

Matthews China Small Companies Fund – August 2023

LWM FUND SPOTLIGHT MATTHEWS CHINA SMALL COMPANIES FUND

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). On an ancillary basis, the Fund may invest in other permitted assets on a worldwide basis.

INCEPTION DATE	29 th February 2012
FUND FACTSHEET	https://www.trustnet.com/factsheets/O/0yfi/matthews-china-small-companies/

MANAGEMENT

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

RATIO DATA (3-years)

Alpha	Beta	Max Drawdown	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
0.25	0.96	-43.35	17.82	-19.72	83	72	10.39

OTHER DATA

Benchmark	MSCI China Small Cap Index
Fund Size	US 274.2 million
Fees	1.25% (I Share Class)

BULL POINTS (PRO)	BEAR POINTS (CONS)
<ul style="list-style-type: none">• Specialists in Asia and China.• Small cap opens different opportunities.• Investing in structural growth sectors.• Focus on domestic growth.	<ul style="list-style-type: none">• Recent performance has been poor.• China is out of favour and unloved.

Matthews China Small Companies Fund – August 2023

FUND PERFORMANCE

Performance Chart in (GBP)



Cumulative Performance (GBP)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	3.53%	-12.84%	-18.47%	-27.30%	25.76%
Sector	-1.96%	-12.92%	-18.54%	-28.11%	-6.55%
Relative to Sector	5.60%	0.08%	0.09%	1.13%	34.58%
Rank in Sector *	3 / 67	35 / 67	33 / 66	26 / 56	3 / 48
Fund Quartile *	1	3	2	2	1

Performance by Calendar Year in (GBP)

	YTD	2022	2021	2020	2019
Fund	-12.14%	-21.97%	-1.07%	72.61%	28.09%
Sector	-12.70%	-16.02%	-10.66%	33.55%	22.17%
Relative to Sector	0.63%	-7.09%	10.73%	29.25%	4.84%
Rank in Sector *	31 / 67	55 / 64	14 / 57	1 / 53	17 / 49
Fund Quartile *	2	4	1	1	2

Discrete Annual Performance to Last Quarter End (GBP)

	0-12m	12m-24m	24m-36m	36m-48m	48m-60m
Fund	-23.81%	-22.14%	17.15%	78.69%	-8.80%
Sector	-23.85%	-17.03%	22.35%	18.71%	-1.67%
Relative to Sector	0.05%	-6.16%	-4.25%	50.52%	-7.25%
Rank in Sector *	34 / 65	46 / 60	35 / 54	1 / 51	47 / 47
Fund Quartile *	3	4	3	1	4

Fund Price Movement (GBP)

12 Month High	15.31 (Pounds Sterling)	12 Month Low	11.18 (Pounds Sterling)
---------------	-------------------------	--------------	-------------------------

Annualised Ratios Over 36 Months

	Alpha	Beta	Sharpe	r ²	Volatility
Fund	-2.13	0.90	-0.03	0.81	22.87
Fund Quartile *	N/A	N/A	3	N/A	3

*Ranks & quartiles shown are for the primary share class, Matthews China Small Companies I Acc USD

Please 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.

Matthews China Small Companies Fund – August 2023

Top 10 Holdings as at July 31, 2023

Rank	Change	Name	%	Sector Ranking*
1	▲	ELITE MATERIAL CO	5.00	n/a
2	▼	CHINA OVERSEAS PROPERTY HLDGS LTD	4.80	n/a
3	▼	ALCHIP TECHNOLOGIES LTD	4.50	n/a
4	▼	YANGZIJANG SHIPBUILDING (HOLDINGS) LTD.	3.90	n/a
5	▼	KE HOLDINGS INC.	3.90	n/a
6	▲	JASON FURNITURE (HANGZHOU) CO LTD	3.70	n/a
7	▲	ANHUI YINGJIA DISTILLERY CO	3.30	n/a
8	■	KANZHUN LIMITED	3.10	n/a
9	▼	YADEA GROUP HLDGS LTD	3.00	n/a
10	■	HEBEI WEIYUAN INDUSTRY	2.80	n/a
Total			38.00	

* This is the holding ranking within the fund sector composite portfolio (calculated from all available concurrent full portfolios of funds within the sector).

[Click here for full portfolio holdings as at 31/03/2023](#)

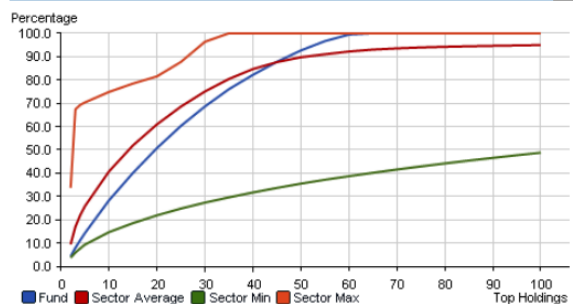
▼ Faller ▲ Riser ► No Change ■ New Entry



Current Concentration Analysis as at March 31, 2023

Total Holdings in portfolio	46
Portfolio Representation by	%
Top 5 Holdings	17.41
Top 10 Holdings	30.84
Top 20 Holdings	52.81
Top 30 Holdings	70.24
Top 50 Holdings	93.58
Top 100 Holdings	100.00

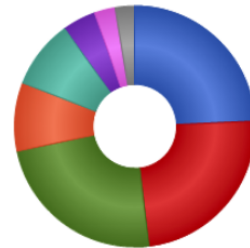
Relative Concentration Analysis as at March 31, 2023



