Trusted Asia Manager with Global Values

Fund Report (March 2023)

Important note:

1.BU China Gateway 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 medium to long term capital growth and income through investing primarily in equity securities and/or debt securities, that are either (a) traded in China or (b) issued by entities incorporated in China or entities which have significant operations in or assets in, or derive significant portion of revenue or profits from China.

3.The Fund is subject to general investment risk, China market concentration risk, equity market risk, asset allocation risk, risks associated with Stock Connects, risks associated with China interbank bond market, Mainland China tax risk, risks of investing in other funds, emerging market risk and currency risk.

4.The Fund invests in debts securities and is subject to risks in interest rates, credit/counterparty, downgrading, below investment grade and non-rated securities, volatility and liquidity, valuation and sovereign debt, credit rating and credit rating agency risk, which may adversely affect the price of the debt securities.

5.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.

6.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.

7.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.

8.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.

9.Investors should not make an investment decision based solely on this material.

BU China Gateway Fund ("CGF")

★★★
Morningstar Overall Rating+

China's cyclical recovery likely self-sustaining; remain optimistic towards Asian bonds

Highlights:

1. **Constructive on China's outlook; see opportunities in material and IT as recovery broadens out**
2. **Took profit on high beta and long duration bonds; await rates to stabilise before buying on dips**
3. **Stay vigilant on US-China geopolitical tensions; bracing for near-term market volatility**

Fund Features

- A one-stop solution for investing in Chinese stocks and bonds. Access to onshore and offshore investment channels, providing a way to capture investment opportunities in Chinese stocks and bonds fully.
- Flexible allocation in stocks and bonds to balance risk and return.

Market Review and Outlook

A surprise spike in US non-farm payroll in January followed by the reacceleration in service PMI and inflation stoke fear of the return of bigger-sized rate hikes. The country also added more jobs in February. Even though worries were quelled on rising unemployment rate and less-than-expected increase in average hourly wages, market is pricing in higher terminal rates than previously anticipated as elevated inflation remained far from the Fed's target of 2%.

In Asia, credit spread has started to stall from further tightening on an increasing yield backdrop and on the prospect of higher-for-longer rates, prompting weaker demand for perpetual space and longer duration bonds, in particular. While market flow has remained mostly healthy, investors are cautiously awaiting on the sideline for further data prints and Fed hints for upcoming rate hike trajectory.

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After a strong run since November last year, the MSCI China rally decelerated, crippled by the re-escalation of US-China tensions, lowered expectations on NPC Two Sessions and a delayed Fed pivot. As markets adjust to a lowered global growth outlook and Fed's persistent hawkish stance, investors shifted their focus towards the speed of China reopening recovery and foreign fund flows into Emerging Asia. Our investment teams believe the Chinese economy is capable of staying on a self-sustaining cyclical recovery after reopening, even without additional aggressive policies. In February, China saw its PMI surged materially above the 50-threshold, a stronger-than-expected rebound. As business normalises, recovery was broad based with demand in traveling and entertainment picking up materially. Macau gaming revenue also saw a marked improvement. Asian markets, such as Korea and Taiwan, become more attractive given cheaper valuation and increasing signs that the tech cycle is bottoming out.

China's property market remained in focus. While investors' confidence towards new home delivery remained has yet to be fully restored, secondary market has picked up significantly, particularly in first and major second-tier cities. Prices also saw some mild recovery on a month-on-month basis. We continue to see the stabilization of China's property market as positive impacts from easing covid restrictions filtered through. The government's supportive stance also played a part. In February, top developers applied for more onshore medium-term note (MTN) quota. Some privately-owned developers also acquired a land bank in select cities, which deemed positive as its shows liquidity remained intact. Supportive policies were launched across a number of cities, such as the relaxation of home purchase restrictions, lowering of mortgage rate and down payment ratio, which would help prop up housing demand. In general, we are more constructive on the financing front of the developers as more obtained guarantee to issue MTN in addition to strategic cooperation with onshore banks and offshore loan disbursement. Headlines on funding support would keep market sentiment buoyant.

Investment Strategy

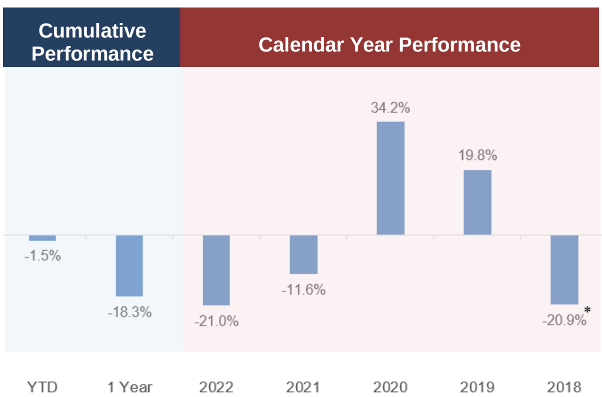
The fund stay constructive on the outlook of China's overall recovery and remain fully invested, but we will keep an eye on the US economy and its geopolitical relationship with China, which could induce volatility in markets in the near term. The speed of China's policy response to ratchet up its economy will also top our minds. The fund favours consumer and Internet sector and starts seeing opportunities in material and information technology as China's economic recovery broadens out.

In terms of fixed income, we took profit on high beta names and long duration bonds. We remain constructive on Asia credit but preferred to err on the side of caution until market sentiments and rates stabilise. Our investment teams expect some healthy short-term correction ahead for Asia credit, but supply had been very subdued which rein in the spread from widening disorderly. We will look for opportunities to replenish beta names upon market dips. For now, the fund has fine tuned the exposure in Chinese property sector, and will explore the possibilities of diversifying into Hong Kong and Japan for investment grade names with more attractive valuation. The fund will also tactically increase exposure in Southeast Asian names. Macau gaming names remain in favour as the sector sees improving revenue.

Other than names with corporate governance concerns, renewable energy names in India, in general, will also benefit from supportive government policy and rising ESG demand. India, which has identified renewable energy and green energy as one of its seven priorities, aims to generate half of its electricity from renewable resources by 2030.

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 China Gateway Fund (the "Predecessor Fund", with inception on 31 January 2018) 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.

* Since launch till 31 December of the same year.
Predecessor Fund - A USD (Accumulating) was launched on 31 January 2018.

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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)	HK0000257458	BUCGAUA HK
A USD (Distributing)	HK0000257441	BUCGAUD HK
A HKD (Distributing)	HK0000257433	BUCGAHD HK
A RMB Hedged (Distributing)	HK0000375482	BUCGARH HK
AAUD Hedged (Distributing)	HK0000375474	BUCGAAH HK

Source of the fund information: BEA Union Investment Management Limited, as of 28 February 2023.

+ ©2023 Morningstar. Data as of 28 February 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 of 28 February 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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