Manulife Investment Management

March 2024
Factsheet

Manulife PRS-Conservative Fund

Fund category

Core (Conservative)

Fund objective

The Fund aims to provide steady returns whilst preserving^ capital.

Investment Strategy

To achieve the investment objective of the Fund, the Fund may invest a maximum of 35% of its NAV in equities, equity-related securities and/or REITs (via CIS). The Fund will invest at least 65% of the Fund's NAV in fixed income instruments such as bonds, money market instruments and deposits with financial institutions.

Fund manager

Manulife Investment Management (Hong Kong) Limited

Trustee

HSBC (Malaysia) Trustee Berhad
193701000084 (1281-T)

Fund information (as at 29 Feb 2024)

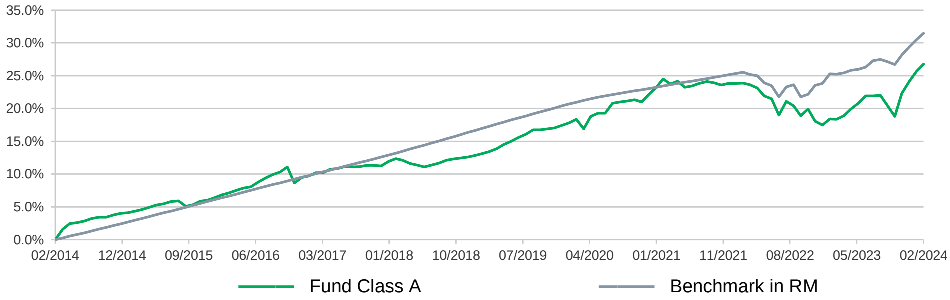
NAV/unit (Class A)	RM 0.5420
NAV/unit (Class C)	RM 0.5739
Fund size	RM 4.58 mil
Units in circulation	8.21 mil
Fund launch date	Class A: 19 Nov 2012 Class C: 28 Apr 2016
Fund inception date	20 Nov 2012
Financial year	31 Aug
Currency	RM
Management fee	Class A: 1.20% p.a. of the NAV Class C: 1.00% p.a. of the NAV
Trustee fee	Class A & C: 0.04% p.a. of the NAV
Sales charge	Class A: Nil Class C: Up to 3.00% of the NAV per unit
Redemption charge	Class A: 3.00% of NAV per unit for withdrawal in the 2nd year; 2.00% of NAV per unit for withdrawal in the 3rd year; 1.00% of NAV per unit for withdrawal in the 4th year; No Redemption Charge from the 5th year onwards. Class C: Nil
Distribution frequency	Annually, if any, and will be automatically reinvested and distributed as additional units of the Fund.
Benchmark	Median return of all non Shariah-compliant PRS core funds - conservative funds established in Malaysia.

Fees by Private Pension Administrator (PPA)

Account opening fee	RM10.00 (one-off)
Annual fee[1]	RM8.00 p.a.
Pre-retirement withdrawal fee	RM25.00 for each withdrawal
Transfer fee	RM25.00 for each transfer to another PRS provider
Administration fee	0.04% p.a. of the NAV

Fund performance

10-year performance as at 29 February 2024*



Total return over the following periods ended 29 February 2024*

	1 month	6 month	YTD	1 year	3 year	5 year	10 year
Fund Class A (%)	0.87	3.91	2.13	7.11	1.82	11.77	26.77
Benchmark in RM (%)	0.75	3.15	1.62	4.97	6.52	12.10	31.47
Fund Class C (%)	0.90	4.02	2.17	7.30	2.38	13.29	-
Benchmark in RM (%)	0.75	3.15	1.62	4.97	6.52	12.10	-

Calendar year returns*

	2019	2020	2021	2022	2023
Fund Class A (%)	4.05	4.06	1.34	-5.14	5.68
Benchmark in RM (%)	3.20	2.22	1.85	-1.20	4.48
Fund Class C (%)	4.79	4.26	1.54	-4.97	5.84
Benchmark in RM (%)	3.20	2.22	1.85	-1.20	4.48

*Source: Lipper; Past performance is not necessarily indicative of future performance. The performance is calculated on NAV-to-NAV basis.

