Matthews Asia

Matthews Asia 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 Asian countries and economies. Investment in such emerging markets 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 Asia Dividend Fund returned 6.99% while its benchmark, the MSCI All Country Asia Pacific Index, returned 9.73%.

Market Environment:

Asia's equity markets rebounded strongly during the first quarter of 2019, recovering some of the double-digit losses seen in 2018. Despite the region's near-term economic slowdown and decelerating earnings growth among Asian companies, investor sentiment toward Asian equities started to recover. Fueling the recovery were improved macro conditions, including the pause of U.S. monetary tightening, progress in China—U.S. trade negotiations and China's policy support measures designed to address its slowing economy. Amid improving sentiment, Asian equities, led by China A-shares, delivered solid returns.

Performance Contributors and Detractors:

Among the top contributors to Fund performance during the quarter was our position in Breville Group, a branded Australian kitchen-appliance maker. Breville reported strong 2018 earnings due to its sustained growth momentum in overseas markets. The positive earnings surprise dispelled market concerns over the company's exposure to weaker Australian consumer spending, and Breville's shares substantially rallied.

On the flip side, our holdings in Chinese stocks were the main reason for the Fund's underperformance relative to its benchmark. A slowing Chinese economy starting in the spring of 2018 took its toll on corporate earnings. Several Chinese stocks in the portfolio were sold off aggressively following disappointing 2018 earnings. China Resources Power Holdings, a

Chinese independent power producer, detracted the most from Fund performance. While the firm's weak earnings were mostly anticipated by the market and therefore a nonfactor for the share underperformance, the company's surprising decision to cut its dividend triggered a severe sell-off. Its management said its new aggressive push into renewable energy was behind the dividend cut—a complete reversal of the company's previously stated dividend policy. The market responded negatively. At quarter end, we were re-evaluating our investment thesis in this holding.

Notable Portfolio Changes:

During the quarter, Katitas, a Japanese real estate developer, was among several positions we initiated. Specialized in refurbishing and selling previously owned houses in Japan, Katitas has carved out a niche market segment and consistently delivered double-digit growth. We think the company continues to have significant headroom for growth. With a modest dividend payout ratio just over 20% since its initial public offering, we believe Katitas is well-positioned to deliver significant growth in dividends.

We exited Seven & i Holdings during the quarter. While convenience store operators in Japan have been under cost pressure posed by Japan's labor shortage, the severity of the pressure caused changes to its business model and could attract more government intervention in such areas as minimum wage increases. Our initial investment in Seven & i was based on its potential for delivering better dividend growth backed by a restructuring of its various retailing assets and improving its corporate governance. This investment case, however, has weakened without strong, healthy operation of its core convenience store business.

Outlook:

An easing of macro uncertainties is helping to restore investor sentiment toward Asia. While the near-term macro data could continue to disappoint, the market is likely to be more focused on a potential recovery later in the year. From a bottom-up perspective, decelerating earnings growth among Asia's firms has been more or less captured by a muted consensus outlook. Asian equity valuations continue to trade below long-term averages, providing long-term investment opportunities.

Annual Returns For the Years Ended 31 December

Matthews Asia Dividend Fund	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
I (Acc) (USD)	-12.85%	33.49%	4.09%	3.87%	-0.96%	12.26%	21.06%	-9.12%	n.a.	n.a.
I (Acc) (GBP)	-7.98%	21.75%	25.18%	9.10%	5.11%	9.70%	16.00%	n.a.	n.a.	n.a.
I (Acc) (EUR)	-8.85%	6.20%*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MSCI All Country Asia Pacific Index (USD)	-13.25%	32.04%	5.21%	-1.68%	0.29%	12.19%	17.05%	-14.92%	n.a.	n.a.

* Performance shown from share class launch date to calendar year end.

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