

# Matthews Asia Funds | Annual Report

31 March 2016

## ASIA FIXED INCOME STRATEGIES

Asia Strategic Income Fund  
Asia Credit Opportunities Fund

## ASIA GROWTH AND INCOME STRATEGIES

Asia Dividend Fund  
Asia ex Japan Dividend Fund  
China Dividend Fund

## ASIA GROWTH STRATEGIES

Asia Focus Fund  
Pacific Tiger Fund  
China Fund  
India Fund  
Japan Fund

## ASIA SMALL COMPANY STRATEGIES

Asia Small Companies Fund  
China Small Companies Fund



Matthews Asia

Société d'investissement à Capital Variable  
Luxembourg

RCS Luxembourg B 151 275



## General Information

Matthews International Capital Management, LLC (“Matthews”), formed under the laws of Delaware and regulated by the U.S. Securities and Exchange Commission, acts as Investment Manager to the Matthews Asia Funds (the “Fund”). Matthews believes in the long-term growth of Asia. Since Matthews was founded in 1991 by Paul Matthews, the firm has focused its efforts and expertise within the Asian region, investing through a variety of market environments. As an independent, privately owned firm, Matthews is the largest dedicated Asia investment specialist in the United States.

The Fund has an “umbrella” structure comprising a number of separate Sub-Funds. As at the closing date, 12 Sub-Funds were available for investment: Asia Dividend Fund, China Dividend Fund, Pacific Tiger Fund, China Fund, India Fund, Japan Fund, China Small Companies Fund, Asia Small Companies Fund, Asia Focus Fund, Asia ex Japan Dividend Fund, Asia Strategic Income Fund and Asia Credit Opportunities Fund. This report covers the year from 1 April 2015 to 31 March 2016. The last day on which official prices were calculated was 31 March 2016. The figures presented in the financial statements are as at that date.

The annual general meeting of Shareholders will be held at the registered office of the Fund in Luxembourg on the third Tuesday of the month of August of each year at 2:00 p.m. or, if any such day is not a Business Day in Luxembourg, on the next following Business Day; or, following notice to Shareholders, on such other day as determined by the Fund’s Board of Directors. Notices of all general meetings will be published to the extent required by Luxembourg Law, and in such other newspaper as the Board of Directors shall determine and will be sent to the Shareholders of registered Shares in accordance with Luxembourg Law to their addresses shown on the register of Shareholders. Such notices should include the agenda and will specify the time and place of the meeting and the conditions of admission. They will also refer to the rules of quorum and majorities required by Luxembourg Law.

Each Share confers the right to one vote. The vote on the payment of a dividend on a particular Class requires a separate majority vote from the meeting of Shareholders of the Class concerned. Any change in the Articles of Incorporation affecting the rights of a Sub-Fund must be approved by a resolution of both the Shareholders at the general meeting of the Fund and the Shareholders of the Sub-Fund concerned.

Annual reports and audited financial statements shall be published within four months following the end of the accounting year and unaudited semi-annual reports shall be published within two months following the period to which they refer. The annual reports and the semi-annual reports shall be made available at the registered office of the Fund during ordinary office hours.

The Fund’s accounting year ends on 31 March in each year.

The Base Currency of the Fund is U.S. dollars (USD). The aforesaid reports will comprise combined accounts of the Fund expressed in USD as well as individual information on each Sub-Fund expressed in the Base Currency of each Sub-Fund.

Shares have not been registered under the United States Securities Act of 1933, as amended, nor the Investment Companies Act of 1940, as amended, and may not be offered directly or indirectly in the United States of America (including its territories and possessions) to nationals or residents thereof or to persons normally resident therein, or to any partnership or persons connected thereto unless pursuant to any applicable statute, rule or interpretation available under United States Law.

The Board of Directors confirms adherence to the ALFI Code of Conduct for Luxembourg investment funds.

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Cover photo: Karaweik Palace in Yangon, Myanmar

*This report does not constitute or form part of any offer of shares or an invitation to subscribe for shares of Matthews Asia Funds (the "Fund"). Subscriptions are to be made on the basis of the Key Investor Information Documents (KIID) accompanied by the current full prospectus, and supplemented by the latest Annual Report, including Audited Financial Statements, or the most recent Semi-Annual Report.*

*The views and opinions in this report were current as at 31 March 2016. They are not guarantees of performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and the managers reserve the right to change their views about individual stocks, sectors and the markets at any time. As a result, the views expressed should not be relied upon as a forecast of a Fund's future investment intent.*

*The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation. Matthews International Capital Management, LLC does not accept any liability for losses either direct or consequential caused by the use of this information.*

*The most current Key Investor Information Documents, full prospectus, and most recent Semi-Annual Report and Annual Report for the Fund, can be found at [global.matthewsasia.com](http://global.matthewsasia.com). Please read the Key Investor Information Documents and current full prospectus carefully before investing.*

*In Singapore, this document is available to, and intended for Institutional Investors under Section 304 of the SFA (Securities and Futures Act), and to Relevant Persons pursuant to section 305 of the SFA, as those terms are used under the relevant law.*

# Matthews Asia Funds

## *Management and Administration*

### **BOARD OF DIRECTORS**

#### **Chairman**

William J. Hackett, Chief Executive Officer  
Matthews International Capital Management, LLC  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111, United States of America

#### **Directors**

Richard Goddard, Independent Director  
The Directors' Office, S.A.  
19, rue de Bitbourg, L-1273 Luxembourg  
Grand Duchy of Luxembourg

John P. McGowan, Head of Fund Administration  
Matthews International Capital Management, LLC  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111, United States of America

Timothy B. Parker, Director, International Strategy, Product  
and Operations  
Matthews International Capital Management, LLC  
Two Pacific Place, Suite 3602  
88 Queen's Way, Admiralty, Hong Kong

#### **Conducting Officers**

Richard Goddard  
Timothy B. Parker

### **INVESTMENT MANAGER AND GLOBAL DISTRIBUTOR**

Matthews International Capital Management, LLC  
Four Embarcadero Center, Suite 550  
San Francisco, CA 94111, United States of America

### **INVESTMENT ADVISOR**

Matthews Global Investors S.à r.l.  
19, rue de Bitbourg  
L-1273 Luxembourg  
Grand Duchy of Luxembourg

### **CUSTODIAN, ADMINISTRATIVE AGENT AND LISTING AGENT**

J.P. Morgan Bank Luxembourg S.A.  
European Bank & Business Centre  
6c, route de Trèves  
L-2633 Senningerberg  
Grand Duchy of Luxembourg

### **CABINET DE REVISION AGREE**

Deloitte Audit  
*Société à responsabilité limitée*  
560, rue de Neudorf  
L-2220 Luxembourg  
Grand Duchy of Luxembourg

### **LEGAL ADVISOR**

Elvinger, Hoss & Prussen (until 7 March 2016)  
2, Place Winston Churchill  
L-1340 Luxembourg  
Grand Duchy of Luxembourg

Arendt & Medernach (from 8 March 2016)  
41A, avenue J.F. Kennedy  
L-2082 Luxembourg  
Grand Duchy of Luxembourg

### **REGISTERED OFFICE**

J.P. Morgan Bank Luxembourg S.A.  
European Bank & Business Centre  
6c, route de Trèves  
L-2633 Senningerberg  
Grand Duchy of Luxembourg



## Investment Manager's Report

Dear Valued Investors,

It's not politics as usual in Asia, unfortunately. What do I mean by that? Well, over the past decade or so, Asia has been notable for the reformist governments that it put in place. I have mentioned this in past communications. Governments in Asia appear to me, on average, to be more inclined to push for productivity-enhancing improvements in the economy—capital market reform, an increased role for market prices, deregulation, democratization and new legal structures. China has been the standard bearer of much of this reform, and is being used as a model for the least wealthy countries, such as Myanmar, Vietnam and Cambodia, as they start on the road to wealth creation. But what is going on? China seems to be backtracking and Asia is faltering. Is it all as bad as it seems? I would argue not. I think one has to separate the short-term political maneuvering, which is heavily influenced by the economic cycle, from the longer-term trend. Asia is still the home of reform.

First, let's discuss the cycle. Tighter monetary policy in the U.S. and slowing domestic Asian economies are impacting corporate profitability and sentiment in Asia. Governments naturally want to react to this by boosting domestic demand. And for the most part, they are able to do so by fiscal or monetary policy, particularly since current account deficits are positive and rising, U.S. dollar debt is under control and domestic inflation is low. We have seen interest rate cuts in Taiwan, Indonesia and New Zealand, while South Korea maintained its policy rate at a low 1.5%. China has been cutting reserve requirement ratios. We have seen Thailand using tax cuts and infrastructure spending as a way to spur demand. Indonesia, too, seems to be doing a better job on infrastructure.

To be honest, there are some disturbing signs for reformists. Despite the good reform-related headlines coming out of India (relative to China at least), India seems to be stuck in the mud. Headlines from the India Times, such as, "Big reform: Modi government plans to redeploy bureaucrats and reduce patronage postings" do not necessarily fill me with optimism. These are good reforms, yes, but in the larger scheme of things, they may not be that crucial. They may be a sign that reform has to concentrate on the central bureaucracy because that is where Prime Minister Narendra Modi has control; outside of that bureaucracy, perhaps his influence is weak in the states, which he needs for national economic reform. Modi has been unsuccessful at reforming land acquisition laws that would help clear the legal obstacles in the way of implementing an infrastructure program (funding would still be an issue).

Elsewhere, despite glimmers of hope and some improved rhetoric around corporate governance and increasing dividend payments in South Korea and Japan, implementation across firms remains patchy. Old habits die hard. And it is difficult for companies with conservative management teams to break from the old tradition of hoarding cash for the bad times and investing in new, exciting non-core businesses as a means of self-protection. It is particularly difficult for them to do so when they feel threatened by an environment of slower growth. In Thailand, the military government is trying to craft a new constitution that has been criticised for reducing basic freedoms and trying to create new emergency powers wielded by the executive.

Of course, the headlines tend to focus on China. And here it seems that the government is backtracking on reform—tightening capital controls and slowing the pace of financial market reform. But I think this is largely tactical. We have spoken about this before. China has been trying to balance three aims—a freely tradeable currency, a stable exchange rate and an appropriate domestic monetary policy. But you cannot have all three. If your currency is freely tradeable and you increase (or decrease) the supply of your currency, the market will depreciate (or appreciate) your currency. If you wish to fix the currency and allow it to be freely traded, then you have to adjust the



## Investment Manager's Report *(Continued)*

money supply to balance the foreign exchange market—but that might not be optimal for your domestic economy. And if you wish to have the right monetary policy and a stable exchange rate, well, you cannot let people trade the currency freely. And that is the decision the Chinese have made. They value a stable currency and an appropriate domestic monetary policy over a freely traded renminbi. So be it. But I believe this is just a tactical response to the market's weak sentiment toward the Chinese currency. It does not mean a rolling back of reforms. The Chinese government remains committed to making capital allocation more efficient across the economy, raising the role of the market, and making the financial system work better for its ordinary citizens. It just cannot push forward with all of the reforms right now.

Despite all of this, however, our analysts and portfolio managers see signs for optimism. In Indonesia, President Joko "Jokowi" Widodo might have stabilised his control over government, and is looking to spend about US\$400 billion from 2015 to 2020 on infrastructure. Foreign companies appear to be responding positively—Indonesia attracted some US\$29 billion in foreign direct investment in 2015. Countries like Vietnam and Myanmar continue to push for basic market reforms. Myanmar has been looking once more to establish a stock exchange. And in Japan, despite the patchy corporate reforms, we have seen some aggressive policy initiatives from its central bank, which in many respects is taking the lead in unconventional monetary stimulus globally. So Asia's reform process has not halted. It continues apace in many countries, in others it has tactically slowed. But the reform process remains there in the background.

Now, how do we deal with this in our portfolios? It would be tempting to think one could time the political cycles and invest in companies with government "backing." But that is hard to do—and treacherous. Rather, in my colleague Sunil Asnani's own words about the Matthews India strategy, we try to buy "policy-agnostic companies." A good company can survive without the patronage of the state. In fact, it is difficult to grow sustainably and efficiently if you rely on such backing. And so, whilst we keep a keen eye on the political climate in the region, we try not to forget that it is the companies themselves, and our ability to analyze and value them sensibly, that dictate investment returns over the long run.

Robert Horrocks, PhD  
Chief Investment Officer  
Matthews Asia



## Report of the Réviseur d'entreprises agréé To the Shareholders of Matthews Asia Funds

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Société à responsabilité limitée  
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Following our appointment by the general meeting of the Shareholders dated 18 August 2015, we have audited the accompanying financial statements of Matthews Asia Funds (the "SICAV") and each of its Sub-Funds, which comprise the Statements of Assets and Liabilities and the Schedule of Investments as at 31 March 2016 and the Statement of Operations and Changes in Net Assets for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

### Responsibility of the Board of Directors of the SICAV for the financial statements

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Matthews Asia Funds and of each of its Sub-Funds as at 31 March 2016, and of the results of their operations and changes in their net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

### Other matter

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

For Deloitte Audit, *Cabinet de révision agréé*

Luxembourg, 28 June 2016

Johnny Yip, *Réviseur d'entreprises agréé*

Partner



#### PORTFOLIO MANAGERS

**Teresa Kong, CFA**  
Lead Manager

**Gerald M. Hwang, CFA**  
Co-Manager

**Satya Patel**  
Co-Manager

## Asia Strategic Income Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews Asia Strategic Income Fund returned 1.84%, while its benchmark, the HSBC Asian Local Bond Index (ALBI)\* returned 2.69%.

#### **Market Environment:**

The year ended 31 March 2016 was a challenging one in Asian fixed income. All three key drivers of risks and return—credit, currencies and interest rates—experienced substantial volatility, with periods of marked weakness in August and September of 2015, and then in January and February of 2016. Most Asian currencies started the reporting period on a steady depreciation path with a brief recovery in October, then continued to decline at the start of 2016 before recovering in March. The Sri Lankan rupee was the hardest hit of the Asian currencies, following a politically challenging year with elections and potentially destabilising populist measures by the new government. The Thai baht also depreciated as the economy continued to face headwinds following the country's military coup. However, commodity-linked currencies like the Malaysian ringgit, Indonesian rupiah and Australian dollar finally stabilised as commodity prices rebounded in the first quarter of 2016. Across Asia, central bankers continued to respond to slower growth and mild inflation by cutting interest rates gradually over the course of the year. Growth in China continued to slow, taking growth rates in Asia lower as well, and leading to widespread easing. China, India, Indonesia, Korea, Thailand and New Zealand all cut interest rates between 0.5% and 1.25%, diverging from the U.S.'s path of rate hikes and policy normalisation. Lastly, credit spreads widened over the course of the year, in both investment grade and sub-investment grade credit. Of note, in the second half of the first quarter of 2016, Asian currencies and credit spreads rallied sharply. Several developments likely contributed to the reversal in sentiment. First, the U.S. Federal Reserve reiterated a gradual path of rate hikes given the tepid economic recovery and heightened external risks. Second, Chinese policymakers reaffirmed their commitment to maintaining a stable renminbi and an orderly rebalancing of the economy. Lastly, commodities bottomed following talks of potential production freezes and inventory drawdowns.

#### **Performance Contributors and Detractors:**

The biggest contributors to Fund performance for the year ending 31 March 2016 were our holdings in U.S. dollar-denominated bonds. Within USD-denominated debt, bonds from issuers in property companies in China and banks in Sri Lanka performed particularly well. Chinese property companies performed well as the sector rebounded from an unexpected default in early 2015. Chinese property companies also benefited from access to the onshore bond market and its relatively low cost funding. Banks in Sri Lanka also performed well as the country moved past its elections and an arrangement with the IMF aimed at ensuring economic stability became increasingly likely. Convertible bonds also performed well in the quarter as solid performance of the underlying companies drove returns. The Fund's tilt towards USD-denominated debt drove its outperformance versus the local currency ALBI benchmark.

The biggest detractors to Fund performance in the year ending 31 March 2016 were our investments in dividend-paying equities of Asian companies. While our equity positions are typically small in size relative to our bond positions due to their higher volatility, the underlying equities underperformed, making equities the only negatively contributing asset class over the year.

\* As of 1 May 2016, the HSBC Asian Local Bond Index became the Markit iBoxx Asian Local Bond Index.





### Notable Portfolio Changes:

We made several notable changes to the portfolio in the year. The first was the reduction in our underweight to select Asian currencies. Emerging market countries globally saw their currencies depreciate significantly against the U.S. dollar since 2013. While we think that countries that are large commodity exporters have seen a deterioration in their terms of trade conditions, we do not think many of the Asian countries deserve such a severe depreciation. This includes the Singaporean dollar, the South Korean won, the Thai baht and the Malaysian ringgit. As such, we added to our exposure to these currencies through currency forward contracts. We also trimmed our position in dim sum bonds to reduce our Chinese currency exposure, while adding to long-dated Indian rupee denominated bonds in anticipation of both currency stability and interest rate cuts by the Reserve Bank of India.

We also took advantage of the widening in credit spreads by adding contingent convertible securities of banks. We believe that both HSBC and Standard Chartered were being too severely punished as they were categorised as UK/European banks. While many European banks are facing serious erosion in profitability in Europe's negative interest rate environment as well as business risks stemming from a potential exit of Britain from the European Union, or "Brexit", a handful of these banks have more exposure to Asia than Europe. Both HSBC and Standard Chartered are largely exposed to Asia and were offering higher yields than inferior banks in Asia. We funded these purchases by selling low-yielding bonds from companies in the Philippines and Australia.

### Outlook:

We believe that the next three years will be very different than the previous three years in Asia. Investing in more volatile fixed income assets that have suffered the most, like sub-investment grade Asian bonds, may carry less risk than buying U.S. Treasuries today. The combination of the higher yield and the lower empirical sensitivity of sub-investment grade Asian credits to interest rates changes make these securities especially compelling. "Risk-free" U.S. Treasuries on the other hand, with the 10-year bond yielding less than 2%, have substantially more downside because these securities are more sensitive to interest rate changes than Asian securities. To sum up, we think credit spreads have peaked and the sub-investment grade sector offers tremendous value for investors with a long-term holding period.

On currencies, we believe that the strong U.S. dollar regime is largely behind us, with Asian currencies appreciating relative to the USD. In the past, rate hikes in the U.S. often marked a peak for USD strength. However, we know that currency markets are hanging on every U.S. Federal Reserve statement as the recent revision from the "dot plot" of four hikes to two led to an almost instantaneous sell-off of the U.S. dollar. If the U.S. economy strengthens more relative to the rest of the world, allowing the Fed to hike rates faster than expected, the U.S. dollar might resume its appreciation versus Asian currencies.

On interest rates, we believe the Fed will continue on a moderate rate hiking path this year. We believe Asian countries will continue to have lower to stable rates as most countries have seen moderating inflation with slow growth, providing room for policy makers to continue easing. We believe Indonesia and India both have room for more interest rate cuts which should support their local currency bond prices.

No doubt we are in a period of heightened volatility, driven by uncertainty in the path of U.S. rate hikes, Europe's large dispersion in growth, Japan central bank's extraordinary easing policies, and, last but not least, China's slower growth, which have negatively impacted commodities. Despite that, we believe much of the downside risks have been priced in and think Asia bonds offer better value than they have in the last few years. It takes a lot of intestinal fortitude to buy when the majority is selling. But at today's downtrodden prices, we believe there is more room for upside than downside for investors with a long-term investment horizon.

*Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. 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.*

## Schedule of Investments

Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets	Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>					<b>SINGAPORE</b>				
<b>BONDS</b>					Global Logistic Properties, Ltd., 3.375%, 05/11/2016				
<b>CHINA/HONG KONG</b>					CNH	2,000,000	308,480	3.02	
Longfor Properties Co., Ltd., 6.875%, 10/18/2019	USD	200,000	210,750	2.07	<b>308,480 3.02</b>				
MCE Finance, Ltd., 5.000%, 02/15/2021	USD	300,000	285,000	2.79	<b>SOUTH KOREA</b>				
Shimao Property Holdings, Ltd., 6.625%, 01/14/2020	USD	300,000	312,900	3.07	Korea Treasury Bond, 3.500%, 03/10/2024				
Standard Chartered, PLC 6.50%, 12/31/2049	USD	300,000	262,533	2.57	KRW	300,000,000	296,112	2.90	
Wynn Macau, Ltd., 5.250%, 10/15/2021	USD	400,000	378,000	3.71	<b>296,112 2.90</b>				
Yum! Brands, Inc., 5.350%, 11/01/2043	USD	300,000	227,318	2.23	<b>SRI LANKA</b>				
			<b>1,676,501</b>	<b>16.44</b>	DFCC Bank, 9.625%, 10/31/2018				
					USD	400,000	409,508	4.02	
					National Savings Bank, 8.875%, 09/18/2018				
					USD	500,000	523,587	5.13	
					Republic of Sri Lanka, 6.125%, 06/03/2025				
					USD	200,000	182,750	1.79	
					<b>1,115,845 10.94</b>				
					<b>VIETNAM</b>				
					Socialist Republic of Vietnam, 4.800%, 11/19/2024				
					USD	200,000	200,000	1.96	
					<b>200,000 1.96</b>				
					<b>INDIA</b>				
					Axis Bank, Ltd./Singapore 7.125%, 6/28/2022				
					USD	500,000	510,125	5.00	
					Housing Development Finance Corp., Ltd., 9.240%, 06/24/2024				
					INR	10,000,000	158,096	1.55	
					Housing Development Finance Corp., 8.900%, 08/18/2020				
					INR	25,000,000	383,003	3.76	
					Power Grid Corp. of India, Ltd., Series B, 9.300%, 09/04/2024				
					INR	18,000,000	289,068	2.83	
					Rural Electrification Corp., Ltd., 9.340%, 08/25/2024				
					INR	18,000,000	288,682	2.83	
					TML Holdings Pte, Ltd., 5.750%, 05/07/2021				
					USD	269,000	278,294	2.73	
					<b>1,907,268 18.70</b>				
					<b>INDONESIA</b>				
					Alam Synergy Pte, Ltd., 6.950%, 03/27/2020				
					USD	250,000	221,638	2.17	
					PT Astra Sedaya Finance, 8.600%, 02/21/2017				
					IDR	3,500,000,000	266,011	2.61	
					Jababeka International BV, 7.500%, 09/24/2019				
					USD	200,000	199,750	1.96	
					PT Perusahaan Listrik Negara, 5.250%, 10/24/2042				
					USD	350,000	312,791	3.07	
					Indonesia Treasury Bond, 8.375%, 03/15/2034				
					IDR	7,000,000,000	533,974	5.23	
					Republic of Indonesia 5.125%, 01/15/2045				
					USD	300,000	295,875	2.90	
					TBG Global Pte, Ltd., 4.625%, 4/3/2018				
					USD	250,000	250,625	2.46	
					Theta Capital Pte, Ltd., 7.000%, 05/16/2019				
					USD	250,000	250,937	2.46	
					<b>2,331,601 22.86</b>				
					<b>TOTAL BONDS 7,835,807 76.82</b>				
					<b>CONVERTIBLE BONDS</b>				
					<b>CHINA/HONG KONG</b>				
					Biostime International Holdings, Ltd., Cnv., 0.000%, 02/20/2019				
					HKD	2,000,000	260,291	2.55	
					China Singyes Solar Technologies Holdings, Ltd., Cnv., 5.000%, 08/08/2019				
					CNY	2,000,000	250,697	2.46	
					<b>510,988 5.01</b>				
					<b>TOTAL CONVERTIBLE BONDS 510,988 5.01</b>				
					<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING 8,346,795 81.83</b>				

*Schedule of Investments* (continued)

Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets	Country Allocation	% of Net Assets
<b>Transferable securities and money market instruments dealt in on another regulated market</b>						
<b>BONDS</b>						
<b>CHINA/HONG KONG</b>						
HSBC Holdings, PLC, 6.375%, 12/29/2049	USD	250,000	231,875	2.27	China/Hong Kong	33.34
			<b>231,875</b>	<b>2.27</b>	Indonesia	22.86
					India	18.70
					Sri Lanka	10.94
					Singapore	3.02
					South Korea	2.90
					Vietnam	1.96
					<b>Total Investments</b>	<b>93.72</b>
					Cash and Other Assets, Less Liabilities	6.28
					<b>Total</b>	<b>100.00</b>
			<b>231,875</b>	<b>2.27</b>		
<b>TOTAL BONDS</b>						
<b>CONVERTIBLE BONDS</b>						
<b>CHINA/HONG KONG</b>						
Ctrip.com International, Ltd., Cnv., 1.000%, 07/01/2020	USD	450,000	499,230	4.90		
E-House China Holdings, Ltd., Cnv., 2.750%, 12/15/2018	USD	290,000	284,056	2.79		
Qihoo 360 Technology Co., Ltd., Cnv., 1.750%, 08/15/2021	USD	200,000	197,240	1.93		
			<b>980,526</b>	<b>9.62</b>		
			<b>980,526</b>	<b>9.62</b>		
<b>TOTAL CONVERTIBLE BONDS</b>						
<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS DEALT IN ON ANOTHER REGULATED MARKET</b>						
			<b>1,212,401</b>	<b>11.89</b>		
			<b>9,559,196</b>	<b>93.72</b>		
<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>						
			<b>640,371</b>	<b>6.28</b>		
			<b>10,199,567</b>	<b>100.00</b>		
<b>TOTAL NET ASSETS</b>						

The accompanying notes form an integral part of these financial statements.



#### PORTFOLIO MANAGERS

**Teresa Kong, CFA**  
Lead Manager

**Satya Patel**  
Lead Manager

## Asia Credit Opportunities Fund

### *Fund Manager Report*

*Performance figures discussed in this Fund Manager Commentary reflects that of the Institutional Distribution Class Shares (USD).*

For the period from inception (30 September 2015) to 31 March 2016, the Matthews Asia Credit Opportunities Fund returned 5.63%, while its benchmark, the J.P. Morgan Asia Credit Index (JACI), returned 4.93%.

#### **Market Environment:**

The six months from inception to the end of the first quarter of 2016 were filled with milestone events in fixed income markets both in Asia and globally. After years of debate and speculation, the U.S. Federal Reserve raised interest rates in December, ending its zero interest rate policy. Investors continued to debate the potential implications of policy normalisation in the U.S. on Asia. The Chinese renminbi was added to the International Monetary Fund's special drawing rights (SDR) basket, moving it closer to becoming an international reserve currency. China's central bank also announced that it would manage the renminbi versus a basket of currencies of its largest trading partners.

The first quarter of 2016 was a tale of two halves for Asia credit. Uncertainty surrounding the magnitude of capital outflows in China and the collapse in commodity prices drove risk aversion higher through mid-February. In the first half of the quarter, credit spreads widened sharply across both investment grade and high yield. Investment-grade credit spreads widened to levels last seen at the height of the Greek crisis in the early part of the decade, while high yield spreads widened to levels not seen since the global financial crisis. This reversed sharply in the second half of the quarter after a series of events comforted markets. Chinese policymakers reaffirmed their commitment to renminbi stability and an orderly rebalancing of the economy. The latest round of policy easing by the European Central Bank and the Bank of Japan signalled the continued support of policymakers and helped pave the way for risky assets to perform strongly in the second half of the quarter. As risk aversion faded, credit spreads rallied to end the quarter flat to where they began the year. U.S. interest rates actually rallied 50 bps (0.5%) in the quarter as the U.S. Federal Reserve Bank guided the market to a slower pace of rate hikes. Because of the strong rally in rates, investment grade outperformed sub-investment grade Asia credit during the quarter.

#### **Performance Contributors and Detractors:**

The biggest contributors to Fund performance were our holdings in Indonesian and Chinese bonds. Indonesian corporate bonds performed poorly in the summer of 2015 as investors retreated amid macroeconomic uncertainty. As growth slowed and the Indonesian rupiah depreciated, many investors shifted into corporate bonds in other countries. While companies in Indonesia face short-term headwinds, we have invested in issuers with strong balance sheets, healthy cash flows and business models that we expect to perform well across cycles; and these holdings performed well from inception to 31 March 2016. Our holdings in Chinese sub-investment grade and convertible bonds also contributed positively to performance during the period. For example, Ctrip.com International, a leading online travel agency in China, did well amid industry consolidation throughout 2015. With expectations that aggressive competition and heavy discounting will fade, Ctrip shares rose 40% in the fourth quarter, leading to strong convertible bond performance.

