

Matthews Emerging Markets Discovery Fund

I (Acc)

Commentary

Period ended 31 March 2025

Market Environment

- Emerging markets performed better than expected in the first quarter of 2025 thanks in part to a more favorable macro environment. Many investors had expected the strength in the dollar and U.S. equity market to continue into 2025 and contribute to a weaker performance in the asset class but that didn't happen.
- At the country level, performance was mixed. China, Brazil and Mexico led the markets higher while Taiwan and India faced pressure. China technology shares were buoyed by the success of the DeepSeek artificial intelligence (AI) platform which in turn spurred a selloff in U.S. big tech stocks and negatively impacted Taiwan, a market that is almost a direct play in a narrow area of technology driven by AI.
- India's market was challenged as earnings disappointed amid softening economic growth caused by weaker government spending and tight monetary policy. In more peripheral markets, Southeast Asia should have benefited from a weakening U.S. dollar but was hurt by political disruption while Latin America delivered robust returns supported by the macro environment.
- As the quarter progressed, optimism toward emerging markets as whole receded as U.S. economic data deteriorated and concerns gathered over the prospect of new far-ranging reciprocal U.S. tariffs and a trade-related global economic slowdown.

Contributors and Detractors

- For the quarter ended March 31, 2025, the Emerging Markets Discovery Fund returned -2.22%, (I Acc USD) while its benchmark, the MSCI Emerging Markets Small Cap Index, returned -5.41% over the same period.
- On a country basis, the top three contributors to relative performance were India due to stock selection, Brazil due to an overweight allocation and stock selection, and China/Hong Kong due to an overweight allocation. The top three detractors were Taiwan, Poland and the Philippines due to stock selection.
- On a sector basis, the top three contributors to relative performance were consumer discretionary, health care and communication services due to stock selection. The top three detractors were information technology (IT) due to stock selection, materials due to an underweight allocation and consumer staples due to an underweight allocation and stock selection.
- The largest contributors to absolute performance included YDUQS Participacoes, a Brazilian on-campus and distance-learning education company, Hugel, a South Korean maker of beauty and cosmetics products, and Full Truck Alliance, a Chinese freight marketplace operator. The top three detractors included Bandhan Bank, an Indian commercial bank, Wiwynn, a Taiwanese computer manufacturing company, and Senco Gold Ltd., an Indian jewelry retailer and supplier.

Outlook

- Front and center to our outlook is the impact of U.S. tariffs on the global economy and markets. The Trump administration's tariff policy has shown itself to be fluid and unpredictable. We may see some new tariffs rolled back in certain markets and a different picture coming into focus in the coming weeks and months.
- At this point, what we can conclude is that from a U.S. perspective, the administration's tariff policy is growth negative and inflation positive. It probably means that inflation stays around 3% and that has implications for the Federal Reserve's interest rate policy and in turn for emerging markets.
- When the global economy is under pressure, we believe domestic drivers are more important than global drivers. For Asia, that means we need to be cautious of markets that are correlated to the U.S. and of companies that are selling into the US. Domestic demand-driven markets like India and China, which rely less on the global economy, we think will be more resilient.
- We believe emerging markets will be supported by a pick-up in earnings on valuations that are still cheap. Thus, we think there are opportunities for experienced active managers to pick their spots and focus on fundamentals.

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

Name	2025	2024	2023	2022	2021	Inception Date
Matthews Emerging Markets Discovery Fund (USD)	-7.18%	N.A.	N.A.	N.A.	N.A.	15/09/2023
MSCI Emerging Markets Small Cap Index (USD)	-1.56%	N.A.	N.A.	N.A.	N.A.	
Matthews Emerging Markets Discovery Fund (GBP)	-9.37%	N.A.	N.A.	N.A.	N.A.	15/09/2023
MSCI Emerging Markets Small Cap Index (GBP)	-3.65%	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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