

Market Review

The US election had stretched a few days into 2021 but reached a conclusion when the Democrats won control of the US Senate in Georgia runoff elections, spurring optimism for a fiscal stimulus boost. 10-year US Treasury yields broke above 1% for the first time since the pandemic-driven turmoil in March, prompting gains in the dollar, and ended the month at 1.06%.

US President Biden announced a $1.9 trillion pandemic-relief plan, as the administration sought a bipartisan deal. On monetary policy, Federal Reserve Chairman Powell made clear the US central bank was nowhere near exiting massive support for the economy, as officials left their benchmark interest rate unchanged near zero. Powell also sought to stamp out talk of tapering the bond-purchase program, saying "now is not the time" to hold that discussion.

Factory activity across Asia continued to gain momentum, spurred by strong demand for the region's exports, while China's recovery started to moderate, after delivering the best performance by a major economy in 2020. The International Monetary Fund raised its forecast for global growth this year, on expectations that the resurgent pandemic would be offset by the vaccines roll-outs and more fiscal stimulus. Borrowers in Asia rushed to sell dollar bonds, pushing issuance in January to a record start.

Against such a backdrop, Asian credit markets' performance was mixed, with spreads mostly tighter while returns were generally flat due to the rise in US Treasury yields. The high yield sector outperformed and returned 0.1% (based on the JP Morgan Asian Credit - Non Investment Grade Index, in USD terms) while the investment grade peers were marginally negative (based on the JP Morgan Asian Credit – Investment Grade Index, in USD terms). Sri Lanka and the metal & mining sector led in performance. Elsewhere, TMT, oil and gas, and real estate sectors fared the worst.

Inception date
16 Jun 2014

Fund size
SGD 233.42 million

Base Currency
USD

Pricing Date
31 Jan 2021

NAV*
SGD 9.68

Management fee
Up to 1.25% p.a.

Distributions paid per unit #
Sep 2019: SGD 0.110
Dec 2019: SGD 0.120
Mar 2020: SGD 0.110
Jun 2020: SGD 0.090
Sep 2020: SGD 0.140
Dec 2020: SGD 0.122

Preliminary Charge
Up to 5% of subscription amount (equivalent to a max of 5.26315% of the Net Asset Value per share)

Dealing day
Daily

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

Bloomberg Code
AHIBUSD LX

ISIN Code
LU0712499218

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.
# Please refer to our website for more details.

Investment Strategy

We remained constructive on the Asian credit markets and saw continued interest, driven by improving growth, better corporate fundamentals, and fair valuations. The credit cycle has also bottomed and is on an improving trend. Credit rating pressures have also largely abated, and we expect the default rate to moderate. On that note, we anticipate further spread compression between the high yield and investment grade sectors alongside improving credit fundamentals and falling default rates. The spread differential between them is also relatively wide as compared to historical averages.

As the market continues to recover, we are taking advantage of the active primary issuance market to reinvest into corporates with sound credit fundamentals and attractive valuations. Our approach to the asset class has also shifted to active bottom-up security selection, emphasizing pockets of performance laggards. The Chinese real estate sector remains our top sector pick. Fundamentally, the Chinese government has taken steps to rein in excess leverage, such as limiting the amount of debt banks can loan to property developers, which will benefit the real estate industry over the medium term. Valuations are still compelling, especially on a historical basis. . While gross supply for 2021 will be high, net supply is likely to be flat, partly reflecting the tighter policy stance and should be well-absorbed by the markets.

Elsewhere, we also favour Indonesian credit, particularly in the quasi-sovereign and commodities sectors – the latter being a laggard in 2020 –which should play catch up in 2021.

Geographical Breakdown

China	67.9%
Hong Kong	4.8%
India	10.2%
Indonesia	7.6%
Macau	2.6%
Sri Lanka	2.7%
Others	2.0%
Cash and cash equivalents	2.2%

Rating Breakdown

BBB	7.0%
BB	38.4%
B	49.1%
CCC	3.4%
Cash and cash equivalents	2.2%

Top 5 Holdings

Zhenro Properties Group 8.35% Mar 2024	1.5%
Network I2I Ltd 5.65% PERP	1.4%
Times China Holdings 6.2% Mar 2026	1.3%
Logan Property Holdings 7.5% Aug 2022	1.3%
Yanlord Land HK Co Ltd 6.8% Feb 2024	1.2%

Fund Characteristics

Average duration (years)	2.1
Yield to Worst	6.0%

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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