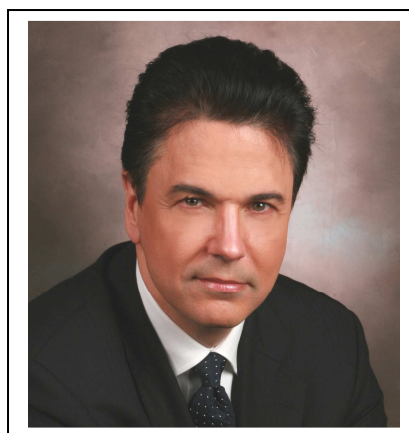


# T&I GP Interview

## Douglas Clayton, Leopard Cambodia Fund

Doug Clayton began his financial career 21 years ago, not on Wall Street but in Hong Kong, as a salesman on the institutional desk of a Chinese stock broking firm, an unusual entry path to Asia for a native of Connecticut. After attending Cornell as a history major on an Army ROTC Scholarship, Clayton was sent in 1983 to Korea as a Counterintelligence Officer. His time there piqued his interest in Asia, and after traveling through Hong Kong, Thailand, and the Philippines during his military service, his return to Asia to live and work was decided. So, says Clayton, after leaving the Army he bought a one-way ticket to Hong Kong and where he began knocking on doors until he found work at Sun Hung Kai Securities, which was recruiting an international sales team in Hong Kong. Sun Hung Kai threw the rookie into the deep end of the financial pool, and on his first day at work had Clayton on the phone pitching unfamiliar Hong Kong stocks to veteran New York fund managers.



He survived that accelerated training program to participate in the heady bull market of Hong Kong from 1986 to 1987, the great global stock crash of October 1987 and the post-crash recovery of capital markets. In 1988, he joined a friend to help build Kerry Securities – a small retail broker owned by Shangri-La Hotels founder Robert Kuok – into a regional institutional brokerage, and where Clayton was the regional head of research. The following year he volunteered to open Kerry's office in Thailand, which was beginning a period of rapid economic transformation and where he would remain for most of the next 17 years. While writing some of the first published research on Thai stocks, Clayton studied Thai, adopted three babies, and earned an Executive MBA through a joint Kellogg/Wharton program in Bangkok. In 1993 CLSA Securities recruited Clayton to serve as their Country Manager for Thailand, which had been a perpetual underperformer. Over the next four years Clayton re-staffed the CLSA Thailand team, tripled its market share, and led it to the #1 ranking of brokerages for Thailand in the Asiamoney Brokers Poll. In 1997, when Thailand was forced to devalue its currency and its stock market imploded, CLSA had been warning its clients and encouraging them to leave that market for two years.

CLSA promoted Clayton to Regional Managing Director and moved him to New York to extend the Group's brokerage franchise into Latin America. Clayton went on a hiring spree, persuading two dozen Latin America equity specialists to leave what were often better paying jobs with larger global firms to join the entrepreneurial but regionally untested CLSA. He built up research and sales offices in New York, Mexico, Brazil, Argentina, Chile, and Venezuela, and negotiated several joint ventures with local investment banks. In 1999 Clayton returned to Thailand, to set up a private equity business, because he perceived an historic opportunity to recapitalize distressed Thai

companies with foreign capital in the midst of the country's continued financial devastation. He founded Abacus Equity Partners and recruited a team of a dozen, aiming to broker some deals then launch a PE fund. In its first two years Abacus sourced and placed three deals, all of which subsequently went on to achieve public listings, but in the end, concluded that the deal flow in Thailand was too thin to support the sort of fund he had planned to launch. He reflects back on that period of learning, saying that "the Thai corporate sector wasn't ready for private equity." Asked whether he thinks Thai corporations are ready for private equity participation today, Clayton responds no without hesitation. "no," and after which we find ourselves admiring his honesty and understanding of Asia. And indeed he concludes that is why he is not raising a fund now for Thailand, despite his long connections with that country because, "...most Thai owners don't want to lose control of the family business, and certainly not to foreigners."

Clayton returned to broking, accepting an offer from Indosuez W.I. Carr Securities to run their Singapore and Malaysia offices. After relocating him to Singapore in 2001, WI Carr's parent Credit Agricole suddenly shut down the well-known brokerage across the region, as a consequence of their acquisition of CLSA's parent Credit Lyonnais. Clayton used his separation package to help fund a property investment project in Camden, Maine, before returning to Bangkok in 2003, where he found a role helping ambitious Thai brokerages set up international marketing teams, first at Siam Commercial Bank's SCB Securities, and then at Syrus Securities. In 2005 Clayton was offered the Chief Investment Officer position at Knight Asset Management in Bangkok, where he helped manage Knight Pacific Fund, a regional long/short listed equities fund and Knight Thai Strategic Investments, a listed/unlisted long-only fund. Which brings us up to our current interview and Clayton's recently announced new group, Leopard Capital, which has just launched the first multi-sector investment fund for Cambodia, Leopard Cambodia Fund.

**T&I:** The first thing my LP readers want to know is what in the heck a person with your background knows about private equity investing?

**DC:** I've spent my whole career in emerging markets investments. I've helped PE firms make investments and helped run funds. My approach to any business is to focus first on building a winning team; get the people right and the rest usually follows. At Leopard Capital we have a dozen carefully selected partners, all high achievers but with different skills. Three of our four full time guys worked together at CLSA Securities Thailand in the 1990s, which climbed over larger and more established firms to reach the top. I later picked up some private equity experience running Abacus Equity Partners, which was another upstart team, short on experience but long on talent, facing lots of experienced competitors. But if you look back, it was Abacus that came up with Thailand's best-performing PE deals of that time. Our biggest transaction, Bangkok Ranch, achieved a 10X return for Navis Capital, the PE fund that we persuaded to buy it. Our second biggest deal had an even bigger return for the investors we brought in; last year it was listed in Singapore as GemsTV at a billion dollar valuation. An interesting footnote is that each of those deals was turned down by over 40 PE funds, mostly names everyone has heard of. Most PE managers only wanted to hear about IT investments back in 2000, but we kept plugging away because we could believe our deals were good. Anyway, I like building businesses and teams; I like spotting overlooked opportunities. I've always wanted to get

back into private equity, which led me to start Leopard Capital.

**T&I:** So you decided to start a Thai PE fund?

**DC:** No, not a Thai fund. I think Thailand still has some fundamental problems to sort out, like who's going to run the place and how they're going to stay competitive in 20 years. It's an economy that's pretty well understood now and probably valued correctly. I saw better opportunities in Asia's forgotten countries, places which are quietly entering the development jet stream but which no one has noticed. Leopard Capital will go in early and invest in those places.

**T&I:** Where?

**DC:** Well, a year ago I took a fresh look at the region, revisiting and reexamining countries from India to Vietnam, including the ones in between that investors usually skip. I found specific opportunities in each country, but the one that stood out the most to me, in terms of opportunity, valuation and timing, was Cambodia. So I decided to move there and make that our first fund.

**T&I:** Specifically, what did you see in Cambodia?

**DC:** I first visited Cambodia in 1991 and it felt like a war zone then, armed soldiers escorted us to see the temples. But now, 17 years later the place is almost normal. It feels youthful, vibrant, and optimistic. Foreign journalists still think of Cambodia in 1970s terms but two-thirds of the people weren't even alive then and consider that period ancient history. The young people are the new Cambodia and want to catch up with the world. They want a mobile phone and a motorbike, they're going online and they're studying English. You can see a middle class is just starting to develop in Phnom Penh, like what happened in Thailand 20 years ago and Vietnam 5 years ago. Phnom Penh itself has been cleaned up, nearly all the roads are paved, the parks rebuilt and the power supply improved. It's actually quite a lovely city now, one of Asia's little secrets. Another thing I found exciting was the progress on starting a local stock exchange. The Government seems determined to launch a market by the end of 2009. And last year the Koreans got involved, started providing the training and the funding for the stock exchange project. The Korea Exchange also signed a MOU to take up a 49% equity stake in the Cambodian exchange.

**T&I:** Again, it sounds like you're going to be a public equities firm?

**DC:** Well, after a few rounds of company visits you realize there aren't many companies suitable for listing yet. There's a bigger opportunity now in private equity and venture capital. My local business friends tell me their biggest constraint to growth has been financing; they have lots of ideas and customers ready but they don't have the money to go forward. The local banks are still small and regional investment funds have almost completely ignored Cambodia. So, if you can bring funds into Cambodia, you can do quite a lot here.

