



Matthews Asia Dividend Fund

Choose a Share Class:

Period ended March 31, 2019

For the quarter ending March 31, 2019, the Matthews Asia Dividend Fund returned 7.06% (Investor Class), while its benchmark, the MSCI All Country Asia Pacific Index, returned 9.73%.

Market Environment:

Asia's equity markets rebounded strongly during the first quarter of 2019, recovering some of the double-digit losses seen in 2018. Despite the region's near-term economic slowdown and decelerating earnings growth among Asian companies, investor sentiment toward Asian equities started to recover. Fueling the recovery were improved macro conditions, including the pause of U.S. monetary tightening, progress in China—U.S. trade negotiations and China's policy support measures designed to address its slowing economy. Amid improving sentiment, Asian equities, led by China A-shares, delivered solid returns.

Performance Contributors and Detractors:

Among the top contributors to Fund performance during the quarter was our position in Breville Group, a branded Australian kitchen-appliance maker. Breville reported strong 2018 earnings due to its sustained growth momentum in overseas markets. The positive earnings surprise dispelled market concerns over the company's exposure to weaker Australian consumer spending, and Breville's shares substantially rallied.

On the flip side, our holdings in Chinese stocks were the main reason for the Fund's underperformance relative to its benchmark. A slowing Chinese economy starting in the spring of 2018 took its toll on corporate earnings. Several Chinese stocks in the portfolio were sold off aggressively following disappointing 2018 earnings. China Resources Power Holdings, a Chinese independent power producer, detracted from Fund performance. While the firm's weak earnings were mostly anticipated by the market and therefore a nonfactor for the share underperformance, the company's surprising decision to cut its dividend triggered a severe sell-off. Its management said its new aggressive push into renewable energy was behind the dividend cut—a complete reversal of the company's previously stated dividend policy. The market responded negatively. At quarter end, we were re-evaluating our investment thesis in this holding.

Notable Portfolio Changes:

During the quarter, Katitas, a Japanese real estate developer, was among several positions we initiated. Specialized in refurbishing and selling previously owned houses in Japan, Katitas has carved out a niche market segment and consistently delivered double-digit growth. We think the company continues to have significant headroom for growth. With a modest dividend payout ratio just over 20%, Katitas is well-positioned to deliver significant growth in dividends.

We exited Seven & i Holdings during the quarter. While convenience store operators in Japan have been under cost pressure posed by Japan's labor shortage, the severity of the pressure caused changes to its business model and could attract more government intervention in such areas as minimum wage increases. Our initial investment in Seven & i was based on its potential for delivering better dividend growth backed by a restructuring of its various retailing assets and improving its corporate governance. This investment case, however, has weakened without strong, healthy operation of its core convenience store business.

Outlook:

An easing of macro uncertainties is helping to restore investor sentiment toward Asia. While the near-term macro data could continue to disappoint, the market is likely to be more focused on a potential recovery later in the year. From a bottom-up perspective, decelerating earnings growth among Asia's firms has been more or less captured by a muted consensus outlook. Asian equity valuations continue to trade below long-term averages, providing long-term investment opportunities.

As of 3/31/2019, the securities mentioned comprised the Matthews Asia Dividend Fund in the following percentages: Breville Group, Ltd. 2.2%; China Resources Power Holdings Co., Ltd. 1.4%; KATITAS Co., Ltd. 1.1%. The Fund held no positions in Seven & i Holdings Co., Ltd. Current and future portfolio holdings are subject to risk.

Average Annual Total Returns - Investor Class (3/31/2019)

1-year -5.86%
3-year 8.57%
5-year 6.72%
10-year 12.27%
Inception (10/31/06) 8.73%

Gross Expense Ratio

1.03%

After fee waiver and expense reimbursement: 1.02% ¹

¹ Matthews has contractually agreed to waive a portion of its advisory fee and administrative and shareholder services fee if the Fund's average daily net assets are over \$3 billion, as follows: for every \$2.5 billion average daily net assets of the Fund that are over \$3 billion, the advisory fee rate and the administrative and shareholder services fee rate for the Fund with respect to such excess average daily net assets will be each reduced by 0.01%, in each case without reducing such fee rate below 0.00%. Any amount waived by Matthews pursuant to this agreement may not be recouped by Matthews. This agreement will remain in place until April 30, 2019 and may be terminated (i) at any time by the Board of Trustees upon 60 days' prior written notice to Matthews; or (ii) by Matthews at the annual expiration date of the agreement upon 60 days' prior written notice to the Trust, in each case without payment of any penalty.

All performance quoted is past performance and is no guarantee of future results. Investment return and principal value will fluctuate with changing market conditions so that shares, when redeemed, 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. Please see the Fund's most recent [month-end performance](#).

Yield as of 3/31/2019

30-day Yield: 1.77%

30-day Yield Excluding Expense Waiver: 1.76%

Dividend Yield: 2.99%

The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 3/31/19, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate. Source: BNY Mellon Investment Servicing (US) Inc.

The Dividend Yield (trailing) is the weighted average sum of the dividends paid by each equity security held by the Fund over the last 12 months, divided by the current price as of report date. The annualized dividend yield is for the equity sub-portfolio of the Fund and

12 months divided by the current price as of report date. The annualised dividend yield is for the equity-only portion of the Fund and does not reflect the actual yield an investor in the Fund would receive. There can be no guarantee that companies that the Fund invests in, and which have historically paid dividends, will continue to pay them or to pay them at the current rates in the future. A positive distribution yield does not imply positive return, and past yields are no guarantee of future yields. Sources: FactSet Research Systems, Bloomberg, Matthews

There is no guarantee that a company will pay or continue to increase dividends.

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