

Matthews Asia ex Japan Dividend I Inc GBP

September 2019

Outcome

The focus of this fund is on delivering long-term total returns, which is a combination of income and capital growth, through an equity portfolio consisting of Asian companies. Investments will include large, medium and small sized companies, though the exposure to the latter two might be quite sizeable, subject to the stock opportunity set.

Note that this fund invests in developing markets and as such, income and capital growth are not guaranteed and are vulnerable to movements in stock markets. For UK based investors, this fund invests overseas and therefore it will include foreign exchange rate risks.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

Performance Objective

To deliver a long-term total return ahead of the MSCI AC Asia Ex Japan index as well as a higher dividend yield than the market average and higher dividend growth, both over time.

Domicile: Luxembourg	Asset Class: Equity
IA Sector: IA Asia Pacific Excluding Japan	Launch Date: 30/11/2015
Fund Size (as at 31 Aug 2019): £44.4m	Yield: -
Distribution Pay Date: Mar 19, Jun 19, Sep 19, Dec 10 (Final)	Fund Manager: -
Ongoing Charge Figure: 1.25%	
Transaction Cost ex Ante: 1.16	



Fund Opinion

Launched at the end of November 2015, this fund is managed in a similar manner to the Matthews Asia Dividend strategy which dates back to October 2006 (with the inception of the US domiciled fund) and is run by the same management team, who follow a similar approach that is focused on total returns. The lead manager of this fund, Mr Yu Zhang, is an accomplished investor. He is supported by a strong team with three co-managers and three dedicated analysts. The longer-term investment culture at Matthews and overall support that the firm provides to their investment teams is of a very high level, which is an essential feature to have for strategies which invest in developing markets.

This fund is currently small in size, but being small in size has its benefits as the managers currently have the ability to invest to a significant degree in medium and smaller sized firms, and to enter the more emerging Asian and frontier markets. Such exposures are dependent on the opportunity set the managers see at any given time. Nevertheless, they believe that these companies have yet to reach their full growth potential and are often overlooked from an income perspective.

The managers' experience in running the larger sized US domiciled fund, which also invests across the market-cap spectrum, gives us confidence in their investment capability. This fund however is still relatively untested in terms of whether it can deliver its longer-term objectives and we would like to see it reach some milestones, such as a broader, more diversified investor base and a lower overall cost, which we expect to happen as the fund grows to a more viable size. However, we believe this is a very promising long-term offering worthy of our Positive Prospect rating.

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 equity markets. The investment team is well-resourced with over 40 fund managers and analysts. As the business and product mix has grown over time, the broader team has evolved into smaller sub-teams that are now dedicated to specific strategies. Nevertheless, the group employs an investment philosophy that is consistently applied across the fund range. Matthews seek to be long-term investors, and a common feature across all their portfolios, is the belief that Asia's long-term growth prospects remain strong and investing in higher quality businesses that grow with the development of the region's middle-class lifestyles provides a good backdrop for returns.

The managers of this fund look for companies that can be held through the investment cycle. They seek companies which tend to generate stable dividend yields as well as those with businesses that have a greater sensitivity to the economic cycle, but which offer faster dividend growth potential. The allocation to these two types of firms will change over time and will depend on where the team find the most attractive opportunities, but, crucially a company's ability and willingness to pay dividends must be present for the managers to invest.

The team regularly go to the region to see company management and indeed, these visits are a critical component of the investment process as they help the team to understand the environment companies are operating under. These visits can generate new ideas but idea generation can also come from the interaction with the wider team at Matthews or through filtering the investable universe of stocks using a set of valuation metrics or company metrics. The team will consider a plethora of factors before investing, such as the strength of a company's balance sheet, the sustainability and competitiveness of its business and the ability to maintain reasonable rates of long-term growth. Close attention is paid to the incentive structure of the management team and their attitude towards minority shareholders, their ability to meet business milestones as well as their approach to capital allocation (and within this, the importance of dividend payments). 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 wider market.

This fund has the flexibility to invest across a range of sectors, markets and companies of different market capitalisations, but, investments are made purely on the merits of a company's attractiveness, and not on a stock's weight in the MSCI AC Asia ex Japan index. Similarly, the sector and country allocations are driven predominantly by the stock choices. The portfolio can have circa 50 to 80 holdings with initial positions generally small (less than 1-1.5% of the portfolio's assets) and are built up over time as the managers' conviction increases.

Risk Summary

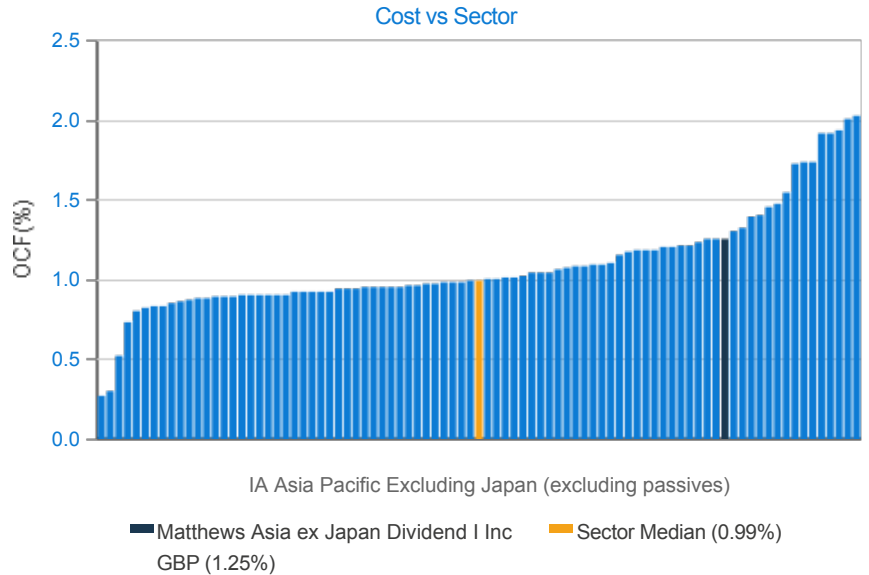
The level of natural income which the fund distributes is not guaranteed and may fluctuate over time. Note that this is a fund investing in developing markets that can be very volatile and may therefore be more suitable for long-term investors. In addition, the fund invests overseas so there can be currency risks for UK based investors.

Whilst the managers are aware of prevailing economic trends and market dynamics, they will be focusing purely on the opportunities, threats and risks that these might have on companies' business models. The team are ultimately focusing on identifying companies with attractive absolute dividend yields and companies with the potential to grow their dividends. As a result, this fund's portfolio can look very different from the index, which is used solely as a performance comparator. In short, the managers are very disciplined in terms of what they are looking for in companies, and whilst this style of management with its focus on company fundamentals might seem sensible, it might not always coincide with the often short-term mindset of the wider market. The fund's performance can therefore be very different from the index, for good or for ill.

Value for Money

(Calculation as at 15 Sep 2019)

The fund's ongoing charge figure (OCF) is currently 1.50%, which falls above the IA Asia Pacific excluding Japan sector median. However, this is a sector occupied by plenty of funds with different investment objectives and approaches, and as such, not particularly comparable or useful. The fund has room for improvement in terms of its overall costs but we think the current charges are still reasonable when considering that investors are getting access to a high quality management team, sensible process and impressive research resources. Such factors are not easy to find or replicate in a successful manner.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

Additional Information

Annualised Return	12.58%
Annualised Volatility	11.94%
Max Drawdown	-9.36%
Max Gain	16.35%
Max Loss	-8.39%
Sharpe Ratio	0.76
Sortino Ratio	0.77

(3 year data to last month end)

Currency of Share Class

GBP

Fund Price (as at 13 Sep 2019)

