Matthews Asia

Matthews Asia Small Companies Fund

Period ended 30 June 2020

For the first half of 2020, the Matthews Asia Small Companies Fund returned 9.28%, while its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, returned -6.45%. For the quarter ending 30 June 2020, the Fund returned 33.83%, while its benchmark returned 26.28%.

Market Environment:

The COVID-19 coronavirus pandemic continue to deeply impact global communities during the second quarter of 2020. Asian countries acted swiftly to contain the virus with varying degrees of success. Unfortunately the virus continue to spread beyond Asian boarders. The impact on Asia has been twofold: the impact on local economic activity due to lock-downs and social distancing and the impact on exports to non-Asian countries, where demands for goods have dropped as well due to the virus. We see the impact on the company earnings across the region with China, South Korea and Taiwan being the most resilient while harder hit economies suffered, such as Indonesia, the Philippines and Thailand.

China has been a resilient market year to date due to its strong measures to contain the virus and its domestic consumption engine that is nimble enough to shift from physical to virtual within months. Taiwan and South Korea continued to benefit from a supply chain reshuffling in Asia driven by ongoing trade tensions between the U.S. and China. During the first quarter, harsher impact on Southeast Asian and Indian equity markets have been more pronounced as these economies could no longer rely on tourism as global travel comes to a halt and worries about currency volatility. However, these markets recovered partially into the second quarter from the first quarter's oversold levels due to central bank interventions to maintain global liquidity.

Performance Contributors and Detractors:

Stock selections in China/Hong Kong contributed to the portfolio's relative outperformance over the benchmark during the second quarter. Among individual securities, Silergy Corp., one of China's largest analog semiconductor companies and Kingdee International, a Chinese enterprise software provider registered strong positive performance. On the other hand, DCB Bank in India was a detractor, where the financial sector was particularly hard hit after COVID-19 lockdowns. From a sector perspective, there were no detractors during the quarter. The top sector performers were in information technology, health care and real estate. As earnings in these sectors have been more resilient overall, their share prices have performed better as well.

Notable Portfolio Changes:

In the second quarter, we rotated capital within the portfolio. We exited DCB Bank in India in the quarter due to lack of visibility on the asset quality post the COVID pandemic and social platform JOYY Inc., a Chinese social media platform operator, due to valuations. We initiated a few new positions in China and South Korea during the quarter to capture next generation innovators. The portfolio's exposure in Southeast Asia was also reduced due to concerns over prolonged earnings contraction and better risk reward in North Asia. We trimmed our positions in several companies in Thailand, Indonesia, and Malaysia that we believe would fare unfavorably for the remainder of 2020.

We initiated new positions in Korean health care company, Hugel, which manufactures botulinum toxin, the main ingredient in Botox. We also added Hong Kong-listed structural heart device company, Peijia Medical, and A-share listed power relay company, Hongfa Technology. Hugel has demonstrated strong execution in product development and marketing. We expect its entry into the China market as the next significant catalyst. Peijia is an IPO during the second quarter with products that help patients with stroke management and avoid open heart surgery. Hongfa has reasonable valuations and a broad exposure to electric vehicles, power grid investments and automation.

Outlook:

The COVID-19 coronavirus outbreak has brought severe impacts on human lives and unprecedented challenges to society. The near-term economic weakness globally is unavoidable due to sudden demand shock and supply chain disruptions. We are mindful of the challenges under the current macroeconomic environment. Meanwhile many Asian countries have established various containment and stimulus policies in response to counter economic shocks. Small companies in Asia are not immune to these challenges; however, the degree of impact on company fundamentals vary from industry to industry, as well as the financial strengths of their underlying businesses.

We believe companies that are in cyclical industries may have to be conservative with their use of cash and cost management as demand shock could be prolonged. Corporate managers may need to adjust their policies in adapting to the new normal as various stakeholders are affected, which might affect profitability in the short term. Businesses that are leveraged to virtual or digital economy will, in our view, likely be beneficiaries in the short to medium term while travel spending would be subdued but home improvement spending may pick up. We believe that domestically oriented companies in Asia that deliver innovative and differentiated products and services continue to present attractive long-term investment opportunities as domestic demands continue to evolve and normalcy is gradually restored.

Rolling 12 Month Returns for the period ended 30 June 2020

Matthews Asia Small Companies Fund	**2020**	**2019**	**2018**	**2017**	**2016**
I (Acc) (USD)	14.42%	-5.85%	16.52%	14.51%	-15.55%
MSCI All Country Asia ex Japan Small Cap Index (USD)	-4.46%	-7.69%	6.91%	15.92%	-14.70%
I (Acc) (GBP)	18.39%	-2.49%	14.96%	18.49%	-1.17%
MSCI All Country Asia ex Japan Small Cap Index (GBP)	-1.59%	-4.24%	5.18%	19.30%	0.36%

Risk Considerations

The value of an investment in the Fund can go down as well as up and possible loss of principal is a risk of investing. Investments in international and emerging market securities may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. The Fund invests in holdings denominated in foreign currencies, and is exposed to the risk that the value of the foreign currency will increase or decrease. The Fund invests primarily in equity securities, which may result in increased volatility. The Fund invests in smaller companies, which are more volatile and less liquid than larger companies. These and other risks associated with investing in the Fund can be found in the Prospectus.

Investing in small- and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than larger companies.

Performance figures discussed in the Fund Manager Commentary above reflect that of the Institutional Accumulation Class Shares and has been calculated in USD. 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.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews International Capital Management, LLC ("Matthews Asia") and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information.

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Investors should not invest in the Fund solely based on the information in this material alone. Please refer to the Prospectus for further details of the risk factors.

Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg