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Matthews Asia

Matthews Asia Perspective:
Investing for Long-Term Dividend Growth in Asia

Since the early 1990s, Matthews Asia has closely followed the dividend growth story in Asia, where a total dividend pool in the region makes it comparable to that available in Europe or the U.S., resulting in a large opportunity set into which the portfolio managers can tap. In addition, the companies offering quality dividends are spread across sectors and across the market capitalization scale, allowing for a high level of diversification across the strategies. What is more, while the current yield* is around 2.6% across the region—a little below what you would get in Europe—if you look at growth over the past decade, the growth in dividends in Asia has been more than 10%, which is substantially higher than for the U.S. or Europe.

Matthews Asia Chief Investment Officer Robert Horrocks, PhD explains, "The reason we look for dividends in Asia is not solely about income. One of the potential pitfalls people face in the current environment is reaching for yield regardless of the underlying quality of the business. We see that dividends coming out of companies in Asia provide three things. First, they show valuation discipline. If you are getting a reasonable current yield it gives you some comfort you are not overpaying for the prospects of the company. Second, it suggests the health of the company is good and provides some reassurance that the earnings are backed by real cash. Third, it gives an insight into the corporate governance standards of the business, and whether they are willing to share those cash profits with minority shareholders and commit to growing that cash stream over time."

"More generally, if you look at the DNA of Matthews Asia, one strand is that we are long-term and the other is that we are bottom-up. That unifies all of the portfolios. Following that approach naturally takes you into certain areas as you are looking for businesses that, through growth in cash flows, will drive value over a long period."

Overall, the key features the team looks for from potential holdings are companies that demonstrate good returns on capital, where they understand the incentives and long-term plans of the management, as well as the allocation of capital within the business. This all feeds into the underlying dividend story and is complemented by analysis of how minority shareholders have historically been treated, with the dividend stream and reinvestment of capital being put under particular scrutiny.

"We focus on companies that are positioned to perform through the market cycle, which will survive, grow sustainably and compound over time. We always say there is an excess return for patience in Asia and for us it is about taking a strategic long-term view."

"When it comes to dividend investing, we look for individual stocks with a sustainable total return profile," Horrocks adds. "Rather than chasing yield, we combine stable dividend payers with more cyclical dividend growers. This balanced approach seeks to create a portfolio that can benefit from an attractive dividend yield without giving up on growth. Our dividend strategies have a lot of flexibility, whereas we are not too constrained by chasing yield or growth. We can judge on the market conditions. If the

*Trailing Dividend yield estimates for 2014 as of 30.9.15 based on FactSet aggregates.

Yield estimates are not intended to indicate the past or future return on any particular investment. Past performance does not guarantee future results.

market is hot, the natural thing for us is to take a step back and look the other direction." Dividend portfolios result from this approach, and they are spread across the capitalization scale, with a typical weighting of up to 50% in small- and mid-cap stocks. And while it is possible to find opportunities across sectors, the focus on the sustainability of the dividend stream tends to steer the managers away from materials, energy, technology hardware companies and, to some extent, the banking sector. Instead, the bottom up fundamentals tend to create a bias to consumer staples businesses, food and beverage companies including quick-service restaurants, consumer discretionary and retail, both bricks and mortar and online. Within financials, the team tends to prefer real estate investment trusts and insurance companies.

The firm's focus on Asia and numerous visits to the region by each of the portfolio managers blends well with the "considered and thoughtful" portfolio construction process in San Francisco. The result is a range of strategies that aim to provide investors with a skilled approach to targeting both growth and, in the case of the dividend strategies, a strong income stream in a region that he believes has unsurpassed potential for decades to come.

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