Sun Life Malaysia Conservative Fund

March 2022

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	32.18 million units (31 March 2022)	Fund Size	RM48.17 million (31 March 2022)
Unit NAV	RM1.4970 (31 March 2022)	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
84.05%	8.07%	-	7.88%	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	5.71	RHB Bank Bhd	3.65%	28/04/2031	2.39
MMC Corporation Bhd	5.95%	12/11/2027	3.44	GII Murabahah	4.417%	30/09/2041	2.37
Projek Lebuhraya Usahasama Bhd	4.80%	12/01/2027	3.28	UniTapah Sdn Bhd	6.15%	12/12/2030	2.35
YTL Power International Bhd	4.65%	24/08/2023	3.17	Sarawak Energy Bhd	4.70%	24/11/2028	2.19
Edra Energy Sdn Bhd	6.71%	05/01/2038	2.49	Kapar Energy Ventures Bhd	4.95%	03/07/2026	2.17

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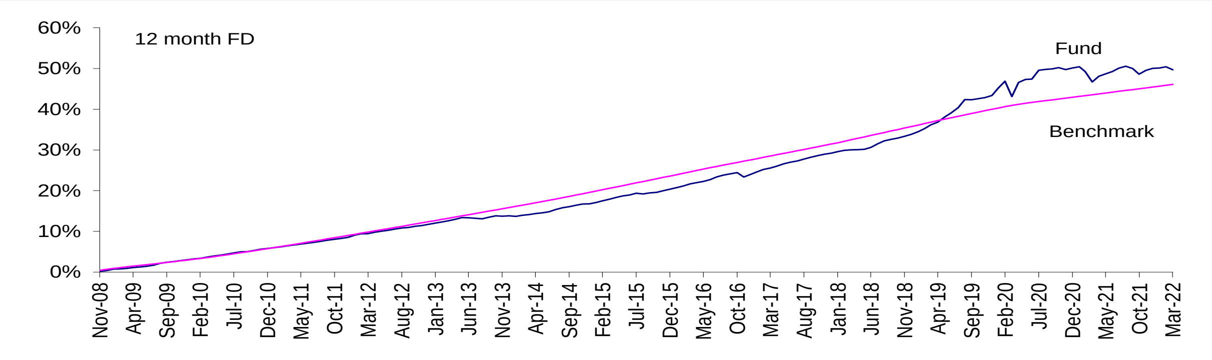
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	-0.24	-0.49	2.04	9.94	19.24	36.79	49.70
Benchmark	0.44	0.15	1.76	6.75	13.68	33.01	46.09

** 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 steepened in March, as the curve rose sharply across the curve by 12 to 31 bps. During the month, the MGS was under selling pressure tracking higher US Treasury ("UST") yields movements arising from the hawkish sounding Fed in combating inflation concerns. The sell down was also partially caused by the new round of pandemic driven withdrawals announced by the Employees Provident Fund ("EPF"). The 3- , 5- , 7- , 10- , 15- , 20- and 30-year MGS yields closed at 3.19% (+31bps), 3.48% (+12bps), 3.81% (+19bps), 3.84% (+20bps), 4.27% (+16bps), 4.45% (+22bps) and 4.55% (+15bps) respectively at the end of March. There were three auctions in the month of March. The reopening of 15-year MGS 4/2037 which became the new 15-year benchmark saw a decent bid-to-cover ("BTC") of 1.986x for a total offering of RM3.0 billion. The total offering of RM5.0 billion for the reopening of 20-year MGII 9/2041 saw a BTC of 1.884x. The last tender for the month was the 3-year benchmark MGS 3/2025 which drew a modest BTC of 1.666x despite a larger than expected offering size of RM5.0 billion. Corporate bond credit spreads tightened for the month across all tenures and rating segments as the higher sovereign yields pressured spreads. The impact of spreads compression was more prominent on the front end of the curve as demand on short-term corporate bonds remained intact amid the rise of short-term MGS yields. Credit spreads continue to be below long-term averages. Corporate bond primary issuances in March improved as total issuances increased to RM11.2 compared to total issuance of RM2.6 billion in February.

Outlook & Strategy

As Malaysia enters into the "Transition to Endemic" phase of Covid 19 on 1st April 2022 with all restrictions on business operating hours removed, borders will also reopen on 1st April as the country seeks to revive economy. Travelers who have received full vaccinations are not required to go through quarantine. Bank Negara Malaysia ("BNM") kept its Overnight Policy Rate ("OPR") unchanged at 1.75% as widely expected in its MPC meeting on 3 March 2022. The official policy statement appears to be neutral suggesting there is no plan for an immediate rate hike. BNM maintained their view that both the global and domestic economy would continue to recover and strengthen in 2022 but highlighted new risk from the ongoing Russia-Ukraine conflict that could tilt the outlook to the downside. Along the release of the 2021 Annual Report, BNM lowered the 2022 GDP slightly to 5.3%-6.3% from the earlier MOF's forecast of 5.5%-6.5%.

FUND MANAGER'S COMMENTS (CONTINUED)

Despite risks from higher costs and price pressures, continued Covid 19 uncertainties and ongoing geopolitical tensions, the recovery will be supported by continued expansion in external demand, borders reopening, improvement in labour market conditions, continued access to targeted policy measures. CPI is forecasted to remain manageable averaging between 2.2% and 3.2% in 2022. High input costs are projected to affect selected fresh food prices but will be partly mitigated by price controls. Meanwhile, core inflation will trend higher between 2.0 and 3.0% in 2022 from the subdued +0.7% last year mainly attributable to stronger demand conditions amid lingering cost pressures. BNM states that the monetary policy will continue to support a sustainable economic recovery while preserving price stability. The Monetary Policy Committee ("MPC") is mindful of the potential upside risks to inflation and opines that monetary policy may not be the best tool to react to deal with cost-push inflation. Going forward, BNM will focus on ensuring the degree of monetary accommodation is consistent with the expected improvement in economic conditions amid moderate upward price pressures. Data released in March showed that in February, headline CPI moderated to 2.2% YoY as compared to January's CPI of 2.3% and market consensus of 2.4% amid a slowdown in cost of transport but inflation was unchanged for both alcoholic beverages & tobacco and education. Meanwhile, food prices went up the most since January 2018.

Valuation on MGS has turned attractive as its term spreads have widened following the recent rise in yields and may present some trading opportunities. However, we remain cautious that the local government bond will continue to remain volatile given the rising trend in global bond yields and heavy primary bond supply in this quarter domestically. We continue our preference on the credit segment as the yield pickup provides a buffer against rising yields. We continue to prefer to participate in primary corporate bond issuances as pricing is expected to reflect forthcoming interest rate normalization and weaker market sentiment. However, we expect there will be more primary corporate bond supply amid the imminent interest rate normalization by BNM and we are cognizant of the potential repricing risk. As such, we will take profit and switch to the new primary credits to mitigate the near-term volatility. We are cognizant that most corporate bond spreads are currently below its long-term average and remain cautious of potential repricing in the secondary market. Overall, we maintain our focus in corporate bonds with neutral duration target as external headlines are expected to continue to dampen sentiments in the domestic bond market.

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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
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