The biggest detractors to Fund performance were our holdings in Chinese companies in sectors battling overcapacity. We bought bonds in Yingde Gases and China Singyes Solar Tech at attractive valuations, but both continue to face a slowdown in industrial production, construction, and the overall economy in China. Yingde Gases's reported results suggest the company continues to struggle to collect on its aged receivables, although they have made some progress with recent sales. China Singyes' earnings pointed to continued difficulty in distributed solar generation, as well as more severe grid curtailment due to oversupply of solar electricity in its provinces.

**Notable Portfolio Changes:**

We made several notable changes to the portfolio in the period. We sold the bonds of CAR Inc., a Chinese auto-rental company. Bonds had performed well, but given the company's continued need to invest in its fleet in addition to its existing investments in a ride-share platform, we felt the valuation was rich. We also took advantage of the widening in credit spreads by adding contingent convertible securities of banks. Both HSBC and Standard Chartered were being too severely punished as they were categorized as UK/European banks. While many European banks are facing serious erosion in profitability in Europe's negative interest rate environment as well as business risks stemming from a potential exit of Britain from the European Union, or "Brexit", a handful of these banks have more exposure to Asia than Europe. Both HSBC and Standard Chartered are largely exposed to Asia and were offering higher yields higher than inferior banks in Asia.

**Outlook:**

As we look ahead, we continue to focus on the outlook for riskier fixed income asset classes, like sub-investment grade Asian bonds, relative to risk-free government securities. As the U.S. Federal Reserve continues on its path of policy normalisation and rate hikes, we continue to favour securities that are the least sensitive to rising U.S. interest rates, like sub-investment grade Asian bonds, which, we believe, may carry less risk than "risk free" U.S. Treasuries. The combination of higher yield and the lower empirical sensitivity of sub-investment grade Asian credits to interest rate changes make these securities especially compelling.

We think credit spreads have peaked and the sub-investment grade sector offers tremendous value for investors with at least a two year holding period. This is informed by our empirical analysis, which shows that investors with investment horizons of two years have in the past made positive returns when investing at current spread levels.

We continue to focus on China as a potential driver of volatility in Asian credit. While current data points indicate an orderly rebalancing of the economy and a reallocation of capital from renminbi-denominated assets to USD-denominated assets, the tail risks have increased. This was clear at the beginning of the year, when concerns of the magnitude and pace of capital outflows from China contributed to global risk aversion.

We also continue to focus on the risks posed by weak commodity prices. Asian countries have largely benefited from lower agricultural prices as most are net importers of commodities. This is especially true of South Asia (India, Sri Lanka, Bangladesh and Pakistan), whose current and fiscal accounts have benefited substantially from low oil prices. However, for commodity-linked companies, the fall in prices has led to stress on balance sheets and cash flows, and deteriorating credit ratios. Should commodity prices stay weak for a sustained period, these companies could be forced to restructure their debt. We have already seen an uptick of accounts receivables across many Chinese industrials. This tends to have a chain effect as the accounts receivables of one company are the accounts payables of another, and stretching payment periods masks the deterioration in the quality of revenues and increases working capital needs.

No doubt we are in a period of heightened volatility, driven by uncertainty in the path of U.S. rate hikes, Europe's large dispersion in growth, Japan central bank's extraordinary easing policies, and last but not least, China's slower growth. Despite that, we believe many of the downside risks have been priced in and think Asian bonds offer better value than they have in the last few years. It takes a lot of intestinal fortitude to buy when the majority is selling. But at today's downtrodden prices, we believe there is more room for upside than downside for investors with a long term investment horizon.

*Fixed income investments are subject to additional risks, including, but not limited to, interest rate, credit and inflation risks. 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.*



## Schedule of Investments

Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets	Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>					<b>SRI LANKA</b>				
<b>BONDS</b>					DFCC Bank, 9.625%, 10/31/2018				
<b>CHINA/HONG KONG</b>					National Savings Bank, 8.875%, 09/18/2018				
KWG Property Holding, Ltd., 8.975%, 01/14/2019	USD	400,000	429,540	4.06				<b>828,377</b>	<b>7.84</b>
MCE Finance, Ltd., 5.000%, 02/15/2021	USD	400,000	380,000	3.59	<b>VIETNAM</b>				
Shimao Property Holdings, Ltd., 8.125%, 01/22/2021	USD	400,000	433,500	4.10	Socialist Republic of Vietnam, 4.800%, 11/19/2024				
Standard Chartered, PLC 6.50%, 12/31/2049	USD	300,000	262,533	2.48	USD	400,000	400,000	3.78	
Wynn Macau, Ltd., 5.250%, 10/15/2021	USD	400,000	378,000	3.58	Vietnam JSC Bank for Industry & Trade, 8.00%, 05/17/2017	USD	400,000	411,950	3.90
			<b>1,883,573</b>	<b>17.81</b>				<b>811,950</b>	<b>7.68</b>
<b>INDIA</b>					<b>TOTAL BONDS</b>				
Bank of Baroda, 6.625%, 05/25/2022	USD	400,000	408,676	3.86				<b>7,711,526</b>	<b>72.93</b>
ICICI Bank, Ltd., 6.375%, 04/30/2022	USD	400,000	407,000	3.85	<b>CONVERTIBLE BONDS</b>				
			<b>815,676</b>	<b>7.71</b>	<b>CHINA/HONG KONG</b>				
<b>INDONESIA</b>					Biostime International Holdings, Ltd., Cnv., 0.000%, 02/20/2019				
Alam Synergy Pte, Ltd., 6.950%, 03/27/2020	USD	400,000	354,620	3.35	HKD	2,000,000	260,291	2.46	
Jababeka International BV, 7.500%, 09/24/2019	USD	400,000	399,500	3.78	China Singyes Solar Technologies Holdings, Ltd., Cnv., 5.000%, 08/08/2019	CNY	2,000,000	250,697	2.37
MPM Global, 6.75%, 09/19/2019	USD	400,000	391,320	3.70				<b>510,988</b>	<b>4.83</b>
Republic of Indonesia 5.125%, 01/15/2045	USD	400,000	394,500	3.73	<b>TOTAL CONVERTIBLE BONDS</b>				
TBG Global Pte, Ltd., 5.25%, 02/10/2022	USD	400,000	387,000	3.66				<b>510,988</b>	<b>4.83</b>
Theta Capital Pte, Ltd., 7.000%, 05/16/2019	USD	400,000	401,500	3.80	<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>				
			<b>2,328,440</b>	<b>22.02</b>				<b>8,222,514</b>	<b>77.76</b>
<b>PHILIPPINES</b>					<b>Transferable securities and money market instruments dealt in on another regulated market</b>				
Megaworld Corp., 4.25%, 04/17/2023	USD	200,000	190,426	1.80	<b>BONDS</b>				
SM Investments Corp., 4.875%, 06/10/2024	USD	400,000	413,136	3.91	<b>CHINA/HONG KONG</b>				
			<b>603,562</b>	<b>5.71</b>	HSBC Holdings, PLC, 6.375%, 12/29/2049				
<b>SINGAPORE</b>					USD	250,000	231,875	2.19	
Olam International Ltd., 7.50%, 08/12/2020	USD	400,000	439,948	4.16				<b>231,875</b>	<b>2.19</b>
			<b>439,948</b>	<b>4.16</b>	<b>MALAYSIA</b>				
<b>TOTAL BONDS</b>					Petronas Capital Ltd., 4.50%, 03/18/2045				
					USD	400,000	409,500	3.87	
								409,500	3.87
					<b>TOTAL BONDS</b>				
								<b>641,375</b>	<b>6.06</b>

*Schedule of Investments* (continued)**CONVERTIBLE BONDS**

Investments	Currency	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>CHINA/HONG KONG</b>				
Ctrip.com International, Ltd., Cnv., 1.000%, 07/01/2020	USD	450,000	499,230	4.72
E-House China Holdings, Ltd., Cnv., 2.750%, 12/15/2018	USD	250,000	244,876	2.32
Soufun Holdings Ltd., 2.00%, 12/15/2018	USD	250,000	240,975	2.28
			<b>985,081</b>	<b>9.32</b>

Country Allocation	% of Net Assets
China/Hong Kong	34.15
Indonesia	22.02
Sri Lanka	7.84
India	7.71
Vietnam	7.68
Philippines	5.71
Singapore	4.16
Malaysia	3.87
<b>Total Investments</b>	<b>93.14</b>
Cash and Other Assets, Less Liabilities	6.86
<b>Total</b>	<b>100.00</b>

<b>TOTAL CONVERTIBLE BONDS</b>	<b>985,081</b>	<b>9.32</b>
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<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS DEALT IN ON ANOTHER REGULATED MARKET</b>	<b>1,626,456</b>	<b>15.38</b>
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<b>TOTAL INVESTMENTS</b>	<b>9,848,970</b>	<b>93.14</b>
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<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>	<b>724,869</b>	<b>6.86</b>
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<b>TOTAL NET ASSETS</b>	<b>10,573,839</b>	<b>100.00</b>
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The accompanying notes form an integral part of these financial statements.

PORTFOLIO MANAGERS

**Yu Zhang, CFA**  
Lead Manager

**Robert Horrocks, PhD**  
Lead Manager

**Vivek Tanneeru**  
Co-Manager

## Asia Dividend Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Asia Dividend Fund returned -1.38%, while its benchmark, the MSCI All Country Asia Pacific Index, returned -9.41%.

#### **Market Environment:**

The past 12 months have proven particularly challenging for Asian equity markets. Concerns over China's prolonged economic slowdown and its dwindling foreign reserves, triggered global equity market selloffs and exacerbated steep declines in oil-led commodity complex prices. On the other hand, it became increasingly clear that the Bank of Japan (BOJ) was unlikely to achieve its 2% inflation target in time, despite its ultra-aggressive monetary easing policy. It was not a complete surprise that the market interpreted the BOJ's latest negative interest rate policy as a sign of desperation and an acknowledgement of the diminished effect of quantitative easing. Japanese equities were sold off aggressively as the yen began to strengthen. Elsewhere in the region, markets in Southeast Asia started to recoup some of the heavy losses incurred in equity prices and local currencies only after the U.S. Federal Reserve began signaling its cautious and gradual approach to raising interest rates.

#### **Performance Contributors and Detractors:**

Among the top contributors to Fund performance during the year were the preferred shares of lithium-ion battery maker LG Chem. This firm, a global major petrochemical producer and a tier-one battery supplier, spotted an opportunity in the electric vehicle battery market early on, and in recent years has steadily invested in new electric vehicle (EV) battery capacity. It has also done well in cultivating new relationships with global automakers. As electric vehicles become ever more critical to many global automakers, the outlook for LG Chem's EV battery business is turning more positive and has driven its share price higher. We were initially attracted to LG Chem's balanced business portfolio, which holds both petrochemical and non-petrochemical businesses, as we believe the firm was well-positioned with an earnings stream that was less cyclical compared with that of its peers. Furthermore, we bought the preferred share class, which was trading at a meaningful discount to common shares, giving us a significant pickup in dividend yield.

On the flip side, Sumitomo Mitsui Financial Group (SMFG), one of the so-called "mega banks" in Japan, was among the top performance detractors during the year. Its stock was severely sold off after the BOJ announced its negative interest rate regime due to concerns that the profitability of commercial banks in Japan, including SMFG, would endure further hits under this new monetary policy. However, we drew comfort in that SMFG was trading at half its book value while offering a 4% dividend yield. The stock price at the end of March already priced in a large portion of the negative scenario. Moreover, there remain potential upsides—the continual unwinding of the cross-shareholdings and the potential for excess capital to be returned to shareholders via dividend increases or share buybacks. We continue to be vigilant and will be monitoring the developments.

#### **Notable Portfolio Changes:**

During the year, the Fund initiated a few new positions in areas in which we believe the market volatility offered us opportunities to pick up high-quality businesses at an attractive dividend yield and sound long-term growth prospects. One such position was PT Hanjaya Mandala Sampoerna, Indonesia's



largest tobacco company, which is closely held by its parent company Philip Morris International (PMI). Regarded as the crown-jewel asset within PMI, the firm has delivered consistent market share gains with strong financial results in recent years. Because of its solid balance sheet and strong cash flow generation, PMI has also been extracting substantial cash flow from Sampoerna by adopting a maximum dividend payout policy. In November, when PMI was forced to sell down its stake in Sampoerna to comply with the local listing requirement in Indonesia, we decided to participate in this liquidity event and initiated a position in the stock.

On the other hand, we exited a few positions in businesses where we saw increasing headwinds, and where our initial investment thesis for a sustainable dividend income stream was impaired. We exited Total Access Communication, a wireless telecom carrier in Thailand. The competitive landscape in the Thai telecom sector deteriorated significantly during the year. A stable three-player market dynamic was destroyed by renewed competition among existing players and a very disruptive 4G-spectrum auction process that saw new entrants into the market. This increasingly competitive intensity has led Total Access to prioritise efforts to defend its market share at the expense of maintaining its dividends. We exited the stock to redeploy capital elsewhere.

**Outlook:**

The market outlook for Asia today seems murky in part as the real impact of the recent U.S. Federal Reserve rate hike on Asia is still unclear. In contrast to the U.S., Asia's monetary policies are generally moving in the opposite direction, toward more easing. China's headline growth figures continue to struggle and the movements of the renminbi still hold important implications to the stability of Asia's markets. Against such a backdrop, a dividend-investing approach that balances both the yield and growth components in the underlying dividends, in our view, is an effective tool to filter out short-term market noise. Our focus is on what we consider a crucial factor for long-term investing: a company's ability to not only generate sustainable cash flow but also its willingness to distribute it to minority shareholders in the form of stable or rising dividends.

*There is no guarantee that the Fund or the companies in its portfolio will pay or continue to pay dividends. Past performance is no guarantee of future results.*

## Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>			
<b>EQUITIES</b>			
<b>AUSTRALIA</b>			
Breville Group, Ltd.	950,203	5,719,092	1.40
Spotless Group Holdings, Ltd.	5,164,968	5,016,841	1.22
		<b>10,735,933</b>	<b>2.62</b>
<b>CHINA/HONG KONG</b>			
AlA Group, Ltd.	1,652,400	9,390,998	2.29
Café de Coral Holdings, Ltd.	1,772,000	5,158,565	1.26
China Construction Bank Corp. H Shares	13,328,000	8,527,678	2.08
China Machinery Engineering Corp. H Shares	4,869,000	3,412,521	0.83
China Mobile, Ltd.	109,500	1,223,522	0.30
China Mobile, Ltd. ADR	138,842	7,578,864	1.85
China Power International Development, Ltd.	9,733,000	5,057,968	1.23
Dali Foods Group Co., Ltd.	4,157,500	2,509,273	0.61
Far East Horizon, Ltd.	6,252,000	4,833,175	1.18
Fuyao Glass Industry Group Co., Ltd. H Shares	1,834,800	4,446,809	1.08
Greatview Aseptic Packaging Co., Ltd.	3,762,000	1,792,381	0.44
Guangdong Investment, Ltd.	1,810,000	2,293,536	0.56
HKBN, Ltd.	3,702,635	4,578,593	1.12
Hopewell Holdings, Ltd.	811,500	2,624,623	0.64
Jiangsu Expressway Co., Ltd. H Shares	3,054,000	4,118,291	1.00
Kweichow Moutai Co., Ltd. A Shares	229,945	8,817,023	2.15
Minth Group, Ltd.	5,132,000	11,952,923	2.92
Qualcomm, Inc.	144,100	7,341,285	1.79
Red Star Macalline Group Corp., Ltd. H Shares	167,800	187,531	0.05
Shenzhen International Group Holdings, Ltd.	2,357,000	12,848,916	3.13
Stella International Holdings, Ltd.	887,000	2,088,293	0.51
Yuexiu Transport Infrastructure, Ltd.	9,708,000	6,544,939	1.60
		<b>117,327,707</b>	<b>28.62</b>
<b>INDIA</b>			
Bharti Infratel, Ltd.	665,576	3,836,945	0.94
ITC, Ltd.	1,217,484	6,031,833	1.47
		<b>9,868,778</b>	<b>2.41</b>
<b>INDONESIA</b>			
PT Hanjaya Mandala Sampoerna	769,900	5,713,285	1.40
PT Telekomunikasi Indonesia Persero	12,569,800	3,153,692	0.77
PT Telekomunikasi Indonesia Persero ADR	89,168	4,523,733	1.10
PT United Tractors	3,686,200	4,257,377	1.04
		<b>17,648,087</b>	<b>4.31</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>JAPAN</b>			
Anritsu Corp.	693,200	3,820,320	0.93
Bridgestone Corp.	377,000	14,115,321	3.44
Hoya Corp.	342,000	13,034,291	3.18
ITOCHU Corp.	761,500	9,400,828	2.29
Itochu Enex Co., Ltd.	73,500	591,426	0.15
Japan Tobacco, Inc.	398,900	16,652,809	4.06
Kao Corp.	217,000	11,602,307	2.83
Lawson, Inc.	68,600	5,755,983	1.41
MISUMI Group, Inc.	288,100	4,133,520	1.01
Mitsubishi Pencil Co., Ltd.	10,700	460,386	0.11
NTT DoCoMo, Inc.	504,600	11,471,688	2.80
Pigeon Corp.	327,800	8,579,381	2.09
Skylark Co., Ltd.	532,900	7,052,897	1.72
Sumitomo Mitsui Financial Group, Inc.	276,000	8,391,032	2.05
Suntory Beverage & Food, Ltd.	197,400	8,915,883	2.18
Toyo Suisan Kaisha, Ltd.	187,100	6,732,173	1.64
		<b>130,710,245</b>	<b>31.89</b>
<b>LUXEMBOURG</b>			
L'Occitane International SA	3,317,500	5,921,296	1.44
		<b>5,921,296</b>	<b>1.44</b>
<b>NEW ZEALAND</b>			
SKY Network Television, Ltd.	1,438,418	4,964,337	1.21
		<b>4,964,337</b>	<b>1.21</b>
<b>PHILIPPINES</b>			
Globe Telecom, Inc.	127,955	6,180,594	1.51
		<b>6,180,594</b>	<b>1.51</b>
<b>SINGAPORE</b>			
ARA Asset Management, Ltd.	3,932,125	3,427,751	0.84
Ascendas India Trust	4,679,100	3,048,694	0.75
CapitaLand Retail China Trust, REIT	3,855,920	4,150,625	1.01
Singapore Technologies Engineering, Ltd.	2,508,100	6,036,544	1.47
Super Group, Ltd.	4,908,700	3,620,783	0.88
		<b>20,284,397</b>	<b>4.95</b>
<b>SOUTH KOREA</b>			
BGF Retail Co., Ltd.	61,762	8,864,379	2.16
KT&G Corp.	108,995	10,490,307	2.56
LG Chem, Ltd., Pfd.	68,225	13,551,667	3.31
		<b>32,906,353</b>	<b>8.03</b>
<b>TAIWAN</b>			
Chunghwa Telecom Co., Ltd. ADR	293,147	10,026,980	2.44
Sercomm Corp.	1,194,000	3,036,380	0.74
St. Shine Optical Co., Ltd.	170,000	3,472,056	0.85
Taiwan Semiconductor Manufacturing Co., Ltd. ADR	304,239	8,027,368	1.96
		<b>24,562,784</b>	<b>5.99</b>



*Schedule of Investments* (continued)**EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>THAILAND</b>			
Thai Beverage Public Co., Ltd.	14,313,100	7,620,494	1.86
		<b>7,620,494</b>	<b>1.86</b>
<b>VIETNAM</b>			
Vietnam Dairy Products JSC	1,334,854	8,036,123	1.96
		<b>8,036,123</b>	<b>1.96</b>
<b>TOTAL EQUITIES</b>		<b>396,767,128</b>	<b>96.80</b>
<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>		<b>396,767,128</b>	<b>96.80</b>

## Other transferable securities and money market instruments

**EQUITIES**

<b>CHINA/HONG KONG</b>			
Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. B Shares*	1,068,421	3,749,725	0.92
		<b>3,749,725</b>	<b>0.92</b>
<b>TOTAL EQUITIES</b>		<b>3,749,725</b>	<b>0.92</b>
<b>TOTAL OTHER TRANSFERABLE SECURI- TIES AND MONEY MARKET INSTRUMENTS</b>		<b>3,749,725</b>	<b>0.92</b>
<b>TOTAL INVESTMENTS</b>		<b>400,516,853</b>	<b>97.72</b>
<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>		<b>9,362,518</b>	<b>2.28</b>
<b>TOTAL NET ASSETS</b>		<b>409,879,371</b>	<b>100.00</b>

A Shares: Shares traded through the Shanghai-Hong Kong Stock Connect program

ADR: American Depositary Receipt

B Shares: Mainland China companies listed on the Shanghai and Shenzhen stock exchanges, available to both China and non-Chinese investors

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

REIT: Real Estate Investment Trust

\* Security is valued at its fair value under the direction of the Board of Directors.

Country Allocation	% of Net Assets
Japan	31.89
China/Hong Kong	29.54
South Korea	8.03
Taiwan	5.99
Singapore	4.95
Indonesia	4.31
Australia	2.62
India	2.41
Vietnam	1.96
Thailand	1.86
Philippines	1.51
Luxembourg	1.44
New Zealand	1.21
<b>Total Investments</b>	<b>97.72</b>
Cash and Other Assets, Less Liabilities	2.28
<b>Total</b>	<b>100.00</b>

PORTFOLIO MANAGERS

**Yu Zhang, CFA**  
Lead Manager

**Robert Horrocks, PhD**  
Lead Manager

**Sherwood Zhang, CFA**  
Co-Manager

## Asia ex Japan Dividend Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

The Matthews Asia ex Japan Dividend Fund was launched on 30 November 2015. From inception until 31 March 2016, the Fund returned 1.80%, while its benchmark, the MSCI All Country Asia ex Japan Index, returned 1.37%.

#### **Market Environment:**

Starting late last year after our Fund launch, concerns were centred on China's slowdown and its dwindling foreign reserves, together with a further collapse of oil-led commodity prices. Fears over these issues triggered a sell-off in global equities at the start of 2016, which ultimately led investors to exit risky assets, and instead, hoard cash. Just as investors were despairing at the prospects of a deepening global financial market downturn, Asia's markets staged a recovery, supported by signs of Chinese FX reserves beginning to stabilise and a rapid rebound in oil prices. When U.S. Federal Reserve Chair Janet Yellen hinted there would be no aggressive move in U.S. interest rates this year, we saw a broad rally in emerging markets in March that included Asian equities.

#### **Performance Contributors and Detractors:**

During the period, the Fund's holding in Taiwan Semiconductor Manufacturing Company (TSMC) was among the top performance contributors. TSMC continues to dominate the global semiconductor industry it created. Its competitive advantage, leading edge technology and superior scale have been strengthened in recent years and we, therefore, feel confident the company can maintain a healthy payout ratio, while continuing to invest in leading technology and capacity.

On the flip side, China Power International Development, an independent power producer, was the largest performance detractor during the quarter. Market participants worried that slower economic growth would negatively impact electricity demand, and changing government policy added to the uncertainty regarding the company's future outlook. We, therefore, decided to exit the position and deploy assets elsewhere.

#### **Notable Portfolio Changes:**

Despite recent macro uncertainties, the current environment has provided good buying opportunities. We found a few new investment ideas in the region following our recent research visits, particularly companies that are poised to benefit from the long-term trend of rising household incomes. For many of these companies, it has been business as usual given their strong balance sheets and solid business models. One of the companies is Dali Foods Group, a mainland Chinese snack food and beverage company. Dali Foods has the usual positives associated with a well-run consumer staple business—strong cash flow and a solid balance sheet. Moreover, we are optimistic about the company's growth prospects in China given its well-balanced product portfolio spanning snack foods and beverages. The company is deepening its market-leading position in lower-tier cities in China as well as expanding its distribution reach into modern retailing channels. It helps that the founding family has an 85% ownership in the company, helping to align interests with minority shareholders, as evidenced by the company's maiden dividend payment ratio of 50% set shortly after its IPO last year.

We sold Hopewell Holdings during the quarter. Although the company has been doing a fine job in renovating its old office portfolio in Hong Kong in recent years, we worried that its new investment in a high-end hotel will open at a time when Hong Kong is losing popularity as a tourist destination. Thus, we believe the return on investment will be below what we initially expected.



**Outlook:**

Despite the recent market recovery, Asia's economy remains in a challenging state. This has led to reduced investor expectations over corporate earnings in the region and softening valuations. The dividend yield for the broad index has approached 3%, a significant pick up against its long-term annual historical average of 2.2%. As dividend investors, we believe the current poor sentiment toward Asia provides us with the opportunity to select quality, growth businesses that offer the potential for attractive total return from both dividend yields and growth in underlying dividends.

