Matthews Asia™

Matthews Asia Growth Fund

Choose a Share Class: Institutiona

Period ended September 30, 2020

For the quarter ending September 30, 2020, the Matthews Asia Growth Fund returned 6.99% (Institutional Class), while its benchmark, the MSCI All Country Asia Pacific Index, returned 8.69%.

Market Environment:

Across most Asian markets, equities continued to climb in the third quarter as major economies further relaxed COVID-19 lockdown restrictions. Although COVID-19 cases continued to rise significantly, especially in India and parts of ASEAN, the gradual reopening of businesses—especially those focused on services and consumption in north Asia—helped bolster sentiment and bring a floor to stock prices globally.

China's V-shaped recovery in manufacturing along with a now steady recovery in domestic consumption has brought some normalcy to daily life. Japan, South Korea, and Taiwan have experienced a similar though not quite as robust a recovery as China. Ongoing market recovery in the third quarter was a function of easing of lockdowns combined with significant fiscal support and monetary easing from major developed and emerging governments and central banks. The dispersion of regional and country returns was significant. India was Asia's best performer followed by the north Asian countries of Taiwan, South Korea and China. Many Asian currencies appreciated against the U.S. dollar, providing an additional tailwind for equities. Growth stocks outpaced value and small caps outperformed large caps.

Japan's government passed a stimulus package that is one of the largest in terms of percentage of GDP, both headline numbers and direct spending. Long-standing Prime Minister Shinzo Abe stepped down during the quarter to undergo treatment for ulcerative colitis. Chief Cabinet Secretary Yoshigide Suga was named as Abe's successor. We do not expect meaningful changes to economic policy as a result of Abe's resignation.

Performance Contributors and Detractors:

Health care company Wuxi Biologics was a notable contributor to performance. As one the largest CDMOs (Contract Development and Manufacturing Organization) in the world, Wuxi Biologics helps many large global and smaller regional pharma companies get drugs developed. With a deep product pipeline, Wuxi continues to exhibit strong top-line growth. Executing well on long-term initiatives, the company has seen significant share price appreciation, with its market capitalization increasing four-fold over the past couple of years. The pandemic has created new opportunities for the company to generate revenue, as demand for innovative health treatments continues to grow. Amid strong stock price appreciation, we have trimmed the position a bit following the reporting period to rotate capital, but we continue to like the company's long-term prospects.

A detractor in the quarter was Schrodinger, which develops computer software designed to help medical researchers speed up new product development cycles via machine learning. In the biopharma space, researchers are using the software to help create new drugs and treatments. Schrodinger's software products are geared toward generating novel molecules faster and at lower costs than might be possible with non-computer-assisted research methods. Following the company's IPO earlier this year, which we participated in, Schrodinger's stock price increased nearly six-fold. Investors took profits in the quarter, but the stock has retained significant gains from its initial offering price and we continue to see upside potential.

From a country perspective, stock selection in China detracted from relative performance, while stock selection in Japan was a contributor. From a sector perspective, stock selection in health care detracted from relative performance, while stock selection in industrials contributed.

Notable Portfolio Changes:

We added a position to Chinese electric vehicle (EV) maker Xpeng Inc. in the third quarter. As one of the leading EV companies in China, Xpeng competes with local EV makers, as well as Tesla, which now produces cars in China. In our view, China is a natural market for EVs, where electric two-wheelers are already familiar to many consumers. Xpeng offers EVs at competitive price points, comparing favorably to prices of gas-powered cars. Current production is exceeding the company's targets and Xpeng has two new models coming to market next year.

Meanwhile, we closed our small, remaining position in Japanese hotel and corporate and college housing provider Kyoritsu Maintenance Co. The company's line of business hotels has been very popular among inbound Asian tourists to Japan. Prior to the pandemic, occupancy rates were running high. When travel restrictions were put in place globally, hotel occupancies declined considerably. We expect it could take quite some time for in-bound tourism and travel to resume in Japan to pre-pandemic levels. Having trimmed the position in earlier quarters, we finally exited in the third quarter.

Average Annual Total Returns - Institutional Class (9/30/2020)

1-year 27.28%
3-year 10.53%
5-year 14.13%
10-year n.a.
Inception (10/29/10) 8.45%

Gross Expense Ratio

0.94%

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.*

Outlook:

China's IPO markets have been very active in calendar year-to-date of 2020, highlighting the positive sentiment among domestic Chinese investors. From a bottom-up view, we continue to seek interesting, long-term investment opportunities among innovative sectors in China. The uptick in interest rates in parts of Asia is a contrast to many other parts of the world. For global equity investors, exposure to Asia provided meaningful diversification in the quarter through access to more varied return drivers, including rising domestic consumption. Looking ahead, we see untapped growth potential in the health care sector. Most global investors are underweight the sector in our view. Over the next five to 10 years, we anticipate considerable value being created among health care companies in Asia that can meet the needs of local and global consumers.

As of 09/30/2020, the securities mentioned comprised the Matthews Asia Growth Fund in the following percentages: Wuxi Biologics Cayman, Inc., 5.1%; Schrodinger, Inc., 0.9%; XPeng, Inc. ADR, 2.7%. The Fund held no positions in Kyoritsu Maintenance Co. or Tesla, Inc. Current and future portfolio holdings are subject to change and risk.

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

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.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Neither the funds nor the Investment Advisor accept any liability for losses either direct or consequential caused by the use of this information.

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.

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

Matthews Asia Funds are distributed in the United States by Foreside Funds Distributors LLC, Berwyn, PA
Matthews Asia Funds are distributed in Latin America by HMC Partners