£17.0

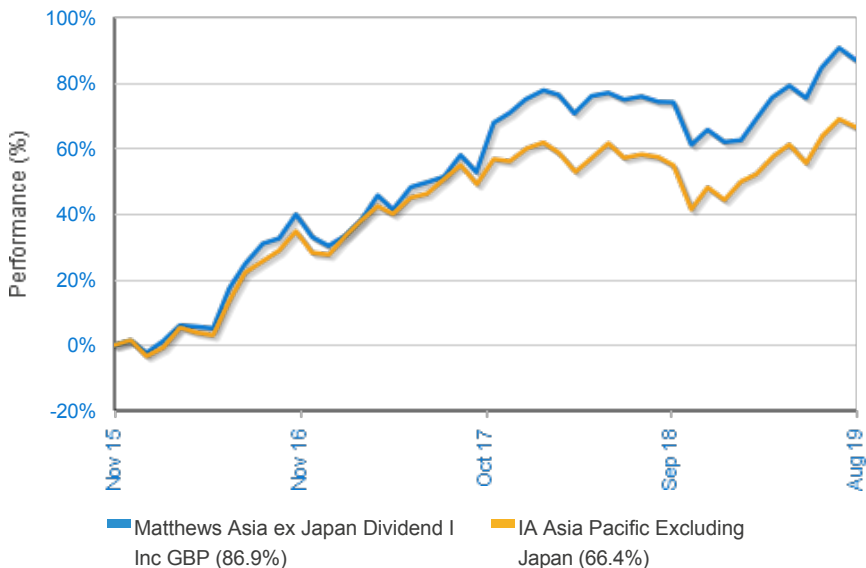
Benchmark

MSCI AC Asia Ex Japan

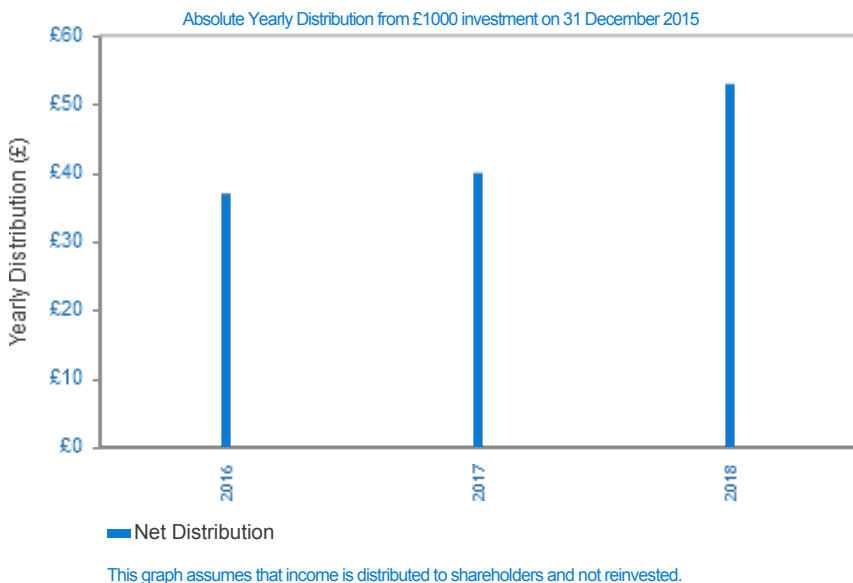
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	5.5	4.2	-
12-24m	16.8	7.5	-
24-36m	27.5	28.7	-
36-48m	-	5.4	-
48-60m	-	8.5	-

