Values Drive Value

Actis Responsible Investing Report
“The penny has dropped. What we’ll see over the next few years is more capital gravitating towards responsible investment strategies. Those institutions able to provide high levels of transparency to stakeholders and offer a demonstrable story about being a responsible steward of their capital will be a compelling choice for investors both today and in the future.”

Local Government Super, Australia

“As a high profile investor, we see effective ESG management as crucial to our existence. And it’s really encouraging to see that others are now recognising the importance of responsible investment to the long-term success of their own investment programmes.”

California State Teachers’ Retirement System

“Actis is highly focused on ESG. It is a differentiating factor of Actis versus their peers. They place a lot more emphasis on this than other GPs”.

Asian sovereign investor

“ESG is something that is very much embedded into our overall investment strategy and we have a lot of policies on it. Our members expect us to consider environmental risks when investing. So it is a very important part of our strategy. We are very keen to do as much as we can in this space.

We were very impressed with Actis’ overall ESG integration and their robustness of research. I think the range of issues that they considered when looking at investments came across very strongly as a very thorough ESG integration process and a real understanding of the issues that affect emerging market investments in this sort of area which I think was really important.”

UK Pension Fund

“88% of research shows that solid ESG practices result in better operational performance of firms...”

University of Oxford

“Firms with good performance on material sustainability issues significantly outperform.... investments in sustainability issues are shareholder-value enhancing”

Harvard Business School
Contents

Values drive value: Torbjorn Caesar 5
No compromise between delivering competitive returns and investing responsibly: Shami Nissan 8
Limited Partner Perspectives: Local Government Super 10
Limited Partner Perspectives: CalSTRS 11
Introduction to the PRI 12
Climate Change: a threat and an opportunity 14
Why values must be at the core of everything we do 17

Private equity 19
Our approach: Private Equity 20
Zoom in on Healthcare 21
Creating value from values 25
Zoom in on Education 27
Addressing the Skills Gap 31
A view from the portfolio: Food Lovers Market 32

Energy 34
Our approach: Energy 35
Positive outcomes from Power 36

Real estate 44
Our approach: Real Estate 45
Commercial Case for Green Buildings 46
Transformational impact of real estate 48
Addressing the Skills Gap 49

Case studies

Symbiotec 22
Integrated Diagnostics Holdings 23
Universide de Cruzeiro do Sul 28
CNA 29
Honoris United Universities 30
Eneo 39
Ostro 42
Atlantic Energias Renováveis S.A. 43
Garden City 47
Actis at a glance

3.4m
Electricity connections made by Actis distribution companies

15%
15% of board members at Actis companies are female

37%
37% of Actis’ own workforce is female

1.6m
Tons of CO2 avoided in 2016 in Actis generation companies

14.5 GW
Generating capacity built by Actis

6212
Construction jobs on Actis projects in 2016

116,550
Actis portfolio companies employ 116,550 people 27% of whom are female

90%
Power generation from last fund vintage is from renewable sources of energy

USD$0.5bn
Over USD$0.5 billion invested in education businesses benefitting over two million students to date

3238
Actis companies created 3,238 new jobs in 2016

4
Four of the first certified green buildings in Sub-Saharan Africa

65m
65 million people accessing electricity from Actis portfolio companies
Welcome to the Actis Responsible Investing report 2017. We have entitled it “Values drive Value” because we believe that investing responsibly creates businesses that are more resilient, more innovative and better able to deliver societal benefits – and are, ultimately, more valuable.

Responsible investment is not a charity venture. It is not lip service or a box-ticking exercise. It is commercial common sense. We have been active in growth markets for eight decades and we see no trade-off between responsible investment and delivering competitive returns.

In this report, we will show that instilling world class environmental, social and governance (ESG) standards is not only the best way to mitigate risk in challenging markets but is a compelling opportunity to drive value by transforming companies to the benefit of the countries, cities and communities in which we operate.

We have a dedicated responsible investing team who are part of every single decision making process throughout the life cycle of our investments from origination to realisation. This team are Actis’ deal enablers fully aligned with our investment professionals in pursuit of delivering competitive returns responsibly.

I would like to extend an enormous thank you to all of our contributors but in particular to our Limited Partners and to the PRI who have provided us with a valuable perspective on why a consistent approach to responsible investing is important to all of our stakeholders.

Kevin Ombogo, a graduate of the Garden City Technical Training program, Nairobi, Kenya
We are the firm that...

...was awarded an A rating by the UN-backed PRI in 2016 for our approach to Responsible Investing

...raised the largest Sub Saharan real estate fund

...is the only PE firm to be a member of Transparency International’s Business Integrity Forum

...built the biggest payments platform in Africa and the Middle East

...took a family owned Egyptian snack food business to the first dual listing on Egyptian and London stock exchange

...built the first certified green buildings in Lagos, Nairobi and Accra

...transformed a chain of 160 budget hotels in 28 cities into one of China’s leading hotel operators, with over 2,500 hotels in over 300 cities

...transformed Uganda’s power sector, culminating in the first overseas listing for a Ugandan company when it listed on Nairobi stock exchange

...is the leading investor in energy in growth markets. Our 12 electricity companies in 26 countries have delivered 14.5GW of reliable and cost effective electricity

...put electrical safety on the national curriculum in Cameroon
Over the last eighty decades, Actis has gained a wealth of experience of investing responsibly in growth markets. At the heart of our responsible investing ethos is the idea that managing environmental, social, and governance (ESG) issues is not simply about mitigating risk, but about value creation.

