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	25.12%
Large	24.75%
Medium	39.43%
Small	8.94%
Micro	1.75%

Top 10 Holdings		
Total number of holdings	65	
Assets in Top 10 Holdings	23.67%	
Name	**Sector**	**% of Assets**
Taiwan Semiconductor Manufacturing Co...	Technology	4.68%
China Mobile Ltd	Communication Services	2.39%
Samsung Electronics Co Ltd Participat...	Technology	2.36%
Maruti Suzuki India Ltd	Consumer Cyclical	2.26%
AIA Group Ltd	Financial Services	2.19%
Samsung Electronics Co Ltd	Technology	2.02%
Sun Art Retail Group Ltd	Consumer Cyclical	2.00%
Geely Automobile Holdings Ltd	Consumer Cyclical	1.95%
Poya International Co Ltd	Consumer Cyclical	1.95%
NetLink NBN Trust Regs Units Regs S	Communication Services	1.86%

Volatility Measurements	
3-Yr Std Dev (volatility)	12.51%
3-Yr Mean Return (average)	4.67%

FUND PERFORMANCE

Performance from 30 November 2015 to 31 March 2020:

	2015	2016	2017	2018	2019	2020
Matthews Asia Ex Japan Dividend Fund	2.23%	27.50%	34.54%	-6.93%	12.22%	-8.67%
iShares MSCI AC Far East ex JPN ETF	-0.26%	27.34%	28.84%	-10.18%	13.60%	-11.27%

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

	1 year	3 years	Since launch
Matthews Asia Ex Japan Dividend Fund	-5.41%	14.66%	67.29%
iShares MSCI AC Far East ex JPN ETF	-7.00%	4.86%	48.15%

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 the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

The update from the team covered both the macro side and an update on the fund. Covering the macro side first.

They started by explaining how the situation had evolved quickly over four stages.

Stage one – the virus appeared to be contained within China (and within one province). This really ran from the end of December to the first week in February. Earnings growth for the year remained strong and equity markets and the strength of the dollar did not seem to be impacted by what was happening.

Stage two – the virus started to spread out, and countries headed into lockdown between early February and early March. Bond yields dropped heavily, the dollar weakened, and equity markets started to fall.

Stage three – 7/8 March everything changed; Matthews called this a dollar panic where the dollar strengthened and bond yields spiked. Everything was sold off as there was a dash for cash. This was the ultimate pain of the crisis. The difference this time around was that the Fed stepped in which calmed the markets. Matthews' view is that they do not believe we will see this again.

Stage four – reflation. We have reached this stage now, looking at the economic side and the impact on supply and demand, and then considering the winners and losers.

Where they see the risks are:

- Another dollar panic – this would likely impact India and Indonesia most, although Japan and Australia would likely benefit
- Most exposed economic impact – USA and Europe went in later and less aggressively, therefore the economic impact is likely to be felt harder in these regions compared to some Asian economies. They do not yet know the impact on India and ASEAN economies, and this is something to watch. In terms of sectors, global franchises, especially automotive, are at risk. There has been a big fall in demand but those that survive are likely to come out stronger
- Fiscal stimulus – best packages have come from the US. China has also done well; India and Indonesia are more limited. Worst has been the Eurozone where the response has been less and not well co-ordinated

In terms of the fund the strategy aims to deliver a total return made up from growth and income. They focus on high yielding businesses which cannot only pay dividends via free cash flow but also have the ability for structural long-term growth.

During this period healthcare, data centres and software have all outperformed for the strategy. Also, the tilt towards China and Taiwan, where they went in first to the crisis and have come out first, has helped. Both economies adopted very draconian measures, and this seems to have helped them significantly. China has been one of the strongest markets this year.

Where the fund has suffered is with global demand exposed businesses like auto parts where the end customers have effectively shut down. Also, holdings in India have underperformed.

Due to the focus on longer term horizons the fund tends to protect well on the downside which it has done in this environment. One area they have looked at is how they can upgrade the quality within the portfolio, and the recent sell-off has opened opportunities to buy stocks that had been too expensive and are now significantly discounted. This has been around areas like consumer discretionary and 5g technology in China.

We discussed dividend cuts and they do not expect many to, especially compared to the West. The types of companies that are paying them have strong business models, healthy free cash flow, and can grow. This is very different to many similar divided payers in the West.

In summary, the team see the recent stock market collapse as an opportunity to go bargain hunting to find good quality businesses at great prices. They also think long term Asia can and will come through this stronger than the West.

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