Sun Life Malaysia Conservative Fund

October 2024

Sun Life

FUND OBJECTIVE

To achieve medium to long term capital appreciation through investments primarily in Malaysian bonds.

INVESTMENT STRATEGY & APPROACH

Please refer to the Master Fund Fact Sheets at https://www.sunlifemalaysia.com/insurance-and-takaful/investment-linked-fund/yearly-fund-fact-sheet/ for more information on the Investment Strategy and Approach for the target fund.

FUND DETAILS

Launch Date	20 October 2008	Domicile	Malaysia
Currency	Ringgit Malaysia	Launch Price	RM1.0000
Units in Circulation	33.11 million units (30 October 2024)	Fund Size	RM54.53 million (30 October 2024)
Unit NAV	RM1.6467 (30 October 2024)	Performance Benchmark	12 month FD
Fund Manager	Principal Asset Management Bhd	Frequency and Basis of Unit Valuation	The unit price determined daily based on the value of our holdings in the target fund, net of expenses, divided by the total number of units in that fund
Taxation	8% of annual investment income	Other Charges	Inclusive of auditor fee & transaction charge
Target Market	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	Fund Management Charges	Management Fee: 1.0% p.a

ASSET ALLOCATION OF THE FUND

Bonds/Debentures	Cash
Minimum 80% of Net Asset Value (NAV)	Balance of fund

SECTOR ALLOCATION OF THE FUND

Corporate Bond	Government Bond	Short Term Paper	Cash	Total
94.49%	2.70%	0.00%	2.81%	100.00%

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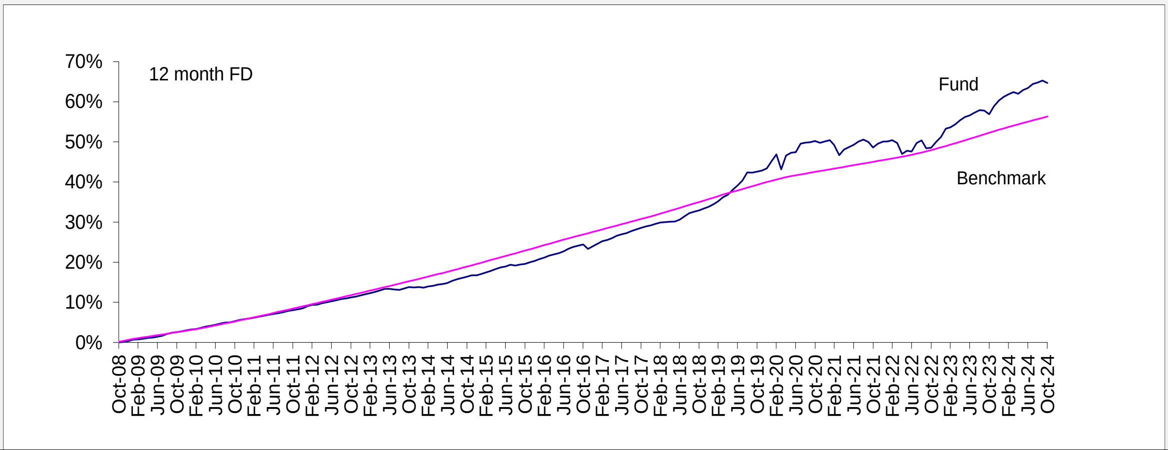
TOP HOLDINGS OF THE FUND

Bond Issuer	Coupon	Maturity Date	%	Bond Issuer	Coupon	Maturity Date	%
Ponsb Capital Bhd	4.96%	28/12/2028	4.98	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	2.85
Sarawak Energy Bhd	5.50%	04/07/2029	4.98	UniTapah Sdn Bhd	6.15%	12/12/2030	2.08
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.22	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.954%	12/01/2037	2.02
Prasarana Malaysia Bhd	4.54%	29/01/2044	3.88	Sarawak Energy Bhd	4.70%	24/11/2028	1.93
MMC Corporation Bhd	5.95%	12/11/2027	2.98	DanaInfra Nasional Bhd	4.49%	23/10/2043	1.90

PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	2.71	-0.36	4.97	10.80	15.48	41.44	64.67
Benchmark	2.15	0.20	2.66	7.78	12.23	31.45	56.32

** Calculation of past performance is based on NAV-to-NAV*

Source: Lipper

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FUND MANAGER'S COMMENTS

Market Review

The Malaysian Government Securities ("MGS") yield curve bear flattened in October, with the short and medium-term yields rising 14-21bps higher while the longer-term yields moved up by 4-12bps. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.52% (+16bps), 3.65% (+14bps), 3.90% (+20bps), 3.93% (+21bps), 4.02% (+12bps), 4.15% (+11bps) and 4.24% (+4bps) respectively in October. Meanwhile the Government Investment Issue ("MGII") curve saw an overall upward shift, with the exception of the 30-year which inched lower by 1bp. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGII closed at 3.45% (+7bps), 3.65% (+12bps), 3.91% (+22bps), 3.95% (+20bps), 4.02% (+10bps), 4.17% (+10bps), and 4.20% (-1bps) respectively in October.

MGS and MGII yield curves adjusted higher in the month of October. MGS yield curve bear flattened with yields rising 4-21bps higher across the curve. MGS term spread widened across tenors and continued to stay below their longer-term averages. Similarly, corporate bond yields also moved up 3-16bps higher MoM especially on the belly of the AAA curve. During the month, credit spreads generally tightened across tenors and across all rating bands, especially on the short 3-year tenors; and remained below their long-term averages. Demand for corporate bonds has remained strong, as investors continue to seek higher yields in the current market environment.

Malaysia's GDP grew 5.3% YoY in 3Q24, slowing from 5.9% in 2Q24 (the strongest increase in eighteen months). The growth was contributed by the manufacturing sector (3Q24: +5.7%, 2Q24: +4.7%) and construction sector (3Q24: +19.5%, 2Q24: +17.3%) while growth in services slowed down (3Q24: +5.1%, 2Q24: +5.9%). In contrast, the agriculture sector expanded at a slower rate from +7.2% in Q3 to +4.0%.Data released in October showed that exports declined by 0.3% in September, dragged by lower exports in manufacturing and mining. Manufacturing growth was weighed down by declines in Petroleum Products, Electrical & Electronics and Iron & Steel products, while mining exports fell due to the continued decline in crude petroleum exports. Meanwhile, imports maintained double digit growth but at a slower pace from 26.2% YoY to 10.9% amid weak domestic demand.Malaysia's inflation eased for the second consecutive month from 1.9% YoY in August to 1.8% in September. The slowdown was driven by a slower increase in the main groups of personal care, social protection and miscellaneous goods and services. Core inflation also cooled down from 1.9% YoY in August to 1.8% in September. The S&P Global Malaysia Manufacturing PMI stayed at 49.5 in October 2024, unchanged from the previous month, marking the fifth consecutive month of contraction as production levels were scaled back at a quicker pace amid broadly stagnant new orders. Malaysia's unemployment rate inched down from 3.3% in July to 3.2% in August, marking the lowest level since January 2020. Unemployment rate in Malaysia averaged 3.45% from 1998 until 2024, reaching an all-time high of 5.30% in May 2020 and a record low of 2.70% in August 2012.

