Sun Life Malaysia

Sun Life Malaysia Conservative Fund
October 2018

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	30.65 million units (31 October 2018)	Fund Size	RM40.74 million (31 October 2018)
Unit NAV	RM1.3292 (31 October 2018)	Dealing	Daily (as per Bursa Malaysia trading day)
Fund Manager	CIMB-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		

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
76.77%	6.14%	-	17.09%	100.00%

TOP HOLDINGS OF THE FUND

Bond Issuer	Coupon	Maturity Date	%	Bond Issuer	Coupon	Maturity Date	%
MMC Corporation Berhad	5.95%	12/11/2027	12.93	GENM CAPITAL BHD	4.98%	11/07/2023	6.30
Mumtaz Rakyat Sukuk Berhad	4.95%	18/06/2021	12.59	Development Bank MTN 1826D	5.30%	27/04/2023 – Tranche 17	6.23
Fortune Premiere Sdn Bhd IMTN	4.65%	21/12/2022	12.43	YTL Power	5.05%	3/5/2027	5.09
Tenaga Nasional Berhad	4.98%	27/08/2038	9.91	Fortune Premiere Sdn Bhd IMTN	4.85%	7/9/2023	4.95
WCT Hldgs Bhd	5.32%	11/05/2022	6.36	GII Murabahah	4.07%	30/09/2026	3.66

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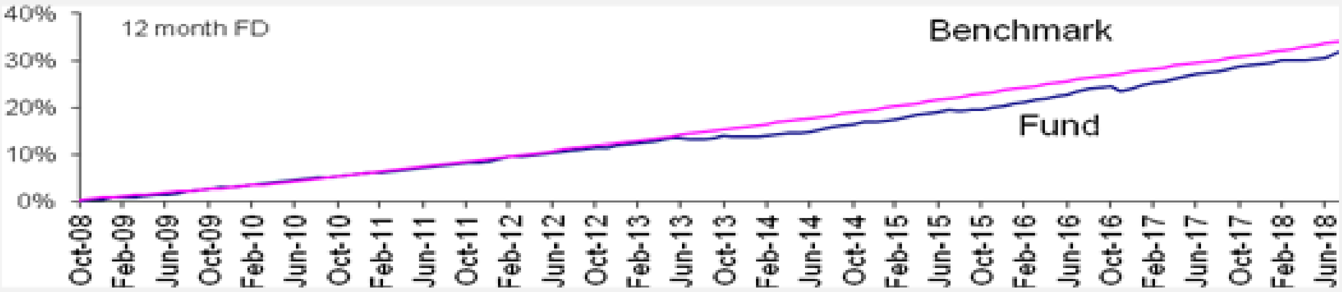
PERFORMANCE RECORD



%	YTD	1M	3M	6M	1-Year	3-Year	Since Inception
Fund*	2.87	0.26	1.10	2.18	3.38	11.14	32.92
Benchmark	2.72	0.27	0.81	1.64	3.21	9.85	35.01

** 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:

In October 2018, MYR fixed income market continue to face profit taking activities which drove the yield curve steeper, especially on the long-end of the curve. The re-pricing of the yield curve mainly came from government bond auctions (i.e. the 20-year MGS re-opening and the 10-year MGII re-opening) which saw the issuance size at the top end of the estimates. Combining with talks of higher fiscal deficits in 2018 and the risk of sovereign rating downgrade by international rating agencies, the 3-, 5-, 7-, 10-, 15-, 20-, and 30-year MGS widened by 3 - 11bps and closed at 3.66% (+7bps), 3.85% (+5bps), 4.04% (+5bps), 4.12% (+3bps), 4.60% (+11bps), 4.80% (+10bps) and 4.96% (+5bps) respectively.

On the economic front, the Sep-18 CPI was below consensus at 0.3% YoY even after the full implementation of SST. Target fuel subsidy in 2019 and review of SST good list (likely by year-end) will likely to keep inflation pressure low. The 11th Malaysia plan midterm review saw GDP target reduce from 5% - 6% to 4.5% - 5.5% while inflation rate averaging 2% - 3% per annum. Both are positive factors to support stable/dovish policy rate. On Budget 2019, we saw a delayed in fiscal consolidation path where the 2018 fiscal deficit will widened to 3.7% of GDP (from 2.8%) and gradually reduce to 3.4% in 2019, 3.0% in 2020 and 2.8% in 2021. While most rating agencies praised the new government's commitment in fiscal consolidation, they are concerned with the short-term increase in debt issuance and the increase reliance on petrol related revenue. Watch out for risk of negative rating announcement.

FUND MANAGER'S COMMENTS (CONTINUED)

Outlook & Strategy:

On Fixed Income strategy, 4Q18 will see an increase of government bond supply by circa RM10bil to fund the added fiscal deficit that is expected in 2018. While BNM have added private placement for the remaining auctions to alleviate supply pressure, there is still a risk of yield curve re-pricing if any of these auctions receive weak bid-to-cover ratio. While certain part of the yield curve does look cheap (notably the long-end) on historical spread basis, investors need to factor in potential higher government bond supply given that fiscal deficit will likely remain until year 2021. On policy rate, we think BNM will likely to maintain OPR unchanged at 3.25% given that there is a structural shift in lower GDP growth potential for the remaining of 11th Malaysia Plan. Nevertheless, investors can expect some knee-jerk reaction if rating agencies downgrade or put Malaysia rating on negative outlook. On credit risk, we remain selective on sector and continue to favor AA-rated issuers on better valuation.

Source : CIMB-Principal Asset Management Bhd
Date : 31 October 2018

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