



Matthews Asia Small Companies Fund

Choose a Share Class: ▼

Period ended June 30, 2018

For the first half of 2018, the Matthews Asia Small Companies Fund returned -1.05% (Investor Class), while its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, returned -7.14%. For the quarter ending June 30, the Fund returned -2.92% (Investor Class), compared to the benchmark return of -6.73% over the same period.

Market Environment:

Asian markets were volatile early in the year and became relatively steady by April and May. Investor sentiment turned fragile, however, late in the second quarter due to several events. As anticipated, the U.S. Federal Reserve raised interest rates by 25 basis points (0.25%) in mid-June. Amid this rising rate environment, the strong U.S. dollar coupled with higher oil prices further pressured broader emerging market equities. Within Asia, Indonesia, India and the Philippines tend to be more vulnerable due to their relative dependence on foreign currencies that can affect trade deficits. Meanwhile, trade war rhetoric between the U.S. and China also caused further volatility for Chinese equities as concerns spread over the potential negative economic impact to global corporations. Lastly, after months of back and forth regarding bilateral U.S.-North Korea talks, the leaders of both countries held a summit meeting in June and signed an agreement to work toward nuclear denuclearization of the Korean Peninsula.

Performance Contributors and Detractors:

Our holdings from China and South Korea were broadly positive performance contributors for the first half of the year. During the second quarter, the portfolio's Chinese and Indian holdings performed considerably better than holdings from elsewhere in the region, which suffered due to the challenging environment. Our stock selection in China and India also significantly contributed to both the portfolio's absolute and relative performance for the second quarter. Indian pharmaceutical and chemical company Merck, for example, performed strongly due to improving fundamentals and asset divestment news at the parent company level.

By sector, several portfolio holdings in health care and information technology were bright spots due to company-specific factors during the uneasy second quarter. Chilisin Electronics, a Taiwan-based manufacturer and distributor of inductors and coils, performed robustly thanks to the company's bold industry consolidation moves that may pave the way for future growth.

Some consumer discretionary and financials holdings were among the weakest performers within the portfolio for the second quarter. The stock prices of Hong Kong's Guotai Junan International and Ho Chi Minh City Securities in Vietnam—both brokerage businesses—experienced sharp declines due to a high correlation between their profitability and the performance of capital markets. In addition, two of our largest detractors to performance for the second quarter were Valuetronics Holdings, a Hong Kong-based electronics manufacturing service provider, and Japan's CKD, a manufacturer of factory automation equipment. Shares of both firms experienced sharp price corrections following pullbacks in revenue momentum in some segments of their businesses.

Notable Portfolio Changes:

During the second quarter, we exited several China positions for a variety of reasons. We shed our entire position in GDS Holdings, an independent data center operator, due to its robust share price run-up. As this company's market capitalization reached mid-cap status, we opted to invest proceeds in other less richly priced companies. We also exited Lifetech Scientific as its share price rose sharply due to a recent change among its major shareholders. We believe that such large and sudden increases in valuations were not supported by fundamentals and chose to sell our stake and lock in profits. Unfortunately, not all of our holdings performed up to our expectations. We exited Beijing Urban Construction, a mass transit design and engineering company, due to our concerns over capital allocation decisions that we felt could compromise the company's cash flow and profitability.

Additionally, we took profits by trimming other holdings in Taiwan and South Korea that had appreciated significantly in price. We exited our long-term holdings in Ultrajaya, an Indonesian UHT milk producer. Although we deem Ultrajaya as a reasonably well-run company, we are concerned that competition will intensify, which could lead to margin contraction.

We introduced over a dozen new companies to the portfolio as we find their long-term growth trajectories attractive and supported by favorable industry tailwinds. Saigon Cargo Service Corporation is one of Vietnam's leading air cargo service providers. We believe the company is well-positioned to meet the growing air cargo handling throughputs in the country as trade volume grows. Similarly, we initiated a position in SUNeVision, one of Hong Kong's leading independent data center operators. The company is well-positioned to capture the burgeoning data traffic in the region. After the recent correction of the share price, the risk-reward profile turned more favorable in our opinion.

