

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

February 2020

Investment Objective

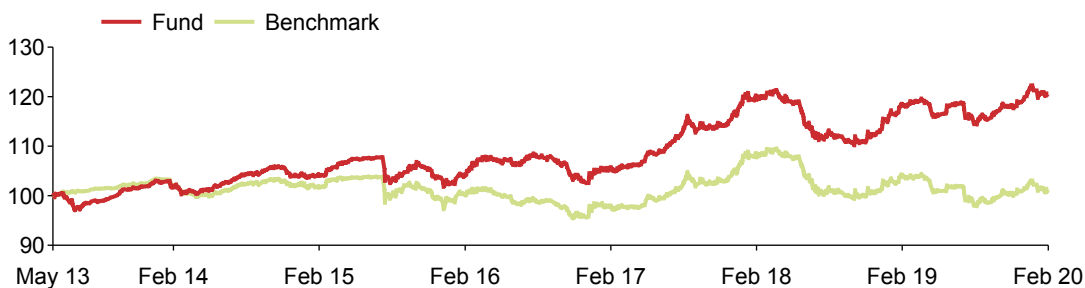
The investment objective of the Fund is to generate long term capital appreciation for investors.

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 | -0.49 | 2.00 | 5.05 | 1.81 | 4.49 | 3.02 | 2.79 | 5.07 |
| Benchmark | -0.81 | 0.90 | 3.11 | -2.62 | 1.14 | -0.04 | 0.20 | 4.40 |

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

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.

China's economic data for February was negatively impacted by COVID-19. Manufacturing activity weakened, with both the NBS and Caixin Manufacturing PMI dropping to record lows of 35.7 and 40.3, respectively. On the policy front, the People's Bank of China cut its 1-year Medium Term Lending Rate by 10bp to 3.15%.

Amidst this backdrop, Chinese offshore bonds, as measured by the iBoxx ALBI China Offshore Bonds index, returned 0.8% in CNH terms. The CNH investment grade sector, as measured by the iBoxx ALBI China Offshore IG TRI, returned 0.8% in CNH terms. The CNH high yield sector, as measured by the iBoxx ALBI China Offshore HY and UN index, returned 0.9% in CNH terms. China onshore bonds, as measured by the iBoxx ALBI China Onshore Bond index, returned 0.2% in CNY terms.

Inception date

02 May 2013

Fund size

USD 57.64 million

Base Currency

USD

Pricing Date

29 Feb 2020

NAV*

USD 12.07

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

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 policy responses globally. 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.

In China, efforts to contain the COVID-19 outbreak appear to be paying off, as the number of infected cases in the mainland have fallen. High frequency data in China, such as coal consumption and traffic congestions, also suggest that business activities within the country are gradually normalising. We expect production and business activities to return to normal levels by early to mid-April this year. Similarly, we estimate about 60-70% of the property sale offices (outside of Hubei) have reopened, supporting sales growth and the Chinese real estate developers.

On the investment strategy, average duration will run between the 2.5 years to 3 years range, with key allocation towards the Asian USD credit (hedged back to RMB), capitalising on the favourable hedging costs currently. In the near-term, coupon carry will underpin performance as market technicals and “fear” sentiments lead to a repricing for lower growth and drive valuations lower. We expect demand, particularly for the lower quality credit markets to be tepid in the near term, as investors cut risk and stay on the sidelines. Credit spreads, which have widened out to recent highs, are likely to stay range-bound in the near term until nascent indications of a containment of COVID-19 globally, surface.

Looking ahead, we expect increasing credit differentiation to drive performance divergence and reward fundamental-based investors like us. Corporates with weaker credit metrics may suffer through this downturn while those with the financial flexibilities and of stable credit profile, will emerge largely unscathed. As such, we believe default risks will remain largely idiosyncratic, rather than systemic in nature.

Rating Breakdown

| | |
|---------------------------|-------|
| AAA | 0.7% |
| AA | 2.6% |
| A | 39.3% |
| BBB | 37.2% |
| BB | 8.0% |
| B | 11.9% |
| Cash and cash equivalents | 0.4% |

Top 5 Holdings

| | |
|---|------|
| Busan Bank 4.85% May 2021 | 3.9% |
| Sinopec Century Bright 4.2% Oct 2021 | 3.1% |
| China Cinda Asset Mgmt 4.6% Sep 2025 | 2.7% |
| China Resources Land Ltd 5.38% Mar 2021 | 2.7% |
| Shimao Property Hldgs 5.75% Mar 2021 | 2.7% |

Fund Characteristics

| | |
|--------------------------|------|
| Average duration (years) | 2.7 |
| Yield to Worst | 3.7% |

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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