Matthews Asia

2021 Stewardship Report

Matthews Asia

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Welcome to Our 2021 Stewardship Report

We are engaged shareholders and bondholders in our portfolio companies and issuers. Investing in profitable and sustainable business models is key to what we do. We strive to foster these qualities and to be good global neighbors and citizens. We believe that a healthy environment where people can live and work supports economic growth and the development of a broad middle class. That middle class in turn demands and thereby creates not only greater material wealth but also a better quality of life and greater social inclusion. In addition, transparent corporate governance structures help attract domestic and international capital and support economic progress and investment returns. Working diligently to help our clients reach their financial goals, at Matthews Asia we are mindful of the role of capital in shaping the world we want to live in.

With US$25.2 billion in assets under management across over 600 companies (as of December 31, 2021), we are cognizant of our responsibility to meet and engage with corporate management to improve the environment, society and corporate governance. Trust, transparency and accountability from companies and entities is important in all markets in which we invest, and especially so in emerging and frontier markets. In our 2021 Stewardship Report, we highlight the broader embrace of stewardship by regulators globally, recap a year of voting and engagement with the companies in the Matthews Asia portfolios and take a look under the hood with some in-depth thematic case studies.

MATTHEWS ASIA HISTORY OF ESG INITIATIVES

Committed to incorporating ESG considerations with intention within the very fabric of our investment process

2015
Launch of our first ESG strategy, Asia ESG (positive outcomes focus with full ESG integration)

2016
Matthews Asia becomes a UNPRI signatory

2016
Matthews Asia starts carbon offset program for emissions from employee travel

2017
Matthews Asia joins Asian Corporate Governance Association (ACGA)

2018
Matthews Asia joins CDP

2019:
Matthews Asia establishes the Responsible Investment & Stewardship Sub-committee*

2020:
Matthews Asia joins the Sustainable Accounting Standards Board (SASB) Alliance

2020:
Matthews Asia publishes first Stewardship Report

2021:
ESG Committee established: formalization of ESG governance structure to include firm-level ESG oversight

2021:
Matthews Asia joins FAIRR

2021:
Matthews Asia joins the Emerging Markets Investors Alliance

2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021

* Formerly known as Corporate Governance and Social Sub-committee
Source: Matthews Asia

Matthews Asia ESG Committee and Sub-Committees

In 2021, Matthews Asia strengthened the firm's governance structure by creating an overarching, executive-level ESG Committee with the following Sub-Committees: Responsible Investment and Stewardship; Diversity and Inclusion; and Sustainability. The ESG Committee is comprised of senior leadership from various departments and provides regular updates to the firm's Board of Directors.

Matthews Asia's Responsible Investment and Stewardship (RI&S) Sub-Committee was established to oversee matters related to corporate engagement—in particular stewardship and active ownership—that pertain to the firm and its direct and indirect subsidiaries. The RI&S Sub-Committee is charged with implementing Matthews Asia's Responsible Investment activities, active ownership principles, stewardship and ESG integration, as well as monitoring and reviewing engagement outcomes. In addition, the RI&S Sub-Committee is responsible for keeping abreast of the legal framework of minority shareholder rights in the markets where Matthews Asia invests as it relates to both individual and collective engagements. Together with the Matthews Asia Proxy Working Group, the RI&S Sub-Committee also oversees the proxy voting process. The Diversity & Inclusion Sub-Committee is responsible for integrating the firm's diversity and inclusion efforts, including measuring diversity data and providing accountability metrics for senior managers. With representation from a broad cross-section of departments across the firm, the Sustainability Sub-Committee's objective is to champion sustainable business, health and environmental practices throughout the firm.

Stewardship

Stewardship refers to investors acting as responsible capital providers by monitoring and influencing corporate behaviors for the better—through both voting and engagement. Stewardship requires a long-term view, and treats environmental, social and governance (ESG) issues as important considerations in the traditional operational and financial metrics of a company's performance. The premise, supported by a growing body of research, is that responsible voting and active engagement will drive better corporate behaviors and more sustainable financial returns. This in turn contributes to the healthy long-term development of capital markets globally.

In the investment management industry, stewardship is generally defined as the engagement by institutional investors with publicly listed companies to generate long-term value for shareowners. It is considered vital to the healthy functioning of markets.

In our 2020 Stewardship Report, we discussed the various Stewardship Codes that were proliferating in Asia. 2021 saw a broader embrace of stewardship by regulators, largely related to the climate and concerns about broad ESG "greenwashing"—a form of deceptive marketing in which a company, product, or business practice is falsely or excessively promoted as being environmentally friendly. ESG regulation hit a tipping point in 2021, with the United Nations Principles for Responsible Investing (UN PRI) identifying 159 new or revised policy instruments through August 2021, more than the whole of 2020.

Regulators are mainly seeking to eliminate greenwashing and to put market participants on common ground as to what ESG means as it is often very subjective in nature. Requirements in the sustainability space continue to evolve from guidelines and initiatives to regulations on sustainability classification criteria and mandatory climate-related reporting.

It comes as no surprise then that many market participants cite regulatory scrutiny on greenwashing as one of their biggest concerns about ESG investing in 2022. Across the ESG landscape, much of the regulatory reforms remain extremely focused on environmental improvement, especially with an eye to the role that investors play in the transition to a low carbon economy and a more sustainable society.

The most robust and far-reaching regulation have come out of the European Union (EU) with the Sustainable Financial Disclosure Regulation (SFDR), which is designed to help investors understand, compare and monitor the sustainability characteristics of investment funds by standardizing sustainability disclosures and direct capital flows to sustainable finance activities, such as green businesses. The SFDR and the EU Taxonomy, a classification system establishing a list of environmentally sustainable economic activities, as well as the Corporate Sustainability Reporting Directive (CSRD), which requires certain large companies to disclose information on the way they operate and manage social and environmental challenges, are changing the landscape for market participants in Europe. Much of the SFDR is meant to redirect capital flow and place a higher level of transparency on financial products.

The EU's regulations have been closely watched by market participants including regulators in Asia who are formulating their own disclosure regulations as it relates to ESG investments. For example, the Securities and Futures Commission of Hong Kong (SFC) considered the EU's SFDR and proposed enhanced disclosure requirements around climate risk in investment products. In India, its Securities and Exchange Board (SEBI) is now requiring the top 1,000 listed companies (by market capitalization) to file Business Responsibility and Sustainability Report (BRSR) as a part of their annual reports. Also in India, ESG-labeled funds will have to invest at least 80% of assets in ESG-themed securities, and disclose measures taken to mitigate greenwashing risks and reliance on third party scores. Singapore will have new disclosure standards for ESG retail funds in early 2022 and the exchange now requires mandatory climate-related disclosures in companies' sustainability reports.

