Sun Life Malaysia Conservative Fund

February 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	32.66 million units (29 February 2024)	Fund Size	RM52.86 million (29 February 2024)
Unit NAV	RM1.6187 (29 February 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
91.69%	5.81%	-	2.50%	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	5.14	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.94
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.35	UniTapah Sdn Bhd	6.15%	12/12/2030	2.15
RHB Bank Bhd	3.65%	28/04/2031	4.10	DanaInfra Nasional Bhd	4.56%	04/05/2046	2.03
Ponsb Capital Bhd	4.96%	28/12/2028	3.11	DanaInfra Nasional Bhd	4.49%	23/10/2043	2.01
MMC Corporation Bhd	5.95%	12/11/2027	3.07	Sarawak Energy Bhd	4.70%	24/11/2028	1.99

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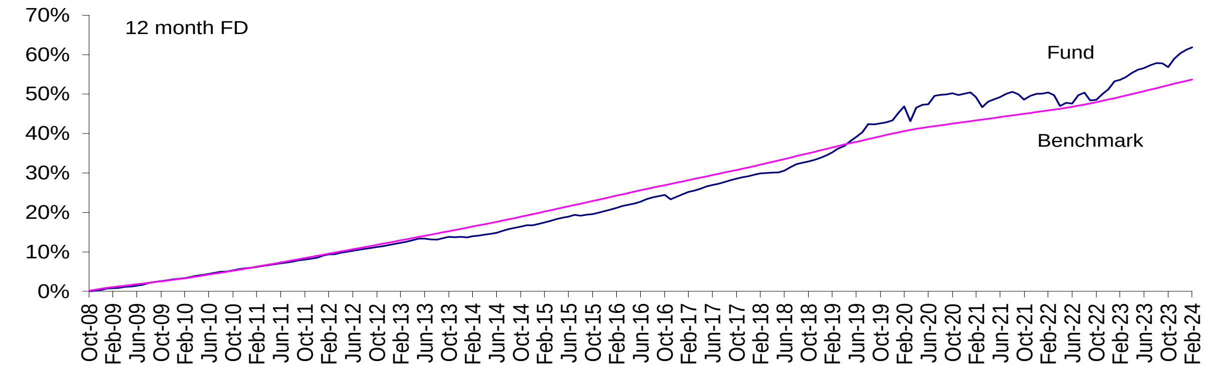
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	0.96	0.39	5.39	8.43	19.72	42.05	61.87
Benchmark	0.44	0.22	2.94	7.23	12.62	32.01	53.70

** 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 bear flattened as front to mid end yields rose more than the long end yields amid weakness in both the US Treasuries and Ringgit. Overall sentiment in the market was dampened as the market reduced its expectations on the number of rate cuts by the Federal Reserve this year. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.47% (+3bps), 3.64% (+3bps), 3.77% (+4bps), 3.88% (+8bps), 4.02% (+4bps), 4.10% (+2bps) and 4.21% (-1bps), respectively in February.

The final GDP print showed 4Q2023 GDP growth at 3% YoY, lower than 3.4% indicated by the advance estimate. The full year 2023 GDP growth was thus revised to 3.7% as compared to the government's projection of 4-5% growth. Falling exports amid rising imports were the main cause of the downward revision. The decline in net exports deepened further to -35.6% YoY in 4Q (3Q: -22.7% YoY) arising from a larger drop in exports of goods and services (-6.3% YoY) as compared to imports (-2.9% YoY). Overall, the 2023, growth moderated due mainly to slower global trade, the global tech downcycle, geopolitical tensions and tighter monetary policies.

Headline inflation stabilized for the third straight month at 1.5% YoY in January 2024 (December 2023: 1.5%). Slower increase in food and non-alcoholic beverages and easing restaurants and hotels largely offset stronger price pressures for transport and housing and utilities. Meanwhile, core inflation tapered off to 1.8% YoY in January from 1.9% in December 2023.

Malaysia's industrial production index ("IPI") inched down by 0.1% YoY in December 2023 (November 2023: 0.6% YoY). The decline was mainly due to a contraction in the manufacturing sector arising from a lower production in E&E and petroleum, chemical, rubber & plastics. For 2023, industrial production grew by 0.9%, easing sharply 6.7% expansion in 2022.

