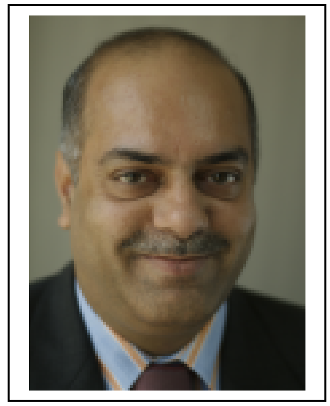
T&I Interview

Jay V Jegannathan, CEO, Evolvence India

Jay Jegannathan grew up in Coimbatore, India south of Chennai (Madras) where he went to school and graduated from the University of Madras before obtaining his chartered accountancy, management accountancy and legal secretarial certifications. He started his career with Indian conglomerate TVS Group in 1986. After the First Gulf War in 1991 he moved to Qatar to join a public sector organization where he worked in audits for five years before moving to Dubai to join Damac, an investment and trading company as the head of internal audits. That role provided his initiation into private equity and alternative investments when Damac made its first investment in New York based Juno Online.



Damac subsequently asked Jegannathan to lead its foray into the United States and to guide the firm's portfolio management and investments just as the dotcom era was taking off. Jegannathan and a colleague went to visit VCs along Sand Hill Road in Menlo Park, to scout for opportunities and Jegannathan spent the next four years (1998 to 2001) making a Dubai to San Francisco commute, while investing in internet era companies. At its peak Damac had a Palo Alto office with a staff of about ten, but following the tech meltdown in 2001, Damac closed its US operations after raising and investing three funds of about $200 million. Jeganathan was asked to remain in the US and run Damac's [investments] an offer he declined.

While at Damac, Jegannathan had met Khaled Al-Muhairy who headed the Abu Dhabi Investment Authority (ADIA)'s North American operations and who was one of the investors in Damac. By 2001, as Jegannathan was leaving Damac, Al-Muhairy also left ADIA to establish Evolvence Capital, an alternative investments company based in Dubai. Al-Muhairy offered Jeganathan a role at Evolvence and he agreed to work for his friend on a consulting basis.

Al Muhairy believed that the Gulf region needed more local professional advisories to help regional investors evaluate investment opportunities coming into the region. Regional investors in the Gulf are wealthy families, institutions and money managers are perennially short of time to manage the funds at their disposal. Traditionally, that has meant placing funds with foreign investment banks. Al-Muhairy knew that if he could establish a family office advisory in the Middle East to evaluate opportunities for his contacts in the region he would have a sound capital base for his firm. Evolvence started operations with the backing of six families in the region; foremost among that group was Sheikh Mohammed bin Suhim Al Thani, a member of the ruling family of Qatar, who remains an active member of Evolvence's board today.

By 2003, Al-Muhairy had decided to raise investment funds as well, to capitalize on the opportunities to which his firm was exposed. It was an idea well received by the Evolvence board and which changed Jegannathan's relationship with Evolvence, encouraging him to join the firm full time. Al-Muhairy had foreseen the potential of the Indian market and by 2004, to help the Evolvence expand its work into India, Jeganathan (the only Indian in the firm) was seconded to explore and analyze opportunities in the subcontinent.

This was when **T&I** first met Jeganathan, as he was criss-crossing India, knocking on the doors of general partnerships or nascent GPs, methodically plotting the landscape of investors and investment strategies forming in India. Two years after our first interview with Jegannathan and Evolvence Capital, in which we told us about his idea of building a fund of funds for India, we've come back see how Jegannathan, his fund, his ideas and his firm, Evolvence India Holdings have fared.

We approach such interviews, especially second time interviews with trepidation. Readers of **T&I** will know that we produce rather old-fashioned editorial; the kind that few publications in the world support in these days of churned-out, print-bites. We publish in-depth, on the record, explorations of firms and individuals to provide insights into our subjects; and in the case of second interviews, verification and follow-up on firms, their management and their ability to follow through or to effectively evolve their plans as the marketplace changes.