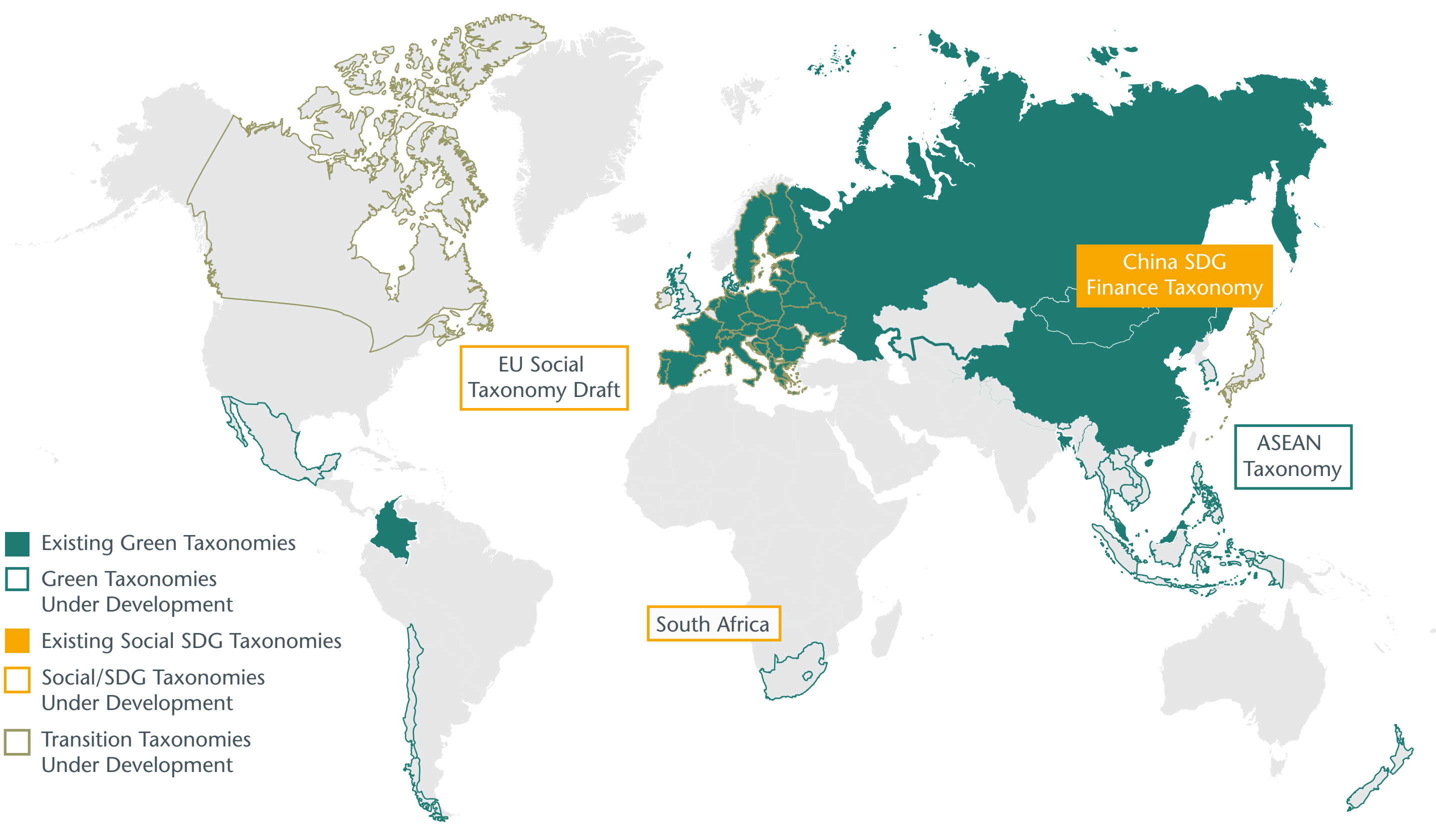
We are also beginning to see ESG taxonomies globally. Taxonomies serve as the bedrock of many sustainable finance regulations but are also important for public policies and stimulus plans coming out of COVID. Taxonomies are meant to be a clear set of criteria that determines if an activity is environmentally sustainable and should help reduce greenwashing.

These taxonomies have been emerging throughout Asia. In 2020, finance ministers and central bank governors from members of the Association of Southeast Asian Nations (ASEAN) announced their support for an ASEAN taxonomy of sustainable finance. South Korea's government has also announced that it will establish a "K-taxonomy" to help define environmentally sustainable industries and economic activities. In China, its 2020 China Green Bond Endorsed Project Catalogue represents the most up-to-date and clear green definitions at the activity level by classifying green projects into six level-one industry categories: Energy-saving and environmental protection; cleaner production; clean energy; eco-environmental; green upgrading of infrastructure; and green service.

Non-Asia emerging markets are also starting to draft taxonomies. The Banking Association of Mexico has been working with Germany on a green taxonomy as part of the Mexican-German Climate Change Alliance. In addition, the Deputy Governor of Mexico's Central Bank, Banxico, a founding member of the Network for Greening the Financial System, has pushed for defining a national taxonomy on sustainable investments. The Chilean Ministry of Finance announced the creation of a preparatory committee for the development of a green taxonomy. Other countries have also committed to establishing social taxonomies, such as South Africa, which intends to progressively include social dimensions and/or to develop a social taxonomy after the release of a green taxonomy.

ESG TAXONOMIES

In addition to calls for added transparency, taxonomies are emerging globally to set the rules for sustainable finance



Source: PRI responsible investment regulation database, as of August 2021, Natixis

Voting Highlights

Our 2021 Highlights

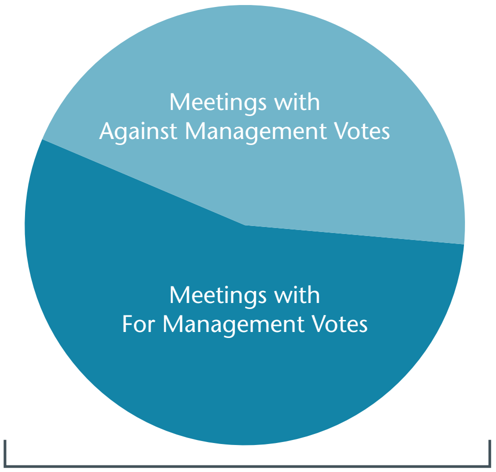
- **Over 7,600 agenda items voted on at over 900 meetings**
- **Over 4,000 company meetings**
- **440+ ESG-related notes entered into investment team meetings tracking system**
- **ESG engagements with almost 20% of portfolio companies**

At Matthews Asia, active ownership and stewardship form the cornerstone of our commitment to foster strong corporate governance. With a long history of investing in Asia and emerging markets, we are often a significant shareholder in company registries. In 2021, we conducted more than 4,000 meetings with companies throughout Asia and across broader emerging markets. Such touchpoints are also inclusive of supplier, customer and other stakeholder meetings.

Our deep and diverse 38-person* investment team has a strong background in Asia and emerging markets with a range of perspectives and expertise. More than 70% of our investment professionals have lived, studied or traveled extensively throughout Asia Pacific, and over 70% are fluent in the region's languages. Respectful of diverse cultural landscapes, where feasible we take an in-person approach to company engagement, which we find more productive than simply filing shareholder resolutions. We also take a thoughtful and conscientious approach to voting proxies on behalf of our clients.

In calendar year 2021 (reporting period), 907 of 911 available meetings were voted on, equating to nearly 100% of the votable meetings.

ALIGNMENT WITH MANAGEMENT



Votable Meetings: 911; Meetings Voted: 907

Source: ISS

* As of February 28, 2022

Matthews Asia—2021 Voting Trends

Proxy voting is a very important activity for portfolio managers and is a key tenet of shareholder rights. Voting is often one of the only ways that shareholders can express dissatisfaction with company management and hold them to account.

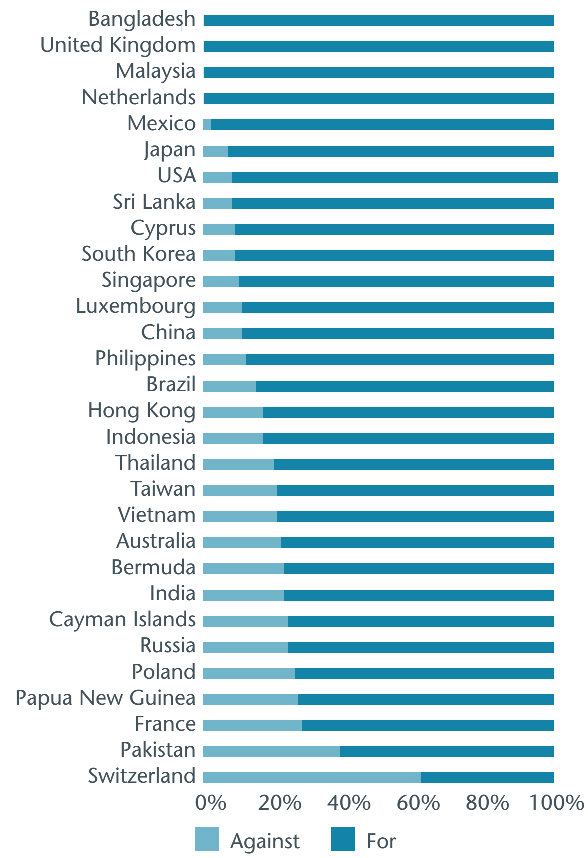
The votes cast during the reporting period were aligned with management recommendations in 84% of cases, while the ISS Benchmark Policy recommendations were at 86% alignment with management recommendations.

This percentage of voting in alignment with management has not changed very much over the past three years; however, the degree of scrutiny of agenda items up for vote has changed over the last few years. In 2018, Matthews Asia voted against the ISS Benchmark voting guidelines at less than 1% of meetings. In 2021, we voted against ISS Benchmark voting guidelines at 10% of meetings (88 of 907 voted meetings). This increasing number of overrides (voting against the ISS Benchmark recommendations) signals greater scrutiny of agenda items being voted upon by our investment professionals—the majority of the 210 individual item overrides at these 88 meetings was due to a more nuanced view.

The bulk of our overrides was for companies in mainland China and India, 61% and 24%, respectively. In some cases, we took into consideration the recommendations of specialized, domestic proxy advisors in each country. Historically, these two markets have corporate governance characteristics such that considering domestic proxy advisors' recommendations are appealing. The breadth and depth of listed companies in these two markets are also enormous and using domestic proxy advisors with specialized teams and local context allows us to supplement our benchmark research in line with our responsibility to vote in the best interest of our clients.

