Matthews Asia

Matthews Asia Growth Fund

Investor

Commentary

Period ended December 31, 2024

Market Environment

- Asia fared well in 2024 amid divergent trends between markets. Changing expectations for U.S. interest rates and a fluctuation in the U.S. dollar were big influencers as was the ongoing strength in the artificial intelligence (AI) space.
- After a strong start, India's market experienced a selloff when Prime Minister Modi failed to win a majority in the elections in June, but equities quickly recovered after Modi secured a ruling coalition with allies. Later in the year, the market experienced a small correction as economic expansion eased and there was a downgrade in earnings, particularly in the consumer space.
- Taiwan's market powered ahead through the year thanks to demand for its AI chips while South Korea was one of the biggest underperformers in emerging markets amid softening demand in the auto sector and a cyclical downturn in segments such as heavy industries. The market also experienced volatility after South Korea's president briefly imposed martial law and then was impeached.
- Chinese equities had a volatile start to the year and then rallied through the spring helped by government initiatives to support the property sector. The market sagged through the summer before surging in September as the government unveiled a broad package of stimulus measures aimed at kickstarting a recovery in the real estate market and lifting consumer confidence.
- Japan's market performed well in the first half of the year, supported by capital efficiencies as companies increased dividends and stock buybacks, while the second was marked by volatility. In August, the central bank surprised markets by hiking interest rates into positive territory, triggering a selloff. In October, there was more market uncertainty as Japan's coalition government failed to win a majority in the election and a runoff vote was needed to confirm Shigeru Ishiba as prime minister.

Contributors and Detractors

- For the year ended December 31, 2024, the Matthews Asia Growth Fund returned 8.14%, (Investor Class) and 8.25% (Institutional Class) while its benchmark, the MSCI All Country Asia Pacific Index, returned 10.01% over the same period.
- On a country basis, the top three contributors to relative performance were India and Singapore due to stock selection and the U.S. due to an off-benchmark allocation. The top three detractors were China/Hong Kong due to stock selection, Indonesia due to an overweight allocation and Taiwan due to stock selection.
- On a sector basis, the top three contributors to relative performance were consumer discretionary, industrials and communication services due to stock selection. The top three detractors were financials, health care and utilities due to stock selection.
- The top three contributors to absolute performance included Taiwan Semiconductor Manufacturing Company (TSMC), a leading Taiwanese chipmaker, Hitachi, a Japanese multinational electronics conglomerate, and Zomato, a leading Indian online restaurant booking and food delivery company. The largest detractors included Pinduoduo (PDD), one of China's largest e-commerce platforms that started its businesses with a focus on lower-tier city, price sensitive consumers, Samsung Electronics, a South Korean semiconductor and consumer electronics maker, and Shin-Etsu Chemical, a Japanese chemicals company.

Outlook

- A key narrative for Asia in 2025 could be the scale of the impact of the new Trump administration. Its policies could support a higher dollar, U.S. Treasury yields and interest rates and it could also impose tariffs on countries including China. At the same time, a Trump administration could also stoke a stronger U.S. economy and that's good for global growth and for risk assets.
- After the first quarter, provided there is more clarity on U.S. trade policy as well as from China on its fiscal plans to boost its lackluster economy and real estate sector, we think volatility may subside and the outlook for Asia will improve. Taiwan should continue to benefit from strong demand for AI-related chips while in India we are focused more on financials, large caps and companies with consistent earnings growth where expectations

aren’t so high.
- In Japan, despite the changing macro backdrop, earnings have been resilient and companies are continuing to reform and generate value via buybacks and dividends. Looking ahead, we believe that Japanese equities are driven by earnings, and successful stock picking will be key.
- At the global macro level, we will likely continue to see Federal Reserve rate cuts. This may not be a clear tailwind for Asian markets but will be less of a headwind, in our view. At this juncture, we would say that a large component of returns from the region in 2025 will be backloaded into the second half of the year.

View the Fund’s Top 10 holdings as of December 31, 2024. Current and future holdings are subject to change and risk.

Average Annual Total Returns - MPACX as of 12/31/2024

1YR	3YR	5YR	10YR	Since Inception	Inception Date
8.14%	-9.19%	-1.28%	3.37%	6.67%	10/31/2003

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	1.13%

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 and frontier markets involves different and greater risks, as these countries are substantially smaller, less liquid and more volatile than securities markets in more developed markets.

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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