

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

AT A GLANCE

Investment Objective
The Fund's investment objective is to achieve long-term capital appreciation. Under normal market conditions, the Fund seeks to achieve its investment objective by investing, directly or indirectly, primarily (i.e., at least 65% of its total net assets) in equities of small companies Located in or with Substantial Ties to China (as defined hereafter). The Sub-Fund may invest (whether directly or indirectly) in China A Shares, either directly via a Qualified Foreign Investor ("QFI") license awarded to a Matthews group entity, or via the Shanghai Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect programs, or indirectly via investment in access products. The Fund may directly or indirectly invest less than 70% of its net assets in aggregate in China A and B Shares.

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 2016 to 31st May 2022:

	2016	2017	2018	2019	2020	2021	2022
Matthews China Small Companies Fund	16.95%	42.92%	-13.74%	26.29%	72.22%	-1.98%	-20.24%
MSCI China Small Cap NR USD	12.12%	13.78%	-14.56%	2.44%	23.21%	-5.43%	-16.35%

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

	1 year	3 years	5 years	Since launch
Matthews China Small Companies Fund	-24.14%	54.57%	80.52%	239.31%
MSCI China Small Cap NR USD	-30.19%	-5.93%	-5.74%	46.47%

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.

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Tracking Error	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
15.82	118.33	53.16	58.33	0.79	14.65	Mid/Growth

Volatility Measurements	
3-Yr Std Dev (volatility)	19.95%
3-Yr Mean Return (average)	15.62%

Investment Style Details	
Giant	0.00%
Large	36.04%
Medium	46.42%
Small	7.54%
Micro	3.70%

Top 5 Holdings – 63 holdings		
China Overseas Property Holdings...	Real Estate	3.97%
China State Construction Interna...	Industrials	3.57%
Chailease Holding Co Ltd	Financial Services	3.55%
Pan Jit International Inc	Technology	3.14%
Alchip Technologies Ltd	Technology	2.86%

Top 5 Sectors	
Industrials	31.40%
Technology	21.61%
Consumer Cyclical	10.32%
Healthcare	9.88%
Real Estate	8.88%

UPDATE....

The team took over the strategy in 2020 and spent around 6 months to transition the fund. This meant reducing weightings in the healthcare and biotech sectors and broadening exposure to other sectors, including financials and industrials. The aim was to reduce the volatility across the fund but at the same time deliver returns above the benchmark.

It has been a challenging time since they took over the fund. Reducing exposure to healthcare and biotech has been positive as this sector has struggled. Exposure to EV batteries has done well for them. However, they have exposure to the property market, including companies which supply materials. These material companies have been dragged down by the negativity surrounding property.

We discussed Evergrande and why the Chinese government didn't act sooner. The team explained that there was a great deal happening which was not reported. Evergrande make up around 5% of the market and was by far the weakest company. China stepped up to consolidate the market when they felt the economy was strong enough to support this. It therefore felt this was a slow move and in doing this, has created negativity across the sector.

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They have exposure to some of the better small property developers and they think sentiment will turn and this will be a benefit to the fund.

We talked about the perceived attack on big tech and they explained that it is complicated. Common prosperity is at the core of Chinese policy and the government clearly felt that big tech was stepping over the line. These actions are difficult to navigate but there are plenty of areas to look at and having people on the ground means that they get a different perspective on what is happening and where the opportunities lie.

We touched on the approach of China and whether it “cares”. China is more of a global player than many other countries. China has developed very quickly in a relatively short period of time, and they are still finding their feet. Western nations have been built over many decades. Policy action can and does seem confusing. It sometimes feels China takes three steps forward and two back. The question is, can Western investors really trust what is happening?

If you are a China fund manager then they would argue that you can. As they pointed out, if they alienate the west then they implode their economy. If they shut off from the west, then that destroys the global economy. It seems hard to see that this would happen, but it does make investors uneasy.

China treads a very fine line of seeing to support Russia but at the same time not fully commit to them. The zero COVID policy seems baffling. Shutting Shanghai has damaged global supply chains and it seems to make little sense. They think this may be because they are still waiting to develop a better vaccine but they think restrictions will be lifted, especially as Xi comes back for a third term. They think we will see more supportive measures towards the end of the year.

The country faces the same challenges as others. They want to be less dependent on countries like the US so investing in companies at the forefront of change is important.

In summary, China as a country is difficult to understand and it does feel it is pushing back against Western investors. Not condemning Russia seems to be negative but they do have a difficult balancing act. Ultimately investors must believe in the China story and accept the uncertainty of politics. If they don't then this is not a fund for them. This fund has become more diversified over the last couple of years but with the negative sentiment towards China it has been hard to see this come through in terms of performance.

The source of information in this note has been provided by Matthews and is correct as of June 2022. 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.