*There is no guarantee that the Fund or the companies in its portfolio will pay or continue to pay dividends. Past performance is no guarantee of future results.*

## Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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Transferable securities and money market instruments admitted to an official exchange listing

## EQUITIES

## CHINA/HONG KONG

AlA Group, Ltd.	5,000	28,416	2.80
Café de Coral Holdings, Ltd.	4,000	11,645	1.15
China Construction Bank Corp. H Shares	36,000	23,034	2.27
China Distance Education Holdings, Ltd. ADR	1,000	14,932	1.47
China Everbright, Ltd.	6,000	12,635	1.24
China Machinery Engineering Corp. H Shares	19,000	13,317	1.31
China Medical System Holdings, Ltd.	14,000	19,462	1.92
China Mobile, Ltd.	2,500	27,934	2.75
CITIC Telecom International Holdings, Ltd.	39,000	14,686	1.45
Dali Foods Group Co., Ltd.	28,000	16,900	1.66
Far East Horizon, Ltd.	23,000	17,780	1.75
Fuyao Glass Industry Group Co., Ltd. H Shares	6,800	16,480	1.62
Heilan Home Co., Ltd. A Shares	8,268	14,739	1.45
HKBN, Ltd.	15,500	19,167	1.89
Jiangsu Expressway Co., Ltd. H Shares	12,000	16,182	1.59
Kweichow Moutai Co., Ltd. A Shares	670	25,691	2.53
Pacific Textiles Holdings, Ltd.	10,000	14,453	1.42
Qingdao Port International Co., Ltd. H Shares	45,000	20,984	2.07
Red Star Macalline Group Corp., Ltd. H Shares	14,400	16,093	1.58
Shanghai Mechanical and Electrical Industry Co., Ltd. B Shares	5,600	13,644	1.34
Shenzhou International Group Holdings, Ltd.	4,000	21,806	2.15
SITC International Holdings Co., Ltd.	30,000	14,831	1.46
Stella International Holdings, Ltd.	6,000	14,126	1.39
Sunny Optical Technology Group Co., Ltd.	4,000	11,270	1.11
		<b>420,207</b>	<b>41.37</b>

## INDONESIA

PT Ace Hardware Indonesia	181,000	12,224	1.20
PT Hanjaya Mandala Sampoerna	2,700	20,036	1.97
PT Telekomunikasi Indonesia Persero	94,500	23,710	2.34
		<b>55,970</b>	<b>5.51</b>

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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## LUXEMBOURG

L'Occitane International SA	7,500	13,387	1.32
		<b>13,387</b>	<b>1.32</b>

## MALAYSIA

Pavilion Real Estate Investment Trust	55,700	24,255	2.39
		<b>24,255</b>	<b>2.39</b>

## NEW ZEALAND

SKY Network Television, Ltd.	5,024	17,339	1.71
		<b>17,339</b>	<b>1.71</b>

## PHILIPPINES

Globe Telecom, Inc.	470	22,702	2.23
		<b>22,702</b>	<b>2.23</b>

## SINGAPORE

Keppel DC REIT	20,200	15,944	1.57
Parkway Life REIT	9,300	16,551	1.63
Sheng Siong Group, Ltd.	25,700	16,078	1.58
Singapore Technologies Engineering, Ltd.	7,000	16,848	1.66
		<b>65,421</b>	<b>6.44</b>

## SOUTH KOREA

BGF Retail Co., Ltd.	129	18,515	1.83
Koh Young Technology, Inc.	328	11,706	1.15
KT&G Corp.	271	26,082	2.57
LG Chem, Ltd., Pfd.	129	25,623	2.52
Samsung Electronics Co., Ltd., Pfd.	32	30,981	3.05
		<b>112,907</b>	<b>11.12</b>

## TAIWAN

Addcn Technology Co., Ltd.	2,000	16,166	1.59
Chunghwa Telecom Co., Ltd.	6,000	20,393	2.01
Dr Wu Skincare Co., Ltd.	1,640	15,985	1.57
Merida Industry Co., Ltd.	4,000	17,701	1.74
Sercomm Corp.	6,000	15,258	1.50
Taiwan Semiconductor Manufacturing Co., Ltd.	7,000	35,213	3.47
Voltronic Power Technology Corp.	1,000	15,749	1.55
		<b>136,465</b>	<b>13.43</b>

## THAILAND

MK Restaurants Group Public Co., Ltd.	9,500	14,394	1.41
Tesco Lotus Retail Growth Freehold & Leasehold Property Fund	41,400	18,259	1.80
		<b>32,653</b>	<b>3.21</b>

*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>VIETNAM</b>			
Binh Minh Plastics, JSC	2,560	16,663	1.64
Mobile World Investment Corp.	2,000	6,784	0.67
Vietnam Dairy Products JSC	4,390	26,429	2.60
		<b>49,876</b>	<b>4.91</b>

<b>TOTAL EQUITIES</b>		<b>951,182</b>	<b>93.64</b>
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<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>		<b>951,182</b>	<b>93.64</b>
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Units of authorised UCITS or other collective investment undertakings

**EXCHANGE TRADED FUNDS**

<b>INDIA</b>			
iShares MSCI India ETF	1,500	40,423	3.98
		<b>40,423</b>	<b>3.98</b>

<b>TOTAL EXCHANGE TRADED FUNDS</b>		<b>40,423</b>	<b>3.98</b>
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<b>TOTAL UNITS OF AUTHORISED UCITS OR OTHER COLLECTIVE INVESTMENT UNDERTAKINGS</b>		<b>40,423</b>	<b>3.98</b>
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<b>TOTAL INVESTMENTS</b>		<b>991,605</b>	<b>97.62</b>
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<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>		<b>24,176</b>	<b>2.38</b>
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<b>TOTAL NET ASSETS</b>		<b>1,015,781</b>	<b>100.00</b>
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Country Allocation	% of Net Assets
China/Hong Kong	41.37
Taiwan	13.43
South Korea	11.12
Singapore	6.44
Indonesia	5.51
Vietnam	4.91
India	3.98
Thailand	3.21
Malaysia	2.39
Philippines	2.23
New Zealand	1.71
Luxembourg	1.32
<b>Total Investments</b>	<b>97.62</b>
Cash and Other Assets, Less Liabilities	2.38
<b>Total</b>	<b>100.00</b>

A Shares: Shares traded through the Shanghai-Hong Kong Stock Connect program

ADR: American Depositary Receipt

B Shares: Mainland China companies listed on the Shanghai and Shenzhen stock exchanges, available to both China and non-Chinese investors

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

Pfd: Preferred shares

REIT: Real Estate Investment Trust



PORTFOLIO MANAGERS

Yu Zhang, CFA  
Lead Manager

Sherwood Zhang, CFA  
Co-Manager

## China Dividend Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the China Dividend Fund returned -1.37%, outperforming its benchmark, the MSCI China Index, which returned -18.66%.

#### **Market Environment:**

The past 12 months marked the most volatile period for Chinese equities since the Fund's inception in early 2013. During this fiscal year, we endured a roller-coaster ride involving China's A-share market, and the subsequent intervention by the Chinese government, which was aimed at preventing a systemic financial crisis triggered by an A-share market crash. The sudden devaluation of China's currency again forced global investors to question China's policy soundness. The Hong Kong and China A-share markets stabilised only after China's central bank, the People's Bank of China, lowered its reserve requirement ratio in late February. When U.S. Federal Reserve Chair Janet Yellen hinted at only a gradual adjustment to U.S. monetary policy this year, we saw a broad rally of emerging markets in March, while Chinese equities also rebounded.

#### **Performance Contributors and Detractors:**

The Fund's relative outperformance against the benchmark during the fiscal year was driven mostly by stock selection rather than sector allocation. For example, the consumer discretionary sector was the second worst-performing sector for the MSCI China Index during the fiscal year, but the Fund's top two contributors were consumer discretionary stocks. Two education providers that did particularly well are New Oriental Education & Technology and China Maple Leaf Educational Systems. Investors were excited about their stable and growing cash flow profile in the slow growth environment, and the likely reform in Chinese K-12 education system also drew more attention into this sector. Voltronic Power Technology, the uninterrupted power system (UPS) maker based in Taiwan is the third-largest contributor for the fiscal year.

On the flip side, oil services company Hilong Holding continued to struggle. Reduced oil production activity in high-cost areas, such as China and North America, will likely continue to hinder the company's near-term earnings outlook. However, we did detect improvement with Hilong's cash flow profile during 2015, and this should help it weather the economic downturn. We also made a mistake in underestimating how much money the software company Changjet Information Technology has to spend to break into the cloud computing business. Changjet was our second-largest performance detractor during the fiscal year.

#### **Notable Portfolio Changes:**

This period was the first fiscal year in which we were able to invest in China's A-share market, utilising the Shanghai-Hong Kong Stock Connect program. All of our investments in the A-share market generated positive returns during this fiscal year even within the highly volatile environment. Kweichow Moutai, the famed Chinese liquor producer, was even among our top five contributors to Fund performance for the period.

Another consumer staples holding that we initiated an investment in during the period was Dali Foods—a company that had been heavily de-rated since its initial public offering in Hong Kong last November. While Dali still relies heavily on distribution of its snack food and beverages through traditional retail sales channels, we believe it can still thrive by selling to a mass market of Chinese consumers with its growing presence in modern retail channels, such as supermarkets and hypermarkets, and its tested ability to launch new products for a quickly changing market.



On the other hand, we exited a few positions in which we felt the underlying businesses faced increasing headwinds, impairing our initial investment thesis for a sustainable dividend income stream. We exited Television Broadcasts in Hong Kong as we felt the company has been losing its core competitiveness in high-quality TV drama series for a Chinese-speaking audience due to the emergence of young and dynamic studios from mainland China. We also sold our holding in Sunny Optical Technology Group in the most recent quarter. As a leading camera lens maker, the company has done well in recent years to grow market share in camera modules for smartphones. It launched more high-end lenses to better compete for business. As its share price rose, its dividend yield became less meaningful to us even though it raised its most recent annual dividend. For a similar reason, we also significantly trimmed our holdings in New Oriental Education Technology Group.

**Outlook:**

The primary risk for China investors this year continues to be its banking system. Just how effectively banking sector regulators can deal with rapidly rising nonperforming loans is a key area for us to monitor. Regulators have touted ideas such as loan-to-equity swaps—essentially a credit restructuring exercise—this year. If executed properly, this process could be beneficial in reducing excess capacity, helping to eliminate zombie companies and aiding overall leverage in the system. We will adjust our holdings in the financial sector as developments unfold.

*There is no guarantee that the Fund or the companies in its portfolio will pay or continue to pay dividends. Past performance is no guarantee of future results.*

## Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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Transferable securities and money market instruments admitted to an official exchange listing

## EQUITIES

## CONSUMER DISCRETIONARY

## Auto Components

Fuyao Glass Industry Group Co., Ltd. H Shares	46,400	112,454	2.84
Minth Group, Ltd.	40,000	93,164	2.35
		<b>205,618</b>	<b>5.19</b>

## Automobiles

BAIC Motor Corp., Ltd. H Shares	102,500	78,641	1.98
		<b>78,641</b>	<b>1.98</b>

## Diversified Consumer Services

China Distance Education Holdings, Ltd. ADR	4,900	73,165	1.84
China Maple Leaf Educational Systems, Ltd.	180,000	114,385	2.89
New Oriental Education & Technology Group, Inc. ADR	2,200	78,805	1.99
		<b>266,355</b>	<b>6.72</b>

## Hotels, Restaurants &amp; Leisure

Café de Coral Holdings, Ltd.	28,000	81,512	2.06
Shanghai Jin Jiang International Hotels Group Co., Ltd. H Shares	122,000	49,847	1.26
Xiao Nan Guo Restaurants Holdings, Ltd.	296,000	21,043	0.53
		<b>152,402</b>	<b>3.85</b>

## Multiline Retail

Taiwan FamilyMart Co., Ltd.	9,000	62,194	1.57
		<b>62,194</b>	<b>1.57</b>

## Specialty Retail

China Harmony New Energy Auto Holding, Ltd.	81,000	43,081	1.08
Chow Tai Fook Jewellery Group, Ltd.	89,200	55,793	1.41
		<b>98,874</b>	<b>2.49</b>

## Textiles, Apparel &amp; Luxury Goods

Heilan Home Co., Ltd. A Shares	23,099	41,177	1.04
Shenzhen International Group Holdings, Ltd.	17,000	92,674	2.34
		<b>133,851</b>	<b>3.38</b>

## Total Consumer Discretionary

		<b>997,935</b>	<b>25.18</b>
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Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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## CONSUMER STAPLES

## Beverages

Kweichow Moutai Co., Ltd. A Shares	3,100	118,867	3.00
		<b>118,867</b>	<b>3.00</b>

## Food &amp; Staples Retailing

Shanghai Bailian Group Co., Ltd. B Shares	9,270	15,710	0.40
		<b>15,710</b>	<b>0.40</b>

## Food Products

Dali Foods Group Co., Ltd.	147,000	88,722	2.24
Vitasoy International Holdings, Ltd.	26,000	48,591	1.22
		<b>137,313</b>	<b>3.46</b>

## Total Consumer Staples

		<b>271,890</b>	<b>6.86</b>
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## ENERGY

## Energy Equipment &amp; Services

Hilong Holding, Ltd.	326,000	40,069	1.01
		<b>40,069</b>	<b>1.01</b>

## Total Energy

		<b>40,069</b>	<b>1.01</b>
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## FINANCIALS

## Banks

China Construction Bank Corp. H Shares	214,000	136,924	3.45
China Merchants Bank Co., Ltd. H Shares	61,000	128,625	3.25
Huishang Bank Corp., Ltd. H Shares	143,000	69,240	1.75
		<b>334,789</b>	<b>8.45</b>

## Capital Markets

China Everbright, Ltd.	34,000	71,596	1.81
China International Capital Corp., Ltd. H Shares	46,402	70,640	1.78
		<b>142,236</b>	<b>3.59</b>

## Insurance

AIA Group, Ltd.	21,600	122,758	3.10
		<b>122,758</b>	<b>3.10</b>

## Real Estate Investment Trusts (REITs)

CapitaLand Retail China Trust, REIT	69,340	74,640	1.88
		<b>74,640</b>	<b>1.88</b>

## Real Estate Management &amp; Development

Red Star Macalline Group Corp., Ltd. H Shares	103,400	115,558	2.91
		<b>115,558</b>	<b>2.91</b>

## Total Financials

		<b>789,981</b>	<b>19.93</b>
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*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>HEALTH CARE</b>			
<b>Pharmaceuticals</b>			
China Medical System Holdings, Ltd.	84,000	116,772	2.95
Tianjin ZhongXin Pharmaceutical Group Corp., Ltd. S Shares	72,600	67,590	1.70
		<b>184,362</b>	<b>4.65</b>
<b>Total Health Care</b>		<b>184,362</b>	<b>4.65</b>
<b>INDUSTRIALS</b>			
<b>Construction &amp; Engineering</b>			
China Machinery Engineering Corp. H Shares	108,000	75,693	1.91
		<b>75,693</b>	<b>1.91</b>
<b>Electrical Equipment</b>			
Voltronic Power Technology Corp.	4,961	78,129	1.97
		<b>78,129</b>	<b>1.97</b>
<b>Machinery</b>			
Shanghai Mechanical and Electrical Industry Co., Ltd. B Shares	31,507	76,767	1.94
		<b>76,767</b>	<b>1.94</b>
<b>Marine</b>			
SITC International Holdings Co., Ltd.	208,000	102,831	2.60
		<b>102,831</b>	<b>2.60</b>
<b>Road &amp; Rail</b>			
Guangshen Railway Co., Ltd. ADR	300	6,361	0.16
Guangshen Railway Co., Ltd. H Shares	176,000	75,726	1.91
		<b>82,087</b>	<b>2.07</b>
<b>Transportation Infrastructure</b>			
Qingdao Port International Co., Ltd. H Shares	215,000	100,257	2.53
Shanghai International Airport Co., Ltd. A Shares	9,300	43,331	1.09
Yuexiu Transport Infrastructure, Ltd.	114,000	76,857	1.94
		<b>220,445</b>	<b>5.56</b>
<b>Total Industrials</b>		<b>635,952</b>	<b>16.05</b>

**INFORMATION TECHNOLOGY**

<b>Communications Equipment</b>			
Sercomm Corp.	44,000	111,893	2.82
		<b>111,893</b>	<b>2.82</b>
<b>Electronic Equipment, Instruments &amp; Components</b>			
Aurora Corp.	13,000	22,809	0.58
		<b>22,809</b>	<b>0.58</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INFORMATION TECHNOLOGY (CONTINUED)</b>			
<b>Internet Software &amp; Services</b>			
NetEase, Inc. ADR	500	71,169	1.80
		<b>71,169</b>	<b>1.80</b>
<b>Semiconductors &amp; Semiconductor Equipment</b>			
Qualcomm, Inc.	1,200	61,135	1.54
		<b>61,135</b>	<b>1.54</b>
<b>Total Information Technology</b>		<b>267,006</b>	<b>6.74</b>

**MATERIALS**

<b>Containers &amp; Packaging</b>			
Greatview Aseptic Packaging Co., Ltd.	207,000	98,624	2.49
		<b>98,624</b>	<b>2.49</b>
<b>Total Materials</b>		<b>98,624</b>	<b>2.49</b>

**TELECOMMUNICATION SERVICES**

<b>Diversified Telecommunication Services</b>			
CITIC Telecom International Holdings, Ltd.	315,000	118,621	2.99
HKBN, Ltd.	99,258	122,740	3.10
		<b>241,361</b>	<b>6.09</b>
<b>Wireless Telecommunication Services</b>			
China Mobile, Ltd. ADR	2,200	120,090	3.03
		<b>120,090</b>	<b>3.03</b>
<b>Total Telecommunication Services</b>		<b>361,451</b>	<b>9.12</b>

**UTILITIES**

<b>Independent Power and Renewable Electricity Producers</b>			
China Power International Development, Ltd.	228,000	118,485	2.99
		<b>118,485</b>	<b>2.99</b>
<b>Total Utilities</b>		<b>118,485</b>	<b>2.99</b>

<b>TOTAL EQUITIES</b>	<b>3,765,755</b>	<b>95.02</b>
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<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>	<b>3,765,755</b>	<b>95.02</b>
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Other transferable securities and money market instruments

**EQUITIES****FINANCIALS**

<b>Real Estate Management &amp; Development</b>			
Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. B Shares*	15,200	53,346	1.35
		<b>53,346</b>	<b>1.35</b>
<b>Total Financials</b>		<b>53,346</b>	<b>1.35</b>

*Schedule of Investments* (continued)**EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>TOTAL EQUITIES</b>		<b>53,346</b>	<b>1.35</b>
<b>TOTAL OTHER TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS</b>		<b>53,346</b>	<b>1.35</b>
<b>TOTAL INVESTMENTS</b>		<b>3,819,101</b>	<b>96.37</b>
<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>		<b>143,980</b>	<b>3.63</b>
<b>TOTAL NET ASSETS</b>		<b>3,963,081</b>	<b>100.00</b>

Sector Allocation	% of Net Assets
Consumer Discretionary	25.18
Financials	21.28
Industrials	16.05
Telecommunication Services	9.12
Consumer Staples	6.86
Information Technology	6.74
Health Care	4.65
Utilities	2.99
Materials	2.49
Energy	1.01
<b>Total Investments</b>	<b>96.37</b>
Cash and Other Assets, Less Liabilities	3.63
<b>Total</b>	<b>100.00</b>

A Shares: Shares traded through the Shanghai-Hong Kong Stock Connect program

ADR: American Depositary Receipt

B Shares: Mainland China companies listed on the Shanghai and Shenzhen stock exchanges, available to both China and non-Chinese investors

H Shares: Mainland China companies listed on The Hong Kong Stock Exchange but incorporated in mainland China

REIT: Real Estate Investment Trust

S Shares: Mainland China companies listed on the Singapore stock exchange but incorporated in mainland China.

\* Security is valued at its fair value under the direction of the Board of Directors.



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**PORTFOLIO MANAGERS**

**Kenneth Lowe, CFA**  
Lead Manager

**Michael J. Oh, CFA**  
Co-Manager

**Sharat Shroff, CFA**  
Co-Manager

## Asia Focus Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews Asia Focus Fund returned -10.20%, while its benchmark, the MSCI All Country Asia ex Japan Index, returned -11.59%.

#### **Market Environment:**

The volatility and indifferent performance of Asian equity markets over the preceding few years continued through this fiscal year, with the beginning of 2016 suffering the worst start in U.S. equity market history. In recent times, the influence of central bankers and policymakers has grown ever more apparent with much of the undulating nature of markets being driven by alterations in the policy landscape. The last few months of 2015 witnessed the U.S. Federal Reserve finally undertake its first rate hike in over nine years, having delayed it previously. But despite taking this first step, sputtering global economic growth, weak commodity prices and poor earnings domestically have all led to the Fed pushing the interest rate normalisation process further out, with expectations of the next hike not until December of 2016.

Arguably more important to sentiment was the ongoing attempted transition underway within the world's second-largest economy, China. As we have noted previously, the astounding rally promoted by state media and fueled by retail investors and margin financing suffered its inevitable fate in April, plummeting back to reality. This led to some unfortunate and ill-advised policy responses such as stock suspensions, IPO suspensions and a "national team" stepping in to purchase equities. The government has undergone further policy missteps in its handling of an alteration in its exchange rate policy to be more market-oriented. Most concerning though, is the apparent step away from supply-side reform and back toward an economic model driven more by credit growth than productivity gains, with the first quarter of the year witnessing almost US\$1trillion in credit expansion.

China concerns, the turn in the U.S. monetary policy cycle, and the ongoing weakness in commodity prices weighed on almost every market in the region. Currency depreciation led markets in Southeast Asia to be the worst-performing markets, whilst South Korea was somewhat surprisingly the most resilient.

#### **Performance Contributors and Detractors:**

During what was a very challenging 12 months, the Fund delivered frustrating performance in absolute terms. The largest contributors to returns came from our holdings within consumer staples, with the greatest of these being Japan Tobacco. The leading player domestically rose on stable growth amidst a backdrop of volatility as well as gaining a price rise for its Mevius brand in Japan—a difficult feat to achieve.

A number of the Fund's consumer discretionary holdings also delivered solid returns. These included Techtronic, the power tool and floor care appliance manufacturer and brand owner. Management has done an impressive job in delivering good earnings growth through its exclusive arrangement with Home Depot in the U.S. and its differentiated cordless technology. Korean casino Kangwon Land rose as earnings have been strong due to steady visitation growth and improving table utilization. Further, the company has increased its dividend substantially over recent years.

Beyond the consumer sector, the Fund also benefited from Taiwan Semiconductor Manufacturing as the demand outlook for silicon content in areas like smartphones, telecom equipment, cloud computing, and semi-automatic vehicles looks reasonable. Hong Kong conglomerate Hutchison Whampoa



was also a positive contributor due to its corporate restructuring as well as an attempt to consolidate the U.K. telecom market.

The largest detractors for the year came from our holdings in the financial sector. U.K.-based lender HSBC struggled on worries around the impact of a potential “Brexit” (Britain departing from the European Union), weak global trade financing and continually increasing capital requirements. Hang Lung Property has seen a worsening outlook for its mainland China malls with occupancy and rental income challenges. Australian protective glove maker Ansell also sputtered as it delivered weaker-than-expected earnings due to cost overruns and weak end demand.

#### **Notable Portfolio Changes:**

We initiated one new position in the Fund during the quarter—Chinese Internet company Tencent. Often regarded as best of breed, Tencent is somewhat of a behemoth within the space as it operates the largest social network and entertainment platform in China. Its product suite encompasses games, news, video, music, reading, e-commerce and payments, providing the firm with a large captive customer base of over 850 million monthly active users. This large network effect has allowed Tencent to triple its earnings per share over the last five years, and we expect that high growth can continue as its management team expands an impressive game lineup as well as increase advertising and “FinTech” (financial technology) monetisation. Although not optically cheap at 26x price-to-earning ratio (P/E) on our entry, we believe that its large moat and high growth justify its place as the portfolio’s highest-multiple holding.

#### **Outlook:**

The impact of governments and central bankers on equity markets and, more worryingly, the belief that they should have this impact does not appear to be waning. Recent times have seen not just experimental but arguably dangerous policies enacted that threaten to prolong a low growth, low productivity and deflationary environment. Frustratingly, this appears to also be the case in parts of Asia, such as Japan and China, where the latter seems to be unwilling to take the pain that generally comes after a credit binge. The drive toward debt for equity swaps, loan restructurings and liquidity injections, rather than real reform, is certainly not helping the longer-term outlook for earnings, which continue to look rather paltry.

With growth low, debt levels high and valuations rather middling at around 12x P/E and 1.4x price-to-book, it is challenging to be overly constructive on Asian markets at large. However, as a concentrated portfolio of only 32 holdings, we continue to believe that we are moderately well-positioned. We focus on those businesses that are built to weather these environments and that look to build wealth for our shareholders over the long term.

## Schedule of Investments

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets	Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>				<b>SINGAPORE</b>			
<b>EQUITIES</b>				Singapore Telecommunications, Ltd.			
<b>AUSTRALIA</b>				United Overseas Bank, Ltd.			
Ansell, Ltd.	1,085	14,432	1.59	United Overseas Bank, Ltd. ADR	300	8,463	0.93
Insurance Australia Group, Ltd.	5,437	23,361	2.56	Vicom, Ltd.	4,800	21,553	2.37
		<b>37,793</b>	<b>4.15</b>			<b>81,937</b>	<b>8.99</b>
<b>CHINA/HONG KONG</b>				<b>SOUTH KOREA</b>			
AIA Group, Ltd.	9,000	51,149	5.61	Kangwon Land, Inc.	748	26,756	2.94
Baidu, Inc. ADR	100	18,950	2.08	Samsung Electronics Co., Ltd.	26	29,843	3.27
Cheung Kong Property Holdings, Ltd.	1,552	10,020	1.10			<b>56,599</b>	<b>6.21</b>
CK Hutchison Holdings, Ltd.	2,052	26,690	2.93	<b>SWITZERLAND</b>			
Hang Lung Group, Ltd.	6,000	17,241	1.89	Cie Financiere Richemont SA	364	24,344	2.67
HSBC Holdings PLC	3,600	22,533	2.47			<b>24,344</b>	<b>2.67</b>
Jardine Matheson Holdings, Ltd.	600	34,248	3.76	<b>TAIWAN</b>			
Samsonite International SA	9,300	31,184	3.42	Taiwan Semiconductor Manufacturing Co., Ltd.	7,000	35,213	3.86
Techtronic Industries Co., Ltd.	8,500	33,654	3.69			<b>35,213</b>	<b>3.86</b>
Tencent Holdings, Ltd.	1,000	20,479	2.25	<b>THAILAND</b>			
VTech Holdings, Ltd.	2,500	29,717	3.26	Intouch Holdings Public Co., Ltd. NVDR	10,200	18,507	2.03
Yum! Brands, Inc.	440	36,128	3.97	Kasikornbank Public Co., Ltd.	4,900	24,129	2.65
		<b>331,993</b>	<b>36.43</b>			<b>42,636</b>	<b>4.68</b>
<b>INDIA</b>				<b>UNITED STATES</b>			
Tata Motors, Ltd. ADR	1,000	28,889	3.17	Mead Johnson Nutrition Co.	400	33,971	3.73
		<b>28,889</b>	<b>3.17</b>	ResMed, Inc.	400	22,740	2.49
						<b>56,711</b>	<b>6.22</b>
<b>INDONESIA</b>				<b>TOTAL EQUITIES</b>			
PT Bank Rakyat Indonesia Persero	33,000	28,460	3.12			<b>851,253</b>	<b>93.41</b>
PT Indofood Sukses Makmur	26,200	14,288	1.57	<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>			
		<b>42,748</b>	<b>4.69</b>			<b>851,253</b>	<b>93.41</b>
<b>JAPAN</b>				<b>TOTAL INVESTMENTS</b>			
Japan Tobacco, Inc.	800	33,397	3.67			<b>851,253</b>	<b>93.41</b>
		<b>33,397</b>	<b>3.67</b>	<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>			
<b>MALAYSIA</b>						<b>60,098</b>	<b>6.59</b>
Axiata Group BHD	14,900	22,486	2.47	<b>TOTAL NET ASSETS</b>			
Genting Malaysia BHD	24,800	28,848	3.17			<b>911,351</b>	<b>100.00</b>
Guinness Anchor BHD	7,700	27,659	3.03				
		<b>78,993</b>	<b>8.67</b>				

ADR: American Depositary Receipt

BHD: Berhad

NVDR: Non-Voting Depositary Receipt

*Schedule of Investments* (continued)

Country Allocation	% of Net Assets
China/Hong Kong	36.43
Singapore	8.99
Malaysia	8.67
United States	6.22
South Korea	6.21
Indonesia	4.69
Thailand	4.68
Australia	4.15
Taiwan	3.86
Japan	3.67
India	3.17
Switzerland	2.67
<b>Total Investments</b>	<b>93.41</b>
Cash and Other Assets, Less Liabilities	6.59
<b>Total</b>	<b>100.00</b>



#### PORTFOLIO MANAGERS\*

**Sharat Shroff, CFA**  
Lead Manager

**Richard H. Gao**  
Co-Manager

**In-Bok Song**  
Co-Manager

**Rahul Gupta**  
Co-Manager

\* Effective 30 April 2015, Rahul Gupta became a Co-Manager of this Fund. Effective 1 July 2015, Richard Gao is no longer Co-Manager of this Fund. Effective 22 September 2015 In-Bok Song is no longer Co-Manager of this Fund.

## Pacific Tiger Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews Pacific Tiger Fund returned -8.01% while its benchmark, the MSCI All Country Asia ex Japan Index, returned -11.59%.

#### **Market Environment:**

The weak Asian equity performance during the reporting period reflected growing investor concerns over leverage in the region, weak outlook for growth and the status of structural reforms by policymakers aiming to boost productivity. China continued to be the “poster child” for high levels of leverage—credit as a proportion of its economy has continued to increase, and while the pace of new loans is decelerating, it isn’t decelerating quickly enough. The decision by the People’s Bank of China (PBOC) to change the mechanism for setting the exchange rate for the renminbi ignited concerns over a widespread devaluation of other Asian currencies, and the resulting negative impact on the ability of corporations to meet their foreign currency liabilities. Another change in Jan 2016 to put circuit limits in the local stock exchanges created further confusion and added to existing worries.

As a consequence, the currencies of Malaysia, Indonesia, and Thailand depreciated significantly against the U.S. dollar into the end of 2015. While Malaysia and Thailand face the brunt of slowing growth and high leverage, the Indonesian economy’s reliance on the U.S. dollar has not decreased in the past few years. And with slowing commodity exports, investors have raised concerns about the funding of its current account deficit.

