BEA Union Investment

Your Preferred Investment Advisor for Asia Investing

Fund Report (Sept 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+

Favour Asian value stocks; Prefer IT and consumer discretionary stocks

Highlights:

1. **Asian and Chinese value stocks are gaining attention**
2. **China's measures to stabilise asset prices could benefit high beta Investment Grades**
3. **Investment Grade bonds with reasonable valuations, solid credit fundamentals are in favour**

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 resilient US economy sparked worries for higher-for-longer rates. That, coupled with profit taking pressure, sent Asia Pacific equities lower in August. The MSCI APxJ fell about 6% on the month, dragged lower by the Philippines, China and Hong Kong.

The underperformance of China and Hong Kong stocks was broad based, hit by deteriorating sentiment on a string of weak China economic data and on news that a leading private Chinese developer failed to repay its debt on schedule. Sentiment bounced back slightly at the end of the month after the government launched property stimulus measures. Additionally, the technology, media and telecommunications (TMT) and asset management companies (AMC) sectors reported resilient earnings, contributing to the positive sentiment.

Inventories are low across Asia's tech industry, and we expect demand to revive as many tech hardware cycles are reaching their cyclical bottoms. The development of Artificial Intelligence (AI) is at a nascent stage. Its need for massive computing power will buoy demand for high-end semiconductors. We remain positive on the sector's growth potential.

The Caixin China General Composite PMI fell to 51.7 in August, with services activities slowing to the lowest level this year. To bolster its economy, China's central bank lowered its medium-term lending facility by 15bps and reduced its 1-year loan prime rate by 10bps while keeping its 5-year rate unchanged. The government's pro-growth stance and willingness to stabilise asset prices could benefit China's high beta credits, which may perform better when US rates peak or look set to settle down. In spite of strong lingering headwinds from structural issues and heightened geopolitical risks, China's latest stimulus measures may lend support to broader sentiment. BEA Union Investment believes the positive momentum could extend into September.

China's property sector remains in the doldrums. The government introduced various measures, including the reduction of some down payment thresholds as well as certain policy mortgage rates, aiming to bolster demand for residential properties and reduce policy barriers for upgrades. The easing of property regulations could provide some short-term catalysts to the housing market in tier-1 cities, but we remain cautious towards China's property sector in general as we brace ourselves for more credit events going forward.

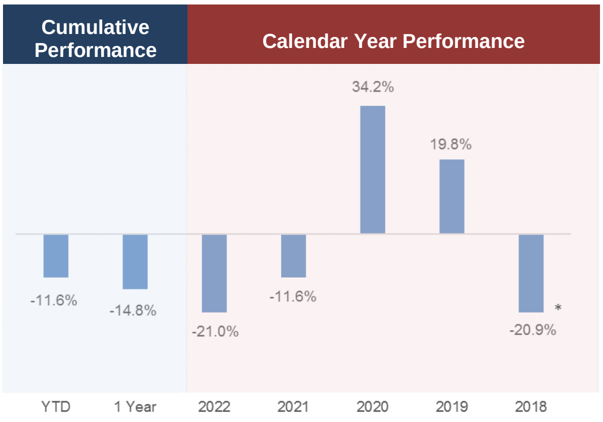
Investment Strategy

As global rates peak, Asian and Chinese value stocks with high stable yields are gaining traction. Not only do they trade at lower valuations than their global peers, the dividend yields offered by Asian dividend stocks are higher. Our investment teams prefer information technology and consumer discretionary, and less so on utilities, materials, energy and communication services.

As the US treasury curve steepens, coupled with mounting debates on whether the Fed terminal rate will be higher, our teams may adjust the portfolio's duration. Within Asian fixed income, we raised China Investment Grade bonds to Slightly Underweight. The Fund opts for Investment Grade issuers with reasonable valuations and sound credit fundamentals, while shying away from those that are highly leveraged. In the face of positive policy measures, we have made strategic allocations to high credit rated China property for upside potentials, but maintain Underweight in the sector as a whole.

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.

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 31 August 2023.

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