Matthews Asia

Matthews Asia ex Japan Dividend Fund

I (Acc)

Commentary

Period ended 31 March 2022

For the quarter ending 31 March 2022, the Matthews Asia ex Japan Dividend Fund returned -12.26%, while its benchmark, the MSCI All Country Asia ex Japan Index, returned -7.95% over the same period.

Market Environment:

The first quarter of 2022 was choppy for Asian equity markets, weighed down by the spillover from the U.S. Fed's monetary tightening, continued regulatory pressure on Chinese internet companies, economic headwinds from the Russia/ Ukraine conflict and China's zero-COVID policy. Southeast Asian equities were a bright spot during the quarter, driven by market optimism regarding economic normalization and the re-opening of country borders in the region. Among Southeast Asia, Indonesia was the best performing market, with additional help from rising commodity prices. China was the worst performer, amid worries about regulatory risks and the economic consequences of its draconian COVID-related lock-down measures in several major cities. Overall, Asian growth stocks performed poorly during the quarter on the back of rising U.S. interest rates and perceived headwinds relating to higher import costs.

Performance Contributors and Detractors:

On a country basis, our stock selection in China detracted the most from relative performance during the period. Holdings in Chinese dividend growth stocks experienced a sharp valuation contraction, as tightening U.S. monetary policy and geopolitical uncertainties caused significant disruption to growth equities. On the other hand, our allocation to Vietnam (which is not represented in the benchmark) contributed positively to relative performance, led by strong share performance of IT service company FPT Corporation.

From a sector perspective, stock selection within consumer discretionary detracted the most from relative performance, as the portfolio's holdings in auto parts companies struggled, weighed down by a dampened profit margin outlook due to the sharp commodity price spike experienced since the onset of the Russia/Ukraine military conflict.

Turning to individual stocks, our long-time holding in Chinese auto body parts manufacturer Minth Group was a notable detractor to performance in the quarter. The rapid rise in aluminum and plastics prices after the Russian invasion of Ukraine posed challenges for Minth to pass through cost increases to its customers on a timely basis. Also, further disruption of Minth's logistics network, prolonged semiconductor chip shortages due to geopolitical events and China's recent Covid outbreak negatively impacted global auto manufacturing production and Minth's near-term business growth. Nevertheless, we believe Minth's market positioning remains favorable in the electric vehicle supply chain in the medium term, as exemplified by its strong order growth from global car manufacturers for its products used in electric vehicles. The company's planned A-share listing in the near future may provide additional capital for future growth as well.

On the positive side, our holding in Bank Rakyat, a leading Indonesian financial services company, was a significant contributor to absolute performance in the quarter. Similar to many other countries in Asia, Indonesia's economy has gradually reopened and resumed normal business activities, benefiting loan growth and asset quality at the bank.

Notable Portfolio Changes:

During the quarter, we increased our allocation to the financials sector by adding commercial banking businesses in developed Asia, where local monetary policy is more closely following the U.S. rate-hike cycle. These include United Overseas Bank (UOB) in Singapore and CTBC Financial Holding in Taiwan. In addition to U.S. rate sensitivity, UOB benefited from its strong franchise in wealth management for clients in the region and CTBC enjoyed a tailwind from Taiwanese corporates' capital investment needs overseas, which was fueled by demand for semiconductors and technology products globally.

Also, we increased exposure to "re-opening" businesses, as more Asian economies are moving from a pandemic control phase into a "live with COVID-19" endemic phase. One example is our new position in Bangkok Dusit Medical Services, a premium hospital operator in Thailand. The company's earnings growth is expected to pick up pace on the back of normalization of non-Covid medical operations and the recovery of medical tourism in Thailand.

Lastly, we've sought to upgrade the quality of holdings in dividend growth stocks, as the growth-to-value rotation offered opportunities to own certain structural-growth businesses at much reduced valuation multiples—but with their long-term growth outlook intact. To fund these new positions, we exited a few stocks in the consumer discretionary and technology sectors whose underlying fundamentals, in our view, no longer represented the best risk-reward opportunities.

Outlook:

While the U.S. monetary tightening cycle was expected by market participants, renewed concerns on growth both in the U.S. and Asia are headwinds facing Asian equities at the moment. The prospect of a protracted war between Russia and Ukraine further exacerbates near-term market volatility and risks of elevated commodity prices and crippled supply chains.

