Sun Life Malaysia Conservative Fund

May 2024

Sun Life

FUND OBJECTIVE

To achieve medium to long term capital appreciation through investments primarily in Malaysian bonds.

FUND DETAILS

Launch Date	20 October 2008	Domicile	Malaysia
Currency	Ringgit Malaysia	Launch Price	RM1.0000
Units in Circulation	35.02 million units (31 May 2024)	Fund Size	RM57.05 million (31 May 2024)
Unit NAV	RM1.6291 (31 May 2024)	Dealing	Daily (as per Bursa Malaysia trading day)
Fund Manager	Principal Asset Management Bhd	Benchmark	12 month FD
Taxation	8% of annual investment income	Fees	Management Fee: 1.0% p.a.
Risk Profile	Suitable for investors: ▪ Have a medium to long term investment horizon ▪ Want a diversified portfolio of fixed interest securities ▪ Are looking for a less volatile investment but can accept lower returns	Other Charges	Inclusive of auditor fee & transaction charge

ASSET ALLOCATION OF THE FUND

Bonds/Debentures	Cash
80% - 98%	Up to 20%

SECTOR ALLOCATION OF THE FUND

Corporate Bond	Government Bond	Short Term Paper	Cash	Total
89.45%	6.27%	-	4.28%	100.00%

TOP HOLDINGS OF THE FUND

Bond Issuer	Coupon	Maturity Date	%	Bond Issuer	Coupon	Maturity Date	%
Sarawak Energy Bhd	5.50%	04/07/2029	4.81	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.74
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.08	UniTapah Sdn Bhd	6.15%	12/12/2030	2.01
RHB Bank Bhd	3.65%	28/04/2031	3.77	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.954%	12/01/2037	1.94
Ponsb Capital Bhd	4.96%	28/12/2028	2.92	DanaInfra Nasional Bhd	4.49%	23/10/2043	1.84
MMC Corporation Bhd	5.95%	12/11/2027	2.80	Kapar Energy Ventures	4.95%	03/07/2026	1.82

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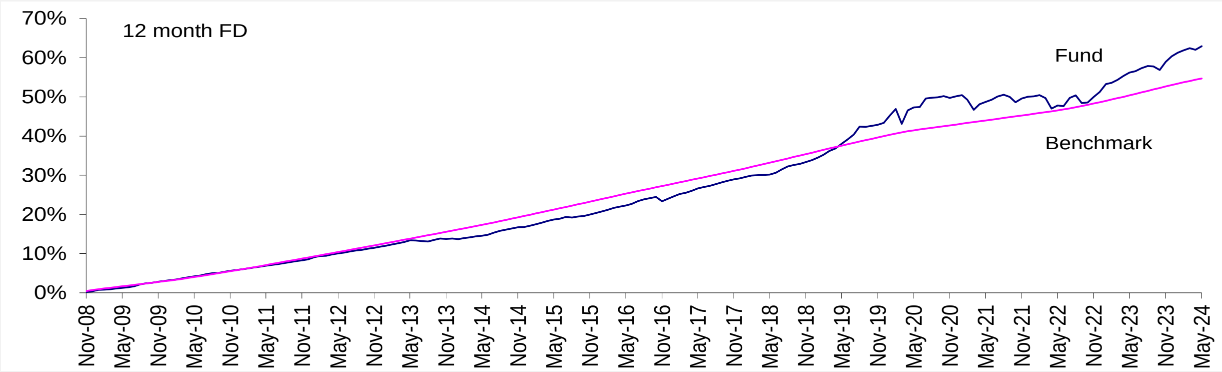
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	1.61	0.56	4.30	9.55	17.98	42.20	62.91
Benchmark	1.10	0.22	2.88	7.46	12.47	31.87	54.71

** Calculation of past performance is based on NAV-to-NAV*

Notice: Past performance of the fund is not an indication of its future performance which may differ. The fund performance is not guaranteed.

