Matthews Asia

Matthews India Fund

I (Acc)

Commentary

Period ended 31 March 2025

Market Environment

- India's market was challenged as earnings disappointed amid softening economic growth. Since the formation of the coalition government last year, Prime Minister Modi's supply side growth agenda has been somewhat diluted and there has been a drop in government fiscal spend. Monetary policy has also been relatively tight, and this has impacted businesses and consumers, particularly as it relates to unsecured credit.
- There was a large differentiation across sectors in terms of where the earnings revisions were made during the quarter. Larger financials and telecommunications held up well while the pain was felt acutely in infrastructure and consumer discretionary areas. Consumer staples were also weak.
- Negative sentiment rose across the board including for quality large-cap stocks while small- and mid-cap stocks in particular experienced steep corrections. While valuations have come down and this rebalancing is to be welcomed, we think there is more downside for mid- and small-cap stocks as they were trading on very high valuations.

Contributors and Detractors

- For the quarter ended March 31, 2025, the India Fund returned -6.85%, (I Acc USD) while its benchmark, the MSCI India Index, returned -2.90% over the same period.
- On a sector basis, the top two contributors to relative performance were financials due to an overweight allocation and real estate due to zero allocation. The top three detractors were information technology (IT), health care and industrials due to stock selection.
- The largest contributors to absolute performance included Bajaj Finance, a financial services company, Shriram Finance, a financials company and Kotak Mahindra Bank, a banking and financial services company. The top three detractors included Infosys, a consulting services firm, Eternal Ltd., operator of Zomato, a leading online restaurant booking and food delivery company, and Zaggle Prepaid Ocean Service, a financial technology company.

Outlook

- The rolling out of new U.S. tariffs may cause volatility in India's markets and impact some of the country's exports to the U.S. It could also disrupt global supply chains for goods and services that have end markets in the U.S that India is part of. India's exports could be isolated as its IT services and generic pharmaceuticals may fall outside the tariff regime.
- The good news is that Indian stock valuations have dropped such that they are in line with long-term averages which should help support equity prices going forward. In addition, analysts are beginning to upgrade economic growth estimates on the back of a slight pickup in private consumption and expectations of renewed government expenditures and an easing monetary environment.
- Recent budget announcements also highlight a middle-class tax cut which could add small marginal support to consumption, especially in rural areas. In a global economy that is increasingly becoming subject to tariffs and trade barriers, we think domestic demand-driven markets like India will potentially be more resilient than market that are more closely correlated to the U.S.

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

Name	2025	2024	2023	2022	2021	Inception Date
Matthews India Fund (USD)	3.78%	37.44%	-4.22%	10.35%	86.27%	30/06/2011

MSCI India Index (USD)	2.86%	37.35%	-11.71%	18.25%	76.99%	
Matthews India Fund (GBP)	1.27%	34.51%	2.10%	15.77%	67.12%	30/06/2011
MSCI India Index (GBP)	0.67%	34.43%	-5.98%	23.91%	59.06%	

Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg

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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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