

Q&A from Matthews Asia

November 2015

Matthews Asia ex Japan Dividend Fund: Tapping Growth via Dividends

What is the Objective of the Matthews Asia ex Japan Dividend Fund?

The objective of the Matthews Asia ex Japan Dividend Fund is total return through capital appreciation and current income.

To achieve this objective, the Fund seeks to invest in Asian companies that offer attractive dividend payments relative to their current share price and/or have the propensity to grow their dividends. Because these companies generate sufficient cash flow to fund dividend payments and allocate capital prudently, they tend to have stronger corporate governance than their peers, and often deliver attractive capital appreciation as well.

How is this Fund differentiated from other Asia ex Japan Dividend or Income products?

What differentiates this Fund from its Asia Dividend or Equity Income peer group is the investment approach. The Fund takes a total return approach, focusing on investing in a combination of stable dividend payers and dividend growers. This combination attempts to provide investors with the opportunity to benefit from an attractive dividend yield as well as exposure to companies that are growing their dividends at a faster rate than typically seen in developed markets. The Fund's investment approach seeks to mitigate the need for the investment team to "chase" yield in more stressed and cyclical parts of the market. The established, stable dividend payers in the portfolio help act as an anchor and reduce overall portfolio volatility.

How does the Fund leverage the long-term track record of the Asia Dividend strategy?

The Matthews Asia ex Japan Dividend Fund is led by the same experienced investment team and follows the same disciplined process as the firm's flagship Matthews Asia Dividend Strategy that was launched in 2006.

Why does this Fund take a total return approach to dividend investing in Asia?

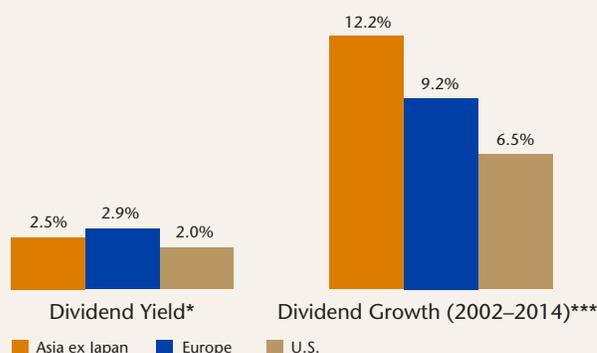
Asia not only offers a diversified source of income for investors but has been the region with the fastest dividend growth over the past 10 years. Asia also continues to have the potential to be one of the fastest growing regions of the world over the coming decade. Investing with a total return objective through a blend of stable

dividend payers with dividend growers mitigates the risk of reaching for yield regardless of the quality of the underlying business. More generally, a dividend approach can provide valuation discipline, a health check on company valuations, and a signal regarding corporate governance standards. Getting a reasonable current yield provides some comfort that you are not overpaying for the growth prospects of the company. Second, dividends suggest the health of the company is good and provides some reassurance that the earnings are backed by real cash. Third, dividends provide insight into the corporate governance standards of the business if management and large shareholders are willing to share cash profits with minority shareholders and commit to growing that dividend stream over time.

What are some of the most important developments in dividend investing in Asia?

At Matthews Asia, we believe dividends are an important component of total return in Asia. Over the past several years, we have witnessed the rapid expansion of Asia's capital markets, with an ever greater number of industry sectors and companies in which to invest, along with increased economic stability and lower volatility. In recent years, the universe of dividend-paying companies has expanded significantly in Asia and dividend growth across the region has outpaced that of the U.S. and Europe.

DIVIDENDS—HOW ASIA EX JAPAN COMPARES TO EUROPE AND THE U.S.



*Trailing Dividend yield estimates for 2014 as of 8/14/15 based on FactSet aggregates.

**Compound annual growth rate (CAGR) based on index constituents of Europe (Bloomberg European 500 Index), Asia Pacific (MSCI AC Asia ex Japan Index), U.S. (S&P 500 Index) as of 12/31/02, excluding those that are no longer in existence as of fiscal year 2014.

Sources: FactSet, MSCI, S&P, Bloomberg

Dividend investors have benefited from a cultural shift in Asia that has seen a growing number of companies embrace the concept of making reliable dividend payments. For instance, in recent years the Korean government has been encouraging companies to better utilize excess cash sitting on balance sheets, and one way to do that is to pay dividends to shareholders. As another example, few investors may realize that China offers one of the largest and fastest-growing equity markets for dividend-paying companies. Firms across the region have generally been raising dividends. And perhaps more importantly, they realize that a track record of dividend payments can help improve their corporate governance profile and offer greater assurance regarding reported earnings.

There are about 2,500 dividend-paying companies in the Asia ex Japan region with a market capitalization greater than US\$500 million. As Asia's capital markets broaden and deepen, more companies are being taken public each year and many pay a dividend from the time of listing, creating a wide range of opportunities from start-ups to blue chips.

Dividend payments from Asia have experienced rapid expansion, both due to organic growth as well as initial public offerings. Between 2002 and 2014, companies organically grew dividends by 12.2% in U.S. dollar terms, compared to 6.5% for the S&P 500 Index over the same period. The constituents of the MSCI AC Asia ex Japan Index paid US\$220 billion in 2014 to shareholders. Importantly, the region's dividend payers are also well-diversified in terms of sectors and countries, reducing our strategy's reliance on any one country or sector. This is important from a portfolio construction perspective; it enables investors to collect dividends from more than a dozen different currencies and countries in various stages of economic development.

MSCI AC EX JAPAN INDEX 2014 DIVIDEND PAYMENT (USD IN MIL)			
China	\$89,641	Financials	\$96,483
Hong Kong	\$33,409	Energy	\$26,473
Taiwan	\$24,873	Information Technology	\$22,565
South Korea	\$16,765	Telecommunication Services	\$20,454
India	\$15,286	Consumer Discretionary	\$14,873
Singapore	\$10,434	Industrials	\$14,048
Malaysia	\$10,232	Materials	\$8,608
Thailand	\$7,879	Utilities	\$8,357
Indonesia	\$5,860	Consumer Staples	\$7,182
Macau	\$3,196	Health Care	\$1,037
Philippines	\$2,505		
Total	\$220,080	Total	\$220,080

Note: Index members as of 12/31/13. It is not possible to invest directly in an index.
Sources: Factset, Bloomberg

What types of companies are typically stable dividend payers and dividend growers?

We typically find stable dividend payers in mature industries, such as telecoms, utilities, infrastructure assets and consumer staples.

Dividend growers represent a sizable part of the portfolio and are often small to mid-cap companies that occupy strong market positions in areas such as consumption, services and health care.

What are some of the misconceptions around dividend-paying companies?

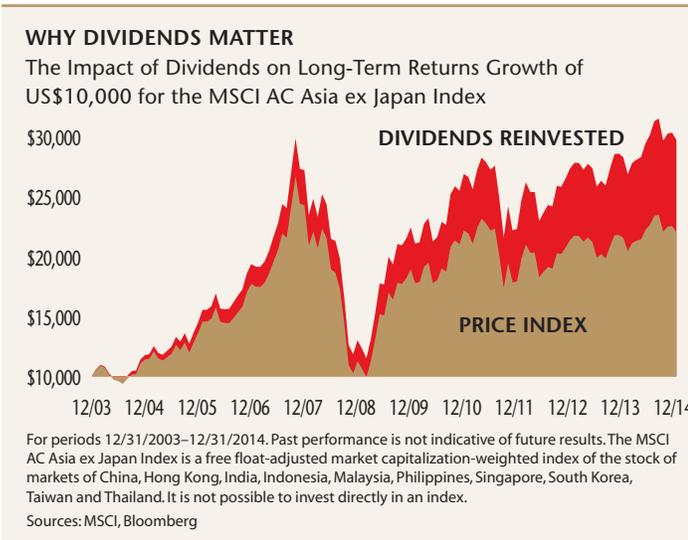
Many investors believe that dividends are only paid by established companies in more mature markets. While that can be true in developed economies, Asia has a large number of dividend-paying companies that are growing at a decent rate. One of the interesting features of many listed Asian firms is a relatively concentrated ownership structure. Publicly listed businesses, often the so-called "crown-jewel" assets of the family business, are a significant source of income and cash flow to the founding family. Similarly, in the case of listed state-owned enterprises (SOEs), where the government is the main shareholder, the dividends paid by listed SOEs are often an important source of funding for government spending. From the point-of-view of the majority shareholder, there is actually a reliance on the dividends. This is why so-called growth companies double as good dividend growers.

