



Matthews China Small Companies 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 Alibaba 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 Small Companies Fund returned 8.04%, (Investor Class) and 8.17% (Institutional Class) while its benchmark, the MSCI China Small Cap Index, returned 7.62% over the same period.
- On a sector basis, the top three contributors to relative performance were consumer staples, consumer discretionary and real estate due to stock selection. The top three detractors were financials due to stock selection, health care due to an underweight allocation and industrials due to an overweight allocation.
- The largest contributors to absolute performance included Giant Biogene Holding, a skin treatment products manufacturer, ACM Research, a semiconductor equipment company, and NetEase Cloud Music, an online music-streaming platform. The top three detractors included Yangzijiang Shipbuilding Holdings, one of China's largest privately-owned shipbuilding companies, FIT Hon Teng Ltd., a Taiwanese information technology (IT) company, and Alchip Technologies, a silicon design and manufacturing services provider.

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 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 - MCSMX as of 03/31/2025

1YR	3YR	5YR	10YR	Since Inception	Inception Date
13.37%	-7.67%	0.06%	6.60%	4.65%	05/31/2011

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 matthewsasiasia.com

Fees & Expenses

Gross Expense Ratio	1.40%
Net Expense Ratio	1.40%

Matthews has contractually agreed to waive fees and reimburse expenses to limit the Total Annual Fund Operating Expenses until April 30, 2025. Please see the Fund's prospectus for additional details.

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. The Fund is non-diversified as it concentrates its investments in small sized companies. Investing in small- and mid-size companies is more risky and volatile than investing in large companies as they may be more volatile and less liquid than larger companies.

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Investments involve risks, including possible loss of principal. 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, which may adversely affect the value of the Fund's assets. 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 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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