Sustainable, Responsible and Impact Mutual Fund and ETF Chart

Fund Profile:
Matthews Asia ESG Fund

General Fund Information

Ticker: MASGX

Assets under management (AUM): $54.28M (in US$ millions)

General Fund Type: International, Global, Foreign

Specific Sizes or Types of Investments: The Fund seeks to invest at least 80% of its net assets in the common and preferred stocks of companies of any market capitalization located in Asia, that we believe satisfy one or more of its environmental, social and governance (ESG) standards. The Fund aims to meet its investment objective by investing in well-governed Asian companies that we believe make human or business activity less destructive to the environment, as well as businesses that promote positive social and economic developments. The Matthews Asia ESG Fund does not use negative screening in its assessment of businesses that adopt ESG standards but rather judges each company on its own sustainability merits. Using our criteria of ESG standards, many of the companies and sectors that are traditionally filtered out using negative screening may be suitable investments for the Strategy. Our positive approach to evaluating companies takes the view that there is significant complexity around businesses that makes an exclusionary approach difficult.

To invest, call: 800.789.ASIA (2742)

Fund Institution Information

Institution Name:
Matthews Asia

Mutual Funds Description: Since our founding in 1991, Asia’s economic growth has outpaced that of the rest of the world. For over 25 years, we have witnessed the growth and development of Asia from economic backwater to one of the financial engines of the world, from dictatorships to democracy and seen first-hand the number of investment possibilities increase. Change creates opportunity, and nowhere has change been so profound in the past 25 years as in Asia. Matthews is the largest Asia dedicated investment specialist in the US. We invest in equity and fixed income markets across the region.

Contact info:
4 Embarcadero Center, Suite 550
San Francisco, CA 94111
United States
Email: kathlyn.collins@matthewsasia.com
Web: https://matthewsasia.com/default.fs
Account Minimums

**Minimum Account:** $2,500 Minimum Initial Investment and $100 Subsequent Investments

**Minimum IRA:** $500 Minimum Initial Investment and $50 Subsequent Investments

Methodology

**Screening Venue:** In-house and outside

**Screening Party:** Matthews Asia

**Screening Database Used:** Our initial research seeks to assess the fundamental drivers of a business. The analyst and portfolio manager collaborate to build a spreadsheet that identifies the key drivers of the business over cycles and we take a long look back at historical financials. Matthews Asia utilizes proprietary research and analysis as the primary basis for investment decisions. Matthews Asia’s research and analysis is internally driven (in excess of 70%).

**Screening Process:** The team does not make extensive use of external research services for interpretation of company-related data. External research is generally limited to macroeconomic research and data-gathering on individual companies. Proprietary screening tools are used to measure fundamental criteria and access valuation metrics. With regard to the Matthews Asia ESG Fund, in assessing ESG factors on companies we are researching, portfolio managers and analysts utilize Sustainalytics, MSCI ESG, Thomson Reuters Eikon, CDP, Bloomberg, and RepRisk as well as forensic accounting and governance specialist research to supplement our proprietary research. However, since these screening and research providers do not cover the majority of our universe in some of the small and mid-cap strategies, we primarily rely on our proprietary research and analysis. In addition, the firm makes use of networks through its membership in PRI, the Asian Corporate Governance Association, and the International Corporate Governance Network. The firm also subscribes to various CG/ESG/Sustainability research publications and subscriptions such as Global Proxy Watch, SRI-Connect, and Responsible Investor as well as diligence firms GMT Research, Capital Profile, and Impactt Limited. Proprietary screening tools are used to measure fundamental criteria and access valuation metrics. We use FactSet Research Systems to develop complex screening tools. Matthews Asia’s investment team utilizes FactSet Research Systems as a tool for organizing our research efforts. Proprietary research and analysis produced by portfolio managers and analysts is captured in FactSet, as are notes from company meetings. These research items are accessible to all members of the investment team. Research conducted by other investment team colleagues is a common source of idea generation and an important input for the independent analysis conducted by the portfolio managers and analysts of each strategy. External data, including company accounts through history, price data, ownership information, sell-side research, and some macroeconomic data is also captured in FactSet. FactSet also provides useful tools to manipulate the data to produce complex screening tools. Proprietary screening tools are used to measure fundamental criteria and access valuation metrics.

