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

June 2021

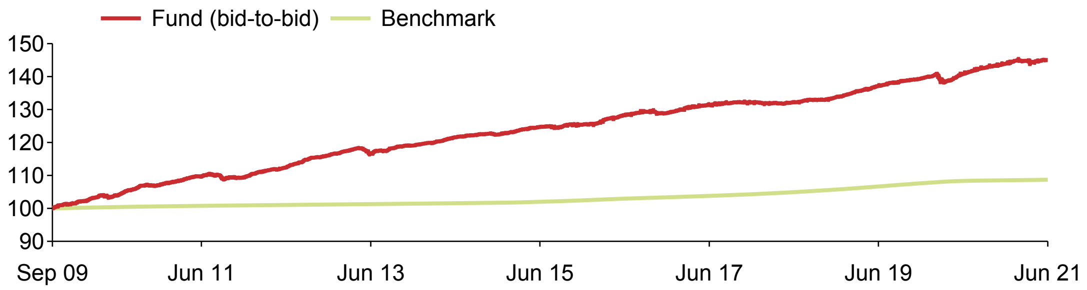
Investment Objective

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 1% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	10 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.10	0.19	0.77	3.01	3.13	2.48	2.83	3.21	1.16
Fund (offer-to-bid)	-2.81	-2.73	-2.17	0.01	2.12	1.87	2.53	2.95	NA
Benchmark	0.03	0.08	0.15	0.33	1.18	1.09	0.76	0.71	0.15

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 3% which may or may not be charged to investors.
Benchmark: 3-month SIBID.
Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

In a reversal of gains from the previous month, Singapore government bonds declined and underperformed similar-tenor US Treasuries in June. The yield on the benchmark 10-year SGS note, which moves inversely to its price, was at 1.6%, up from 1.5% a month earlier. The Singapore non-government debt outperformed the SGS peers, as measured by the Markit iBoxx ALBI Singapore Non-Government Index which returned 0.1% in SGD terms. In contrast, US Treasuries momentarily fell after Federal Reserve officials lifted their growth and inflation forecasts for the US and accelerated their projections for the first post-pandemic rate rise by a year earlier to 2023. However, US Treasuries subsequently advanced with the yield on the 10 year benchmark note falling by 13 bps to end the month at 1.5%.

Against such a backdrop, Asian credit advanced in June (0.4% as measured by the JP Morgan Asian Credit Index in USD), led by the investment grade sector. The high yield sector underperformed and fell, as reflected by the JP Morgan Asian Credit Index data, primarily due to negative spread effects.

On the macro-front, Singapore's core inflation accelerated to 0.8% y/y last month, the highest since June 2019. The move was mainly driven by higher services costs and a smaller decline in retail costs and the costs of other goods. The increase was also partly attributable to the low base a year ago. While core inflation should gradually rise as the negative output gap narrows, it is likely to remain below its historical average, the Monetary Authority of Singapore (MAS) stated in its Annual Report 2020/2021. MAS also noted that pandemic-induced international travel restrictions would continue to hinder the recovery of travel-related sectors.

Inception date
25 Sep 2009

Fund size
SGD 1,521.29 million

Base Currency
SGD

Pricing Date
30 Jun 2021

NAV*
SGD 1.45

Management fee
0.5% p.a.

Expense Ratio
0.53% p.a. (For financial year ended 31 Mar 2020)

Minimum Initial Investment
None (effective 1 Apr 2010)

Minimum Subsequent Investment
None (effective 1 Apr 2010)

Preliminary Charge
Up to 3%

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

Bloomberg Code
FULSTIC SP

ISIN Code
SG9999006225

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.

Investment Strategy

The overall macroeconomic narrative for Asia has been dominated by solid external demand from a booming US economy and the opening up of European economies as restrictions are lifted. In contrast, domestic demand in the region has ebbed and flowed as regional countries, particularly in ASEAN, grappled with a resurgence in virus outbreaks while vaccination rollouts have been slow, partly due to vaccine supply constraints.

In contrast, Singapore has led the region in vaccination inoculation. With the country's vaccination rate approaching 50% by August and 75% by November, the potential reopening and relaxation of border controls may spur a stronger growth recovery in the latter half of the year. The manufacturing sector performance has also held up well, despite Phase 2 (Heightened Alert) restrictions in 2Q 2021. Core inflation will likely rise gradually, although headline inflation should moderate in the latter half of the year, as base effects fade. We expect the Monetary Authority of Singapore (MAS) to leave its FX policy settings unchanged at its following review in October. That said, the risk towards an earlier normalisation remains if inflation overshoots and surprises sharply on the upside.

We continue to expect US Treasury yields to trend higher in 2H 2021 due to stronger growth and potentially rising real yields. But the yield curve steepening is likely to be less aggressive, reflecting lower inflation expectations. In a rising rate backdrop, Singapore government securities should hold up better than US Treasuries, supported by less supply headwinds. Likewise, the Singapore short-end rates should stay anchored at low levels on the back of inflows and ample liquidity. Valuation-wise, credit spreads remain around the 5-year average. Our focus continues to be on credit selection, identifying the price laggards, and selling on strength for those where valuations are looking expensive. Market volatility may persist in the near term, driven by negative idiosyncratic headline news. That said, we observed that the primary market issuance continues to be well absorbed, both in the Asian and SGD investment-grade credit markets.

Geographical Breakdown

China	36.6%
France	1.4%
Germany	1.1%
Hong Kong	4.1%
India	3.4%
Indonesia	1.6%
Korea	3.8%
Malaysia	1.1%
Singapore	40.8%
Switzerland	1.4%
Others	0.8%
Cash and cash equivalents	3.9%

Rating Breakdown

AA	1.3%
A	26.2%
BBB	68.4%
C	0.3%
Cash and cash equivalents	3.9%

Top 5 Holdings

Shenhua Overseas Capital 3.875% Jan 2025	2.5%
Indian Oil Corp 4.1% Oct 2022	2.2%
Keppel Corp Ltd 3.145% Feb 2022	2.1%
Kookmin Bank 1.375% May 2026	1.9%
AAC Technologies Holding 3% Nov 2024	1.9%

Fund Characteristics

Average coupon	3.0%
Average credit rating	BBB
Number of holdings	211
Average duration (years)	2.1
Yield to Worst	2.0%

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 taking into account the hedging cost. Not guaranteed. Past performance is not necessarily indicative of future performance.