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RISKS:

Diversification does not ensure a profit or guarantee against a loss. 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.

Matthews Asia Perspective

Matthews Asia ex Japan Dividend Fund: Can Investing in Asia ex Japan Help Sustain and Diversify Your Equity Income Portfolio?

The economic fallout from the coronavirus pandemic is set to reduce dividend payouts from many global companies. From airlines and banks to oil producers, companies are under pressure to cut shareholder payouts in order to preserve capital to keep their businesses running amid the current crisis. In this environment, equity income investors are looking to sustain and diversify their income sources. We believe the Matthews Asia ex Japan Dividend Fund is one helpful place to look. Here are some attributes about dividend investing in Asia generally, and about this Fund in particular, that investors might be keen to know:

How a dividend fund can serve as a 'core' fund for Asian equities

- ✿ The Matthews Asia ex Japan Dividend Fund is designed to serve as a 'core' Asian equity exposure for global equity investors and as an income-diversifier for equity income investors. The portfolio seeks to meet this design objective by investing in a blend of dividend growth stocks and stable but higher yielding stocks.
- ✿ The portfolio's focus on domestic demand businesses, particularly businesses focused on Asian consumption, may make it less susceptible to risks arising from dividend cuts or sudden interest rate hikes, in our view.
- ✿ We believe the risk-adjusted returns of the Fund have fulfilled its potential to behave as a 'core' Asian equity holding (Please see Figure 1A and 1B on page 3).

Not all dividends are equally sustainable

From both recent history and the composition of dividend paying universes across regions, there are reasons to believe that Asia ex Japan is positioned to weather the pending storm of dividend cuts better than other regions:

The last 10 years leading up to the current crisis have been widely recognized as a bull market for equities that have been generally supportive of dividend growth. However, on those occasions when Dividend Per Share (DPS) growth contracted during the past decade, the magnitude of DPS contraction was more pronounced in regions other than Asia ex Japan (Please see Figure 2 on page 3). For example:

- ✿ For calendar years 2010 to 2019, the range of DPS growth in Asia ex Japan was -3% to 17%, with the lowest growth being -3%.
- ✿ For the same period, Australia's DPS growth ranged from -8% to 8%.
- ✿ For the UK and Europe, the DPS growth range was -6% to 12% and -9% to 13%, respectively.

Looking at historical growth rates (Compound Annual Growth Rate - CAGR) of dividends in various regions over the past ten years, Asia ex Japan was the only region which recorded positive growth across all GICS sectors (Please see Figure 3 on page 3). Moreover, many of these sectors achieved double digit growth in dividends, with the fastest growth seen in consumer-related sectors such as healthcare, consumer discretionary, information technology and consumer staples. In addition, these sectors have done better than the broader index during the recent market turmoil, particularly healthcare and consumer staples. This bodes well for the sustainability of dividends in the region going forward.

Within the Asia ex Japan region, companies in the financials sector comprise the largest constituent of dividend payers, but no single sector dominates in terms of dividends paid. In contrast to Asia ex Japan's diversified sources of income, dividends in developed markets such as Australia, the UK and Europe are more concentrated in a small number of sectors (Please see Figure 6 on page 4). For example:

- ✿ The materials and financials sectors dominate Australia's dividend paying universe, accounting for over 70% of the total dividends paid by Australian companies.
- ✿ In the UK, dividends are concentrated in four sectors: energy, financials, materials and consumer staples.
- ✿ Europe as a region is similar to the UK, with dividend paying companies concentrated within the financials, energy, consumer staples, consumer discretionary and materials sectors.

In terms of Earnings Per Share (EPS) growth over the past ten years, Asia ex Japan had more years of positive EPS growth compared to other regions, which should support the sustainability of dividends in our view (Please see Figure 4 on page 3).

- ✿ The MSCI AC Asia ex Japan Index had seven years of positive EPS growth in the past ten years.
- ✿ For the same period, Australia experienced four negative years and six positive years of EPS growth.
- ✿ Europe had positive EPS growth half of the years, and negative EPS growth the other half of the years from 2010 to 2019.
- ✿ The UK had six years of negative EPS growth, five of which were consecutive years between 2012 and 2016. During this time, the DPS growth in the UK stayed positive. Generally speaking, dividend and earnings tend to move together over time with a linear relationship between the two. With the UK facing consecutive years of negative EPS growth, and in magnitude close to or in excess of 10% (ranging from -9% to -20%), this may mean the ability of UK companies to sustain their dividend payments over time could face headwind.

Asia ex Japan may provide diversified sources of income for investors—at country, sector and market cap levels

In the current environment where yields are low globally, investors may be seeking to diversify the sources of income in their portfolios. Overall, since the current crisis started, yields in Asia ex Japan have been holding up better compared to the UK, Europe, and Australia in terms of DPS revisions (Please see Figure 5 on page 3).

- ✿ Year to date, Australia has seen the deepest negative revisions to dividends (-19.4%) globally, as measured by the ASX200 Index. Australia has some of the world's highest dividend yields and payout ratios. Its higher payout ratios and lower coverage ratios leave dividends more vulnerable, especially during periods of higher volatility such as this year amidst the COVID-19 crisis.
- ✿ The UK (as measured by the FTSE 100 Index) and Europe (represented by EURO STOXX) have also recorded double digit negative revisions to dividends year to date, down -12.2% and -13.8%, respectively.
- ✿ For Asia ex Japan, the consensus estimate on DPS revision year to date is -10.4%. Within Asia ex Japan, China's year to date DPS revision was down -7.7%. Compared to Australia, the UK, and Europe, Asia ex Japan has a much larger dividend paying universe and not all companies are trimming dividends. Many firms within the region are going ahead with payments as planned, while some have even announced increased payouts, notably in China. China's economy was the first to suffer the consequences of fighting the novel coronavirus and is the first on the road to recovery.
- ✿ Overall, developed markets have revised down dividends by -6.5%, although the U.S. has held up relatively better in DPS revisions year to date, with the S&P 500 down less than 1% (-0.7%) and the Nasdaq flat at 0.1%.

FIGURE 1A: MATTHEWS ASIA EX JAPAN DIVIDEND FUND (CLASS I ACC USD) VS. MSCI AC ASIA EX JAPAN INDEX RISK ADJUSTED RETURN RATIOS (As of March 31, 2020)

	3 MO		YTD		1 YR		3 YR		Since Inception (Dec 2015–Mar 2020)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Return	-14.52%	-18.36%	-14.52%	-18.36%	-9.99%	-13.18%	4.37%	1.35%	7.68%	5.16%
Standard Deviation	10.92%	8.49%	10.92%	8.49%	16.66%	20.13%	14.34%	16.52%	14.04%	16.04%
Sharpe Ratio	n.a.	n.a.	n.a.	n.a.	-0.72	-0.76	0.18	-0.02	0.45	0.24
Information Ratio	1.57	0.00	1.57	0.00	0.47	0.00	0.44	0.00	0.40	0.00
Up Capture	n.a.	n.a.	n.a.	n.a.	60.64%	100.00%	84.35%	100.00%	85.19%	100.00%
Down Capture	n.a.	n.a.	n.a.	n.a.	71.45%	100.00%	77.26%	100.00%	76.19%	100.00%

FIGURE 1B: ROLLING 12 MONTH RETURNS (for the period ended March 31, 2020)

	2020	2019	2018	2017	2016
Matthews Asia ex Japan Dividend Fund (Class I Acc USD)	-9.99%	-4.31%	32.01%	19.06%	n.a.
MSCI AC Asia ex Japan Index (USD)	-13.18%	-4.95%	26.16%	17.82%	n.a.

Performance details provided are based on a NAV-to-NAV basis with any dividends reinvested, and are net of management fees and other expenses. Performance data has been calculated in the USD, including ongoing charges and excluding subscription fee and redemption fee you might have to pay. Source: Brown Brothers Harriman (Luxembourg) S.C.A.
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-USD should be aware of the risk of currency exchange fluctuations that may cause a loss of principal.
 Source: Zephyr StyleADVISOR
 While Matthews Asia has a reasonable belief that Zephyr's analysis methodology is sound, it has not independently verified any of the comparison calculations and cannot confirm their accuracy.

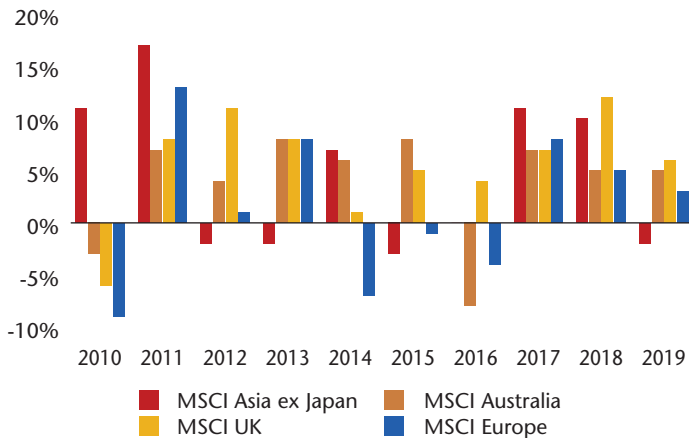
The Matthews Asia ex Japan Dividend Fund

The Fund's portfolio is diversified across sectors, market cap, and country allocations. The Fund has meaningful exposure to domestic demand businesses in the consumer and services segments of Asia's economy. While some traditional dividend paying sectors such as financials, materials and energy are currently at risk for dividend cuts, the Fund is less susceptible to this risk due to its diversified nature and total return approach (Please see Figure 7 on page 4).

As mentioned above, Australia has seen the deepest negative revisions to dividends year to date amongst global markets. A number of Asia Pacific equity income strategies tend to have a large allocation to Australia. The Matthews Asia ex Japan Dividend Fund had no exposure to Australia as of March 31, 2020. Historically, the Fund had little (less than 3%) or no exposure to Australia since inception due to its total return approach.

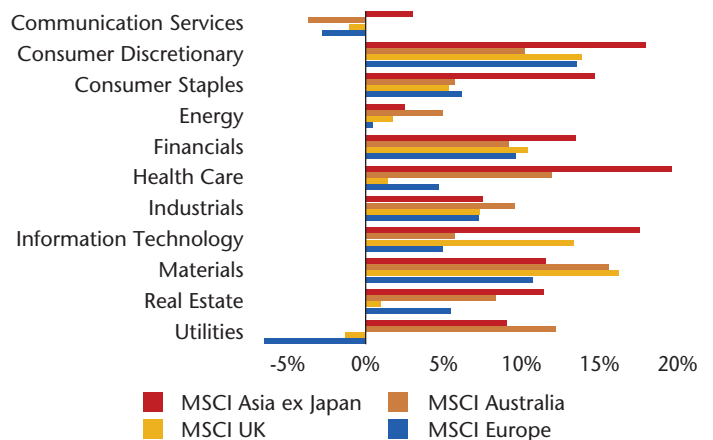
- The financials sector is a significant contributor to the dividend paying universe across various regions. In the UK and Europe, regulators have recently asked banks and insurers to suspend dividend payments and share buybacks. Australia has followed a similar path, with the Australian Prudential Regulation Authority asking banks and insurers to limit discretionary capital distributions. While the financial sector comprises the largest constituent of dividend payers within the Asia ex Japan, regulators in the region have not yet announced similar guidance for banks and insurers to limit or suspend dividends.
- The Matthews Asia ex Japan Dividend Fund's exposure to financials was 5.2% as of March 31, 2020, while the MSCI AC Asia ex Japan Index had a 21.6% allocation.
- Compared to its benchmark, the Fund also maintains overweight positions to consumer-related sectors which historically had some of the region's fastest dividend growth, including healthcare, consumer discretionary, information technology and consumer staples.

FIGURE 2: HISTORICAL DIVIDENDS PER SHARE GROWTH BY REGIONS



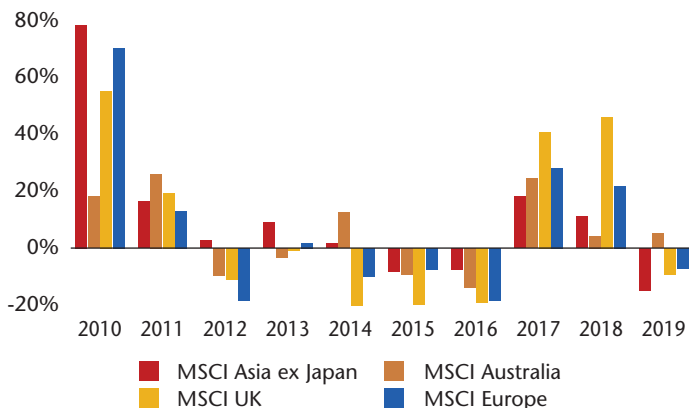
Indexes are unmanaged and it is not possible to invest directly in them. Source: FactSet Research Systems

FIGURE 3: 10 YEAR CAGR OF DIVIDENDS PAID BY CONSTITUENTS OF MSCI INDICES BY SECTORS



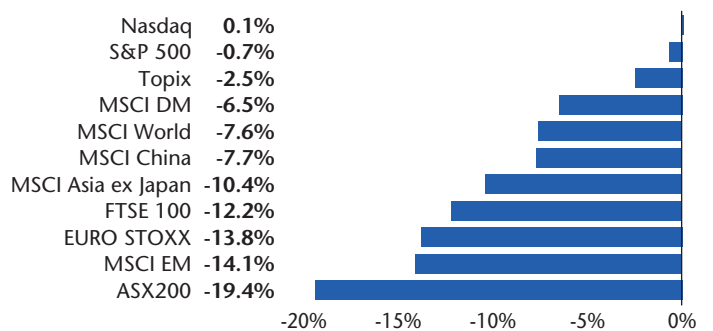
Indexes are unmanaged and it is not possible to invest directly in them. Source: FactSet Research Systems, as of March 31, 2020

FIGURE 4: HISTORICAL EARNINGS PER SHARE GROWTH BY REGIONS



Indexes are unmanaged and it is not possible to invest directly in them. Source: FactSet Research Systems

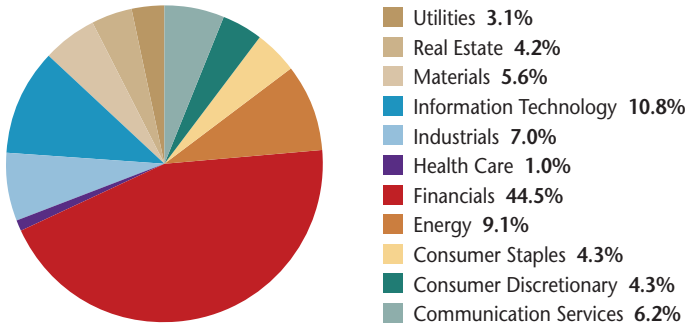
FIGURE 5: GLOBAL MARKETS DIVIDENDS PER SHARE REVISIONS YTD



Source: Bloomberg, as of April 24, 2020. Indexes are unmanaged and it is not possible to invest directly in them.

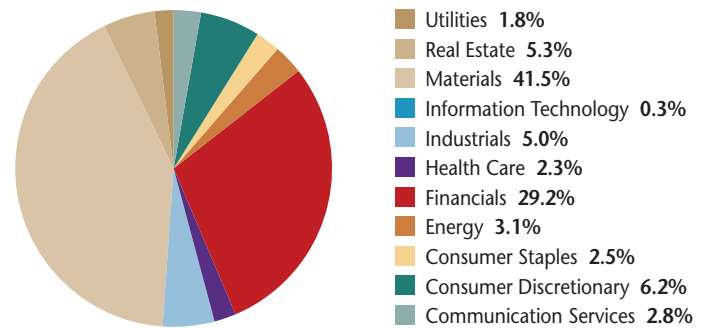
FIGURE 6: DIVIDENDS PAID BY CONSTITUENTS OF MSCI INDICES

Asia ex Japan (as of March 31, 2020)



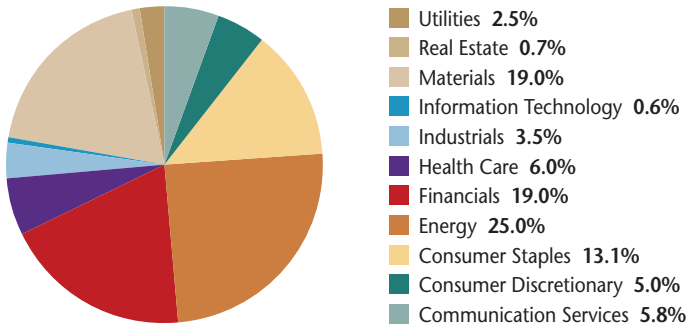
Source: FactSet Research Systems
Indexes are unmanaged and it is not possible to invest directly in them.

Australia (as of March 31, 2020)



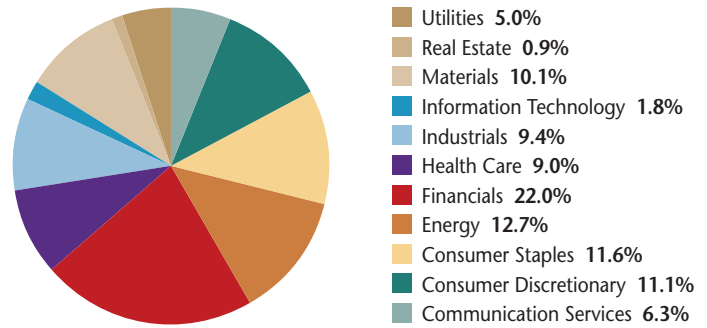
Source: FactSet Research Systems
Indexes are unmanaged and it is not possible to invest directly in them.

