Sun Life Malaysia Conservative Fund
March 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	33.13 million units (29 March 2024)	Fund Size	RM53.81 million (29 March 2024)
Unit NAV	RM1.6241 (29 March 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
91.27%	4.79%	-	3.94%	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	5.08	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.89
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.29	UniTapah Sdn Bhd	6.15%	12/12/2030	2.12
RHB Bank Bhd	3.65%	28/04/2031	4.04	DanaInfra Nasional Bhd	4.56%	04/05/2046	2.00
Ponsb Capital Bhd	4.96%	28/12/2028	3.07	DanaInfra Nasional Bhd	4.49%	23/10/2043	1.99
MMC Corporation Bhd	5.95%	12/11/2027	3.03	Sarawak Energy Bhd	4.70%	24/11/2028	1.96

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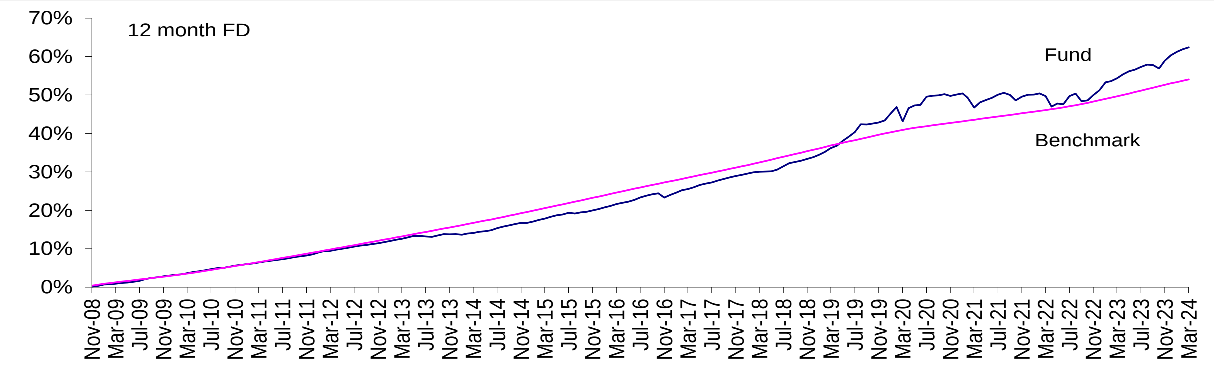
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	1.30	0.33	5.22	10.71	19.28	42.32	62.41
Benchmark	0.66	0.22	2.93	7.30	12.56	31.96	54.04

** 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 bull flattened as the short-term yields increased more than the long-term yields, mirroring a similar trend in US Treasuries, albeit at smaller magnitudes. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.48% (+1bps), 3.66% (+1bps), 3.78% (+1bps), 3.88% (-1bps), 4.00% (-2bps), 4.09% (-1bps) and 4.20% (-1bps), respectively in March 2024. MGS yield curves bull flattened in the month of March a long with US Treasuries and a slight recovery of the Ringgit. MGS yield curve rates rose mildly at the shorter-end by 1bp, and rates fell slightly by 1-2bps at the long-end of the curve. QTD through March, the 10-year MGS and 10-year MGII corrected the most by 14bps (to 3.88%) and 6bps (to 3.86%), respectively. The 5-year to 15-year MGS remained the steepest part of the curve.

Bank Negara Malaysia ("BNM") kept the Overnight Policy Rate ("OPR") at 3.00% for the 5th straight Monetary Policy Committee ("MPC") meeting at its second meeting for the year on 6-7 March, amid improving economic growth, moderate inflation, and stabilization in Ringgit against US-dollar. The decision was anticipated and in line with market consensus. The policy rate has now remained unchanged for 10 months after it was last raised in May 2023. BNM maintained its overall neutral language in the MPC statement, unchanged since September 2023, but with a slight optimism on regional economic activities and global trade, supported by the expectation of monetary easing by global central banks in 2024.

On 20 March, BNM released its Annual Report 2023 together with the Economic & Monetary Review and Financial Stability Review 2H2023. On the economic front, BNM expects the Malaysian economy to expand by +4.0-5.0% in 2024, up from +3.7% reading for 2023, despite ongoing geopolitical tensions and potentially slower global growth. Malaysia's GDP growth will be driven by domestic demand (+5.1% YoY growth vs 2023: +4.4%) with the highest contribution from the private sector (+4.4% vs 2023: +3.6%) led by consumption (+3.5% YoY vs 2023: +2.8%) and added by improvement in the external sector (+0.1% YoY vs 2023: -0.6%).

