Matthews Asia™

Matthews Pacific Tiger 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 Pacific Tiger Fund returned 7.65% while its benchmark, the MSCI All Country Asia ex Japan Index, returned 11.45%.

Market Environment:

Asian equity markets rebounded in the first quarter as concerns from 2018 began to ease. The U.S. Federal Reserve paused from making further rate hikes, strengthening emerging market currencies. Against a backdrop of stronger currencies and soft inflation, India's central bank had room to cut interest rates. Elsewhere, rates held steady in Indonesia and China cut reserve rate requirement by 1%. We expect that a supportive monetary environment could follow in other parts of the region.

Sentiment may also have been bolstered by China's use of incremental stimulus. To date, China's policymakers have employed a targeted approach to promoting growth via infrastructure spending, tax cuts and lending support for the private sector. Market participants seem hopeful that officials could be signaling a readiness to deploy additional stimulus if needed. Additionally, trade tensions between the U.S. and China lightened during the quarter, creating a consensus expectation that a trade agreement may eventually emerge.

Meanwhile, index provider MSCI announced it would further increase the weight factor of Chinese domestic A-share stocks in its indexes, highlighting the importance of domestic Chinese stocks to global investors. Turning to Southeast Asia, Vietnam continues to attract foreign direct investment, especially from China in the manufacturing sector. Preliminary results from elections in Thailand kept the military junta in power, maintaining status quo. Official election results are expected in May.

Performance Contributors and Detractors:

While generating gains during the quarter, the Fund lagged its benchmark on a relative basis. Detracting from performance was the Fund's underweight to China and overweight to India. Chinese equities experienced a sharp rally during the quarter, while Indian equities ended the quarter with positive but lower returns. Over the short term, it's natural for some country exposures within the portfolio to outperform others and we feel very comfortable with how the portfolio is currently allocated for the long term. We believe we have good exposure to companies focused on Chinese domestic demand and that our India holdings also have attractive growth potential.

Contributors to performance in the quarter included three large Chinese companies: insurance provider PingAn, gaming and social media conglomerate Tencent and dairy producer Yili Group. Each of these participated in China's recent market rally and we added to these holdings over the past year. In contrast, some small- and mid-cap stocks in the portfolio underperformed during the quarter, including Hong-Kong listed Dairy Farm International, the Swiss company DKSH, which helps global brands expand to Asia, and Indonesian convenience store operator Indofood. Dairy Farm and DKSH are going through changes, including management, while Indofood has pulled back due to weak quarterly earnings.

Notable Portfolio Changes:

We added a new position in Chinese beverage producer Kweichow Moutai. The firm produces baijiu, a clear, grain-based liquor with a high alcohol content popularly served at celebrations such as weddings and banquets. It is a unique product with a long national heritage with an imitable aspirational positioning in Chinese lifestyle. We were able to initiate the position at an attractive price, gaining access to such a marquee baijiu brand in China poised to benefit from growing domestic consumption. We are also took advantage of market conditions and earnings-related weakness among some holdings to rotate capital within the portfolio during the quarter.

Outlook:

In China, policymakers have signaled expectations for healthy, but slightly slower growth ahead. We believe China's growth will increasingly come from domestic demand and services. This evolution is likely to lead to more sustainable growth for China over the long term. The Southeast Asian economies remain sluggish overall, although there are signs of normalcy in Indonesia and better risk-reward profiles for companies in the Philippines. India will go through general elections later this year. The elections will be an important event, but so far they do not appear to be destabilizing.

More broadly, we have a positive outlook for the region, especially given a changed stance in Chinese policy that indicates a willingness to provide more fiscal and monetary support. Some risks continue to linger. Global trade is deaccelerating, industrial activity remains soggy and demand for electronics is slowing. These conditions create the potential for additional volatility. Over the long term, however, we expect Asia's growth prospects to be buoyed by rising incomes across the region, political stability and growing consumption. We remain optimistic in our outlook for Asian equities over a full market cycle.

Annual Returns For the Years Ended 31 December

Matthews Pacific Tiger Fund	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
I (Acc) (USD)	-10.71%	39.47%	-0.29%	-1.91%	11.22%	4.86%	18.65%	-12.40%	n.a.	n.a.
I (Acc) (GBP)	-5.71%	27.14%	19.96%	3.14%	18.00%	2.56%	13.54%	n.a.	n.a.	n.a.

Matthews Pacific Tiger Fund	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
MSCI All Country Asia ex Japan Index (USD)	-14.12%	42.08%	5.76%	-8.90%	5.11%	3.34%	22.70%	-17.07%	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