Fullerton Lux Funds – Asian High Yield Bonds - Class A (USD) Dis

February 2020

Investment Objective

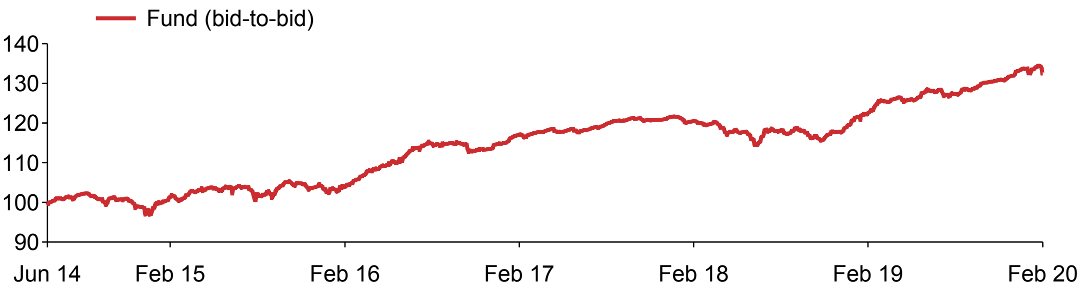
The investment objective of the Fund is to generate long term capital appreciation for investors by investing primarily in unrated or non-investment grade rated fixed income or debt securities, including convertibles, denominated primarily in USD and Asian currencies and primarily issued by companies, governments, quasi-governments, government agencies or supranationals in the Asian region. The Asian countries may include, but are not limited to, China, (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines and Vietnam.

Investment Focus and Approach

The Investment Manager seeks to achieve the investment objective of the Fund by a combination of top-down macro research for duration or interest rate management and sector allocation, as well as bottom-up analysis for credit selection and yield curve positioning.

The Fund may use FDIs as part of the investment strategy, in addition to efficient portfolio management and hedging purposes.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	-0.10	1.28	4.10	8.16	4.20	5.52	5.05	3.95
Fund (offer-to-bid)	-4.86	-3.54	-0.86	3.01	2.52	4.50	4.16	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 5% which may or may not be charged to investors.
Source: Fullerton Fund Management Company Ltd.

Market Review

Risk assets sold off sharply in February as the COVID-19 outbreak spread beyond China, disrupting global supply chains and impacting economic activity.

Federal Reserve Chair Jerome Powell said in a statement that COVID-19 posed “evolving risks” to the US economy and that the Fed was “prepared to act as needed”. Against this backdrop, US Treasuries rallied on the back of a flight to safe haven assets and the 10-year and 30-year yields declined sharply. Asian credit extended gains in February, with the positive performance driven mainly by Treasury gains while credit spreads widened out.

Within Asian credit, the investment grade sector (as measured by the JACI Investment Grade Index) outperformed with a return of 1.34% in USD terms, while the high yield sector (as measured by the JACI Non-Investment Grade index) delivered a marginally negative return in USD terms. From a country standpoint, Thailand and Taiwan outperformed the rest of the region. By sector, oil & gas and TMT were the standout performers. Metals & mining and transport were the laggards.

Inception date
16 Jun 2014

Fund size
USD 151.53 million

Base Currency
USD

Pricing Date
29 Feb 2020

NAV*
USD 10.22

Management fee
Up to 1.25% p.a.

Distributions paid per unit #
Sep 2018: USD 0.121
Dec 2018: USD 0.120
Mar 2019: USD 0.120
Jun 2019: USD 0.120
Sep 2019: USD 0.120
Dec 2019: USD 0.120

Preliminary Charge
Up to 5% of subscription amount (equivalent to a max 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
AHIBEUD LX

ISIN Code
LU0712499564

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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 Strategy

The economic impact of a virus outbreak such as COVID-19 would depend on how long it takes to bring the virus under control, and it is still difficult to gauge with certainty. There are typically three stages surrounding adverse economic shocks – an initial period of uncertainty, followed by a period of stabilisation and thereafter, a period of sharp market rebound. We share the view the global economic impact of the coronavirus outbreak will be felt most deeply in the first half of this year, followed by a normalisation of business activities, and a rebound in the second half.

Within Asia, policy responses to date have been strong and swift. Asian policymakers have focused on ensuring there is adequate liquidity to avoid stress and in maintaining the flow of credit, particularly to the SMEs. While we have seen some preemptive monetary easing in Asia (in the likes of Thailand, Malaysia, Indonesia), fiscal policy will also play a prominent role, especially for nations with the fiscal flexibility (such as Singapore, Korea and China). Core inflation is likely to remain benign, reflecting weak domestic demand. Supply factors may result in higher food prices but this is likely to be transitory.

On the investment strategy, we are keeping to a defensive stance by rotating into US Treasuries and investment grade bonds in an effort to preserve performance. We are also keeping duration risk at around the 3-year mark which should put us in a good position, given US Treasury yields could remain rich in the near-term. Within sectors, we are taking the opportunities to trim our exposure to the Chinese property sector and rotate into specific issuers which have suffered disproportionately as risk sentiment turned cautious.

Looking ahead, we expect increasing credit differentiation which will reward fundamental-based investors who have done the work, as corporates go through the downturn due to the virus outbreak and hence default risks will potentially remain largely idiosyncratic.

Country Breakdown

Australia	1.5%
China	55.1%
Hong Kong	2.9%
India	9.0%
Indonesia	14.1%
Mongolia	1.2%
Philippines	1.2%
Singapore	2.7%
Sri Lanka	4.4%
US	4.0%
Others	1.5%
Cash and cash equivalents	2.4%

Rating Breakdown

AA	4.0%
BBB	7.4%
BB	38.0%
B	48.2%
Cash and cash equivalents	2.4%

Top 5 Holdings

Us Treasury N/B 1.5% Feb 2030	2.0%
Ronshine China 10.5% Mar 2022	2.0%
Treasury Bill 0% May 2020	2.0%
Country Garden Hldgs 8% Jan 2024	1.6%
China Sce Grp Hldgs Ltd 7.375% Apr 2024	1.5%

Fund Characteristics

Average duration (years)	2.9
Yield to Worst	6.1%

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.