Trusted Asia Manager with Global Values

Fund Report (October 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+

Focus on quality, investment-grade names; seek opportunities arising from currency

Highlights:

1. **Continue to adopt a defensive approach, focus on quality investment-grade names and shorter-dated papers**
2. **Be very mindful of global currency risks and opportunities on sustained USD strength**
3. **Stay away from China property, Macau gaming; Yet to reach inflection point**

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

Another jumbo rate hike of 75bp by the Fed in September sent markets into greater volatility. Front-end rates jumped, while long-end rates declined on expectations that higher policy rates would suppress growth. The relentless curve flattening has accelerated since the FOMC hawkish statement. Sticky, elevated inflation kept the US treasury yields skewing to the upside.

The recently announced September CPI data showed a bigger-than-expected 8.2% year-on-year increase, while US job data remained robust. Unemployment fell to 3.5% in September with nonfarm payrolls rising more than expected to 263,000, fuelling worries that the Fed will tighten rates too fast, too far.

Over in China, the country's economic data were mixed. Retail sales, fixed asset investment and service PMI improved more than expected but manufacturing PMI and property investment remained soft. Overall market sentiment stayed subdued, sapped by the country's still sluggish housing sector. During the month, Chinese property names underperformed on rumours that some developers sought onshore bond extension and missed onshore trust product payments. Losses were partially recouped after the government allowed cities with consecutive price drop to cut mortgage rates further and banks were rumoured to provide further financing to the real estate sector.

Market Outlook

While further US treasury move will hinge on economic and inflation data, our investment team believed yields would trend upwards. Markets have adjusted their expectations to lower global growth outlook, as investors now factored in a potentially more aggressive US tightening cycle, strong US dollar and mounting risk of a US recession.

In face of a strong greenback, global currency risks will be a key area we closely monitor. Countries that lack the economic soundness of the US' may not have the luxury to raise rates, and will subsequently suffer steep currencies depreciation. The Japanese yen was a case in point. The currency continued to weaken in September as the interest rate differential between the US and Japan widened with sharp rising in the US Treasury yield. During the month, the Bank of Japan initiated their first FX intervention since 1998 by selling dollars for the yen, in hope of supporting the battered currency after upholding their ultra-easing policy stance. Also adopting an accommodative monetary policy is China. Our investment teams expect the Renminbi to come under mild pressure against the USD in the near-term due to a weak domestic outlook and the continued widening of US-China interest rate differential, albeit depreciation could come in an orderly fashion.

In China, the 20th Communist Party Congress commencing on Oct 16 will be another key event to watch. While we do not expect major policy announcements to be made, the personnel reassignment in the new Politburo Standing Committee or local government level, when settled, will provide better coordination for future policy implementation in medium and long-term, in our view.

Investment Strategy

A sustained hawkish fed stance and surging global yields will continue to hit sentiment. BEA Union Investment will continue to adopt a defensive approach and focus on high-quality, investment-grade names and shorter-dated papers, and remained prudent on names with corporate governance risks.. In early September, the fund took advantage of the market strength to further reduce exposure in Southeast Asia high-yield names, but intend to buy on dips on any macro correction since the region's fundamentals remained solid. Markets and currencies will remain volatile amidst rising Fed rates. This will present us the opportunities to tactically trade on volatility in the credit, rate and FX market to generate alpha.

The fund remained underweight China and the investment team continued to stay cautious on the country's property market. Our investment teams believed that more property defaults could emerge towards year end. This could further dampen market sentiment and offset benefits from the spate of supportive measures in place, i.e. special loans initiated by the government that help complete unfinished projects and tax incentives for homebuyers. We remained very selective on China Industrial names and Asset Management Companies due to the potential spillover effect from the property sector. Overall sentiment could remain subdued until further clarity of the country's sagging property market and macro outlook.

Also yet to arrive its inflection point is Macau gaming sector. Albeit the city announced its target to resume an e-visa scheme for mainland travellers and group tours starting November, our investment teams believed the medium-term impact will be limited as long as zero-Covid policy remains in place in China. The fund continued to avoid bonds of the Macau gaming sector.

While we stayed vigilant towards high-yield credits, India's renewable energy sector remains a bright spot. The country, the world's third-largest energy-consuming nation, could add 35-40 gigawatts of renewable energy annually until 2030, according to the Institute for Energy Economics and Financial Analysis. As the sector ramps up capacity, favourable public policy measures would be needed to support the sector.

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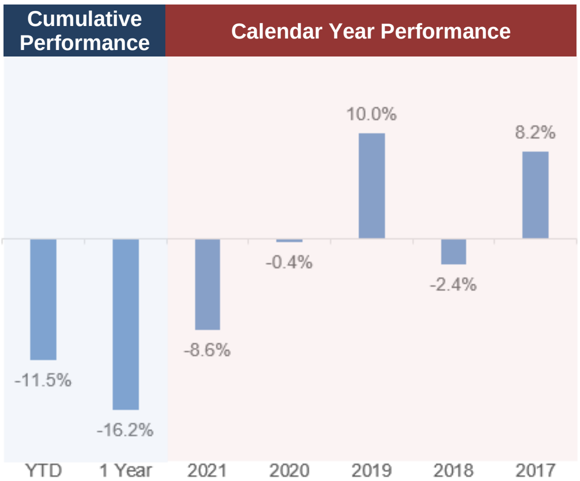
Fund Performance

Performance[1]：A USD (Accumulating)



A USD (Accumulating) launched on 28 Aug 2008.

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

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 September 2022

+ ©2022 Morningstar. Data as of 30 September 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 September 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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