Sector Weightings as at July 31, 2023

Rank	Change	Name	%
1	▲	CONSUMER PRODUCTS	24.30
2	▲	TELECOM, MEDIA & TECHNOLOGY	23.80
3	▼	INDUSTRIALS	23.60
4	►	HEALTH CARE	9.20
5	►	REAL ESTATE	9.20
6	►	FINANCIALS	4.50
7	►	UTILITIES	2.80
8	■	OTHERS	2.60

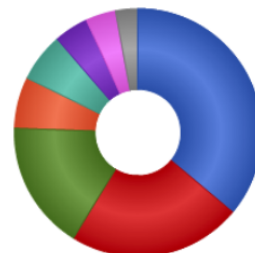
▼ Faller ▲ Riser ► No Change ■ New Entry



Sector Weightings as at July 31, 2023

Rank	Change	Name	%
1	►	TELECOM, MEDIA & TECHNOLOGY	36.10
2	►	CONSUMER PRODUCTS	22.65
3	►	HEALTH CARE	16.80
4	►	INDUSTRIALS	6.73
5	►	FINANCIALS	6.38
6	►	BASIC MATERIALS	4.49
7	►	MONEY MARKET	3.94
8	►	REAL ESTATE	2.92

▼ Faller ▲ Riser ► No Change ■ New Entry



Matthews China Small Companies Fund – August 2023

Holdings

Current Portfolio Date	Equity Holdings	Bond Holdings	Other Holdings	% Assets in Top 10 Holdings	Reported Turnover %
31 Jul 2023	45	0	1	38	43.71

Active Share ⓘ

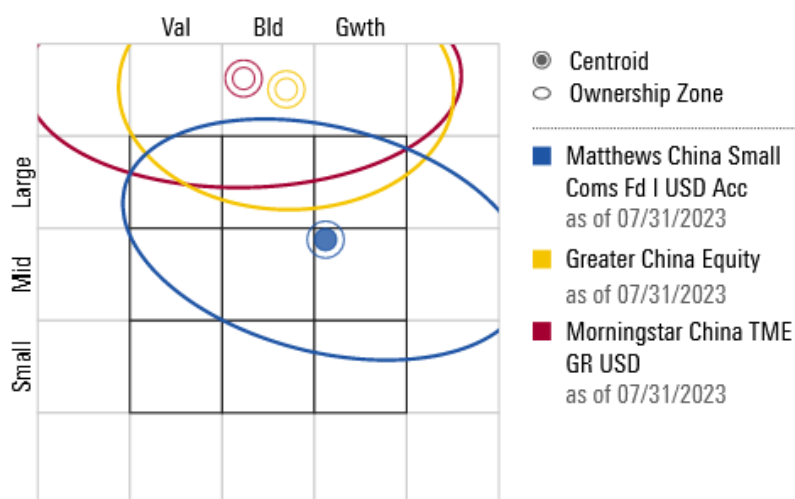
91.88

Stock Style

Map

Weight

Historical



Factor Profile

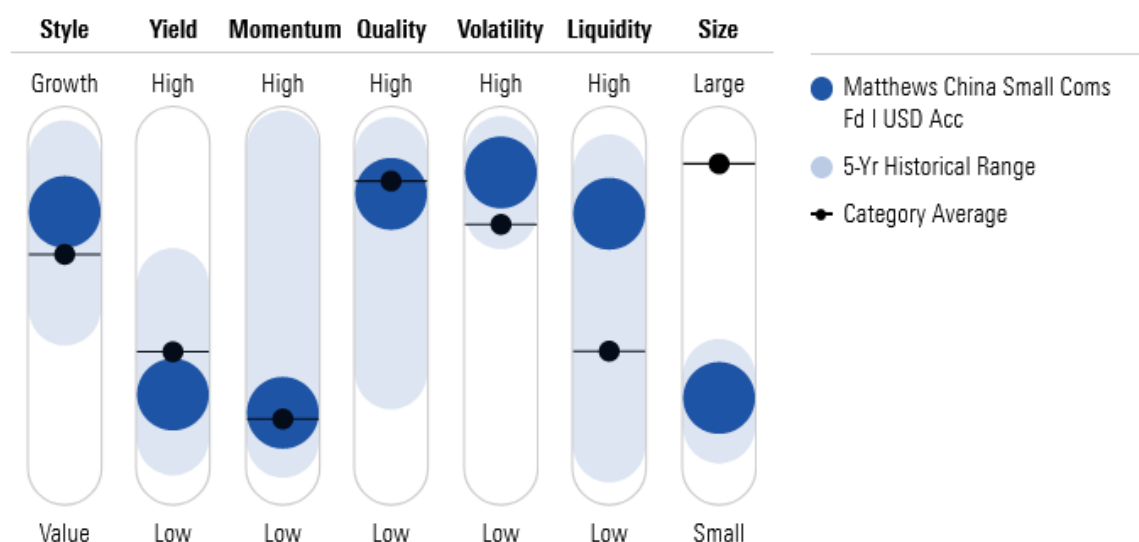
1-Yr

3-Yr

5-Yr

vs. Category ▾

ⓘ



Investment as of 30 Jun 2023 | Category: Greater China Equity as of 30 Jun 2023

Matthews China Small Companies Fund – August 2023

Style Measures

Measures

Market Cap

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	16.16	16.10	11.86
Price/Book	2.51	2.17	1.42
Price/Sales	1.74	1.70	1.16
Price/Cash Flow	8.35	11.23	7.41
Dividend Yield %	2.16	2.40	2.39
Long-Term Earnings %	20.09	11.65	9.86
Historical Earnings %	20.32	1.12	2.58
Sales Growth %	14.62	10.07	9.51
Cash-Flow Growth %	33.06	2.75	2.69
Book-Value Growth %	2.86	7.71	7.21

As of 31 Jul 2023 | Category: Greater China Equity | Index: Morningstar China TME GR USD | Data is based on the long position of the equity holdings.

