

# Fullerton Lux Funds – Asia Focus Equities - Class A (USD)

February 2020

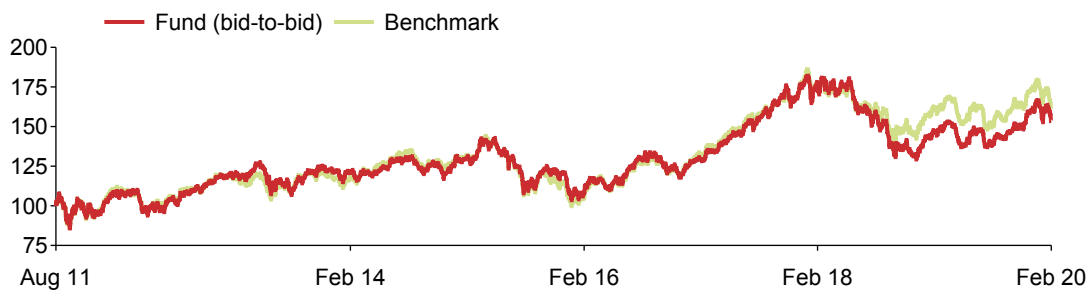
## Investment Objective

The investment objective of the Fund is to achieve competitive risk adjusted returns on a relative basis.

## Investment Focus and Approach

The Fund invests primarily in equities, index futures, cash and cash equivalents. Typically, the Fund will concentrate the investments in a limited number of holdings. The investment universe will include equities listed on exchanges in Asia, as well as equities of companies or institutions which have operations in, exposure to, or derive part of their revenue from Asia, wherever they may be listed. Indirect investments in equities may be via P-Notes where the underlying assets would comprise equities defined above. With effect from 17 July 2019, up to 35% of the Fund's NAV may be invested in China "A" Shares via the Stock Connects and/or any other means as may be permitted by the relevant regulations from time to time.

## Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	Sl. Ann. Ret.	Sl. Ann. Vol.
<b>Fund (bid-to-bid)</b>	-1.19	3.05	9.97	4.98	5.87	3.29	5.15	16.32
<b>Fund (offer-to-bid)</b>	-5.90	-1.86	4.74	-0.02	4.17	2.29	4.55	NA
<b>Benchmark</b>	-2.87	-1.02	5.47	0.11	6.62	4.06	5.72	16.11

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 5% which may or may not be charged to investors.

Benchmark: MSCI AC Asia ex Japan Net Index.

Source : Fullerton Fund Management Company Ltd, MSCI Inc. and Bloomberg.

## Market Review

February was a month of two halves with the COVID-19 outbreak driving market volatility. Equity markets rallied in the first half of the month as China's aggressive response seemed to show results leading to expectations of quick containment and subsequently a swift rebound in economic activity. However, new infections within China did peak, a sudden spike in infections outside China led to renewed fears of a global pandemic which derailed risk sentiment. MSCI All Country World Index, was down 8.4%, though this masks a sharp tumble of 11.7% from the intra-month peak. Developed markets underperformed emerging markets during this month's sell-off as virus spread outside Asia but also reflects relative positioning. MSCI Asia ex-Japan Index, are down 2.9% on the month, having fallen 7.7% in the second half of the month from an intra-month peak. Volatility as measured by the VIX index has shot up to highest levels in five years.

Economic outlook has become extremely ambiguous at this juncture due to the uncertainties surrounding COVID impact. However it is important to remember that the pre-outbreak global growth dynamic was fairly healthy and characterised by a strong consumer, resilient labour markets and a gradually recovering trade and manufacturing cycle following the US-China trade truce. Thus, time taken for COVID to be decidedly brought under control remains the key risks to growth forecasts.

However, short term impact of COVID is fairly deep as reflected in the dramatic fall in February PMI for China PMI which fell to its lowest ever level of 35.7 which is even lower than GFC. PMIs across most other Asian countries also moderated in February although the fall was not as dramatic as witnessed in China and Hong Kong. Anecdotal evidence points to that Chinese factories are getting back to work and thus sequential recovery could be expected in China going forward, although it may take some time to get back to expansion territory.

## Inception date

22 Aug 2011

## Fund size

USD 302.85 million

## Base Currency

USD

## Pricing Date

29 Feb 2020

## NAV\*

USD 15.35

## Management fee

Up to 1.75% p.a.

## Preliminary Charge

Up to 5% of the subscription amount (equivalent to a maximum 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

HCAAUSA LX

## ISIN Code

LU0516422440

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

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## Investment Strategy

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The impact of COVID-19 on economic growth is still uncertain given the rather unprecedented nature of the outbreak in terms of both severity and spread. Historical analysis suggests markets do tend to recover fairly quickly from such events but with the virus still spreading rapidly across the globe there is a clear risk that outbreak will be a prolonged affair.

The drag on China's GDP growth in Q1 2020 could be as large as 1-2% and with recovery not until the second half of the year. The rest of Asia will also suffer from a weaker China. Firstly, cuts in tourist spending from China will have significant impact on Hong Kong, Thailand, Vietnam, and Singapore. Secondly, the longer that factories in China are closed, or operating below full-capacity, then the greater the adverse spill-overs to manufacturing across Taiwan, South Korea, and Japan, as they are forced to cut production because of a lack of supplies from China.

Given that growth was 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. 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. We are leveraging 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.

Finally, we would also note that prior to the outbreak, despite the good performance of Asian equities, 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. 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.

Country Breakdown		Sector Breakdown	
China	48.5%	Communication Services	10.0%
Hong Kong	4.8%	Consumer Discretionary	9.9%
India	6.7%	Consumer Staples	2.8%
Korea	10.3%	Energy	3.5%
Singapore	10.7%	Financials	15.2%
Taiwan	12.4%	Health Care	7.6%
Others	0.9%	Industrial	8.9%
Cash and cash equivalents	5.7%	Information Technology	26.5%
		Materials	3.2%
		Real Estate	6.6%
		Cash and cash equivalents	5.7%

### Top 5 Holdings

Taiwan Semiconductor Manufacturing	8.4%
Alibaba Group Holding - ADR	8.1%
Tencent Holdings	8.0%
Samsung Electronics	6.6%
Reliance Industries	3.5%

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