Q&A from Matthews Asia Funds

April 2016

Matthews Emerging Asia Fund

Q **What is the objective of the Fund?**

A The Matthews Emerging Asia Fund seeks long-term capital appreciation by investing primarily in the common and preferred stocks of companies located in Asia excluding Japan, South Korea, Hong Kong and Singapore. The Fund generally invests a substantial portion of its net assets in the emerging countries and markets in the Asian region.

Q **Which are the Emerging Asian countries?**

A Matthews Asia has classified the emerging countries and markets in the Asian region to include, but not limited to, Bangladesh, Cambodia, China (including, Taiwan, but excluding Hong Kong), India, Indonesia, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand and Vietnam.

Q **Are Emerging Asia's equity markets large enough to invest in?**

A The economies that make up Emerging Asia have benefited from growth in the past decade and as their capital markets have deepened, a bigger universe of publicly traded firms provides new investment opportunities. By way of example, in 2001, the market capitalization of the ASEAN countries of Thailand, Indonesia and the Philippines were all below US$50 billion. By 2015, the Philippines had risen to more than US$200 billion and both Thailand and Indonesia have surpassed US$300 billion. Given the growing size of the universe, together with rising corporate governance standards, we believe emerging Asia continues to present attractive investment opportunities.

Q **Are these the only countries the Fund invests in?**

A The Matthews Emerging Asia Fund invests a substantial portion of its total net assets in these Emerging and Frontier countries. The remainder of the Fund's geographic exposure may be in more established Asia ex-Japan countries such as South Korea and Taiwan that also offer the potential to invest in fast-growing companies, which, in many cases, are benefiting directly from Emerging Asia economies. The country constituents in the MSCI Emerging Markets Asia Index are China, Taiwan, Indonesia, Thailand, South Korea, Malaysia, India and the Philippines.

Q **What makes Emerging Asia attractive for investors?**

A Emerging Asia includes some of the fastest-growing economies in the world. Despite a recent slowdown following subdued growth in Europe and the U.S. as well as a weaker economy in China, the region's economies have performed relatively well. Longer term, we believe that there are three major structural trends that we would identify as central to the ongoing development of Emerging Asian countries. Collectively, they potentially provide the foundations for future corporate earnings growth.

- As labor costs have increased in more developed Asian economies, some corporations, including Chinese and Korean companies, have started moving their manufacturing operations to lower cost countries such as Vietnam, Bangladesh, Cambodia and Myanmar. This has led to a significant increase in foreign direct investments into their economies, bringing with it new jobs and rising standards of living.
- Favorable demographics have resulted in a large population of young, skilled people entering the workforce. As employment increases, this in turn should lead to rising living standards and an increase in domestic consumption—albeit from a very low base. This contrasts with many developed Asian economies that have an aging workforce.

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- We are also seeing increasing government action to liberalize economies, cut bureaucracy and commit to building deeper capital markets. Healthier and stronger economies have also enabled governments to increase spending on infrastructure projects that provide broader benefits to Emerging Asian economies.

Q **How do the fast growth rates equate to stock market returns?**

A Fast-growing economies do not always translate to higher equity markets. If we take China as an example, stock market returns over the last five years have been poor relative to GDP growth. However, we believe that many emerging Asian countries are benefiting from reform-minded governments, increasing consumer wealth, rising domestic consumption and relatively low inflation. This combination has supported earnings growth in many companies and investor sentiment has improved.

Q **Are Emerging Asian countries comprised only of low-cost, export-driven economies?**

A Emerging Asia is comprised of a broad range of economies and while many of them are dependent upon low-cost exports, there is a much wider variety of products being exported than many investors realize. These range from basic goods such as coal, textiles, footwear and garments to more sophisticated, higher cost manufacturing including technology and electronic products. This variety is what makes the region such an attractive place in which to invest and provides an opportunity to gain exposure to different parts of the economy that are influenced by different growth drivers.

