BEA Union Investment

Your Preferred Investment Advisor for Asia Investing

Fund Report (July 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+

Added equities with tech as preferred sector tilt; Cautious towards Chinese property bonds

Highlights:

1. **Raised equities exposure; Added India, Taiwan and Australia, and reduced China**
2. **Tech is still a preferred sector tilt as semiconductor cycle bottoms out, AI growth momentum**
3. **Added China Investment Grade high beta names; Favours Macau gaming bonds**

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

In June, markets responded positively to the US debt ceiling resolution and continued momentum from Artificial Intelligence (AI) related themes, MSCI APxJ rose 3.17% last month from May, led by Australia, India and China.

China's outperformance was driven by the prospect of policy stimulus and easing geopolitical tensions. Looking back at the second quarter, HK/China markets underperformed most Asian emerging markets. China's economic recovery since reopening had been subdued, and the policy stimulus so far was undershooting expectations. The sentiment was further sapped by renewed US tech restrictions. Our investment teams expect weak economic activities will continue to cloud HK/China markets. Looking ahead, a substantial turnaround would be dependent on the change in government policy stance, which remains uncertain. Sentiment will likely continue to be crippled by unresolved US-China tension and a weak RMB.

Meanwhile, the market is very enthused with the emergence of AI being the next big thing to revolutionising industries. The AI evolution is taking shape to drive the technology advance for the next decade. We favour the tech sector, and we expect well-positioned companies and/or markets, such as Taiwan, South Korea and the US, will be benefitted. Earnings of Taiwanese tech companies have been revised up in the past 1-2 months. At the moment, we remain constructive on the Taiwan market, which has a weighting of 60% in tech. The semiconductor cycle is bottoming out and AI adoption will lend support to the tech outlook in the next 6-12 months.

In terms of fixed income, the central bank's hawkish pause in June has substantially damped rate cut expectations, and in turn, sent 10-year US treasury yield higher. The US job market showed persistent strength and as core inflation hovered at elevated levels, the Fed forecasted at least two more hikes this year.

In July, Investment Grades may see credit spreads being weighed down due to the repricing of rate hike expectations, and a busy new issuance pipeline this month. The lack of stimulus in China plus lacklustre economic data may weigh on the credit spread of China beta names. The asset class could also see greater volatility, creating opportunities for bargain hunting.

As for high yields, our investment teams remain cautious about China property names. Contracted sales growth of top developers slowed materially to 6.7% yoy in May from 31.6% yoy in April, implying that the momentum for China's reopening has faded. While we expect state-owned and certain private-owned developers will gain market share, the housing market will probably be bracing for stronger headwinds going into the second half.

The growth momentum in Macau's gaming sector continued in June, with mass market gross gaming revenue recovering to more than 90% of the 2019 level. Our teams are optimistic about the sector in the near to medium term.

Investment Strategy

The Fund has increased exposure to equities. Across the regions, cash was deployed to India, Taiwan and Australia while reducing weighting in China. The Fund has turned more cautious towards China for its weaker-than-expected economic recovery, lingering risk in the property sector, lack of policy support, and persistent geopolitical tensions.

In terms of sector allocation, our teams are very positive on the IT sector, supported by a tech cycle that is soon bottoming out, and also the emergence of AI. These positive factors prompted us to increase weighting in tech. To a lesser extent, cash was also deployed to materials, industrials and communication services. The Fund has lowered its exposure in consumer discretionary.

In fixed income, the Fund revised China Investment Grades to "slightly underweight". We added long-end high beta China state-owned enterprises given the positive credit development and strong bids from Asia investors in ultra-long end bonds. The investment teams also increased exposure in very high yielding China BBB asset management companies and insurance companies. We are "slightly overweight" in duration with South Korea financial, Indonesia quasi-sovereign and China tech, media and telecommunications.

In terms of high yields, the Fund remained cautious towards Chinese property, given the sector's uninspiring prospects. As China's reopening continues to benefit Macau's gaming sector, the Fund looks to "slightly overweight" Macau gaming names. Elsewhere in Asia, our teams "overweight" India and "slightly overweight" Indonesia industrial.

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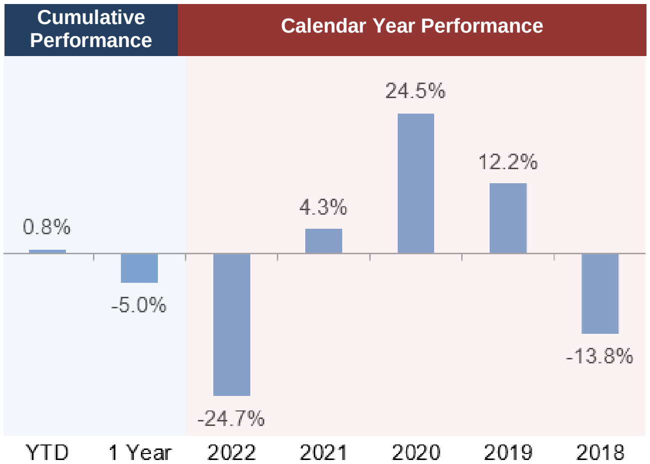
Fund Performance

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.

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

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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 2023

1. Source: Lipper, as at 30 June 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 the investments of the Fund are subject to market fluctuations and to the risks inherent in all investments. Past performance is not indicative of future performance. The information contained in this document is based upon information which BEA Union Investment Management Limited considers reliable and is provided on an "as is" basis. This document does not constitute an offer, recommendation or solicitation to buy or sell any securities or financial instruments. The Fund has been authorised by the Securities and Futures Commission ("SFC") in Hong Kong. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. This material and the website have not been reviewed by the SFC in Hong Kong.

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