



# Diversifying Innovation Without Diluting Growth

## Asia Innovation: A Framework for Modern Portfolio Allocation and Construction

### Executive Summary

Innovation-related sectors have driven global equity returns in recent months. In our view, this leadership has been supported by several long-term structural trends including investments in artificial intelligence (AI) infrastructure, automation in response to aging workforces, rising health-care demand, and the reconfiguration of global supply chains.

U.S. equities have captured a significant portion of these gains leaving many portfolios concentrated in a narrow group of mega-cap technology companies. For U.S. investors, we believe the question is increasingly not whether to diversify beyond the home market but how to broaden exposure in innovation-driven growth.

In our view, many ex-U.S. equity allocations do not fully address this need. Broad emerging markets exposure can compound technology concentration rather than diversifying it, with information technology (IT), for example, representing 45.3% of the MSCI Emerging Markets (EM) Index, as of June 30, 2026, driven largely by a handful of Asian mega-cap companies. By contrast, the MSCI Europe, Australasia, and the Far East (EAFE) Index provides relatively limited exposure to innovation-led growth, reflecting the absence of several of the world's leading innovation markets. More broadly, many U.S. investors have reduced their allocations to international equities in recent years, curbing their "look-through exposure" to innovation opportunities outside the U.S.

The Matthews Asia Innovators Active ETF is designed to address this gap through active investment in innovative companies across Asia and across market capitalizations. We believe the opportunities are often less represented in major benchmarks and more prevalent among under-researched small- and mid-cap businesses operating in specialized segments of the global value chain. We frame the case as participation, not insulation. Rather than simply adding more technology, the objective is to broaden an investor's existing growth allocation by enhancing diversification across countries, sectors and companies.

In this paper, we examine the pathway toward broader innovation-led growth in four sections:

1. **The Structural Case for Asia Innovation**
2. **Country Perspectives: Differentiated Innovation**
3. **Key Considerations for Asset Allocators**
4. **The Matthews Investment Approach**

## Part 1—The Structural Case for Asia Innovation

### Innovation as a driver of Asia and Emerging Markets equity returns

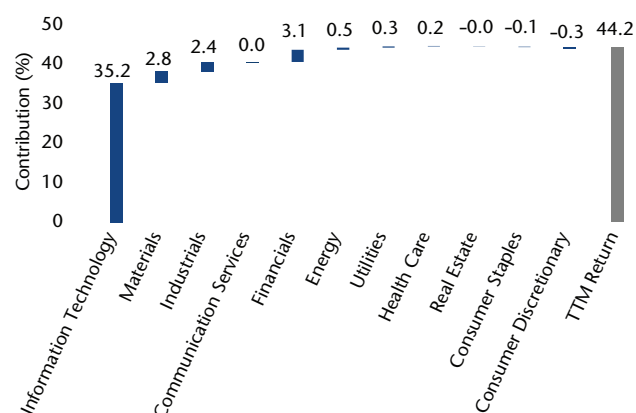
Asia's innovation landscape is anchored to durable real-world constraints and challenges—problems that often require more than incremental improvement and which are reshaping capital allocation, corporate earnings, and industrial policy across the region. We believe these real-world challenges produce a distinctive quality of innovation where companies addressing structural problems may benefit from demand that is less dependent on any single economic cycle or prevailing market narrative.

Asia also occupies a central position across key layers of the global innovation ecosystem, both as a beneficiary of global capital expenditure and as home to some of the deepest self-sustaining markets for AI, health care and power adoption.

Within emerging markets, the IT sector accounted for approximately 80% of the MSCI Emerging Markets (EM) Index's 12-month total return for the period ended June 30, 2026, and innovation-linked industries accounted for more than 90% of the return. Most of these innovation-related returns were located in Asia, notably in Taiwan, China, South Korea, and India, which together represent almost 80% of the EM index by country weighting. Concentrations within this exposure are also extreme. Taiwan is the index's largest country weighting at more than 25%, with South Korea closely behind. Taiwan Semiconductor Manufacturing Co. (TSMC), a globally leading chipmaker, carries a weight of about 15%. TSMC, along with Samsung Electronics and SK Hynix in South Korea, represent almost a third of the entire EM benchmark.

#### WHAT'S POWERING THE EMERGING MARKETS CYCLE

Innovation-driven sectors delivered over 90% of MSCI EM Index returns in the past 12 months



Sources: MSCI, Matthews—trailing 12 month data as of June 30, 2026. Past performance is no guarantee of future results. Indexes are unmanaged and it is not possible to invest directly in an index.

In our view, broad emerging market exposure has effectively become a proxy for Asian innovation while at the same time capturing only a narrow part of it. A broader layer of innovative growth opportunities extends beyond the index's largest constituents and into areas such as equipment, advanced packaging, power systems, and precision components. Many of these companies are small- and mid-cap businesses and largely outside the benchmark.

### Innovation addresses structural needs

We believe the shift toward innovation across economies and markets is structural rather than cyclical. The largest contributors have broadened beyond traditional sectors such as financials, commodities and state-owned enterprises (SOEs) to semiconductor manufacturers, hardware supply-chain companies, new energy generation, health care, robotics, and electric vehicles (EVs).

Asia's structural innovation, in our view, is increasingly being driven by efforts to address real world social-economic challenges. We identify four broad structural themes where innovation is creating investible opportunities:

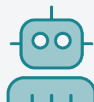
- **Aging populations.** Japan, China, South Korea, and Taiwan are facing some of the world's most significant demographic transitions, creating demand for automation, robotics, and productivity-enhancing technologies to offset shrinking labor forces.
- **Rising health-care demand.** Higher incomes and longer life expectancy are expanding demand for diagnostics, therapies and health-care delivery across distinct, complementary regional segments.
- **Energy resilience.** Many Asian economies remain dependent on imported energy, creating structural pressure to invest in renewables, storage and grid modernization. At the same time, the global AI buildout has made power availability a binding constraint, and much of the equipment that resolves it is manufactured in Asia.
- **Geopolitical self-sufficiency and supply-chain reconfiguration.** Strategic competition has elevated technological self-sufficiency to a national priority, driving localized manufacturing ecosystems, while global supply-chain diversification is redirecting investment toward Asian economies positioned as manufacturing alternatives.

