

Matthews Asia Dividend I Acc GBP

September 2019

Outcome

The fund invests in a portfolio of Asian companies, based or having significant operations in the Asian region. Investments will include companies listed in Japan, New Zealand and Australia. We believe the fund meets 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.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

Performance Objective

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

Active/Passive: Active	Domicile: Luxembourg
Asset Class: Equity	IA Sector: IA Asia Pacific Including Japan
Launch Date: 30/04/2010	Fund Size (as at 31 Aug 2019): £323.3m
Yield: -	Distribution Pay Date: Mar 19, Jun 19, Sep 19, Dec 10 (Final)
Fund Manager: -	Ongoing Charge Figure: 1.13%
	Transaction Cost ex Ante: 0.28



Fund Opinion

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 Asian equity markets over the long term.

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. They have a collection of their strategies available to the European investor base, and whilst some of these might have relatively short track records and modest fund sizes, these funds are managed along identical lines to their much larger sized US domiciled cousins, with most typically identical portfolios. The strategy that this fund follows was launched in 2006 and boasts a sizeable body of assets.

We think highly of the lead manager, Yu Zhang, and his fellow co-managers, the strong team-oriented investment culture at Matthews, and the consistency that the managers have applied in the running of this fund. This combination of attributes are not easily found in this dynamic region. As such, we consider this to be a strong Asian offering for long-term 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 with close to 40 fund managers and analysts. This fund's lead manager, Yu Zhang, is supported by co-managers, Vivek Tanneeru, Sherwood Zhang and Robert Horrocks, as well as three dedicated 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 process and 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 quality businesses that grow with the development of the region's middle-class lifestyles provides a good backdrop for returns.

This fund's managers seek companies that can be held through the cycle; these are firms that can offer an attractive absolute 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 valuation 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. Additionally, for every firm they own, the team will calculate the growth rate on the underlying dividend they are expecting for the next three years.

Note that this fund has the flexibility to invest across a range of sectors, markets and stocks, 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 Pacific index. Similarly, the sector and country allocations in the portfolio are driven by the stocks' income opportunity. The portfolio of circa 50 to 80 holdings can include a significant exposure to medium and smaller sized companies, and the market capitalisation of companies the managers invest in, will depend on the liquidity of the underlying stocks in a particular market. Initial positions are generally small (less than 1% of the portfolio's assets) and are built up over time as the managers' conviction increases.

Risk Summary

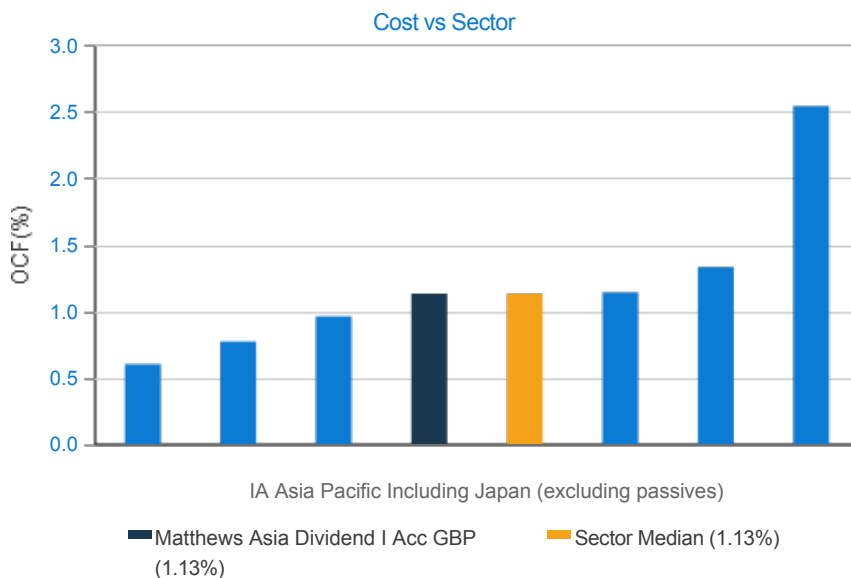
The level of natural income which the fund distributes is not guaranteed and may fluctuate over time. Note that this is a fund investing in developing markets that can be very volatile and may therefore be more suitable for long-term investors. In addition, the fund invests overseas so there can be currency 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 sentiment. 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 ongoing charge figure (OCF) of this fund is slightly higher than the IA Asia Pacific including Japan sector median. However, this sector includes only a limited number of funds, all with quite different objectives and parameters and is therefore not an ideal comparator. Whilst there is room for improvement in terms of the overall costs, we believe the fund offers reasonable value for money as investors have access to a high quality management team and an established and proven process. Such factors are difficult to find and hard to replicate.



