Matthews Asia

Matthews China Dividend Fund

Choose a Share Class: Investor

Period ended March 31, 2019

For the quarter ending March 31, 2019, the Matthews China Dividend Fund returned 16.27% (Investor and Institutional Class), while its benchmark, the MSCI China Index, returned 17.69%.

Market Environment:

Chinese equities rebounded strongly from last year's sell-off. Fears over an escalating trade war between the U.S. and China calmed and shifted toward expectations that trade negotiators would reach a truce. As of quarter end, President Trump had issued no further punitive tariffs on Chinese goods. A meeting between Trump and Chinese leaders was postponed to allow more time for negotiations. Investor optimism was still high, however, during the first quarter.

During the National People's Congress meeting in March, Chinese authorities showed a willingness to adopt more business-friendly policies, such as approving a new foreign investment law and lowering the value-added tax (VAT) to 13% from 16% for the manufacturing sector.

China's A-share market has been doing well, even outpacing offshore-listed Chinese equities, as index provider MSCI confirmed it would further increase A-share weightings in global equity indices in 2019. This lifted sentiment among local investors as significant inflows into the A-share market are expected. In the last week of the first quarter, Chinese equities did suffer a meaningful correction as investors fretted over a possible global economic slowdown.

Performance Contributors and Detractors:

China Overseas Property Holdings, a leading property management company, was the top contributor to Fund performance for the first quarter, following strong earnings growth in 2018. WH Group, a leading pork meat producer in both the U.S. and China, was also a top contributors as a trade truce between the U.S. and China appeared likely. Sentiment on its stock also recovered and pork prices rebounded in the United States, which bodes well for the company's U.S. earnings.

New Oriental Education & Technology also did well during the quarter as regulations implemented last year, which were negatively received at the time, were ultimately less draconian than the market feared. The portfolio's overall underweight in the consumer discretionary sector, however, and a few underperforming holdings led consumer discretionary to rank as the portfolio's worst-performing sector for the quarter in terms of both allocation and security selection.

China Resources Power Holdings, an independent power producer, was the largest detractor to performance, as management abruptly abandoned its dividend commitment to speed its push into renewable energies. We decided to sell the position. CPMC Holdings also posed a drag on performance as the company had an investment dispute with one of its large customers. We are closely watching the developments in order to re-evaluate our investment thesis.

Notable Portfolio Changes:

During the quarter, we initiated a position in Chinese high-end liquor maker Wuliangye Yibin as its management team started to refocus its core “Wuliangye” brand and tried to narrow its product price gap with industry leader Kweichow Moutai.

Among the banking industry, we exited our holdings in the Bank of China in favor of a position in China Merchants Bank as U.S. interest rates seemed unlikely to rise over the near term. The rate cycle is likely to reduce the attractiveness of Bank of China's overseas business while new clarity on China Merchants Bank's wealth management business should improve its earning quality profile.

In addition, we bought back a position in China's leading home-appliance maker Midea Group as investors sold off shares due to concerns over slower retail sales. While we continue to like the long-term business prospects of Sunny Friend Environmental in Taiwan, we felt the share price rebounded too quickly and too strongly due to improved sentiment on a new project going online this year. We sold our position as a result.

Outlook:

As external headwinds—including trade war tensions, possible U.S. Federal Reserve interest rate increases and a strong U.S. dollar— that had posed challenges to Chinese equities subsided, the near term outlook for Chinese equities became brighter, especially following last year's aggressive sell-off. We believe it is time for high-quality companies to show their strength in business performance after their weak peers were swept away by the headwinds. We would like to remind investors, however, that last year's equity market sell-off was mainly due to several policy missteps. The volatility caused by these mistakes tends to be associated with most emerging markets. China is no exception. We continue to focus on bottom-up stock selection and a total return approach as we aim to deliver better risk-adjusted long-term returns for investors.

As of 3/31/2019, the securities mentioned comprised the Matthews China Dividend Fund in the following percentages: China Overseas Property Holdings, Ltd. 2.1%; WH Group, Ltd. 2.4%; New Oriental Education & Technology Group, Inc. 2.5%; Wuliangye Yibin Co., Ltd. 2.6%; China Merchants Bank Co., Ltd. 3.1%; Midea Group Co., Ltd. 2.0%; CPMC Holdings, Ltd. 1.1%. The Fund held no positions in Kweichow Moutai Co., Ltd.; China Resources Power Holdings Co., Ltd. or Sunny Friend Environmental. Current and future portfolio holdings are subject to risk.

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

1-year 2.69%
3-year 16.11%
5-year 12.02%
10-year n.a.
Inception (11/30/09) 10.80%

Gross Expense Ratio

1.19%

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.

Yield as of 3/31/2019

30-day Yield: 1.79%

Dividend Yield: 3.28%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 3/31/19, 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) 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 annualised dividend yield is for the equity-only portion of the Fund and does not reflect the actual yield an investor in the Fund would receive. There can be no guarantee that companies that the Fund invests in, and which have historically paid dividends, will continue to pay them or to pay them at the current rates in the future. A positive distribution yield does not imply positive return, and past yields are no guarantee of future yields. Sources: FactSet Research Systems, Bloomberg, Matthews

There is no guarantee that a company will pay or continue to increase dividends. Past performance is no guarantee of future results. Visit our Glossary of Terms page for definitions and additional information.

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