We believe real-world challenges produce a distinctive quality of innovation: companies addressing structural problems tend to face durable demand that is less dependent on any single economic cycle or market narrative. The scale of rising capacity and the scale of investment is evident in the inputs: five of the world's 10 largest R&D-spending economies are in Asia, while China has overtaken the U.S. in leading global R&D expenditure.



### SMART EVS

- China sold over 12.8 million electric vehicles (EVs) in 2025, and EVs accounted for half of domestic light-duty vehicle (LDV) sales;
- About 15 million new cars in China were fitted with L2+ advanced driver assistance systems (ADAS) in 2025



### ROBOTICS

- Asia accounted for 74% of global industrial robot installations in 2024



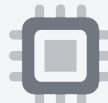
### AI

- China-based inventors filed over 38,000 GenAI inventions from 2014–2023, roughly six times the U.S. in second, followed by Korea with 4,155 and Japan with 3,409



### NEW ENERGY

- China's share of all major solar-panel manufacturing stages exceeds 80% globally



### SEMICONDUCTORS

- Asia is central to foundry capacity: TrendForce estimates that Taiwan, China, Korea and Japan together represented about 86% of global foundry capacity in 2024;
- Taiwan leads advanced-process foundry capacity with 66% global share, followed by Korea at 11% and China at 9%

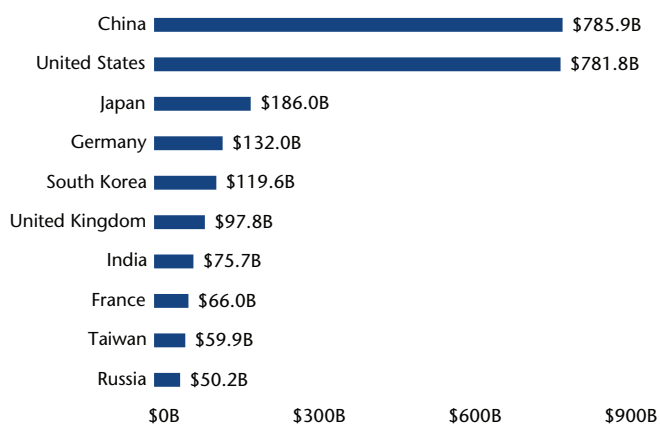


### HEALTH CARE

- Asia's share of the global innovative pipeline rose from 28% to 43% in five years;
- China approved a record 48 Class-1 innovative drugs in 2024, with more than 70% developed by Chinese pharmaceutical companies

Sources: The International Energy Agency (IEA), International Federation of Robotics (IFR), World Intellectual Property Organization (WIPO), TrendForce, International Council on Clean Transportation (ICCT), South China Morning Post, McKinsey & Company, National Medical Products Administration (NMPA).

## CHINA OVERTAKES U.S. IN GLOBAL R&D



Sources: World Intellectual Property Organization (WIPO), The Organisation for Economic Co-operation and Development (OECD) March 2026 release

## The innovation ecosystem

At Matthews, we evaluate Asia's innovation landscape through a simple framework: innovation enablers and innovation adopters.

Innovation enablers are foundational companies that develop the critical tools, technologies, and infrastructure required to support broader innovation. A significant share of the world's AI and technology infrastructure spending flows through the enabling layer that is predominantly Asian companies. It spans foundries, memory manufacturers, semiconductor equipment and materials suppliers, server assemblers, power equipment makers, cooling and thermal management specialists, and energy storage producers.

The scale of that spending continues to expand, driven by capital expenditure from U.S. and Chinese AI hyperscalers. Industry estimates suggest that annual AI capital spending could exceed US\$1 trillion, with the spending flowing primarily through foundry and fabrication, the semiconductor supply chain, and training and inference infrastructure.

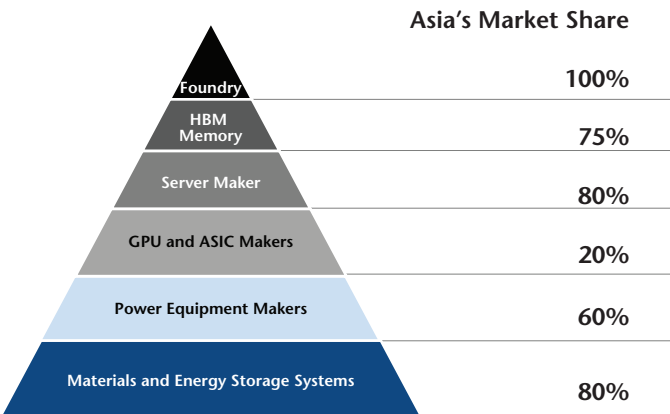
Investors accessing global innovation primarily through U.S. large-cap technology companies are typically gaining greater exposure to the application and platform layers of the value chain. In contrast, many of the manufacturing, equipment and infrastructure companies supporting these platforms are listed in Asia. The two exposures therefore provides different points of access for the same structural theme, reflecting differing points within the value chain.

Innovation adopters, on the other hand, apply new technologies to transform traditional industries and serve end-market demand. These include companies across health-care delivery, digital commerce, financial services, EVs, and advanced manufacturing.

In terms of AI-related adopters, we see broad-based adoption across retail, customer service, digital media, and in pharmaceuticals and medicines. In health care, we believe there is potentially an even bigger innovation adopter opportunity, with expanding global demand supporting the need for advances across diagnostics, therapies, and care delivery.

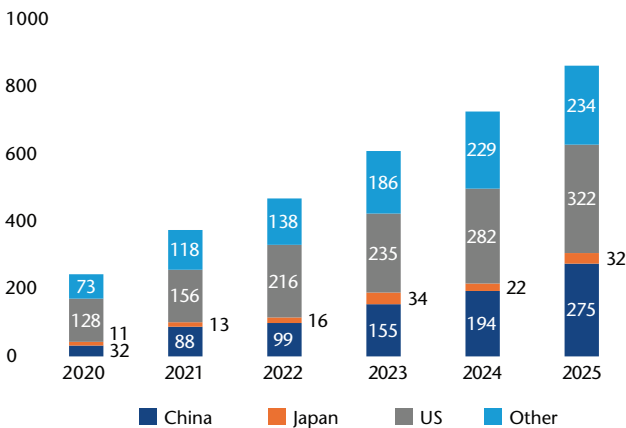
MADE IN ASIA: GLOBAL AI INFRASTRUCTURE LAYER

Innovation enablers—AI picks and shovels



Source: Matthews. As of 9/30/2026, the top 10 holdings of the Matthews Asia Innovators Active ETF are: Samsung Electronics Co., Ltd; SK Hynix, Inc.; Taiwan Semiconductor Manufacturing Co., Ltd.; Tencent Holdings, Ltd.; Alibaba Group Holdings, Ltd.; Midea Group Co., Ltd. A Shares; NetEase, Inc. ADR; Contemporary Amperex Technology Co., Ltd. A Shares; Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd. H Shares; Luckin Coffee, Inc. ADR. To view the latest Matthews Asia Innovators Active ETF's Top 10 holdings, please visit [matthewsasias.com](https://matthewsasias.com). Current and future holdings are subject to change and risk.

MAJOR CONTRIBUTORS TO GLOBAL FIRST-IN-CLASS DRUGS



Source: NextPharma as of December 2025

China, for example, has rapidly expanded in global innovative medicines. While this growth has been supported in part by the depth of China's health-care academia, the domestic biotech industry has grown out of necessity, to help the government provide health care in budget by supporting innovative therapies to keep the population healthier. We also see innovative adopters in remote surgical robots. In China and in many emerging markets, where medical talent on the ground may be scarce, remote surgical robots are increasingly popular to provide care to those outside of major cities.

An under-researched and under-appreciated opportunity

The breadth of Asia's innovation creates substantial dispersion in business quality, competitive position, and valuation, while many of the companies in the universe receive limited

analyst coverage. In China alone, among approximately 5,000 listed equities tracked by FactSet Research Systems, most are covered by five or fewer analysts, and nearly one-third have no sell-side coverage.

Market inefficiency is often greatest where research coverage is thin and many emerging innovation leaders also remain small- and mid-cap companies outside major benchmarks. In our view, this reinforces the value of active managers with local research capabilities, language fluency, and the ability to analyze companies across the full value chain.

ANALYST COVERAGE OF ASIA STOCKS

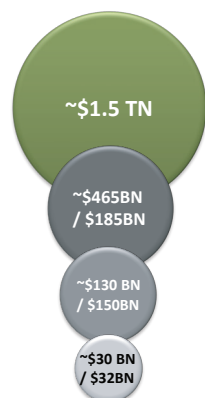
| Percent of companies covered by third-party analysts within Asia's broader stock universe | Number of third-party analysts providing coverage |
|-------------------------------------------------------------------------------------------|---------------------------------------------------|
| 9%                                                                                        | 5+ analysts                                       |
| 36%                                                                                       | 5 or fewer analysts                               |
| 35%                                                                                       | 4 or fewer analysts                               |
| 34%                                                                                       | 3 or fewer analysts                               |
| 32%                                                                                       | 2 or fewer analysts                               |
| 29%                                                                                       | 1 or fewer analysts                               |
| 23%                                                                                       | Zero analysts                                     |

Source: Bloomberg as of June 30, 2026

Despite the scale of innovation opportunities across Asia, the region's leading innovators also trade at significant valuation discounts to their U.S. counterparts, even where earnings growth expectations are comparable or stronger. In our view, the combination of higher expected earnings growth and persistent divergence in market cap and valuation warrants closer examination. We believe this may represent long-term sustainable, structural value dislocation rather than a short-term timing opportunity.

## MATTHEWS ASIA INNOVATORS STRATEGY THEMATIC FOCUS: ASIA HEALTH CARE

Global reach, local innovation, where active management matters



### Innovative Pharma & Biotech

New molecules, specialty drugs, oncology, & indigenous therapies for region-specific disease needs

### Generics, APIs & CDMO

Outsourced development, manufacturing, and export supply chains

### Selective Health Care Services & Tools

Aging care, medtech, diagnostics, and specialized services

### Biosimilars & Biomanufacturing

Patent-cliff beneficiaries with scalable manufacturing capacity

**Near-term preference:** Drugs stand out given the global patent cliff, faster innovation cycles, and the higher return profile of innovation

### Potential Implications for U.S. Portfolios

- Active management can uncover under-appreciated niches across countries and business models
- Can provide a diversified source of high-return potential for U.S.-centric portfolios
- Asian players can be less correlated to U.S. health care leadership

## Unique Health Care Opportunities by country



CDMO = Contract Development and Manufacturing Organization; CRO = Contract Research Organization; API = Active Pharmaceutical Ingredients; Generics = copies of brand name drugs created after the original patent on a brand-name drug ends.

This information is solely to illustrate Matthews' investment process. Parameters set by Matthews are subject to change. There is no guarantee estimates or future projections will be realized.

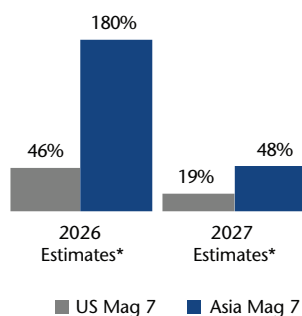
## PERCEPTION VS. FUNDAMENTALS

U.S. and Asia innovation exposure offer fundamentally different growth profiles

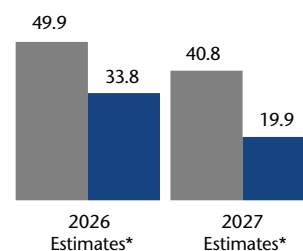
Average Market Cap (\$Billion)



EPS Growth



Valuation (P/E FY1)



\*Note: 'U.S. MAG 7' securities refers to a group of highly influential, large-cap technology stocks that have been significant drivers of the U.S. stock markets growth. 'Asia MAG 7' includes the top 7 innovation-related securities from the MSCI AC Asia ex Japan Index and includes the following securities: TSMC, Tencent, Alibaba Group, Samsung Electronics, SK Hynix Inc., Xiaomi Corp., and Cambricon Technologies. For illustrative purposes only and does not constitute a recommendation to buy or sell any securities mentioned. The P/E Ratio is the share price of a stock as of the report date, divided by the forecasted earnings per share for a 12-month period (FY1). 2026 and 2027 data are estimates and there is no guarantee that projections or estimates will be realized. Indexes are unmanaged and it is not possible to invest directly in an index. There is no guarantee that the composition of the index will remain unchanged, or that the companies in the index will achieve their forecasted EPS.

Source: Bloomberg; data as of June 30, 2026

## Part 2—Country Perspectives: Differentiated Innovation

Asia's innovation opportunity is expressed differently across economies, reflecting distinct development paths and structural traits. These differing capabilities can complement the growth exposure available through U.S. equities by providing access to different segments of the global innovation value chain. Below are six key country and regional ecosystems that offer distinct innovation paths.



### Taiwan—The Foundry and Hardware Core of Global Innovation

Taiwan's innovation model has historically been shaped by constraints, including limited human and natural resources, and its economy has pivoted toward the manufacturing and export of high-value global technology. The result is one of the world's most concentrated pools of advanced manufacturing capability and home to the majority of global semiconductor foundry production and more than 90% of the world's most advanced chips. This leadership reflects decades of sustained R&D investment, a deep engineering talent base, and an ecosystem spanning chip design, fabrication, advanced packaging, testing, and materials.

As AI drives increasingly complex architectures, advanced packaging has emerged as a critical part of the technology value chain. Taiwan's tightly integrated ecosystem provides advantages that are, in our view, exceptionally difficult to replicate.

Taiwan is also extending its precision-manufacturing capabilities into adjacent frontiers including space technology. Satellite development, Earth observation and low-Earth orbit communications build directly on the country's established expertise in semiconductors, sensors and precision electronics.



### South Korea—From Industrial Base to Advanced Technology Hub

South Korea has traditionally been viewed by global investors as a cyclical market driven by heavy industry and electronics. The country's role in the global AI ecosystem, particularly through its memory semiconductor industry, has broadened that perception. In our view, however, South Korea's position in memory reflects decades of accumulated industrial and technological capabilities rather than solely the current AI investment cycle.

Like Taiwan, Korea's industrial development has been impacted by its limited natural resources. This encouraged companies to compete in global markets, supported by large-scale capital investment and vertically integrated conglomerates suited to industries requiring long-term capital.

Korea's characteristic pattern is one of continuous upgrading rather than reinvention. Korean companies leveraged capabilities developed in consumer electronics to establish expertise in the Dynamic Random-Access Memory (DRAM) chips. This expertise now underpins leadership in high-bandwidth memory (HBM), a critical component of the global AI supply chain. A similar pattern of capability development and upgrading has extended across other sectors, including shipbuilding, chemicals and batteries, and defense.



### Japan—Depth-Driven Innovation Where Analog Meets Digital

A significant share of Japan's R&D is driven by the private sector, supporting close links between scientific discovery and practical application. Japan's core innovation advantages lie in materials science, physics and life sciences—upstream disciplines that can become critical inputs to downstream industries with high barriers to entry and limited competition.

This accumulation of deep technical knowledge translates into a structural advantage in execution rather than disruption. Japanese companies excel in complex, process-driven industries including semiconductor materials, specialty chemicals, precision components, and mission-critical subsystems, where technical know-how and consistency support durable competitive positions.

Japan's innovation has also frequently emerged in response to structural vulnerabilities. It holds leadership in industrial robotics, driven substantially by aging demographics, while its dependence on imported energy has encouraged investment across renewables, hydrogen and storage. These characteristics can serve Japanese innovators as a stabilizing investment exposure within portfolios. They may not scale explosively but often hold high market share in critical niches with high margins and strong cash flow.



### China—A Broad Innovation Ecosystem

For many global investors, China exposure remains narrowly framed as a cyclical macro trade, a geopolitical risk, or a cohort of large internet companies. We believe this framing can overlook a key structural shift. China's innovation capacity has expanded across sectors and market capitalizations, supported by research output, patent development, and a diverse set of innovative companies.

Several structural forces are supporting this structural shift: An aging population is making automation an economic necessity; expanding health care demand; and geopolitics have elevated technological self-sufficiency as a strategic

priority. This shift is increasingly reflected in the composition of China's equity market, which is broadening beyond property, banks and state-owned enterprises (SEOs) to EVs, robotics, AI infrastructure, new energy, semiconductors, and health care.

China is also pursuing AI development along a distinctive path, building substantial capability with a fraction of comparable U.S. infrastructure spending. Its focus on technological self-sufficiency is creating investable themes across the ecosystem, including domestic chips, chip-manufacturing equipment, packaging, and mature-node capacity, as well as capacity buildout across cleanroom, advanced materials, printed circuit boards (PCB), and optical communications, creating multiple routes of monetization for industrial enablers.

In addition, the development of domestic AI models—in some cases 60%–80% cheaper and better optimized for local language and workflows—is also supporting adoption toward local application-layer companies. Outcomes across these areas are likely to vary with policy, production specification, and adoption dynamics, creating a differentiated opportunity set for active investors.

Importantly, companies addressing critical structural needs may have demand drivers that are less sensitive to common macro concerns about investing in China, such as consumer spending softness or property-sector weakness, because their demand is driven by structural imperatives rather than cyclical sentiment.



## India—The Mass Commercial Adoption Flywheel

Critical areas of India's economy share a common foundation: low-cost manufacturing, a deep talent base developed over decades, and the scale advantages of a large domestic market alongside an expanding export market deeply integrated into global supply chains. Together, these factors support the adoption of innovation across key sectors including pharmaceuticals, autos, software, and IT.

India's strategic position as a non-aligned nation further supports this development, in our view, as global companies increasingly use the country as a sourcing hub and an ecosystem to upgrade professional talent and capabilities across sectors.

Three adoption opportunities illustrate India's growth dynamic:

- **Digital commerce.** Direct-to-consumer growth, online marketplace expansion, and ultra-fast "quick commerce" are reshaping how Indian brands reach customers. Digital

distribution has become a mainstream route to consumer and business markets across a range of product segments.

- **Pharmaceuticals.** India is transitioning beyond its established role in global generics manufacturing toward an emerging originator of patented drugs and biologics. This shift is supported by continued R&D investment, a maturing scientific talent, and a developed contract research organization (CRO) and contract development and manufacturing organization (CDMO) ecosystem that is serving global demand.



- **Electric Vehicles.** Indian automakers have capabilities across the EV value chain, manufacturing most components, including battery cells, designing motors, motor control units, vehicle software stacks, battery management systems, and fast-charging protocols.

## Southeast Asia—The Differentiated Beneficiary Layer

The innovation opportunity in Southeast Asia is less about replicating global technology leaders and more about the adoption and commercialization of innovation. Across the region, approximately 700 million people are progressively connecting to digital commerce, formal financial services, modern health care, and globally integrated manufacturing. Companies positioned at these structural access points can compound their advantages.

At the same time, differences in political or economic conditions create distinct opportunities and risks across ASEAN (Association of Southeast Asian Nations markets). Three structural conditions are particularly relevant:

- **Leapfrog effect.** ASEAN's demographics and development stage mean innovation breakthroughs are often rolled out rapidly, unencumbered by legacy infrastructure — mobile-first adoption across commerce and finance illustrates the pattern.
- **Localization imperative.** A price-sensitive, linguistically fragmented middle class forces a depth of localization that foreign entrants consistently underestimate — producing organizational as well as technological innovation, and durable advantages difficult to replicate from outside.
- **Geopolitical neutrality as a productive asset.** As global companies diversify manufacturing and technology infrastructure ("China + 1"), ASEAN is attracting investment as a cost-effective, strategically located, and neutral manufacturing base.

## Part 3—Key Considerations for Asset Allocators

Asia’s innovation opportunity is significant but realizing its potential requires experience navigating the region’s distinct investment landscape. Drawing on more than 30 years of researching and investing in the region, Matthews recognizes that the opportunity is accompanied by a range of geopolitical, structural and market headwinds. This section addresses some key considerations for asset allocators when evaluating exposure to Asia innovation.

### Geopolitics

We recognize that geopolitical and policy risks are inherently associated with investing in Asia and cannot be eliminated. They therefore require continuous monitoring, disciplined risk assessment and active portfolio management.

Key geopolitical and top-down market risks include:

- **Strategic competition between the U.S. and China.** Intensifying competition can affect access to advanced technologies, export markets, capital, and supply chains
- **Technology controls, sanctions, and localization requirements.** Changes in trade and policy can alter industry economics or restrict addressable markets
- **China’s policy priorities.** The policies of China’s leadership remain anchored to its “common prosperity” agenda. National strategic priorities and interests can result in direct regulatory or policy intervention in key growth areas of China’s economy
- **Taiwan Strait tensions.** Escalation could represent material risk to regional markets and the global semiconductor ecosystem.

While geopolitical developments and headlines can create sentiment-driven volatility, short-term fluctuations do not, in our view, invalidate the long-term innovation opportunity. Our approach to risk management means avoiding unnecessary risks while being willing to take informed risks.

This approach is framed by three observations:

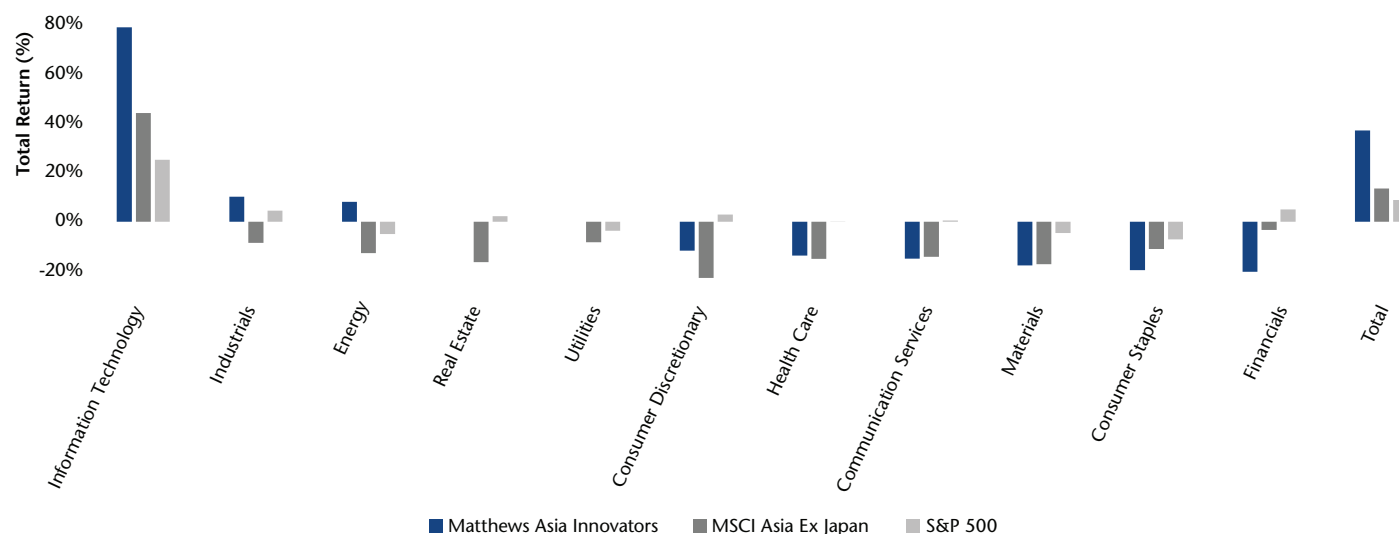
First, re-industrialization and decoupling themes are themselves drivers of demand: self-sufficiency programs in China, defense modernization in South Korea and Japan, and supply-chain diversification into India and Southeast Asia can create durable investment opportunities.

