

## 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 India-related companies. Investments 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 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 India Fund returned 6.12% while its benchmark, the S&P Bombay Stock Exchange 100 Index, returned 6.62%.

### Market Environment:

In February, investor sentiment in India's stock market improved sharply. Despite the losses in state elections faced by the ruling national political party led by Prime Minister Narendra Modi, market participants were optimistic about his return to power. The strong and decisive response by Modi to carry out air strikes inside Pakistan bolstered support for Modi, whose government has turned populist. As part of the interim budget in January, Modi announced an income-support program for small farmers that would pay them 6,000 rupees (approximately US\$85) per year.

India's market delivered positive stock returns despite slowing GDP growth, weak industrial production and rising oil prices. Emerging market stocks have seen greater investor appetite globally following the U.S. Federal Reserve's abrupt switch from tighter monetary policy to maintaining the status quo. This has manifested not just in the improved performance of emerging market equities but also in emerging market currencies, which appreciated against the dollar. India's central bank seems to have adopted a more dovish monetary policy and already delivered an unexpected rate cut in February.

### Performance Contributors and Detractors:

The portfolio's higher allocation to small-cap stocks versus its benchmark hurt relative performance during the first quarter. By sector, our higher allocation to consumer discretionary, especially auto stocks, posed a drag on relative performance, while our avoidance of the energy sector and stock selection within health care were also performance detractors. The pricing sentiment within the pharmaceuticals industry has not improved materially within export markets and the domestic market is still recovering from the lows seen after the introduction of India's Goods and Services Tax. Within autos, both our holdings—Japan's Suzuki Motor and Eicher Motors—have seen significant increase in costs arising from revised insurance and safety regulations, which affected volume growth as they passed costs on to customers. This should reverse in the medium term

once consumer sentiment and affordability improve.

Stock-specific factors within the financials, materials and industrials sectors partially mitigated our relative underperformance. We had been adding to Yes Bank last year when it was undergoing a rough patch, especially in its dealings with the central bank, as we believed that these issues were temporary and not structural in nature. Similarly, we had been adding to our position in chemical maker UPL last year, which makes products for global crop protection, when the market was overly concerned, in our opinion, with its acquisition of a peer firm. Considering our estimation of the synergies and our assessment of the acquisition price, we saw the market as too fearful, and market worries appeared to ease during the quarter.

### Notable Portfolio Changes:

During the first quarter, we did not exit any holdings. We did, however, add a few small-capitalization stocks across the financials and information technology sectors, which appear to have significant headroom to grow in the years to come.

### Outlook:

We believe volatility in the short term is likely to persist. The outcome of upcoming elections is far from certain given the alliances within regional parties, the distress in rural India and the extent of monetary promises being made by opposition parties. Monetary policy is expected to stay loose as consumer price inflation has remained muted alongside slowing GDP growth and easing pressure from a strong U.S. dollar. Risks for inflation over the medium term, however, continue to build as a fiscal deficit is likely to expand regardless of which political party comes to power given widespread expectations for farm loan waivers and direct-income support to beleaguered farmers.

Since the corporate credit cycle has peaked and most corporate banks are on a path to improving their balance sheets, a revival in India's private capital expenditure is anticipated on the back of lower cost of capital and greater availability of capital for corporate investments. Capacity utilization in the manufacturing sector, however, has remained stagnant at approximately 75%—which implies improvement over the medium term. Valuations across the board are running above long-term averages, with the highest valuations among small-capitalization stocks. Risk of disappointment is fairly high given the historically high earnings growth expectations that are reflected by these valuations.

#### Annual Returns For the Years Ended 31 December

<b>Matthews India Fund</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
I (Acc) (USD)	-9.78%	37.88%	-3.05%	-2.73%	54.46%	-4.82%	28.80%	n.a.	n.a.	n.a.
I (Acc) (GBP)	-4.76%	25.78%	16.54%	2.28%	63.93%	-6.94%	23.43%	n.a.	n.a.	n.a.
S&P Bombay Stock Exchange 100 Index (USD)	-6.00%	41.88%	2.32%	-6.41%	31.40%	-4.70%	28.62%	n.a.	n.a.	n.a.

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

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