FUND MANAGER'S COMMENTS

Market Review

The Malaysia Government Securities ("MGS") yield curve bull flattened during the month as demand for duration surged, driven by global bonds finding some respite from steady US inflation prints and weaker-than-expected US economic data. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.59% (-2bps), 3.69% (-7bps), 3.85% (-4bps), 3.91% (-7bps), 4.03% (-3bps), 4.13% (-12bps) and 4.22% (-8bps), respectively in May. Meanwhile, the Malaysian Government Investment Issue ("GII") yield curve bull steepened, with short-end yields falling more than long-end yields, reversing the movement seen in April. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year GII closed at 3.58% (-8bps), 3.70% (-10bps), 3.82% (-6bps), 3.91% (-9bps), 4.02% (-7bps), 4.16% (-6bps), and 4.25% (-4bps) respectively in May.

During the month, Bank Negara Malaysia ("BNM") maintained its overnight policy rate at 3% for the sixth consecutive meeting in May 2024, with policymakers emphasizing that the current monetary policy stance continues to support the economy and aligns with the present evaluation of inflation and growth prospects.

Malaysia's GDP grew by 4.2% in Q1 2024, surpassing the consensus and advanced estimate of 3.9%. This marks the first upward revision from the advanced estimate since its introduction in Q3 2023. The accelerated growth was driven by a faster expansion in the services sector, which grew by 4.7% (advanced estimate: 4.4%, Q4 2023: 4.1%).

Meanwhile, Malaysia's headline inflation remained steady at 1.8% in April (March: 1.8%), slightly below the market expectation of 1.9%. A higher increase in food prices of 2.0% in April (March: 1.7%) was offset by a smaller increase in transportation costs of 0.8% (March: 1.3%). Utility costs remained high at 3.0% (March: 3.0%) following the revised tariffs in February. Year-to-date inflation registered at 1.7%, but the rate is likely to pick up in the coming months in anticipation of the rollout of fuel subsidy rationalisation in the second half of 2024, with the diesel subsidy expected to begin as early as June 2024. Producer prices in Malaysia increased by 1.9% year-on-year in April 2024, up from a 1.6% rise in the previous month. This marks the third consecutive month of rising producer inflation and the highest rate since December 2022. On a monthly basis, producer prices rose 0.5% in April 2024, slowing from a 1.6% increase in the previous month.

The Employee's Provident Fund ("EPF") received 2.86 million applications to transfer RM8.78 billion into Flexible Account 3 up to 22 May, the provident fund announced on 27 May. It anticipates that only RM25 billion will be withdrawn from Flexible Account 3 this year, which is about 44% of the RM57 billion that could be withdrawn if every member below age 55 opts in and empties their accounts.

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FUND MANAGER'S COMMENTS (CONTINUED)

Prime Minister Anwar announced that the Cabinet has agreed to rationalize fuel subsidies, starting with diesel in Peninsular Malaysia, resulting in savings of RM4 billion. While the exact implementation date was not provided, registrations for the diesel fleet card system are expected to begin next month, making June the earliest possible start date. In addition to the newly announced cash aid for small businesses, the continued provision of diesel subsidies to public transportation, logistical vehicles, and East Malaysia will help mitigate inflationary impacts.

Outlook & Strategy

Further updates on diesel subsidy rationalisation or data on potential withdrawals from the Employees Provident Fund ("EPF")'s newly created Flexible Account 3 may emerge ahead of the International Social Wellbeing Conference ("ISWC") 2024 which is hosted by EPF. This conference will be officiated by Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim on 4 June. Finance Minister II, Datuk Seri Amir Hamzah, formerly the CEO of EPF, will deliver an address at the conference on June 5. According to Amir, diesel subsidies increased significantly from RM1.4 billion (for 6.1 billion liters) in 2019 to RM14.3 billion (for 10.8 billion liters) last year.

Economic data releases for the month of June will include May S&P Global Manufacturing PMI (Apr: 49.0) on 4 June, May trade data on 20 June, May CPI (Apr: 1.8%) on 24 June and May PPI (Apr: 1.9%) on 27 June. Meanwhile, the next MPC meeting will be on 7 July.

