Trusted Asia Manager with Global Values

**Fund Report (Oct 2022)**

Important note:
1. BU Asia Pacific Flexi Allocation Fund ("the Fund") is a sub-fund of BU Investment Series OFC ("the Company"), which is a public open ended fund company ("OFC") (registration number OF11) regulated under the laws of Hong Kong, with variable capital and limited liability and segregated liability between sub-funds.
2. The Fund seeks to achieve long-term capital growth and income by investing in equity securities or debt securities, that are either (a) traded in the Asia Pacific region or (b) issued by companies incorporated in the Asia Pacific region or companies which have significant operations in or derive significant portion of revenue from the Asia Pacific region.
3. The Fund invests in emerging markets and may be subject to higher liquidity and volatility risks.
4. The Fund is subject to equity markets risk such as changes in investment sentiment, political, economic conditions and issuer-specific factors which may adversely affect the fund value.
5. The Fund invests in debts or fixed income securities are exposed to interest rates, credit/counterparty, downgrading, volatility and liquidity, valuation and sovereign debt and credit rating risks which may adversely affect the price of the debt securities.
6. The Fund may invest in below investment grade or non-rated debt securities which are subject to greater volatility and liquidity risks than higher-rated securities.
7. The Fund is exposed to concentration risk in Asia Pacific region and may be more volatile than in a more diverse portfolio of investment.
8. The Fund is also subject to risk associated with regulatory requirements and high market volatility and potential settlement difficulties of the equity markets in Asia Pacific Region.
9. The directors 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 shareholder'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 share.
10. In terms of currency hedged class shares, adverse exchange rate fluctuations between the base currency of the Fund and the class currency of the currency hedged class shares may result in a decrease in return and/or loss of capital for shareholders. Over-hedged or under-hedged positions may arise and there can be no assurance that the currency hedged class shares will be hedged at all times or that the manager will be successful in employing the hedge.
11. 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.
12. The Fund may acquire financial derivative instruments for hedging and investment purposes. Given the leverage effect embedded in financial derivative instruments, the Fund may be exposed to significant losses.
13. Investors should not make an investment decision based solely on this material.

# BU Asia Pacific Flexi Allocation Fund ("AFA")

★★★
Morningstar Overall Rating+

## Hawkish Fed saps sentiment; Underweight equities, mindful of global currency risks


*Highlights:*

1. **Turned more cautious amid Fed's sustained hawkish stance**
2. **Underweight equities amid risk-off sentiment; Prefer telco, banks of defensive nature**
3. **Stay mindful of global currency risks as USD continues to strength**

### Fund Features

- The Fund is an Asia Pacific equity-biased mixed-asset income fund, which invests in a prudent selection of blue-chip stocks to seek alpha.
- The Fund employs flexible allocation in Asia Pacific bonds to enhance return potential and diversify portfolio risks.

### Market Review

There had been little reason for investors to turn upbeat given the litany of concerns: over-tightening that could choke economic growth, strong USD, escalating geopolitical tensions, a global energy crisis and earnings downgrade ahead of the reporting season.

All these, coupled with another 75bp rate hike from the Fed in September and a sustained hawkish statement, sparked further fear that the global economy is headed into a recession. Market sentiment turned increasingly fragile as investors adopted a risk-off approach. In September, MSCI APxJ tumbled 12.5%, recording its worst year-to-date monthly performance, with all markets suffered losses. South Korea, Philippines and Taiwan were the worst-performing markets.

MSCI Asean was the relative outperformer in the region, led by Indonesia and Singapore. Albeit consumer prices have been on the rise in Indonesia, they are still considered relatively low in global standards. Well-anchored inflation prospects had allowed Indonesia to raise its subsidised fuel prices and interest rates without the equity market carnage seen elsewhere. A relatively more stable local currency and strong trade surplus bolstered investor confidence towards Indonesian assets.

## Market Outlook

Investors are increasingly unwilling to take up risk as global economies showed signs of creeping towards an inevitable recession. The Fed made clear that they are determined to curb inflation by lifting rates, even at the expense of economic growth.

The greenback went from strength to strength on sustained hawkish Fed stance. This could spell problem with currencies of countries that do not have the fiscal and economic strength to raise rates like the US do. These nations could face greater currencies depreciation pressure. Our investment teams will keep an eye on global currency risks while looking out for trading on volatility. On the back of a weak domestic outlook and continuous widening of US-China interest rate differential, we expect the Renminbi weakness may continue, despite downward pressure should be mild. But other Asian currencies could see greater pressure on growing strength of the greenback.

