Sun Life Malaysia Asia Pacific Dynamic Income Fund

November 2020

FUND OBJECTIVE

The Fund aims to provide regular income by investing primarily in the Asia Pacific ex Japan region and at the same time aims to achieve capital appreciation over the medium to long-term.

FUND DETAILS

Launch Date	13 February 2015	Domicile	Malaysia
Currency	Ringgit Malaysia	Launch Price	RM1.0000
Units in Circulation	119.69 million units (30 November 2020)	Fund Size	RM189.88 million (30 November 2020)
Unit NAV	RM1.5864 (30 November 2020)	Dealing	Daily (as per Bursa Malaysia trading day)
Fund Manager	Principal Asset Management Bhd	Target Fund	Principal Asia Pacific Dynamic Income Fund
Benchmark	8% p.a.	Taxation	8% of annual investment income
Risk Profile	Suitable for investors: ▪ Have a medium to long-term investment horizon ▪ Want a well-diversified portfolio of Asia Pacific ex Japan region ▪ Willing to take moderate risk for potentially moderate capital return over the long-term	Fees	▪ Sun Life Malaysia does not impose any fund management charge on Sun Life Malaysia Asia Pacific Dynamic Income Fund. ▪ 1.8% pa of fund management charge is applied on the target fund's NAV by Principal Asset Management Bhd.

ASSET ALLOCATION OF THE TARGET FUND

Equities (Foreign)	Cash
95.65	4.35%

Sun Life Malaysia Assurance Berhad 199001005930 (197499-U)
Level 11, 338 Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur
Telephone (603) 2612 3600 Facsimile (603) 2698 7035 Client Careline 1300-88-5055 sunlifemalaysia.com

Sun Life Malaysia
Asia Pacific Dynamic Income Fund
November 2020

SECTOR ALLOCATION OF THE TARGET FUND	
Information Technology	21.18%
Industrials	15.12%
Financials	14.47%
Consumer Discretionary	12.93%
Materials	11.96%
Communication Services	7.20%
Energy	5.65%
Health Care	3.09%
Real Estate	2.05%
Consumer Staples	2.00%
Cash	4.35%
Total	100.00%

TOP HOLDINGS OF THE TARGET FUND	
LG Chem Ltd (South Korea)	7.67%
Tencent Hldg Ltd (Hong Kong)	7.20%
Alibaba Group Holding Ltd (Cayman Islands)	7.20%
Samsung Electronics Co. Ltd (South Korea)	6.78%
HDFC Bank Ltd (India)	4.26%
Reliance Industries Ltd (India)	3.68%
Kingboard Laminates Hldg Ltd (Hong Kong)	3.26%
Techtronic Industries Co (Hong Kong)	3.07%
BHP Group Ltd (Australia)	2.97%
Sany Heavy Industry Co Ltd (China)	2.69%
Total	48.78%

PERFORMANCE RECORD

This fund feeds into Principal Asia Pacific Dynamic Income Fund ("target fund") with the objective to provide regular income by investing primarily in the Asia Pacific ex Japan region and at the same time aims to achieve capital appreciation over the medium to long-term.

Table below shows the investment returns of Sun Life Malaysia Asia Pacific Dynamic Income Fund versus its benchmark as at 30 November 2020:

%	YTD	1M	6M	1-Year	3-Years	5-Years	Since Inception
Fund*	13.44	5.14	23.95	16.53	20.26	59.04	58.64
Benchmark	7.31	0.64	3.92	8.00	25.97	46.93	56.67

** 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

The Fund was up 5.14% in MYR terms in November, outperforming the absolute return benchmark by 450bps. Sector wise, Materials, Financials, and Technology were the top contributors.

