



Matthews Asia

Matthews Asia Dividend Fund

I (Acc)

Commentary

Period ended 31 March 2022

For the quarter ending 31 March 2022, the Matthews Asia Dividend Fund returned -15.77%, while its benchmark, the MSCI All Country Asia Pacific Index, returned -5.91% over the same period.

Market Environment:

The first quarter of 2022 was choppy for Asian equity markets, weighed down by the spillover from the U.S. Fed's monetary tightening, continued regulatory pressure on Chinese internet companies, economic headwinds from the Russia/ Ukraine conflict and China's zero- COVID policy. Southeast Asian equities were a bright spot during the quarter, driven by market optimism regarding economic normalization and the re-opening of country borders in the region. Among Southeast Asia, Indonesia was the best performing market, with additional help from rising commodity prices. China was the worst performer, amid worries about regulatory risks and the economic consequences of its draconian COVID-related lock-down measures in several major cities. Japanese stocks struggled during the quarter, a victim of rising interest rates in the U.S., as the Japanese yen weakened substantially with the widening U.S. – Japan interest rate differential. Overall, Asian growth stocks performed poorly during the quarter on the back of rising U.S. interest rates and perceived headwinds relating to higher import costs.

Performance Contributors and Detractors:

On a country basis, our stock selection in China and Japan detracted the most from relative performance during the period. Holdings in dividend growth stocks in these two markets experienced a sharp valuation contraction, as tightening U.S. monetary policy and geopolitical uncertainties caused significant disruption to growth equities. On the other hand, our allocation to Vietnam (which is not represented in the benchmark) contributed positively to relative performance, led by strong share performance of IT service company FPT Corporation.

From a sector perspective, stock selection within consumer discretionary detracted the most from relative performance, as the portfolio's holdings in auto parts companies struggled, weighed down by a dampened profit margin outlook due to the sharp commodity price spike experienced since the onset of the Russia/Ukraine military conflict.

Turning to individual stocks, our long-time holding in Chinese auto body parts manufacturer Minth Group sharply declined, and was the biggest detractor to performance in the quarter. The rapid rise in aluminum and plastics prices after the Russian invasion of Ukraine posed challenges for Minth to pass through cost increases to its customers on a timely basis. Also, further disruption of Minth's logistics network, prolonged semiconductor chip shortages due to geopolitical events and China's recent Covid outbreak negatively impacted global auto manufacturing production and Minth's near-term business growth. Nevertheless, we believe Minth's market positioning remains favorable in the electric vehicle supply chain in the medium term, as exemplified by its strong order growth from global car manufacturers for its products used in electric vehicles. The company's planned A-share listing in the near future may provide additional capital for future growth as well.

On the positive side, our holding in Bank Rakyat, a leading Indonesian financial services company, was a contributor to absolute performance in the quarter. Similar to many other countries in Asia, Indonesia's economy has gradually reopened and resumed normal business activities, benefiting loan growth and asset quality at the bank.

Notable Portfolio Changes:

During the quarter, we increased our allocation to the financials sector by adding commercial banking businesses in developed Asia, where local monetary policy is more closely following the U.S. rate-hike cycle. These include United

Overseas Bank (UOB) in Singapore and CTBC Financial Holding in Taiwan. In addition to U.S. rate sensitivity, UOB benefited from its strong franchise in wealth management for clients in the region and CTBC enjoyed a tailwind from Taiwanese corporates' capital investment needs overseas, which was fueled by demand for semiconductors and technology products globally.

Also, we increased exposure to "re-opening" businesses, as more Asian economies are moving from a pandemic control phase into a "live with COVID-19" endemic phase. One example is our new position in Bangkok Dusit Medical Services, a premium hospital operator in Thailand. The company's earnings growth is expected to pick up pace on the back of normalization of non-Covid medical operations and the recovery of medical tourism in Thailand.

Lastly, we've sought to upgrade the quality of holdings in dividend growth stocks, as the growth-to-value rotation offered opportunities to own certain structural-growth businesses at much reduced valuation multiples – but with their long-term growth outlook intact. To fund these new positions, we exited a few stocks in the consumer discretionary and technology sectors whose underlying fundamentals, in our view, no longer represented the best risk-reward opportunities.

Outlook:

While the U.S. monetary tightening cycle was expected by market participants, renewed concerns on growth both in the U.S. and Asia are headwinds facing Asian equities at the moment. The prospect of a protracted war between Russia and Ukraine further exacerbates near-term market volatility and risks of elevated commodity prices and crippled supply chains.

In particular, China's continued implementation of its zero-COVID policy to battle the current Omicron surge has taken a toll on its economy, and as a result, corporate earnings and supply chain throughput could face downward pressure. China's policy makers have been launching a series of economic stimulus policies to counter the effects of COVID measures, and we expect such policy accommodation to accelerate in an effort to put a floor to growth. We also observe more supportive stances taken by Chinese policy makers on private enterprises, capital markets and cooperation with U.S. regulators on overseas listings.

Going forward, we are looking for businesses with a strong ability to fend off inflation cost pressures, maintain their earnings and dividend growth outlook, and that are potential beneficiaries from a stronger policy response from China, including an easing of regulatory uncertainties.

Earnings growth is not representative of the Fund's future performance.

Rolling 12 Month Returns For the period ended 31/03/2022 - I (Acc)

Name	2022	2021	2020	2019	2018	Inception Date
Matthews Asia Dividend Fund (USD)	-15.03%	57.38%	-15.95%	-5.69%	19.46%	30/04/2010
MSCI All Country Asia Pacific Index (USD)	-9.22%	52.20%	-11.84%	-4.85%	20.65%	
Matthews Asia Dividend Fund (GBP)	-10.92%	41.26%	-10.95%	1.37%	5.96%	28/02/2011
MSCI All Country Asia Pacific Index (GBP)	-4.87%	36.79%	-7.35%	2.44%	7.54%	
Matthews Asia Dividend Fund (EUR)	-10.30%	47.09%	-13.81%	3.42%	N.A.	15/05/2017
MSCI All Country Asia Pacific Index (EUR)	-4.11%	42.10%	-9.78%	4.22%	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

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