Matthews Asia

Matthews Japan Fund

Investor

Commentary

Period ended March 31, 2025

Market Environment

- Sentiment toward Japanese equities was impacted by concerns that a stronger Japanese yen, along with rising interest rates, may dampen export demand. We are mindful, however, that Japan is less dependent on exports than it was in the past. More and more, Japanese companies conducting business abroad are doing so through direct investment in subsidiaries or in international partnerships.
- Japanese companies' earnings were generally robust in the quarter; stock buybacks and increasing dividend yields eased but continued to support total returns. Equity valuations have retracted back to long-term averages, which also helped support stock prices.
- During the period, we found opportunities in quality domestic businesses shielded from negative tariff sentiment in areas like communication services, consumer discretionary, health care, industrials and real estate.

Contributors and Detractors

- For the quarter ended March 31, 2025, the Matthews Japan Fund returned 0.70%, (Investor Class) and 0.70% (Institutional Class) while its benchmark, the MSCI Japan Index, returned 0.50% over the same period.
- On a sector basis, the top three contributors to relative performance were consumer discretionary, information technology (IT) and communication services due to stock selection. The top three detractors were consumer staples due to stock selection, utilities and energy due to zero allocation.
- The largest contributors to absolute performance included Sony, an electronics company, Mitsubishi UFJ Financial Group, a leading financial firm, and NEC, an IT company. The top three detractors included Recruit Holdings, a human resources (HR) company, Tokyo Electron, an electronics and semiconductor company, and Shin-Etsu Chemical, a chemicals company.

Outlook

- Japan's macro and external outlook is mixed. As a global cyclical economy, Japan depends on sectors such as autos and consumer electronics. Many Japanese companies also have production hubs in Southeast Asia. Thus, U.S. tariffs, whether directly and indirectly impacting Japan, could be a significant influence on market sentiment.
- That said, Japan's history of direct investing in the U.S., particularly in autos, and its capacity to reduce its trade surplus through increased spending in areas like defense, may render it less exposed to U.S. tariffs than other major global economies.
- Japan also has a large and diverse domestic economy with robust levels of demand that is not exposed to global headwinds. Ongoing Japanese wage negotiations could serve as a potential tailwind for demand, supporting domestic consumption and corporate earnings.
- In our view, selective stock picking remains key—to identify companies with strong earnings outlooks and good dividend yields, supported by stock buybacks and attractive valuations.

View the Fund's Top 10 holdings as of March 31, 2025. Current and future holdings are subject to change and risk.

Average Annual Total Returns - MJFOX as of 03/31/2025

1YR	3YR	5YR	10YR	Since Inception	Inception Date
1.64%	5.97%	8.45%	5.81%	5.91%	12/31/1998

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. For the Fund's most recent month-end performance visit matthewsasia.com*

Fees & Expenses

Gross Expense Ratio	1.09%

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Investing in small- and mid-size companies is more risky than investing in larger companies as they may be more volatile and less liquid than large companies. In addition, single-country 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. Pandemics and other public health emergencies can result in market volatility and disruption.

Fund holdings are subject to change and risk. For current holdings, please visit each Fund’s individual overview page.

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