



## House Award for Long Only Funds

<b>Submission ID</b>	<b>Region</b>	<b>Category</b>
F26002	Hong Kong	Greater China Equity
<b>Name of firm</b>		
BEA Union Investment Management Ltd		
<b>The Flagship Fund's name</b>		<b>The Fund's ISIN Code</b>
BEA Union Investment Greater China Growth Fund		HK0000065141
<b>Data as of the quarter-end</b>		<b>Total Fund Size (including all share classes)</b>
30/06/2021		HK\$2,995m
<b>Total Number of Portfolio Manager(s)</b>		<b>Total Number of Analysts</b>
4		4



## Pillar 1: Investment Approach

### 1. Investment style consistency: Who has the ultimate responsibility for keeping the investment style consistent under all conditions and circumstances?

The CIO

### 2. Investment style consistency: If the investment style deviates, are there material, negative consequences for the person with ultimate responsibility for ensuring style consistency?

Yes, there are material consequences, including bonus reduction, promotion freeze and/or specific financial consequences on the ultimately responsible individual

### 3. Investment process: Does the investment process include any of the following.

- Portfolio Managers are allowed to buy securities outside of the list of securities approved by the investment committee and/or CIO

### 4. Do you take ESG as Investment/Divestment materiality consequences?

Yes.

Environmental	Social	Governance
20	20	60

### 5. ESG as Investment Process [v]: Is ESG information is used in an investment product's investment process or stewardship activities?

Yes

#### Selected: Yes

- As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

#### Selected: As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

- independent evaluation of information reported by investees or provided by ESG data providers
- taking steps to validate anomalies, including notifying sources of potential errors

### 6. When determining the materiality of ESG factors[v] [vi], does the strategy consider the following factors: (an adaptation of the CFA ESG disclosure requirements and recommendations)

- The extent to which the materiality issue influences the objectives of the investment product or the likelihood of achieving them
- The extent to which the materiality issue affects the size and characteristics of the investment universe
- The extent to which the materiality issue affects investment decisions or the investment process
- The extent to which the materiality issue affects stewardship activities
- The likelihood that the materiality issue would attract prospective investors with needs and preferences that differ from those of current investors

### 7. Response to capital/asset markets' structural changes: How is this investment strategy responding to these changes for investors' benefit?

We are aware of the structural shifts, but we do not think our investment strategy needs to adjust in response



**8. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.**

Maintained investment style consistency during a particularly challenging time for the portfolio

**Please briefly describe the critical challenge/s, actions taken, results and lessons learned:**

Q1 2020 and Q1 2021 were two challenging periods where many of our holdings suffered from the market sell off. We did not change our investment style and we adhered to our investment process by focusing on the undiscounted growth opportunities at the stock level. We were able to stabilise performance and by using the opportunity to accumulate names with strong growth outlook and re-rating potential. We subsequently delivered strong performance in both absolute and relative terms.



## **Pillar 2: Portfolio Management**

**1. Portfolio Limits: does the fund have explicit portfolio limits such as, but not limited to, single country, single sector, single security, single asset class, the correlation between securities, or other spelled-out limits.**

We are an Unconstrained Fund

### **Unconstrained Fund -**

But we ensure that the fund's risk level is aligned with target investors

**2. Portfolio level ESG characteristics [iv]: We have decided ESG criteria to be used as our portfolio characteristics that include:**

- We do not have an established portfolio-level criterion that is based on ESG information or ESG issues

**3. ESG based Securities Selection criteria[iv]: We take steps to incorporate financially material ESG information alongside traditional financial information in financial analysis and valuation of the investment product's investments:**

- We do not have an established security selection criterion that is based on ESG information or ESG issues

**4. The number of holdings [i]: What is the average number of securities in the fund over the last 3 years?**

75 - 89

**5. Security weight: What determines the weight of each security?**

- Liquidity at the security level
- Liquidity at the portfolio level
- Correlation with other securities in the portfolio
- Potential risk-adjusted returns relative to other securities in the portfolio
- Potential to produce alpha
- Material[iii] ESG merits of the investee
- Portfolio limits (explicit limits or soft guidelines) such as single issuer, single security, etc.

