

## Fund Report (August 2023)

### Important note:

1. BEA Union Investment Asian Strategic Bond Fund (the "Fund") seeks medium to long term capital growth and regular income by primarily (i.e. at least 70% of its net assets value) investing in debt securities that are (a) denominated in Asian currencies, or (b) issued or guaranteed by Asian governments or entities which are incorporated in Asia or have significant operations or assets in, or derive significant portion of revenue or profits from Asia, and denominated in USD or other currencies including Asian currencies.
2. The Fund is subject to general investment risk, Asian market concentration risk, emerging markets risk and currency risk.
3. The Fund invests in debt securities and are subject to risks in interest rates, credit/counterparty, downgrading, below investment grade and non-rated securities, volatility and liquidity, valuation and sovereign debt and credit rating which may adversely affect the price of the debt securities.
4. The manager 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 unitholder'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 unit.
5. In terms of currency hedged class units, adverse exchange rate fluctuations between the base currency of the Fund and the class currency of the currency hedged class units may result in a decrease in return and/or loss of capital for unitholders. Over-hedged or under-hedged positions may arise and there can be no assurance that the currency hedged class units will be hedged at all times or that the manager will be successful in employing the hedge.
6. 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.
7. 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.
8. Investors should not make an investment decision based solely on this material.

## BEA Union Investment Asian Strategic Bond Fund ("ASB")

★★★

Morningstar Overall Rating<sup>+</sup>

### Favour South Korean financials, BBB rated China TMT Investment Grades



#### Highlights:

1. **Positive on South Korea's financial Investment Grades, especially green bonds due to strong demand**
2. **Prefer high-beta China tech, media and telecoms (TMT) Investment Grades on technical, valuations and improving business environment**
3. **Cautious on China property high yields, bracing for possibly more credit events in the second half**

#### Fund Features

- The Fund aims to provide stable monthly income with capital appreciation through dynamic total return approach.
- Capture the full potential of Asia's growth with stability by prioritizing the portfolio with a majority of investment grade bonds.

#### Market Review & Outlook

In July, the 10-year US treasury yield surged as the treasury curve steepened, which was a result of the Goldilocks situation where the labour market and the economy remained strong as inflation faltered. This led investors to price in a lower US recession probability. While the 25bp rate hike was widely expected, the Fed Chairman Powell welcomed the steadily softening price pressures and reiterated the central bank's future actions will be data-dependent. This relatively dovish shift of the tone reinforced market expectations that July could very well be the last rate hike.

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At China's politburo meeting in July, the authorities pledged to support the domestic economy, which was growing at a slower-than-expected pace. The composite Purchasing Managers' Index trended lower, while retail sales, export growth and second-quarter GDP missed market estimates. Residential property sales, new starts and property investments declined further during the month. In July, the PBOC and National Financial Regulatory Administration extended the 16-point property financing measures to end-2024. At the same time, the authorities announced high-level directions to shore up consumption, but implementation details remain unclear.

Thanks to cooling US inflation and expectations for policy support in China, Asia Investment Grade bonds saw a narrowing of spreads. Premier Li Qiang met with representatives from major tech companies, suggesting possible easing on the tech sector. China BBB rated high beta names such as gaming, asset management companies and TMT outperformed during the month. But after the strong rally in July, our investment teams expect spreads could see resistance to further tighten as valuations became more stretched. We are staying constructive on Asia Investment Grade bonds on attractive yields and as the rate hike cycle approaches its end. Our teams favour South Korean bonds, for instance, because the country is reaching the peak of its hiking cycle, and the country will unlikely introduce its supplementary budget for extra spending.

In July, China's embattled housing market took a toll on the country's property high yields. At the Politburo meeting, wordings of "no speculation of residential property" has been dropped from the readout. The authorities acknowledged that the dynamics between supply and demand of the housing market has shifted, and pledged to optimise all tools to prop up the sector. Top 100 developers saw annual contracted sales plummeted 28% in June versus a 6.7% year-on-year increase in May. Sales fell 8.5% on a month-on-month basis. The decline, which will likely extend into the coming months, was resulted from weak new launches and depressed buyer sentiment. Without enough commercial property to secure China Bond Insurance Company guarantee to issue onshore bonds, there will be increasingly higher probabilities for cash-strapped developers to default given depressing sales. As such, investors should brace for more credit events in the second half.

