Matthews Asia

Responsible Investment and Stewardship Policy

Matthews Approach to Responsible Investment and Stewardship

As an active asset manager with a long-term investment horizon, Matthews seeks to champion investment solutions designed to build wealth for our global clients over the long term. We believe that consideration of corporate governance and sustainability (i.e., environmental and social) factors in our investment decisions when we believe they are relevant and material, and, along with other factors, is important for long term value creation.

Active ownership, including direct engagement, proxy voting and stewardship, is an integral part of this responsible investment framework. We believe that responsible investing and a deep understanding of governance and sustainability factors can lead to better-informed investment decisions and more effective management of the associated risks. This, in turn, can help deliver better outcomes for our clients and fulfills our fiduciary duty as an investment adviser.

Matthews' approach to responsible investment is based on the view that:

- Flexibility is key as corporate governance, environmental, and social ("ESG") issues are complex and evolving concepts that are not defined in the same way for every strategy and individual investor;
- We invest across many geographies at different stages of development and what may be appropriate for one country and government may not be appropriate for another;
- Transparent corporate governance can attract domestic and foreign capital and enhance economic progress;
- Stewardship and active engagement are integral to responsible investment; and
- Education and continued learning are positive ways to incorporate responsible investment concepts into our research and analysis of the value of a holding.

In certain of our portfolios, referred to as "sustainable investing strategies," governance and sustainability considerations are a central part of portfolio construction. In our sustainable investing strategies, we use governance and sustainability factors to help identify companies that we believe contribute (or have the potential to contribute) to a sustainable future by addressing global environmental, social and/or governance challenges.

In certain other portfolios, or integrated strategies, governance and sustainability considerations are one set of inputs among many that we evaluate, where applicable, as part of our fundamental research. In these integrated strategies, no one factor or input is determinative and risks related to governance and sustainability factors will not necessarily preclude a particular investment.

When considering governance and sustainability factors in our sustainable investing strategies and our integrated strategies, we use a combination of screens and data from various third-party providers and Matthews' own internal analysis to help select what we believe are the most appropriate investments for client portfolios.

While the methodologies used to define governance and sustainability factors or to implement strategies that consider such factors continue to evolve and are subject to change, the current definitions of "E", "S" and "G" and current evaluation methodology used by Matthews are noted below. The definitions and considerations included are indicative of the types of risks and opportunities faced by an issuer that might be created by ESG-related matters. They are not intended to be prescriptive or exhaustive in nature. We define "issuer" as any company or entity that issues the securities held in our portfolios.

Governance

We view governance ("G") as the framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in an issuer's relationship with all its stakeholders (e.g., financiers, customers, management, employees, government, community).

As part of our investment research process, we typically consider an issuer's:

- Track record for allocating capital
- Board quality, diversity and composition
- Alignment of incentives for controlling shareholders, minority shareholders and management
- History of protecting minority stakeholder rights, especially in a crisis
- Ability to attract and retain talent
- Exposure to regulatory, market and other risks
- Management of material environmental and social risk
- Potential for successfully entering new areas of business by leveraging existing strengths

Our process of assessing governance is holistic. We do not believe there is a single optimal model of governance as shareholder structures, regulatory environments and legal frameworks vary across markets; but rather, we focus on the effectiveness of the structure and whether that structure is in line with best practices. We believe governance also influences an issuer's approach to environmental and social risks and opportunities. We seek to engage with portfolio companies where we believe better alignment with best practice may enhance shareholder value.

Environmental and Social

We seek to understand an issuer's impact on society and the environment, its management of human capital, and its use of natural resources, as well as its compliance with international, national, and/or local regulations, where applicable. To do this we use available information (including Third-Party Data and ESG Information as described below), and, where applicable, visits and direct engagement with company management, which enable us to identify what we believe may be material risks related to a company's societal and environmental impact and to understand the ways through which the issuer may seek to manage its material risks.

Environmental

We view the environmental ("E") portion of ESG to typically include consideration of how an issuer stewards natural capital. It involves an issuer's use of natural resources and its impact on the physical environment, including air, water, soil and living things, including its impact on systemic issues such as climate change. For example, we believe that there is more than one way to incorporate climate considerations in portfolios. Focusing on green revenue by investing in climate change mitigation and adaptation enablers or solutions may be relied upon in one strategy, while focusing on portfolio level emissions or intensity metrics may be more appropriate for others. In addition, the stage of development of many emerging countries may present challenges when balancing economic growth, energy security and sustainability. This leads us to avoid a one-size fits all approach.

Social

We view the social ("S") portion of ESG to typically include consideration of the effects of an issuer on human and social capital. It may involve an issuer's workforce, human rights of the people and wellbeing of the communities it touches, supply chain practices, health and safety, and product quality and stewardship.

