Sun Life Malaysia Conservative Fund

March 2021

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	31.68 million units (31 March 2021)	Fund Size	RM46.47million (31 March 2021)
Unit NAV	RM1.4670 (31 March 2021)	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
83.05%	4.17%	-	12.78%	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	6.01	YTL Power International Bhd	4.65%	24/08/2023	3.34
WCT Holdings Berhad	5.32%	11/05/2022	5.56	Ambank Bhd	4.98%	15/11/2028	2.82
GENM Capital Bhd	4.98%	11/07/2023	5.53	Edra Energy Sdn Bhd	6.71%	05/01/2038	2.57
Fortune Premiere Sdn Bhd	4.65%	21/12/2022	4.46	UniTapah Sdn Bhd	6.15%	12/12/2030	2.48
MMC Corporation Bhd	5.95%	12/11/2027	3.58	Sarawak Energy Bhd	4.70%	24/11/2028	2.30

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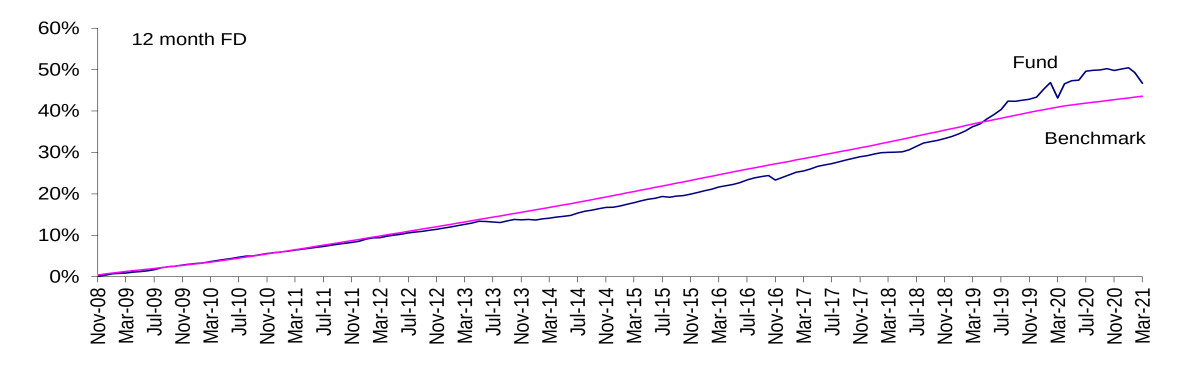
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	-2.28	-1.73	2.49	12.83	20.57	37.82	46.70
Benchmark	0.44	0.15	1.87	8.36	15.21	34.77	43.56

** 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

During the month, the overall MGS yield curve twisted upward by 27-32bps except for MGS 30 years which only moved up by 6nps as the stock was included in JPM GBI EM index, bringing up Malaysia's weightage by 0.12% to 7.26%. Overall, the sovereign bonds ended stronger than beginning of the month arising from quarter end rebalancing inflows as well as the relief from FTSE Russell's decision to maintain Malaysia in the WGBI. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGS yields closed at 2.37% (+27bps), 2.76% (+32bps), 3.09% (+27bps), 3.24% (+17bps), 4.00% (+15bps), 4.23% (+27bps) and 4.38% (+6bps) respectively at the end of March.

Outlook & Strategy

For domestic economic data, BNM stands pat on OPR and note that global recovery is gaining momentum, and risk to growth have abated slightly, but still tilted to the downside. MPC expects headline CPI to temporarily spike in 2Q2021, before smothering out in 2H2021. On fiscal space, the latest RM20bn stimulus package (including RM11bn one-off direct fiscal spending) is projected to raise the 2021 fiscal deficit to 6% of GDP (from official guidance 5.4%). In our view, we believe the additional spending is required to secure 2021 projected growth at 6.0 – 7.5% after the introduction of MCO2.0 in 1Q21. BNM released 2020 annual report and keep the growth range unchanged at 6.0 – 7.5% for 2021, reflecting its confidence in fiscal and other non-monetary support measures. While headline inflation may spike to above 5% in 2Q21, BNM expects this to be transitory and full year inflation is still within acceptable levels of 2.5 – 4.0%. Risk to 2021 growth remains tilted to downside, mainly from pandemic-related factors. From the report, we believe negative output gap will likely last until end of 2021 and the earliest timeline for BNM to move interest rate higher is in 1H2022.

For MYR fixed income strategy, we are more upbeat with bonds in 2Q21 in view of sustained UST yields below 1.70%. There is also lack of drivers for higher US yields seeing there is a lack of stimulus news other than President Biden saying an infrastructure spending package with only scant details for the time being. Domestically, the main challenge that is still weighting on bond market sentiment is the ongoing pension withdrawal concern. While RM32.7bn (out of the RM52.5bn approved withdrawal) has already been credited to members of the pension plan, bulk of withdrawal pressure is likely to be in 2Q2021 and should anchor the bond yield steeper than regional peers. While MGS term spreads tested higher again in 1Q21 amidst global bond rout and challenging fundamental in domestic economies, the steeper curve now may start to attract real money foreign investors as policy tightening is unexpected to arrive until 1H2022. We now look forward to 3Q21 to be the window for long-end term spreads to tighten closer to long-term average. The risk to our forecast is the unexpected delay is global and domestic recovery, higher funding requirement for fiscal stimulus and any potential political risks.

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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 : 31 March 2021