Style Measures

Measures

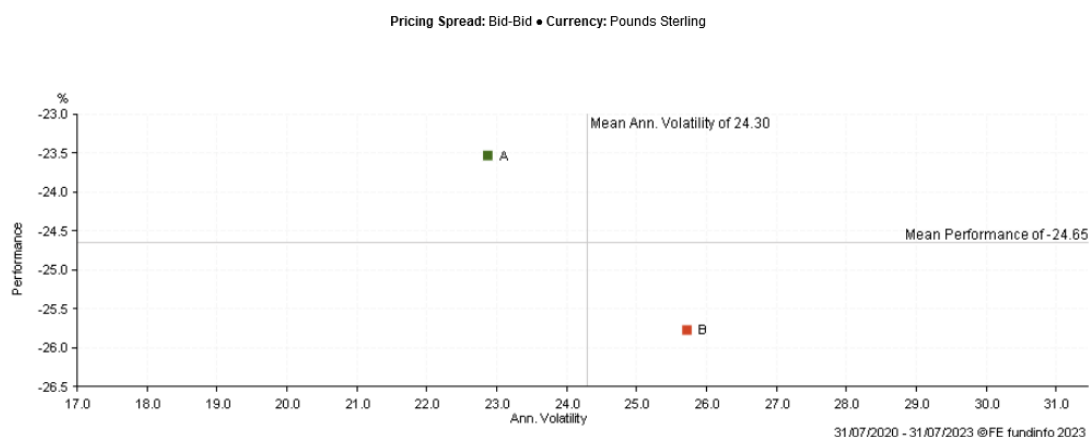
Market Cap

Avg Market Cap 4.00 Bil	Category Avg Market Cap 43.30 Bil		Index Avg Market Cap 52.84 Bil
Size	Investment %	Cat. Average %	Index %
Giant	3.91	65.82	71.84
Large	47.35	22.63	25.81
Mid	32.28	7.01	2.14
Small	11.66	0.96	0.21
Micro	2.15	0.22	0.00

USD | As of 31 Jul 2023 | Category: Greater China Equity | Index: Morningstar China TME GR USD | Data is based on the long position of the equity holdings.

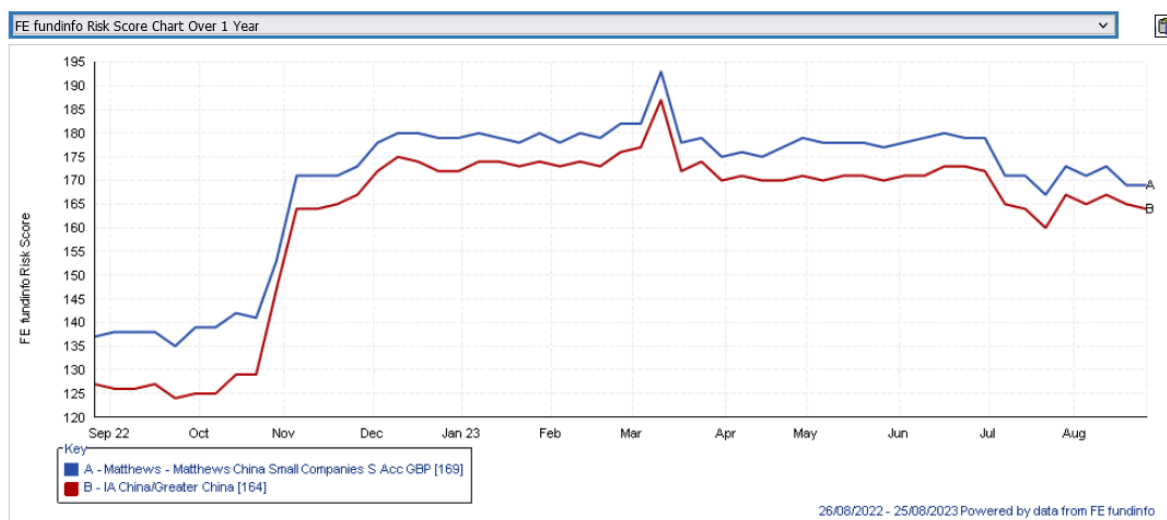
Matthews China Small Companies Fund – August 2023

Volatility



Key	Name	Performance	Annualised Volatility
A	Matthews - China Small Companies S Acc GBP in GB**	-23.53	22.87
B	MSCI China Small Cap TR in GB	-25.77	25.72

** The history of this unit/share class has been extended, at FE fundinfo's discretion, to give a sense of a longer track record of the fund as a whole.



Matthews China Small Companies Fund – August 2023

LWM FUND ANALYSIS


Below are some headlines about China, which places in context the challenges facing those investing here. There was a great deal of optimism as China came out of COVID restrictions at the start of the year, but that optimism has quickly faded as they struggle to restart the economy.

 South China Morning Post

'Recovery is going from bad to worse': 6 takeaways from China's economic data

China's economic growth missed expectations in the second quarter of 2023, while monthly data also released on Monday indicated faltering...




 Bloomberg News

China Economic Data, Spending Misses Forecasts as Recovery Worries Mount - Bloomberg

China's economic recovery is losing momentum after an initial burst in consumer and business activity early in the year, prompting calls for...




 Yahoo Finance

'This is their last decade': This famed geopolitical analyst says China will collapse in the next 10 years — here are 3 key numbers that could support his shocking forecast

Is China heading for a total collapse: political, economic and demographic? Conventional wisdom says no way. It boasts a massive military...



