20 September 2021

Fund Commentary

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")

Maintain a balanced portfolio mix with growth & cyclical names to control macro risks

Highlights:

1. **Defensives like Hong Kong telecoms and utilities outperformed**
2. **Expect more easing policies for the slowed down economy pick up**
3. **Infrastructure spent is likely to be key driver of growth in Q4**

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

Offshore China market equity market ran flat while onshore was up in August. Regulatory paradigm impacted more sectors than before including Baiju, medical cosmetics, online gaming, cloud and internet services which drove large caps to underperform small caps. Thanks to the solid earnings and higher material prices, reflation trades outperformed during the month.

As for the Hong Kong equity market, Hang Seng Index fell slightly in August dragged by the tech stocks. The magnified concern on China regulatory measures still curbed the market performance. Sell-off was seen prior to the Jackson Holes annual meeting ticketing possible cutback of stimulus package. Regional power tool makers outperformed on strong earnings and defensives like Hong Kong telecoms and utilities also outperformed due to risk-off before the Jackson Holes meeting and the regulatory issues in China.

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Market Outlook

The regulatory issues on intranet and tech sectors etc. and its extension to data sensitive company listing starting from June and July was still weakening market sentiment. The Chinese president brought forth the "common prosperity" emphasizing the need to support the moderate wealth for all where more details were being observed by the market. The flooding in Zhengzhou and the potential impact of Delta variant dragged the PMI figure to become weaker than market expected.

If the Delta variant is not well controlled and new variants being spread to other provinces, it might affect the dining, retail and travel industries. Exports might also be dragged due to the contractions in demand from foreign countries. To support and strengthen the sustainable growth of China economy, we would expect more fiscal/monetary policies to come in the last quarter.

In terms of regulatory restrictions, market is still waiting for more clarification on the initiatives announced by the Chinese government recently to further project its impact to various sectors and the economy as a whole. We would see some volatilities in near term before more details are exposed to the market.

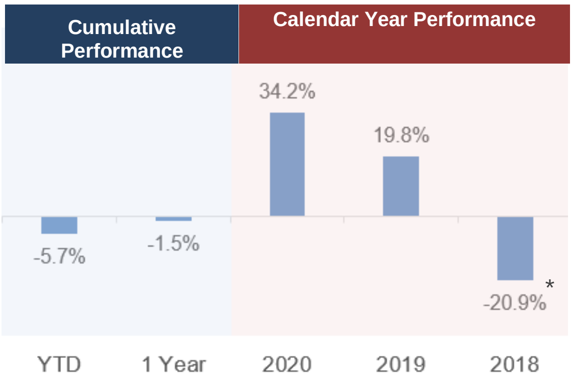
Investment Strategy

Macro recovery has slowed since July in China, mainly due to the delta variant outbreak. In view of the weaker than expected consumption recovery and potential slowdown in exports growth in the next few months, we believe both the fiscal and monetary policies would turn more favourable. In particular, infrastructure investment is likely to pick up, thanks mainly to more funding available through issuance of local government special bonds. However the pick up magnitude still hinges on the COVID development in the rest of the year.

We maintain a more balanced portfolio mix between growth and cyclical/recovery names to control macro risks. We like tech stocks particularly the downstream hardware and smartphone supply chain, VR (virtual reality) and AR (augmented reality) as Q4 is the traditional peak season of smartphone and related devices sales. Clean energy plays for example EV (electric vehicles) and solar which are policy-favoured are also our focus. Infrastructure related plays such as cement and steel are looking positive riding on potentially higher infrastructure spending. Besides, we continue to like industries with less policy risk such as healthcare services and selected consumption plays namely sportswear. To avoid exceptional volatility of the portfolio, we will underweight China internet and China properties which are experiencing policy challenges, as well as financials like banks and insurance on weak loan growth and margin pressure in low interest rate environment.

Fund Performance

Performance [1]：A USD (Accumulating)



* Since launch till 31 December of the same year. A USD (Accumulating) 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

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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 31 August 2021.

1. Source: Lipper, as at 31 August 2021. The quoted NAV is for A USD (Accumulating) 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.