**T&I:** You're telling me that Cambodia has deal flow.

**DC:** There are a lot of potential deals in Cambodia, [but that isn't] well known. As the first [investment] fund, people are coming to us with all sorts of deals.

**T&I:** What sectors, what size, what sub-class of alternative assets?

**DC:** After missing out on 40 years of development, Cambodia needs investment in every sector of its economy; banks, hotels, property development, building materials, plus sectors that haven't even come here yet, like food processing and low-end electronics. The biggest opportunities now tend to be in early stage investments. We see a lot of deals here are in the two to ten million dollar range, but there are bigger ones, for example you could invest several hundred million dollars building a seaport or power plant or hydropower dam.

**T&I:** Infrastructure development in an emerging economy?

**DC:** That's certainly one of the areas. Or you can start an industrial estate, or do a rubber plantation, or build a hospital. But most managers in Asia shy away from early stage deals like these, apart from some real estate funds.

**T&I:** People like Mekong...

**DC:** Mekong Capital may be the only one focusing on providing growth capital to entrepreneurial private businesses, classic PE.

**T&I:** Then there's IDG in IT.

**DC:** True, but IDG is a tech investor which is not our game. Leopard Cambodia Fund is more flexible and diversified than Mekong and IDG, because this is a broad fund for Cambodia, where different sectors are at different stages. We can come in at any stage, even Greenfield ventures.

**T&I:** You want to do something more akin to venture capital, but without that US-centric view that VC is based on technology?

**DC:** Some of our investments will be new ventures. Here we'll be looking to bring in some basic industries that are successful across the region, but not present in Cambodia. For example, a pineapple cannery; no one is doing that in Cambodia yet even though they already grow pineapples and have plenty of land, cheap labor, a seaport, and a can factory. We can import the expertise from Thailand.

**T&I:** And if you were 3i with 62 years of investing under your belt, I'd say, this is credible. What do you say to my LP readers who see an emerging manager, in an emerging market, about why they should fund you?

**DC:** Actually, I think Leopard Capital is better suited to run this kind of fund. If any of the big guys were that local or entrepreneurial, they'd already be in Cambodia and making a fortune. Big name managers focus on big markets, where they can deploy large amounts of capital with the least management hours per dollar invested. Leopard attracts a different type of person, guys who like to go in to new places before the big funds, while prices are still cheap, but information is opaque, where better local contacts and knowledge provide an edge. And it works; the fund groups that dominate Vietnam were started by guys with backgrounds like mine who saw the opportunity first, embedded themselves into the community, and stuck with it while the story played out. I've been living and networking in Cambodia for a year and plan to be here for the life of the fund;

that's my commitment to investors. I've witnessed first hand the last 20 years of growth in Thailand and if any country provides a roadmap for Cambodia's future development, it has got to be Thailand. If you've ever said to yourself, wow, I wish I could live the last 20 years of my life over, what a fortune I could make...well, Cambodia has now presented that sort of opportunity. So here I am.

**T&I:** So what would you have done differently, by the way?

**DC:** Well, if I knew then what I know now, I'd have taken all my savings and bought as much land as I could afford on Phuket's Patong Beach and just sat on the beach since then and probably made a lot more money than I did working (laughing).

**T&I:** In hindsight you'd be a real estate speculator.

**DC:** I just like owning property. A few years ago I sold my last properties in the US and invested in a half kilometer of pristine beach land in India that I think will just skyrocket in value like Phuket did. Now I'm finding opportunities like that in Cambodia.

**T&I:** And can foreigners do that in Cambodia? That is, acquire land?

**DC:** To register freehold land a company must be at least 51% owned by Cambodia nationals. Almost all Southeast Asian countries have this restriction. But foreigners can hold land through long-term leaseholds, and you can lease Cambodian land for 99 years, renewable, compared to 50 years in Vietnam or 30 years in Thailand. Cambodia is very welcoming to foreign investors.

**T&I:** Really?

**DC:** Yes. Except for freehold land, as a foreigner you're allowed own 100% of virtually any business in Cambodia, including banks, telecoms, power plants, etc. Many of the businesses that are considered sensitive and which have ownership limitations elsewhere, are open to 100% foreign ownership in Cambodia.