As a result **T&I** readers have the opportunity to go back and compare earlier stories, to perform their own analysis (**T&I. Evolvence Raising India FoF 11/20/05**). But to save you time, we'll report that Jegannathan has surpassed all of the original goals he set in his first interview including: raising more than $250 million for the Evolvence Fund of Funds, starting a $150 million life sciences fund under the Evolvence banner, placing more than $200 million in commitments to GPs and portfolio companies, and forming and listing a permanent fund vehicle for Evolvence on the London AIM which raised another $65 million. We talked with a rather exhausted, but still charged-up Jegannathan in Dubai last week.

T&I: We'll come back to a better starting point, but review your findings for us and your thoughts, reflecting back on our original interviews with you in late 2005?
JJ: I had spent a year trying to understand the Indian market in 2004. And as I told you at the time, I knew that our timing was right, that India was about to bloom. Indian domestic funds and private equity funds were trying to expand beyond their traditional domestic LPs to raise funds internationally and we were there in the midst of that. I had to re-think my original concept; the idea that we would go into India to collaborate with GPs to invest in India because at the time, there were exactly 13 domestic Indian private equity firms and India is vast. Each of that small group was regional [in its investment outlook]. GPs in Bangalore focused on the Southern market. GPs based in Mumbai, were generic, whoever walked through their door, they would see. GPs in Delhi focused on the Northern Market. I saw that if we were to partner with a single firm we would not realize the concept of becoming a truly national investor in India. I saw that to be involved at a national level, a fund of funds approach would be better.

T&I: So you did what?
JJ: I wrote a proposal to that effect. We [went to the board of Evolvence and] discussed our idea of doing a fund of funds for India, which was contrarian because typically at the time, a fund of funds was a global or a regional vehicle. We asked them to support a FoF for a single country, albeit with very strong fundamental reason [as to] why we were proposing a FoF for India. They supported the idea, but said they wanted to participate in direct transactions and asked whether we could incorporate that into our plans and [asked us to] develop such a product.

T&I: That de-railed your plan?
JJ: No. I had seen something similar in the United States in the late '90s. In the US, when investors put money into a fund they also [seek] a chance to invest directly in transactions that they like, because as the investments like Google, PayPal or Ebay were going public, there was a lot of prestige and profits in saying that they had backed a given firm. That experience gave me a feeling for where the Evolvence [Board] was coming from.

T&I: The result being?
JJ: Khaled and I sat down and thought through how to create a hybrid fund of funds, in which a portion of each LP's investments would go to the fund of funds and in which another pool of money associated with the fund of funds that would make co-investments and direct investments in India. [That way we could] satisfy our investors desire to be involved in those transactions that were either high-profile or in which they wanted to be involved for whatever reason.

T&I: The result of that was?
JJ: We formed the product and took it to the market, with a $15 million anchor commitment from Evolvence, to see [how much] we could raise for the fund. We originally wanted to raise $100 million from Middle Eastern investors where people knew us, knew Evolvence as an institution and then see what we could do beyond that.

T&I: And you've done a bit beyond that?
JJ: I kept extending the finish line, the scope, the size, the team. Everything. Today, having pushed beyond the affront of people laughing at us, people saying "they can't believe someone is doing this", to the stage where people said "you won't find investors who will put money into this", I am happy to say that we have moved beyond the skeptics. The product is real. The fund was officially closed as of March 31st. The legal paper work may take another two or three weeks after which we'll be able to say exactly how much we have raised, but as of today we expect a minimum close of $200 million but we believe that the final close will be somewhere between $250 to $275 million for the fund of funds. The sidecar fund will come in at about $50 to $60 million dollars.

T&I: What?
JJ: We have a reasonable chance of bringing this fund to a final close with about $300 million under management after 20 months of work. I have to say that we are reasonably happy with the result of our efforts.

T&I: But that is not the end of this story either is it?
JJ: No, Khaled and I had been periodically evaluating where we were. Taking stock of our efforts and thinking about what we've accomplished, we thought that we should create a permanent capital base so that we don't have to go back to Evolvence's [financiers] to support our future effort; so that when we raise subsequent products for India, we already have an initial commitment from a permanent pool of capital; so that we can raise additional funds from outside investors more easily; and so that we are able to operate in India on a continuous basis raising capital when we want to scale up our activities or down size activities based upon how the India market evolves.

