BEA Union Investment

Fund Report (Sep 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

Higher volatility, new supply could pressure Asian investment-grade bond spreads

Highlights:

1. **New issuance, volatility could weigh on Asian investment-grade bond spreads**
2. **Technical factors to remain favourable; limited supply, rate cut expectations support Asian credits**
3. **Favour impact bonds issued by banks in South Korea, China and Japan**

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

In August, the spreads across USD-denominated Asian investment-grade bonds generally widened as the market priced in a higher likelihood of recession following weak US job data and lower US treasury yields. Heading into September, hefty new bond issuance could weigh on spread performance. Spreads could face additional pressure and greater volatility as the magnitude of Fed's impending rate cut remains uncertain.

China, South Korea and Japan continue to dominate Asia's impact bond market. Our teams remain constructive on South Korean impact bonds, especially those from financial institutions including banks and credit card companies, due to their defensive qualities and solid outlook. Fitch Ratings anticipates that margin pressures on key South Korean banks will likely be mitigated by modest loan growth and controlled cost increases. Apart from South Korean financial institutions, banks in Japan, China and Singapore are also of our interest. These issuers boast robust credit profiles and leading positions in their domestic markets. Japan's monetary policy trajectory remains in the spotlight. While its central bank has shifted away from its hawkish stance following the rate hike in July, the country's exit from the negative interest rate environment is expected to gradually benefit banks' net interest margins. We believe Japan's financial system will remain sound, supported by a favourable operating environment as the economy continues to expand.

We continue to find China's investment-grade impact bonds attractive, especially those issued by technology, media and telecommunications (TMT) companies. Funds raised by these firms have been directed towards projects such as green energy, recycling and AI-powered health care services. In August, several TMT operators saw their credit ratings upgraded due to improved credit fundamentals and better earnings. Overall, China's TMT sector, with many firms generating strong cash flow, reported second-quarter results that are broadly in line with market expectations. Their earnings remain stable, with some exhibiting mild improvements.

Investors have responded enthusiastically to the green bonds issued in Hong Kong, China in the third quarter, with all new bonds being oversubscribed. Hong Kong strives to attain carbon neutrality by 2050 and the city has been a key issuer of sovereign green bonds. In its latest offering, the government raised US$3.2 billion through green bonds denominated in USD, Euro, and offshore RMB. The proceeds will be allocated to fund sustainable development and green projects.

Investment Strategy

We expect the technical outlook for USD-denominated Asian investment-grade bonds to remain favourable, due to considerably limited supply, rate cut expectations, and minimal fallen angel risk.

South Korea continues to account for the Fund's largest weighting. Apart from financials, we also like sovereign agencies in the disciplines of housing and SME-financing given their robust credit profiles.

We also slightly increased our weighting in China, partly through major tech players. Our teams believe prior weaknesses of the TMT sector can be contained. A majority of the companies also see robust cash flow with their credit health staying sound.

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Fund Performance

Performance[1]：A USD (Distributing)

	Cumulative Performance %					Calendar Year Performance %					Volatility %
	YTD	1 Year	3 Year	5 Year	Since Launch	2023	2022	2021	2020	2019	3 Years (Annualised)
A USD (Dis)	4.3	8.1	N/A	N/A	7.4	N/A	N/A	N/A	N/A	N/A	N/A

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Official Website

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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 30 Aug 2024.

1. Source: Lipper, as of 30 Aug 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.

Issuer: BEA Union Investment Management Limited