 Business Insider

China's economy is in a downward spiral that's typical of authoritarian regimes

Its sluggish post-COVID rebound may be a long-term trend, said the Peterson Institute's president. Like other authoritarian regimes, China's...



 Business Insider

China, Xi Jinping Are Hiding Economic Chaos. That's a Red Flag for US, World.

Chinese President Xi Jinping and the Chinese government have a brilliant plan to deal with the country's economic turmoil: hide how bad it...



 Financial Times

US tells China to be more transparent with economic data amid slowdown

US national security adviser Jake Sullivan has called on China to be more transparent about the state of its economy as Beijing grapples...



Matthews China Small Companies Fund – August 2023

CNBC

China reports big data miss in July, stops releasing youth unemployment numbers

Retail sales rose by 2.5% in July from a year ago, below expectations for a 4.5% increase, according to analysts polled by Reuters.



WSJ The Wall Street Journal

China Slashes Rates, Suspends Youth Jobless Data as Economy Signals Sharper Downturn

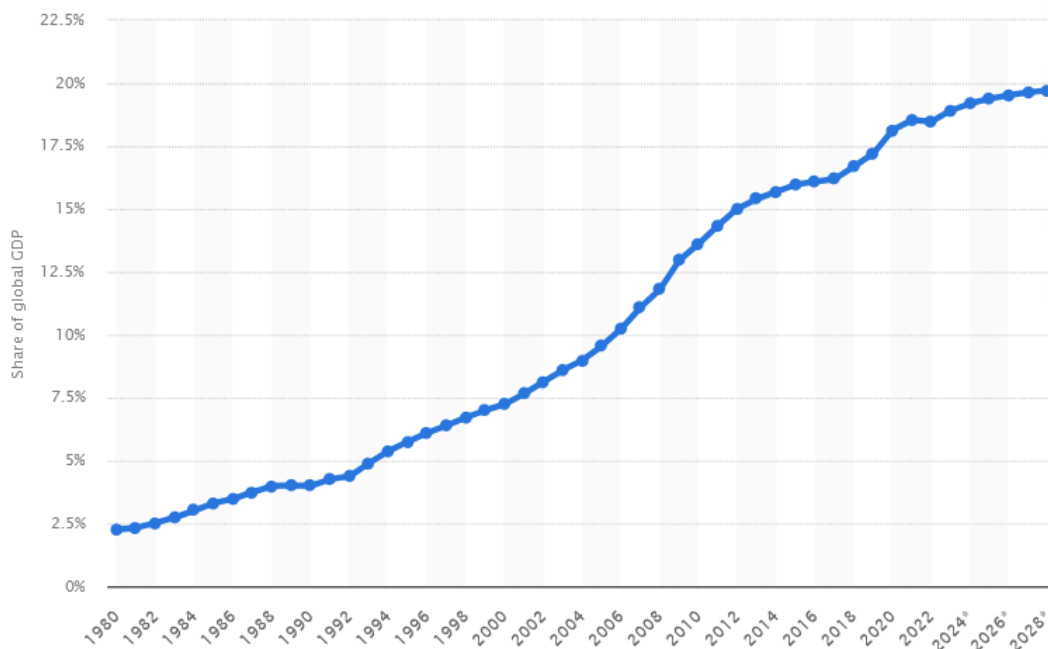
Retail sales, factory output miss expectations as overall urban unemployment rises.



Despite the headlines, it is important to place this in context. Unlike many Western economies, which are now facing a downturn, China only came out of COVID restrictions this year. Most economies came out at least 12-months prior to China. So China was already playing catch-up with the world.

The more important part is where people see China in the future. The chart shows China's share of Global GDP from 1980 and then forecasts to 2028. The second illustrates the size of China's economy.

Zoomable Statistic: Select the range in the chart you want to zoom in on.