ESG challenges can be particularly acute in the growth markets in which we operate. We go beyond risk mitigation and simply spotting cost savings opportunities. We have found that addressing ESG issues can set a company on track for achieving best practice, and is a proven way of creating value, boosting returns and delivering strong financial performance for investors. It can also have a transformative impact on the workers, communities and markets in which our companies operate.

We are convinced that ‘values drive value’, and this underpins the way we select, manage and exit investments in all sectors in which we operate.

Value creation as the goal

With value creation as the goal, the key to success is identifying which ESG issues are material and focusing on these. We succeed because we have a deep knowledge of our sectors and regions which we combine with our in-house ESG expertise.

**Striving for Excellence**

We seek to apply international standards to the businesses we back. Many of the markets in which we invest lack strong regulatory frameworks with inconsistent enforcement. This means that adhering to rigorous international standards is vital to creating the right conditions for improvement. International Finance Corporation standards, for example, are very exacting, and we believe that striving to adhere to these brings about sound management practices in our businesses – and that creates value for investors.

**Our approach takes us out of the realm of only spotting the ‘low hanging fruit’ of cost cutting opportunities - rather, it enables our investments to catalyse a far more transformational outcome.**
So how do we do it?

In order to truly integrate responsible investing into the investment decision making process, it’s crucial to have a systematic approach. Our energy investment business is a great example. We take majority stakes in this sector, which enables us to have a significant impact in terms of how companies are set up and run. For instance, we always establish an ESG sub-committee, consisting of at least two board members, company management and an Actis Responsible Investment team member. This establishes appropriate senior level scrutiny on ESG issues on a regular basis. This committee also typically oversees the company’s long-term community investment strategy – an important mechanism for de-risking projects but also improving social impact.

We also install a head of ESG at each business. Indeed, in our pan-African energy portfolio company Lekela, the head of ESG was the second appointment after a new CEO. Having a dedicated ESG professional in each of our investments helps ensure that good management principles can endure even when we are no longer investors. We have had some fantastic results in our distribution businesses too – more detail is provided elsewhere in this report.

In real estate, we are proud that four of our assets are internationally certified as ‘green by design’ buildings, each of which was a ‘first of a kind’ in their markets. As these developments become operational, we are finding that these assets can consume up to 50% less water and 30% less energy – astounding efficiencies which prove these assets are cheaper to run and operate. Our real estate business has significant social impact through the jobs supported during construction, and operations. For example, 1,400 people were employed at our real estate construction projects across Africa during 2016. We’ve also recently launched a constructions skills programme for 300 Kenyan young people – this helps grow the talent pool in a market with an acute skills shortage and provides the students with much-improved future prospects.

In our private equity business, we are investing in diverse sectors and whilst we have a systematic approach, it is refined by sector rather than ‘one size fits all’. We focus on the small number of ESG issues which are potentially material, and where we can drive improvements. This could be improving health and safety standards, environmental performance, business integrity or tackling risks in supply chains. Because the responsible investing team is part of the decision-making process, ESG value creation commitments are embedded into 200 day plans. We are often working directly with management, and alongside deal teams, to deliver against these commitments.

Our overarching goal is to create value with our ESG activities. It’s an approach that we know works – our experience is testament to the fact that buyers will pay a premium for companies which manage these issues well.

We hope you find this report informative. We are immensely proud of our achievements but we also recognize that there is always more that can be done. In the spirit of continually striving for excellence, we welcome your feedback and comments: http://www.act.is/responsible-investing/contact-the-esg-team/.

Because the responsible investing team is part of the decision-making process, ESG value creation commitments are embedded into 200 day plans.
Limited Partner Perspectives: Local Government Super

Bill Hartnett
Head of Sustainability, Local Government Super

“However, we also did so because of a long-held conviction among members of the LGS board that assessing investments according to ESG factors is a fiduciary duty to our members: we see investing responsibly, with full consideration of ESG issues and impact, as fundamental to reducing risk, identifying opportunities and generating good returns. Unlike some other investors, we don’t offer a ‘sustainable investing’ option and that’s because we see responsible investment as fully integrated into our offering for members of strong, sustainable returns over the long term.

“LGS is a widely diversified, long term investor. We know that we can’t escape externalities: ESG factors are inherent in so many areas, from company performance through to the macro-economic picture. Our view is that if we can invest in creating better societal and environmental outcomes that in turn fosters better investment conditions over the long term. After all, degraded environments and divided societies are hardly a backdrop against which investors will generate good returns over the years to come.

“We use a variety of responsible investment tools spanning asset classes such as public equities, bonds, private capital and absolute return strategies. Our approach involves some negative screening, such as tobacco, gambling and coal, but places more emphasis on how we can have a positive impact through engagement with companies directly as well as via fund managers, plus seeking investments with positive environmental and social impact.

“We do face some challenges, such as a tendency towards short-termism in some areas, but overall, we see a huge amount of opportunity. There are now far more strategies available to investors that encompass ESG factors and recent developments in data capture and analysis are creating more readily comparable strategies.

“Investor attitudes are changing and I think we have reached an inflexion point. We’re definitely seeing a move away from the idea that pension funds and insurance companies are just investors and towards a view that they are owners – and with ownership comes responsibility. This shift is being driven by a number of different trends, from a more widespread recognition that ESG factors have a direct relationship with risk and returns and rising demand from younger investors for investment products with environmental and social impact. The role of technology is also important here. Social media as a bottom-up reporting tool is one driver, as is the adoption of digital strategies to engage investor groups.

“The penny has dropped. What we’ll see over the next few years is more capital gravitating towards responsible investment strategies. Those institutions able to provide high levels of transparency to stakeholders and offer a demonstrable story about being a responsible steward of their capital will be a compelling choice for investors both today and in the future.”

“LGS has a responsibility to look after the long-term social, environmental and financial outcomes in mind. Australia’s Local Government Super (LGS) pension fund is no exception. Here, the fund’s Head of Sustainability, Bill Hartnett, explains how his institution approaches responsible investment and why it believes ESG factors are key to generating strong risk-adjusted returns.

“As a A$10bn superannuation fund, LGS has a responsibility to look after the pre- and post-retirement savings of our members, who are predominantly local government workers, although we are also open to other investors.

“We started implementing our responsible investment strategy many years ago: back in 2001, for example, we divested our exposure to tobacco companies. Implementation was driven partly by an understanding that responsible investment resonates strongly with our core membership base – local authority employees, who spend their working lives managing and improving local communities and who understand many of the social and environmental factors that can affect people’s lives. We wanted to align our investments with their views.

“However, we also did so because of a long-held conviction among members of the LGS board that assessing investments according to ESG factors is a fiduciary duty to our members: we see investing responsibly, with full consideration of ESG issues and impact, as fundamental to reducing risk, identifying opportunities and generating good returns. Unlike some other investors, we don’t offer a ‘sustainable investing’ option and that’s because we see responsible investment as fully integrated into our offering for members of strong, sustainable returns over the long term.

“LGS is a widely diversified, long term investor. We know that we can’t escape externalities: ESG factors are inherent in so many areas, from company performance through to the macro-economic picture. Our view is that if we can invest in creating better societal and environmental outcomes that in turn fosters better investment conditions over the long term. After all, degraded environments and divided societies are hardly a backdrop against which investors will generate good returns over the years to come.

“We use a variety of responsible investment tools spanning asset classes such as public equities, bonds, private capital and absolute return strategies. Our approach involves some negative screening, such as tobacco, gambling and coal, but places more emphasis on how we can have a positive impact through engagement with companies directly as well as via fund managers, plus seeking investments with positive environmental and social impact.

“We do face some challenges, such as a tendency towards short-termism in some areas, but overall, we see a huge amount of opportunity. There are now far more strategies available to investors that encompass ESG factors and recent developments in data capture and analysis are creating more readily comparable strategies.

“Investor attitudes are changing and I think we have reached an inflexion point. We’re definitely seeing a move away from the idea that pension funds and insurance companies are just investors and towards a view that they are owners – and with ownership comes responsibility. This shift is being driven by a number of different trends, from a more widespread recognition that ESG factors have a direct relationship with risk and returns and rising demand from younger investors for investment products with environmental and social impact. The role of technology is also important here. Social media as a bottom-up reporting tool is one driver, as is the adoption of digital strategies to engage investor groups.

“The penny has dropped. What we’ll see over the next few years is more capital gravitating towards responsible investment strategies. Those institutions able to provide high levels of transparency to stakeholders and offer a demonstrable story about being a responsible steward of their capital will be a compelling choice for investors both today and in the future.”
Paul Shantic, Director of Inflation Sensitive at CalSTRS explains why responsible investment is so important to this $202bn US public pension plan.

“We’ve had a responsible investor policy, of some sort at CalSTRS, though it did not go under the now commonly accepted ESG acronym, since 1978, so we’ve been actively taking a responsible investment approach for a long time. As investors on behalf of California’s state school teachers, we know that our constituents have a lot of interest in what we do and how we do it. We’re also the second largest public pension plan in the US, so we take our responsibility as investors very seriously.

“We are long-term investors and we plan on being in the world for many years to come. That’s why we feel we have an obligation to ensure the governance, social and environmental issues in our portfolio are well managed as these can all have a material impact on the financial health of the companies we invest in and ultimately, the returns we generate. “We have a framework against which we measure the investments we make that incorporates the full range of ESG factors, although we do recognise that this is something we need to keep under review and we’re currently working on updating our approach to this.

“As a high profile investor, we see effective ESG management as crucial to our existence. And it’s really encouraging to see that others are now recognising the importance of responsible investment to the long-term success of their own investment programmes.”
Introduction to the PRI

Fiona Reynolds
Managing Director, PRI

The Principles for Responsible Investment were launched in 2006: a voluntary and aspirational set of investment principles developed by investors for investors. We now count over 1700 signatories to our Principles from over 60 countries, representing more than $60 trillion in assets under management. What unites our signatories is the belief that the consideration of environment, social, and governance factors will lead to better informed investment decisions.

While many GPs have historically included ESG impact analysis in their investment activities, they are responding to LP requests and industry developments by adopting a more comprehensive and structured approach to managing ESG risks – and opportunities. GPs also recognise that in order for ESG factors to be effectively integrated into their investment cycle, they must first be integrated into their organisational governance, structure and culture. The PRI provides (i) a platform for signatories to demonstrate a public commitment to ESG integration, and (ii) a framework for signatories to both implement responsible investment and to demonstrate progress through annual reporting.

The PRI private equity programme was launched in 2008 when just two private equity managers were signed up to the PRI – the PRI now counts over 300 GPs and private equity funds of funds as signatories. 345 private equity managers reported on their activities to the PRI last year, representing $891bn in direct private equity investments – 74% of this figure has some measure of ESG integration applied to the investment process which equates to approximately 28% of global private equity according to the 2016 Preqin Global Private Equity & Venture Capital Report.

Fees and governance practices. Responsible investment is a way for private equity managers to demonstrate that they and their portfolio companies are properly governed and well managed. Investors are also consolidating their commitments, showing a preference for working with managers that can demonstrate sustainable value creation over the long term.

In an increasingly crowded and competitive fundraising environment, private equity managers must build on traditional strategies and seek additional ways to demonstrate value creation capability. GPs that are reliant on an operational model of investing will appreciate the value of integrating ESG factors into their investment processes. At the end of the scale, GPs will be analysing economic, demographic, environmental and social megatrends and their projected impacts in order to actively identify and target ESG-related opportunities in companies that will meet the challenges and consumer demands of a rapidly changing world. Different functions and roles have been created to support a wide variety of approaches by GPs to responsible investment implementation. A service industry dedicated to providing specialised ESG tools and services to LPs, GPs and their portfolio companies has sprung up. These services support investors and managers in many ways including in policy development and due diligence, monitoring and reporting, and impact evaluation, and they are becoming increasingly more sophisticated and software-focused.

However, these developments will only be sustained by continued investor pressure. The key findings of the PRI Private Equity Report on Progress 2014/2015 is that the GP signatory base has shown rapid growth whereas LP growth has been modest, though steady. The LP base is also significantly concentrated in Europe. Moreover, there is a gap between the due diligence done by LPs and the translation of these findings into fund documentation and manager evaluation practices. It seems a core group of LPs are driving uptake of responsible investment in private equity – the more LPs that formalise their commitment to responsible investment and the incorporation of ESG factors into their selection, appointment and monitoring of managers, the deeper the engagement will be from the GPs.

The current primary purpose of the PRI private equity programme is to streamline LP-GP reporting on ESG matters to facilitate (i) more effective disclosure from GPs, and (ii) the incorporation of ESG considerations into LP investment decisions. This work builds on the ESG Disclosure Framework for Private Equity, published in 2013.

In 2015, the PRI and private equity association partners published the LP Responsible Investment Due Diligence Questionnaire as the industry standard for LP ESG-related due diligence. This year, the PRI will publish an advisory document for LPs on how to articulate and refine ESG provisions in fund terms and will start working on guidance for LPs and GPs on how to report on and monitor the ESG integration practices of GPs during the lifetime of the fund.

The initial momentum for ESG integration in private equity investing over the past 5-10 years, driven by LP expectations, may over the next 5-10 years be accelerated by any combination of these factors:

- Increasing LP pressure
- Reporting efficiency between LPs and GPs
- Demonstration of positive impact in company valuations
- Greater competition among GPs
- Regulatory pressures
- Investment opportunities presented by societal and environmental pressures

The PRI private equity programme will work with its LP and GP signatories and industry partners to understand and maximise these opportunities in the pursuit of a common industry language and understanding around responsible investment and private equity.

www.unpri.org
Climate Change: a threat and an opportunity

James Magor
Responsible Investment Manager, Actis

Evidence now shows clearly that climate change is the greatest threat of our generation. At Actis, we believe that we have a responsibility to address the risks involved and, in doing so, we can create significant value for investors. James Magor, Responsible Investment Manager at Actis explains.

We are now faced with the inconvenient truth that climate change is no longer an abstract threat or future challenge; it is evidently real and contemporary. Our markets are experiencing unprecedented regional weather patterns, increased frequency of extreme weather events and appalling pollution levels. These pose the greatest risk to human health, regional economies and global security that we have seen in a lifetime.

Our role in addressing climate change
As asset managers, we have a vital role to play; directing capital towards low-carbon technologies, influencing organisations to find ways of mitigating climate change and supporting the transition to a decarbonised economy.

The Global Adaptation Index compiled by Notre Dame University shows that the high growth markets where Actis invests are disproportionately vulnerable to the negative effects of climate change with a limited capacity to adapt.

At Actis, we are acutely aware of our fiduciary duty to evaluate the impact of climate change on our investments. Yet, we are increasingly seeing evidence that support for mitigation and adaptation initiatives makes sound commercial sense.

Due to the strength of positive momentum behind the global climate agenda and the technological advances that are being made as a consequence, climate change presents a wealth of opportunities which Actis is well placed to realise.

"Climate Change is no longer an abstract threat or future challenge; it is evidently real and contemporary."

Private equity
Our private equity business spans a diverse range of sectors and in each sector, we strive to mitigate the risks posed by climate change and identify the value creation opportunities that it presents. We are investors in supermarket chains, where the potential for resource savings is significant. For example, CSD in Brazil and Food Lovers Market in South Africa have both committed to resource efficiency, waste reduction and recycling programmes. These programmes have already delivered tangible benefits, such as a 60% reduction in energy consumption. However, less tangibly, they also helped to secure debt at below market rates from development finance institutions. In addition, both companies now focus on sourcing goods locally, reducing the carbon footprint of produce while also reducing costs to consumers by 20% without compromising on margins.

Edita provides another example. This Egypt-based snack food business has made a number of energy efficiency improvements that delivered a 20% reduction in energy consumption and invested in new chillers that use 30% less water. These two measures alone have saved the company approximately US$1m per year in operational expenditure.

"opportunities which Actis is well placed to realise."

Real Estate
Buildings account for 30-40% of global energy-related emissions; however the benefits of improved resource efficiency can be equally significant. For example, the cost of solar photovoltaic technology has reduced by 90% in seven years. This, combined with the high solar irradiance across many of our markets, means that installing rooftop solar panels often makes commercial sense. Furthermore, as a result, our buildings are less dependent on the costly, polluting diesel generators that are often required to meet a building’s power demand when grid power is unreliable.

