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# Matthews Emerging Asia Fund

Choose a Share Class:

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## Period ended March 31, 2019

For the quarter ending March 31, 2019, the Matthews Emerging Asia Fund returned 5.12% (Investor Class), while its benchmark, the MSCI Emerging Markets Asia Index, returned 11.13%.

### Market Environment:

Asian equity markets rebounded in the first quarter of 2019 after a volatile year in 2018. Among less-developed parts of Asia, Vietnam's market was a strong performer (up 12.9%). Other markets in the region also enjoyed gains, including the Philippines (up 8.0%), India (up 7.2%) and Indonesia (up 4.3%).

In Bangladesh (up 7.8%), general elections were held in late December 2018, resulting in a landslide victory for incumbent Sheikh Hasina. A savvy public figure, Hasina has shown considerable political strength. Local investor sentiment may have improved during the first quarter following her re-election on expectations of a stable political environment. In Pakistan (up 8.5%), markets also managed to climb despite some near-term challenges. Pakistan's economy is grappling with a weak currency, higher inflation, weaker growth and higher interest rates. But consumption continues apace in some areas of spending.

Meanwhile, Chinese equity markets posted the strongest gains in the region (up 17.7%), as easing trade tensions and a gentle shift in Chinese monetary and fiscal policy supported local sentiment. The Fund maintains a structural underweight to China, where some of the largest companies rival their developed-market peers in size and scale. In contrast, the Fund remains focused on the least-developed economies in Asia.

### Performance Contributors and Detractors:

The Fund's underweight to China was the biggest detractor from performance relative to the benchmark. China makes up 43% of the benchmark (and growing as index provider MSCI includes more domestic Chinese stocks in its global indexes), while China makes up just over 4% of the Fund's portfolio. Our underweight to China remains strategic as we believe less-developed parts of Asia may have more attractive structural growth potential over the long term.

Turning to individual stocks, Sampath Bank in Sri Lanka detracted from performance. Sampath Bank's share price fell after it announced it would issue new shares at discounted prices to meet Basel III liquidity requirements. We remain optimistic about its long-term prospects, however, and believe the company can recover. In Vietnam, shares of fish producer Vinh Hoan dropped modestly, also detracting from performance due to the size of the position in the Fund. On the plus side, the company delivered strong earnings in 2018 and we remain constructive on its long-term potential.

In contrast, our holdings in India and Bangladesh were positive contributors to performance in the quarter, on the basis of allocation and stock selection. Mumbai-based Vakrangee Ltd. has a vast retail network delivering varied services to underserved rural parts of India, including financial services, software and services supporting the issuance of government I.D. cards. The company's stock price declined sharply last year, but experienced a rebound recently with the arrival of a new CEO. We recently met with the company's management team and believe they have a unique opportunity within their region and industry. In Bangladesh, stocks that performed well included British American Tobacco and Berger Paints. An

improvement in sentiment following the most recent general elections may have helped these stocks rise, on what appears to be renewed interest among local and foreign investors in Bangladesh's equity market.

### Notable Portfolio Changes:

During the quarter the Fund initiated a position in Indian nonbank financial company L&T Finance, which also was a top contributor to performance. L&T Finance offers a diverse range of financial products and is focused on areas where we believe it can generate a high return on capital. The firm uses big data and algorithms for loan approvals, allowing for quick turnaround time for loan applications. We were impressed by the vision and quality of its management team and bought shares at an attractively low valuation.

Other new positions in the quarter included United Bank in Pakistan, a quality business that should be well-positioned when Pakistan's economy returns to a growth cycle. Because of the current macroeconomic headwinds in Pakistan, the market is out of favor among many investors and we purchased shares at an attractive price. We also initiated a position in Universal Robina, the Philippines' largest food manufacturer. The firm has a new CEO and we like its regional footprint. In addition to serving consumers in the Philippines, Universal Robina also does business in Vietnam and Indonesia, as well as in New Zealand and Australia.

### Outlook:

Macroeconomic conditions in Pakistan remain challenging, but we believe it is a good time to start to accumulate quality businesses there, as market sentiment is likely to eventually turn around. We can't predict when Pakistan's cycle will change direction, but experience tells us that it is the nature of cycles to change, rewarding investors who take a long-term view.

Notably, many economies in Southeast Asia move in their own cycles, somewhat isolated from U.S.—China trade tensions. In some cases, Southeast Asia benefits from those tensions by picking up manufacturing work that is moving out of China. In markets where we tend to invest, we are starting to see green shoots of growth. Valuations remain attractive, earnings forecasts look better and sentiment is improving.

As of 3/31/2019, the securities mentioned comprised the Matthews Emerging Asia Fund in the following percentages: Sampath Bank PLC 1.9%; Vinh Hoan Corp. 3.1%; Vakrangee, Ltd. 2.5%; British American Tobacco Bangladesh Co., Ltd. 3.6%; Berger Paints Bangladesh, Ltd. 2.5%; L&T Finance Holdings, Ltd. 3.7%; United Bank, Ltd. 0.9%; Universal Robina Corp. 1.9%. Current and future holdings are subject to risk.

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

1-year -13.31%  
3-year 7.08%  
5-year 5.65%  
10-year n.a.  
Inception (4/30/13) 5.73%

### Gross Expense Ratio

1.70%

After fee waiver and expense reimbursement: 1.48% <sup>1</sup>

<sup>1</sup> Matthews has contractually agreed (i) to waive fees and reimburse expenses to the extent needed to limit Total Annual Fund

Operating Expenses (excluding Rule 12b-1 fees, taxes, interest, brokerage commissions, short sale dividend expenses, expenses incurred in connection with any merger or reorganization or extraordinary expenses such as litigation) of the Institutional Class (which is offered through a separate prospectus to eligible investors) to 1.25%, first by waiving class specific expenses (i.e., shareholder service fees specific to a particular class) of the Institutional Class and then, to the extent necessary, by waiving non-class specific expenses of the Institutional Class, and (ii) if any Fund-wide expenses (i.e., expenses that apply to both the Institutional Class and the Investor Class) are waived for the Institutional Class to maintain the 1.25% expense limitation, to waive an equal amount (in annual percentage terms) of those same expenses for the Investor Class. The Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may vary from year to year and will in some years exceed 1.25%. If the operating expenses fall below the expense limitation in a year within three years after Matthews has made a waiver or reimbursement, the Fund may reimburse Matthews up to an amount that does not cause the expenses for that year to exceed the lesser of (i) the expense limitation applicable at the time of that fee waiver and/or expense reimbursement or (ii) the expense limitation in effect at the time of recoupment. This agreement will remain in place until April 30, 2019 and may be terminated at any time by the Board of Trustees on behalf of the Fund on 60 days' written notice to Matthews. Matthews may decline to renew this agreement by written notice to the Trust at least 30 days before its annual expiration date.

***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](#).***

Visit our [Glossary of Terms](#) page for definitions and additional information.

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*and sector funds may be subject to a higher degree of market risk than diversified funds because of a concentration in a specific sector or geographic region. Investing in small companies is more risky and more volatile than investing in large companies.*

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