

# MATTHEWS ASIA ASIA DIVIDEND I ACC GBP

May 2016

**Outcome:** Capital Accumulation, Income

**Asset Class:** Equity

**IA Sector:** IA Asia Pacific Including Japan

**Domicile:** Luxembourg

**Rating:** AA

**Currency:** GBP

**Fund Size (as at 26 Apr 2016):** £269m

**Fund Manager Name:** -

**Benchmark:** MSCI AC Asia Pacific

**Active/Passive:** Active

**Distribution Pay Date:** Mar 22, Jun 22, Sep 22, Dec 10 (Final)

**Ongoing Charge Figure:** 1.33%

**Annual Management Charge:** 0.75%

**Yield (as at 26 Apr 2016):** -

**Volatility:** 11.35%

**Financial Express Crown Rating:** 

**Financial Express Alpha Manager Rating:** -

**Fund Price:** £14.9

**Launch Date:** 30/04/2010

**Performance Objective:** The managers are looking to produce an average return of around 10% to 12% p.a. over the long term.

## Fund Outcome

The fund invests in a portfolio of Asian including Japanese equities. We believe it achieves our income and capital accumulation outcomes. Equity income funds are a suitable capital accumulation strategy, when income is reinvested. Historically, dividend growth focused funds tend to have lower volatility than growth orientated funds.

## Outcomes

Capital  
Accumulation



Capital  
Preservation

Income



Inflation Protection



## Fund Opinion

Although the group is relatively unknown to the European investor base, Matthews is a major player in the Asian equities space and has attracted a significant level of assets with their range of US domiciled products. Potential investors into their European range should not be deterred by the reasonably short track records and fairly modest fund sizes. The strategy that this fund follows was launched in 2006 and boasts a sizeable body of assets. Overall, we think highly of the managers, the strong team-oriented investment culture and the consistency that they have applied in the running of this fund. We consider this to be a strong Asian income offering for investors seeking to access the region's income and growth potential through a sensibly managed fund with a well-designed investment framework.

## Fund Description

Matthews International Capital Management is a San Francisco-based asset manager specialising in Asian investment. It was established in 1991 and is one of the largest US based managers dedicated to the Asian equities markets. The investment team is well resourced and consists of around 36 fund managers and analysts. This fund's lead managers, Yu Zhang and Robert Horrocks, are assisted by co-manager Vivek Tanneeru. Mr Zhang is also responsible for the group's China Dividend strategy whilst Chief Investment Officer, Mr Horrocks, is lead manager on the Asian Growth & Income strategy.

As the business and product mix has grown, the broader team has evolved into smaller sub-teams that are now dedicated to specific strategies. Nevertheless, the group employs an investment process and philosophy that is consistently applied across the fund range. Matthews are long-term investors and seek perceived high quality companies, and common across all their portfolios is the belief that Asia's long-term growth prospects remain strong and investing in businesses that grow with the development of the region's middle-class lifestyles provides a good backdrop for returns.

The managers think of this fund with a total return perspective (which is a combination of capital growth and income): they are looking for compound returns in the region of 10%-12% over the long run and if they can accomplish this with lower volatility than the broader market, they would regard this as a good achievement. The fund does not have a specific yield target but it does seek to produce a level of income that is higher than the yield generally available in Asia equity markets over the long term.

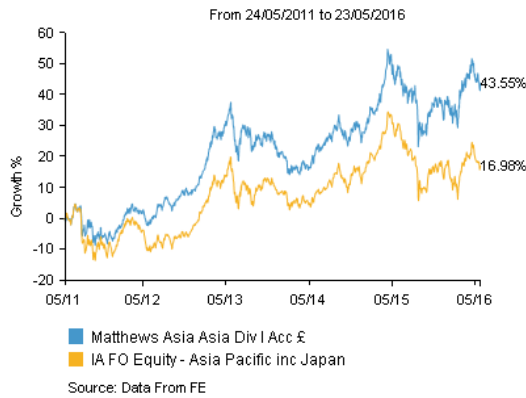
The managers seek companies that can be held through the cycle; these are firms that can offer an attractive dividend yield and/or that can grow their dividends in a sustainable fashion through the different business cycles. They aim to balance the portfolio mix of attractive yielders and good dividend growers, depending on where they see the most attractive opportunities. Companies must pass a strict set of quality criteria, which considers areas including the strength of the balance sheet, the sustainability and competitiveness of its business, the ability to maintain reasonable rates of long-term growth. Regular company meetings are an integral part of the process with the team paying very close attention to the incentive structure of the management team, their ability to meet business targets and milestones and their attitude towards minority shareholders. A range of valuation methods helps the team to determine the value of a business in the context of its future growth and to gain an understanding as to what is already priced in by the market. For every firm they own they will calculate the growth rate on the underlying dividend they are expecting for the next three years. The managers construct the all-cap portfolio of 50 to 80 holdings with minimal regard for the MSCI AC Asia Pacific index. Initial positions are generally small (less than 1%) and are built up over time as conviction increases.

