Matthews Asia

Matthews Emerging Markets Small Companies Fund

Investor

Commentary

Period ended December 31, 2024

Market Environment

- Emerging markets fared pretty well in 2024 but there were divergent trends within regions and 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 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 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, lifting consumer confidence and improving liquidity in the stock market.
- Latin America was a significant underperformer. Mexico experienced negative sentiment through most of the year in anticipation of, and then in response to, the election of Claudia Sheinbaum as president in June, and the potential impact her reform agenda may have on the private sector. In Brazil, equities underperformed and the Brazilian real declined as the central bank battled inflation and worries mounted over the government's spending and fiscal management.

Contributors and Detractors

- For the year ended December 31, 2024, the Matthews Emerging Markets Small Companies Fund returned -6.07%, (Investor Class) and -5.84% (Institutional Class) while its benchmark, the MSCI Emerging Markets Small Cap Index, returned 5.23% over the same period.
- On a country basis, the top three contributors to relative performance were Vietnam due to an off-benchmark allocation, South Korea and Mexico due to an underweight allocation. The top three detractors were Brazil, China/Hong Kong and India due to stock selection.
- On a sector basis, the top three contributors to relative performance were materials due to an underweight allocation, real estate due to stock selection and energy due to zero allocation. The top three detractors were industrials, consumer discretionary and health care due to stock selection.
- The top three contributors to absolute performance included Shriram Finance, an Indian financial services provider, Full Truck Alliance, a Chinese freight marketplace operator, and Hugel, a South Korean maker of beauty and cosmetics products. The largest detractors included Bandhan Bank, an Indian commercial bank, YDUQS Participacoes, a Brazilian on- campus and distance- learning education company, and Vamos Locacao De Caminhoes Maquinas e Equipamentos, a Brazilian provider of commercial vehicles rental services.

Outlook

- A key narrative for emerging markets 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 and Mexico. 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 of 2025, 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 emerging markets 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.
- At the global macro level, we will likely continue to see Federal Reserve rate cuts. This may not be a clear tailwind for emerging markets but will be less of a headwind, in our view. At this juncture, we would say that a large component of returns from emerging markets 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 - MSMLX as of 12/31/2024

1YR	3YR	5YR	10YR	Since Inception	Inception Date
-6.07%	-2.16%	10.45%	6.30%	10.02%	09/15/2008

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	1.34%
Net Expense Ratio	1.34%

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.

Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange rate fluctuations, a high level of volatility and limited regulation. Additionally, investing in emerging and frontier securities involves greater risks, as these countries are substantially smaller, less liquid and more volatile than securities markets in more developed markets. 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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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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