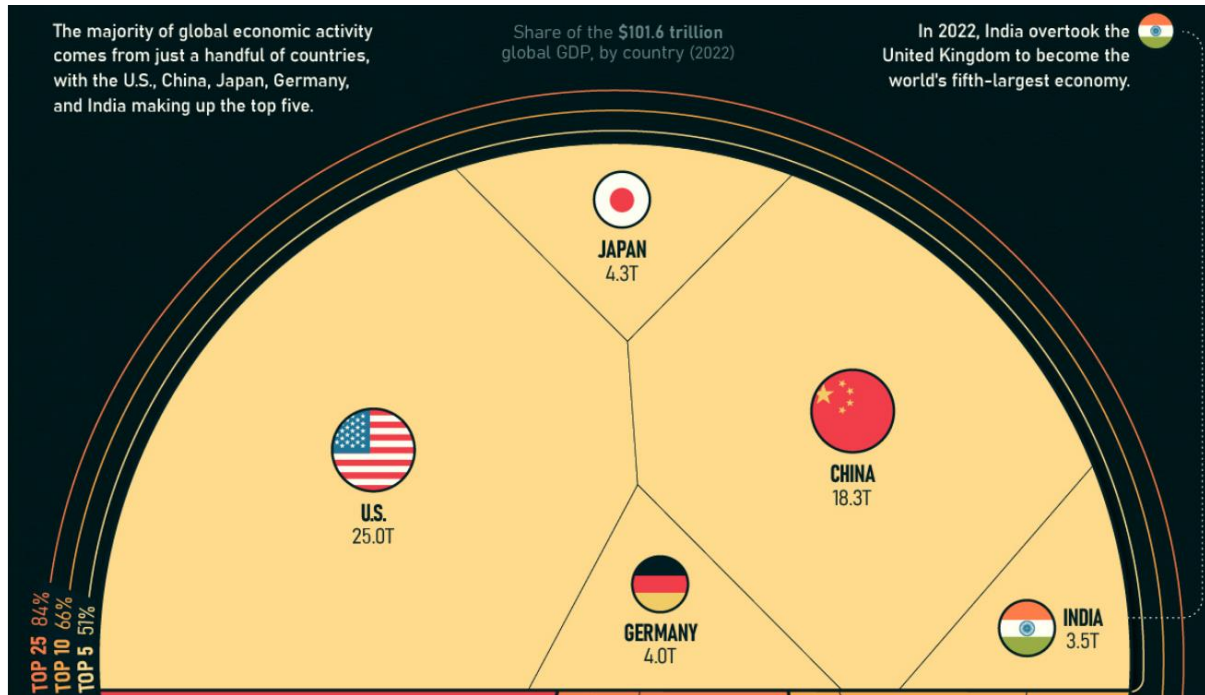


© Statista 2023

[Additional Information](#)

[Show source](#)

Matthews China Small Companies Fund – August 2023

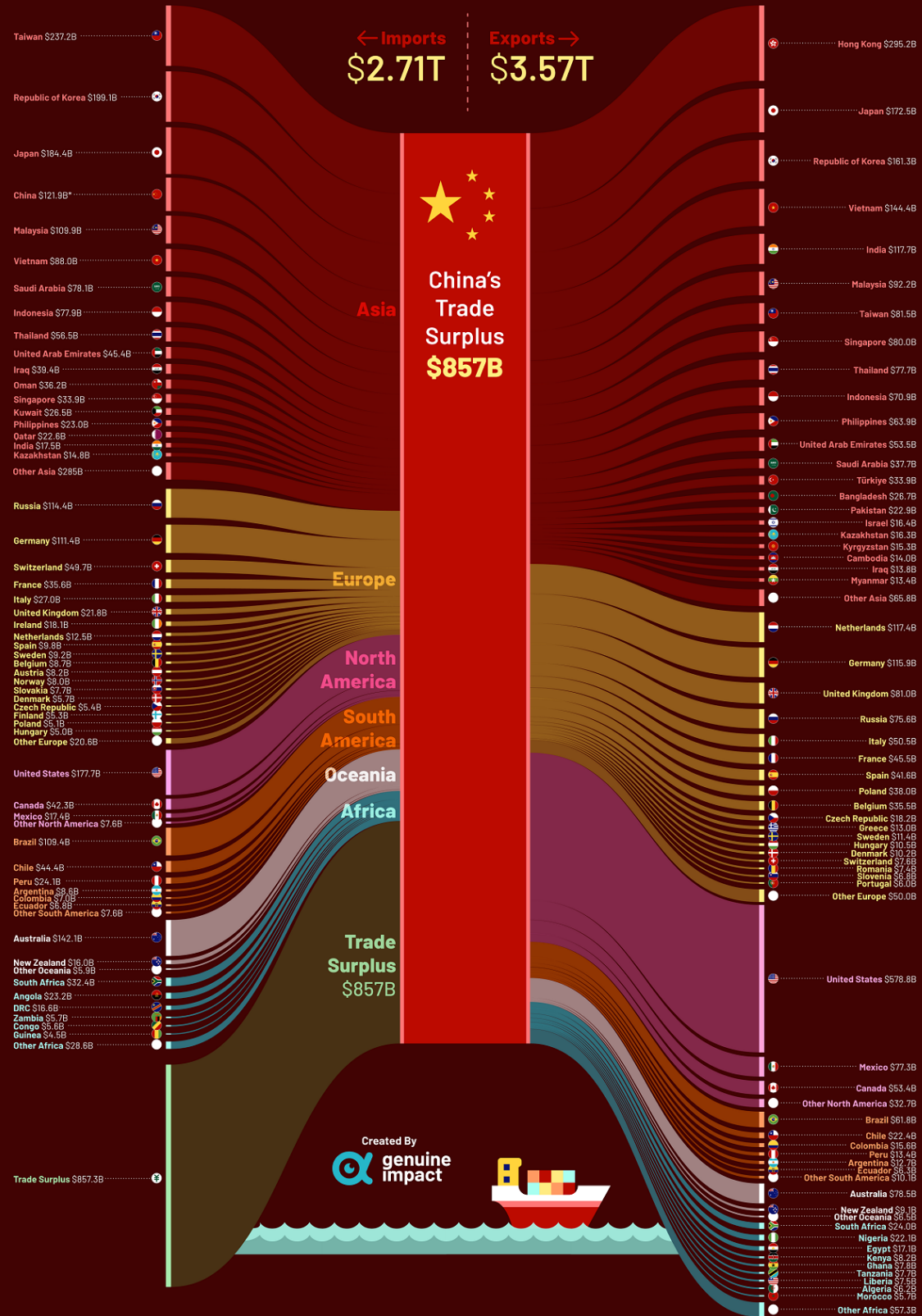


In the short term the headlines do not paint a pretty picture. This is overlaid with concerns over government interference, fear that China will invade Taiwan, and sanctions.

The reality, as the chart shows below, is that if China invades Taiwan it will not only destroy China but also the world economy, and it is highly unlikely that China would wish to do this.

China's Imports & Exports

All of China's trading partners in 2022



*For imports, the country of origin is recorded for most products, however if two or more countries were involved in the manufacture of products, the place where the last substantial working or processing was carried out is recorded as the country of origin.

