January 2022

Fund Report

Important note:

1. BEA Union Investment Asian Bond and Currency Fund (the "Fund") seeks regular interest income, capital gains and currency appreciation from an actively managed portfolio primarily investing in debt securities denominated in Asian or other currencies and primarily issued by Asian government or corporate entities.
2. The Fund is subject to general investment risk, Asian market concentration risk, 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 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 Bond and Currency Fund ("ABC")

★★★★
Morningstar Overall Rating+

Underweight Chinese property and increase holdings in India high yields

Highlights:

1. India's manufacturing and consumer service industries benefit from the development of e-commerce and renewable energy sectors
2. Underweight Chinese property
3. Cautious on Macau's gambling stocks

Fund Features

- The Fund adopts an unconstrained strategy, which allows a flexible allocation of assets in corporate bonds, government bonds, high yield bonds and investment grade bonds, to actively hunt for alpha opportunities.
- It aims to distribute stable dividends and capture the appreciation potential of Asian bonds.

Market Review

The new coronavirus variant, Omicron, is rapidly spreading around the world, and cases in various countries have been on the rise. The suddenly emerged variant has pushed down U.S. interest rates, flattening the yield curve. U.S. Treasury yields were higher, with the 10-year treasury yield hovering between 1.35% and 1.55%. It is on the rising trend at the start of 2022, pumping more money into the market. The U.S. dollar strengthened in 2021 due to the Fed's hawkish attitude on rate hikes. The turmoil in China's property industry prompted investors to increase their holdings of U.S. dollar, which also provided strong support for the currency. Another focus in the currency market was the global FDI inflow in China, which reached US$142 billion as of October 2021, up 23.4% on a year-on-year basis. The renminbi's appreciation trend will be supported as global supply chains reopen and Chinese exports continue to flow.

On the China's property market side, in last November, China's top 100 developers saw contract sales drop 37% on a year-on-year basis and 24% compared to 2019. Developers with lower offshore and onshore bond prices have also experienced a greater decline in contract sales as of November 2021. Markets expect property prices will continue to be weak, further urging home buyers to adopt a wait and see approach. Investor demand in second and third-tier cities saw a sharper decline while some developers cutting new home prices by around 10 to 15% to boost contract sales.

Even though the Asian bond market was hampered this year by the China property default issue and the rise of U.S. bond yields, the Chinese TMT sector still well performed. Other Asian bond markets such as India and Indonesia also performed well. Renewable energy, steel, and airport bonds in India rebounded significantly when the pandemic was mostly under control in May. Indonesian properties, supported by local government policies, successfully broadened their target customer base to mass public and recorded growth.

Market Outlook

Chairman of the Federal Reserve, Jerome Powell, has revealed a more hawkish stance regarding interest rates. At a congressional hearing, he said the central bank would "consider wrapping up the taper of asset purchases […] perhaps a few months sooner". Thus a rate hike could come earlier than the market has anticipated. Some of the major central banks tightened their monetary policy faster than the U.S. In the fourth quarter last year, the Reserve Bank of New Zealand raised rates twice and the Bank of England surprised the market when it increased its target interest rate by 0.15% in December. In contrast, compared to global and emerging markets, Asian central banks have been slow to tighten policies. Owing to good inflation rate and sluggish credit growth in the private sector, the pace of tightening in the region will remain slow in 2022.

In China's property market, short-term fluctuations are inevitable. However, when the market is consolidated or the government sends a positive policy signal of loosening restrictions, the credit environment for domestic housing is expected to improve. China's attitude on the pandemic, industry regulation and the implementation of policies all play an indicative role.

In addition, the market potential of Southeast Asia cannot be ignored. The Indian government is vigorously promoting the development of digitalization across the country. E-commerce has introduced a new ecosystem for online shopping. The epidemic has promoted online consumption, which accelerated the development of local e-commerce. Global warming has led many countries to introduce strategies for carbon reduction. This trend has benefited many renewable energy companies in India. Many Asian countries are still plagued by the epidemic, but economic activities also need to get back on track. However, the supply has not caught up. The imbalance between supply and demand has pushed up the energy and material prices, benefiting the Indonesian oil and gas sector.