T&I: And that led to what?
JJ: Three months ago we said that we wanted to create this permanent pool of capital; to create and list a structure in a public market and raise some amount of capital. We discussed how much we should raise for a private equity opportunity. We knew already, based on other PE firm public offerings that these stocks initially trade at a discount over the first year to two years because of the J curve effect of the portfolio. The money has to be deployed and then by the time it's deployed the fees have eaten up so much of the capital base that the stock really trades at a discount. We didn't want the uncomfortable period in which our investors who have written checks for us are holding a discounted stock. We felt it was important to build the portfolio to a certain extent and then to raise a public vehicle. We did that and evaluated the portfolio that we had built for the Evolvence India Fund in October last year, [at which point] we knew that we' be closing the fund by March 31st.

T&I: Which puts us where?
JJ: By December last year we knew that we had a window of about three months before we would close the fund, to raise the permanent pool of capital as a listed structure to help the India funds platform have more stability and a permanent fund basis.

T&I: What pushed you in the direction of the LSE/AIM?
JJ: The next issue, before the exchange, that we faced was whether to list the fund itself or to list a holding vehicle. If we listed the fund, we [felt we might] compromise the confidential information our managers share with us. But by listing a holding company we could expose critical information, but not all of the information [about our managers and their investments]. And we had one more issue [to address before thinking about how or where to list], how much money we wanted to raise. Brokers always push you to raise more funds.

T&I: Because?
JJ: The listing broker takes a commission from the funds that you raise so the more you raise the bigger their commission. Whereas for us, the more money that we raise at the onset for the fund of funds, the more dilution there is for the current investors and we didn't want to make them unhappy. Especially given that the implied value of the portfolio has increased so much since our LPs have committed funds. Considering all of those things, we decided to raise somewhere between $50 to $75 million, which meant that going

to the LSE (main board), NYSE, or Nasdaq were not cost effective. Finally we settled on AIM for a listing. We felt that their listing regulations were on a par with the other markets, but we felt that the ongoing regulation in AIM is not as cumbersome to comply with as the regulations of those other markets. We felt that a listing on the AIM wouldn't be loading up costs and overhead for the structure of our fund.

T&I: And we reported on your successful listing in **AsiaWatch**.
JJ: On the 23rd of March, the holding entity, Evolvence India Holdings Plc, listed on he AIM market, raising $65 million.

T&I: You have another fund under the Evolvence India Holdings listed vehicle?
JJ: We launched a life sciences fund for India, based in Hyderabad, with a separate team, primarily because we feel that life science is going to be a very good growth area in India. We believe just as India is known for its IT services, it will come to be known over the next ten years for its life sciences. Given that, we felt we had to move to be established early-on in the space. We identified a team. We structured a fund, went to the market about two months ago. We had a first closing of $50 million in January and expect a final close by the end of this year, of from $100 to $150 million.

T&I: That means you've raised cumulatively how much?
JJ: In all over the last 20 months we're raised through the different vehicles and different platforms, close to $450 million for India. We are proud of the effort and we feel that if we can properly deploy these funds and make good use of them, our investors will be quite happy. We're thankful for the investors who believe in our approach and who are supporting us.

T&I: Review your plans for deployment.
JJ: From the fund of funds perspective, we believe we can deploy between $100 to $120 million per year; that this level of commitments is prudent and achievable without having any problems. So last year we deployed about $120 million and I think we'll continue at that rate, deploying that amount of capital each year, about $100 million over the next two or three years. After that we'll stop and take stock and depending on prevailing market conditions we'll either increase or reduce the amount of annual commitments. We're doing that with a team of ten people, based in Delhi for the Fund of Funds and another three in Hyderabad.

T&I: The formal name of the fund of funds is?
JJ: Evolvence India Fund.

T&I: To date you've deployed $120 million?
JJ: To date we've signed commitments of about $200 million and I've deployed about $120 million, over 50% of the commitments, with seven managers.

T&I: What do your portfolio managers in turn invest in?

JJ: They are fully focused on the growth capital segment in India. We invest only in India focused funds and we're sector neutral. On average [we will invest] just over $15 million per fund and [that translates to] about 15 managers.

T&I: Back that to the fund of funds, it's SEBI registered or offshore?
JJ: We are an offshore fund based in Mauritius.

