January 2022

BEA Union Investment

Fund Report

Important note:
1. BU Asia Pacific Flexi Allocation Fund ("the Fund") is a sub-fund of BU Investment Series OFC ("the Company"), which is a public open ended fund company ("OFC") (registration number OF11) regulated under the laws of Hong Kong, with variable capital and limited liability and segregated liability between sub-funds.
2. The Fund seeks to achieve long-term capital growth and income by investing in equity securities or debt securities, that are either (a) traded in the Asia Pacific region or (b) issued by companies incorporated in the Asia Pacific region or companies which have significant operations in or derive significant portion of revenue from the Asia Pacific region.
3. The Fund invests in emerging markets and may be subject to higher liquidity and volatility risks.
4. The Fund is subject to equity markets risk such as changes in investment sentiment, political, economic conditions and issuer-specific factors which may adversely affect the fund value.
5. The Fund invests in debts or fixed income securities are exposed to interest rates, credit/counterparty, downgrading, volatility and liquidity, valuation and sovereign debt and credit rating risks which may adversely affect the price of the debt securities.
6. The Fund may invest in below investment grade or non-rated debt securities which are subject to greater volatility and liquidity risks than higher-rated securities.
7. The Fund is exposed to concentration risk in Asia Pacific region and may be more volatile than in a more diverse portfolio of investment.
8. The Fund is also subject to risk associated with regulatory requirements and high market volatility and potential settlement difficulties of the equity markets in Asia Pacific Region.
9. The directors 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 shareholder'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 share.
10. In terms of currency hedged class shares, adverse exchange rate fluctuations between the base currency of the Fund and the class currency of the currency hedged class shares may result in a decrease in return and/or loss of capital for shareholders. Over-hedged or under-hedged positions may arise and there can be no assurance that the currency hedged class shares will be hedged at all times or that the manager will be successful in employing the hedge.
11. 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.
12. The Fund may acquire financial derivative instruments for hedging and investment purposes. Given the leverage effect embedded in financial derivative instruments, the Fund may be exposed to significant losses.
13. Investors should not make an investment decision based solely on this material.

BU Asia Pacific Flexi Allocation Fund ("AFA")

★★★★
Morningstar Overall Rating+

Positive on India and Australia; Sector rotation and fluid geopolitical situation offer investment potential

Highlights:

1. **Positive on India and Australia**
2. **The price-to-earnings (P/E) ratio of Asian stocks is relatively low, and the development of A-shares is supported**
3. **Prefer equities for the time being while being cautious on bonds**

Fund Features

- The Fund is an Asia Pacific equity-biased mixed-asset income fund, which invests in a prudent selection of blue-chip stocks to seek alpha.
- The Fund employs flexible allocation in Asia Pacific bonds to enhance return potential and diversify portfolio risks.

Market Review

In December 2021, the MSCI Asia Pacific Index (ex-Japan) rose 1.8%, which was led by the markets of Australia, Taiwan, Thailand and South Korea, mainly due to factors including capital inflows and the relaxation of pandemic precautionary restrictions. In particular, the Australian stock market outperformed, driven by the sectors of utilities, materials, industrials and financials. Investment sentiment was then improved, with the healthcare sector benefiting more from active M&A activities and the possibility of shortened quarantine period.

Other Asian bond markets such as India and Indonesia performed well. In the middle of 2021, the pandemic was generally under control. India's renewable energy, steel and airport bonds rebounded sharply. With the support of local government policies, Indonesian properties recorded growth.

In China's real estate sector, under the central government's comprehensive policy of regulating the property market, many developers suffered insufficient liquidity. A number of tightening policies have been passed with an aim to suppress excessive corporate borrowing, leading to structural changes in fundamentals and reducing the risk of rapid market expansion and the formation of a bubble economy. Coupled with the national policy of "common prosperity", the market still takes time to digest. Nonetheless, China's technology, media and communications (TMT) sector remained strong.

