



## Matthews Asia Perspective

### Q&A: Yu Zhang, CFA

Lead Manager, Matthews Asia Funds–Asia ex Japan Dividend Fund



**Yu Zhang, CFA**  
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- ✿ Investment involves risk. Past performance is not a guide to future performance. It is possible to lose the principal capital of your investment.
- ✿ The Fund invests primarily in Asia ex Japan countries and economies. Investment in such emerging markets may be subject to increased risks such as political, social, tax, economic, policy, market, liquidity, trading, custody and settlement, currency, legal and regulatory risks.
- ✿ The Fund may, at its discretion, pay dividends out of the capital or effectively out of capital in respect of the distribution shares. Payment of dividends out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment, or from any capital gains attributable to that original investment. Any distribution may result in an immediate reduction of the net asset value per share of the Fund.
- ✿ The Fund invests primarily in equity securities, which may result in increased volatility.
- ✿ The Fund may invest in smaller companies which are likely to carry higher risks than larger companies.
- ✿ The Fund may invest in financial derivative instruments ("FDIs"). Risk associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The Fund will not use FDIs extensively for investment purposes.
- ✿ The Fund may use hedging techniques to attempt to offset certain market risks but there is no guarantee that hedging techniques will fully and effectively achieve their desired result.
- ✿ Investors should not invest in the Fund solely based on the information in this document.

**Matthews Asia Funds–Asia ex Japan Dividend Fund was launched in November 2015.**

#### **What is the Fund's investment philosophy?**

The Fund's philosophy and focus behind stock selection are identical to our flagship Matthews Asia Dividend Strategy, launched in 2006. Taking a long-term total return approach, we look to identify businesses with growing and sustainable dividends across the Asia ex Japan region, while the Matthews Asia Dividend Strategy's remit includes Japan.

#### **What are the special features of the Fund?**

We focus on the sustainability of the dividend stream. Drawing upon a long-term total return approach, we use dividends as an indicator of core earnings growth and strength of the company.

The companies we seek to invest in range from small and mid-caps. This balanced approach seeks to create a portfolio that can benefit from an attractive dividend yield without giving up on growth.

We have flexibility in our investment approach: if the market is hot, the natural thing for us is to take a step back and look in the other direction. If everyone is looking for yield, we would look for growth; if they start paying more for growth, we would move the portfolio back towards yield.

#### **Does Asia provide an attractive source of yield and dividend growth?**

Asia offers a diversified source of income for investors. Asia also continues to have the potential to be one of the fastest growing regions of the world over the coming decade. We take a total return approach to managing the Fund, focusing on investing in a combination of stable dividend payers and dividend growers. This combination attempts to provide investors with the opportunity to benefit from an attractive dividend yield as well as exposure to companies that are growing their dividends at a faster rate than typically seen in developed markets.

#### **How do you mitigate volatility?**

The behavior of a dividend portfolio tends to be less volatile than the market: the security of receiving a dividend yield enables us to pursue a reasonable level of total return without chasing faster-growing, but more volatile investments.

### What are the major risks of investing in the Fund?

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### Traditionally many of the Asian markets have been considered growth rather than income markets. What is the case for investing in Asian dividends?

Take the case of the legendary Formula 1 driver Nigel Mansell. He started many races, but did not always win the world championships as something would happen to his car: the wheels would fall off, he would run out of petrol, etc. All of this needed to be sorted out at the pit stop. For us, as investors in Asian companies, dividends are that pit stop. You need to pay attention to whether the company is actually generating cash. If it is, will it share it? Although the business may be growing, are you getting overexcited about that growth and overpaying for it?

This is the philosophy we have developed at Matthews Asia since 1994: it is really about dividend growth, making sure investors benefit from the underlying cash stream of businesses, rather than just focusing on income generation.

### Where are you finding attractive dividends?

Dividend opportunities abound not only in countries where structural reform efforts and an increasing emphasis on shareholder returns support better corporate governance practices, such as China and South Korea, but also in those

that are less in the limelight such as Vietnam, Indonesia, Thailand and Bangladesh. We also see more opportunities in consumer-related businesses, as opposed to companies which are more export or cyclical in their nature.

As bottom-up stock pickers, we continue to pay attention to firms with the following attractive characteristics: sustainable business models; a strong capacity for generating free cash flow; and management teams that make smart capital allocations between funding business growth and returning excess cash to shareholders. As always, we are mindful about how much we pay for the shares of businesses. We believe Asia equities today provide intriguing total return opportunities for investors, anchored by attractive dividend yields and improving dividend growth prospects.

### What are some of the most prevalent investment themes in Asia?

Looking at the past 30 years, inequality across the world has been decreasing (although it could be increasing within certain individual countries). This development has resulted in the rise of the middle class, so an opportunity for us is to find companies that will facilitate that middle-class life. This is an ongoing trend, likely to continue for the next 30 years.

Companies that should gain from that spending include businesses in industries as varied as retail, consumer staples and goods, consumer discretionary, autos, media, leisure, entertainment, tourism, insurance and wealth management. Consumer and auto loan businesses of banks as well as health care are also expected to benefit—whether it is a high-street establishment like an Asian version of Boots, or a more sophisticated business, such as a health care equipment manufacturer, a private hospital or a drugs company.

## Disclosures

The Fund is a sub-fund of Matthews Asia Funds, an open end umbrella fund with variable capital and incorporated with limited liability under the laws of Luxembourg. NOT FOR SALE IN THE U.S. OR TO U.S. PERSONS. This document does not constitute or contain an offer, solicitation or investment advice with respect to the purchase of the Fund described herein or any security. This information is not to be construed as a prospectus, a public offering or an offering memorandum as defined under applicable securities legislation.

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Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before making an investment decision. The current prospectus, Supplement for Hong Kong Investors, Product Key Facts Statements (“Hong Kong Offering Document”) or other offering documents contain this and other information and can be obtained by visiting [hk.matthewsasia.com](http://hk.matthewsasia.com). Please read the Hong Kong Offering Document or other offering documents carefully for details including risk factors before investing. Prospective investors should consult professional legal, tax and financial advisers as to the suitability of any investment in light of your particular circumstances and applicable citizenship, residence or domicile. Fees and expenses vary among Funds and share classes. Portfolio characteristics for the Fund may vary from time to time from what is shown.

The MSCI All Country Asia ex Japan Index is a free float-adjusted market capitalisation-weighted index of the stock of markets of China, Hong Kong, India, Indonesia, South Korea, Malaysia, Pakistan, the Philippines, Singapore, Taiwan and Thailand. Index is for comparative purposes only and it is not possible to invest directly in an index.

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