

PROFITING FROM CONTRARIAN OPINION

The Tranquillity that Rocked the World

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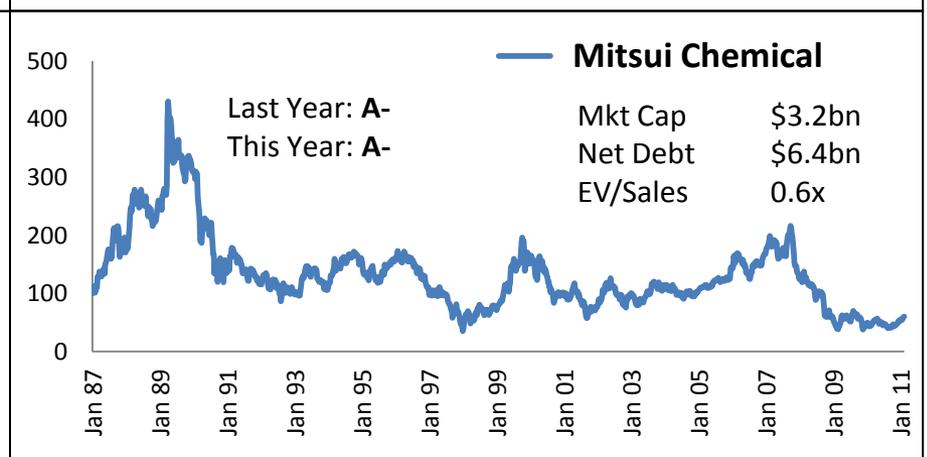
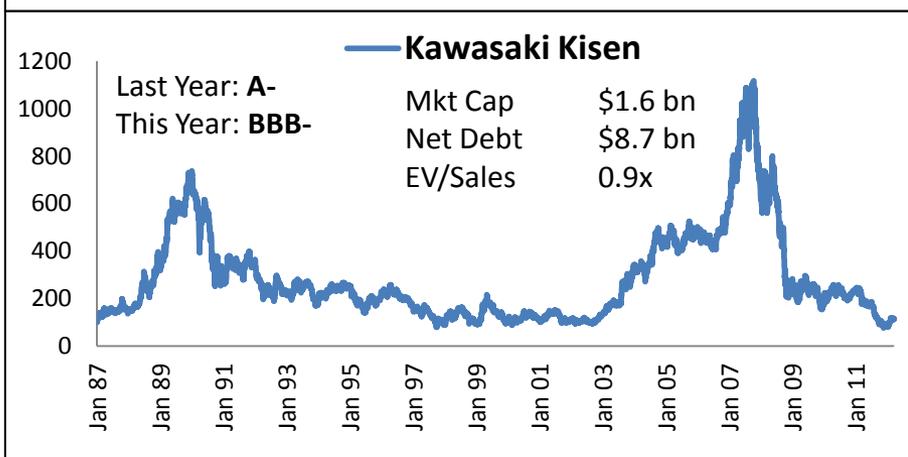
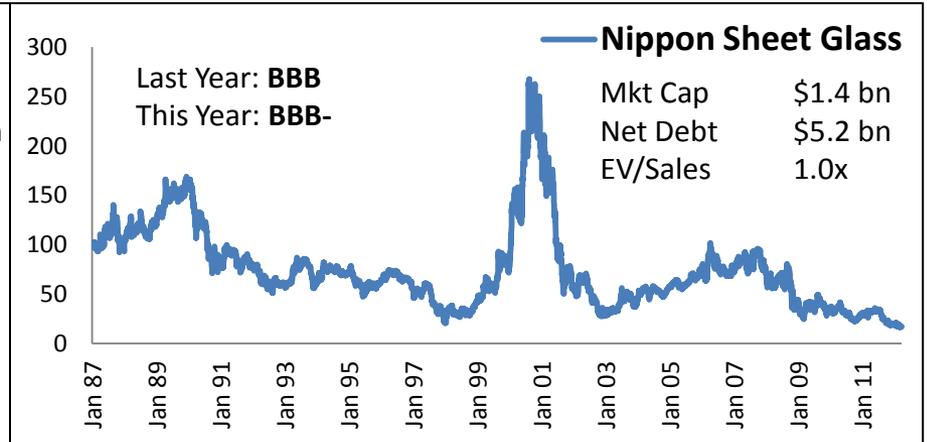
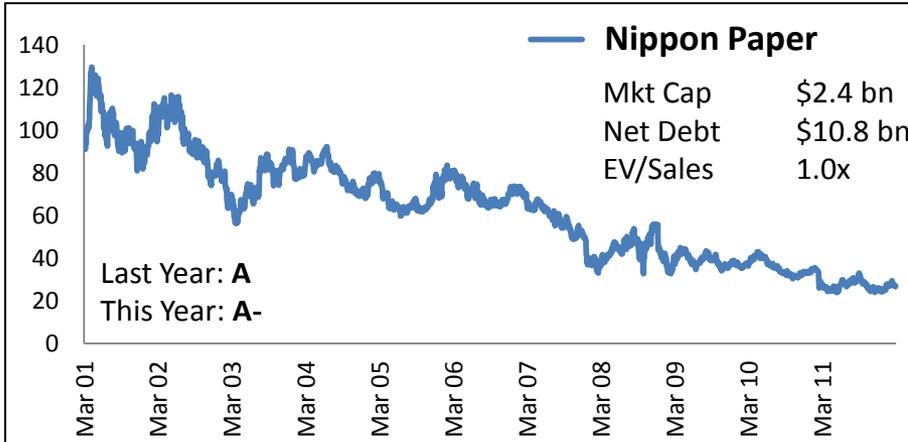
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ASSET MANAGEMENT

