

Fullerton SGD Income Fund - Class B (SGD)

January 2024

Investment Objective

The investment objective of the Fund is to generate long term capital appreciation and/or income for investors in SGD terms by investing primarily in fixed income or debt securities.

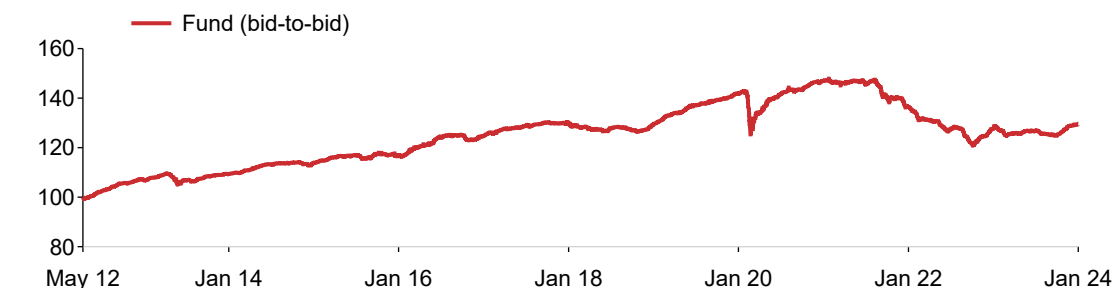
Investment Focus and Approach

The Managers seek to add value from interest rate accruals, selection of bonds and/or credits and duration management (optimisation of bond returns by selecting bonds with different terms to maturity). The Fund will invest in a diversified portfolio of primarily investment grade fixed income or debt securities having a minimum long term credit rating of BBB- by Fitch, Baa3 by Moody's or BBB- by Standard & Poor's (or their respective equivalents) and cash.

The Fund may also invest in non-investment grade bonds (i.e. bonds with a long term credit rating of less than BBB- by Standard & Poor's, Baa3 by Moody's or BBB- by Fitch (or their respective equivalents)) of up to 30% of its Net Asset Value.

The Fund may invest in Singapore Dollar and foreign currency denominated bonds including but not limited to US Dollar, Euro, Japanese Yen and Australian Dollar. The foreign currency denominated bonds will be fully hedged back to the Singapore Dollar except for a 1% frictional currency limit.

Performance (%)



	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	10 yrs	SI. Ann. Ret.	SI. Ann. Vol.
Fund (bid-to-bid)	0.56	3.84	2.14	1.45	-4.08	0.01	1.72	2.24	4.06
Fund (offer-to-bid)	-2.37	0.82	-0.84	-1.50	-5.02	-0.58	1.42	1.98	NA

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 3% which may or may not be charged to investors.

Source: Fullerton Fund Management Company Ltd.

Market Review

January witnessed a retreat for Singapore government bonds, which saw a reversal from their stellar performance in December 2023. Yield on the SGS 10-year government bond climbed 20 basis points over the month, settling at 2.9%. In the US, yields on the 10-year Treasury also nudged higher, ending January at 3.9% after a modest 3 basis points rise from the previous month. Despite the uptick in government bond yields, Singapore's non-government sector demonstrated resilience, securing gains and surpassing the performance of the government bond sector, as highlighted by the iBoxx Market Singapore indices. Regionally, the Asian USD credit market displayed a mixed performance as chronicled by the JP Morgan Asian Credit Indices. The high yield segment enjoyed an upswing, benefiting from tighter credit spreads. Conversely, the investment grade segment faltered, pressured by duration-related losses.

Across the Atlantic, US data has mostly reflected strong economic growth, continued labour market resilience and easing inflation. Of note was US 4Q 23 GDP and retail sales which came in above expectations. Payrolls also demonstrated labour market strength while US inflation prints have generally shown falling inflation. On the last day of January, Fed policymakers left rates unchanged as expected, removed its tightening bias, but pushed against immediate easing. Likewise, the Monetary Authority of Singapore (MAS) decided to maintain its currency policy settings as widely expected. The MAS maintained its 2024 core inflation forecast of 2.5-3.5% but reduced its estimate for headline CPI to 2.5-3.5% from 3.0-4.0%. The MAS statement acknowledged that core inflation is likely to remain elevated in the near term (before stepping down by 4Q24).

