

Matthews India Fund

Choose a Share Class: 

Period ended September 30, 2020

For the quarter ending Sept. 30, 2020, the Matthews India Fund returned 18.63% (Institutional Class), while its benchmark, the S&P Bombay Stock Exchange 100 Index returned 12.93%.

Market Environment:

Indian equities were some of the strongest regional performers across Asia in the third quarter, following similar results in the prior quarter. India's stock markets performed well, despite the elevated daily COVID-19 infection rates. Easing of restrictions on social and commercial activities continued through the quarter albeit with intermittent and localized lockdowns in some cities. Economic activity has continued to improve through the quarter with many industries reporting near normal demand, particularly in the month of September. Rural demand has remained robust on back of another better-than-normal monsoon season for second year in row. Visibility of good harvest is buoying demand for consumer durables, which was otherwise hurt by weak urban demand after COVID related lockdowns were imposed. However, a weak fiscal position on back of lackluster tax collection has kept the government from boosting fiscal spending and has also pushed them to raise taxes on gasoline and diesel. Higher fuel prices have resulted as consequence of higher taxes. While interest rates have inched higher, core inflation remains broadly in check.

Performance Contributors and Detractors:

Stock selection among small-cap stocks, as well as a notable overweight to small caps, was a major contributor to relative performance in the quarter. In particular, small-cap health care names such as Laurus Labs and Caplin Point Laboratories generated strong gains, illustrating the evolution of India's health care sector toward more innovative business models. Among individual securities, mid-cap financials company Bandhan Bank detracted from performance, as Indian financials continued to wrestle with the economic impacts of the COVID-19 pandemic. The company remains well capitalized and we continue to like its long-term prospects.

From a sector perspective, health care and consumer staples sectors were contributors in the quarter, driven by strong stock selection. On the other hand, the Fund's underweight and stock selection in the materials sector was a slight detractor from relative performance. We tend to have smaller positions and engage very selectively in this highly cyclical sector.

Notable Portfolio Changes:

During the quarter, we were very active in adding new positions to the portfolio, taking advantage of market dynamics to invest in faster growing investment opportunities at relatively attractive valuations. As consumers are spending more time at home, it is our belief that greater domestic consumption spend would happen in improving personal living spaces and quality of life. As such, we initiated positions in Asian Paints and Whirlpool of India during the quarter. We also think real estate, construction activity will revive given government incentives and initiated positions in Pidilite Industries.

Meanwhile, we exited investments in Baja Consumer Care and ITC Limited where the visibility of growth was lacking and where we thought management incentives were not aligned to minority shareholders. We also exited positions that had done very well in last six to nine months but where we thought valuations left little room for error, such as Alembic Pharmaceutical.

Outlook:

Recent data on a reduction in COVID-19 cases over last few weeks leads us to believe that India's economy may be on a path to recovery, although we can't predict the pace or timing of recovery. In our view, the pandemic has provided a jolt that is likely to reset global supply chains across different industries, which may benefit Indian companies. We are already witnessing positive pick up in export demand for many industries, including ancillary automotive sectors, pharmaceuticals, chemicals, tiles, electronics, white goods outsourcing and textiles. Recent changes to labor laws in India are aimed at easing the legal and regulatory burden on foreign companies and will help improve 'ease of doing business' in India over the long term. As India's domestic demand normalizes and export demands picks up further legs, we are hopeful the economy will likely grow in line with historical levels over longer time periods. The month of September also saw a normalization of tax receipts, which could help improve India's fiscal position over time if the trend continues.

As of 09/30/2020, the securities mentioned comprised the Matthews India Fund in the following percentages: Laurus Labs, Ltd., 1.5%; Caplin Point Laboratories, Ltd., 1.0%; Bandhan Bank, Ltd., 2.4%; Asian Paints, Ltd., 1.1%; Whirlpool of India, Ltd., 0.8%; Pidilite Industries, Ltd., 1.1%. The Fund held no positions in Baja Consumer

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

1-year -2.25%
3-year -1.97%
5-year 2.62%
10-year n.a.
Inception (10/29/10) 4.03%

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](#).

Care, ITC Limited and Alembic Pharmaceutical. Current and future portfolio holdings are subject to change and risk.

Note: For the period of October 9, 2018 — February 5, 2019, the Growth of \$10,000 Investment Since Inception was misstated for the India Fund on this page. Figures were misstated as follows:

7/31/2018	\$35,389.05
8/31/2018	\$35,198.87
9/30/2018	\$35,374.42
10/31/2018	\$30,678.31
11/30/2018	\$31,336.65
12/31/2018	\$28,164.75

Corrected figures updated in the chart above, as well as in the revised fact sheet. If you have any questions, please [contact us](#).

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

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