



Matthews Asia

Matthews Asia ex Japan Total Return Equity Fund

I (Acc)

Commentary

Period ended 31 December 2023

For the year ending 31 December 2023, the Matthews Asia ex Japan Total Return Equity Fund returned -8.71%, while its benchmark, the MSCI All Country Asia ex Japan Index returned 6.34%. For the fourth quarter of the year, the Fund returned 0.47% versus 6.48% for the benchmark.

Market Environment

Asian markets rallied during the final quarter of the year, helping drive full-year performance into positive territory although lagging behind the returns of other major geographies. The year started brightly with the hope of a strong recovery in the Chinese economy after reopening from prior COVID restrictions. This was, however, short lived with markets in China peaking in January and then ending the year down double digits. Issues such as the challenged property market, soft consumer sentiment, regulatory changes and geopolitical tensions all weighed on China. Elsewhere in the region, India was again a strong performer rising over 20% as it benefited in part from domestic capital flows and robust earnings delivery while the political and monetary outlooks also appear supportive. The technology heavy markets of South Korea and Taiwan also made meaningful gains in 2023.

Performance Contributors and Detractors

The portfolio's stock selection in China/Hong Kong was the largest detractor to total and relative returns in 2023. China's economic recovery has been weaker than expected and this resulted in earnings downgrades across consumer sectors and industrials. The impact of downgrades and soft investor sentiment has weighed not only on large companies but also on small companies, affecting the portfolio's stock selection negatively. Underweights and stock selection in India and South Korea also detracted from relative performance as did stock selection in Taiwan. Conversely, the portfolio's off-benchmark position in Vietnam was a positive contributor.

At the sector level, stock selection in consumer discretionary was the largest detractor to total and relative returns while overweights and stock selection in industrials and health care also detracted. On the other hand, an underweight in financials was a positive contributor.

At the holdings level, some of the largest detractors to relative performance for the year came from companies within China. Duty free retailer China Tourism Group Duty Free Corp. was the worst performer and the biggest detractor to returns due to lower than expected earnings as well as the possibility of increasing competition in its major market. Online retailer JD.com also fell significantly, given the backdrop of a soft consumer as well as rising competitive intensity in the industry. Logistics and distribution company Milkyway Chemical Supply Chain Service similarly dropped alongside weaker-than expected-earnings while consumer-oriented companies Wuliangye Yibin and Yum China detracted amid domestic macro headwinds. For Yum China, there also appear to be worries around competitive pressures.

On the flip side, FPT, a Vietnamese IT services company, and Leeno Industrial, a South Korean manufacturer of semiconductor testing consumables, were among the large contributors to total and relative returns in the period. FPT has continued to expand in Japan and other Asia information technology (IT) services markets and Leeno's growth has accelerated sequentially after hitting a trough last year digesting inventory cycles. Mega cap Samsung Electronics was also a large contributor to total returns.

Notable Portfolio Changes

In 2023, Portfolio Managers initiated several new positions and exited a number of existing positions in the countries like China and India. These changes were made to improve portfolio positioning in terms of earning prospects, stock level liquidity and country allocation. Recently, the portfolio has seen increased weight in India.

Midea, a home appliance manufacturer, is one of the new positions in China. The company has made good progress in the export market and has an extensive distribution network. Steady growth coupled with an attractive valuation and dividend yield provides defensiveness, in our view, amid a challenging market environment. Among the exits, we sold Avia Avian, an Indonesian paint manufacturer and distributor, which continues to face operational challenges from the competition and volatile raw material costs.

Outlook

Monetary policy expectations for the U.S. in 2024 have changed meaningfully in recent months, with hopes that interest rates have peaked and that cuts will return. This helped to propel markets upward as 2023 drew to a close. The trajectory of these alterations and the global demand environment will play a role in determining market movements including in Asia in the near term. China is also an important part of the equation and we continue to remain concerned about the challenges that China faces within its own economy as well as broader geopolitical tensions. While these are reasons for caution there are also reasons to be constructive, such as appealing valuations and potentially increasing policy flexibility amid a possible interest rate-cut cycle from the Fed coupled with a low earnings base that companies have potential to grow from. In India, although valuations are expensive, structural earnings growth appears intact. Technology sectors in Taiwan and South Korea are also expected to grow reasonably in 2024, supported by better inventory levels and potential resumption of strategic capex in the key areas.