Slightly lower gross MGS/GII supply for 2024 should provide positive catalyst for the local bond market. Additionally, the market is past the heavy net supply in the first four months and will turn favorable for the remaining part of the year.

In June, there will be three auctions featuring a higher supply of MGII duration, with no auction on new issuances scheduled. These auctions will comprise the reopening auction of the 20-year GII 8/43 and the 30-year 3/54, alongside the reopening auction of the 3-year MGS 5/27. The reference benchmark yield curve flattened, evidenced by the narrowing of term spreads across all durations, with the 30-year versus 3-year spreads experiencing the most tightening during the month. Overall benchmark yields decreased on a monthly basis, but they remain higher than they were at the beginning of the year, except for the 30-year MGS. As at end of May, the 3-, 7- and 15-year MGS yields were inverted against its MGII counterpart while the 10-year MGS and MGII benchmarks were flat. Corporate bond yields fell on a monthly basis, with the AAA corporate bond yield curve bull-steepened as the ultra-long yield decreased by a smaller margin, while the AA corporate bond yield curve bull-flattened as yields on the longer end of the curve fell the most. Credit spreads generally narrowed on a monthly basis, except for the 5- and 20-year maturities, where spreads widened by 2 to 5 basis points across all rating bands. Additionally, the 3-year GG spread also widened by 2bps during the month.

While we remain cautious on global bond market volatility, we plan to capitalize on any market corrections as periods of market weakness can present strategic opportunities to acquire bonds at more attractive prices, thereby improving the overall yield of our portfolio. Our approach will be to carefully monitor market movements and act accordingly when these opportunities arise.

We will maintain an overweight position in corporate bonds relative to government securities, as we anticipate credit spreads will remain compressed as domestic interest rate outlook remains unchanged in the near term. We will also pursue opportunities to engage in selective trading of government securities to generate additional alpha. The current market environment continues to be favorable for an overweight duration position due to positive supply-demand dynamics as well as a stable interest rate outlook and we are currently maintaining our overweight duration bias.

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RISKS

All investment carries some form of risks. The potential key risks include but are not limited to the following:

Market risk	Market risk is the risk of negative movement that affects the price of all assets in a particular capital market. The factors influencing the performance of the markets include: • Economic and financial market conditions • Political change • Broad investor sentiment • Movements in interest rate and inflation • Currency risks Securities values fluctuate in response to the activities and performance of individual companies and general market or economic conditions. Such movements in the underlying values of the securities of the investment portfolio will cause the NAV or prices of units to fall as well as rise. Market risk is mitigated through careful selection of securities and diversification through spreading of risk across a basket of assets and/or sectors.
Interest rate risk	Interest rates are inclined to fluctuate over time. A rise in the general level of interest rates will result in a decline of the value of all bonds and fixed interest securities. Hence a bond fund's NAV will most probably decrease with the rise of interest rates. Maintaining an appropriate diverse mix of assets with different yield and maturity profiles will lessen the impact of interest rate risk.
Liquidity risk	Liquidity risk is defined as the ease with which a security can be sold at or near its fair value depending on the volumes traded on the market. Liquidity risk is mitigated through the selection of stocks with an active trading volume in the open market. This ensures that exit strategies can be executed with little/minimal impacts to price fluctuations.
Company or security specific risk	There are many specific risks, which apply to individual companies or securities. Examples include the possible effect on a company of losing a key executive or the unforeseen entry of a new competitor into the market. The risk is mitigated by conducting in-house periodic reviews and analysis. In-house analysis is then supplemented by periodic reviews from rating agencies and market analysts.
Credit risk	Credit risk refers to an issuer's ability to make timely payments of profit and principal. In the event that the issuer of the instrument is faced with financial difficulties, leading to a decrease in their credit worthiness (i.e Bond prices will change/drop in the event of rating downgrade) and default in the payment of profit and principal, the value of the fund may be adversely affected. Credit risk is mitigated by conducting in-house periodic reviews and analysis. In-house analysis is then supplemented by periodic reviews from rating agencies and market analysts.

Source : Principal Asset Management Bhd
Date : 31 May 2024