Matthews Asia

Matthews Asia Perspective

Q&A: Yu Zhang, CFA

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How do you view the market environment for Asian economies?

The long-term outlook is upbeat. First, current accounts in Asia are generally positive: Asian countries are saving more domestically than they invest and are relatively less reliant on foreign capital. Asia has a higher share of manufacturing as a percentage of GDP and higher productivity growth, compared with the rest of the world. This started from a low base and has improved significantly over the past 20–30 years.

How do you mitigate volatility?

The behavior of a dividend portfolio tends to be less volatile than the market: the security of receiving a dividend yield enables us to pursue a reasonable level of total return without chasing faster-growing, but more volatile investments. That is a double-edged sword, however: if the market goes up, we do not necessarily follow at the same pace. But in down times, we may have an element of protection.

How is the Matthews Asia Dividend portfolio structured?

We take an all-cap approach, meaning we can invest in anything from small to mega caps. What is nice about Asia is that you see companies right down the market cap paying dividends. In small and mid-caps, you tend to find more entrepreneurial companies, family-owned commercial businesses, while large companies in Asia are often less commercially run and connected to governments.

The market capitalization of companies we invest in depends on the liquidity of underlying stocks in a particular market. For some markets, a liquid stock would have to be $1 billion, for others, only a few hundred million. But one thing this Fund will not do is morph into a blue-chip yield portfolio.

What differentiates the Matthews Asia Dividend Fund from other Asia income funds?

We believe it is important to focus on the sustainability of the dividend stream. Many Asian equity income portfolios are built with a lot of emphasis on yield, containing stocks of Chinese and Australian banks and commodities, for example, which can be difficult underlying businesses. In our long-term total return approach, we use dividends as an indicator of core earnings growth and strength of the company.

The companies we seek to invest in range from small and mid-caps that may be yielding 2% to solid businesses that may yield 4–5% but potentially growing their dividends at a 15% rate. This balanced approach seeks to create a portfolio that can benefit from an attractive dividend yield without giving up on growth.

We have a lot of flexibility: if the market is hot, the natural thing for us is to take a step back and look in the other direction. If everyone is looking for yield, we would look for growth; if they start paying more for growth, we would move the portfolio back towards yield.

We have a dedicated team of investment professionals that have 2,500 company meetings every year, looking at all businesses through the Asian dividends framework. We also meet with companies' competitors and suppliers to gauge their outlook.

There are no guarantees that a company will pay or continue to pay its dividends.

What are some of the most prevalent investment themes in Asia?

Looking at the past 30 years, inequality across the world has been decreasing (although it could be increasing within certain individual countries). This development has resulted in the rise of the middle class, so an opportunity for us is to find companies that will facilitate that middle-class life. This is an ongoing trend, likely to continue for the next 30 years. According to the Organization for Economic Co-operation and Development's estimations, by 2060, Asia will account for two-thirds of middle-class spending in the world.

Companies that should gain from that spending include businesses in industries as varied as retail, consumer staples and goods, consumer discretionaries, autos, media, leisure, entertainment, tourism, insurance and wealth management. Consumer and auto loan businesses of banks as well as healthcare are also expected to benefit—whether it is a high-street establishment or a more sophisticated business, such as a healthcare equipment manufacturer, a private hospital or a drugs company.

There are no guarantees that a company will pay or continue to pay its dividends. Parameters set by the Advisor are subject to change.

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