Matthews Asia

Matthews China Fund

I (Acc)

Commentary

Period ended 31 March 2025

Market Environment

- China was the best-performing major equity market in the first quarter. Offshore markets performed well, due in part to the surprise success of the Chinese artificial intelligence (AI) open-source platform DeepSeek, which upended assumptions about the high-capex dominance of U.S. based-AI services. Xi Jinping's pivot to publicly back China's private sector and big tech firms like Tencent and Albaba also helped bolster offshore markets.
- While offshore markets did well, mainland markets—representative of China's real estate, consumer and export sectors—were largely flat. We have yet to see a pickup in growth in China's domestic economy, as the property market remained challenged and business and consumer confidence remained weak. Consequently, earnings growth of mainland stocks generally stayed subdued and didn't provide a catalyst for equity price upside.

Contributors and Detractors

- For the quarter ended March 31, 2025, the China Fund returned 9.83%, (I Acc USD) while its benchmark, the MSCI China Index, returned 15.06% over the same period.
- On a sector basis, the top two contributors to relative performance were utilities due to zero allocation and energy due to stock selection. The top three detractors were information technology (IT), consumer discretionary and real estate due to stock selection.
- The largest contributors to absolute performance included Alibaba Group, an e-commerce platform company, Tencent Holdings, an online gaming and social media conglomerate, and Pinduoduo (PDD), one of China's largest e- commerce platforms that started its businesses with a focus on lower- tier city, price sensitive consumers. The top three detractors included Lenovo Group Ltd., a maker of PCs and consumer electronics, Times China Holdings, a real estate development company, and BYD Electronic (International) Co., a unit of electric vehicle (EV) maker BYD Company that manufactures mobile handset components.

Outlook

- U.S. tariff policy and how it impacts China's economy and markets will be an important variable in the outlook for Chinese equities, in our view. Manufacturing sectors that count the U.S. as a major customer will continue to be impacted while domestic-oriented companies should be relatively more insulated.
- The health of China's domestic economy is the biggest factor that will influence the drivers of returns in China. While earnings growth was uneven during the quarter, there were encouraging signs of economic recovery, alongside promising innovation in AI and technology. That said, consumer sentiment is still weak, and for it strengthen we will need to see stronger job creation and more wealth generation.
- We also view the government's increasingly pro-business stance as a positive, potentially signaling the start of a long-term cycle where private entrepreneurs regain confidence to invest in China's economy. While it's still early, it may be timely. When the global economy is under pressure, we believe domestic-driven economies are more resilient than markets that are heavily exposed to global trade.

Rolling 12 Month Returns For the period ended 31/03/2025 - I (Acc)

Name	2025	2024	2023	2022	2021	Inception Date
Matthews China Fund (USD)	33.78%	-21.52%	-6.05%	-29.94%	61.17%	26/02/2010
MSCI China Index (USD)	40.79%	-16.90%	-4.57%	-32.47%	43.81%	
Matthews China Fund (GBP)	30.57%	-23.22%	-0.30%	-26.51%	44.59%	28/02/2011

MSCI China Index (GBP)	37.79%	-18.66%	1.62%	-29.24%	29.24%	

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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