Second, portfolio diversification can reduce dependence on any single geopolitical outcome. Diversification across six country ecosystems—Taiwan, South Korea, Japan, China, India and Southeast Asia—as well as end-market exposure controls are designed to limit single-point concentration.

Third, geopolitical volatility can create valuation dislocations. Market reactions to geopolitical developments do not always correspond to underlying earnings of individual companies which are driven by product leadership, market-share gains, and execution. We view this as geopolitical risk that needs to be actively controlled but also a potential opportunity for fundamental active investing.

The chart above compares sector-level returns for the Matthews Asia Innovators Active ETF portfolio, its benchmark and the S&P 500 following the outbreak of the Iran conflict earlier this year. During the resulting market downturn, the portfolio demonstrated relative resilience, outperforming both indexes across innovation-oriented sectors.

### MATTHEWS ASIA INNOVATORS ACTIVE ETF PERFORMANCE BY SECTOR SINCE THE IRAN WAR



Source: FactSet Research Systems, data for the February 27, 2026-June 30, 2026 time period. Past performance is no guarantee of future results. Indexes are unmanaged and it is not possible to invest directly in an index.

## Market fundamentals

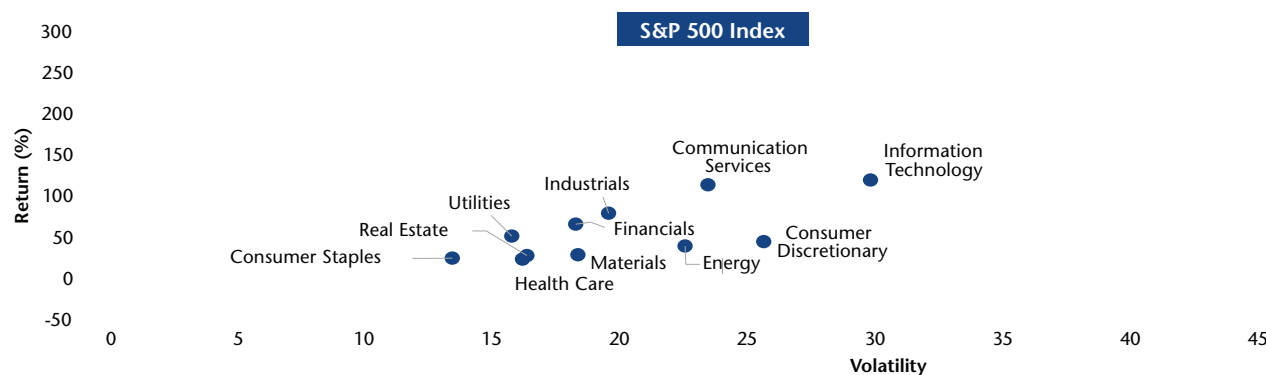
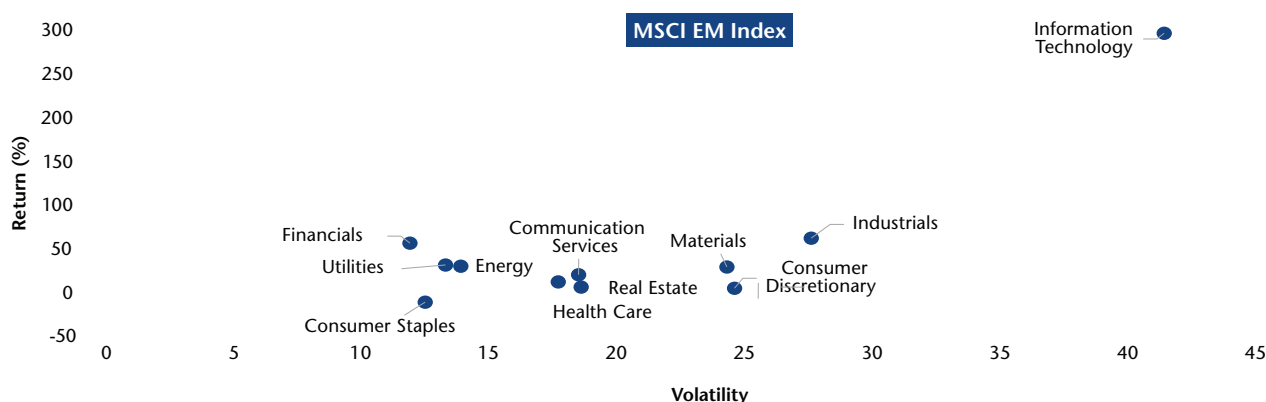
We view innovation and its supporting infrastructure as multi-year investment cycles rather than a single trade. Asia's leading innovators continue to trade at significant discounts to U.S. counterparts with comparable earnings power. Strong markets nonetheless require selectivity. In our view, returns are likely to be driven increasingly by earnings delivery and company-specific execution rather than multiple expansion, creating an environment in which fundamental stock selection may be more important than broad thematic exposure. We actively monitor risk premiums and market momentums, and adjust portfolio exposure across other sectors or different market capitalizations as we harvest gains and reallocate capital toward companies where we see attractive fundamentals that are under-discovered.

