Sun Life Malaysia Conservative Fund

January 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	32.75 million units (31 January 2024)	Fund Size	RM52.81 million (31 January 2024)
Unit NAV	RM1.6124 (31 January 2024)	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
90.93%	5.42%	-	3.65%	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	5.13	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.93
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.33	UniTapah Sdn Bhd	6.15%	12/12/2030	2.14
RHB Bank Bhd	3.65%	28/04/2031	4.08	DanaInfra Nasional Bhd	4.56%	04/05/2046	2.01
Ponsb Capital Bhd	4.96%	28/12/2028	3.10	DanaInfra Nasional Bhd	4.49%	23/10/2043	2.01
MMC Corporation Bhd	5.95%	12/11/2027	3.05	Sarawak Energy Bhd	4.70%	24/11/2028	1.98

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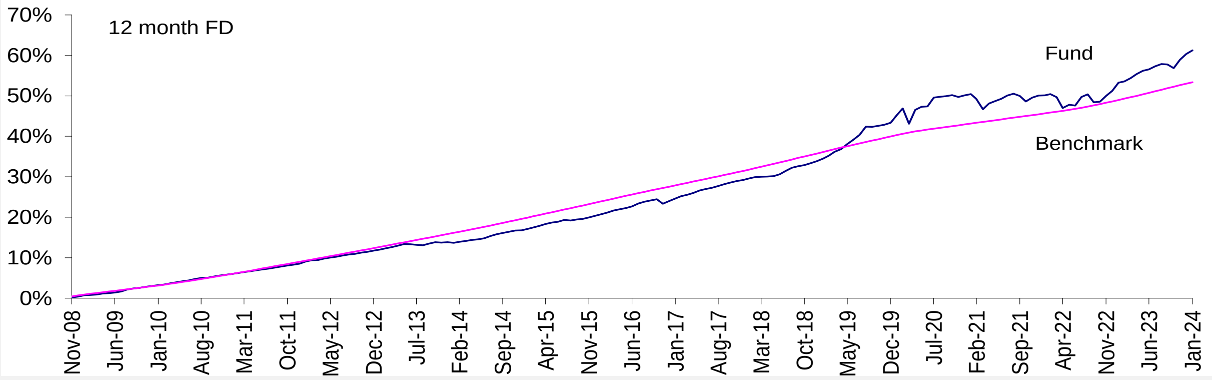
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	0.57	0.57	5.19	7.19	19.88	41.84	61.24
Benchmark	0.22	0.22	2.95	7.14	12.68	32.05	53.36

** 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 January, the Malaysian Government Securities ("MGS") benchmark yield curve moved mostly flat to lower during the month, except for the 10-year MGS which corrected its inverted position against the 7-year benchmark after rallying significantly during the past two months. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.45% (-8bps), 3.61% (-3bps), 3.73% (-1bps), 3.81% (+7bps), 3.98% (unch.), 4.08% (-4bps) and 4.22% (-4bps), respectively in January.

Meanwhile, the MGII yield curve movement were mostly mixed, with weakness seen particularly on the 10-, 15- and 20-year benchmarks amid profit taking activities. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGII closed at 3.46% (-5bps), 3.61% (-3bps), 3.78% (-1bps), 3.84% (+4bps), 3.97% (+1bps), 4.13% (+3bps) and 4.32% (-4bps) respectively in January.

Bank Negara Malaysia's ("BNM") Monetary Policy Committee ("MPC") maintained the Overnight Policy Rate ("OPR") at 3.00% at its first meeting of the year in January as widely expected. Overall, the monetary policy statement shows their stance remains neutral and guided by the assessment of policy reforms and demand conditions. The narrative of the statement did not change very much from November 2023, with BNM highlighting that the tightening cycle has peaked for most central banks, but the monetary policy stance will likely remain tight in the near term.

Headline inflation in December printed 1.5% YoY (Nov'23: 1.5% YoY), which was in line with market consensus. The December 2023 consumer price index ("CPI") brought the annual headline inflation in 2023 to 2.5%, as compared to 3.3% in 2022. Contributing 29.5% to the total CPI, food inflation improved and decelerated further to 2.3% YoY in December from 2.6% in November, trending in line with the easing of global food prices. Core inflation increased at a slower rate of 1.9% in December 2023 as compared to 2% in November 2023 although this remained higher than the overall national inflation rate.

Malaysia's producer price index ("PPI") recorded a decrease of -1.3% YoY in December 2023 (November: -1.5% YoY). The downtrend was attributed to the mining sector due to the decline in extraction of natural gas and extraction of crude petroleum. In 2023, the PPI local production went down -1.9% after a growth of 7.8% in 2022.

