Matthews Asia Perspective
Matthews Asia ex Japan Dividend Fund Reaches a Three-Year Milestone

Matthews Asia Portfolio Manager Yu Zhang explains why the Fund outperformed in a challenging environment.

Amid rising volatility, increasing U.S. interest rates and escalating China–U.S. trade tensions, the three years following the launch of the Matthews Asia ex Japan Dividend Fund have been anything but plain sailing for Asia investors. Yet since inception, the Matthews Asia ex Japan Dividend Fund delivered an annual performance of 12.08% versus 9.7% from the MSCI Asia ex Japan Index through 30 November 2018.

Prior to the Fund’s launch in November 2015, general sentiment toward Asia equities was poor. China A-shares had experienced a dramatic correction and worries were rife that China’s financial system was about to collapse. Meanwhile, corporate earnings across Asia delivered negative growth. Given these factors, it is no surprise that the region saw significant investor outflows during that time.

Yet cycles come and go very quickly in Asia. The weakness in 2015 was replaced by a corporate earnings recovery at the end of 2016, and a sustained rally throughout 2017. 2018 has been a more challenging year, yet portfolio construction has allowed us to navigate these volatile periods. The end result is that the Fund is ahead of its benchmark in the three years since it launched.

The Fund seeks to generate returns from an attractive dividend yield as well as capital appreciation. It contains a mix of stable dividend payers and slightly more cyclical, faster-growth dividends stocks, with the balance depending on where the investment team can find value in the market. This flexible investment approach has not only allowed us to capture attractive opportunities, but has also helped us to navigate market volatility.

When it comes to portfolio construction, we look for companies with strong growth, a robust business model, plentiful free cash flow and a management team that is willing to pay dividends—and is looking to grow them over time.

We see dividends as an important indicator of company quality. While regular income payments are a nice reward for holding stocks of a particular business, they also are 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.

---

**Balance stable dividend payers with dividend growers**

*Dividend payers*
Often found in mature industries, such as telecoms, utilities, infrastructure assets and consumer staples.

*Dividend growers*
Often small- to mid-cap companies that occupy strong market positions in areas that cater to the growing middle class, such as consumption, services and health care.
key component in understanding the quality of cash
generation, the strength of the business model, corporate
governance practices and overall shareholder engagement.

We favour companies where the management has “skin
in the game,” especially owner-operator firms. Not only
are the founders heavily invested in the success of their
firm, with a focus on long-term success over short-term
profits, but they are often motivated by more than
money. And they want to engage shareholders who can
share their success.

Finally, we seek to invest in companies that are reasonably
valued and boast sustainable businesses. As a general
rule, many of the highest dividend payers are in cyclical
sectors, such as oil and mining. This typically means
patchy returns—and losses if conditions turn. By contrast,
we see more opportunities in the consumer staples and
discretionary sectors, which offer a good blend of income
and growth, and financials, telecoms and utilities for
income and safety.

A flexible investment approach generated performance

Throughout the three years, the mix of stable dividend
payers and fast-growing dividend payers has shifted
depending on market conditions. Negative sentiment
toward Asia equities allowed us to add heavily discounted
dividend growth companies to the portfolio in late 2015.
In the second half of 2016, some macroeconomic indica-
tors and policy directions pointed toward a potential
inflection point within the Asian economy. As a result, we
continued to tilt the portfolio toward dividend growth,
adding exposure to the financial and consumer discre-
tionary sector.

We also increased the Fund’s exposure to small-cap
information technology (IT) stocks. Despite the Fund’s
underweight to IT (it does not invest in large internet
companies as they tend to not pay significant dividends),
our allocation to small-cap technology stocks was one of
the biggest contributors to performance in 2017.

Heading into 2018, the portfolio was balanced more
evenly between dividend growers and payers. This
reflected the more cautious stance we adopted since the
return of market volatility in early 2018, with uncertainty
sparked by the U.S. interest rate cycle and the U.S.-China
deal dispute.

Year to date, we have reduced exposure to certain cyclical
dividend growers, including China A-share stocks, as they
looked too expensive after a strong run in 2017. Similarly,
we also trimmed our holdings of some South Korean
small-cap companies, which outperformed that year.

Over its three-year history, the Fund has been consistently
overweight in consumer-oriented businesses. We like their
ability to generate free cash flows, and our focus is on
companies that are willing to share their free cash flow in
the form of a rising and consistent dividend. These types
of companies are often found in the small-cap and mid-
cap space.

Despite a volatile environment, many of these consumer
businesses maintained their ability to deliver earnings
growth, which led to better share prices performance than
the overall market. In addition, some large-cap consumer
staple and consumer discretionary stocks, which we
owned since 2015, and more obviously in 2017 China
A-shares became significant drivers of Fund performance.

