

Matthews Asia Small Companies Fund

Risk Considerations

- ✦ Investments in this Fund involve risk. Please refer to the relevant Offering Document for further details of the risk factors.
- ✦ The Fund invests primarily in Asian countries and economies. Investments in Asian economies involve certain risks and special considerations such as greater political, tax, economic and regulatory risks. Additional risks relate to liquidity and the repatriation of capital and income due to currency controls, which may adversely impact the value of the Fund holdings.
- ✦ The Fund invests primarily in equity securities, which may result in increased volatility. It is possible to lose the principal capital of your investment.
- ✦ 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.
- ✦ The Fund may hold investments denominated in multiple currencies. Movements in the exchange rate between these currencies and the base currency of the Fund may adversely affect performance.

What is the objective of the Fund?

The Matthews Asia Small Companies Fund seeks to generate long-term capital appreciation through investments primarily in small companies located in Asia excluding Japan.

How do you define small companies?

Typically, we invest in companies that have a market capitalization between US\$100 million to US\$3 billion at the time of purchase. However, we are able to invest in companies as large as the biggest company in the benchmark—the MSCI AC Asia ex Japan Small Cap Index.

What is the Fund's anticipated weighted average market capitalization?

Although the Fund can invest in companies that have a fairly wide range of market capitalization, we tend to focus on the companies at the lower end of the spectrum and therefore the portfolio average market capitalization is expected to be fairly low. We anticipate the weighted average market cap of this Fund to be approximately US\$1 billion to US\$1.3 billion.

Why invest in small companies in Asia?

Small companies in Asia have always been an integral part of the region's economy and as capital markets have deepened, the investment universe has grown considerably. This provides new opportunities for investors to gain exposure to companies that are typically under-researched and often inefficiently priced compared to large companies. As a specialist investment manager focused on Asia, our fundamental, bottom-up investment approach lends itself to finding the most attractive investment opportunities in the small companies universe.

Why are small companies under-researched?

In general, investment banks have typically focused their attention on conducting research on large companies as this tends to generate higher revenues for them. At Matthews Asia, we believe we can take advantage of this gap and that our research-driven investment approach can potentially identify mispriced stocks of companies that exhibit good earnings growth and that occupy strong market positions in order to generate attractive returns.

What makes small companies attractive investments?

There are a number of aspects that make small companies attractive to investors. For instance, small companies often have management teams closely aligned to shareholder interests. This is because the management teams typically hold significant share holdings, and thus there is a real incentive for the company to succeed. In many cases, small companies are managed by entrepreneurs whose ambitions for their company lie beyond any short-term price movement in their stock. Their primary desire is to see the company grow. In addition, small companies often operate in industries that are at the early stages of development. Since they have the potential to become future regional or global brand leaders, they represent an attractive investment opportunity. Finally, small companies also have the potential to benefit from mergers and acquisitions activity as sectors and industries consolidate—an increasingly important trend as Asia's economy continues to grow and competition increases. Small companies are of also particular interest to large multi-national companies looking to penetrate the Asian market.

Are there any trends in Asia that could benefit smaller companies?

Rising domestic demand will be an increasingly important driver of regional economic growth as wealth and the size of the middle classes grow. As economies shift from being export dependent to more consumption driven, they will be less influenced by the broader macro environment and issues affecting developed markets. We believe small companies in Asia are well positioned to take advantage of these important trends, and are small and nimble enough to react quickly to the region's changing patterns of consumption.

We also see more companies from a diverse range of industries coming to the capital markets as a result of:

- ✿ A desire by owners to expand their business and create wealth
- ✿ Further deregulation in some markets
- ✿ Improved access to credit and capital
- ✿ Next generation family management teams that have more entrepreneurial spirit
- ✿ A need for greater transparency

Finally, we are seeing small companies emerging in industries that, while new to Asia, are well established in other parts of the world. These small companies are leveraging proven business models in order to succeed.

How important is the entrepreneur in Asia?

Asia is synonymous with an entrepreneurial spirit and small companies have always been central to its economies. As they have grown and access to capital has increased, their importance as a driver of innovation and employment has risen. In fact, many small companies in Asia have contributed to economies being able to transition from the low value-added model to a higher-value added economy. This has been achieved through innovation and an ability to more easily cater to local populations, designing and developing products and services that appeal to local markets. With less understanding of local market nuances, this is typically more difficult for a large Western multinational to achieve. As the products and services from small companies become brands in their own right, this leads to more sustainable returns on equity and returns to shareholders, making small companies an attractive investment proposition.