**T&I:** There are no sector limitations?

**DC:** There are very, very few limitations for foreigners. It's the most open economy of all the emerging Southeast Asian economies. And that's not very well known, which is one reason I'm so excited about Cambodia. [That opportunity is] not priced in.

**T&I:** What is the banking infrastructure like?

**DC:** There are about 15 or so banks; they keep awarding new licenses. The banks are still small but are growing rapidly; some are nearly doubling in size each year. There are some foreign banks, some local and some joint ventures. ANZ has a joint venture called ANZ Royal Bank. Public Bank and Maybank from Malaysia, and Siam Commercial Bank and Krung Thai Bank from Thailand, all have bank subsidiaries in Cambodia. A few Korean and Japanese investors have recently started new banks there. But we still don't have big global banks like HSBC or Citibank here.

**T&I:** My great fear in investing in emerging markets is currency repatriation. Getting money in is almost always easy. Getting it out is not.

**DC:** Happily, there are no restrictions on capital flows in Cambodia. You can bring money in and take money out as you wish.

**T&I:** There are no currency importation forms; I don't have to prove to some government regulator that I've brought money in before I can't take it out again.

**DC:** This is the beauty of Cambodia; the government is relatively non-interventionist. No foreign exchange restrictions. And basically no foreign exchange risk, as major transactions are always priced and paid in US dollars. So in many ways it's a very easy place to do business, almost radically free market by Asian standards.

**T&I:** Let's cover race the basics. Banking relationships. I take my passport into a local bank, I set up an account, I can wire transfer funds in. I can wire funds out?

**DC:** Yes. No problem.

**T&I:** Legal issues. What does it cost me to set up my firm, to get a business license, to establish a legal relationship?

**DC:** Corporate establishment fees and legal fees are pretty reasonable. Most foreign investors use either DFDL/Mekong Law Group or Sciaroni & Associates; Brett Sciaroni is an American lawyer who has been here for 15 years and knows how everything works.

**T&I:** No Baker & McKenzie. No Piper?

**DC:** No, just two main law firms, and two big auditing firms, PWC and KPMG, who can also help you set up.

**T&I:** Tax situation?

**DC:** No capital gain taxes, just 10% as a value added tax and a 20% flat income tax on both individuals and businesses. A pretty simple structure.

**T&I:** No distinction between me as a business, an LLC, or me as an individual?

**DC:** Correct. 20% tax on both.

**T&I:** I don't need to worry about my status as a foreign investor?

**DC:** Cambodia is one of the few countries where the government treats foreign and domestic investors the same, except for registering land title. And the Government is very eager to attract investors. There aren't many stories of respectable major foreign investors getting shafted here in recent years, provided they used a good lawyer and followed the regulations. The Cambodian government seems to honor its commitments, once made, which isn't always the case in Southeast Asia.

**T&I:** Your investment community in the Capital. Compare it to Vietnam where certain watering holes and restaurants are effective gathering places.

**DC:** There's not much of an investment community yet, we're kind of the pioneers. But there's a core group of old-timer expatriates, some bankers, lawyers, auditors, businessmen and journalists, and there are a few places we meet up for Happy Hour. But I also spend lot of evenings with Cambodian businessmen, to get a different flow of information.

**T&I:** What about our friends at Prudential, at one point, the effective market makers or the entire Vietnam stock exchange. Are they active here or is there a similar major player for Cambodia?

**DC:** No. The biggest players here now are the dozen or so family conglomerates; some of these guys are probably billionaires now, on paper. There are some foreign strategic investors making good money in single industries like garments, telecoms, or beverages. We're the first of the financial institutional investors, looking to get involved in many sectors of the economy. Later on I'm sure other investors like Prudential will find their way to Cambodia, and that should be good for our portfolio.

**T&I:** Okay, so I have accounting, legal and banking relationships. I need an office.

**DC:** Phnom Penh doesn't have any Grade A office space yet. There are some older, substandard office buildings downtown and these are usually full. There are a couple high-rise offices being planned or built, and I'd guess in 5 years there might well be an oversupply of prime office space. For our Leopard office we leased a nice big villa downtown and set up there; that's what a lot of businesses do.

