BEA Union Investment

Trusted Asia Manager with Global Values

Fund Report (March 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.

BU RMB Core Bond Fund ("RCB")

Mainland China's pandemic strategies and industrial regulatory policies are indicative

Highlights:

1. **Resilient stance on Renminbi**
2. **Positive on duration and bias towards onshore government bonds and policy bank bonds**
3. **Stringent risk management by our investment team**

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.

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Market Review

U.S. released the latest inflation data and the consumer price index (CPI) rose by 7.9% year-on-year in February which was a record high in 40 years. The U.S. Federal Reserve ("Fed") discussed a timetable for rate hikes at its January meeting and was ready to raise interest rates in March 2022. The Fed didn't rule out moving at every meeting to tackle the highest inflation in a generation. US treasuries yields trading went high and the curve started to flatten in the face of higher rate hike expectation.

The renminbi responded resilient despite the risk off sentiment caused by the geo-political tension. The renminbi bond yields may trade in range in the near term. Although there is some improvement in economic momentum, there isn't any major signal on changing the easing stance from the PBOC. Market is still expecting more easing measures to support the economic growth going forward. The offshore government bond yields also went lower marginally.

Market Outlook

BEA Union Investment believes inflation is becoming a long-term trend in 2022. Market generally expects the Fed will gradually increase rate for 6 times this year. Overall speaking, we are concerned about the trend of US Treasury yields and expecting the Fed to be more hawkish regarding interest rates, which will affect the trend of the credit market.

On the Mainland China side, the COVID outbreak has been largely contained under the nearly complete lockdown policy but its economic growth is under pressure. As for the second half of last year, stock market performance was dragged down by the government's regulation tightening on sectors such as real estate, the internet, and education, leading to slower development. Following the implementation on the "shared prosperity" national policy, the market still takes time to digest the changes. Once the market consolidates or the government signals to pass more accommodative policies, we believe domestic housing credit conditions will improve. Moreover, the Mainland's zero-COVID policy, developments in industrial regulations, and the implementation of policies have all played an indicative role.

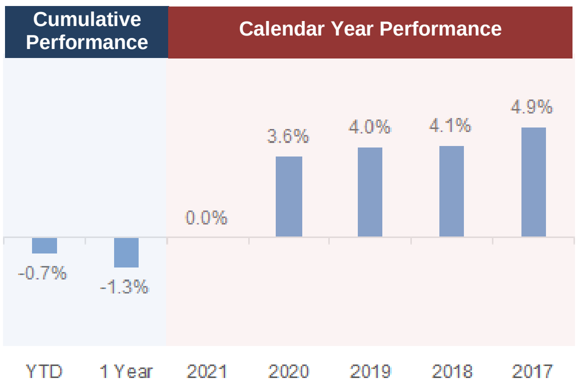
Investment Strategy

The People's Bank of China has further relaxed mortgage loan quotas and accelerated disbursement. Under the Three Red Line policy, developers can draw out M&A loans, and asset-backed bonds will resume approval and issuance. State-owned enterprises and substantial private enterprises can benefit from this round of policy relaxation on the back of their better credit ratings. Nevertheless, we remain cautious on Chinese property. Without material supportive measures in boosting buyer sentiment during the National People's Congress, it will take longer time than expected for the sector to recover.

The fund continues to be positive in duration and bias to onshore government bonds and policy bank bonds. The fund continues to invest in US dollar bonds on a currency hedged basis. With stringent risk management, our investment team is actively managing the portfolio in response to market conditions.

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

One of the Top Investment Houses in Asian G3 Bonds (Hong Kong)[2]

One of the Top Investment Houses in Asian Local Currency Bonds (Hong Kong)[3]

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 28 February 2022.

1. Source: Lipper, as at 28 February 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, 2020 Research for Asian G3 Bonds, October 2020.
3. Source: The Asset, 2020 Research for Asian Local Currency Bonds, October 2020.
4. Source: Lipper, Lipper Fund Awards from Refinitiv Year 2021 Hong Kong, 31 December 2020.

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