Fullerton Asia Income Return Fund - Class B (USD)

February 2020

Investment Objective

The investment objective of the Fund is to generate regular income and long term capital appreciation for investors by investing in equities, fixed income, cash and other permissible investments.

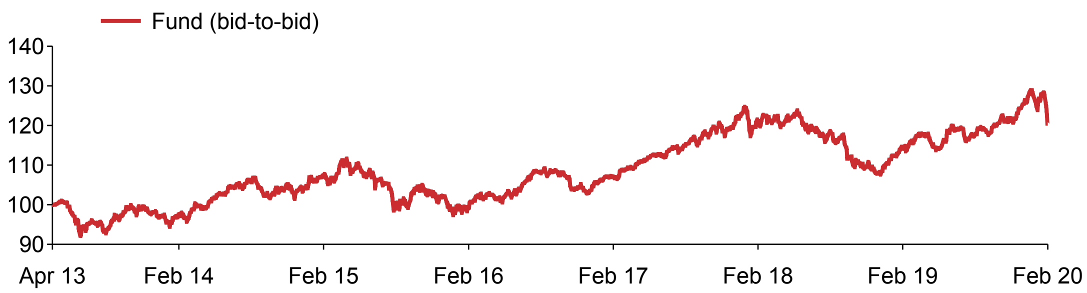
Investment Focus and Approach

The Fund may invest in collective investment schemes and other investment funds (including exchange traded funds ("ETFs")), securities and/or hold cash, in accordance with its investment objective and asset allocation strategy, as we deem appropriate.

We may use FDIs (including, without limitation, treasury, bond or equities futures, interest rate swaps and foreign exchange forwards) for hedging, efficient portfolio management, optimising returns or a combination of all three objectives.

The Fund may also invest in other Authorised Investments.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	-3.59	-0.55	2.15	5.56	3.98	2.31	2.74	7.27
Fund (offer-to-bid)	-7.30	-4.38	-1.78	1.50	2.63	1.52	2.16	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 4% which may or may not be charged to investors.
Fullerton Total Return Fund (FTRF) updated its name to Fullerton Asia Income Return (FAIR) on 21 December 2017.
Source: Fullerton Fund Management Company Ltd.

Market Review

February was a month of two halves with the COVID-19 outbreak driving market volatility. Risk assets rallied in the first half of the month as investors took the outbreak in stride, expecting a quick rebound in risk appetite and activity. However, despite the peaking of new infections within China, a sudden spike in infection outside of China derailed risk sentiment, leading to sharp falls in risk assets in the second half of the month. Month to date, global equities, as denoted by the MSCI World Index, are down 6.6%, though this masks a sharp tumble of 12% from the intra-month peak. Developed markets underperformed emerging markets during this month's sell-off, reflecting relative positioning and COVID-19 concerns spreading outside of Asia. Asian equities, as denoted by the MSCI Asia ex-Japan Index, are down 0.8% on the month, having fallen 7.7% in the second half of the month from an intra-month peak. US Treasury and other high credit rating government bonds performed well, with the 10-year US Treasury yield falling 35bps to 1.15% but gold was down 1.2% on profit taking to cover loses in risk assets.

Investment Outlook

The impact of COVID-19 on economic growth is still uncertain. Historical analysis suggests a one to two quarter impact followed by a recovery and, importantly, resumption of underlying medium term trends. The extent of this outbreak as well as the strong containment measures and travel restrictions put in place do suggest the potential for a more protracted slowdown. However, this effect is likely to be concentrated amongst the more open economies and those that have a heavier reliance on tourism.

For the global economy as a whole, it is important to remember that the pre-outbreak global growth dynamic was one characterised by a strong consumer, resilient labour markets and a recovering trade and manufacturing cycle following the US-China trade truce. Thus, given that growth was just recovering from muted levels, and signs of excess in economic imbalances were limited, we would expect an eventual cyclical resumption of the growth recovery as opposed to a sharp downturn from here. From our

Inception date
15 Apr 2013

Fund size
USD 56.93 million

Base Currency
USD

Pricing Date
29 Feb 2020

NAV*
USD 0.92

Management fee
Currently 1.2% p.a.

