Matthews Asia™

Matthews Pacific Tiger Fund

Period ended 30 September 2020

For the quarter ending 30 September 2020, the Matthews Pacific Tiger Fund returned 13.00%, while its benchmark, the MSCI All Country Asia ex Japan Index, returned 10.79%.

Market Environment:

Asia ex-Japan equities continued their upward trajectory in third quarter, led by gains in the larger markets across the region. Many Asian currencies and equities rallied as economic activity slowly resumed, with earlier pandemic-related lockdowns easing. With an eye toward mitigating the health care and economic impacts of the pandemic, North Asia countries have generally been more successful, coordinated and effective in their public health response. South and Southeast Asia have had a relatively tougher time combatting the virus with intermittent imposition of localized lockdowns.

Notably, the trend towards a broad-based recovery in equity gains that started in the second quarter persisted in the third quarter, with most sectors appreciating, except banks and utilities. Consumer discretionary was the best performing sector in the region partly helped by a sharp recovery in autos. Valuations for automakers had become inexpensive, and investors are looking at the recovery in volumes, especially in China, as a potential driver of future earnings.

For the second quarter in a row, small caps outperformed large caps suggesting that investors are anticipating broader improvement in economic activity. As if on cue, interest rates across some of the major economies like China and India rose further in the third quarter, perhaps on the back of continued issuances of government bonds and a recovery in growth. The uptick in interest rates in China and India is a contrast to many other parts of the world. For global equity investors, exposure to Asia provided meaningful diversification in the quarter through access to more varied return drivers, including positive local interest rates and rising domestic consumption.

Performance Contributors and Detractors:

Stock selection in China was a contributor to performance in the quarter. Among individual stocks, Chinese domestic A shares companies Inner Mongolia Yili Industrial Group Co. and China Resources Beer were both contributors. China's largest dairy producer, Inner Mongolia Yili Industrial Group Co enjoyed stock price gains on growing expectations that the consumer's preference for quality dairy products and healthier lifestyles will likely be a growth driver for Yili. Meanwhile, China Resources Beer has also gained market share in a consolidating marketplace, while employing a very nimble approach to operations during the pandemic. By keeping inventory low, the company has been able to increase its prices, and employ more competitive marketing practices.

On the other hand, stock selection in India was a detractor in the quarter. We continue to see weakness among Indian financials, including Kotak Mahindra Bank Limited of India. India's banking and financial system in India continues to wrestle with the economic impacts of the coronavirus. In addition, continued changes by the central bank in India regarding rules for recognizing and restructuring bad loans has weighed on the sector. At the same time, we believe there may be long-term growth in the sector. Our approach continues to be maintaining exposure to banks with strong balance sheets in order to capture a potential turnaround in the sector.

Notable Portfolio Changes:

During the quarter, we initiated a new position in LG Chem, a South Korean EV battery maker and chemical manufacturer. As a leading supplier of EV batteries, LG Chem is benefiting from the growth of the overall EV industry, for which batteries are one of the largest associated costs. LG Chem produces batteries at scale, enabling the company to serve a large, addressable global market. The company's customer base and revenue sources are well diversified, including significant market share within high-growth European EV markets. LG Chem also has attractive, positive capacity to build up other business lines, providing additional drivers of growth.

We also rotated capital in the quarter, trimming some positions among higher valuation stocks and adding to high-quality positions that represented better relative value in our view. For instance, we have initiated new positions in businesses where we see the opportunities from augmentation of industrial/technology supply chain (Singapore), and, prospect of recovery in consumption related activities as the threat from COVID recedes (India).

Outlook:

Stepping back from some of the near-term issues in the region, we are encouraged by the progress of economic reforms in Asia. Amid the pandemic, many of Asia's policymakers have accelerated efforts toward further opening capital markets to foreign investments, as well as toward reforming labor laws, giving employers greater flexibility in managing their workforces. While the nature of reforms varies among countries in different stages of economic development, the overall trend is unifying and positive for Asia's capital markets.

Chinese policymakers have been focused on developing the country's capital markets as an alternate channel of financing, and the latest efforts are an endeavor to attract inflows from foreign investors by further simplifying access to its domestic market (A-shares) as well as to enhance liquidity and risk management for domestic entities. For instance, the continued progress on the registration-based IPO mechanism aims to provide greater access to equity capital for entrepreneurs and small- and medium-sized businesses. These are helpful and timely developments, as we also see a partial augmentation of the listings of Chinese companies as ADRs on the New York Stock Exchange seeking a secondary listing in Hong Kong or even in mainland China.

In India, the nature of the reforms is somewhat different but could be equally impactful. India's parliament has recently passed some measures that look to simplify and consolidate the plethora of the country's labor laws , reducing employers' burden of recruiting employees and easing regulatory compliance. Elsewhere in the region, we've seen a new omnibus law in Indonesia that includes reforms to existing labor laws and the launch of a sovereign wealth fund to help institutionalize Indonesia's investor base, both of which will have positive long-term reverberations for the country's economy and equity market.

These economic reforms, combined with rising household incomes and growing domestic consumption, make Asia an attractive destination in our view for long-term equity investors. In terms of our portfolio, our approach remains premised on the idea of looking for sustainable growth, particularly in businesses that are domestically oriented. We also tend to favor companies that have greater ballast on their balance sheet and able to survive the pandemic-related economic turmoil better than others. As such, we believe a revival in economic activity across the region should benefit our portfolio holdings.

Rolling 12 Month Returns for the period ended 30 September 2020

Matthews Pacific Tiger Fund	**2020**	**2019**	**2018**	**2017**	**2016**
I (Acc) (USD)	15.22%	0.28%	3.62%	12.76%	20.06%
MSCI All Country Asia ex Japan Index (USD)	18.16%	-3.15%	1.74%	23.02%	17.18%
I (Acc) (GBP)	10.60%	6.19%	6.43%	9.17%	40.68%
MSCI All Country Asia ex Japan Index (GBP)	12.63%	2.49%	4.67%	19.11%	36.65%
I (Acc) (JPY)	12.84%	-4.52%	4.46%	n.a.	n.a.
MSCI All Country Asia ex Japan (JPY)	15.38%	-7.85%	2.66%	n.a.	n.a.
I (Acc) (EUR)	7.23%	n.a.	n.a.	n.a.	n.a.
MSCI All Country Asia ex Japan Index (EUR)	9.85%	n.a.	n.a.	n.a.	n.a.

Risk Considerations

The value of an investment in the Fund can go down as well as up and possible loss of principal is a risk of investing. Investments in international and emerging market securities may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. The Fund invests in holdings denominated in foreign currencies, and is exposed to the risk that the value of the foreign currency will increase or decrease. The Fund invests primarily in equity securities, which may result in increased volatility. These and other risks associated with investing in the Fund can be found in the Prospectus.

Performance figures discussed in the Fund Manager Commentary above reflect that of the Institutional Accumulation Class Shares and has been calculated in USD. Performance details provided for the Fund are based on a NAV-to-NAV basis, with any dividends reinvested, and are net of management fees and other expenses. Past performance information is not indicative of future performance. Investors may not get back the full amount invested.

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Investors should not invest in the Fund solely based on the information in this material alone. Please refer to the Prospectus for further details of the risk factors.

Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg