




Matthews Asia™

Matthews China Fund

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Period ended 31 March 2018

For the quarter ending 31 March 2018, the Matthews China Fund returned 4.44%, outperforming its benchmark, the MSCI China Index, which returned 1.82%.

Market Environment:

The first quarter of 2018 experienced volatile returns and China's equity markets shared many of the woes of the broader global markets. Market sentiment was negative starting at the end of January as global markets attempted to assess the financial impact of rising interest rates and potential trade conflicts between China and the U.S. Concerns grew over Chinese President Xi Jinping's decision to remove traditional presidential term limits. Many worry this would affect the country's political and business environment. After assessing most of these details, we continue to believe that the impact on market sentiment may be larger than any tangible financial impact created by the scenarios listed above. China's monetary policies remain largely independent—it no longer relies on trade as a source of growth and President Xi has largely been supportive of the growth of a market-driven economy. While China is not shielded completely from external forces, we believe it will be able to weather most of the negative implications that may arise from global politics.

Performance Contributors and Detractors:

The Fund outperformed its benchmark during the quarter due to both sector allocation and stock selection. The information technology, financials and real estate sectors were the major contributors to Fund performance. IT service provider Chinasoft International performed well as its cloud computing and big data business made significant progress. A state-owned commercial bank, Agricultural Bank of China, also was among the top contributors to performance. Asset quality at the bank continued to improve and net interest margin started to recover. Another top contributor during the quarter was property developer KWG Property. The firm has ample land bank in major cities and is confident about its future growth given its strong financial position.

Conversely, a major detractor to Fund performance was China Life Insurance, the largest life insurer in China. The firm experienced a slowdown in premium growth as it continued to focus on selling protection-type products. While we believe the business restructuring is beneficial in the long run, the progress has been slower than expected. We reduced our exposure to China Life.

Notable Portfolio Changes:

During the quarter, we initiated a position in Zhongsheng Group, a leading automobile distributor, as we believe the rapid growth of the company's after-sales services will continue and the operating margin will further expand. We also added natural gas distribution company China Gas, which has benefited from the government's increasingly stringent environmental control and a gradual transition of using natural gas to replace coal. We exited our position in China Overseas Grand Oceans due to its weaker-than-expected operating results and potential earnings dilution from a recent rights issue.

Outlook:

Market sentiment is likely to remain weak over the near term as current trade negotiations continue and macro worries remain over rising interest rates. Equity market performance also is likely to be volatile for the next few quarters as participants have a reduced risk appetite. In regard to President Xi's elongated political tenure, we believe there will be a limited impact on the business environment. We believe Xi's goal remains to further his anticorruption drive and maintain the overall stability of his government. Beyond the macro noise, we remain optimistic over the continued improvement of corporate earnings in China. We see supply-side

reform efforts enabling the recovery of the state-owned enterprise segment and new economy sectors continuing to benefit from robust income growth. While we have been more cautious in our outlook about exposures to sectors that performed well in 2017, we believe current valuations generally remain attractive and reasonable.

Rolling 12 Month Returns for the period ended 31 March 2018

Matthews China Fund	2018	2017	2016	2015	2014
I (Acc) (USD)	43.53%	22.17%	-14.53%	10.93%	-0.28%
MSCI China Index (USD)	39.15%	19.93%	-18.66%	24.34%	2.52%
I (Acc) (GBP)	27.27%	40.92%	-12.26%	25.08%	-9.33%
MSCI China Index GBP (GBP)	24.04%	37.85%	-15.99%	39.64%	-6.63%

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 currency, 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. Investments in a single-country fund may be subject to a higher degree of market risk than diversified funds because of concentration in a specific country. 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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Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg

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