BEA Union Investment

Trusted Asia Manager with Global Values

Fund Report (Sept 2022)

Important note:

1. BU RMB Core Bond 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 income and long-term capital growth by investing in debt securities and other assets that are denominated in RMB and other currencies.
3. The Fund invests in debts or fixed income securities are exposed to interest rates, credit/counterparty, downgrading, volatility and liquidity, valuation and sovereign debt, credit rating risks and credit rating agency risk (for mainland China onshore debt securities) risks which may adversely affect the price of the debt securities.
4. The Fund may invest in below investment grade, or rated BB+ or below by a China credit rating agency, or non-rated debt securities, which are subject to greater volatility and liquidity risks than higher-rated securities.
5. The Fund's investments are concentrated in China and may be subject to high concentration risk and more volatility than that of funds having a more diverse portfolio of investment. The value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the China market.
6. The Fund invests in emerging markets and may be subject to higher liquidity and volatility risks.
7. The Fund may be subject to the "Dim Sum" bond market risk and the risks associated with China interbank bond market, and the Fund is more susceptible to volatility and/or lower liquidity.
8. The director 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.
9. The Fund is subject to Mainland China tax risk and any increased tax liabilities on the Fund may adversely affect the Fund's value.
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 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.
13. Investors should not make an investment decision based solely on this material.

★★★
Morningstar Overall Rating+

BU RMB Core Bond Fund ("RCB")

Chinese housing woes persist; Remains very selective with banks

Highlights:

1. **RMB, onshore yields to hover at low levels; PBoC to stay accommodative**
2. **Extend portfolio's duration, maintain Overweight**
3. **Stay away from Chinese developers, remain selective on banks**

Fund Features

- A RMB bond fund that aims to capture stable dividends.
- At least 70% invested in debt securities, bonds and deposits that are denominated or settled in RMB.
- Investment grade average credit rating.

Market Review

China's economic activities continued to moderate in August, with manufacturing PMI dipping below 50, driven by weaker-than-expected, retail sales and fixed asset investments. While the government's measure to support its embattled property sector gradually unfolded, its magnitude and effectiveness seemed limited.

After Chinese authorities indicated that the country's economic growth will be maintained within a reasonable range, market sentiment weakened. Hopes for large-scale policy support faded, while the real estate crisis continues to grow. Unfinished housing projects in China rose to more than 300 in August up from 200 in July. As buyers stopped paying mortgages and contract sales remained lacklustre, many developers were struggling with liquidity crunch.

The RMB weakened against the USD, driven by the rebound of Covid-19 cases and rate cuts. China lowered its medium-term lending facility by 10 basis points, which pushed its onshore government bond yields lower. This was followed by a reduction in its benchmark lending rate by 5 basis points and a 15-basis points cut of its five-year loan prime rate, aiming at supporting credit demand and firing up the economy.

The broad-based USD strength also contributed to a weak RMB. The Fed's Chairman Jerome Powell pledged to quash inflation, bringing it back to 2% even if it meant slower growth. US inflationary pressure remained redhot with August CPI rising 8.3% year on year, higher than market estimate's 8.1%. In face of stickier-than-expected inflation, investors are bracing for more aggressive tightening from the Fed.

Market Outlook

China recently lowered its reserve requirement ratio to 6% from 8%, in hope of lending support to its currency. But our investment teams expect the RMB will likely stay under pressure in the near term, given the continued widening of China-US policy divergence as the Fed stayed resolute to combat inflation. China had to implement its easing measures in a timely manner, yet its strict adherence to its zero-Covid policy was hindering economic activities. Without any major changes to its zero-Covid strategy, China's economy will stay in an L-shape recovery into 2023.

Fears were mounting that mortgage boycott in China's real estate sector will spread over to the financial sector on worries that the courts and government would protect buyers and let banks bear the brunt. Weakening demand on decelerating global economic growth could also take a toll on China's economy.

Investment Strategy

In view of China's easing bias policy and recent rate cuts, the fund had lengthened the duration of the portfolio via onshore government bonds, and maintained Overweight in duration. With China's economy likely to remain subdued in the near term, the PBoC is likely to stay accommodative and roll out more measures to prop up growth. As such, China's onshore bond yields to remain soft. Onshore government RMB bonds has little correlation with the global markets, especially US Treasuries, offering investors a true diversification. The fund continues to invest in US dollar bonds on a currency hedged basis to minimize volatility.

Despite a rebound in August, our investment teams continued to stay away from Chinese property bonds on the prospects of rising default rate. Until the authorities roll out broader and larger-scale rescue plans, Chinese developers will remain entrenched in financial woes. The fund remained very selective on China banks' AT1 due to potential spill over effect from the property sector. The impact is expected to be manageable for big four national banks, but uncertainty hangs thick over the outlook of joint stock banks and rural banks.

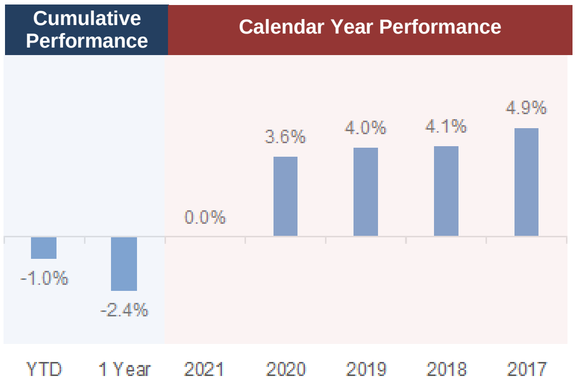
Fundamentals remained weak for investment grade bonds of asset management companies, dragged lower by the beleaguered property sector and also on still sluggish macro dynamics. While our investment teams remained underweight the sector, the fund slightly added exposure on the back of better sentiment. We expect a gradual recovery in asset management companies bond prices, where imminent fallen angle risk is muted.

Trusted Asia Manager with Global Values

Fund Report (Sept 2022)

Fund Performance

Performance[1]：A RMB (Distributing)



The Fund was launched on 30 September 2021 upon the restructuring of BEA Union Investment Series - BEA Union Investment RMB Core Bond Fund (the Predecessor Fund, with inception on 28 February 2014) 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.

Predecessor fund - A RMB (Distributing) launched on 28 February 2014.

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 Award

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

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

REFINITIV LIPPER FUND AWARDS 2021 WINNER HONG KONG

Best Fund Over 5 Years - Bond Global LC[4]

Fund Code

	ISIN	Bloomberg
A HKD (Distributing)	HK0000176740	BEARCAH HK
A RMB (Distributing)	HK0000176732	BEARCAR HK
A USD (Distributing)	HK0000176757	BEARCAU HK

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

+ ©2022Morningstar. Data as of 31 August 2022. The rating is for Class A RMB (Distributing). The rating is for reference only and should not be construed as buy and sell recommendation of investment.

1. Source: Lipper, as at 31 August 2022. The quoted NAV is for A RMB (Distributing) 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.
2. Source: The Asset, 2021Research for Asian G3 Bonds, October 2021.
3. Source: The Asset, 2021Research for Asian Local Currency Bonds, October2021.
4. Source: Lipper, Lipper Fund Awards from Refinitiv Year 2021 Hong Kong, 31 December 2020.

Trusted Asia Manager with Global Values

Fund Report (Sept 2022)