

Leopard Sees Cambodia as Next Asian Tiger

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PHNOM PENH, Cambodia (HedgeWorld.com)-Investment manager Leopard Cambodia Ltd. has announced the initial closing of Leopard Cambodia Investments Ltd., a British Virgin Island feeder fund that will invest in the Cayman-domiciled master fund Leopard Cambodia Fund LP. According to the manager, the master fund, which has also completed an initial closing, is Cambodia's first multi-sector investment fund.

According to the fund literature, Leopard Cambodia will look to achieve aggressive medium- to long-term returns through investments in equities and real estate assets expected to benefit from the country's economic development and growth. The fund's aim is to "build a diversified portfolio of Cambodia's leading businesses in key sectors such as financial services, energy, telecoms, real estate/hotels, manufacturing, agribusiness and natural resources," according to the literature.

Cambodia's economic growth has been accelerating in recent years, and rose from 4.3% in 2002 to 6.2% in 2005 (despite World Bank estimates of just 2.6% growth in April 2005), to around 9.5% last year according to World Bank data. Although it is expected to slow to 7.5% in 2008, this will still make Cambodia one of the fastest-growing economies in the region. Other advantages cited by the fund manager include political and policy stability, an improving legal framework driven by World Trade Organization membership, a free market economy, favorable demographics and untapped natural resources that include oil and minerals.

"The launch of the first Cambodia-dedicated fund is another important milestone along the country's path to prosperity," said Douglas Clayton, managing partner of the investment manager, in a communication to investors. "Leopard Cambodia Fund will help create employment for Cambodians, broaden Cambodia's economic base and attract other international funds to invest here."

For Mr. Clayton, Cambodia represents something of a safe port in the current global credit storm. "The Cambodian economy is unleveraged and rising rapidly off a low base as confidence spreads," he said. "We think Cambodia is Asia's most exciting place to invest in right now, and are pleased to be an early mover here."

The firm's four managing partners have an impressive emerging markets pedigree and plenty of experience in Southeast Asia. With 21 years of emerging markets experience, Mr. Clayton was most recently director and chief investment officer of Knight Asia Group, where he co-managed the Knight Pacific Fund and Knight Thai Strategic Investments. Thomas Hugger has 26 years' private banking experience, and has

managed portfolios of listed and unlisted equities. Most recently he was head of investments at LGT Investment Management (Asia), and he previously held investment management positions at LGT and Julius Baer.

Stephen Simmons spent 11 years with CLSA Securities, an Asia-Pacific-focused brokerage, asset manager and investment bank. Kenneth Stevens, who also spent a period at CLSA, subsequently spent 10 years developing business ventures in Thailand and Vietnam.

The investment committee has identified a number of important areas of growth in the Cambodian economy including tourism, construction, agribusiness (including biofuels), infrastructure, natural resources and manufacturing. Advantages for private equity-type investors include the fact that industries can be 100% owned by foreign entities or individuals, generous investment incentives including nine-year tax breaks, the absence of repatriation restrictions or price controls and a dollarized economy with no foreign exchange controls.

According to the fund manager, the fund's investments will also benefit from growing investor interest in Cambodia. "Future investment inflows are likely to drive asset prices higher," noted Mr. Clayton. "In neighboring Vietnam more than 30 investment funds compete aggressively for pre-IPO opportunities and other attractive investments."

There are some caveats, however. These include an 80% rural population; the lack of double-tax treaties; expensive and unreliable communications, power and water systems; and a limited supply of local managers and professionals.

There is also the fact that there is no local stock exchange as yet, although a market is expected to be set up by 2009 with support from South Korea. This means that the fund's initial investments will generally be of a private equity variety. It also means investors should expect a lock-up period of about two to three years, although inquiries as to how long the lock-up period will be had not been answered at the time of writing.

The fund's managers intend to build a portfolio of diversified investments across a number of sectors including energy, telecoms, financial services and real estate, and will look to create suitable investment options in promising areas where such options are unavailable through the formation of ventures or strategic relationships with experienced partners or management teams. One of the boasts of Leopard Cambodia is its team's broad range of experience and contacts in the region.

The firm will look to enhance the value and performance of portfolio companies by providing assistance in areas such as corporate governance, strategic cross-border introductions, business strategy and preparation for stock market listing. Exit strategies include market listings, trade sales and sale to strategic investors or investment funds. So part of the fund's success will depend on when and how successfully a stock exchange is actually developed in Cambodia.

Structured as a private equity fund, Leopard Cambodia has a 10-year term, which can be extended by the general partner for up to two one-year periods. It has targeted commitments of \$100 million and a drawdown structure, although no information was available on how much has been raised to date. The fund has a 2% management fee on committed capital, with a 20% performance fee over an 8% hurdle. Eighty percent or more of the fund will be invested in Cambodia, with a limit of the greater of \$15 million or 15% of assets in any single investment.

The minimum investment is \$100,000 for the master fund and \$50,000 for the feeder. The fund manager plans to provide investors with quarterly valuation estimates. Also, the London office of LCF Edmond de Rothschild Securities plans to serve as an intermediary and maintain indicative pricing on Bloomberg and Reuters.

PricewaterhouseCoopers has been appointed as auditor, with Citifund Services (Asia) acting as administrator for the master fund and Rawlinson Hunter, BVI, for the feeder. Schulte, Roth & Zabel LLP is the U.S. legal adviser, with this function covered by Maples & Calder in Cayman, and by Walkers in BVI. The Cambodia legal counsel is Sciaroni & Associates, with ComplianceAsia as compliance consultant.