



# Matthews China Dividend Fund

Choose a Share Class: Investor ▼

## Period ended September 30, 2020

For the quarter ending September 30, 2020, the Matthews China Dividend Fund returned 7.46% (Investor Class) and 7.53% (Institutional Class), while its benchmark, the MSCI China Index, returned 12.57%.

### Market Environment:

Chinese equities went through another volatile quarter in terms of political tension. U.S. – China tension escalated to a new height in July when the U.S. ordered China to close its consulate in Houston, and in retaliation, China ordered the closure of the U.S. consulate in Chengdu. Additionally, in early August, President Trump signed an executive order to ban popular apps Tiktok and WeChat in the U.S. on national security concern. However, due to the vague wording in the executive order, it was not clear how the ban would be implemented and how wide of an impact it would have on Tencent, which developed WeChat, creating stock price volatility.

The Chinese renminbi, along with other major currencies, strengthened against the U.S dollar during the quarter as the market priced in the risk of a prolonged shut down of the U.S. economy caused by COVID-19 and unlimited quantitative easing by the U.S. Federal Reserve.

### Performance Contributors and Detractors:

During the third quarter, Shanghai Baosight Software was the top contributor to the Fund's performance. The industrial software developer/data center operator reported 67% earnings growth for the second quarter as its new data center is put into operation. Auto parts supplier Minth Group rose as it further enters the supply chain for electric vehicles via its battery housing business and was the Fund's second largest contributor to performance. The Fund's third largest contributor was Powerlong Commercial Management, a shopping center property manager focused on lower tier cities in China.

On the other hand, a few names that performed well during the first half of the year became the largest performance detractors during this quarter due to profit taking. Sun Art Retail Group, the largest hyper market operator in China was the largest performance detractor, as markets started to worry that Chinese consumers will slow their spending. It is also facing emerging competition for grocery delivery from delivery platforms. Livzon Pharmaceutical Group also declined during the quarter due to profit taking. Additionally, the Fund's significant underweight allocation and stock selection in the consumer discretionary sector detracted from performance. This is partly due to Alibaba Group's outsized weight in the benchmark index and stellar performance during the quarter which the Fund does not own.

### Notable Portfolio Changes:

During the quarter, we initiated positions in two A-share companies newly listed this year: Bafang Electric Suzhou and Leader Harmonious Drive System. Bafang manufactures components in electric bicycles, which is increasingly gaining popularity globally. Leader Harmonious Drive System is a maker of precision transmissions used in industrial robots. We believe both companies have high potential to rival their global competitors in their niche areas. In addition, we participated in two IPOs in the for-profit education industry: Cathay Media and Education and Neusoft Education Technology. Both companies are focused on niche academic fields such as media/performance and information technology.

We took profits from convenience store chain Chengu Hongqi and exited our position in the company but we will continue to monitor the company and its first foray outside of its home province. We also exited Sunevision Holdings, Hong Kong's largest data center operator, given the increasing likelihood global internet companies may forego Hong Kong as a location to host their data due to concern over National Security Law implemented this year.

### Outlook:

Chinese manufacturing data points to a continued V-shaped recovery, and retail sales data registered positive year-over-year growth during September. During the October 1st National Day golden week holiday, it is reported that half a billion Chinese consumers started vacationing domestically, and the packed tourist spots served as reminder of China's consumer spending power outside of China before COVID-19. Thus, we believe domestic consumption still has ample room of growth in China.

Fiscal stimulus in China has been incremental in scope and highly targeted, a trend we expect may continue. Interest rates in China have moved higher, reflecting China's economic resilience amid the pandemic. Looking ahead, we expect to see continued recovery in China's economic activity. While China is not immune from a global slowdown, it may be better positioned than other large economies to maintain its long-term growth and we continue to seek and invest in attractive dividend-paying stocks with improving growth outlook.

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

1-year 18.18%  
3-year 7.87%  
5-year 12.81%  
10-year 9.31%  
Inception (11/30/09) 10.25%

## Gross Expense Ratio

1.15%

**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](#).

## Yield as of 9/30/2020

30-day Yield: 1.35%

Dividend Yield: 2.87%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 9/30/20, 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) 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 annualised dividend yield is for the equity-only portion of the Fund and does not reflect the actual yield an investor in the Fund would receive. There can be no guarantee that companies that the Fund invests in, and which have historically paid dividends, will continue to pay them or to pay them at the current rates in the future. A positive distribution yield does not imply positive return, and past yields are no guarantee of future yields. Sources: FactSet Research Systems, Bloomberg, Matthews

As of 9/30/2020, the securities mentioned comprised the Matthews China Dividend Fund in the following percentages: Tencent Holdings, Ltd., 7.7%; Shanghai Baosight Software Co., Ltd. B Shares, 4.3% Minth Group, Ltd., 3.0%; Powerlong Commercial Management Holdings, Ltd., 3.0%; Livzon Pharmaceutical Group, Inc., H Shares, 3.0%; Bafang Electric Suzhou Co., Ltd. A Shares, 1.0%; Leader Harmonious Drive Systems Co., Ltd. A Shares, 1.0%; Cathay Media and Education Group, Inc., 0.6%; Neusoft Education Technology Co., Ltd., 0.7%. The Fund held no positions in Tiktok; Sun Art Retail Group Ltd.; Alibaba Group Holdings Limited; Chengu Hongqi Chaing Co., Ltd.; Sunevision Holdings Ltd. Current and future portfolio holdings are subject to change and risk.

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

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

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