By Peter Sartori,
Head of Equity

Nikko Asset Management

FROM THE EQUITY DESK

Monthly Outlook

Summary

- Asia ex-Japan equities rose in September, returning 1.6% in US Dollar (USD) terms and outperforming both the MSCI World and MSCI Emerging Markets indices. Risk appetite remained healthy following the US Federal Reserve's decision to leave interest rates unchanged and a more favourable US presidential debate outcome.

- Hong Kong was the best performing market, with gains led by Macau casinos and property developers. Imports and exports also rebounded for the first time in over a year.

- Chinese stocks also ended the month up on the back of a broad-based recovery of macroeconomic indicators and a better earnings outlook. Risk appetite increased and housing sales volumes for 28 cities jumped despite cooling measures imposed in Nanjing and Hangzhou.

- Conversely, the Philippines was the worst-performing market in the region, largely due to currency depreciation against the USD. Political concerns and a fall in remittances from Filipinos working overseas further dampened sentiment.

- Elsewhere, Thailand underperformed despite benefits from FTSE rebalancing, while the Indian market fell on the back of escalating tensions with Pakistan.

- The MSCI AxJ Index presents good value for long-term investors. Asia stands to benefit from further monetary and fiscal stimulus, investment initiatives and lower-for-longer commodity prices.

- India remains a favourite as it offers the best structural growth profile in the region over the medium term. While China's path to reform is non-linear and requires difficult compromises, selected opportunities remain. We continue to favour stocks in "new economy" sectors of healthcare, environment and internet.

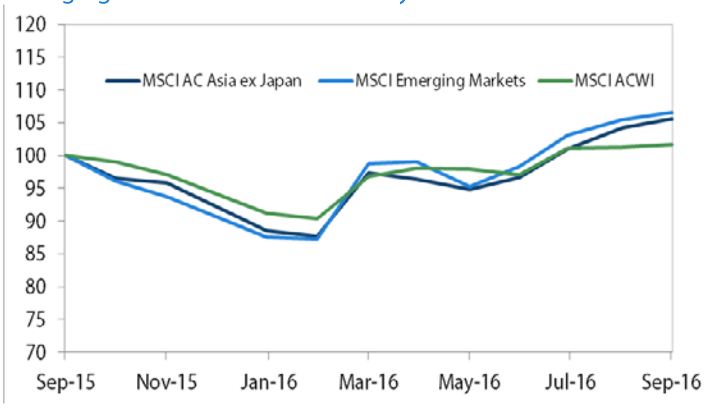
Asian Equity

Market Review

- Asia ex-Japan equities gained in September

The MSCI Asia ex-Japan index gained 1.6% in USD terms, outperforming the MSCI World and MSCI Emerging Markets indices which rose by 0.5% and 1.3% respectively. Commodity sectors outperformed: gold finished up 1.01% and crude oil prices rose 5.8% after OPEC agreed to curb oil production. With risk appetite remaining relatively healthy following policy decisions by the Bank of Japan (BOJ) and US Federal Reserve (Fed), as well as the US presidential debate in late September, emerging market assets across the board have moved back towards their year-to-date highs.

1-Year Market Performance of MSCI Asia ex Japan versus Emerging Markets versus All Country World Index



Source: Bloomberg, 30 September 2016. Returns are in USD. Past performance is not necessarily indicative of future performance.

MSCI Asia ex Japan versus Emerging Markets versus All Country World Index Price-to-Earnings

Source: Bloomberg, 30 September 2016. Returns are in USD. Past performance is not necessarily indicative of future performance.

- **North Asia outperformed, led by Hong Kong**

Hong Kong equity markets rose for the third consecutive month in September with MSCI Hong Kong gaining 3.6% in USD terms. Property developers recovered amid robust sales and price momentum, while Macau casinos rose ahead of China's Golden Week holiday. Hong Kong's exports and imports also returned to positive year-on-year growth for first time in over a year. MSCI China was buoyed by a broad improvement in economic indicators such as manufacturing sector expansion, retail sales and industrial output. Strong southbound buying through the Hong Kong-Shanghai connect scheme also lifted sentiment. Separately, housing sales volumes for 28 cities jumped despite cooling measures imposed in Nanjing and Hangzhou.

