Matthews Asia ex Japan Dividend Fund

Period Ended 30 June 2018

For the first half of 2018, the Matthews Asia ex Japan Dividend Fund returned -2.73%, outperforming its benchmark, the MSCI All Country Asia ex Japan Index, which returned -4.65% over the same period. For the quarter ending 30 June, the Fund returned -4.19% while its benchmark returned -5.31%.

Market Environment:

Asian and global emerging markets suffered during the first half of 2018. Negative investor sentiment resulted from several factors, including escalating trade tensions between China and the U.S.; seemingly tighter monetary conditions in China and other emerging markets; and the oscillation of North Korean denuclearization talks.

During the second quarter of the year, the specter of a tit-for-tat trade war between the U.S. and China rose significantly and rattled investor confidence. Recent macroeconomic data from China also pointed to a potential slowdown in its economic growth induced by China's financial deleveraging policy, another potential warning sign for the region. In addition, a rally in the U.S. dollar, together with a U.S. rate hike cycle and higher oil prices, further constrained the policy options of some Asian central banks, especially for the region's more emerging economies of Southeast Asia as their growth models tend to be more susceptible to external shocks. Facing these uncertainties, Asia's equity markets struggled during the latter part of the first half of 2018.

Performance Contributors and Detractors:

During the first half of the year, security selection in China/Hong Kong was the main driver of Fund performance, while Singapore and India posed the biggest challenges for the portfolio in terms of security selection.

During the first six months, a top contributor to Fund performance was Hua Hong Semiconductor, a Chinese semiconductor foundry business. A major player in the mature eight-inch foundry segment, Hua Hong is currently benefiting from an industrywide supply shortage for foundry capacity, creating an attractive pricing environment for the company. In addition, Hua Hong has consistently improved its product mix over the years, focusing more on higher average selling prices and higher-margin products. The firm's stock price delivered strong returns during the quarter, as the market recognized the favorable industry trend and Hua Hong's ability to deliver additional margin expansion. The company has been paying a modest 30% dividend, which we view as a reasonable balance between investing for future growth and returning cash to shareholders.

The Fund's holdings in APAC Realty, a leading Singaporean residential property broker we added earlier in the year, became a top performance detractor during the six-month period ending 30 June. Market sentiment initially showed concern that the planned initial public offering of one of APAC's main rivals might heat up competition. Transaction volume also was lower than expected. In early July, Singaporean officials introduced measures to cool its hot real estate market, including a higher loan-to-value ratio and a higher stamp duty for certain buyers, in an attempt to slow the strong price appreciation of its property market. The share price of APAC Realty unfortunately took another hit as investors worried that added transaction costs would shrink the volume dramatically. We don't agree. We are closely watching the situation, however, and will take action accordingly.

Notable Portfolio Changes:

One position we initiated during the quarter was Chongqing Brewery, a Chinese beer company listed on China's domestic A-share market and that is 60%-owned by Carlsberg Group, a leading player in the global beer industry. After a period of significant business restructuring under Carlsberg's ownership, Chongqing Brewery has emerged as a more efficiently run business. The company has been adapting well to the latest premiumization trend occurring among Chinese consumers by leveraging Carlsberg's product portfolio and introducing more premium products to Chinese consumers. In addition, following years of consolidation, China's top beer industry players today are shifting their strategy from grabbing more market share to growing profits. We view Chongqing Brewery as well-positioned to deliver on sustainable earnings growth, thanks to its successful product premiumization strategy and a more conducive industry structure. Carlsberg, as Chongqing's controlling shareholder, has been adopting a high dividend payout policy for the Chinese firm, which we believe is likely to be maintained.

During the second quarter, we exited our position in Ping An Insurance because we felt valuations were no longer attractive. We used proceeds from the sale to purchase some new positions.

Outlook:

Uncertainties surrounding U.S.—China trade war rhetoric and a policy-induced economic slowdown in China, among other things, may dampen investor sentiment toward Asian equities for the remainder of this year. We believe investors should look beyond the cloudy macro picture, however, and focus instead on individual corporate business fundamentals. As dividend investors, we believe Asian companies are well-positioned to offer attractive dividend yields and sustainable dividend growth.

Rolling 12 Month Returns for the period ended 31 December 2017

Matthews Asia ex Japan Dividend Fund	**2017**	**2016**	**2015**	**2014**	**2013**
I (Acc) (USD)	47.29%	6.89%	n.a.	n.a.	n.a.
MSCI All Country Asia ex Japan Index (USD)	42.08%	5.76%	n.a.	n.a.	n.a.
I (Acc) (GBP)	34.23%	28.50%	n.a.	n.a.	n.a.
MSCI All Country Asia ex Japan Index (GBP)	29.78%	26.15%	n.a.	n.a.	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. 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. There is no guarantee that the Fund or the companies in its portfolio will pay or continue to pay dividends. These and other risks associated with investing in the Fund can be found in the Prospectus.

There is no guarantee that a company will pay or continue to increase dividends.

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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