Q **Have Emerging Asian countries suffered from the recent slowdown in the global economy?**

A While some export sectors have suffered during the recent slowdown, others have performed more strongly on the back of rising capital inflows. Sectors such as basic goods and consumer staples have also benefited from rising levels of income and domestic consumption in the region. In fact, domestic consumption represents a significant proportion of GDP in most Asian economies, and with intra-Asia trade still growing, the fortunes of many companies are more closely linked to local and regional events rather than what is occurring in the global economy.

Q **Are Emerging Asian countries more risky?**

A Investment in Asian securities, particularly those in emerging and frontier markets may involve risks such as economic, social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. The Fund also invests in small- and micro-cap companies, which are likely to carry higher risks than larger companies. As with any fund, possible loss of principal is a risk of investing. In-depth company research is a key part of our investment process and while this cannot entirely eliminate all risks, we do believe by undertaking significant due diligence we can potentially identify good quality companies with management teams we can trust.

In addition, it is important to note that Emerging Asian countries are following a well-trodden path that more established countries such as South Korea, Singapore and Taiwan have been following for decades. These countries had very similar economies and as domestic consumption grew, so too did other segments of their economies, particular the service sector. We anticipate the countries in Emerging Asia to follow a similar path of development and as they do, we expect to see their equity markets continue to grow, corporate governance improve and their representation in indices to grow from their current low levels.

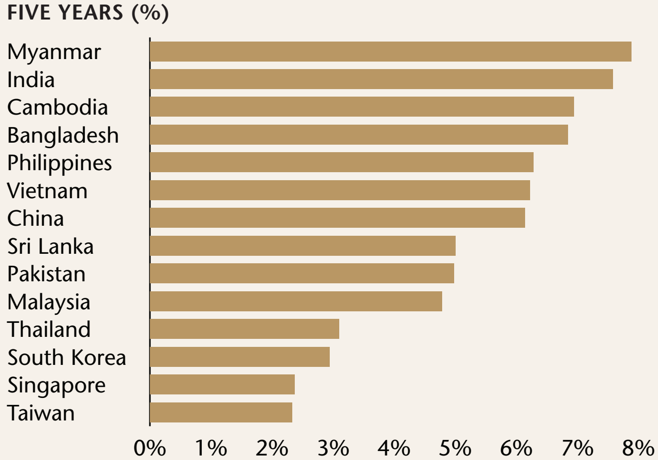
Q **How do you manage risks to investing in Emerging Asia?**

A We manage the risks of investing in companies in Emerging Asia through our knowledge of the markets and our due diligence process. In-depth company research enables us to build a diversified portfolio of companies in which we have confidence. We conduct face-to-face meetings and onsite visits for all companies that we plan to add to our portfolio and conduct frequent follow-up meetings to ensure that companies are delivering on what they have promised and outlined in their initial business plans.

Q **What is your approach and what do you look for in a company?**

A We employ a fundamental, bottom-up investment process to manage the portfolio, with research undertaken on location across the markets we invest in and portfolio construction taking place in San Francisco. The first stage of our investment process looks to reduce the size of our target invest-

AVERAGE ANNUAL GDP GROWTH FORECASTS OVER NEXT FIVE YEARS (%)



Source: IMF Database, April 2016. Data is estimated.

CHANGE IN FOREIGN DIRECT INVESTMENT IN ASIA

Country	% Change Foreign Direct Investment, 2006–2014
Bangladesh	447
Indonesia	436
Myanmar	407
Vietnam	283
Cambodia	258
Philippines	129
China	117
Sri Lanka	97
Singapore	83
India	69
Malaysia	38
Korea, Rep.	8
Thailand	-58
Pakistan	-58

Source: The World Bank, 2016

ment universe of approximately 13,000 companies by focusing on company financials, such as profitability and free cash flow as well as a sustainable business model.

From this smaller investment universe, we undertake deeper fundamental analysis and seek good quality companies that have strong market positions, typically domestically or regionally, and are capable of delivering sustainable earnings growth. We also look for companies that have strong brands within their market and have pricing power. Given the propensity for higher inflation in some of the emerging Asian economies, pricing power is an important strength. We tend to avoid cyclical names in favor of companies that are more closely aligned to consumer consumption.