**T&I:** Okay reasonably primitive. But I can walk down the street to an ATM and pull dollars out?

**DC:** I've never withdrawn anything but dollars, because 90% of transactions here are in dollars. This is basically a dollar economy.

**T&I:** You never use local money?

**DC:** Only for change. The local currency is used in place of coins, it's pretty handy.

**T&I:** Tell me about your fund and firm.

**DC:** We set up Leopard Capital to manage private equity and real estate funds in the less developed Asian countries. Our 12 partners own the firm. We only want to do products no one has done yet, or done right. Our first fund is Leopard Cambodia Fund and this is the one I will personally lead. It's a Caymans domiciled, unlisted limited partnership and operates on a drawdown structure. The terms follow the standard of US private equity funds; we used a big New York law firm [to establish the fund.]

**T&I:** How much are you seeking to raise and where do I deposit my check?

**DC:** We're targeting \$100 million for this fund. Our administrator is Citibank's Citi Fund Services in Hong Kong.

**T&I:** You want to invest how much money in what kinds of companies?

**DC:** We're looking to invest in around ten companies, averaging five to fifteen million per investment. It's a ten year fund, so we have five years to invest, then another five years to divest.

**T&I:** This sounds like a lot of money for Cambodia. Even in Vietnam, \$3 million to \$6 million goes pretty far.

**DC:** Cambodia still needs a lot of things that Vietnam already has. It's easier to put money to work here than in Vietnam. One local tycoon is looking to make about \$2 billion of investments, if he can find the money. There are plenty more locals looking for [funds] plus lots of the foreign firms that are thinking to come in here would welcome partners. \$100 million will give us access into the very best companies and projects and we'll hold meaningful stakes.

**T&I:** You said you're going to invest in everything from seed, to existing companies to Pre-IPOs?

**DC:** Yes. And a couple of real estate investments as well.

**T&I:** Widening your investing to include real estate will scare LPs.

**DC:** This is Cambodia, not China. [The economy] is too small to specialize. I envision about ten investments in the portfolio, spanning six different sectors. We'd like to soak up any well-managed, profitable companies that can be floated on a stock exchange in a couple years. But there aren't many and these take a while to evaluate and negotiate. Our first investment is likely to be a property development project for low rise condos targeting an overlooked market segment. This would involve joining a syndicate that includes an experienced local builder and two other foreign investors. The condo units would be pre-sold to cut risks and fund the construction costs. We've also been invited to team up with an international agribusiness operator and a local partner in a large agricultural project. Most of our investments will be minority stakes like this; we'll leverage other peoples' know-how.

**T&I:** Run through all the major sectors, beginning with retail, franchising, food and beverage.

**DC:** We see good opportunities in modern retail; most Cambodians still buy everything in informal markets. The middle class want to enjoy Western franchises, but these are only just starting to come in. They just opened the first KFC in Phnom Penh a few weeks ago and it's packed. Food products are almost entirely imported, even basic food-stuff like cooking oil and instant noodles.

**T&I:** Financial services?

**DC:** Banks are growing fast and some have capital constraints, and we are talking to one. Alternatively you can get a license and open a new bank. Insurance is a new concept for most Cambodians so that's another opportunity. Our fund plans to invest in a securities brokerage once they start issuing licenses for that, our team has a lot of experience building brokerages.

**T&I:** Publishing?

**DC:** An Australian group just acquired one of the two English language newspapers, Phnom Penh Post. But I think we'd probably be more interested in the printing business than in newspapers.

**T&I:** Chemicals?

**DC:** All imported. I'm not sure the local market is big enough.



**T&I:** Manufacturing?

**DC:** The only substantial manufacturing industry is apparel; Cambodia has over 300 garment factories, mainly serving the US market. Check the labels at Old Navy, it probably says “Made in Cambodia” [Ed: or Anne Taylor]. But if you can train 300,000 people to work shifts in garment factories, and get the products on to the ships on time, it means that you can probably manufacture other export products, like footwear, toys, and furniture.

**T&I:** Electronics and IT?

**DC:** Low end electronics like simple PCB assembly could work as well. For IT services, there may be some low end data processing tasks that India doesn’t want to do anymore. Due to its skewed demographics, Cambodia produces 300,000 workers each year and there aren’t enough jobs yet.