T&I: The life sciences fund as well?
JJ: Yes.

T&I: Comment on the recent changes in India's budget and taxation for Indian VC.
JJ: It will have long term consequences upon the growth of the venture capital and private equity industry in India domestically, but I'm pretty sure that the government will see reason; they're smart people. It may not happen so quickly, but within the next twelve months I would not be surprised to see the tax requirements reversed.

T&I: We reported three funds last week saying that they're moving to form funds, as you did, in Mauritius. Do you expect more to follow?
JJ: Absolutely. There are two solutions being floated by funds. One, if they're not investing already, they're moving offshore. If you're already structured and investing, then you have an issue with moving offshore. [And second] they are considering transferring the ownership of the investments to the investors [so that the general partnership] acts only as a manager. It's complicated, but if there are tax savings [in the second approach] I see many existing funds adopting this model.

T&I: The advantage of Mauritius is that it's a tax haven for India?
JJ: India and Mauritius have a double taxation tax avoidance treaty. If you're based in Mauritius, you pay tax there which is lower and you're not taxed separately and another time by India. The problem created by the amendment in the finance bill of the annual Indian budget is that previously, if you invested in a company and you made capital gains on exit, the money was not taxed in the hands of the fund, but in the hands of the investor. The new amendment says that both the investor and the fund are taxed on the capital gains after an exit. It's an erroneous step. It violates taxation principles anywhere in the world. But as I've said, the government is comprised of smart people. They will realize this is an anomaly and they'll correct it.

T&I: Back on the topic of your FoF, fund raising. Tell us about your LPs?
JJ: They're equally distributed. The initial $100 million came from the middle-east, but the balance came from European and American investors. I don't have any significant Asian investors. I tried to raise funds in Japan, but since this was a first time fund I think that Japanese investors didn't want to be involved.

T&I: Your fund will be deployed by 2009?
JJ: The fund will be deployed by 2009 and I'll probably go to the market for the next fund early next year.

T&I: We've covered several fund of funds for India in the last two years, but you're the first to close your fund. Why?
JJ: A couple of reasons. I think that we got the timing right. We have captured most of the good second or third generation GPs in the portfolio. Second, we focused specifically – after evaluating the PE landscape in India – on the growth capital segment as the sweet spot for India. We excluded venture capital, we excluded buyouts. And that has already paid off. The venture capital industry in India for example, was suffering even before the budget announcement and it may continue to suffer unless there is some incentive added for the industry. It may take some time for the industry to reach any kind of a significant size.

T&I: You feel like you've successfully assessed the market ahead of others?
JJ: We think that as new LPs go to India and perform their due diligence, study the Indian market, they'll come up with the same names. They'll look at our fund of funds, see the composition of our portfolio and they'll see how it's panning out. Then there're likely to come to the conclusion that if they have missed the bus in term of participating successfully in India that they have the opportunity to participate in our publicly listed vehicle.

T&I: Review the General Partnerships in which you've invested to date.
JJ: India Value Fund, Ascent India Fund, Leverage India Fund. IDFC Private Equity Fund. New York Life/Jacob Ballas Fund and Baring Private Equity India. The seventh manager is in final documentation and we'll disclose it soon.

T&I: Tell us a bit more about the life sciences fund.
JJ: The fund is based in Mauritius and the advisors are based in Hyderabad. Hari Buggana and Dr Anula Jayasurya are the partners. They are from the life sciences industry. They have long years of experience on both the laboratory floor and on the consulting side of the industry. We believe that their strong domain expertise is not equaled by other private equity GPs in India at present. There are life sciences investments being made by generic funds, but none of them have the domain expertise this team has.

T&I: Define life sciences and the scope of your life sciences investments.
JJ: It's growth capital for life sciences companies such as hospital services, medical devices, contract research organizations. No pure research. No drug discovery companies. Alternative medicine is a possibility; if there is a profitable enterprise, why not?

T&I: What does healthcare mean? Hospitals, aged care, oncology centers? **JJ**: The first investment of the fund is in a Bangalore-based oncology research center, called HCG. The [fund has] only made one investment. Remember, they only had their first close at the end of January. They have done one investment [in the] last month and they are in the process of closing their second investment at the moment.

