FULLERTON FUND MANAGEMENT

Fullerton Wise Income

May 2024

Investment Objective

The investment objective of FWI is to generate regular income and long-term capital appreciation for investors.

The Fund will invest primarily in a diversified portfolio of collective investment schemes, other investment funds, exchange traded funds ("ETFs"), securities, including but not limited to fixed income securities, equities, real estate investment trusts ("REITs"), money market instruments and cash as deemed appropriate by us in accordance with its investment objective.

Fund Information

Fund Size	SGD 33.27 million
Base Currency	SGD
Preliminary Charge	Currently 0%
Dealing Frequency	Every Business Day
Subscription Mode	Cash, SRS

Manager's Commentary

Market Review

Markets recovered their balance in May 2024. Most equity indices bounced back from their drawdown in April. The US S&P500 Index ended the month near record highs after a 5.0% rally, led by a robust performance by the Magnificent 7 group of stocks. Meanwhile, the STOXX Europe 600 Index was 3.5% higher in euros and Japan's TOPIX Index ended up 1.1% in yen. Global equities MSCI AC World Index registered decent performance with a 4.1% gain in dollars, while MSCI Asia Ex-Japan Index ascended for the fourth month and posted a 1.6% return on the month in dollars.

These came amid a backdrop of declining long end US Treasury yields – the 10-year yield dropped 17 bps in May and ended the month at 4.50%. Treasuries were also supported by Chair Powell's comments that it is "unlikely" the next move would be a hike. Worth noting is that the yield of 10-year Japanese government bond yield has risen to above 1% for the first time since 2012 as investors price in more monetary policy tightening from the BoJ over the rest of the year.

The pace of US CPI inflation in April rate eased to 0.3% month-on-month, moderating from the stronger 0.4% pace in the previous two months, as disinflation in rents kicked in, and added to hopes that the Fed is likely to commence cutting rates this year. The USD hedged Bloomberg Global Aggregate Bond Index returned 0.9% while JACI Investment Grade Index was up 1.1%.

The Federal Reserve's Open Market Committee (FOMC) meeting at the beginning of May proved to be less hawkish than some had anticipated. With Fed fund target rate unchanged, Chair Powell pushed back on the prospect of more rate hikes. In addition, the Fed also announced the pace of quantitative tightening would be reduced to $60 billion, from $95 billion previously.

Following the Swiss National Bank, the Swedish Riksbank became the second developed market central bank to cut policy rates this cycle, delivering their first rate cut since 2016. That came amid mounting anticipation that other central banks would soon follow, including the ECB in June, as economic indicators have softened enough to warrant a change in monetary policy.

DXY, the US Dollar Index experienced a decline for the first month this year, perhaps influenced by a lower than expected 1Q GDP growth, of 1.3% quarter-on-quarter annualised, and concerns over rising debt level.

Within Singapore, Core inflation was unchanged at 3.1% yoy in Apr, in line with consensus. MAS outlook similar to previous month, there were only small tweaks to the language this time around, which do not change the official outlook materially.

Singapore equities (MSCI Singapore Index) registered 2.8% gain (measure in US dollars) in May. However, rate-sensitive Singapore SREITs index (iSTOXX Singapore Developed REITs) ended the month with flat of 0.1% (measure in Singapore dollars). Singapore 10-year bond yield declined over the month to 3.35%.

Investment Outlook

Lower CPI inflation coupled with 175,000 additions to nonfarm payrolls in April (lowest since October 2023) plus weekly initial jobless claims inching up were sufficient to allay fears that the US economy was overheating. Nonetheless, both market and central banks are now aligned on inflation expectations – the path to the targeted 2% level is likely to take longer than expected to achieve, due mainly to continued supply chain issues, but this should not prevent central banks from easing monetary policy because market liquidity is tightening.

On the other hand, Fullerton upgraded China's equity investment outlook to positive in early May even when data looked mixed. We see stronger industrial production counterbalanced by retail sales growth coming in below expectation and a contraction in fixed asset investments. Activities data suggests a slowing in domestic demand, CPI ticked up in April and solid trade growth showing signs of stabilizing, reflecting strong sentiment and the potential bottoming in earnings expectations.

Market views the planned CNY1 trillion ultra-long (up to 50 years) bond issuance positively. The funds to be raised are meant to support key national strategies and enhance the country's capabilities in crucial areas such as technological innovation, coordinated regional development, ensuring grain and energy security, and promoting high-quality economic development.

In Singapore, overall, we don't sense any major changes to MAS's growth and inflation outlooks in its Macroeconomic review. For 2024, MAS maintained its forecast for core inflation and headline inflation to average at 2.5 per cent to 3.5 per cent.

Geopolitical developments, including the ongoing Russia-Ukraine and Israel-Hamas conflicts, plus Houthi attacks in the Red Sea can bring about a resurgence in inflation (surging commodity prices), recession (trade wars) and a breakdown of the financial system (confiscation of Russian foreign reserves) compel us to be nimble in managing the Fund.