## Market volatility

The perception of emerging markets and Asia as uniformly higher risk does not reflect variations in risk and return characteristics across markets and sectors, in our view. On a three-year basis, several MSCI EM sectors have exhibited return and volatility profiles comparable to, or better than, their S&P 500 counterparts. The MSCI EM IT sector, for example, delivered substantially higher returns with only moderately higher volatility vs. the S&P 500 IT sector over the period. Within the Matthews Asia Innovators Strategy, diversification across end-markets and correlation-matching across holdings (see Part 5) are designed to mitigate concentration risk.

## INVESTMENT RETURN/VOLATILITY PROFILES OF MSCI EM INDEX VS. S&P 500 INDEX

Performance over three years



Source: FactSet Research Systems, Matthews, data as of June 30, 2026. Past performance is no guarantee of future results. Indexes are for comparative purposes and are unmanaged. It is not possible to invest in an index.

Part 4—The Matthews Investment Approach

Our core philosophy: we invest in innovative problem solvers

Companies deliver enduring shareholder value, in our view, when they address large, meaningful structural problems—and the opportunity scales with the problem. The challenges described in Part 1—aging populations, rising health care demand, energy resilience, and geopolitically driven self-sufficiency—endure as investment themes precisely because incremental approaches can no longer resolve them. Capturing them requires a disciplined process that combines thematic conviction with fundamental rigor.

Our research edge

**On-the-ground research near innovation hubs.** Our research offices in Silicon Valley and Hong Kong, organized into country and industry knowledge platforms, provide real-time insight into emerging technologies and business models; early identification of enablers and adopters in markets where disclosures, private-company intelligence, supply-chain data, and management access are difficult to interpret from afar.

**Alternative data combined with human judgment.** We combine proprietary and third-party alternative data—from supply-chain signals to industry-specific metrics—with analyst interpretation and seek to identify trends and validate company trajectories earlier and with greater confidence.

**Public-private market integration.** In China alone, roughly 99.99% of companies remain private and the greatest competitive threats to listed innovators often emerge from private startups. Our extensive research with private competitors, suppliers, and customers cross-validates our assessment of a company’s people, process, and product. It seeks to eliminate blind spots and builds early conviction ahead of IPOs, which outside the U.S. often bring companies to market earlier in their lifecycle.

Balancing stock selection with disciplined portfolio construction

**Idea generation.** Supported by quarterly quantitative screens of the regional universe’s top decile—based on high sales growth, high return on invested capital (ROIC), strong balance sheets—combined with daily research dialogue across our knowledge platforms.

**Due diligence.** Deep-dive investigations of people, process, and product. Proprietary financial models across bullish, base, and bearish scenarios define intrinsic-value boundaries and identify the most asymmetric opportunities.

**Portfolio construction and risk management.** End-market diversification mitigates unintended concentration while proprietary exposure mapping and correlation analysis help ensure the portfolio is a diversified set of idiosyncratic return drivers, not a collection of compelling narratives.

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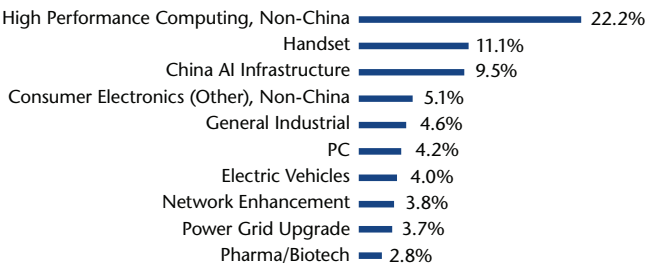
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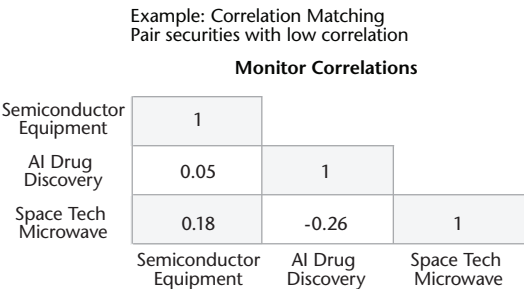
**Portfolio construction and risk management.** End-market diversification mitigates unintended concentration while proprietary exposure mapping and correlation analysis help ensure the portfolio is a diversified set of idiosyncratic return drivers, not a collection of compelling narratives.

RISK MANAGEMENT THROUGH END MARKET EXPOSURE CONTROL

Top end market exposure for Matthews Asia Innovators Active ETF strategy



Source: Matthews, data as of June 30, 2026. Past performance is no guarantee of future results.



