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Matthews Asia

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Matthews Asia Perspective

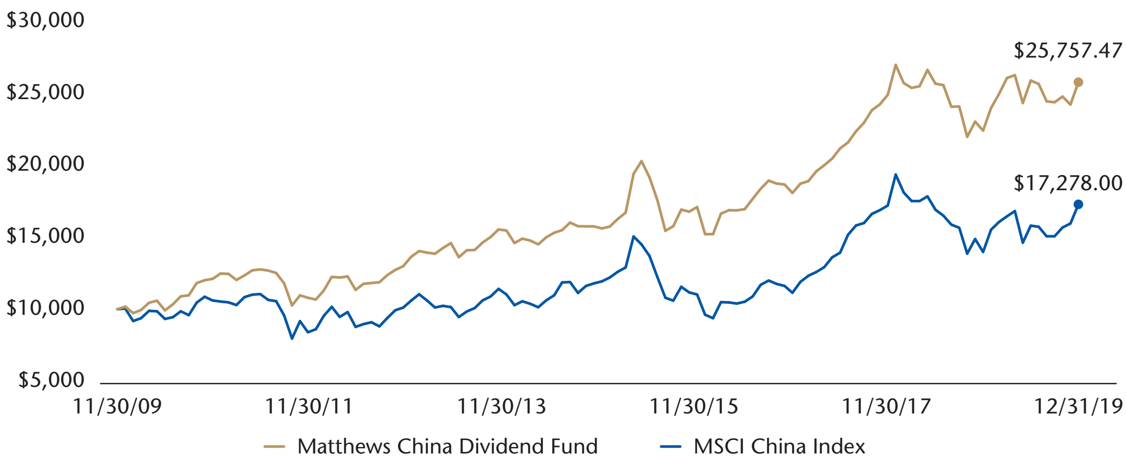
Dividends—The Surprising Star of China's Equity Markets

The Matthews China Dividend Fund has the potential to help investors capture China's growth with attractive risk-adjusted returns. Celebrating the 10-year anniversary of the Matthews China Dividend Fund, we note an investment made at the inception of the Fund has more than doubled in value over a decade. The Fund's returns have also come with lower volatility than China's broader equity markets, as measured by the Sharpe ratio. In pursuit of attractive long-term total return Matthews China Dividend Fund invests in dividend-paying stocks, including stocks of some of China's growth leaders. Growth in the portfolio can take the form of higher earnings growth, as well as higher dividend growth.

Growth of $10,000

Hypothetical Investment Since Inception—Investor Class

From 11/30/09 to 12/31/19



All-Cap Approach Has Provided a Rich Source of Alpha

To outperform the benchmark, it can be helpful to gain exposure to companies that are not in the benchmark. For the Matthews China Dividend Fund, we believe we accomplish this by taking an all-cap approach. Our benchmark, the MSCI China Index, skews toward large companies. We have found that adding smaller and midsize companies to the mix has contributed to the Fund's positive track record relative to the benchmark over longer periods of time. For investors seeking alpha, Chinese small and midcaps may present a compelling opportunity. We believe low research coverage in the market leaves the field open for finding undiscovered companies with untapped growth potential.

PERFORMANCE (as of 31 December 2019)

					Average Annual Returns				
	Inception Date	3 MO	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception	Sharpe Ratio
Matthews China Dividend Fund Investor Class	11/30/09	5.72%	15.00%	15.00%	12.54%	10.54%	9.73%	9.84%	0.61
Matthews China Dividend Fund Institutional Class	10/29/10	5.75%	15.16%	15.16%	12.71%	10.71%	n.a	8.87%	0.54
MSCI China Index	n.a.	14.72%	23.66%	23.66%	15.75%	7.69%	5.57%	5.57%	0.25 since investor class inception 0.22 since institutional class inception

FUND FACTS

	Ticker	CUSIP	Gross Expense Ratio
Investor Class	MCDFX	577125305	1.15%
Institutional Class	MICDX	577130735	1.01%

Assumes reinvestment of all dividends and/or distributions before taxes. 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 their original cost. Current performance may be lower or higher than the return figures quoted. Returns would have been lower if certain of the Fund's fees and expenses had not been waived. For the most recent month-end performance, please visit MatthewsAsia.com. All performance is in US$. Source: BNY Mellon Investment Servicing (US) Inc.*

The other source of alpha in the Fund is its ability to invest with a growth and income mindset. In pursuit of attractive total return, we maintain a balance of companies that are dividend growers, as well as steady dividend payers, in the portfolio. On the growth side, we look for positive earnings growth and the ability to increase dividends going forward. At points in the market cycle when growth stocks are attractively valued, we can invest opportunistically in high-quality growth companies. And when steady dividend payers are more attractively valued, we may buy companies that are rich in yield while security prices are lower. The combination of investing in both dividend growers and steady dividend payers has helped us generate total return in a broad range of market conditions.

As we look to the next 10 years, we believe China's economy will continue to grow through innovation and entrepreneurship. China's consumers are likely to continue driving an outsize portion of global GDP expansion. And we believe Chinese equities provide an important source of diversification and return potential for investors looking to capture a larger share of global growth. To participate in China's growth, however, investors need to stay in the game. The Matthews China Dividend Fund can help investors allocate to China with confidence for the long term.