The MSCI AC Asia Pacific ex Japan Index surged 9.0% in USD terms in November, led by Thailand, Singapore and Indonesia. Investors were encouraged by positive news flow surrounding potential vaccines and the Biden US presidential election victory with a likely legislative gridlock. Positive economic data continue to support favorable stock markets going forward. US annualized 3Q GDP surged 33.1% after it bottomed in 2Q (-31%). In China, Markit November manufacturing PMI came at 54.9 compared to 53.6 in October. Other notable data like Korea and Taiwan PMIs remains well above 50 indicating further expansion. While the number of new infections is still rising rapidly in certain countries especially in Europe and the US, we maintain our view that the global economy should continue its recovery over the next 12 months. Recent positive announcements surrounding the efficacy of vaccines by Pfizer/BioNTech and Moderna means that vaccines are likely to be introduced soon for emergency use. Monetary and fiscal policies should also remain supportive with the US likely to introduce another fiscal stimulus to support the economy. Earnings revision over a 3-month rolling basis has turned positive for Asia Pacific ex Japan region and we expect earnings growth of 29% versus consensus of 25% in 2021. Hence, we rate Asian equities a BUY over a 12-month horizon. The main risks that could derail the positive fundamental outlook are (1) sharp resurgence of Covid-19 globally leading to more severe lockdowns and stalling global economic growth and (2) potential policy missteps such as premature lifting of stimulus measures. We remain positive on China and the more developed Asian economies. We have increased our exposure to emerging markets such as India and Indonesia as growth broadens out. Sector wise, the preference has been for cyclical or economic sensitive sectors such as industrial, materials and financials. Our focus continues to be on companies that benefit from structural growth drivers and quality companies that are long-term winners with significant brand equity or are market share gainers. The least preferred sectors are utilities and consumer staples.

RISKS

All investment carries some form of risks. The potential key risks include but are not limited to the following:

Stock specific risk	Any irregular fluctuation of the value of a particular stock may affect the unit price. In general, the value of a particular stock fluctuates in response to activities of individual companies and in response to market conditions. The impact is however reduced as the target fund invests in a wide portfolio of investments; thus, spreading the element of risk through diversification. Diversification can be achieved by investing in various companies across different industries, sectors or even countries that are uncorrelated. In addition, Principal Asset Management will undertake an active bottom-up investment approach to ensure that the fundamentals of the stocks invested in are favourable.
Country risk	When a fund invests into foreign markets, the foreign investments portion of the target fund may be affected by risks specific to the country which it invests in. Such risks include adverse changes in the country's economic fundamentals, social and political stability, laws and regulations and foreign investments policies. These factors may have adverse impact on the prices of the target fund's investment in that country and consequently may also affect the target fund's NAV and its growth. To mitigate these risks, the Principal Asset Management will select securities and collective investment schemes that spread across countries within its portfolio in an attempt to avoid such events. Decision on diversification will be based on its constant fundamental research and analysis on the global markets.
Liquidity risk	Liquidity risk can be defined as the ease with which a security can be sold. If a security encounters a liquidity crunch, the security may need to be sold at unfavourable price. This in turn would depress the NAV of the target fund. Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the target fund with more apparent liquidity risk, Principal Asset Management will continuously conduct research and analysis work to actively manage the asset allocations.
Currency risk	This risk is associated with investments that are quoted and/or priced in foreign currency denomination. Malaysian-based investors should be aware that if the RM appreciates against the currencies in which the portfolio of the investment is denominated, this will have an adverse effect on the NAV of the target fund and vice versa. Investors should note that any gains or losses arising from the movement of the foreign currencies against the RM may increase or decrease the capital gains of the investment. Therefore, investors should realise that currency risk is considered as one of the major risks to investments in foreign assets due to the volatile nature of the foreign exchange market. The investment manager could utilise two pronged approaches in order to mitigate the currency risk: firstly, by spreading the investments across different currencies (i.e. diversification) and secondly by hedging the currencies when it is deemed necessary.

