



April 2019

Matthews Asia Funds (the “Funds”) are committed to investor protection. As part of that commitment, the Funds have adopted swing pricing for sub-funds under the Matthews Asia Funds umbrella (the “Sub-Funds”) in order to provide reasonable protection to existing investors from dilution arising from transaction costs incurred in the purchase and sale of securities resulting when shareholders trade into or out of a Sub-Fund.

The Rationale for Swing Pricing

A fund’s trading activity—the buying and selling of securities—involves costs. These costs include the bid-offer spread (buying securities at a higher offer-price and selling at the lower bid-price); explicit transaction costs such as brokerage fees, commissions and taxes; and the market impact of the transaction. If not mitigated, these costs can negatively impact existing shareholders by causing a reduction in the value of the NAV. This negative impact is known as “dilution.”

The purpose of swing pricing is to protect the interests of existing shareholder against dilution by transferring the impact to those shareholders transacting in the fund. This is accomplished by adjusting or “swinging” the price at which a fund is priced, its NAV, upward in the case of net inflows and downward in the case of net redemptions. In this way some or all of the transaction costs for that day are attributed to the investors who have caused the impact by transacting on that day, thus lessening or eliminating the impact of dilution of existing shareholders.¹

Full and Partial Swing Pricing

There are two distinct forms of swing pricing. The first is the “full” swing method. Under the full swing method, a fund’s NAV will adjust up or down every NAV calculation day (except when the net flows are zero). If the fund enjoys net inflows on a particular day, the NAV will swing upward, whereas if the fund suffers net outflows, the NAV will swing downward—irrespective of the amount of net inflows or net outflows, respectively.

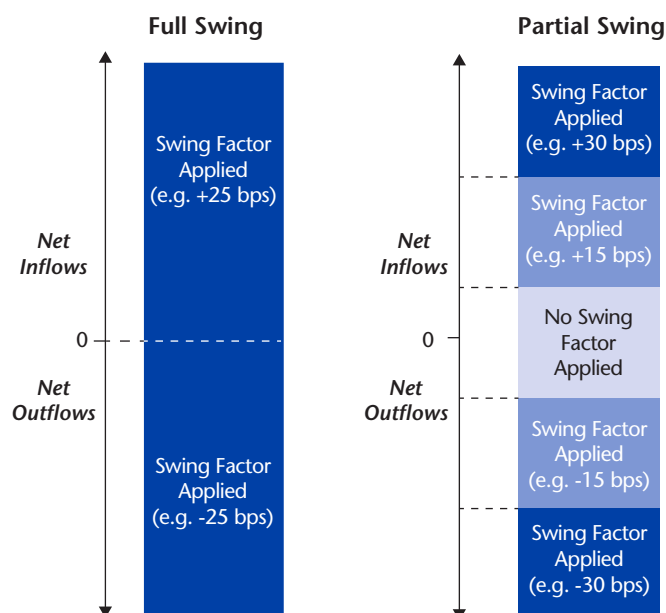
The second form of swing pricing is the “partial” swing method. Under this method, the NAV will not be adjusted unless net inflows or outflows exceed a predetermined threshold—the “swing threshold.” Since the threshold applies to aggregate flows into or out of a fund on a given dealing day, a transacting shareholder will not know in advance whether the price will be swung that day or, if swung, the direction of the swing. According to a survey by the Association of the Luxembourg Fund Industry or ALFI,¹ the overwhelming majority of respondents who applied swing pricing used the partial swing method. The primary reason given was the desire to prevent the NAV volatility

created by the full swing method. Another commonly stated reason was to target only flows of such a size that the dilution would be material.

Swing Factors

Whereas the swing threshold is the predetermined point at which swing pricing will be applied, the swing factor is the predetermined amount by which the NAV will be adjusted. The swing factor is generally set based on the estimated impact of some or all of the following components: bid-offer spread; explicit transaction costs; and market impact. A fund can have a single swing threshold or multiple thresholds. A single threshold will be paired with a single swing factor, while a fund with multiple thresholds will apply a different swing factors as each threshold is crossed. The following examples of single and multiple thresholds illustrate how these approaches work. The swing factors in the illustration are examples only and not necessarily indicative of the swing factors that might be applied by any particular funds.

