## Memorandum

From: Actis
To: International Development Select Committee
Date: 28 January 2011

Actis is pleased to make the following submission as requested by the Right Honourable Members of the International Development Committee.

### Parameters of Actis's submission

1. Further to the Select Committee session of Tuesday, 18 January 2011, the Committee has asked for input from Actis regarding the spin out of Actis from CDC in 2004: the members have also sought clarification of the work of 'Actis Acts'- the Actis in-house volunteering programme. Aside from a brief overview of Actis, these are the subjects this document addresses.

### Introduction to Actis

2. Actis is a leading private equity investor that invests exclusively in the emerging markets. With a growing portfolio of investments in Asia, Africa and Latin America; it currently has US$4.7bn funds under management.

3. Committed to the highest financial and non-financial returns for its investors and the companies in which it invests, Actis adopts an investment approach defined by corporate governance and rigorous environmental and social standards.

4. Combining the expertise of over 100 investment professionals on the ground in nine countries, Actis is proud to actively and positively grow the value of those companies in which it invests.

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| US$4.7bn | Total funds under management |
| 87,383 | Number of employees working in Actis portfolio companies around the world |
| 68 | Number of portfolio companies |
| US$4.3bn | Amount returned to investors from US$1.7bn cash invested |
| 234 | Number of Actis employees |
| 117 | Number of investors in Actis funds |

### Factual information and recommendations

5. Prior to 2004, CDC invested taxpayers' capital directly into businesses in the emerging markets. In 2004, CDC's operations were separated into two parts, an emerging markets fund manager (Actis), which would seek capital from CDC and other investors and invest that

capital directly into the emerging markets; and an emerging markets fund of funds, CDC, which would invest indirectly in the emerging markets by deploying taxpayers' capital with a range of fund managers, including Actis.

6. There has been some discussion subsequently on the terms of agreement of that spin out. Rather than argue our own case here it may be more effective and impartial to refer the Right Honourable Members to the report on the conclusions of the Public Accounts Committee which published the following statement in 2009:

*This note has explained the background to the sale of Actis and set out the relationship between operating profits and residual profits.*

*It shows that:*

*a. Valuing Actis is not straightforward. It has few comparators and was not expected to make significant profits. In addition, because it has been purchased in part by its employees, any valuation needs to distinguish between the amounts managers receive as workers, and their residual rights to profits.*

*b. The valuation approach adopted in 2003 was reasonable, although it may not have taken into account elements of value that could only be tested through a competitive process which the Department did not consider feasible in this case.*

*c. Since the sale, Actis has performed well. It has increased both its funds under management and its operating profits.*

*d. In consequence, the employees have received remuneration in line with the incentive-based remuneration approach adopted by Actis.*

*e. In practice, the remuneration paid to employees has absorbed all operating profits, meaning that there is no residual profit to distribute, either to the Department (who have a right to 80% of any residual profit) or the employees-as-partners and staff (with a right to 20% of any residual profit).*

*f. As a result, the reported operating profit of \$8 million in 2004 (equivalent to £4.6 million) is not a meaningful guide to the reasonableness of the £381,610 paid for a stake in the business. Operating profits are all absorbed by incentive-based remuneration, which would accrue to the employees regardless of the ownership structure for Actis.*

*Public Accounts Committee, 23 February 2009,*
*http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/8121512.htm*

7. It was intended that the spin out would make available investment (equity) capital as opposed to, or in addition to, aid and that this would stimulate development in the emerging markets in several ways. First, by making CDC capital available to emerging market businesses. Second, CDC's involvement would set an example to other investors, reducing the perception of risk and attracting more investment to the emerging markets. Third, by using a fund of funds model, CDC would become a vehicle for backing other emerging markets focused fund managers. CDC would be the seed investor for several small fund

managers, enabling them to establish their businesses and anchor their early funds.

8. Against these measures, the arrangement has proved to be a great success. Through Actis alone, CDC has invested US$ 1.6bn[1] in the emerging markets since 2004; capital that may not have been directed to these markets without CDC's involvement.

9. Equally importantly, aside from Actis, CDC has seeded the early funds of numerous other emerging market fund managers (including many smaller local fund management operations); in a number of cases these have become viable businesses thanks largely to CDC's early participation.

## Outstanding issues relating to Actis that may be of interest to the Right Honourable Members

10. As part of their work, Actis colleagues are encouraged to get involved in the life of the communities around them – in the emerging markets in which we operate and within the UK. This volunteering effort is called Actis Acts and enables every Actis employee to spend 5 days a year working on community based initiatives.

11. Actis colleagues identified education and social enterprise as being important to them and initiatives have been developed in our local offices to facilitate volunteering activities in these two areas.

12. In the UK, it takes the form of a volunteer programme through which Actis colleagues mentor pupils at the Globe Academy in Southwark (one of the most deprived of the London boroughs) and a successful mentoring scheme which has been developed in partnership with UnLtd UK, whereby Actis professionals mentor social entrepreneurs as they develop their start up businesses.

13. Elsewhere, for example, in China, a partnership with Compassion for Migrant Children – a non-profit organisation established to help China's urban migrant children by offering social and educational programmes – sees Actis staff members volunteering as assistant teachers and helping the children with their homework.

14. In financial terms, contributions in the form of grants made to the community based organisations are modest, typically ranging from several thousand dollars to a maximum of US$75,000.

## In conclusion

**15.** CDC and Actis play different but complementary roles in delivering private investment to the emerging markets, thereby encouraging sustainable economic growth in these markets.

**16.** We believe that CDC has performed well in relation to its original objectives, through the investment of its capital in the emerging markets, its ability to attract other investors to the regions it invests in and the support its investments give to early stage fund managers in the emerging markets.

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[1] *Includes amount invested in portfolio companies in the emerging markets plus fees and other costs payable to Actis. It should be noted that this amount does not include the value of the CDC legacy portfolio. In 2004, Actis agreed to manage this portfolio on behalf of CDC and at that time the portfolio was valued at £820.4m.*

17. We believe that CDC is not only highly effective compared to similar institutions in creating sustainable economic development in the emerging markets, in our view its success in this field is unique.