Trusted Asia Manager with Global Values

Fund Report (July 2022)

Important note:

1. BEA Union Investment Asian Bond and Currency Fund (the "Fund") seeks regular interest income, capital gains and currency appreciation from an actively managed portfolio primarily investing in debt securities denominated in Asian or other currencies and primarily issued by Asian government or corporate entities.
2. The Fund is subject to general investment risk, Asian market concentration risk, emerging market risk and currency risk.
3. The Fund invests in debts securities and is subject to risks in interest rates, credit/counterparty, downgrading, below investment grade and non-rated securities, volatility and liquidity, valuation and sovereign debt and credit rating which may adversely affect the price of the debt securities.
4. The manager may at its discretion make distributions from income and/or capital in respect of the distributing classes of the Fund. Distributions paid out of capital amount to a return or withdrawal of part of the unitholder's original investment or from any capital gains attributable to that original investment. Such distribution may result in an immediate reduction of the net asset value per unit.
5. 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 the currency hedged class units will be hedged at all times or that the manager will be successful in employing the hedge.
6. RMB is currently not a freely convertible currency as it is subject to exchange controls and restrictions. Non-RMB based (e.g. Hong Kong) investors are exposed to foreign exchange risk, and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of the RMB could adversely affect the value of investors' investments.
7. The Fund may use financial derivative instruments for hedging and investment purposes which may not achieve the intended purpose and may result in significant losses. Risks associated with derivative instruments include counterparty/ credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk.
8. Investors should not make an investment decision based solely on this material.

BEA Union Investment Asian Bond and Currency Fund ("ABC")

★★★★★
Morningstar Overall Rating+

Positive on short-dated bonds as US treasury yield soars. Overweight Indian New Energy bonds.

Highlights:

1. **Overweight Indian renewable energy bonds and prefer short-term bonds.**
2. **Remain cautious on the Chinese property and Macau gaming sectors. Closely monitor Chinese investment grade bonds.**
3. **Stringent risk management by our investment team**

Fund Features

- The Fund adopts an unconstrained strategy, which allows a flexible allocation of assets in corporate bonds, government bonds, high yield bonds and investment grade bonds, to actively hunt for alpha opportunities.
- It aims to distribute stable dividends and capture the appreciation potential of Asian bonds.

Market Review

The United States (US) is experiencing the most serious inflation in 40 years. Since the Federal Reserve (Fed) has started its rate hike cycle in March this year, it has already raised rates for three times until June, with a cumulative increase of 1.5%. Simultaneously, the Fed planned to shrink its balance sheet by $47.5 billion per month starting from 1 June and enlarged the reduction scale to the maximum of $95 billion every month after three months.

However, inflation is still accelerating at the fastest pace in decades. In June, US inflation rate continued to soar by 9.1% on the yearly basis, inducing the markets to expect that the Fed will continue to raise the degree of rate hike in the future. The 10-year U.S. Treasury bond yield had once hit 3.45% but fell back to about 3% by the end of June. As the Fed is taking a more aggressive rate hike approach to suppress inflation, short-term interest rates rise, while the increase in the long-term interest rates is limited, which continues to flatten the yield curve.

China's Manufacturing Purchasing Managers' Index (PMI) rebounded to 50.2 in June, returning to the expansionary territory after three months of decline. Other macroeconomic data also showed improvement, including a better-than-expected RMB2.81 trillion of new loans in June. The market is therefore expecting that China's economy will bottom out.

China's economy seems to be picking up, but the market confidence in China's property industry has not been restored. The performance of China's property bonds still lagged behind in June. Separately, Macau's gaming bond performance has also been affected by epidemic and travel restrictions.

Market Outlook

The Fed is committed to reducing inflation through tightened monetary policies. When the Fed continues to raise interest rates to suppress inflation, it also needs to pay attention that aggressive rate hikes will raise the likelihood of a recession. The struggle between suppressing inflation and balancing the economy development means that US bond yield may highly fluctuate.

In terms of the Asian high-yield markets, they are believed to be challenged by slowing growth in China and global capital outflows, yet still able to provide the highest yields compared to the global counterparts. Asian high-yield bonds had an effective yield of 16.6% as of the end of June, much higher than the 8.9% offered by US high-yield bonds. Meanwhile, Asian high-yield bonds have shorter durations. When the duration is shorter, bond prices are less sensitive to interest rate changes and therefore less affected by interest rate risk.

Among Southeast Asian countries, India's Manufacturing Purchasing Managers Index (PMI) remained strong. That being said, India's inflation rate remained at a high level of 7.04% in May, although it has fallen slightly from 7.79% in April. The high inflation continues to force Reserve Bank of India to maintain their hawkish stance. Southeast Asian countries' high-yield, short-term bonds of utilities and commodities are expected to perform well.

