

Fullerton Short Term Interest Rate Fund - Class C (SGD)

January 2018

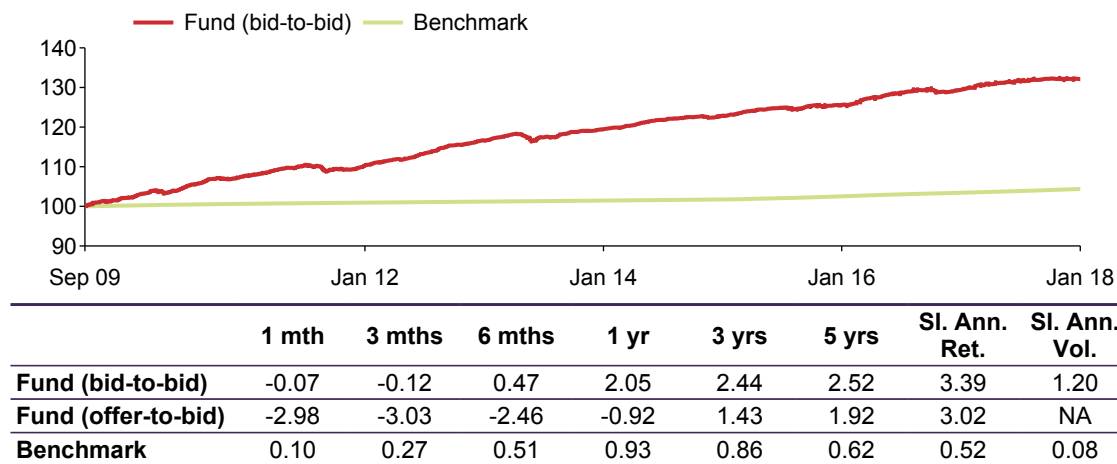
Investment Objective

The investment objective of the Fund is to achieve medium-term capital appreciation for investors. The investments of the Fund will be broadly diversified with no specific industry or sectoral emphasis.

Investment Focus and Approach

The Fund is primarily focused on fixed income securities and money market instruments. The Fund may invest in futures and derivatives for hedging purposes. The maturity limit of underlying securities is 5 years and all foreign currency denominated bonds are fully hedged back to SGD except for a 1% frictional currency limit.

Performance (%)



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.

Benchmark: 3-month SIBID.

Source: Fullerton Fund Management Company Ltd and Bloomberg.

Market Review

Developed bond markets saw a sell-off in January with bond yields rising sharply in the US and the Eurozone. In the US, the Federal Reserve left interest rates unchanged at its January meeting as widely expected. The post-meeting statement provided an upbeat assessment of the economy and indicated that rate increases lay ahead, paving the way for a potential rate hike in March. Over in Europe, the minutes of the European Central Bank's (ECB) December meeting were interpreted with a hawkish tilt by market participants, prompting concerns that the ECB could potentially scale back its monetary stimulus sooner than expected.

US economic data released during the month was mostly upbeat. The ISM Manufacturing index accelerated to 59.3 in December and remained firmly in expansion territory. US nonfarm payrolls disappointed and only rose by 148,000 in December, below expectations of 190,000. Unemployment rate held steady at 4.1% for the third straight month. On the inflation front, core PCE inflation edged up to 1.52%yoy in December.

Singapore's 4Q17 GDP growth was stronger than expected at 3.1%yoy, while GDP growth for 2017 was at 3.5%yoy. In terms of monthly economic data, non-oil domestic exports (NODX) slowed to 3.1%yoy in December, from 9.1%yoy in the prior month. On the inflation front, the Consumer Price Index (CPI) inflation eased to 0.4%yoy in December, mainly driven by a moderating increase in private transport costs and lower services inflation. Core inflation (which excludes accommodation and private road transport costs) similarly eased to 1.3%yoy in December.

