

**SHINING A LIGHT ON THE.....
Matthews China Small Companies Fund**

AT A GLANCE

Investment Objective	
Long-term capital appreciation. Under normal market conditions, the Matthews China Small Companies Fund seeks to achieve its investment objective by investing at least 80% of its total net assets, which include borrowings for investment purposes, in the common and preferred stocks of Small Companies (defined below) located in China and Taiwan.	

Inception Date	29 February 2012
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000NYUG

Management	
Manager Name	Start Date
Tiffany Hsiao	1 July 2015

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	0.00%
Large	10.85%
Medium	80.27%
Small	8.03%
Micro	0.85%

Top 10 Holdings		
Total number of holdings	56	
Assets in Top 10 Holdings	38.38%	
Name	Sector	% of Assets
Silergy Corp	Technology	9.20%
SITC International Holdings Co Ltd	Industrials	5.60%
China MeiDong Auto Holdings Ltd	Consumer Cyclical	4.02%
Sunny Friend Environmental Technology Co	Industrials	3.37%
Greentown Service Group Co Ltd	Real Estate	3.32%
China Youzan Ltd	Technology	2.92%
Zai Lab Ltd ADR Repr 1 Shs	Healthcare	2.57%
China Overseas Property Holdings Ltd	Real Estate	2.53%
Asia Cement (China) Holdings Corp	Basic Materials	2.49%
Alphamab Oncology Ordinary Shares	Healthcare	2.36%

Volatility Measurements	
3-Yr Std Dev (volatility)	18.36%
3-Yr Mean Return (average)	18.36%

LWM Consultants Ltd

FUND PERFORMANCE

Performance from 1 January 2014 to 29 February 2020:

	2014	2015	2016	2017	2018	2019	2020
Matthews China Small Companies Fund	2.82%	8.95%	16.95%	42.92%	-13.74%	26.29%	17.56%
iShares MSCI EM ETF	2.62%	-11.15%	33.56%	24.43%	-9.25%	12.62%	-8.23%

Performance over 12 months, 3 years, 5 years and since launch.

	1 year	3 years	5 years	Since launch
Matthews China Small Companies Fund	40.01%	65.08%	133.22%	183.75%
iShares MSCI EM ETF	-0.01%	9.00%	31.95%	13.95%

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....

These updates have been written at the time of Coronavirus Pandemic in 2020 which has impacted the global financial markets in a way that has never been seen before.

This was our second update with the team at a very difficult and challenging time. The call was split into two parts. The first looked at the economic picture in China and then we had an update on the fund.

China makes up a third of the global economic growth, and in February made up for 99% of all Coronavirus cases; this is now 37%. It is a proof that with the right measures the rest of the world can beat this. The fatality rate in China has come down and the recovery rate is 87%. If you take out Hubei, this increases to 98%.

They looked to SARS as a potential model where there was a sharp fall in consumer spending and then a sharp recovery, although this was localised. China is slowing getting back to normal and is about 27% behind where it should be. Migrant workers are returning to cities, consumer optimism is back to the levels seen before the outbreak and many are feeling positive about disposable income.

The risks are around whether the virus comes back, and around small businesses which make up a large part of the economy. Much will depend on Chinese monetary and fiscal policies which have a lot of room to do positive things like cut interest rates, support small businesses etc.

They do expect, despite the recent trade agreement with US, for tensions to escalate as Trump looks to blame China for the outbreak and fails to meet the targets set in the agreement. They feel that China is a haven for investors and there could be a bounce back in the next couple of quarters.

LWM Consultants Ltd

They feel the market that they invest in is under owned and under researched. It is an area of relative calm and has more domestic demand. The universe is around 4.500 companies, which makes up 80% of the Chinese equity market. They are looking to invest in the top 1% of the companies with holdings of between 40 and 60 companies. 53% of the market has no-one researching it.

They are very selective in the companies they like and much of the work is around cash flow, debt and the management within the businesses. The market tends to be less volatile than the large cap Chinese index because it is under owned and tends to have better fundamentals.

On the risk side they are looking for those companies that have at least 3 times the upside and 1 time the downside. So, they can grow at least 30% and the downside is around 10%. This means the work is very labour-intensive, understanding what is being generated from where. The fund is a mix of the giants of tomorrow and two thirds are steady compounders, which tend to be companies with good brands. These brands are those that have weathered well and innovate.

In summary, for those looking to invest in China this would be very different to other funds in the market and likely to have little crossover with other Emerging Markets and Asia Funds. It looks to capture higher upside but at the same time protect on the downside. There are risks with investing in China and investors must be comfortable with this if they are considering this type of investment.

The source of information in this note has been provided by Matthews and is correct as at March 2020. 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.