February 2019

Matthews Asia

Responsible Investment Approach

Our mission is to champion Asia investment solutions designed to build wealth for our global clients over the long term. As an engaged shareholder in our portfolio companies, we seek to foster their sustainability—and profitability. We also strive to be good global neighbors and citizens. We believe Asia's growing inclusion in global financial markets can help drive the growth of Asia's regional economies, laying the groundwork for continued progress and development in countries where we invest. This progress requires a healthy environment where people can live and work. Progress also requires a broad middle class supporting economic growth and social inclusion. Finally, economic progress is supported by transparent corporate governance structures that can help attract domestic and international capital. Working diligently to help our clients reach their financial goals, we are mindful of the role of capital in shaping the world we want to live in.

A Client-Centric Culture

Our clients' assets are tied to their goals and aspirations. As a fiduciary, we have a legal and ethical obligation to act in our clients' best interest. Fostering a client-centric culture begins with understanding clients' goals and creating investment solutions designed to support those goals over the long term. It continues with maintaining and enforcing a strict Conflicts Policy and Code of Ethics for all employees. In addition, we strive to align employee incentives with clients' interests over the long term. Accordingly, our portfolio managers are:

- Owners of the firm with a vested interest in how we serve clients
- Encouraged to invest their own capital in our strategies so they are invested alongside clients
- Compensated based on the long-term performance of the strategies they manage and their adherence to the stated objectives of their respective investment strategies

To help manage risk across our strategies, we take a disciplined approach to risk management. Our Chief Investment Officer oversees key investment team functions through regular meetings and one-on-one interaction with portfolio managers and investment group leaders. Portfolio managers understand material risks in portfolios through in-depth analysis and proprietary research into our investee companies, and our Global Head of Risk and Compliance serves as chair for our Enterprise Risk and Compliance Committee (ERCC), creating a framework for broader compliance and risk management across the firm.

The purpose of the ERCC is to assist our Executive Committee and CEO with their enterprise-wide risk management responsibilities. Toward this end, the ERCC employs a risk-management framework that includes strategies, policies, procedures, processes and systems established by management to identify, assess, measure, monitor and manage the major risks facing our firm, including regulatory and compliance risks. As part of the ERCC, we have an Investment Risk Sub-Committee focused specifically on identifying, reviewing and tracking investment risks that could potentially impact our client portfolios. The Investment Risk Sub-Committee considers market, liquidity, diversification, credit, interest rate, derivative and other risks to help the firm understand and monitor investment risk exposures across client portfolios.

A Strong Focus on Corporate Governance

Paul Matthews, founder of Matthews Asia, started our firm with a strong belief in the long-term growth potential of Asia. He also fostered a culture of carefully considering corporate governance structures as part of our due diligence process. A deep appreciation of corporate governance is built into our DNA. Good governance is important in all markets where we invest, and especially so in emerging and frontier markets. When assessing management quality, we look at how well a company articulates and executes its long-term vision. We believe high-quality businesses run by capable and principled managers are healthier and more sustainable. Our business-quality assessment also includes determining the ability of a company to grow sales and profits with attractive returns over the long term.

We require trust, transparency and accountability from our investee companies. As part of our proprietary investment research, we typically consider a company's:

- Track record for allocating capital
- Board quality, diversity and composition
- Alignment of incentives for major shareholders, minority shareholders and managements
- History of protecting minority stakeholder rights, especially in a crisis
- Ability to attract and retain talent
- Exposure to regulatory, market and other risks. (See "The Role of ESG" below.)

To develop a 360-degree view of investee companies, our due diligence process includes meetings with one or more of the following stakeholders: company management, employees, customers, suppliers, research and civic organizations. This helps us gauge the strength and quality of management teams, as well as the viability of a company's business model. We may also consider a company's potential for successfully entering new areas of business by leveraging existing strengths.

In markets that are rapidly growing and still inherently inefficient, we believe identifying companies with strong corporate governance is essential to help manage our clients' investments.

The Role of ESG

Environmental, social and governance (ESG) factors are often synonymous with long-term investing. Accordingly, ESG factors tend to be highly compatible with our bottom-up, fundamental investment process. We see at least two potential benefits to investing with a long-term view. Companies focused on the long term may be better equipped to identity future growth opportunities ahead of competitors. This helps companies invest in research and development, production and marketing resources ahead of time and proactively create new growth opportunities or benefit significantly when those opportunties materialize. In addition, companies that look ahead can scan the horizon for long-term threats to their businesses. These forward-looking companies can potentially invest in mitigating strategies and address material risks to their long-term prospects more effectively.

Corporate governance is the ESG factor we look at most closely across all our portfolios. We believe governance influences social and environmental factors, providing a starting point for analysis. Poor corporate governance will most likely exclude a company from consideration for our portfolios. However, we generally do not employ negative screens based on environmental or social factors. In addition, our portfolios are typically not constrained by sector or industry, and often look quite different from our benchmarks. In-depth knowledge of local markets helps us to evaluate and prioritize ESG-related risks according to their potential impact on portfolios. In some of our portfolios, ESG considerations may rank high. In other portfolios, ESG considerations may be simply one set of inputs among many that we consider as part of our fundamental research.