Proxy Voting Information

**Proxy Voting Guidelines or Policies:** Please refer to page 48 of the Funds’ Statement of Additional Information at https://matthewsasia.com/investor-resources/literature-and-forms.fs

**Proxy Voting Records:** Please refer to page 48 of the Funds’ Statement of Additional Information at https://matthewsasia.com/investor-resources/literature-and-forms.fs

Specific Screening Information by Category

Environment

- **Climate / Clean Technology:** *Positive Investment* - The key ESG characteristics we look for related to Climate / Clean technology are low environmental footprint, energy efficiency (mobility, production), waste to energy, efficient consumption, renewable energy, and sustainable supply chain. As part of our analysis, we look closely at CDP data along with any relevant statistical information that will be evaluated. We look to understand how a company’s business mitigates emissions and the materiality of its contextualized overall carbon footprint. We also look to invest in businesses that seek to actively address climate change by reducing carbon emissions and providing energy efficient products and solutions, e.g. mass transit systems fit this criterion whether operators or designers. Also, there is a general preference for intellectual property intensive and asset light businesses and business models that
tend to naturally have lower carbon footprint per unit of output.

- **Pollution / Toxics: Combination of Positive and Restricted/Exclusionary Strategies** - Pollution alleviation is one of the key ESG characteristics we look for.

- **Other Environmental: Combination of Positive and Restricted/Exclusionary Strategies** - We define ESG integration as taking an “investment-first” approach to building an ESG portfolio. We pay equal attention to a company’s ESG record and its long-term return potential. The Fund takes a non-exclusionary approach to investing and seeks to invest in companies that improve quality of life over the long term, e.g., companies that operate with low environmental footprint, or strong labor practices and/or offer services and products that reduce environmental impact, promote inclusion, enhance health, and provide societal benefits while offering solutions within the context of the sectors and countries they operate in. A natural result of this approach is that there are sectors and industries that we are far less likely to invest in, such as oil, tobacco, defense, gambling and alcohol. However, we will consider companies that we believe are truly transformative and act as leaders of change. The stock selection process takes into consideration 29 ESG factors that the portfolio managers believe help identify companies with superior business models. There are no universally agreed upon objective standards for determining suitable ESG factors. Rather, these factors tend to have many subjective characteristics, can be difficult to analyze, and frequently involve a balancing of a company’s business plans, objectives, actual conduct and other factors. ESG factors can vary over different periods and can evolve over time. They may also be difficult to apply consistently across regions, countries, industries or sectors. For these reasons, ESG standards may be aspirational and tend to be stated broadly and applied flexibly. Businesses that meet one or more of the Fund’s ESG standards are generally businesses that currently engage in practices that make, or have the potential to make, human or business activity less destructive to the environment or businesses that promote positive social and economic developments. There can be no guarantee that a company that Matthews Asia believes meets one or more of the strategy’s ESG standards will actually conduct its affairs in a manner that is less destructive to the environment, or that promotes positive social and economic developments. The investment team intends to engage its portfolio companies on ESG matters through active dialogue and proxy voting and by encouraging enhanced ESG disclosure.

### Social

- **Community Development: Positive Investment** - Community relations, inclusion (health care, housing, education, age) are key ESG characteristics we look for.

- **Diversity & Equal Employment Opportunity: Positive Investment** - The key ESG characteristics we look for related to Diversity & EEO are gender inclusion and workplace diversity.

- **Human Rights: Combination of Positive and Restricted/Exclusionary Strategies** - Human rights is one of the key ESG characteristics we look for.