Top 5 holdings

No.	Security name	% NAV
1	Manulife Bond Plus Fund	28.3
2	iShares US Aggregate Bond UCITS ETF	25.5
3	Manulife Investment Money Market Fund	9.2
4	Manulife Investment Growth Fund	7.3
5	Manulife Investment Asia-Pacific Ex-Japan Fund	7.0

Highest & lowest NAV

	2021	2022	2023
High	0.5575	0.5444	0.5382
Low	0.5420	0.5080	0.5079

Distribution by financial year

	2022	2023	2024
Distribution (Sen)	0.85	0.65	0.70
Distribution Yield (%)	1.5	1.2	1.3

Asset/sector allocation

No.	Asset/sector name	% NAV
1	Fixed Income	62.2
2	Equities	28.4
3	Money Market	9.2
4	Cash & Cash Equivalents	0.2

Geographical allocation

No.	Geographical name	% NAV
1	Malaysia	37.5
2	U.S.	35.9
3	Asian Pacific Region	8.4
4	Others	18.0
5	Cash & Cash Equivalents	0.2

^ Please note that this is neither a capital guaranteed nor a capital protected. Therefore, a member's capital is neither guaranteed nor protected.
[1] No annual fee will be charged during the 1st year of the opening of a private pension account; there will also be no annual fee payable if no contributions are made during a calendar year.

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Market review

February was a solid month for equities, driven by resilient economic data and better-than-expected earnings reports in the US which, however, saw modest declines in fixed income. Stock indices surged to all-time highs across the globe, including the S&P 500, Nasdaq Composite, Euro Stoxx 600 and Nikkei 225. The strong momentum extended and broadened across regions and sectors, with growth stocks leading the market. Fixed income markets were broadly down as bond yields rose after a broad re-pricing of the US Federal Reserve Board (Fed) rate cut expectations, given hawkish comments from the Federal Open Market Committee (FOMC) meeting in January.

The US continued to see a resilient labor market with the unemployment rate holding steady at 3.7%. January monthly inflation data was hotter than expected with headline consumer price index (CPI) and core CPI up +3.1% and +3.9%, respectively, on an annual basis. The US Fed's preferred measure, PCE Price Index, despite having the largest monthly increase in over a year, declined on a year-on-year (YoY) basis, which continued to decline towards the US Fed's target rate. The US composite purchasing managers' index (PMI) also ran hot. Additionally, both retail sales and industrial production declined in January. February saw a hawkish shift in market expectations on the first rate cut, which has now been repriced to June, followed by the FOMC statement reiterating a "higher for longer" rhetoric.

Headlines from Europe were less positive. The eurozone composite PMI rose to 48.9 in February but remained in contraction territory. The UK's fourth-quarter gross domestic product (GDP) was down -0.3% showing that it entered a technical recession at the end of last year. On the inflation data front, the euro area headline and core inflation declined in February, while UK inflation data remained unchanged in January.

In China, there have been signs of supportive measures being rolled out by China's government to improve domestic sentiment and consumer spending. The Chinese government also announced a cut to the 5-year loan prime rate and further supportive stock market measures. The upcoming National People's Convention (NPC) on March 5 is expected to yield further signs of administrative support and spending plans. Elsewhere in Asia, although Japan entered a technical recession, its weakening currency has helped the geographical region's exports, pushing the stock market to record highs.

Equities posted strong returns globally with MSCI ACWI up +4.33% in February. The US performed well in the market, gaining +5.37% with US equity indices ending in record territory. Emerging markets and Asia Pacific ex Japan also performed well in February, buoyed by China. Latin America detracted, falling -0.15%.

Within MSCI World, consumer discretionary and industrials were the standouts, posting strong returns of +7.56% and +5.83%, respectively. Information technology and consumer services also extended their gains by rising +6.18% and +4.57%, respectively, amid continued expectations surrounding artificial intelligence (AI). More defensive sectors such as financials, healthcare, and consumer staples were also positive. Utilities were the only sector trailing into negative territory, falling -0.96%.

Fixed income returns saw modest declines over the month, as yields moved broadly higher. The FTSE World Government Bond Index fell -1.30% over the month, closely followed by corporate bonds, with the Bloomberg Global Aggregate Index down -1.26%. Less rate-sensitive high-yield bonds fared well, with Bloomberg Global High Yield up +0.79%.

In foreign exchange, most major currencies fell against the USD, including the JPY (-2.34%), CAD (-1.50%), GBP (-0.67%), and EUR (-0.38%).

Market outlook

Looking ahead, we expect lower interest rates to be accommodative for economic growth. In addition, inflation appears to be coming down and unemployment remains low. However, geopolitical challenges and the upcoming US Presidential Election could pose challenges to investor sentiment. We also expect that the first half of 2024 will be more challenging for global growth.