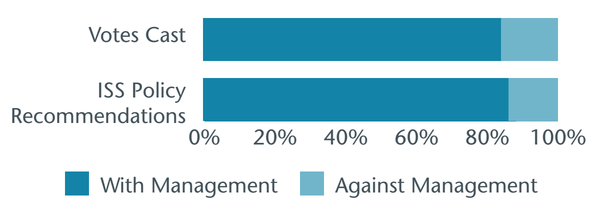
Some of the reasons we overrode the benchmark recommendations were to vote in line with local best practice. For example, in line with the Securities and Exchange Board of India guidelines, we voted against directors holding both the Chairman and Managing Director positions. We also voted against directors with tenures beyond the 10-year independent director limit at boards where the independence requirements were not met, and companies proposed to add executive directors to the board. In another instance, we disagreed with the ISS recommendations and considered the performance parameters on a company's share incentive program to be reasonably set, and the dilution effect to be reasonable given the growth potential for the business in question.

MATTHEWS ASIA—VOTES CAST PER COUNTRY



Source: ISS

MATTHEWS ASIA—VOTES CAST VS ISS RECOMMENDATION



Source: ISS

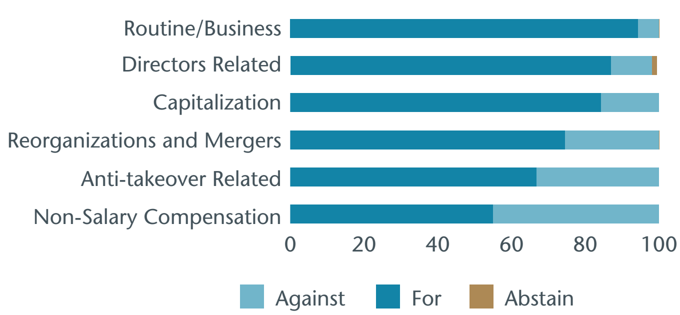
In China, we voted against a proposed auditor after questions arose around the independence of the auditor in some cases due to passing tenure beyond the regulatory limit. In other instances, the proposed signing Certified Public Accountants received surveillance caution letters from the regulatory authority for either poor audit work quality or non-compliance. When it came to restricted stock incentive schemes, we often voted for these proposals after evaluating the scope, pricing, vesting criteria and performance targets. There were also a few overrides in mainland China that were related to directors lacking adequate experience and, in these cases, we voted against them. In some cases, our decision to vote in line with or against ISS recommendations was due to company interaction and in other cases, it was due to supplemental research.

Votes Cast on Management Proposal Categories

Comparing votes cast to management recommendations across the major proposal categories provides insight into the positioning of votes on proposals submitted by management against the ISS Benchmark Policy guidelines. Votes cast during the 2021 reporting period were least in line with management on Executive Compensation matters, where only 55% of votes followed management recommendations.

Shareholder proposals—proxy ballot questions submitted by shareholders rather than corporate management—are very uncommon in the markets where we invest; however, they are an important right and tool for shareholders looking to improve corporate value. With increasing acknowledgment that environmental and social issues are material to stock performance, shareholders have been increasing the number of proposals filed, whether it be around disclosure of diversity and inclusion metrics or setting science-based targets. Prior to 2021, there were only two Matthews Asia holdings which have ever held votes on climate-related proposals—a company listed in the U.S. and a company listed in Australia. In 2021, we saw two more, both of which we asked the company to report on climate change.

MATTHEWS ASIA—VOTES CAST PER CATEGORY



Source: ISS

Active Ownership

As a global investor, we understand that regulations play an important part in setting corporate governance standards for each country. In addition to our engagement with individual portfolio companies, we also engage with other key stakeholders who have significant roles in shaping public policy and corporate behavior. We believe that a good regulatory framework complements market forces, while looking after the interests of various stakeholders. As such, we take an active role in key organizations that advance and protect the interests of our clients. Our objective is to raise the standards of the companies and markets in which we invest on behalf of our clients.

We strive to maintain active relationships with relevant market institutions, governmental and public bodies that may be helpful for keeping up to date with local legislation and market practice for improving the institutional framework. We also support different forums for promotion of good market practice, corporate governance, other responsible practices and relevant topics that may be in the joint interest of our investors. Some of these organizations with which we engage include the UN PRI, the Asian Corporate Governance Association (ACGA), the Sustainable Accounting Standards Board (SASB), and the CDP, an international non-profit organization that helps companies and cities disclose their environmental impact. In 2021, we joined the Emerging Markets Investors Alliance (EMIA) and became an Investor Member of the Farm Animal Investment Risk and Return (FAIRR) Initiative.

By understanding the nuanced ownership and governance structures in such markets and being an active advocate of stewardship, institutional asset managers such as Matthews Asia can make a significant contribution to improving corporate governance practices regionally. We can do this by combining our fundamental knowledge of Asian and emerging markets companies with constructive engagement with key stakeholders, including policymakers and our portfolio companies.

"Our objective is to raise the standards of the companies and markets in which we invest on behalf of our clients."

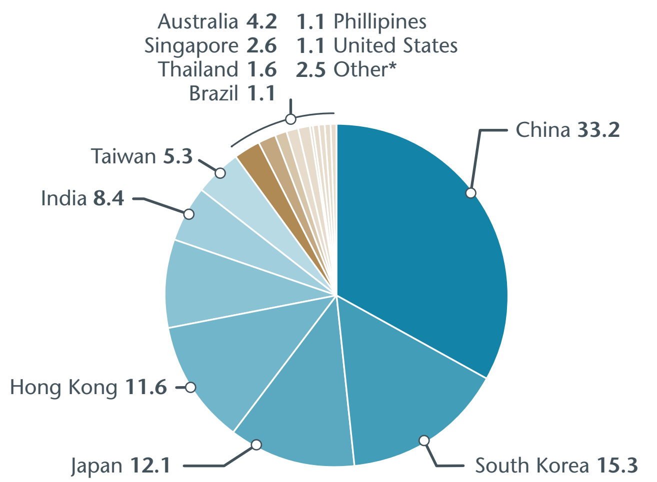
Company Engagements

During 2021, Matthews Asia conducted engagements with 116 portfolio companies, double the number of companies we engaged in 2020 (57 portfolio companies). The areas of our engagement have focused on a variety of financially material ESG topics including climate change, environmental management, data security and privacy, employee health and safety, board effectiveness, board diversity, remuneration, shareholder communication, and ESG disclosure.

Looking at the country breakdown of our engagements, we saw an increase of engagement with companies in China, which made up 33.2% of our total engagement, followed by South Korea (15.3%), Japan (12.1%), Hong Kong (11.6%), India (8.4%) and Taiwan (5.3%).

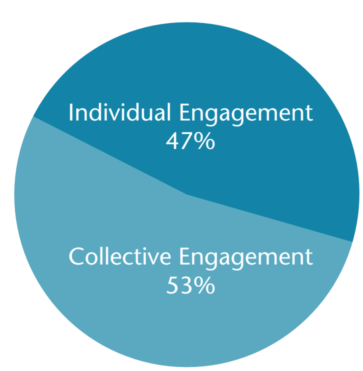
In 2021, we engaged on ESG issues with 19% of our portfolio holdings across strategies. Our 2021 engagement efforts reflect our commitment to active ownership. We engaged both individually and though collective investor initiatives, including on broad market topics with regulators and exchanges. During 2021, our research team members held nearly 90 direct ESG engagement discussions with corporate management. Additionally, we partnered with other investors via industry groups and conducted nearly 100 engagements with our portfolio companies via campaign letters, emails and group meetings to expand our reach and influence.

MATTHEWS ASIA—ENGAGEMENTS BY COUNTRY (%)



*Bangladesh, 0.5; Canada, 0.5; Russia, 0.5; Vietnam, 0.5; Mexico, 0.5
Source: Matthews Asia

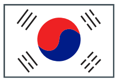
MATTHEWS ASIA—ENGAGEMENTS BY ENGAGEMENT TYPE



Source: Matthews Asia

Case Studies

The Matthews Asia investment team collaborates when we engage as a company and through collective investor initiatives on broad market topics with regulators and exchanges. In 2021, Matthews Asia engaged with companies on topics including climate change, data security and privacy, employee health and safety, board effectiveness and ESG disclosure. In the following pages, we highlight some of the engagements we undertook during the year.



SOUTH KOREA

ESG has been gaining momentum in South Korea over the last few years, with companies focusing on improving their disclosures to meet regulatory requirements and investor expectations. In 2021 South Korea revised its ESG Code of Best Practices (Code) to stress board leadership and obligation to pursue sustainable growth. The revised Code is also meant to reflect the latest managerial environmental and relevant global trends, while encouraging more communication with shareholders and other stakeholders. The revisions also put a stronger emphasis on the circular economy, workers' safety, and the role and responsibilities of directors. On the governance side, there was an increasing number of split offs in the market, which could potentially harm existing shareholder value. Considering that South Korea is not a market with tag-along rights for minority shareholders, shareholders often raise concerns during times of mergers and acquisitions. In 2022 however, we expect to see the impact of the Capital Market Act amendment whereby large, listed companies that do not have any women on their board will need to appoint a female director by August 5, 2022.