The US Treasury market was volatile and yields mainly rose in response to central bank rhetoric and improving US economic data. Concerns over China slowing down its purchases of USTs also sent yields higher but yields subsequently retraced after the Chinese authorities denied such reports. The Federal Open Market Committee statement was taken by market participants with a hawkish bias, which raised the probability of a March rate hike to 90%. The trend of rising US yields was further intensified by improving US core inflation and retail sales revisions, but this was tempered by weaker than expected US nonfarm payroll figures for December. Core European bond yields also rose after the ECB's December

Inception date

25 Sep 2009

Fund size

SGD 1,295.57 million

Base Currency

SGD

Pricing Date

31 Jan 2018

NAV*

SGD 1.32

Management fee

0.5% p.a.

Expense Ratio

0.54% p.a. (For financial year ended 31 Mar 2017)

Minimum Initial Investment

None (effective 1 Apr 2010)

Minimum Subsequent Investment

None (effective 1 Apr 2010)

Preliminary Charge

Up to 3%

Dealing day

Daily, up to 5pm (Singapore time)

Bloomberg Code

FULSTIC SP

ISIN Code

SG9999006225

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)

meeting minutes were interpreted with a hawkish tilt by market participants. Overall, the benchmark US 10-year yield ended the month around 30bps higher at 2.7%.

Asian credits, as represented by the JACI Composite Index, started the year in negative territory and returned -0.52% in January on the back of rising US Treasury yields. By segment, investment grade credits returned -0.74% even as credit spreads tightened by 7.4bps. Investment grade sovereigns (-0.68%) and quasi sovereigns (-0.68%) were the most affected due to their longer duration. By country, notable laggards were Indonesia (-0.63%) and China (-0.54%). The high yield sector posted a small positive gain of 0.25% as the impact from higher US Treasury yields was offset by tighter spreads (+18.8bps). The primary market was busy in January although activity slowed at the end of the month due to the volatility in the US Treasury market.

Investment Strategy

Rising global bond yields could pose further headwinds for Asian credit markets. We are mindful of interest rate volatility and remain nimble on duration, with a preference for shorter-dated, lower beta names. In terms of credit strategy, we maintain our preference for investment grade (IG) credits, as IG credit fundamentals remain broadly sound, with credit profiles that are able to withstand earnings weakness in a challenging operating environment. .

Country Breakdown

| | |
|-----------|-------|
| China | 37.9% |
| Hong Kong | 13.5% |
| India | 2.0% |
| Korea | 2.2% |
| Malaysia | 3.9% |
| Qatar | 1.8% |
| Singapore | 30.9% |
| UK | 1.1% |
| Others | 5.4% |
| Cash | 1.2% |

Rating Breakdown

| | |
|------|-------|
| AA | 2.9% |
| A | 33.1% |
| BBB | 61.3% |
| BB | 1.0% |
| CC | 0.4% |
| Cash | 1.2% |

Top 5 Holdings

| | |
|--|------|
| Danga Capital Bhd 3.725% Aug 2020 | 3.2% |
| Keppel Corp Ltd 3.145% Feb 2022 | 2.9% |
| Capitaland Ltd 2.95% Jun 2022 | 2.6% |
| Azure Nova International 3% Mar 2020 | 2.3% |
| Value Success Internatio 4.125% Sep 2019 | 2.2% |

Fund Characteristics

| | |
|--------------------------|------|
| Average coupon | 3.4% |
| Average credit rating | BBB |
| Number of holdings | 192 |
| Average duration (years) | 2.1 |
| Yield to Worst | 3.2% |

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.

Disclaimer: This publication is for information only and your specific investment objectives, financial situation and needs are not considered here. The value of units in the Fund and any accruing income from the units may fall or rise. Any past performance, prediction or forecast is not indicative of future or likely performance. Any past payout yields and payments are not indicative of future payout yields and payments. Where distributions (if any) are declared in accordance with the prospectus, this may result in an immediate reduction of the net asset value per unit in the Fund. Applications must be made on the application form accompanying the prospectus, which can be obtained from Fullerton Fund Management Company Ltd (UEN: 200312672W) or its approved distributors. You should read the prospectus and seek advice from a financial adviser before investing. If you choose not to seek advice, you should consider whether the Fund is suitable for you.