Expense Ratio
1.59% p.a. (For financial year ended 31 Mar 2019)

Distributions paid per unit #
Sep 2019: USD 0.003
Oct 2019: USD 0.003
Nov 2019: USD 0.003
Dec 2019: USD 0.004
Jan 2020: USD 0.004
Feb 2020: USD 0.004

Minimum Initial Investment
None

Minimum Subsequent Investment
None

Preliminary Charge
Up to 4%

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

Bloomberg Code
FULFTRB SP

ISIN Code
SG9999010219

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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 Outlook(Cont'd)

perspective, having reduced equity risk exposure last month and put in place downside protection hedges, we will continue to be prudent in managing overall market volatility bearing in mind the sentiment driven nature of this sell-off. Once risk premia are sufficiently priced, our aim is to re-engage in equity markets selectively. In terms of risks to our medium term fundamental view, we will vigilantly monitor high frequency activity indicators to gauge the restart of post containment economic activity. Here, we will also leverage on bottom-up insights from companies to gauge the degree of supply chain disruption, focusing on owning sectors where earnings momentum and underlying structural narratives remain robust. The technology cycle and 5G theme are areas we still retain a structurally positive view despite the outbreak.

Policymakers are also wary of downside growth risks. We would expect global monetary policy to remain accommodative, and policymakers to pre-emptively respond to slower growth prospects and inadvertent tightening of financial conditions from asset market volatility. Thus, we would expect policy to be supportive for markets, helping to buffer downside risks over the medium term. Indeed, in China, policymakers have already responded by easing liquidity and stabilising the exchange rate. Fiscal policy in Asia is also likely to be loosened to buffer the short term negative economic impact, as evidenced already in Singapore and Hong Kong. In developed economies, it is still too early to gauge the spillover economic impact, and thus policymakers have been relatively more sanguine so far.

Finally, we would also note that prior to the outbreak, despite the good performance of equities till that point, positioning was not crowded and sentiment indicators did not suggest excessive levels of exuberance. As such, the downside market reaction to this unforeseen event is likely to be less drastic than would otherwise have been the case if the markets were already heavily positioned overweight risk assets. Again, our bias is that investors will revert to the medium term narratives of recovering growth and supportive economic policies once investors' risk appetite recovers and the short term positioning adjustment is done.

Investment Strategy

We retain a constructive view on risk assets in the medium term and on Equities in particular, despite the recent negative price action and COVID-19 fears. During this more volatile period, we will manage risk prudently, engaging in downside protection measures. Within Equities, we aim to buffer downside risks by being more selective in our regional and sector choices. Within Fixed Income, we still prefer higher yielding bonds as we expect global rates to remain very low.

We had reduced risk asset exposure in January and this has partially insulated the fund from violent market reactions due to fear of COVID-19 contagion. Once the volatility subsides, we look to reinvest the cash (of more than 10%) after gauging risk premia to be sufficiently and attractively priced. Over the medium term, we expect the US-China trade truce, and stabilising growth against a backdrop of easy monetary and potentially expansionary fiscal policy, to create a benign environment for further equity market gains.

Sector Breakdown (Equities)

Communication Services	11.0%
Consumer Discretionary	9.8%
Consumer Staples	5.9%
Energy	3.2%
Financials	20.1%
Health Care	6.8%
Industrial	7.0%
Information Technology	28.6%
Materials	2.0%
Real Estate	5.6%

Country Breakdown (Equities)

Asia ETF	13.8%
China	26.6%
DM	31.5%
India	3.3%
Korea	4.3%
Singapore	16.8%
Taiwan	5.8%
Thailand	1.2%
Others	-3.3%

Asset Allocation

Equities	59.5%
Fixed Income	19.0%
Commodities	6.7%
Cash and cash equivalents	14.7%

Ratings Breakdown (Fixed Income)

AA	3.9%
A	0.8%
BBB	10.1%
BB	37.5%
B	47.2%
NR	0.5%

Country Breakdown (Fixed Income)

Australia	1.6%
China	55.1%
Hong Kong	3.3%
India	9.1%
Indonesia	14.3%
Mongolia	1.1%
Philippines	1.2%
Singapore	3.3%
Sri Lanka	4.3%
US	3.9%
Others	2.8%

Top 5 Holdings (Equities, as % of NAV)	
NikkoAM Straits Trading Asia Ex Japan REIT ETF	8.2%
Lion-Phillip S-REIT ETF	7.3%
Invesco QQQ Trust Series 1	4.5%
Tencent Holdings	1.8%
Taiwan Semiconductor Manufacturing	1.7%

Top 5 Holdings (Fixed Income, as % of NAV)	
US Treasury N/B 1.5% Feb 2030	0.4%
Ronshine China 10.5% Mar 2022	0.4%
US Treasury Bill 0% May 2020	0.4%
Country Garden Hldgs 8% Jan 2024	0.3%
China SCE Grp Hldgs Ltd 7.375% Apr 2024	0.3%

Credit Rating : Where the security is not rated by external rating agencies, Fullerton's internal rating methodology will apply.