



# Matthews Emerging Asia Fund

Choose a Share Class: Institution: ▾

## Period ended September 30, 2020

For the quarter ending September 30, 2020, the Matthews Emerging Asia Fund returned 9.50% (Investor Class) and 9.55% (Institutional Class), while its benchmark, the MSCI Emerging Markets Asia Index, returned 12.07%.

### Market Environment:

Equity markets in Bangladesh and Pakistan saw a strong rebound in the third quarter, following a tough start to the year. Investor sentiment strengthened on improving macroeconomic data, historically low equity price valuations and easing coronavirus fears. For Bangladesh and Pakistan, hopes for a V-shaped economic recovery are gaining momentum, and foreign exchange reserves are trending in a positive direction for both countries. Both Bangladesh and Pakistan continue to see strong remittances, in which family members living and working abroad send money home. While the number of new infections of coronavirus is rising in both Bangladesh and Pakistan, overall mortality rates have not gone up for either country. We see a similar trend in India, where infections are rising but overall mortality rates haven't changed meaningfully. Youthful populations may partly explain the health resiliency of these countries amid the pandemic.

Equity markets in Indonesia were weak because the government had returned to extreme lockdowns related to the pandemic, which has been bad for the economy. Local investors in Indonesia have also generally been disappointed in president Joko Widodo's handling of economic issues. Markets in Thailand were also weak amid political unrest related to an unpopular new king ascending to the throne. From a currency perspective, the Indian rupee, Pakistani rupee, Malaysian ringgit, and Philippine peso all appreciated relative to the U.S. dollar. In contrast, the Indonesian rupiah and Thai baht depreciated.

### Performance Contributors and Detractors:

A contributor to Fund performance during the quarter was British American Tobacco, a Bangladesh-based tobacco producer whose share price had previously been under pressure. In terms of tobacco sales, business as usual has resumed quickly in Bangladesh following the initial lockdowns related to the pandemic. The company's earnings have improved recently and investor sentiment has gained strength. In addition, the company has launched a new business line exporting completed cigarettes to China. The cost of producing cigarettes in Bangladesh—both in terms of agriculture and labor—are lower than China, creating interesting export opportunities for the company. Elsewhere, Vietnamese fishery Vinh Hoan, was another contributor. The company produces and exports high-quality white fish fillets, mainly to the U.S. Improving sales numbers buoyed by premium products lifted the stock price.

Detractors included Thailand-based consumer discretionary company Central Retail and consumer staples company Thai Beverage. Their share prices declined amid broader negative local investor sentiment in Thailand but both companies remain stable businesses. Thailand is currently experiencing considerable political unrest related to their new king and military government, both of whom are unpopular among the country's citizens. The market environment in Thailand has been very weak amid political demonstrations and unrest. Another detractor was Indonesian household goods producer Kino Indonesia amid poor investor sentiment toward Indonesian equities in the face of further lockdowns.

From a country perspective, stock selection in Pakistan and our overweight to Bangladesh and Vietnam contributed to relative performance. These markets experienced strong gains as their economies began to reopen. In contrast, our overweight to Indonesia and Thailand detracted from performance. Both markets were weak overall on political concerns.

### Notable Portfolio Changes:

During the quarter, we added new positions in China, where there have been a number of new IPOs. We have historically been underweight China relative to the benchmark, and we expect to remain underweight looking ahead, as our focus remains on less developed markets within Asia. At the same time, we've added incrementally to our China holdings reflecting compelling bottom-up investment opportunities. For example, we initiated a new position in Xpeng, a Chinese electric vehicle (EV) maker with a strong focus on innovation and technology. China is a natural market for EVs in our view, as much of the rural parts of the country already use electric two wheelers. We also exited a few positions in the quarter among our microcap stocks, primarily on liquidity concerns.

### Outlook:

Looking ahead, we expect many economies among less developed parts of Asia to begin to slowly return to normal. Interest among domestic investors in frontier equity markets picked up considerably in the quarter. As conditions on the ground have started to stabilize, we expect to see a corresponding recovery among equity prices in markets such as Pakistan, Vietnam and Bangladesh. Indonesia recently passed a new omnibus law, easing labor laws for employers and encouraging more foreign industrial investment. One country facing a potentially slower recovery is Sri Lanka, which faces twin deficits that include a current account deficit and budget deficit. The country is also quite dependent on tourism, which has dried up as global travel evaporated. On balance though, we remain optimistic about the long-term growth potential for less developed markets in Asia. Youthful workforces, rising consumption and attractive equity valuations make these markets very compelling to us

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

1-year -12.87%  
3-year -10.26%  
5-year 0.05%  
10-year n.a.  
Inception (4/30/13) 1.21%

## Gross Expense Ratio

1.51%

After fee waiver and expense reimbursement: 1.20%<sup>1</sup>

<sup>1</sup> Matthews has contractually agreed to waive fees and reimburse expenses to the extent needed to limit Total Annual Fund Operating Expenses (excluding Rule 12b-1 fees, taxes, interest, brokerage commissions, short sale dividend expenses, expenses incurred in connection with any merger or reorganization or extraordinary expenses such as litigation) of the Institutional Class to 1.20%. If the operating expenses fall below the expense limitation in a year within three years after Matthews has made a waiver or reimbursement, the Fund may reimburse Matthews up to an amount that does not cause the expenses for that year to exceed the lesser of (i) the expense limitation applicable at the time of that fee waiver and/or expense reimbursement or (ii) the expense limitation in effect at the time of recoupment. This agreement will remain in place until April 30, 2021 and may be terminated at any time by the Board of Trustees on behalf of the Fund on 60 days' written notice to Matthews. Matthews may decline to renew this agreement by written notice to the Trust at least 30 days before its annual expiration date.

***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.***

on a long-term view.

As of 09/30/2020, the securities mentioned comprised the Matthews Emerging Asia Fund in the following percentages: British American Tobacco Bangladesh Co., Ltd., 3.7%; Vinh Hoan Corp., 4.7%; Central Retail Corp. Public Co., Ltd., 2.1%; Thai Beverage Public Co., Ltd., 2.2%; PT Kino Indonesia, 2.8%; XPeng, Inc. ADR, 2.1%. 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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