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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.

Matthews Asia Perspective

Matthews Asia ex Japan Dividend Fund: Time to Focus on Fundamentals

Improving U.S.–China trade relations, alongside modest and accommodative monetary policy, drove a significant reversal in fortunes for Asian equity markets in the fourth quarter of 2019. Having underperformed in the third quarter, the MSCI All Country Asia ex Japan Index rose 11.85% over the last three months of the year.¹

Against this backdrop, the Matthews Asia ex Japan Dividend Fund lagged the Index during the quarter, rising 4.74%. For the calendar year of 2019, the Fund generated a performance 16.73% versus 18.52% for the MSCI All Country Asia ex Japan Index.¹

The Fund's lack of exposure to larger internet companies was the biggest detractor to relative performance during the quarter. While we liked many of these stocks, they fell outside the Fund's dividend mandate, making them unsuitable for the portfolio.

We use dividends as a lens through which we seek to identify high-quality, financially healthy companies with prudent capital-allocation policies. We look for companies that offer meaningful yields, have sustainable business models and that demonstrate the propensity to pay increasing dividends over time.

Our approach to dividend investing balances stable, high dividend-yielding stocks with slightly more cyclical, but potentially higher dividend, growth stocks. During the fourth-quarter rally, the more stable payers lagged the index.

Having started 2019 roughly balanced, the portfolio moved to a slightly more pro-growth stance during the year and maintained a roughly 60%–40% split in favor of dividend growers over dividend payers in the fourth quarter.²

After several consecutive quarters of negative earnings growth, the earnings cycle in Asia started to turn up and the region produced double-digit earnings per share (EPS) growth in the third quarter. Company-specific factors—valuations and weakening fundamentals, for example—prompted some turnover during that period.

A full portfolio review revealed that some top-performing stocks looked expensive. For example, one stock—a restaurant business—appreciated more than 80% in value during 2019. By year end, its valuation looked stretched. In our view, it remained a strong business with good management but was too expensive. By the end of the quarter, we replaced these types of stocks with new opportunities that we believed were better-placed to deliver on valuation expansion and our total return objective.

While we still liked small caps, the Fund increased its individual weightings in two mega-cap businesses in the fourth quarter. These companies have strong competitive positions in the semiconductor industry value chain. We also increased our exposure to the information technology (IT), consumer discretionary and industrial sectors.

¹ Data as of 31 December 2019, in USD, I (Acc) for the Fund. **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.

Performance details provided are based on a NAV-to-NAV basis with any dividends reinvested, and are net of management fees and other expenses. Source: Brown Brothers Harriman (Luxembourg) S.C.A.

² Sources: Matthews Asia, Bloomberg

Additions to the portfolio included three Chinese A-share companies, a South Korean REIT and an IT services-related business in Vietnam. We also added to our positions in companies that benefited from improvement in sentiment and a broader earnings recovery in the previous quarter.

On the whole, we remain bullish on China, which was the biggest contributor to performance in 2019 at a country level. While A-shares were Asia's best-performing market in 2019, Hong Kong-listed stocks took the brunt from weakened sentiment among global investors due to political unrest. We believe improvement in investor sentiment and attractive valuations in the Hong Kong market will become tailwinds for Chinese companies listed there.

From a regional perspective, we also remain positive on the prospects for Vietnam, despite it being the largest detractor from relative performance in 2019. While it was a strong year for Asia ex Japan equities, the actual returns were relatively concentrated within the technology sector. Positive gains were mainly generated by companies in North Asia, namely Taiwan, mainland China and South Korea. Smaller markets in Southeast Asia, including the frontier market Vietnam, lagged the broader market.

Despite this short-term underperformance, we think the case for allocating to Vietnam still holds true on a medium- and long-term basis. Its market is slowly opening up to foreign investors and the Vietnamese government continues to pursue economic reforms, including the privatization of many state-owned enterprises. With a growing, young population, and much lower wages than China, manufacturing companies increasingly are establishing operations in the country.

At the individual-company level, the underlying growth of some Vietnamese companies is going through a slowing phase. They still delivered positive earnings but could not maintain their previous high rates of growth.

