

The social network

Operating partners now form the backbone of most private equity firms, in a variety of different guises. Samena Capital's take on this concept recognizes the importance of relationships in Asia

CONSIDER THE GENIUS THAT IS FACEBOOK.

The global internet phenomenon, which stands to make Accel Partners a 700x money multiple when it IPOs later this year, is a service 100% populated by the users it aims to serve. Rather than consuming articles and other media produced by the site's managers, Facebook's 800 million users are all too happy to generate their own content, motivated by a desire to nurture relationships with one another.

Replicas of this concept, whereby the users do the bulk of the work, have proliferated in the social media scene over the past five years. Employing a similar model in private equity – i.e. persuading LPs to get their hands dirty and source deals through personal networks – seems absurd.

That was until the advent of Samena Capital. Established in 2008, the firm works with its shareholders in a way that allows them to generate much of the investment activity themselves. Unlike more traditional PE structures, whereby management identifies deals and seeks investment committee approval, Samena's LPs are often the rainmakers. Even when principals do come up with an investment proposition, the LPs are the first port of call to decide on the credibility of the business and its partners. "If you want to make money, come and make it yourself" appears to be the mantra.

And in a further throwback to the early days of Facebook, all LPs become involved in Samena by personal invitation from the managing partners, thus helping to create a sense of exclusivity at the firm. "Not everyone gets in who would like to," says V-Nee Yeh, the Hong Kong business luminary who serves as Samena's chairman.

High profile individuals who did make the grade include Pansy and Daisy Ho, daughters of Hong Kong and Macau-based gaming billionaire Stanley Ho, and Indian engineering tycoon Atul Punj.

Operational expertise

It is premature to suggest that Samena has struck gold, not least because it isn't the only firm to use a team of external advisers to help source and execute deals. For decades, the likes of Clayton Dubilier & Rice and KKR have been employing

senior executives to work with management in their portfolio companies, while in the past 5-10 years many others have followed suit.

The discredited reputation of multiple arbitrage means that making operational changes is often the only recourse GPs have for creating value. Yet among the influx of operating partners and advisory boards, what distinguishes

hedge fund Invicta, and Simon Wong, a former partner at corporate financier Lancea Partners. They took the unusual approach of inviting prominent high-net-worth individuals to be both LPs in Samena's funds and take stakes of 1-5% in the firm's management structure. They now manage two special situations vehicles, the \$180.5 million Samena Special Situations Fund,

Samena Capital's Asia-focused shareholders

Samena Capital shareholder	What they're best known for	Geography
V-nee Yeh (chairman)	Member of executive council of Hong Kong; co-founder of Value Partners	Greater China, based in Hong Kong
Pansy Ho	Managing director and CEO of Shun Tak Holdings	Greater China, based in Hong Kong
Daisy Ho	Deputy managing director and CFO of Shun Tak Holdings	Greater China, based in Hong Kong
Richard Elman	Chairman and founder of Noble Group	Greater China, based in Hong Kong
Jeff Skoll	Founder of Capricorn Investment Group	Greater China, based in California
Atul Punj	Chairman and founder of Punj Lloyd Group	India
Hari Bhartia	Co-chairman and managing director of Jubilant Life Sciences	India
Shyam Sunder Bhartia	Co-chairman and managing director of Jubilant Life Sciences	India
Rana Talwar	Managing director and founding chairman of Sabre Capital Worldwide	India, based in UK

Source: Samena Capital

Samena from its peers is that its advisers are also its LPs.

Samena was the brain child of Shirish Saraf, vice-chairman and CEO. Ethnically a Kashmiri, Saraf grew up in Omar, and co-founded Abraaj Capital in Dubai in 2002. Having penetrated the Middle Eastern and Indian cultures throughout his personal life and career, he noted the insularity of the regions, and felt that a firm was needed which could act as a bridge between the business communities of the Middle East, India and China, to help entrepreneurs to expand into these overseas markets.

Saraf partnered with Yeh, co-founder of Value Partners and member of Hong Kong's Executive Council, Ramiz Hasan, founder of Japan-focused

which closed in 2009, and its successor, which is targeting commitments of \$700 million for a final close this year.

"When we started, a lot of people were surprised," says Wong, the firm's executive director. "They said 'This is an unconventional model – nobody's ever done it. Why would you want to dilute yourselves? Why don't you just have an advisory board and just pay them? Then you achieve the same objectives.'"

