SHINING A LIGHT ON THE……
Matthews Asia ex Japan Dividend Fund

AT A GLANCE

Investment Objective
The Fund's investment objective is to achieve total return through capital appreciation and current income. The Fund pursues its objective by primarily investing in companies that exhibit attractive dividend yields and/or the potential (in the Investment Manager's judgment) to grow dividends over time.

Inception Date	30 November 2015
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000WMSG

Management	
Manager Name	**Start Date**
S. Joyce Li	30 November 2015
Yu Zhang	30 November 2015
Sherwood Zhang	30 November 2015
Robert Horrocks	30 November 2015

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	22.97%
Large	19.78%
Medium	42.64%
Small	11.96%
Micro	2.64%

Top 10 Holdings		
Total number of holdings	65	
Assets in Top 10 Holdings	22.08%	
Name	**Sector**	**% of Assets**
China East Education Holdings Ltd	Consumer Defensive	2.92%
Samsung Electronics Co Ltd Participat...	Technology	2.56%
AIA Group Ltd	Financial Services	2.48%
WH Group Ltd	Consumer Defensive	2.26%
China Merchants Bank Co Ltd Class H	Financial Services	2.22%
Taiwan Semiconductor Manufacturing Co...	Technology	2.07%
NetLink NBN Trust Regs Units Regs S	Communication Services	2.01%
China Education Group Holdings Ltd Or...	Consumer Defensive	1.88%
HKBN Ltd	Communication Services	1.85%
Nam Long Investment Corp	Real Estate	1.84%

Volatility Measurements	
3-Yr Std Dev (volatility)	11.77%
3-Yr Mean Return (average)	10.35%

FUND PERFORMANCE

Performance from 30 November 2015 to 31 October 2019:

	2015	2016	2017	2018	2019
Matthews Asia Ex Japan Dividend Fund	2.23%	27.50%	34.54%	-6.93%	12.75%
iShares MSCI AC Far East ex JPN ETF	-0.26%	27.34%	28.84%	-10.18%	7.11%

Performance over 12 months, 3 years, and since launch:

	1 year	3 years	Since launch
Matthews Asia Ex Japan Dividend Fund	14.19%	31.74%	84.03%
iShares MSCI AC Far East ex JPN ETF	9.70%	17.16%	57.43%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE….

Matthews Asia is not necessarily a fund management name that people will recognise but they are specialist Asia Fund Managers based in San Francisco. The team regularly visit Asia and have hubs across the region. The fund does pay income of currently around 3% but at its heart it is a total return fund, with income being re-invested. This is part of the overall return profile.

In terms of dividends we discussed why focus on these types of businesses. They believe this is reflective of the quality aspect of the process. The focus is on those businesses that have the ability to pay dividends and/or increase the level of dividends they are paying. Where a company is paying dividends, this sends out interesting qualitive signals.

Some of those aspects will include better corporate governance, and management being aligned with shareholders. As a by-product of the types of companies they look at they tend to be less volatile compared to the broader market.

In terms of risk they accept that in a perfect world they want to know all the companies inside out and this reflects the focus on bottom up stock picking and a focus on fundamentals. But there are things that happen, and they can't see everything. This can be an unwise decision by the company, factors moving the market in the opposite direction etc. Therefore, having between 50 to 70 names means that they are not over exposed in terms of holdings and equally they can still get meaningful returns above the index.

In terms of holdings they will have up to 2.5% in large caps and 1.5% in small and then mid-cap companies will be between this range. In terms of where they invest, they feel that China is a market that cannot be ignored. There are a lot of companies especially with a domestic focus, and within this they will naturally be searching for the winners. China is trading on cheaper valuations than India now and is a good hunting ground for the team.

The exposure to India is low because they see less opportunities, and the market is trading at a premium. They are happy to invest away from the benchmark so currently have exposure in Vietnam and Bangladesh.

In terms of how companies may look there are three aspects:

1. Business – this focuses on survivability (strength of balance sheet) and sustainability (ability to maintain rates of long-term growth)
2. Management – this focuses on competence (ability to meet businesses targets and milestones) and incentive structure
3. Valuation – value of the business as a whole in the context of future growth

We compared this strategy to a similar strategy which focuses on drawdown. Drawdown means that if the markets fall then it is the ability for the fund to fall less. The fund is strong on its downside capture as was the fund that we compared against. The key difference between the two funds was the number of holdings. The fund we looked at had 30 holdings and this has nearly double that. The argument for smaller holdings was that the manager could analysis companies more closely, lessen the risk and achieve better returns. The reality was that the performance of that fund compared to this almost matched.

The strategy for a larger number of holdings may deter some, but in reality the team aim to understand these businesses as much as the team that manage 30 funds. They also don't take outside bets on any one company and weight according to the size of the company. This might lessen the ability for returns but it has demonstrated consistently strong returns since launch. The point is that there is no right or wrong way to invest but this has one method and it seems to work.

This would appear to be a more defensive play for Asia. There are recognisable names that are in the top 30 of the benchmark but in the main this is very much a group of holdings that you would not find within that listing. The downside capture is important, and it might be that this plays as a blend with another Asian strategy.

In summary, this is a niche investment house with a focus on Asian Equities. The fund has delivered consistent performance and may well be a worthy consideration as an allocation to Asia. We would however point out that this is not the top fund, and there might be other options to consider. The defensive play is important. The off-benchmark holdings drives a point of difference and these are all aspects that might play a part in any decision that is made.

The source of information in this note has been provided by Matthews and is correct as at November 2019. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.