A weighting to Frontier Asia also added to the portfolio’s
risk-adjusted returns. Approximately 10% of the portfolio
has been invested in Vietnamese companies for some
time. This allocation has not only generated performance
but also diversified the risk of the portfolio versus the rest
of the Asia ex Japan region.

Geographically, while we do consider macro factors
when making long-term investment decisions, the
Fund is very much a bottom-up driven strategy. The
portfolio’s large overweight in some of Asia’s frontier
markets, such as Vietnam and Bangladesh, is where
we have been able to find a number of companies that
in our view have strong business models, are well-run
by competent management teams and are offering an
attractive combination of high dividend yields and fast
growth in the underlying dividends.

In our view, China’s economy will mature over the next
two to five years, spelling an end to its high growth
phase. As a result, its capital markets could become more
rational and less short-term driven as China A-Shares
become a more meaningful part of international
portfolios. In addition, we believe that investors will
increasingly look to Asia’s emerging and frontier markets
for investment opportunities. Economies such as Vietnam
and Bangladesh are likely to become more mainstream in
Asia portfolios.

One benefit of taking a total return approach to Asia
is that it can capture both growth and income. But we
believe that dividends offer additional benefits when it
comes to investing: a valuation anchor; some comfort
that the business is generating cash; and an idea of the
corporate governance of the business. As dividend-paying
stocks tend to be conservatively run, they generally do not
lead the market in bull runs. But that strong management
discipline is a defensive protection when markets fall.

This has been the case for the Fund, which experienced
less drawdown than the broader market in 2016. In 2017,
the situation was reversed with the market performing
strongly, yet as a result of individual stock picking the
Fund outperformed the benchmark in this environment
as well.

In our view, what we have ultimately proved with the
strategy since launch is that growth and income do not
have to be mutually exclusive in Asia. Asia’s dividend pool
is now slowly but surely approaching the size of Western
markets, and as Asia’s capital markets broaden and
deepen, the opportunity set should only increase.
Performance as of 30 November 2018

Average Annual Total Returns

<table>
<thead>
<tr>
<th></th>
<th>Inception Date</th>
<th>Nov ’18</th>
<th>3 MO</th>
<th>YTD</th>
<th>1 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>10 YR</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthews Asia ex Japan Dividend Fund (USD)</td>
<td>30/11/15</td>
<td>2.92%</td>
<td>-6.57%</td>
<td>-10.66%</td>
<td>-8.15%</td>
<td>12.08%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>12.08%</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index (USD)</td>
<td>n.a.</td>
<td>5.31%</td>
<td>-7.39%</td>
<td>-11.77%</td>
<td>-9.36%</td>
<td>9.70%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>9.70%</td>
</tr>
<tr>
<td>Matthews Asia ex Japan Dividend Fund (GBP)</td>
<td>30/11/15</td>
<td>2.86%</td>
<td>-4.88%</td>
<td>-5.26%</td>
<td>-2.99%</td>
<td>18.33%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>18.33%</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index (GBP)</td>
<td>n.a.</td>
<td>5.47%</td>
<td>-5.66%</td>
<td>-6.46%</td>
<td>-3.83%</td>
<td>15.92%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>15.92%</td>
</tr>
</tbody>
</table>

Rolling 12 Month Returns (for the period ended 30 September 2018)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthews Asia ex Japan Dividend Fund I (Acc) (USD)</td>
<td>11.01%</td>
<td>19.06%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index (USD)</td>
<td>1.74%</td>
<td>23.02%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Matthews Asia ex Japan Dividend Fund I (Acc) (GBP)</td>
<td>13.95%</td>
<td>15.25%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>MSCI All Country Asia ex Japan Index (GBP)</td>
<td>4.67%</td>
<td>19.11%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Brown Brothers Harriman (Luxembourg) S.C.A.