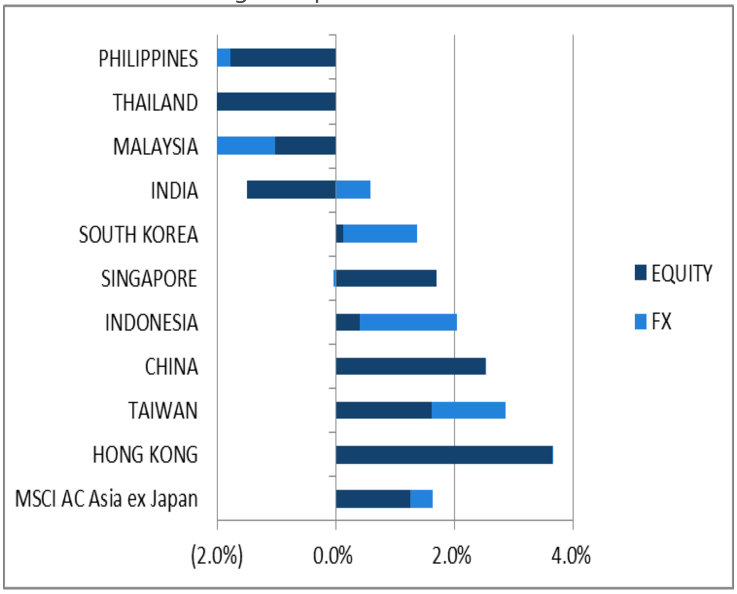
- **The Philippines was weighed down by political concerns**

The Philippines was the worst performing market in the region. MSCI Philippines declined 5.6% in USD terms over the month, owing largely to weakness in the Philippine peso. The market decline coincided with a continuing flow of controversial rhetoric from President Duterte, primarily in the areas of human rights and foreign relations. A slowdown in remittances from Filipinos working overseas further dampened sentiment.

- **India and Thailand also ended September lower**

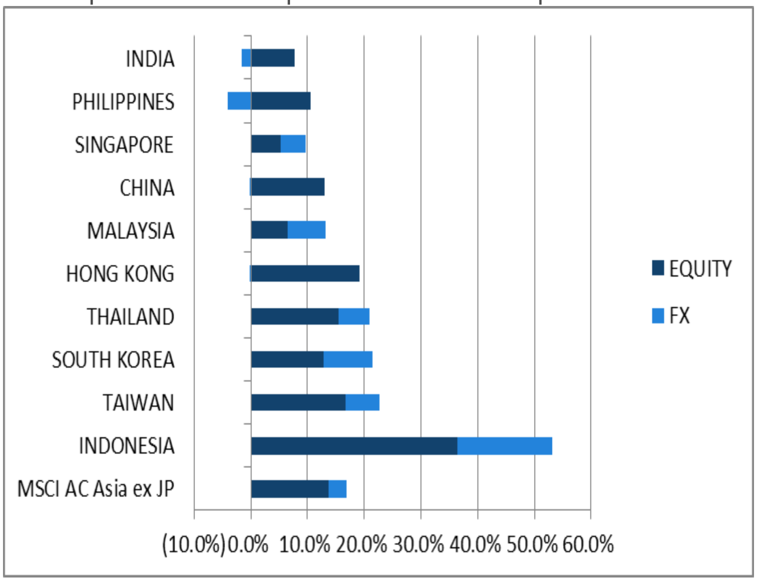
The Indian market rallied early in the month to near all-time highs, with NIFTY hitting 8950 levels, but then subsequently corrected sharply due to mixed signals from developed market central banks on further monetary easing, as well as escalating tensions with Pakistan. Despite benefits from the FTSE rebalancing, the Thai stock market fell in September on the back of potential delays in government capital spending and concerns over the health of the king. That said, Thailand remains the best-performing Asian market year-to-date.

MSCI AC Asia ex Japan Index
For the month ending 30 September 2016



Source: Bloomberg, 30 September 2016
Note: Equity returns are single country MSCI indexes and are in local currencies while FX and MSCI Asia ex Japan returns are in USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

MSCI AC Asia ex Japan Index
For the period from 30 September 2015 to 30 September 2016



Source: Bloomberg, 30 September 2016
Note: Equity returns are single country MSCI indexes and are in local currencies while FX and MSCI Asia ex Japan returns are in USD. Returns are based on historical prices. Past performance is not necessarily indicative of future performance.

Market Outlook

- Asia ex-Japan markets should outperform global emerging market peers, led by India

The resurgence of interest in Asia globally does not come as a surprise to us and despite the recent rally we continue to see good value in Asia ex-Japan equities for long-term investors. Most Asian countries still have considerable monetary and fiscal policy tools at their disposal; some governments also appear willing to act on reforms and infrastructure investment. We continue to advocate that Asia is ultimately a net beneficiary of lower-for-longer commodity prices.

- Positive on emerging ASEAN, in particular Indian equities

We remain overweight selectively in ASEAN, favouring fairly priced, strong franchises in Indonesia and Thailand where domestic stimulus will underpin growth recovery. In the Philippines, we expect that credit availability will drive investments and infrastructure building, even as we monitor the recent unfavourable political developments. We continue to avoid the Malaysian equity market altogether.