Factors that influence our decision to invest in a company include balance sheet information, size and stability of cash flow, management's focus and depth of expertise, corporate governance and its overall financial health. In constructing our portfolio of 60 to 100 holdings across the market-cap spectrum, we consider other inputs that include diversification, absolute risk and valuations.

Q **Do you undertake on-the-ground research in Emerging Asia?**

A Company visits and meetings with management are an essential part of our investment process. They give us better insight into a company's business model and growth prospects as well as management's thoughts on business strategy and capital allocation. The meetings also provide a good opportunity for us to gain a greater understanding of the management team and their intentions for the company. We always aim to meet a company before we invest.

Q **Does corporate governance play an important role in your investment process?**

A As markets have deepened and some countries have benefited from greater regulatory oversight, we have seen a general improvement in corporate governance. Greater foreign participation in smaller equity markets has also had a positive impact on corporate governance. However, it should be noted that many countries still have some way to go, but we believe that as their capital markets deepen, we will see a continual improvement.

At Matthews Asia, understanding corporate governance is an important part of our investment process and how we assess business risk of a particular company. Our meetings with management teams provide an opportunity for us to gain a deeper understanding of the history of the firm, ownership, management expectations and their compensation. As minority shareholders, we always aim to have expectations that are aligned with the senior management of the companies that in which we invest.

Q **How do the Matthews Emerging Asia, Matthews Asia Growth and Matthews Pacific Tiger Funds differ?**

A The main difference between the Matthews Emerging Asia and Matthews Asia Growth Funds is their geographic focus. The Matthews Emerging Asia Fund has a greater focus on investing in countries that have lower per-capita incomes. These include countries such as Bangladesh, Cambodia, China, India, Indonesia, Laos, Malaysia, Mongolia, Myanmar, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand and Vietnam.

The Matthews Asia Growth Fund taps into a broader investment universe that includes more developed Asian economies such as Japan. It is also more likely to invest larger, multinational companies whereas the Matthews Emerging Asia Fund is likely to invest in companies with a smaller market capitalization, given its focus on companies that operate domestically and to a lesser extent, regionally. For instance, this can include investing in micro-cap stocks. While the two funds may have some overlap, we expect at least two-thirds of the holdings to be exclusively in the Matthews Emerging Asia Fund.

The Matthews Pacific Tiger Fund also gains exposure to a broader investment universe with less emphasis on Emerging Asia economies and has much less focus on smaller capitalized companies. The overlap between the two Funds is expected to be less than 10%.

Q **What experience does the investment team have investing in Emerging Asia?**

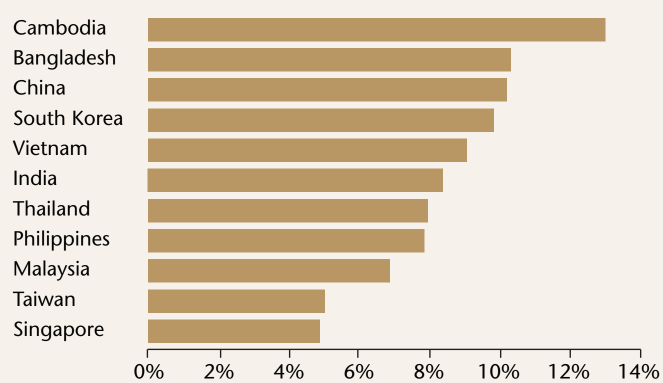
A The investment team has significant experience investing in Emerging Asia. The Lead Manager, Taizo Ishida, has been a Portfolio Manager of the Matthews Asia Growth

MAIN EXPORT PRODUCTS

Country	Export Products
South Korea	Technology products; semiconductors; chemicals
Taiwan	Electronic products; base metals; technology products
Philippines	Electronic products; business process outsourcing
Malaysia	Electronic products; edible oils; mineral fuels
Thailand	Machinery; food; manufactured goods; chemicals
Vietnam	Food; Textiles; garments; footwear
Sri Lanka	Textiles; tea; gem stones
Indonesia	Oil and minerals; edible oils; machinery and transport equipment
India	Engineering goods; refined petroleum products

Source: Rabobank, Matthews Asia

AVERAGE ANNUAL VOLUME OF EXPORTS OF GOODS AND SERVICES OVER NEXT FIVE YEARS (%)



Source: IMF Database, April 2013. Data is estimated.