At least in the short term, some of these concerns have proven to be false alarms as recent data from the PBOC suggests that the pace of decline in foreign exchange reserves is moderating, and oil and other commodity prices seem to be finding a floor, while expectations around the pace of U.S. interest rate hikes have taken a breather. After a fairly rocky start, the MSCI AC Asia ex Japan Index and some of the Asian currencies recovered somewhat into the last quarter of the reporting period.

Among the few Asian markets to finish the year on a positive note was Vietnam, led by an improving growth outlook, and efforts at structural reforms like privatizing some of the state-owned enterprises (SOE).

Amid significant macro-induced volatility, the outcome of stocks seemed to be guided by fundamental factors. The returns on equity for the health care sector expanded and hence it saw some of the best-performing stocks in the region, while energy-related stocks were among the worst performing.

#### **Performance Contributors and Detractors:**

Perhaps the most notable aspect of the operating performance of Asian companies was the growing divergence in economic fortunes of companies across different countries and sectors—even between companies operating in the same country and sector. The Chinese consumption story continues to get better as it is starting to broaden out from the eastern seaboard to interior parts of the country, helped by sustained increases in income and better availability of goods through e-commerce. Some of the portfolio’s holdings, like South Korean cosmetics maker, Amorepacific, are well-positioned to participate in this trend, and were among important contributors to Fund performance. Sinopharm, a health-care distributor, also contributed on the back of improvements in its business.

The portfolio also benefited from several privatisations affecting holdings like WuXi PharmaTech and China Resources Beer, which perhaps reflected the view that the market was not appropriately valuing these businesses.



By far, the biggest drag on Fund performance came from our holdings in India and Taiwan. India pulled back in the last quarter after being resilient for most of the year, and our utility holding in India continued to struggle because of a regulatory dispute. Taiwan negatively contributed to performance versus the Index because of the lack of certain hardware stocks in the portfolio.

**Notable Portfolio Changes:**

The activity levels in the portfolio were a bit elevated during the period, led by flows. There were a few positions that were eliminated for a variety of reasons. Some of the activity was dictated by privatizations, however in other cases, like that of Dongfeng Motors, we exited the holding in order to replace it with automotive glass supplier Fuyao Glass, which in our view, has an opportunity to claim significant market share, both domestically and globally. In a similar vein, we decided to replace South Korea health care firm Yuhan with Tasly Pharmaceuticals, a firm that is trying to introduce traditional Chinese medicine in more contemporary forms to domestic and international markets.

2015 also marked a foray into A-share investment for the portfolio. While we acknowledge the higher volatility and uneven liquidity in the market, the range of businesses, especially in sectors like consumer services and health care, is much more. We anticipate that the portfolio's exposure to A-shares is likely to be modest, and should be looked at as another means of accessing services-led growth in China.

We also trimmed some of our South Korean consumer holdings primarily due to valuations and reallocated to China and Hong Kong. We have been patient in India given valuations but the recent pullback has provided us opportunities at attractive valuations, and we have initiated a new position.

**Outlook:**

The macro headwinds for Asian economies, especially for investment spending, have not yet begun to abate. Partly, this is reflective of weak global demand, which may not return in a hurry due to long-term structural changes in the global economy. Furthermore, the biggest economy in the region, China, is undoubtedly slowing. But the nature of that growth is also shifting as there is an attempt by the authorities to facilitate better allocation of capital, which will require a willingness by the authorities to further liberate its financial markets. After deregulation of land and labour, this is perhaps the final and most difficult frontier for the authorities in China. For all its gaffes, the PBOC has fully liberalised interest rates, and has also abandoned the U.S. dollar peg in favor of a more flexible trade-weighted basket. Even with good intentions, the country is bound to face considerable risks in managing the transition to free and open markets, which are further exacerbated by the poor communication from the Chinese regulators.

While the macro picture in China may remain unclear, our interaction with businesses in China causes us to be more optimistic. It has become ever more noticeable that the progressive management teams are starting to think about factors like management incentive plans, quality of products, branding, environmental safety and rising competition—all ingredients for building better service-oriented franchises. Unlike in the past, there is much more of a multidisciplinary approach to building stronger businesses that are exactly the sort of changes that we like to see.

Meanwhile, in the rest of the region, several of the regulators and policymakers—especially in countries like India and Indonesia—have been trying to build the right kind of institutions and policy frameworks. Efforts to curb inflation at the expense of growth, for example, were much-desired and have achieved the right kind of results. Much more needs to be done, however. At current valuations, investors do not seem to be expecting a sharp recovery in growth or a huge upside from policy making.

## Schedule of Investments

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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Transferable securities and money market instruments admitted to an official exchange listing

## EQUITIES

## CHINA/HONG KONG

AlA Group, Ltd.	1,211,200	6,883,549	1.98
Alibaba Group Holding, Ltd. ADR	79,600	6,260,353	1.80
Baidu, Inc. ADR	52,470	9,943,207	2.86
China Mobile, Ltd. ADR	111,195	6,069,718	1.75
China Resources Beer Holdings Co., Ltd.	2,268,000	4,228,513	1.22
China Resources Land, Ltd.	2,549,111	6,562,997	1.89
China Vanke Co., Ltd. H Shares	1,489,390	3,662,390	1.06
Dairy Farm International Holdings, Ltd.	818,300	4,942,532	1.42
Fuyao Glass Industry Group Co., Ltd. H Shares	3,464,800	8,397,267	2.42
Hang Lung Group, Ltd.	325,000	933,870	0.27
Hengan International Group Co., Ltd.	843,500	7,339,252	2.11
Hong Kong Exchanges and Clearing, Ltd.	131,800	3,182,605	0.92
Inner Mongolia Yili Industrial Group Co., Ltd. A Shares	1,876,619	4,235,053	1.22
Lenovo Group, Ltd.	8,380,000	6,544,321	1.89
Ping An Insurance Group Co. of China, Ltd. H Shares	1,587,000	7,617,149	2.19
Sinopharm Group Co., Ltd. H Shares	1,622,400	7,352,222	2.12
Swire Pacific, Ltd. A Share Class	165,500	1,785,480	0.51
Tasly Pharmaceutical Group Co., Ltd. A Shares	668,387	4,018,616	1.16
Tencent Holdings, Ltd.	341,300	6,989,482	2.01
Yum! Brands, Inc.	53,200	4,368,263	1.26
		<b>111,316,839</b>	<b>32.06</b>

## INDIA

Container Corp. of India, Ltd.	274,632	5,153,780	1.48
Dabur India, Ltd.	766,475	2,890,983	0.83
GAIL India, Ltd.	1,193,271	6,418,863	1.85
HDFC Bank, Ltd.	164,599	2,661,086	0.77
Housing Development Finance Corp., Ltd.	262,347	4,377,796	1.26
ITC, Ltd.	810,104	4,013,533	1.16
Just Dial, Ltd.	36,608	423,460	0.12
Kotak Mahindra Bank, Ltd.	824,230	8,467,469	2.44
Sun Pharmaceutical Industries, Ltd.	647,447	8,013,079	2.31
Tata Power Co., Ltd.	8,709,239	8,498,261	2.45
Thermax, Ltd.	371,105	4,248,482	1.22
Titan Co., Ltd.	907,422	4,644,280	1.34
		<b>59,811,072</b>	<b>17.23</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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## INDONESIA

PT Astra International	4,162,000	2,277,569	0.66
PT Bank Central Asia	5,057,300	5,075,282	1.46
PT Indofood CBP Sukses Makmur	3,943,400	4,522,386	1.30
PT Perusahaan Gas Negara Persero	23,768,300	4,692,279	1.35
PT Telekomunikasi Indonesia Persero	25,073,700	6,290,850	1.81
		<b>22,858,366</b>	<b>6.58</b>

## MALAYSIA

Genting BHD	2,086,200	5,238,210	1.51
IHH Healthcare BHD	4,042,500	6,786,610	1.95
Public Bank BHD	910,450	4,379,854	1.26
		<b>16,404,674</b>	<b>4.72</b>

## PHILIPPINES

GT Capital Holdings, Inc.	238,305	7,211,735	2.08
SM Prime Holdings, Inc.	7,369,575	3,522,585	1.01
		<b>10,734,320</b>	<b>3.09</b>

## SOUTH KOREA

Amorepacific Corp.	22,685	7,671,773	2.21
Cheil Worldwide, Inc.	348,244	5,179,158	1.49
Dongbu Insurance Co., Ltd.	148,777	9,876,244	2.84
Green Cross Corp.	43,125	6,754,709	1.95
Naver Corp.	20,960	11,682,005	3.36
Orion Corp.	10,782	8,622,124	2.48
Samsung Electronics Co., Ltd.	5,188	5,954,809	1.72
		<b>55,740,822</b>	<b>16.05</b>

## SWITZERLAND

DKSH Holding, Ltd.	148,304	10,142,571	2.92
		<b>10,142,571</b>	<b>2.92</b>

## TAIWAN

Delta Electronics, Inc.	1,564,032	6,897,676	1.99
President Chain Store Corp.	946,000	6,887,129	1.98
Synnex Technology International Corp.	4,740,297	4,879,575	1.41
		<b>18,664,380</b>	<b>5.38</b>

## THAILAND

Central Pattana Public Co., Ltd.	6,024,100	8,830,236	2.55
Kasikornbank Public Co., Ltd.	839,000	4,131,509	1.19
The Siam Cement Public Co., Ltd.	322,600	4,278,784	1.23
		<b>17,240,529</b>	<b>4.97</b>



*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>UNITED STATES</b>			
Cognizant Technology Solutions Corp. Class A	87,300	5,446,312	1.57
		<b>5,446,312</b>	<b>1.57</b>
<b>VIETNAM</b>			
Vietnam Dairy Products JSC	1,777,473	10,700,789	3.08
		<b>10,700,789</b>	<b>3.08</b>
<b>TOTAL EQUITIES</b>		<b>339,060,674</b>	<b>97.65</b>
<b>WARRANTS</b>			
<b>MALAYSIA</b>			
Genting BHD, expires 12/18/2018	93,950	53,665	0.02
		<b>53,665</b>	<b>0.02</b>
<b>TOTAL WARRANTS</b>		<b>53,665</b>	<b>0.02</b>
<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>		<b>339,114,339</b>	<b>97.67</b>
<b>TOTAL INVESTMENTS</b>		<b>339,114,339</b>	<b>97.67</b>
<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>		<b>8,107,450</b>	<b>2.33</b>
<b>TOTAL NET ASSETS</b>		<b>347,221,789</b>	<b>100.00</b>

Country Allocation	% of Net Assets
China/Hong Kong	32.06
India	17.23
South Korea	16.05
Indonesia	6.58
Taiwan	5.38
Thailand	4.97
Malaysia	4.74
Philippines	3.09
Vietnam	3.08
Switzerland	2.92
United States	1.57
<b>Total Investments</b>	<b>97.67</b>
Cash and Other Assets, Less Liabilities	2.33
<b>Total</b>	<b>100.00</b>

A Shares: Shares traded through the Shanghai-Hong Kong Stock Connect program

ADR: American Depositary Receipt

BHD: Berhad

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

The accompanying notes form an integral part of these financial statements.



#### PORTFOLIO MANAGERS\*

**Richard H. Gao**  
Lead Manager

**Andrew Mattock, CFA**  
Lead Manager

**Henry Zhang, CFA**  
Co-Manager

**Winnie Chwang**  
Co-Manager

\* Effective 30 April 2015, Andrew Mattock, CFA, became a Co-Manager of this Fund. Effective 1 July 2015, Andrew Mattock, CFA, replaced Richard Gao as Lead Manager of this Fund.

## China Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews China Fund fell -14.53% while its benchmark, the MSCI China Index, returned -18.66%.

#### **Market Environment:**

After a strong start to the fiscal year, which was associated with a rally in mainland indices, China's equity market environment turned extremely negative. The heavy-handed approach used by authorities in attempting to stabilise this decline in 2015 also prompted investor concern. Amid this turmoil, Chinese authorities, to the dismay of global markets, suddenly adjusted the mechanism for the daily setting of exchange rates. This change was not well-communicated and created much confusion. However, we ultimately consider the move to be a long-term positive development.

The confusion regarding the currency intensified during the year as fears of capital flight reappeared. Onshore foreign exchange deposits in China did not increase with any significance, which may suggest a healthy adjustment is taking place. Most of the foreign exchange reserve depletion occurred in autumn of 2015, and the run rate since has narrowed, which perhaps implies that a one-off balance sheet adjustment, rather than consistent capital outflows, is taking place. We believe the initial loss in reserves is a U.S. dollar adjustment in working capital by Chinese corporates, both onshore and offshore. Finally, China recorded a trade surplus of US\$595 billion in 2015. As commodity prices weaken, this should provide a buffer for continued outflows. We anticipate flows to moderate significantly. On the economic front, the lack of sequential growth momentum in China continues due to a decline in property market investment, and a slowing of the fixed asset investment in manufacturing. Our central case is that 2016 will be similar to 2015 in that we believe the economy should continue to shed excess capacity in some industries and associated nonperforming loans will be recognised. So far, this adjustment has been orderly, and we believe this will continue to be the case. The end of this down-cycle will be indicated by a moderation of write-offs at Chinese banks, and we are watching for this. The timing of this moderation, we feel, is uncertain and may well be a 2017 event. Meanwhile, the government refrains from launching large-scale stimulus programs to spur short-term economic growth, instead continuing with its approach to help stimulate only targeted areas and continue with structural long-term reform.

#### **Performance Contributors and Detractors:**

During the fiscal-year period, the health care sector was among the biggest contributors to relative Fund performance. Health care companies overall reported strong earnings, showing continued growth momentum. The year ahead will be more difficult for these companies as more intense pricing pressure and competition increases. Among our health care holdings, Sino Biopharmaceutical was a top contributor to Fund performance, and the drug maker is typical of health care companies we favour as it has a strong diversified product pipeline and is committed to moving up the value chain, away from pure generics.

During the year, financials sector holdings also contributed to Fund performance. Being underweight in Chinese Banks benefited the Fund although this was offset by the Fund's positioning in life insurance companies. We also continue to like "tier one" property developers as they continue to take market share in a consolidating industry where overall trends are flat at best. The Internet space was also another bright spot for the Fund. NetEase, a gaming



company that develops most of its games in-house, further enhanced its mobile gaming platform and was a strong performer.

Performance in the industrial space was among the biggest detractors to Fund performance. Among our industrials holdings, Air China—despite weak oil prices—was a poor performer. Sentiment around excessive renminbi depreciation on Air China's U.S. dollar debt offset the strong consumer travel story. The Fund's underweight position in energy holdings also helped the Fund although this was somewhat reversed at the beginning of 2016.

It must be highlighted that being thorough in our bottom-up approach helped the Fund in tough conditions in 2015. Minimising stock selection mistakes and staying away from companies where the outlook was particularly uncertain helped.

#### **Notable Portfolio Changes:**

During the fiscal-year period, we increased our positions in the life insurance industry, which significantly boosted our financials weighting. Although life insurers are classified within the financial sector, we tend to view such businesses as consumer discretionary holdings in China. Sales of life insurance policies are showing very positive operating trends as companies continue to penetrate China's untapped regions. We believe Chinese life insurance policy design and the reduction in the interest rate environment in China have boosted the appetite for such sales. Our holdings here include Ping An and China Life. The insurance industry has strong competitive dynamics in which the big companies dominate and there is real strength in economies of scale in the ability to attract an agency workforce.

During the year, we exited instant noodle producer Tingyi as we believed the barriers to entry weakened and competition in its core noodle business continued unabated. We also sold Golden Eagle, Tsingtao Brewery, Sun Art Retail and Belle, the women's shoe retail store operator, as over-supply and Internet channels continued to pose margin and sales issues in the traditional retail space. The year saw unusually high turnover as market conditions allowed us to re-evaluate every position and identify opportunities in stocks that were previously too expensive. Turnover in the Fund was unusually high in 2015, and we expect this to moderate significantly this year.

#### **Outlook:**

Looking forward, we expect the central government to continue to achieve a balance between non-intervention and major stimulus programs. Targeted accommodative policies have been adopted to prevent the economy from further slowing. The government has been making efforts to accelerate the reform process by encouraging and supporting the private sector economy, and increasing the role of market forces. Capital market reform is also high on the agenda. This area of reform should not be underestimated, and we anticipate seeing further reforms over the next 12 months. In particular, capital account reforms in relation to the currency and opening up of equity and bond markets may result in short-term volatility as the market tends to react negatively to big changes and uncertainty of outcomes. The government, we believe, has the firepower to manage this transition. The last point to note on capital account reform is that China's financial assets are under-represented in global portfolios. Any signs of an improvement in the underlying nature of the Chinese economy could facilitate a sizable reallocation. At current valuations, we see the risk-to-reward ratio as extremely attractive, despite the skepticism on China's growth transition away from heavy industry. We believe the determination of the government to achieve this objective is clear. Despite valuations being cheap, we expect volatility should present us with attractive alpha-generating ideas. The reform agenda in place may be slower than the market would like, but it must be remembered that the changes taking place are very significant and something we have not seen since China joined the World Trade Organization.

## Schedule of Investments

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets	Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>				<b>FINANCIALS (CONTINUED)</b>			
<b>EQUITIES</b>				<b>Diversified Financial Services</b>			
<b>CONSUMER DISCRETIONARY</b>				Hong Kong Exchanges and Clearing, Ltd.			
<b>Auto Components</b>				12,000			
Fuyao Glass Industry Group Co., Ltd. A Shares	166,241	383,355	2.02	<u>289,767</u>			
		<b>383,355</b>	<b>2.02</b>	<b>1.52</b>			
<b>Automobiles</b>				<b>Insurance</b>			
Chongqing Changan Automobile Co., Ltd. B Shares	413,900	776,132	4.08	China Life Insurance Co., Ltd. ADR			
		<u>776,132</u>	<u>4.08</u>	15,830			
				195,331			
<b>Internet &amp; Catalog Retail</b>				China Life Insurance Co., Ltd. H Shares			
Ctrip.com International, Ltd. ADR	7,000	314,002	1.65	130,000			
JD.com, Inc. ADR	18,700	507,203	2.67	321,905			
Vipshop Holdings, Ltd. ADR	35,700	447,718	2.36	1.69			
		<u>1,268,923</u>	<u>6.68</u>	Ping An Insurance Group Co. of China, Ltd. H Shares			
				237,500			
<b>Textiles, Apparel &amp; Luxury Goods</b>				<u>1,139,932</u>			
ANTA Sports Products, Ltd.	81,000	178,750	0.94	<b>8.72</b>			
		<u>178,750</u>	<u>0.94</u>	<b>Real Estate Management &amp; Development</b>			
<b>Total Consumer Discretionary</b>		<b>2,607,160</b>	<b>13.72</b>	China Overseas Land & Investment, Ltd.			
				150,000			
				476,354			
				2.51			
				China Resources Land, Ltd.			
				220,666			
				568,131			
				2.99			
				China Vanke Co., Ltd. H Shares			
				169,153			
				415,945			
				2.19			
				Red Star Macalline Group Corp., Ltd. H Shares			
				101,800			
				113,770			
				0.60			
				<u>1,574,200</u>			
				<b>8.29</b>			
				<b>Total Financials</b>			
				<u>6,811,220</u>			
				<b>35.85</b>			
				<b>HEALTH CARE</b>			
				<b>Health Care Providers &amp; Services</b>			
				Sinopharm Group Co., Ltd. H Shares			
				93,200			
				422,354			
				2.23			
				<u>422,354</u>			
				<b>2.23</b>			
				<b>Pharmaceuticals</b>			
				Jiangsu Hengrui Medicine Co., Ltd. A Shares			
				50,228			
				367,265			
				1.93			
				Sino Biopharmaceutical, Ltd.			
				442,000			
				332,267			
				1.75			
				<u>699,532</u>			
				<b>3.68</b>			
				<b>Total Health Care</b>			
				<u>1,121,886</u>			
				<b>5.91</b>			
				<b>INDUSTRIALS</b>			
				<b>Air Freight &amp; Logistics</b>			
				Sinotrans, Ltd. H Shares			
				834,000			
				365,697			
				1.93			
				<u>365,697</u>			
				<b>1.93</b>			
				<b>Airlines</b>			
				Air China, Ltd. H Shares			
				418,000			
				297,763			
				1.57			
				<u>297,763</u>			
				<b>1.57</b>			
				<b>Commercial Services &amp; Supplies</b>			
				China Everbright International, Ltd.			
				317,000			
				354,955			
				1.87			
				Dongjiang Environmental Co., Ltd. H Shares			
				140,200			
				199,201			
				1.05			
				<u>554,156</u>			
				<b>2.92</b>			
				<b>Construction &amp; Engineering</b>			
				China State Construction International Holdings, Ltd.			
				372,000			
				555,328			
				2.92			
				<u>555,328</u>			
				<b>2.92</b>			

*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDUSTRIALS (CONTINUED)</b>			
<b>Electrical Equipment</b>			
Boer Power Holdings, Ltd.	315,000	249,211	1.31
		<b>249,211</b>	<b>1.31</b>
<b>Marine</b>			
SITC International Holdings Co., Ltd.	390,000	192,807	1.01
		<b>192,807</b>	<b>1.01</b>
<b>Transportation Infrastructure</b>			
Qingdao Port International Co., Ltd. H Shares	586,000	273,259	1.44
		<b>273,259</b>	<b>1.44</b>
<b>Total Industrials</b>		<b>2,488,221</b>	<b>13.10</b>
<b>INFORMATION TECHNOLOGY</b>			
<b>Internet Software &amp; Services</b>			
Alibaba Group Holding, Ltd. ADR	7,400	581,992	3.06
Baidu, Inc. ADR	2,699	511,468	2.69
NetEase, Inc. ADR	2,850	405,661	2.14
Tencent Holdings, Ltd.	86,900	1,779,625	9.37
		<b>3,278,746</b>	<b>17.26</b>
<b>Total Information Technology</b>		<b>3,278,746</b>	<b>17.26</b>
<b>MATERIALS</b>			
<b>Construction Materials</b>			
Anhui Conch Cement Co., Ltd. H Shares	76,000	204,411	1.08
		<b>204,411</b>	<b>1.08</b>
<b>Total Materials</b>		<b>204,411</b>	<b>1.08</b>
<b>UTILITIES</b>			
<b>Water Utilities</b>			
Beijing Enterprises Water Group, Ltd.	648,000	407,391	2.14
		<b>407,391</b>	<b>2.14</b>
<b>Total Utilities</b>		<b>407,391</b>	<b>2.14</b>
<b>TOTAL EQUITIES</b>		<b>17,275,610</b>	<b>90.94</b>
<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>			
		<b>17,275,610</b>	<b>90.94</b>

Investments

Quantity/ Nominal Value	Market Value USD	% of Net Assets
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**Other transferable securities and money market instruments****EQUITIES****FINANCIALS****Real Estate Management & Development**

Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. B Shares*	270,898	950,742	5.00
		<b>950,742</b>	<b>5.00</b>
<b>Total Financials</b>		<b>950,742</b>	<b>5.00</b>

**INFORMATION TECHNOLOGY****Communications Equipment**

ZTE Corp. H Shares*	468,216	769,523	4.05
		<b>769,523</b>	<b>4.05</b>
<b>Total Information Technology</b>		<b>769,523</b>	<b>4.05</b>

<b>TOTAL EQUITIES</b>	<b>1,720,265</b>	<b>9.05</b>
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**TOTAL OTHER TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS**

<b>1,720,265</b>	<b>9.05</b>
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<b>TOTAL INVESTMENTS</b>	<b>18,995,875</b>	<b>99.99</b>
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**CASH AND OTHER ASSETS, LESS LIABILITIES**

<b>998</b>	<b>0.01</b>
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<b>TOTAL NET ASSETS</b>	<b>18,996,873</b>	<b>100.00</b>
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A Shares: Shares traded through the Shanghai-Hong Kong Stock Connect program

ADR: American Depositary Receipt exchanges, available to both Chinese and non-Chinese investors

B Shares: Mainland China companies listed on the Shanghai and Shenzhen stock exchanges, available to both China and non-Chinese investors

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

\* Security is valued at its fair value under the direction of the Board of Directors.

*Schedule of Investments* (continued)

<b>Sector Allocation</b>	<b>% of Net Assets</b>
Financials	40.85
Information Technology	21.31
Consumer Discretionary	13.72
Industrials	13.10
Health Care	5.91
Utilities	2.14
Energy	1.88
Materials	1.08
<b>Total Investments</b>	<b>99.99</b>
Cash and Other Assets, Less Liabilities	0.01
<b>Total</b>	<b>100.00</b>



#### PORTFOLIO MANAGERS

**Sunil Asnani**  
Lead Manager

**Sharat Shroff, CFA**  
Co-Manager

## India Fund

### *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews India Fund returned -15.85% while its benchmark, the S&P Bombay Stock Exchange 100 Index, declined -12.92%.

#### **Market Environment:**

Investor sentiment over Indian equities during the period was largely negative following consecutive quarters of dismal earnings growth. There was a notable disconnect between moderate GDP growth and flat-to-marginally negative corporate earnings growth. This may partly be explained by the different compositions of both the economy and the capital markets, which are represented by varying sectors. Another plausible explanation may be the difference between India's declining wholesale price index and the consumer price index, which in general has grown recently by mid-single digits.

A lack of progress in economic reforms continues to be disappointing. Parliamentary sessions during the second half of 2015 ended without much movement on the reform agenda, and a deadlock continued to delay a high-profile proposed Goods & Service Tax (GST) bill.

India's central bank was quite active during the period. The Reserve Bank of India (RBI) provided some support to the market by reducing interest rates by 75 basis points (0.75 %) to 6.75%. RBI's engagement with private and public sector banks during the year also led to faster transmission of interest rate cuts in the economy. Based on a directive by the RBI, most public sector banks in India also took fairly high provisions to protect their balance sheets from write-downs on stressed assets, which negatively impacted earnings across the financial sector.

The rupee held up much better against the U.S. dollar than other emerging market currencies as it depreciated by only 6.0% during the period. High real interest rates in India coupled with a lower current account deficit led investors to prefer rupee-denominated assets.

#### **Performance Contributors and Detractors:**

The underperformance of the portfolio during the year could be explained by our limited exposure to macro-dependent sectors, such as energy, industrials and metals, and higher exposure to relatively defensive and secular sectors, such as consumer staples and health care. Within the energy sector, oil marketing companies in India performed well as fuel prices were deregulated which substantially reduced the subsidy burden for these companies and improved their cash flows. Our portfolio has historically been underweight commodity-dependent sectors and companies that are reliant on policy tailwinds, as they have limited control over their own destinies. Our focus on consumer staples, health care, and information technology has helped us in the past, as companies in these sectors are able to control their future prospects even during adverse macro-economic periods.

#### **Notable Portfolio Changes:**

During the year, we exited a few positions and added several new positions across sectors such as technology, health care and consumer staples. One new investment to highlight is Just Dial, which began as a firm in the space of online local classifieds and is now trying to capture more online business. The company's economic moat lies in its ability to enlist millions of businesses, and it attracts over 100 million search requests. The challenge for Just Dial is to remain relevant to customers while also maintaining profitability.



**Outlook:**

The government's prudent fiscal policy has lent more flexibility to its central bank to continue reducing benchmark interest rates. Overall market sentiment is likely to continue to be dependent on the monsoon rainfall. Given the deficient rainfall over the last two years, the rural economy is already weak. Better rains this season should support agricultural output, increase rural wages, and in turn, help boost consumption.

Going forward, India's cost of capital is likely to decline. The central government recently reduced interest rates offered to small savers in schemes like Public Provident Funds, a popular long-term investment option backed by the Indian government. In the past, interest rates on small savings schemes have been cited by the banking sector as one of the reasons for the weak transmission of repo rate cuts to the economy. It is likely that the cost of borrowing should continue to decline as banks pass on interest rate cuts from last year.

Our on-the-ground research suggests that activity related to road and railway infrastructure construction projects is picking up. Several construction companies have started to mobilise resources for projects that were awarded in 2015. Resource mobilisation is likely to lead to a pick-up in credit growth, greater sales of commercial and construction equipment and higher demand for cement.

