Fullerton Lux Funds - Asia Growth & Income Equities - Class A (SGD)

February 2020

Investment Objective

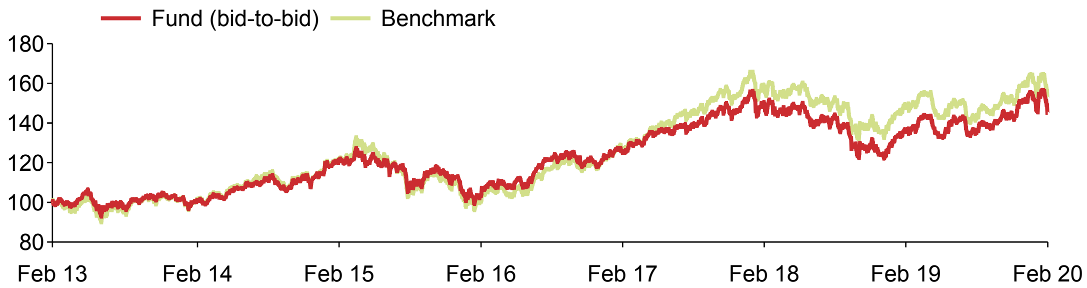
The investment objective of the Fund is to achieve competitive risk adjusted returns on a relative basis.

Investment Focus and Approach

The Fund invests primarily in equities with high dividend yields. 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) and the Fund may also invest in futures on indices composed of or containing securities belonging to the investment universe. The Fund may hold cash and cash equivalents on an ancillary basis. 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.

Please refer to the prospectus for full details.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	-0.85	1.55	6.33	7.07	5.11	3.64	5.43	10.83
Fund (offer-to-bid)	-5.58	-3.29	1.26	1.97	3.42	2.64	4.70	NA
Benchmark	-0.83	1.04	5.98	3.50	6.50	4.58	6.20	11.45

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.
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 investors took as China's aggressive response seem 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
19 Feb 2013

Fund size
SGD 346.75 million

Base Currency
USD

Pricing Date
29 Feb 2020

NAV*
SGD 14.50

Management fee
Up to 1.5% 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
FHIASAS LX

ISIN Code
LU0577902538

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.

Market Review (Cont'd)

Policymakers are cognizant of downside growth risks and have responded aggressively. Chinese policy makers have responded with measures includes RRR cut, liquidity injection as well as higher fiscal spending. Federal Reserve has also responded aggressively by a 50bps inter-meeting cut and other central banks globally are also expected to respond appropriately to cushion the growth shock. Fiscal policy in Asia is also likely to be loosened to buffer the short term negative economic impact, as evidenced already by the budget announcements in Singapore and Hong Kong. Thus, we expect policy to be supportive for markets, helping to buffer downside risks.

Investment Strategy

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 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

China	40.4%
Hong Kong	8.6%
India	10.5%
Indonesia	1.3%
Korea	10.7%
Philippines	1.4%
Singapore	8.1%
Taiwan	12.9%
Thailand	3.7%
Cash and cash equivalents	2.4%

Sector Breakdown

Communication Services	13.6%
Consumer Discretionary	11.2%
Consumer Staples	3.1%
Energy	4.5%
Financials	25.8%
Health Care	2.7%
Industrial	6.7%
Information Technology	21.2%
Materials	1.4%
Real Estate	7.5%
Cash and cash equivalents	2.4%

Top 5 Holdings

Tencent Holdings	7.7%
Alibaba Group Holding - ADR	7.6%
Taiwan Semiconductor Manufacturing	7.0%
Samsung Electronics – Pref.	3.8%
Ping An Insurance	3.0%