Sun Life Malaysia Conservative Fund

February 2023

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	31.89 million units (28 February 2023)	Fund Size	RM48.98 million (28 February 2023)
Unit NAV	RM1.5359 (28 February 2023)	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
88.97%	8.07%	-	2.96%	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	5.52	YTL Power International Bhd	4.65%	24/08/2023	3.07
RHB Bank Bhd	3.65%	28/04/2031	4.37	GII Murabahah	4.417%	30/09/2041	2.43
Ponsb Capital Bhd	4.96%	28/12/2028	3.30	Edra Energy Sdn Bhd	6.71%	05/01/2038	2.37
MMC Corporation Bhd	5.95%	12/11/2027	3.28	UniTapah Sdn Bhd	6.15%	12/12/2030	2.26
Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.15	Sarawak Energy Bhd	4.70%	24/11/2028	2.13

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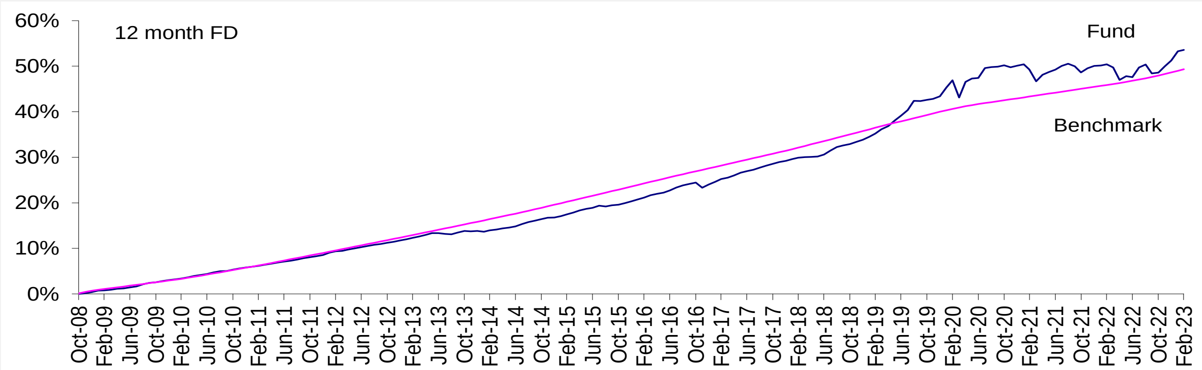
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	1.55	0.20	2.10	4.56	18.23	36.74	53.59
Benchmark	0.46	0.23	2.36	6.18	13.02	32.21	49.32

** 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 MGS yield curve bear flattened in February with the front to mid part of the curve staying elevated as yields were seen rising by 1bp to 13bps while the ultra-long closed mixed between -1bp to +6bps. During the month, Ringgit bonds showed better resilience despite global bond selloff as local market attention was mainly on the re-tabling of Budget 2023 by the new government in anticipation of a prudent fiscal management which would lead to lower fiscal deficit. The 3- , 5- , 7- , 10- , 15- , 20- and 30-year MGS yields closed at 3.46% (+1bps), 3.70% (+13bps), 3.81% (+9bps), 3.95% (+13bps), 4.16 (+12bps), 4.19% (-1bps) and 4.44% (+6bps) respectively at the end of February.

The re-tabled Budget 2023 was released with lower deficit of RM93.9 billion versus previously tabled RM99.0 billion which will see lower gross issuance of RM175 billion in 2023 as compared to our earlier projection of RM180 billion (2022: RM172 billion). The 2023 total funding requirement of RM175 billion comprises the deficit amount of RM93.9 billion and the refinancing of MGS+MGII and SPK papers maturing in 2023 amounting to RM80.9 billion. Budget 2023 targets lower budget deficit of 5.0% of GDP in 2023 (from 5.6% of GDP in 2022) which augurs well for the long-term trajectory of reducing public debt with the commitment of the new government to further reduce it fiscal deficit to 3.2% in 2025. Meanwhile, 2023 real GDP growth is projected to grow at 4.5% YoY (down from 2022 growth of 8.7% YoY) while headline inflation is forecast to grow within 2.8% - 3.8%, revised from prior projection of 2.3% - 3.3% range. The international rating agencies, especially S&P and Moody's have reiterated that they are willing to overlook higher debt levels in the short term if this is balanced by a healthy growth outlook. As such, we expect Malaysia's credit ratings to remain stable in the near to intermediate term.

Sovereign bond yields have inched higher on the back of upward trajectory in UST yields arising from a series of strong US economic data and persistent high inflation. The selloff in UST saw local govvies trading higher with the 10yr MGS rose by 13bps to 3.95% at the close of February. At the point of writing, we saw the 10yr MGS-UST spreads turns negative with 10yr UST touching 4%.

FUND MANAGER'S COMMENTS (CONTINUED)

Credit spreads tightened for most tenures, save for the 3 year and ultra-long 20-year AAA and AA2 segments, as government bonds yields shifted higher during the month. Credit spreads for the AA rated segments are trading above both the 3- and 5-year historical averages.

Outlook & Strategy

We may expect some profit taking activities towards end of March being the last trading month of the first quarter of 2023.

With the recent sell off in the government bonds, we propose to have tactical positions on benchmark government bonds and buy on weakness especially on the longer end of the curve on the back of continued institutional support.

Overall, we maintain our preference on the credit segment with focus on primary issuances which provide better yield pickup.

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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
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