India remains our biggest overweight stance as we believe it offers the best structural growth profile in Asia over the medium term. The passage of the GST Bill, after extended political back-and-forth, is a sign that Modi's government remains committed to reform. Policy consistency and continuity at the Reserve Bank of India will reassure foreign investors even as domestic institutional investors benefit from continued inflows owing to the growing penetration of financial savings instruments.

- Remain selective in China

China's attempt to transition to a consumption led economy has been fraught with pitfalls. Resorting to long–favoured fixed asset investment to maintain economic growth has led to financial leverage rising from already alarming levels. Sporadic moves by the government and the regulator, while well intended and in the right direction, are not sufficient to address the underlying issues in the financial system. We continue to favour stocks in "new economy" sectors of healthcare, environment and internet.

- A mixed outlook for developed Asia

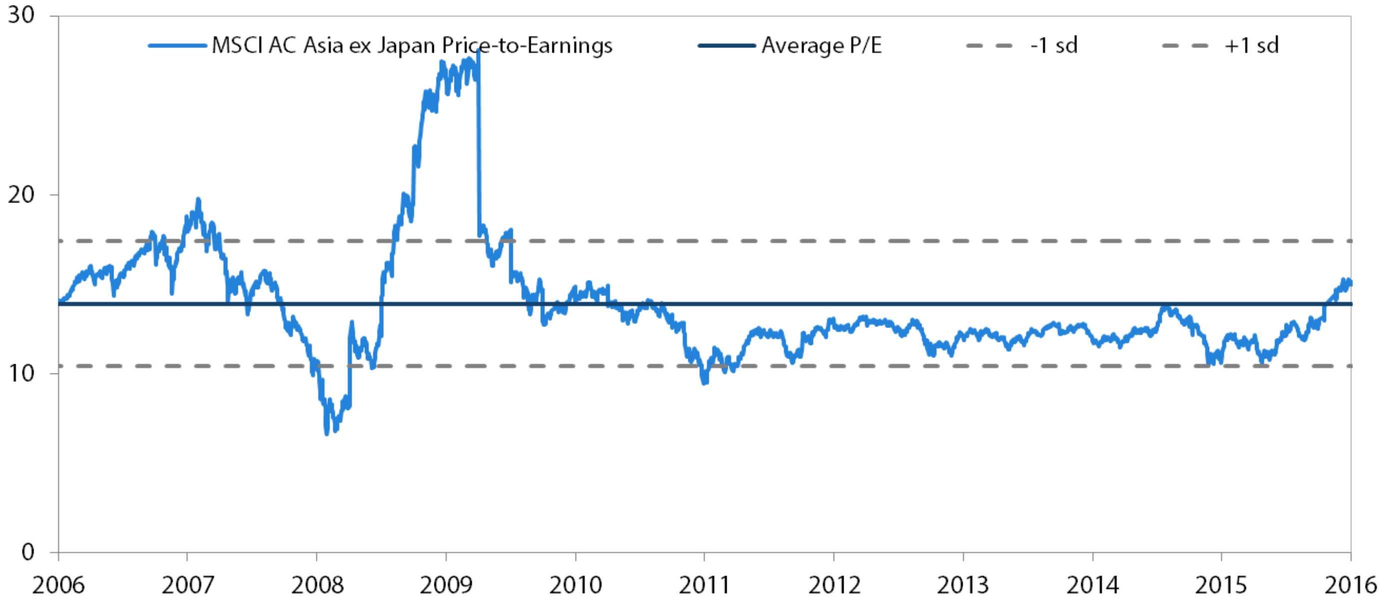
In Korea, the agreement with the US on terminal high-altitude area defense (THAAD) deployment and macro headwinds facing the export industry leave us on the sidelines for better value to emerge, particularly in benchmark-heavy sectors such as technology, industrials and autos. We are invested selectively in consumer and utilities sectors.

In Taiwan, the main driver of the market will continue to be the technology cycle driven by new product launches, and the gradual penetration of connected devices, be they cars or headsets or smartphones or automation. The new government's five focus areas of development (Asian Silicon Valley, biotech, smart machinery, green energy, military defence) effectively underline the importance of technology. These areas could be potential investment themes. We remain positive on Taiwan as we feel that selected companies have carved a niche for themselves through their research and development and could emerge winners in the long run.