In addition to the opportunities presented by solar, we have implemented a “green by design” approach to real estate that meets both our commercial and environmental goals. During the design phase, we consider the viability of a wide range of sustainability initiatives, ensuring we capitalise on the most effective measures at the most cost-effective stage of development. Actis buildings are therefore significantly cheaper to run than comparable buildings in the same market; Garden City in Nairobi delivered 50% water savings and savings relative to non green developments in the same city. This makes them more attractive to tenants and improves occupancy rates.

"The cost of solar photovoltaic technology has reduced by 90% in seven years"

"we consider the viability of a wide range of sustainability initiatives, ensuring we capitalise on the most effective measures at the most cost-effective stage of development."

Values Drive Value
Energy

Our energy fund is arguably the asset class that is presented with the most material climate change risks and opportunities. Our approach here is necessarily pragmatic. Our third energy fund consists of 90% renewable power generation, which contributed to the avoidance of 1.6 million tons of carbon (1,600,000 tCO2e) in 2016 and helps countries deliver on the commitments made as a result of the Paris agreement.

And while the environmental benefits of investing in renewable power generation are clearly evident, we also believe that natural gas plays an important role in the energy mix. As the cleanest of the fossil fuels, we see essential synergy between gas and renewables. Gas-fired generation plants can be quickly switched on and off – important in balancing intermittent sources of power such as wind and solar energy – and therefore, by providing clean base-load power, gas is viewed as an enabler of renewable power plants.

We also see significant financial and environmental benefits in converting open-cycle gas turbine plants to combined-cycle. By converting the Azito power plant in Abidjan, Actis increased the generating capacity by 140 MW without any increase in gas consumption. Thus increasing value of the asset while significantly reducing the carbon intensity. A great example of values driving value!

The Future

Governments around the world are increasingly designing incentives to direct capital towards innovations that will help them deliver on their carbon reduction obligations.

As a result, we are seeing more attractive fiscal and regulatory frameworks for renewable power and low carbon technologies, and Actis is in an excellent position to take advantage of these.

Our investors are behind us on this. As they adopt ambitious carbon reduction targets for their portfolios, Actis provides a platform to invest their capital responsibly and meet their objectives.

The threat from climate change is considerable but, as an asset manager that understands the opportunities it poses, our ability to make a significant and positive contribution has never been greater.
Integrating responsible investment into decision making

**Screening**
- Screen against Actis exclusions
- Complete initial background checks on the investment partners

**Due Diligence**
- Scope the ESG due diligence, engage external consultants, undertake site visits & attended management meetings
- Advise IC, present a detailed assessment of ESG risks, opportunities, management capacity & track record
- Develop ESG actions for inclusion in the post-investment plan

**Portfolio Management**
- Support the management team with the implementation of mitigation & value enhancement measures
- Visit project sites, undertake management meetings & build ESG capacity within the company
- Review performance & work with deal team to add value

**Exit**
- Highlight positive ESG progress
- Advise the exit committee on the track record of the potential buyer
Why values must be at the core of everything we do

Andrew Newington
Member of Acts Investment Committees

As a firm with eight decades of experience of supporting businesses in emerging markets, a responsible approach to investing is deeply embedded in the Actis culture. Yet we know there is more we can do to create value in the companies we back and the regions where we invest, says Actis partner Andrew Newington.

Before I joined Actis in late 2015, I knew the firm was well known for its considered approach to investing in growth markets – after all, it had decades of experience of supporting businesses in many economies that have historically struggled to attract capital and where success relied on sensitivity to local communities and environments.

However, what I found when I arrived was incredibly refreshing. Our staff, many of whom have been with the firm for 20 years or more, are rightly proud of the financial returns Actis has generated over the years, but they take equal pride in the legacy they have created in the businesses they have supported.

While responsible investment, viewed through an ESG lens, has become part of the language used across many investment firms over the last few years, at Actis, this is part of the firm’s DNA. The firm’s heritage has created a bedrock at Actis, this is part of the firm’s DNA. The firm’s heritage and active commitment to responsible investment principles that go far beyond those outlined in the Principles for Responsible Investment.

The Actis culture is the most vital part of delivering positive outcomes for our investors, portfolio companies and the markets we operate in.

Our licence to operate

This commitment is underscored by the Actis view that its “licence to operate” is one of the firm’s most valuable assets. As a firm, we recognise that some of the investments we make may have an impact on local communities and their environment. In energy, for example, building acres of solar panels can disturb local wildlife and users of the land. Yet at the same time, many communities in the regions we operate need a reliable and economic source of power if they are to grow their economies.

For Actis to deliver this, while also meeting our obligations to our investors, we know we have to work with local communities. This includes training and hiring local labour forces, improving working conditions and ensuring that contractors treat their workers fairly and with respect.

We also recognise that local support for our investments is essential if we are to run a business that is sustainable over the long term – we want to be invited back. The way we achieve this is by understanding the needs of local markets and communities through relationship building and then working to address some of the issues they face. The remedy may include investing in essential infrastructure or putting in place initiatives to provide safe, clean drinking water for local people.

This report contains many such examples and demonstrates how responsible investing is the Actis modus operandi. However, we also see the firm’s legacy as more far-reaching even than positive outcomes for local communities. Our mandate is to invest in sustainable local businesses. By providing capital and expertise to create growing, thriving, well-managed businesses that employ well-trained staff, we attract further capital to regions of the world that can be perceived as difficult areas to invest in. We help to create a virtuous cycle where our investment attracts further capital and feeds into the potential for improved local and national governance in parts of the world that arguably need this most.

