



# 'Investing for

*Endless intellectual curiosity, understanding of economic value, and the ability to work with very smart, fast-moving passionate entrepreneurial teams that want to execute to plan is key to becoming a very successful venture capitalist like Patricia Cloherty, Chairman and CEO of Delta Private Equity Partners.*

### **PATRICIA CLOHERTY** *Chairman and CEO of Delta Private Equity Partners*

*Patricia M. Cloherty is Chairman and CEO of Delta Private Equity Partners, LLC, manager of The U.S. Russia Investment Fund and Delta Russia Fund, L.P., two venture capital funds with over \$500 million invested in 54 Russian companies. She is former Co-Chairman, President and General Partner of Apax Partners, Inc. (formerly Patcof & Co. Ventures, inc.), a multi-billion-dollar private equity company that she joined in 1970, and from which she withdrew in 2000. She is a past President and Chairman of the National Venture Capital Association of the United States. In 1991, President George H.W. Bush appointed her chairman of an Investment Advisory Council to revamp the Small Business Investment Company program of the U.S. Small Business Administration. From 1977 to 1978, Ms. Cloherty was Deputy Administrator, U.S. Small Business Administration, appointed by President Carter. In 1981, Ms. Cloherty also was the founding President of the Committee of 200, a prestigious organization of the country's leading women entrepreneurs and corporate executives. In 2004, Ms. Cloherty was named Businessperson of the Year by the American Chamber of Commerce in Russia. In December 2006, Pat Cloherty was named a Technology's Top Dealmaker by Forbes magazine. In February 2007, the Moscow Government awarded Pat for outstanding contribution to the development of entrepreneurship in Russia and for establishing and supporting small business in the country. In October 2007, Ms. Cloherty received the Woodrow Wilson Award for Corporate Citizenship organized by the Kennan Center of the Woodrow Wilson Institute for International Scholars. It is given to executives who have shown deep concern for the common good by their example and through business practices that advance the long-term interests of their firms, their employees, and their shareholders. In November 2007, the Russian Academy of Business granted Pat the Darin award for her significant and long-standing contribution to the creation of the new Russian economy. On March 17, 2008 President of the Russian Federation Vladimir Putin signed a decree awarding Patricia the Order of Friendship for her major contribution to the development of Russian business and for strengthening friendship and cooperation between the Russian Federation and the United States of America. Ms. Cloherty holds various directorships, among them Columbia University, The U.S.-Russia Business Council, PrimeStar (Russia), Veschi! (Russia), VideoNext Solutions, Inc. (U.S. and Ukraine), and DeltaLeasing (Russia). She is a Trustee of Columbia University, a Trustee for Life of International House, and a Trustee Emeritus of Columbia University's Teachers College. She is a member of The Rockefeller University Council and the Council on Foreign Relations. Patricia is a Board Member of the American Chamber of Commerce in Russia and a member of the Advisory Boards of two business schools in Russia, in Skolkovo and Saint Petersburg. She was appointed to the Board of the U.S. Russia Investment Fund in 1995 by President Clinton, became Chairman in 1998, and Chief Executive Officer from 2003 to 2006. She holds a B.A. from the San Francisco College for Women, and an M.A. and M.I.A. from Columbia University. She served in the Peace Corps in Brazil from 1963 through 1965.*

# Above Average Returns'

*In an exclusive interview with RF, we find out more about her views on the Russian economy and its private equity industry.*

### **How do you see the future path for the Russian economy?**

My view of the Russian economy is that it will, and has to, continue to grow, to expand, and to diversify. In that kind of environment, inflation is an ever present threat. The Government of the Russian Federation, most particularly the Finance Ministry, has been very disciplined in its approach to moderating inflation. I will say that our own objective in private equity is to back companies whose growth rate is higher than that of the rate of growth of gross domestic product, adjusted for inflation. So the key in our business is to select those high growth companies that can, whatever the overall economic growth rate is, beat it. We are not macroeconomists in this business. We are investors for above-average returns. So clearly, the macro environment influences a company's growth rate, but it doesn't define it or limit it. Ours is not a volume business. You have to be highly selective in picking those few companies that can beat the economy generally.

### **How is the world wide credit crunch affecting Russia in terms of foreign investments and private equity?**

In terms of foreign investment, I think the effects of the credit crunch broadly are two-fold. First, it affects the Russian banking sector. The banking sector does not have a broad and deep savings base, so banks tend to borrow domestically and internationally to re-lend. That supply of credit is scarcer today which means that the cost of capital is higher. That, in turn, affects companies that are seeking to borrow, both in terms of the absolute availability of credit as well as the cost thereof. What Delta does in Russia is not classic private equity as practiced in mature economies. We do not use much leverage, so from that standpoint, the credit

crunch effects are modest. Of the two companies that we have now seeking modest amounts of debt, both will get it, but will pay more for it. The other effect, which is positive, is that going-in valuations for investments are generally lower. Many investors are running away from risk and sitting tight until the dark clouds pass. They are not bidding up prices of deals.

### **What are the risks and perspectives of investing in Russia? And how do you see the current trends in private equity transactions?**

I think the Russian economy simply must grow, particularly in the consumer market that daily offers new products and services destined for the emerging middle class consumer. For eight decades, the country was without consumer choice. So companies that serve the expanding middle class population are growing rapidly. I think that this dynamic will continue. What are the risks? Clearly, in this economy which has not had private markets before, a very large pool of skilled and experienced entrepreneurial managers does not yet exist. Consequently, an investor takes a larger operational risk than does an investor in a more mature economy. Also, you take an overriding macro political and economic risk in emerging economies such as Russia. But, in truth, our view is that the real risks on the ground are less than the perceived risks from a distance.

### **What makes you a leading private equity player in Russia?**

I think it is the track record of making above average returns. In order to become a leading private equity investor in any economy, one needs to perform.

### **Is there a strong rivalry on the market?**

No, we rarely see competition. There still are not very many firms in the

market for a country and an economy the size of Russia's. Each firm at this point pursues its own distinctive strategy. Several engage in activities that we don't. For example, we do not invest in real estate, though many firms do. And we do not make oil and gas-related investments, though many do. There always will be a narrow market segment where we encounter competition, but it is tiny. It is also traditional in the business to co-invest, which we are very open to doing. That modulates the competitive aspect: if you can't beat them, join them.

### **As an adventurous and very successful venture capitalist and winner of so many awards and recognitions, could you please tell us what is your own motivation?**

First, I have enjoyed the business all these years. What is required is endless intellectual curiosity, understanding of economic value, good analytical skills, and, most importantly, the ability to work with very smart, fast-moving, passionate entrepreneurial teams that want to execute to plan, and to perform brilliantly. I think that is the key. I have had the great good fortune to have had partners over the years at Apax that are very smart, worked fast and took great satisfaction in building high-quality companies over time. That is what we aim to do here.

### **And finally are there any other issues you would like to comment on?**

The opportunities in Russia are great. The natural habitat for a venture capitalist like myself is an environment of rapid change. The environment in Russia certainly fills that bill. All of the variables are in motion simultaneously. The venture capitalist has to meet the challenge of making change work positively for all parties at interest in an investment transaction. **RF**

2/3 Paveletskaya Square Moscow 115054, Russia  
Tel: 7-495-960-3131 Fax: 7-495-960-31-32 E-mail: pcloherty@dpep.com

545 Fifth Avenue, New York, N.Y. 10017  
Tel: 1-212-818-0444, ext. 107 Fax: 1-212-818-0445 E-mail: pcloherty@dpep.org