Sun Life Malaysia Conservative Fund
August 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	31.97 million units (30 August 2023)	Fund Size	RM50.47 million (30 August 2023)
Unit NAV	RM1.5788 (30 August 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
91.92%	4.75%	-	3.33%	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	5.39	Projek Lebuhraya Usahasama Bhd Sukuk Plus	4.80%	12/01/2027	3.07
Edra Energy Sdn Bhd	6.23%	05/01/2032	4.48	Edra Energy Sdn Bhd	6.71%	05/01/2038	2.38
RHB Bank Bhd	3.65%	28/04/2031	4.27	UniTapah Sdn Bhd	6.15%	12/12/2030	2.25
Ponsb Capital Bhd	4.96%	28/12/2028	3.25	Sarawak Energy Bhd	4.70%	24/11/2028	2.08
MMC Corporation Bhd	5.95%	12/11/2027	3.20	Kapar Energy Ventures	4.95%	03/07/2026	2.05

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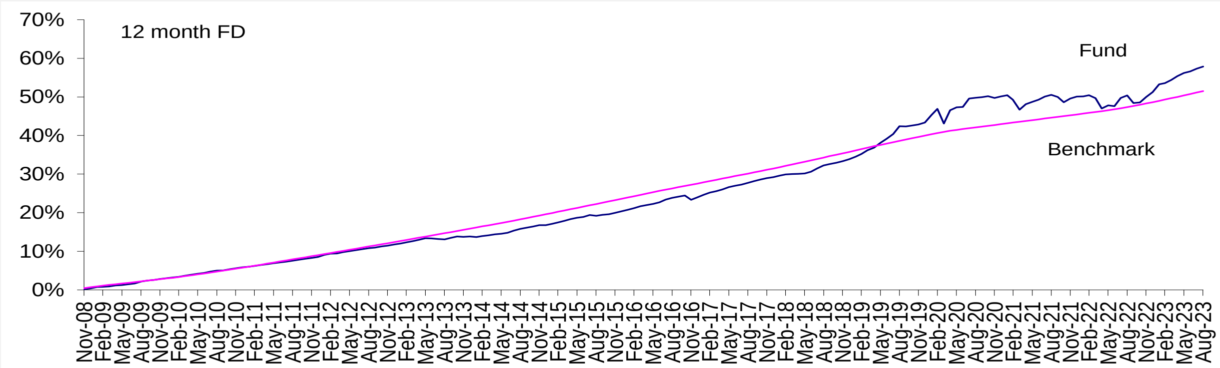
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	4.39	0.36	4.99	5.39	19.39	39.61	57.88
Benchmark	1.93	0.25	2.83	6.62	12.83	32.12	51.51

** 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 steepened in August, with the longer-end tenors adjusting higher tracking the movements in US Treasuries (UST) and amidst the repricing from the auction which featured a couple of longer duration bonds during the month. During the month, the MGII yield curve also steepened in line with the movements in the MGS yield curve. The 3-, 5-, 7-, 10-, 15-, 20- and 30-year benchmarks closed at 3.48% (-2bps), 3.63% (unchg.), 3.77% (-2bps), 3.85% (+1bp), 4.06% (+2bps), 4.17% (+5bp) and 4.29% (+6bps) respectively in August 2023. The YTD MGS yield curve bull flattened as the longer end shifted lower.

Malaysia's 2Q23 real GDP growth slowed to +2.9% YoY (cons: +3.3%; 1Q23: +5.6%) as growth in services and construction decelerated to +4.7% (1Q: +7.3%) and +6.2% (1Q: +7.4%), while manufacturing remained flat at +0.1% (1Q: +3.2%) and both agriculture and mining contracted at -1.1% (1Q: +1.0%) and -2.3% (1Q: +2.4%), respectively. The growth in domestic demand remained firm at +4.5% (1Q: +4.6%), as the rebound in public expenditure offset slower private expenditure. Net external demand declined by -3.7% (1Q: +54.5%) on further and larger declines in both exports and imports.