Asia markets can be volatile. How does a dividend strategy mitigate volatility?

With over a decade of experience managing a dedicated Asia Dividend Strategy, we have found that a portfolio of stable dividend-paying companies can help offset the volatility associated with more growth-oriented strategies. Dividend-paying companies often generate stable earnings and cash flow relative to their peers. The security of receiving a dividend yield enables an investor to pursue a reasonable level of total return without "chasing" faster-growing, but more volatile investment opportunities.

How does this Fund fit within investors' portfolios?

Total return, income generation and the potential for lower volatility are three reasons why investors should consider the Matthews Asia ex Japan Dividend Fund for their portfolios. A strategy that focuses on both dividend growth and dividend yield provides a diversified source of income and can provide lower volatility exposure to Asia over the course of a market cycle relative to pure growth strategies. Between December 31, 2003 and December 31, 2014, approximately 76% of the MSCI AC Asia ex Japan Index's total return has been due to the reinvestment of dividends illustrating the significant role of dividends in total long-term quality returns in Asia ex Japan.



What may a dividend reveal about the quality of a company and its management?

Discipline around dividends can help to identify healthy companies and provide signals that may not be readily apparent by looking at a firm’s financials. Because cash is less prone to accounting manipulation, dividend growth can be a better indicator of business performance than reported accounting earnings growth. Moreover, by reducing cash on the balance sheet, dividends force company management to become more disciplined in their decisions around capital utilization. Dividends thereby may indicate that management teams are acting as good stewards of the capital with which they have been entrusted and may lower corporate governance risk.

Companies that pay stable and/or growing dividends often exhibit:

- ✿ stable earnings that allow for the ongoing funding of the dividend
- ✿ strong balance sheets to provide shareholders higher claims to cash flows
- ✿ proven track records of dividend payments
- ✿ a commitment to continue dividend payments—and to grow them over time

What is your investment process?

The Matthews Asia ex Japan Dividend Fund follows a strategy employed in the Asia Pacific region since 2006, and is led by the same experienced team that manages the firm’s flagship Matthews Asia Dividend Strategy.

The Fund’s disciplined investment process focuses on a company’s ability and willingness to pay and grow dividends over time.

To ascertain the ability to pay growing dividends, we assess the fundamentals of each company, including stability of sales and earnings growth, sustainability of margins and high returns on invested capital. We look for firms with moderate dividend payout ratios that allow the

company strong dividend coverage, and the potential for further dividend growth through expansion of the payout ratio. We prefer conservative balance sheets, which lower the risk of cash flow being diverted to debt servicing. We also focus on cash flow rather than accounting earnings, and look for companies that generate cash earnings.

Following the business assessment, we evaluate the strength of the management team, its approach to capital allocation, and the thinking behind a dividend policy. Meetings with company management are a mandatory part of our investment process, through which we aim to build a comprehensive understanding of a company, the environment in which it operates, its capital allocation policy and its commitment to dividend payments.

Once we are comfortable with a company’s ability and willingness to pay and grow dividends, we consider valuation in terms of a stock’s current yield and the company’s potential for dividend growth over the coming three to five years.

In constructing our portfolio, the investment team considers valuation and diversification. We assess whether a company’s current price is attractive given both the current as well as the future yield based on our projections regarding dividend growth. We also consider whether the company is a better holding compared to current portfolio holdings or whether it will improve the overall portfolio diversification.

