

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

Management	
Manager Name	Start Date
Winnie Chwang	31 st August 2020
Andrew Mattock	31 st August 2020

FUND PERFORMANCE

Performance from 1st January 2014 to 30th September 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%	58.07%
iShares MSCI EM ETF	2.62%	-11.15%	33.56%	24.43%	-9.25%	12.62%	1.12%

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

	1 year	3 years	5 years	Since launch
Matthews China Small Companies Fund	62.00%	88.39%	227.34%	298.37%
iShares MSCI EM ETF	5.64%	10.09%	76.20%	44.90%

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.

Tracking Error	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
14.96	116.33	62.93	58.33	0.76	14.46	Mid/Growth

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Volatility Measurements	
3-Yr Std Dev (volatility)	20.29%
3-Yr Mean Return (average)	23.51%

Investment Style Details	
Giant	0.00%
Large	51.92%
Medium	45.23%
Small	0.00%
Micro	0.00%

Top 5 Holdings – 52 holdings, 33.81% in top ten		
Silergy Corp	Technology	5.79%
Kingdee International Software	Technology	5.63%
China Youzan Ltd	Technology	3.28%
Jiajiayue Group Co Ltd A	Consumer Cyclical	3.19%
Sichuan Teway Food Group Co Ltd	Consumer Defensive	2.77%

Top 5 Sectors	
Healthcare	27.61%
Technology	21.08%
Consumer Defensive	13.81%
Consumer Cyclical	12.46%
Real Estate	11.12%

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 meeting was following the recent change in management. The two lead managers are Winnie Chwang and Andrew Mattock. Winnie has worked for Matthews for 16 years, initially as an analyst on Asia ex Japan and then as part of the China Smaller Cap strategy when it was launched in 2012. In 2014 she became co-manager of the All Cap China Strategy. Andrew is co-manager of the All Cap China Strategy, having joined Matthews in 2015. Prior to that he ran the China Horizon Fund for Henderson.

Matthews have 43 professionals within the company and 18 mandarin speakers, and have experts across all the main asset classes. Although the All Cap strategy has not necessarily invested in some of the smaller companies, they see plenty of opportunity with the ability to blend healthcare and IT names. We talked about the current holdings and they explained that they are happy with around 75% of the fund, and this will not change. Of the remaining 25%, they will either reduce the holdings or change them.

The fund has done disproportionately better than it should have done, and they are looking to take some of the profits and allocate into areas which have been left behind. They may also widen out the sector exposure. In terms of holdings they are looking to cap these at a maximum of 5% to reduce risks. Ultimately, they believe they can keep the essence of the fund with the excess returns, but reduce some of the excess volatility.

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They also added that we should not expect the same levels of returns moving forward as the market cannot keep re-rating at that pace, and areas like IT and healthcare have been beneficiaries of this. There are plenty of opportunities with consumer goods as a good example. China has changed significantly over the last 20 years with much better reporting, better corporate governance, and better management teams. Many of the management have come from other businesses and are well known.

There are risks as competition to succeed is intense, and therefore reducing some of the risk within the fund is important.

In summary, the loss of any management team is difficult and clearly this fund had done well under the previous management team. However, Matthews have always pushed the wider team as an important element and bringing existing managers to the table, and one who has been part of the fund in the past, provides confidence moving forward. They clearly feel the fund has done better than perhaps they would have expected, and therefore they are looking to take some of those profits and look to invest into different areas.

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