

Matthews Emerging Markets ex China Equity 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. Brazil and Mexico led markets higher while Taiwan and India faced pressure. The success of China's DeepSeek artificial intelligence (AI) platform spurred a selloff in U.S. big tech stocks and which in turn negatively impacted Taiwan, a market that is almost a direct play in a narrow area of technology driven by AI. South Korea posted a respectable gain as valuations declined and opportunities emerged unrelated to the global cycle.
- 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 helped by the macro environment and a generally supportive political landscape.
- 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 ex China Equity Fund returned -3.91%, (I Acc USD) while its benchmark, the MSCI Emerging Markets ex China Index, returned -1.62% over the same period.
- On a country basis, the top three contributors to relative performance were Taiwan due to an underweight allocation, Peru due to stock selection and United Arab Emirates due to an overweight allocation. The top three detractors were Indonesia and Brazil due to stock selection and South Africa due to an underweight allocation and stock selection.
- On a sector basis, the top three contributors to relative performance were information technology (IT) due to an underweight allocation, real estate and utilities due to stock selection. The top three detractors were communication services, industrials and consumer discretionary due to stock selection.
- The largest contributors to absolute performance included Gentera SAB de CV, a Mexican financial services company, Compania de Minas Buenaventura SAA, a Peruvian mining company, and Samsung Electronics, a South Korean semiconductor and consumer electronics maker. The top three detractors included Taiwan Semiconductor Manufacturing Co. (TSMC), a globally leading chipmaker, PT Indosat Tbk, an Indonesian telecommunications company, and Globant, an Argentinian IT and software development company.

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, which rely less on the global economy, we think will be more resilient.

- Many investors are expecting the Federal Reserve to maintain a rate-cutting trajectory this year which would be a tailwind for emerging markets. We also see a pickup in earnings on valuations that are still cheap. So we think there are opportunities for experienced active managers in the asset class 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 ex China Equity Fund (USD)	-1.90%	N.A.	N.A.	N.A.	N.A.	15/09/2023
MSCI Emerging Markets ex China Index (USD)	-1.53%	N.A.	N.A.	N.A.	N.A.	
Matthews Emerging Markets ex China Equity Fund (GBP)	-4.25%	N.A.	N.A.	N.A.	N.A.	15/09/2023
MSCI Emerging Markets ex China Index (GBP)	-3.63%	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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