## Fund Objective

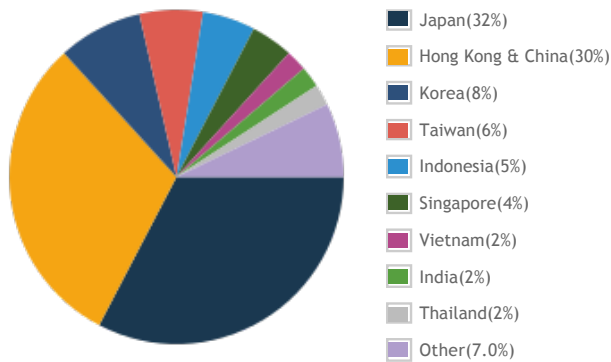
The fund's investment objective is to deliver total return with an emphasis on providing income. Investment is made into companies based, or having significant operations, in the Asia region including Japan, Australia and New Zealand. The managers are looking to produce an average return of around 10% to 12% p.a. over the long term.

## Quantitative Data

### Performance



### Geographic Breakdown



### Cumulative Performance

(Data as at 26 Apr 2016)

Period	Fund (%)	Sector (%)	Quartile Ranking
6 months	7.0	6.2	-
1 year	-2.5	-6.5	-
3 years	13.1	9.4	-
5 years	48.6	23.0	-

### Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	1.2	-4.5	-
12-24m	22.8	21.0	-
24-36m	-7.6	-5.4	-
36-48m	24.0	14.4	-
48-60m	2.8	-3.7	-

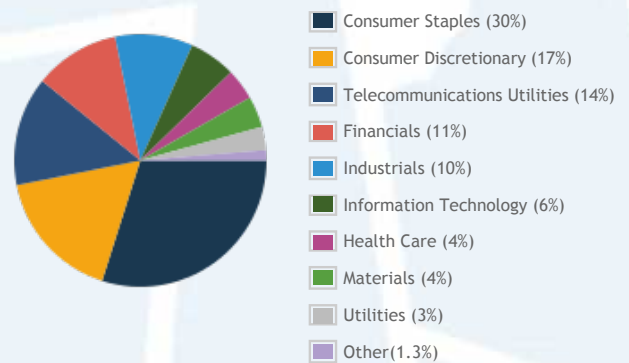
### Top Ten Holdings

(Data as at 31 Jan 2016)

Company Name	%
JAPAN TOBACCO INC	3.8
SUNTORY BEVERAGE & FOOD LTD	3.7
SHENZHOU INTERNATIONAL GROUP HLDGS	3.4
BRIDGESTONE CORP	3.3
LG CHEM	3.2
HOYA CORP	3.1
KAO CORP	2.9
BGF RETAIL CO LTD	2.8
NTT DOCOMO INC	2.7
VIETNAM DAIRY PRODUCT CO	2.5

### Sector Breakdown

(Data as at 31 Jan 2016)



## Risk Summary

The level of income is not guaranteed and may fluctuate over time. The fund can look and act differently from the index and peers, however, the overarching focus on quality means that performance should be more resilient during market downturns.

## FE Risk Rating

92

## SRRI

6

## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk	●		
Liquidity Risk			●
Emerging Markets Risk	●		
Derivative Risk			●
Manager Risk	●		

### Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

### Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

### Credit Risk

This fund does not have significant exposure to corporate debt.

### Exchange Rate Risk

The fund predominately invests abroad and it is exposed to foreign currencies. Currency markets may move sharply.

### Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund predominately invests in emerging regions. Economic, political, legal and market events in the region may have a material adverse effect on the fund price. Valuations in emerging market assets can be volatile.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

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