Macau gaming high yields continued to shine after the city's gross gaming revenue rose 10% in July from the previous month. Our investment teams expect the operations of Macau gaming companies to remain resilient into the second half.

**Investment Strategy**

For Asia Investment Grades, the Fund continues to favour BBB-rated China state-owned companies, financials and TMT. Our teams prefer high quality and high-beta China TMT for their resilience and attractive valuations, driven by a better business environment and a more supportive stance from the government.

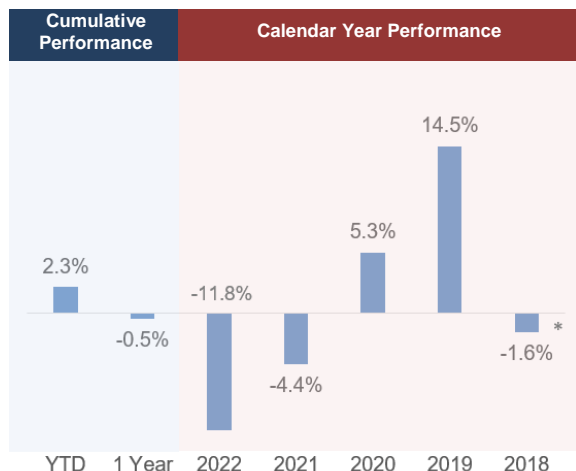
We remain positive on South Korean financial Investment Grades. The country's financials and corporates continue to issue green, social and sustainable (GSS) bonds, and our teams find value in the front-end issues. Green bonds are favoured on the back of supportive technical and as demand continues to outstrip new supplies. Indonesia's quasi-sovereign Investment Grades are also favoured. Our teams expect new issuance to remain subdued in the region and hence spreads will likely stay supported.

In the high yield space, we remain cautious towards China property high yield bonds. The prospects for Macau gaming bonds remain bright, in our opinion. Non-China high yields continue to post solid and stable returns supported by favourable macro risk sentiment and good access to local funding channels. As such, the Fund remains positive on India's high renewables and infrastructures high yields, as well as Indonesia's energy and industrial high yields.

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### Fund Performance

Performance<sup>1</sup> : A USD (Accumulating)



\* Since launch till 31 December of the same year. A USD (Accumulating) launched on 24 February 2017.

### Recent Awards



Top Investment Houses in Asian G3 Bonds (Hong Kong, China) Rank 3<sup>2</sup>



Top Investment House in Asian Local Currency Bond (Hong Kong, China), Highly Commended<sup>3</sup>



Outstanding Achiever Asia Fixed Income<sup>4</sup>



Hong Kong Best Group Overall (3 Years)<sup>5</sup>



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 Report (August 2023)****Fund Code**

	ISIN	Bloomberg
A USD (Accumulating)	HK0000319381	BEABAU HK
A USD (Distributing)	HK0000319340	BEABAU HK
A HKD (Distributing)	HK0000319357	BEABAU HK
A AUD Hedged (Distributing)	HK0000319365	BEAAAU HK
A RMB Hedged (Distributing)	HK0000319373	BEAAAU HK

Source of the fund information: BEA Union Investment Management Limited, as at 31 July 2023.

+ ©2023 Morningstar. Data as of 31 July 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 July 2023. The quoted NAV is for A USD (Accumulating) launched on 24 February 2017, 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, 2022 Research for Asian G3 Bonds, performance as at June 2022.
3. Source: The Asset, 2021 Research for Asian Local Currency Bonds, performance as at June 2021.
4. Source: BENCHMARK, performance as at June 2021.
5. Source: Lipper, performance as of 31 December 2020 for 2021 Hong Kong award.

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 explanatory memorandum of the Fund. Investors should also read the explanatory memorandum 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 units 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 authorized by the Securities and Futures Commission ("SFC") in Hong Kong. SFC authorization 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. Issuer: BEA Union Investment Management Limited