- **Labor Relations: Combination of Positive and Restricted/Exclusionary Strategies** - Employee welfare is one of the key ESG characteristics we look for.

- **Conflict Risk: Combination of Positive and Restricted/Exclusionary Strategies** - This is an ESG risk that we evaluate in portfolio companies where material.

### Governance

- **Board Issues: Combination of Positive and Restricted/Exclusionary Strategies** - Share of independent board directors is one of the key ESG characteristics we look for. We look for multiple positive ESG attributes within a company with a prerequisite being that all companies within the portfolio maintain a high level of corporate governance.

- **Executive Pay: Combination of Positive and Restricted/Exclusionary Strategies** - Interest alignment between shareholders and management is one of the key ESG characteristics we look for. We look for multiple positive ESG attributes within a company with a prerequisite being that all companies within the portfolio maintain a high level of corporate governance.

### Products

- **Alcohol: Combination of Positive and Restricted/Exclusionary Strategies** - The Matthews Asia ESG Fund follows an investment first/positive screen-type process. We do not explicitly exclude stocks but conceptually rank and order our universe based on a series of cash flow metrics and then compare exposure to over 29 ESG factors which we focus on for further analysis. From the initial approximately 9,000 companies in the universe, we select roughly 40-70 names. Therefore, we believe that it is highly unlikely that problem companies and sectors will end up in the portfolio given the ratio of positions to the investable universe. The Fund takes a non-exclusionary approach to investing and seeks to invest in companies that improve quality of life over the long term, e.g., companies that operate with low environmental footprint, or strong labor practices and/or offer services and products that reduce environmental impact, promote inclusion, enhance health, and provide societal benefits while offering solutions within the context of the sectors and countries they operate in. A natural result of this approach is that there are
sectors and industries that we are far less likely to invest in, such as oil, tobacco, defense, gambling and alcohol. However, we will consider companies that we believe are truly transformative and act as leaders of change.

- **Animal Welfare: Combination of Positive and Restricted/Exclusionary Strategies** - The Matthews Asia ESG Fund follows an investment first/positive screen-type process. We do not explicitly exclude stocks but conceptually rank and order our universe based on a series of cash flow metrics and then compare exposure to over 29 ESG factors which we focus on for further analysis. From the initial approximately 9,000 companies in the universe, we select roughly 40-70 names. Therefore, we believe that it is highly unlikely that problem companies and sectors will end up in the portfolio given the ratio of positions to the investable universe.

- **Defense/Weapons: Restricted/Exclusionary Investment** - A natural result of our investment approach is that there are sectors and industries that we are far less likely to invest in, such as oil, tobacco, defense, gambling and alcohol. The Funds are prohibited to invest in public or private companies that manufacture cluster munitions.

- **Gambling: Combination of Positive and Restricted/Exclusionary Strategies** - A natural result of our investment approach is that there are sectors and industries that we are far less likely to invest in, such as oil, tobacco, defense, gambling and alcohol.

- **Tobacco: Combination of Positive and Restricted/Exclusionary Strategies** - A natural result of our investment approach is that there are sectors and industries that we are far less likely to invest in, such as oil, tobacco, defense, gambling and alcohol.