In addition to identifying risks, ESG factors can help identify opportunities. As incomes rise across Asia, domestic consumers will naturally seek to improve the quality of their lives, creating opportunities for businesses alert to this trend. Governments across Asia are also focused on improving the quality of their economic growth, which may involve closer regulation of environmental and social issues. We believe Asia's response to ESG challenges will have a major impact on businesses worldwide. Companies that ignore consumer preferences may miss out on business opportunities, while those that ignore regulatory risks may face higher regulatory costs and risk damaging their brands. In contrast, companies with strong or improving ESG track records may find it easier to attract capital from increasingly sophisticated, institutional capital market participants.

Through our fundamental approach to investment research, we get to know our portfolio companies very well. In some cases, we may consider companies that faced ESG challenges in the past but are now improving. Inflection points, such as companies taking positive steps to improve their corporate governance structures, can present attractive buying opportunities. Thus, we are open to investing in technologies and industries that can help bridge the gap toward better ESG solutions, but only after careful research, analysis and due diligence.

The Matthews Asia ESG Strategy

For investors interested in capturing Asia's growth through an ESG lens, we offer a dedicated Asia ESG equity strategy. The Matthews Asia ESG strategy follows an investment-first, positive-screening process. This simply means that companies must first be identified as sound long-term investments before we start to look at their ESG record. We typically look to invest in companies that generate sustainable cash flows while offering products and services that improve quality of life and have positive environmental, social, governance and economic outcomes for the stakeholders.

The Matthews Asia ESG strategy uses an ESG factor framework that currently includes over 20 ESG criteria to analyze our current holdings and prospective investments. Examples of environmental factors that may be considered include low environmental footprint, pollution alleviation and resource management. Examples of social factors encompass financial inclusion, affordable products and services, workplace diversity and employee welfare. Examples of governance factors include board independence, stated sustainability policy, and alignment of interests of shareholders and management. Holdings in this strategy generally have exposure to at least one or more of these material factors.

Our active due diligence process for the Matthews Asia ESG strategy is based on proprietary research, rather than third-party ESG ratings. By conducting proprietary research, we believe we improve the quality of the ESG inputs we use in our investment process and broaden the opportunity set by including companies that may not be rated by third-party providers. We do not employ negative screens and where possible we look to go above and beyond ESG integration to identify investments that generate positive outcomes within the communities where the companies have operations or conduct business. We see this as a natural evolution of our existing investment process.

Engaging Portfolio Companies

As Asia investment specialists, we have invested in the region for 28 years and are often a significant shareholder in company registries. Each year, we have roughly 2,700 touchpoints throughout the region, which can include company, supplier, customer and other stakeholder meetings. With a large team that has a strong background in Asia, we are fluent in the region's languages and familiar with its cultures. Respectful of Asia's diverse cultural landscape, we take an in-person approach to company engagement, which we find more productive within Asia than filing shareholder resolutions.

We also take a thoughtful and conscientious approach to voting proxies on behalf of our clients. As a starting point, we consider input and recommendations from Institutional Shareholder Services, Inc. (ISS), an independent firm analyzing proxy voting issues and global best practices. After careful review and study, portfolio managers will make a final decision for how to vote the proxies for securities held within their respective portfolios. We diverge from ISS recommendations for voting decisions on those occasions when we believe a different vote is in our clients' best interest. As a long-term shareholder, we seek to build trust and promote open dialogue with our investee companies—a trust that we believe has helped us move our investee companies toward improvement on issues that impact financial outcomes, including a broad range of ESG factors.

Investing for the Long Term

The United Nations Principles for Responsible Investment (UNPRI) encourage and promote investing with a long-term view, a goal deeply aligned with our mission. As a signatory to the UNPRI, we are committed to reporting our responsible investing activities every year and welcome dialogue with our clients about their goals and interests related to responsible investing. We strive to provide investors with regular communication about issues that impact financial performance, including ESG topics. To educate and engage our clients, we publish insights, commentaries and articles describing our investment approach and philosophy.

With a long history of investing in Asia, we have witnessed firsthand how carefully invested capital can make a meaningful difference across a broad range of economies. For frontier markets in Asia, access to global capital can represent a lifeline for development. For emerging markets in Asia, foreign investment can help improve living standards for a growing middle class. And for developed markets, full participation in the global economy helps maintain economic competitiveness. We strongly believe these markets all have an important contribution to make in the future of the global economy and in our clients' portfolios. Many of Asia's economies and businesses are growing by leaps and bounds. Not all fast-growing businesses and investments, however, will be sustainable. Drawing upon deep experience, we strive to help clients achieve their goals through a patient, disciplined approach to investing.

BR051_0219

Matthews Asia