Outlook:

Similar to what we observed during the first quarter, concerns over rising interest rates and dynamic geopolitical factors appear to have heightened market volatility. Such sentiment could persist for the remainder of 2018. Over the medium term, many Asian countries are poised to hold elections in the next 12 to 18 months, which can add to market uncertainty. While we are mindful of these challenges, we are encouraged by the earnings recovery thus far among many Asian corporations. We remain constructive on businesses that are well-positioned to address the needs of Asia's evolving domestic demand from services to infrastructure to technologies. As we meet with corporate managers across Asia on our research trips, we find that many small-cap companies are at the forefront of delivering innovative products and solutions to households and businesses. Such a dynamic and expansive investment landscape is a reminder of how Asia's entrepreneurialism has strived and progressed in the past decade. We look to continue uncovering attractive investment candidates that possess the attributes to grow and compound in size in a sustainable manner for the long run.

As of 6/30/2018, the securities mentioned comprised the Matthews Asia Small Companies Fund in the following percentages: Merck, Ltd. 1.6%; Chilisin Electronics Corp. 1.1%; Guotai Junan International Holdings, Ltd., 1.0%; Ho Chi Minh City Securities Corp., 0.9%; Valuetronics Holdings, Ltd. 1.2%; CKD Corp. 1.2%; Saigon Cargo Service Corp., 1.0%; and SUNeVision Holdings, Ltd., 1.4%. The Fund held no positions in GDS Holdings, Ltd.; Lifetech Scientific Corp.; Beijing Urban Construction Design & Development Group Co., Ltd.; or Ultrajaya Milk Industry & Trading Co. Current and future portfolio holdings are subject to risk.

Average Annual Total Returns - Investor Class (6/30/2018)

1-year 12.87%
3-year 2.87%
5-year 5.90%
10-year n.a.

Inception (9/15/08) 11.74%

Gross Expense Ratio

1.49%

After fee waiver and expense reimbursement: 1.46% ¹

¹ Matthews has contractually agreed (i) to waive fees and reimburse expenses to the extent needed to limit Total Annual Fund Operating Expenses (excluding Rule 12b-1 fees, taxes, interest, brokerage commissions, short sale dividend expenses, expenses incurred in connection with any merger or reorganization or extraordinary expenses such as litigation) of the Institutional Class (which is offered through a separate prospectus to eligible investors) to 1.25%, first by waiving class specific expenses (i.e., shareholder service fees specific to a particular class) of the Institutional Class and then, to the extent necessary, by waiving non-class specific expenses of the Institutional Class, and (ii) if any Fund-wide expenses (i.e., expenses that apply to both the Institutional Class and the Investor Class) are waived for the Institutional Class to maintain the 1.25% expense limitation, to waive an equal amount (in annual percentage terms) of those same expenses for the Investor Class. The Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may vary from year to year and will in some years exceed 1.25%. If the operating expenses fall below the expense limitation in a year within three years after Matthews has made a waiver or reimbursement, the Fund may reimburse Matthews up to an amount that does not cause the expenses for that year to exceed the lesser of (i) the expense limitation applicable at the time of that fee waiver and/or expense reimbursement or (ii) the expense limitation in effect at the time of recoupment. This agreement will remain in place until April 30, 2019 and may be terminated at any time by the Board of Trustees on behalf of the Fund on 60 days' written notice to Matthews. Matthews may decline to renew this agreement by written notice to the Trust at least 30 days before its annual expiration date.

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 been waived. Please see the Fund's most recent month-end performance.

Investing in small- and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than larger companies. Visit our [Glossary of Terms](#) page for definitions and additional information.

The views and opinions in this commentary were as of the report date, subject to change and may not reflect current views. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. It should not be assumed that any investment will be profitable or will equal the performance of any securities or any sectors mentioned herein. The information does not constitute a recommendation to buy or sell any securities mentioned.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Neither the funds nor the Investment Advisor accept any liability for losses either direct or consequential caused by the use of this information.

[Prospectus](#) | [Privacy Statement](#) | [Cookie Settings](#)

Use of this site signifies that you accept our [Terms and Conditions](#)

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

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

Matthews Asia Funds are distributed in the United States by Foreside Funds Distributors LLC, Berwyn, PA

Matthews Asia Funds are distributed in Latin America by HMC Partners

© 2018 Matthews International Capital Management, LLC

Powered by a SySys[®] data & content management system. [Cookie Settings](#)