




Matthews Asia™

Matthews China Fund

Period ended March 31, 2018

For the quarter ending March 31, 2018, the Matthews China Fund returned 6.17% (Investor Class), outperforming its benchmark, the MSCI China Index, which returned 1.82%.

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Market Environment:

The first quarter of 2018 experienced volatile returns and China's equity markets shared many of the woes of the broader global markets. Market sentiment was negative starting at the end of January as global markets attempted to assess the financial impact of rising interest rates and potential trade conflicts between China and the U.S. Concerns grew over Chinese President Xi Jinping's decision to remove traditional presidential term limits. Many worry this would affect the country's political and business environment. After assessing most of these details, we continue to believe that the impact on market sentiment may be larger than any tangible financial impact created by the scenarios listed above. China's monetary policies remain largely independent—it no longer relies on trade as a source of growth and President Xi has largely been supportive of the growth of a market-driven economy. While China is not shielded completely from external forces, we believe it will be able to weather most of the negative implications that may arise from global politics.

Performance Contributors and Detractors:

The Fund outperformed its benchmark during the quarter due to both sector allocation and stock selection. The information technology (IT), financials and real estate sectors were the major contributors to Fund performance. IT service provider Chinasoft International performed well as its cloud computing and big data business made significant progress. Two major state-owned commercial banks, Agricultural Bank of China and China Construction Bank, also were among the top contributors to performance. Asset quality at these banks continued to improve and net interest margins started to recover. Another top contributor during the quarter was property developer KWG Property. The firm has ample land bank in major cities and is confident about its future growth given its strong financial position.

Conversely, a major detractor to Fund performance was China Life Insurance, the largest life insurer in China. The firm experienced a slowdown in premium growth as it continued to focus on selling protection-type products. While we believe the business restructuring is beneficial in the long run, the progress has been slower than expected. We reduced our exposure to China Life.

Notable Portfolio Changes:

During the quarter, we initiated a position in Zhongsheng Group, a leading automobile distributor, as we believe the rapid growth of the company's after-sales services will continue and the operating margin will further expand. We also added natural gas distribution company China Gas, which has benefited from the government's increasingly stringent environmental control and a gradual transition of using natural gas to replace coal. We exited our position in China Overseas Grand Oceans due to its weaker-than-expected operating results and potential earnings dilution from a recent rights issue.

Outlook:

Average Annual Total Returns - Investor Class (3/31/2018)

1-year 46.07%
3-year 15.41%
5-year 11.59%
10-year 7.54%
Inception (2/19/98) 10.86%

Gross Expense Ratio ¹

1.18%

¹ Matthews Asia Funds' 12b-1 Plan (the "Plan") is inactive. Although the Plan currently is not active, it is reviewed by the Board annually in case the Board decides to re-activate the Plan. The Plan would not be re-activated without prior notice to shareholders and any amounts payable under the Plan would be subject to applicable operating expense limitations. If the Plan were reactivated, the fee would be up to 0.25% for each of the Investor Class and Institutional Class, respectively.

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

Market sentiment is likely to remain weak over the near term as current trade negotiations continue and macro worries remain over rising interest rates. Equity market performance also is likely to be volatile for the next few quarters as participants have a reduced risk appetite. In regard to President Xi's elongated political tenure, we believe there will be a limited impact on the business environment. We believe Xi's goal remains to further his anticorruption drive and maintain the overall stability of his government. Beyond the macro noise, we remain optimistic over the continued improvement of corporate earnings in China. We see supply-side reform efforts enabling the recovery of the state-owned enterprise segment and new economy sectors continuing to benefit from robust income growth. While we have been more cautious in our outlook about exposures to sectors that performed well in 2017, we believe current valuations generally remain attractive and reasonable.

been waived. Please see the Fund's most recent month-end performance.

As of 3/31/2018, the securities mentioned comprised the Matthews China Fund in the following percentages: Chinasoft International, Ltd. 3.0%; Agricultural Bank of China, Ltd. 5.0%; China Construction Bank Corp. 4.8%; KWG Property Holding, Ltd. 1.0%; China Life Insurance Co., Ltd. 4.5%; China Gas Holdings, Ltd. 1.7% and Zhongsheng Group Holdings, Ltd. 2.0%. The Fund held no positions in China Overseas Grand Oceans Group, Ltd. Current and future portfolio holdings are subject to risk.

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