**6. Portfolio liquidity in normal markets: When we construct the portfolio, we account for short-to-medium liquidity at the portfolio level under normal market conditions.**

Our liquidity targets are better than the above (please specify in maximum 250 words)

**Please specify the liquidity targets in maximum 250 words.**

We aim to be able to liquidate 99.43% in 3 days, 99.83% in 5 and 7 days.

**7. Portfolio liquidity in stressed markets: One key factor we consider when we construct the portfolio level is liquidity at the portfolio level under stressed market conditions.**

Our liquidity targets are better than the above (please specify in maximum 250 words)

**Please specify the liquidity targets in maximum 250 words.**

We run the stress test on annual basis and the last one was in December 2020 based on 3 scenarios:

- Scenario 1: COVID 19: We aimed to be able to liquidate 99.64% of the portfolio in 3 days, 99.93% in 5 and 7 days.
- Scenario 2: 2008 Global Financial Crisis: We aimed to be able to liquidate 97.69% in 3 days, 99.81% in 5 days and 99.93% in 7 days.
- Scenario 3: Liquidity drop by 50% or participation rate is 10%: We aimed to be able to liquidate 67.97% in 3 days, 99.93%



in 5 and 7 days.

**8. Target active share [iii]: What is the target proportion of active shares for this strategy or fund?**

Our alpha-related targets are based on each security's ability to generate alpha, not on the proportion of active shares. The percentage of active shares does not indicate the ability to generate alpha.

**9. Actual active share [iii]: What is the ACTUAL proportion of active shares in your fund or strategy (average of last 12 months)?**

50 - 60% active shares

**10a. Investment Bases: Our investment decisions are substantively based on the following.**

- Security's liquidity in the secondary market
- Valuation
- Target price
- Risk/return profile of a security relative to other positions in the portfolio
- Investee's cash flow
- Investee's ability to meet liabilities promptly/ credit quality
- The ability of investee to benefit from structural changes in its industry
- Investee's key management's track record
- Validity of our investment thesis
- Downgrade/upgrade of the investee by our analysts
- Downgrade/upgrade of the investee by sell-side analysts
- Rumors
- Signals generated by our quantitative, big data models or other similar methods
- The security's drawdown exceeds our limits within a given time frame
- Environmental factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance
- Social factors have (or likely will have) a material[iii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.
- Governance factors have (or likely will have) a material[iii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.

**10b. Divestment Bases: Our divestment decisions are substantively based on the following.**

- Security's liquidity in the secondary market
- Valuation
- Target price
- Risk/return profile of a security relative to other positions in the portfolio
- Investee's cash flow
- Investee's ability to meet liabilities promptly/ credit quality
- The ability of investee to benefit from structural changes in its industry
- Investee's key management's track record
- Validity of our investment thesis
- Downgrade/upgrade of the investee by our own analysts
- Downgrade/upgrade of the investee by sell-side analysts
- Rumors
- ESG factors deteriorating
- Market timing
- Signals generated by our quantitative, big data models or other similar methods
- The security's drawdown exceeds our limits within a given time frame



- Environmental factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance
- Social factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. The material impact is negative, and the investee is not taking adequate steps to address these material social factors.
- Governance factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. The material impact is negative, and the investee is not taking adequate steps to address these material governance factors.

**11. Portfolio managers' turnover: What is the portfolio managers' turnover rate over the last 12 months?**

<30%

**12. Analysts' turnover: What is the analysts' turnover rate over the last 12 months?**

<10%

**13. Research resources: How many securities does each analyst responsible for this fund cover on average?**

110 - 129

**14. Research depth: What types of research do you rely on to make investment decisions?**

- One-to-one conversations with investees' management outside of scheduled conferences for all investment analysts
- Earnings conference calls or meetings with investees' management which are scheduled for all investment analysts
- Sell-side brokers' research

**15. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.**

What was your thought process behind security weight/investment/divestment into specific securities

**Please briefly describe the critical challenge/s, actions taken, results and lessons learned:**

We aim to size our positions commensurate with conviction and within the boundaries under our risk management framework.