Building out our approach to responsible investing

Part of my role since joining Actis has been to ensure that our raw material – the firm’s heritage and active commitment to investing responsibly to generate strong returns for our investors – is operationalised across all areas of our organisation and its activities. One of our core beliefs is that our values drive value: that by focusing on improving environmental, social and governance standards in the companies we back, we create financial value for which future owners are prepared to pay a premium while also making a positive difference in the market we operate.

For us to achieve this to the best of our abilities, we know that we need to be systematic in the way we work so that best practice is shared and so that our performance is replicable over years to come. Part of this involves seeking out repeatable themes for investment, where we identify opportunities that share common characteristics. That does not mean taking a tick-box approach, however. What it does mean is taking the lessons and experience learned from one business to another and adapting proven solutions to suit local conditions. We have deep sector expertise across all our areas of investment, coupled with local, on the ground presence. Our people are of and from the markets where we operate: we have 20 nationalities on our team and between them, they speak 26 different languages.

This strategy is complemented by our internal systems. Over the last few years, we have devised key performance indicators that measure our portfolio companies’ progress across the spectrum of financial, environmental, social and governance factors. We set company management teams rigorous – but achievable – targets and monitor these on a quarterly basis. In energy, for example, safety issues are the most important to get right – that’s where we start our improvements when we invest. Yet it’s also important that the weight we place on achieving these targets is constantly fine-tuned so that we can prioritise areas where we know that we can really make a difference.
Culture counts

Systems can only ever be a tool for managing investment responsibly. The Actis culture is the most vital part of delivering positive outcomes for our investors, portfolio companies and the markets we operate in. And, while we are proud of having built a multinational team across all the regions we invest, we recognise that this can present challenges in ensuring everyone is working towards the same goals. For this reason, we have kept our values straightforward and simple: transparency, accountability, teamwork and responsible investing. We support these values with remuneration policies that incentivise our people to adhere to them. These policies are designed to reward only people that demonstrate exemplary performance – simply working according to these values is not enough to earn bonus payments.

We also know that, to ensure that responsible investment is central to the way we do business in every corner of our organisation, we must have in-house champions. Each of our business lines is led by people who live and breathe responsible investment and they ensure that this forms part of the daily conversations throughout the firm. We also have two full-time dedicated responsible investment professionals whose role is to work with our team and portfolio companies to ensure that we capture all opportunities to create value through positive environmental, social and governance change. All team members, including support staff, are encouraged to find ways of making a difference and our experience shows that involving all our people can result in innovative ideas and solutions being put forward.

Constantly evolving

We clearly have high expectations of our people and our portfolio companies. However, we know that we have to be pragmatic about what we can and can’t achieve. Perfection is not attainable; instead, we see our role as responsible investors as a constant evolution of ideas and practices. Complacency has no place in such an environment, particularly as our investor base increasingly sees responsible investment as an essential component to generating returns over the long term. The operationalisation of our approach to investing responsibly demonstrates our commitment to building a sustainable business that has a positive impact for our investors’ beneficiaries, our portfolio companies and the markets where we invest.

"we see our role as responsible investors as a constant evolution of ideas and practices"

Securing a license to operate

Licence to operate

Builds:

Higher quality businesses | Which are better managed | More resilient | More successful | And more valuable
Our approach: Private Equity

Natalie Kolbe
Acts’ head of Private Equity

The world is set to hit a tipping point by 2020. Currently, around 40% of the global population is defined as middle class. However, rapid changes in Asia, Africa and Latin America mean this could exceed 50% by the end of this decade. The burgeoning middle classes, coupled with rapid urbanisation, population growth and an ageing population bring heavy demands for improved infrastructure, healthcare, financial services and a talented workforce to match.

Implementing responsible investing into Private Equity

In the private equity business we invest in mid-market businesses in four sectors – consumer, financial services, healthcare, and industrials. Our responsible investing approach is a core part of our value creation strategy. In the high-growth markets where we operate, ESG risks can have a major impact on the financial success of our businesses.

Borne of 70 years of experience, we have developed a systematic approach to assessing ESG issues (whether risks or opportunities) – the guiding principle is to identify those ESG issues which are potentially material to each business. We then focus in on the small number of issues which really matter. Materiality will vary based mainly on the sector, the geography and track record.

Regardless of sector and geography we always focus on the G of ESG – for us this encompasses corporate governance and business integrity.

Corporate governance and business integrity

Our companies often undergo governance transformations during our ownership – many start as family owned enterprises with little in the way of formal governance features, but emerge with formal Boards, appointment of NEDs and subcommittees (ESG, audit, remuneration).

Business integrity is also a major focus area. We work with many of our businesses to develop and embed anti-bribery and corruption policies and programmes. This includes work on processes but mind-set, culture and tone at the top are paramount. We have developed a ‘business integrity toolkit’ to provide practical support and our RI team often works directly with senior management on this topic as it is a vital prerequisite for a successful exit – whether a multi-national with the highest ethics standards or an IPO.

Systematic approach to RI

Prioritize businesses with strong competitive advantages, sound practices and focus / commitment on strengthening ESG

Significantly stronger ESG capabilities, policies and systems leads to multiple expansion at exit

Clear and measurable KPIs for each ESG goal with quarterly monitoring of progress

Driving improvements across ESG

We have developed metrics to monitor governance, business integrity and other material ESG issues (for example environmental performance, health and safety, worker relations or supply chain risks). This enables us to track performance and drive improvements.

