Matthews Asia™

Matthews China Fund

Choose a Share Class: Institutional

Period ended September 30, 2020

For the quarter ending Sept. 30, 2020, the Matthews China Fund returned 13.04% (Investor Class) and 13.05% (Institutional Class), while its primary benchmark, the MSCI China Index, returned 12.57%. The Fund's secondary benchmark, the MSCI China All Shares Index, returned 13.19%.

Market Environment:

Chinese monthly economic data continues to show signs of recovery as reflected in the latest manufacturing and service PMI data as well business recovery statistics. Even the slow-to-recover consumer-oriented sectors are starting to show improvement including restaurant sales, cinema box office receipts and domestic travel. Domestic recovery is occurring alongside a stabilizing export sector and improving labor market, both of which should support better earnings prospects going forward.

COVID-19 remains a risk for economies globally, including China. While small pockets of coronavirus infections still occasionally emerge, China remains successful at flattening its curve of COVID-19 infections. Vigilant about testing, quarantining known cases and contact tracing, China has had the most success among large economies in our view in combatting the virus.

Chinese equities posted solid returns in the quarter, despite negative headlines about U.S. — China relations. Political tactics have so far focused on individuals and companies, as opposed to broad economic sanctions and negative policy. To date, the actions have been more disruptive to sentiment than economically damaging to either side. Looking at the U.S. side, it is difficult to decipher which portions of the negative rhetoric have true congressional support versus what is politically motivated by the election cycle.

Performance Contributors and Detractors:

From a sector perspective, stock selection in the financials, communications services and industrials was a contributor to relative performance. On the other hand, stock selection in health care, real estate and consumer discretionary sectors was a detractor.

A contributor among individual stocks was e-commerce company JD.com, which experienced increased demand for its services during the pandemic. As the second largest e-commerce company in China, JD.com has a broad reach and its profitability is improving. Logistics-oriented businesses tend to be very capital intensive in their early years, but with much of JD.com's logistic infrastructure already in place, we expect that the business may be less capital intensive going forward. China has many metropolitan densities and the complexity of making deliveries to most households is high, creating a competitive moat for an e-commerce player such as JD.com.

A detractor among individual stocks was property developer Times China, which focuses on developments in the Greater Bay Area in Guangdong province. This area has been earmarked for further development in high-value-adding sectors such as the technology and financial industries, and is likely to see growth in infrastructure connectivity over time. Times China has an ample land bank in this region, allowing it to continue to grow its footprint. The real estate industry has been sluggish as the pandemic has disrupted sales in China, but we continue to like the company's long-term prospects in land banking, as well as its attractive valuations.

Notable Portfolio Changes:

In the third quarter, we added a number of new positions, including four domestically listed A-share companies. New A-share positions include two health care companies, an information technology company and an industrials company. Other new positions include a fast-growing communication services platform and two Hong Kong-listed health care companies. New positions highlight our emphasis on growing domestic consumption in China. The IMF forecasts that China will be the only large economy to generate positive growth in 2020 and domestic consumption will play an important role in maintaining China's economic engine. As we rotated capital within the portfolio during the quarter, we were particularly interested in opportunities among China's knowledge-based sectors, where intellectual property and research and development can help companies build competitive moats.

Outlook:

Chinese manufacturing data points to a continued v-shaped recovery and a bright spot within the data suggests that small, private businesses are beginning to participate within the rebound. 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

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

1-year 48.18%
3-year 13.94%
5-year 17.68%
10-year n.a.
Inception (10/29/10) 6.83%

Gross Expense Ratio

0.91%

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.*

positioned than other large economies to maintain its long-term growth.

Schools have reopened in Wuhan, the first city to be hit by the pandemic earlier in the year. China's effective health care response has played an important role in reopening school, businesses and government offices across China. Keeping the coronavirus under control is key to maintaining China's economic recovery, and we continue to see reasons for optimism on the public health front. Positive sentiment among domestic Chinese consumers is spurring increased economic activity. U.S. — China political tensions could heat up heading into the U.S. election, but escalating rhetoric may have little impact on either economy.

As of 09/30/2020, the securities mentioned comprised the Matthews China Fund in the following percentages: JD.com ADR, 3.1%; JD.com A-shares, 3.1%; Times China Holdings, Ltd., 1.2%. Current and future portfolio holdings are subject to change and risk.

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