



Matthews Asia™

Matthews Asia Dividend Fund

Period ended March 31, 2018

For the quarter ending March 31, 2018, the Matthews Asia Dividend Fund returned -0.74% (Investor Class), while its benchmark, the MSCI All Country Asia Pacific Index, returned 0.04%.

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Market Environment:

Asia's equity markets were significantly more volatile during the first quarter of 2018, breaking the upward trend of the strong bull market rally we saw in 2017. Uncertainties surrounding the U.S. interest rate hike cycle and the specter of a full-blown trade war between the U.S. and China became the two main sources of the sharp market volatility. Both factors negatively impacted the share performance of Asia equities, despite their improving fundamentals and strong earnings delivery.

Performance Contributors and Detractors:

During the quarter, the Fund's holdings in Nitori Group, a Japanese furniture retail chain operator, was among the top performance contributors. Nitori operates a fully integrated retailing business model, and stands out against its competition by offering innovative household products at affordable price points. Due to its strong management execution, the company has steadily gained market share within Japan. More recently, it also began accelerating its overseas business expansion, including in new key markets such as mainland China. Because Nitori sources most of its products from overseas production bases, it is a "net importer" from a currency exposure perspective. During the quarter, the yen's strength benefited importers like Nitori, and its share price did well accordingly.

Conversely, Chinese auto parts manufacturer Minth Group was among the top Fund performance detractors during the quarter. After a very strong share performance in 2017, market expectations were high for the firm to deliver further earnings upside surprises. While Minth did deliver—showing 21% revenue growth and 18% net profit growth—it actually missed the market consensus and the stock was sold off. While the near-term sentiment over the stock could remain weak, we still favor Minth's long-term growth potential, anchored by its successful product range expansion and its deepening penetration into global auto original equipment manufacturer (OEM) customers. We view the current valuation on the stock as attractive, and it remains a top portfolio holding.

Notable Portfolio Changes:

During the quarter, we initiated a position in Chinese insurance brokerage firm Fanhua. Over the last two years Fanhua's management successfully restructured its insurance distribution business mix, and moved away from low-margin, auto insurance to focus more on growing its life insurance distribution business. It has especially concentrated on protection-type products which carry higher margin and for which the underlying commission income is more frequently recurring. With these changes Fanhua's profitability has begun improving significantly. Since the insurance distribution business is one that is capital-light and does not bear underwriting risk, Fanhua's ability to pay higher dividends is also enhanced with improving profitability. It recently announced a new dividend policy that raised its minimum dividend payout from 30% to 50% and instituted a quarterly dividend payment schedule. At the current valuation, the stock offers an attractive dividend yield pickup with a strong underlying profit growth.

Average Annual Total Returns - Investor Class (3/31/2018)

1-year 19.71%
3-year 10.00%
5-year 8.35%
10-year 9.29%
Inception (10/31/06) 10.11%

Gross Expense Ratio ¹

1.06%

¹ Matthews Asia Funds' 12b-1 Plan (the "Plan") is inactive. Although the Plan currently is not active, it is reviewed by the Board annually in case the Board decides to re-activate the Plan. The Plan would not be re-activated without prior notice to shareholders and any amounts payable under the Plan would be subject to applicable operating expense limitations. If the Plan were reactivated, the fee would be up to 0.25% for each of the Investor Class and Institutional Class, respectively.

All performance quoted is past performance and is no guarantee of future results. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not

During the quarter, we exited a few positions, including two Chinese domestic A-share firms, namely Kweichow Moutai and Midea Group. While we continue to like the business fundamentals of both, which saw strong share performance in 2017, current valuation multiples no longer offer as attractive a risk/reward profile as before. We decided to redeploy capital elsewhere.

Outlook:

Currently, the strong fundamentals and attractive valuations for companies in Asia are being overshadowed by market concerns over a potential trade war between the U.S. and China. If not averted, this trade tussle could have broader economic and geopolitical implications. In terms of our strategy, we think it is prudent to increase the portfolio's defensiveness by introducing additional high dividend-yield stocks with stable underlying cash flow, to balance the portfolio's exposure to dividend growth names. While the near-term market conditions could remain volatile, from a dividend perspective the sustained earnings growth and improved cash flow profile of many firms in the region have provided a solid foundation for the accelerating growth of underlying dividends.

As of 3/31/2018, the securities mentioned comprised the Matthews Asia Dividend Fund in the following percentages: Nitori Holdings Co., Ltd. 2.7%; Minth Group, Ltd. 4.0% and Fanhua, Inc. 1.0%. The Fund held no positions in Midea Group Co., Ltd. or Kweichow Moutai Co., Ltd. Current and future portfolio holdings are subject to risk.

There is no guarantee that a company will pay or continue to increase dividends.

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You should consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds carefully before making an investment decision. This and other information about the Funds is contained in the [prospectus](#) or [summary prospectus](#), which may also be obtained by calling 800-789-ASIA (2742). Please read the [prospectus](#) carefully before you invest or send money as it explains the risks associated with investing in international and emerging markets. These include risks related to social and political instability, market illiquidity and currency volatility. Investing in foreign securities may involve certain additional risks, exchange rate fluctuations, less liquidity, greater volatility and less regulation. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. Single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of

been waived. Please see the [Fund's most recent month-end performance](#).

Yield as of 3/31/2018

30-day Yield: 1.21%

Dividend Yield: 2.62%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 9/30/17, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate. Source: BNY Mellon Investment Servicing (US) Inc.

The Dividend Yield (trailing) for the portfolio is the weighted average sum of the dividends paid by each equity security held by the Fund over the last 12 months divided by the current price as of report date. The annualized dividend yield for the Fund is for the equity-only portion of the portfolio. Please note that this is based on gross equity portfolio holdings and does not reflect the actual yield an investor in the Fund would receive. Past yields are no guarantee of future yields. Sources: FactSet Research Systems, Bloomberg, Matthews

a concentration in a specific sector or geographic region. Investing in small companies is more risky and more volatile than investing in large companies.

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