The outlook for Asia appears solid although scope for volatility remains. We continue to think that a focus on investing in what we believe to be quality companies at reasonable prices that also generally provide some form of current income is well placed to deliver for clients over the long term.

Rolling 12 Month Returns For the period ended 31/12/2023 - I (Acc)

| Name | 2023 | 2022 | 2021 | 2020 | 2019 | Inception Date |
|-------------------------------------------------------|---------|---------|--------|--------|--------|----------------|
| Matthews Asia ex Japan Total Return Equity Fund (USD) | -8.71% | -26.05% | 3.96% | 51.86% | 16.73% | 30/11/2015 |
| MSCI All Country Asia ex Japan Index (USD) | 6.34% | -19.36% | -4.46% | 25.36% | 18.52% | |
| Matthews Asia ex Japan Total Return Equity Fund (GBP) | -13.63% | -17.12% | 5.36% | 46.62% | 13.21% | 30/11/2015 |
| MSCI All Country Asia ex Japan Index (GBP) | 0.34% | -9.19% | -3.58% | 21.49% | 13.94% | |
| Matthews Asia ex Japan Total Return Equity Fund (EUR) | -11.87% | -21.56% | 12.67% | N.A. | N.A. | 31/07/2020 |
| MSCI All Country Asia ex Japan Index (EUR) | 2.74% | -14.07% | 2.79% | 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.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews Asia and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information.

Information contained herein is sourced from Matthews Asia unless otherwise stated. The views and opinions in this commentary were as of the report date, subject to change and may not reflect the writer's current views. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual

stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. It should not be assumed that any investment will be profitable or will equal the performance of any securities or any sectors mentioned herein. The information does not constitute a recommendation to buy or sell any securities mentioned.

Investors should not invest in the Fund solely based on the information in this material alone. Please refer to the Prospectus for further details of the risk factors.

An investment in Matthews Asia Funds may be subject to risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Additionally, investing in emerging and frontier securities involves greater risks than investing in securities of developed markets, as issuers in these countries generally disclose less financial and other information publicly or restrict access to certain information from review by non-domestic authorities. Emerging and frontier markets tend to have less stringent and less uniform accounting, auditing and financial reporting standards, limited regulatory or governmental oversight, and limited investor protection or rights to take action against issuers, resulting in potential material risks to investors. Pandemics and other public health emergencies can result in market volatility and disruption.

Fund holdings are subject to change and risk. For current holdings, please visit each Fund's individual overview page.

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

Your use of this website confirms that you have read and agree to the [Terms and Conditions of Use](#) of this website.

The information on this website is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any security that may be referenced on or through this website. Unless otherwise specified, it is not intended to be directed to any person(s) in particular. Information from this website must not be used in any jurisdiction where prohibited by law and must not be used in a way that would be contrary to local law or legislation. No investment advice, tax advice, or legal advice is provided through this website, and you agree that this website will not be used by you for these purposes. No representation is given that shares, products, or services identified on, or accessible through, this website are suitable for any particular investor. An investment in the Matthews Asia Funds is not available to investors in all jurisdictions; it is not available to U.S. Persons.

Investors should ascertain from their professional advisers the consequences of investing in the Fund under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirement. Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before making an investment decision. The current [prospectus](#), [Key Information Document](#), [Key Investor Information Document](#), or [other offering documents](#) ("Offering Documents") contain this and other information. Applications for shares may only be made on the Fund's most recent [Offering Documents](#) which are available from Matthews International Capital Management, LLC. Please read the [Offering Documents](#) carefully before investing.

In Singapore, this website is available to, and intended for Institutional Investors under Section 304 of the Securities and Futures Act. It should not be circulated or distributed to the retail public in Singapore.

In the UK, this website is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority ("FCA"). Under no circumstances should this document be forwarded to anyone in the UK who is not a professional client or eligible counterparty as defined by the FCA. Issued in the UK by Matthews Global Investors (UK) Limited ("Matthews Asia (UK)"), which is authorised and regulated by the FCA, FRN 667893.

If you are a resident of any other country, please go to matthewsasia.com

©2024 Matthews International Capital Management, LLC