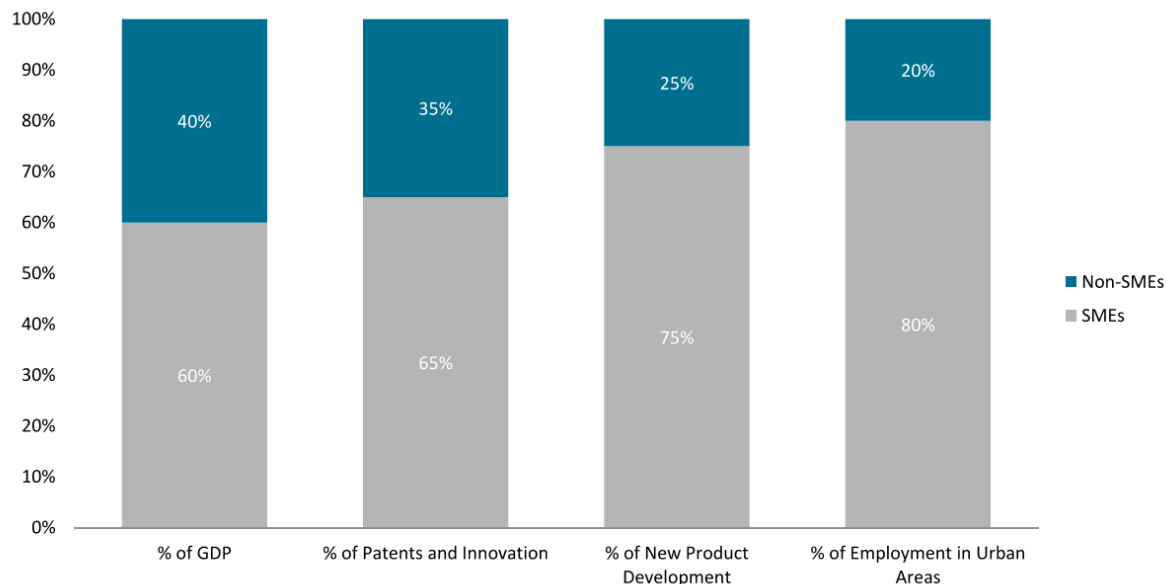
Source: General Administration of Customs of the People's Republic of China

More charts: genuineimpact.substack.com

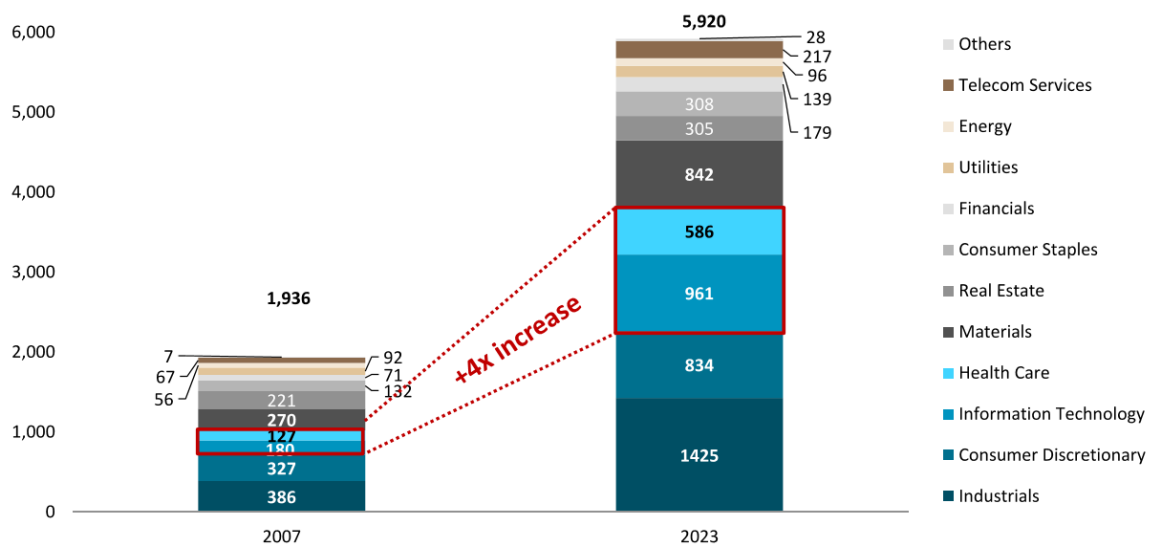
Matthews China Small Companies Fund – August 2023

This then leads to this strategy. For investors looking for long term opportunities and believing that this could come from China, this may be a strategy to consider. Matthews are specialists in Asia and China strategies. This fund was established in 2012 and the new team took over the fund in 2020.

Small businesses are fundamental to China's economy.

