

Huge new Stimulus Package announced in Japan

On the 10th April 2009 Japan announced new huge stimulus packages. The first package is the country's largest spending package to date: Yen 15.4 trn (US\$154 bn), which is equal to just over 3% of GDP. This will help revive consumer spending, lead to stronger corporate earnings as money will flow to individuals and bring various benefits to consumers.

Secondly, and more important to us, is that the government announced a stock buy-back program (Price Keeping Operation) of up to Yen 50 trn (US\$ 500 bn) to buy stocks in the open market in case of „emergency and extraordinary“ market circumstances.

This amount is about 30% of the Topix market capitalisation (Topix consists of all companies listed on the First section of the Tokyo exchange and has over 1'700 members). This suggests that the Government is now seriously considering intervening if stock prices decline

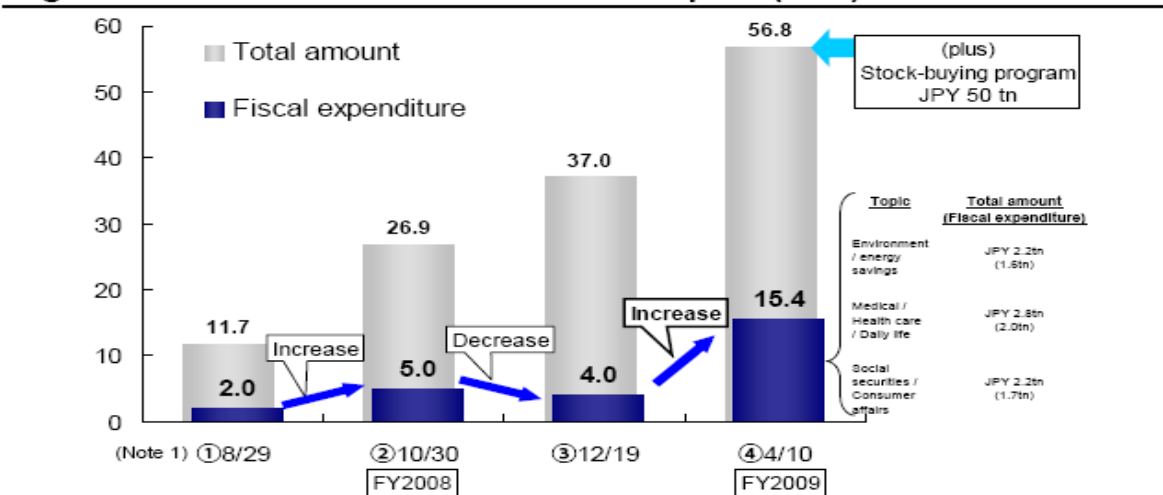
rapidly. From Sept 2008 to March 2009 foreigners sold about Yen 6 trn (US\$60 bn) of Japanese equities with the market declining by over 40%. Any massive selling in the future will be easily absorbed by these PKO funds.

We believe that most investors have not realised the magnitude of these positive measures.

To participate in both market and an economic recovery, we recommend to invest in our convertible bond fund. As most people are underinvested in Japan, this would be a conservative way to play the Japanese stock market.

The Cat Nippon Convert fund has a performance of +1.13% year to date against a Topix performance of -3.16%. The average premium is 50.53% with a yield of just over 4% in CHF for a duration of 2.31 years. Since 2000 the fund has clearly outperformed the Topix.

Figure 1: Aso administration's stimulus plan (¥trn)



Notes: Aug 29 package rolled out under the Fukuda administration; Oct 30, Dec 19, and Apr 10 packages under Aso administration

2. Dec 19 ¥10trn package actually reflects ¥4trn in new spending as ¥6trn overlaps with previous measures. Breakdowns of spending have been adjusted accordingly.

Source: MUS, from CAO and *Nikkei Shimbun* data

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