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Press Release

Nikko Asset Management Co., Ltd.

Japan Story Intact, Despite Market Volatility

- *BOJ maintains its accommodative policy though markets expected more*
- *Japan's GDP growth considerably better than reported*

Japan's equity market weathered an onslaught of selling in February by global macro hedge funds who were disappointed that the Bank of Japan (BOJ) didn't accelerate its easing plan, according to a new research report from Nikko Asset Management (Nikko AM). As Japanese equities weakened and the yen appreciated, global risk markets dipped, though most rebounded quite quickly following the February trough. Risk markets will likely continue to be volatile through to the end of the second quarter, however, as underlying fundamentals remain intact, Nikko AM's view is to maintain its longstanding overweight on global equities, and Japanese equities in particular.

"In our view, Japan does not need a much weaker yen, nor does the BOJ have to add to its monetary easing plan to achieve decent economic growth or a positive equity market," said John F. Vail, Chief Global Strategist at Nikko AM's Tokyo head office. "In fact, as the yen stabilises and forex hedge losses dissipate, this should accelerate corporate profitability and push up Japanese stock prices. This would be a boon for U.S. dollar-denominated investors, who would benefit from the rising stock market without losing half the gains from yen weakness. Japan's Price-Earnings Ratio is very attractive, especially given the positive surprises in the current earnings season."

Japan's 2013 fourth quarter GDP growth was 1.0%, far below the consensus of 2.8%. However, Nikko AM's research suggests that Japan's GDP is greatly understated due to continuously falling inventories, and we expect that the figure will be revised upward. Assuming inventories had not declined, GDP growth in the fourth quarter would have been 3.4%. Despite such numbers, Japan had the highest year-on-year growth rate out of the G3 in both the third and fourth quarters of 2013, culminating in a 1.6% year-on-year growth for calendar year 2013.

Personal consumption in Japan also grew strongly in the fourth quarter of 2013 and should continue in the first quarter 2014, as buyers front-run the 3% VAT hike due in April 2014. We expect personal consumption in the second quarter to plunge following the VAT hike by as much as 13% quarter-on-quarter (seasonally adjusted annual rate) and minus 1% year-on-year, but will likely be reversed in the third and fourth quarters of 2014. This would lead to year-on-year growth in personal consumption being flat by the end of 2014.

Thus, we continue to believe that Japan's recovery is intact, and our forecast is for 5.3% GDP growth quarter-on-quarter (seasonally adjusted annual rate) in the first quarter of 2014 and 2.0% GDP growth for calendar year 2014.

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About Nikko Asset Management

Nikko Asset Management (Nikko AM) is a leader in the Asian financial services industry, with over \$160 billion in assets under management as of December 31, 2013. Established in 1959, the firm has 22 offices in 10 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 more than 270 investment professionals. In 2013 alone, Nikko AM won awards for excellence in asset management from Lipper, 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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