Matthews Asia

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When Evaluating ETFs, Should Size Matter?

When it comes to assets under management (AUM), should a fund's size be a consideration for investing in an ETF? In our opinion, no, the main consideration for investment in a transparent, active ETF should be exposure to the strategy, which includes all the benefits of the ETF structure. When evaluating ETFs' size for investment, at Matthews Asia we believe investors should consider:

1. **The ETF structure is a 'Wrapper' –** Look at the percentage ownership of the underlying securities. Although an investor may own a large percentage of the ETF, the actual percentage ownership of the underlying securities total market capitalization is likely to be very small.

2. **AUM is Not Liquidity –** The underlying basket of securities dictate the liquidity for the ETF. Because ETFs have an open-ended structure, investors typically will have no issues moving larger positions in or out of the ETF because liquidity providers are willing to provide bids and offers at the prevailing fair value of the ETF, regardless of fund size.

3. **Isolated Impact –** Investors transact on exchange in the secondary market. This aspect of the ETF mechanism allows smaller and larger investors to isolate their own trading activity and not be impacted by what other investors in the fund are doing.

4. **Closure Risk –** If the ETF fails to gather assets and the manager chooses to close the fund, investors risks are primarily market exposure, potential capital gains event, and reinvestment. On the closure date, the fund's assets are liquidated and the closing net asset value (NAV) is returned to the remaining shareholders.

When considering an investment, we believe that investors should evaluate the ETF's investment objectives, risk characteristics and liquidity to better understand how it may complement their allocations.

Learn more at MatthewsAsia.com

Important Information

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 at it explains the risks associated with investing in international and emerging markets.

The value of an investment in the Fund can go down as well as up and possible loss of principal is a risk of investing. Investments in international, emerging and frontier markets involve risks such as economic, social and political instability, market illiquidity, currency fluctuations, high levels of volatility, and limited regulation. Additionally, investing in emerging and frontier securities involves greater risks than investing in securities of developed markets, as issuers in these countries generally disclose less financial and other information publicly or restrict access to certain information from review by non-domestic authorities. Emerging and frontier markets tend to have less stringent and less uniform accounting, auditing and financial reporting standards, limited regulatory or governmental oversight, and limited investor protection or rights to take action against issuers, resulting in potential material risks to investors. 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 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. Pandemics and other public health emergencies can result in market volatility and disruption.

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