Sun Life Malaysia Conservative Fund
October 2023

Sun Life

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	32.10 million units (31 October 2023)	Fund Size	RM50.36 million (31 October 2023)
Unit NAV	RM1.5687 (31 October 2023)	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
93.07%	4.65%	-	2.27%	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	5.36	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.08
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.47	Edra Energy Sdn Bhd	6.71%	05/01/2038	2.38
RHB Bank Bhd	3.65%	28/04/2031	4.21	UniTapah Sdn Bhd	6.15%	12/12/2030	2.24
Ponsb Capital Bhd	4.96%	28/12/2028	3.25	Sarawak Energy Bhd	4.70%	24/11/2028	2.07
MMC Corporation Bhd	5.95%	12/11/2027	3.20	Kapar Energy Ventures	4.95%	03/07/2026	2.05

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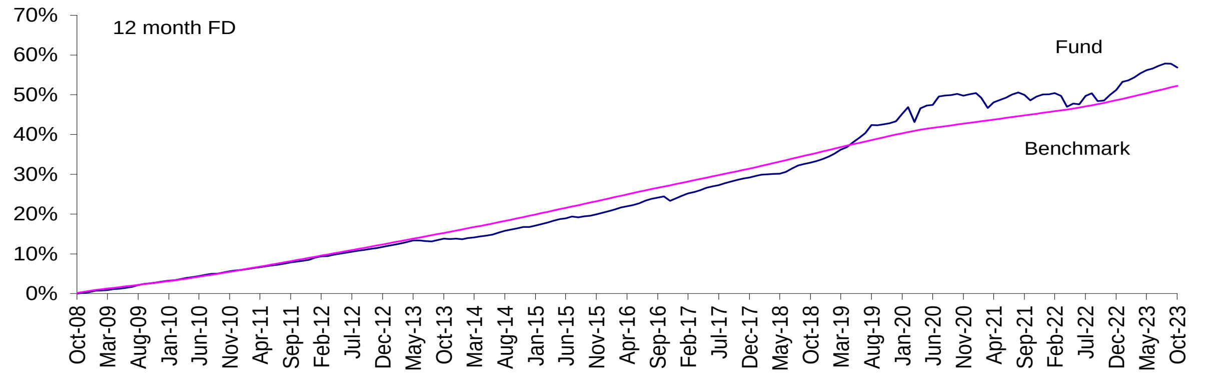
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	3.72	-0.58	5.59	4.44	18.02	37.81	56.87
Benchmark	2.44	0.25	2.91	6.84	12.78	32.11	52.26

** 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 continued to steepen during the month of October as the US Treasuries recorded a sixth straight monthly loss amid the prospect of indefinitely elevated Federal Reserve interest rates and possible growth in the supply of bonds sent yields to multiyear highs. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.70% (+9bps), 3.91% (+14bps), 4.09% (+17bps), 4.10% (+12bps), 4.27% (+9bps), 4.41% (+11bps) and 4.52% (+9bps), respectively in October.

Data released during the month showed that the advanced GDP estimate indicated that Malaysia's 3Q GDP expanded by 3.3% YoY against the 2.9% YoY in 2Q, according to the Department of Statistics Malaysia, which introduced its first-ever quarterly preliminary GDP data. Economic expansion was predominantly driven by the services sector with a 5.1% increase, up from 4.7% in 2Q23. The economic performance for the first nine months of 2023 shows that Malaysia's economy grew by 3.9% YoY (9M22: 9.2%).

Separately, headline CPI eased to 1.9% YoY in September from 2.0% in August, reflecting the lowest reading since March 2021, and below market consensus estimate of 2.2%. The slower price increase for restaurants & hotels at 4.4% in Sep (Aug'23: 4.7%) and food & non-alcoholic beverages at 3.9% (Aug'23: 4.1%) helped to drive down inflation. Moderation in inflationary pressure is a positive for domestic demand, the key driver for economic growth. Core inflation remained at 2.5% in September, the same rate as recorded in August 2023. 9M2023 headline inflation was at 2.8% vs. 3.4% for the full year in 2022.

Malaysia's industrial production index (IPI) inched down by 0.3% YoY in August (July'23: 0.7% YoY). The dip was attributed to the manufacturing sector, which contracted 0.6% in August vs a 0.2% reduction in July, while the electricity sector expanded by 1.9% (Jul'23: 1.5%) and the mining sector grew by 0.1% (Jul'23: 4.2%). Overall, the manufacturing export-oriented industries declined while domestic-oriented industries continued to expand.

Exports in September increased by 8.2% MoM to RM124.5billion as compared to August, while imports expanded by 2.1% MoM to RM99.9billion. As a result, Malaysia continues to register a trade surplus for the 41st consecutive month since May 2020 at RM24.52billion, up by 43% from RM17.31billion a month earlier. However, on a year-on-year bases, trade surplus contracted by 23% as exports fell 13.7% YoY (Aug'23: -18.6%) on the back of lower global demand, uncertainty about commodity prices, and high last year's base effect. The country's imports declined as well by 11.1% YoY (Aug'23:

FUND MANAGER'S COMMENTS (CONTINUED)

Malaysia's Budget 2024 was tabled on 13 October with it being the country's largest ever spending bill with RM393.8 billion, about 2% larger than that of Budget 2023. The Budget 2024 focuses on three main pillars: 1. enhancing governance and the public service delivery, 2. restructuring the economy to boost growth, and 3. uplifting the standard of life for the citizens. With a lower fiscal deficit target for 2024 at 4.3% of GDP (2023: -5.0%, 2022: -5.8%), the government maintains its gradual fiscal consolidation path set out in the updated Medium-Term Fiscal Framework (MTFF) with an average fiscal deficit of 3.5% of GDP (2024-2026). Overall, the Budget 2024 underlines the government's dedication to maintain fiscal discipline via rationalisation of expenditure and broadening the revenue base, while at the same time strengthening the national economy. The larger budget will be funded by higher tax receipts, lower and targeted subsidies, and higher borrowings. Consequently, Malaysia's debt-to-GDP ratio is expected to increase to 64% by end-2024, up from 61.9% (or RM1.15 trillion) as at 1H2023. Following the Budget announcement, we do not foresee any credit rating actions on Malaysia's sovereign rating by any of the three international rating agencies (Moody's, S&P, Fitch).

Meanwhile, corporate bond trading in October declined by -7.9% MoM to RM12.7 billion from RM13.8 billion in the previous month. Overall, corporate credit spreads widened slightly during the month. Those with longer tenure widening the most between +9bps and +11bps. However, credit spreads remain significantly below their long-term averages.

Outlook & Strategy

In November, BNM kept the OPR rate at 3.00% in its last MPC meeting of the year, given the stable domestic inflation and positive economic growth outlook amid the challenging external environment. BNM highlighted that the sharp depreciation of the Malaysian ringgit against the US-Dollar should not impact Malaysia's growth prospects. We expect BNM to keep OPR unchanged at 3.00% for an extended period to strengthen economic growth and maintain the current stable inflation.

Potential upside risk could come from higher inflation due to planned subsidy rationalisation plans and substantial imported inflation if the USD continues to outperform. The recent steepening yield curve could present some appealing opportunities to add duration.

Currently we prefer corporate bonds over government bonds for yield pickup, while credit conditions remain steady. We will look for opportunities to take profit on corporate bonds with tight credit spreads and government bonds that have rallied while reinvest in corporate bonds in the primary market to take advantage of higher spreads compared to the secondary market for yield enhancement. Additionally, in anticipation of higher government bond supply in 4Q23, new long-dated issuances present buy opportunities if they price in additional spreads.

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