Your Preferred Investment Advisor for Asia Investing

Fund Report (Jun 2024)

Important note:

1. BU Asia Impact Bond Fund ("the Fund") is a sub-fund of BU Fund Series OFC ("the Company"), which is a Hong Kong public open-ended fund company ("OFC") (the Company was incorporated pursuant to an Instrument of Incorporation filed to the Companies Registry of Hong Kong with business registration number 71817286), regulated under the laws of Hong Kong with variable capital and limited liability and segregated liability between sub-funds. The Company has been registered with the Securities & Futures Commission ("SFC") as an OFC and the Company and the Fund have been authorized by the SFC pursuant to section 104 of the Securities and Futures Ordinance. The SFC's registration or authorization is not a recommendation or endorsement of the Company or the Fund nor does it guarantee the commercial merits of the Company or the Fund or its performance. It does not mean the Company or the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.
2. The Fund seeks medium to long term capital growth and regular income by primarily investing in impact bonds including green, social and sustainability bond instruments in Asia or that are denominated in Asian currencies.
3. The Fund is subject to risk associated with investing in an impact bond strategy, general investment risk, Asian market concentration risk, emerging market risk and currency risk.
4. The Fund invests in debts securities and are subject to risks in interest rates, credit/counterparty, downgrading, volatility and liquidity, valuation, sovereign debt and credit rating risks which may adversely affect the price of the debt securities.
5. The Directors may at their discretion make distribution 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. Any such distributions 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 these 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 freely convertible and is subject to foreign exchange controls and restrictions. Non-RMB based (e.g. Hong Kong) investors are exposed to 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 may adversely affect the value of investors' investment in the Fund.
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 Asia Impact Bond Fund

Scant new supply benefits outlook of Asian Investment Grade bonds

Highlights:

1. **Favour South Korean, Japanese financial impact bonds**
2. **Chinese technology, media and telecommunications (TMT) remains in focus**
3. **ESG disclosure developments underway in Japan, China**

Fund Features

- The Fund seeks medium to long term capital growth and regular income by primarily investing in impact bonds including green, social and sustainability bond instruments in Asia or that are denominated in Asian currencies.

Market Review and Outlook

Asian Investment Grade bonds traded in a stable manner in May, buoyed by positive macro fundamentals characterised by moderating growth, easing inflation, and the prospect of a Fed pivot. Positive supply-demand dynamics continue to be the key driver for the stellar performance in spreads thus far this year, with net supply in Asian Investment Grade bonds likely to remain negative. With limited upside in spreads, we anticipate future returns to primarily stem from carry returns, which remain attractive. Unless supply or rate volatility picks up substantially, otherwise any potential widening in spreads should be manageable.

The spreads of South Korean Investment Grade bonds held largely unchanged for the month. We believe they could attract further buying interest due to their superior quality. South Korea's financial market remains resilient, with the country's financial regulator recently highlighted that the country has sufficient loss-absorbing capacity in case of potential risks. Hence, our investment teams maintain a positive stance towards the country's financial Investment Grade bonds, thanks to their robust credit fundamentals and relatively low risk as many issuers are backed by the government.

Driven by favourable technical factors of negative net supply, our investment teams are also constructive towards China's Investment-Grade bonds, noting their resilience. We especially see opportunities in China's long-end TMT bonds. A majority of tech firms recently reported solid quarterly corporate results, and the industry represents a new growth engine for China as it aims for modernisation through innovation, highlighting a promising outlook.

South Korea, China, and Japan maintain their prominence in Asia's impact bond market, where significant strides are being made across various aspects. A leading South Korean appliance manufacturer recently issued US$800 million worth of USD-denominated bonds, of which US$300 million was sustainability bonds aimed at financing its green and social projects. The debt sale achieved a negative new issue premium, underscoring strong response from investors.

In China, as part of its efforts to advance ESG initiatives, the country aims to introduce a nationwide standard for corporate sustainability disclosure by 2030. Currently, ESG disclosures by Chinese corporates are conducted on a voluntary basis, and often involve inconsistent standards. Meanwhile, Japan is considering requiring listed companies with a market capitalisation of 3 trillion yen or more to start reporting sustainability and climate-related information based on standards established by the International Sustainability Standards Board (ISSB) as early as 2027.

The momentum for impact bonds remains unabated. Moody's data showed issuance of green, social, sustainability and sustainability-linked bonds, reached $281 billion in the first quarter, with a full-year projection of $950 billion remaining on track. Our teams remain constructive towards Asian Investment-Grade impact bonds, supported by their attractive yields, robust credit fundamentals and diverse sectoral opportunities.

Investment Strategy

The Fund invested about 39%, 16% and 26% in green bonds, social bonds and sustainability bonds, respectively.

In terms of geographical allocation, the Fund continues to see opportunities in South Korea, China, and Japan Investment Grade impact bonds. Their dominance offers a broader spectrum of opportunities across diverse sectors. Industries preferred by our teams include financials, communication services/tech and property.

Chinese credit continues to perform well, and our teams remain positive towards long-end TMT Investment Grade bonds. We also favour Hong Kong impact bonds, particularly green bonds issued by property developers, owing to their solid credit fundamentals. Furthermore, the Fund stays optimistic towards Investment Grade financial impact bonds issued in Japan and South Korea.

BEA Union Investment

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Fund Performance

Performance[1]：A USD (Distributing)

	Cumulative Performance %					Calendar Year Performance %					Volatility %
	YTD	1 Year	3 Years	5 Years	Since Launch	2023	2022	2021	2020	2019	3 Years (Annualised)
A USD (Dis)	0.1	N/A	N/A	N/A	3.1	N/A	N/A	N/A	N/A	N/A	N/A

Please visit our website or follow us on social media to stay informed of the market development and our latest investment strategy.

Official Website	Facebook	Linkedin	Member Registration

Fund Code

	ISIN	Bloomberg
A USD (Distributing)	HK0000933579	BUASBDA HK
A HKD (Distributing)	HK0000933587	BUIMPFA HK
A RMB Hedged (Distributing)	HK0000933595	BUASIFA HK

Source of the fund information: BEA Union Investment Management Limited, as of 31 May 2024.

1. Source: Lipper, as of 31 May 2024. The quoted NAV is for A USD (Distributing) launched on 26 July 2023, 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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