RISKS (CONTINUED)

Credit (default) and counterparty risk	When the target fund invests in bond and/or conducts OTC transactions, this may involve a certain degree of credit (default) and counterparty risk with regards to the issuers and counterparties. Generally, credit (default) and counterparty risk is the risk of loss due to the issuers' or counterparties' nonpayment or untimely payment of the investment amount as well as the returns on investment including accrued coupon payments. This may result in a credit downgrade which will cause a decline in value of the investment and subsequently depress the NAV of the target fund. In addition, each counterparty and issuer that the target fund dealt with may issue a number of securities or a security with different tranches. Each of these securities carries its own credit rating. Thus, the target fund may expose to varying degree of credit (default) and counterparty risk given that each security or each tranche of the security has a different level of risk exposure. Usually this risk is more apparent for an investment with a longer tenure, i.e. the longer the duration, the higher the credit (default) and counterparty risk. Credit (default) and counterparty risk can be managed by performing continuous bottom up and top down credit research and analysis to ascertain the creditworthiness of its counterparties and/or issuers as well as the credit quality of their issues. In addition, Principal Asset Management imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the target fund. For this target fund, the bond investment must satisfy a minimum rating requirement of at least “BBB3” or “P2” by RAM or equivalent rating by MARC or by local rating agency(ies) of the country or “BB” by S&P or equivalent rating by Moody's or Fitch. The target fund's placements of deposits are subject to credit (default) and counterparty risk. This is the risk of loss due to the counterparty's nonpayment or untimely payment of the investment amount as well as the returns on investment. This may lead to a default in the payment of principal and/or interest income and ultimately a reduction in the value of the target fund. Principal Asset Management aims to mitigate this risk by performing bottom-up and top-down credit research and analysis to determine the creditworthiness of its counterparties, and impose investment limits on exposures for counterparties with different credit profiles as a precautionary step to limit any loss that may arise directly or indirectly as a result of a defaulted transaction.
Interest rate risk	In general, when interest rates rise, bond prices will tend to fall and vice versa. Therefore, the NAV of the target fund may also tend to fall when interest rates rise or are expected to rise. However, investors should be aware that should the target fund hold a bond till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the NAV shall not be affected at maturity. In order to mitigate interest rates exposure of the target fund, Principal Asset Management will manage the duration of the portfolio via shorter or longer tenured assets depending on Principal Asset Management or its fund management delegate's view on the future interest rate trend, which is based on its continuous fundamental research and analysis.

RISKS (CONTINUED)

Risk associated with temporary defensive positions	When Principal Asset Management decides to take temporary defensive positions, like divesting from equity positions and investing in fixed income instruments and/or money market instruments, it may cause the target fund to underperform its benchmark (i.e. target return of 8% per annum). This is because not all of these investment decisions will be correct. To manage the risk, Principal Asset Management will perform continuous fundamental research and analysis on regional and global macroeconomic trends.
Risk of investing in emerging markets	Investing in assets from the emerging markets generally entails a greater risk (potentially including considerable legal, economic and political risks) than investing in assets from the markets of industrialized countries. Emerging markets are markets that are, by definition, "in a state of transition" and are therefore exposed to rapid political change and economic declines. During the past few years, there have been significant political, economic and societal changes in many emerging-market countries. In many cases, political considerations have led to substantial economic and societal tensions, and in some cases these countries have experienced both political and economic instability. Political or economic instability can influence investor confidence, which in turn can have a negative effect on exchange rates and security prices in emerging markets. The exchange rates and the prices of securities in the emerging markets are often extremely volatile. Changes to these security prices can be caused by interest rates, changes to the balance of demand and supply, external forces affecting the market (especially in connection with important trading partners), trade-related, tax-related or monetary policies, governmental policies as well as international political and economic events. In most cases, the securities markets in the emerging markets are still in their primary stage of development. Markets in emerging market countries are frequently characterized by illiquidity in the form of lower trading volumes of the listed securities. In comparison with investments in the developed markets, securities in the emerging markets may face a higher risk of price drop and increased volatility in the security prices which can lead to the potential for investors to reduce their exposure to investment in securities in the emerging markets securities as compared to investment in securities of the developed markets. As such, investors should bear in mind that investments in emerging markets are subject to higher price volatility and therefore will tend to have a higher investment risk that will affect the target fund's growth. Principal Asset Management will attempt to mitigate all these risks through its active asset allocation management and diversification, in addition to its continuous bottom-up and top-down research and analysis.

Source : Principal Asset Management Bhd
Date : 30 November 2020