Matthews Asia Strategic Income Fund

Period ended 31 March 2019

For the quarter ending 31 March 2019, the Matthews Asia Strategic Income Fund returned 5.65%, outperforming its benchmark, the Markit iBoxx Asian Local Bond Index, which returned 3.10%.

Market Environment:

Asian credit, currencies and interest rates all experienced a strong start to the year. Markets rallied on signs that many of the headwinds we saw in 2018 were fading, including a shift from escalating tensions to cooperation toward an agreement on U.S.—China tariffs; a hawkish turned dovish U.S. Federal Reserve and loosening Chinese financial conditions. Asian currencies broadly appreciated 1% to 3% versus the U.S. dollar, despite the fact that the dollar performed well relative to other developed market currencies during the quarter. Interest rates across developed, emerging and frontier Asia also fell, as the Fed signaled a pullback on tapering and a pause in interest rate hikes. Credit also performed well in the first quarter, as spreads for Asian high yield issuers tightened 101 basis points (1.01%).

It has been more than a decade since the Global Financial Crisis, and policymakers and central bankers are doing all they can in 2019 to prolong the expansion cycle. Much of Asia's strong performance was driven by the increasing dovishness of the U.S. Federal Reserve and the European Central Bank, as well as steady monetary and fiscal easing by China. A global macro environment wherein central banks across the major economies signaled low inflationary pressures and a willingness to support growth provided supported for risky assets.

Performance Contributors and Detractors:

During the quarter, the biggest contributor to Fund performance was the portfolio's overweight allocation to Asian high yield corporate bonds, which as a group outperformed in the risk-on environment. Within high yield corporate bonds, the perpetual bonds of Chinese state-owned enterprises, such as China Minmetals, Power Construction Corp. of China (Leader Goal International Ltd.) and China National Chemical Corp. (CNRC Capitale Ltd.), were top performers. Chinese property developers, such as KWG Group Holdings and CIFI Holdings Group, also did well. In addition, our positions in SoftBank Group perpetual bonds and HSBC were also strong contributors. In terms of absolute returns, almost every bond in the portfolio had a positive return in the quarter, an indication of the strength of the rally.

The biggest detractors to our relative performance against the Index were our underweight allocations in Philippine and Malaysian government bonds, both of which had strong positive performance in the period.

Notable Portfolio Changes:

We made a number of changes across credit, currencies and interest rates in the first quarter. We reduced our duration overweight in Indian rates and currency, taking profits ahead of the upcoming election and reducing potential negative impacts from rising oil prices.

We increased our exposure to local currency Indonesian government bonds, where rates have room to fall in 2019. Such bonds tend to be more beneficial in a global risk-on environment on foreign investor inflows. In currencies, we also increased our exposure to the renminbi and the Philippine peso, as we believed both currencies had been oversold near the end of 2018. During the quarter, we also increased the duration of U.S. dollar securities in the portfolio by adding high-quality bonds.

Outlook:

The Fed has pared back its outlook for further tightening and the futures market has priced no hikes for 2019. Given the lack of inflation pressures in the U.S. and signs of slowing growth in developed markets, the Fed appears content to remain in a wait-and-see mode. This gives emerging market central banks a respite and we expect Asian central banks to remain relatively neutral, prioritizing financial stability for 2019.

With a supportive monetary environment, our base case for the year is that Chinese growth stabilizes and U.S. growth hums along. If this happens, Asian fixed income should continue to outperform. After pushing deleveraging efforts in 2018, China is providing stimulus through tax cuts and regulatory loosening to reflate sentiment. We think this should stabilize macro conditions, though we do not expect a major reflation. The U.S. is decelerating, but from a very high base, and we do not see imminent recession risks. All in all, this could be the optimal environment for fixed income---neither too hot nor too cold.

On the rates side, inflation had been problematic for some high-yield Asian countries in 2018, but should ameliorate this year given lower oil prices and past rate hikes. Falling local inflation in 2019 and the dovish stance across G-3 central banks are giving these countries room to pause and even cut rates. We remain most positive on Indonesia, mostly due to its political and monetary policy stability, regardless of the results of the upcoming election. India and the Philippines both changed central bank governors in the first quarter and we are neutral there as we await more clarity on their monetary policy bent.

In currencies, we expect the U.S. dollar to outperform the broad currency basket but underperform select Asian currencies. We are overweight the Indonesian rupiah on relative value and high nominal carry and a strategic overweight to Vietnam's currency, the dong, based on strong fundamentals.

On credit, even after the recent tightening, Asia high yield spreads trade about 110 basis points (1.10%) above U.S. high yield at the index level. We think there is room for further convergence, undergirded by converging economic conditions between Asia and the U.S.

Rolling 12 Month Returns for the period ended 31 December 2018

Matthews Asia Strategic Income Fund	**2018**	**2017**	**2016**	**2015**	**2014**
I (Acc) (USD)	-4.02%	9.06%	8.83%	-1.03%	n.a.
Markit iBoxx Asian Local Bond Index (USD)	-0.44%	11.04%	1.73%	-2.88%	n.a.

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. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. The Fund may invest in the following: derivatives which can be volatile and affect Fund performance; high yield bonds (junk bonds) which can subject the Fund to substantial risk of loss; and structured investments which can change the risk or return, or replicate the risk or return of an underlying asset. 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. These and other risks associated with investing in the Fund can be found in the Prospectus.

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.

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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

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