For instance: we improved health and safety standards in an Egyptian consumer business, reducing lost time from injuries by over 50%. Our Brazilian consumer business, CSD, achieved material cost savings through environmental efficiencies. We have worked closely with our healthcare companies on elevating business integrity standards, and one of these has recently listed on the London Stock Exchange.

ESG improvements can be value drivers and we have seen, from our own experience, that buyers will pay a premium for companies with sophisticated ESG management.

Successfully and responsibly run businesses can also be deeply impactful – many of our businesses invest considerably in their workforce and their communities. They are simultaneously building a talent pool in markets where skills shortages are acute, they are increasing employee loyalty and productivity, and securing their license to operate. For example, in China, we have ensured that all our companies pay the correct social insurance to workers (less than one third of China’s workforce has a basic pension). Our companies are also providing vital services in their fast growing markets – our current education portfolio is serving in excess of 560,000 students. IDH, a healthcare diagnostics services provider in MENA region, is serving 5.6 million patients alone.

In the pages that follow we continue to take a closer look at what we actually do in practice.
As an established growth markets healthcare investor we have developed a systematic approach to improving ESG standards across our investments in this sector. This is based on our decades’ long experience of issues that companies in different sub-sectors of healthcare face.

Our investments in healthcare cover a wide range of sub-sectors, from healthcare services and pharmaceuticals to medical devices and technology. Each of these areas face differing issues and challenges when it comes to responsible investment; yet our long experience in healthcare means that we have been able to develop a highly systematic approach to improving the ESG standards in the companies we back. At each stage of the investment process – origination, due diligence, portfolio company management and exit – responsible investment principles guide both our strategy and that of the portfolio company.

We know that governance is key to achieving our goals in improving social and environmental standards and so our initial focus is always on professionalising company structures and processes. This often means supplementing board talent, bringing in experienced non-executive directors and always involves the creation of sub-committees responsible for ESG compliance and audit, among others. When Actis invested in Symbiotic, India’s leading producer of active pharmaceutical ingredients, we catalysed the hiring of senior Head of EHS to oversee improvements in the areas of safety and environmental issues. We set clear and measurable KPIs for ESG workstreams within our companies, and these are monitored at minimum on a quarterly basis.

**Business Integrity**

One area that receives a large amount of our attention in healthcare businesses that come into contact with doctors, regulators and government officials is business integrity. From the outset, we examine whether practices are compliant with the highest ethical standards. If not, we assess whether we can implement the right management processes and instil a culture of compliance to ensure ethics are at the core of the company’s relationship with outside parties. Resistance to such improvements are, for us, a deal-breaker and we will walk away – business integrity is simply too important to pass over.

We invest a considerable amount of time with management in early stages to ensure there is complete alignment of mindset on business integrity, as culture is key to success.

Actis has spearheaded business integrity improvements with most of our healthcare investments, including for example, IDH (Egyptian diagnostics service provider), Medis (North African pharmaceuticals business, Nanjing-Microtech (Chinese medical equipment manufacturer) and Chemclin (Chinese in-vitro diagnostics company) amongst others. Medis demonstrates our commitment to this area. While our due diligence found that its sales force was acting in compliance with ethical practice, there was no formal anti-corruption or bribery and corruption policy in place. This was one of the first areas we addressed after our investment in 2016. An initiative supported by a whistleblowing policy and training programmes for the company’s large sales and marketing team across the MENA region as well as for support staff.

**Access, Affordability and Quality**

Our healthcare strategy means we invest in growing, highly profitable companies. These companies deliver access to cost-effective and high quality products and services in our markets, with clear benefits to patients, health services and society at large. This is Values driving Value in action.

By way of example, as you can read elsewhere in this report, IDH, our Egyptian-based diagnostics service business, is serving 5.8 million patients and is six times larger than the next market player in terms of laboratory penetration. In pharmaceuticals, Medis is one of the few companies in North Africa to produce affordable cancer drugs in a market that has, until recently, been dominated by higher priced drugs produced by multinationals. And in China, Chemclin is able to provide diagnostic testing that is 40% to 60% cheaper than that offered by multinational rivals. Both these companies have international-standard facilities and are improving patient access to high quality healthcare products and services in markets where disposable incomes are low by global standards and the quality of local providers does not conform to internationally-recognised requirements.

At Actis, our philosophy that “values drive value” is deeply embedded in our approach to portfolio companies – and healthcare is no exception. ESG risks and opportunities are identified and measured from origination and due diligence stages, right through our ownership period and on to exit, where our experience has shown that buyers value highly businesses that are growing strongly, are well managed and operate to the highest ethical and environmental standards.

---

**Zoom in on Healthcare**

“Excelling in Environment Health & Safety”

**Our healthcare strategy means we invest in growing, highly profitable companies. These companies deliver access to cost-effective and high quality products and services in our markets, with clear benefits to patients, health services and society at large. This is Values driving Value in action.”

---

"Business integrity is simply too important to pass over."
Symbiotec

Context
In October 2013 Actis invested in India’s leading producer of active pharmaceutical ingredients (APIs). These APIs are purchased by generic pharma companies or multinationals to be utilised in the steroid and hormone medication used to manage conditions like asthma, arthritis, and infertility.

