Matthews Asia

Matthews China Dividend Fund

Choose a Share Class: Investor ▼

Period ended September 30, 2018

For the quarter ending September 30, 2018, the Matthews China Dividend Fund returned -6.17% (Investor Class), outperforming its benchmark, the MSCI China Index, which fell -7.42%.

Market Environment:

In the third quarter in 2018, Chinese equities experienced their worst sell-off since 2016. The quarter began with a currency crisis in both Turkey and Argentina that raised serious concerns for overall emerging markets. Then in September, escalating trade tensions between China and the U.S. weighed heavily on Asia's equity markets. President Trump threatened to impose tariffs on all Chinese imports. China retaliated with additional tariffs on U.S. goods, and also canceled once-revived trade negotiations. Even more concerning, these trade tensions spilled over into other areas—the U.S. imposed sanctions against China's military for purchasing Russian military equipment. On the positive side, global index provider MSCI announced that it is considering significantly increasing the weight of China A-shares within its global indexes next year.

Performance Contributors and Detractors:

During the quarter, our stock selection in the financials sector detracted from the Fund's relative performance, while the portfolio's underweight in the information technology sector contributed the most to relative performance.

Two leading telecom operators, CITIC Telecom International Holdings and HKBN, in Macau and Hong Kong respectively, were among the top performance contributors during the quarter. As both firms have been operating in a stable market environment, we believe investors should feel confident in their operating currencies, as the currencies in both Macau and Hong Kong are pegged to the U.S. dollar. China Petroleum & Chemical (Sinopec), which benefited during the quarter from rising oil prices, was the second-best contributor to Fund performance.

On the flip side, Hua Hong Semiconductor, whose share price rose significantly during the first half of the year, suffered a heavy sell-off of its shares during the quarter due to profit-taking and concerns over the potential negative impacts of a trade war. Tencent Holdings, which reported its slowest earnings growth in recent years, posed the second-largest drag on performance during the quarter. Investors were surprised to discover new Chinese government regulation pertaining to the online gaming industry. It is important to note, however, that regulation changes tend to benefit larger companies such as Tencent, which have more resources to adapt in new environments. In addition, investors should view Tencent as a firm that goes well beyond online gaming.

Notable Portfolio Changes:

During the third quarter, we initiated a position in Yangzijiang Shipbuilding Holdings, China's largest privately owned ship builder. We believe Yangzijiang stands out among Chinese shipyards due to its product quality. After years of a global shipping slump, a potential recovery of demand for new ships and higher environmental standards for new ships should benefit Yangzijiang. A weaker Chinese currency can also be a tailwind for Yangzijiang.

We also exited our positions in Guangshen Railway as we believe its business may suffer following increased competition from a new high-speed rail project connecting Guangzhou and Hong Kong. In addition, we also sold our position in NetEase as the company continued to struggle in developing popular game titles. Its operations outside of gaming have not seen any meaningful progress in terms of profitability.

Outlook:

After the severe sell-off in China's equities markets, the economic damage of a full-blown trade war appears to already be reflected in current valuations. Investors should be mindful of China's policy responses in adverse trade environments. While we believe China's government may have been rash in implementing new regulations in several industries, we continue to find compelling opportunities in China's equity markets.

As of 9/30/2018, the securities mentioned comprised the Matthews China Dividend Fund in the following percentages: CITIC Telecom International Holdings, Ltd. 3.3%; HKBN, Ltd. 4.1%; China Petroleum & Chemical Corp. 4.0%; Hua Hong Semiconductor, Ltd. 1.6%; Tencent Holdings, Ltd. 2.8%; Yangzijiang Shipbuilding Holdings, Ltd. 1.8% The Fund held no positions in Guangshen Railway Co., Ltd. or NetEase, Inc. Current and future portfolio holdings are subject to risk.

Average Annual Total Returns - Investor Class (9/30/2018)

1-year 4.92%
3-year 15.15%
5-year 10.47%
10-year n.a.
Inception (11/30/09) 10.46%

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 9/30/2018

30-day Yield: 2.00%

Dividend Yield: 3.96%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 3/31/18, 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

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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