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	6.55%
Annualised Volatility	11.02%
Max Drawdown	-9.29%
Max Gain	9.69%
Max Loss	-8.25%
Sharpe Ratio	0.28
Sortino Ratio	0.25

(3 year data to last month end)

Currency of Share Class

GBP

Fund Price (as at 13 Sep 2019)

£21.6

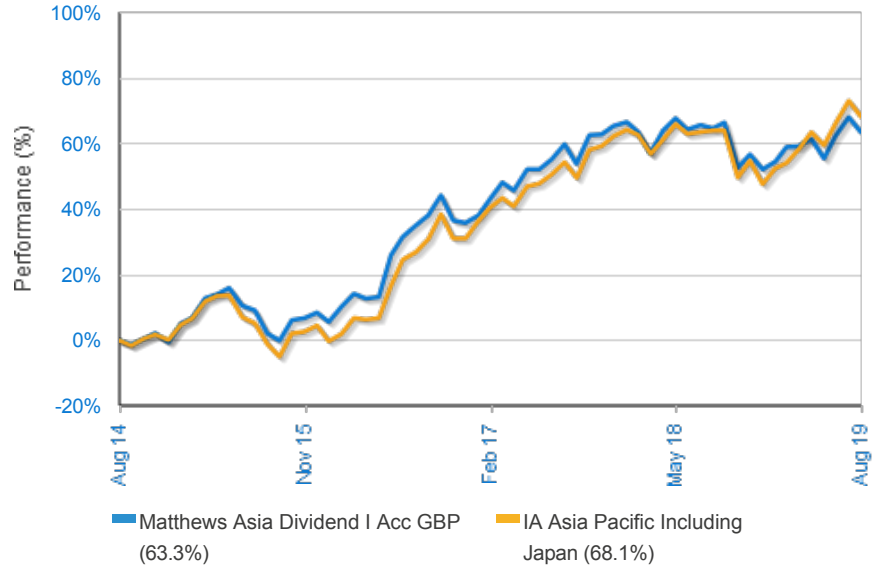
Benchmark

MSCI AC Asia Pacific

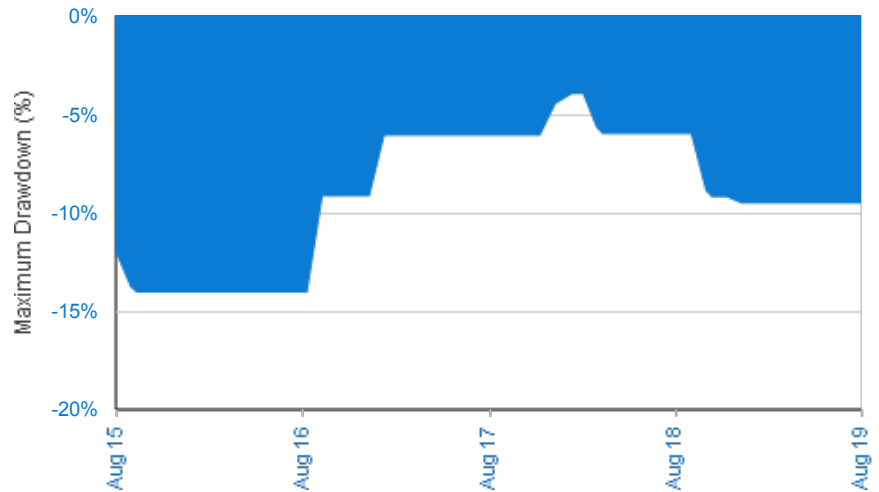
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	-1.2	2.2	-
12-24m	8.0	10.2	-
24-36m	20.8	26.7	-
36-48m	13.9	8.9	-
48-60m	15.0	12.3	-

Capital Growth



Maximum Drawdown (Rolling 12 Months)



Top Ten Holdings

(Data as at 31 Jul 2019)

Company Name	%
TAIWAN SEMICONDUCTOR MANUFACTURING	3.6
SHENZHOU INTERNATIONAL GROUP HLDGS	3.5
HYUNDAI MOBIS	3.4
MINTH GROUP	3.4
ANRITSU CORP	2.8
HOYA CORP	2.7
BGF RETAIL CO LTD (NEW)	2.5
CHINA MOBILE LTD	2.4
MISUMI GROUP INC	2.3
AIA GROUP LTD	2.2

Sector Breakdown

(Data as at 31 Jul 2019)



- Consumer Discretionary (22%)
- Consumer Staples (16%)
- Financials (13%)
- Communications (10%)
- Industrials (8%)
- Information Technology (8%)
- Health Care (5%)
- Real Estate (5%)
- Utilities (5%)
- Other (9.6%)

Geographic Breakdown

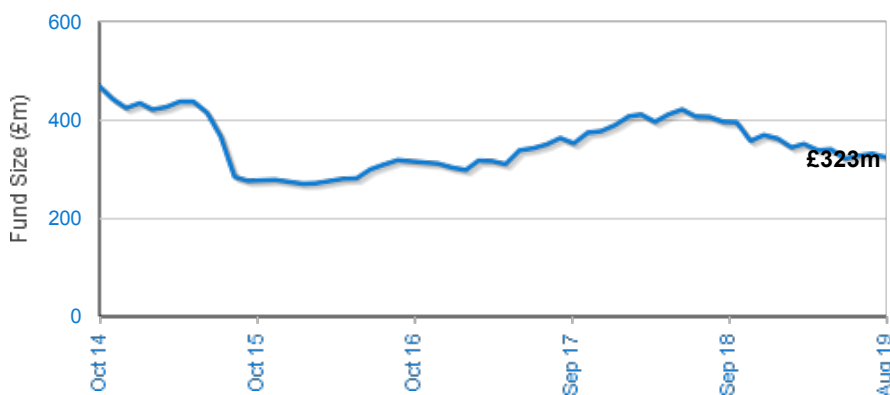
(Data as at 31 Jul 2019)



- Hong Kong & China (43%)
- Japan (22%)
- Korea (11%)
- Singapore (6%)
- Taiwan (5%)
- Money Market (2%)
- Thailand (2%)
- Australia (2%)
- Philippines (2%)
- Other (5.0%)

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

FE Risk Rating: 114

SRRI: 6

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