24 June 2021

Fund Special Report

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[1]

Prefers China TMT in Asian investment grade space

Highlights:

1. **Asian bond spread remains resilient for flush liquidity and absence of new issue**
2. **Underweight fund's duration and the long end**
3. **Prefers China TMT in Asian investment grade space**

Fund Features

- The Fund adopts flexible allocation in Asian investment grade / high yield bonds, diversifying into different Asian countries, sectors, and currencies.
- The Fund invests not more than 50% in Asian high yield bonds in general conditions.

Market Review

Stimulated by the low supply of newly issued bonds in Asia and the flush market liquidity, the spread of investment-grade bond stayed supported and grinded tighter last month. Hong Kong and India have outperformed while China underperformed for the "bad-debt bank" incident. Within China, strong state-owned enterprise and TMT sectors outperformed.

In terms of the high-yield bond market, the Chinese economy showed mixed last month. Although credit growth was slightly missed market expectation, the performance of consumption, fixed asset investment, and industrial production remained strong. Related bonds, especially Chinese industrials and property bonds performed well. Macau's gaming and financials lagged behind. In addition, the Chinese government intervention in the commodity market and the market expectation of rising yields of the U.S. agricultural products have all cooled down the commodity market.

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Market Outlook

We expect U.S. long-term bond yields will continue to rise in longer term. Although the Fed believes that the current inflation expectation is transitory and has no intention of changing monetary policy for the time being, market expects the Fed will start planning for the tapering soon.

We see stable spread in the investment grade space, the default issue of the AMC industry didn't pose much impact to other sectors and other Asian regions. Therefore, with the absence of new issue and the flush liquidity, the yield spread tends to tighten further.

In terms of high yield bonds, commodity prices are expected to remain strong, coupled with the continual economic recovery of major developed countries raised market risk premiums. In Asia, although the pandemic revived in some regions, India's economy is target to reopen in June and July, which improves the market sentiment. China onshore funding channel of property developers will remain tight in the near term, we expect the mid-to-small sized developers will suffer a greater impact by the restrictive policy measures.

Investment Strategy

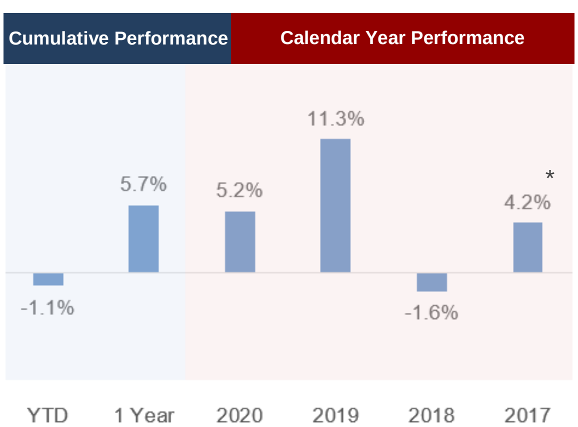
As the U.S. treasury yield is expected to rise before the end of the year, we maintain a prudent investment approach to the portfolio. In terms of high-yield bonds, Asian high yield bonds are generally with shorter duration and are less sensitive to changes in interest rates. They tend to perform better under the rate hike cycle. In terms of sector, commodity prices have fallen due to the decline in speculative demand in China. However, with the further recovery of the economy, especially the job market, the commodity market is looking positive.

The bond market in India, being severely hit by the pandemic earlier, was consolidated once. As the pandemic has seen an inflection point, bond market has rebounded steadily and we took the chance to buy on dip. As the pandemic relieves gradually and the economy is getting normalized, the bond prices in India will be supported.

In terms of investment grade bonds, the fund slightly reduced its underweight in China. The cash level is lower than last month, and is gradually resuming normal. We overweight Hong Kong on resilient technical. In terms of industry, we like technology, media & telecom (TMT) sectors in China and stay totally underweight in asset management companies to avoid potential repricing risk from the resolution of "bad-debt bank" incident.

Fund Performance

Performance[2]：A USD (Distributing)



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

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

Recent Award

Top Investment Houses in Asian G3 Bonds Rank 7 (Hong Kong)[3]

One of the Top Investment Houses in Asian Local Currency Bonds (Hong Kong)[4]

Fund Code

	ISIN	Bloomberg
A USD (Accumulating)	HK0000319381	BEABAUA HK
A USD (Distributing)	HK0000319340	BEABAUD HK
A HKD (Distributing)	HK0000319357	BEABAHD HK
A AUD Hedged (Distributing)	HK0000319365	BEAAAHD HK
A RMB Hedged (Distributing)	HK0000319373	BEAARHD HK

Source of the fund information: BEA Union Investment Management Limited, as at 31 May 2021.

1. ©2021 Morningstar. All Rights Reserved. Data as of 31 May 2021. The rating is for A USD (Accumulating).
2. Source: Lipper, as at 31 May 2021. The quoted NAV is for A USD (Distributing) 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.
3. Source: The Asset, 2020 Research for Asian G3 Bonds, October 2020.
4. Source: The Asset, 2020 Research for Asian Local Currency Bonds, October 2020.

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.
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