## LOW CORRELATIONS ACROSS PORTFOLIO HOLDINGS CAN REDUCE CONCENTRATION RISK

|                                              | Semiconductor wet processing equipment | Cleanroom / engineering integration | Semiconductor automation equipment | Semiconductor assembly & packaging equipment | Lifestyle hotel operator | Semiconductor test equipment | Auto components / die casting | Environmental services / waste-to-energy | Property management services | Engine manufacturer | Advanced materials | Restaurant chain |
|----------------------------------------------|----------------------------------------|-------------------------------------|------------------------------------|----------------------------------------------|--------------------------|------------------------------|-------------------------------|------------------------------------------|------------------------------|---------------------|--------------------|------------------|
| Semiconductor wet processing equipment       |                                        | 0.15                                | 0.08                               | 0.24                                         | 0.29                     | 0.27                         | 0.35                          | -0.06                                    | 0.16                         | 0.25                | 0.09               | 0.14             |
| Cleanroom / engineering integration          | 0.15                                   |                                     | 0.14                               | 0.28                                         | 0.18                     | 0.47                         | 0.33                          | 0.23                                     | 0.01                         | 0.15                | 0.23               | 0.05             |
| Semiconductor automation equipment           | 0.08                                   | 0.14                                |                                    | 0.23                                         | 0.19                     | -0.07                        | 0.06                          | 0.02                                     | 0.09                         | 0.00                | 0.01               | -0.03            |
| Semiconductor assembly & packaging equipment | 0.24                                   | 0.28                                | 0.23                               |                                              | 0.17                     | 0.30                         | 0.35                          | 0.14                                     | 0.17                         | 0.22                | 0.32               | 0.17             |
| Lifestyle hotel operator                     | 0.29                                   | 0.18                                | 0.19                               | 0.17                                         |                          | 0.03                         | 0.18                          | 0.20                                     | 0.34                         | 0.18                | 0.20               | 0.33             |
| Semiconductor test equipment                 | 0.27                                   | 0.47                                | -0.07                              | 0.30                                         | 0.03                     |                              | 0.46                          | -0.04                                    | 0.24                         | 0.10                | 0.27               | 0.24             |
| Auto components / die casting                | 0.35                                   | 0.33                                | 0.06                               | 0.35                                         | 0.18                     | 0.46                         |                               | -0.02                                    | 0.20                         | 0.15                | 0.31               | 0.14             |
| Environmental services / waste-to-energy     | -0.06                                  | 0.23                                | 0.02                               | 0.14                                         | 0.20                     | -0.04                        | -0.02                         |                                          | 0.17                         | 0.05                | 0.37               | 0.07             |
| Property management services                 | 0.16                                   | 0.01                                | 0.09                               | 0.17                                         | 0.34                     | 0.24                         | 0.20                          | 0.17                                     |                              | -0.04               | 0.44               | 0.32             |
| Engine manufacturer                          | 0.25                                   | 0.15                                | 0.00                               | 0.22                                         | 0.18                     | 0.10                         | 0.15                          | 0.05                                     | -0.04                        |                     | 0.07               | 0.12             |
| Advanced materials                           | 0.09                                   | 0.23                                | 0.01                               | 0.32                                         | 0.20                     | 0.27                         | 0.31                          | 0.37                                     | 0.44                         | 0.07                |                    | 0.29             |
| Restaurant chain                             | 0.14                                   | 0.05                                | -0.03                              | 0.17                                         | 0.33                     | 0.24                         | 0.14                          | 0.07                                     | 0.32                         | 0.12                | 0.29               |                  |

Source: Matthews. This information is solely to illustrate Matthews' investment process. This information is for illustrative purposes only and is not representative of the results of any particular security or product. Parameters set by Matthews are subject to change.

## Conclusion

Asia has become an important pillar of the global innovation ecosystem, encompassing economies with distinct competitive advantages and differentiated return drivers. Across semiconductors, advanced manufacturing, precision equipment, power infrastructure, health care and digital adoption, the region provides access to companies supporting the next generation of global innovative growth.

For investors, we believe Asia offers a way to broaden innovation exposure beyond U.S. technology companies and complement existing portfolio allocations. Depending on portfolio objectives, this may include diversifying concentrated U.S. equity exposure, complementing developed international equities, or increasing diversification within emerging markets allocations.

We recognize that investing across Asia involves risks, including geopolitical uncertainty, regulatory change, currency movements and market volatility. These considerations underscore the importance of disciplined portfolio management and ongoing risk assessment. The structural characteristics of Asia's equity markets can also contribute to market inefficiencies that can create opportunities for active managers with deep regional expertise.

The investment case for Asia is not simply about participating in innovation but about how exposure to innovative growth in the region may complement broader portfolio objectives.

## Our team

Tiffany Hsiao, CFA, is the portfolio manager of the Matthews Asia Innovators strategy and leads the Innovation Knowledge Platform spanning country and sector expertise. Born in Taiwan and raised in Silicon Valley, Tiffany traveled extensively across China with her father as he built and invested in technology businesses. She began her career as a technology equity analyst and manager of a global communications fund at Franklin Templeton, and from 2007 to 2013 worked in Hong Kong and Tokyo at Goldman Sachs, focusing on Asia Pacific long/short equity investments with an emphasis on China equities. Tiffany first joined Matthews in April 2014, left in August 2020 to launch a China-focused public and private equity hybrid fund at Artisan Partners, and returned to Matthews in November 2025 to manage the Matthews Asia Innovators and China Innovators strategies.

This combination of personal background and professional experience gives Tiffany a distinctive perspective on the intersection of technology, geopolitics, and Asian markets. Her long/short equity and private equity experience reinforces the strategy's risk discipline and is applied to identifying where earnings expectations, end-market exposures, valuations, and correlation risks may be mispriced.

## MATTHEWS ASIA INNOVATORS STRATEGY

### Portfolio Manager



**Tiffany Hsiao, CFA**  
25 years of experience

### Innovation Knowledge Platform



**Tiffany Hsiao, CFA**  
Tech hardware & software,  
health care, all sectors in Taiwan



**Sojung Park**  
All sectors in Korea



**Donghoon Han**  
Japan tech semis, materials, power  
and industrial equipment



**Shuntaro Takeuchi**  
Japan media, gaming, health  
care, software/IT services



**Nina Zhang**  
Asia ex Japan internet and  
consumer



**Kerry Cheng**  
Global renewable, power equipment  
and China automation



**Peeyush Mittal, CFA**  
All sectors in India

■ Located in Asia

Note: Years of industry experience as of January 2026

## Important Information

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