Investment Strategy

The Fed's tightened monetary policies will add pressure on the outflows of Asian fixed income markets and widen credit spreads. Generally speaking, BEA Union Investment will adopt a defensive approach and adjust our investment strategy from the perspectives of duration and credit distribution. We prefer bonds with short duration and better credit quality, especially those short-term bonds in Southeast Asia, such as India's renewable energy bonds, since the demand for renewable energy is rising in India which is gradually taking up the traditional energy supply. Currently, nearly 30% of electricity is generated by renewable energy in India.

We continue to be positive on the performance of high-yield bonds of Indian commodities, such as steel and natural resource mining. As the global supply of energy and raw materials has tightened by the situation in Russia and Ukraine, companies in these industries should have sufficient cash flow with stable bond prices. In addition, India's non-banking financial industry (NBFC), such as local loan companies, is also developing rapidly. The investment team believes that the growth potential of the related industry is great.

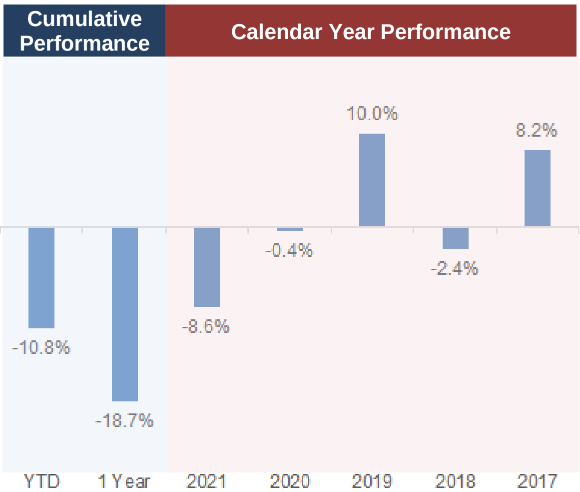
The investment team currently underweights Chinese bonds and remains cautious about the Chinese property industry. There were relaxing policies on the Chinese property market. Notwithstanding, it is not expected that there will be a substantial improvement in the cash flow of developers in the near term. At the same time, we expect the performance of Macau gaming high-yield bonds will only improve after the border reopens. Hence, we remain cautious for the time being. Having said that, volatility in China's bond markets has created investment opportunities for individual investment-grade bonds, such as Hong Kong and South Korea's financial bonds.

The fund currently maintains a relatively high cash level and will continue with a defensive approach in the short term.

BEA Union Investment will continue to conduct risk monitoring and management, alongside actively managing the portfolio in response to market conditions.

Fund Performance

Performance[1]：A USD (Accumulating)



A USD (Accumulating) launched on 28 Aug 2008.

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If you would like to stay informed of the market development and our latest investment strategy, please feel free to register as a member of BEA Union Investment through the link below:

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

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Recent Awards

Top Investment Houses in Asian G3 Bonds Rank 9 (Hong Kong)[2]

Top Investment House in Asian Local Currency Bond, Hong Kong, Highly Commended[3]

Gold Winner, Regional Bond[4]

Best-In-Class, Asia Pacific Fixed Income Hard Currency[5]

Best Bond Fund, Asia Pacific, Hard Currency (5 years)[6]

Fund Code

	ISIN	Bloomberg
A USD (Accumulating)	HK0000065208	BEABCAA HK
A RMB Hedged (Accumulating)	HK0000272531	BEARMHA HK
A EUR Hedged (Accumulating)	HK0000405735	BEABCAE HK
I USD (Accumulating)*	HK0000081379	BEABCIA HK
I HKD (Accumulating)*	HK0000486685	BEABIHK HK
A USD (Distributing)	HK0000065216	BEABCAI HK
H HKD (Distributing)	HK0000081361	BEABCHD HK
A AUD Hedged (Distributing)	HK0000162856	BEAAUHD HK
A RMB Hedged (Distributing)	HK0000194263	BEARMHD HK
I HKD (Distributing)*	HK0000484854	BEABIHA HK

* For professional investor only

Source of the fund information: BEA Union Investment Management Limited, as at 30 June 2022

+ ©2022 Morningstar. Data as of 30 June 2022. The rating is for Class A USD (Accumulating). The rating is for reference only and should not be construed as buy and sell recommendation of investment.

1. Source: Lipper, as at 30 June 2022. The quoted return is for A USD (Accumulating) launched on 28 August 2008. Performance is calculated in the respective class of denominated currencies on a NAV to NAV basis. Gross income is re-invested.
2. Source: The Asset, 2021 Research for Asian G3 Bonds, October 2021.
3. Source: The Asset, 2021 Research for Asian Local Currency Bonds, October 2021.
4. Source: Fund Selector Asia, January 2020.
5. Source: BENCHMARK, November 2019.
6. Source: From Refinitiv Lipper Awards, ©2020 Refinitiv. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this content without express written permission is prohibited. Performance for A RMB (Distributing) as at 31 December 2019.

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