Malaysia's unemployment rate eased to 3.3% in November 2023 (Oct'23: 3.4%), which was the level right before the Covid outbreak, as employment growth continued to top labour force growth. Job increases were seen across all sectors with informal jobs hitting a fresh high. The statistics department reported that the job growth in November 2023 continued to expand in the services sector.

FUND MANAGER'S COMMENTS (CONTINUED)

Malaysia's exports declined further by registering a contraction of 10.0% YoY in December as compared to -6.1% YoY in November. The decline was attributed to a broad-based deceleration in most major economic sectors. Malaysia's exports to most of its major trading partners continued to decline, notably to the EU in December. On the other hand, exports to some countries, including China, the US and Japan, improved during the month, although they remained on a contractionary trajectory on a YoY basis. Meanwhile, total imports improved further by 2.9% YoY (compared to 1.5% in November), marking an expansion for two consecutive months. On a cumulative basis, Malaysia's total trade declined by 7.3% in 2023, with both exports (-8.0%) and imports (-9.1%) contracting during the year.

As released by Department of Statistics ("DOSM"), advance estimates based on October to November data showed the Malaysian economy grew by 3.4% in Q42023 vs 3.3% in Q32023. This was below the consensus estimates for a 4.1% increase. Full year 2023 growth is estimated to have moderated to 3.8% YoY (2022: +8.7%) as the boost from Covid reopening faded. By sector, Agriculture and Mining & Quarrying growth improved to 1.2% (3Q23: 0.8%) and 3.7% (3Q23: -0.1%) respectively but was offset by sharp deceleration in construction to 2.5% (3Q23: 7.2%) and slower services growth at 4.7% (3Q23: 5%). Meanwhile, manufacturing was flattish at 0.1% (3Q23: -0.1%).

Outlook & Strategy

Economists expect an uptick in inflation for January to February 2024 on the back of the rationalizing of electricity subsidies effective 1 January 2024 with targeted removal of a 2sen/kWh rebate for households with monthly electricity consumption of 600-1,500 kWh, as well as scheduled water tariff hikes by an average of 22 sen/m3 effective 1 February 2024. It is expected that 87% of households will likely see water bills higher by 20% with lower income groups receiving rebates.

Other subsidy and policy tax changes in the pipeline include a pilot project to test the MySubsidi Diesel system and the oil companies' fleet card system from 1 Feb 2024, with the wider implementation of the tiered pricing mechanism in 2Q24 as well an increase in service tax from 6% to 8% in Mar 2024. There is also the introduction of a luxury goods tax of 5%-10% in May 2024, and a potential targeted subsidy for RON95 petrol in 2H24.

Meanwhile, the government's Central Database Hub (Padu) has recorded a total of 2.38 million individual information update as of 1 February 2024 after launching on 2 January 2024. The database will be used to determine the eligibility of a person for a targeted fuel subsidy that is premised upon one's net disposable income.

The Ministry of Finance currently projects 4-5% for 2024 GDP growth while BNM will release its forecast in its 2023 Annual Report scheduled to be released by end of March 2024, while the market will also be eyeing close BNM's MPC next meeting (second for the year) on 6-7 March 2024.

Other key data to be released in February include among others: December IPI (7 Feb), December Retail Sales (8 Feb), GDP final growth rate (16 Feb), January trade data (20 Feb), January CPI (23 Feb) and January PPI (27 Feb).

Looking ahead, there will be three government bond auctions in February starting with the 7-year reopening of MGS 4/31 followed by the 20-year reopening of MGII 8/43 and the reopening of the 3-year MGS 5/27.

Meanwhile, credit spreads are expected to remain compressed as OPR is expected to remain unchanged for most of 2024, which would limit movements in benchmark MGS. Corporate bonds primary issuances will continue to focus on higher rated issuances, while lower rated bonds with healthy credit fundamentals will be highly sought after which would suppress spreads further.

Our preference for corporate bonds continues this month as we like the yield pick-up it offers on the back of stable credit conditions and generally more positive credit movements seen. Based on the continued OPR pause in January and the softer economic data released, we continue to have an overweight position in corporate bonds against government bonds. At this juncture, we expect OPR to be maintained at 3.00%.

We continue our aim to switch out credit with tighter spreads and shorter duration, to longer duration and better yielding credit. We aim to participate in new credit issuances which we find attractive in terms of valuation and with strong fundamentals.

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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 January 2024