Matthews Asia

Matthews Pacific Tiger Fund

What does Matthews Pacific Tiger Fund try to achieve for investors?

The Matthews Pacific Tiger Fund seeks to generate long-term capital appreciation in an all-cap portfolio that is invested in the Asia ex-Japan region. The Fund aims to achieve its objective by investing in quality, growth companies that can deliver sustainable earnings growth over time, with due regard for valuations and without taking undue risk.

What is the philosophy and approach of the Fund?

The investment philosophy of the Fund consists of the following two principles: (i) that an investment horizon of at least three to five years provides long-term value-creation opportunities, and (ii) that the structural growth drivers of Asia continue to support the expansion in domestic demand, including consumption and services activity.

The team utilizes a bottom-up fundamental investment process and seeks companies that have a sustainable competitive advantage in their respective ecosystems. The goal is to invest in companies that are capable of generating durable growth across cycles accompanied by strong profitability and cash flows. Our approach begins with ideas generated from research trips to Asia, idea-sharing with other portfolio managers at Matthews Asia, and screens for fundamental characteristics discussed in more detail below. We evaluate companies based on three criteria—strength of the underlying business, quality of management and valuation.

As an outcome of the investment process, there are certain attributes that are visible across the portfolio holdings: 1) an emphasis on quality over price, 2) all-cap but with a strategic focus on smaller to mid–size businesses, and 3) bias toward sectors like consumer, financials and health care.

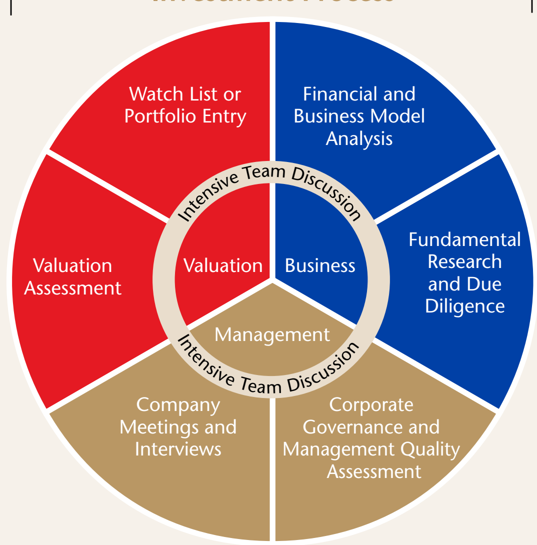
How do you define your focus on quality?

In order to evaluate the quality of a business, we identify companies that can sustainably grow earnings and cash flow through various economic and market cycles. We also look for competent management teams with a credible strategy and the ability to execute, and a deep understanding of corporate governance practices. We then value the business as a whole in the context of its expected prospects. Attractive valuations grounded in realistic future expectations are a must.

Assessment of the quality of a company's business team is a process that includes quantitative analysis of its fundamental drivers and a review of the competitive landscape. These drivers include sales and earnings growth, margin trends, return on invested capital, and free cash flow growth. We also assess balance sheet strength, the nature and level of a company's liabilities, and how it finances itself, in order to determine its ability to survive various economic cycles. We prefer companies with high and sustainable returns on invested capital above their cost of capital.

Assessment of the quality of the management is a multivariate process that includes both quantitative and qualitative factors like the incentive structure of the management team, composition of its board, history of capital raising, and shareholder return policies. Given the

Investment Process



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. Investments in focused funds may be subject to greater share price volatility as a larger portion of their assets may be invested in the securities of a single issuer compared to diversified funds. These and other risks associated with investing in the Fund can be found in the Prospectus.

long-term holding periods, it is vital that we develop a positive view of the governance practices before investing in a company.

Company visits are an essential part of our process and, across the broad Matthews Asia investment team, conducted more than 2,700 meetings in 2018. Company meetings provide us the opportunity to (1) understand a firm's management strategy, track record and long-term business prospects, and (2) assess a company's governance standards. We believe that by investing in quality companies we have the potential to yield impressive returns with a lower risk of permanent loss of capital.