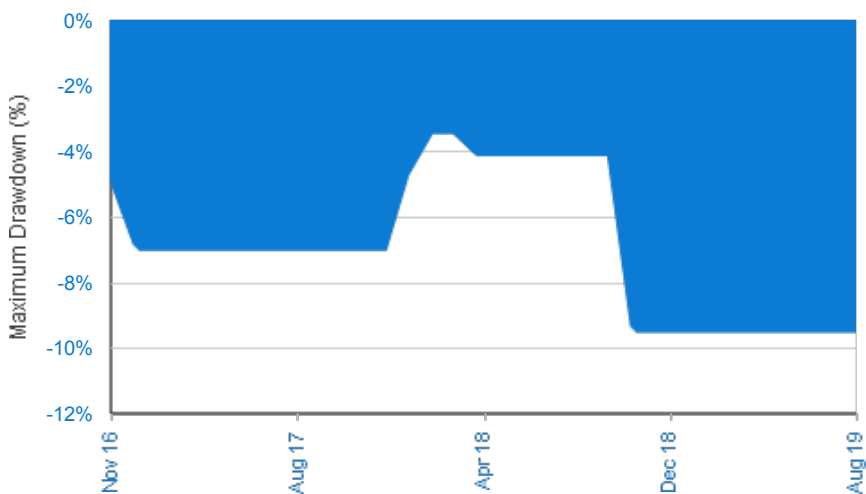
Capital Growth



Income



Maximum Drawdown (Rolling 12 Months)



Top Ten Holdings

(Data as at 31 Jul 2019)

Company Name	%
AIA GROUP LTD	2.3
SAMSUNG ELECTRONICS CO	2.3
CHINA EAST EDUCATION HLDGS LTD	2.2
TAIWAN SEMICONDUCTOR MANUFACTURING	2.2
CHINA MERCHANTS BANK CO LTD	2.1
WH GROUP LTD	2.1
YUEXIU TRANSPORT INFRASTRUCTURE LTD	2.0
NAM LONG INVESTMENT CORP	1.9
NETLINK NBN TRUST UNITS	1.9
CAPITALAND COMMERCIAL TRUST UTS	1.8

Sector Breakdown

(Data as at 31 Jul 2019)



- Consumer Discretionary (24%)
- Consumer Staples (17%)
- Industrials (13%)
- Information Technology (11%)
- Communications (10%)
- Financials (10%)
- Real Estate (8%)
- Money Market (2%)
- Utilities (2%)
- Other (3.6%)

Geographic Breakdown

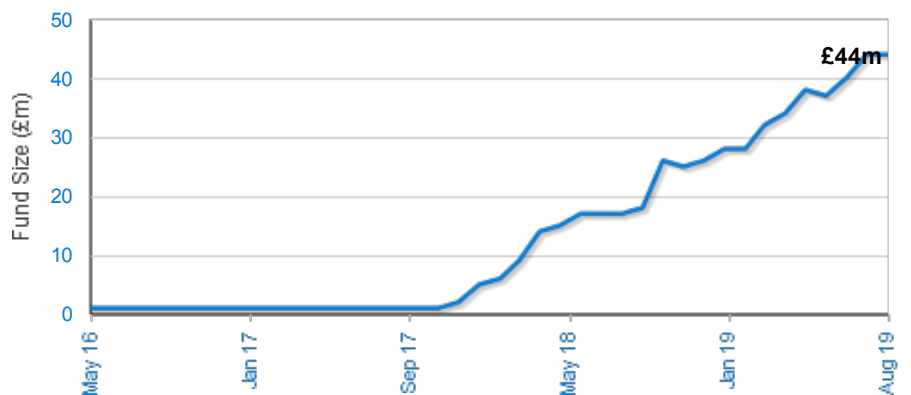
(Data as at 31 Jul 2019)



- Hong Kong & China (51%)
- Taiwan (12%)
- Korea (10%)
- Singapore (7%)
- Vietnam (6%)
- Thailand (3%)
- Philippines (3%)
- India (2%)
- Money Market (2%)
- Other (2.8%)

Assets Under Management

(Data as at 31 Aug 2019)











Financial Express Crown Rating



Financial Express Alpha Manager Rating

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 may include a sizeable exposure to less liquid and smaller companies, which could be difficult to sell at certain times. The risks of this happening are most acute at times of financial distress.

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 lead 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 would reappraise the rating if the lead manager were to leave.

FE Risk Rating: 106

SRRI: 6

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