# Sun Life Malaysia Conservative Fund
April 2024

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 | 34.22 million units<br>(30 April 2024) | Fund Size | RM55.43 million<br>(30 April 2024) |
| Unit NAV | RM1.6201<br>(30 April 2024) | Dealing | Daily<br>(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:<br>▪ Have a medium to long term investment horizon<br>▪ Want a diversified portfolio of fixed interest securities<br>▪ 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 |
|---|---|---|---|---|
| 88.55% | 6.42% | - | 5.03% | 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 | 4.92 | Projek Lebuhraya Usahasama Bhd Sukuk Plus | 4.80% | 12/01/2027 | 2.81 |
| Edra Energy Sdn Bhd | 6.23% | 05/01/2032 | 4.16 | UniTapah Sdn Bhd | 6.15% | 12/12/2030 | 2.05 |
| RHB Bank Bhd | 3.65% | 28/04/2031 | 3.86 | Projek Lebuhraya Usahasama Bhd Sukuk Plus | 4.954% | 12/01/2037 | 1.99 |
| Ponsb Capital Bhd | 4.96% | 28/12/2028 | 2.99 | Sarawak Energy Bhd | 4.70% | 24/11/2028 | 1.90 |
| MMC Corporation Bhd | 5.95% | 12/11/2027 | 2.95 | Kapar Energy Ventures | 4.95% | 03/07/2026 | 1.87 |

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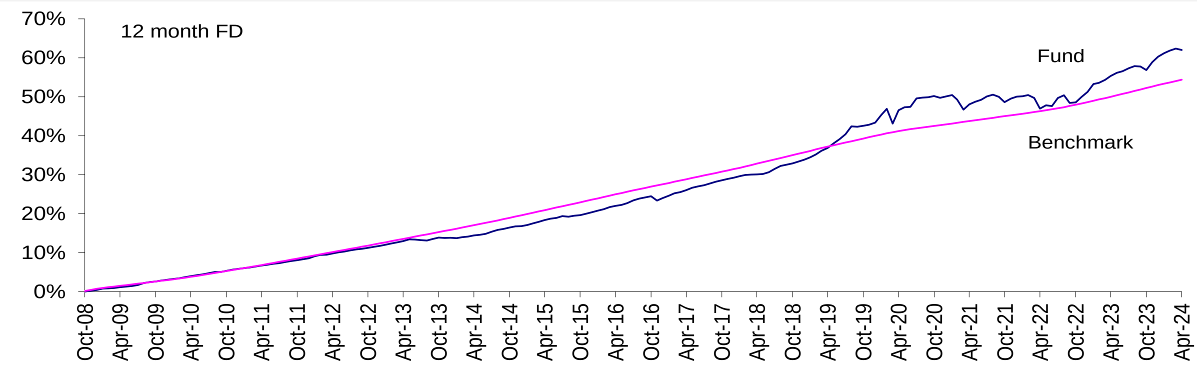
## PERFORMANCE RECORD




| % | YTD | 1M | 1-Year | 3-Years | 5-Years | 10-Years | Since Inception |
|---|---|---|---|---|---|---|---|
| **Fund*** | 1.05 | -0.25 | 4.27 | 9.39 | 18.39 | 41.62 | 62.01 |
| **Benchmark** | 0.88 | 0.22 | 2.92 | 7.38 | 12.50 | 31.91 | 54.38 |

** 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 Malaysia Government Securities ("MGS") yield curve bear steepened as the long-term yields increased more than the short-term yields, broadly in-line with the trend seen in US Treasuries, albeit at smaller magnitudes. Yields were up between 6 to 17bps across the curve. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.61% (+13bps), 3.77% (+11bps), 3.90% (+12bps), 3.99% (+11bps), 4.06% (+6bps), 4.25% (+17bps) and 4.30% (+10bps), respectively in April 2024. The Government Investment Issue ("GII") yield curve, however, bear flattened, with the short-end yields adjusting higher than the long-end yields, which seem to be well supported. Yields were up between 5 to 17bps across the curve. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGII closed at 3.66% (+17bps), 3.80% (+16bps), 3.88% (+10bps), 4.00% (+14bps), 4.08% (+17bps), 4.22% (+11bps), and 4.29% (+5bps) respectively in April 2024.

MGS and MGII yield curves adjusted higher in the month of April, as the sentiment towards fixed income assets was bearish. MGS term spread movements were generally mixed, widening in the 5v3 and 20v3, but tightening slightly on the 10v3 and 30v3. Term spreads, however, continue to be below their longer-term averages. Meanwhile, corporate credit spreads tightened across most tenors within the AA and A rating bands, between 2 to 8bps and 5 to 15bps, respectively. For GGs, spreads generally widened by 1 to 6bps across tenors as it was already at historical lows at end-March, except for the 20-year tenor, which remained in demand. Meanwhile, spread movements were more mixed in the AAA (tightening in the 3-, 10- and 20-year but widening in the 5-, 7- and 15-year tenors).