While opposition continues to stall Prime Minister Narendra Modi's government reform agenda, incremental steps are consistently being taken. Recently, the bankruptcy bill was cleared by Parliament. The new law aims to provide a legal framework for a time bound resolution of corporate bankruptcy, ensuring that all stakeholder interests are protected. The legal framework provided by this bill would help the banking system in expediting the resolution of stressed assets that are crippling the banking sector in India.

Market valuations continue to be above the historic normalised range, and expectations embedded in earnings growth appear to be optimistic amidst a challenging economic environment. It is possible that earnings growth will continue to fall behind expectations.

## Schedule of Investments

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>			
<b>EQUITIES</b>			
<b>CONSUMER DISCRETIONARY</b>			
<b>Household Durables</b>			
LA Opala RG, Ltd.	58,429	525,778	0.50
Symphony, Ltd.	76,317	2,739,775	2.60
		<b>3,265,553</b>	<b>3.10</b>
<b>Textiles, Apparel &amp; Luxury Goods</b>			
Kewal Kiran Clothing, Ltd.	55,048	1,465,288	1.39
Page Industries, Ltd.	12,552	2,295,545	2.18
Titan Co., Ltd.	379,198	1,940,775	1.84
Vaibhav Global, Ltd.	22,654	109,517	0.10
		<b>5,811,125</b>	<b>5.51</b>
<b>Total Consumer Discretionary</b>		<b>9,076,678</b>	<b>8.61</b>
<b>CONSUMER STAPLES</b>			
<b>Food Products</b>			
Nestle India, Ltd.	9,654	838,902	0.79
Zydus Wellness, Ltd.	102,976	1,134,438	1.08
		<b>1,973,340</b>	<b>1.87</b>
<b>Personal Products</b>			
Bajaj Corp., Ltd.	461,901	2,690,327	2.55
Dabur India, Ltd.	786,593	2,966,864	2.82
Emami, Ltd.	204,759	2,881,244	2.73
Marico, Ltd.	768,055	2,832,025	2.69
		<b>11,370,460</b>	<b>10.79</b>
<b>Tobacco</b>			
ITC, Ltd.	1,011,116	5,009,415	4.75
VST Industries, Ltd.	94,660	2,365,036	2.25
		<b>7,374,451</b>	<b>7.00</b>
<b>Total Consumer Staples</b>		<b>20,718,251</b>	<b>19.66</b>
<b>FINANCIALS</b>			
<b>Banks</b>			
HDFC Bank, Ltd.	265,684	4,295,335	4.07
IDFC Bank, Ltd.	547,186	398,074	0.38
IndusInd Bank, Ltd.	328,280	4,794,260	4.55
Kotak Mahindra Bank, Ltd.	413,650	4,249,504	4.03
		<b>13,737,173</b>	<b>13.03</b>
<b>Consumer Finance</b>			
Shriram City Union Finance, Ltd.	153,161	3,472,736	3.30
Sundaram Finance, Ltd.	112,927	2,216,781	2.10
		<b>5,689,517</b>	<b>5.40</b>
<b>Diversified Financial Services</b>			
CRISIL, Ltd.	109,468	2,972,183	2.82
IDFC, Ltd.	547,186	334,068	0.32
Multi Commodity Exchange of India, Ltd.	850	10,734	0.01
		<b>3,316,985</b>	<b>3.15</b>
<b>Real Estate Management &amp; Development</b>			
Ascendas India Trust	131,100	85,419	0.08
		<b>85,419</b>	<b>0.08</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>FINANCIALS (CONTINUED)</b>			
<b>Thriffs &amp; Mortgage Finance</b>			
GRUH Finance, Ltd.	444,196	1,604,013	1.52
Housing Development Finance Corp., Ltd.	222,726	3,716,638	3.53
		<b>5,320,651</b>	<b>5.05</b>
<b>Total Financials</b>		<b>28,149,745</b>	<b>26.71</b>
<b>HEALTH CARE</b>			
<b>Health Care Equipment &amp; Supplies</b>			
Poly Medicure, Ltd.	140,333	601,321	0.57
		<b>601,321</b>	<b>0.57</b>
<b>Pharmaceuticals</b>			
Ajanta Pharma, Ltd.	213,079	4,531,889	4.30
Alembic Pharmaceuticals, Ltd.	270,487	2,442,977	2.32
Caplin Point Laboratories, Ltd.	45,912	700,027	0.66
Sun Pharma Advanced Research Co., Ltd. Rights, expires 4/11/2016	11,060	7,011	0.01
Sun Pharma Advanced Research Co., Ltd.	256,593	1,111,496	1.05
Sun Pharmaceutical Industries, Ltd.	95,844	1,186,206	1.13
Taro Pharmaceutical Industries, Ltd.	34,500	4,891,931	4.64
		<b>14,871,537</b>	<b>14.11</b>
<b>Total Health Care</b>		<b>15,472,858</b>	<b>14.68</b>
<b>INDUSTRIALS</b>			
<b>Air Freight &amp; Logistics</b>			
Blue Dart Express, Ltd.	24,225	2,212,078	2.10
		<b>2,212,078</b>	<b>2.10</b>
<b>Machinery</b>			
AIA Engineering, Ltd.	243,477	3,453,621	3.27
Ashok Leyland, Ltd.	487,452	798,993	0.76
Thermax, Ltd.	58,209	666,388	0.63
		<b>4,919,002</b>	<b>4.66</b>
<b>Road &amp; Rail</b>			
Container Corp. of India, Ltd.	43,634	818,842	0.78
		<b>818,842</b>	<b>0.78</b>
<b>Transportation Infrastructure</b>			
Gujarat Pipavav Port, Ltd.	391,298	1,042,398	0.99
		<b>1,042,398</b>	<b>0.99</b>
<b>Total Industrials</b>		<b>8,992,320</b>	<b>8.53</b>
<b>INFORMATION TECHNOLOGY</b>			
<b>Internet Software &amp; Services</b>			
Info Edge India, Ltd.	280,413	3,245,774	3.08
Just Dial, Ltd.	118,891	1,375,263	1.30
		<b>4,621,037</b>	<b>4.38</b>

*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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**INFORMATION TECHNOLOGY (CONTINUED)****IT Services**

Cognizant Technology Solutions Corp. Class A	80,000	4,990,893	4.74
eClerx Services, Ltd.	232,938	4,567,525	4.33
Mindtree, Ltd.	375,480	3,702,095	3.51
		<b>13,260,513</b>	<b>12.58</b>

**Total Information Technology**

		<b>17,881,550</b>	<b>16.96</b>
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**MATERIALS****Chemicals**

Asian Paints, Ltd.	77,645	1,017,688	0.96
Castrol India, Ltd.	115,694	653,338	0.62
Supreme Industries, Ltd.	87,470	976,487	0.93
		<b>2,647,513</b>	<b>2.51</b>

**Metals & Mining**

NMDC, Ltd.	704,204	1,041,612	0.99
		<b>1,041,612</b>	<b>0.99</b>

**Total Materials**

		<b>3,689,125</b>	<b>3.50</b>
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<b>TOTAL EQUITIES</b>		<b>103,980,527</b>	<b>98.65</b>
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**TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING**

		<b>103,980,527</b>	<b>98.65</b>
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<b>TOTAL INVESTMENTS</b>		<b>103,980,527</b>	<b>98.65</b>
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**CASH AND OTHER ASSETS, LESS LIABILITIES**

		<b>1,427,584</b>	<b>1.35</b>
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<b>TOTAL NET ASSETS</b>		<b>105,408,111</b>	<b>100.00</b>
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**Sector Allocation**

Financials	26.71
Consumer Staples	19.66
Information Technology	16.96
Health Care	14.68
Consumer Discretionary	8.61
Industrials	8.53
Materials	3.50
<b>Total Investments</b>	<b>98.65</b>
Cash and Other Assets, Less Liabilities	1.35
<b>Total</b>	<b>100.00</b>



## PORTFOLIO MANAGERS

**Kenichi Amaki**  
Lead Manager

**Taizo Ishida**  
Co-Manager

# Japan Fund

## *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the period from 30 April 2015 (inception date) to 31 March 2016, the Matthews Japan Fund returned 5.10% while its benchmark, the MSCI Japan Index, returned -9.95%.

### **Market Environment:**

Japanese equity markets experienced a meaningful correction during the year amidst concerns over China's slowing growth, weakness in emerging market currencies and a sluggish domestic economy. The devaluation of the renminbi and the collapse of China's A-share market in August 2015 weighed heavily on investor sentiment and dragged global equity markets down as well, and overseas investors responded by taking profit in Japan and turning net sellers for the year.

It was a disappointing year as well for Japan's domestic economy, which recorded negative real GDP growth for the second and fourth quarters of calendar year 2015, due to weak consumption and investment spending. Changing the deflationary mindset of Japanese consumers remains a challenge. Japan's currency, the yen, remained within a tight range throughout 2015 and had little impact on equity performance. As part of his "Third Arrow" growth strategy, Prime Minister Shinzo Abe implemented The Corporate Governance Code. Based on our meetings with companies, we believe this has stimulated more extensive thought, at the management level, regarding capital efficiency with particular attention to shareholder returns such as dividends and share buybacks.

In January 2016, the Bank of Japan adopted a negative interest rate policy for the first time on the back of a weak domestic economy and concerns of a slowing external environment, namely in its largest trading partner, China. As this move was unexpected, Japan's equity market reacted with confusion and the new measures have had minimal impact on equity prices or the currency. Meanwhile, the U.S. Federal Reserve assumed a more dovish path for rate hikes than previously expected which resulted in a significant strengthening in the yen, which appreciated by 6.8% in the first three months of 2016.

### **Performance Contributors and Detractors:**

Stock selection drove the Fund's outperformance during the period. The consumer discretionary sector was the largest positive contributor to performance for the year. Start Today, Japan's leading fashion e-commerce company, performed well on the back of continued revenue growth as more fashion consumption moves online. Retailers such as high-end apparel brand United Arrows and Ryohin Keikaku, the owner of the MUJI brand, also contributed to performance on the back of growing sales driven by higher product pricing. We are seeing a polarisation in performance amongst retailers with branded businesses that command pricing power against those that lack such attributes.

The Fund has also historically been underweight the banking sector due to its lack of pricing power, and we benefitted as this sector suffered the most after the Bank of Japan introduced its negative interest rate policy. Additionally, our holdings in unique financial services companies like Nihon M&A Center and Financial Products Group also contributed positively to returns.

On the other hand, our under-allocation to the telecom sector detracted from Fund performance, as leading telecom operators announced aggressive share buyback plans, signaling a change to their capital allocation policies. Although we view such changes positively, we remain bearish on the sector due to excessive government intervention in tariff setting and lack of meaningful growth opportunities.

**Notable Portfolio Changes:**

Since the launch of the Fund, we have initiated a position in W-Scope, a manufacturer of separator films used in the production of lithium-ion batteries. Growth in electric vehicle demand is driving demand for lithium ion batteries, particularly in China as the country grapples with catastrophic air pollution conditions. The company is headquartered and listed in Japan but has located its manufacturing facilities in South Korea where it enjoys substantial tax breaks and subsidies.

Additionally, we have initiated positions in cloud software providers Infomart and Next. Japanese companies, particularly in the non-manufacturing sector, have been ramping up software investments as they seek to improve productivity. Infomart operates the largest business-to-business (BtoB) platform for food sales, connecting wholesalers with restaurants. Next is focused on the real estate sector, providing various services for realtors and real estate owners across the country.

**Outlook:**

We remain cautious on the prospects for Japan's economy due to weak consumption trends. We believe it is highly probable that Prime Minister Shinzo Abe will postpone the consumption tax hike planned for next year. That may provide some temporary relief but it really only "kicks the can down the road." We need to see fiscal measures combined with growth-inducing policies and deregulation for Japan to return toward sustainable growth.

From a bottom-up perspective, we are positive on the IT service sector. We believe there is structural upward pressure on wages in Japan due to labour shortages, particularly in service-related sectors. This drives the need for productivity improvements through the adoption of IT.

Due to the strengthening yen seen this year, we have scaled back our expectations for corporate profit growth. At this point, we believe positive profit growth expectations seem rather optimistic. However, the trend of weak profit growth remains broadly the same for other developed markets. Within that context, Japan's valuations remain attractive on a relative basis.

## Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>			

## EQUITIES

## CONSUMER DISCRETIONARY

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Auto Components</b>			
Nifco, Inc.	13,400	645,353	1.33
		<b>645,353</b>	<b>1.33</b>
<b>Automobiles</b>			
Toyota Motor Corp.	25,300	1,341,567	2.76
		<b>1,341,567</b>	<b>2.76</b>
<b>Distributors</b>			
Doshisha Co., Ltd.	34,900	644,273	1.33
		<b>644,273</b>	<b>1.33</b>
<b>Hotels, Restaurants &amp; Leisure</b>			
Kyoritsu Maintenance Co., Ltd.	9,400	813,208	1.67
		<b>813,208</b>	<b>1.67</b>
<b>Household Durables</b>			
Fujitsu General, Ltd.	8,000	123,747	0.25
		<b>123,747</b>	<b>0.25</b>
<b>Internet &amp; Catalog Retail</b>			
Start Today Co., Ltd.	30,100	1,216,588	2.50
		<b>1,216,588</b>	<b>2.50</b>
<b>Media</b>			
Next Co., Ltd.	64,300	791,158	1.63
		<b>791,158</b>	<b>1.63</b>
<b>Multiline Retail</b>			
Ryohin Keikaku Co., Ltd.	5,500	1,165,998	2.40
		<b>1,165,998</b>	<b>2.40</b>
<b>Specialty Retail</b>			
Nitori Holdings Co., Ltd.	8,400	771,204	1.59
Sac's Bar Holdings, Inc.	31,400	435,643	0.90
United Arrows, Ltd.	7,100	294,441	0.61
VT Holdings Co., Ltd.	105,900	637,420	1.31
Workman Co., Ltd.	3,200	93,856	0.19
		<b>2,232,564</b>	<b>4.60</b>
<b>Total Consumer Discretionary</b>		<b>8,974,456</b>	<b>18.47</b>

## CONSUMER STAPLES

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Food &amp; Staples Retailing</b>			
Cosmos Pharmaceutical Corp.	3,900	650,045	1.34
San-A Co., Ltd.	17,100	810,203	1.67
Seven & I Holdings Co., Ltd.	25,200	1,075,305	2.21
Sundrug Co., Ltd.	10,200	764,048	1.57
		<b>3,299,601</b>	<b>6.79</b>
<b>Food Products</b>			
Ariake Japan Co., Ltd.	10,300	605,286	1.25
Calbee, Inc.	22,900	911,885	1.88
		<b>1,517,171</b>	<b>3.13</b>
<b>Household Products</b>			
Pigeon Corp.	47,300	1,237,964	2.55
		<b>1,237,964</b>	<b>2.55</b>

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>CONSUMER STAPLES (CONTINUED)</b>			

## Personal Products

Kao Corp.	25,900	1,384,791	2.85
		<b>1,384,791</b>	<b>2.85</b>

## Tobacco

Japan Tobacco, Inc.	26,400	1,102,116	2.27
		<b>1,102,116</b>	<b>2.27</b>

## Total Consumer Staples

		<b>8,541,643</b>	<b>17.59</b>
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## FINANCIALS

## Capital Markets

Nihon M&A Center, Inc.	20,300	1,184,232	2.44
		<b>1,184,232</b>	<b>2.44</b>

## Diversified Financial Services

eGuarantee, Inc.	16,500	365,654	0.75
Financial Products Group Co., Ltd.	75,000	906,923	1.87
ORIX Corp.	84,200	1,203,784	2.48
Zenkoku Hosho Co., Ltd.	21,500	731,488	1.50
		<b>3,207,849</b>	<b>6.60</b>

## Insurance

Tokio Marine Holdings, Inc.	34,700	1,174,383	2.42
		<b>1,174,383</b>	<b>2.42</b>

## Total Financials

		<b>5,566,464</b>	<b>11.46</b>
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## HEALTH CARE

## Health Care Equipment &amp; Supplies

Asahi Intecc Co., Ltd.	24,000	1,126,266	2.32
CYBERDYNE, Inc.	39,900	764,270	1.57
Daiken Medical Co., Ltd.	34,400	274,264	0.56
Hoya Corp.	27,400	1,044,268	2.15
Sysmex Corp.	17,300	1,085,926	2.23
		<b>4,294,994</b>	<b>8.83</b>

## Health Care Technology

M3, Inc.	48,400	1,221,491	2.51
		<b>1,221,491</b>	<b>2.51</b>

## Pharmaceuticals

Rohto Pharmaceutical Co., Ltd.	29,000	529,470	1.09
		<b>529,470</b>	<b>1.09</b>

## Total Health Care

		<b>6,045,955</b>	<b>12.43</b>
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## INDUSTRIALS

## Building Products

Aica Kogyo Co., Ltd.	25,400	534,785	1.10
Daikin Industries, Ltd.	8,700	651,909	1.34
		<b>1,186,694</b>	<b>2.44</b>

## Electrical Equipment

Mabuchi Motor Co., Ltd.	19,000	886,597	1.82
Nidec Corp.	13,000	891,944	1.83
		<b>1,778,541</b>	<b>3.65</b>

## Schedule of Investments (continued)

## EQUITIES (CONTINUED)

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDUSTRIALS (CONTINUED)</b>			
<b>Machinery</b>			
Harmonic Drive Systems, Inc.	35,300	905,559	1.86
Komatsu, Ltd.	58,400	996,695	2.05
Mitsubishi Heavy Industries, Ltd.	211,000	786,125	1.62
SMC Corp.	3,000	698,169	1.44
		<b>3,386,548</b>	<b>6.97</b>
<b>Professional Services</b>			
Benefit One, Inc.	18,400	416,285	0.86
Nomura Co., Ltd.	42,900	624,253	1.28
TechnoPro Holdings, Inc.	33,500	996,784	2.05
		<b>2,037,322</b>	<b>4.19</b>
<b>Road &amp; Rail</b>			
Trancom Co., Ltd.	10,000	586,548	1.21
		<b>586,548</b>	<b>1.21</b>
<b>Trading Companies &amp; Distributors</b>			
MISUMI Group, Inc.	74,600	1,070,325	2.20
		<b>1,070,325</b>	<b>2.20</b>
<b>Total Industrials</b>		<b>10,045,978</b>	<b>20.66</b>
<b>INFORMATION TECHNOLOGY</b>			
<b>Electronic Equipment, Instruments &amp; Components</b>			
Anritsu Corp.	44,600	245,797	0.51
Keyence Corp.	2,000	1,093,769	2.25
Murata Manufacturing Co., Ltd.	7,900	955,142	1.97
		<b>2,294,708</b>	<b>4.73</b>
<b>Internet Software &amp; Services</b>			
COOKPAD, Inc.	49,300	790,814	1.63
Dena Co., Ltd.	14,400	248,607	0.51
Infomart Corp.	54,000	486,964	1.00
Kakaku.com, Inc.	48,400	901,055	1.85
		<b>2,427,440</b>	<b>4.99</b>
<b>Software</b>			
Broadleaf Co., Ltd.	35,900	434,292	0.89
NSD Co., Ltd.	33,200	492,053	1.01
		<b>926,345</b>	<b>1.90</b>
<b>Technology Hardware, Storage &amp; Peripherals</b>			
Elecom Co., Ltd.	4,400	77,754	0.16
		<b>77,754</b>	<b>0.16</b>
<b>Total Information Technology</b>		<b>5,726,247</b>	<b>11.78</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>MATERIALS</b>			
<b>Chemicals</b>			
MORESCO Corp.	15,100	179,150	0.37
Shin-Etsu Chemical Co., Ltd.	16,200	839,948	1.73
W-Scope Corp.	14,900	692,829	1.43
		<b>1,711,927</b>	<b>3.53</b>
<b>Total Materials</b>		<b>1,711,927</b>	<b>3.53</b>

<b>TOTAL EQUITIES</b>	<b>46,612,670</b>	<b>95.92</b>
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<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>	<b>46,612,670</b>	<b>95.92</b>
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<b>TOTAL INVESTMENTS</b>	<b>46,612,670</b>	<b>95.92</b>
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<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>	<b>1,983,093</b>	<b>4.08</b>
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<b>TOTAL NET ASSETS</b>	<b>48,595,763</b>	<b>100.00</b>
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Sector Allocation	% of Net Assets
Industrials	20.66
Consumer Discretionary	18.47
Consumer Staples	17.59
Health Care	12.43
Information Technology	11.78
Financials	11.46
Materials	3.53
<b>Total Investments</b>	<b>95.92</b>
Cash and Other Assets, Less Liabilities	4.08
<b>Total</b>	<b>100.00</b>





## PORTFOLIO MANAGERS

**Lydia So, CFA**  
Lead Manager

**Kenichi Amaki**  
Co-Manager

**Beini Zhou, CFA**  
Co-Manager

# Asia Small Companies Fund

## *Fund Manager Report*

*Performance figures discussed in any of the Fund Manager Commentaries reflect that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews Asia Small Companies Fund returned -13.86% while its benchmark, the MSCI All Country Asia ex Japan Small Cap Index, returned -9.80%.

### **Market Environment:**

The beginning of the reporting period witnessed a solid rally in the markets of China and Hong Kong. In particular, the Hang Seng Index rose nearly 20% from mid-March to the end of April, driven by record liquidity from mainland Chinese investors who took advantage of the relatively new Shanghai–Hong Kong Stock Connect Program that was launched in November 2014. By late summer, China’s domestic A-share market corrected sharply after a strong run. This was due to extremely rich stock valuations—compounded by margin lending—that were somewhat detached from company fundamentals. Investor sentiment quickly turned bearish as extreme volatility in China’s domestic A-share market dragged other Asian equity markets lower. In August, China’s unexpected shift toward a more market-driven currency regime and the devaluation of the renminbi sent global markets into panic mode. It left investors fearing emerging market currencies might continue to destabilise.

Asian equity markets continued to be rocky in the subsequent months. Market volatility was caused by recurring anxieties over China’s slowing economy and its implications on global commodity prices. Oil prices fell to historical lows in January of 2016, adding negative pressure to commodity-exporting economies. Weak oil prices also sparked investor fears over defaults among the U.S.’s high yield bond issuers in the oil and gas sectors. The depreciation of the Chinese currency against the U.S. dollar, as well as Japan’s surprise adoption of negative interest rates further damaged already fragile sentiment toward the global economic recovery. However, extreme bearishness in global markets reversed sharply in March as stocks and oil prices rebounded from their troughs. Meanwhile, with deflationary pressure looming globally, market expectations for aggressive rate hikes in 2016 abated somewhat following U.S. Federal Reserve Chairwoman Janet Yellen’s more dovish remarks.

### **Performance Contributors and Detractors:**

Lee’s Pharmaceutical, a pharmaceutical company based in China, reported worse-than-expected 2015 earnings and was the largest performance detractor. After strong growth in previous years, sales for the company’s key products contracted due to intensified price competition. Despite having a pipeline of promising products, it will take some time for the firm to make a meaningful revenue contribution to offset the slowdown of the existing product portfolio. Holdings leveraged to Chinese industrial and capital expenditure investment activities were also the portfolio’s main performance detractors during the year. Towngas China, a downstream piped gas supplier, was another major detractor to Fund performance. The company experienced slowing revenue growth due to softer demand. Correspondingly, its stock valuations contracted sharply during this period. Some Chinese consumer-related holdings performed poorly because of stock-specific operational issues such as slowing growth momentum and margin pressure.

However some holdings in China performed well in a challenging year. For example Sunny Optical Technology, a Chinese optical component maker, registered strong sales and profits growth thanks to the rising adoption of cameras in smartphones in China and demand from the automotive market globally. Hence, its share price performed strongly and contributed positively during the year.

**Notable Portfolio Changes:**

During the year, we adjusted the portfolio, exiting holdings in various industries for company-specific reasons. One company we shed was Tisco Financial Group, a Thai consumer finance company. Despite being well-managed, slowing demand in auto-related loans as well as certain asset quality issues may persist longer than expected. We initiated positions in fast-growing companies that operate in industries that are beneficiaries of structural shifts. For example, we added KCE Electronics, a printed circuit board manufacturer based in Thailand, as the company had demonstrated the ability to gain market share while improving profitability. We believe that the company is well-positioned to benefit from the ongoing global trend we have seen of more electronic components being used in automobiles.

We also exited Lee's Pharmaceutical in China due to concerns mentioned above. We also shed holdings with diminished growth visibility, such as Sinmag in Taiwan, a bakery equipment manufacturer. China is one of Sinmag's main markets accounting for the majority of the company's revenue. Most Chinese bakeries are cautious about store expansions and, hence, are delaying equipment purchases. While we believe Sinmag delivers high-quality yet competitively priced products, demand uncertainties could continue to weigh on the stock performance. On the other hand, our holdings in several export-oriented companies have been beneficiaries of the strong U.S. dollar versus Asian currencies. These companies were, in general, favored by investors during the past year. Therefore, on the margin, we trimmed these positions to take profits given the run-up in valuations.

Another new position the Fund initiated was Cell Biotech, a manufacturer of probiotic supplements, based in South Korea. The company has a strong domestic presence and is making inroads to grow in other overseas markets. We are attracted to the company's manufacturing know-how and its position to benefit from growing trends in the consumption of probiotics in food products and in supplements globally.

**Outlook:**

While equity markets recovered relatively quickly from the recent sell-off, with the exception of the U.S. economy, fundamentals of global economies are still weak. From a top-down perspective, the likelihood of a meaningful pick-up in economic growth across Asia appears low due to softer domestic demand and weak global trade. Rather than only focusing on negative economic data points, we continue to seek growth opportunities within our diverse investment universe that are leveraged to structural growth trends in Asia. We are encouraged by the ongoing development of a more diversified service sector and the adoption of technologies in the consumer and industrial space, sectors which are less affected by economic cyclicality. We also gravitate toward companies that are well-positioned to gain market share, through cost or technological advantages, during challenging times, as well as companies that exhibit good capital allocation discipline. We remain constructive on the long-term growth prospects of our portfolio and the new opportunities emerging from the dynamic small-cap space in Asia.

