



Matthews Asia

# Matthews Asia Innovative Growth Fund

I (Acc)

## Commentary

Period ended 31 March 2022

For the quarter ending 31 March 2022, the Matthews Asia Innovative Growth Fund returned -17.89%, while its benchmark, the MSCI All Country Asia ex Japan Index, returned -7.95% over the same period.

### Market Environment:

The first quarter of 2022 was broadly negative and choppy for Asian equity markets for the third consecutive quarter, led down by Chinese internet names which remained under regulatory pressure. Economic headwinds hurt risk assets globally as surging commodity prices and higher inflation introduced rhetoric of slowing global growth and prospects of stagflation. The U.S. Federal Reserve hiked rates for the first time since 2018 and signaled toward further tightening ahead. In addition, by mid-February, markets were laser focused on the fallout and implications of Russia's unilateral, unprovoked invasion of the Ukraine.

Growth names lagged significantly behind value names across Asia, especially in Japan, as innovative companies continue to navigate supply-chain bottle necks and a less growth-conducive macro environments. These challenges serve as a reminder of the importance of holding a long-term view in Asia and the emerging markets.

### Performance Contributors and Detractors:

From a regional perspective, the Fund's overweight and stock selection in China/Hong Kong detracted the most from performance as investors sold down holdings amid concerns over China's regulatory interventions. On the other hand, the Fund's overweight to Vietnam and Indonesia contributed to relative performance.

From a sector perspective, health care, communication services and consumer discretionary detracted the most from relative performance. Consumer discretionary is our biggest sector allocation—it's where we believe innovation can flourish and where China's regulatory moves have also hit hard. Conversely, stock selection in real estate was the top contributor to performance. While we remain interested in the real estate sector, we're mindful that it is now highly regulated and companies in the sector don't have complete control over their destinies.

Looking at our holdings, some of our healthcare and communications stocks detracted the most from both absolute and relative performance. Chinese health care holdings, Wuxi Biologics, Inc., a global Contract Research, Development and Manufacturing Organization was hit by negative market sentiment when it was added to the U.S. Commerce departs Unverified List. In the communications services sector, Bilibili, Inc., a Chinese video content company, was one of the biggest detractors. The company's operational metrics from user acquisition and engagement still trend positively but China's policies to regulate the health and development of the country's internet industry continue to put pressure on names in the sector. While we are cautious about the ongoing regulations, we continue to hold Bilibili as the fundamentals of the company remain healthy and its position as one of the dominant players in its field has strengthened as a result of more regulatory scrutiny.

On the other hand, LG Energy Solution, a Korean storage battery manufacturing company and spin-off of LG Chemical, was the largest contributor to performance. We participated in LG Energy's very successful IPO in January and anticipate the majority of proceeds will aid in expanding production capacity to keep pace with rising demand for electric vehicles.

### Notable Portfolio Changes:

During the quarter, we initiated a position in Trip.com, a Chinese online travel company that provides services including accommodation reservation, transportation ticketing, packaged tours and corporate travel management.

We believe Trip.com is well positioned to benefit from the global re-opening and increased tourism.

## Outlook:

Concerns over China's regulatory environment may continue to cause more volatility in the region. We continue to monitor the situation very closely, though the valuation of Chinese internet companies looks very attractive currently despite these risks and we will continue to build positions in companies that we believe are well positioned to grow and benefit from consumption growth. Despite all the challenges, we are also increasingly optimistic about the negotiations around ADR delisting of Chinese stocks. We believe the outlook for offshore Chinese shares listed in Hong Kong is potentially positive and there is huge potential upside.

We are excited to see significant developments in countries like India, South Korea, Indonesia and other Southeast Asian countries as well. We continue to find many innovative companies in Asia at appealing levels today and the current levels continue to provide fertile hunting ground for companies that are innovating in areas such as business strategy, products and services, marketing and human capital.

Current and future holdings are subject to change and risk.

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

Name	2022	2021	2020	2019	2018	Inception Date
Matthews Asia Innovative Growth Fund (USD)	-27.78%	N.A.	N.A.	N.A.	N.A.	23/03/2021
MSCI All Country Asia ex Japan Index (USD)	-14.42%	N.A.	N.A.	N.A.	N.A.	
Matthews Asia Innovative Growth Fund (GBP)	-24.16%	N.A.	N.A.	N.A.	N.A.	23/03/2021
MSCI All Country Asia ex Japan Index (GBP)	-10.32%	N.A.	N.A.	N.A.	N.A.	

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

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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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