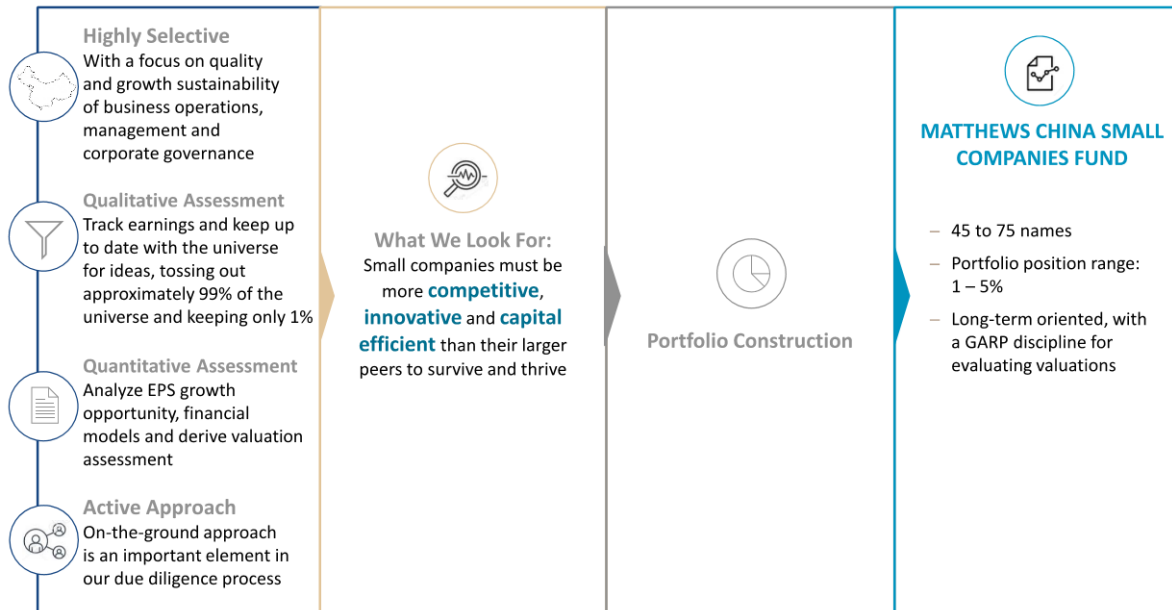


The opportunity set is vast and this fund looks to invest in the top 1% of the Chinese Small Companies Index. This is a highly active fund and so very different to the index.



This is a highly disciplined strategy and the chart below outlines the process.

Matthews China Small Companies Fund – August 2023



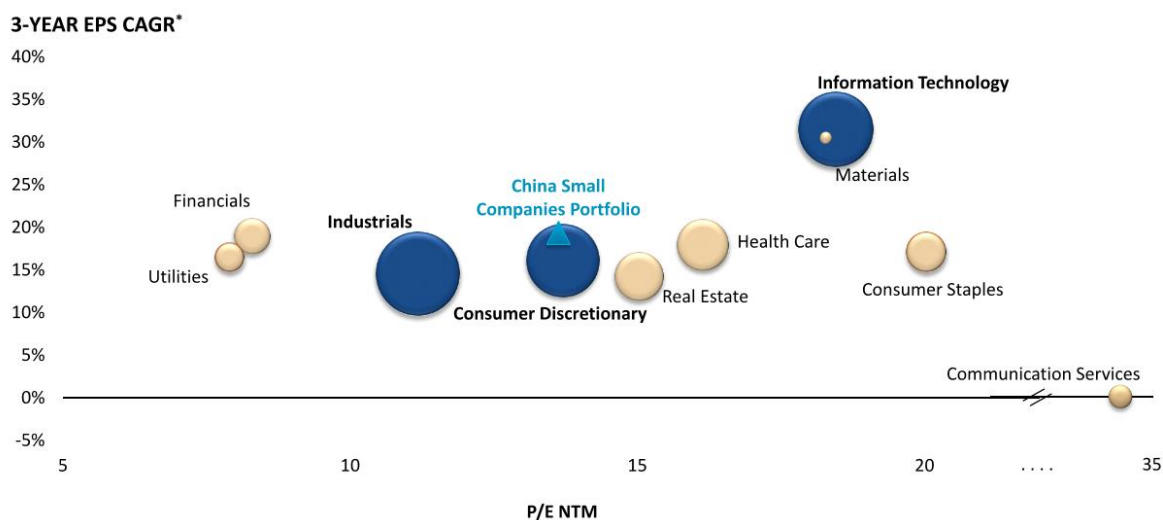
They will trim holdings to take profits, to manage risk, or if there are changes to the growth outlook. Selling out will happen where valuations become too high, if the investment thesis changes and / or there are concerns with corporate governance.

By the very nature of what they are looking at, evolving trends give rise to innovation in small companies.

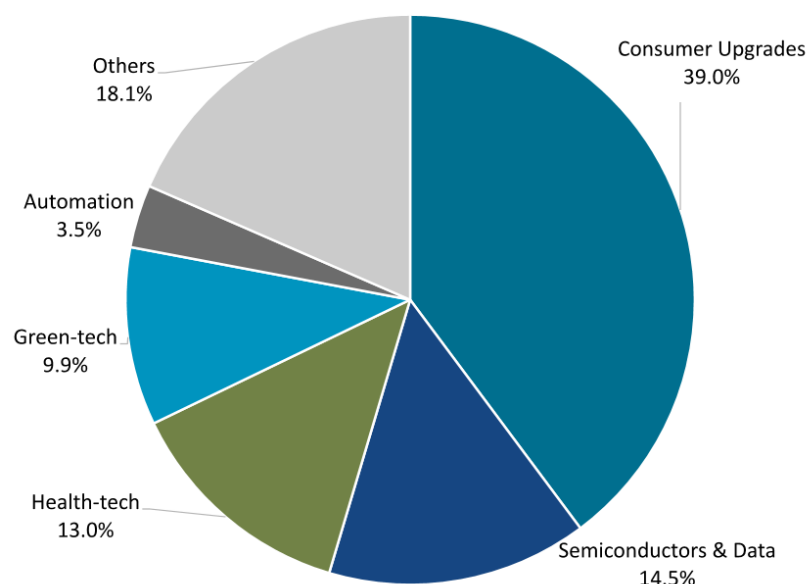


The fund looks to balance the different sectors and weight the risk accordingly.

Matthews China Small Companies Fund – August 2023



The current split is shown below:



The strategy is focused on domestic demand and as China recovers from COVID and looks to become more self-sufficient, this should benefit the strategy.

Revenue Source by Country	Percentage of Revenue for China's Small Companies
China	69.5%
United States	7.1%
Taiwan	3.2%
Japan	2.4%
Macao	2.0%

Matthews China Small Companies Fund – August 2023

It is worth adding that the types of businesses they like are those with low levels of debt and currently 68% of the portfolio companies have net cash.

