BEA Union Investment

Trusted Asia Manager with Global Values

Fund Report (Sept 2022)

Important note:

1.BU China Gateway 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 medium to long term capital growth and income through investing primarily in equity securities and/or debt securities, that are either (a) traded in China or (b) issued by entities incorporated in China or entities which have significant operations in or assets in, or derive significant portion of revenue or profits from China.

3.The Fund is subject to general investment risk, China market concentration risk, equity market risk, asset allocation risk, risks associated with Stock Connects, risks associated with China interbank bond market, Mainland China tax risk, risks of investing in other funds, emerging market risk and currency risk.

4.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, credit rating and credit rating agency risk, which may adversely affect the price of the debt securities.

5.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.

6.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.

7.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.

8.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.

9.Investors should not make an investment decision based solely on this material.

BU China Gateway Fund (“CGF”)

★★★
Morningstar Overall Rating+

Indian renewable high yield still favourable; balance between growth and cyclical stocks

Highlights:

1. **Underweight Chinese property until large-scale rescue plans in place**
2. **Factors still deem favourable for India's renewable high yield**
3. **Actively balance the mix of growth and cyclical stocks**

Fund Features

- A one-stop solution for investing in Chinese stocks and bonds. Access to onshore and offshore investment channels, providing a way to capture investment opportunities in Chinese stocks and bonds fully.
- Flexible allocation in stocks and bonds to balance risk and return.

Market Review

In China, unresolved property sector turbulence and zero-COVID policy continue to weigh on investor confidence and economic activities. To support economic growth and its currency, the PBoC cut interest rates and lowered reserve requirement ratios. The Purchasing Managers' Index (PMI) of India and Indonesia remained in expansion territory.

Prior to Powell's hawkish speech, the investment grade market stayed risk on in August, where high beta names in China outperformed. Chinese developers and asset management companies rebounded on news and speculation of various financial support measures. In Chinese/Hong Kong equities, China's market slightly outperformed in August as internet leaders rose on stronger-than-expected interim results, also supported by cost-cutting initiatives and a preliminary agreement over audit inspections for US-listed Chinese companies. Hong Kong market shares fell, with shipping bucking the trend on strong first-half result.

Market Outlook

China's real estate sector remained entrenched in financial woes, and its outlook hazy. Chinese developers and asset management companies will likely remain volatile, but could see more two-way movements from here amid improving sentiments. Developers continued to face liquidity crunch, which might result in higher default rates. Our investment teams will shy away from the sector until large-scale rescue plans are in place. But asset management company bond prices could stage a gradual recovery, and any imminent fallen angle risk is muted.

Both India and Indonesia are poised to raise rates further. India's fuel price and food price remain elevated, with its August CPI surging to 7% from 6.71% in July. Indonesia look set to tighten further as well. Albeit inflationary pressure showed signs of easing - falling to 4.69% in August from 4.94% in July, the level still exceeded the central bank's target of 2-4%. But the rate hike trajectory of both countries should be mild. Together with robust economic fundamentals, their bond markets should remain stable.

Across Chinese/Hong Kong equities, while near-term catalysts are lacking, the year-to-date market correction has largely priced in the weak macro backdrop and a very cautious view on the geopolitical front. Any favourable policies on consumption, property and relaxation on COVID-19 policy would boost economic recovery and market sentiment, since investors are awaiting to deploy excess cash.

Investment Strategy

Across bonds, the investment team remained Underweight Chinese property. Implementation of large-scale rescue plans need to be in place before the real estate sector could reach an inflection point. The fund stayed wary of Macau on persistently tight liquidity, while avoiding names with corporate governance risk. The fund will seek opportunities to tactically trade on volatility in the credit, rate and Fx markets to generate alpha.

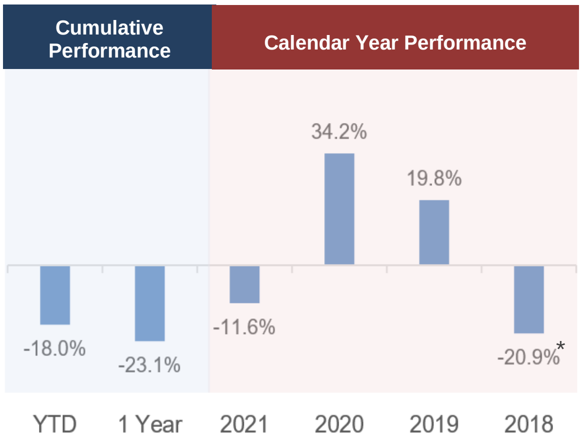
The fund took profit on some Southeast Asia investment grade after their recent rebounds. They included Indonesia property and industrial, as well as Indian oil companies.

In the investment grade space, the fund overweight HK and Korea on resilient technical. Hong Kong's bond market remained stable while new issuance in South Korea could pick up again with attractive premium following a summer lull. Our investment teams remained cautious towards China in general. The fund continued to favour India's renewable high-yield bonds on strong policy support and improving regulatory environment. Delayed financial reporting from one particular renewable company was perceived as an isolated incident.

In China/HK equities, the fund added auto Original Equipment Manufacturer (OEMs) and auto parts which were winning market share. . Exposure was added in sportswear on long-term growth prospects and consumer staples on declining raw material prices. The fund aimed to maintain a more balanced portfolio mix between growth and cyclical plays. Industries preferred included EV and solar of the new energy sector; sportswear of the consumption sector as well as global reopening plays.

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 China Gateway Fund (the "Predecessor Fund", with inception on 31 January 2018) to the Fund. The performance/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.

* Since launch till 31 December of the same year.
Predecessor Fund - A USD (Accumulating) was launched on 31 January 2018.

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

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Fund Code

	ISIN	Bloomberg
A USD (Accumulating)	HK0000257458	BUCGAUA HK
A USD (Distributing)	HK0000257441	BUCGAUD HK
A HKD (Distributing)	HK0000257433	BUCGAHD HK
A RMB Hedged (Distributing)	HK0000375482	BUCGARH HK
AAUD Hedged (Distributing)	HK0000375474	BUCGAAH HK

Source of the fund information: BEA Union Investment Management Limited, as of 31 August 2022.

+ ©2022Morningstar. Data as of 31 August 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 of 31 August 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