Samena, however, didn't want an advisory board, and dismisses the practice of hiring them as purely window-dressing. Given the desire to use LPs for due diligence as well as deal sourcing, establishing a tight-knit group of trusting business partners on an invitation-only basis

makes sense. While other firms ask advisers to conduct smell tests on prospective investments in exchange for a salary or a share of the carry, it's hoped that Samena's advisers – who are already incentivized – will share their knowledge about any skeletons in closets.

"You can't pay these people enough to get their true opinion," explains Yeh. "All these guys are billionaires, so their opinion means more to the industry than any global consulting firm's ever will."

To ensure Samena's network stays tighter than ever, the firm holds 3-4 board meetings each year, each 3-4 days in length, which Yeh prefers to refer to as "retreats" because "in a more relaxed atmosphere you can see from the body language how people react to one another."

the early stages all the way through portfolio management," says James Ahn, managing director of CD&R Asia. "A lot of firms will say the deals are done by the financial guys, and the operating guys will take over after the acquisition. We integrate the operating guys into every step of the chain, so that when we say we're going to improve you by X%, the people who are involved in that deal are also the ones who are accountable for that."

Another firm whose advisers provide post-deal support is KKR, which has pursued a two-tiered approach to driving operational changes at its portfolio companies. On the one hand the PE giant employs a team of big-name senior advisers, who in Asia include the likes of former Ranbaxy Laboratories CEO D.S. Brar,

in the nitty-gritty day-to-day managing of the company," explains Wong. "We tend to like the existing management of the companies we invest in, so the only thing we try and do is open new markets for them."

One example is the case of India's HBL Power Systems, in which Samena invested in 2009. Samena shareholder Mishal Al Ardi then opted to enter into a joint venture with the battery supplier through Al Shuwayer Group to promote its expansion into Saudi Arabia.

Contrarian view

Indeed, not all firms rely on operational professionals in the same way as CD&R and KKR. One of America's oldest private equity firms, TA Associates, believes that advisory boards are of limited value and instead organizes its internal deal teams around industry sectors in which its principals have expertise.

Kevin Landry, vice chairman at the firm, reveals that improving operations is not TA's main focus. "We're spending less time on tweaking the operations and more time focused on growth," he says. "Instead we look at building the sales and marketing or the products, thinking about where to go next, maybe online or overseas. Our basic tenet is to improve growth and margins, so we push companies to do new and different things."

Landry's opinion is that operational experts can detract from what's really important in a deal and that the secret of private equity is to find a "really good company with a great idea in a great market and buy it at a reasonable price," suggesting that the use of operating partners is sometimes fairly superfluous. "If you get that part right, that's 90%, and if you get it wrong, there's not much you can do," he adds.

Each private equity firm inevitably swears by their own model, but what's arguably the most important factor is what attracts and deters LPs. With some saying operating partners are just a strategy to appease shareholders, the ultimate test for Samena will come as it starts to market its funds to institutional investors. For example, large-scale fund-of-funds or pension funds might have concerns about the novel structure of the firm.

"The more traditional LPs may find it more difficult, because the idea of Samena and its structure doesn't tick the box," admits Yeh. "I think we're fairly unique in terms of the business model and the structure of the GP, and if you can't tick the box in today's climate, you're giving institutional money a reason not to invest."

Despite this, Samena has already attracted several family offices and the University of Richmond endowment fund to its folds.

Kevin Yip, ex-senior partner at GEMS, the Asia-focused private equity firm run by Simon

Samena Special Situations I - current core strategic portfolio

Company	Country	Sector	Purchase type	Date	Amount (US\$m)
DP World	UAE	Logistics	Open market	Mar-10	7.8
Ballarpur Industries	UAE	Materials	Open market	Sep-10	14.4
Dynamic Technologies	Asia	Engineering	Pre-negotiated	Mar-10	14.1
Jubilant Life Sciences	India	Life sciences	Open market	Mar-09	24.8
Jubilant Energy	India	Energy	Private placement	Nov-10	14.9
HBL Power Systems	India	Power	Equity issue	Sep-09	11.7
El Sewedy Electric	Middle East	Electrical components	Open market	May-10	9.8
Union National Bank	Abu Dhabi	Banking	Open market	Dec-09	20.8

Source: Samena Capital

Restaurant dinners, late-night parties and day trips have been organized in locations as diverse as Moscow, Paris and Beirut.