*Investing in small- and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than larger companies.*

## Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>Transferable securities and money market instruments admitted to an official exchange listing</b>			
<b>EQUITIES</b>			
<b>CHINA/HONG KONG</b>			
51job, Inc. ADR	36,200	1,124,624	1.55
Bitauto Holdings, Ltd. ADR	44,300	1,101,039	1.52
China Biologic Products, Inc.	5,900	672,978	0.93
China Distance Education Holdings, Ltd. ADR	82,100	1,225,891	1.69
Clear Media, Ltd.	1,372,000	1,185,492	1.63
eHi Car Services, Ltd. ADR	86,000	1,055,281	1.46
Fairwood Holdings, Ltd.	582,500	1,988,306	2.74
Genscript Biotech Corp.	3,428,000	605,663	0.83
Kerry Logistics Network, Ltd.	1,016,500	1,464,108	2.02
Lifetech Scientific Corp.	6,874,000	1,146,280	1.58
Phoenix New Media, Ltd. ADR	106,541	481,835	0.66
Qingdao Port International Co., Ltd. H Shares	1,728,000	805,787	1.11
Regina Miracle International Holdings, Ltd.	564,273	825,155	1.14
SITC International Holdings Co., Ltd.	2,060,000	1,018,419	1.40
Sunny Optical Technology Group Co., Ltd.	574,000	1,617,284	2.23
Value Partners Group, Ltd.	1,012,000	1,066,800	1.47
Vitasoy International Holdings, Ltd.	1,218,000	2,276,303	3.13
YGM Trading, Ltd.	680,000	429,709	0.59
		<b>20,090,954</b>	<b>27.68</b>

## EQUITIES

## CHINA/HONG KONG

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>CHINA/HONG KONG</b>			
51job, Inc. ADR	36,200	1,124,624	1.55
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Vitasoy International Holdings, Ltd.	1,218,000	2,276,303	3.13
YGM Trading, Ltd.	680,000	429,709	0.59
		<b>20,090,954</b>	<b>27.68</b>

## INDIA

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDIA</b>			
AIA Engineering, Ltd.	59,420	842,848	1.16
Bajaj Corp., Ltd.	163,620	952,999	1.31
Berger Paints India, Ltd.	256,012	945,917	1.30
CRISIL, Ltd.	28,426	771,799	1.06
Emami, Ltd.	41,624	585,707	0.81
GRUH Finance, Ltd.	263,201	950,432	1.31
Gujarat Pipavav Port, Ltd.	268,066	714,115	0.99
Ipca Laboratories, Ltd.	85,590	752,037	1.03
LA Opala RG, Ltd.	78,969	710,608	0.98
Mindtree, Ltd.	103,454	1,020,018	1.40
Page Industries, Ltd.	3,953	722,936	0.99
Supreme Industries, Ltd.	87,496	976,778	1.35
		<b>9,946,194</b>	<b>13.69</b>

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDONESIA</b>			
PT Astra Otoparts	5,376,900	774,501	1.07
PT Bank Tabungan Pensiunan Nasional	4,299,900	907,973	1.25
PT Selamat Sempurna	2,869,300	1,038,660	1.43
PT Sumber Alfaria Trijaya	21,750,400	975,136	1.35
PT Ultrajaya Milk Industry & Trading Co.	2,250,800	653,513	0.90
		<b>4,349,783</b>	<b>6.00</b>

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDONESIA</b>			
PT Astra Otoparts	5,376,900	774,501	1.07
PT Bank Tabungan Pensiunan Nasional	4,299,900	907,973	1.25
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PT Ultrajaya Milk Industry & Trading Co.	2,250,800	653,513	0.90
		<b>4,349,783</b>	<b>6.00</b>

## MALAYSIA

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>MALAYSIA</b>			
7-Eleven Malaysia Holdings BHD	3,180,700	1,140,825	1.57
GD Express Carrier BHD	2,283,300	912,384	1.26
Karex BHD	1,407,350	1,370,201	1.89
		<b>3,423,410</b>	<b>4.72</b>

## PHILIPPINES

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>PHILIPPINES</b>			
Concepcion Industrial Corp.	1,062,900	994,445	1.37
Philippines Seven Corp.	187,670	408,333	0.56
Security Bank Corp.	338,306	1,288,339	1.78
		<b>2,691,117</b>	<b>3.71</b>

## SINGAPORE

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>SINGAPORE</b>			
ARA Asset Management, Ltd.	1,579,680	1,377,054	1.90
iFAST Corp., Ltd.	994,800	955,584	1.32
Petra Foods, Ltd.	604,900	1,261,203	1.74
Raffles Medical Group, Ltd.	397,500	1,335,457	1.84
		<b>4,929,298</b>	<b>6.80</b>

## SOUTH KOREA

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>SOUTH KOREA</b>			
Cell Biotech Co., Ltd.	12,166	673,840	0.93
Hy-Lok Corp.	45,039	1,081,705	1.49
Interpark Corp.	64,309	1,131,107	1.56
i-SENS, Inc.	45,271	1,433,639	1.97
LIG Nex1 Co., Ltd.	4,919	454,103	0.62
Medy-Tox, Inc.	2,027	783,002	1.08
NICE Holdings Co., Ltd.	60,312	1,042,042	1.44
Silicon Works Co., Ltd.	5,314	154,828	0.21
Value Added Technologies Co., Ltd.	13,256	514,297	0.71
		<b>7,268,563</b>	<b>10.01</b>

## Schedule of Investments (continued)

## EQUITIES (CONTINUED)

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>TAIWAN</b>			
Addn Technology Co., Ltd.	133,500	1,079,069	1.49
Adlink Technology, Inc.	511,699	1,160,487	1.60
Aerospace Industrial Development Corp.	1,162,000	1,522,273	2.10
FineTek Co., Ltd.	371,680	758,303	1.04
Kerry TJ Logistics Co., Ltd.	127,000	163,604	0.22
Merida Industry Co., Ltd.	285,000	1,261,197	1.74
PChome Online, Inc.	163,973	1,808,170	2.49
Poya International Co., Ltd.	26,000	276,021	0.38
Sporton International, Inc.	193,643	989,565	1.36
Sunny Friend Environmental Technology Co., Ltd.	193,000	821,162	1.13
TSC Auto ID Technology Co., Ltd.	70,100	614,130	0.85
Voltronic Power Technology Corp.	74,937	1,180,164	1.63
		<b>11,634,145</b>	<b>16.03</b>

**THAILAND**

Aeon Thana Sinsap Thailand Public Co., Ltd.	301,800	820,085	1.13
Bangkok Chain Hospital Public Co., Ltd.	3,640,200	1,129,154	1.56
Forth Smart Service Public Co., Ltd.	1,197,200	439,617	0.61
KCE Electronics Public Co., Ltd.	495,800	1,114,863	1.53
Plan B Media Public Co., Ltd. F Shares	2,732,800	513,365	0.71
Supalai Public Co., Ltd.	1,559,800	830,076	1.14
		<b>4,847,160</b>	<b>6.68</b>

**VIETNAM**

DHG Pharmaceutical JSC	128,480	484,433	0.67
		<b>484,433</b>	<b>0.67</b>

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>TOTAL EQUITIES</b>		<b>69,665,057</b>	<b>95.99</b>

<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>		<b>69,665,057</b>	<b>95.99</b>
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<b>TOTAL INVESTMENTS</b>		<b>69,665,057</b>	<b>95.99</b>
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<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>		<b>2,909,380</b>	<b>4.01</b>
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<b>TOTAL NET ASSETS</b>		<b>72,574,437</b>	<b>100.00</b>
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ADR: American Depositary Receipt

BHD: Berhad

F Shares: Foreign Shares

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

Country Allocation	% of Net Assets
China/Hong Kong	27.68
Taiwan	16.03
India	13.69
South Korea	10.01
Singapore	6.80
Thailand	6.68
Indonesia	6.00
Malaysia	4.72
Philippines	3.71
Vietnam	0.67
<b>Total Investments</b>	<b>95.99</b>
Cash and Other Assets, Less Liabilities	4.01
<b>Total</b>	<b>100.00</b>



#### PORTFOLIO MANAGERS\*

**Richard H. Gao**  
Lead Manager

**Tiffany Hsiao, CFA**  
Lead Manager

**Henry Zhang, CFA**  
Co-Manager

**Kenichi Amaki**  
Co-Manager

\* Effective 1 July 2015, Tiffany Hsiao, CFA, replaced Richard H. Gao as Lead Manager of this Fund and Kenichi Amaki became a Co-Manager of this Fund. Effective 29 April 2016, Henry Zhang, CFA, is no longer a Co-Manager of this Fund.

## China Small Companies Fund

### *Fund Manager Report*

*Performance figures discussed in this Fund Manager Commentary reflects that of the Institutional Accumulation Class Shares (USD).*

For the year ended 31 March 2016, the Matthews China Small Companies Fund declined -5.23%, outperforming its benchmark, the MSCI China Small Cap Index, which declined -11.65%.

#### **Market Environment:**

China's equity market has endured a volatile period. During the fiscal year, oil prices slumped, global sentiment weakened and volatility in China's currency shook investor confidence. Central bankers around the world quickly acted to boost investor confidence via further monetary stimulus. By the end of the first quarter of 2016, most markets in Asia recovered their losses, with the exception of China. The growth slowdown in China is well understood by the market. However, amidst the renminbi depreciation, speculation over financial system instability added to further volatility. Clearly, structural changes taking place in the Chinese economy—from an investment-driven model to a consumption-driven one—is not an easy task and will not be a smooth transition. We expect Chinese equities will remain volatile as the country's economic transformation unfolds. In our view, the structural transformation is one that will be positive for certain segments of the economy, particularly for small innovative companies.

#### **Performance Contributors and Detractors:**

Thus far in 2016, the biggest contributors to the Fund's relative outperformance versus the benchmark were the consumer discretionary and industrial sectors due to good stock selection. The biggest drag on Fund's relative performance came from holdings in the utilities and health care sectors.

Two of our best-performing stocks were Sunny Optical Technology, a premier Chinese optical lens and module provider, and Minth Group, a leading branded auto parts manufacturer. Both Sunny Optical and Minth grew by diversifying and expanding their product categories and applications. They showed impressive, strong execution capabilities versus that of their competition.

The top detractor to our Fund performance during the fiscal year was Lee's Pharmaceutical Holdings. We believe Chinese pharmaceutical companies will face increasing headwinds in the coming years as the government pushes through significant health care reforms. We expect that being a relatively small player in this negative regulatory environment will be taxing on Lee's growth. However, we believe Lee's Pharmaceuticals has a strong product pipeline which should allow it time to prove its execution capability. Towngas was another significant detractor to Fund performance as the company's operations continue to be affected by weak macro and oil prices. We decided to exit Towngas during the year.

#### **Notable Portfolio Changes:**

We exited TAL Education Group during the most recent quarter as the position had done well for us over the years and we believed its market capitalisation had surpassed our ideal level. We also exited our positions related to natural gas distribution and equipment given the persistent disappointment in both volumes and prices in that sector. Within the health care sector, we repositioned our holdings toward companies that may be subject to less drug price reform risk.

**Outlook:**

Despite the macroeconomic uncertainty in China, the government is taking steps to correct its structural issues. This should provide a healthier macro outlook over the long run for businesses operating in China. For the time being, we continue to focus on innovative and capital-efficient small companies that stay relatively insulated from the macro slowdown. We will continue to focus on companies with sustainable quality earnings streams, strong cash flows and good balance sheets that can better weather uncertain economic conditions. We still find sectors, such as industrial automation and health care, to be amongst the most attractive from a secular growth perspective.

*Investing in small- and mid-size companies is more risky than investing in large companies as they may be more volatile and less liquid than larger companies.*

Schedule of Investments

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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Transferable securities and money market instruments admitted to an official exchange listing

EQUITIES

CONSUMER DISCRETIONARY

Auto Components

Hu Lane Associate, Inc.	13,000	62,029	1.83
Minth Group, Ltd.	44,000	102,480	3.03
		<b>164,509</b>	<b>4.86</b>

Diversified Consumer Services

China Distance Education Holdings, Ltd. ADR	7,300	109,001	3.22
		<b>109,001</b>	<b>3.22</b>

Hotels, Restaurants & Leisure

Fairwood Holdings, Ltd.	26,500	90,455	2.67
Homeinns Hotel Group ADR	600	21,359	0.63
		<b>111,814</b>	<b>3.30</b>

Household Durables

Wuxi Little Swan Co., Ltd. B Shares	41,604	110,330	3.26
		<b>110,330</b>	<b>3.26</b>

Media

Clear Media, Ltd.	74,000	63,941	1.89
		<b>63,941</b>	<b>1.89</b>

Textiles, Apparel & Luxury Goods

Best Pacific International Holdings, Ltd. H Shares	146,000	80,587	2.38
Regina Miracle International Holdings, Ltd.	23,000	33,634	0.99
		<b>114,221</b>	<b>3.37</b>
<b>Total Consumer Discretionary</b>		<b>673,816</b>	<b>19.90</b>

CONSUMER STAPLES

Food Products

Tenwow International Holdings, Ltd.	197,000	52,704	1.56
Vitasoy International Holdings, Ltd.	48,000	89,706	2.65
		<b>142,410</b>	<b>4.21</b>
<b>Total Consumer Staples</b>		<b>142,410</b>	<b>4.21</b>

FINANCIALS

Capital Markets

Value Partners Group, Ltd.	102,000	107,523	3.18
		<b>107,523</b>	<b>3.18</b>

Diversified Financial Services

China Merchants China Direct Investments, Ltd.	26,000	38,365	1.13
		<b>38,365</b>	<b>1.13</b>

Investments

	Quantity/ Nominal Value	Market Value USD	% of Net Assets
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FINANCIALS (CONTINUED)

Real Estate Management & Development

Beijing Properties Holdings, Ltd.	882,000	60,416	1.78
China Jinmao Holdings Group, Ltd.	196,000	54,734	1.62
KWG Property Holding, Ltd.	169,500	111,812	3.30
		<b>226,962</b>	<b>6.70</b>
<b>Total Financials</b>		<b>372,850</b>	<b>11.01</b>

HEALTH CARE

Biotechnology

China Biologic Products, Inc.	1,200	136,877	4.04
Shanghai Haohai Biological Technology Co., Ltd. H Shares	15,900	90,461	2.67
		<b>227,338</b>	<b>6.71</b>

Health Care Equipment & Supplies

Lifetech Scientific Corp.	322,000	53,696	1.59
		<b>53,696</b>	<b>1.59</b>

Life Sciences Tools & Services

Genscript Biotech Corp.	370,000	65,372	1.93
		<b>65,372</b>	<b>1.93</b>

Pharmaceuticals

Lee's Pharmaceutical Holdings, Ltd.	87,500	61,445	1.81
SSY Group, Ltd.	208,599	66,252	1.96
		<b>127,697</b>	<b>3.77</b>
<b>Total Health Care</b>		<b>474,103</b>	<b>14.00</b>

INDUSTRIALS

Air Freight & Logistics

Kerry Logistics Network, Ltd.	62,000	89,301	2.64
		<b>89,301</b>	<b>2.64</b>

Commercial Services & Supplies

Sunny Friend Environmental Technology Co., Ltd.	5,000	21,274	0.63
		<b>21,274</b>	<b>0.63</b>

Electrical Equipment

Boer Power Holdings, Ltd.	45,000	35,601	1.05
Voltronic Power Technology Corp.	9,712	152,952	4.52
		<b>188,553</b>	<b>5.57</b>

Machinery

TK Group Holdings, Ltd.	314,000	81,094	2.39
		<b>81,094</b>	<b>2.39</b>

Marine

SITC International Holdings Co., Ltd.	271,000	133,977	3.95
		<b>133,977</b>	<b>3.95</b>

Professional Services

51job, Inc. ADR	3,400	105,628	3.12
Sporton International, Inc.	11,556	59,054	1.74
		<b>164,682</b>	<b>4.86</b>



*Schedule of Investments (continued)***EQUITIES (CONTINUED)**

Investments	Quantity/ Nominal Value	Market Value USD	% of Net Assets
<b>INDUSTRIALS (CONTINUED)</b>			
<b>Road &amp; Rail</b>			
eHi Car Services, Ltd. ADR	7,800	95,712	2.83
		<b>95,712</b>	<b>2.83</b>
<b>Transportation Infrastructure</b>			
Qingdao Port International Co., Ltd. H Shares	171,000	79,739	2.36
Shenzhen International Holdings, Ltd.	19,000	30,895	0.91
Yuexiu Transport Infrastructure, Ltd.	174,000	117,307	3.46
		<b>227,941</b>	<b>6.73</b>
<b>Total Industrials</b>		<b>1,002,534</b>	<b>29.60</b>

**INFORMATION TECHNOLOGY**

<b>Electronic Equipment, Instruments &amp; Components</b>			
PAX Global Technology, Ltd.	89,000	89,225	2.63
Sunny Optical Technology Group Co., Ltd.	56,000	157,784	4.66
Technovator International, Ltd.	106,000	56,917	1.68
		<b>303,926</b>	<b>8.97</b>
<b>Software</b>			
Chanjet Information Technology Co., Ltd. H Shares	28,400	43,022	1.27
		<b>43,022</b>	<b>1.27</b>
<b>Technology Hardware, Storage &amp; Peripherals</b>			
Adlink Technology, Inc.	41,479	94,070	2.78
		<b>94,070</b>	<b>2.78</b>
<b>Total Information Technology</b>		<b>441,018</b>	<b>13.02</b>

<b>TOTAL EQUITIES</b>	<b>3,106,731</b>	<b>91.74</b>
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<b>TOTAL TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS ADMITTED TO AN OFFICIAL EXCHANGE LISTING</b>	<b>3,106,731</b>	<b>91.74</b>
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<b>TOTAL INVESTMENTS</b>	<b>3,106,731</b>	<b>91.74</b>
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<b>CASH AND OTHER ASSETS, LESS LIABILITIES</b>	<b>279,703</b>	<b>8.26</b>
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<b>TOTAL NET ASSETS</b>	<b>3,386,434</b>	<b>100.00</b>
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ADR: American Depositary Receipt

B Shares: Mainland China companies listed on the Shanghai and Shenzhen stock exchanges, available to both China and non-Chinese investors

H Shares: Mainland China companies listed on the Hong Kong stock exchange but incorporated in mainland China

The accompanying notes form an integral part of these financial statements.

Sector Allocation	% of Net Assets
Industrials	29.60
Consumer Discretionary	19.90
Health Care	14.00
Information Technology	13.02
Financials	11.01
Consumer Staples	4.21
<b>Total Investments</b>	<b>91.74</b>
Cash and Other Assets, Less Liabilities	8.26
<b>Total</b>	<b>100.00</b>

# Statement of Assets and Liabilities

As at 31 March 2016

	Asia Strategic Income Fund (USD)	Asia Credit Opportunities Fund (USD)	Asia Dividend Fund (USD)	Asia ex Japan Dividend Fund (USD)	China Dividend Fund (USD)
<b>ASSETS</b>					
Investment in securities at market value (note 2C)	9,559,196	9,848,970	400,516,853	991,605	3,819,101
At cost	9,800,780	9,498,592	373,810,604	969,300	3,792,548
Cash and cash equivalent at bank	446,054	609,276	9,097,371	17,633	169,404
Amount receivable on sales of investments	–	–	1,368,360	–	17,377
Interests and dividends receivable	177,023	130,875	1,491,787	1,679	–
Subscriptions receivable	–	–	42,946	–	454
Formation expenses (note 2I)	–	–	–	–	–
Unrealised gain on forward currency exchange contracts (note 12)	229,644	–	–	–	–
Prepaid expenses and other receivables	59,480	15,706	36,905	25,618	20,915
<b>TOTAL ASSETS</b>	<b>10,471,397</b>	<b>10,604,827</b>	<b>412,554,222</b>	<b>1,036,535</b>	<b>4,027,251</b>
<b>LIABILITIES</b>					
Amounts payable on purchases of investments	–	–	262,573	–	5,993
Redemptions payable	–	–	1,478,776	–	–
Management fees and administration fees (note 4)	9,916	9,619	380,448	970	3,843
Payable for foreign taxes (note 7B)	–	–	722	–	–
Unrealised loss on forward currency exchange contracts (note 12)	191,116	–	–	–	–
Accrued expenses and other payables	70,798	21,369	552,332	19,784	54,334
<b>TOTAL LIABILITIES</b>	<b>271,830</b>	<b>30,988</b>	<b>2,674,851</b>	<b>20,754</b>	<b>64,170</b>
<b>TOTAL NET ASSETS</b>	<b>10,199,567</b>	<b>10,573,839</b>	<b>409,879,371</b>	<b>1,015,781</b>	<b>3,963,081</b>

The accompanying notes form an integral part of these financial statements.

# Statement of Assets and Liabilities *(Continued)*

*As at 31 March 2016*

Asia Focus Fund (USD)	Pacific Tiger Fund (USD)	China Fund (USD)	India Fund (USD)	Japan Fund (USD)	Asia Small Companies Fund (USD)	China Small Companies Fund (USD)	Combined (USD)
851,253	339,114,339	18,995,875	103,980,527	46,612,670	69,665,057	3,106,731	1,007,062,177
921,141	362,238,123	19,919,420	115,095,888	44,193,250	74,356,902	3,281,265	1,017,877,813
44,132	1,533,327	514,964	2,473,973	2,056,345	2,981,501	311,394	20,255,374
–	30,291	186,469	66	225,940	211,008	23	2,039,534
3,315	349,396	–	42,550	259,095	71,694	–	2,527,414
–	7,973,319	–	5,212	24,654	176	6,304	8,053,065
–	–	–	1,920	–	–	–	1,920
–	–	–	–	–	–	–	229,644
59,732	441,323	73,147	92,270	51,214	98,016	19,373	993,699
<b>958,432</b>	<b>349,441,995</b>	<b>19,770,455</b>	<b>106,596,518</b>	<b>49,229,918</b>	<b>73,027,452</b>	<b>3,443,825</b>	<b>1,041,162,827</b>
–	1,764	634,255	38,275	498,957	195,652	6	1,637,475
–	946,519	2,978	19,922	42,937	193	2,196	2,493,521
933	302,530	27,596	88,543	38,820	75,972	3,961	943,151
–	648,155	–	891,563	–	101,663	–	1,642,103
–	–	–	–	–	–	–	191,116
46,148	321,238	108,753	150,104	53,441	79,535	51,228	1,529,064
<b>47,081</b>	<b>2,220,206</b>	<b>773,582</b>	<b>1,188,407</b>	<b>634,155</b>	<b>453,015</b>	<b>57,391</b>	<b>8,436,430</b>
<b>911,351</b>	<b>347,221,789</b>	<b>18,996,873</b>	<b>105,408,111</b>	<b>48,595,763</b>	<b>72,574,437</b>	<b>3,386,434</b>	<b>1,032,726,397</b>

This table follows the same sequence of financial captions on the previous page.

The accompanying notes form an integral part of these financial statements.

# Statement of Operations and Changes in Net Assets

For the year/period ended 31 March 2016

	Asia Strategic Income Fund (USD)	Asia Credit Opportunities Fund* (USD)	Asia Dividend Fund (USD)	Asia ex Japan Dividend Fund** (USD)	China Dividend Fund (USD)
<b>NET ASSETS AT THE BEGINNING OF THE YEAR/PERIOD</b>	<b>10,034,929</b>	<b>–</b>	<b>630,825,705</b>	<b>–</b>	<b>5,874,921</b>
<b>INCOME</b>					
Dividends income, net of foreign tax withholding (note 2G)	2,137	–	14,094,835	5,644	156,324
Interest income, net (note 2G)	504,484	303,560	2,480	–	390
<b>TOTAL INCOME</b>	<b>506,621</b>	<b>303,560</b>	<b>14,097,315</b>	<b>5,644</b>	<b>156,714</b>
<b>EXPENSES</b>					
Overdraft interest on bank accounts	–	–	–	102	24
Management fees and administration fees (note 4)	116,092	55,651	5,699,288	3,733	56,269
Domiciliation, Administration and Transfer agency fees	52,611	11,802	225,854	4,434	56,162
Professional fees	20,394	1,142	(156,147)	5,633	37,527
Printing fees	6,979	1,731	137,456	23	1,961
Custodian fees	24,920	4,500	210,432	3,000	21,158
Amortization of formation expenses (note 2I)	–	–	647	–	–
Taxe d'abonnement (note 7A)	4,975	2,569	160,313	242	448
Transaction costs (note 8)	9,902	3,315	947,809	4,542	48,458
Other expenses	39,550	10,654	632,372	4,737	32,694
<b>TOTAL EXPENSES</b>	<b>275,423</b>	<b>91,364</b>	<b>7,858,024</b>	<b>26,446</b>	<b>254,701</b>
Fee waiver (note 2H)	126,507	18,623	301,378	19,405	149,771
<b>NET INVESTMENT INCOME/(LOSS)</b>	<b>357,705</b>	<b>230,819</b>	<b>6,540,669</b>	<b>(1,397)</b>	<b>51,784</b>
Net realised gain/(loss) on sales of investments	(216,913)	(13,768)	12,395,817	(4,803)	548,980
Net realised gain/(loss) on forward currency exchange contracts	25,661	246	759,416	249	196
Net realised gain/(loss) on foreign exchanges (note 2E)	(11,500)	(11,564)	(1,032,471)	554	(1,238)
<b>Net realised gain/(loss) for the year/period</b>	<b>(202,752)</b>	<b>(25,086)</b>	<b>12,122,762</b>	<b>(4,000)</b>	<b>547,938</b>
Net change in unrealised gain/(loss) on sales of investments	(28,765)	350,378	(38,330,221)	22,305	(688,496)
Net change in unrealised gain/(loss) on foreign tax provision (note 7B)	–	–	91,638	–	–
Net change in unrealised gain/(loss) on forward currency exchange contracts	38,528	–	–	–	–
Net change in unrealised gain/(loss) on foreign exchanges (note 2E)	792	26	44,406	39	22
<b>Net change in unrealised gain/(loss) for the year/ period</b>	<b>10,555</b>	<b>350,404</b>	<b>(38,194,177)</b>	<b>22,344</b>	<b>(688,474)</b>
<b>Increase/(decrease) in net assets as a result of operations</b>	<b>165,508</b>	<b>556,137</b>	<b>(19,530,746)</b>	<b>16,947</b>	<b>(88,752)</b>
Subscriptions	243,651	10,320,625	136,489,045	1,001,611	1,040,738
Redemptions	–	(2,129)	(335,561,884)	–	(2,781,494)
Dividend distributions (note 10)	(244,521)	(300,794)	(2,342,749)	(2,777)	(82,332)
<b>NET ASSETS AT THE END OF THE YEAR/ PERIOD</b>	<b>10,199,567</b>	<b>10,573,839</b>	<b>409,879,371</b>	<b>1,015,781</b>	<b>3,963,081</b>

\* For the period from 30 September 2015 (date of launch) to 31 March 2016.

\*\* For the period from 30 November 2015 (date of launch) to 31 March 2016.

The accompanying notes form an integral part of these financial statements.

# Statement of Operations and Changes in Net Assets *(Continued)*

For the year/period ended 31 March 2016

Asia Focus Fund (USD)	Pacific Tiger Fund (USD)	China Fund (USD)	India Fund (USD)	Japan Fund*** (USD)	Asia Small Companies Fund (USD)	China Small Companies Fund (USD)	Combined (USD)
1,018,260	750,629,033	61,484,764	69,551,732	–	20,524,224	2,574,907	1,552,518,475
21,539	13,752,184	843,480	1,007,246	286,602	1,487,358	82,816	31,740,165
–	1,419	–	200	233	685	49	813,500
<b>21,539</b>	<b>13,753,603</b>	<b>843,480</b>	<b>1,007,446</b>	<b>286,835</b>	<b>1,488,043</b>	<b>82,865</b>	<b>32,553,665</b>
11	42	813	1,591	–	22	–	2,605
11,422	5,755,571	471,734	827,283	137,564	1,000,463	49,714	14,184,784
58,659	262,952	62,406	63,155	30,388	54,003	44,842	927,268
21,417	90,144	27,095	63,547	13,278	50,922	35,496	210,448
172	105,077	12,925	12,617	1,904	12,225	690	293,760
23,304	380,555	21,158	42,318	9,275	48,704	22,701	812,025
–	647	–	7,891	–	–	–	9,185
408	232,852	13,549	38,566	4,795	39,610	1,752	500,079
2,799	1,284,802	261,037	225,350	44,109	376,222	24,705	3,233,050
26,473	472,929	81,268	88,656	31,420	81,712	41,145	1,543,610
<b>144,665</b>	<b>8,585,571</b>	<b>951,985</b>	<b>1,370,974</b>	<b>272,733</b>	<b>1,663,883</b>	<b>221,045</b>	<b>21,716,814</b>
128,030	418,491	31,160	42,477	57,979	49,536	140,126	1,483,483
<b>4,904</b>	<b>5,586,523</b>	<b>(77,345)</b>	<b>(321,051)</b>	<b>72,081</b>	<b>(126,304)</b>	<b>1,946</b>	<b>12,320,334</b>
(39,166)	(19,597,102)	3,936,240	194,223	(282,239)	(10,430,002)	142,263	(13,366,470)
(725)	(93,519)	(52)	(19,423)	1,800	(14,670)	27	659,206
637	(285,156)	(10,189)	(7,075)	28,412	(54,270)	(333)	(1,384,193)
<b>(39,254)</b>	<b>(19,975,777)</b>	<b>3,925,999</b>	<b>167,725</b>	<b>(252,027)</b>	<b>(10,498,942)</b>	<b>141,957</b>	<b>(14,091,457)</b>
(72,665)	(94,015,765)	(7,747,505)	(11,312,790)	2,419,420	(5,343,044)	(388,412)	(155,135,560)
–	479,504	–	(479,329)	–	3,886	–	95,699
–	–	–	–	–	–	–	38,528
106	1,284	(12)	261	290	831	6	48,051
<b>(72,559)</b>	<b>(93,534,977)</b>	<b>(7,747,517)</b>	<b>(11,791,858)</b>	<b>2,419,710</b>	<b>(5,338,327)</b>	<b>(388,406)</b>	<b>(154,953,282)</b>
<b>(106,909)</b>	<b>(107,924,231)</b>	<b>(3,898,863)</b>	<b>(11,945,184)</b>	<b>2,239,764</b>	<b>(15,963,573)</b>	<b>(244,503)</b>	<b>(156,724,405)</b>
–	307,655,477	29,320,471	72,149,127	46,549,320	81,722,474	2,169,569	688,662,108
–	(601,956,279)	(67,909,499)	(24,347,564)	(193,321)	(13,708,688)	(1,113,539)	(1,047,574,397)
–	(1,182,211)	–	–	–	–	–	(4,155,384)
<b>911,351</b>	<b>347,221,789</b>	<b>18,996,873</b>	<b>105,408,111</b>	<b>48,595,763</b>	<b>72,574,437</b>	<b>3,386,434</b>	<b>1,032,726,397</b>

\*\*\* For the period from 30 April 2015 (date of launch) to 31 March 2016.