On the monetary front, BNM forecasts headline inflation between 2.0-3.5% (2023: 2.5%) – incorporating fuel price adjustments from the fuel subsidy rationalisation measures – and core inflation between 2.0-3.0% (2023: 3.0%) for 2024. The full year inflation will only be marginally impacted from the new sales & services tax and utility tariffs. The central bank repeated that policy stance will remain conducive to a sustainable economic growth while safeguarding price stability.

FUND MANAGER'S COMMENTS (CONTINUED)

Meanwhile, Malaysia's inflation edged slightly up by 1.8% YoY in February after three straight months of a 1.5% YoY increase (January 2024: 1.5%) and higher than estimates (+1.4%). The rise was mainly driven by the housing, water, electricity, gas & other fuels group (+2.7% vs +2.0% in January 2024) due to the adjustment in water tariffs. F&B, which accounts for 29.8% of the total consumer price index ("CPI"), showed a slower increase of 1.9% in February (January 2024: 2.0%). On a monthly basis, headline inflation increased by 0.5% as compared to 0.2% in January. Core inflation remained flat in February at 1.8% YoY (January 2024: 1.8% YoY).

Trade balance narrowed to RM10.9 billion for February but remained in a surplus since May 2020. Malaysia's exports reduced slightly by +0.8% YoY to RM111.3 billion, down from strong export growth of +8.7% YoY seen in January. Softer exports were primarily due to falling shipments of manufactured goods (-2.4% YoY vs January: +9.3 YoY) and agriculture goods (-4.8% YoY vs January: +17.3%) as well as seasonal factors including festive periods and the Red Sea crisis. Demand from top export countries (e.g. Singapore, China, EU, ASEAN) remained weak except for the US.'

Nevertheless, for the first two months of 2024, exports increased by 3.9% YoY to RM234 billion and are expected to continue their upward trajectory on the back of a recovery in global trade, stable commodity prices and recovery in the electrical and electronic sector. Imports continued to grow for the 4th consecutive month at a strong rate of +8.4% YoY (January: +18.7%) to RM100.5 billion.

On 1 March, Malaysia raised its Sales and Service Tax ("SST") rate from 6% to 8% on selected services excluding F&B, car parks, and telecommunications, plus expansion of the Services Tax base to logistics services, non-financial brokerage & underwriting, karaoke services and for electricity usage of more than 600kWH per month. The increase in SST is expected to generate extra government revenue of RM 3 billion. Despite the increase in SST rate, tax collected in Malaysia is still among the lowest in Southeast Asia at 11.8% of GDP.

As of 31 March, the government has now collected enough data by the Central Database Hub (Padu) to decide on the who is eligible for subsidies. As early as June 2024, the government is expected to introduce a managed floating mechanism for RON95 petrol prices. Following the implementation of the targeted fuel subsidies, inflation is projected to hover around 3.2%.

Government policies have been ongoing but also subject to delays. The government delayed the implementation of the High Value Goods Tax ("HVGT"), originally scheduled for 1 May 2024, amid disagreements over the price range and definition of "high-value goods". It is expected to generate additional RM700m in annual revenue. The HVGT bill will be revisited after 24 June. Delays and the still unclear implementation of the targeted petrol subsidy could continue to erode foreign investors' confidence in Malaysian bonds and put pressure on the Ringgit. Meanwhile, the government announced that it will review the minimum wage policy in 2024, which was last enforced on 1 May 2022 with a minimum monthly wage of RM1,500.

Outlook & Strategy

Notable data releases to watch in April are the 1Q2024 advance GDP estimate on 19 April, inflation rates for the month of March on 25 April, Producer Price Index ("PPI") YoY on 26 April, and updates on government's plans to rationalize subsidies following the deadline of Padu on 31 Mar as well as details of the EPF Account three expected in April.

The next MPC meeting will be on 8th and 9th May with OPR to likely stay at 3.00% through 2024, after BNM has completed its interest rate normalisation cycle and barring some potential price upside effects over the execution of the RON95 subsidy retargeting in 2H 2024 but manageable. Nonetheless, BNM will continue to adopt a data-dependent approach as global economic conditions remain volatile.

Slightly lower gross MGS/GII supply for 2024 should provide positive catalyst for the local bond market. However, net supply is expected to be heavy in the first four months and peak in April with four auctions, and then eases for the remaining quarters. We expect four auctions in April with an estimated larger net issuance size of RM20.5 billion MoM vs RM14.5 billion in March, targeting the lower end of the curve. There will be two new Benchmark Bonds in April with the MGS 15-year and the GII 7-year.

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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 March 2024