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Press Release

Nikko Asset Management Co., Ltd.

Nikko Asset Management Restores Overweight Position on Global Equities

- *G-3 economies, U.S. accommodative policy seen supporting markets*
- *China's property market and credit system ongoing concerns*

Global equities are set to move moderately higher on the back of economic growth in the G-3 (the U.S., European Union and Japan) and thanks to the U.S. Federal Reserve's continued accommodative monetary policy, according to Nikko Asset Management, prompting the firm to move to a moderately overweight stance on global equities. In March, Nikko Asset Management's Global Investment Committee reduced its two-and-a-half year overweight position on global equities to neutral, mainly owing to geopolitical concerns, which it now sees as less of a threat.

"The world's geopolitical situation currently is not as troubled as we previously viewed it," said John F. Vail, Chief Global Strategist and Head of the Global Investment Committee. "Even though there are still some hot spots, on their own they're not likely to derail steady global growth."

One particular area of concern is China's property market. "Never has the world witnessed such a large speculative holding of vacant apartments, which will be severely tested as prices decline," Vail said. "So far there are no signs of panic, and we expect continued government reforms to begin to excite foreign equity investors in the coming quarters. In fact, the government continues to push economic reforms, which has caused junk bond yield spreads to surge and credit defaults to become commonplace. Ultimately these are prudent actions that will benefit the market in the long run."

Nikko Asset Management's Global Investment Committee met on June 24th for its quarterly review of global economic conditions. Based on the findings of its analysts from around the world, the Tokyo-based firm adjusts its house view on the major global markets and asset classes. Its main forecasts at this time are:

Note: all dates in this report are Calendar Year (CY)-based unless otherwise specified.

Japan: Second-half 2014 GDP growth of 0.3%-0.5% half-on-half, seasonally adjusted, with equities rising 9% in yen terms over the next six months.

U.S.: Second-half 2014 GDP growth of 2.9%-3.1% half-on-half, seasonally adjusted, with equities rising 6% in dollar terms over the next six months.

Eurozone: Second-half 2014 GDP growth of 1.8%-1.9% half-on-half, seasonally adjusted, with equities rising 5% in dollar terms over the next six months.

“Japan’s economy is following our expectations fairly closely, but we still believe that growth is understated by falling inventories and other unusual factors,” Vail said. “Japanese stocks have rallied strongly to approach their cycle highs in yen terms. Versus other global markets in U.S. dollar terms, they have bounced back from a historical low, but they likely have much underperformance to regain. The country’s shares are under-owned and underappreciated, even as corporate taxes are very likely to be slashed and GPIF reallocates to stocks. Already, some global-macro hedge funds are showing interest.”

“Meanwhile, the U.S. economy is strongly bouncing back from the bad winter weather, with consumer spending, capital expenditure and housing construction leading the way,” Vail commented. “As for the Eurozone, conditions were a bit unstable in the first quarter but should improve going forward. We believe that underneath the surface, the entire system remains quite fragile. Clearly, geopolitical conditions have worsened, and the region, especially Germany, is highly dependent on Russian trade, including energy imports.”

In other calls, Nikko Asset Management sees the Bank of Japan relaxing its monetary policy even further in the second half of 2014. “The CPI is high due to the VAT hike, and nearly all of the major GDP component indicators are rising, indicating price gains through the entire economy,” Vail commented. “But consumer pipeline inflation is decelerating sharply and the rent component of the CPI has not started to rise, even though it has at least stabilized, which leads us to believe that the BOJ will need to ease further after summer in order to achieve its 2% core inflation target.”

Global coordination efforts to reduce Europe’s dependence on natural gas will highly motivate Japan to reduce its gas imports by restarting a few nuclear power plants in the second half and even more in 2015. “It’s hard to overestimate how much this would improve business sentiment in Japan, and energy costs for the entire economy would be helpfully reduced, according to Vail.

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Nikko Asset Management's views are published in its Evolving Markets research report.

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About Nikko Asset Management

Nikko Asset Management (Nikko AM) is a leader in the Asian financial services industry, with \$158 billion in assets under management as of March 31, 2014. Established in 1959, the firm has representation across 24 locations in 12 countries and enjoys one of the largest distributor networks in the region, serving both retail and institutional clients. More than 300 banks, brokers, financial advisors and life insurance companies distribute the company's products.

Nikko AM manages a wide range of equity and fixed income strategies in both active and passive formats, leveraging the talents of over 270 investment professionals. In 2013 alone, Nikko AM won awards for excellence in asset management from Lipper, Morningstar, Mercer, AsianInvestor, R&I, among others.

The company's management team is highly diverse and experienced, and is committed to running the company according to international best practices. Nikko AM's independence from the limitations imposed on many captive asset management companies allows it to focus on the interests of clients. At the same time, the company enjoys a stable base of shareholders, with majority ownership held by Sumitomo Mitsui Trust Holdings and a smaller stake by DBS Bank.

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* Consolidated assets under management and sub-advisory of Nikko AM and its subsidiaries as of 31 March 2014. AUM figures are converted into US dollars using the month-end exchange rate.