

JAMES BOWMAN AND COOPERTREE CAPITAL IN CHINA

James Bowman was not certain that he had heard the request correctly. He had just met C. K. Laoshi, a China Power Investment Corporation (CPIC) manager, and was standing in the parlor of his ornate Beijing house. It was clear from just a few minutes in the man's presence that Laoshi was extremely courteous; he had given Bowman, who had just flown in from New York City, a warm welcome and introduced him to his wife, Qizi. But after they sat down, the first request Laoshi had made of Bowman, in what was supposed to be an introductory conversation, was that Bowman deposit \$800,000 into a Chinese banking account.

Coopertree Capital

Bowman was a founding partner of Coopertree Investment Partners, a private equity fund manager based in New York City. He and the other partners believed in and participated in an active limited partner (LP) model, and therefore Coopertree involved its investors more than most other private equity funds did. In raising their first fund, Coopertree I, Bowman and his general partners spent a lot of time attracting investors who were well-connected and interested in being actively engaged in their investments.

The fund's area of focus was manufacturing; specifically, they invested in domestic manufacturing companies specializing in products that could not be manufactured outside the United States. There were three typical profiles for target investments. One profile included companies that manufactured products that were too large to efficiently ship to the United States from overseas. Another profile included companies that manufactured products under contract from the U.S. federal government and could not, by contracted mandate, outsource outside the United States. A third profile included companies that manufactured products that benefited from import tariff protections against less-expensive alternatives from outside the United States. Not surprisingly, most of the LPs were former high-ranking executives and well-connected political operatives.

The model appeared to be a success. After seven years of operation, its first fund was likely going to produce an internal rate of return over 40%, net of fees. This was even more

This case was prepared by Adrian Keevil, PhD candidate, Andrew C. Wicks, Ruffin Professor of Business Administration, and Jenny Mead, Senior Researcher. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2012 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@ardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.

remarkable considering the challenging economic environment. The partners had recently started discussing opening a new fund, Coopertree II. Because of the success of Coopertree I, raising capital for Coopertree II was not going to be a problem. The issue at hand was the source of the funds. Bowman and his partners knew that their leverage to attract highly influential LPs would likely never be stronger. The right group of investors would be a source of significant competitive advantage.

One of their top priorities for Coopertree II was China. While all of their current investors were based in the United States, Bowman and his partners knew their model would appeal to Chinese investors looking to diversify their holdings into non-China, and non-Yuan-denominated, assets. Additionally, Coopertree offered a class of assets that was not easily accessed by most investors. There was no larger, or more connected, investor that fit this profile than China Investment Corporation (CIC).

China Investment Corporation

China Investment Corporation was an investment institution owned by the People's Republic of China and headquartered in Beijing. More than 60% of China's \$2.5 trillion foreign exchange reserves were denominated in U.S. dollars, mostly U.S. treasury bonds and agency bonds. CIC had been initiated to manage some of China's reserves for the financial benefit of China. It oversaw over \$400 billion in U.S.-dollar-denominated assets, and employed almost 500 people. It made both direct investments in corporate equities, such as the Canadian mining company, Teck-Cominco, and U.S.-based financial firm Blackstone, as well as investments through fund managers like Coopertree. Unlike large U.S. investment organizations, such as CalPERS (California Public Employees' Retirement System), for example, CIC was notoriously private. You could not pick up the phone to make an appointment with its investment professionals. Instead, you had to be introduced.

In a recent conference call, one of Coopertree's investors had mentioned that he knew someone who was close to a CIC official. C. K. Laoshi was a manager at CPIC, the state-owned power utility. Although CPIC was not related in any way to CIC, the investor insisted that if Bowman would fly to China to meet with Laoshi, Laoshi might be able to make an introduction to CIC. Despite extensive online research, no one at Coopertree was able to find any information about Laoshi. But the investor making the introduction said he had dealt with Laoshi for many years as a U.S. Department of State official and insisted that he was a reliable lead. The vague nature of the arrangement made Bowman slightly uncomfortable, yet it was the only thing resembling a relationship to CIC he had. He decided it was worth the trip. Bowman was instructed to fly to Beijing and go directly to Laoshi's office for a meeting. If it went well, Laoshi would make the introduction to CIC. Before Bowman departed, the investor pulled him aside to give one last piece of advice:

You need to keep a few things in mind. Chinese culture is an enormous source of pride. Many businesspeople in China, like Laoshi, operate under the principles of

Confucianism seamlessly in their work and home lives. And there is a traditional belief that all things—people, places, and relationships—contain elements of competing forces that must be kept in balance. The Chinese tend to put enormous emphasis on building close, trusting relationships in business; they don't tend to rely on contracts and the like as much as we do in the United States.