In 2021, Matthews Asia engaged with 17 South Korean companies. Many of these engagements and conversations with management centered on corporate governance issues prevalent in this market, including ownership structures, board composition, independent oversight, capital management, disclosure and diversity. Other engagements and conversations were with small and mid-size companies that have only been recently rated by ESG research agencies—for example, we discussed how to avoid being, in some cases, unnecessarily punished for a lack of disclosure. We regularly engage with companies in South Korea on key ESG issues and risks.

Hyundai Motor Company

Engagement Topics: Corporate Governance Policy, External Board Evaluations, Board Composition, Climate Change

Outcome and Observation: Hyundai Motor is principally engaged in the manufacturing and distribution of automobiles. The company is part of a large conglomerate with several affiliated companies. We began engaging more formally with Hyundai Motor in 2019. As part of delegation of the Asian Corporate Governance Association (ACGA) to South Korea, we met with the company's four newly appointed independent directors to understand their main roles. During the meeting, we expressed our concerns that the board did not have the opportunity to understand the Hyundai group companies' decision on the larger group. Therefore, we suggested the company have a broad-group governance policy. We also engaged with the company over the issues of board diversity, climate change and labor standards. The independent directors also reiterated their willingness to continue the dialogue with shareholder representatives. In late 2020, we had a follow up call with an independent director through the Korea Working Group of ACGA for an update on Hyundai Motor's progress on corporate governance. We pressed the company to start an external board evaluation. We also asked if there were new sustainability strategies in areas such as carbon reduction and what decisions the board had made in respect to strengthening ESG reporting. In addition, we asked for the company's vision and roadmap to help increase the sustainability of the electric vehicles (EVs) value

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chain through recycling and the steps taken to increase the safety of EVs.

In 2021, we followed up with the independent director again and discussed topics such as capital management, board performance indicators, external board evaluations, and board diversity. We pressed again for external board evaluations. The independent director indicated that third-party board evaluations were still being considered and acknowledged that third-party evaluations are best practice. He further confirmed that there is an internal management evaluation of board performance. We are pleased to see the company appointed its first female independent director in March 2021 and suggested the company appoint a female director on the company's Nominations Committee. The independent director agreed to bring this up at the next board meeting.

We are encouraged to see that the company made progress on ESG management. In 2021, Hyundai Motor expanded and reorganized its Transparent Management Committee into the Sustainability Management Committee, a committee dedicated to formulating ESG policies and activities. The company also made improvements on minimizing its environmental impact. Hyundai Motor has released its carbon neutrality roadmap white paper and made a commitment to achieve carbon neutrality by 2045 by strengthening its EV lineup and building its hydrogen ecosystem. In terms of Post Industrial Recycling (PIR), the company is developing technology that will enable scrap pieces of fabric used to make airbags and tire cords to be recycled and used in other parts. Hyundai Motor plans to build a large-scale second life EV battery recovery network in South Korea and plans to expand it to Europe and the U.S.

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INDIA

In India, there has been an uptick in active ownership by investors, due to an increasing number of domestic mutual funds that are taking their stewardship duties more seriously, and a rising level of institutional ownership. During the Asian financial crisis, promoters held a 3 to 1 stake versus institutional investors. Now, this has dropped to about 1.5 to 1 with 15% held by mutual funds. Investors' expectations around governance and engagement are increasing as stewardship codes find their footing. Electronic voting also made fulfilling stewardship duties easier and has begun to have an impact on meeting outcomes with directors, some of whom have been voted out of their positions. Domestic proxy advisors are also playing a key role. We expect more investors to start engaging on environmental and social issues given India's pledge to become carbon neutral by 2070. We anticipate investors will want to know how companies are working toward the country's goal of meeting 50% energy requirements from renewable energy by 2030, for instance.

In 2021, Matthews Asia engaged with 11 Indian companies.

Phoenix Mills Ltd.

Engagement Topics: Remuneration Disclosure, Board Effectiveness, Board Independence, ESG Disclosure

Outcome and Observation: Phoenix Mills is India's leading retail mall developer and operator. We have been engaging Phoenix Mills since 2020. In October 2020, we spoke with the company's management and expressed our concerns that the company did not appear to pay remuneration to two Non-Promoter Executive Directors. Phoenix Mills responded that it would consider disclosing that directors are employees of the company's subsidiary and earn fees for the management of pooled resources. We also suggested the company align compensation for Executive Directors with the company's performance and disclose the associated variable performance metrics. We highlighted our concerns around the company's board, including effectiveness and independence issues. Specifically, we questioned the independence of the board directors. The company classified four of the directors as independent, but three of the directors have a tenure of more than 10 years. In addition, we asked Phoenix Mills to disclose its green certification and encouraged the company to set targets on renewable energy and consumption metrics. Finally, we urged the company to develop a sustainability disclosure in line with globally recognized sustainability reporting frameworks such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB) and suggested the company disclose its participation in organizations which promote sustainability, such as the Global Real Estate Sustainability Benchmark (GRESB). The company acknowledged our suggestions and shared its Leadership in Energy and Environmental Design (LEED) certification with us.

In 2021, we spoke with the company again and were pleased to learn that the company improved its sustainability disclosure aligning its ESG disclosure with GRI, SASB and the CDP. We are also pleased to see that Phoenix Mills disclosed its energy consumption and water metrics, as we suggested, and made further recommendations to normalize the data in separate charts to avoid confusion. We pressed the company again on remuneration disclosure as the company was flagged by a proxy advisor for the lack of disclosure. In particular, the company has not provided objective milestones for payment of variable compensation. We again highlighted our concerns over the board independence to the company.

We are encouraged by Phoenix Mill's overall progress towards ESG disclosure, and we will continue to engage the company on board independence and remuneration disclosure.

JAPAN

2021 saw continued ESG momentum in Japan by regulators, companies and investors. Japan revised its Corporate Governance Code in 2020, making major changes to board independence, diversity and attention to sustainability and ESG. In addition, the market eagerly awaited the launch of Tokyo Stock Exchange's Prime Market listing segment ("Prime"), only to be disappointed. The Tokyo Stock Exchange pitched Prime as a market for companies that center their businesses on constructive dialogue with global investors and have a higher standard of corporate governance among the stated goals, when in reality the change was actually more form than substance. Despite that, we saw progress from Japan's Financial Services Agency, which proposed making climate risk disclosures mandatory. The same body also announced progress on a framework to verify the eligibility of ESG products in an attempt to help mitigate greenwashing.

In 2021, Matthews Asia engaged with 11 Japanese companies on issues related to disclosure, sustainability strategies, effective board structure and composition as well as capital allocation topics such as dividends and buybacks.

SMC Corporation

Engagement Topics: Board Effectiveness, Remuneration Disclosure, ESG Reporting

Outcome and Observation: SMC, which specializes in pneumatic control engineering that supports industrial automation, has been focusing on governance changes including improved effectiveness of the board of directors, introducing a stock compensation plan and refreshing executive officers. The company's positive governance changes started in 2019 when its Chairman retired and the board overhauled the company's management style. Robust suggestions for improved governance also came from one of the independent directors, the CFO and the investor relations team. We engaged with the company in 2020 on board effectiveness and remuneration disclosure. We then followed up with examples of best practices for variable compensation disclosure. While we believed there are further enhancements to be made around the compensation structure and disclosure that better links pay to performance, the changes made thus

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far have been noticed by market participants, with MSCI ESG upgrading the company's rating in 2021. While major ESG ratings do not consider the environmental superiority of pneumatics versus hydraulics, the company is exposed to the theme of energy efficiency.

At SMC's 2021 annual general meeting, the company proposed raising its board's independent ratio to 40% from 20%, with one of those directors being female. We began engaging with the company on several corporate governance issues through the Japan Working Group (JWG) of the Asian Corporate Governance Association (ACGA) in 2021. The mission of the JWG is to assist in the implementation of effective corporate governance practices across Japanese firms through engagement, helping companies achieve long-term growth. Our first JWG meeting with SMC was instrumental in helping better understand the changing role of corporate governance that started in 2019, particularly as it shifts to a more decentralized form of management. We hope to continue pushing this positive momentum forward. The JWG is engaging with the company on external directors and board and committee composition, establishing a compensation scheme that is aligned with management's long-term vision to become a globally competitive business with the long-term interests of its shareholders, and its external auditor.

