Matthews Asia™

Matthews Asia ESG Fund

Choose a Share Class: Investor

Period ending September 30, 2020

For the quarter ending September 30, 2020, the Matthews Asia ESG Fund returned 13.27% (Investor Class) and 13.29% (Institutional Class), while its benchmark, the MSCI All Country Asia ex-Japan Index, returned 10.79%.

Market Environment:

Asia ex-Japan equities continued their upward trajectory in the third quarter. Many Asian equity markets and currencies rallied as economic activity slowly resumed, with earlier pandemic-related lockdowns easing. Malaysia, South Korea and India were the best performing markets during the quarter, while South East Asian countries like Indonesia and Thailand were laggards. The Chinese renminbi gained on the U.S. dollar, as did the South Korean won and the Indian rupee, while the Thailand baht and the Indonesian rupiah depreciated.

For the second quarter in a row, small caps outperformed large caps suggesting that investors are anticipating broader improvement in economic activity. With an eye toward mitigating the health care and economic impacts of the pandemic, North Asia countries have generally been more successful, coordinated and effective in their public health response. South and Southeast Asia have had a relatively tougher time combatting the virus with intermittent imposition of localized lockdowns. For global equity investors, exposure to Asia provided meaningful diversification in the quarter through access to more varied return drivers, including positive local interest rates, faster normalization of economic activity and rising domestic consumption.

Performance Contributors and Detractors:

Our South Korean Electric Vehicle (EV) battery holdings LG Chem and Samsung SDI were the biggest contributors to performance this quarter. The EV sales have been strong in Europe this year, driven by the EU's regulatory targets for carbon emissions for car makers and also driven by post-COVID stimulus that subsidized EV purchases in many countries across Europe. For both LG Chem and Samsung SDI, Europe is a key end market. The startup of Tesla's China plant also provided boost to LG Chem's sales as a key battery supplier. Both LG Chem and Samsung SDI continue to build their order book and we remain positive on the long-term growth prospects of both those companies. EVs are still at a very nascent stage of penetration and the current industry leaders continue to invest heavily in researching those emerging technologies themselves. LG Chem had a few industrial accidents at their chemical plants this year and we have engaged the company about health and safety improvements. Very recently LG Chem has announced 'M-project'— a large scale safety initiative with a goal of achieving zero major environmental and accidents from 2021.

A detractor was Legend Biotech, a China-based global biotech company with a leading CAR-T cell therapy— a form of immunotherapy that helps patients' T cells to fight cancer—in clinical trials. During the quarter there was news about CEO Frank Zhang being placed under residential surveillance for pending investigation by Chinese customs authorities, dampening investor sentiment toward Legend Biotech. Zhang is also the Chairman of Genscript, the parent company of Legend Biotech. Evidence suggests that the investigation potentially pertains to Genscript's product line and is unrelated to Legend's products and pipeline. Legend Biotech has appointed the CFO as an interim-CEO. We continue to believe that the company is well positioned with its innovative CAR-T cell therapy globally including in the U.S., where Johnson & Johnson's biotech unit Janssen is a partner.

From a country perspective South Korean, Chinese and Bangladeshi holdings contributed most to relative performance during the quarter, while Taiwanese holdings detracted from performance. From a sector perspective, stock selection in financials and industrials contributed to relative performance. On the other hand, stock selection in information technology and consumer discretionary detracted.

Notable Portfolio Changes:

During the quarter, we initiated several new positions, including Marico Industries, a consumer beauty and wellness company in India. Marico is a market leader in key segments of the hair oil industry and also a leader in the healthy cooking oil market in India. Marico, a well-run consumer staples company, benefited from increased demand for its cooking oil products due to COVID-19 induced work from home situation. Its core hair care products also benefit from customers' renewed focus on value. Marico has also rolled out several new products to address the increased hygiene/sanitation needs as well as more emphasis on health and wellness as India gets through COVID-19. The company has an excellent ESG profile spanning areas such as water conservation, renewable energy reliance and responsible packaging policies. The company also procures more than half of their agricultural raw materials directly from farmers and has a track record of extensively and successfully working with farmers to improve productivity. Meanwhile, we exited several small positions, including Kingsoft Cloud, after they had a strong run-up in stock prices during the quarter.

Outlook:

The ongoing pandemic continues to highlight the importance of ESG inputs and outcomes in Asia. Access to health care and gainful employment, for example, are key components for maintaining the region's economic

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

1-year 21.01%
3-year 7.46%
5-year 9.83%
10-year n.a.
Inception (4/30/15) 6.63%

Gross Expense Ratio

1.54%

After fee waiver and expense reimbursement: 1.38% [1]

[1] Matthews has contractually agreed (i) to waive fees and reimburse expenses to the extent needed to limit Total Annual Fund Operating Expenses (excluding Rule 12b-1 fees, taxes, interest, brokerage commissions, short sale dividend expenses, expenses incurred in connection with any merger or reorganization or extraordinary expenses such as litigation) of the Institutional Class (which is offered through a separate prospectus to eligible investors) to 1.25%, first by waiving class specific expenses (e.g., shareholder service fees specific to a particular class) of the Institutional Class and then, to the extent necessary, by waiving non-class specific expenses of the Institutional Class, and (ii) if any Fund-wide expenses (i.e., expenses that apply to both the Institutional Class and the Investor Class) are waived for the Institutional Class to maintain the 1.25% expense limitation, to waive an equal amount (in annual percentage terms) of those same expenses for the Investor Class. The Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement for the Investor Class may vary from year to year and will in some years exceed 1.25%. If the operating expenses fall below the expense limitation in a year within three years after Matthews has made a waiver or reimbursement, the Fund may reimburse Matthews up to an amount that does not cause the expenses for that year to exceed the lesser of (i) the expense limitation applicable at the time of that fee waiver and/or expense reimbursement or (ii) the expense limitation in effect at the time of recoupment. This agreement will remain in place until April 30, 2020 and may be terminated at any time by the Board of Trustees on behalf of the Fund on 60 days' written notice to Matthews. Matthews may decline to renew this agreement by written notice to the Trust at least 30 days before its annual expiration date.

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.*

recovery. From an investment perspective, we believe companies with stronger ESG attributes may be well positioned for long-term growth.

Stepping back from some of the near-term issues in the region, we are encouraged by the progress of economic reforms in Asia. Amid the pandemic, many of Asia's policymakers have accelerated efforts toward further opening capital markets to foreign investments, as well as toward reforming labor laws, giving employers greater flexibility in managing their workforces. While the nature of reforms varies among countries in different stages of economic development, the overall trend is unifying and positive for Asia's capital markets. These economic reforms, combined with rising household incomes and growing domestic consumption, make Asia an attractive destination in our view for long-term equity investors. We continue to look for companies with real cash flows, sound balance sheets and skilled management teams that may offer compelling growth opportunities.

As of 9/30/2020, the securities mentioned comprised the Matthews Asia ESG Fund in the following percentages: LG Chem, Ltd., Pfd., 6.0%; Samsung SDI Co., Ltd., Pfd., 4.1%; Legend Biotech Corp. ADR, 2.3%; Marico, Ltd., 1.5%; The Fund held no positions in Tesla, Genscript, Johnson & Johnson, or Kingsoft Cloud. Current and future portfolio holdings are subject to change and risk.

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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