**T&I:** This is quite primitive. I’d ask you about infrastructure, but I’m dubious.

Infrastructure investing in Cambodia is still for the ADB or multilaterals isn’t it?

**DC:** Yes and no. The ADB and other donors have made important progress in rebuilding key roads and bridges and the deep sea port. But the needs remain vast and private capital can participate as well. For example, the railroad tracks will be upgraded with donor money, but the private sector will likely be involved in operating the railroads.

**T&I:** Hotels and resorts?

**DC:** Opportunities galore. Alongside Burma, Cambodia is the most interesting tourist destination in Asia. I bet in 20 years Cambodia receives more tourist arrivals than Thailand. Think about it, only 10 to 20 million people on the planet have ever explored Angkor Wat, one of the “Seven Wonders of the World” and probably the best one of all. And probably only 10% of that number, only one or two million people have ever seen Cambodia’s coast and islands, where you can find some the most spectacular beaches in Asia. And there are nice French riverfront towns to restore all over the country, and national parks full of jungle wildlife, and casinos everywhere. Cambodia will become a very hot tourism destination and will need a huge investment in hotel rooms, golf courses, spas, as well as a national airline, which is yet another investment opportunity.

**T&I:** Talk about the firm’s staff and investment team.

**DC:** It’s a fairly sizeable team because we need a lot of different skills on call. We have four full time Managing Partners; three of us worked together in the 1990s building CLSA Securities in Thailand, and each of us have picked up different experience since then. Our fourth partner was Head of Investments at LGT Investment Management in Hong Kong; he has 26 years’ experience. We’re bringing in four associates, including some very impressive young Cambodians, and an Advisory Council with some leading Cambodian businessmen on it. On a part time basis we have access to five Consultant Partners including the former British Ambassador to Cambodia. So there’s a deep pool of knowledge and experience behind this fund. They’ve all been great about helping.

**T&I:** Where are you with fund raising?

**DC:** We launched the fund April 2 and are progressing towards our target of \$100 million. We now we have enough capital committed to make our first few investments.

**T&I:** No anchor investor?

**DC:** Not yet, stay tuned.

**T&I:** And how would you like to build out your roster of LPs for the fund?

**DC:** One third may come from family offices, private banks, and high net-worth individuals. Another third from institutions like funds of funds, hedge funds, endowments, and banks' proprietary funds. We'd like to see the final third coming from the public sector, from the financial development institutions and multilateral agencies whose mandate is invest in developing countries like Cambodia.

**T&I:** And longer term, you mentioned other funds for Asia?

**DC:** Yes, our long term plan is for Leopard is to roll out a series of funds across the frontier markets of Asia. This would include places most global investors just fly over on their trips through Asia, countries like Cambodia, Laos, Bangladesh, rural India, a different twist on Vietnam and someday Burma. Some could be real estate funds in areas where we see big opportunities. Any fund we do will have its own specialist investment team on the ground, supported by regional industry experts and a regional investment committee. This is the matrix management model I was trained in at CLSA; I think it will work even better in fund management.

**T&I.**

### Biography for Douglas W. Clayton



**Age:** 47

**Education:** BA in History, Cornell University, 1982. MM, Sasin Graduate Institute of Business Administration, 2002.

**Employment:** CEO, Leopard Capital, Phnom Penh / CIO, Knight Asset Management, Bangkok / CEO, Indosuez WI Carr Securities, Singapore & Malaysia / CEO, Abacus Equity Partners, Bangkok / CEO, CLSA Securities, Bangkok & New York.

**Family:** Married, with four children.

**Activities:** Running, reading.

**If I weren't in Private Equity:** I'd collect and promote art from undiscovered Asian contemporary artists. A new generation is emerging and they are good.

**Last Book Read:** Skeletons of the Zahara, by Dean King. An inspiring story of leadership under stress. My ancestor James Clark was one of the shipwrecked sailors.

**Best Investment:** My overpriced little Sony Vaio, that's been my constant companion over the past year and goes everywhere with me.

**Worst Investment:** All the various language instruction books I've accumulated during my travels. They're about as useful as home exercise equipment.

**Favorite Adage:** You're only as good as your next great achievement.