Matthews' Process of Evaluating Governance and Sustainability Factors

Matthews implements a top-down as well as a bottom-up approach to evaluating governance and sustainability factors. The top-down approach leverages Matthews' in-depth knowledge of local markets which helps us to evaluate and prioritize factors according to their potential impact on holdings in portfolios we manage. The bottom-up approach includes our proprietary investment research, which is more fully described below. The proprietary investment research is typically supplemented with public information, third-party research, third-party ESG metrics/statistics, forensic accounting and specialist governance research, proxy advice and other third-party reports (collectively referred to herein as "Third-Party Data and ESG Information") and meetings typically with one or more of the following stakeholders: company management, employees, customers, suppliers, research, and civic organizations. These meetings are one factor which helps us to gauge the strength and quality of management teams, as well as the viability of an issuer's business model. We also employ norms-based and activities-based screens for certain strategies.

Matthews' investment professionals have the responsibility to include an ESG assessment in research where we believe it is a significant element of the thesis and/or there is material ESG risk. In addition, we expect investment professionals (portfolio managers and research analysts) to pay particular attention to ESG-related risks of top holdings in their portfolios.

Use of Third Party Data and ESG Information

The use of Third-Party Data and ESG Information offers an efficient mechanism to the investment team to access and organize information and provide context in analyzing portfolio holdings and their operating environments. While the third-party data provides a catalyst for further research and discussions, it does not provide the definitive view of an issuer's sustainability performance. Such data may often be used as a tool in the engagement process with issuers. For many of the markets that we invest in, third-party data is not always available or of high quality.

On a monthly basis, the investment team meets with Investment Risk and the Head of Responsible Investment and Stewardship to review relevant ESG-related news and third-party ESG scores, where available, for portfolio holdings. The investment team has the responsibility to review and consider such information as part of their overall analysis of a company where relevant. A low ESG score or rating assigned by a third-party data provider does not necessarily exclude an issuer from a portfolio's investable universe as third-party assessments are often backward looking, infrequently updated and may sometimes lack issuer specific context.

Screening Process

While some of the Matthews' strategies and investment vehicles employ the use of negative screens based on environmental and social risk factors, poor corporate governance will likely exclude an issuer from consideration for our portfolios. In addition, all of our pooled investment vehicles prohibit investment in cluster munitions (this Policy is available on our website).

We can employ tailored screens and exclusions according to specific criteria requested by our separate account clients.

Active Ownership and Engagement

We believe that responsible investing often requires active, direct engagement with portfolio companies throughout the investment lifecycle in order to achieve a more complete understanding of a company's risk and opportunities that may impact its long-term profitability and wealth creation.

As a long-term investor, we seek to build trust and promote open and constructive dialogue with our portfolio companies, with a goal to move toward improvement on issues that impact financial outcomes, including a broad range of governance and sustainability factors. As part of the ordinary course of conducting research on currently held and prospective portfolio companies, we may meet with company management. In such meetings, material governance and sustainability-related issues, among other issues, are discussed with company management to help deepen our understanding of the issuer's practices and goals and to hopefully help enhance shareholder value by sharing our expectations, or where we deem necessary, discussing ways to bring about changes. In addition to the ordinary-course engagement, there may be additional focused engagements to discuss material risks and opportunities which the Matthews team views as not being managed appropriately. (The materiality of the governance and sustainability factors will determine the prioritization of engagement activities.)

When we present our views to an issuer's management to encourage and help the issuer identify potential areas of improvements and the issuer does not respond in a manner that we deem adequate to address our views and undertake changes, we may decide to divest or reduce our holding in the issuer. We do not maintain a prescriptive framework with rigid milestones for engagement escalation because we view every engagement as a unique endeavor and opportunity to better understand any issues we deem to be financially material.

Matthews may decide to engage with issuers on a one-on-one basis or with other financial institutions or organizations as part of a larger collaborative group. The decision on how best to engage is made on a case-by-case basis with consideration of relevant facts. We generally engage in collective stewardship where the companies are large and we have more influence as part of a group, where it is difficult to engage with an issuer individually, or where we are seeking expertise from other organizations. When we consider doing collaborative engagements, we are mindful of the time and resources spent, as well as the possible outcomes that the collaborative engagements could bring to the issuers. In conducting collaborative engagements, we consider and take precautions designed to ensure that rules with respect to shareholder activism and acting in concert are not breached.

Engagement typically involves one of the following methods which may vary by region:

- One-to-one meetings with company representatives (e.g., senior executives, Investor Relations, board members, managers of specialist areas such as a sustainability or environmental manager)
- Written correspondence
- Discussions with company advisers and stakeholders
- Voting
- Collective engagement with other investors
- Events to educate companies or collaborate on new reporting frameworks

The investment team is responsible for engaging with issuers and prospective portfolio companies and is expected to document both individual and collective engagement activities (conversations, correspondence) with issuers and prospective portfolio companies.