Meanwhile, Malaysia's Budget 2025 was tabled on 18 October by the Prime Minister and Finance Minister, YAB Dato' Seri Anwar bin Ibrahim, with the theme, "Reinvigorating the Economy, Driving Reforms and Prospering the Rakyat ". It continues to embody the Ekonomi MADANI framework, which aims to restructure the economy to elevate Malaysia as a leading Asian economy and improve the quality of life for all Malaysians, and further builds on Malaysia's National Energy Transition Roadmap ("NETR"), New Industrial Masterplan 2030 ("NIMP 2030"), the 12th Malaysia Plan ("12MP"), and the recently introduced National Semiconductor Strategy ("NSS").The budget remains expansionary, with a record allocation of RM421 billion versus RM394 billion last year, with RM355 billion for operating expenditure and RM86 billion for development spending. The higher allocations will be funded by higher tax receipts, partly through higher SST collections and other forms of new taxes, and stable dividends from Petronas which were maintained at RM32 billion. The government remains committed to its fiscal reform agendas - broadly, the expansion of the federal revenue base through the widening of taxes and transition to a more targeted subsidy regime - and expects the fiscal deficit to further improve from 4.3% in 2024 to 3.8% in 2025, with the federal debt-to-GDP ratio hovering at 64%. Notable measures in Budget 2025 include widening the scope of SST, an increase in the minimum wage from RM1,500 to RM1,700, rationalization of RON95 fuel subsidies, and higher cash aids. The Government also introduced a new dividend tax of 2% on individuals, enforced a global minimum tax of 15%, imposed carbon taxes for iron, steel and energy (by 2026), raised export duties and windfall profit thresholds for palm oil, and imposed a higher excise duty for sugary drinks.

FUND MANAGER'S COMMENT (CONTINUED)

Outlook & Strategy

Looking ahead, Bank Negara Malaysia ("BNM") projects Malaysia's GDP growth to range between 4.5-5.5% for 2025 versus a revised 4.8-5.3% for 2024, driven by sustained domestic demand and recovery in exports. MOF also projects inflation to range between 2.0-3.5% for 2025, and unemployment rate to improve further to 3.1%.

The Malaysia 2025 budget appears to be neutral from the fixed income perspective on the back of narrowing fiscal deficit, potential inflationary pressures stemming from subsidy rationalizations and rising income and robust growth prospects amid strong domestic demand. The government's focus to narrow fiscal deficit will be positive on the overall supply demand dynamics, as the smaller net government debt issuances of RM80 billion (gross debt issuances of RM164 billion) in 2025 against net government debt issuances of RM84.3 billion in 2024 (gross debt issuances of RM183 billion) will result in a drop in total gross debt issuance by approximately RM19 billion in 2025. However, at the same time, we can expect some inflationary pressure over the execution of subsidy rationalization particularly RON 95 by mid-2025, which could have an impact on bond yields. Additionally, possible change in spending trends due to the increase in civil servants' minimum salary in February 2025 might give a boost to economic growth via domestic demand at least during the first half of the year. In conclusion, based on the projected inflation and real GDP growth for 2025 provided by the Ministry of Finance, we are of the view that BNM can keep the overnight policy rate ("OPR") steady at 3.00% for most of 2025 with potential upside risk coming in from inflationary pressures and robust growth domestically, while downside risk will stem from the downward cycle of global economy and monetary policy cycle by major central banks. This backdrop allows for continued support to the domestic bond market with bond yields to stay range bound which supports expectation of a stable total return for Ringgit bond fund.

Economic data releases to eye for the month of November include September's Industrial Production on 8 November, 3Q24 GDP on 15 November and October's Inflation on 22 November. Next BNM MPC meeting will be held on 5 & 6 November 2024. Lesser MGS/GII supply for the remaining months of the year as well as next year may provide some positive catalyst for the local bond market. In November, there will be three auctions with an estimated net issuance of around RM15 billion. The upcoming issuances in November are reopening of the 15-year MGS 4/39, 5-year MGII 7/29 and 10-year MGS 7/34. The correction in MGS makes govvies looks attractive again, but we might want to be cautious on potential short-term volatilities related to the US elections. Meanwhile, new issuances of corporate bonds look attractive, offering better yields over the last few weeks. Meanwhile, the favorable local bond market outlook which includes stable policy rates, solid economic growth, and the narrowing of fiscal deficit still support an overweight duration strategy.

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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 : 30 October 2024