Matthews Emerging Asia Fund

Choose a Share Class: Investor

Period ended June 30, 2018

For the first half of 2018, the Matthews Emerging Asia Fund returned -10.90% (Investor Class), while its benchmark, the MSCI Emerging Markets Asia Index, returned -4.93% over the same period. For the quarter ending June 30, the Fund returned -10.84% (Investor Class), while its benchmark returned -5.75%.

Market Environment:

Asian and global emerging markets (EM) suffered during the first half of 2018. Negative investor sentiment arose from the confluence of escalating U.S.—China trade tensions, seemingly tighter monetary conditions in China and other parts of EM and the oscillation of North Korean denuclearization talks. In addition, a stronger U.S. dollar and higher energy prices exposed the vulnerabilities of some emerging market economies.

Vietnam's equity markets were down slightly during the first half of 2018, following a significant run-up in 2017. Vietnam's economy remained stable in our view, however, with positive GDP growth and strong domestic consumption trends. Meanwhile, Pakistan's equity markets were down sharply in the first half of the year. Worries about rising oil prices adding to Pakistan's current account imbalance weighed on investor sentiment, as did upcoming election cycles. Indonesia's equity markets also experienced significant declines during the first half. Indonesia faces both regional and presidential elections in the next 12 months, creating political uncertainty in the region, although we believe Indonesia's economy remains well-positioned from an economic standpoint.

Elsewhere, India's equity market was down in the first half of the year. Macro headwinds captured headlines in the second quarter as India's reliance on energy imports and a deteriorating current account pressured the Indian rupee and brought inflation concerns to investors. On a positive note, economic growth remained robust in India and corporate earnings momentum showed improvement.

Performance Contributors and Detractors:

During the first half of the year, the Fund underperformed its benchmark. Part of the Fund's underperformance was due to two stocks that experienced sharp sell-offs in the first and second quarters. Shares of Vakrangee, an Indian software company, lost nearly 69% of their value in the first six months of the year, driven down by unsubstantiated rumors of a stock price manipulation scheme. Meanwhile, shares of PC Jeweller, an Indian jewelry manufacturer, previously one of our better performers over the past few years, lost nearly 72% of their value over the same period on unsubstantiated rumors that it manipulated its financial data. We are monitoring both positions closely. Both securities now represent fairly low positions in the portfolio based on their lower share prices, so we will retain our shares until the rumors are clarified and/or we lose confidence in the firms. We believe both businesses offer value at this point and have interesting long-term prospects.

Despite a challenging first half for some of the Fund's holdings, there were some notable bright spots in the portfolio. Berger Paints Bangladesh, a manufacturer of paints and varnishes, generated an over 31% return in the first six months, versus the broader Bangladesh equity market, which was down by more than -9% in the same period. Berger Paints has a strong management team and solid market position, benefiting from the strength of the local consumer in a fast-growing economy. Shenzhou International Group Holdings, a Chinese-based apparel company with operations in Vietnam, generated more than

30% in returns during the first six months, versus the broader offshore Chinese equity market, which was down -1.69% in the same period. Shenzhou International Group manufactures apparel for leading global brands and has been a strong performer.

Notable Portfolio Changes:

We added to positions selectively in the second quarter as we saw quite large moves in various markets. In Indonesia, we added to Gudang Garam, a leading cigarette manufacturer, and Ramayana Lestari Sentosa after currency concerns pushed the market lower. We also added to our two motor company positions in Pakistan, Indus Motor and PAK Suzuki Motor, as valuations became extremely attractive. We also added to our position in Tongda Group Holdings, a Hong Kong-based manufacturer of electronic components, after a steep correction, retaining the view that the company's growth prospects remain attractive. During the quarter we also reduced our exposure to select positions as valuations rose materially. These sales included Shenzhou International and Vietnamese conglomerate Masan Group.

Outlook:

Going into the third quarter, we may see trade friction dampen sentiment but other positive factors may remain. U.S. and Chinese GDP growth remains robust and supportive of the global economy. Commodity prices are high enough to fund the budgets of cyclical exporters and regional currency valuations support foreign investment. In addition, local interest rates are probably high enough to compensate investors for risks and corporate earnings remain relatively strong, making current equity valuations attractive. The strongest headwind seems to be uncertainty derived from escalating U.S.—China trade tensions.

While investor sentiment is weak, the fundamental reasons for owning emerging Asian equities are still very much intact. As sentiment and share prices seem to diverge from the positive fundamental trends we are seeing at the company level, we believe the current volatility may create buying opportunities for long-term investors. We expect less-developed markets to shine over the long term as rising domestic demand for consumer goods and services has the potential to drive solid revenue and strong earnings growth.

As of 6/30/2018, the securities mentioned comprised the Matthews Emerging Asia Fund in the following percentages: Vakrangee, Ltd. 0.5%; PC Jeweller, Ltd. 1.3%; Berger Paints Bangladesh, Ltd. 1.8%; Shenzhou International Group Holdings, Ltd. 2.4%; PT Gudang Garam 2.3%; PT Ramayana Lestari Sentosa 2.1%; Indus Motor Co., Ltd. 2.1%; PAK Suzuki Motor Co., Ltd. 1.5%; Tongda Group Holdings, Ltd. 3.2 %; Masan Group Corp. 1.2%. Current and future portfolio holdings are subject to risk.

Average Annual Total Returns - Investor Class (6/30/2018)

1-year -5.13%
3-year 7.12%
5-year 8.67%
10-year n.a.
Inception (4/30/13) 7.18%

Gross Expense Ratio

1.70%

After fee waiver and expense reimbursement: 1.48% [1]

[1] 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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You should consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds carefully before making an investment decision. This and other information about the Funds is contained in the prospectus or summary prospectus, which may also be obtained by calling 800-789-ASIA (2742). Please read the prospectus carefully before you invest or send money as it explains the risks associated with investing in international and emerging markets. These include risks related to social and political instability, market illiquidity and currency volatility. Investing in foreign securities may involve certain additional risks, exchange rate fluctuations, less liquidity, greater volatility and less regulation. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. Single-country 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.