This table follows the same sequence of financial captions on the previous page.

The accompanying notes form an integral part of these financial statements.

# Statement of Changes in Number of Shares

For the year/period ended 31 March 2016

	I Acc (USD)	I Dist (USD)	A Acc (USD)	A Dist (USD)	I Acc (GBP)	I Dist (GBP)	A Acc (GBP)	A Dist (GBP)	C Acc (USD)	S Acc (USD)
<b>ASIA STRATEGIC INCOME FUND</b>										
Shares outstanding at the beginning of the year	278,926	256,410	251,146	256,412	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	–	13,356	–	13,364	–	–	–	–	–	–
Shares redeemed	–	–	–	–	–	–	–	–	–	–
Shares outstanding at the end of the year	278,926	269,766	251,146	269,776	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>ASIA CREDIT OPPORTUNITIES FUND*</b>										
Shares outstanding at the beginning of the period	n.a.	–	n.a.	–	n.a.	–	n.a.	n.a.	n.a.	n.a.
Shares subscribed	–	343,131	–	343,133	–	227,481	–	–	–	–
Shares redeemed	–	–	–	–	–	137	–	–	–	–
Shares outstanding at the end of the period	n.a.	343,131	n.a.	343,133	n.a.	227,344	n.a.	n.a.	n.a.	n.a.
<b>ASIA DIVIDEND FUND</b>										
Shares outstanding at the beginning of the year	18,032,906	3,604,978	11,133,222	1,035,080	134,537	1,337,065	236,928	113,659	8,004,916	n.a.
Shares subscribed	3,979,905	1,250,091	1,506,546	50,837	81,613	1,942,041	114,491	3,077	–	–
Shares redeemed	13,943,931	1,968,107	6,544,318	258,859	64,734	1,032,149	64,001	55,298	–	–
Shares outstanding at the end of the year	8,068,880	2,886,962	6,095,450	827,058	151,416	2,246,957	287,418	61,438	8,004,916	n.a.
<b>ASIA EX JAPAN DIVIDEND FUND**</b>										
Shares outstanding at the beginning of the period	–	–	–	–	–	–	n.a.	n.a.	n.a.	n.a.
Shares subscribed	16,667	16,759	16,667	16,759	11,066	11,127	–	–	–	–
Shares redeemed	–	–	–	–	–	–	–	–	–	–
Shares outstanding at the end of the period	16,667	16,759	16,667	16,759	11,066	11,127	n.a.	n.a.	n.a.	n.a.
<b>CHINA DIVIDEND FUND</b>										
Shares outstanding at the beginning of the year	175,302	227,879	64,919	41,512	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	19,579	7,310	40,126	18,427	–	–	–	–	–	–
Shares redeemed	14,240	206,484	20,485	2,383	–	–	–	–	–	–
Shares outstanding at the end of the year	180,641	28,705	84,560	57,556	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>ASIA FOCUS FUND</b>										
Shares outstanding at the beginning of the year	50,000	n.a.	50,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	–	–	–	–	–	–	–	–	–	–
Shares redeemed	–	–	–	–	–	–	–	–	–	–
Shares outstanding at the end of the year	50,000	n.a.	50,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>PACIFIC TIGER FUND</b>										
Shares outstanding at the beginning of the year	38,695,240	1,873,349	6,608,570	n.a.	1,731,226	951,437	11,496	n.a.	n.a.	n.a.
Shares subscribed	9,960,998	4,698,423	2,241,092	–	3,088,390	697,008	20,895	–	–	–
Shares redeemed	34,410,193	5,540,272	6,346,103	–	580,560	342,451	9,367	–	–	–
Shares outstanding at the end of the year	14,246,045	1,031,500	2,503,559	n.a.	4,239,056	1,305,994	23,024	n.a.	n.a.	n.a.

\* For the period from 30 September 2015 (date of launch) to 31 March 2016.

\*\* For the period from 30 November 2015 (date of launch) to 31 March 2016.

# Statement of Changes in Number of Shares *(Continued)*

For the year/period ended 31 March 2016

	I Acc (USD)	I Dist (USD)	A Acc (USD)	A Dist (USD)	I Acc (GBP)	I Dist (GBP)	A Acc (GBP)	A Dist (GBP)	C Acc (USD)	S Acc**** (USD)
<b>CHINA FUND</b>										
Shares outstanding at the beginning of the year	4,999,924	n.a.	93,805	n.a.	82,171	n.a.	2,706	n.a.	n.a.	n.a.
Shares subscribed	2,299,428	–	171,472	–	83,557	–	2,228	–	–	–
Shares redeemed	5,685,770	–	170,020	–	32,114	–	2,830	–	–	–
Shares outstanding at the end of the year	1,613,582	n.a.	95,257	n.a.	133,614	n.a.	2,104	n.a.	n.a.	n.a.
<b>INDIA FUND</b>										
Shares outstanding at the beginning of the year	3,923,949	n.a.	131,343	n.a.	440,068	n.a.	158,280	n.a.	n.a.	–
Shares subscribed	1,397,005	–	482,495	–	748,352	–	72,399	–	–	3,103,968
Shares redeemed	333,162	–	395,366	–	599,293	–	138,433	–	–	–
Shares outstanding at the end of the year	4,987,792	n.a.	218,472	n.a.	589,127	n.a.	92,246	n.a.	n.a.	3,103,968
<b>JAPAN FUND***</b>										
Shares outstanding at the beginning of the period	–	n.a.	–	n.a.	–	n.a.	n.a.	n.a.	n.a.	–
Shares subscribed	2,260,507	–	158,831	–	27,435	–	–	–	–	2,175,385
Shares redeemed	18,992	–	–	–	–	–	–	–	–	–
Shares outstanding at the end of the period	2,241,515	n.a.	158,831	n.a.	27,435	n.a.	n.a.	n.a.	n.a.	2,175,385
<b>ASIA SMALL COMPANIES FUND</b>										
Shares outstanding at the beginning of the year	1,168,352	n.a.	197,529	n.a.	265,248	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	6,678,046	–	66,420	–	69,635	–	–	–	–	–
Shares redeemed	771,466	–	76,812	–	322,889	–	–	–	–	–
Shares outstanding at the end of the year	7,074,932	n.a.	187,137	n.a.	11,994	n.a.	n.a.	n.a.	n.a.	n.a.
<b>CHINA SMALL COMPANIES FUND</b>										
Shares outstanding at the beginning of the year	112,689	n.a.	92,090	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shares subscribed	137,227	–	21,775	–	–	–	–	–	–	–
Shares redeemed	65,517	–	14,097	–	–	–	–	–	–	–
Shares outstanding at the end of the year	184,399	n.a.	99,768	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

\*\*\* For the period from 30 April 2015 (date of launch) to 31 March 2016.

\*\*\*\* S Acc (USD) launched on 5 February 2016 in India Fund and launched on 8 January 2016 in Japan Fund.

The accompanying notes form an integral part of these financial statements.



# Statement of NAV per Share and Net Asset Statistics

Values per share in Share Class currency

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
<b>ASIA STRATEGIC INCOME FUND <sup>1</sup></b>			
<b>Net Assets</b>			
I Acc (USD)	2,772,898	2,721,268	n.a.
I Dist (USD)	2,484,646	2,438,859	n.a.
A Acc (USD)	2,477,017	2,443,086	n.a.
A Dist (USD)	2,465,006	2,431,716	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	9.94	9.76	n.a.
I Dist (USD)	9.21	9.51	n.a.
A Acc (USD)	9.86	9.73	n.a.
A Dist (USD)	9.14	9.48	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	278,926	278,926	n.a.
I Dist (USD)	269,766	256,410	n.a.
A Acc (USD)	251,146	251,146	n.a.
A Dist (USD)	269,776	256,412	n.a.
<b>ASIA CREDIT OPPORTUNITIES FUND <sup>2</sup></b>			
<b>Net Assets</b>			
I Dist (USD)	3,520,987	n.a.	n.a.
A Dist (USD)	3,512,240	n.a.	n.a.
I Dist (GBP)	2,459,869	n.a.	n.a.
<b>NAV Per Share</b>			
I Dist (USD)	10.26	n.a.	n.a.
A Dist (USD)	10.24	n.a.	n.a.
I Dist (GBP)	10.82	n.a.	n.a.
<b>Shares Outstanding</b>			
I Dist (USD)	343,131	n.a.	n.a.
A Dist (USD)	343,133	n.a.	n.a.
I Dist (GBP)	227,344	n.a.	n.a.
<b>ASIA DIVIDEND FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	114,616,926	261,468,378	292,541,034
I Dist (USD)	36,700,323	48,044,214	72,133,495
A Acc (USD)	84,013,230	157,623,512	203,976,154
A Dist (USD)	10,380,289	13,706,145	20,329,738
I Acc (GBP)	2,247,009	1,985,479	1,976,015
I Dist (GBP)	29,749,141	18,095,897	13,305,599
A Acc (GBP)	4,156,321	3,424,896	1,070,956
A Dist (GBP)	805,077	1,531,055	2,952,198
C Acc (USD)	110,973,760	112,982,043	102,528,181
<b>NAV Per Share</b>			
I Acc (USD)	14.25*	14.45*	13.25*
I Dist (USD)	12.76*	13.28*	12.50*
A Acc (USD)	13.83*	14.11*	13.01*
A Dist (USD)	12.59*	13.20*	12.49*
I Acc (GBP)	14.89*	14.71*	11.98*
I Dist (GBP)	13.29*	13.49*	11.26*
A Acc (GBP)	14.51*	14.40*	11.78*
A Dist (GBP)	13.15*	13.42*	11.27*
C Acc (USD)	13.91*	14.06*	12.85*

\* NAV per share includes swing pricing adjustment.

<sup>1</sup> For the period from 29 August 2014 (date of launch) to 31 March 2016.

<sup>2</sup> For the period from 30 September 2015 (date of launch) to 31 March 2016.

The accompanying notes form an integral part of these financial statements.

# Statement of NAV per Share and Net Asset Statistics *(Continued)*

Values per share in Share Class currency

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
<b>ASIA DIVIDEND FUND (CONTINUED)</b>			
<b>Shares Outstanding</b>			
I Acc (USD)	8,068,880	18,032,906	22,151,242
I Dist (USD)	2,886,962	3,604,978	5,791,360
A Acc (USD)	6,095,450	11,133,222	15,739,257
A Dist (USD)	827,058	1,035,080	1,633,760
I Acc (GBP)	151,416	134,537	165,589
I Dist (GBP)	2,246,957	1,337,065	1,186,286
A Acc (GBP)	287,418	236,928	91,220
A Dist (GBP)	61,438	113,659	262,802
C Acc (USD)	8,004,916	8,004,916	8,004,916
<b>ASIA EX JAPAN DIVIDEND FUND<sup>3</sup></b>			
<b>Net Assets</b>			
I Acc (USD)	169,590	n.a.	n.a.
I Dist (USD)	169,588	n.a.	n.a.
A Acc (USD)	169,301	n.a.	n.a.
A Dist (USD)	169,298	n.a.	n.a.
I Acc (GBP)	117,419	n.a.	n.a.
I Dist (GBP)	117,411	n.a.	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	10.18	n.a.	n.a.
I Dist (USD)	10.12	n.a.	n.a.
A Acc (USD)	10.16	n.a.	n.a.
A Dist (USD)	10.10	n.a.	n.a.
I Acc (GBP)	10.61	n.a.	n.a.
I Dist (GBP)	10.55	n.a.	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	16,667	n.a.	n.a.
I Dist (USD)	16,759	n.a.	n.a.
A Acc (USD)	16,667	n.a.	n.a.
A Dist (USD)	16,759	n.a.	n.a.
I Acc (GBP)	11,066	n.a.	n.a.
I Dist (GBP)	11,127	n.a.	n.a.
<b>CHINA DIVIDEND FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	2,078,253	2,059,487	11,741,762
I Dist (USD)	312,829	2,594,658	2,514,536
A Acc (USD)	958,176	754,978	635,031
A Dist (USD)	613,824	465,798	415,005
<b>NAV Per Share</b>			
I Acc (USD)	11.55*	11.71*	10.40
I Dist (USD)	10.94*	11.35*	10.30
A Acc (USD)	11.37*	11.59*	10.33
A Dist (USD)	10.70*	11.18*	10.19
<b>Shares Outstanding</b>			
I Acc (USD)	180,641	175,302	1,129,534
I Dist (USD)	28,705	227,879	244,024
A Acc (USD)	84,560	64,919	61,452
A Dist (USD)	57,556	41,512	40,714

\* NAV per share includes swing pricing adjustment.

<sup>3</sup> For the period from 30 November 2015 (date of launch) to 31 March 2016.

The accompanying notes form an integral part of these financial statements.

# Statement of NAV per Share and Net Asset Statistics *(Continued)*

Values per share in Share Class currency

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
<b>ASIA FOCUS FUND<sup>4</sup></b>			
<b>Net Assets</b>			
I Acc (USD)	457,769	510,193	n.a.
A Acc (USD)	453,583	508,067	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	9.16	10.20	n.a.
A Acc (USD)	9.07	10.16	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	50,000	50,000	n.a.
A Acc (USD)	50,000	50,000	n.a.
<b>PACIFIC TIGER FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	197,179,502	582,183,292	188,211,877
I Dist (USD)	9,184,478	19,622,598	n.a.
A Acc (USD)	32,370,687	93,410,487	5,324,752
I Acc (GBP)	61,411,828	26,558,467	14,592,549
I Dist (GBP)	13,635,953	10,764,427	n.a.
A Acc (GBP)	324,522	172,560	78,634
<b>NAV Per Share</b>			
I Acc (USD)	13.89*	15.10*	12.98*
I Dist (USD)	8.94*	10.51*	n.a.
A Acc (USD)	12.98*	14.18*	12.26*
I Acc (GBP)	14.54*	15.39*	11.74*
I Dist (GBP)	10.48*	11.35*	n.a.
A Acc (GBP)	14.14*	15.06*	11.57*
<b>Shares Outstanding</b>			
I Acc (USD)	14,246,045	38,695,240	14,555,549
I Dist (USD)	1,031,500	1,873,349	n.a.
A Acc (USD)	2,503,559	6,608,570	435,745
I Acc (GBP)	4,239,056	1,731,226	1,247,234
I Dist (GBP)	1,305,994	951,437	n.a.
A Acc (GBP)	23,024	11,496	6,821
<b>CHINA FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	16,174,328	59,030,808	32,841,016
A Acc (USD)	872,547	1,017,559	560,082
I Acc (GBP)	1,334,311	941,591	6,421
A Acc (GBP)	20,465	30,359	14,791
<b>NAV Per Share</b>			
I Acc (USD)	10.06*	11.77*	10.61
A Acc (USD)	9.19*	10.81*	9.80
I Acc (GBP)	10.02*	11.42*	9.13
A Acc (GBP)	9.76*	11.18*	8.99
<b>Shares Outstanding</b>			
I Acc (USD)	1,613,582	4,999,924	3,095,344
A Acc (USD)	95,257	93,805	57,176
I Acc (GBP)	133,614	82,171	703
A Acc (GBP)	2,104	2,706	1,645

\* NAV per share includes swing pricing adjustment.

<sup>4</sup> For the period from 30 May 2014 (date of launch) to 31 March 2016.

The accompanying notes form an integral part of these financial statements.

# Statement of NAV per Share and Net Asset Statistics *(Continued)*

Values per share in Share Class currency

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
<b>INDIA FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	58,694,353	54,510,987	14,770,705
A Acc (USD)	2,510,523	1,790,395	83,336
I Acc (GBP)	7,715,877	6,627,218	7,551
A Acc (GBP)	1,179,440	2,338,746	286,500
S Acc (USD) <sup>5</sup>	31,399,760	n.a.	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	11.73*	13.94*	9.28*
A Acc (USD)	11.45*	13.68*	9.15*
I Acc (GBP)	13.05*	15.11*	8.93*
A Acc (GBP)	12.74*	14.83*	8.80*
S Acc (USD) <sup>5</sup>	10.08*	n.a.	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	4,987,792	3,923,949	1,597,210
A Acc (USD)	218,472	131,343	9,137
I Acc (GBP)	589,127	440,068	849
A Acc (GBP)	92,246	158,280	32,654
S Acc (USD) <sup>5</sup>	3,103,968	n.a.	n.a.
<b>JAPAN FUND<sup>6</sup></b>			
<b>Net Assets</b>			
I Acc (USD)	23,465,937	n.a.	n.a.
A Acc (USD)	1,655,300	n.a.	n.a.
I Acc (GBP)	307,582	n.a.	n.a.
S Acc (USD) <sup>7</sup>	23,031,808	n.a.	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	10.51*	n.a.	n.a.
A Acc (USD)	10.46*	n.a.	n.a.
I Acc (GBP)	11.25*	n.a.	n.a.
S Acc (USD) <sup>7</sup>	10.62*	n.a.	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	2,241,515	n.a.	n.a.
A Acc (USD)	158,831	n.a.	n.a.
I Acc (GBP)	27,435	n.a.	n.a.
S Acc (USD) <sup>7</sup>	2,175,385	n.a.	n.a.
<b>ASIA SMALL COMPANIES FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	70,545,490	13,439,603	995,763
A Acc (USD)	1,839,445	2,251,112	905,659
I Acc (GBP)	131,658	3,270,636	n.a.
<b>NAV Per Share</b>			
I Acc (USD)	9.94*	11.54*	10.62
A Acc (USD)	9.80*	11.44*	10.57
I Acc (GBP)	10.94*	12.37*	n.a.
<b>Shares Outstanding</b>			
I Acc (USD)	7,074,932	1,168,352	93,769
A Acc (USD)	187,137	197,529	85,683
I Acc (GBP)	11,994	265,248	n.a.
<b>CHINA SMALL COMPANIES FUND</b>			
<b>Net Assets</b>			
I Acc (USD)	2,213,060	1,426,675	977,747
A Acc (USD)	1,173,375	1,148,232	1,311,639
<b>NAV Per Share</b>			
I Acc (USD)	11.96*	12.62*	12.67
A Acc (USD)	11.72*	12.42*	12.54
<b>Shares Outstanding</b>			
I Acc (USD)	184,399	112,689	77,171
A Acc (USD)	99,768	92,090	104,603

\* NAV per share includes swing pricing adjustment.

<sup>5</sup> S Acc (USD) launched on 5 February 2016 in India Fund.

<sup>6</sup> For the period from 30 April 2015 (date of launch) to 31 March 2016.

<sup>7</sup> S Acc (USD) launched on 8 January 2016 in Japan Fund.

The accompanying notes form an integral part of these financial statements.

# Notes to Financial Statements

As at 31 March 2016

## 1. GENERAL

MATTHEWS ASIA FUNDS (the “Fund”) is a self-managed investment company organised under the laws of the Grand Duchy of Luxembourg as a “société d’investissement à capital variable” (SICAV) and is authorised under Part I of the amended Luxembourg Law of 17 December 2010 relating to collective investment undertakings. The Fund was incorporated on 5 February 2010.

The Fund’s articles of incorporation have been deposited with the Luxembourg Registre du Commerce et des Sociétés and were published in the *Mémorial C, Recueil des Sociétés et Associations* (the “Mémorial”) on 25 February 2010 and the last update was published on 31 March 2016.

The Fund has been registered under number B-151275 with the Luxembourg Trade and Companies Register.

The objective of the Fund is to provide investors with access to the markets of the Asia Pacific region, through diversification of investments. Each Sub-Fund will have a specific investment objective.

At the closing date, twelve Sub-Funds were available for investments.

Each Sub-Fund offers the following Classes of Shares:

	I ACC (USD)	I DIST (USD)	A ACC (USD)	A DIST (USD)	I ACC (GBP)	I DIST (GBP)	A ACC (GBP)	A DIST (GBP)	C ACC (USD)	S ACC <sup>4</sup> (USD)
Asia Strategic Income Fund	X	X	X	X						
Asia Credit Opportunities Fund <sup>1</sup>		X		X		X				
Asia Dividend Fund	X	X	X	X	X	X	X	X	X	
Asia ex Japan Dividend Fund <sup>2</sup>	X	X	X	X	X	X				
China Dividend Fund	X	X	X	X						
Asia Focus Fund	X		X							
Pacific Tiger Fund	X	X	X		X	X	X			
China Fund	X		X		X		X			
India Fund	X		X		X		X			X
Japan Fund <sup>3</sup>	X		X		X					X
Asia Small Companies Fund	X		X		X					
China Small Companies Fund	X		X							

1 Asia Credit Opportunities Fund launched on 30 September 2015.

2 Asia ex Japan Dividend Fund launched on 30 November 2015.

3 Japan Fund launched on 30 April 2015.

4 S Acc (USD) launched on 5 February 2016 in India Fund and on 8 January 2016 in Japan Fund.

The Sub-Fund may offer both accumulation (“Acc”) and distribution Shares (“Dist”), but in relation to Shares referenced as “Acc” Shares, no distributions will be made and all interests and other income earned by the Sub-Fund will be reflected in the Net Asset Value of such Shares. In relation to Shares referenced as “Dist” Shares, it is the intention of the Board of Directors of the Fund to periodically distribute substantially all the income earned on investments. All classes belonging to the same Sub-Fund will be commonly invested in adherence with the specific investment objective of the relevant Sub-Fund but may differ with regard to fee structure, minimum subscription amount, dividend policy or other particular features described in the Fund’s prospectus.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A) PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with Luxembourg law and regulations relating to Undertakings for Collective Investment and generally accepted accounting principles.

### B) COMBINED FINANCIAL STATEMENTS

The Combined Statement of Assets and Liabilities and Combined Statements of Operations and Changes in Net Assets are expressed in USD.

### C) VALUATION OF THE INVESTMENTS IN SECURITIES AND MONEY MARKET INSTRUMENTS

The Fund’s equity securities are valued based on market quotations or at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund (the “Board”) when no market quotations are available or when market quotations have become unreliable.

Market values for equity securities are determined based on the last sale price on the principal (or most advantageous) market on which the security is traded. If a reliable last sale price is not available, market values for equity securities are determined using the mean between the last available bid and asked price. Securities are valued through valuations obtained from a commercial pricing service or at the most recent mean of the bid and asked prices provided by investment dealers in accordance with the Fund’s Pricing Policies.

# Notes to Financial Statements *(Continued)*

*As at 31 March 2016*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### C) VALUATION OF THE INVESTMENTS IN SECURITIES AND MONEY MARKET INSTRUMENTS *(Continued)*

Securities that trade in over-the-counter markets, including most debt securities (bonds), may be valued by other third-party vendors or by using indicative bid quotations from dealers or market makers, or other available market information.

Events affecting the value of foreign investments may occur between the time at which they are determined and the Fund's valuation point of 2:00 p.m. Luxembourg time. When such events occur, the Sub-Fund may fair value its securities if the impact of such events can be reasonably determined. Notwithstanding the foregoing, the Fund may determine not to fair value securities where it believes that the impact of doing so would not have a material impact on the calculation of a Sub-Fund's NAV on that day.

The Board has delegated the responsibility of making fair value determinations to the Investment Manager's Valuation Committee (the "Valuation Committee"), subject to the Fund's Pricing Policies. The Fund has retained third-party pricing services that may be utilized by the Valuation Committee under circumstances described in the Pricing Policies to provide fair value prices for certain securities held by the Fund. To propose the fair value price of the suspended securities, the Valuation Committee may use techniques such as analyses of the price movements of selected proxies / indices whose performance might indicate valuation changes of the suspended securities. When fair value pricing is used, the prices of securities used by a Sub-Fund to calculate its Net Asset Value ("NAV") differ from quoted or published prices for the same securities for that day. All fair value determinations are made subject to the Board's oversight.

### D) NET REALISED AND NET CHANGE IN UNREALISED GAIN/(LOSS) ON SALES OF INVESTMENTS

Net realised and net change in unrealised gains or losses on sales of investments are calculated on the basis of first in first out cost method of the investments sold.

### E) CONVERSION OF FOREIGN CURRENCIES

The books and records of the Fund are maintained in USD.

Transactions denominated in foreign currencies are recorded at the current prevailing exchange rates. All assets and liabilities denominated in foreign currencies are translated into USD at the current exchange rate.

Conversion gains or losses resulting from changes in the exchange rate during the reporting year and realised gains and losses on the settlement of foreign currency transactions are reported in the results of operations for the current year.

The Fund does not isolate that portion of gains and losses on investments in equity securities that are due to changes in the foreign exchange rate from those that are due to changes in market prices of equity securities.

The accounting records and the financial statements of each Sub-Fund are expressed in USD.

Bank accounts, other net assets and market value of the investments in securities expressed in currencies other than the currency of a Sub-Fund are converted at the exchange rates prevailing on the date of the Statement of Assets and Liabilities. Income and expenses in currencies other than the currency of a Sub-Fund are converted at the rate of exchange prevailing at the transaction date.

Net realised and net change in unrealised gains and losses on foreign exchange transactions represent: (i) foreign exchange gains and losses from the sale and holding of foreign currencies; (ii) gains and losses between trade date and settlement date on securities transactions and (iii) gains and losses arising from the difference between amounts of dividends and interest recorded and the amounts actually received.

### F) COST OF INVESTMENTS IN SECURITIES

Cost of investments in securities in currencies other than the currency of a Sub-Fund is converted into the Sub-Fund's currency at the exchange rate applicable at purchase date.

### G) INCOME

Interest income is accrued on a daily basis and may include the amortisation of premiums and accretions of discounts. Bank and time deposits interest income are recognised on an accrual basis.

Dividends are credited to income on the date upon which the relevant securities are first listed as 'ex dividend' provided that the amount of a dividend is known with reasonable certainty. This income is shown net of any withholding taxes, except where the withholding tax has been received or is receivable.

### H) FEE WAIVER

The Investment Advisor may, for such time as it considers appropriate, choose to waive all or part of the fees that it is entitled to receive, as well as other Sub-Fund expenses, in order to reduce the impact such fees and expenses may have on the performance of the Share Class. The Investment Advisor will reimburse on a monthly basis the amount of the fee waiver to the respective Sub-Fund. Fees that have been previously reimbursed may be recovered by the Investment Advisor.

The amount of such fee waiver is separately disclosed as a "Fee Waiver" in the Statements of Operations and Changes in Net Assets.

# Notes to Financial Statements *(Continued)*

*As at 31 March 2016*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### I) FORMATION EXPENSES

The cost of establishing the Fund amounted to USD 157,391. The establishment costs are amortised on a straight line basis over five years from the date of which the Fund commenced business.