Do small companies only serve domestic markets?

We believe a firm's smaller size is not indicative of a purely domestic focus. In some cases, these firms are already, or are poised to become, regional players, particularly those companies operating in niche markets and occupying strong market positions.

What is your investment process?

At Matthews Asia, we employ a fundamental, bottom-up investment process. We seek to identify companies with sustainable long-term growth prospects, strong business models, quality management teams and reasonable valuations. In particular, we believe this bottom-up process is particularly suited for this asset class.

We screen for companies with the following general criteria in mind: attractive revenue growth rates, capital efficiency, superior profitability and healthy valuations relative to industry peers or historical valuations. We spend a considerable amount of time on the ground visiting management teams in Asia, and from our base in San Francisco, make qualitative and quantitative assessments of a company's operations and integrity. It is important to evaluate whether companies have both the aspiration as well as the financial ability to implement their growth strategies.

What attributes do you look for in a company?

We seek companies with high quality business models and management teams. It is important that companies hold a sustainable competitive advantage in the marketplace that may enable them to grow and compete effectively over the long run. We prefer companies that focus on domestic or regional markets as opposed to those dependent on exports to developed markets. We also tend to favor companies with strong balance sheets and a track record of prudent capital deployment and operational spending. We seek motivated owners, and find that many of the region's small companies are typically majority family-owned businesses that possess notable entrepreneurial spirit.

How do you construct the portfolio?

Our portfolio is benchmark agnostic and is fairly concentrated, holding around 60 to 80 names. It is constructed via bottom-up, fundamental stock picking approach. Our position sizes are determined by several factors such as liquidity, valuations, and our conviction in corporate fundamentals.

What will you do when a holding grows beyond the market capitalization range of the Fund?

We feel this is a good problem to have. If a company grows and exceeds the upper end of the Funds' market cap range we are not required to sell it. We will look at the relative attractiveness of the holding in the portfolio and sell if we deem there is a more compelling investment opportunity.

How much money can you manage and do you have a target size for the Fund?

This asset class continues to grow and evolve and we believe there is capacity to accommodate reasonable growth in this Fund for the foreseeable future. We do

not have a set target size for this Fund but as with all our Funds, we will critically review the asset size of this strategy on an ongoing basis to ensure our ability to consistently apply our management discipline over the long term to the benefit of our existing investors.

What are the risks that are unique to investing in smaller companies in Asia?

Investing in Asia brings with it certain risks and considerations not typically associated with investment in more developed markets. These include political, social and economic risks together with the potential for higher volatility and adverse movements in foreign exchange. More specifically, while smaller companies may offer substantial opportunities for capital growth, they can also involve substantial risks, and investments in smaller and micro-cap companies may be considered speculative. Such companies often have limited product lines, markets or financial resources. Smaller companies may also be more dependent on one or few key persons and may lack depth of management.

How do you manage these risks?

At Matthews Asia we take the risks associated with investing in Asia and small companies seriously and our in-depth due diligence process is an important form of risk control. We manage the risks of investing in small companies through our knowledge of the markets and the intensive research conducted on the companies in which we invest. We conduct onsite visits as well as conference calls with management and in-person meetings in our San Francisco office. We also carefully consider the size of each position, as well as monitor our overall sector and country exposure in the portfolio to ensure we maintain a diversified portfolio.

Are small companies more volatile than large companies?

Small companies are typically viewed as being more volatile investments as they may encounter issues such as limited resources. But consider historical data, which may offer some perspective on these levels of volatility. Over about the past five years (which includes the last major market correction), the volatility for small companies has been largely similar to that of large companies. This indicates that an investment in small companies may help improve the overall risk-adjusted returns of a portfolio.

What experience does Matthews Asia have investing in smaller companies?

Matthews Asia has been investing in companies in the region for over twenty years and we have a good understanding of what it takes for companies to be

successful in this region. Our investments have been made across the market-cap spectrum, including smaller companies. Our investment philosophy is centered on a fundamental, research-driven approach that aims to identify companies with sustainable long-term growth prospects at reasonable valuations. With more than 2,500 company meetings a year, this is an approach well-suited to identifying the most attractive smaller companies in Asia.

What do you believe differentiates the Matthews Asia Small Companies Fund from its peers?

There are a number of features that we believe differentiates the Matthews Asia Small Companies Fund from the peer group. Firstly, we have an experienced management team that have lived in Asia and seen first-hand the importance of the small cap universe. The team also spends considerable time on-the-road, researching companies and speaking to management teams. In terms of the portfolio, this strategy invests in companies from across the market-cap spectrum, including, micro-cap companies.