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FUND MANAGER'S COMMENTS (CONTINUED)

Exports grew for the first time since March 2023 at 8.7% YoY in January (December 2023: -10.1%) exceeded market expectations by 3%. The improvement was mainly driven by turnaround in manufacturing and commodities exports. Manufactured exports rebounded as supported by growth in non-E&E exports and smaller contraction in E&E exports. Increase in commodities exports was spurred by higher palm oil exports. Geographically, exports to US grew at 11.9% YoY in January (December 2023: -5.3% YoY) while exports to ASEAN also turned around with a 9.5% YoY increase (December 2023: -12.6%YoY). Meanwhile, imports continued to grow for the fifth straight month at 18.8% YoY in January (December 2023: 2.9%). Overall, trade surplus stood at RM10.1 billion in January, smallest surplus since May 2020, with the growth in imports outpaced exports.

Sales and Service Tax ("SST") rate will increase from 6% to 8% on selected services (except services F&B and telecommunications) plus expansion of the services tax base (to include logistics, non-financial brokerage & underwriting, karaoke and maintenance and repair jobs), effective from 1st March. Electricity usage of more than 600kWH per month will also be taxed 8% SST. MOF states that the increase of 2% in SST on selected services is expected to generate an extra RM3 billion revenue for the government. Other subsidy and policy tax changes in the pipeline include the introduction of a luxury goods tax of 5%-10% in May 2024, and a potential targeted subsidy for RON95 petrol in 2H24. The imminent spike in inflation from the subsidy rationalization is expected to be manageable. The Ministry of Finance ("MOF") expects inflation to be 2.1-3.6% in 2024.

Outlook & Strategy

The next Monetary Policy Committee ("MPC") meeting will be on 6th & 7th March where general expectations are overnight policy rate ("OPR") will stay put at 3.00%. We expect Bank Negara Malaysia ("BNM") to keep OPR unchanged at 3.00% to strengthen economic growth. BNM is expected to release its Annual Report 2023 on 20th March 2024 which could provide new guidance on official macro forecast. Meanwhile, February trade data and headline inflation will be released on 18th March and 25th March respectively.

Meanwhile, there will be three government auctions in March with an estimated net issuances of about RM14.5 billion which are focused towards the mid to longer end of the curve (i.e. 15-year MGII 9/39, 10-year MGS 11/33 and 30-year MGII 3/54). Both 15-year MGII9/39 and 30-year MGII 3/54 will be the new benchmarks for the year and these issues will be supported by insurance funds and investment books to match long-term liabilities.

Upcoming corporate bond maturity in March is estimated about RM4.9 billion (including commercial papers) and the corporate bond supply profile continues to be benign, which could reduce the pressure to reprice credit risk. Overall demand for corporate bonds remained healthy as investors continued to seek yields, particularly above the 4% handle. Credit spreads tightened across tenor and rating bands by 1-10bps during the month and continued to remain below the long-term averages. Credit spreads are expected to remain compressed as OPR is expected to remain unchanged for most of 2024, which would limit movements in benchmark MGS. Corporate bonds primary issuances will continue to focus on higher rated issuances, while lower rated bonds with healthy credit fundamentals will be highly sought after which could suppress spreads further.

We maintain our preference on the credit segment for stable and higher total return. Given the tight credit spreads, we will look to take profit on overvalued credits but will continue to stay overweight in the credit segment. We will continue to participate actively in the primary issuances and also look for pocket of opportunities with some price disparity seen currently within the credit segment.

For government bonds, we propose to have tactical positions on benchmark government bonds and continue to buy on weakness especially on the longer end of the curve on the back of continued institutional support.

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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 February 2024

Disclaimer:
The benchmark performance is not a guide to future performances which may differ. The performance of the fund is not guaranteed. The value of the fund will fluctuate and may fall below the amount of premiums paid and the fund value depends on the actual performance of the underlying investment. This material is for information purposes only and is subject to change at any time without notice. Sun Life Malaysia does not guarantee its accuracy, completeness, correctness or timeliness for any purpose or reason. This information should not be considered as advice or recommendation in relation to your account or particular investment objectives, financial situation or needs. You may not revise, transform, or build upon this material without prior written consent of Sun Life Malaysia. Before acting on any information you should seek independent financial advice. Sun Life Malaysia may suspend the unit pricing and defer the payment of benefits, other than death and total and permanent disability benefits, subscription or redemption of units, switching of funds, under this contract for a reasonable period in exceptional circumstances, such as and including intervening events resulting in temporary closure of any stock exchange.