Dividends Shine in China

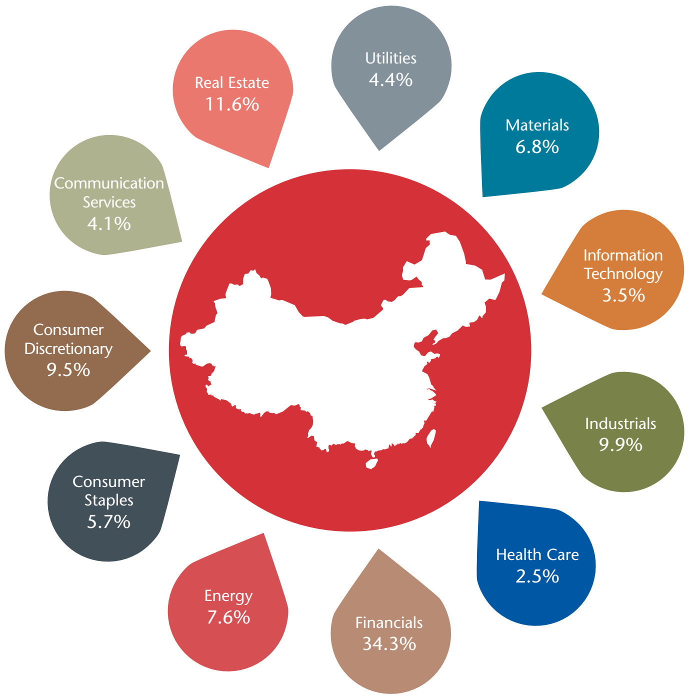
U.S. dividend-paying stocks have been out of favor among investors in recent years, getting a reputation, perhaps unfairly, of representing boring companies that can help hedge downside risk. In China, dividends play a different role in the marketplace because many companies pay dividends, including companies with attractive growth potential. Importantly, dividend-paying stocks can be found across a broad range of sectors in China. Against this backdrop, reinvested dividends are a key driver of Chinese total return in equities. Consider:

1) More than 50% of total return in China comes from reinvested dividends
2) High-quality stocks paying attractive dividends can be found in innovation-oriented sectors, such as communication services and information technology
3) China's regulatory environment requires and encourages dividend payouts for companies as appropriate for their stage of development

As a result, reinvested income has played a meaningful role in capturing China's broader equity market returns. Roughly 87% of companies in the MSCI China Index paid dividends in 2019, creating a rich universe of stocks for active managers to choose from. Active managers

A Diverse Cross-Section of Companies Pay Dividends

Breakdown of aggregate dividend payments of Chinese companies (including A-shares) in 2019



There is no guarantee that companies will maintain or grow their dividend pay-out ratio, or pay dividends.
Sources: Matthews Asia, FactSet Research Systems; data as of 12/31/2019

who focus on total return via growth and income can generate attractive outperformance, but only those with the knowledge, skills and resources to conduct in-depth research into China's domestic markets.

The Dividend Advantage—A Signal of Corporate Governance

When investing in China, avoiding investment traps is as important as discovering exciting growth opportunities. The key is to understand a company's corporate governance quality. Although there is no short-cut to a thorough analysis in this regard, companies that have dividend policies consistent with their business models and growth stages send a strong signal about their corporate governance quality. This is why we believe the dividend element in our total return approach serves dual roles: both as income source and as corporate governance lens.

A likely factor behind the signaling effect of these dividend payments may be the ownership structure of Chinese companies. Unlike in the U.S. where the majority of listed companies are owned by a dispersed group of institutional investors, many Chinese companies have a majority shareholder or shareholders, who could be the founder of the business, government, or business groups. Founding business owners and other majority shareholders often want to create a steady cash flow from the business, so the dividend structure helps meet this goal of the founders while also aligning interests between majority and minority shareholders.

Dividends may also serve as indicators of a company's business model strength and force executives to become more disciplined in their capital allocation decisions. And because dividends are cash payouts to shareholders that need to be backed by real cash earnings or existing cash balances, they may be less prone to accounting manipulation. This is especially important for emerging market investors, including those investing in China, where corporate disclosure can often be lacking. For these reasons, a total return strategy focusing on both dividend yield and dividend growth may lower some of the risks related to corporate governance issues, and can be a prudent strategy for investors to tap into China's growth.

Matthews China Dividend Fund—Highlights

- **Unconstrained All-Cap Approach**—Flexibility offers participation in both growth and value markets. A quality bias promotes downside protection.
- **Deeply Experienced Team**—China Dividend Strategy team includes portfolio managers, analysts and an investment strategist with over 75 years of combined Asia experience, supported by a broader 45+ member investment team including 18 Chinese nationals and 20+ Chinese language speakers.
- **Boots-on-the-Ground Approach**—Track record of conducting in-depth, on-the-ground fundamental research in Asia for 25+ years to identify the most compelling opportunities while seeking to minimize downside risk.

Definitions

Alpha—Alpha is excess return over a strategy's benchmark, generated through active security selection and portfolio construction.

Dividend Growers—Dividend growers represent dividend-paying companies that can grow their dividend payouts over time.

Dividend Payers—Dividend payers represent dividend-paying companies that pay steady, consistent dividends over time.

MSCI China Index: The MSCI China Index is a free float–adjusted market capitalization–weighted index of Chinese equities that include China-affiliated corporations and H shares listed on the Hong Kong exchange, and B shares listed on the Shanghai and Shenzhen exchanges. It is not possible to invest directly in an index.

Sharpe Ratio: Sharpe Ratio is a method of examining the performance of an investment by adjusting for its risk. The ratio, named after William F. Sharpe, measures the excess return (or risk premium) per unit of deviation in an investment asset or a trading strategy, typically referred to as risk.

Important Information

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus or summary prospectus with this and other information about the Funds may be obtained by visiting matthewsasia.com. Please read the prospectus carefully before investing as it explains the risks associated with investing in international and emerging markets.

Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflations risks. In addition, single-country and sector strategies may be subject to a higher degree of market risk than diversified strategies because of concentration in a specific industry, sector or geographic location. Investing in small companies is more risky and more volatile than investing in large companies.

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