In terms of macroeconomic data, the Singapore's latest non-oil domestic exports (NODX) unexpectedly declined by 1.6% month-on-month. The country's manufacturing output also failed to meet expectations, marking a 1.7% decrease for the month of December. However, not all was gloomy, as semiconductor production bucked the trend by recording a rise. Inflationary pressures remained persistent. Singapore's core Consumer Price Index (CPI) rose by a sharper-than-anticipated 0.5% in December, with the

Inception date

14 May 2012

Fund size

SGD 1,147.90 million

Base Currency

SGD

Pricing Date

31 Jan 2024

NAV*

SGD 0.81

Management fee

1.0% p.a.

Expense Ratio

1.06% p.a. (For financial year ended 31 Mar 2023)

Distributions paid per unit

Sep 2022: SGD 0.009

Dec 2022: SGD 0.009

Mar 2023: SGD 0.008

Jun 2023: SGD 0.010

Sep 2023: SGD 0.010

Dec 2023: SGD 0.010

Minimum Initial Investment

None

Minimum Subsequent Investment

None

Preliminary Charge

Up to 3%

Dealing day

Daily, up to 5pm (Singapore time)

Bloomberg Code

FULSGIB SP

ISIN Code

SG9999008932

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.

Please refer to our website for more details.

Market Review (Cont'd)

year-on-year rate climbing to 3.3%. It is worth noting that increased services costs primarily drove this inflation, complemented by a slight uptick in goods prices. Similarly, headline inflation saw a firm rise of 0.4% month-on-month, with the annual headline CPI rate also increasing marginally by 0.1% to reach 3.7%.

Investment Strategy

Dovish shifts are reverberating across DM central banks in response to the material easing in inflation over 2H23. At the same time, policymakers are nudging market expectations away from near-term cuts, opting to wait to gain more confidence in the inflation outlook and eyeing rate adjustments around mid-year. Likewise, we are leaning towards a mid-year start to the Fed's easing, given the enduring strength of the US labour market and robust economic growth. While market pricing of the start of the Fed's easing cycle has been converging with our forecasts in recent weeks, markets are still expecting more extensive rate cuts than we anticipate over the coming year.

In Singapore, while we still expect a deceleration in Singapore's core CPI during 2024, we remain cautious on the inflation outlook amidst elevated unit labour costs in the services sector. We expect MAS to remain on hold and keep settings unchanged until there is clear evidence that inflation has turned the corner. Despite anticipated Fed cuts in 2024, we perceive the risks leaning towards tightening rather than easing, fueled by the potential for core inflation to surpass expectations.

Consequently, we foresee yield retracement in the near-term, presenting opportunities for us to extend duration at more favourable levels. Otherwise, our investment strategy at the outset of the year remains largely unaltered. Given the elevated hedging costs for USDSGD, we prefer SGD credits over USD ones. We continue to look for selective opportunities to increase credit beta, including exposure to the high yield sector. That said, we maintain a cautious stance on the China high yield property sector, anticipating a prolonged downturn amidst persistently weak domestic consumer confidence. Within the investment-grade sector, we favour the BBB bloc, anticipating spread compression compared to the single-A bloc. Elsewhere, we strategically invest in short-dated bills, capitalising on the inverted yield curve and high front-end yields.

Geographical Breakdown

Australia	8.0%
China	9.5%
France	7.3%
Germany	2.3%
Hong Kong	9.2%
India	3.7%
Indonesia	2.6%
Japan	2.9%
Korea	3.8%
Malaysia	1.8%
Netherlands	2.0%
Philippines	1.3%
Singapore	31.6%
Switzerland	4.7%
UK	5.7%
Others	1.9%
Cash and cash equivalents	1.4%

Top 5 Holdings

Paragon REIT 4.1% PERP	2.3%
Shangri-La Hotel Limited 4.5% Nov 2025	2.1%
AIA Group Ltd 2.9% PERP	2.0%
Credit Agricole SA 3.8% Apr 2031	2.0%
Fraser's Property Treasur 4.15% Feb 2027	1.6%

Rating Breakdown

AAA	2.0%
AA	0.9%
A	13.3%
BBB	70.5%
BB	10.3%
B	1.1%
CCC	0.2%
C	0.3%
Cash and cash equivalents	1.4%

Fund Characteristics

Average coupon	4.0%
Average credit rating	BBB
Number of holdings	247
Average duration (years)	3.7
Yield to Worst	6.0%

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 taking into account before hedging cost. Not guaranteed. Past performance is not necessarily indicative of future performance.

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