

Fullerton Lux Funds – RMB Bonds - Class I (USD)

October 2018

Investment Objective

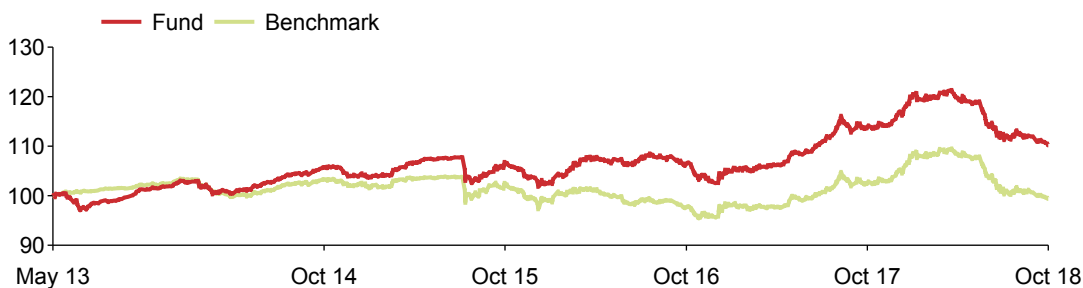
The investment objective of the Fund is to generate long term capital appreciation for investors.

Investment Focus and Approach

The Investment Manager seeks to achieve the objective of the Fund by investing primarily in RMB denominated bonds (both onshore RMB (CNY) and offshore RMB (CNH)), money market instruments, certificates of deposits, term deposits, credit linked bonds and convertibles. The Fund's investments may also include, but are not limited to, USD denominated bonds, credit linked notes, currency forwards and cross currency swaps.

Investment in onshore RMB (CNY) bonds may include bonds traded in both the China interbank bond market and Stock Exchanges in the People's Republic of China ("PRC") and will be made through the Manager's qualified foreign institutional investor ("QFII") and/or Renminbi qualified foreign institutional investor ("RQFII") quota.

Performance (%)



| | 1 mth | 3 mths | 6 mths | 1 yr | 3 yrs | 5 yrs | Sl. Ann. Ret. | Sl. Ann. Vol. |
|------------------|-------|--------|--------|-------|-------|-------|---------------|---------------|
| Fund | -1.62 | -1.71 | -8.08 | -3.23 | 1.03 | 1.70 | 1.78 | 4.92 |
| Benchmark | -1.31 | -1.55 | -8.44 | -3.12 | -1.06 | -0.55 | -0.12 | 4.27 |

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 are not presented as preliminary charges are currently not charged to investors.

Benchmark: CNH Overnight Deposit Rate

Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

October proved to be another volatile month for risk assets. Investor sentiment was fragile amid a sell-off in global equities, negative US-China trade friction headlines, and concerns about global growth. A spike in short-term US interest rates and a resurgent US dollar further weighed on sentiment. The US 10-year Treasury yield briefly breached the 3.2% level before ending the month at 3.14%. Amidst the market volatility, Asian credits held their ground but ended the month with a negative return on the back of higher US Treasury yields and wider credit spreads. Asian local currency bond returns were weighed down by continued USD strength.

In China, the authorities sent a stronger easing signal at the quarterly Politburo meeting held in end October, to counteract downward pressures on the economy. China's State Council also announced measures to improve the business environment and ease financing conditions for private enterprises. Key measures include fewer limitations on capital market access, a reduction of administrative red tape, as well as corporate tax cuts. Apart from these, the People's Bank of China (PBOC) also announced more support for private enterprises with the issuance of an additional RMB150 billion in relending and rediscount credits to encourage the financing of small and medium enterprises. Against this backdrop, Chinese offshore bonds posted flat returns (0.06% in CNH as measured by the iBoxx ALBI China Offshore Bond Index). Among sectors, the CNH high yield sector relatively better and rose 0.19% while their investment grade counterparts rose +0.06%.

Inception date

02 May 2013

Fund size

USD 56.28 million

Base Currency

USD

Pricing Date

31 Oct 2018

NAV*

USD 11.02

Management fee

Up to 0.5% p.a.

Preliminary Charge

Up to 5%

Dealing day

Every Business Day

Deadline

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

Business Day

Business Day for this Fund is a week day on which banks are normally open for business in China, Hong Kong SAR, Luxembourg and Singapore.

Bloomberg Code

FRMBIUS LX

ISIN Code

LU0790903016

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* Figures have been truncated to 2 decimal places. The official price is published on Fullerton's website.

Investment Strategy

For most of this year, macro events - global trade disputes, deteriorating risk sentiment and market momentum have been driving markets while fundamentals have taken a back seat. Market volatility will stay elevated as investors adjust their positions, take profits or cut losses going into year end. We expect the Fed to be cautious as not to derail the positive growth momentum in US and will likely pause in mid-2019 when growth would have shown signs of tapering, given the US economy is already at such a late stage of its economic expansion. A cautious Fed is also supportive of Asian markets and spread sectors in general.

In China, we are beginning to see an increase in infrastructure investment coming though, indicative of continued fiscal easing efforts by the Chinese government. We expect more broad-based easing measures to be implemented – such as RRR cuts or tax incentives – to support retail sales and domestic consumption. On portfolio strategy, we continue to allocate beyond the CNH offshore bond market given the weak primary market issuance activities so far this year. Specifically, we are taking advantage of relative valuation opportunities in the onshore China bond market as well as in the Asian USD credit market.

Rating Breakdown

| | |
|------|-------|
| AAA | 0.9% |
| AA | 3.9% |
| A | 29.4% |
| BBB | 41.5% |
| BB | 7.6% |
| B | 13.1% |
| Cash | 3.6% |

Top 5 Holdings

| | |
|--|------|
| Fonterra Cooperative Group Ltd 3.6% Jan 2019 | 5.3% |
| Export-Import Bank Korea 3.625% Jan 2019 | 3.9% |
| Aust & Nz Banking Group 4.75% Jan 2025 | 3.4% |
| Sinopec Century Bright 4.2% Oct 2021 | 3.0% |
| China National Petroleum Co 4.69% Jan 2022 | 2.7% |

Fund Characteristics

| | |
|--------------------------|------|
| Average duration (years) | 2.3 |
| Yield to Worst | 4.9% |

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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