BEA Union Investment

19 July 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]

RRR cuts in China provide support to the real economy

Highlights:

1. **RRR cuts in China increase support to the recovering economy**
2. **Added smartphone provider to capture the peak season opportunities in Q3**
3. **Looking to quality growth names being heavily oversold recently to strive for medium to long term return**

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 edged slightly down in June. Market sentiment has held up well ahead of the CCP"s 100th anniversary. Lowered U.S. Treasury 10-year yield in June also speeded up the style rotation from value to growth. Autos outperformed on the back of the better-than-expected Electric Vehicles (EV) sales, while property and materials underperformed due to style rotation.

As for the Hong Kong equity market, Hang Seng Index fell slightly in June. The travel ban from Guangdong delayed the border reopening between Hong Kong and Macau, affecting the investment sentiment for the Macau gaming sector. On the positive side, the accelerated vaccination progress and the under-controlled local infection rate laid the foundation for further relaxing the social distancing measures, pushing the performance of the local retailers and property companies.

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Market Outlook

The Fed's hawkish expectation on interest rate in the June FOMC meeting was to some extent reflecting the market expectations. Hence, we could see that the capital was still in the risky assets. Similar to the stock market in the U.S., Chinese stock market is led by large tech firms. With the benefit of "new normal" in the post-pandemic times, tech enterprises lead the economy and the tech sector leads the stock performance. However, large tech corporates were impacted by the regulatory issues in the recent quarter. The regulatory investigation conducted by the Chinese government on Internet companies extends from anti-monopoly to data security. In fact, the pandemic might somehow increases our reliance on technology and this trend will highly continue. The structural growth potential of the sector is still promising. China announced that it will lower its deposit reserve ratio (RRR), in a way to pump RMB 1 trillion indirectly to the market. The improved market liquidity is a good news for most industries, especially small and medium-sized enterprises, supporting the outlook of the Chinese equities.

Investment Strategy

Year to date, China's economic recovery is generally on track, driven by strong growth in exports and manufacturing capex, while the consumption growth has been slower than expected, attributed by the weaker-than-expected recovery in the service consumption. We believe there will be a more comprehensive consumption growth in the second half of the year, on the back of the higher vaccination rate. We maintain a more balanced portfolio mix between growth and cyclical/recovery stocks to manage the macro-economic risks. We are looking to add exposure in quality growth stocks which were recently oversold.

Quarantine-free travel between Hong Kong and Macau is expected to resume if the pandemic is being under control. The proposed scheme will allow travellers who arrive in Macau through Hong Kong to "freely move within their hotel, including casino and retail areas". Macau's gaming sector is thus added in the portfolio, since the sector is expected to be directly benefited from the potential border reopening.

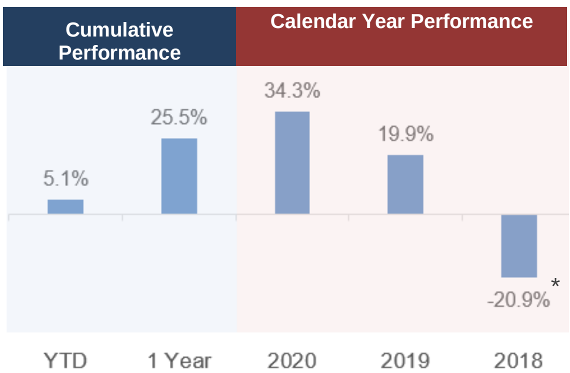
We overweight the semiconductor industry as the huge market demand provides support to the stock performance of the semiconductor equipment provider. It is expected that in the next two to three years, the semiconductor equipment stocks will be the new market focus. We also added China's telecommunication service provider stocks in the portfolio as their dividend pay-out is relatively higher. Moreover, Q3 is traditionally the peak season of the smartphone sales, we therefore added the related service provider stocks to the portfolio

Electric Vehicle (EV) is another sector focus. To achieve the goal of "carbon neutrality" by 2060, China pays much effort on promoting EVs. According to the data from the China Association of Automobile Manufacturers in June, the sales of EVs (referring to electric power and hybrid vehicles) reached 1.21 million, a double increase year-on-year, reflecting its strong demand and the industry is currently under its high growth cycle.

Structurally, we continue to like I.T., health care, consumption, clean energy including EV, etc. Industries which are benefited from the government initiatives and cyclical recovery are also alpha opportunities.

Fund Performance and Dividend

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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http://www.bea-union-investment.com/member-registration

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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 June 2021.

1. Source: ©2021 Morningstar. All Rights Reserved. Data as of 30 June 2021. The rating is for A USD (Distributing).
2. Source: Lipper, as at 30 June 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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