BEA Union Investment

Trusted Asia Manager with Global Values

# Fund Report (July 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+

**Concern over a potential recession in US and Europe. China rebounds as a bright spot, facilitating liquidity.**


*Highlights:*

1. **Tend to be positive on Chinese market, favoured by continuing easing policies**
2. **Pay attention to corporates' balance sheet and free cash flow, especially positive on those with buyback plans**
3. **Adopt a balanced strategy of growth and cyclical stocks**

### 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

As inflation in the Europe and the United States (US) worsened, markets increasingly worry that the US will face a recession. Although the US employment data in June was better than expected, inflation in the same month continued to soar by 9.1% year-on-year. Markets are worried that the Federal Reserve (Fed) will continue to raise interest rates sharply to suppress inflation, which will increase the risk of economic recession, causing greater volatility to global markets. US stocks are now entering a technical bear market, while Asian markets are also generally under pressure. That said, Chinese equities outperformed other markets in the region during the period.

In June, the MSCI AC Asia Pacific ex Japan Index fell 5.7%. Among the regional markets, only China and Hong Kong stocks performed well, while South Korea lagged behind. The rise in the MSCI China index was driven by a number of positive factors, such as the official lifting of Shanghai's two-month lockdown on June 1, the support of China's easing policy, the return of liquidity, and the resumption of dialogue on topics including tariff between senior officials of China and the US. Markets hopes that the US might possibly lower China's export tariffs.

During the period, the MSCI Hong Kong Index also outperformed, mainly contributed by the improved market sentiment towards China, possible tariff cuts by the US, and the expectation of beneficial policies launched by China on the backdrop of the 25th anniversary of the handover. The underperformed South Korean stock market recorded outflows, mainly due to growing concerns about cutting production orders, triggering a sell-off of technology stocks.

## Market Outlook

US Personal Consumption Expenditure (PCE) and Manufacturing Purchasing Managers' Index (PMI) weakened, reflecting signs of the weakening of the US economy. The European economy is also expected to be hit by persistent inflation and energy crises. We start to see global worries about economic recession, but China's economy is more resilient. Generally, China's monetary policy is less affected by external influences. While the Fed continues to tighten monetary policies, China maintains an accommodative policy. China is believed to regain more investor interest.

In terms of market outlook, the correction in Chinese and Hong Kong stock markets so far this year has largely priced in negative sentiments such as macroeconomic weakness and geopolitical tensions. In an opposite way, China's current consumption stimulus, easing of property policies and relaxation of Internet regulatory censorship are expected to continue improving the market sentiment. Moreover, based on the current valuation of China and Hong Kong stock markets, there is limited room for downside in the medium term.

## Investment Strategy

BEA Union Investment tends to be positive on the Chinese market, with the primary consideration of the loose policy support. We overweight China's consumer discretionary and financial sectors. In terms of stock selection, we take into account of multiple indicators, and prefer leading companies with strong balance sheets and sufficient cash flow. In addition, we also prefer companies with buyback plans.

We currently remain positive on energy stocks in Australia and Southeast Asia, on the back of the recent geopolitical conflict, decarbonisation, underinvestment over the past decade and rising inflation and energy prices.

In addition, due to the stretched supply chain and changes in local policies and guidelines, the investment team is also positive on the industries that benefit from supply and demand imbalances. The Fund will continue to overweight Australian and Chinese energy and industrial stocks. In terms of bond allocation, we continue to underweight Chinese high-yield bonds, while remaining cautious about high-yield bonds issued by Macau gaming companies as rising global interest rates and a weak market pose risks to refinancing of highly leveraged companies.

BEA Union Investment will ensure a balance between growth and cyclical stocks in the portfolio, and will continue to manage risks in response to market conditions.

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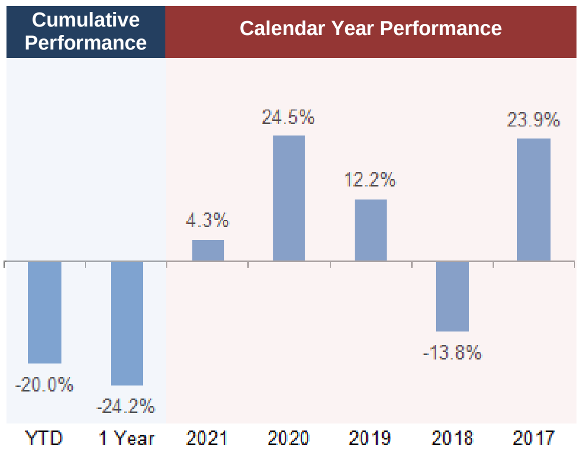
## Fund Performance

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 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 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.



Issuer: BEA Union Investment Management Limited