Data released during the month showed that Malaysia's Industrial Production Index eased to +3.1% YoY in February (Jan-24: +4.3%), as manufacturing growth slowed due to the shorter month and Lunar New Year holidays. Crude Palm Oil output also slowed to +0.5% YoY (Jan-24: +1.6%), but the Distributive Trade Index posted firmer growth during the month at +3.9% YoY (Jan-24: +3.5%) reflecting pickups in the retail and wholesale trade volumes.

Meanwhile, exports experienced another month of marginal decline at -0.8% YoY in March (Feb-24: -0.8% YoY), due to the drop in agriculture exports (-17.3%) offset by marginal increases in mining exports (+0.2%) and manufacturing exports (+0.7%). Meanwhile, imports accelerated to +12.5% YoY (Feb-24: +8.0% YoY). The surplus in trade balance amounted to RM12.8 billion during the month (Feb-24: RM11.2 billion). Despite being in contraction, Malaysia's manufacturing PMI rose slightly to 49.0 in April (Feb-24: 48.5), indicating that GDP growth is running at a slightly improved rate vis-à-vis end-2023.

## FUND MANAGER'S COMMENTS (CONTINUED)

Despite the increase in service tax from 6% to 8% from 1st March (except F&B and telco), the headline inflation stayed at +1.8% YoY (est: +2.0%; Feb-24: +1.8%) – while core inflation eased to +1.7% YoY (Feb-24: +1.8%). With this, headline and core inflation averaged +1.7% and +1.8% YoY, respectively in 1Q2024. There is still some upside risk to inflation given the planned rationalization in fuel subsidies but should broadly fall within the 2 - 3.5% range that BNM has projected.

Effective 11 May 2024, EPF is looking to introduce a new account (i.e. Akaun Fleksibel or Account 3) that will help to address any short-term financial needs for its members. New contributions will be apportioned at a ratio of 75:15:10 for Account 1, 2 and 3 respectively (current: 70:30 for Account 1 and 2). Additionally, between 11 May and 31 August, members can opt-in for a one-off transfer from Account 2 to Account 3 depending on their existing balances in Account 2. EPF has guided that should every member opt-in for this one-off exercise, this would amount to RM57 billion – of which it estimates RM25 billion may flow out in the first year, before moderating to RM4 – 5 billion p.a. thereafter.

Separately, Prime Minister Anwar Ibrahim announced a new minimum monthly income for civil servants at RM2,000 (previously RM1,765 translating to a >13% hike) w.e.f December 2024 – which would benefit approximately 1.6 million civil servants. This is expected to cost the Government more than RM10 billion annually, and further details will be announced in the tabling of Budget 2025 in October.

**Outlook & Strategy**

The next Monetary Policy Meeting ("MPC") meeting will be on 8th & 9th May with overnight policy rate ("OPR") likely to remain at 3.00% through 2024, after BNM has completed its interest rate normalisation cycle and barring some potential price upside effects over the execution of the RON95 subsidy retargeting in 2H2024 but manageable. Nonetheless, Bank Negara Malaysia ("BNM") will continue to adopt a data-dependent approach as global economic conditions remain volatile.

Looking ahead, among notable data releases to watch in May are the; i) Industrial Production release on 10th May; ii) Actual 1Q2024 GDP on 17th May; iii) export and import data on 20th May; and iv) inflation rates for April on 24th May.

Despite the initial poor registration rate on the Central Database Hub ("PADU"), there was a last-minute surge in the registration – hitting 58.7% on the 31st March deadlines. The Government intends to move ahead with its fuel subsidy reforms, with the Economic Minister Rafizi Ramli highlighting that they are on track to push ahead with the much anticipated reforms by this year – in order to reach the fiscal deficit target of 4.3%.

Meanwhile, 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. However, the impact from the new Account 3 introduction from EPF warrants close monitoring, as it could potentially dampen the demand from the institution depending on the response and take-up on the one-off transfer. There will be three auctions in May including the new 20-year MGS Benchmark M5/44. The other two would be the 15-year MGII and 7-year MGS. The demand for corporate bonds remained healthy in April, with strong bid-to-cover ratios seen on names in high demand.

With the risk environment turning more favorable for bonds, we look to add government bonds on a tactical basis post-selloff in April. Over the longer-term, we continue to favor corporate bonds over government bonds due to its yield pickup, and sound economic outlook for 2024. We would prefer to focus on the AA- and A-rated papers. Take profit on bonds with compressed yields such as GGs and AAAs. Buying corporate bonds in the primary market for higher spreads is recommended for yield enhancement. Our tactical positions on benchmark government bonds remain, with a slight overweight stance on duration against the benchmark.

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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:<br>• Economic and financial market conditions<br>• Political change<br>• Broad investor sentiment<br>• Movements in interest rate and inflation<br>• Currency risks<br><br>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 : 30 April 2024***