What are the benefits of long-term investing?

We have learned over the past two decades since the Matthews Pacific Tiger strategy launched that, in Asia there is an excess return to patience.

It is rare to see a business plan being executed in a linear or straightforward manner, and in our experience, it is difficult to time the inflection points accurately, as well as in a repeated manner.

As Matthews Asia is an independent and privately held company, this creates a supportive environment for the long-term investment horizon that we apply to stock selection and portfolio construction. We are aligned with clients when we think about the best long-term interests of our portfolios.

What role do small and mid-cap stocks play in the portfolio?

We see good opportunities for growth in the region's faster-growing services sectors as well as from Asia's frontier and emerging countries. The market capitalization of companies operating in these sectors, however, tends to be smaller than those in the commodities and industrials sectors and they are underrepresented in benchmark indices. We view this as an opportunity as such stocks have long been a fertile area for idea generation. Small and mid-cap stocks play an important role in the portfolio, and we maintain a strategic allocation to these firms as we believe they have the potential for sustainable growth.

How important is the role of the benchmark in portfolio construction?

We do not use benchmarks as a basis for portfolio construction or optimization. Our view is that Asia's equity indices can be backward-looking and not representative of the industries and companies that we believe will be successful in the future. With this approach, there is a risk that the Fund may underperform the benchmark in certain market conditions. However, we believe in adopting a benchmark-agnostic mindset as a way to avoid excesses in the market and delivering long-term performance for our shareholders.

How is the portfolio positioned to benefit from the long-term structural growth story in Asia?

When we launched the Strategy over two decades ago, we were increasingly cognizant that a virtuous combination of savings and investing was likely to propel Asia to become one of the world's most dynamic growth regions. In the past two decades, rising income levels, continuing productivity gains and increasing urbanization have all led to significant wealth creation for the Asian household.

With this in mind, the Fund has significant exposure to domestically oriented businesses, including consumer staples and consumer discretionary, information technology, financials and health care companies. We tend to have low exposure to businesses, such as commodities and materials companies.

Our emphasis is to identify service-oriented firms that are conservatively managed and can build a quality franchise to satisfy the needs of consumers in the everyday market. Health care, for example, is an underrepresented sector in the Asian region. We believe that as consumers accumulate wealth, there will be greater demand for better health care facilities and access to medical insurance, and we see an opportunity to invest in businesses that are addressing this growing need.

As countries in Asia are at varying stages of their economic development and reform processes, our country allocations are also consistent with our focus on domestic demand. As such, the Fund has meaningful exposure to faster-growing economies including India and the Association of Southeast Asian Nations (ASEAN), while being underweight export-oriented economies like Taiwan. Our country and sector allocations, however, are a result of our bottom-up investment process, and there are no country or sector-weighting constraints.

How has the investment landscape in Asia changed since the inception of the Matthews Pacific Tiger Strategy in 1994?

The investment landscape in Asia has become increasingly dynamic as capital markets have become more entrenched in the financial ecosystem. As capital markets have deepened, Asian companies have better access to capital, and foreign investors have more channels through which they can participate in the region's growth story.

Asia has become more diverse as well in terms of the number of countries and companies that are not only available, but also easily accessible, to foreign investors. Markets now include many investible sectors beyond the commodity, banking and industrial sectors that were more prevalent 20 years ago. Companies are also realizing the benefits of engaging with the capital markets for the growth plans of their underlying businesses. Having been through various economic and market cycles, management teams are more experienced and have a greater acceptance of the minority shareholder, which should also support an improving trend in corporate governance over time.

The Fund provides meaningful exposure to emerging Asian economies. How does corporate governance play a role in your investment process in the region?