Chairman of Federal Reserve, Jerome Powell, has also become increasingly hawkish in his stance towards interest rate hike. In November last year, the United States decided to reduce bond purchases by $15 billion per month, which translates that the pace of tapering will accelerate. Having said that, the omicron variant also makes the US central bank more cautious in tapering. Hence, we believe there will be not much impact on the flow of funds in the short term.

Market Outlook

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. 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 ASEAN market potential 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

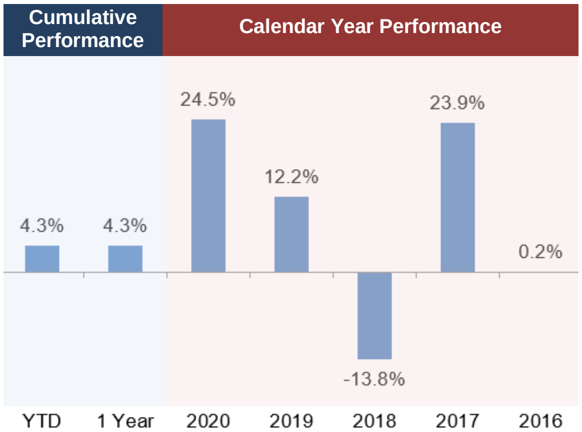
We maintain a positive view on the Asian markets, with India and Australia slightly better. In terms of overall strategy, we slightly tilt toward equities, while being cautious on bonds. When the economy and policies begin to become clear, we will increase the weightings gradually. The relatively low P/E ratio of Asian equities provides investment opportunities, which worth investors’ attention. Sector rotation and fluid geopolitical situation also offer investment potential, for example, the electric vehicle supply chain sector which is undergoing the stage of structural growth, Australian commodities, Indian steel and solar and the hydrogen supply chain.

On the mainland stock market side, we believe that when market uncertainty is removed gradually, market sentiment will improve and investors' interest in properties will resume. The sectors of home appliances, automobiles, consumer market, and the overall economic development will then become more solid and stable. The fundamentals of the A-shares market are well supported. On top of this, with the inclusion of A-shares stocks in the MSCI index, the trading volume of the A-share market will be expected to increase. In terms of our bottom-up stock selection, we are particularly optimistic about new energy, technology, and metaverse-themed stocks.

The fund manager will continue monitoring for the overall portfolio risk, while striving for growth potential. The fund portfolio is still sufficiently defensive. We prefer to invest in global high-quality corporate leaders, as well as companies that are benefited from structural growth or policies, in order to seek long-term capital growth and income potential.

Fund Performance

Performance[1]：A USD (Accumulating)



The Fund was launched on 30 September 2021 upon the restructuring of BEA Union Investment Series - BEA Union Investment Asia Pacific Flexi Allocation Fund (the Predecessor Fund, with inception on 6 Feb 2015) to the Fund. The performance / fund price/ dividend record/ Morningstar rating (if applicable) shown on or before the date of the restructuring has been simulated based on the respective information of a unit class of Predecessor Fund with the same investment objectives, risk profiles, and materially the same fee structures and investment policies of the respective share class of the Fund.

Class A USD (Accumulating) of the “Predecessor Fund” was launched on 6 February 2015.

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)	HK0000224250	BEAPAUA HK
A USD (Distributing)	HK0000224201	BEAPAUI HK
A HKD (Distributing)	HK0000224219	BEAPAHI HK
A AUD Hedged (Distributing)	HK0000224227	BEAPAUH HK
A RMB Hedged (Distributing)	HK0000224235	BEAFARH HK
A NZD Hedged (Distributing)	HK0000224243	BEAPANH HK

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

+ ©2021 Morningstar. Data as of 31 December 2021. The rating is for Class A USD (Accumulating). The rating is for reference only and should not be construed as buy and sell recommendation of investment.

1. Source: Lipper, as at 31 December 2021. The quoted NAV is for A USD (Accumulating) launched on 30 September 2021, performance is calculated in the respective class of denominated currencies on a NAV to NAV basis. Gross income is re-invested.

Fund Report