



Matthews Asia Funds–Japan Fund

- ✿ 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 Japan-related companies. Investments in such companies 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 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 document.

What is the objective of the Matthews Asia Funds–Japan Fund?

The Fund seeks to generate long-term capital appreciation by investing in the Japanese equity markets. The Fund seeks to achieve its objective by investing in an all-cap portfolio of Japanese companies, many of which may be positioned to benefit from growth opportunities in Asia or the improvement in the corporate governance and domestic growth outlook within Japan.

What makes the Japanese equity market attractive?

Japan has long been home to world-leading companies that operate at the higher end of the value chain in numerous industries. For example, robust research and development activities have introduced many innovative technologies that make Japanese companies both competitive and highly sophisticated. From a fundamental stand-point, Japan is still home to the world’s third-largest economy, according to FocusEconomics, and has among the highest GDP per capita in Asia according to International Monetary Fund data. Japan also has one of the largest and deepest stock exchanges in the world with a broad, highly liquid market that includes companies with long operating track records.

More recently, Japan has re-emerged as an attractive investment destination due to committed Quantitative Easing by the Bank of Japan, emergence of the country from decades-long deflation, structural reform initiatives on the part of the Japanese government, and improving shareholder return policies among select Japanese corporations. Furthermore, Japanese companies are increasingly benefiting from income growth and improving productivity levels across Asia. The integration of Japan with Asia’s broader economy is a key reason why we are excited about investment opportunities in the Japanese equity market.

What are the special features of the Fund?

While Japan has been seen by many investors as a “large-cap value” market over the past 15 years, at Matthews Asia, we believe that Japan is a source of long-term growth opportunities across the market-cap spectrum.

Our team looks at Japan in a regional context, paying particular attention to firms that are poised to benefit from rising income levels and productivity growth across Asia.

Because we view Japan as a long-term, core investment opportunity, our team invests across the market-cap spectrum and with a long-term investment horizon that allows the small-cap and mid-cap holdings to develop into market leaders in their respective industries.

Where do you see growth opportunities in Japan?

Currently, there are more globally recognized brands in Japan than anywhere else in the Asia region. As Asian household incomes have risen, consumers across the region are both willing and able to pay for the quality and the brand that is associated with Japanese leading brands. Japanese companies are also well-positioned to benefit from the flip-side of rising incomes—namely, the rising wages that support growing incomes but that also require Asian corporate managers to boost the productivity levels of their work forces.

One area of opportunity is in industrial automation—an industry in which Japan excels even beyond the U.S. and Europe. As wages across Asia continue to rise, automation helps to maintain profitability. However, automation contributes more than simply cutting costs. Automation is also needed to increase the quality of products and to deliver that quality consistently. We believe that automation is imperative for companies looking to move up the value chain and produce higher quality goods that could become the brands of the future. There are many Japanese companies with market-leading technologies that can benefit from corporate investment in technology and industrial equipment across the region.

Another area where we see opportunities is in the health care sector—for example, companies that can revolutionize health care, whether it be health care technology or areas such as online marketing services that connect pharmaceutical companies to doctors. Japan is well-known as an aging society, but many other countries around the globe are aging as well, and there is a need for health care infrastructure expansion and health care technology in order to address this demographic challenge.

What types of companies does the Fund invest in?

The Japan team looks to invest in high-quality Japanese companies with differentiated business models, sustainable competitive edges, attractive growth prospects and capable management teams.

We look for companies with pricing power that can be supported by a brand or a unique technology or service. We also look for sustainability of a company's growth—can the company generate enough cash flow to sustain its investment and operational needs? Does it need to depend on capital markets for funding? Does management understand shareholder value? Is there a reasonable belief that the company will create new value for shareholders going forward?

Specifically, we seek companies that are:

- ✿ **Domestic niche growth:** companies finding growth in Japan through innovative products and services, including in such areas as health care and automation. These companies may also start to benefit from growing demand throughout Asia
- ✿ **Regionally expanding:** companies deriving a significant or growing portion of revenues from Asia, and companies that are tied to the growth of the Asia household as we expect household incomes across the region to continue growing. These firms may export, trade, or locate business operations throughout this dynamic region
- ✿ **Global leaders:** companies with world-leading technologies, products and services, with growth drivers found in overseas markets, beyond Japan

What is your investment process?

The Japan team employs a fundamental, bottom-up investment process. Our process begins with ideas generated from research trips to Japan, referrals from other portfolios managed by Matthews Asia, or screens for fundamental characteristics such as consistently high return on invested capital, sustainable sales growth and sustainable profit margins.

Once the actionable screen is compiled, the team evaluates companies using three main criteria:

1. *Quality business:* the ability of a company to survive and generate sustainable earnings and cash flow through economic and market cycles
2. *Quality management:* management with integrity, alignment of interest with minority shareholders, and the demonstrated ability to meet business targets and milestones
3. *Valuation:* the value of the business as a whole in the context of its expected future growth

Assessment of the quality of a company's business and management team is a holistic and iterative process that includes quantitative analysis of the company's fundamental drivers, review of the competitive

landscape of the business and its relevant industry. The process also includes meetings with company management to understand their business strategy, capital expenditure plans, incentive structure, shareholder return policy and corporate governance.

