Sun Life Malaysia Conservative Fund
June 2024

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	35.21 million units (28 June 2024)	Fund Size	RM57.55 million (28 June 2024)
Unit NAV	RM1.6342 (28 June 2024)	Performance Benchmark	12 month FD
Fund Manager	Principal Asset Management Bhd	Frequency and Basis of Unit Valuation	The unit price determined daily based on the value of our holdings in the target fund, net of expenses, divided by the total number of nits in that fund
Taxation	8% of annual investment income	Other Charges	Inclusive of auditor fee & transaction charge
Target Market	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	Fund Management Charges	Management Fee: 1.0% p.a

ASSET ALLOCATION OF THE FUND

Fixed income securities	Cash
Minimum 80% of Net Asset Value (NAV)	Balance of fund

SECTOR ALLOCATION OF THE FUND

Corporate Bond	Government Bond	Short Term Paper	Cash	Total
89.13%	8.01%	0.00%	2.86%	100.00%

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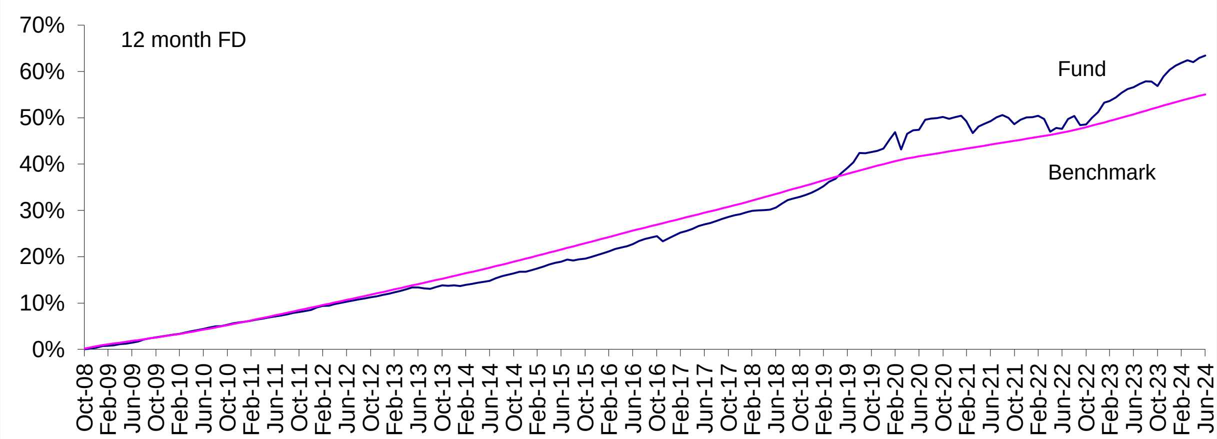
TOP HOLDINGS OF THE FUND

Bond Issuer	Coupon	Maturity Date	%	Bond Issuer	Coupon	Maturity Date	%
Sarawak Energy Bhd	5.50%	04/07/2029	4.78	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.73
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.06	GII Murabahah	4.291%	14/08/2043	2.16
RHB Bank Bhd	3.65%	28/04/2031	3.75	UniTapah Sdn Bhd	6.15%	12/12/2030	1.95
Ponsb Capital Bhd	4.96%	28/12/2028	2.85	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.954%	12/01/2037	1.93
MMC Corporation Bhd	5.95%	12/11/2027	2.79	DanaInfra Nasional Bhd	4.49%	23/10/2043	1.83

PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	1.93	0.31	4.37	9.49	17.48	42.34	63.42
Benchmark	1.31	0.21	2.84	7.52	12.42	31.80	55.03

** Calculation of past performance is based on NAV-to-NAV*

Source: Lipper

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FUND MANAGER'S COMMENTS

Market Review

The MGS yield curve bull steepened in the month of June as we saw yields for the 7-year and below falling between 4 to 6bps whilst the 10-year and longer end fell between 1 to 3 bps. The 30-year closed unchanged. The MGS curve moved in tandem with the movements of US Treasuries as it moved lower fueled by signs of inflation moderating, thereby prompting market expectations of Fed rate cuts. Meanwhile QoQ, yields were unchanged for the 10-year whilst the 3-year and longer end were higher by 1 to 5bps. Only the 5y was lower by 1bps. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.53% (-6bps), 3.65% (-4bps), 3.80% (-5bps), 3.88% (-3bps), 4.01% (-2bps), 4.12% (-1bps) and 4.22% (-0bps), respectively in June.

