

LP CORNER

The Italian Dream

Giuseppe Campanella, CEO of State Street Global Investments and responsible for the Italian fund-of-funds Fondamenta, talks to EVCJ about investing in the Italian market.

What has Fondamenta's performance been like considering it is the first and only Italian fund-of-funds?

Fondamenta is now entering its fifth year and has made €104m of commitments in 14 funds and has invested 18m directly in 16 companies. All co-investments have been made with the portfolio funds. We have analysed over 80 funds and up to now we regret only not having invested in three of the dismissed proposals. Invested funds have drawn down €67m (64% of the committed capital) so far. We have had 15 divestments for a total invested amount of €123m with a capital gain of €136m and 35% IRR (average.) Among the 15 divestments there are only two with capital losses. Individual IRRs range from a minimum of 18% up to a maximum of 171%. A further five divestments are under way with an expected 35% IRR, in line with the previous results. But there are also some black sheep, unfortunately, concentrated in the first three co-investments, where the funds lost about €5m. Cash to be invested is still more than 50% of the fund of which €40m will be in direct investments.

Campanella: CV

Campanella is CEO of State Street Global Investments SGR pA, the alternative investment arm of State Street Global Advisors. He joined the company in October 2000 to launch the first Italian private equity fund-of-funds: Fondamenta. Since then, Campanella and his team have raised €163m for Fondamenta, €200m for Cangrande, a private equity regional fund focused on utilities and infrastructures, €200m for Mediolanum Property, one of the first real estate funds for Italian investors, and is about to close a €150m fund for real estate development projects.

Campanella has more than 10 years' experience as CEO of small industrial companies in the electromechanical and chemicals sectors and is a member of the following funds' advisory boards: Cape-Natexis, Dresdner Italy, Emerald, Giada, Interbanca Sud, Opera, Principia, WOPE. He is also a board member of two private equity funds (Aksia Group and Industria & Finanza) and of seven portfolio companies.



What are Italian institutions' attitudes to private equity investment?

Signals are mixed. Compared to five years ago the level of understanding of this asset class is much higher and thanks to the contribution of independent financial advisors (mainly UK-based) many institutional investors are considering initiating some kind of private equity programme. On the other hand, my personal feeling is that the decision-making process is often biased by personal connections. For example: "I give money to my friend because I know him." With this attitude there is the risk of a good decision (investing in private equity) being badly implemented (selecting the wrong team.) To reach the UK standard I believe we still have a long way to walk.

What is Fondamenta's investment strategy?

Fondamenta has an Italian focus which has quite a significant constraint. When we started (January 2001) most of the well established Italian funds were still in their investment period, so we were obliged to work with first-time funds/teams or with established teams belonging to domestic banks. Now we have 10 funds managed by independent players, three belonging to Italian banks and one sponsored by a German bank.

What legal or cultural issues are holding back LPs in Italy?

The issues are quite simple: risk, illiquidity, perceived high cost and a lack of transparency. I strongly believe there are certain aspects of the private equity model which should change, at least for the new funds and teams entering the market. Management fees should be proportional to the operational costs of the fund and reporting must be open and complete.

What investments do you look for?

We have been very opportunistic. We invest in a wide range from €250,000 to €15m. We have been looking for medium/small companies with clear leadership edges which can grow outside of Italy, mainly in China and in Eastern Europe. It's not re-location, because the concept should remain in Italy, but the company operations must be able to grow in the targeted new markets.

How do you assess the risks associated with firms you have never dealt with before?

We undertake a very thorough due diligence of

between six and 12 months with many reference calls and cross-checking on stated track records. We do not like captive teams and we prefer at least 51% of the carry to go to the team. The cultural mix in the team is important, but the presence of at least one senior with managerial experience is a must. Another point is the availability of first-hand documentation. I do not like presentations; I prefer to read contracts of past deals, check banking documentation and balance sheets. I prefer raw information over marketing materials.

How would you describe the investment environment in Italy today?

Full of lazy investors, spending a lot of time and money on advisors. But obviously there are also a lot of serious investors. Italy is a country of small companies and great entrepreneurs. The problem with large pan-European funds is that they have to spend large chunks of money in each deal. Italy is the other way round: a lot of time is spent on a deal for a small amount of money. But if you do a good deal you can invest ten times more financing the development: this is value creation and not financial engineering. Maybe we have too many financial engineers and not enough private equity entrepreneurs in this market. With the right approach Italy could be a Mecca.

What are your plans for the next year?

Fondamenta has recently invested in the first Italian fund dedicated to renewable energy: Atmos. The fund has €10m in equity and 10 industrial shareholders ready to co-invest up to €50m. We are also planning to replicate this model with a project in the distressed segment. In the meantime we are starting plans for Fondamenta II.

ABOUT FONDAMENTA

Fondamenta was launched in 2001 and raised over €160m. The fund invests 60% to 70% in Italian private equity funds and 30% to 40% in Italian co-investments.

In June 2004, State Street Global Advisors (SSgA) acquired 100% of the group. With the acquisition, the name of the fund's management company changed to State Street Global Advisors SGR.

Fondamenta has an exclusively Italian investor base. Campanella is confident about opportunities in Italy and for its second fund raising hopes to attract foreign investors to the fund.