Meanwhile, the Industrial Production Index fell 2.2% YoY in June, attributed to the contraction in the manufacturing and mining sectors. Manufacturing output also continues to be lackluster with the Manufacturing PMI remaining in contraction at 47.8 in August (July: 47.8).

Both exports and imports saw further declines in July, contracting by -13.1% YoY (Jun: -14.1%) and -15.9% YoY (Jun: -18.7%), respectively – resulting in lower trade surplus of RM17.1 billion (Jun: RM25.5 billion). Exports saw continued declines within the manufacturing, agriculture, and mining products.

Headline inflation declined further to +2.0% YoY in July (cons: +2.1%; June: +2.4%), as transport inflation contracted -0.4% YoY due to base effects. Food & non-alcoholic beverages price increase slowed to +4.4% (Jun: +4.7%), while non-food inflation decelerated further to +0.8% YoY (Jun: +1.2%). Core inflation also eased to +2.8% YoY (Jun: +3.1%). However, inflation remains biased to the upside given the potential revision in price subsidies and controls, and the rising rice prices following the global shortage – which forced BERNAS to raise its price for imported white rice from RM2,350/tonne to RM3,200/tonne.

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FUND MANAGER'S COMMENTS (CONTINUED)

The state elections held on 12th August ended with the PH-BN alliance retaining control of Selangor, Penang and Negri Sembilan, while PN made further inroads into Malay votes and strengthened its hold on Kedah, Kelantan and Terengganu. This result may be seen as a near-term relief as a bigger win by PN could have elevated risks on the stability of the incumbent Unity Government. However, this could complicate the path to faster fiscal reforms and consolidation if the Government taps the brakes on inflation-inducing measures such as fuel subsidy cuts.

The Government also launched the New Industrial Masterplan 2030, with plans to increase Malaysia's economic complexity, strengthening domestic industrial linkages, and positioning industries higher in the global value chain – which requires an estimated total investment of RM95 billion over seven years, to be funded mainly by the private sector. The Masterplan also targets to grow the manufacturing sector's value added to RM587.5 billion (CAGR: +6.5%), raise the employment to 3.3 million persons (CAGR: +2.3%) and median salary to RM4,510 (CAGR: +9.6%) by 2030.

Outlook & Strategy

Bank Negara Malaysia (BNM) is scheduled to hold its Monetary Policy Committee (MPC) meeting on 6 – 7th September, with economists expecting the central bank to keep the Overnight Policy Rate (OPR) at 3.00%. BNM held the OPR at 3.00% in its last July MPC meeting, while highlighting that the monetary policy stance is slightly accommodative and remains supportive of the economy. Meanwhile, following the passing of Former Minister of Agriculture and Food Security, Salahuddin Ayub, the Pulai by-election is scheduled on 9th September. While the PH-BN alliance is expected to retain the seat, a win by PN could deny Anwar Ibrahim's government the 2/3 majority – denting the administration's chances of future major reforms. Other upcoming events to watch are the 12th Malaysia Plan Mid Term Review (11-19th September) and Budget 2024 (13th October).

The month of September will be less favorable in terms of the supply-demand dynamics as there will be no government bond maturities during the period, while featuring three government auctions with an estimated total issuances of RM13.5 billion. The yield curve has steepened as per our expectations with the heavy duration supply auctions in August. While term spreads have widened on the longer end, they remain tight against both their long-term and short-term averages. Overall, credit spreads continued to tighten in August, especially on the AA rating category as the govvies yields adjusted higher, while demand for corporate bonds remains strong. Given the softening in the economic data and overall external environment, and the moderating inflation, we are expecting the OPR to peak at 3.00% for now.

We continue to stay overweight in the credit segment for better yield pick-up but will look to take profit on corporate bonds with very tight credit spreads and switch into corporate bonds with higher credit spreads.

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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 August 2023

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