Like the MGS curve, the GII yield curve also bull steepened with yields on the 3- to 7-year falling between 3 to 6bps. The 3-year GII fell 6bps the most during month driven by higher supply. Meanwhile the 10-year and above, fell between 1 to 2bps. QoQ, yields were higher across the curve for the GII curve. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGII closed at 3.52% (-6bps), 3.67% (-3bps), 3.78% (-3bps), 3.89% (-2bps), 4.01% (-1bps), 4.14% (-2bps), and 4.24% (-1bps) respectively in June.

Corporate bond yields continued to fall on a monthly basis for the AAA and AA corporate bond yield curve, except for the 10-year AAA which remained largely unchanged. Credit spreads movement were mixed in June with the spreads tightening between 1 to 3bps for the 7-year and above tenures for AAA and AA rating band except for the 10-year. Spreads for 10-year in the AA rating band widened by 3bps. Meanwhile, for the single A rating band, spreads widened across the board for all tenures between 1 to 5bps.

Data released during the month showed that, Malaysia's inflation climbed to 2.0% in May compared to a 1.8% hike in April. This was driven by price increases in the main groups of housing, water, electricity, gas and other fuels ("HWEG") (May: 3.2%, Apr: 3.0%) and a hike in restaurant & accommodation services. The HWEG increase was attributable to higher housing and water tariff hikes. Core inflation increased by 1.9% in May 2024, similar to April.

Meanwhile, the blanket diesel subsidy in Malaysia ended on 10th June with diesel prices increasing by 56% to RM3.35/litre. Diesel prices will thus be 'free float' and updated every Wednesday, 5pm.The tiered subsidised diesel prices will remain unchanged at a) RM2.15/litre for 400k logistic vehicles from 23 commercial sectors; b) RM2.15/litre for diesel users in East Malaysia; c)RM1.88/litre for public transport vehicles and d) RM1.65/litre for fishermen.

Following the diesel subsidy removal on 10 June, diesel sales have dropped 30% in the 1st week post subsidy rationalization. According to the Finance Minister II, diesel sales at the country's borders showed a 40% decline, confirming there were activities of diesel smuggling. The expected diesel subsidy savings is around c.RM4 billion annually with the impact to GDP and CPI minimal at around c0.2% GDP and +10bps respectively. No changes have been made by BNM to headline inflation forecast of 2-3.5% for 2024.

As for petrol RON95 subsidy rationalization, PM Anwar announced on 2 July that the Government is waiting for the diesel subsidy rationalization to stabilise before any implementation and that no policy paper has been drafted yet albeit some economists expect an early announcement.

PM Anwar also announced that the rates of civil servant salary increase, which will be implemented from December this year, will be announced before the tabling of Budget 2025 in October. On May 1, it was announced that civil servants will enjoy a salary hike of more than 13% beginning in December.

Separately, the Ministry of Finance ("MoF") reported that a total of RM10.86 billion (involving 3.45 million members) has been transferred to into EPF's Flexible Account 3 as of 10 June. As for members below 55, the total sum was RM6.98 billion (i.e. 23% of EPF members below 55). Members are allowed to transfer a portion of their Account 2 to the Flexible Account (Account 3) from May 12 to August 31, hence the final sum will be higher.

FUND MANAGER'S COMMENT (CONTINUED)

Outlook & Strategy

The next Monetary Policy Committee meeting will be held on 11 July. Economic data releases for the month include Unemployment Rate on 10 July, Industrial Production on 12 July, June trade data on 18 July, Preliminary GDP Growth Rate on 19 July, June CPI on 24 July and June PPI on 26 July.

Slightly lower gross MGS/GII supply for 2024 should provide positive catalyst for the local bond market. Additionally, the market is past the heavy net supply in the first four months and will turn favorable for the remaining part of the year.

In June, there will be three auctions with no auction on new issuances scheduled. These auctions will comprise the reopening auction of the 5-year MGS 8/29, the 10-year MGII reopening 11/34 and the 15-year MGS 4/39.

We continue to expect OPR to remain at 3.00% based on the current landscape, with no significant domestic catalysts expected for now. We are watchful over the CPI numbers which are higher but are cognizant that it continues to be within the central bank's expected range.

We maintain our overweight position in corporate bonds relative to government securities but will remain selective on adding to the portfolio due to the continued compression of credit spreads. To generate alpha, we may tactically engage in trading of government securities should the opportunity arise.

On the back of a stable interest rate outlook and positive supply demand dynamics, we maintain our overweight duration bias of 1.10x, with a duration band of +0.20/-0.10 relative to the benchmark.

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 : 28 June 2024