Matthews Asia

Matthews China Fund

Investor

Commentary

Period ended March 31, 2025

Market Environment

- China was the best-performing major equity market in the first quarter. Offshore markets performed well, due in part to the surprise success of the Chinese artificial intelligence (AI) open-source platform DeepSeek, which upended assumptions about the high-capex dominance of U.S. based-AI services. Xi Jinping's pivot to publicly back China's private sector and big tech firms like Tencent and Albaba also helped bolster offshore markets.
- While offshore markets did well, mainland markets—representative of China's real estate, consumer and export sectors—were largely flat. We have yet to see a pickup in growth in China's domestic economy, as the property market remained challenged and business and consumer confidence remained weak. Consequently, earnings growth of mainland stocks generally stayed subdued and didn't provide a catalyst for equity price upside.

Contributors and Detractors

- For the quarter ended March 31, 2025, the Matthews China Fund returned 10.34%, (Investor Class) and 10.36% (Institutional Class) while its benchmark, the MSCI China Index, returned 15.06% over the same period.
- On a sector basis, the top two contributors to relative performance were utilities due to zero allocation and energy due to stock selection. The top three detractors were information technology (IT), consumer discretionary and real estate due to stock selection.
- The largest contributors to absolute performance included Alibaba Group, an e-commerce platform company, Tencent Holdings, an online gaming and social media conglomerate, and JD.com, a leading e-commerce platform. The top three detractors included BYD Electronic (International) Co., a unit of electric vehicle (EV) maker BYD Company that manufactures mobile handset components, Times China Holdings, a real estate development company, and Lenovo Group Ltd., a maker of PCs and consumer electronics.

Outlook

- U.S. tariff policy and how it impacts China's economy and markets will be an important variable in the outlook for Chinese equities, in our view. Manufacturing sectors that count the U.S. as a major customer will continue to be impacted while domestic-oriented companies should be relatively more insulated.
- The health of China's domestic economy is the biggest factor that will influence the drivers of returns in China. While earnings growth was uneven during the quarter, there were encouraging signs of economic recovery, alongside promising innovation in AI and technology. That said, consumer sentiment is still weak, and for it to strengthen we will need to see stronger job creation and more wealth generation.
- We also view the government's increasingly pro-business stance as a positive, potentially signaling the start of a long-term cycle where private entrepreneurs regain confidence to invest in China's economy. While it's still early, it may be timely. When the global economy is under pressure, we believe domestic-driven economies are more resilient than markets that are heavily exposed to global trade.

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 - MCHFX as of 03/31/2025

1YR	3YR	5YR	10YR	Since Inception	Inception Date
33.74%	-0.13%	1.78%	4.32%	7.92%	02/19/1998

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	1.15%

Investments in Asian securities may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Investing in emerging markets involves different and greater risks, as these countries are substantially smaller, less liquid and more volatile than securities markets in more developed markets. In addition, investments in a single-country fund, which is considered a non-diversified fund, may be subject to a higher degree of market risk than diversified funds because of concentration in a specific country.

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