Sun Life Malaysia Conservative Fund

November 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	32.24 million units (30 November 2023)	Fund Size	RM51.24 million (30 November 2023)
Unit NAV	RM1.5892 (30 November 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
90.60%	5.01%	-	4.39%	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	5.34	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.06
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.49	UniTapah Sdn Bhd	6.15%	12/12/2030	2.23
RHB Bank Bhd	3.65%	28/04/2031	4.16	Kapar Energy Ventures	4.95%	03/07/2026	2.03
Ponsb Capital Bhd	4.96%	28/12/2028	3.23	Sarawak Energy Bhd	4.70%	24/11/2028	2.01
MMC Corporation Bhd	5.95%	12/11/2027	3.10	Malaysia Government Securities	4.065%	15/06/2050	1.91

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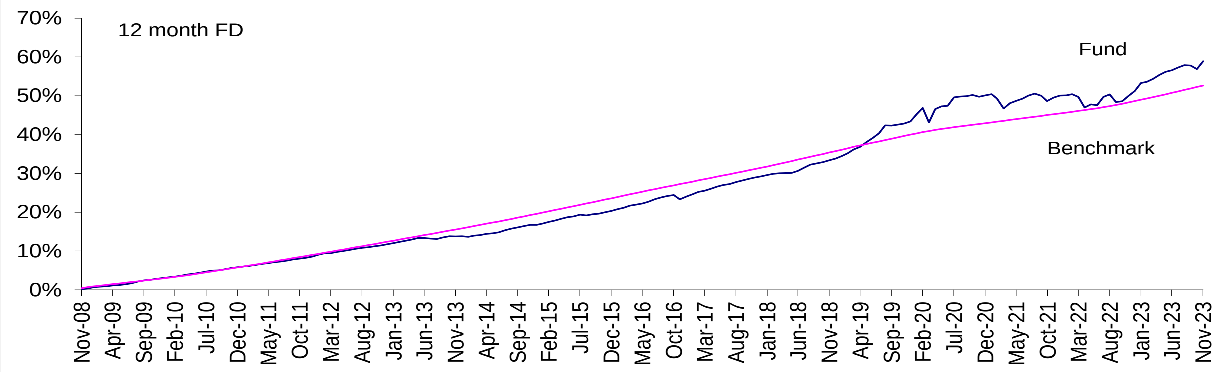
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	5.08	1.31	5.97	6.12	19.17	39.72	58.92
Benchmark	2.70	0.25	2.93	6.95	12.76	32.10	52.65

** 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

<u>Market Review</u>

The Malaysian Government Securities (MGS) yield curve shifted lower during the month of November as the strong rally in US Treasuries, which was the biggest since the financial crisis in November 2008, boosted sentiment in the local bond market as well. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.52% (-18bps), 3.68% (-23bps), 3.84% (25bps), 3.82% (-28bps), 4.05% (-23bps), 4.18% (-23bps) and 4.30% (-22bps), respectively in November 2023.

In November, Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) rate at 3.00% in its last monetary policy committee (MPC) meeting of the year, given the stable domestic inflation and positive economic growth outlook amid the challenging external environment. BNM highlighted that the sharp depreciation of the Malaysian ringgit against the US-Dollar should not impact Malaysia's growth prospects. We expect BNM to keep OPR unchanged at 3.00% for an extended period to strengthen economic growth and maintain the current stable inflation.

Data released during the month showed Malaysia's economic growth accelerated in the third quarter as consumer spending along with services and construction sectors helped counter the impact of faltering exports. GDP expanded 3.3% in 3Q YOY, in line with the preliminary reading last month and from a 2.9% gain in 2Q.

Meanwhile, headline inflation, measured by the consumer price index (CPI), continued to slow to 1.8% in October 2023, with the index points recorded at 130.9, compared with 128.6 a year ago. This is lower than the 1.9% increase recorded in September and marks the second straight month that inflation is easing. Meanwhile, core inflation was lower at 2.4% (Sept: 2.5%) during the month. The moderation was due to lower inflation for selected services including food away from home and repair and maintenance of personal transport.

Separately, exports contracted at a slower pace of 4.4% (Sept: -13.8%) reflecting improvement in both manufactured and commodities exports. Manufactured exports recorded smaller declines in both E&E and non-E&E exports. Meanwhile, commodities exports were supported by improved palm oil exports. Looking ahead, exports are expected to gradually improve towards the end of the year. Downside risks remain, stemming from weaker external demand.

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FUND MANAGER'S COMMENTS (CONTINUED)

The Economy Minister Rafizi Ramli tabled a white paper on the progressive wage policy (PWP) in Parliament on 30 Nov 2023, aimed at lifting the wages of low-income workers and raising compensation to employees to the 40% of GDP target over the medium term. A pilot project involving up to 1,000 companies is slated for Jun-Sep 2024 to compensate 8.3k-12.5k workers at a cost of RM30 million under Budget 2024. The small sample size and the retention of minimum wage at RM1,500 imply minimal inflation risk in 2024, with medium-term risk tilted to the upside if implementation is widened to higher income bands. Meanwhile, the Economy Minister also announced that the government will roll out the targeted RON95 subsidy program in the second half of 2024 to optimize its resources towards those that need it the most.

Outlook & Strategy

Owing to the absence of significant domestic catalyst in the near term, attention is expected to shift towards the upcoming FOMC meeting scheduled for 12 & 13 December as it will provide insights into the likelihood of the Federal Reserve concluding its series of interest rate hikes. Local economic data for the month of December appears to be limited, with the primary focus anticipated to be on the headline inflation for November, scheduled for release on 22 December.

Over the short-term, government bonds supply is likely to increase, especially for the longer-end as the government plans to convert short-term Treasury Bills to longer-tenor government bonds in 4Q23 to reduce refinancing risk.

We expect higher government bond supply for the remainder of the year. We revised our new issuance expectation for the month of December from RM9.0 billion to RM 10.0 billion. In December, only two government bond auctions are scheduled, featuring the re-openings of the 5-year MGS 4/28 and 10-year MGS 11/33. Meanwhile, the market is keenly anticipating the release of the 2024 auction calendar, expected to be released by the year's end.

Throughout the month, the MGS benchmark yield curve has trended downward, most notably on the 10-year MGS yield experiencing a significant drop of 28bps. This shift has led to an inversion in the 7X10 spread making yields on the 7-year MGS now looking more attractive compared to the 10-year MGS. Overall, corporate bond spreads have widened during the month especially on lower rated issuances amid the strong rally in MGS.

We continue to favor corporate bonds over government bonds for their yield advantage, given the overall stable credit conditions. Profit taking activities will be deployed on corporate bonds with narrow spreads and on government bonds that have rallied significantly. Investing in corporate bonds in the primary markets will be among our focus for better yield prospects due to wider spreads compared to the secondary market. We continue to support holdings on longer durations, maintaining an overweight duration bias amid current market backdrop.

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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 : 30 November 2023

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