Sun Life Malaysia Conservative Fund

May 2023

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	31.89 million units (31 May 2023)	Fund Size	RM49.81 million (31 May 2023)
Unit NAV	RM1.5619 (31 May 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
88.24%	9.51%	-	2.25%	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	5.52	GII Murabahah	4.417%	30/09/2041	2.42
RHB Bank Bhd	3.65%	28/04/2031	4.28	Edra Energy Sdn Bhd	6.71%	05/01/2038	2.40
Ponsb Capital Bhd	4.96%	28/12/2028	3.32	UniTapah Sdn Bhd	6.15%	12/12/2030	2.28
MMC Corporation Bhd	5.95%	12/11/2027	3.19	Kapar Energy Ventures	4.95%	03/07/2026	2.10
Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.15	Sarawak Energy Bhd	4.70%	24/11/2028	2.08

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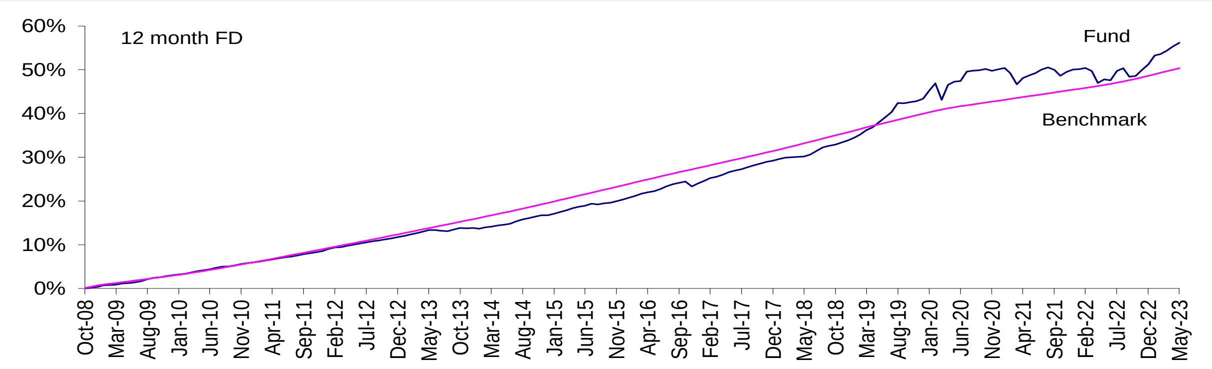
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	3.27	0.53	5.68	6.04	20.00	37.77	56.19
Benchmark	1.17	0.25	2.61	6.31	12.90	32.13	50.38

** 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

Movements on the Malaysian Government Securities ("MGS") benchmark yield curve whipsawed during the month of May as concerns over global policy outlook continued to weigh on sentiments on the local front. Domestic bonds were supported during the first couple of weeks of the month following the 25bps hike by Bank Negara and amid improved sentiments over the stronger than expected 1Q23 GDP data released during the month. However, earlier gains were reversed towards the end of the month with the MGS yield curve bear-flattened with the longer end of the curve remained fairly supported. The sell-off in US Treasuries amid the Federal Reserve policy outlook and concerns over US debt ceiling pressured yields on the local government bonds upwards, while the persistently weaker Ringgit during the month also dampened sentiments in the local bond market.

The 3- , 5- , 7- , 10- , 15- , 20- and 30-year MGS yields closed the month of May at 3.39% (+10bps), 3.49% (4bps), 3.64% (-2bps), 3.75% (+1bp), 3.99% (+7bps), 4.09% (+7bps) and 4.17% (unch) respectively.

Bank Negara Malaysia ("BNM") unexpectedly raised its Overnight Policy Rate ("OPR") to 3.00% (+25bps) in its latest Monetary Policy Committee ("MPC") meeting on 3 May 2023, as it seeks to preemptively ward off inflationary pressures amid strong domestic demand and potential subsidy cuts. BNM warned that the balance of risk to the inflation outlook is tilted to the upside and remains highly subject to changes to domestic policy including subsidies and price controls. BNM also stated that it is timely to further normalize the degree of monetary accommodation with the domestic growth prospects remain resilient.

In its statement, BNM said risks to domestic growth outlook are relatively balanced with upside risks mainly emanate from domestic factors such as stronger-than-expected tourism activity and implementation of projects from the re-tabled Budget 2023, while downside risks stem from weaker-than-expected global growth. The monetary policy stance remains slightly accommodative, but the MPC recognizes the need to ensure the stance is appropriate to prevent future financial imbalances.

FUND MANAGER'S COMMENTS (CONTINUED)

Data released during the month of May showed that Malaysia's headline inflation moderated further to +3.3% in April (from +3.4% in March), its slowest pace since June 2022. The moderation was primarily driven by slower increase in prices for food and non-alcoholic beverages.

Aside, data released during the month also showed that Malaysia reported a better-than-expected GDP growth of 5.6% for 1Q23 (vs 7% in 4Q23), with the bulk of the growth primarily came from private consumption, rising 5.9% YoY. The strong consumption sentiment has also been reflected in a continued steaming service sector, which was expanded by 7.3% YoY for 1Q23.

Foreign inflows slowed to RM1.5 billion in April (Mar: RM6.6 billion). The slowdown in foreign flows was similarly seen in other ASEAN bond markets. The inflows were primarily driven by GII (+RM1.6 billion) and discount instruments (RM+1.5 billion), offset by an outflow of RM1.7 billion from MGS which could be due to the RM8.9 billion MGS maturities during the month which was not fully reinvested. YTD inflows remain sizeable with cumulative inflows for all Ringgit debts totaling +RM12.9 billion in 4M23 and total foreign holdings rose to RM259.7 billion at end-April (end-March: 258.2 billion).

Outlook & Strategy

We remain positive on the local bond markets as we believe the tightening trend on monetary policies has reached its peak with the last rate hike by BNM's MPC.

Recent correction on the MGS curve has caused credit spreads to tighten during the month, with demand on corporate bonds remained fairly supported as its absolute yields continue to be deemed attractive in comparison to government bonds. Despite the recent correction, we will continue to take profit on local government bonds as we believe the current valuation seems fair at this juncture and aim to switch out to corporate bonds when possible as it provides an overall better total return. As such, trading for local government bonds would mainly on a short-term basis to take advantage of any knee-jerk selloffs in the market. We aim to continue to participate in any new corporate bond issuances in the market albeit being selective in our credit picks.

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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 May 2023