
Sebastiaan Berger is making a capitalist stand in communist Cuba.

Cross-Border

Cuba, Inc.

With Cuba poised for change, Sebastiaan Berger provides a window into the investment opportunities in the Marxist island nation

BY VITO ECHEVARRIA

No one under 50 can remember a time when Cuba wasn't under the thumb of Fidel Castro. Thus, few in American private equity and venture capital can conceive of how business operates there — and, thanks to the decades-old American economic embargo, virtually no one has any experience doing it.

With Castro, as of press time, clearly in bad health and his brother, Raúl, 75 years old himself, now seems a fine time to translate the potential (and pitfalls) of Cuba, that most tantalizing emerging market. In that regard, a Dutch lawyer named Sebastiaan Berger represents something of a Rosetta Stone.

Berger's investment fund, the €52 million Ceiba Investments, is possibly the only listed investment vehicle dedicated solely to Cuba. "We consider the country a [viable] play," he says. And he has a stable of holdings to back up that claim.

Naturally, tourism is low-hanging fruit. Berger's fund has a debt and equity investment in Hotel Saratoga, a reconstructed five-star, 96-room boutique hotel in Old Havana. Ceiba is also pursuing a stake in a joint

Photograph by ROMULO SANS

venture to develop an all-inclusive five-star resort off Cuba's southern coast.

Like many before him, Berger was enchanted by Cuba on his first visit in 1996. Then 32, he had journeyed to Havana to see if there was any substance to the news reports chronicling Cuba's de facto transition from Marxism to state-controlled capitalism. For Berger, who had assisted on private-equity and finance deals in the Netherlands as an associate at the law firm Trenité Van Doorne, the idea of an emerging market with absolutely no American competition seemed too good to be true. Smelling opportunity, Berger's bosses instructed him to investigate the steps required to set up shop. Trenité became the first international law firm since 1959 to obtain a license to open an office in one of Cuba's free-trade zones.

In 1999, Berger struck out on his own. He left Trenité and founded the Havana-based Berger, Young & Associates with Canadian lawyer Cameron Young.

SCORECARD

Sebastiaan Berger

Age 42

City Havana, Cuba

Fund Ceiba Investments

Position Director

Education Obtained law degree from the University of Leiden, the Netherlands

Career Arc After spending the bulk of the 1990s as an attorney, Berger built his own business advising corporations interested in Cuba. In 2002, he took over the management of Ceiba Investments, working out of Havana.

Really Big Deal The acquisition of the foreign share of the biggest commercial real-estate venture in Cuba's history: the Miramar Trade Center in Havana.

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Two years later, Berger found himself transformed from a legal advisor for foreign firms to the manager of a U.K.-based fund dedicated to investing in tourism and other enterprises. Along the way, he has learned a lot about how to do deals with people many might expect would be easily gulled thanks to their lack of business experience. "Never underestimate your Cuban counterparts," he cautions. "They are at least as smart as you but have home-field advantage."

Even under Castro, Cuba has been no stranger to foreign investors. By the late 1990s, certain sections of Havana — the leafy diplomatic suburb of Miramar in particular — had begun to sprout modern hotels and office buildings. (For example, Ceiba had a substantial stake in the Miramar Trade Center, a mixed-use complex at the heart of the transformation.)

At the time, Castro's military and civilian disciples were attempting to help Cuba make the transition from a Soviet-subsidized economy heavily dependent on sugar exports to one dominated by nickel, health and educational services and tourism.

Ceiba's own history has been one of transformation. Launched in 1996 as Beta Gran Caribe with an initial capitalization of 35 million Swiss francs, the fund saw the value of its shares shrink by more than 40 percent, prompting activist shareholders to take control in July 2002. Around that time, Berger became involved with the fund's operations. He changed the fund's name, its currency (to euros) and its investment strategy. Ceiba raised additional capital, listed on the Channel Islands Stock Exchange and started to become profitable. It also garnered new clients such as European hedge funds and pension funds, along with an assortment of high-net-worth individuals.

Most of the fund's investments are held through indirect share holdings in unlisted joint ventures between Cuban and foreign entities. Over the last two fiscal years, the fund has returned 7.6 percent and 6.5 percent, respectively. Such modest results reflect Ceiba's long-term strategy of combining high-yield income from finance instruments and long-term capital growth from equity investments — and positioning itself for a windfall.

All of Ceiba's investments in Cuba are with Cuban corporations and limited-liability companies — *sociedades anónimas* — which have directors and presidents, just like anywhere else. Finance deals need approval from Cuba's central bank; equity investments require a nod from two government committees.

Government officials and those in charge of the state firms will gauge the worthiness of deals with foreign investors based on their expertise, says Berger, who has learned to adapt to the style and pace of dealmaking the Cuban way. "In Cuba, you do business through the front door; don't try to break the window."

Not all of Ceiba's investments, meanwhile, are in commercial- and tourism-related real estate. The firm holds a minority position in some paper-related ventures, including Prosa, which makes hygienic napkins, and *The H*, a glossy Cuban lifestyle magazine. Berger also sees a huge opportunity in Cuba's oil, as numerous foreign entities, including the Chinese, have begun pursuing offshore drilling rights. Two bills before Congress, meanwhile, would exempt from the U.S. embargo any oil discovered in Cuban waters.

Critics argue that Ceiba's current dealings and track record in Cuba might someday prove a liability should Miami's virulently anti-Castro Cubans ever find themselves running the country again. Miami-based Thomas Herzfeld, whose fund, Herzfeld Caribbean Basin, invests worldwide in companies he feels will benefit from a democratic Cuba (and, presumably, a pro-U.S. government in Havana), illustrates the point. "We have no political risk [stemming from doing business with Castro's regime]," Herzfeld says.

Berger shrugs, reiterating that "we'll be in a strong position." In fact, his fund has recently raised an additional €21 million. *¡Ceiba va!*