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

February 2022

Investment Objective

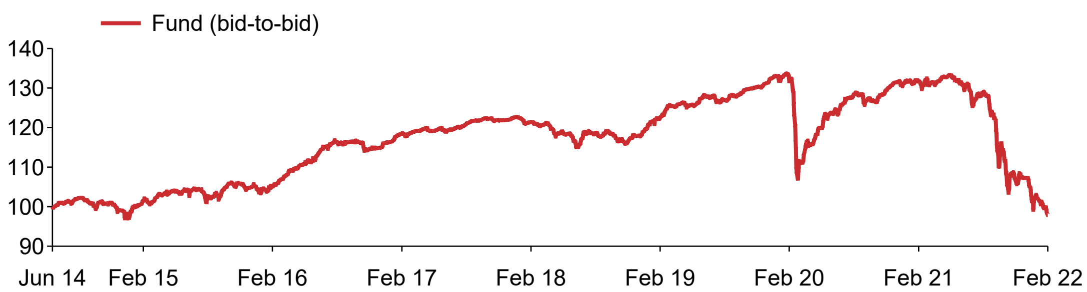
The investment objective of the Fund is to generate long term capital appreciation for investors by investing primarily in unrated or non-investment grade rated fixed income or debt securities, including convertibles, denominated primarily in USD and Asian currencies and primarily issued by companies, 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	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	-4.09	-8.18	-24.18	-25.66	-7.21	-3.76	-0.28	8.81
Fund (offer-to-bid)	-8.66	-12.55	-27.79	-29.20	-8.71	-4.69	-0.91	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. Past performance is not indicative of future returns.
Source: Fullerton Fund Management Company Ltd.

Market Review

Financial markets saw sharp swings in February as the Russia-Ukraine tensions escalated towards the latter half of the month. Despite the geopolitical tensions, US Treasuries posted a loss in February even as yields declined during the final days of the month. The stronger-than-expected US payrolls and CPI prints added to the bearish momentum for US rates and pushed 2- and 5-year yields to the highest levels since 2019. The benchmark 10-year US Treasury yield traded between 1.7% to 2.1% but ended the month at 1.8%, 5 bps higher than a month ago. US futures nearly priced in a half-point US Federal Reserve (Fed) rate increase in March, but a quarter-point increase regained favour by the end of the month.

Asian credit fell in February, according to the JP Morgan Asian Credit Index as geopolitical tensions dominated price action and credit spreads widened across the board. Both the investment grade and high yield sectors declined, with the latter underperforming. Sector-wise, the Chinese real estate sector was the key performance laggard, as idiosyncratic risks and ratings downgrades continued to weigh on the sector. Likewise, Sri Lanka was the worst country performer, as the nation continues to work with various parties, including nearby Pakistan and India, to secure emergency financing. In contrast, the high quality markets such as Korea and sectors such as financials were the better performers.

Inception date
16 Jun 2014

Fund size
SGD 55.39 million

Base Currency
USD

Pricing Date
28 Feb 2022

NAV*
SGD 6.85

Management fee
Up to 1.25% p.a.

Distributions paid per unit #
Sep 2020: SGD 0.140
Dec 2020: SGD 0.122
Mar 2021: SGD 0.120
Jun 2021: SGD 0.120
Sep 2021: SGD 0.110
Dec 2021: SGD 0.090

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

The conflict between Russia and Ukraine has been a major source of volatility across global financial markets in recent weeks. The impact on Asia will primarily be through higher oil, commodity, and agriculture prices. Given Russia's importance as a global exporter of oil, natural gas, wheat, platinum, and palladium, any disruptions to supply pose upside risks to inflation. The current oil and commodity inventories are also tight versus the historical average. There is little buffer to cope with any unexpected interruption in output.

Notably, an adverse oil supply shock could impede growth and boost headline inflation globally. If the growth shock is significantly large, it may potentially slow the normalisation plans of many central banks. That said, the current high inflation backdrop also means policy would still have to be tightened somewhat compared to a scenario where inflation was running low. On that note, we still expect the US Federal Reserve (Fed) to commence a 25bps rate lift-off in March. A 50bps increase appears less likely, reflecting the geopolitical tensions in Ukraine.

Looking ahead, markets will be susceptible to headline risk, keeping haven assets such as government bonds and the US dollar range-bound and risk sentiments on the weaker side. On the same note, a sharp worsening of the Ukrainian situation could drive up risk premia across the broader risk assets, with potential spillovers to the Asian high yield credit markets. That said, Asia is relatively better-insulated from the Ukraine crisis as compared to other regions such as Europe, given the latter's greater trade links and energy reliance on Russia. Asian credit is also underpinned by anchor regional investors and may be resilient to Emerging Market outflows.

In terms of the Asian credit markets, commodities sectors such as Indonesia and India metal and mining, as well as energy, may potentially do well. Defensive sectors such as Chinese SOE, utlilites and government-linked issuers, may potentially also fare better. In contrast, the Chinese property sector is likely to trade with higher sensitivity to China's policy easing measures and idiosyncratic news rather than the headline news on Ukraine. We remain negative on the Chinese property sector, given the lumpy maturity wall ahead and the slower-than-expected market recovery. The latest property contracted sales are still declining, including those of some SOE and developers considered of better quality, which suggests a nationwide weakness persists in the absence of more meaningful easing measures. Progress on asset sales has also been slow while the risk of more debt extension remains. We are also heading into the Q1 earnings result season which could also surprise negatively on the downside.

Looking ahead, we expect a high level of uncertainty as geopolitics takes centre stage. The Russia-Ukraine conflict is still evolving. We remain vigilant and will make portfolio adjustments as the situation in Ukraine unfolds.

Geographical Breakdown

China	24.2%
Hong Kong	10.0%
India	26.5%
Indonesia	13.3%
Macau	1.7%
Philippines	5.9%
Singapore	1.8%
Sri Lanka	1.0%
Others	0.9%
Cash and cash equivalents	14.7%

Rating Breakdown

BBB	7.5%
BB	54.3%
B	22.5%
CC	1.0%
Cash and cash equivalents	14.7%

Top 5 Holdings

Network I2I Ltd 5.65% PERP	4.4%
NWD Finance (BVI) Ltd 6.25% PERP	3.7%
Globe Telecom Inc 4.2% PERP	3.6%
Abja Investment Co 5.45% Jan 2028	3.3%
Shriram Transport Finance 5.1% Jul 2023	2.7%

Fund Characteristics

Average duration (years)	2.8
Yield to Worst	9.5%

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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