BEA Union Investment

Your Preferred Investment Advisor for Asia Investing

Fund Report (Mar 2024)

Important note:
1.BU China Gateway Fund ("the Fund") is a sub-fund of BU Investment Series OFC ("the Company"), which is a public open-ended fund company ("OFC") (business registration number 72687438) regulated under the laws of Hong Kong, with variable capital and limited liability and segregated liability between sub-funds.
2.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.
3.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, Mainland China tax risk, risks of investing in other funds, emerging market risk and currency risk.
4.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.
5.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.
6.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.
7.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.
8.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.
9.Investors should not make an investment decision based solely on this material.

BU China Gateway Fund (“CGF”)

★★★
Morningstar Overall Rating+

Favour Chinese Investment Grade bonds; Chinese SOEs, value stocks, and Taiwanese tech shares preferred

Highlights:

1. **Chinese Investment Grade bonds favoured on strong credit fundamentals, attractive yields**
2. **Chinese value stocks in focus; see potential in SOEs on reform, select retailers on China's consumption downgrade**
3. **Constructive towards Taiwanese tech stocks on cyclical recovery, structural potentials**

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 and Outlook

China continues to roll out various measures and policies aimed at shoring up its economy and ensuring market stability. In February, the PBOC cut the 5-year Loan Prime Rate by 25 bps - exceeding investors' expectations of a mere 0.1% decrease, to alleviate mortgage pressure. The Chinese "national team" led by Huijin, actively snapped up A-share ETFs throughout the month, sending MSCI China Index (USD) 8.39% higher from January. Investors also reacted positively to the appointment of a new head of the China Securities Regulatory Commission (CSRC) Head, interpreting it as a reaffirmation of the authorities' commitment to market stability. Meanwhile, Taiwanese shares also staged a robust performance in February, mainly driven by the technology sector underpinned by continued optimism towards artificial intelligence (AI) and strong guidance provided by a major US semiconductor manufacturer during the earnings season.

Despite investor confidence towards Chinese equities remaining sluggish, our investment teams believe opportunities can be found within select areas, including Chinese value stocks and state-owned enterprises, which stand to benefit from anticipated improvements in shareholder returns and capital efficiency on ongoing reform efforts by the authorities. Furthermore, consumption downgrade in China could present opportunities to select consumption stocks. Tech shares across the segments are also in favour. We particularly hold a positive stance on Taiwanese semiconductor shares, especially companies that are involved in the later-stage cycle such as ABF Substrates, raw wafers and foundry space.

As investors look for reassurance in China's policy response, the timing of a US monetary pivot alongside recession risk concerns pose challenges to the macro environment. Furthermore, geopolitics may induce greater market volatility. In general, our investment adopts a relatively cautious stance towards Chinese equities, given the country's "progressive policy" approach aimed at mitigating limit downside risks. We believe structural adjustments will take time.

In contrast to Chinese equities, we are constructive towards Chinese Investment Grade bonds, fuelled by strong credit fundamentals and the potential for yield pick-up. Our teams prefer high-beta technology, media and telecommunications (TMT), state-owned enterprises and asset management companies bonds. We expect new supply of USD-denominated Investment Grade bonds could remain subdued, particularly after the recent rise in US treasury yields. Consequently, Asian credit spreads, including those in China, are expected to continue trading in a narrow range and consolidate following the rally since the beginning of year.

Investment Strategy

In February, the Fund had a higher allocation to bonds compared to equities. Our teams remain very constructive on Chinese Investment Grade bonds, which have been staying resilient. Strong investor interest drove spreads to historically tight levels. We remain positive towards high-beta TMT for the sector's comparatively lower regulatory risk, as well as BBB grade financial bonds for their appealing yields and improving credit and technical fundamentals. Conversely, we steered clear of low-beta banks and state-owned enterprises due to their steep valuations.

Turning to equities, our investment teams maintain their focus on market leaders exhibiting robust fundamentals, characterised by solid business models and strong cash flows. We identified opportunities across various sectors, including tech giants, e-commerce, energy and commodities, banks, and retailers. We see emerging prospects within consumer stocks, prompted by China's consumption downgrade, while online spending continues to exhibit resilience.

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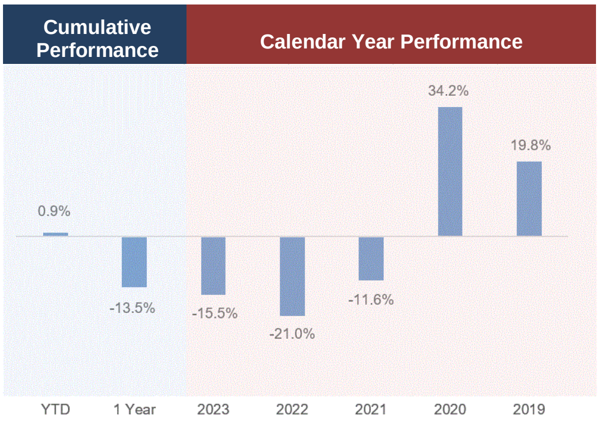
Fund Performance

Performance[1]：A USD (Accumulating)



The Fund was launched on 30 September 2021 upon the restructuring of BEA Union Investment Series - BEA Union Investment China Gateway Fund (the "Predecessor Fund", with inception on 31 January 2018) to the Fund. The performance/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.

Please visit our website or follow us on social media to stay informed of the market development and our latest investment strategy.

Official Website　　Facebook　　Linkedin　　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
AAUD Hedged (Distributing)	HK0000375474	BUCGAAH HK

Source of the fund information: BEA Union Investment Management Limited, as of 29 February 2024.

+ ©2024 Morningstar. 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 of 29 February 2024. 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.

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 prospectus of the Fund. Investors should also read the prospectus 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 shares 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 authorised by the Securities and Futures Commission (“SFC”) in Hong Kong. SFC authorisation 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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