Sun Life Malaysia Conservative Fund

February 2022

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	32.16 million units (28 February 2022)	Fund Size	RM48.39 million (28 February 2022)
Unit NAV	RM1.5043 (28 February 2022)	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
80.48%	8.21%	-	11.31%	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	5.71	GII Murabahah	4.417%	30/09/2041	2.46
MMC Corporation Bhd	5.95%	12/11/2027	3.42	RHB Bank Bhd	3.65%	28/04/2031	2.38
Projek Lebuhraya Usahasama Bhd	4.80%	12/01/2027	3.28	UniTapah Sdn Bhd	6.15%	12/12/2030	2.36
YTL Power International Bhd	4.65%	24/08/2023	3.15	Sarawak Energy Bhd	4.70%	24/11/2028	2.19
Edra Energy Sdn Bhd	6.71%	05/01/2038	2.51	Kapar Energy Ventures Bhd	4.95%	03/07/2026	2.16

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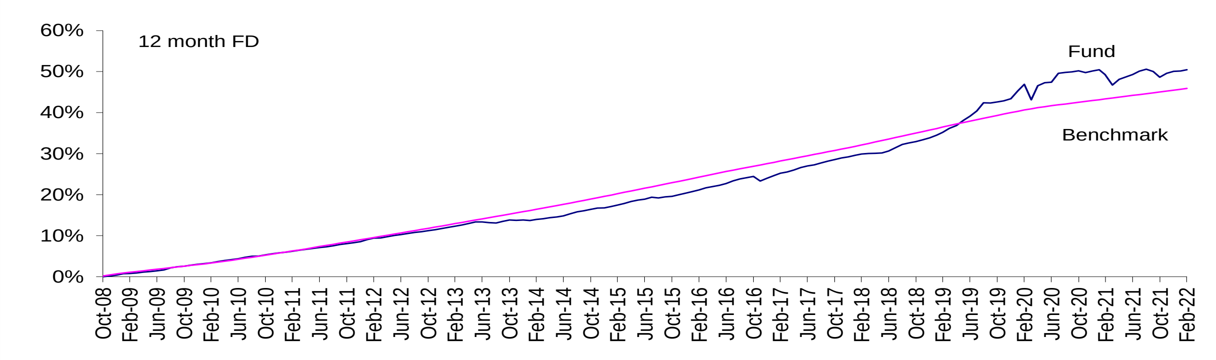
PERFORMANCE RECORD



%	YTD	1M	1-Year	3-Years	5-Years	10-Years	Since Inception
Fund*	0.25	0.20	0.77	11.26	20.13	37.52	50.43
Benchmark	0.29	0.15	1.76	6.89	13.79	33.16	45.88

** 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 MGS yield curve steepened in February, as the 3-year traded down by -10bps, while the bellies traded upwards by +5bps and the ultra-long 30-year traded upwards by +8bps. 10-year remained unchanged, while 15 – 20Y traded slightly lower by -2bps. The 3- , 5- , 7- , 10- , 15- , 20- and 30-year MGS yields closed at 2.88% (-10bps), 3.36% (+5bps), 3.62% (+5bps), 3.65% (+0bps), 4.12% (-2bps), 4.24% (-2bps) and 4.40% (+8bps) respectively at the end of February.

Outlook & Strategy

BNM maintained the OPR at 1.75% and continues to view the current stance as appropriate and accommodative. BNM maintained their view that both the global and domestic economy would continue to recover and strengthen in 2022 but highlighted new risk from the ongoing Russia-Ukraine conflict that could tilt the outlook to the downside. Both headline and core inflation are expected to remain moderate as the base effect from fuel inflation dissipates. Upside risk to inflation will be capped by the continued slack in the economy and labour market.

Data released in March showed that in January, headline CPI moderated to 2.3% YoY (est. 2.5%; prior. +3.2%) despite higher F&B prices (+3.6% YoY, Dec: +3.2%), as transport cost eased (+6% YoY, Dec: +9.5%) from diminishing base effects and fuel price subsidy. Core CPI accelerated to +1.6% YoY (Dec: +1.1%) amid pent-up discretionary spending and services demand effect from economic reopening.

Following the gradual economic reopening in 4Q2021, Malaysia's GDP rebounded +3.6% YoY during the period (est +3.3%; 3Q: -4.5%) and +6.6% SA QoQ (est +6.3%; 3Q: -3.6%), bringing FY2021 GDP growth to +3.1% (2020: -5.6%). During the quarter, the growth was not broad-based amid rebounds in services (+3.2% YoY), manufacturing (+9.1% YoY) and agriculture (+2.8% YoY), but further contractions in mining (-0.9% YoY) and construction (-12.2% YoY). Domestic demand also rebounded, driven by both private (+3.7% YoY) and public (+4.3% YoY) consumption; however, gross fixed capital formation continued to decline due to continued contractions in both private (-3.0% YoY) and public (-3.8% YoY) investment. Overall, despite the growth in 2021, Malaysia's real GDP remains -2.7% below 2019 level. The official real growth forecast for 2022 is +5.5 – 6.5%. BNM also signaled that it will remain patient and mindful of any premature withdrawal of support that could hurt the recovery.

Meanwhile, despite rising oil prices, we are keeping our estimate for the gross MGS/MGII funding for 2022 to be around RM165 billion (2021: RM160 billion and 2020: RM148.8 billion) – as we believe the impact of the rising Brent prices will be largely neutral and manageable. Our estimate is also premised on a fiscal deficit target of 6% for 2022 and the sizeable maturity of MGS/MGII in 2022 totaling RM78.9 billion.

Weaker sentiment in the domestic bond market caused by external factors is expected to persist in the near term. As such, the portfolio prefers to be neutral duration and would maintain its overweight of credit bonds against sovereign bonds amid imminent market volatility. The portfolio will take opportunity to participate in primary corporate bond issuances as pricing is expected to reflect forthcoming interest rate normalization and weaker market sentiment. Additionally, with the ongoing Russia-Ukraine conflict, there may be risks that the tension could prolong and/or potentially escalate beyond Ukraine. This presents an opportunity to selectively trade MGS/GII to increase the portfolio's alpha as the MGS/GII term spreads now looks attractive.

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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 : 28 February 2022