### J) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 3. EXCHANGE RATES

The exchange rates used in the financial statements as at 31 March 2016 are:					
Australian Dollar (AUD)	1.2997	Indian Rupee (INR)	66.255	Singapore Dollar (SGD)	1.3429
Swiss Franc (CHF)	0.9599	Japanese Yen (JPY)	112.31	Thai Bhat (THB)	35.145
Chinese Yuan (CNY)	6.4620	South Korean Won (KRW)	1,143.4	Taiwan New Dollar (TWD)	32.215
British Pound (GBP)	0.6948	Malaysian Ringgit (MYR)	3.9040	Vietnamese Dong (VND)	22,277
Hong Kong Dollar (HKD)	7.7541	New Zealand Dollar (NZD)	1.4401		
Indonesian Rupiah (IDR)	13,260	Philippines Peso (PHP)	45.960		

## 4. MANAGEMENT FEES AND ADMINISTRATION FEES

The Investment Advisor receives an amount corresponding to the Management Fee, which may be up to 1.50% per annum of the NAV of the Sub-Fund calculated (before deduction of accrued Management and Advisory Fees) on each Valuation Day. The Management fees in the table represent the effective fees paid to the Investment Advisor, which are then paid out to the Investment Manager.

	I ACC (USD)	I DIST (USD)	A ACC (USD)	A DIST (USD)	I ACC (GBP)	I DIST (GBP)	A ACC (GBP)	A DIST (GBP)	C ACC (USD)	S ACC (USD)
Asia Strategic Income Fund	0.65%	0.65%	1.20%	1.20%	—	—	—	—	—	—
Asia Credit Opportunities Fund	—	0.65%	—	1.20%	—	0.65%	—	—	—	—
Asia Dividend Fund	0.75%	0.75%	1.25%	1.25%	0.75%	0.75%	1.25%	1.25%	0.75%	—
Asia ex Japan Dividend Fund	0.75%	0.75%	1.25%	1.25%	0.75%	0.75%	—	—	—	—
China Dividend Fund	0.75%	0.75%	1.25%	1.25%	—	—	—	—	—	—
Asia Focus Fund	0.75%	—	1.25%	—	—	—	—	—	—	—
Pacific Tiger Fund	0.75%	0.75%	1.25%	—	0.75%	0.75%	1.25%	—	—	—
China Fund	0.75%	—	1.25%	—	0.75%	—	1.25%	—	—	—
India Fund	0.75%	—	1.25%	—	0.75%	—	1.25%	—	—	0.75%
Japan Fund	0.75%	—	1.25%	—	0.75%	—	—	—	—	0.75%
Asia Small Companies Fund	1.00%	—	1.50%	—	1.00%	—	—	—	—	—
China Small Companies Fund	1.00%	—	1.50%	—	—	—	—	—	—	—

In addition, the Investment Advisor receives an Administration Fee, which may be up to 0.25% per annum of the NAV of the Sub-Fund calculated (before deduction of accrued Management and Advisory Fees) on each Valuation Day. The Administration Fee is currently 0.25% for each Sub-Fund. The Investment Advisor pays the Administration Fee to the Investment Manager for administrative services provided to the Sub-Fund.

## 5. CUSTODIAN AND CENTRAL ADMINISTRATION FEES

The Custodian and the Administrative Agent receive from the Fund aggregate fees that amount to a maximum of 2% per annum of the total net assets of each Sub-Fund. The fees effectively charged to each Sub-Fund are disclosed in the annual report of the Fund. The Custodian and Administration Agent fees are payable monthly in arrears. Transaction costs are charged separately.

## 6. DIRECTOR FEE

The three Directors who are employees of Matthews do not receive additional compensation in respect of their roles as Directors of the Fund. The Director who is independent of Matthews is remunerated as a Conducting Officer, and not separately as a Director of the Fund.



# Notes to Financial Statements *(Continued)*

*As at 31 March 2016*

## 7. TAXATION

### A) TAXE D'ABONNEMENT

The subscription tax is payable quarterly and calculated on the total net assets of each Sub-Fund at the end of the relevant quarter at a rate of 0.05% per annum.

This rate is reduced to 0.01% (i) for Sub-Funds or individual classes of shares reserved to one or more institutional investors or (ii) funds or Sub-Funds having the exclusive object to invest in money market instruments as defined by the amended law of 17 December 2010 relating to undertakings of collective investment.

### B) PROVISION FOR FOREIGN TAXES

The Sub-Funds may be subject to short-term capital gains tax in India on gains realised upon disposal of Indian securities held for a period of one year or less. The tax is computed on net realised gains; any realised losses in excess of gains may be carried forward for a period of up to eight years to offset future gains. Any net taxes payable must be remitted to the Indian government prior to repatriation of sales proceeds. The Sub-Funds that invest in Indian securities accrue a deferred tax liability for net unrealised short-term gains in excess of available carry forwards on Indian securities. This accrual may reduce a Sub-Fund's net asset value. As at 31 March 2016, the Asia Dividend Fund recorded a payable of USD 722, the Pacific Tiger Fund a payable of USD 648,155, the India Fund a payable of USD 891,563 and the Asia Small Companies Fund a payable of USD 101,663 as an estimate for potential future India capital gains taxes.

## 8. TRANSACTION COSTS

For the year ended 31 March 2016, the Fund incurred transaction costs which have been defined as brokerage fees and custody transaction fees relating to purchase or sale of transferable securities or other eligible assets as follows:

Sub-Fund (USD)	Transaction costs	Custody transaction fees	Brokerage fees and commissions
Asia Strategic Income Fund	9,902	9,242	660
Asia Credit Opportunities Fund	3,315	3,315	–
Asia Dividend Fund	947,809	56,265	891,544
Asia ex Japan Dividend Fund	4,542	2,933	1,609
China Dividend Fund	48,458	24,221	24,237
Asia Focus Fund	2,799	2,140	659
Pacific Tiger Fund	1,284,802	29,342	1,255,460
China Fund	261,037	19,453	241,584
India Fund	225,350	52,364	172,986
Japan Fund	44,109	9,890	34,219
Asia Small Companies Fund	376,222	68,911	307,311
China Small Companies Fund	24,705	10,901	13,804

## 9. SOFT COMMISSION ARRANGEMENTS

The Investment Manager may effect transactions with or through the agency of another person with whom the Investment Manager or an entity affiliated to the Investment Manager has arrangements under which that person will, from time to time, provide to or procure for the Investment Manager and/or an affiliated party goods, services or other benefits such as research and advisory services, specialised computer hardware or software. No direct payment may be made for such goods or services but the Investment Manager may undertake to place business with that person provided that person has agreed to provide best execution with respect to such business and the services provided must be of a type which assist in the provision of investment services to the Fund. The total monetary value of these arrangements for the year ended 31 March 2016 is USD 165,816.

## 10. DIVIDENDS

The Fund intends to declare and distribute dividends representing substantially all of the investment income attributable to Distributing Shares. Dividends in respect of these Shares will normally be payable quarterly or semi-annually, will be declared in the currency of denomination of the relevant Fund and will be recorded on ex-date. Interim dividends in respect of the Distributing Shares of any particular Fund may be paid from the attributable net investment income and realised capital gains with a frequency and at such intervals as the Board of Directors may decide.

# Notes to Financial Statements *(Continued)*

*As at 31 March 2016*

## 10. DIVIDENDS (Continued)

The Securities and Futures Commission of Hong Kong (“SFC”) requires disclosure of the composition of dividends distributed by SFC authorized funds. This disclosure should include the amount of the distribution per share as well as the portion of the dividend paid out of capital on a rolling twelve-month period.

The following dividend payments were made during the year ended 31 March 2016:

Asia Dividend Fund	Currency	Ex-Date	Date of dividend payment	Dividend per Share	Dividend paid out of distributable income for the period (%)	Dividend paid out of capital (%)
I Dist	USD	6/18/15	6/25/15	0.183746	77.80%	22.20%
I Dist	USD	9/17/15	9/24/15	0.067328	68.32%	31.68%
I Dist	USD	12/10/15	12/17/15	0.050442	20.18%	79.82%
I Dist	USD	3/21/16	3/30/16	0.042454	17.14%	82.86%
A Dist	USD	6/18/15	6/25/15	0.185727	66.18%	33.82%
A Dist	USD	9/17/15	9/24/15	0.063832	93.01%	6.99%
A Dist	USD	12/10/15	12/17/15	0.051848	0.00%	100.00%
A Dist	USD	3/21/16	3/30/16	0.043409	0.00%	100.00%
I Dist	GBP	6/18/15	6/25/15	0.175884	78.08%	21.92%
I Dist	GBP	9/17/15	9/24/15	0.069316	61.97%	38.03%
I Dist	GBP	12/10/15	12/17/15	0.054167	24.25%	75.75%
I Dist	GBP	3/21/16	3/30/16	0.046035	29.01%	70.99%
A Dist	GBP	6/18/15	6/25/15	0.182011	64.40%	35.60%
A Dist	GBP	9/17/15	9/24/15	0.061172	93.96%	6.04%
A Dist	GBP	12/10/15	12/17/15	0.050368	0.00%	100.00%
A Dist	GBP	3/21/16	3/30/16	0.047635	0.00%	100.00%
<b>China Dividend Fund</b>						
I Dist	USD	6/18/15	6/25/15	0.301049	83.97%	16.03%
I Dist	USD	12/10/15	12/17/15	0.000000	n.a.	0.00%
A Dist	USD	6/18/15	6/25/15	0.294336	78.69%	21.31%
A Dist	USD	12/10/15	12/17/15	0.025583	0.00%	100.00%
<b>Pacific Tiger Fund</b>						
I Dist	USD	12/10/15	12/17/15	0.727711	60.38%	39.62%
I Dist	GBP	12/10/15	12/17/15	0.228652	66.25%	33.75%

## 11. SWING PRICING

The Board of Directors of the Fund implemented a price adjustment policy in order to protect the interests of the Fund’s Shareholders. The purpose of the price adjustment policy is to allocate the costs associated with large inflows and outflows to investors transacting that day, thereby protecting the long-term Shareholders from the worst effects of dilution. It achieves this purpose by adjusting the price at which deals in a Sub-Fund are transacted. In other words, Sub-Funds’ prices may be adjusted up or down depending on the level and type of investor transactions on a particular day. In this way the existing and remaining Shareholders do not suffer an inappropriate level of dilution. The Fund will only trigger an adjustment in the price when there are net flows which exceed a threshold preset by the Board of Directors. The adjustment will be based on the normal dealing costs for the particular assets in which a Sub-Fund is invested but will not exceed 2% of the price. Once an adjustment is made to the price, that price is the official price for that Sub-Fund for all deals that day.

A periodic review is undertaken in order to verify the appropriateness of swing factor being applied.

The NAV per share as disclosed in the statistical information is the published NAV per share whereas the total net assets disclosed in the statement of net assets is the total net asset value excluding any year end swing adjustment.

As at 31 March 2016, swing pricing was applied on the NAV per share of the following Sub-Funds:

Asia Dividend Fund, China Dividend Fund, Pacific Tiger Fund, China Fund, India Fund, Japan Fund, Asia Small Companies Fund and China Small Companies Fund.

# Notes to Financial Statements *(Continued)*

*As at 31 March 2016*

## 12. FORWARD CURRENCY EXCHANGE CONTRACTS

A forward currency exchange contract is an agreement to buy or sell a specific amount of foreign currency at a certain rate, on or before a certain date. Outstanding forward currency exchange contracts are valued on 31 March 2016, by reference to the forward rate of exchange applicable to the maturity of the contracts. The unrealised gain and loss are shown in the Statement of Assets and Liabilities under “Unrealised gain on forward currency exchange contracts” and “Unrealised loss on forward currency exchange contracts”, respectively.

As at 31 March 2016, Asia Strategic Income Fund has outstanding forward currency exchange contracts as follows:

Currency Purchased	Amount Purchased	Currency Sold	Amount Sold	Maturity Date	Counterparty	Unrealised Gain/(Loss) USD	% of Net Assets
<b>Unrealised Gain on Forward Currency Exchange Contracts</b>							
IDR	8,577,000,000	USD	600,000	4/8/16	Deutsche Bank	49,107	0.48
KRW	1,011,585,000	USD	850,000	4/8/16	Deutsche Bank	37,243	0.36
KRW	584,750,000	USD	500,000	6/23/16	J.P. Morgan	12,946	0.13
MYR	3,483,200	USD	800,000	4/8/16	Deutsche Bank	96,679	0.95
MYR	2,040,500	USD	500,000	6/23/16	J.P. Morgan	27,048	0.27
SGD	680,750	USD	500,000	6/23/16	Deutsche Bank	6,621	0.06
<b>Total Unrealised Gain on Forward Currency Exchange Contracts</b>						<b>229,644</b>	<b>2.25</b>
<b>Unrealised Loss on Forward Currency Exchange Contracts</b>							
THB	17,455,000	USD	500,000	6/23/16	J.P. Morgan	(3,501)	(0.03)
USD	606,363	IDR	8,577,000,000	4/8/16	Deutsche Bank	(42,745)	(0.42)
USD	846,515	KRW	1,011,585,000	4/8/16	J.P. Morgan	(40,728)	(0.40)
USD	792,537	MYR	3,483,200	4/8/16	Deutsche Bank	(104,142)	(1.02)
<b>Total Unrealised Loss on Forward Currency Exchange Contracts</b>						<b>(191,116)</b>	<b>(1.87)</b>
<b>Net Unrealised Gain on Forward Currency Exchange Contracts</b>						<b>38,528</b>	<b>0.38</b>

## 13. SIGNIFICANT EVENT

Effective 1 February 2016, Mizuho Bank, Ltd. acquired an ownership interest in Matthews equal to approximately 16% of the outstanding units of Matthews previously held by a broad group of existing equity holders.

## 14. SUBSEQUENT EVENT

The Fund has appointed Brown Brothers Harriman (Luxembourg) SCA as the Fund’s custodian, administrative agent and listing agent effective 4 April 2016. The new registered address of the Fund effective 4 April 2016 is 80, route d’Esch L-1470 Luxembourg.

### Further Information

#### STATEMENT OF CHANGES IN PORTFOLIO

A copy of the changes in the securities portfolio for the year is available free of charge at the registered office of the Fund.

# Performance and Expenses *(Unaudited)*

As at 31 March 2016

	Average Annual Total Return <sup>1</sup>					Inception Date	Portfolio Turnover Ratio <sup>2</sup>	Total Expense Ratio <sup>3</sup>
	3 months	1 year	3 years	5 years	Since Inception			
<b>ASIA STRATEGIC INCOME FUND</b>								
I Acc (USD)	3.22%	1.84%	n.a.	n.a.	-0.38%	29 Aug 2014	93.79%	1.25%
I Dist (USD)	3.22%	1.91%	n.a.	n.a.	-0.37%	29 Aug 2014	93.79%	1.25%
A Acc (USD)	3.03%	1.34%	n.a.	n.a.	-0.88%	29 Aug 2014	93.79%	1.75%
A Dist (USD)	3.12%	1.46%	n.a.	n.a.	-0.85%	29 Aug 2014	93.79%	1.75%
HSBC Asian Local Bond Index (USD)	6.39%	2.69%	n.a.	n.a.	0.54% <sup>4</sup>			
<b>ASIA CREDIT OPPORTUNITIES FUND</b>								
I Dist (USD)	3.36%	n.a.	n.a.	n.a.	5.63%	30 Sept 2015	13.93%	1.25%
A Dist (USD)	3.36%	n.a.	n.a.	n.a.	5.42%	30 Sept 2015	13.93%	1.75%
I Dist (GBP)	6.46%	n.a.	n.a.	n.a.	11.39%	30 Sept 2015	13.93%	1.25%
J.P. Morgan Asia Credit Index (USD)	3.55%	n.a.	n.a.	n.a.	4.93% <sup>5</sup>			
<b>ASIA DIVIDEND FUND</b>								
I Acc (USD)	2.22%	-1.38%	2.98%	5.51%	6.17%	30 Apr 2010	13.29%	1.22%
I Dist (USD)	2.26%	-1.34%	2.98%	5.52%	6.52%	26 Aug 2010	13.29%	1.24%
A Acc (USD)	2.14%	-1.98%	2.40%	4.97%	5.97%	26 Aug 2010	13.29%	1.84%
A Dist (USD)	2.05%	-2.03%	2.40%	4.96%	5.96%	26 Aug 2010	13.29%	1.85%
I Acc (GBP)	5.30%	1.22%	4.71%	7.90%	8.14%	28 Feb 2011	13.29%	1.24%
I Dist (GBP)	5.35%	1.27%	4.74%	7.91%	8.15%	28 Feb 2011	13.29%	1.24%
A Acc (GBP)	5.14%	0.76%	4.16%	7.37%	7.60%	28 Feb 2011	13.29%	1.76%
A Dist (GBP)	5.17%	0.70%	4.15%	7.36%	7.59%	28 Feb 2011	13.29%	1.84%
C Acc (USD)	2.28%	-1.07%	3.27%	5.95%	6.15%	20 Sept 2010	13.29%	0.95%
MSCI AC Asia Pacific Index (USD)	-1.60%	-9.41%	1.04%	1.76%	3.22% <sup>4</sup>			
<b>ASIA EX JAPAN DIVIDEND FUND</b>								
I Acc (USD)	1.70%	n.a.	n.a.	n.a.	1.80%	30 Nov 2015	18.99%	1.50%
I Dist (USD)	1.66%	n.a.	n.a.	n.a.	1.76%	30 Nov 2015	18.99%	1.50%
A Acc (USD)	1.50%	n.a.	n.a.	n.a.	1.60%	30 Nov 2015	18.99%	2.00%
A Dist (USD)	1.46%	n.a.	n.a.	n.a.	1.56%	30 Nov 2015	18.99%	2.00%
I Acc (GBP)	4.64%	n.a.	n.a.	n.a.	6.10%	30 Nov 2015	18.99%	1.50%
I Dist (GBP)	4.62%	n.a.	n.a.	n.a.	6.09%	30 Nov 2015	18.99%	1.50%
MSCI AC Asia ex Japan Index (USD)	1.80%	n.a.	n.a.	n.a.	1.37% <sup>4</sup>			
<b>CHINA DIVIDEND FUND</b>								
I Acc (USD)	-2.37%	-1.37%	5.59%	n.a.	4.66%	31 Jan 2013	129.90%	1.50%
I Dist (USD)	-2.32%	-1.40%	5.59%	n.a.	4.66%	31 Jan 2013	129.90%	1.50%
A Acc (USD)	-2.49%	-1.90%	5.08%	n.a.	4.14%	31 Jan 2013	129.90%	2.00%
A Dist (USD)	-2.55%	-1.88%	5.05%	n.a.	4.15%	31 Jan 2013	129.90%	2.00%
MSCI China Index (USD)	-4.80%	-18.66%	1.21%	n.a.	-1.59% <sup>4</sup>			
<b>ASIA FOCUS FUND</b>								
I Acc (USD)	5.05%	-10.20%	n.a.	n.a.	-4.67%	30 May 2014	48.20%	1.50%
A Acc (USD)	4.73%	-10.73%	n.a.	n.a.	-5.18%	30 May 2014	48.20%	2.00%
MSCI AC Asia ex Japan Index (USD)	1.80%	-11.59%	n.a.	n.a.	-3.51% <sup>4</sup>			

1 Annualised performance for periods of at least one year, otherwise cumulative.

2 The Portfolio Turnover Ratio is calculated in accordance with the CSSF Circular 03/122 i.e. the aggregated sales and purchases less aggregated subscriptions and redemptions, divided by average net assets of the period. The portfolio turnover ratio may be negative as a result of shareholder transactions exceeding the investment transactions for the accounting period.

3 The Total Expense Ratio includes such fees as the Management and Administration fee, Domiciliation, Administration and Transfer agency fees, Professional fees, Printing fees, Custodian fee and Taxe d'abonnement. The Total Expense Ratio reported is for the 12 month period ended 31 March 2016 and is annualised for periods of less than 12 months.

4 Based on the Inception Date of the I Acc (USD) Share Class.

5 Based on the Inception Date of the I Dist (USD) Share Class.

# Performance and Expenses *(Unaudited) (Continued)*

As at 31 March 2016

	Average Annual Total Return <sup>1</sup>					Inception Date	Portfolio Turnover Ratio <sup>2</sup>	Total Expense Ratio <sup>3</sup>
	3 months	1 year	3 years	5 years	Since Inception			
<b>PACIFIC TIGER FUND</b>								
I Acc (USD)	-0.07%	-8.01%	3.52%	3.96%	5.71%	30 Apr 2010	-67.57%	1.20%
I Dist (USD)	0.00%	-7.91%	n.a.	n.a.	-2.29%	31 Oct 2014	-67.57%	1.19%
A Acc (USD)	-0.15%	-8.46%	2.97%	3.40%	4.77%	26 Aug 2010	-67.57%	1.77%
I Acc (GBP)	2.90%	-5.52%	5.28%	6.29%	7.64%	28 Feb 2011	-67.57%	1.25%
I Dist (GBP)	2.95%	-5.51%	n.a.	n.a.	5.07%	31 Oct 2014	-67.57%	1.25%
A Acc (GBP)	2.69%	-6.11%	4.64%	5.71%	7.05%	28 Feb 2011	-67.57%	1.81%
MSCI AC Asia ex Japan Index (USD)	1.80%	-11.59%	0.38%	0.25%	2.96% <sup>4</sup>			
<b>CHINA FUND</b>								
I Acc (USD)	-9.78%	-14.53%	-1.85%	-2.72%	0.10%	26 Feb 2010	105.07%	1.44%
A Acc (USD)	-9.90%	-14.99%	-2.35%	-3.21%	-1.50%	26 Aug 2010	105.07%	2.00%
I Acc (GBP)	-7.14%	-12.26%	-0.17%	-0.51%	0.04%	28 Feb 2011	105.07%	1.46%
A Acc (GBP)	-7.22%	-12.70%	-0.67%	-1.03%	-0.48%	28 Feb 2011	105.07%	1.96%
MSCI China Index (USD)	-4.80%	-18.66%	1.21%	-0.64%	1.85% <sup>4</sup>			
<b>INDIA FUND</b>								
I Acc (USD)	-5.93%	-15.85%	10.47%	n.a.	3.41%	30 June 2011	-39.13%	1.43%
A Acc (USD)	-6.07%	-16.30%	9.93%	n.a.	2.89%	30 June 2011	-39.13%	1.92%
I Acc (GBP)	-3.19%	-13.63%	12.36%	n.a.	5.76%	30 June 2011	-39.13%	1.43%
A Acc (GBP)	-3.27%	-14.09%	11.79%	n.a.	5.23%	30 June 2011	-39.13%	1.93%
S Acc (USD)	n.a.	n.a.	n.a.	n.a.	0.80%	5 Feb 2016	-39.13%	1.00%
S&P BSE 100 Index (USD)	-2.73%	-12.92%	5.99%	n.a.	-0.07% <sup>4</sup>			
<b>JAPAN FUND</b>								
I Acc (USD)	1.06%	n.a.	n.a.	n.a.	5.10%	30 Apr 2015	32.20%	1.50%
A Acc (USD)	0.87%	n.a.	n.a.	n.a.	4.60%	30 Apr 2015	32.20%	2.00%
I Acc (GBP)	3.97%	n.a.	n.a.	n.a.	12.50%	30 Apr 2015	32.20%	1.50%
S Acc (USD)	n.a.	n.a.	n.a.	n.a.	6.20%	8 Jan 2016	32.20%	1.00%
MSCI Japan Index (USD)	-6.38%	n.a.	n.a.	n.a.	-9.95% <sup>4</sup>			
<b>ASIA SMALL COMPANIES FUND</b>								
I Acc (USD)	-1.68%	-13.86%	n.a.	n.a.	-0.21%	30 Apr 2013	65.75%	1.64%
A Acc (USD)	-1.80%	-14.34%	n.a.	n.a.	-0.69%	30 Apr 2013	65.75%	2.16%
I Acc (GBP)	1.20%	-11.56%	n.a.	n.a.	4.80%	30 Apr 2014	65.75%	1.60%
MSCI AC Asia ex Japan Small Cap Index (USD)	-1.55%	-9.80%	n.a.	n.a.	-1.30% <sup>4</sup>			
<b>CHINA SMALL COMPANIES FUND</b>								
I Acc (USD)	-6.34%	-5.23%	4.97%	n.a.	4.48%	29 Feb 2012	82.09%	1.75%
A Acc (USD)	-6.46%	-5.64%	4.43%	n.a.	3.96%	29 Feb 2012	82.09%	2.25%
MSCI China Small Cap Index (USD)	-8.98%	-11.65%	1.74%	n.a.	3.18% <sup>4</sup>			

1 Annualised performance for periods of at least one year, otherwise cumulative.

2 The Portfolio Turnover Ratio is calculated in accordance with the CSSF Circular 03/122 i.e. the aggregated sales and purchases less aggregated subscriptions and redemptions, divided by average net assets of the period. The portfolio turnover ratio may be negative as a result of shareholder transactions exceeding the investment transactions for the accounting period.

3 The Total Expense Ratio includes such fees as the Management and Administration fee, Domiciliation, Administration and Transfer agency fees, Professional fees, Printing fees, Custodian fee and Taxe d'abonnement. The Total Expense Ratio reported is for the 12 month period ended 31 March 2016 and is annualised for periods of less than 12 months.

4 Based on the Inception Date of the I Acc (USD) Share Class.

5 Based on the Inception Date of the I Dist (USD) Share Class.

# Disclosures and Index Definitions *(Unaudited)*

## Investor Disclosure

All performance quoted represents past performance and is no guarantee of future results. The performance data do not take into account the commissions and costs incurred on the issue and redemption of shares. Investment returns and principal value will fluctuate with market conditions so that when redeemed, shares may be worth more or less than the original cost. Current performance may be lower or higher than the return figures quoted. Investors investing in Sub-Funds denominated in non-local currency should be aware of the risk of currency exchange fluctuations that may cause a loss of principal.

Performance details provided for the Sub-Funds are based on a NAV to NAV basis, assuming reinvestment of dividends and capital gains, and are net of management fees and other expenses.

## Calculation Method of the Risk Exposure

The methodology used in order to calculate the global exposure is the commitment approach in accordance with the CSSF Circular 11/512.

## Index Definitions

It is not possible to invest directly in an index.

The **HSBC Asian Local Bond Index (ALBI)** tracks the total return performance of a bond portfolio consisting of local-currency denominated, high quality and liquid bonds in Asia ex Japan. The ALBI includes bonds from the following countries: Korea, Hong Kong, India, Singapore, Taiwan, Malaysia, Thailand, Philippines, Indonesia and China. As of 1 May 2016, the HSBC Asian Local Bond Index became the Market iBoxx Asian Local Bond Index.

The **J.P. Morgan Asia Credit Index (JACI)** tracks the total return performance of the Asia fixed-rate dollar bond market. JACI is a market cap-weighted index comprising sovereign, quasi-sovereign and corporate bonds and is partitioned by country, sector and credit rating. JACI includes bonds from the following countries: China, Hong Kong, India, Indonesia, Korea, Philippines, Thailand and Singapore.

The **MSCI All Country Asia ex Japan Index** is a free float-adjusted market capitalisation-weighted index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI All Country Asia ex Japan Small Cap Index** is a free float-adjusted market capitalization-weighted small cap index of the stock markets of China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI All Country Asia Pacific Index** is a free float-adjusted market capitalisation-weighted index of the stock markets of Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand.

The **MSCI China Index** is a free float-adjusted market capitalisation-weighted index of Chinese equities that includes China-affiliated corporations and H shares listed on The Hong Kong Exchange, and B shares listed on the Shanghai and Shenzhen exchanges.

The **MSCI China Small Cap Index** is a free float-adjusted market capitalization-weighted small cap index of the Chinese equity securities markets, including H shares listed on The Hong Kong Exchange, B shares listed on the Shanghai and Shenzhen exchanges, and Hong Kong-listed securities known as Red Chips (issued by entities owned by national or local governments in China) and P Chips (issued by companies controlled by individuals in China and deriving substantial revenues in China).

The **MSCI Japan Index** is a free float-adjusted market capitalization-weighted index of Japanese equities listed in Japan.

The **S&P Bombay Stock Exchange 100 (S&P BSE 100) Index** is a free float-adjusted market capitalisation-weighted index of the 100 stocks listed on the Bombay Stock Exchange.



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