Shin-Etsu Chemical Co., Ltd.

Engagement Topics: Animal Testing, Board Composition, Board Effectiveness, Capital Management, Investor Communication, ESG Disclosure

Outcome and Observation: Shin-Etsu Chemical is one of the largest chemical companies in Japan. The company's main products include PVC and semiconductor silicon. We engaged with the company around animal testing and corporate governance issues, both individually and collectively with other investor groups. We initially engaged with the company regarding animal testing and inquired about the degree to which its products are exposed to animal testing risk. The company responded that only a small portion of its products are exposed to animal testing and in principle does not conduct animal testing. Where laws require animal testing, it aims to avoid animal testing as much as possible, preferring to use alternative methods. We shared best practices of industry peers in Japan and asked the company for improved disclosure regarding its animal testing policy. The company acknowledged and appreciated our feedback.

In September 2021, we spoke with the company again through the Japan Working Group (JWG) of the Asian Corporate Governance Association (ACGA). We discussed topics including board effectiveness, board composition and capital management. We encouraged the company to refresh the board and promote board diversity, particularly with respect to gender, age and skill sets. The company responded that a female auditor was appointed in 2021, and that it would likely appoint another female when it finds an appropriate candidate. We also suggested the company consider an external board appraisal. Engagement also touched on ways Shin-Etsu could improve capital management, including cross-shareholdings, capital investment and inventory management. In addition, we asked the company to improve communication between investors and the board and expressed our desire to have a meeting with an independent director at least once a year. The company appreciated the opportunity to speak to investors and noted it would convey the meeting messages to independent directors. We set key performance indicators (KPIs) and milestones for each of the corporate governance issues and will continue monitoring the company's progress.

In late 2021, we had a follow up call with Shin-Etsu and asked the company again to consider an opportunity for investors (i.e., ACGA members) to have a call with independent board members. The management stressed that this will be emphasized to top management. The company also shared with us that it was preparing various frameworks that would help contribute to carbon-neutral society and they were

"Our analysis on SMC went deeper than what we saw in the initial third party ESG score, which does not reflect changes in management, including a new compensation committee, and the general eco-friendliness of SMC's pneumatic products."

– Donghoon Han
Senior Research Analyst

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internally discussing what kind of disclosure could be made. We look forward to the company's improvement on ESG disclosures and will continue to engage with the company going forward.

Toyota Motor Corporation

Engagement Topics: Corporate Governance, Board Oversight, Low Carbon Transition & Public Policy

Outcome and Observations: Toyota Motor is one of the largest auto manufacturers in the world. We have engaged with the company on several corporate governance issues through the Japan Working Group (JWG) of the Asian Corporate Governance Association (ACGA). Our first JWG meeting with Toyota was instrumental in better understanding the role corporate governance plays in the firm's establishment and execution of its business strategy and sustainability practices. The topics discussed were around the company's climate strategy, including public policy, capital management and board and committee composition. We also inquired about how the company's corporate governance framework will evolve over the mid to long term, the approach to treasury shares, cross-shareholdings and the relationship with group companies, and the process by which board members are identified.

One of the most important topics during these conversations was a clear articulation of the company's approach to public policy and climate regulation lobbying in regions important to Toyota's business. Toyota's stance on the shift to the low carbon economy is crucial for its business and reputation. This is an area where the company has come under pressure for its multi-pronged approach to supporting the full transition to electric vehicles, which may not be as carbon efficient in some areas due to the underlying fuel mix needed to power them. We asked the company for increased transparency on how it works with important trade associations to support the goals of the Paris Agreement and to describe the role of the board in that process. In late December, Toyota released its lobbying report, which was a welcome first step, yet questions remain on how the company thinks about issues such as carbon taxes and emissions trading schemes.

Based on our conversations, we have established objectives for our continued engagement with the company that will include board independence and diversity, the role of the Chief Sustainability Officer, further articulated compensation schemes involving climate change-linked targets, and capital and asset efficiency. We are encouraged that the company is committed to taking the feedback from investors seriously and we expect to continue these discussions and expand them with other members of the Toyota team.

Koa Corporation

Engagement Topics: ESG Disclosure, Anti-takeover provisions, Clean Technology, Board Composition

Outcome and Observation: Koa manufactures and sells resistors, integrated circuits (ICs) and composite components, which are circuit components for electronic equipment. In particular, the company makes key components for a growing share of electric vehicles. We began engaging Koa in 2018. At our first meeting, we provided the company with an ESG benchmarking of its disclosures versus peers, discussing the areas for improvement. The meeting was also important in gaining a better understanding of the corporate governance practices at the company, especially around capital management, board composition and succession planning. We asked the company to better disclose its reasons for having an active poison pill—a defensive tactic used by a corporation against a takeover—to improve and provide English language corporate governance and sustainability reporting, and to provide more details on executive compensation. As a holding of the Matthews Asia ESG strategy, we also voted against directors at its annual general meeting (AGM), in line with our ESG Strategy's policy to vote against directors up for election at boards with single genders.

After being rated for the first time by one of the large ESG research providers, we followed up with the company to discuss the assessment and to receive an update from management. Notable areas of progress included the company's abolishment of the poison pill, which was not renewed at the company's June 2020 AGM, an increase in the proportion of independent directors on the board, and a plan for the company's treasury shares. We were encouraged that the company started to more formally discuss integrated reporting and the company noted that its goal was to have ESG disclosure by spring of 2022. We followed up with a revised benchmark, suggestions on how to improve the company's ESG score through enhanced disclosure, and best practices examples.

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CHINA

China saw a great deal of regulatory changes in 2021, from environmental policy announcements such as the highly anticipated National Emissions Trading Scheme launch to regulations aimed at broader common prosperity goals. Encouragingly, more A-share-listed companies are starting to disclose ESG information. In 2021, the China Securities Regulatory Commission (CSRC) published the final set of ESG-related amendments to the disclosure rules applicable to annual reports and half-year reports. These amendments require all listed companies to disclose any penalties relating to environmental issues over the period. In addition, China's Ministry of Ecology and Environment (MEE) issued mandatory environmental information disclosure rules for domestically listed companies. According to mainland proxy advisory firm ZD Proxy, in the first half of 2021, the number of A-share companies releasing ESG reports accounts for 25% of the total, with the percentage of CSI 300 Index constituent companies that have disclosed ESG reports reaching 85%.

During the year, the International Platform on Sustainable Finance (IPSF), co-led by China and the European Union, released the Common Ground Taxonomy-Climate Change Mitigation (CGT) report, which seeks to harmonize the two economies' green taxonomies. The work puts forward areas of commonality and differences between the two frameworks and will likely be used to increase future interoperability of taxonomies around the world and to scale up the mobilization of green capital internationally.

We regularly engage with our portfolio companies on key ESG issues and risks. In 2021, Matthews Asia engaged with 19 portfolio companies listed in the China A-share market.

> *"Changes to Sinoma's board, with the nomination of a female independent director with expertise in accounting, is a clear signal of the company's receptiveness to shareholder expectations of corporate governance practices."*
>
> **–Winnie Chwang**
> **Portfolio Manager**

Sinoma Science & Technology Co., Ltd.

Engagement Topics: Waste Management, Energy Efficiency, Board Composition

Outcome and Observation: Sinoma Science & Technology is a diversified chemicals and materials company principally engaged in the research, development, manufacture and distribution of special fiber composite materials. The company produces wind blades, lithium battery diaphragms, special glass fibers and other advanced composites. We had a constructive call with Sinoma in October 2021 and suggested the company disclose more environmental targets regarding hazardous waste disposal, energy efficiency and renewable energy usage. Sinoma appreciated our suggestions and informed us that the company has set its renewable energy usage target to 20% by 2025, compared with its current renewable usage of 5%. We also asked the company to clarify its related-party transactions with its parent company. We shared the company's MSCI ESG rating assessment and highlighted areas for improvement. In addition, we suggested the company increase the level of gender diversity on its board, as the company had no female directors. In January 2022, Sinoma appointed its first female independent director to its board. We are pleased with the company's receptiveness to our feedback and will continue to monitor its ESG developments.

Huaxin Cement Co. Ltd.

Engagement Topics: ESG Disclosure, Greenhouse Gas Reduction

Outcome and Observation: Huaxin Cement manufactures and distributes building materials. The company's main cement products are widely used in construction projects of large-scale national

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infrastructure such as railways, expressways, airports and hydraulic power, as well as urban property and the rural markets. As part of our efforts to engage with Huaxin Cement on improving its environmental disclosure, we were the lead investor among 26 investors that signed a letter administered by CDP in May of 2021 to request that more comprehensive environmental information be submitted to CDP's platform. We followed up with emails and a phone call to encourage the company to improve its environmental disclosure. In August 2021, the company published the White Book of Low Carbon Emission Development in both Chinese and English. In this book, the company disclosed its carbon emission data from 2018 to 2020, as well as its carbon reduction roadmap with quantitative targets. Huaxin Cement is the first company in the cement industry in China to publish the carbon reduction roadmap.

