Matthews Asia™

Matthews Asia Dividend Fund

Choose a Share Class: Institutiona

Period ended September 30, 2020

For the quarter ending September 30, 2020, the Matthews Asia Dividend Fund returned 17.69% (Investor Class) and 17.71% (Institutional Class), while its benchmark, the MSCI All Country Asia Pacific Index, returned 8.69%.

Market Environment:

Asian equity markets further extended its strong rebound during the quarter. The broad MSCI Asia Pacific Index fully recovered the losses it suffered from the earlier COVID-19 market meltdown, finishing the third quarter with a positive year-to-date return. With an effective control of the pandemic, China has seen its economic recovery pace gain speed. Elsewhere in Asia, a combination of continued monetary easing policy and fiscal stimulus measures provided the much needed backstop to the real economy and bolstered market sentiment. In addition, the U.S. dollar weakened markedly during the quarter against most Asian currencies, another tailwind for emerging markets equity performance.

Performance Contributors and Detractors:

During the third quarter, the Fund posted strong performance driven mainly by positive stock selection and sector allocation. By country, China/Hong Kong and Japan were the top contributors to performance. By sector, consumer discretionary and consumer staples added most to the performance. Minth Group, our largest holding in the Fund, appreciated 52% in the quarter and was among the top performers in the quarter. A leading auto parts manufacturer from China, Minth Group navigated pandemic-related disruptions well and further established its foothold in the global electric vehicle supply chain by gaining key industry leaders as clients. Another top contributor was LIXIL Group, a global supplier of housing fixtures listed in Japan. Under the leadership of CEO Kinya Seto, the company has been refocusing on its core businesses, streamlining cost structure and improving capital allocation. We are optimistic on the company's strategic directions and believe its reforms will boost shareholder returns over the long run.

On the other hand, an underweight in the Philippines and India were slight detractors from relative performance. Additionally, our underweight in the information technology sector also detracted moderately. By individual securities Yuexiu Transport Infrastructure was the top performance detractor. A toll road asset owner in mainland China, Yuexiu's earnings for the first-half of the year were severely impacted by the COVID-19 outbreak. Despite the near-term headwind, Yuexiu's underlying toll road operations started to recover during the third quarter with an improving traffic data. With a cash-generative business model, we believe Yuexiu should be able to restore its earnings power and its dividend growth going into 2021.

Notable Portfolio Changes:

Among the new positions we initiated during the quarter were several regional insurance businesses, namely Dai-ichi Life in Japan, Cathay Financials in Taiwan, and QBE in Australia. As these insurance businesses generally maintain a large fixed-income investment portfolio, their share performance is often sensitive towards a steepening yield curve. From a portfolio construction standpoint, we believe these interest-rate sensitive financial stocks collectively could be used as a "portfolio hedge" against a sudden change of forward-looking inflation expectation and a steepening yield curve, triggered by a potential medical breakthrough of COVID-19 treatment and vaccine and the global economic recovery gaining firm footing.

We exited a few holdings in the consumer staples sector during the quarter, which we either believe the "stay-home" benefits from COVID-19 pandemic have been fully reflected into the company's share price, or the underlying business has deteriorated, making our initial investment thesis no longer valid. These included Sun Art Retail, BGF Retail, and WH Group. We decided to re-deploy capital elsewhere, including funding some of the new positions.

Outlook:

Within the Asian region, while North Asia has been leading the economic recovery effort, Southeast Asia and India are still struggling with an effective control of the virus, making their recovery picture still elusive at this moment.

Externally, the Nov. U.S. election outcome will also undoubtedly influence the post-pandemic economic and geopolitical conditions for Asia. Notwithstanding, corporate earnings in Asia this year have been resilient so far. We see considerable resilience in Asia's dividends, providing global investors with the potential for diversification and growth.

As of September 30, 2020, the securities mentioned comprised the Matthews Asia Dividend Fund in the following percentages: Minth Group Ltd., 6.1%; LIXIL Group Corp., 2.1%; Yuexiu Transport Infrastructure Ltd., 1.2%; Dai-

Average Annual Total Returns - Institutional Class (9/30/2020)

1-year 22.48%
3-year 6.70%
5-year 10.46%
10-year n.a.
Inception (10/29/10) 7.49%

Gross Expense Ratio

0.93%

After fee waiver and expense reimbursement: 0.92% [1]

[1] Matthews has contractually agreed to waive a portion of its advisory fee and administrative and shareholder services fee if the Fund's average daily net assets are over $3 billion, as follows: for every $2.5 billion average daily net assets of the Fund that are over $3 billion, the advisory fee rate and the administrative and shareholder services fee rate for the Fund with respect to such excess average daily net assets will be each reduced by 0.01%, in each case without reducing such fee rate below 0.00%. Any amount waived by Matthews pursuant to this agreement may not be recouped by Matthews. This agreement will remain in place until April 30, 2021 and may be terminated (i) at any time by the Board of Trustees upon 60 days' prior written notice to Matthews; or (ii) by Matthews at the annual expiration date of the agreement upon 60 days' prior written notice to the Trust, in each case without payment of any penalty.

***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.*

Yield as of 9/30/2020

30-day Yield: 1.07%

30-day Yield Excluding Expense Waiver: 1.06%

Dividend Yield: 2.08%
The 30-Day Yield represents net investment income earned by the Fund over the 30-day period ended 9/30/20, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-Day Yield should be regarded as an estimate of the Fund's rate of investment income, and it may not equal the Fund's actual income distribution rate. Source: BNY Mellon Investment Servicing (US) Inc.

The Dividend Yield (trailing) is the weighted average sum of the dividends paid by each equity security held by the Fund over the last 12 months divided by the current price as of report date. The annualised dividend yield is for the equity-only portion of the Fund and does not reflect the actual yield an investor in the Fund would receive. There can be no guarantee that companies that the Fund invests in, and which have historically paid dividends, will continue to pay them or to pay them at the current rates in the future. A positive distribution yield does not imply positive return, and ichi Life Holdings, Inc., 1.4%; Cathay Financial Holding Co., Ltd., 1.5%; QBE Insurance Group, Ltd., 1.4%. The Fund held no positions in Sun Art Retail Group, Ltd., BGF Retail Co. Ltd., or WH Group. Current and future portfolio holdings are subject to change and risk.

past yields are no guarantee of future yields. Sources: FactSet Research Systems, Bloomberg, Matthews

There is no guarantee that a company will pay or continue to increase dividends.

Visit our Glossary of Terms page for definitions and additional information.

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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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