Matthews Asia

Matthews China Dividend Fund

Matthews Asia Funds

Risk Considerations

- 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 Mainland China-related companies. Investment in such companies may be subject to increased risks such as political, 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 does not hedge to attempt to offset certain market risks. This may expose the Fund to the risk of full losses resulting from a decline in a security's value.
- Investors should not invest in the Fund solely based on the information in this website. Please read the Hong Kong Offering Document carefully for further details including risk factors before investing.

Period ended 31 March 2019

For the quarter ending 31 March 2019, the Matthews China Dividend Fund returned 16.11% while its benchmark, the MSCI China Index, returned 17.69%.

Market Environment:

Chinese equities rebounded strongly from last year's sell-off. Fears over an escalating trade war between the U.S. and China calmed and shifted toward expectations that trade negotiators would reach a truce. As of quarter end, President Trump had issued no further punitive tariffs on Chinese goods. A meeting between Trump and Chinese leaders was postponed to allow more time for negotiations. Investor optimism was still high, however, during the first quarter.

During the National People's Congress meeting in March, Chinese authorities showed a willingness to adopt more business-friendly policies, such as approving a new foreign investment law and lowering the value-added tax (VAT) to 13% from 16% for the manufacturing sector.

China's A-share market has been doing well, even outpacing offshore-listed Chinese equities, as index provider MSCI confirmed it would further increase A-share weightings in global equity indices in 2019. This lifted sentiment among local investors as significant inflows into the A-share market are expected. In the last week of the first quarter, Chinese equities did suffer a meaningful correction as investors fretted over a possible global economic slowdown.

Performance Contributors and Detractors:

China Overseas Property Holdings, a leading property management company, was the top contributor to Fund performance for the first quarter, following strong earnings growth in 2018. WH Group, a leading pork meat producer in both the U.S. and China, was also a top contributors as a trade truce between the U.S. and China appeared likely. Sentiment on its stock also recovered and pork prices rebounded in the United States, which bodes well for the company's U.S. earnings.

New Oriental Education & Technology also did well during the quarter as regulations implemented last year, which were negatively received at the time, were ultimately less draconian than the market feared. The portfolio's overall underweight in the consumer discretionary sector, however, and a few underperforming holdings led consumer discretionary to rank as the portfolio's worst-performing sector for the quarter in terms of both allocation and security selection.

China Resources Power Holdings, an independent power producer, was the largest detractor to performance, as management abruptly abandoned its dividend commitment to speed its push into renewable energies. We decided to sell the position. CPMC Holdings also posed a drag on performance as the company had an investment dispute with one of its large customers. We are closely watching the developments in order to re-evaluate our investment thesis.

Notable Portfolio Changes:

During the quarter, we initiated a position in Chinese high-end liquor maker Wuliangye Yibin as its management team started to refocus its core “Wuliangye” brand and tried to narrow its product price gap with industry leader Kweichow Moutai.

Among the banking industry, we exited our holdings in the Bank of China in favor of a position in China Merchants Bank as U.S. interest rates seemed unlikely to rise over the near term. The rate cycle is likely to reduce the attractiveness of Bank of China's overseas business while new clarity on China Merchants Bank's wealth management business should improve its earning quality profile.

In addition, we bought back a position in China's leading home-appliance maker Midea Group as investors sold off shares due to concerns over slower retail sales. While we continue to like the long-term business prospects of Sunny Friend Environmental in Taiwan, we felt the share price rebounded too quickly and too strongly due to improved sentiment on a new project going online this year. We sold our position as a result.

Outlook:

As external headwinds—including trade war tensions, possible U.S. Federal Reserve interest rate increases and a strong U.S. dollar— that had posed challenges to Chinese equities subsided, the near term outlook for Chinese equities became brighter, especially following last year's aggressive sell-off. We believe it is time for high-quality companies to show their strength in business performance after their weak peers were swept away by the headwinds. We would like to remind investors, however, that last year's equity market sell-off was mainly due to several policy missteps. The volatility caused by these mistakes tends to be associated with most emerging markets. China is no exception. We continue to focus on bottom-up stock selection and a total return approach as we aim to deliver better risk-adjusted long-term returns for investors.

Annual Returns For the Years Ended 31 December

Matthews China Dividend Fund	**2018**	**2017**	**2016**	**2015**	**2014**
I (Acc) (USD)	-10.44%	38.09%	6.09%	7.94%	0.92%
MSCI China Index (USD)	-18.75%	54.33%	1.11%	-7.62%	8.26%

For YTD performance figures, please refer to the Quarterly and Monthly Performance pages.

There is no guarantee that a company will pay or continue to increase dividends.

Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares and have been calculated in USD, including ongoing charges and excluding subscription fee and redemption fee investors might have to pay. Performance details provided for the Fund are based on a NAV-to-NAV basis, with any dividends reinvested, and are net of management fees and other expenses. Past performance information is not indicative of future performance. Investors may not get back the full amount invested.

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Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg