Matthews Asia

Matthews China Small Companies Fund

Investor

Commentary

Period ended December 31, 2024

Market Environment

- China was one of the best-performing emerging markets in 2024. 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 when the government unveiled a broad and aggressive package of stimulus measures aimed at kickstarting the real estate market, ramping up growth and boosting stock market liquidity.
- During the year, companies listed in China's offshore markets, typically in technology, consumer and ecommerce segments, delivered improvements in earnings growth as they contained costs and bolstered margins rather than chasing revenue and market share. In many cases they were also shrewd managers of capital, buying back shares and increasing dividends.
- The performance of the mainland or A-share market, including consumer staples, real estate, industrials and manufacturing, lagged offshore equities, being more directly impacted by weak demand and the struggling property sector. Manufacturing and industrials-related stocks performed slightly better but they were also affected by a sluggish domestic economy.

Contributors and Detractors

- For the year ended December 31, 2024, the Matthews China Small Companies Fund returned 2.82%, (Investor Class) and 2.97% (Institutional Class) while its benchmark, the MSCI China Small Cap Index, returned 6.82% over the same period.
- On a sector basis, the top three contributors to relative performance were industrials, consumer discretionary and real estate due to stock selection. The top three detractors were materials due to an underweight allocation, information technology (IT) due to an overweight allocation and communication services due to stock selection.
- The top three contributors to absolute performance included Yangzijiang Shipbuilding Holdings, one of China's largest privately owned shipbuilding company, Shenzhen Megmeet Electrical Co., Ltd. Class A, a Chinese industrials company, and Hisense Home Appliances, a household appliance maker. The largest detractors included Peijia Medical, a medical device manufacturing company, Legend Biotech, a global, commercial-stage biopharma company, and Greentown Management Holdings, a construction company.

Outlook

- It was reassuring to see China's leadership introduce measures to encourage economic growth, particularly in easing monetary policy and implementing steps to address weak demand and oversupply in the property sector. More stimulus is anticipated at the National People's Congress in March.
- The key to China's recovery will be how effectively it executes new stimulus initiatives and policies. Meanwhile, the economy will likely face headwinds from a toughening trade posture and an increase in tariffs from the new Trump administration in the U.S. While exports are a small contributor to GDP, a ratcheting up of U.S. tariffs will undoubtedly hurt China's economy.
- Amid negative sentiment over potential U.S. tariffs and uncertainty over the economy's growth prospects, valuations in China's equity market are generally very cheap. We think there is potential for companies in the ecommerce and financials space to continue to improve cost structures, revenue and profitability. For more domestic-focused businesses, the eventual impact of China's ongoing stimulus measures will be more critical—if successful they could provide a meaningful tailwind.

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 - MCSMX as of 12/31/2024

1YR	3YR	5YR	10YR	Since Inception	Inception Date
2.82%	-16.46%	0.52%	5.99%	4.14%	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 matthewsasia.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.

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus or summary prospectus with this and other information about the Funds may be obtained by visiting matthewsasia.com. Please read the prospectus carefully before investing.

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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