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HONG KONG

In 2021, the Hong Kong Exchanges and Clearing (HKEX) published a revised Corporate Governance Code (Code) after a consultation with stakeholders, including Matthews Asia. In June of 2021, after engaging with the Listing Division at the HKEX, we responded to the Exchange's Consultation Paper on the Code and Related Listing Rules. In this consultation, we opined certain enhancements to the code. For example, we suggested that the re-election of an independent non-executive director (INED) serving more than nine years should require independent shareholders' approval and that issuers generally should not grant equity-based remuneration (e.g., share options or grants) with performance-related elements to INEDs. The revised Code also requires all listed companies to cease single-gender boards by end of 2024, which was an area we thought could come into effect sooner. In parallel with asset managers having to take into consideration the climate-related risks in their investments and make appropriate disclosure, the HKEX also provided guidance to companies on climate reporting with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

In 2021, Matthews Asia engaged with 33 companies listed on the Hong Kong Stock Exchange.

ENN Energy Holdings Ltd.

Engagement Topics: ESG Disclosure, Climate Change

Outcome and Observation: As a natural gas distributor, ENN Energy is one of the largest energy-transition enablers in China. In 2021, the Chinese government continued to actively promote energy restructuring and multi-energy complementation. Compared with other alternative energy sources, natural gas continued its appeal to the government and market thanks to its high combustion efficiency, relatively low carbon emissions, and low cost. The replacement of high-emissions coal with low-carbon natural gas will provide significant business growth potential for the company. In May 2021, in conjunction with investor members of the CDP, we asked the company to disclose more information related to its environmental risk management and requested the company respond to the 2021 CDP Climate Change and Water questionnaire. In September 2021, the company submitted the CDP Climate Change questionnaire for the first time. To align its ESG efforts with international standards, ENN Energy used the 2021 Henan flooding to assess its transition and physical climate risks with the

Task Force on Climate-related Financial Disclosures (TCFD) framework. The company published its Decarbonization Action 2030 report and set up targets to reduce emission intensity by 2030 and achieve net-zero by 2050. Given the company's efforts in carbon emission control and improved disclosure, the company has been upgraded by MSCI ESG to 'A' from 'BBB' in October 2021. We appreciated the company's great improvement in terms of its alignment of ESG disclosure with international standards and frameworks and remained comfortable with our investment.

Minth Group Ltd.

Engagement Topics: ESG Disclosure, ESG Organization/Governance, Clean Tech Strategy, Board Composition

Outcome and Observation: Minth Group is an automotive interior and exterior parts manufacturer. We had our first engagement call with the company regarding ESG in February 2021 and made suggestions to disclose more environmental targets (for the business strategy as well), recycling efforts, and International Organization for Standardization (ISO) certifications. We shared the company's third party ESG assessment and highlighted areas for improvement. The company committed to follow up with the research provider upon publication of its ESG report. Minth indicated that it has started the process of reviewing its board composition and would be adding another independent director with expertise in New Energy Vehicles (NEVs), an area it lacked. The company also started setting concrete ESG goals on various aspects of operations and governance. We are pleased to see that in April 2021 Minth was upgraded by MSCI ESG to 'BB' from 'B' due to strong business ethics policies and practices.

In May 2021, the company appointed an expert in the NEV area who has over 40 years of experience in the automotive industry, as an independent non-executive director, the chairperson of the remuneration committee, and a member of both the audit committee and the nomination committee. Following our suggestions, the company published its ESG report using Global Reporting Initiative (GRI) standards, set clear and achievable environmental targets, and included the company's recycling efforts. Minth has set up ESG functions in its Strategy committee and also established a dedicated ESG working group. The company disclosed that it completed the supervisory audit of the ISO 14001 Environmental Management System in its 2020 ESG report released in July 2021. The company also disclosed that it is working with international independent third-party testing and inspection and certification agencies to launch the company's ISO 14064 Greenhouse Gas certification and ISO 50001 Energy Management System certification-related work. In addition, Minth released its 2050 carbon neutrality roadmap in its ESG report and set the reduction target of energy consumption. We are pleased to see the company's ESG improvements. Going forward we will continue the dialogue with the company and monitor its ESG progress.

JD.com, Inc.

Engagement Topics: Board Composition and Effectiveness, Data Privacy and Data Security, Disclosure

Outcome and Observation: JD.com is a leading Chinese e-commerce company, the largest online retailer and biggest internet company by revenue in China. During our research and ESG assessment, our investment team identified several ESG-related issues. Collectively, we determined that there was room for improvement on board composition and effectiveness, especially around diversity, transparency and disclosure issues, as well as data privacy and security. Our engagement efforts consisted of meetings, constructive calls, emails and follow ups with the management team to encourage better oversight of the issues identified. Specifically, we asked JD.com to improve employee training on data privacy, bring board oversight to ESG and disclose in line with the HKEX rules as it relates to ESG and compensation. In our communications, we sent the company specific examples of best practices by peers on remuneration of directors, human capital key performance indicators (KPIs), data privacy and security certifications and training for staff.

We are encouraged to see that JD.com has made great progress on board diversity, data privacy and security issues after our engagement. The company appointed its first female board director in June 2021. Following our suggestions, the company also disclosed it has obtained the ISO 27701 Privacy Information Management System certification. JD.com has established and improved its privacy and security management system, and the company's information security training courses are required for new employee enrollment with 100% participation. It also set up an ESG Working Expert Group and an ESG Leadership Group under the Strategy Execution Committee, which reports ESG-related findings to the Board of Directors to ensure that ESG governance is integrated into the company's overall strategic development.