Flawed comparisons?

At first glance, Samena's model appears uncannily similar to Clayton, Dublier & Rice's operating partner program, which has now been running for 36 years. Like Samena, the firm appoints several marquee names who no doubt open doors when it comes to sourcing deals. The likes of ex-General Electric CEO Jack Welch, ex-Proctor & Gamble CEO AG Lafley and ex-Tesco CEO Terry Leahy are incentivized in the same way as other CD&R partners – so they get a share of the carry at the GP level.

But that's where the comparisons with Samena end. Aside from the fact that they aren't also LPs, CD&R's operating partners stand out within the industry because almost all of them work full-time at the firm.

"They share not only in the economics of the firm, but also in terms of being involved from

Singaporean politician Lim Hwee Hua and Paul Wang, who founded Pacific Venture Partners. These individuals may serve on the boards of portfolio companies post-investment, as well as leveraging their networks to make introductions and generate ideas for the investment team.

The other facet of KKR's operational offering is KKR Capstone, a body set up in 2000 to provide additional resources to entrepreneurs to improve their operations. The mid-career professionals who make up this team work on very specific projects focusing on aspects such as pricing enhancement, factory productivity and procurement savings.

"The kind of support that a HR staffing business would need versus what a cement producer would need is very different, so the projects are customized," says Scott Bookmyer, head of Capstone Asia.

This represents quite a different proposition to what Samena offers, as Samena intentionally restricts itself to opening up new markets for its portfolio companies. "We don't get involved

Murray, has seen first-hand the potential conflicts of interest that a model such as this can present, as GEMS' shareholders are also actively-involved high-profile names who hold a stake in the GP structure. "One question that some investors may ask is whether the shareholders will bring deals to Samena which will directly or indirectly benefit them," he points out. Problems could also arise if shareholders choose to only recommend the second-rate deals to the firm, saving the best transactions for themselves.

People management

Much rests on the ability of Saraf, Wong and the other directors to sort through the noise and make their own investment decisions. While the user-generated approach might work for Facebook, the private equity firm which chooses to adopt this way of operating ought not to rely on its advisers too heavily.

"Investors should focus as much on the management team as the fact that they are associated with high profile and successful people," says Yip, now vice chairman of Chinese venture capital firm New Margin. "For an investor, the profiling and advisors are something to focus on but not the primary thing. Is this management team up to the task? The fact that Samena has assembled such a stellar group does go some

way in highlighting its credibility."

Alice Chow, managing director at fund-of-funds Squadron Capital, agrees with this perspective and likens the situation of Samena's management to that of the managers of a captive fund. In order to avoid alienating incoming investors, she says, they will need to prove they can manage the firm without undue

choice as to how to – and indeed, whether to – harness operational know-how and is unlikely to adopt a format that doesn't fulfill its investment needs. The relationship-driven network model pursued by Samena may be a particularly effective option in Asia and other emerging markets, where the emphasis on who you know is paramount. All eyes will be on the firm as it

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– Simon Wong

influence from the sponsors.

Such concerns were not an issue for Alan Chang, general director of Asian investments at Capricorn, which is one of Samena's LPs. "The way they invest and work together is pretty refreshing, with an emphasis on the spirit of partnership between GPs and LPs," he says.

The operating partner concept has clearly evolved into distinct formats based on the needs of different firms. Each house has to make own

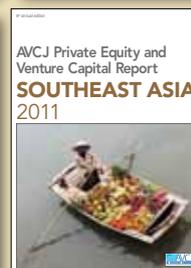
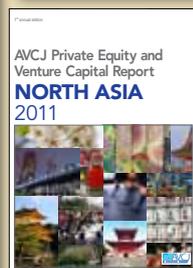
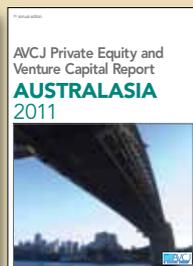
exits its first deals over the coming years, to see whether it has happened upon the blueprint for the next generation of PE firms.

"As an LP, I prioritize what we look at by the people, and it's a huge factor if we know them and have some relationship with them," says Yip. "In today's world, it helps to focus your time on the opportunities that are related to people you know and that's the primary framework for this model!"

Asia has over US\$318 billion in private equity funds under management



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