

## Matthews Asia ex Japan 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 Asia ex Japan countries and economies. Investment in such emerging markets may be subject to increased risks such as political, social, 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 may invest in financial derivative instruments ("FDIs"). Risk associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The Fund will not use FDIs extensively for investment purposes.
- The Fund may use hedging techniques to attempt to offset certain market risks but there is no guarantee that hedging techniques will fully and effectively achieve their desired result.
- 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 30 June 2019

For the first half of 2019, the Matthews Asia ex Japan Dividend Fund returned 12.89%, outperforming its benchmark, the MSCI All Country Asia ex Japan Index, which returned 10.83% over the same period. For the quarter ending 30 June, the Fund returned 1.83% while its benchmark returned -0.56%.

### Market Environment:

After a strong rally in the first quarter of 2019, Asian equities were unable to sustain the positive momentum during the second quarter. A sudden collapse in U.S.—China trade negotiations weighed heavily on the market. Together with the renewed concerns over the strength of the global economy, market volatility spiked. It was not until June, when central banks globally signaled a readiness to support growth via monetary easing, that Asia's markets began to stabilize again.

### Performance Contributors and Detractors:

Haidilao International Holding, China's leading hot pot restaurant chain operator, was the top contributor to Fund performance in the first half of the year. This company has a unique culture of retaining customer loyalty and training and promoting its employees, and the market has found the firm's sustainable expansion potential since last year's IPO to be quite exciting.

Wuliangye Yibin, the leading high-end “baijiu” (Chinese white liquor) maker was another major contributor to Fund performance during the first six months of the year as the company endeavored to close its product price gap with top competitor Kweichow Moutai. Wuliangye Yibin recently launched a new version of its main product with some success, and has been warmly welcomed by investors.

China Resources Power Holdings, an independent power producer, was the largest detractor to performance as its management abruptly abandoned its dividend commitment to speed its push into renewable energies. We decided to sell the position.

During the first six months of the year, the Fund's outperformance was mostly driven by security selection. Our stock selection among the consumer staples sector was the main performance contributor. On a country basis, our security selection in the China/Hong Kong market was the main performance contributor, while our allocation to Vietnam was the largest detractor to performance.

### Notable Portfolio Changes:

During the second quarter, we initiated a position in Yixintang Pharmaceutical Group, the leading pharmaceutical retail chain in southwestern China. We believe the company is well-positioned to grow revenues and earnings from China's changing landscape of prescription drug distribution.

The Fund also participated in the Hong Kong IPO of China East Education Holdings during the quarter. China East Education is known for its strong niche in culinary education, training chefs for the country's booming dining industry, and it is continuing to research other professional services areas for growth. We believe professional talent is critical for China to develop its service industry. As the government has underinvested in this area, private companies could add strong value.

We exited our positions in China Resources Power, TOA Paint Thailand, HRnetGroup as their business fundamentals no longer supported our initial investment thesis.

### Outlook:

As China and the U.S. restarted trade negotiations in early July, Asia's markets seemed to experience temporary relief from tensions. The medium- to long-term outlook for these bilateral relations, however, is still cloudy given the structural differences between the two countries' political systems and economic growth models. Despite this uncertainty, policymakers in both Asia and the U.S. have signaled a willingness to use policy-support measures to address any significant slowdown. In the meantime, with investor expectations now reset mostly due to macroeconomic concerns and on Asia's equity valuations continuing to trade below long-term averages, we remain constructive that, from a bottom-up perspective, Asia's markets currently offer attractive opportunities for long-term investors.

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

<b>Matthews Asia ex Japan Dividend Fund</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
I (Acc) (USD)	-12.37%	47.29%	6.89%	0.10%*	n.a.
I (Acc) (GBP)	-7.38%	34.23%	28.50%	1.40%*	n.a.
MSCI All Country Asia ex Japan Index (USD)	-14.12%	42.08%	5.76%	-0.42%*	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.

Additional performance, attribution, liquidity, value at risk (VaR), security classification and holdings information is available on request for certain time periods.

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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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