The Beijing Welcome

The following week, Bowman flew to Beijing as instructed. On the plane, he tried to dampen his apprehension. Despite the investor's recommendation about Laoshi and the fact that Confucian principles were deeply engrained in China, Bowman knew there were plenty of examples of trust gone awry. Two days before his trip, Bowman had called a business school friend, now working for a multinational corporation in China, and the friend had told him some horror stories about how "cowboy capitalism" was permeating China. Many Chinese had turned their backs on tradition and communal values, except to the extent they could be used to generate personal benefit and take advantage of outsiders who didn't know the ins and outs of Chinese business. Use caution when making any deals, the friend had advised Bowman.

When the plane landed, Bowman learned that Laoshi had provided a lavishly equipped limousine to meet him at the airport. This was in spite of Bowman insisting that he would arrange his own travel. When Bowman got into the car, the driver informed him that Laoshi had changed the location for the meeting. Rather than his office, the meeting would be taking place at Laoshi's *siheyuan*¹ in Houhai, a residential district on a lake in central Beijing.

When the car pulled up to the house, it seemed more like a fortress. There were no windows facing the street. The entrance was framed by massive columns on both sides and transverse horizontal beams along the top. The top was made from carved wood and ornately decorated in a beautiful blue, yellow, and green pattern. There were two doors, and each was painted in a crimson red, with gold framing. On each door were paintings depicting large men dressed in formal military clothing and carrying axes. Bowman went to knock on the door, and it opened. Laoshi was standing in the door frame, smiling and extending his hand. "Welcome, Mr. Bowman," he said. "I am sure you could use some tea after your long journey to China. Please, do come in."

When he walked through the door, Bowman realized that the outer walls of the house were actually outer walls of what seemed like a compound. They were in a long garden courtyard that ran the width of the outer wall and was about 15 feet deep. They walked through an ornately decorated covered pathway, which led them to another entrance. Laoshi opened the door and gestured for Bowman to walk inside. The door led to a beautifully decorated parlor. Through a large window looking out of the parlor toward the north, Bowman saw a massive

¹ A *siheyuan* was an elaborate residence that had a courtyard surrounded by four buildings.

interior courtyard surrounded by structures positioned along each side of the square. Each was lavishly decorated with carvings and gold-painted accents.

Laoshi turned to Bowman and said, "Welcome to my home. It is my honor to host you here. First you will meet my wife, and then we will talk." "Qizi," called Laoshi, "please come meet my new friend, Mr. Bowman." A woman walked into the room, dressed in a tight-fitting and ornately patterned dress. She walked over to Bowman and Laoshi. "Mr. Bowman, may I present my wife," said Laoshi. His wife extended her hand and Bowman shook it. "Qizi," Laoshi asked, "what is your lucky number today?" "Eight," she replied. With that, she turned and left the room.

Laoshi motioned to a couch for Bowman to sit down. "Mr. Bowman," he began, "our mutual friend told me that you were a man worth knowing."

"Thank you," replied Bowman, "I hear the same about you."

Laoshi continued, "Before we discuss business, I must ask you to do something. My wife's lucky number is eight today. I would like you to deposit \$800,000 into this bank account." He slid a card with a Bank of China account number and routing code.

Bowman felt a slight panic. "Is it a finder's fee?" he asked uneasily.

"Oh nothing of the sort," replied Laoshi. "In fact, I will return the money to you within 30 minutes of receiving it."

"I don't understand," Bowman said. "You see," started Laoshi, "We need to know we can trust each other."

Bowman replied, "So you want me to wire almost a million dollars into your bank account, which you will immediately wire back to me? And then what?"

"And then we talk about business," replied Laoshi. He paused. "You have had a long flight and must be very tired. My driver is outside waiting to take you to your hotel where you can rest. When you are up to it, please consider what I am asking. You have two days." With that, Laoshi stood up, smiled, and extended his hand. "It has been my pleasure to meet you, Mr. Bowman. Hopefully this is the beginning of a long and mutually prosperous relationship."