What experience does the Lead Portfolio Manager have investing in small companies in Asia?

Lydia So, CFA, joined Matthews Asia in 2004 and has significant experience investing in small companies in Asia. Lydia has managed the U.S.-domiciled Fund since its inception more than five years ago and prior to that was researching small companies while supporting the Matthews regional strategy teams as well as the Asia Innovators team.

Why should investors consider this fund?

The Matthews Asia Small Companies Fund provides investors with access to a unique source of Asia's growth. The Matthews Asia Small Companies Fund is suitable for risk-tolerant investors seeking greater exposure to Asia's small companies. Investors who are considering international, global and emerging market small-cap funds, as well as other regional Asia strategies, should consider this Fund. We believe this strategy complements investors who currently have exposure to a large-cap Asian equity portfolio.

How can a small-cap fund complement investors' existing exposure to a large-cap portfolio?

For many investors, their current exposure to either global or regional emerging markets is with a portfolio comprised of large capitalized companies. Typically these portfolios will invest in companies that have a market capitalization far in excess of US\$5 billion and, therefore, make only very small allocations to small companies. We believe this Fund complements holders of core emerging market and Asian equity funds.

FUND FACTS

Inception Date

30 April 2013

Investment Objective

Long-term capital appreciation

Benchmark

MSCI AC Asia ex Japan Small Cap Index

Number of Holdings

60 to 80

Share Class

| Share Class | ISIN | Bloomberg ID | SEDOL | CUSIP | Minimum Investment | Management Fee |
|-------------|--------------|--------------|---------|------------|--------------------|----------------|
| A Acc | LU0871673728 | MATASCA:LX | B8YSJD1 | L6258V 112 | US\$1,000 | 1.50% |
| I Acc | LU0871674296 | MATASCI:LX | B8BDQ61 | L6258V 146 | US\$1,000,000 | 1.00% |

Portfolio Management



Lydia So, CFA
Lead Manager

Lydia So is a Portfolio Manager at Matthews Asia and manages the firm's Asia Small Companies Strategy. Prior to joining Matthews Asia in 2004 as a Research Associate, Lydia was a Portfolio Associate at RCM Capital Management. She started her investment career at Kochis Fitz Wealth Management. Lydia received a B.A. in Economics from the University of California, Davis. She is fluent in Cantonese and conversational in Mandarin.



Tiffany Hsiao, CFA
Co-Manager

Tiffany Hsiao is a Portfolio Manager at Matthews Asia. She manages the firm's China Small Companies Strategy and co-manages the Asia Small Companies and Asia Innovators Strategies. Prior to joining the firm in 2014, she was a Vice President and Research Analyst at Goldman Sachs Investment Partners in Hong Kong and Tokyo from 2007 to 2013. She was responsible for researching Asia Pacific investments, with an emphasis on equities in China. Previously, she spent six years at Franklin Templeton Investments, where she managed the firm's global communications fund. Tiffany earned her Master of Science and Information Technology from Carnegie Mellon University and received a B.A. in Economics from the University of California, Berkeley. She is fluent in Mandarin and Taiwanese, and conversational in Cantonese.



Beini Zhou, CFA
Co-Manager

Beini Zhou is a Portfolio Manager at Matthews Asia and manages the firm's Asia Value Strategy, and co-manages the Asia Small Companies Strategy. Prior to joining Matthews Asia in 2013, he was a Research Analyst with Artisan Partners on the Global Value Team, responsible for covering pan-Asia stocks across all industries. Before joining Artisan in 2005, Beini spent three years as a senior product analyst at Oracle Corp. He received an M.S. in Computer Science from the University of California, Berkeley and a B.A. in Applied Mathematics from Harvard College. He is fluent in Mandarin.

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Investments involve risk. Past performance is not a guide to future performance. The value of an investment in the Fund can go down as well as up. Investors should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. The current prospectus, Supplement for Hong Kong Investors, Product Key Facts Statements or other offering documents ("Hong Kong Offering Document") contain this and other information and can be obtained by visiting hk.matthewsasiasia.com. Please read the Hong Kong Offering Document carefully for further 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. It should not be assumed that any investment in the securities listed was or will be profitable.

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

*You are invited to contact Matthews Global Investors (Hong Kong) Ltd. directly for more information relating to the Fund only if you are categorised as a professional investor in Hong Kong. This document is issued by Matthews Global Investors (Hong Kong) Ltd and has not been reviewed by the Securities and Futures Commission.