JAPAN'S WALKING DEAD

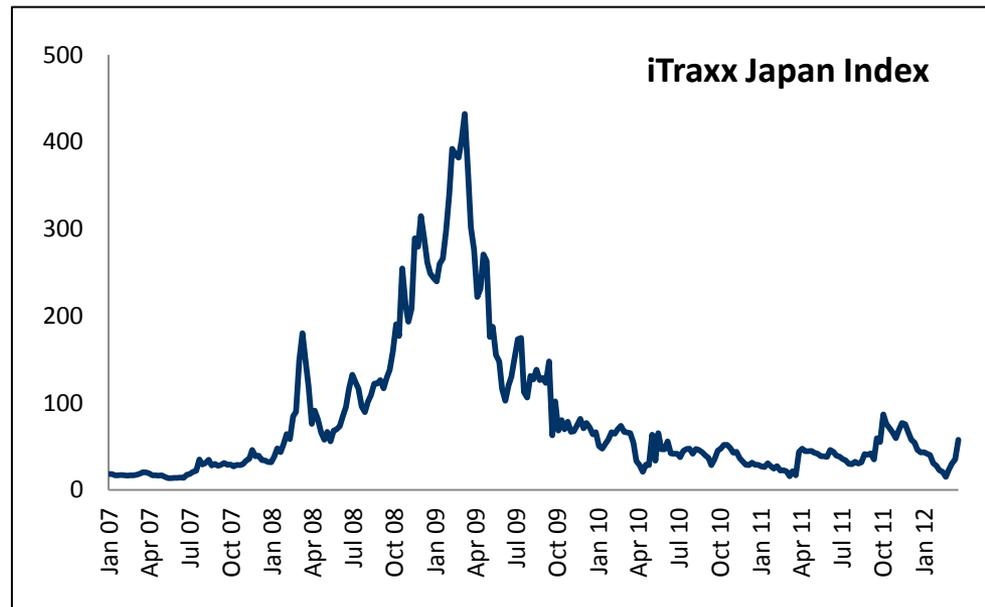
Operational + Financial Leverage = Value Trap



Source: Bloomberg/EAM.
Net debt figures include pensions and capitalised operating leases; credit ratings from R&I.

THE CREDIT OPPORTUNITY

- To invest in a **levered portfolio of credit protection** on a basket of single name industrial companies, of which all are highly cyclical, operationally leveraged and have significant levels of debt.
- To exploit a major **pricing anomaly** which exists owing to the insatiable demand for yield in a zero interest rate environment. Is Japan a nuclear bomb strapped onto the chest of the global economy?
- To profit from the potential bursting of a **bubble** in Chinese property and industrial over-investment.



Source: Bloomberg / EAM

WHY NOW?

- China and other emerging economies have been reflatd through **huge credit growth** and fiscal stimulus, leading to higher commodity prices.
- This has led many industries to increase capex, despite **falling** sales and **profitability**.
- Demand for industrial materials has risen **exponentially** along with supply.
- Should demand for industrial materials decline in an unwinding of the “China credit bubble” it is our contention that many industries would be **devastated** by over supply and a collapse in operating margins.
- The dramatic narrowing in credit spreads and **perceived certainty** of perpetual Chinese growth allow us to assemble credit protection on a basket of industrial and cyclical names.

FIVE CATALYSTS TO MAKE MONEY

- A Growth Recession in China Brought About by **Over-Investment**
- An Even **Stronger Yen**
- A Change in the **Term Structure** of Japanese Government Rates
- Domestic Fiscal **Austerity**
- The Status Quo

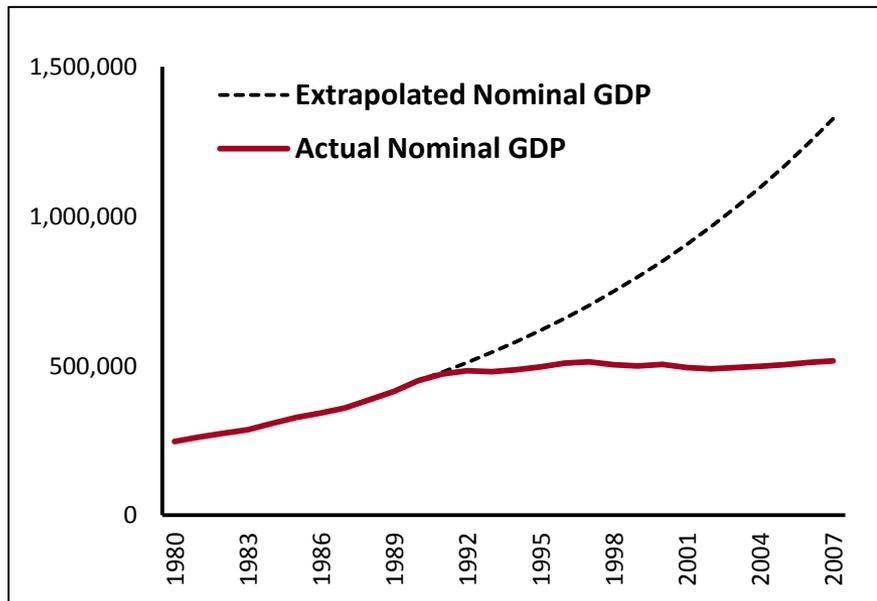
HAS WESTERN CREDIT LEVERAGE PROMPTED AN OVER INVESTMENT CYCLE IN CHINA?



In Bernie We Trust?

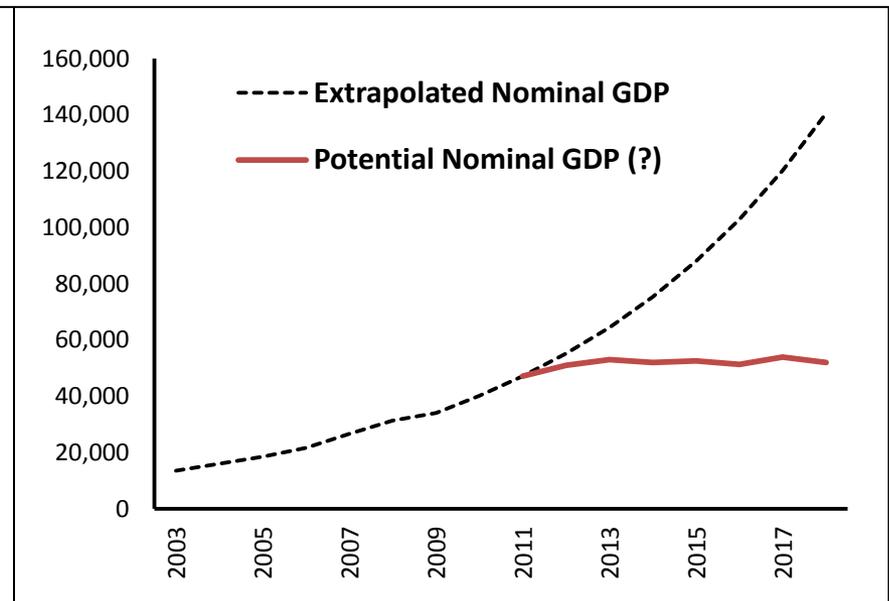
Japanese GDP:

Actual v. Extrapolated from 1990



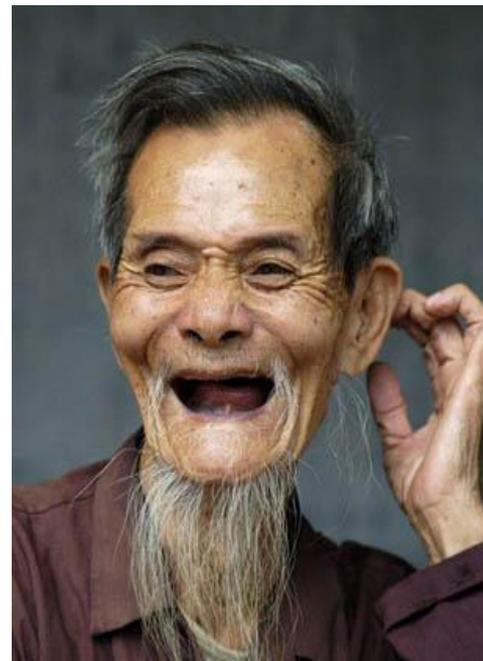
Chinese GDP:

Actual v. Extrapolated from 2005 ??



Source: EAM

OLD CONFUCIUS SAYING,
 “WISE MAN NOT INVEST IN OVER-CAPACITY”



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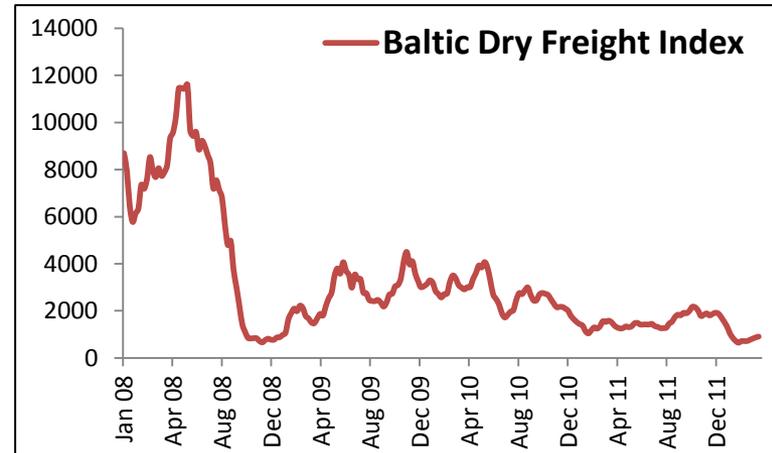


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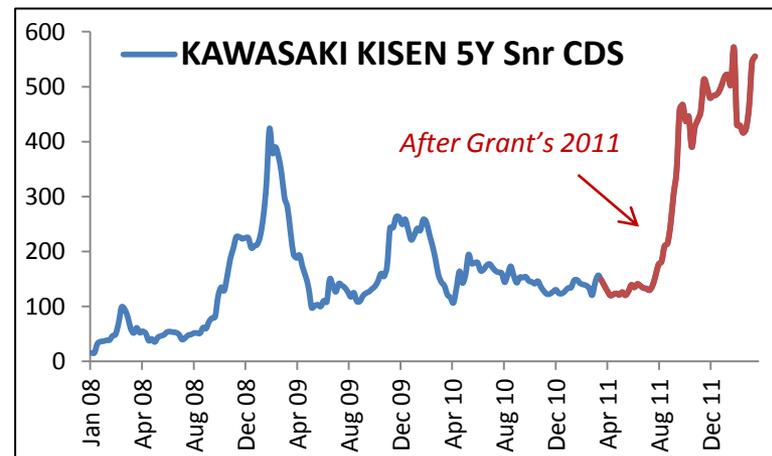


OVER-INVESTMENT CASE STUDY

Japanese Shipping: Supersize Me?

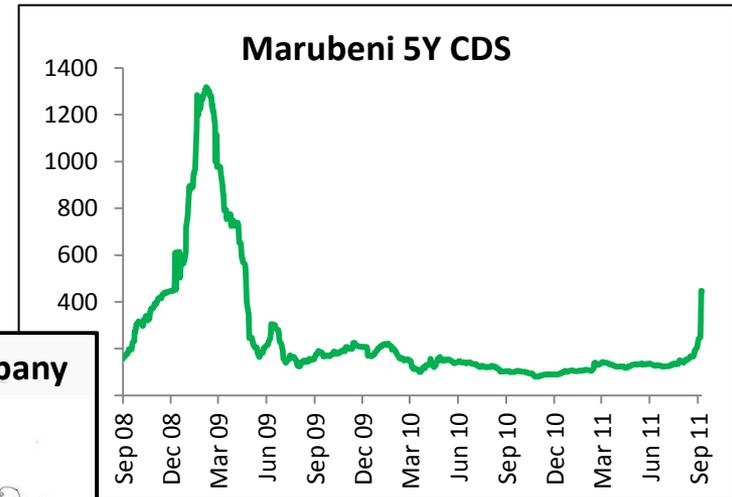
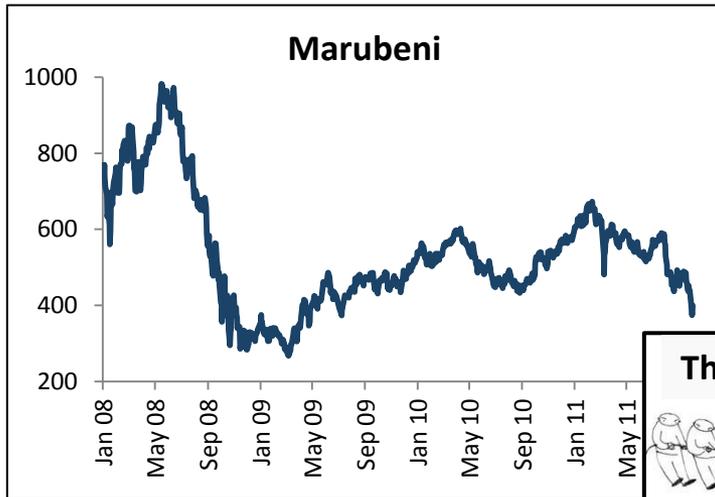


x 350 = overcapacity



Source: Bloomberg / EAM

THE MOST BULLISH, PRO-CYCLICAL AND OPAQUE BUSINESS MODEL?



Marubeni		
Market Cap \$	\$12.7bn	
Gross Debt \$	\$31.2bn	
Net Debt \$	\$24.5bn	
Net Debt/EBITDA	7.3x	
Credit Rating	BBB (S&P)	
Affiliate investments and non-marketable securities	\$12.8bn	
Collateral Pledged		
	\$	% of Total
Cash and equivalents	\$0.6bn	7%
Inventories	\$0.1bn	1%
Securities and other (incl. affiliates)	\$4.2bn	50%
PP&E and Other	\$3.5bn	42%

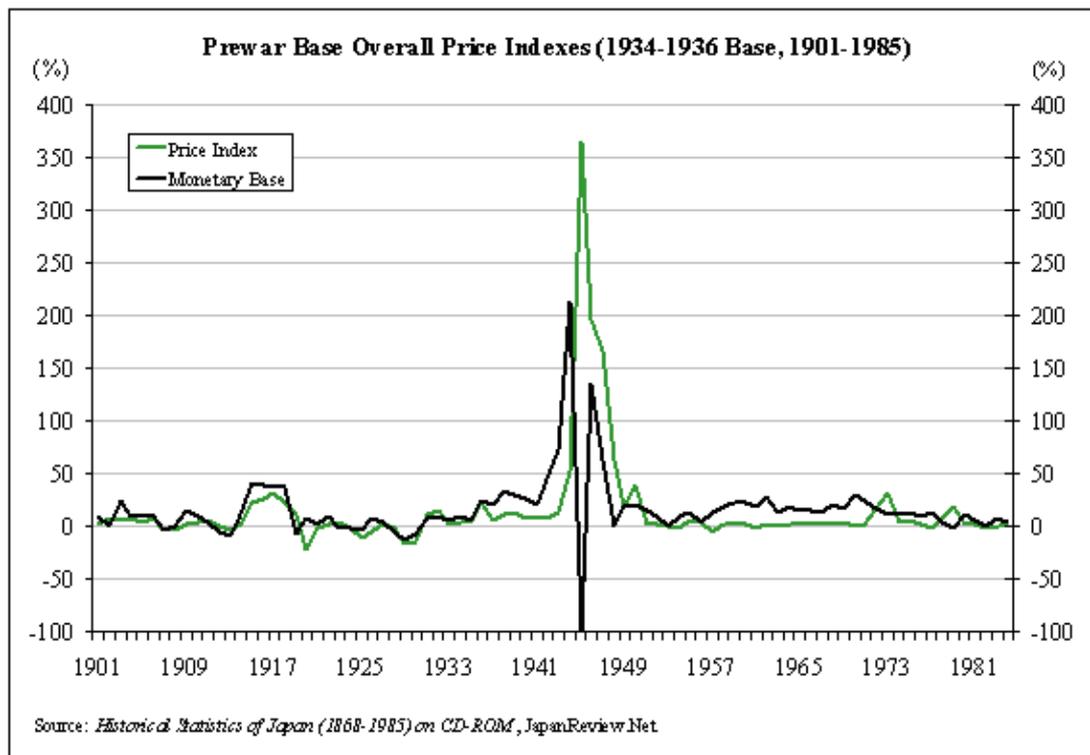


THE DEATH SPIRAL OF MERCANTALISM



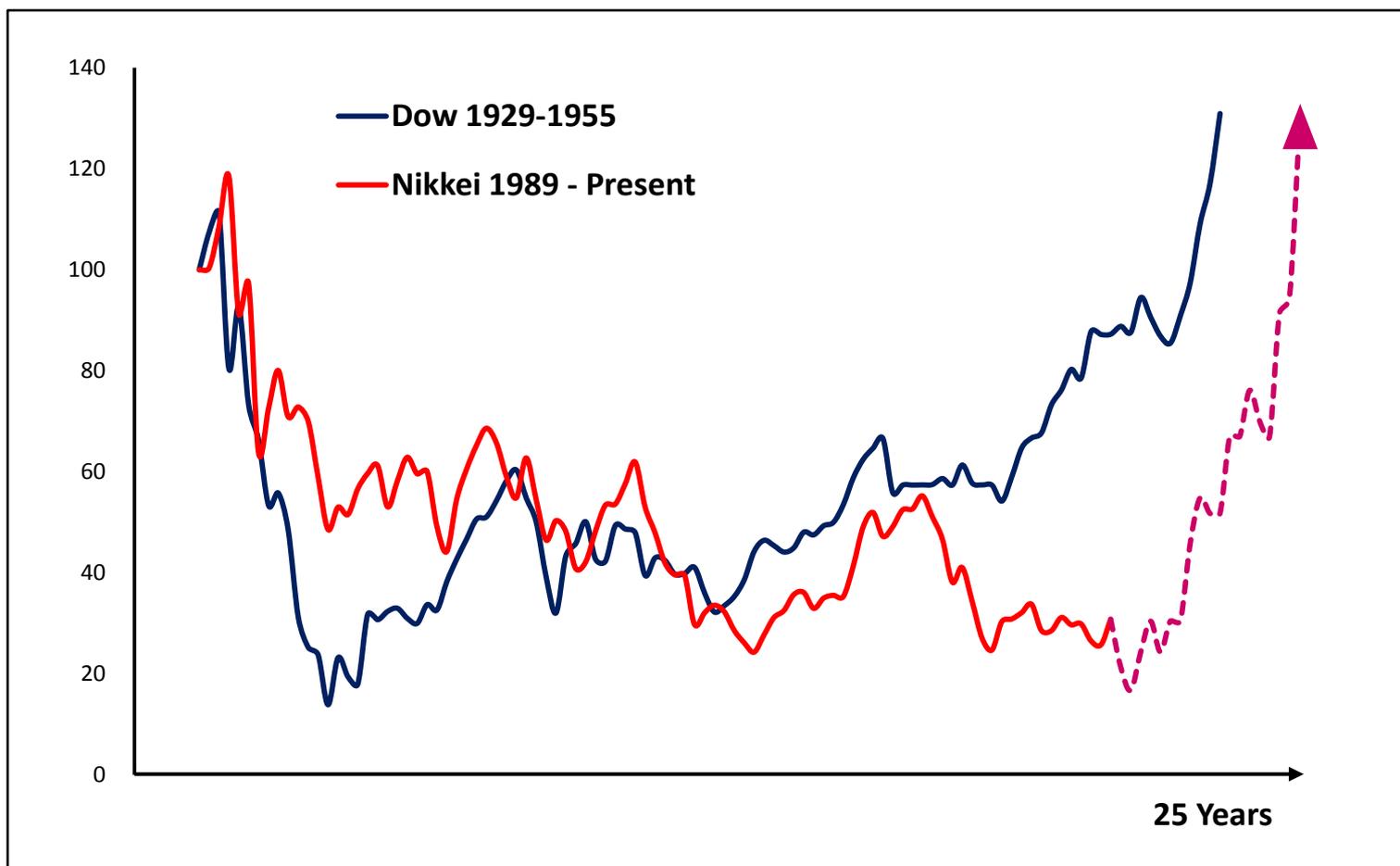
Source: Bloomberg / EAM

HYPERDEFLATION FIRST HYPERINFLATION LAST



NIKKEI 40K THIS DECADE?

ONLY IF JAPAN HYPER-INFLATES



Source: Bloomberg / EAM. Rebased to 100.

“SOMETIMES THERE IS SO
MUCH WRITING ON THE WALL THAT THE
WALL FALLS
DOWN”

Christopher
Morley



The logo for ELPIDA is displayed in a white box. It features the word 'ELPIDA' in a bold, blue, sans-serif font.

The logo for RICCAR is displayed in a white box. It features the word 'RICCAR' in a bold, red, sans-serif font.

The logo for Takefuji Corporation is displayed in a blue box. It features the Japanese characters '武富士' (Takefuji) in white, with a red square icon to the left, and the words 'TAKEFUJI CORPORATION' in a white, sans-serif font below.

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