



Member of Cat Group

Cat's View

Zurich, 21st February 2007

Dear investor,

Today the Bank of Japan raised its benchmark overnight interest rate (call rate) from 0.25% to 0.50% and the Lombard rate from 0.4% to 0.75%. The next rate increase is expected towards the end of the year or later next year.

Japan released 4th quarter GDP figures last week showing a growth of +4.8% QoQ annualised. The stock market responded accordingly and has broken out of its range. The Topix has even reached levels last seen in the early 90's.

Around 88% of all TSE 1st section firms released 3rd quarter results and full year expectations. Most companies have released very good 3rd quarter figures, but have not increased their full year expectations because management is very careful. We believe that full year earnings, due in 3 months, should surprise us positively.

Merger and acquisitions seem to be the flavour of the month worldwide. Japan will make 2 drastic changes regarding M&A regulations. In April 2007, there will be an easing of regulations by the Japan's fair trade commission regarding M&A activity. Secondly, in May, "Triangular" takeovers will be legalised (using stocks to take-over). Around 34% of all listed Japanese companies have a "price-to-book" ratio below 1x. Corporates will increase dividend payout and share buy-back programmes.

Over 3 million "baby-boomers" (people born in the 1940es) will retire in the next 3 years, and they receive a one-time-bonus payment of total Yen 80 trillion (CHF 824 billion). Some of this money is bound to go into the stock market, and / or will be consumed (increasing consumer spending).

On the risk side, we expect the Yen to strengthen. The risk there being that if the Yen strengthens too fast, we might have too much "yen-carry-trade" unwinding. But that in itself is more a "global" risk than country specific.

For all you daring clients, we have 3 stock funds for Japan, while for the more conservative we have a convertible bond fund.

For any further questions, please feel free to contact us.

Kind regards

Your Cat team.