Investment Strategy

Asset Allocation

Our assessment that US is transitioning to trend growth, coupled with stable to falling interest rates consistent with Fed's articulated policy guidance, will provide the necessary backdrop for positive return on global risk assets.

We expect central banks to start cutting interest rates in mid-2024, led by the European Central Bank, and this will provide a supportive environment for fixed income. With the higher for longer bond yields, fixed income remains attractive with the high carry, however potential strong capital gain from much lower bond yields remain uncertain as of now.

Fixed Income

Bond yields declined over the month. The search of yield is likely to intensify, particularly if the Fed commences interest rate latter in the year, which would enhance the appeal of carry trades. We maintained a good allocation to SGD credits given the defensive nature and strong market technical. We continue to look for actively priced new issues to be funded by existing holdings with rich valuations.

Credit spreads remain well anchored despite higher bond yields and we look to gradually add duration as bond yield moved to attractive level.

Some of the substantial funds directed to money markets in 2023 may shift towards credit markets. Simultaneously, the return of supply is anticipated to be gradual. The overall expectation is that net issuance across Asia will be negative in 2024, keeping technicals supportive.

SREITs

Despite that we remain constructive on the REITs with continued strong rental growth, we expect the DPU growth will remain flat over the next 18 months and only return to positive growth in 2026 due to the delayed rate cut by central banks. However, the current dividend yield of above 6% still look attractive and justify our holdings.

We have further increased exposure to defensive REITs and maintained the exposure to Singapore banks for diversification. Elsewhere, the portfolio is strategically weighted toward Retail, Health Care and Hospitality segments, reflecting our confidence in their growth prospect and resilience. We remain underweight in the Office segment considering factors such as peaking spot rent and aggressive valuation at asset level.

Equities

Global equities rebounded strongly after April sell off and we remain positive as the earnings results such as some key AI-theme stocks showed that the AI momentum is not slowing down by any means.

Performance (%)

	1 mth	3 mths	6 mths	1 year	3 years	5 years	Since Inception
R-SGD (bid-to-bid)	0.90	0.39	4.23	5.03	-0.96	-	-0.79
R1-SGD (bid-to-bid)	0.91	0.39	4.23	5.03	-0.96	-	-0.79

Returns are calculated on a single pricing basis with net dividends and distributions (if any) reinvested. Returns more than a year are annualised. Preliminary charge is currently waived.

Asset Allocation (%)[1]

Equities	34.5
REITs	29.6
Fixed Income	32.9
Cash and cash equivalents	3.0

Regional Exposure (%)[1]

Singapore	45.7
Developed Markets	39.6
Emerging Markets	14.8

Fixed Income Sector Exposure (%)[1]

Sovereigns & Supranational	31.3
Financials	29.4
Materials	5.5
Consumer Discretionary	5.5
Energy	4.6
Communication Services	4.3
Industrials	4.2
Information Technology	2.0
Utilities	1.6
Real Estate	1.4
Consumer Staples	0.4
Others	9.7

Top 5 Holdings (Equities, REITs, % of NAV)

iShares Core MSCI World UCITS ETF	11.7
Amundi Prime Global UCITS ETF	11.0
Vanguard FTSE Developed World ETF	8.8
CapitaLand Integrated Commercial Trust	7.2
CapitaLand Ascendas REIT	6.4

Top 5 Holdings (Fixed Income, % of NAV)

Singapore Government 2.625% Aug 2032	4.2
Singapore Government 3.375% Sep 2033	3.9
iShares USD Asia High Yield Bond ETF	3.2
Singapore Government 1.625% Jul 2031	1.9
OCBCSP 5.52% May 2034	0.7

Fund Statistics

Fixed Income	
Duration	5.6 years
Average Credit Rating[3]	A-
Yield-to-Worst[4]	5.3%
S-REITs	
Dividend Yield	6.2%
Price to Book	0.9x
Price to Earnings	20.1x

Dividend History[5]

	Dividend / share	Record Date
Class R	SGD 0.0097	29 Dec 2023
Class R	SGD 0.0097	28 Mar 2024
Class R1	SGD 0.0157	29 Dec 2023
Class R1	SGD 0.0157	28 Mar 2024

Fund Details

	Class R (Distribution)	Class R1 (Distribution)
Inception Date	31 March 2021	31 March 2021
NAV per Unit[6]	SGD 0.85	SGD 0.77
Management Fee	Currently 0.40% p.a.	Currently 0.40% p.a.
Initial Investment	None	None
Subsequent Investment	None	None
ISIN Code	SGXZ55613715	SGXZ44316438
Bloomberg Code	FULFMWR SP	FULFMR1 SP

Note: All fund data are sourced from Fullerton, Bloomberg dated as at 31 May 2024, unless otherwise stated.

1. Numbers might not add due to rounding.
2. Others include ETFs
3. Where the security is not rated by external rating agencies, Fullerton's internal rating methodology will apply.
4. Refers to Yield-to-Worst in base currency, before hedging.
5. Dividends are declared on a quarterly basis (i.e. March, June, September, December). Please refer to our website for more details on the dividend payouts.
6. Figures are truncated to 2 decimal places. Please refer to Fullerton's website for official price.

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