**Other**

- **Other/Qualitative** - Fundamental research and due diligence on companies is the most important part of our investment process. Actionable Research Universe The investment process begins with a systematic screening of over 9,000 companies (as of May 2019) within the Asia Pacific region typically having a market cap in excess of $300 million and a daily traded value over $500,000. Idea Generation Key sources for idea generation include: â€¢ Proprietary fundamental and thematic screens â€¢ Research visits to Asia which include meetings with company management, industry experts, consultants, and economic experts. We seek to understand the ecosystem in which a company operates and this often leads us to new ideas about business models or specific companies worth researching. â€¢ Matthews Asia investment team meetings that include impromptu discussions generating research ideas. â€¢ External research or broker interaction may highlight certain ideas. Occasionally, we find one of these ideas worthy of further research. ESG Quality and Factor Integration The resultant screened pool of 600-700 companies is then evaluated using our ESG criteria considerations. We feel that the available 3rd party data providersâ€™ coverage of the ESG investment universe is inadequate; therefore the majority of our ESG screening is performed using our long-standing process of company due diligence which allows for a deeper understanding of a companyâ€™s adoption of ESG characteristics. We look for multiple positive ESG attributes within a company with a prerequisite being that all companies within the portfolio maintain a high level of corporate governance. In February 2016, Matthews Asia became a signatory to the United Nations-supported Principles for Responsible Investment (UN PRI) underpinning the firm's commitment to incorporate environmental, social and governance (ESG) considerations into its investment process.

- **Shareholder Engagement - Private Dialogue** - Conducted with companies on environmental, social or governance issues

- **Description of Shareholder Engagement** - Matthews Asia uses strategic engagement and shareholder advocacy to encourage positive changes in ESG matters at its portfolio companies. For example, we may engage in active dialogues with company management regarding ESG matters. We use our voice and influence as an institutional shareholder to encourage positive change within the companies whose shares we own. As Asia investment specialists, we have invested in the region since 1991 and are often one of the largest shareholders in company registries. In 2018 we had roughly 2,700 touchpoints throughout the region in the form of company, supplier, customer, regulator and other stakeholder meetings. With a large team that has a strong background in Asia, we are fluent in the regionâ€™s languages and familiar with its cultures. Respectful of Asiaâ€™s diverse cultural landscape, we typically do not take a Western-style, confrontational approach to company engagement. Rather, we prefer in-person engagement, which we find more productive within Asia than, for example, filing shareholder resolutions. As a long-term shareholder, we seek to build trust and promote open dialogue with our investee companiesâ€”a trust that we believe has helped us move our investee companies in the right direction on issues that impact financial outcomes, including a broad range of ESG factors. In addition to direct engagement with portfolio companies, our goal is to take a thoughtful and conscientious approach to voting proxies on behalf of our clients. As a starting point, we consider input and recommendations from Institutional Shareholder Services, Inc. (ISS), an independent firm analyzing proxy voting issues and global best practices. For our Indian holdings, we also subscribe to a local proxy advisor, SES, and consider their recommendations as well. After careful review and study, portfolio managers will make a final decision on how to vote the proxies for securities held within their respective portfolios. We may occasionally diverge from ISS recommendations for voting decisions when we believe a different vote is in our clientsâ€™ best interest.
Performance Data

Data provided by: Bloomberg - Information current as of January 31, 2020

Year-to-date rate of return: -3.79%
1-year rate of return: 2.14%
3-year rate of return: 7.77%
5-year rate of return: --
10-year rate of return: --
Previous year rate of return: 12.54%
Management fee: 0.66%
Expense ratio: 1.5%
Standard deviation: 10.92%

Benchmark used: MSCI All Country Asia ex-Japan Index | External link

Disclaimer: Past performance is no guarantee of future results. Current performance may be lower or higher than the return figures quoted. Investment involves risk, including possible loss of principle. You should carefully consider the investment objectives, risks, charges and expenses before making an investment decision. A prospectus with this and other information about the Fund may be obtained by calling 800-789-ASIA (2742) or visiting matthewsasia.com. Please read the prospectus carefully as it explains the risks associated with investing in international and emerging markets. These include risks related to social and political instability, market illiquidity and currency volatility. Investing in foreign securities may involve certain additional risks, exchange rate fluctuations, less liquidity, greater volatility and less regulation. ESG factors can vary over different periods and can evolve over time. They may also be difficult to apply consistently across regions, countries or sectors. There can be no guarantee that a company deemed to meet ESG standards will actually conduct its affairs in a manner that is less destructive to the environment, or promote positive social and economic developments.