Tell us about the experience of your portfolio managers.

Matthews Asia ex Japan Dividend Fund follows a strategy employed in the Asia Pacific region since 2006, and is led by the same experienced investment team that manages the firm’s flagship Matthews Asia Dividend Strategy.

The team is supported by several dividend-focused analysts and draws on the expertise of the broader Matthews Asia investment team.

Yu Zhang, CFA, is a Lead Manager of the Matthews Asia Dividend, Matthews Asia ex Japan Dividend and Matthews China Dividend Strategies. Prior to joining Matthews in 2007 as a Research Associate, Yu was an Analyst researching Japanese companies at Aperta Asset Management from 2005 to 2007. Before receiving a graduate degree in the U.S., he was an Associate in the Ningbo, China office of Mitsui & Co., a Japanese general trading firm. Yu received a B.A. in English Language from the Beijing Foreign Studies University, an M.B.A. from Suffolk University and an M.S. in Finance from Boston College. He is fluent in Mandarin.

Robert Horrocks, PhD, is Chief Investment Officer at Matthews Asia and a Portfolio Manager. He manages the firm’s Asian Growth and Income, Asia Dividend and Asia ex Japan Dividend Strategies. As Chief Investment Officer, Robert oversees the firm’s investment process and investment professionals and sets the research

agenda for the investment team. Before joining Matthews Asia in 2008, Robert was Head of Research at Mirae Asset Management in Hong Kong. From 2003 to 2006, Robert served as Chief Investment Officer for Everbright Pramerica in China, establishing its quantitative investment process. He started his career as a Research Analyst with WI Carr Securities in Hong Kong before moving on to spend eight years working in several different Asian jurisdictions for Schroders, including stints as Country General Manager in Taiwan, Deputy Chief Investment Officer in Korea and Designated Chief Investment Officer in Shanghai. Robert earned his PhD in Chinese Economic History from Leeds University in the United Kingdom, and is fluent in Mandarin.

Sherwood Zhang is a Portfolio Manager at Matthews Asia and co-manages the firm's Asia ex Japan Dividend and China Dividend Strategies. Prior to joining Matthews Asia in 2011, Sherwood was an analyst at Passport Capital from 2007 to 2010, where he focused on such industries as property and basic materials in China as well as consumer-related sectors. Before earning his M.B.A. in 2007, Sherwood served as a Senior Treasury Officer for Hang Seng Bank in Shanghai and Hong Kong, and worked as a Foreign Exchange Trader at Shanghai Pudong Development Bank in Shanghai. He received his M.B.A. from the University of Maryland and his Bachelor of Economics in Finance from Shanghai University. Sherwood is fluent in Mandarin and speaks conversational Cantonese.

FUND FACTS

Inception Date	30 November 2015	Class	ISIN	CUISP	SEDOL	Bloomberg Ticker
Investment Objective	Total return through capital appreciation and current income	A Acc, USD	L6258X 126	LU1311310541	BYRP997	MAAEAAU LX
Benchmark	MSCI AC Asia ex Japan Index	A Dis, USD	L6258X 134	LU1311310624	BYRP9B9	MAAEADU LX
Lead Managers	Yu Zhang, CFA, Robert Horrocks, PhD	I Acc, USD	L6258X 183	LU1311311358	BYRP9H5	MAAEIAU LX
Co-Manager	Sherwood Zhang, CFA	I Dis, USD	L6258X 191	LU1311311432	BYRP9J7	MAAEIDU LX
		I Acc, GBP	L6258X 209	LU1311311515	BYRP9K8	MAAEIAG LX
		I Dis, GBP	L6258X 217	LU1311311606	BYRP9L9	MAAEIDG LX

There is no guarantee that the Matthews Asia ex Japan Dividend Fund or the companies in its portfolio will pay or continue to pay dividends.

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.matthewsasiasia.com.

Disclosures and Notes

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