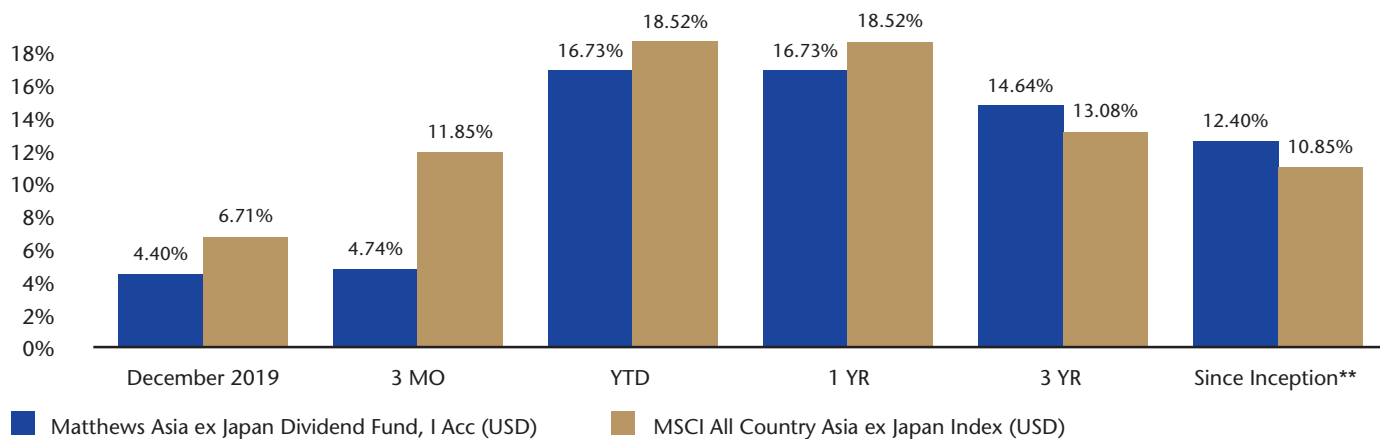
We believe this market, however, will continue to offer attractive long-term growth potential to investors. Subsequently, we intend to not only maintain our current exposure, but also to add new opportunities in 2020.

Looking ahead, we believe there is potential value in cyclical industries that struggled since the downturn in 2018. One example is the automobile sector, where we believe some companies will benefit from an earnings growth recovery.

In our view, markets increasingly could focus on equity fundamentals in 2020. This would be a significant improvement compared with the external, risk-driven market volatility that was prevalent since the second half of 2018. Valuation multiples of Asian equities do not look stretched at 12x 2020 P/E at this stage of the earnings cycle.³ If macro conditions continue to improve—if inflation starts to increase, for example—they will likely provide a tailwind for corporations to deliver positive earnings growth as well as strong profit growth. We believe we have positioned the portfolio accordingly.

³ As of 31 December 2019. Note: Figures may not sum to 100 due to rounding. There is no guarantee estimates or projections will be realized. Source: Bloomberg.

Performance as of 31 December 2019*



* All returns over 1 year are annualised.

** Index calculated from 30 November 2013

Matthews Asia ex Japan Dividend Fund: Time to Focus on Fundamentals

	Inception Date	Dec '19	3 MO	YTD	1 YR	Average Annual Total Returns			
						3 YR	5 YR	10 YR	Since Inception
Matthews Asia ex Japan Dividend Fund I (Acc) (USD)	30/11/15	4.40%	4.74%	16.73%	16.73%	14.64%	n.a.	n.a.	12.40%
MSCI All Country Asia ex Japan Index (USD)	n.a.	6.71%	11.85%	18.52%	18.52%	13.08%	n.a.	n.a.	10.85%
Matthews Asia ex Japan Dividend Fund I (Acc) (GBP)	30/11/15	2.06%	-2.24%	13.21%	13.21%	12.07%	n.a.	n.a.	16.01%
MSCI All Country Asia ex Japan Index (GBP)	n.a.	4.19%	4.04%	13.94%	13.94%	10.49%	n.a.	n.a.	14.37%