What are the major risks associated with investing in the Fund?

Investments in Japanese securities may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. In addition, investments in a single-country fund, which is considered a non-diversified fund, may be subject to a higher degree of market risk than diversified funds because of concentration in a specific country. The Fund may invest in smaller companies, which are likely to carry higher risks than larger companies.

How do you assess the quality of a business and its management team?

In order to assess the quality of a business and its management team, company visits are essential to our process. These meetings help us to understand the competitive environment and an individual company's comparative advantage. Meetings also generate insight into a company's business model, enable us to identify the growth drivers, as well as serve to refine our understanding of management's strategy and shareholder return policies.

How is a company's valuation considered for the Fund?

Once the quality of a business and its management team have been confirmed, we consider the company's valuation. Rather than set price targets or a specific "intrinsic value," we develop a view on the current value of the company's business in its entirety, and then determine whether the current entry point is prudent in order to avoid overpaying for a business, all in the context of its future growth. We are prudent and may opt to keep a stock on our watch list for one year (or more) in order to find an attractive entry point.

Once the company is added to the portfolio, valuations are constantly monitored in the context of the company's fundamental and growth expectations.

Do you take into consideration the strength/weakness of the Japanese yen?

Currency does not drive our investment team's decision process as to whether a position is added to the Fund. However, it may impact the team's portfolio construction and drive the size of the position chosen by the team. In the event of a falling currency, for

instance, the team may initiate a position in a currency-sensitive company (such as a prevalent exporter) and increase the position over time.

How concentrated is the Matthews Japan Fund?

The Matthews Japan Fund will typically hold between 50 and 70 stocks. Position sizes in the Fund typically vary between 1% and 3%, based on level of conviction, liquidity and valuation.

What is Matthews Asia's experience investing in Japan?

Matthews Asia launched our dedicated Matthews Japan strategy in 1998. We believe that investors have developed not only a structural underweight, but also a behavioral underweight, toward Japan during the past two decades. We believe that the macroeconomic and policy backdrop, combined with improving shareholder return policies and exciting growth prospects for Japanese companies both domestically and across the Asia Pacific region, merit re-engagement with Japan as a strategic portion of investors' portfolios.

Our investment team employs an integrated, regional approach to investing in Japan. And given Matthews Asia's sole focus on investing in Asia, the portfolio managers of the Matthews Japan Fund benefit from a deeper understanding of how the region is developing and how Japanese companies might stand to benefit from that evolution.

Lead Manager Taizo Ishida and Co-Manager Shuntaro Takeuchi have over 40 years combined experience investing in Japan and Asia. Taizo also has regional portfolio responsibilities through his work on other regional strategies at Matthews Asia. This broader perspective provides the team with a more holistic view, allowing the team to be objective about prospects for the Japanese market and individual Japanese companies. This perspective also allows the portfolio managers to identify opportunities from long-term demand growth and increasing wealth across the region.

How does the Japan team work with the rest of the Investment team at Matthews Asia?

The team draws on the company- and country-specific expertise of the 45+-member investment team at Matthews Asia, many of whom also invest in Japanese stocks on behalf of the firm's regional equity strategies. Matthews Asia holds frequent investment team meetings and fosters cross-team communications through an open seating plan, further encouraging informal dialogue about companies and sectors. In this way, the Japan team benefits from a much broader perspective than it could accomplish as a standalone team.



PORTFOLIO MANAGEMENT



Taizo Ishida
Lead Manager



Shuntaro Takeuchi
Co-Manager

SHARE CLASS

A ACC (USD)

Inception Date	April 30, 2015
ISIN	LU1220257304
SEDOL	BWX5XX9
CUSIP	L6263Q 801
Minimum Initial Investment	US\$1,000
Management Fee	1.25%

I ACC (USD)

Inception Date	April 30, 2015
ISIN	LU1220257130
SEDOL	BWX5XW8
CUSIP	L6263Q 793
Minimum Initial Investment	US\$100,000
Management Fee	0.75%

I ACC (GBP)

Inception Date	April 30, 2015
ISIN	LU1220257486
SEDOL	BWX5XY0
CUSIP	L6263Q 819
Minimum Initial Investment	£50,000
Management Fee	0.75%



Matthews Asia

Disclosures

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Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before making an investment decision. The current prospectus, Supplement for Hong Kong Investors, Product Key Facts Statements (“Hong Kong Offering Document”) or other offering documents contain this and other information and can be obtained by visiting hk.matthewsasia.com. Please read the Hong Kong Offering Document or other offering documents carefully for 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.

The MSCI Japan Index is a free float-adjusted market capitalization-weighted index of Japanese equities listed in Japan. Index is for comparative purposes only and it is not possible to invest directly in an index.

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