

## FUND VIEW-Taiyo Pacific eyes private equity push in Japan

By Nathan Layne and Emi Emoto

TOKYO, Oct 2 (Reuters) - Taiyo Pacific Partners, a "friendly" activist investor with \$1.7 billion in Japanese stocks, plans to make a big push into private equity to capitalise on an expected boom in mergers and acquisitions among Japanese firms.

Chief Executive Officer Brian Heywood told Reuters that the California-based investor is working on several potential private equity deals involving its portfolio companies, which are increasingly keen to make acquisitions or merge with rivals.

"They want to do consolidation or they want to do overseas expansion. I'm not having to force anything on them," Heywood said in an interview on Thursday. "They just don't know how in many cases."

Taiyo launched its first fund in 2003 in partnership with billionaire investor Wilbur Ross and an initial investment of \$200 million from Calpers, the biggest U.S. public pension fund.

It has mainly focused on taking minority stakes in firms and working with management to boost value. It doesn't sell stocks short and shuns the confrontational style of other activist funds, believing it ineffective in consensus-minded Japan.

Taiyo is confident it can now become a player in the private equity market by capitalising on its relationships with the management of its 43 portfolio companies. This should give it a leg up over global buyout firms without such ties, Heywood said.

Taiyo recently completed its first deal, taking a small stake in an unlisted sensor maker. It expects more opportunities to present themselves as Japan's far-flung conglomerates look to shed non-core assets and maturing industries consolidate.

"I think there is an M&A boom that will happen in Japan, but it has to happen in a very Japanese way. It's going to be relationship driven," he said, pointing to the medical industry and regional banks as sectors ripe for consolidation.

He also sees deals in the construction sector, which is mired in a slump due to the sluggish economy and a drop-off in public works spending. Taiyo has a stake in Sho-Bond Holdings <1414.T>, which specialises in reinforcing of concrete structures.

"They are the kind of company that eventually will be buying up other good companies within the construction industry."

Taiyo announced last month that it had taken a stake of more than 5 percent in Ulvac Inc <6728.T>, a maker of equipment used

to make semiconductors, flat panels and solar cells. Other investments include Nissha Printing <7915.T> and industrial waste treatment company Daiseki Co <9793.T>.

Its first fund, the Taiyo Fund, is up about 37 percent so far in 2009, handily beating a 2 percent gain in the TOPIX index <.TOPX>. The fund has beaten its benchmark by an average of 7 to 8 percent over the past six years, Heywood said.

Heywood would not say whether Taiyo was looking to raise funds but indicated he was not short of investment ideas. Taiyo has about 20 professionals on staff and conducts some 800 company visits a year in Japan.

"If Santa Claus came down and granted me 2 to 3 billion dollars I know where to put it to work," he said.