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Friends in small places

Doing deals in geographies where private equity is an alien concept can be a scary proposition - particularly when you don't know where find a good lawyer.

By Andy Thomson

A leading deal pro with obvious confidence in his powers of attraction recently confided to *Private Equity Manager* that picking up a good lawyer in London is easy - as easy, he added, as "picking up a girlfriend." In some of Europe's remoter outposts, quite how easy it is to do the latter is open to debate. But getting decent legal advice may be as easy as picking up a winning ticket from your local lottery vendor.

Athens-based real estate-focused private equity firm Dolphin Capital Partners has been actively seeking investments in Southeastern Europe - primarily Greece, Croatia, Cyprus and Turkey - for the last few years. Because the region is not home to a particularly well developed private equity infrastructure, Dolphin founder and managing director Miltos Kambourides says the firm has been forced to learn some tough lessons before finding lawyers it's happy to work with.

"Initially, we went through big UK law firms that had affiliates in Greece, but although they were very blue-chip and were highly rated in corporate law, we found they were not necessarily the best deal-doers," says Kambourides.

In light of its negative experiences with such organizations, Dolphin ultimately chose to appoint smaller firms "where you get to work with the owner or a senior partner" who are permanently on call. "I work long days and I want colleagues who do the same," says Kambourides. "I want to be able to call people on their mobiles when they're out at dinner, or perhaps on a Sunday morning. That's very helpful to me."

To foreign GPs keen to do deals in fledgling private equity markets, Kambourides says you need people on the ground in order to be sure of sourcing the best advice. "I'm a Greek-Cypriot and I have no trouble creating networks in this part of the world. If you're a Londoner flying there, you'll find it really hard to judge the locals, partly because the language barrier can very easily create a false impression. You might have an intelligent, well connected lawyer, who can't express

himself well in English, and a less talented individual who you assume knows what he's talking about because he's more eloquent and polished."

Another specialist investor in virgin private equity territory is Horizonte Venture Management, a Vienna-based venture capital firm that has country-specific funds focused on newly independent nations within the former Yugoslavia: namely Bosnia-Herzegovina, Croatia and Slovenia.

In the early days of independence, says Horizonte managing partner Franz Krejs, there were very few lawyers with experience of corporate law - much less venture capital. Like Dolphin Capital Partners, Horizonte found it more productive to work with smaller firms as it set about educating the market in the ways of venture capital. "We had to find people willing to get familiar with the asset class. The best firms in this respect were young, hungry and eager to learn - and mostly small." The larger, more established firms, he adds, "thought they were the best in town and wanted to tell us how to do things rather than the other way round."

Since then, says Krejs, things have changed somewhat. "Overall, the legal environment is much more professional now. Quite a few Western firms have hired locals and trained them up, and professional standards have improved as a result. Indigenous firms provide a much more value-added service now."

David Mahon is another private equity professional who has had to get used to cutting deals in obscure locations (see *Anatomy*, page 14). Mahon China, the eponymous Beijing-based mid-market investment firm he launched in 1985, has built a reputation for sourcing deals in the Chinese inland regions, away from crowded (and, some would say, over-priced) coastal cities.

Finding lawyers in China's intermediate cities is no easy task, says Mahon, but those from the larger coastal cities such as Beijing and Shanghai "are accustomed to working across the country and will travel to even remote areas." He adds that a number of large international accounting firms are present in China, but can be very expensive. "Given the labor-intensive nature of due diligence in China, this often precludes their engagement on smaller deals," says Mahon.

More often than not, it is the smaller operators that are keener to learn about private equity, whilst at the same time keeping their fees relatively low. Rather like girlfriends or boyfriends, though, you may have to try out a few before you end up with your ideal partner. ■