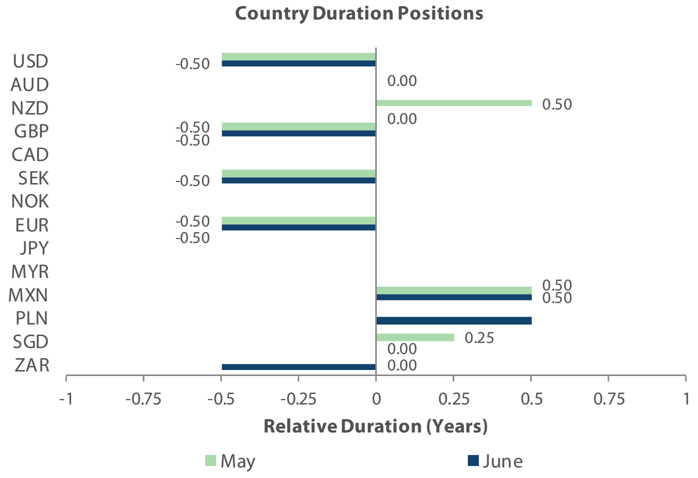
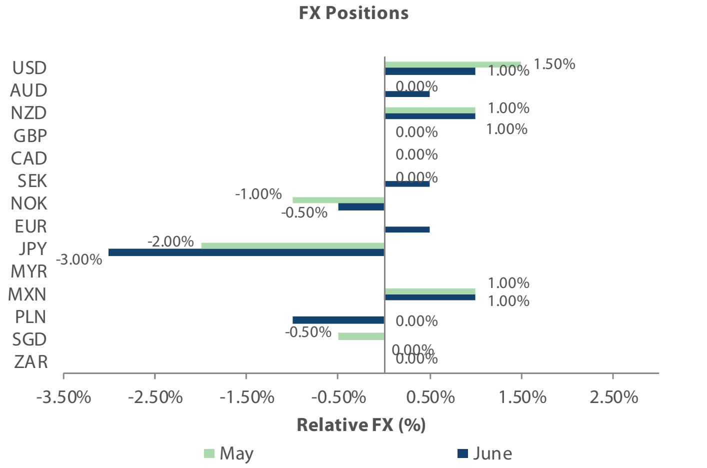
GLOBAL FIXED INCOME & CREDIT OUTLOOK

June 2017





Source: Nikko AM

Please Note: Relative positions against the WGBI (Citigroup World Government Bond Index) Copyright © Citigroup Inc

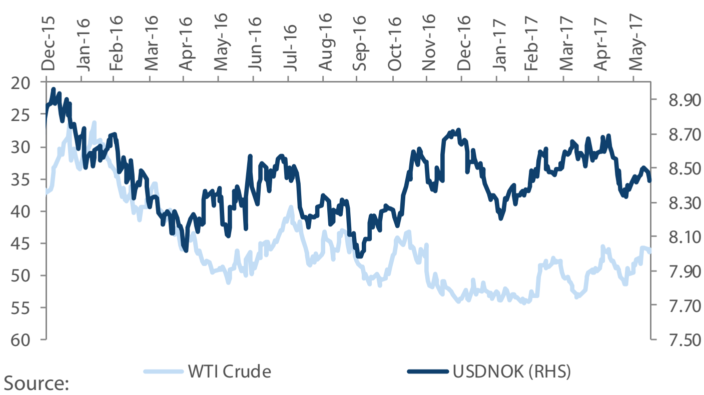
Positioning and Themes

The European Central Bank (ECB) has taken its first step towards reducing its stimulus programme by omitting the mention of "lower levels" for interest rates in its forward guidance, even as ECB President Mario Draghi denied that there was any discussion of tapering in the latest policy session. The December 9 meeting looks to be live. We have kept our underweight duration position in the EUR following the possible tapering event, and have mirrored this action with the SEK, given the ECB and Riksbank are tied together on monetary policy.

Within the UK, inflation has continued to pick up. There has been a drop in the external value of sterling (GBP) after the Brexit vote, reflecting investor unease about the implications of the vote. This devaluation has been a factor as to why inflation has been accelerating in recent months, with the CPI at 2.9% in May. Underlying price pressures have also been felt across firms' supply chains since early 2016, as global oil prices have firmed gradually from their January 2016 low. In doing so, we have maintained our underweight duration, due to concerns of continued inflation and the ongoing uncertainty around the Brexit negotiations.

Oil prices dropped sharply after the recent OPEC announcement, leading us to reduce our NOK FX position due to our negative outlook for global oil prices in the short term, and the clear link that the NOK has on oil prices.

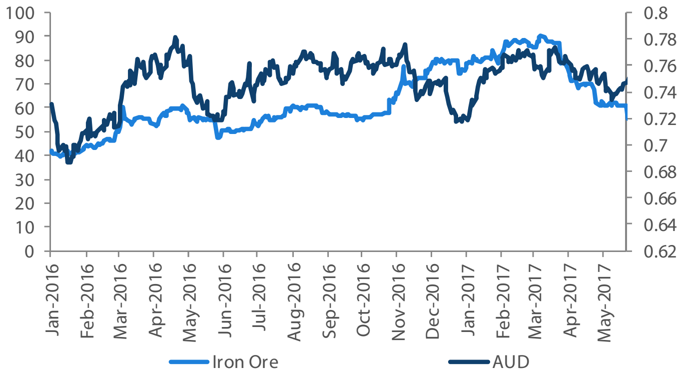
Chart 1 – WTI Crude v USD/NOK



Source:
Bloomberg, as at 13 June 2017

In Australia, the Reserve Bank of Australia decided to keep its key policy rate at 1.5%, matching consensus expectations. However, the tone of its communique was relatively upbeat, as the labour market has showed some signs of recent improvement. Inflation continued to trend higher and is now expected to remain within the 2.0%-3.0% target range throughout the forecast period. The latest GDP result was also a notch above expectations, but the underlying pace was sluggish. The soft Q1 headline figure is understood to have been distorted by Cyclone Debbie and other weather conditions on the east coast, which had an effect on housing construction and exports. Consumption was also on the soft side, as sluggish wage growth continues to erode households' disposable incomes, amid a faster pace of inflation and elevated house prices. As for the currency, the Australian Dollar (AUD) traded on a weaker footing, with iron ore prices continuing to tumble, causing us to reduce our AUD position.

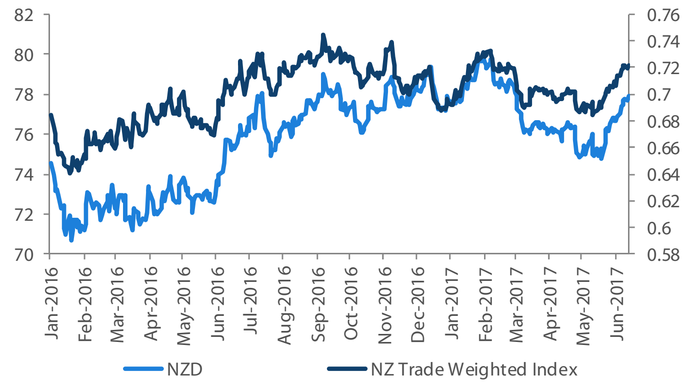
Chart 2 – Price of Iron Ore v AUD



Source: Bloomberg, as at 13 June 2017

During the month of May, the New Zealand Dollar was one of the key performers within G10 currencies, supported predominantly by better than expected economic activity data. Dairy prices, the country's key export commodity, have held up relatively well, bucking the trend of other commodities that have generally traded on a weaker footing of late. The 2017 budget position continued to show fiscal strength, with a NZD1.6bn surplus predicted for the current fiscal year, and a further NZD2.9bn surplus projected for the year to June 2018. In the budget, Finance Minister Steven Joyce raised the income tax thresholds, among other things, to provide relief to lower-income families, and to improve incomes for those who struggle with the high cost of housing. We maintained our FX overweight, based on the relative value of the NZD, while decreasing our duration position to reduce the spread against US Treasuries.

Chart 3 – New Zealand Trade v NZD



Source: Bloomberg, as at 13 June 2017

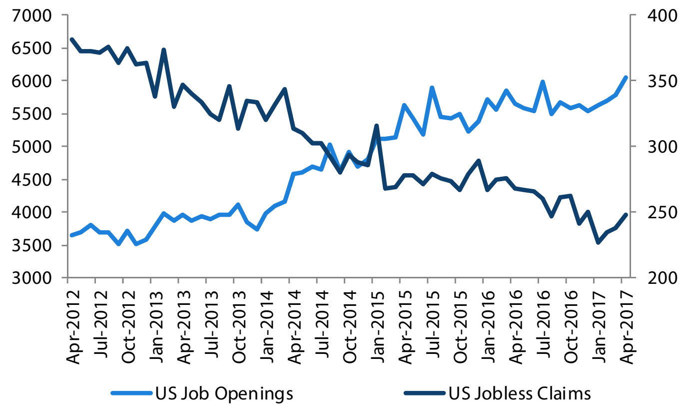
Discussion Points

We predict that the US Federal Reserve (Fed) is still on the path for one further rate hikes in 2017, including the rise we saw in June. More recently, the market has started to price out a third hike in 2017, however we believe that this is unlikely, as the process of increasing rates has not yet tightened monetary conditions to the extent at which further hikes aren't justified. We believe that Fed Chair Janet Yellen will announce the first steps of a balance sheet reduction plan towards the end of her term. The Fed would like to passively reduce balance sheets, starting sometime in late 2017 or early 2018, and at a pace that doesn't affect the market too much.

Elsewhere, we feel that tax reform will likely be delayed in the short term, while the push to overhaul the US banking rules that were put in place after the 2008 financial crisis is starting to gain momentum. The US House of Representatives approved a bill that would scrap federal bailout powers, ease requirements on banks and weaken the Consumer Financial Protection Bureau. Supporters say that the proposal will help to simplify the regulations that were implemented after the GFC. It is felt that the increased regulations have stifled growth, and removing them will provide a significant catalyst for economic growth.

US jobless claims fell 10,000 to 245,000, helping the unemployment rate to fall to a 16-year low of 4.3%. Overall, around 1.92 million people were making jobless claims, which is down nearly 10% from a year ago. The four-week average number of Americans receiving jobless aid was 1.91 million, the lowest number since January 1974. Claims remain low and this is consistent with the trend in employment growth remaining strong enough to keep the unemployment rate down. The job market itself is healthy, however hiring has slowed recently, as employers are failing to find workers as the economy reaches its natural rate of unemployment. This is emphasized by the number of US job openings continuing to rise in recent months (see chart 4 below).

Chart 4 – US Job Openings v US Jobless Claims



Source: Bloomberg, as at 13 June 2017

We now enter a period of uncertainty within the UK, given the recent general election result. In the short term, we see some downside risk to the sterling (GBP), given the current political environment and the question of whether there will be another general election in the near future. In the longer term, we believe that this could be beneficial for a softer Brexit negotiation, which should help strengthen the GBP.

Following the French Presidential election, President Emmanuel Macron has been able to strengthen his position after the first round of parliamentary elections. Projections show his La Republique en Marche party and its MoDem ally are set up to win up to 445 seats in the 577 seat National Assembly. This suggests that European political risk, which was a major factor at the start of 2017, has started to lessen, which should in turn be positive for investors, combined with other strong economic fundamentals.

In emerging markets, the President of Brazil, Michel Temer, avoided any impeachment risk for now, and will possibly hold on to finish his term at the next general election in October 2018. We like Brazilian real risk, given the relative carry and expectation that Brazil's central bank (COPOM) will cut rates further this year. We believe that the economic data in Brazil has bottomed, with Brazil this month having its first quarter-on-quarter growth in two years.

In the Middle East, several neighbours within the region have cut diplomatic ties with Qatar, including Bahrain, Saudi Arabia, the UAE, Libya's eastern-based government and the Maldives. This diplomatic situation could have ramifications for the country and the region. Qatar's stock market has lost value since the announcement, as well a downgrade from S&P, reducing the nation's rating from AA to AA-.

In Global Credit, flows within Investment Grade and High Yield remain strong. The volatility that was predicted at the start of the year has failed to materialise, and so we still hold a positive view on Credit. The crossover space is close to its all-time tightest and new issuance remains strong, with the market continuing to have the appetite to take up this new supply.

About the Global Fixed Income Team

Andre Severino
Head of Global Fixed Income

Holger Mertens
Head Portfolio Manager, Global Credit, CFA

Steven Williams
Head Portfolio Manager, Core Markets

Raphael Marechal
Head Portfolio Manager, Global Emerging Markets

About Nikko Asset Management

With US$182.7 billion (20.36 trillion yen)* under management, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income, Multi-Asset and Alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest exchange-traded funds (ETFs).

Headquartered in Asia since 1959, the firm represents more than 200** investment professionals and over 30 nationalities across 11 countries. More than 300 banks, brokers, financial advisors and life insurance companies around the world distribute the company's products.

The investment teams benefit from a unique global perspective complemented by the firm's historic Asian DNA, striving to deliver consistent excellence in performance. The firm also prides itself on its progressive solution-driven approach, which has led to many innovative funds launched for its clients.

For more information about Nikko Asset Management and to access its investment insights, please visit the firm's homepage.

* Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of March 31, 201 7 .
** As of March 31, 2017, including employees of Nikko Asset Management and its subsidiaries.

Contact Us

Nikko Asset Management Europe Ltd
1 London Wall, London, EC2Y 5AD
Phone: +44 (0)20 7796 9866
Fax: +44 (0)20 7796 9816
Email: Emarketing@nikkoam.com

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. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

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. Nikko Asset Management Asia Limited is a regulated entity in Singapore.

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. Nikko Asset Management Hong Kong Limited is a licensed corporation 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 websitewww.nikkoam.co.nz).

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by 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 should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Bank group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.