



Matthews Asia

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# Matthews Asia Small Companies Fund

I (Acc)

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## Commentary

Period ended 31 March 2022

For the first quarter of the year, the Fund returned -10.95%, while its benchmark, the MSCI Emerging Markets Small Cap Index, returned -6.86% over the same period.

### Market Environment:

The first quarter brought sharp changes to the Asia small-cap landscape. The notion that inflation is more embedded than transitory gained traction while Russia's invasion of Ukraine led to a rapid reassessment of geopolitical, energy and defense priorities globally. The market sentiment this created didn't support growth stocks and energy and commodity prices rallied on concerns over supply disruptions. Weakness in Chinese equities also continued, fueled by the ongoing delisting threat to Chinese ADRs, economic cost of China's zero-COVID policy and concerns over China's stance over the Ukraine invasion.

Energy was the best performing sector among Asia-small cap equity indexes while health care and consumer discretionary were the worst performers. As a large energy importer, many of the markets of Asia, including South Korea and Taiwan, were negatively impacted by rising oil and gas prices. The better performers were in Southeast Asia, including Indonesia, Thailand and Singapore.

Asian currencies mostly held their own against the U.S. dollar. The Thai baht and the Chinese renminbi were the best performers, while the worst performers were from energy importers and included the Japanese yen, the Taiwanese dollar, the Indian rupee and the Korean won.

### Performance Contributors and Detractors:

From a country perspective, the portfolio's overweight allocation and stock selection within India contributed the most to the Fund's relative performance during the quarter, followed by Indonesia. On the other hand, the portfolio's overweight allocation and stock selection within China/Hong Kong detracted the most from the Fund's absolute and relative performance.

At the sector level, stock selection within consumer discretionary, overweight in financials and underweight in communication services added to performance. Consumer discretionary stocks contributed most to performance during the quarter as economic activity in general and consumer services spending in areas such as travel, in-person shopping and hotels, in particular, rebounded strongly in Asia and elsewhere. On the other hand, stock selection within information technology, industrials and health care detracted most from performance. In light of market's fast-evolving rate expectations and the energy and commodity price spikes during the quarter, the rotation away from expensive growth stocks continued apace. This has particularly negatively impacted high growth sectors such as technology and biotech, which had done well last year.

Among individual holdings, positive contributors included Bandhan Bank, India's largest microfinance lender. After several quarters of turbulence on the back of COVID lockdowns and general weakness in India's rural economy, Bandhan's operations have seemingly stabilized and problem assets mostly provided for, giving a positive background for Bandhan's stock price. On the other hand, the portfolio's health-care holdings in China, including Peijia Medical, Medlive Technology and Innovent Biologics, were among the biggest detractors. Innovent Biologics was impacted by potential changes in clinical trial design requirements for the U.S Food and Drug Administration (FDA).

### Notable Portfolio Changes:

During the quarter, the fund initiated new positions in holdings including Security Bank, DGB Financial Group and BNK Financial Group. We also added to existing positions, including Bandhan Bank. As the Indian economy bounces back to normalcy, we expect Bandhan's formidable rural franchise to deliver strong growth and profitability in the coming quarters and years.

In the quarter, our exits included small stub positions held in Indian Railway Catering & Tourism and Wilcon Depot from which we took profits.

## Outlook:

Fed moves to raise interest rates and shrink its asset portfolio, together with market expectations for the Fed's monetary tightening plan, remain the most important variables to watch given their near-term implications for regional, sector and style performance. From a portfolio standpoint, we will look to maintain a balance between growth and value exposure while staying broadly diversified across sectors and countries. We remain watchful about the impact of inflation on corporate earnings, which we expect to moderate in 2022.

Across Asia emerging markets we believe there is sufficient liquidity. While we have not seen much uptake in credit, any pickup in credit issuance should further support economic growth. In many parts of Asia, COVID-19 vaccination is progressing well and provides hope for economic activity normalization in the coming quarters but China's zero-COVID policy needs watching. Barring another serious pandemic wave, we believe small companies are poised for attractive growth at attractive valuations.

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

| Name   | 2022   | 2021   | 2020    | 2019    | 2018   | Inception Date |
|--|--------|--------|---------|---------|--------|----------------|
| Matthews Asia Small Companies Fund (USD)             | 8.97%  | 78.66% | -12.26% | -8.94%  | 21.76% | 30/04/2013     |
| MSCI All Country Asia ex Japan Small Cap Index (USD) | 3.07%  | 87.24% | -26.57% | -11.29% | 18.13% |                |
| Matthews Asia Small Companies Fund (GBP)             | 14.38% | 60.25% | -7.03%  | -2.12%  | 8.00%  | 30/04/2014     |
| MSCI All Country Asia ex Japan Small Cap Index (GBP) | 8.00%  | 68.28% | -22.84% | -4.50%  | 5.30%  |                |
| Matthews Asia Small Companies Fund (EUR)             | 15.14% | N.A.   | N.A.    | N.A.    | N.A.   | 30/12/2020     |
| MSCI All Country Asia ex Japan Small Cap Index (EUR) | 8.87%  | N.A.   | N.A.    | 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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