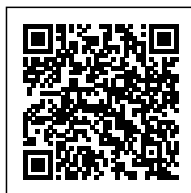


FUND FORMATION - TAKING CARE OF THE DETAIL - RODÉS & SALA

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Spain's 2005 revision of its private equity law brought with it an increase not only in awareness among private equity houses (PEHs) of the benefits of the jurisdiction for fund formation but also an upturn in the appetite of local investors, say Julio Veloso and Javier Morera, partners at Rodés & Sala in Madrid.

El actual clima económico ha obligado a los grupos de Capital Riesgo a tener que demostrar su historial y su valor real para poder atraer a nuevos inversores y asegurarse de que siguen siendo competitivos, apuntan Julio Veloso y Javier Morera, socios de Rodés & Sala en Madrid -lo difícil, sin embargo, es la capacidad de poder reflejar las exigencias, a menudo muy concretas, de cada uno de los inversores.


'We have seen a lot of money raised in Spain in recent years, with some funds valued in excess of €900m – a considerable amount by continental standards,' says Javier Morera.

While subscription periods and investment decisions may, they say, now be taking longer, as are investors due diligence processes, demand for Spanish fund formation nonetheless continues to grow.

'Even in the current climate some funds are over-subscribed. Spain offers not only an attractive, stable and transparent regulatory system, but from a tax point of view has few equals in Europe,' says Veloso.

The past year, they note, has been notable for growing the confidence of Iberian PEHs to target foreign investors, and to adjust their operating structures accordingly.

'A more client-driven approach is emerging, the PEs are responding to investors specific circumstances particularly through the formation of parallel Spanish and internationally-domiciled funds.'

 The reverse is also true, they say. International PEs are now creating local Spanish funds where they perceive sufficient investor demand. One notable outcome of the increased competition among funds, for investors, and managers, is greater emphasis on 'key man' and 'carried interest' (remuneration) clauses.

'PEHs want to make sure they remain at the cutting edge, investors will not invest if they perceive a fund to be uncompetitive or with insufficient incentives to retain key people,' says Veloso.

The wider changes in the debt markets mean also that funds can no longer simply rely on leverage for returns, and a clear investor emphasis on track records and efficiency is emerging, believes Morera.

'There is preference towards those funds truly able to create value and to demonstrate specialisation. Distressed company funds are very much in fashion, while dedicated real estate asset funds are on the horizon.'