Forms of Swing Pricing



¹ ALFI Swing Pricing Update 2015, p. 9.

The Funds' Governance over Swing Pricing

The Board of Directors of the Funds (the "Board") sets the swing thresholds and swing factors for each of the Sub-Funds. While the Board will receive input from the Fund's investment manager, Matthews International Capital Management, LLC ("Matthews"), the Board retains ultimate authority and responsibility over the process. The Board generally reviews the swing pricing process and the ongoing appropriateness of the swing thresholds and swing factors at each quarterly meeting of the Board. However, the Board may review the process, including the swing thresholds and swing factors, more or less frequently, as appropriate and may change the process or adjust the swing thresholds and swing factors at any time without notice to investors.

The Funds' Implementation of Swing Pricing

The Funds, like the overwhelming majority of respondents to the 2015 ALFI survey, have adopted partial swing pricing. The primary rationale for selecting the partial swing method is that small inflows or outflows may require little or no trading activity and the dilution impact is expected to be minimal, not reaching the level that would justify incurring the NAV volatility that would be created by the full swing method. However, the greater the volume of inflows or outflows, the greater the likely dilution effect and the need for protection. Accordingly, rather than setting a single swing threshold with a single swing factor for each Sub-Fund, the Funds have chosen to deploy a more refined approach, with multiple thresholds and multiple factors. The thresholds and factors may vary Sub-Fund to Sub-Fund.

The Board may choose to forego or suspend application of swing pricing when the Board determines it to be in the best interest of investors of a Sub-Fund, such as when a Sub-Fund is small and the application of swing pricing could be an impediment to the Sub-Fund reaching appropriate scale.

This document contains general information about the implementation of swing pricing by the Matthews Asia Funds (the "Funds"). The information contained herein is believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the completeness of any of this information. Matthews International Capital Management, LLC and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information. The information discussed herein is as of the date of publication and is subject to change. This document does not constitute investment advice, and should be read in conjunction with the Funds' current Prospectus, Key Investor Information Document or Product Key Facts Statements or other supplements ("Offering Document") which contain detailed information about the Funds and can be obtained by visiting matthewsasia.com. Investment involves risk. The value of an investment in the Fund can go down as well as up and it is possible to lose the principal capital of your investment. Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds and should speak with their professional advisers before any investment. This document does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund (nor shall any such shares be offered or sold to any person) in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction.

Issued in the UK by Matthews Global Investors (UK) Limited ("Matthews Asia (UK)"), which is authorised and regulated by the Financial Conduct Authority ("FCA"), FRN 667893. In the UK, this document is only made available to professional clients and eligible counter-parties as defined by the FCA. Under no circumstances should this document be forwarded to anyone in the UK who is not a professional client or eligible counterparty as defined by the FCA. In Singapore, this document is available to, and intended for Institutional Investors under Section 304 of the Securities and Futures Act. It should not be circulated or distributed to the retail public in Singapore. Issued in Singapore by Matthews Global Investors (Singapore) Pte. Ltd. (Co. Reg. No. 201807631D). In Hong Kong, this document is issued by Matthews Global Investors (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong.

The following table is provided to illustrate multiple thresh-old partial swing pricing. The numbers used for swing thresholds and swing factors are examples for illustrative purposes only and may not necessarily be indicative of the swing thresholds and swing factors implemented for any particular Sub-Fund.

Examples of Multiple Thresholds

Fund Name	Lower Threshold	Upper Threshold	Swing Factor in bps
Fixed Income Fund	3%	5%	15
	5%	10%	20
	10+%	—	25
Equity Fund	3%	5%	25
	5%	10%	30
	10+%	—	35

Disclosure

In addition to the required disclosure included in the prospectus, in the interest of providing further transparency, the Funds will provide investors, upon request, the range of the thresholds and swing factors that may be implemented across the Sub-Fund lineup or categories of Sub-Funds (e.g., fixed income, equity), but will not, however, match specific swing factors to specific thresholds.

Upon request, the Funds will also provide investors the impact of swing pricing on a day in which that investor has transacted, with an appropriate lag before such information is provided. Investors should be aware that the Board may change the swing thresholds and swing factors at any time without notice to investors, so the information provided may not be indicative of the impact that swing pricing may have on future transactions in the shares of the Sub-Fund.