Examples of holdings are shown below:

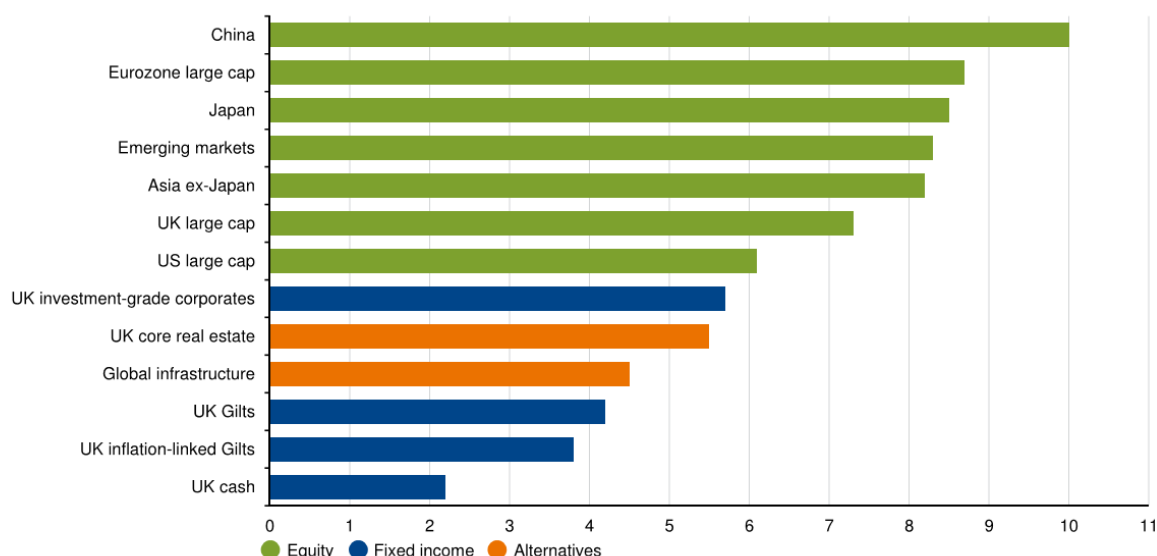
COMPANY	WEIGHT	INVESTMENT THESIS	THEME
China Overseas Property Holdings, Ltd.	4.5%	China Overseas Property Holdings Ltd. is Hong Kong listed and engages in the provision of property management services, particularly to mainland China based properties operated by affiliated companies China Overseas Holding and China Overseas Land. Property management companies such as China Overseas Property provide property owners with condo value-added services including that of concierge and grounds management operations. This business model is asset light in nature and typically has resilient cash flows	Consumer upgrades
Alchip Technologies, Ltd.	4.4%	Alchip Technologies, headquartered in Taipei, is a global leading provider of silicon design and production services for system companies developing complex and high-volume application specific integrated circuits (ASICs) and system-on-chip (SoC) products. Alchip was founded by semiconductor veterans from Silicon Valley and Japan in 2003. Their customers include global leaders in AI, HPC/supercomputer, mobile phones, entertainment devices, networking equipment and other electronic products. The main thesis is that Alchip is a beneficiary of increasingly customized semi-conductor chip demand, which large firms such as Intel and AMD do not cater to.	Semiconductors and data
Yangzijiang Shipbuilding Holdings, Ltd.	4.0%	Yangzijiang Shipbuilding (Holdings) Ltd. is a Singapore listed, privately-owned shipbuilding company focused on medium-sized containerships. Yangzijiang has a significant market share in the 2500 and 4250 TEU segments (mid sized vessels). The company is seeing sizable order backlog given increased demand from higher shipping rates while at the same time, a global reduction of ship building capacity over the past 10 years.	Other - Logistics
KE Holdings, Inc.	3.5%	KE Holdings, Inc. is a primarily online platform for housing transactions and services, particularly related to new and existing home transactions. The company also provides additional services including home renovation and interior design, and rental property management. The company was founded in 2018 and has rapidly grown to become the primary source of online real estate sales data, particularly for the rapidly growing market in secondary housing sales.	Consumer upgrades
Yadea Group Holdings, Ltd.	3.4%	Yadea Group is the leading electric scooter manufacturer with over 50% of global market share, and which has in recent years expanded its footprint to include a sizeable e-bike and battery/charger business. The company has a presence in 70 countries including a growing market share across emerging Southeast Asia.	Consumer upgrades

In summary, China remains unloved and clearly from the headlines it is painted as a region to avoid. On the flipside, China is the second largest global economy and unlike many other economies reaches out across the globe. It is unlikely that China will invade Taiwan in the near term as that would destroy their economy and is something that would go against everything they have said. Equally if they did and the world-imposed sanctions, this would destroy the global economy.

If investors can look beyond the headlines then China could offer an interesting return profile.

2023 Long-Term Capital Market Assumptions expected returns in coming 10-15 years

%, annualised return in GBP



Matthews China Small Companies Fund – August 2023

In terms of the fund, Matthews are specialists in this area and although the fund has struggled recently this is focused on the top 1% of companies. It is linked to structural changes within the economy and since launch has significantly outperformed the index.

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



This reflects the focus on quality and the very best companies which is also demonstrated through the high active share class which makes this different to the index. The challenge is the recent performance, and when sentiment to China changes, whether the fund can benefit.

The source of information in this note has been provided by Matthews and is correct as of August 2023. 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.

LWM Consultants Ltd is authorised and regulated by the Financial Conduct Authority. FCA Number 728107. Registered in England & Wales under Company Number 07408315.
Registered Office: The Garden Suite, 23 Westfield Park, Redland, Bristol, BS6 6LT