BEA Union Investment

Fund Special Report

- BEA Union Investment China Phoenix Fund (the "Fund") seeks long-term capital appreciation through investing in listed securities of companies that are expected to benefit from or have exposure to the economic growth of Mainland China.
- The Fund's investments are concentrated in China. This may result in greater volatility than portfolios which comprise broad-based global investments.
- The Fund invests in China shares (including China A-, B- and H-Shares), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on the China stock exchanges and may be subject to withholding and other taxes imposed in China. Direct exposure to China A-Shares can be achieved via the Stock Connects, which is subject to different risks, including quota limitations, clearing and settlement risk. Investing in China involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- In terms of currency hedged class units, adverse exchange rate fluctuations between the base currency of the Fund and the class currency of the currency hedged class units may result in a decrease in return and/or loss of capital for unitholders. Over-hedged or under-hedged positions may arise and there can be no assurance that these currency hedged class units will be hedged at all times or that the manager will be successful in employing the hedge.
- Investors may invest in RMB (Hedged) units. It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. There is also no assurance that the RMB will not be subject to devaluation. Any devaluation of the RMB could adversely affect the value of investors' investments. There is no guarantee that the hedging strategy will be effective and investors may still be subject to the RMB currency exchange risk.
- The Fund may enter into futures contracts for hedging and investment purposes. Given the leverage effect embedded in futures contracts, the Fund may be exposed to significant losses.
- Investors should not make an investment decision based solely on this material.

BEA Union Investment China Phoenix Fund

《Targeted RRR Cut in China Set to Improve Banks' Earnings》

24 October 2017

Highlights:

- **The Fund was up 38.0%[1] YTD and 25.2%[1] in 1 year**
- **Chinese banks' earnings set to improve as a result of targeted RRR cut**
- **Positive market outlook continues, the Fund will look to raise exposure following any correction**

Q1: How has the BEA Union Investment China Phoenix Fund (the "Fund") performed recently?

A1: Overall, Hong Kong's stock market and Hong Kong-listed Chinese stocks have been performing strongly since the beginning of the year. **As at the end of September, the Fund was up 38.0%[1] year-to-date and 25.2%[1] in 1 year**. The Fund focuses on companies with solid fundamentals whose earnings prospects remain resilient and which have better downside protection.

Fund Performance	YTD	1 Year
Class A USD	38.0%[1]	25.2%[1]

Q2: In light of the targeted RRR cut in China next year, what is the fund manager's view of the Chinese economy?

A2: In order to boost lending to under-served areas of the economy such as agriculture and SMEs, the People's Bank of China (PBOC) has announced targeted cuts to its reserve requirement ratio (RRR), which will take effect next year. The PBOC stressed that this was a structural adjustment and not a shift towards looser monetary policy. While industrial production slowed in September due to environmental protection measures, the **resilience of the Purchasing Managers' Index (PMI) suggests that economic momentum remains strong**. **The lower RRR requirement will help to boost banks' earnings and was taken very positively by the market**.

Q3: The Chinese and Hong Kong stock markets have achieved a decent return year-to-date. What is the fund manager's view of the market outlook?

A3: Chinese shares rose again in September, their ninth consecutive month of gains year-to-date, while the Hong Kong stock market has dipped slightly in the last month. Despite geopolitical conflicts in the region remaining a risk, inflation and interest rate expectations remain low, while earnings and the broad liquidity environment have remained positive for equities. Market leadership has in fact narrowed, as the strong earnings momentum has failed to spread further and create broader based strength. **We remain positive on the Chinese and Hong Kong equity markets**, as the earnings outlook remains firm and markets are not over-owned. **We will look to raise exposure following any major correction.**

Q4: What is the Fund's investment strategy, and has it changed?

A4: **The Fund is a China equity fund selectively investing in large corporations with solid fundamentals. These corporations are mainly sector leaders**, including some multinational Chinese enterprises listed overseas.

In terms of sector allocation, the Fund locked in gains in the consumer discretionary sector and has added to its investment in IT. As at the end of September, the IT sector represents 40.1% of the portfolio. The Fund has maintained its overweight position in the mainland financial sector because we expect to see further upside as the economic cycle improves.

Top Holdings

	Market/ Shares	Sector	Weight
Tencent Holdings	Others (China)	IT	9.8%
Alibaba Group	Others (China)	IT	9.3%
Baidu Inc	Others (China)	IT	6.3%
China Construction Bank – H	H Shares	Financials	5.1%
ICBC – H	H Shares	Financials	5.1%

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http://www.bea-union-investment.com/member-registration

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Fund Code

	ISIN	Bloomberg
Class A USD	HK0000141801	BEACPAU HK
Class A HKD	HK0000141819	BEACPAH HK
Class A RMB (Hedged)	HK0000226156	BEACPAC HK

Source of the fund data: BEA Union Investment Management Limited, as at 30 September 2017.

1. Source: Lipper, as at 30 September 2017. The quoted return is for Class A USD, performance is calculated in the respective class of denominated currencies on a NAV to NAV basis. Gross income is re-invested. Past performance for Class A USD: YTD: 38.0%, 2016:- 6.9%, 2015: -21.2%, 2014: 0.6%, since launch till end of 2013: 7.5%. Class A USD was launched on 30 April 2013.