Trusted Asia Manager with Global Values

Fund Report (April 2023)

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+

IT Shares fared well on potential cyclical rebound; Added Macau gaming high yield

Highlights:

1. **Favour IT shares, driven by China's digital plan and bottoming out tech cycle**
2. **Took profits off Chinese property bonds on news of restructuring plans from distressed developers**
3. **Added high beta investment-grade technology, media and telecom**

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 & Outlook

MSCI APxJ gained 2.9% in March from February, led by China, South Korea and Singapore. The month started off weak hampered by the banking sector turmoil in US and Europe. But losses were recouped later in the month, as positive news of China's state-owned enterprise reform bolstered the energy, telecom and construction-related sectors. The internet sector was also a bright spot, bolstered by Beijing's “Digital China” plan to improve the country’s digital infrastructure and regulation in the next decade. Apart from China, Taiwan's IT sector also staged a solid performance, supported by potential cyclical rebound in the second half and the development of artificial intelligence. Earnings revision is trending positive for the past two months and our investment teams are seeing early signs of inventory restocking in certain sub-sectors, such as supply chains in personal computers.

We remain optimistic towards China's outlook as we believe its year-to-date recovery is on track, and growth may very likely accelerate in the second quarter due to a low base effect. But markets are expected to be volatile on the back of rising geopolitical tensions. US monetary policy trajectory is also closely monitored despite market consensus sees the rate cycle is coming to an end. Some even believe the Fed could cut rates in the next few months should economic data continue to soften following the latest weaker-than-expected retail sales and rising jobless claims.

In bonds, Asian credits underwent short-term volatility in March driven by US and European bank failures. Asian banks' AT1 and tier2, and other China high beta financials underperformed, dragged lower after Credit Suisse AT1 securities were written off by the Swiss regulator. But the bulk of the correction were retraced. Our investment teams believe Asia's banking system is resilient as most banks in the region generated the bulk of their revenue from commercial lending, as opposed to investment banking. Looking ahead, investment-grade bonds are normalising. New issuance will likely resume as calm has returned to the market. As such, spread could be range bound from here onwards.

As we adopt a neutral stance on risk in the investment-grade space, we are also turning increasingly cautious towards high yields. Chinese property bonds is a case in point. State-owned enterprise developers home sales sprung back in March, rising 30% year on year, but some private-owned enterprise developers still see sales tumbling more than 30% from a year earlier, signaling a lack of confidence from buyers towards projects owned by private companies. While we remain neutral towards the sector and predict home sales could grow further in the short term, but we will need to monitor whether the authorities will launch more credit measures to support developers, which will subsequently strengthen their balance sheets.

Investment Strategy

In terms of regions, we remain constructive in the near term on China’s reopening plays, with preference for consumer services and resources. But we trimmed our overall exposure in China and added positions in Australia, Taiwan and Indonesia.

In terms of sectors, we trimmed consumer discretionary, financial and communication services while raising our exposure in IT and utilities. We prefer IT in general, on the prospect that the tech cycle will bottom out within one to two quarters. Energy sector and materials are also preferred, buoyed by growing demand from China's reopening.

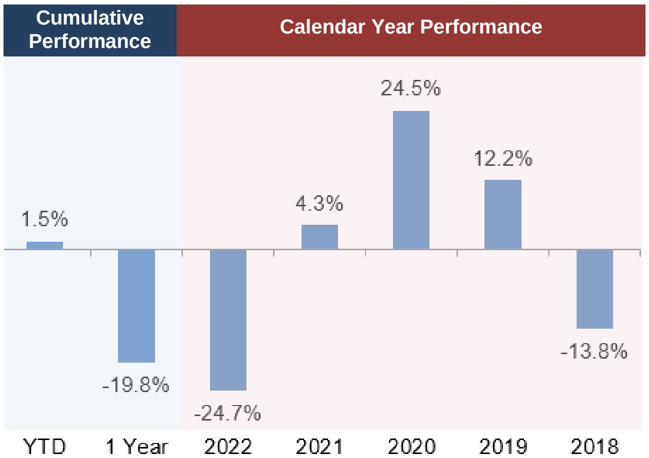
In general, the fund continues to prefer market leaders with strong balance sheet and free cashflow, in addition to company specific catalysts.

In the space of Asian investment-grade bonds, we are staying constructive on the back of manageable supply and stabilising rates. We trimmed high beta Chinese names, such as property and asset management companies, and switched into high beta telecom, media and technology. We took profit in bank bonds and reduced the sector overweight on banking concerns.

For high-yield papers, the fund took profit in Chinese property bonds during the month as certain distressed developers unveiled their debt restructuring plans. Meanwhile, our fund managers increased exposure in Southeast Asia and Macau names, which fare well from China's reopening. More Macau gaming operators are expected to achieve EBITDA breakeven, bolstered by recovering tourism and stronger gross gaming revenue. The fund also added select India renewable names, which continue to ride on positive government policies and mounting ESG demand. But we remained cautious towards names with corporate governance concerns.

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 31 March 2023

+ ©2023 Morningstar. Data as of 31 March 2023. 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 31 March 2023. 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.

Investments in the Fund are subject to investment risks, including the possible loss of the principal amount invested. For full details and risk factors of the Fund, please refer to the prospectus of the Fund. Investors should also read the prospectus of the Fund for detailed information prior to any subscription. The information contained herein is only a brief introduction to the Fund. Investors should be aware that the price of shares may go down as well as up as