

PROFITING FROM CONTRARIAN OPINION

The Tranquillity that Rocked the World

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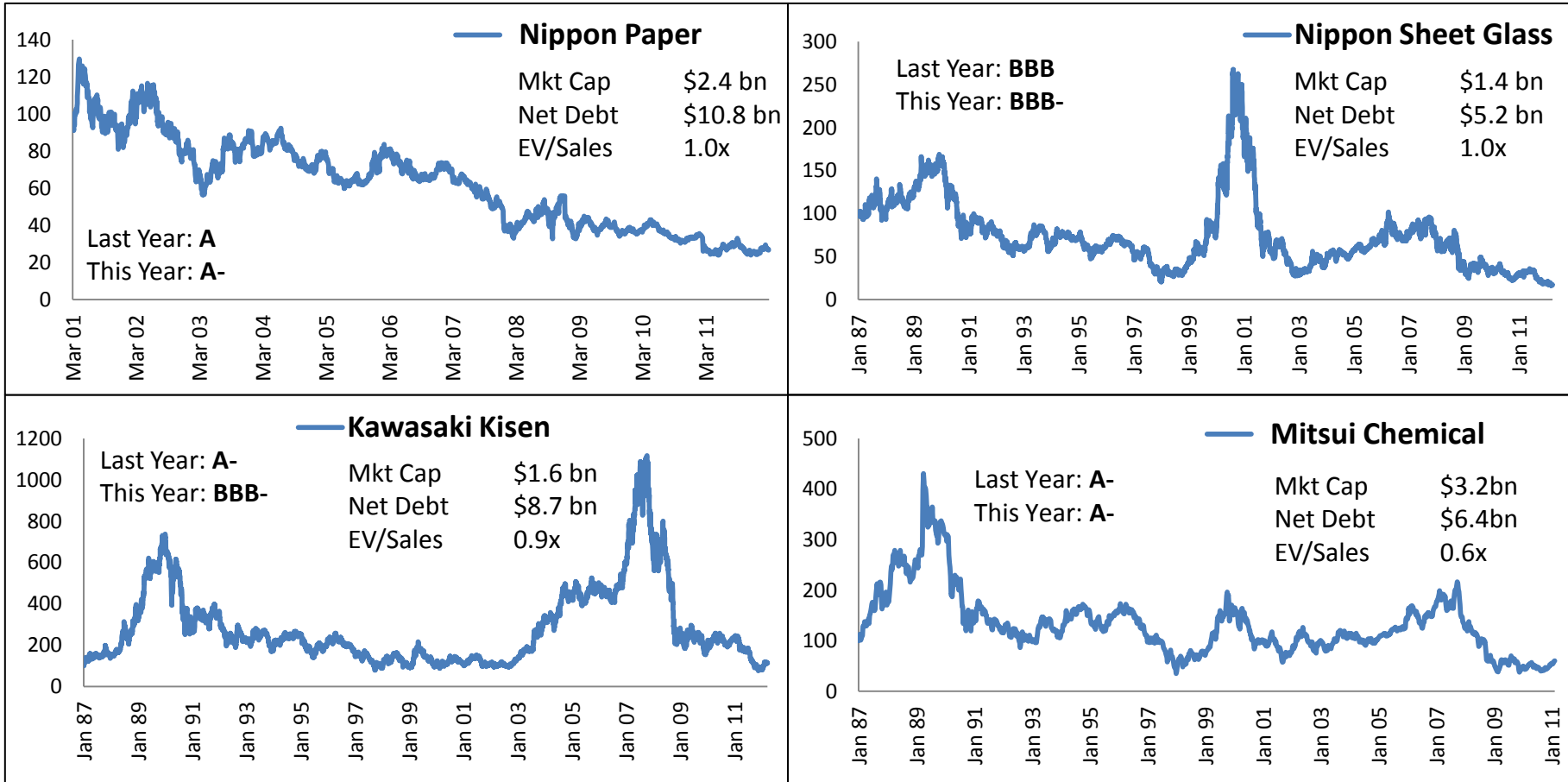


