



Matthews Asia™

Matthews Emerging Asia Fund

Period ended March 31, 2018

For the quarter ending March 31, 2018, the Matthews Emerging Asia Fund returned -0.06% (Investor and Institutional Class), while its benchmark, the MSCI Emerging Markets Asia Index, returned 0.87%.

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Market Environment:

Equities across Asia's emerging markets began the quarter with a strong start. By the middle of the quarter, however, volatility in global equity markets picked up significantly. Despite this volatility, equity markets in China, Pakistan and Vietnam ended the quarter with positive returns. Meanwhile, markets in India, the Philippines and Indonesia ended the quarter with negative returns.

Turning to the fundamental health of regional economies in which we invest, Vietnam has a strong domestic economy, stable politics and good export growth. Many investors remain optimistic about Vietnam, and rightly so in our view. In Pakistan, the currency has been weakened by two devaluations from the central bank over the past two quarters. In addition, upcoming elections have re-ignited a sense of political uncertainty. Yet Pakistan's economy continues to show pockets of resilience, including strong car sales and electricity consumption. Indonesia is another country with elections approaching and a political landscape that remains unsettled. While economic growth in Indonesia has been disappointing, we are starting to see green shoots of growth, including higher employment figures.

In India, risks emanating from various financial reforms, including demonetization and the Goods and Services Tax (GST), seem to be receding. At the same time, the federal budget deficit came in higher than the market expected, while a massive public sector bank scandal also came to light during the quarter, dampening investor sentiment. Meanwhile, China's economy remains a growth leader for the region, with many sectors showing strong signs of earnings growth. China's policymakers have also demonstrated improved discipline on supply-side consolidation without impacting growth.

Performance Contributors and Detractors:

Among our top-performing securities, Phu Nhuan Jewelry is a Vietnamese company that we've owned for many years. As incomes across Asia rise, demand for jewelry continues to increase. We believe Phu Nhuan Jewelry is well-positioned to capture this growth in demand. Masan Group Corporation is a diversified Vietnamese conglomerate, which owns a portion of Vietnam Technological and Commercial Joint Stock Bank (Techcombank). An upcoming IPO for Techcombank is generating attention among investors. Some investors may have invested in Masan Group as a way to capture the upside potential of Techcombank's IPO, which drove up the stock price of Masan Group.

Our position in PC Jeweller, a jewelry manufacturer in India, was our biggest detractor from performance during the quarter. The company experienced a sharp stock price correction in the first quarter on rumors of a stock-price manipulation scheme. While these rumors seem unsubstantiated, we'll keep an eye on the situation and continue to evaluate the strength of the company's management team. Meanwhile, Kwality, an Indian dairy company, was another detractor from

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

1-year 13.36%
3-year 11.46%
5-year n.a.
10-year n.a.
Inception (4/30/13) 10.09%

Gross Expense Ratio ¹

1.77%

After fee waiver and expense reimbursement: 1.47% ²

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.

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

performance. Kwaliti is making a transition from serving a commercial client base to a consumer client base. Frustrated with the pace of this transition, some investors have sold the stock. We feel the company is making progress toward its goals, however, and continue to hold the security.

Notable Portfolio Changes:

We added a small position in Ramayana Lestari Sentosa, an Indonesian department store chain serving lower and middle-income households. Indonesia's domestic economy has been weak for the past few years and the lower income consumers have been particularly hard hit by rising tariffs and subsidy removals. While Ramayana's business has suffered in this tough environment, we expect a gradual improvement in consumption activity in the medium term and believe that Ramayana has favorable long-term prospects. In addition, we added a small position in Shakey's Pizza, a restaurant chain in the Philippines. Offering quality meals in a family-friendly, clean environment, the chain plans to expand its branch network and should benefit from rising consumer incomes over the medium to longer term.

We also sold our positions in Cipla and Qudian during the quarter. Cipla is an Indian pharmaceutical company, which is becoming increasingly focused on developed market opportunities. As our strategy focuses on emerging Asia, we decided to exit the security. Qudian is a Chinese microlender. Soon after the company's listing, the Chinese government altered legislation that negatively impacted the firm's profitability. We feel uncertain about the new business model and accordingly sold the position.

Outlook:

Trade conflicts have picked up in the news flow again this quarter. If trade issues spin out of control, they would be negative for both global growth and equities. To date, however, we have seen very measured responses from China. At the Davos World Economic Forum in January, for example, Liu He, China's top economic advisor to President Xi Jinping, made public comments that suggested strong support for global trade. In our portfolio, we tend to invest primarily in sectors driven by domestic consumption, which may be more insulated against trade issues than export-driven sectors and hence less volatile.

Corporate earnings overall in Asia have been improving over the past 12 to 18 months. Earnings growth, which started with cyclical sectors, including information technology, is now expanding to a broader range of sectors. Looking ahead, we believe the trajectory for earnings is likely to be much better. In addition, election cycles will pick up over the next two years in many countries, including India, Indonesia and the Philippines. Elections have the potential to create volatility in the markets. At the same time, incumbent governments tend to increase spending during election cycles, which can be supportive of underlying fundamental demand and provide further support to earnings improvement.

As of 03/31/2018, the securities mentioned comprised the Matthews Emerging Asia Fund in the following percentages: Phu Nhuan Jewelry JSC 3.5%; Masan Group Corp. 3.0%; PC Jeweller, Ltd. 2.4%; Kwaliti, Ltd. 0.4%; PT Ramayana Lestari Sentosa 1.4%; and Shakey's Pizza Asia Ventures, Inc. 1.0%. The Fund held no positions in Vietnam Technological and Commercial Joint Stock Bank, Cipla India, Ltd. or Qudian, Inc. Current and future portfolio holdings are subject to risk.

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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.

² 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 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

to buy or sell any securities mentioned.

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agreement will remain in place until April 30, 2018 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.

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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.

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