Portfolio Breakdown (%) as of 30 November 2018

<table>
<thead>
<tr>
<th>Sector Allocation (%)</th>
<th>Fund</th>
<th>Benchmark</th>
<th>Difference</th>
<th>Country Allocation (%)</th>
<th>Fund</th>
<th>Benchmark</th>
<th>Difference</th>
<th>Market Cap Exposure (%)</th>
<th>Fund</th>
<th>Benchmark</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>18.7</td>
<td>12.2</td>
<td>6.5</td>
<td>China/Hong Kong</td>
<td>47.4</td>
<td>47.1</td>
<td>0.3</td>
<td>Mega Cap (over $25B)</td>
<td>13.0</td>
<td>52.7</td>
<td>-39.7</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>17.8</td>
<td>4.9</td>
<td>12.9</td>
<td>Vietnam</td>
<td>11.3</td>
<td>0.0</td>
<td>11.3</td>
<td>Large Cap ($10B-$25B)</td>
<td>12.7</td>
<td>24.0</td>
<td>-11.3</td>
</tr>
<tr>
<td>Industrials</td>
<td>16.5</td>
<td>7.0</td>
<td>9.5</td>
<td>Taiwan</td>
<td>11.2</td>
<td>13.0</td>
<td>-1.8</td>
<td>Mid Cap ($3B-$10B)</td>
<td>16.4</td>
<td>19.6</td>
<td>-3.2</td>
</tr>
<tr>
<td>Information Technology</td>
<td>10.8</td>
<td>16.9</td>
<td>-6.1</td>
<td>South Korea</td>
<td>8.8</td>
<td>16.0</td>
<td>-7.2</td>
<td>Small Cap (under $3B)</td>
<td>55.1</td>
<td>3.8</td>
<td>51.3</td>
</tr>
<tr>
<td>Communication Services</td>
<td>9.8</td>
<td>12.9</td>
<td>-3.1</td>
<td>Singapore</td>
<td>5.3</td>
<td>4.0</td>
<td>1.3</td>
<td>Cash and Other Assets, Less Liabilities</td>
<td>2.8</td>
<td>0.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5.9</td>
<td>6.1</td>
<td>-0.2</td>
<td>Thailand</td>
<td>5.3</td>
<td>2.8</td>
<td>2.5</td>
<td>Source: FactSet Research Systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financials</td>
<td>4.6</td>
<td>24.0</td>
<td>-19.4</td>
<td>India</td>
<td>3.2</td>
<td>10.6</td>
<td>-7.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>3.6</td>
<td>4.9</td>
<td>-1.3</td>
<td>Philippines</td>
<td>1.8</td>
<td>1.2</td>
<td>0.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>3.5</td>
<td>4.7</td>
<td>-1.2</td>
<td>Bangladesh</td>
<td>1.6</td>
<td>0.0</td>
<td>1.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>3.2</td>
<td>3.3</td>
<td>-0.1</td>
<td>Indonesia</td>
<td>1.3</td>
<td>2.6</td>
<td>-1.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>2.8</td>
<td>3.0</td>
<td>-0.2</td>
<td>Malaysia</td>
<td>0.0</td>
<td>2.7</td>
<td>-2.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Other Assets, Less Liabilities</td>
<td>2.8</td>
<td>0.0</td>
<td>2.8</td>
<td>Pakistan</td>
<td>0.0</td>
<td>0.1</td>
<td>-0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: FactSet Research Systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sector data based on MSCI’s revised Global Industry Classification Standards. For more details, visit www.msci.com.

Source: FactSet Research Systems
Matthews Asia ex Japan Dividend Fund Reaches a Three-Year Milestone

All performance quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than the original cost. Current performance may be lower or higher than performance shown. Investors investing in Funds denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal. Performance details provided are based on a NAV-to-NAV basis with any dividends reinvested, and are net of management fees and other expenses.

For Institutional/Professional Investor Use Only
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. Investment involves risk. Past performance is no guarantee of future results. The value of an investment in the Fund can go down as well as up. This document is not a Prospectus/Offering Document and does not constitute an offer to the public. No public offering or advertising of investment services or securities is intended to have taken effect through the provision of these materials. This is not intended for distribution or use in any jurisdiction in which such distribution, publication, issue or use is not lawful. Investors should not invest in a Fund solely based on the information in this document. An investment in Matthews Asia Funds may be subject to risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. The current prospectus, Key Investor Information Document or other offering documents (“Offering Documents”) contain this and other information and can be obtained by visiting global.matthewsasia.com. Please read the Offering Documents carefully before investing as they explain the risks associated with investing in international and emerging markets. It is the responsibility of any persons wishing to subscribe for shares to inform themselves of and to observe all applicable laws and regulations of any relevant jurisdictions. An investment in the Matthews Asia Funds is not available in all jurisdictions. The Fund's shares may not be sold to citizens or residents of the United States or in any other state, country or jurisdiction where it would be unlawful to offer, solicit an offer for, or sell the shares. No securities commission or regulatory authority has in any way passed upon the merits of an investment in the Fund or the accuracy or adequacy of this information or the material contained therein or otherwise. 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 Asia and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information. The views and information discussed herein are as of the date of publication, are subject to change and may not reflect current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles.

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.
Matthews International Capital Management is the Investment Manager to the Matthews Asia Funds, and is a U.S.-based investment adviser registered with the U.S. Securities and Exchange Commission who has not represented and will not represent that it is otherwise registered with any other regulator or regulatory body.

In Singapore, this document is available to, and intended for Institutional Investors under Section 304 of the Securities and Futures Act. It should not be circulated or distributed to the retail public in Singapore. Issued in Singapore by Matthews Global Investors (Singapore) Pte. Ltd. (Co. Reg. No. 201807631D).

In the UK, this document is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority (“FCA”). Under no circumstances should this document be forwarded to anyone in the UK who is not a professional client or eligible counterparty as defined by the FCA. Issued in the UK by Matthews Global Investors (UK) Limited (“Matthews Asia (UK”)'), which is authorised and regulated by the FCA, FRN 667893.