United Kingdom (as of March 31, 2020)



Source: FactSet Research Systems
Indexes are unmanaged and it is not possible to invest directly in them.

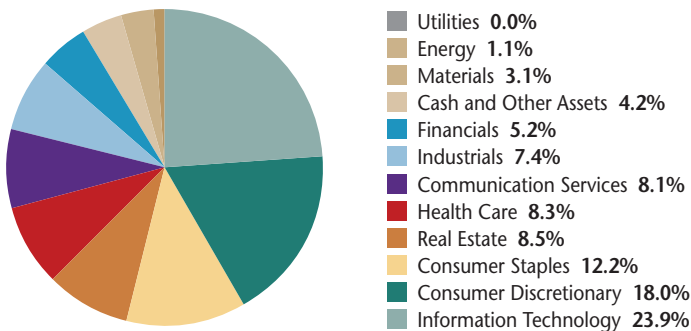
Europe (as of March 31, 2020)



Source: FactSet Research Systems
Indexes are unmanaged and it is not possible to invest directly in them.

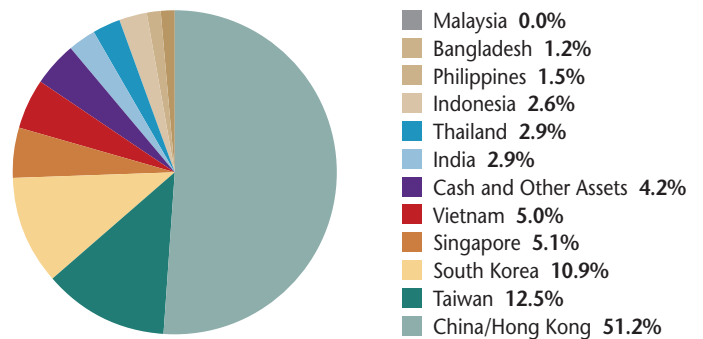
FIGURE 7: MATTHEWS ASIA EX JAPAN DIVIDEND FUND BREAKDOWN

Sector Allocation (%) (as of March 31, 2020)



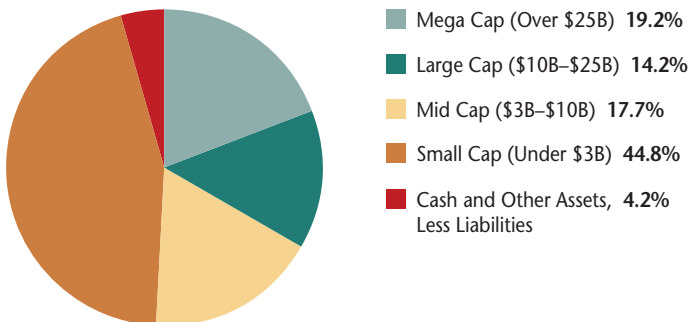
Sector data based on MSCI's revised Global Industry Classification Standards.
For more details, visit www.msci.com.
Source: FactSet Research Systems

Country Allocation (%) (as of March 31, 2020)



Source: FactSet Research Systems

Market Cap Exposure (%) (as of March 31, 2020)



Source: FactSet Research Systems

Important Information

For Institutional/Professional Investors 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.

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The MSCI All Country Asia ex Japan Index is a free float-adjusted market capitalization-weighted index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, South Korea, Taiwan and Thailand. The MSCI Australia Index is a free float-adjusted, market capitalization-weighted index of equity market performance in Australia. The MSCI United Kingdom Index is a free float-adjusted market capitalization-weighted index designed to measure the performance of the large and mid-cap segments of the UK market. The MSCI Europe Index is a free float-adjusted market capitalization-weighted index designed to measure the performance of the large and mid-cap segments of the European Developed Markets equity universe. The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The S&P 500 Index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. TOPIX is a free-float adjusted market capitalization-weighted index of all the companies listed on the First Section of the Tokyo Stock Exchange. The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI China Index is a free float-adjusted market capitalization-weighted index of Chinese equities that includes H shares listed on the Hong Kong exchange, B shares listed on the Shanghai and Shenzhen exchanges, Hong Kong-listed securities known as Red chips (issued by entities owned by national or local governments in China) and P Chips (issued by companies controlled by individuals in China and deriving substantial revenues in China), and foreign listings (e.g. ADRs). The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The Euro STOXX 50 index is a blue-chip index designed to represent the 50 largest companies in the Eurozone. The index holds stocks from 11 Eurozone countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of stocks listed on the Australian Securities Exchange.

Sources: Zephyr StyleADVISOR, FactSet Research Systems, Matthews Asia, Bloomberg.