FUND FACTS

MATTHEWS EMERGING ASIA FUND

	Investor Class	Institutional Class
Ticker	MEASX	MIASX

Inception Date
April 30, 2013

Investment Objective
Long-term capital appreciation

Benchmark
MSCI Emerging Markets Asia Index

Number of Holdings
60 to 100

Portfolio Managers

Taizo Ishida
Lead Manager

Taizo Ishida is a Portfolio Manager at Matthews Asia. He manages the firm's Asia Growth and Emerging Asia Strategies, and co-manages the Japan Strategy. Prior to joining Matthews Asia in 2006, Taizo spent six years on the global and international teams at Wellington Management Company as a Vice President and Portfolio Manager. From 1997 to 2000, he was a Senior Securities Analyst and a member of the international investment team at USAA Investment Management Company. From 1990 to 1997, he was a Principal and Senior Research Analyst at Sanford Bernstein & Co. Prior to beginning his investment career at Yamaichi International (America), Inc. as a Research Analyst, he spent two years in Dhaka, Bangladesh as a Program Officer with the United Nations Development Program. Taizo received a B.A. in Social Science from International Christian University in Tokyo and an M.A. in International Relations from The City College of New York. He is fluent in Japanese. Taizo has been a Portfolio Manager of the Matthews Asia Growth Fund since 2007, of the Matthews Japan Fund since 2006 and of the Emerging Asia Fund since its inception in 2013.

Robert Harvey, CFA
Lead Manager

Robert Harvey is a Portfolio Manager at Matthews Asia. He manages the firm's Emerging Asia Strategy and co-manages the Asia Innovators Strategy. Prior to joining Matthews Asia in 2012, he was a Senior Portfolio Manager at PXP Vietnam Asset Management from 2009 to 2012, where he focused on Vietnamese equities. Previously, he was a Portfolio Manager on the Global Emerging Markets team at F&C Asset Management in London from 2003 to 2009. Robert started his investment career in 1994 as an Assistant Equity Portfolio Manager with the Standard Bank of South Africa's asset management division. He received a Bachelor of Commerce in Accountancy and Commercial Law from Rhodes University in South Africa and a Bachelor of Accounting Science in Advanced Management Accounting, Taxation and Auditing at the University of South Africa. Robert has been a Portfolio Manager of the Matthews Emerging Asia Fund since its inception in 2013, and of the Matthews Asia Innovators Fund since 2016.

Fund since 2007 and has been investing and conducting company research in emerging Asian countries for nearly 20 years. Lead Manager Robert Harvey also has considerable experience investing in emerging and frontier markets.

Q **Why should long-term investors consider this Fund?**

A The Matthews Emerging Asia Fund provides investors with an opportunity to gain exposure to companies that have the potential to benefit from fast-growing economies in the region. While broader global emerging market and Asian equity portfolios often include Emerging Asia within their investment universe, it does not tend to be a focus for investment. The smaller, frontier markets in particular tend not to be materially represented. In addition, the market capitalization of some smaller companies in Emerging Asia countries is often too small for many large funds to consider. We also believe that our research-driven investment process and deep experience in these countries is well-suited to identifying opportunities in what are still relatively inefficient markets.

Contact Matthews Asia

To learn more about Matthews Asia or how the Matthews Asia Funds can complement your globally diversified portfolio, please call 800.789.ASIA or visit matthewsasia.com.

Disclosures and Notes

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus or summary prospectus with this and other information about the Funds may be obtained by visiting matthewsasia.com. Please read the prospectus carefully before investing as it explains the risks associated with investing in international and emerging markets.

All performance quoted represents past performance and is no guarantee of future results. It is not possible to invest directly in an index.

Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. In addition, single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of concentration in a specific industry, sector or geographic location. Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflations risks. Investing in small- and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than large companies.

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