Matthews Asia™

Matthews Emerging Asia Fund

Choose a Share Class: Investor ▼

Period ended September 30, 2018

For the quarter ending September 30, 2018, the Matthews Emerging Asia Fund returned -4.27% (Investor Class), while its benchmark, the MSCI Emerging Markets Asia Index returned -1.68%.

Market Environment:

Most Asian and global emerging markets suffered during the third quarter amid a confluence of negative macroeconomic headlines. Escalating trade tensions between the U.S. and China, seemingly tighter monetary conditions across many parts of the world and higher energy prices exposed vulnerabilities of certain emerging market economies. Market weakness was significant at times during the quarter, especially in China as positive news was visibly absent.

India's equity market gave up most of its year-to-date outperformance in September 2018. India was viewed by investors as a safe haven from tariff-related volatility as GDP growth rebounded and negative GST-related effects abated. Rising oil prices, however, are fueling macro headwinds and, along with expensive relative valuations, hit investor sentiment in September. A weaker rupee along with increased inflationary pressures has forced the Indian central bank (RBI) to raise rates and tighten policy.

A few bright spots in the region included the Philippines and Vietnam. Both countries generated positive equity returns during the quarter. Vietnam in particular is enjoying strong macroeconomic conditions. Vietnam's GDP growth has held up and its current account balance remains healthy, supported by strong foreign direct investment (FDI) and exports. The country also has some domestic oil and gas production, leaving it less exposed to rising oil prices.

Performance Contributors and Detractors:

The Fund has a high active share, meaning that it looks dramatically different from its benchmark by design. Approximately three quarters of the benchmark is made up of China, Taiwan and South Korea, markets we consider toward the more developed end of the emerging market spectrum. In contrast, the Fund typically invests in the least-developed end of the emerging market spectrum, including frontier markets, such as Vietnam, Bangladesh and Sri Lanka, which are not included in emerging market benchmarks.

Significant detractors from performance during the quarter included holdings in Sri Lanka and China. Sampath Bank, a leading commercial bank in Sri Lanka, experienced a sharp decline during the quarter. There was no specific catalyst for the price drop other than general negative sentiment in the marketplace. Tongda Group, a Chinese IT company, experienced a significant price decline on negative sentiment toward smartphone handsets, which is among the firm's product lines.

Contributors to performance included two consumer staples companies. Vinh Hoan, a Vietnamese food producer, experienced significant gains in stock price during the quarter. A seller of frozen fish fillets, Vinh Hoan is successfully shifting focus from the U.S. to China, where demand for its products is rapidly growing. San Miguel Food & Beverage, a food producer in the Philippines, also experienced significant gains in its stock price during the quarter. The company has restructured to bring some of its group's consumer assets into one holding company that will be relisted. We think the business will benefit from the larger scale, the stronger cash flows and a robust local customer base in the Philippines.

Notable Portfolio Changes:

During the quarter, we sold out some smaller positions in Pakistan including Habib Bank and United Bank as they experienced a tougher growth environment with the probability of rising nonperforming loans. We have also been reducing exposure to some stronger performing names, which have become expensive, and recycling the proceeds into cheaper opportunities, especially in the frontier markets.

Outlook:

While there is the potential for additional volatility ahead, we also see reasons to be optimistic. Potential catalysts exist for market stability and a rebound. Some countries with trade imbalances, including Indonesia, Pakistan and India, have tightened monetary policy, helping to stabilize their respective markets. In addition, relative valuations between developed markets (especially the U.S.) and Asia have widened significantly to the point where many investors are facing rebalancing needs and are reluctant to divest of their Asian and broad emerging market exposure. We believe in some instances valuations are getting very attractive, laying the foundation for considerable upside potential in emerging Asian markets, as well as in the Fund's portfolio. Across the region, economies are growing, consumers are spending and wages are rising. We will continue look for attractively valued growth opportunities in the least-developed parts of Asia.

As of 09/30/2018, the securities mentioned comprised the Matthews Emerging Asia Fund in the following percentages: Sampath Bank PLC, 2.7%; Tongda Group Holdings, 2.5%; Vinh Hoan Corp. 4.0%; and San Miguel Food & Beverage, Inc., 3.0%. The Fund held no positions in Habib Bank, Ltd. and United Bank, Ltd. Current and future portfolio holdings are subject to risk.

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

1-year -8.63%
3-year 8.06%
5-year 7.84%
10-year n.a.
Inception (4/30/13) 5.97%

Gross Expense Ratio

1.70%

After fee waiver and expense reimbursement: 1.48% [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*

***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.*

Visit our Glossary of Terms page for definitions and additional information.

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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 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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