17 May 2021

# Fund Monthly Report

Important note:
1. BEA Union Investment China Gateway Fund (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.
2. 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, China tax risk, risks of investing in other funds, emerging market risk and currency risk.
3. 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.
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 China Gateway Fund ("CGF")

★★★★
Morningstar Overall Rating[1]

## A-shares are added with attractive valuation following market correction

*Highlights:*

1. **Added industrials, property management stocks etc in April to lift portfolio performance**
2. **Rotations are getting faster with value and cyclicals being the potential outperformers**
3. **Semi-conductor equipment and EV sectors are looking positive**

## 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

Chinese equities slumped in March and April. U.S. Treasury yields shot up as inflation expectation spiked. And with the delisting risk of Chinese ADRs, the market sentiment was adversely affected which in turn drove down the performance of Chinese equities.

Chinese government started regulating the new economy sectors. The affected sectors include e-commerce, e-cigarettes, and online education. In April, the e-commerce giant fined a record $ 18.2 billion yuan by China's antitrust regulators. The momentum of techs and I.T. stocks slumped right after the news released. We added back these stocks in March and April and yet the sectors dropped further while financials which we underweight outperformed, and the overall portfolio performance was dragged. E-cigarettes may be included into the traditional cigarette regulatory framework, and the Ministry of Education may conduct limitation on pricing and course duration on the online education. Investors worried that the sectors' space for growth will be narrowed and affect the investment sentiment.

The portfolio has added sectors like industrials, property management, transportation including airlines and ship building and dry bulk shipping names on stronger freight rate, and consumer staples which led the portfolio performance.

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## Market Outlook

No obvious breakthrough in the macro environment this year, and the profit taking activities volatile the stock performance. We expect the bond yields will keep rising and the process of credit normalization in China will be continued. Chinese government emphasized there wouldn't be heavy injection of liquidity or sharp turn on policy direction, we will strike a balance between growth and value stocks, though we see rotations are getting faster, with value and cyclicals being the potential outperformers.

Consumer Staples are highly defensive. Dairy and Beer are the target of the investors. We prefer Semiconductor. The supply of semiconductors is limited, but the global demand for it is strong. Semiconductor Equipment is also benefited from the trend. With the high demand and good performance, semiconductor equipment stocks will be in focus.

For techs and I.T. stocks, since the upside on corporate earnings is optimistic, we remain positive for the medium term. The pandemic increases our reliance on technology, and the trend is unlikely to change. Besides, the $14^{th}$-five year plan mentioned the growth in R&D investment has to be at least 7% per annum where integrated circuit, chips, technology and high-end equipment will be the key beneficiaries, and industry upgrading will also be benefited as a result.

## Investment Strategy

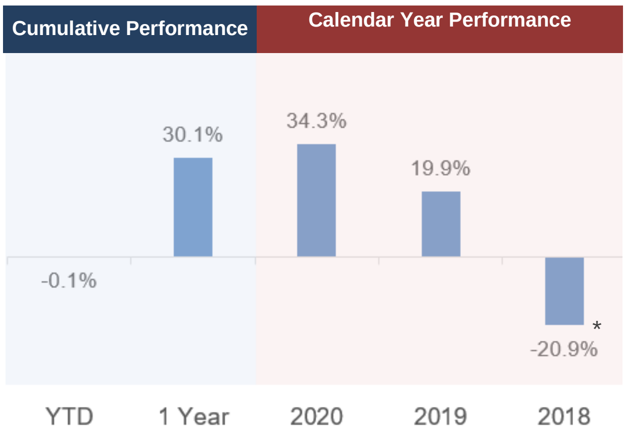
In March, Aviation, Transportation and Telecom were sold for profit and real estate was trimmed due to the tightening measures. A-shares has lagged since the beginning of the year, and current valuation looks attractive after the correction. The Fund added A-shares in the portfolio. We overweight semiconductor on high capex cycle, the huge industry demand also benefits the semiconductor equipment. It is expected the semiconductor equipment stocks will be the market focus in the next two to three years.

We underweight large banks but overweight small to mid-cap banks due to the rise in bond yields. We took profit in some of the recovery names as risks/rewards getting less attractive given the recent share price rise. And we continue to overweight techs and I.T. stocks with optimistic outlook in longer term. In addition, techs and I.T. companies have regained their investment value after the correction, we have increased our holdings of the leading companies.

Electric Vehicle (EV) is another sector in focus. According to the data from the China Association of Automobile Manufacturers, the sales of EVs (referring to electric power and hybrid vehicles) reached 226,000 in March, an increase of 2.4 times year-on-year, which is a record for the month. It accounted for 12% of the overall passenger car market sales, showing a strong demand for the industry. The prospect of EV is still optimistic. After clearing the concern on mileage and recharging stations, the penetration rate of EV will continue to surge. It also brings through investment opportunities to related sectors in the supply chain like motors, electronics, technologies, software & hardware etc. leading to promising upside.

## Fund Performance

Performance [2]：A USD (Distributing)




* Since launch till 31 December of the same year. A USD (Distributing) 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 |
| A AUD Hedged (Distributing) | HK0000375474 | BUCGAAH HK |

Source of the fund information: BEA Union Investment Management Limited, as at 30 April 2021.

1. Source: ©2021 Morningstar. All Rights Reserved. Data as of 30 April 2021. The rating is for A USD (Distributing).
2. Source: Lipper, as at 30 April 2021. The quoted NAV is for A USD (Distributing) launched on 31 January 2018, 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 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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