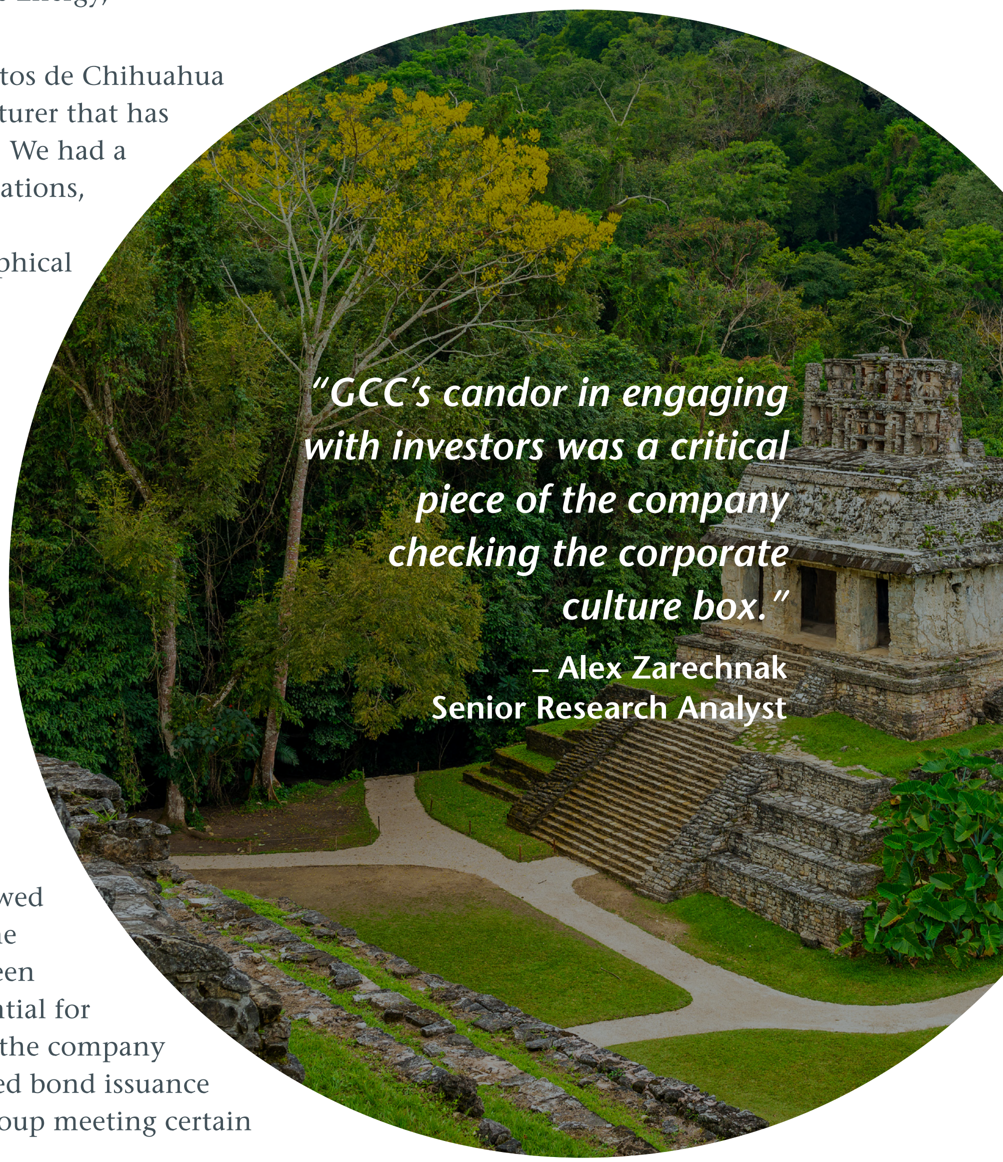
MEXICO

The ESG movement in Mexico initially focused on fixed income, but more recently has been increasingly integrated with respect to equities. Mexico is a large issuer of green bonds—even at the municipal level, with Mexico City being the first Latin American city to issue a green bond, in 2017. Most recently Mexico's retirement fund administrators (Administradoras de Fondos para el Retiro, or "AFOREs"), were directed to include ESG factors within their investing decision-making process by January 2022. Since 2019, there have been initiatives put forward by Mexico's Congress to ensure greater diversity at the board and executive level. While laws have been yet to be approved, some companies have started to embrace this and other ESG matters through recognition in various sustainability indices.

Grupo Cementos de Chihuahua

Engagement Topics: Emissions, Renewable Energy, Sustainability Strategy

Outcome and Observation: Grupo Cementos de Chihuahua (GCC) is a Mexico-based cement manufacturer that has been focused on sustainability since 2015. We had a call with the company's CFO, Investor Relations, and Head of Sustainability early on in our investment. Despite some limiting geographical factors, which make it challenging for the company to switch energy sources to greener alternatives, we remained impressed by the company's candor and openness to engage. GCC has been increasing its production of blended cement and has a target of 80% by 2030. While still higher than the average clinker-to-cement ratio in the EU, China and India, the company is limited in terms of how much it can reduce its emissions due to permitting issues and lower availability of alternative fuels. The company's Sustainability Committee, led by the CEO, provides very strong disclosures and is working to purchase or produce more renewable energy. We followed up on our first conversation by sending the company the EU taxonomy criteria for green cement. We also followed up on the potential for carbon taxes and were pleased to see that the company had a recent successful sustainability-linked bond issuance where the coupon is contingent on the group meeting certain CO_2 emission reductions.



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BRAZIL

Brazil has a history of ESG consciousness from both companies and specialist investors. However, the country is now facing its worst deforestation in years. In 2021, the Brazilian Central Bank issued mandatory ESG regulations targeting large banks—which will be required to conduct scenario and stress testing at the portfolio level by July 2022. Also in 2021, the National Banking and Securities Commission amended the content required within ESG-related information for listed companies. Starting in 2023, issuers must indicate: where ESG information is published, the methodology or standard used in preparing such information, whether the information has been audited and includes material ESG indicators, whether it considers the United Nations Sustainable Development Goals, the relevance of greenhouse gas inventories and more granular employee demographic data. At the stock exchange level, Brazil has long been a leader with its Novo Mercado listing segment, part of Brazil's prominent B3 stock exchange. The Novo Mercado segment launched in December 2000 with the intent to promote equitable treatment of all shareholders by instituting corporate governance requirements that extended well beyond Brazil's legal and regulatory framework. Listings on Novo Mercado have grown at an impressive rate and now constitute a significant share of the Brazilian equities market. Encouragingly, exchanges in other emerging markets are following the lead of Novo Mercado.

Vale

Engagement Topics: Tailings Safety, Board, Compensation, Sustainability Strategy

Outcome and Observation: Vale, headquartered in Brazil, is one of the largest mining corporations in the world, with interests in logistics, energy, and steelmaking. Due to its checkered past on environmental and social topics, we followed and engaged Vale directly on ESG issues early on in our investment. Since the Brumadinho dam disaster in 2019, Vale has worked to go beyond global safety standards, and the company's roadmap has been consistent: de-risking, reshaping, and re-rating through focusing on dam safety, the company's core business, and transforming corporate culture through incentives tied to critical shareholder interests.

We have observed Vale change direction with regard to non-core assets, ESG and its shareholder return policy. After key changes at the top of the organization and restructuring compensation, the company is beginning to regain its license to operate. Vale has since reiterated its commitment to all 10 United Nations Global Compact principles, both publicly on its website and by email to us. Vale's commitment to human rights and ESG has been made clear in the amount of time and detail they continue to provide on their ongoing efforts to make Brazil whole from the accident. As for the reparations at Brumadinho, the company has kept a fast pace in restoring goodwill with the courts, municipal authorities, and the community. Vale has worked to improve dam safety, introduced ESG goals, and finalized the settlement agreement with prosecutors. We continue to watch the company closely, especially regarding its new energy material business plans, de-leveraging efforts, and key milestones related to its sustainability targets.

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Other Themes

Climate Change

Matthews Asia considers climate risks to be an important risk for investee companies. To date, carbon footprinting has been the industry standard for measuring investors' climate transition risk exposure to provide a baseline from which to take action.

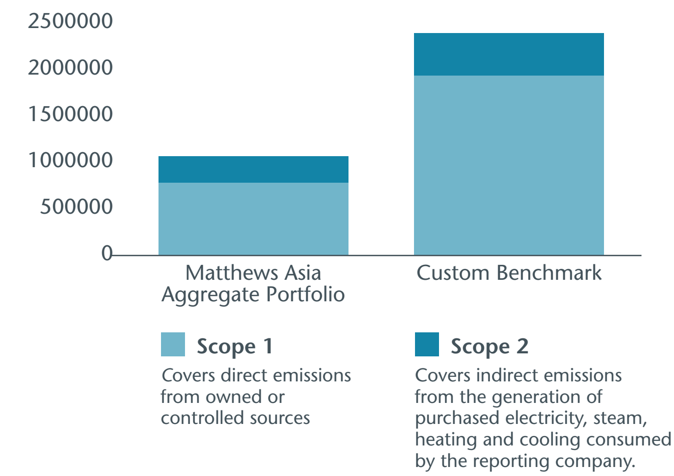
For the past three years, we have conducted carbon footprinting for the aggregate Matthews Asia portfolio versus a custom benchmark based on our portfolio positions and corresponding benchmarks to assess the emissions of assets held in the strategies we manage. The climate analysis showed that in 2019, 2020, and 2021, the aggregate Matthews Asia portfolio was overall much less carbon intensive versus the custom benchmark (using the weighted-average benchmarks used for all portfolios managed). This reflects the nature of the Matthews Asia portfolios, which tend to be more consumer-focused and less resource intensive than the average benchmark in Asia.

At the end of 2021, the aggregate Matthews Asia portfolio had a weighted average carbon intensity of 152.5 tCO_2 e/Millions of USD Revenue versus the custom benchmark of 276.3 tCO_2 e/Millions of USD Revenue. This compares to a weighted average carbon intensity of 153.6 tCO_2 e/Millions of USD Revenue versus the custom benchmark of 256.4 tCO_2 e/Millions of USD Revenue at the end of 2020, and 158 tCO_2 e/Millions of USD Revenue versus the custom benchmark of 253 tCO_2 e/Millions of USD Revenue at the end of 2019.

In terms of sector contributions to carbon intensity, materials was the largest sector, contributing 35% of the aggregate portfolio's carbon intensity, followed by utilities at 25% and industrials sector at 14%. Matthews Asia has relatively less exposure to carbon intensive sectors such as energy, utilities and materials versus the custom benchmark which resulted in the aggregate Matthews Asia portfolio being 45% less exposed to greenhouse gas (GHG) emissions on a sector basis versus the benchmark.

The top 10 contributors to the aggregate Matthews Asia portfolio emissions comprise 65% of the portfolio's total emissions, but only 11.4% of the portfolio by weight. Three of the top 10 contributors to portfolio emissions were relative laggards in terms of managing carbon risks. We are encouraging these companies to improve disclosure of the companies' strategies, including through the CDP's Non-Disclosure initiative. At the end of 2021, the aggregate Matthew Asia portfolio included 50.3% of holdings which disclosed carbon metrics, such as greenhouse gases, which surpassed the benchmark's 39.4%[1].

EMISSIONS EXPOSURE (tCO_2e)



Source: ISS ESG and Matthews Asia

1. The aggregate Matthews Asia portfolio carbon emission data is from ISS ESG. The share of reported GHG emissions in our portfolio is 50.3% and the share of estimated GHG emissions by ISS ESG's model is 49.7%.