T&I: You're on the board for the fund?
JJ: I am not. Khaled Al-Muhairy is on their board. I am involved with them operationally, but to provide some objectivity I am not sitting on their investment decision making team.

T&I: A final recap of the fund?
JJ: They'll invest from $10 to $15 million dollars per portfolio company so they'll end up with about 10 to 15 companies.

T&I: You'll compete with who?
JJ: There [aren't any competing funds.]

T&I: Let's wrap up by talking about the public offering. Three months to prepare and list?
JJ: We wanted to do it sooner, but the holiday season came into play. The only real time requirement was the need for the lawyers, accountants and brokers to complete their due diligence on the portfolio and its underlying assets. Once that was accomplished we could move quickly. The marketing process was moving along simultaneously. I've told the "India Story" in almost 500 meetings, so it was not rocket science for me to present to a different set of investors the same story over and over.

T&I: Tell us about the road show.
JJ: We did a road show in the UK only. We ultimately had about 15 days, with about 75 or 80 meetings around the UK and Ireland.

T&I: Your investors are?
JJ: Pension funds, large institutional investors and one or two hedge funds.

T&I: Looking back, what were the costs for an AIM offering?
JJ: There are the costs of the broker who charges his fund raising fee to arrange all of the meetings. In the end, that figure came to about 6% of the capital raised in the IPO.
And I understand that 5% to 6% is the standard figure for fund raising on the AIM market.

Biography for Jay Jegannathan

Age: 44
Education: Graduation in Commerce from University of Madras, 1983
Work History: 1986-1991- Various corporate finance positions in India including TVS Group. 1992-2003 – Positions in Corporate finance, Internal Audit, Portfolio Management and Fund management based in the GCC Region. 2004 Onwards with Evolvence.
Family: Married. Two BoysWife is the home maker.
Hobbies: Reading and listing to Indian Classical Music
Favorite Book: The Greatness Guide by Robin Sharma
Last Book read: The Know How
Favorite Movie: Devil Wears Prada
If I weren't in PE I'd be: a Computer Software Architect
Advice for GPs: Gain Investor confidence by regular interaction and transparent communication.
Best and Worst Investment: Too early to say!

T&I: And you are the first private equity fund from India to list on the AIM?
JJ: We are the first fund of funds to list. It means that when we launch the subsequent fund of funds we can start with an initial pool of committed capital. It helps to bridge the gap in

fund raising. When I launch the second fund early in 2008, let's assume that it takes three to four months after a new fund is announced to raise a first closing. During that period, I can't stop my investment process. I have to continue and with a publicly listed vehicle that pool of capital will help, subscribe X amount of money to a new fund from day one so that I can continue my investing from day one. It gives us freedom from the fund raising cycles.

T&I: You're able to return to the AIM and raise additional amounts for that same vehicle when you need additional capital?
JJ: Yes. But we will not do that in any rush. Maybe next year, depending on how well the fund performs.

T&I: And what is the liquidity of your stock on the AIM?
JJ: It is an openly traded stock, but to date there has not been a lot of trading in the stock, although we expect it to pick up because when we chose the initial investors, we chose some who were not long term oriented. We also placed a portion with hedge funds who will actively trade the stock when there are news announcements about the fund.

T&I: How does that work?
JJ: The portfolio of the Evolvence India Fund consists of about 70 companies to date. That means there are lots of new opportunities relating to activities of those companies which will allow us to go to the market with good news about the portfolio. In [both] the near and longer term that will create interest in the stock.

T&I: You're not concerned about hedge fund volatility?
JJ: No. We need movement in the stock to retain investor interest.

T&I: Investors in your AIM stock have their return through the shares increasing in value or by dividends you pay them?
JJ: We pay a dividend and [there is] also the capital gains appreciation.

T&I: What was it like to go the AIM for the listing?
JJ: They invited us for the opening day because we were a one of the kind offering and they wanted to publicize the offering. They toasted us on the successful listing.

T&I: To wrap up, what is next for Evolvence?
JJ: Good question. I have a holiday planned (laughing), but having said that, we do have a couple of other things [in the works]. We can discuss those as they come to fruition.

Thank You.

T&I