



Matthews China Small Companies Fund

I (Acc)

Commentary

Period ended 30 June 2024

Market Environment

- China's market performed well in the second quarter, helped by positive sentiment generated by government initiatives to support the real estate sector and strong exports which compensated for lackluster domestic consumption.
- The government's move to enable provinces to buy real estate inventory from developers and use it for social housing has been notable as it should begin to take the stress off developers' balance sheets and provide a meaningful tailwind. That said, China remains an economy with many challenges and macro indicators remained mixed. On the retail side there has been improvement, but overall consumer sentiment is still quite weak.
- In the quarter, we focused on companies that are producing better earnings. In large sectors like digital and e-commerce companies, there have been improvements on the revenue side. More generally, margins are starting to widen, and some companies are making narrower losses in some of their higher growth areas.

Contributors and Detractors

- For the quarter ended June 30, 2024, the China Small Companies Fund returned -1.9%, (I Acc USD) while its benchmark, the MSCI China Small Cap Index, returned 1.98% over the same period.
- On a sector basis, the top three contributors to relative performance were real estate due to stock selection, industrials due to an overweight allocation and health care due to an underweight allocation. The top three detractors were consumer discretionary, information technology (IT) and materials due to stock selection.
- The largest contributors to absolute performance during the quarter included Yangzijiang Shipbuilding Holdings, one of China's largest privately owned shipbuilding company, Midea Real Estate Holding Limited, Chinese real estate company and SITC International Holdings, a marine shipping services provider. The top three detractors to performance included Alchip Technologies, a silicon design and manufacturing services provider, Tongcheng Travel Holdings, an online travel agency and ACM Research, a semiconductor equipment company which provides a variety of equipment used in China's foundries.

Outlook

- China continues to face several economic and external headwinds; however, we see opportunities in stocks that are improving earnings and in companies with robust dividend yield support and share buybacks.
- While there might be moderate catalysts for growth on the macro front, in our view there is unlikely to be a big fiscal or monetary stimulus for the economy as such moves in the past have left China with large debt burdens.
- In terms of geopolitics, and particularly related to the upcoming U.S. presidential election, we think a lot of expectations are priced into the markets but there will likely be volatility as signals emerge over the potential winner. It could be that the election provides an opportunity to reduce positions in China or, as we near the election, valuations in China equities may decline and the market may overreact to the election outcome, in which case there could be opportunities to increase exposure.

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

Name	2024	2023	2022	2021	2020	Inception Date
Matthews China Small Companies Fund (USD)	-10.20%	-20.87%	-32.32%	31.74%	71.81%	29/02/2012
MSCI China Small Cap Index (USD)	-14.07%	-25.81%	-33.53%	52.68%	-2.99%	
Matthews China Small Companies Fund (GBP)	-10.17%	-24.24%	-22.51%	16.60%	N.A.	30/01/2020

MSCI China Small Cap Index - GBP (GBP)	-13.58%	-29.13%	-24.39%	36.56%	N.A.	
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Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg

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