We look at the size of active positions in terms of their absolute weighting with 1-3% as a norm. If the active position is related to stocks with a relatively substantial benchmark weighting (i.e. 3% or above), further adjustments are made to ensure we have a meaningful bet against the benchmark. When necessary, we take into consideration any corresponding sector movements potentially driven by the same investment thesis so the active position will achieve a meaningful portfolio impact against the benchmark. Benchmark weighting, however, affects sizing of positions but not their inclusion. If we do not like a benchmark stock, we will not own the name despite its large benchmark weighting.



### **Pillar 3: Performance & Risk Management**

#### **1. Alpha sources: What were the significant sources of alpha over the last 3 years?**

- Securities mispriced by the market
- Securities misunderstood by the market
- Securities that benefited from cyclical factors
- Securities that are relatively inaccessible by retail investors and/or smaller institutional asset owners
- Securities in special situations
- Picking up securities with solid fundamentals during times of market panic
- Risk budgeting and allocation
- Asset allocation to specific sectors, geographies, asset classes

#### **2. Stress test: Have stress tests been performed on this fund or strategy in the last 3 years?**

Yes

#### **Selected: Yes - Stress test scenarios were applied in the stress test that has already been performed?**

- Liquidity shrinking rapidly and materially

#### **3. Investment cap per investor[ii]: Do you limit each investor's investment to a certain percentage of the fund's total AUM to restrict overexposure to any single investor?**

No, we do not currently have a cap and have NO definite plans for one

#### **4. Drawdown recovery: How long did it take for the fund to recover[iv] from its maximum drawdown since inception?**

50 weeks or more

#### **5. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.**

How did you respond to the maximum drawdown period, and what was the rationale behind the decisions taken?

#### **Please briefly describe the critical challenge/s, actions taken, results and lessons learned:**

We examined each individual position focusing on evaluating changes in earnings outlook and valuations. Positions which still were vulnerable to downgrades and lacking valuation support were sold or reduced as a step to manage further drawdown. We revisited our investment thesis for our core holdings and held on to our conviction to stocks where earnings outlook remained strong. We then awaited stabilisation of markets to add exposure to our core positions where valuations had become attractive after the sell off.



## **Pillar 4: Stewardship**

### **1. Stewardship Activity: Engagement activities [iv] have been undertaken on behalf of investors to put stewardship into effect. These activities include:**

- Casting, abstaining, or withholding a vote on a management or shareholder resolution, on management or shareholder resolution
- Advocating for strong environmental, social, or governance practices

### **2. Stewardship Monitoring scope: Our stewardship for investees/potential investees monitoring scopes include the following:**

- We do not currently monitor any of the above, BUT we have concrete[iii] plans to begin monitoring at least some of the above within the next 12 months

### **3. Stewardship Team: A dedicated stewardship team [iv] is set up to flag specific companies and issues for engagement which includes the undertakings below:**

- Engagement may occur with a company's board of directors, executive management, or investor relations and may be conducted independently or in collaboration with other investors through the fund's proxy voting and engagement service provider

### **4. Proxy Voting: At the product level, we have transparent proxy voting [iv] policies that are unique to this particular investment strategy:**

We do not vote

### **5. Voting Disclosure: Please select the statements that describe your firm's practices related to voting.**

- We do not vote

### **6. Engagement frequency: Teamwide over the last 1 year, we have engaged with investees/potential investees on the material[ii] issues selected above:**

We currently have no engagement

### **7. Engagement Disclosure: Do you disclose your key engagement activities, along with the outcomes, to investors?**

Yes, we disclose but only when investors request for it

### **8. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.**

How your stewardship code/framework/philosophy/methods/approach has, or has, evolved over the years. How do these changes affect investors and the community your firm operates in?

### **Please briefly describe the critical challenge/s, actions taken, results and lessons learned:**

Beginning from 2022, we will begin to vote and all voting executions and records will be done through ProxyEdge, a third party software which we have already installed. We are in the process of engaging a proxy recommendation provider to assist our voting decision.

## **Attachments**

- [BEAUI\\_FS\\_GCG\\_EN.pdf](#)
- [BEAUI\\_CGF\\_KFS\\_GCG\\_EN.pdf](#)



- [20210831 Capital Growth Fund EM 1st-2nd Add EN.pdf](#)