Sun Life Malaysia Conservative Fund

December 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	32.48 million units (29 December 2023)	Fund Size	RM52.07 million (29 December 2023)
Unit NAV	RM1.6033 (29 December 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
92.59%	4.96%	-	2.45%	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	5.31	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.02
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.46	UniTapah Sdn Bhd	6.15%	12/12/2030	2.16
RHB Bank Bhd	3.65%	28/04/2031	4.12	DanaInfra Nasional Bhd	4.56%	04/05/2046	2.01
Ponsb Capital Bhd	4.96%	28/12/2028	3.12	Kapar Energy Ventures	4.95%	03/07/2026	2.01
MMC Corporation Bhd	5.95%	12/11/2027	3.08	Sarawak Energy Bhd	4.70%	24/11/2028	2.00

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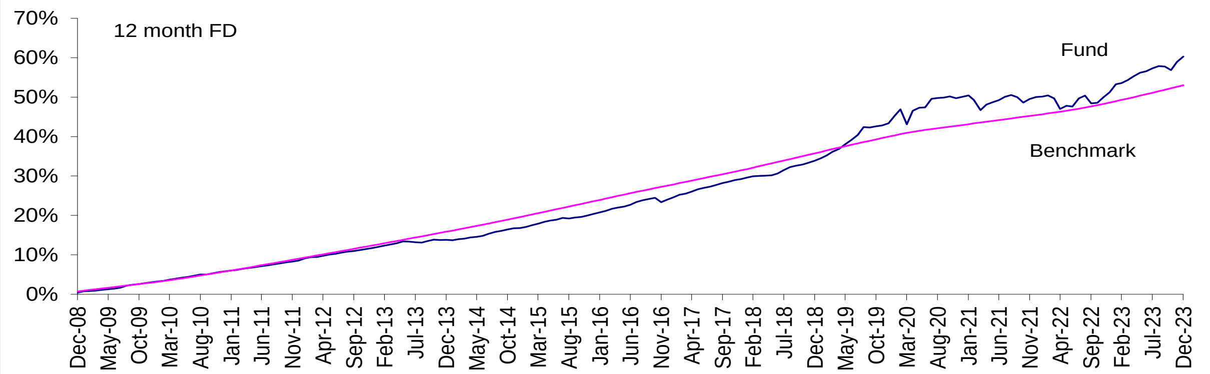
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	6.01	0.89	6.01	6.80	19.78	40.86	60.33
Benchmark	2.96	0.25	2.96	7.06	12.74	32.10	53.03

** 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 Malaysian Government Securities (MGS) yield curve continued to shift lower in December as the US Treasuries continued to rally, largely fueled by the expectations that the Federal Reserve would start cutting interest rates soon. Sentiments continued to be supported during the month following the Fed's December meeting, where it indicated an end to rate hikes and did not strongly oppose market bets on rate cuts in 2024. During the month, yield on the 7-year benchmark fell the most with a decline of 10bps MoM, while the 3-year benchmark rose by 1bp as demand on duration remained strong. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.53% (+1bp), 3.65% (-3bps), 3.74% (-10bps), 3.73% (-9bps), 3.99% (-6bps), 4.11% (-7bps) and 4.25% (-5bps), respectively in December.

Data released during the month showed that Malaysia's industrial production index (IPI) recovered to expand by 2.7% in October 2023, after reporting a 0.5% contraction the month prior, led by the improved performance of the mining sector, and continuous growth in electricity and manufacturing sector's output. According to the data released by the Department of Statistics Malaysia (DOSM) on Monday, the growth in October was the highest since May 2023, as the mining sector grew 8.7% (September 2023: -5.2%), while the electricity and manufacturing sector grew 5.8% (September 2023: 2.5%) and 0.9% (September 2023: 0.4%) respectively.

Meanwhile, the seasonally adjusted S&P Global Malaysia Manufacturing PMI rose to a seven-month high of 47.9 in November, up from 46.8 in October, signaling a muted moderation in the sector's health. The latest reading pointed to the sixteenth straight month of decline in factory activity, as new orders moderated, with new export orders falling for the eighth month in a row, while output shrank for the seventeenth month running.

Separately, headline inflation eased to 1.5% y/y in November (Oct: 1.8%), marking a sustained deceleration since September 2022 to a 33-month low. The reading came in below market consensus of 1.7%. The faster pace of deceleration was mainly due to lower gains in the food & non-alcoholic beverages subcomponents. Core inflation also eased to 2.0% (Oct: 2.4%).

Fitch Ratings has affirmed Malaysia's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. This affirmation reflects a balance between Malaysia's diversified economy with strong medium-term growth prospects and challenges such as high public debt, a low revenue base relative to operating expenditure and political consideration that could impact long-term policy and reform implementation.

FUND MANAGER'S COMMENTS (CONTINUED)

Outlook & Strategy

Fiscal reformation implementation which includes recent announcement on sales tax on low value goods starting 1 January 2024, 2% hike in service tax from March 2024 and higher electricity tariffs for targeted users among others, might keep inflation levels elevated.

Focus would also be on targeted petrol subsidy which is expected to take place in 2024. To implement the targeted petrol subsidy plan, the government has developed a central database hub called PADU, which will be used to determine the eligibility of a person for a targeted fuel subsidy that is premised upon one's net disposable income. Meanwhile, Bank Negara Malaysia (BNM) Monetary Policy Committee meeting will convene on 23-24 January, setting the tone for the year's monetary policy. Other data to be released in January include among others, November IPI (11 Jan), November Retail Sales (11 Jan), December trade data (19 Jan), December CPI (22 Jan) and December PPI (29 Jan).

Relatively lesser MGS/GII supply for 2024 should provide positive catalyst for the local bond market dynamics. However, over the short-term, the large government bond net supply of RM 43.0 billion during the first quarter of the year is expected to put some pressure on the market's dynamics.
In January, there will be three government bond auctions, which includes the 10-year reopening MGII 8/33, 30-year reopening MGS 3/53 and 5-year reopening of MGII7/28 with expected total auction size of RM 14.5 billion.

We continue to favor corporate bonds over government bonds for their yield advantage, given the stable credit conditions and recent positive credit affirmations. We are cautious on current profit taking activities after market rallied significantly while the relatively large government bond supply during the first quarter is expected to put pressure on yields. Propose profit taking on longer dated government bonds amid heavy duration supply in the near term, while switching in selective corporate bonds in the primary market. We maintain an overweight position in corporate bonds against government bonds as BNM is expected to keep policy rates for the time being.

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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 : 29 December 2023