

July 31, 2014

Press Release

Nikko Asset Management Co., Ltd.

In Japan, Cash Dividends are King: Show me the Money!

- *Surging dividend payouts attracting investors*
- *Growing asset wealth key to Abenomics' success*

Japanese companies' paltry payouts are a thing of the past, and the wealth being passed along to investors in the form of dividends will be crucial in ensuring the success of Abenomics, according to new research from Nikko Asset Management.

"While increased scrutiny from independent directors and other improvements to corporate governance in Japan could lure domestic investors to raise their investment risk profile, richer cash dividends are likely to be the magnet that attracts money into the market," said John F. Vail, chief global strategist and head of the Tokyo-based firm's global investment committee.

Japanese listed companies' dividends steadily declined from the late 1980s to 2004, when firms began rewarding shareholders. For the next four years, the TOPIX index's cash dividends nearly tripled on the back of higher earnings and shareholders' demands. After taking a hit amid the global financial crisis, dividends again climbed higher from 2011-2013, and more recently have been moving upward in near parabolic fashion thanks to Abenomics.

"Just like the 2004-2008 period, we expect a continuing surge in dividend growth to lead a sharp increase in the payout ratio. In fact, we expect the TOPIX dividend to double in the next five years, bringing the ratio to 37%, which is near the S&P 500's current level," Vail said. "The implications of this trend are huge, as growing asset wealth among individuals and institutions will be key to the continuing success of Abenomics."

Elsewhere in the latest Evolving Markets research report, the firm's analysts point out the deterioration of current account balances in part of the Eurozone's periphery, namely

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Greece, Italy, Ireland, Portugal and Spain, and the possibility of large current-account deficits reappearing.

"If deficits start to grow and bond yields climb, confidence in other Eurozone countries would be affected," Vail commented. "In particular, hedge funds investing in peripheral debt could trim their risk appetite, similar to the 'convergence trade' that was associated with the Long Term Capital Management tumult in the late 1990s."

Looking at macroeconomic statistics, Nikko Asset Management's analysts believe China-Korea trade figures reveal a slowdown in the Chinese economy. Because Korean exports are primarily consumer goods, industrial components and capital goods, the recent soft bilateral trade figures (down 1% in June and 10% in May, YoY) should be a key leading indicator of China's economy.

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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.

For more information, please visit <http://en.nikkoam.com/>

* 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.