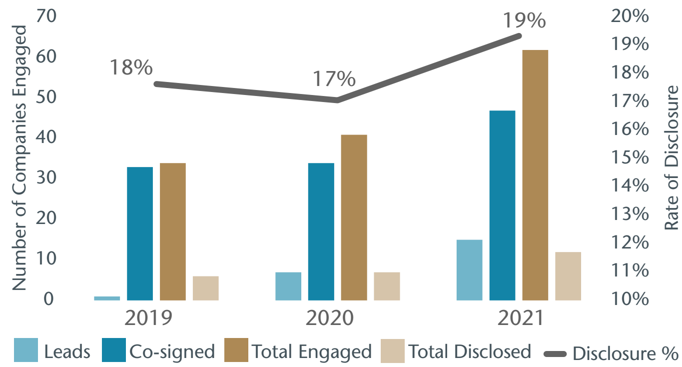
As part of our ESG integration process, Matthews Asia's investment team members receive training on how to incorporate ESG factors, including those related to considering climate risks and opportunities in the decision-making processes. Where climate implications pose a material risk or opportunity to a portfolio holding, the expected holding period and investment analysis should reflect the timescale of climate risks and opportunities. This includes the analysis of transition risks such as policy and legal risks, technology risk, market risk and reputation risk. Portfolio managers and analysts have discretion to determine whether such factors can be modeled, for example, using carbon prices or adjusting discount rates for risk versus opportunity.

CDP

Every year, CDP invites investors to directly engage companies who have previously failed to respond to CDP's investor request. Since beginning this program in 2017, CDP has seen an average 35% year-on-year rise in the number of investors participating and a 29% year-on-year growth in the number of companies engaged, demonstrating the growing need for comprehensive, comparable, Task Force on Climate-related Financial Disclosures (TCFD)-aligned environmental disclosure.

In 2021, Matthews Asia was one of a total of 168 investors representing US$17 trillion in assets who participated in CDP's Non-Disclosure Campaign to engage companies that have never responded to CDP or have not responded in recent years to help drive further transparency. Of the 1,317 companies, representing US$29 trillion in market capitalization and almost 5 billion tons of carbon dioxide equivalent in emissions that were engaged, 328 disclosed data on their impact across at least one of three areas: climate change, deforestation and water security. In 2021, CDP achieved higher than ever disclosure rates (25% response rate) and over 3,364 investor-requested companies disclosing crucial data on environmental impact.

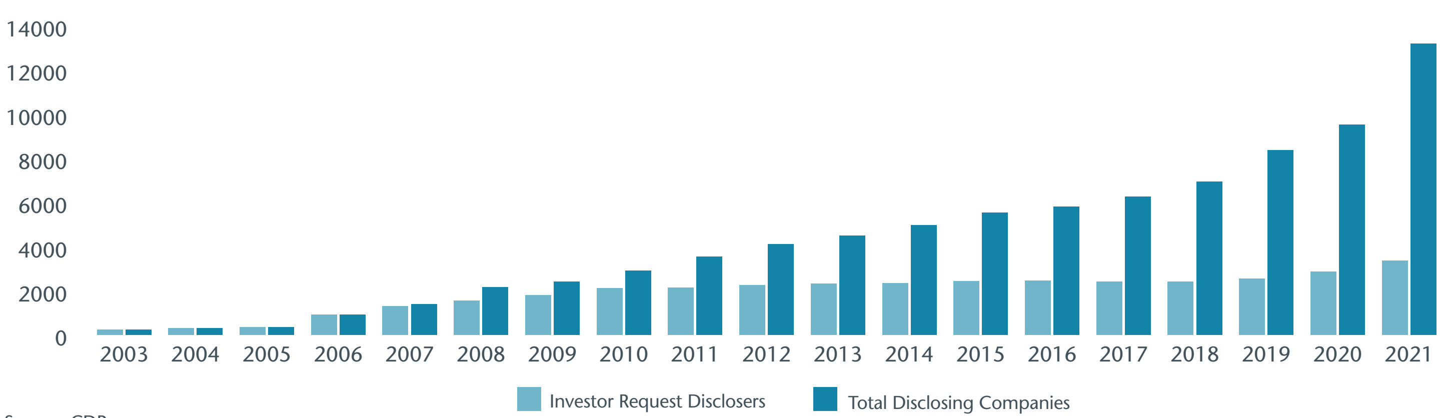
**MATTHEWS ASIA—
CDP NON DISCLOSURE CAMPAIGN RESULTS (2019-2021)**



Source: CDP, Matthews Asia

Matthews Asia regularly engages with our portfolio holdings, including through collaborative investor initiatives such as those organized by CDP. In 2019, as part of CDP's Non-Disclosure Campaign, we signed onto 34 letters (and were a lead investor on one company letter) which asked companies to disclose more information related to environmental risk around climate change, deforestation and water. Six of those 34 companies we engaged with responded to our disclosure requests. In 2020, we continued to support CDP's Non-Disclosure Campaign, sending letters to a total of 41 companies, in which we were the lead investor on seven of the company letters, with one of the companies responding to our request. Seven of the 34 companies in which we cosigned the letters also submitted the questionnaires. In 2021, we signed a total of 62 CDP's Non-Disclosure Campaign letters to the companies and were a lead investor on 15 company letters. Among 62 companies, 12 companies made disclosures to CDP after our engagement in 2021.

GROWTH IN DISCLOSING COMPANIES GLOBALLY



Source: CDP

Board Diversity

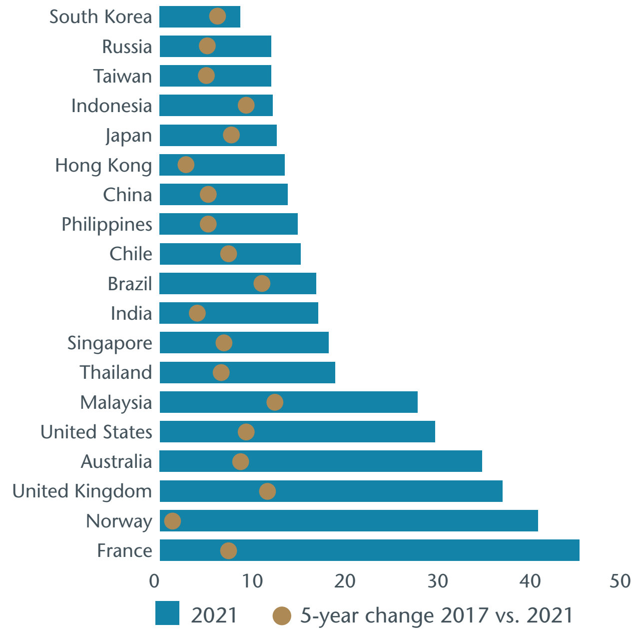
Research and data indicate that companies with greater diversity and inclusion have outperformed their peers. Leveraging a diverse workforce to grow market share requires leadership with both inherent and acquired diversity. Boards and executives should be similar to, and match the core customer profile of, a company's goods and services. Board diversity, in gender, age, experience, nationality, and skill set is critical to a board's effectiveness. The Matthews Asia ESG Strategy, which adopts a more expansive, positive-screening ESG factor framework focused on positive ESG outcomes, adopted a stricter voting policy at companies with a lack of gender diversity on boards in 2020. We wrote letters to companies to inform them of our intention to vote against the Nomination Committee chair or Corporate Governance Committee chair and other members of the equivalent committees on their boards of directors. In the case that there was no Nomination or Corporate Governance Committee (or equivalent), we voted against both the re-election of existing board directors and also election of new board members. We engaged with portfolio holdings without women on their boards within the broader context of the skills, expertise and competencies required for effective board functioning. The Matthews Asia ESG strategy asked all portfolio companies with no women on their boards of directors or trustees to adopt policies to consider women for every open board seat and to commit to a gender diversity policy as part of board recruitment process. As indicated by the chart on the right, there is still a lot of progress to be made on this front.

2022 and Beyond

At Matthews Asia, we have a responsibility to encourage more sustainable business practices in the markets that we invest in, the emerging markets and Asia. By taking a long-term, and often contrarian viewpoint, we can engage with companies that are shaping the world of tomorrow.

As we look to 2022 and beyond, Asia and emerging markets will remain at the forefront of issues such as climate change, social and financial inclusion, poverty elimination and protecting global water sources and communities. We will continue to engage with companies where we have seen limited progress on ESG-related items.

PERCENTAGE OF BOARD SEATS HELD BY WOMEN FOR SELECTED COUNTRIES



Source: MSCI ESG

Investments involve risk. 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.

An MSCI ESG Rating is designed to measure a company's resilience to long-term industry material environmental, social and governance (ESG) risks. A rules-based methodology is used to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. MSCI ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

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