

Kimura Dreamvisor Newsletter summary 5th of June 2006

My impression is that the Murakami 'insider case' lacks substance

Although Murakami was arrested, the 'fraud' seems dubious to say the least....

The Japan Association of Investment Advisers (JAI) of which the author of this report is representative is just alongside the TSE. Today Mr. Murakami announced an urgent press conference, large media helicopters took off, the purpose was not very clear as they kept flying up to 16:00 pm!...Then Mr. Murakami admitted insider trading fraud and was swiftly arrested by the Tokyo prosecutor's office. This was linked to insider trading in Livedoor's NTV bid drama. As a result both Mr. Horie and Mr. Murakami have now been arrested!

However I really find it difficult to believe that a Tokyo University Law Graduate having spent most of his career in the Ministry Of Industry and Trade could break so easily the Securities and Exchange Law...And this is a totally different matter compared to the TOB buying operations of Livedoor as this area is not really regulated.

Even if Mr. Murakami received information from Livedoor it just goes down to requesting Murakami's helping hand to get control of NTV, this said such request to large shareholders was a bit too far. Back to last year well informed investors all knew that Livedoor was interested in NTV and consequently knew that Livedoor would ask Murakami's MAC asset help. From this point of view it is really hard to believe that Murakami had a lasting and meaningful impact on stock prices. Murakami himself was probably considering with great interest Livedoor's buying of NTV...and became a major shareholder as a result

Without even receiving the information directly from Livedoor most investors knew that Murakami was accumulating NTV shares, the prosecutor sees it another way sustaining that Murakami started accumulating after having received the information... It is hard to believe that such NTV shares accumulation is a serious 'insider case fraud'.

If Mr. Murakami was all smiling at the press conference, no doubt that he was considering having made money not against the exchange and securities law. The prosecutor's office did not have the same interpretation.

By definition a Fund's purpose is to produce returns for shareholders. Could a self recognized professional like Murakami have forgotten the rules? Insider trading rules

became so tough and complex that going against them could even be compared to parking in the wrong lot for a special delivery van..!

The change in Murakami Fund's purpose...

It looks like if Mr. Murakami followed the typical standard course of future 'elite' from high school to Law University but reality was slightly different I believe. Looking at the Internet wikipedia dictionary he started to have interest in equities investment as soon as entering college which makes him somewhat different that the typical establishment course...

I have always yielded that companies such as Tokyo style, Shoei, Shinanen were cheap but lacked a strong management. I recognized the importance of corporate governance principles. Thanks to Mr. Murakami's activism these principles have been more widely known. Corporate governance principles led to the good earnings of the past 2 to 3 years.

Murakami fund performed superbly during those years. Murakami fund usually bought small to mid capitalized companies, as a consequence management improved, stock price went up and in fine everyone was happy (including the taxman). All went smoothly with good return on investment and shares buy back such leading to increase shareholders equity.

But when large overseas funds targeting good returns came in the strategy changed. When the amount of capital involved rose to yen 100 billion or more the strategy changed to invest large sums of money in the likes of Tobu Railways, OSE and Kanebo to put up the stock and make hefty returns on invested capital.

The strategy was to put pressure on the management of very large companies enjoying near monopolistic positions to reach a majority stake. In that sense the strategy was to make short term returns by entering massively in the capital of management crisis prone companies. By changing the fund purpose to short term returns Murakami may have fallen in a trap. Murakami is probably going to step down substantially reducing the size of Japan onshore largest activist shareholder fund.

But this changes nothing to the fact there is hidden value in Japanese companies and buying the shares of such companies to weight on management does make sense. There is still wide scope for 'shareholder activist' funds to change Japanese companies financial strategy.