



Matthews Asia Small Companies Fund

I (Acc)

Commentary

Period ended 30 June 2024

Market Environment

- Markets in the region performed largely in line with our expectations in the second quarter, with Taiwan, India and China delivering positive performances. Inflation on the whole is not as high as in developed markets and in the absence of rate cuts from the U.S. Federal Reserve, a lot of positive performance was driven by fundamentals and earnings growth.
- The expansion of the artificial intelligence (AI) supply chain, led by large U.S. tech firms, was another supportive theme, particularly for semiconductor hubs in Asia. The quarter also saw volatility in India's market triggered by Prime Minister Modi's failure to win a majority in the national elections which sparked worries that the economic strategy of the country could be challenged.
- Looking more closely at the region, Taiwan was driven by demand for hardware from the U.S. while South Korea experienced weakness in cyclical sectors, and in certain areas—including electric vehicles (EV) and EV battery making – oversupply has hurt prices and equity performance. Chinese equities, meanwhile, performed well despite ongoing economic challenges, helped by the government's attempt to stabilize the real estate market and a cyclical pickup in some sectors.
- Indian equities recovered from the market's negative reaction to the election result when it became clear that Modi would form a coalition with allies. Indian local bonds also had their inaugural inclusion in the JPMorgan Government Bond Index-Emerging Markets (GBI-EM) index, which is expected to add significant foreign investor inflows in coming quarters.

Contributors and Detractors

- For the quarter ended June 30, 2024, the Asia Small Companies Fund returned 4.5%, (I Acc USD) while its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, returned 7.77% over the same period.
- On a country basis, the top three contributors to relative performance were Singapore due to zero allocation, Taiwan and India due to stock selection. The top three detractors were China/Hong Kong due to stock selection, Philippines due to an overweight allocation and the U.S. due to an off-benchmark allocation.
- On a sector basis, the top three contributors to relative performance were real estate, financials and information technology (IT) due to stock selection. The top three detractors were industrials, consumer discretionary and health care due to stock selection.
- The largest contributors to absolute performance included Shriram Finance, an Indian financial services provider, Finolex Cables, an electrical products company, and Phoenix Mills, an Indian retail stores operator. The top three detractors to performance included Flat Glass Group, a Chinese glass products manufacturer, Zhihu, a Chinese online content company, and Legend Biotech, a global, commercial-stage biopharma company.

Outlook

- Post-COVID growth in the region is starting to come through and broaden out and this will pave the way for consistent earnings growth over the next few years, in our view. We also see more upside to equity performance driven by North Asia and underpinned by earnings growth and a widening of AI-related adoption. In South Korea, capital reform initiatives are welcome though we see them having more of a longer-term impact on values.
- Markets in the region should also benefit from the onset of a monetary easing cycle in the U.S. and the decline in the value of the U.S. dollar that would likely bring, in our view. In India, we think the market will continue to progress though it is still expensive. Under the new coalition government, we may see spending on growth spread out beyond infrastructure and CapEx which could yield more opportunities in consumption.
- In China, we are cognizant to potential catalysts for growth and to potential headwinds, such as increased volatility as we approach the U.S. presidential election in November.
- We believe small companies in Asia offer long-term growth opportunities given their innovation and domestic consumption orientation while also being less exposed to regulatory and geo-political risks.

Rolling 12 Month Returns For the period ended 30/06/2024 - I (Acc)

Name	2024	2023	2022	2021	2020	Inception Date
Matthews Asia Small Companies Fund (USD)	7.48%	7.54%	-11.04%	55.78%	14.42%	30/04/2013
MSCI All Country Asia ex Japan Small Cap Index (USD)	21.20%	9.83%	-19.67%	62.52%	-4.46%	
Matthews Asia Small Companies Fund (GBP)	7.53%	3.00%	1.84%	37.86%	18.39%	30/04/2014
MSCI All Country Asia ex Japan Small Cap Index (GBP)	21.89%	4.92%	-8.63%	45.36%	-1.59%	
Matthews Asia Small Companies Fund (EUR)	9.10%	2.99%	1.73%	N.A.	N.A.	30/12/2020
MSCI All Country Asia ex Japan Small Cap Index (EUR)	23.37%	5.25%	-8.88%	N.A.	N.A.	

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

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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