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# SOMETHING VENTURED: Blazing New Trails In Frontier Markets

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NEW YORK (Dow Jones)--Rather than spend his Memorial Day eating burgers at a family barbeque, Douglas Clayton, a Connecticut native, spent it dining on fish curry, papaya salad, and grilled eels in Hong Kong while pitching investors on the idea of investing in a Cambodian private equity fund.

"Most people don't know much about Cambodia," Clayton said. "They think it's a land full of landmines and guns."

Clayton, a former chief investment officer with Knight Asia Group, is one of a number of would-be fund managers who thinks that with emerging markets getting crowded, there is an appetite among investors to venture into even riskier places: the so-called frontier markets. Of late, more and more fund managers have decided to try their hand at raising capital in such markets. In addition to Cambodia, managers are targeting countries like Bangladesh, Kazakhstan and even Iraq.

Clayton wants to raise $100 million for Leopard Cambodia Fund LP, and says he has already collected $10 million. The first fund would invest in around 10 companies, taking mostly minority stakes and providing $5 million to $15 million of equity in each deal. Clayton's firm Leopard Capital would also like to raise funds for Bangladesh and Laos, where other managers are already having a go at it.

Asian Tiger Capital Partners, for instance, is targeting $100 million to $200 million for a Bangladesh-focused fund, and hopes to have some commitments secured by the end of the year. Ifty Islam, a managing partner with the firm who previously headed macro strategy and hedge fund research at Citigroup Inc. (C), said the fund would invest up to $20 million per deal in 10 to 15 transactions, looking at sectors including pharmaceuticals, financial services, infrastructure, automotive parts and technology.

Elsewhere, Aureos Central Asia Managers Ltd., an affiliate of London-based Aureos Capital Ltd., is plotting a second close on its first Kazakhstan-focused fund this summer, at $70 million to $80 million. The fund has a $100 million target, and already counts among its investors CDC Group PLC, FMO and the International Finance Corp. The firm will do deals ranging from minority stakes to buyouts, investing $2 million to $10 million per deal in sectors such as telecom, logistics, pharmaceuticals, distribution, food processing and oil and gas services.

Even farther afield, Marshall Fund Capital Management is targeting $100 million for an Iraq-focused fund, and is nearing a $5 million first close. The fund, which has applied for $25 million in funding from the State Department, would invest in the northern region of the country, which is more peaceful than the rest of Iraq, people familiar with the fund say. Founded by Dan Rice, a former investment advisor at U.S. Trust Co. and Bernstein

Investment Management & Research, it would primarily invest in agri-business, and expects its first deal to be a $1.7 million investment in the Hamir Tomato Paste and Fruit Juice Plant.

As these fund managers point out, their offerings represent the first chance to get in on the ground in an untapped region where returns, if things go well, could be sky-high. Asian Tiger and Aureos both say their funds could generate returns north of 30%, while Marshall Fund hopes for an internal rate of return in the area of 20%.

"The first player in the market will have the opportunity to be highly selective on deals and pricing will be better in the early days," said Richard Laing, chief executive of CDC Group, the British government's fund of funds and a prolific emerging markets investor.

But investing in such frontier markets carries numerous risks, including legal and political instability, possible currency issues, a lack of entrepreneurial experience with the asset class, and, often, a lack of developed financial markets in which to find debt financing or exits. For that reason, David Wilton, manager of private equity and investment funds for IFC, said he's more comfortable with emerging markets fund managers with experience growing a company, rather than with knowledge of debt structures.

Still, some places are so risky even intrepid investors can't get comfortable with them. CDC Group, for example, pulled out of backing Afghanistan Renewal Fund, which was trying to raise $50 million last year, feeling that the country's business environment, political situation and infrastructure were all too premature for private equity investment.

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