



Matthews Asia Innovators Fund

Choose a Share Class: Institution: ▾

Period ended September 30, 2020

For the quarter ending September 30, 2020, the Matthews Asia Innovators Fund returned 13.91% (Investor Class) and 13.97% (Institutional Class), while its benchmark, the MSCI All Country Asia ex Japan Index returned 10.79%.

Market Environment:

Across most Asian markets, equities continued to climb in the third quarter as major economies further relaxed COVID-19 pandemic lockdown restrictions. Although COVID-19 cases continued to rise significantly, especially in India and parts of ASEAN, the gradual reopening of businesses—particularly 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. South Korea and Taiwan have also experienced a similar though not quite as robust a recovery as China. Continued 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 for the quarter. 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.

Although headline returns for broader markets were strong in the quarter, momentum started to slow in September as investors began to question the continued deceleration of COVID cases in major economies outside north Asia, as well as doubts as to whether governments would continue to provide fiscal support in the face of higher deficits. In addition, monetary easing limitations have investors wondering whether governments have the willingness or ability to provide additional stimulus.

Performance Contributors and Detractors:

During the third quarter, gaming and e-commerce company Sea Ltd. contributed to Fund performance. Based in Singapore, it's one of the few Internet companies focused on serving customers in South and Southeast Asia with significant businesses in Singapore, Indonesia and Thailand that has achieved significant scale and market share. Sea Ltd., was among the first movers in e-commerce and gaming—attractive secular growth areas in Asia—and one of the first companies to build a regional platform, providing an edge over smaller competitors that may only operate within a single country. As a result the company enjoys significant market share and brand recognition.

A detractor to performance was computer-chip maker Silergy Corp., headquartered in Hangzhou, China. The company's stock price has appreciated considerably over the past couple of years, benefiting from increased demand for local technology solutions in China. U.S. – China trade tensions have accelerated the development of technology supply chains within China. The stock price corrected in the quarter, which we view as a healthy correction. We continue to like the company's long-term prospects and expect that local supply chains for computer chip technology in China may continue to expand for the next five to 10 years and beyond. The majority of semiconductors used by Chinese companies are still imported, so we believe the company has a long growth trajectory serving China's domestic market.

From a country perspective, stock selection in China contributed to relative performance, while an underweight in Taiwan detracted. Many of our Chinese holdings, concentrated in innovative sectors, such as communication services and health care, performed well in the quarter. While we added to our exposure in Taiwan in the quarter, we remain significantly underweight relative to the benchmark. Taiwanese stocks performed well on Taiwan's highly effective response to COVID-19, as well as lingering U.S. – China trade tensions. From a sector perspective, communication services, financials and consumer discretionary contributed to relative performance. On the other hand, information technology, health care and industrials detracted.

Notable Portfolio Changes:

During the quarter, we initiated a new position in Tongcheng-Elong Holdings, an online travel agency in China focused on domestic trips. Domestic travel has already resumed to nearly pre-pandemic levels in China and we expect a continued strong recovery. Another new position is Xpeng Inc., which makes electric cars in China for local consumers. While there are many electric vehicle manufacturers in China, Xpeng maintains a strong focus on new technology, including autonomous driving research. The company's electric cars are priced very competitively within China, and the travel range per charge is very good. Within the health care sector, we also exited a couple of positions in order to take profits and concentrate our holdings within the sector, increasing our weight to Innovent Biologics where we continue to see compelling opportunities for long-term growth.

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

1-year 64.14%
3-year 18.92%
5-year 19.81%
10-year n.a.
Inception (4/30/13) 16.29%

Gross Expense Ratio

1.05%

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:

Looking ahead, we could see additional market volatility as the global economy continues to adapt to life amid the pandemic. We believe many parts of Asia may be well positioned to regain its economic footing because of effective, ongoing public health responses to reducing COVID transmissions. Managing the virus is key to maintaining economic activity. In our view, China remains an important market for regional investors, as it is currently the only large economy that the International Monetary Fund (IMF) forecasts may have positive economic expansion in 2020. Although stock prices for our portfolio holdings have risen in recent quarters, these valuations are backed by strong underlying company fundamentals. Many of our portfolio companies have generated positive year-over-year revenue growth. We seek to invest in companies that we want to own for five years or longer, so investing with a long-term focus remains key. We anticipate that companies with strong organic structural growth have the potential to perform better. Sectors such as health care, Internet services, software and online education may provide attractive opportunities for long-term investors.

As of 09/30/2020, the securities mentioned comprised the Matthews Asia Innovators Fund in the following percentages: Sea, Ltd. ADR, 5.8%; Silergy Corp., 1.6%; Tongcheng-Elong Holdings, Ltd., 1.6%; XPeng, Inc. ADR, 2.7%; Innovent Biologics, Inc., 3.4%. Current and future portfolio holdings are subject to change and risk.

Visit our [Glossary of Terms](#) page for definitions and additional information.

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