Investment Strategy

We expect the U.S. Treasury bond yields will rise, while other countries might tighten liquidity due to the return of inflation. Rising interest rates will benefit the banking and financial industries. In terms of the Asian region, we are optimistic on the performance of bonds relating to Hong Kong, Singapore and South Korea. India's manufacturing and service industries will continue to grow strongly and the development of renewable energy will also strong. Indonesia's real estate industry has successfully shifted from focusing on the high-end market to a mass market, optimizing industry fundamentals. Hence, we are positive on the performance of these bonds.

The People's Bank of China has further relaxed mortgage loan quotas and accelerated disbursement. Under the Three Red Line policy, developers can draw out M&A loans, and asset-backed bonds will resume approval and issuance. State-owned enterprises and substantial private enterprises can benefit from this round of policy relaxation on the back of their better credit ratings. Our investment team plans to reduce holdings of non-performing credit companies in any market rebound.

In the Hong Kong real estate industry that has not been affected by China's policy, the investment team will maintain high-quality trading, and continue to be highly selective on Hong Kong companies with reasonable stock prices and resilience.

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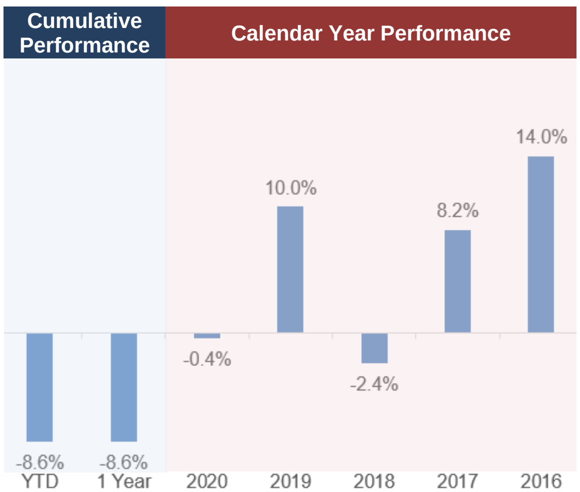
Regarding the Macau gaming industry, we remain cautious on the gambling stocks as the date for border reopening is still uncertain and there is a major change in the mainland government's policy on the VIP gaming industry.

Asian investment grade bonds have shorter maturities than the U.S. and other emerging markets, and these bonds are less sensitive and relatively stable in price. In addition, Asian investment grade bonds have higher yields than their global counterparts. The risk-adjusted returns are therefore more appealing.

Fund Performance

Performance[1]：A USD (Accumulating)



A USD (Accumulating) launched on 28 Aug 2008.

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 Awards

Top Investment Houses in Asian G3 Bonds Rank 7 (Hong Kong)[2]

One of the Top Investment Houses in Asian Local Currency Bonds (Hong Kong)[3]

Gold Winner, Regional Bond[4]

Best-In-Class, Asia Pacific Fixed Income Hard Currency[5]

Fund Code

	ISIN	Bloomberg
A USD (Accumulating)	HK0000065208	BEABCAA HK
A RMB Hedged (Accumulating)	HK0000272531	BEARMHA HK
A EUR Hedged (Accumulating)	HK0000405735	BEABCAE HK
I USD (Accumulating)*	HK0000081379	BEABCIA HK
I HKD (Accumulating)*	HK0000486685	BEABIHK HK
A USD (Distributing)	HK0000065216	BEABCAI HK
H HKD (Distributing)	HK0000081361	BEABCHD HK
A AUD Hedged (Distributing)	HK0000162856	BEAAUHD HK
A RMB Hedged (Distributing)	HK0000194263	BEARMHD HK
I HKD (Distributing)*	HK0000484854	BEABIHA HK

* For professional investor only

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

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1. Source: Lipper, as at 31 December 2021. The quoted return is for A USD (Accumulating) launched on 28 August 2008. Performance is calculated in the respective class of denominated currencies on a NAV to NAV basis. Gross income is re-invested.
2. Source: The Asset, 2020 Research for Asian G3 Bonds, October 2020.
3. Source: The Asset, 2020 Research for Asian Local Currency Bonds, October 2020.
4. Source: Fund Selector Asia, January 2020.
5. Source: BENCHMARK, November 2019.

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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