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Investment Fund Head Shares Market Projections

In April, Douglas Clayton launched Leopard Cambodia, the country's first multi-sector investment fund. To date, the fund has raised \$12.6 million and hopes to accrue \$100 million by March for an eight-year investment plan with projected 25 percent annual returns, said Gayton, former director and chief investment officer at Knight Asia Group. Leopard has already invested in a 250-unit condo project in Siem Reap town and is in discussions to invest in agriculture within the next three months. The Cambodia Daily's Stephen Kurczy met with Clayton, 48, this week to talk about the roiling global economy, areas for investment in Cambodia, and whether Leopard's equity fund can actually raise another \$90 million over the next six months.

Q. It's been a turbulent week for the global economy. Investment bank Lehman Brothers declared bankruptcy, Merrill Lynch & Co was bought out, stock markets plunged. How will this affect Leopard Capital and Cambodia in general?

A. It's another step in the global credit crunch that will create losses for counter-parties, which will further reduce global risk appetite. It slows down Western money, New York money, coming into Cambodia. If that money was ever going to come, it will come in at a slower pace because some of that money might be hurt by losses in the US.

But, really, what's been driving the Cambodia property market is Korean money. Indirectly, the pain in Cambodia might be felt through some of the Korean investors who also had exposure to sub-prime, and possibly some of the players in the property market might be in a weaker position today than they were last year. In general, the mood in Korea is more cautious. Generally, Cambodia is not linked to the Western world, but the one link might be through the Korean investors.

Q. Don't we see gloom in the local market as well, amid garment factory closures, slowing economic growth, and predictions of a slide in Cambodian land values?

A. When I came here last year, people were saying \$1,000 a square meter was way too expensive. Now they're saying \$3,000 to \$5,000 for the same sites. So, even if it came down by half, it's still a lot more than it was a year ago.

I don't think it's a big deal if the market corrects; I think it would be healthy for the economy in general. Right now, if you did want to build an office building, by the time you factor in the land cost and everything, it's not as attractive. Right now there's a land boom but not a construction boom.

I remember in the 1900s in Bangkok we'd look out our office and count the number of cranes in the sky. Once we counted 80 cranes.

Phnom Penh is a quarter the size of Bangkok, that'd be like looking out and seeing 20 cranes. You see one, and if you have really good eyes, maybe two. When you see 20, you sell everything

We're here for an eight-year transformation. What happens now is really a reflection of what's been happening up to now. You can either study the existing \$8-billion economy or you can study the future ~ to \$100billion economy. We're here really for the second part. There are a few businesses in the \$8-billion economy that we're interested in, but most of our investments will be things that haven't started yet

Q. Aside from Leopard Cambodia, three other companies have announced their intention to start investment funds. Would you expect more investment funds to open soon?

A. The fundraising environment is very tough now. The credit crunch has really sapped the risk appetite of the global investors. It's a lot harder this year than it was last year to talk to people. Also, Vietnam had quite a collapse, so people who were interested in the region are losing money. It's challenging for any group to raise money now.

I'm glad that we got started because it's easier to raise money when you have some money-people think it's a little bit less risky. But it's hard for us as well.

Q. How is starting an equity fund in Cambodia more difficult or unique, to starting one elsewhere?

A. We tend to see more venture opportunities, new projects. The challenges are different in a new project: There's less due diligence on the old business. For example, if you're going to invest in a cement plant in Vietnam, you have to go in there and look at the historical accounting and the machinery. But if you're going to do a cement plant here, you would have to finance a site, find partners.

The most exciting thing is the openness of the economy. If you look at a country like Vietnam or Thailand, they may never in their history ever be as open as Cambodia is today. They're much more closed economies. If you want to open a bank there, it's 49 percent ownership maximum. But we have the opportunity, if we wanted, to open a bank here and own it 100 percent. You can't do that in most countries-there are all kinds of restrictions for foreigners. Usually there is protectionism to the local business community, and it's harder for foreigners to operate

There are plenty of things wrong with this place, but if we look at the policy and the laws and the legal framework and the attitude toward foreign investment, this is nearly on par with Hong Kong and Singapore.

Q. But in the World Bank's report "Doing Business 2009," Cambodia was still ranked 135 out of 181 countries for its overall business climate.

A. That's a stupid vote. To me, openness of the economy is a bigger issue.

There's a lot of nagging things: There's the fact that your truck is going to get stopped five times for \$5 tolls on the way to the border. Does that get the same mark as only being allowed to own 49 percent versus 100 percent? You've got to weigh these things differently.

The really important thing is that you can own a business here. And then you've got low taxes. You've got a lot of very good things that are just so uncommon in Southeast Asia.

Q. You want to raise \$100 million by next March. In the past six months you've raised \$12.6 million. It seems you've got a long way to go to hit your goal.

A. The global appetite for risk is low, and lower because of the unfolding credit crisis. We were hopeful that the world would not have fallen apart as dramatically as it seems to be. But one of the natures of our fund is that it's open for one year, and we're hopeful that, following [today and tomorrow's Cambodia Leopard] investors' conference, money will come in a bit faster.

I'm not too worried. The key thing is Cambodia is delivering. The election went pretty well overall. The economy is not collapsing. In general, there aren't any domestic problems getting in the way of the fund. I still think this is a great story that people will want to invest in.