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Press Release

Nikko Asset Management Co., Ltd.

Defensive Play in Asian Credit; Quality High-Grade Credits Preferred

Asian high-grade credit spreads are expected to end 2014 at around 169bps or about 30bps tighter than the current 199bps, according to a new report from Nikko Asset Management (Nikko AM). Asian high-yield spread tightening will be moderate at best given current spread levels, and is expected to end 2014 around 10bps tighter from the current 496bps. Returns in both segments will likely be predominantly a function of carry. Given the backdrop of rising risk-free rates, both Asian high-grade and Asian high-yield returns are expected to be lacklustre, and we expect total returns of 1.8% and 5% respectively by year end.

“The relative value between Asian high-grade versus high-yield spreads makes a case for a higher exposure to high-grade compared to high-yield,” said Wai Hoong Leong, a senior portfolio manager in Nikko AM’s Asian Fixed Income team. “However, returns on high-grade could be at greater risk of erosion in an increasing risk-free rate environment. High-yield, with its higher carry, may still provide better volatility-adjusted returns, unless high-yield spreads widen massively.”

The economic environment is expected to remain supportive of Asia credits in 2014. While domestic financing conditions will become tighter, most Asian countries will benefit from stronger external demand, in line with the projected recovery in developed economies and weaker local currencies. However, the differentiated returns in Asia across countries and sectors are set to continue given the divergent macro-economic outlooks across the region.

There are several downside risks that bear close monitoring, including political uncertainties arising from elections in India, Indonesia and Thailand, current account dynamics, particularly in India and Indonesia, and the interplay between growth and financial sector stability in China. Thus, the path for spread compression is likely to be punctuated by periods of sell-offs as observed in 2013. Furthermore, rates could potentially rise faster and to a greater extent if inflation expectations are heightened, should the US economy re-accelerate more rapidly than anticipated. Nikko AM believes a more defensive positioning on duration and credit risk, and in defensive sectors, is preferred over cyclical exposure.

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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 September 30, 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 250 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.

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

* Consolidated assets under management and sub-advisory of Nikko AM and its subsidiaries as of 30 September 2013.