



Matthews Japan Fund

Investor

Commentary

Period ended December 31, 2024

Market Environment

- Japan had a strong start to the year. In the first quarter, the market surpassed an historical peak set back in 1989 thanks, in part, to capital efficiency reforms that encouraged higher dividends and more buybacks and attracted inflows from global investors.
- As the year progressed, Japanese companies generated robust earnings growth across sectors including financials, energy and utilities, and sentiment was favorable as investors anticipated a Federal Reserve rate-cutting cycle and with it a weakening of the U.S. dollar. That mindset was upended in August when a poorly signaled interest rate-hike by the Bank of Japan blindsided markets and triggered a selloff.
- Markets recovered after the central bank played down its hawkish posture before more uncertainty descended in October when the coalition government failed to win a majority in the election and Shigeru Ishiba needed a runoff vote to be confirmed as prime minister. These two second-half developments, we believe, dissuaded many international investors from seeking or adding exposure to Japan.

Contributors and Detractors

- For the year ended December 31, 2024, the Matthews Japan Fund returned 16.38%, (Investor Class) and 16.48% (Institutional Class) while its benchmark, the MSCI Japan Index, returned 8.68% over the same period.
- On a sector basis, the top three contributors to relative performance were consumer discretionary, industrials and information technology (IT) due to stock selection. The top three detractors were materials due to an overweight allocation, financials due to stock selection and energy due to zero allocation.
- The top three contributors to absolute performance included Hitachi, a multinational electronics conglomerate, Asics, a sportswear maker, and Tokio Marine Holdings, an insurance company. The largest detractors included Shin-Etsu Chemical, a chemicals company, Renesas Electronics, a semiconductor manufacturing company, and Honda Motor, Global manufacturer of motorcycles, automobiles and power products.

Outlook

- Macro developments regarding domestic interest rates and the strength of the U.S. dollar will continue to play a role in influencing sentiment toward Japanese equities in the coming months, in our view. The trade posture of the incoming Trump administration will also likely have an impact.
- But we believe longer term that Japanese equities are driven by earnings and that means successful stock picking will be key in 2025. We will be looking for companies that have good earnings growth which are positioned to beat expectations and whose valuations don't price this in.
- In terms of sectors, we remain cautious on some cyclical areas like autos and non-artificial intelligence (AI)-related semiconductors and are positioned more favorably to areas including banks and financials.

[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 - MJFOX as of 12/31/2024

1YR	3YR	5YR	10YR	Since Inception	Inception Date
16.38%	-0.31%	4.75%	7.44%	5.94%	12/31/1998

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	1.09%
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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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