PERE | NEWS
The source for daily intelligence on private real estate investment & finance

NEWS ANALYSIS: Harvesting external scrutiny

As Hong Kong-based private equity real estate firm Harvest Capital prepares to announce the names of the investment committee of its latest China investment fund, capital raising head George Agethen tells PERE why at least 50% of the committee should come from outside the business.

Posted - 20 May 2010 16:37 GMT CET
updated - 20 May 2010 16:39 GMT CET

One way to add gravitas and reassurance to LPs in a fund is to appoint three external professionals to the investment committee board. Even better if they are experts in the niche strategy the vehicle is following.

That's the view of George Agethen, head of capital raising and business development at Hong Kong-based private equity real estate firm Harvest Capital. Speaking to *PERE* in the week the firm held a $325 million first closing of its fourth China investment fund, CR China Retail Real Estate Development Fund I, Agethen says such outside influence will offer the fund's investors assurances that investment decisions are properly made.

Next week, Harvest will announce it has appointed Kwang Meng Quek, co-head of global real estate at Citi Private Bank, Walter, Kwok Ping-Sheung, a non-executive director at Hong Kong-based Sun Hung Kai Properties, and Ian Hawksworth, managing director of UK retail property company Capital & Counties as investment committee members to the fund. Together they make up 50 percent of the six-strong committee, home team making up the rest.

"As a group we are very focused on corporate governance," Agethen says, "By having members of our investment committee external, we can combine their expertise in the sector with ours. This provides some assurances that our decisions are being properly made." He highlights that to have external members on the investment committee is unusual for private equity real estate fund managers and is more comparable with the board of a listed company.

He says: "With 50 percent of investment committee members not related to the group, it provides LPs with comfort that the GP is unable to just 'push through' decisions, without the support of these external parties."

In this instance, Citi is also an LP in the fund and, through its previous owner, UK-listed Liberty International, Capital & Counties was an LP in a previous Harvest fund. Agethen suggests this enables the fund's LP base to have even more power than it might have elsewhere. Under Harvest's governance structure, all related party investments must be ratified by both the fund's advisory board (where the LPs are heavily represented) and the investment committee.

But Agethen admits this structure is not for all LPs. Recounting his fundraising experience since launching the vehicle in January, he said some LPs are not keen to have parties outside of the fund management platform influence investment decisions on their behalf. "They feel they should pick the manager and let the manager make the relevant calls," he says, "Whereas other LPs have been very supportive of our structure."

The CR China Retail Real Estate Development Fund I has identified a pipeline of assets to be developed by SZITIC Commercial Property, a Shenzhen-based development firm with more than 25 shopping centres to its name. But Agethen says despite the assets having been already identified, which was a major draw for investors to commit capital in the first place, the investment committee will still scrutinize each asset on its own merits prior to execution. Agethen stresses that there is no guarantee every asset will be purchased. In addition, he said the pipeline accounts for 75 percent of the target equity and that further assets will need to be brought to the table for consideration.

The CR China Retail Real Estate Development Fund I has a total equity target of $500 million, is aiming to provide an IRR of more than 20 percent is expected to run for six years with an option to extend. It was launched alongside Harvest's CR China Retail Real Estate Income Fund I, a vehicle aiming to raise $300 million for investment in income producing assets.

Read more about Harvest Capital's latest fundraising in the June issue of PERE.