CALENDAR YEAR PERFORMANCE (for years ended 31 December)

	2019	2018	2017	2016	2015
Matthews Asia ex Japan Dividend Fund I (Acc) (USD)	16.73%	-12.37%	47.29%	6.89%	n.a.
Matthews Asia ex Japan Dividend Fund I (Acc) (GBP)	13.21%	-7.38%	34.23%	28.50%	n.a.
MSCI All Country Asia ex Japan Index (USD)	18.52%	-14.12%	42.08%	5.76%	n.a.
MSCI All Country Asia ex Japan Index (GBP)	13.94%	-8.78%	29.78%	26.15%	n.a.

ROLLING 12 MONTH RETURNS (for the period ended 31 December 2019)

	2019	2018	2017	2016	2015
Matthews Asia ex Japan Dividend Fund I (Acc) (USD)	16.73%	-12.37%	47.29%	6.89%	n.a.
MSCI All Country Asia ex Japan Index (USD)	18.52%	-14.12%	42.08%	5.76%	n.a.
Matthews Asia ex Japan Dividend Fund I (Acc) (GBP)	13.21%	-7.38%	34.23%	28.50%	n.a.
MSCI All Country Asia ex Japan Index (GBP)	13.94%	-8.78%	29.78%	26.15%	n.a.

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

PORTFOLIO BREAKDOWN (%) as of 31 January 2020

Sector Allocation (%) ¹	Fund	Benchmark	Difference	Country Allocation (%) ¹	Fund	Benchmark	Difference	Market Cap Exposure (%) ^{1,2}	Fund	Benchmark	Difference
Consumer Discretionary	22.6	14.9	7.7	China/Hong Kong	49.1	50.2	-1.1	Mega Cap (over \$25B)	25.1	56.6	-31.5
Information Technology	18.4	18.5	-0.1	South Korea	13.2	13.8	-0.6	Large Cap (\$10B-\$25B)	10.9	22.0	-11.1
Consumer Staples	13.0	5.1	7.9	Taiwan	12.5	13.7	-1.2	Mid Cap (\$3B-\$10B)	19.1	18.4	0.7
Communication Services	11.4	11.5	-0.1	Singapore	4.9	3.6	1.3	Small Cap (under \$3B)	41.8	3.0	38.8
Industrials	11.2	6.7	4.5	Vietnam	4.9	0	4.9	Cash and Other Assets, Less Liabilities	3.0	0.0	3.0
Real Estate	6.9	5.8	1.1	India	3.7	10.1	-6.4				
Financials	5.4	23.0	-17.6	Indonesia	3.1	2.3	0.8				
Health Care	3.7	3.0	0.7	Thailand	3.0	3.0	0.0				
Materials	1.5	4.3	-2.8	Bangladesh	1.5	1.1	0.4				
Energy	1.5	4.0	-2.5	Philippines	1.3	0.0	1.3				
Utilities	1.5	3.0	-1.5	Malaysia	0.0	2.1	-2.1				
Cash and Other Assets, Less Liabilities	3.0	0.0	3.0	Cash and Other Assets, Less Liabilities	3.0	0.0	3.0				

Source: FactSet Research Systems

Dividend Yield³ as of 31 December 2019

2.93%

Source: FactSet Research Systems, Bloomberg, Matthews Asia

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

Source: FactSet Research Systems

¹ Percentage values in data are rounded to the nearest tenth of one percent; the values may not sum to 100% due to rounding. Percentage values may be derived from different data sources and may not be consistent with other Fund literature.

² Equity market cap of issuer.

³ The Dividend Yield (trailing) is the weighted average sum of the dividends paid by each equity security held by the Fund over the last 12 months divided by the current price as of report date. The annualised dividend yield for the Fund is for the equity only portion of the Fund and does not reflect the actual yield an investor in the Fund would receive. There can be no guarantee that companies that the Fund invests in, and which have historically paid dividends, will continue to pay them or to pay them at the current rate in the future. A positive distribution yield does not imply positive return, and past yields are no guarantee of future yields.

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.

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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.

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