



Matthews Asia Small Companies Fund

Choose a Share Class: Investor ▼

Period ended March 31, 2019

For the quarter ending March 31, 2019, the Matthews Asia Small Companies Fund returned 9.48% (Investor Class), outperforming its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, which returned 8.54%.

Market Environment:

During the first quarter of the year, market sentiment reversed sharply from the fourth quarter of 2018 as the U.S. Federal Reserve indicated it would not raise rates in 2019. Additionally, there was increased optimism that the U.S. and China would reach a trade deal after nearly one year of back-and-forth trade negotiations that cast major overhangs for emerging and Asian markets. Thus far this year, most Asian currencies strengthened against the U.S. dollar and Asian equities generally registered reasonable gains. The market also became more constructive on China's growth prospects following the government's easing posture. Chinese equities were the best performers in the Asia region at the start of this year. Indian markets on the other hand were somewhat volatile leading up to the country's general elections. Geopolitical tensions between India and Pakistan also rocked market sentiment. In Indonesia, the country geared up for its presidential election in April. Meanwhile, Thailand's general election took place in late March with the Pheu Thai Party unofficially winning the most parliamentary seats; however, official election results are not expected until May.

Performance Contributors and Detractors:

The portfolio's absolute returns were largely supported by holdings from China/Hong Kong and Taiwan as share prices recovered for most of these companies after previously experiencing steep sell-offs due to macroeconomic and geopolitical concerns during the second half of 2018. The portfolio's holdings in Chinese companies that possess a strong domestically oriented franchise and revenue streams performed strongly due to solid earnings results. Times China Holdings, a real estate developer focused on southern China, was the largest contributor to the Fund's absolute performance. It had consistently shown great project execution capabilities and recent strong earnings further boosted investor confidence in the company.

Meanwhile, some holdings in Vietnam detracted from performance due to negative developments in their operations that might adversely impact growth momentum. As a result, valuation multiples for some Vietnamese holdings contracted. Vietnam's Yeah 1 Group, a media platform company, experienced operating issues with one of its subsidiaries, which could adversely impact the company's growth momentum. Hence, its share price fell sharply and we exited the holding during the quarter.

By sector, most portfolio holdings in consumer staples, industrials, and health care performed well due to company-specific factors and solid earnings results. Some companies operating in the internet space performed below market expectations and saw their share prices suffer, as explained above.

Overall, good stock selection and the portfolio's overweight in China were key drivers for outperformance during the quarter.

Notable Portfolio Changes:

During the quarter we substantially adjusted our holdings in China/Hong Kong and India due to valuation merits and risk/reward profiles across companies operating in a variety of industries. As a result, we took profits in a number of highflyers in China/Hong Kong—either trimming or exiting the positions. We trimmed Yihai International Holding, a leading soup and condiment manufacturer in China due to a strong share price run-up following earnings results. We also exited Bilibili, China's leading online entertainment platform, after the company's market cap grew past US\$5 billion after a strong run-up since the summer of last year. With the proceeds, we initiated a position in China BestStudy Education, an after school tutoring operator, which in our view offers good growth exposure to education spending with reasonable valuations.

Some of our holdings in India performed below our expectations. Natco Pharma, a generic drug maker, experienced competitive pressure and uncertainties relating to product launches. Despite undemanding valuations, we believed it would be more beneficial to exit the holding and invest in other companies with more robust growth prospects. Consequently, we increased our weighting in consumer discretionary companies, as well as financial holdings in India, as market corrections last year presented opportunities to build positions at attractive valuations.

Outlook:

As China's stimulus and easing policies start to take hold, we are hopeful that consumer and business confidence will continue to improve and should in turn translate into more robust corporate investments and company fundamentals. Market uncertainties might impact sentiment in the capital markets of India and Indonesia due to general elections. While short-term volatility may be inevitable, we believe that low investor expectations and attractive valuations in some segments of the market present opportunities for long-term, bottom-up stock selection.

We remain focused on seeking opportunities in domestically oriented companies that are beneficiaries of structural growth trends. We believe that over the long term, they have the potential to compound in size and reward shareholders, although market participants at times could be overly focused on the short term, de-emphasizing company fundamentals.

With a growing middle class and a dynamic entrepreneurial landscape in Asia, many of the region's small companies are poised to grow because their domestic revenue streams are less impacted by global factors. We continue to be constructive on efficient and innovative companies, particularly those in the health care, communications and information technology sectors.

As of 3/31/2019, the securities mentioned comprised the Matthews Asia Small Companies Fund in the following percentages: Times China Holdings, Ltd. 2.4%; Yihai International Holding, Ltd. 1.9% and China Beststudy Education Group 1.0%. The Fund held no positions in Yeah1 Group Corp, Bilibili, Inc. or Natco Pharma, Ltd. Current and future portfolio holdings are subject to risk.

Average Annual Total Returns - Investor Class (3/31/2019)

1-year -11.97%
3-year 5.33%
5-year 2.24%
10-year 12.93%
Inception (9/15/08) 9.84%

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

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

© 2019 Matthews International Capital Management, LLC

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