Assessment of corporate governance is a key part of our investment process, as we believe responsible and disciplined ownership can drive shareholder returns over the long term. Some of the factors we consider when evaluating corporate governance include interest alignment, discipline, transparency, independence and sustainability of the business. These elements provide an important overlay toward the quality of businesses in which we invest. Once we invest in a company, we continue to monitor these factors on an ongoing basis in our portfolio. We believe that our rigorous analysis and high hurdle rate for the quality of a franchise and management should also help to manage risk for the entire portfolio.

As capital markets in the emerging Asian economies have deepened, the role of the minority investor has become increasingly institutionalized, leading to an improvement in corporate governance practices although it is still a work in progress. We believe that as these markets continue to grow in size, we will see further advancements in governance standards. The regulators in various jurisdictions remain focused on tightening rules around disclosure of results and corporate code of conduct. There is also a growing awareness of corporate governance among domestic institutions that invest in these markets. The hope is that these factors will drive a culture of positive corporate governance that can translate into shareholder value.

What has not changed about the Matthews Pacific Tiger Fund's investment philosophy and process?

The desire to take a long-term investment horizon view has stayed the same since the strategy's inception in 1994. We have also remained focused on understanding companies through our bottom-up analysis, first and foremost. This remains the hallmark of our investing process, even today. We continue to seek emerging opportunities in the region in a thoughtful, yet risk-controlled manner rather than letting artificial classifications drive the construction of our portfolios.

What are the principal risks inherent to the Fund, and how are they mitigated?

In terms of risk, our first objective is to avoid permanent loss of capital in the securities in which we invest, and at the portfolio level at large. We believe that by investing in high-quality companies with strong and sustainable cash flow growth, tested business models and strong management teams, we lower the overall business risk for the Fund. Separately, because of our benchmark-agnostic approach, there may be certain periods during which the Fund can underperform the benchmark. However, by emphasizing the risk of permanent capital loss, we believe we increase the odds of delivering solid long-term performance for our shareholders.

Why should investors consider the Matthews Pacific Tiger Fund?

The Matthews Pacific Tiger Fund provides investors exposure to the growing segments of Asia's economies through a portfolio of companies capable of navigating volatility over the course of a market cycle. Our firm has 25 years of experience investing in the Asian markets and Matthews Pacific Tiger Strategy has a proven track record built on an investment process that has remained consistent over the past two decades.

PORTFOLIO MANAGEMENT

Sharat Shroff, CFA
Lead Manager

Rahul Gupta
Co-Manager

Raymond Z. Deng
Co-Manager

Inbok Song
Co-Manager

Inception Date	30 April 2010
Investment Objective	Long-term capital appreciation
Benchmark	MSCI All Country Asia ex Japan Index

SHARE CLASS

A ACC (USD)

Inception Date	26 August 2010
ISIN	LU0491815824
Bloomberg ID	MATAPTA:LX
SEDOL	B3TQ7X1
CUSIP	L6263Q199
Minimum Investment	US$1,000
Management Fee	1.25%

I ACC (USD)

Inception Date	30 April 2010
ISIN	LU0491816475
Bloomberg ID	MATAPTI:LX
SEDOL	B48X6K0
CUSIP	L6263Q215
Minimum Investment	US$1,000
Management Fee	0.75%

I DIST (USD)

Inception Date	31 October 2014
ISIN	LU0491816558
Bloomberg ID	MAPTIIU:LX
SEDOL	B3N9WK8
CUSIP	L6263Q264
Minimum Investment	US$1,000,000
Management Fee	0.75%

Matthews Asia

Contact Matthews Asia†

To learn more about Matthews Asia or how the Matthews Asia Funds can complement your globally diversified portfolio, please call +1 (415) 954-4510 or visit global.matthewsasia.com.

Important Information
For Institutional/Professional Investors Only

†Matthews International Capital Management, LLC ("Matthews Asia") is the Investment Manager to Matthews Asia Funds.

Investment team members in this report include employees of Matthews Asia and its subsidiaries.

The Fund is a sub-fund of Matthews Asia Funds SICAV, an umbrella fund, with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Luxembourg.

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