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Investing in Asia's Frontier, With Eyes on the Horizon

Douglas Clayton, managing partner at Leopard Capital, started the first investment fund focused on Cambodia.

By RON GLUCKMAN
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PHNOM PENH, Cambodia — Investors started poking around for deals here five years ago, as the war-torn country began to move past its legacy of genocide and coups. When the global financial crisis struck, Cambodia's fast-growing economy crashed and the dollars flowing from abroad evaporated.

Douglas Clayton stayed put. In the midst of the crisis, he raised $34 million, starting the first investment fund focused on Cambodia.

"High risk also means the potential for high returns," said Mr. Clayton, the founder of Leopard Capital.

Persistence can pay in this frontier market of 15 million people. Despite some rocky deals, the fund over all has posted solid gains on several investments, according to Leopard Capital. The three investments sold so far by Leopard have generated average annual returns of 36 percent.

"We got in early and have done well," said Mr. Clayton, 52.

Building on the experience, Mr. Clayton is expanding into other regions with similar characteristics. This year, Leopard Capital started the first big investment fund in Haiti, backed by economic development organizations like the World Bank's International Finance

Corporation. In coming months, he plans to start portfolios focused on Myanmar, Bangladesh and Mongolia. He also plans the first investment fund for Bhutan, which has been reticent about outside money.

“We are trying to pioneer this investment class,” he said. “We can put money in places it’s never really been, and get good results.”

He will have to tread cautiously. Mr. Clayton is moving into treacherous investment territory, plagued by infrastructure problems, corruption, political instability and weak or nonexistent regulatory leadership. For example, Mongolia’s economy is on shaky ground after a series of political maneuvers left foreign investors nervous.

“We’ve proven ourselves here in Cambodia, and feel we can go anywhere,” Mr. Clayton said.

The potential payoff can be substantial. Some investors can double or triple their capital, according to Kathleen Ng, managing director at the Center for Asia Private Equity Research, which tracks fund performance in the region.

Ms. Ng said that China has been the hottest area for investment in Asia for years, but as returns have peaked, many began looking further afield, to places like Vietnam and Indonesia. Countries like Cambodia, Laos and Bangladesh — all Leopard targets — are just now getting on investors’ radars.

“Frontier markets really attract a different investor,” Ms. Ng said. “For the right fund — and a first mover — you can make a lot of money.” Even now, Ms. Ng notes, Leopard remains one of the few private equity funds focused exclusively on the region.

Still, investors need strong reserves to make money in such far-flung places. Returns can be choppy. Over the last five years, an index that tracks the frontier markets around the world is off nearly 42 percent, according to data from Thomson Reuters.

“On the surface, there is so much opportunity here,” said Nicholas Lazos, an investment manager at Insitor, a fund in Cambodia. “But executing is quite difficult.”

Mr. Clayton knows the challenges, having spent much of his career in Asia,

Originally from Madison, Conn., Mr. Clayton graduated from Cornell in 1982 and then served four years in the Army. While stationed in Korea, he became enamored with Asia.

After leaving the Army in 1986, he moved to Hong Kong and persuaded Sun Hung Kai Securities to give him a job as a trader, despite his lack of experience. “China was just opening up,” he said. “This company wanted some foreigners. I got hired and traded to learn.”

Three years later, he was hired by Kerry Securities to head its investment research in Thailand. In 1999, he opened his own firm in Bangkok, Abacas Equity Partners. The firm specialized in distressed assets, plentiful in Thailand after the Asian currency crisis of 1997.

He made his first trip to Cambodia in 2005, during a period of personal reflection. His first marriage had ended, and he was weary of the frenetic pace in Asian hot spots like Singapore, India, Thailand and Hong Kong.

Cambodia reignited his drive. “It was kind of spooky and scary,” he recalled. Yet he also sensed unique opportunity. “Nobody was here yet. It was really unknown, and exciting.”

He started the Leopard Cambodia Fund in April 2008 with $10 million, mainly from family and friends. Then prospects dried up in the global crisis. Many other firms withdrew from the country.

Mr. Clayton remained committed. Over the next two years, he visited 50 cities around the globe, pitching investment opportunities in Cambodia. He originally aimed for a goal of $100 million for the fund, but scaled back during the global financial crisis. “It was a hard sell,” he said.

Since then, he has invested about $36 million in a dozen companies, placing small bets in various industries. He put $5 million into Acleda Bank, a stake that has soared, and earned double-digit gains on telecoms and utilities in the region.

The money manager has experienced his share of difficulties. The firm took an aggressive stance with Nautisco Seafood, buying debt and forcing a restructuring.

Leopard wound up in court over the deal. The founders charged Leopard with interference, a situation that resulted in big layoffs and an eventual takeover. Leopard denied the allegations, and the suit was eventually dismissed.

Mr. Clayton is applying his experience to investment opportunities across Asia and beyond.

The private equity firm has started the Leopard Haiti Fund, supported by the International Finance Corporation, the Netherlands Development Finance Company and the Multilateral Investment Fund. These three agencies committed $20 million to the fund, which will focus on shifting capital into food processing, tourism, affordable housing and renewable energy.

“This is a big signal to investors looking at Haiti,” said Sergio A. Pombo, an investment officer at the I.F.C.

Mr. Clayton has also looked to the I.F.C. for support in Bangladesh, where Leopard plans to start a $100 million fund. Mr. Clayton compared Bangladesh to neighboring India a few decades ago, with a large, low-cost labor force.

Leopard is also contemplating starting a $15 million to $20 million fund for Bhutan, a former Buddhist kingdom in the Himalayas. Bhutan has no investment funds operating in the country, few industries and only 700,000 people.

Mr. Clayton is most bullish about Myanmar, which is going through major political changes. Largely closed to Western investment by the military regime that has ruled for decades, Myanmar, formerly known as Burma, is suddenly open for business.

“This will be a real core country for Leopard in the future.” He predicted the trajectory will follow other Asian nations in the 1980s to 1990s, only at a more rapid pace. “It really seems full speed ahead.”

Still, he cautioned that challenges remained. Foreign investment laws have only recently been announced, and many industries remain closed. Hotels in the capital of Yangon are packed with business delegations, but many outside investors complain that there are few surefire deals, and corruption is a major worry.

Still, Mr. Clayton is focused on the long-term picture for these frontier markets. “These places can be good for investment,” he said. “You just need to do your research, build good local teams and make the right deals.”