In particular, China's continued implementation of its zero-COVID policy to battle the current Omicron surge has taken a toll on its economy, and as a result, corporate earnings and supply chain throughput could face downward pressure. China's policy makers have been launching a series of economic stimulus policies to counter the effects of COVID measures, and we expect such policy accommodation to accelerate in an effort to put a floor to growth. We also observe more supportive stances taken by Chinese policy makers on private enterprises, capital markets and cooperation with U.S. regulators on overseas listings.

Going forward, we are looking for businesses with a strong ability to fend off inflation cost pressures, maintain their earnings and dividend growth outlook, and that are potential beneficiaries from a stronger policy response from China, including an easing of regulatory uncertainties.

Earnings growth is not representative of the Fund's future performance.

Rolling 12 Month Returns For the period ended 31/03/2022 - I (Acc)

Name	2022	2021	2020	2019	2018	Inception Date
Matthews Asia ex Japan Dividend Fund (USD)	-9.92%	79.90%	-9.99%	-4.31%	32.01%	30/11/2015
MSCI All Country Asia ex Japan Index (USD)	-14.42%	57.77%	-13.18%	-4.95%	26.16%	
Matthews Asia ex Japan Dividend Fund (GBP)	-5.51%	61.41%	-4.62%	2.87%	17.09%	30/11/2015
MSCI All Country Asia ex Japan Index (GBP)	-10.32%	41.79%	-8.76%	2.33%	12.45%	
Matthews Asia ex Japan Dividend Fund (EUR)	-4.87%	N.A.	N.A.	N.A.	N.A.	31/07/2020
MSCI All Country Asia ex Japan Index (EUR)	-9.60%	N.A.	N.A.	N.A.	N.A.	

Sources: Brown Brothers Harriman (Luxembourg) S.C.A, Matthews Asia, FactSet Research Systems, Bloomberg

Performance figures discussed in the Fund Manager Commentary above reflect that of the Institutional Accumulation Class Shares and has been calculated in USD. Performance details provided for the Fund are based on a NAV-to-NAV basis, with any dividends reinvested, and are net of management fees and other expenses. Past performance information is not indicative of future performance. Investors may not get back the full amount invested.

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.

Information contained herein is sourced from Matthews Asia unless otherwise stated. The views and opinions in this commentary were as of the report date, subject to change and may not reflect the writer's current views. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors, and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. It should not be assumed that any investment will be profitable or will equal the performance of any securities or any sectors mentioned herein. The information does not constitute a recommendation to buy or sell any securities mentioned.

Investors should not invest in the Fund solely based on the information in this material alone. Please refer to the Prospectus for further details of the risk factors.

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. Additionally, investing in emerging and frontier securities involves greater risks than investing in securities of developed markets, as issuers in these countries generally disclose less financial and other information publicly or restrict access to certain information from review by non-domestic authorities. Emerging and frontier markets tend to have less stringent and less uniform accounting, auditing and financial reporting standards, limited regulatory or governmental oversight, and limited investor protection or rights to take action against issuers, resulting in potential material risks to investors. Pandemics and other public health emergencies can result in market volatility and disruption.

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

This website is owned and operated by Matthews International Capital Management, LLC, Matthews Global Investors (Hong Kong) Limited, Matthews Global Investors, LLC and Matthews Global Investors S.àr.l. Your use of this website confirms that you have read and agree to the Terms and Conditions of Use of this website.

The information on this website is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any security that may be referenced on or through this website. Unless otherwise specified, it is not intended to be directed to any person(s) in particular. Information from this website must not be used in any jurisdiction where prohibited by law and must not be used in a way that would be contrary to local law or legislation. No investment advice, tax advice, or legal advice is provided through this website, and you agree that this website will not be used by you for these purposes. No representation is given that shares, products, or services identified on, or accessible through, this website are suitable for any particular investor. An investment in the Matthews Asia Funds is not available to investors in all jurisdictions; it is not available to U.S. Persons.

Investors should ascertain from their professional advisers the consequences of investing in the Fund under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirement. Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before making an investment decision. The current prospectus, Key Investor Information Document or other offering documents ("Offering Documents") contain this and other information. Applications for shares may only be made on the Fund's most recent Offering Documents which are available from Matthews International Capital Management, LLC. Please read the Offering Documents carefully before investing.

In Singapore, this website 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.

In the UK, this website 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.

If you are a resident of any other country, please go to matthewsasia.com