



Matthews Asia™

Matthews China Dividend Fund

Period ended March 31, 2018

For the quarter ending March 31, 2018, the Matthews China Dividend Fund returned 1.93% (Investor Class), while its benchmark, the MSCI China Index, returned 1.82%.

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Market Environment:

China's equity markets experienced another roller coaster ride during the first quarter of 2018, reminding investors of the volatile nature of this market. Chinese equities were strong in January, but quickly ran out of steam in February as the U.S. 10-year Treasury bond yield increase caused a global sell-off in equity markets. Strong financial results reported by internet giants Tencent and Alibaba Group also led investors to scrutinize the declining margins at these leading firms. The quarter also saw the end of term limits for the Chinese presidency. Shortly afterward, any political concerns were accompanied by a return of trade tensions between Washington and Beijing.

Performance Contributors and Detractors:

During the quarter, the Fund's holding in Chinese insurance brokerage firm Fanhua was a top contributor to performance. Over the past 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 margins and for which the underlying commission income is more frequently recurring. With these changes Fanhua's profitability began improving significantly. Since the insurance distribution business is capital-light and does not bear underwriting risk, Fanhua's ability to pay higher dividends is also enhanced with improving profitability. The company recently announced a new dividend policy that raised its minimum dividend payout from 30% to 50%, and instituted a quarterly dividend payment schedule.

Conversely, Sinopec Kantons, an energy infrastructure company, was among the top performance detractors during the quarter. The company announced strong earnings growth of 20% for 2017, but its stock price fell sharply after the earnings release due to its weaker-than-expected second half results. We are closely watching the new gas pipeline tariff the company was subject to in the last quarter of 2017, which led to lower profitability. We still believe management can improve profitability within the framework of the new tariff.

Notable Portfolio Changes:

During the quarter, we added a position in Shanghai Baosight Software, which provides IT software services in China. We are glad to see the firm's industrial software development business benefiting from the increasing profitability of Chinese steel mills, which are placing a higher priority on automation. As the largest software vendor in this segment, Baosight is seeing strong growth in its orders. In addition, its data center business, which utilizes empty land at vacant steel mill plants, has begun to contribute significantly to revenue and profits. More importantly, the company finally adopted a stock-based incentive program to better align management and shareholder interests.

During the quarter, we exited a few positions, including China Everbright and Tarena International, which were facing structural challenges that impacted their earnings and dividend growth. We decided to redeploy capital elsewhere.

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

1-year 29.59%
3-year 14.94%
5-year 12.86%
10-year n.a.
Inception (11/30/09) 11.82%

Gross Expense Ratio ¹

1.22%

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

Outlook:

Currently, the strong fundamentals and attractive valuations for companies in China are being overshadowed by market concerns over a potential U.S.-China trade war. If not averted, this trade tussle could have broader economic and geopolitical implications. In terms of our strategy, we believe it is prudent to increase the portfolio's defensiveness by increasing our weight of high dividend-yield stocks with stable underlying cash flow to balance the portfolio's exposure to dividend growth names. While near-term market conditions could remain volatile, we believe China already has transformed its economy into one led by consumption growth rather than export-driven growth. Any potential sell-off would increase the attractiveness of companies that can sustain and grow their earnings and dividends in this environment. We continue to seek these types of compelling opportunities.

As of 3/31/2018, the securities mentioned comprised the Matthews China Dividend Fund in the following percentages: Tencent Holdings, Ltd. 5.7%; Fanhua, Inc. 2.4%; Sinopec Kantons Holdings, Ltd. 1.4%; Shanghai Baosight Software Co., Ltd. 1.8%. The Fund held no positions in Alibaba Group Holding, Ltd.; China Everbright, Ltd. or Tarena International, Inc. Current and future portfolio holdings are subject to risk.

There is no guarantee that a company will pay or continue to increase dividends. Past performance is no guarantee of future results.

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.

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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: 1.11%

Dividend Yield: 2.59%

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

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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