We believe we are at, or soon past peak rates and the global easing cycle has begun with global disinflation firmly in place. All major central banks have indicated the next moves are cuts, provided inflation continues to moderate, except for the Bank of Japan. We still expect cuts to occur in most developed markets, even as inflation remains within the 2%-3% range in 2024, but central banks will continue to push back against the higher magnitude of rate cut expectations that the market has priced in. The balance of risks is now weighed towards a later start to the US Fed's easing cycle, but potentially with a more aggressive pace. Our base case is presently for cuts to begin in June but acknowledges that May is a distinct possibility, though we do not believe a difference of six weeks would have a significant impact on growth and financial conditions. While the recent data strongly suggests an extended cycle, we continue to be worried about an economic slowdown around mid-year once the full effect of past interest rate hikes have filtered through the system.

We maintain our base case that US growth eventually falters within the next six months, led by labor market slack and lower household consumption, which is supported by weaker-than-expected retail sales and industrial production in January. That said, whether or not economic activity has contracted to the extent that it fits the official definition of recession is much less important than the decline in growth momentum that lies ahead. In our view, lending, consumer activity, capital investment and, among other things, earnings will weaken in the coming six months. Given that outcome, the US Fed would have to make the critical concession of cutting interest rates while inflation remains above their target. Markets could be particularly sensitive to any variance away from the soft-landing narrative: a slowdown, then we see an easier US Fed being priced in; too strong data, and we could see further pricing out of the US Fed Funds rate cuts.

In Asia, negative sentiment has been dominated by a faltering structural trend in aggregate growth in China, with particularly persistent tail risks to the property sector. In our view, an easier monetary policy does not sufficiently stimulate lending. Incremental economic policy to stabilize the real estate sector and improve consumer and corporate sentiment will continue, but large-scale fiscal stimulus appears less likely. Consequently, China will not be the main driver of global/regional manufacturing activity. We believe the lagged effects of incremental policy easing should generate some recovery in credit growth. Equity valuations in Asian markets tip toward the favorable side of the equation. To sustain the ongoing domestic stock market rally, we need to get more clarity on Beijing's economic reforms, growth, and budget deficit targets on China's National People's Congress. For the cyclical rebound to strengthen itself beyond the mechanical reopening boost, we would need to see a sustained recovery in household consumption and property sales.

In markets, the potential end of the global rate hike cycle is supportive of our view of equities, but an uncertain macroeconomic landscape is a potential headwind for equities. Corporate earnings have generally remained strong, and consumers have remained resilient for the most part. Oil prices have oscillated as prospects for a truce in the Middle East appear and fade, and the conflict has the potential for wide-ranging impacts, as other regional players including the US get drawn in. Given the uncertainty surrounding several factors—among them monetary policy, geopolitical tensions, and recessionary risks—we are focusing on quality across equity assets. At the same time, we appreciate the excitement surrounding AI and the magnitude of its potential impacts on revenue monetization, productivity, and cost-cutting, and seek pockets of related growth opportunities. The second half of 2024 should see a more favorable environment for equities with corporate earnings strength broadening beyond large-cap technology names.

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Companies of lower credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by financial markets. In the US, bond yields were broadly higher, with longer-term bond yields rising more than short-term yields. January was the busiest month ever in US corporate bond issuance, with companies taking advantage of the drop in longer-term borrowing costs. However, default rates may tick further upwards, driven by a potentially weakening economy, a large number of bonds maturing over the next few years, and restrictive refinancing rates facing many corporations. We expect interest rates to come down across the entire yield curve over the course of 2024, and we will be positioning portfolios for more duration rather than increasing credit exposures.

Overall, we expect the market to experience some volatility in the first half of 2024, particularly as investors reprice interest rate and potentially inflation expectations. We maintain that there are downside risks to the economy, given tighter credit conditions and may see higher interest rates for longer than expected but may also not come off at the magnitude the market is pricing in. Tactical positioning will be more prevalent again as we go into 2024, to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise.

Fund review and strategy

The Fund posted positive total returns in February led by broad equities, given the resilient economic data and better-than-expected earnings reports in the US, while fixed income markets saw modest declines. Around a quarter of the portfolio was allocated to equities with the largest portion in developed market equities, which were the second-largest contributor to the overall portfolio. The portfolio's largest contributor was Asia Pacific ex Japan equities, driven by the rebound in China. Malaysian equities also contributed meaningfully. Within fixed income, global bonds detracted, while other fixed income allocations and cash allocations contributed.