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ECLECTICA
ASSET MANAGEMENT

JAPAN'S WALKING DEAD

Operational + Financial Leverage = Value Trap

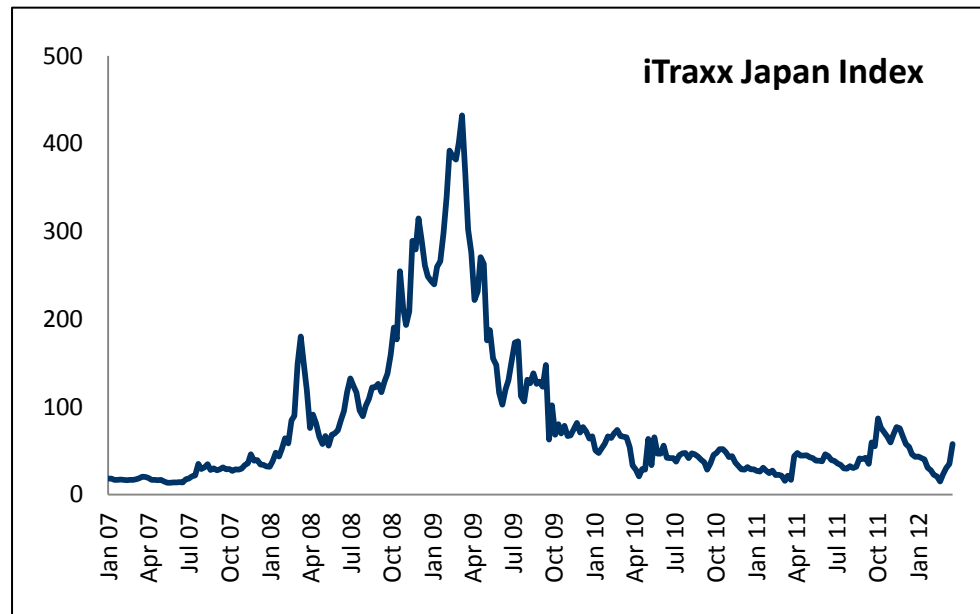


Source: Bloomberg/EAM.

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

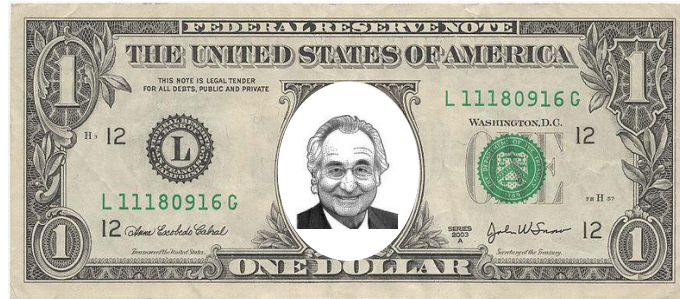
WHY NOW?

- China and other emerging economies have been reflatēd 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

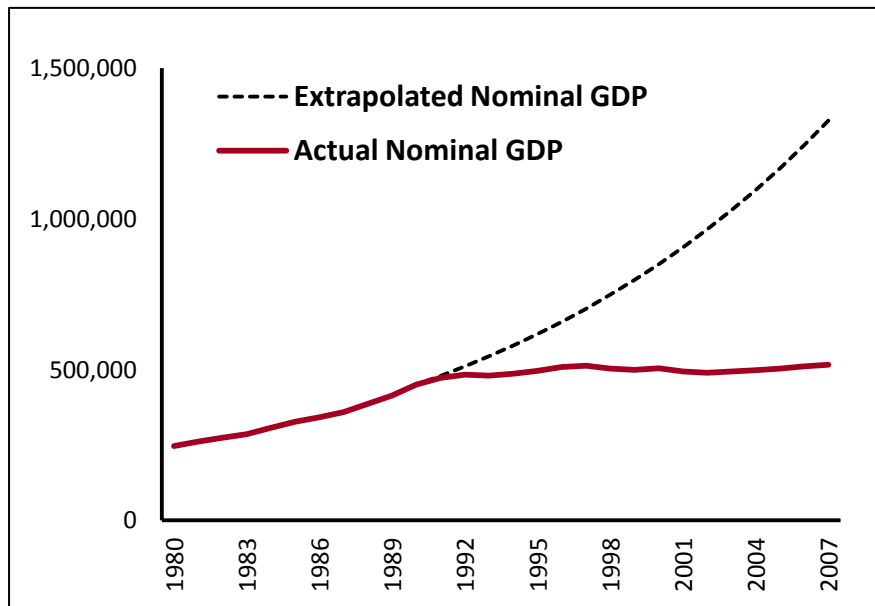
HAS WESTERN CREDIT LEVERAGE PROMPTED AN OVER INVESTMENT CYCLE IN CHINA?



In Bernie We Trust?

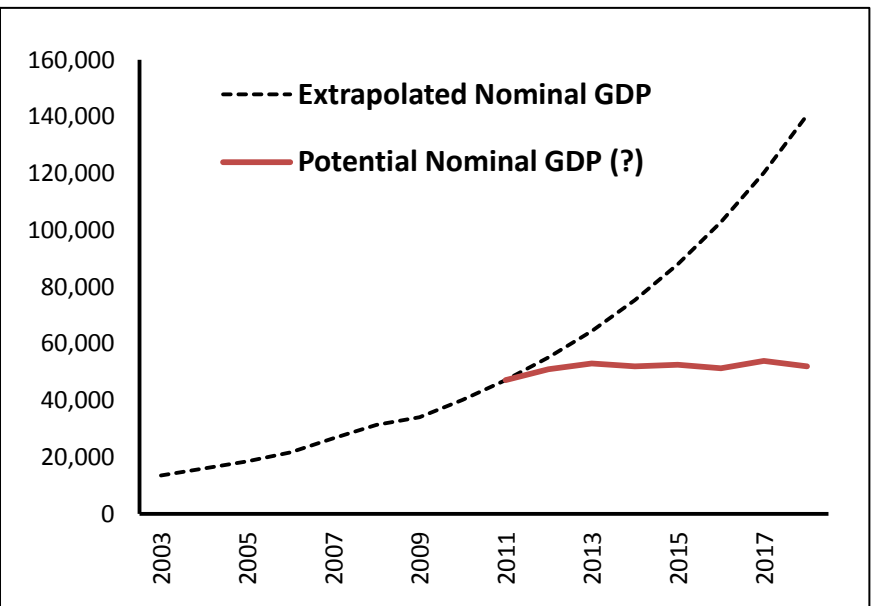
Japanese GDP:

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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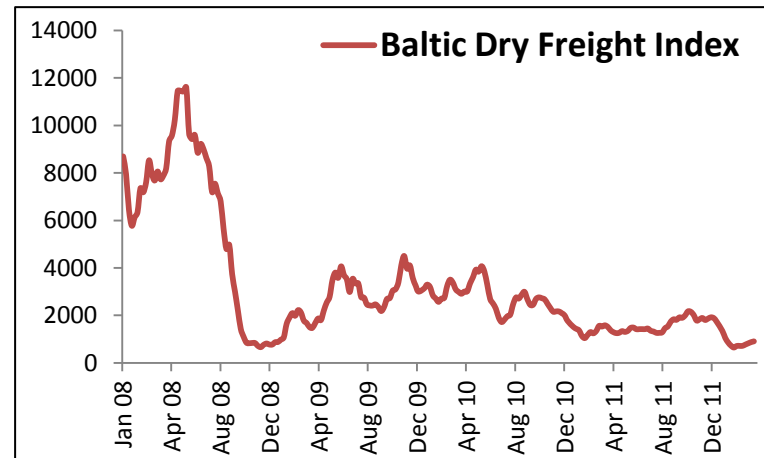


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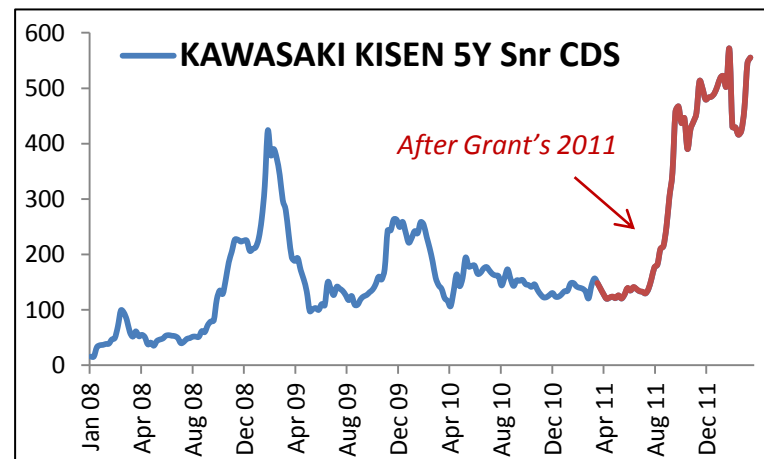


OVER-INVESTMENT CASE STUDY

Japanese Shipping: Supersize Me?

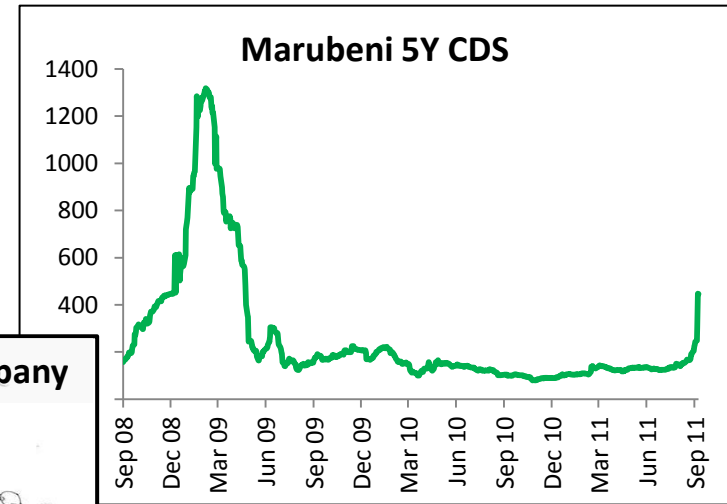
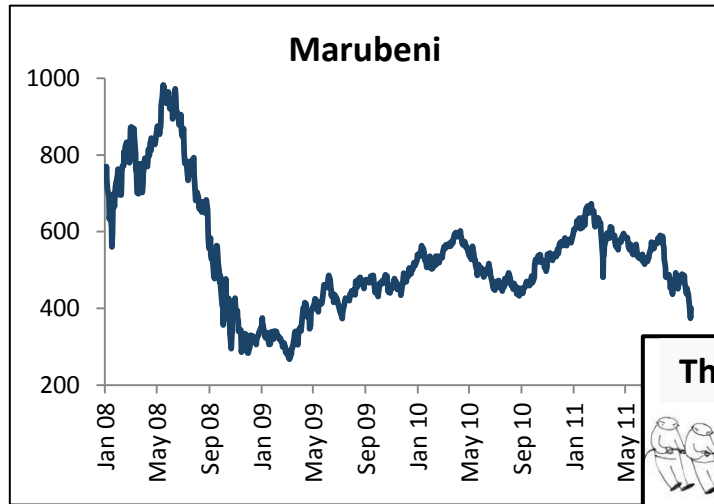


x 350 = overcapacity



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	
	<div>\$% of Total</div>
Cash and equivalents	\$0.6bn7%
Inventories	\$0.1bn1%
Securities and other (incl. affiliates)	\$4.2bn50%
PP&E and Other	\$3.5bn42%

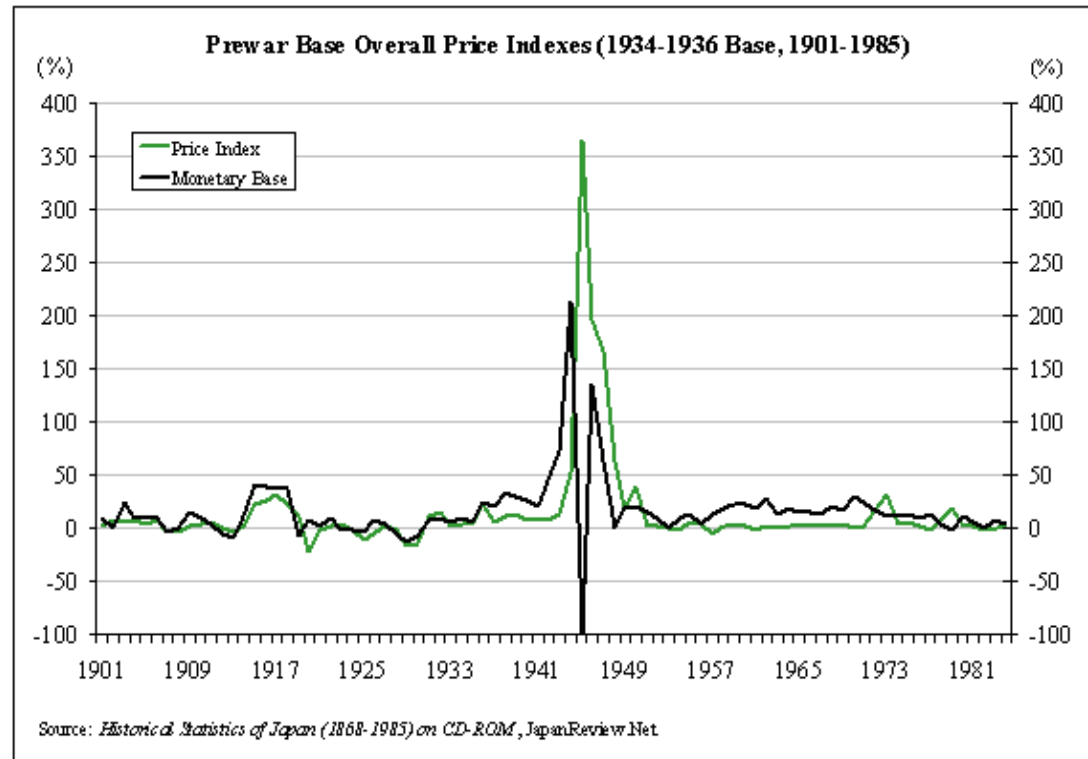


THE DEATH SPIRAL OF MERCANTALISM



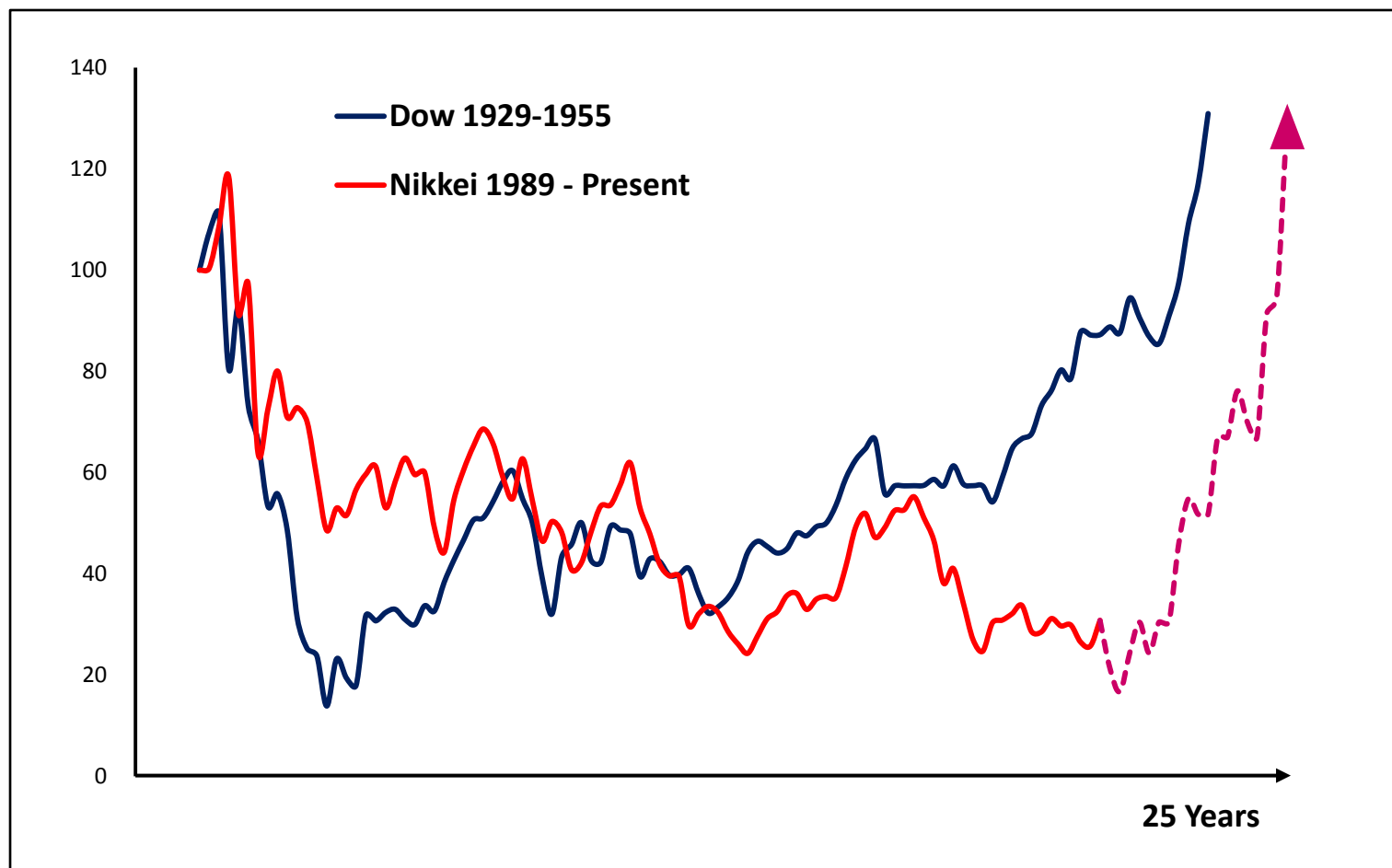
Source: Bloomberg / EAM

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



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