Over in China, all eyes will be on the 20th Communist Party Congress starting on Oct 16. Although we do not expect any major policy announcements to be made, personnel reassignment on the Politburo Standing Committee or local government level will provide better coordination for future policy implementation in the mid to long run, in our view.

## Investment Strategy

The fund remained risk adverse, turning more cautious. We raised our cash position and turned Underweight equities. Sentiment stayed jittery on worries that global economic health could deteriorate substantially and rapidly, as central banks stay on course to raise rates. Our investment teams opt for market leaders with strong balance sheets and free cash-flow, and those with company specific catalysts. The fund reduced Industrial, IT and Consumer Discretionary, and preferred banks and telco stocks of defensive nature.

The fund also favoured beneficiaries arising from demand-supply mismatch, which could be due to a number of reasons, including supply chain bottlenecks, underinvestment and/or policy changes. The energy sector was a case in point. Our investment teams remained constructive on the segment, supported by inflationary pressure, geopolitical conflicts, decarbonisation, underinvestment over the last decade, and low equity positioning in the resource sector. Australia's energy producers, for instance, were beneficiaries of the latest energy crisis. European countries have been increasingly turning to sourcing coal in Asia, including those in Australia. This was especially so after Russia indefinitely suspended its supply of natural gas through the Nord Storm pipeline and as winter approaches.

In terms of bond allocation, on rising interest rates expectations, the fund’s duration was slightly underweight. We favoured HK and Korea investment-grade papers on resilient technical but continued to stay vigilant towards China. Sentiment could turn sour should the country's property crisis exacerbates.

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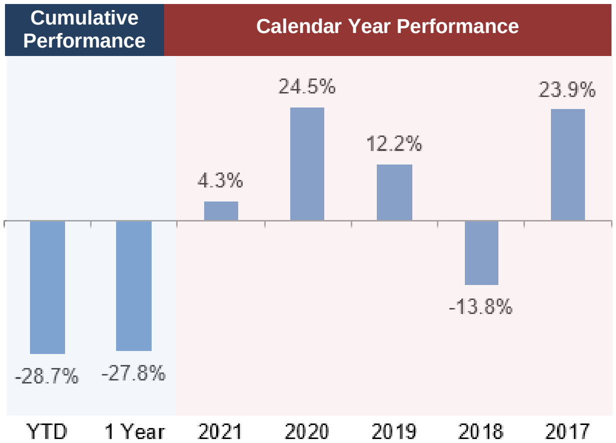
# Fund Report (Oct 2022)

## Fund Performance

Performance[1]：A USD (Accumulating)




The Fund was launched on 30 September 2021 upon the restructuring of BEA Union Investment Series - BEA Union Investment Asia Pacific Flexi Allocation Fund (the Predecessor Fund, with inception on 6 Feb 2015) to the Fund. The performance / fund price/ dividend record/ Morningstar rating (if applicable) shown on or before the date of the restructuring has been simulated based on the respective information of a unit class of Predecessor Fund with the same investment objectives, risk profiles, and materially the same fee structures and investment policies of the respective share class of the Fund.

Class A USD (Accumulating) of the “Predecessor Fund” was launched on 6 February 2015.

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

Fund Code

| | ISIN | Bloomberg |
|---|---|---|
| A USD (Accumulating) | HK0000224250 | BEAPAUA HK |
| A USD (Distributing) | HK0000224201 | BEAPAUI HK |
| A HKD (Distributing) | HK0000224219 | BEAPAHI HK |
| A AUD Hedged (Distributing) | HK0000224227 | BEAPAUH HK |
| A RMB Hedged (Distributing) | HK0000224235 | BEAFARH HK |
| A NZD Hedged (Distributing) | HK0000224243 | BEAPANH HK |

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



1. Source: Lipper, as at 30 September 2022. The quoted NAV is for A USD (Accumulating) launched on 30 September 2021, performance is calculated in the respective class of denominated currencies on a NAV to NAV basis. Gross income is re-invested.

instruments. The Fund has been authorised by the Securities and Futures Commission ("SFC") in Hong Kong. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. This material and the website have not been reviewed by the SFC in Hong Kong.

Issuer: BEA Union Investment Management Limited