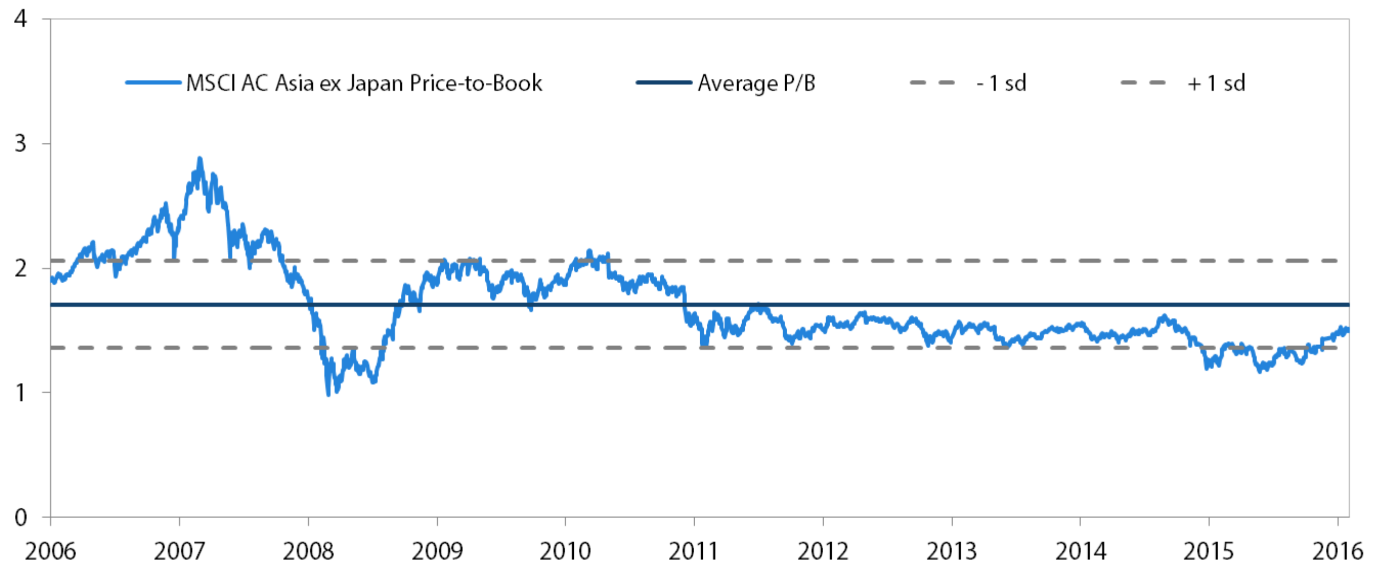
On the other hand, Hong Kong and Singapore both face multiple headwinds in the form of higher US interest rates, a slowing Chinese economy, potential property price correction and oil & gas related exposure of the banking sector. Hence, we prefer companies with regional business models and long-term growth.

Appendix

MSCI AC Asia ex Japan Price-to-Earnings



MSCI AC Asia ex Japan Price-to-Book



Source: Bloomberg, 30 September 2016. Ratios are computed in USD. The horizontal lines represent the average (the middle line) and one standard deviation on either side of this average for the period shown. Past performance is not necessarily indicative of future performance.

Important Information

This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute investment advice or a personal recommendation and it does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this material will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual stocks, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/Japan Securities Dealers Association.

United Kingdom and rest of Europe: This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules).

This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the FCA (122084). It is directed only at (a) investment professionals falling within article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, (as amended) (the Order) (b) certain high net worth entities within the meaning of article 49 of the Order and (c) persons to whom this document may otherwise lawfully be communicated (all such persons being referred to as relevant persons) and is only available to such persons and any investment activity to which it relates will only be engaged in with such persons.

United States: This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments. This document should not be regarded as investment advice. This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity.

Singapore: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you

Hong Kong: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong.

Australia: Nikko AM Limited ABN 99 003 376 252 (**Nikko AM Australia**) is responsible for the distribution of this information in Australia. **Nikko AM Australia** holds Australian Financial Services Licence No. 237563 and is part of the Nikko AM Group. This material and any offer to provide financial services are for information purposes only. This material does not take into account the objectives, financial situation or needs of any individual and is not intended to constitute personal advice, nor can it be relied upon as such. This material is intended for, and can only be provided and made available to, persons who are regarded as Wholesale Clients for the purposes of section 761G of the Corporations Act 2001 (Cth) and must not be made available or passed on to persons who are regarded as Retail Clients for the purposes of this Act. If you are in any doubt about any of the contents, you should obtain independent professional advice

New Zealand: Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562) is the licensed Investment Manager of Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme.

This material is for the use of researchers, financial advisers and wholesale investors (in accordance with Schedule 1, Clause 3 of the Financial Markets Conduct Act 2013 in New Zealand). This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this material, who are not wholesale investors, or the named client, or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet (available on our website www.nikkoam.co.nz).