Continuous Learning

Matthews' investment team seeks to continuously expand our knowledge of ESG topics and keep abreast of developments in the sustainable investing space. As part of ongoing education, the investment team members receive training from internal and external sources and mentoring regarding ESG integration and analysis, as well as ESG engagements that can contribute to informative dialogue with management as part of the standard research process. In addition, investment team members' performance reviews include an ESG education goal.

Commitments and Reporting

We seek to take an active role in key organizations that we believe can advance and protect the interests of our clients. We strive to maintain active relationships with relevant market institutions, governmental and public bodies that may be helpful for keeping up to date with local legislation and market practice for improving the institutional framework for investors. This includes staying abreast of minority shareholder rights in the markets where we invest, including regulations around influencing management and reporting obligations (i.e., restrictions around shareholder activism such as acting in concert or exercising control). We also support different forums for promotion of good market practice, corporate governance, responsible practices, and other relevant topics that may be in the best interest of our clients.

The firm became a signatory to the United Nations supported Principles for Responsible Investment ("PRI") in February 2016, underlining our firm's commitment to incorporate ESG considerations into our investment process consistent with our fiduciary duty. As a signatory to the PRI, we are committed to reporting our responsible investing activities every year. Our transparency report is publicly available at the following URL address: https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

We strive to provide investors with regular communication about issues that impact financial performance, including ESG topics. To educate and engage our clients, we publish insights, commentaries and articles describing our investment approach and philosophy. Each year we also produce a Stewardship Report, which details Matthews' proxy voting activities and provides examples of our engagement activities throughout the year.

Proxy Voting

As active investment managers, we recognize our responsibility to make considered use of voting rights. For clients who delegate authority to us to vote proxies on their behalf, we have adopted written Proxy Voting Policies and Procedures ("Proxy Policies") to assist us in exercising shareholder voting rights and evaluating shareholder proposals in light of the best interests of our clients.

Matthews has adopted the International Proxy Voting Guidelines of ISS (the "Proxy Guidelines") which establish standing voting instructions for proxy issues. Matthews also retains the services of other independent proxy consultants and considers their proxy voting guidelines and proxy advisory recommendations to augment research in China and India. After careful review and study, the investment team will make a final decision for how to vote the proxies for securities held within their respective portfolios based on all available information, which includes other sources of information such as proxy materials, company engagement discussions, and other third-party research and data.

There may be circumstances under which we believe that it is in the best interest of a client to vote proxies in a manner inconsistent with the Proxy Guidelines. In such event, the Portfolio Management Team has the authority to "override" the Proxy Guidelines; provided that the override is in compliance with the conflicts of interest provisions of the Proxy Policies.

The Matthews investment team is responsible for monitoring and identifying situations that could give rise to a conflict of interest when voting proxies. The Proxy Policies address conflicts of interest arising in the context of proxy voting. Where Matthews itself has a conflict of interest with a specific portfolio or other client on whose behalf it is voting, or the company being voted on, we will follow the voting recommendations of a third-party (which will be the supplier of our proxy voting processing and research service). If Matthews believes it should override the recommendations of the third-party in the interests of a fund/client and vote in a way that may also benefit, or be perceived to benefit, its own interests, then Matthews will obtain the approval of the decision from our CIO with the rationale of such vote being recorded in writing. Matthews will always act in the interests of the specific fund/client.

As a general practice, we typically do not file shareholder proposals, in part due to the substantial variation and complexity around the process of doing so across the countries in which we invest, and in part due to the various than filing shareholder resolutions.

For more information on proxy voting refer to the Matthews Proxy Voting Policy.

Review of Third-Party ESG Research and ESG Data Providers and Oversight of Proxy Voting Advisors

We review our use of Third-Party ESG Research and ESG Data Providers at least annually. We also perform oversight of our proxy voting advisors and benchmark them against peers.

Governance and Oversight

The Responsible Investment and Stewardship ("RI&S") Sub-committee meets quarterly and was established to oversee matters related to corporate engagement, proxy voting, stewardship and active ownership, to promote stewardship and the integration of ESG factors into the investment process, and to assess and advise on any regulatory, reputational, legal and operational risks that may arise with respect to corporate engagement. At least once a year, the RI&S Sub-committee chair updates the Matthews board of directors on its responsible investment progress and strategy, including proxy voting activity.

The Corporate Citizenship and Sustainability Committee ("CCSC"), to which the RI&S Sub-committee reports, monitors Matthews' responsible investing activities. The CCSC is responsible for overall strategic direction of the firm's on-going commitment to environmental protection, occupational health and safety, corporate social responsibility and governance, sustainability, and other public policy matters deemed relevant to the firm.

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