The Actis Approach
Actis’ understanding of the business is based on its regional and sector knowledge of the industry derived from years of experience with pharmaceutical companies. Demand for steroids and hormones has surged as patients seek to alleviate environmental and lifestyle conditions, pursue gynaecological therapies linked to conception and have more money to spend on treatments.

What did we do?
There are many other ways in which our institutional memory helped Actis develop a systematic way of approaching responsible investment in healthcare. Our in-depth knowledge and technical expertise in the sector meant that we were able to recognise the company’s potential and because we understand the sector, we also knew that the business would face a number of environmental and safety risks. Our rigorous due diligence process identified where improvements were needed to be made and provided a clear roadmap for improvements.

Occupational health and safety was our first priority at Symbiotec: exposure to steroids and hormones is a health risk to employees. After recruiting senior executives to the board drawn from Indian pharmaceutical companies, we ensured that a new Head of Health and Safety was appointed to spearhead improvements. They were supported by an Actis team member who helped establish a clear agenda for making environmental and health and safety (EHS) improvements.

We also worked to improve the company’s environmental record, switching the manufacturing process from yam to non-toxic beans, and ensuring that facilities’ emissions and noise levels were monitored and within permissible limits. The other key strand to our ESG improvement framework was to ensure that Symbiotec facilities were operating to stringent international standards. We put in place a quality assurance and control team and within 12 months of our investment, Symbiotec underwent a US FDA audit, passing first time.

How are we doing?
The business has since grown substantially and has diversified from being a mainly domestic player to one where two-thirds of sales are now international. Since our 2013 investment, the culture of the business has been transformed to focus on governance, quality and safety and it is now a unique asset – it is the only Indian steroid and hormone API player to offer US-FDA quality at attractive prices.
Integrated Diagnostics Holdings

Since Actis invested in 2014:
- The number of tests performed has risen to in excess of 24 million (in 2016)
- 5.8 million patients were served in 2016
- The number of laboratories has increased by 19% to 354. This makes IDH six times larger than the next market player in terms of laboratory penetration
- The number of employees has grown by 14% during this time to 4700, of whom one third are female

In addition to the above, from the very outset, Actis worked closely with management to establish the highest standards of business integrity, including developing robust anti-bribery and corruption policies and programmes. Not only was this the right thing to do in terms of establishing a high quality business, but it was also a vital pre-requisite to pave the way for a successful IPO. In 2015, the business was listed on the London Stock Exchange, and the IPO was 11.2 times oversubscribed.

Access to healthcare
Actis invested in Integrated Diagnostics Holdings (IDH, the largest private sector healthcare diagnostics service provider in Egypt and the MENA region, in 2014. IDH provides a range of services including pathology, molecular diagnostics, genetics testing and basic radiology. In the short time since our investment, the business has had an impressive growth trajectory and achieved some important milestones. The growth of the business has enabled us to improve access to services, reach more patients and support more jobs and livelihoods.
Creating value from values

Fash Sawyerr
Director, Value Creation

Nelson Bechara
Director, Value Creation

We believe that improving ESG standards is core to creating value in the companies we back. Actis Value Creation Directors Fash Sawyerr and Nelson Bechara explain how our approach to responsible investment delivers commercial success in our portfolio businesses.

Q: How does responsible investing fit with value creation in your portfolio companies?
Fash: “At Actis, we see responsible investment as fundamental to creating value. We are long-term investors and we believe that setting high governance, environmental and social standards in our portfolio is essential to creating sustainable businesses that deliver for all stakeholders – from employees and suppliers through to customers, local communities and, ultimately, our investors.”

Nelson: “That’s the point - we exist to generate the strongest possible returns to our investors – and our firmly held belief is that we can best do that by placing responsible investment at the core of everything we do. Overall, our philosophy is that if we treat people and the environment well, we earn a licence to operate in the markets in which we invest. This helps our relationship with regulators which can be a vital element in companies we back – that in turn has a positive effect on the brands in our portfolio. We’ve seen this time and again.”

Q: Can you explain how you apply ESG improvements to create value?
Nelson: “We have an ESG framework and toolkit that we apply to each of our portfolio companies. However, our view is that, while companies in our markets may face similar issues, you can’t take a cookie-cutter approach and you can’t just tick boxes if you are to create lasting value. Our approach is based on understanding each business individually and getting to grips with which specific levers within our ESG framework we can pull in each business. The initiatives we put in place will therefore vary from company to company.”

Q: Would you say your approach to ESG as much about identifying opportunities as it is about managing risks?
Fash: “Yes, because we see managing and improving ESG as being far more deep-rooted than just a risk mitigation exercise. We start by asking the questions: what will our footprint be on the company’s story? And how can we create a legacy? Of course, our due diligence process involves mapping out ESG risks and ways of managing them. However, we also use this information to develop a plan to help the company leverage the opportunities stemming from improved ESG standards. This helps our relationship with shareholders, who discuss with management what they see as opportunities and how new initiatives can be implemented. Importantly, this means that management has ownership over the development plan and it becomes embedded in the organisation. This partnership approach also enables us to tailor the strategy according to what’s appropriate to the company and market in question.”

Q: Can you give any examples of ESG initiatives driving value creation from your portfolio?
Nelson: “Brazilian food retailer Companhia Sulamericana de Distribuição (CSD) is a great example. We invested in CSD in 2010 and quickly established ESG as a value creation lever across multiple points of the business. As is typical with the investments we make, we started with governance, by supplementing the management team, adding a new non-executive director with significant Retail expertise and putting in place an agenda to drive environmental and social initiatives. We established a program to gradually replace the store lights with LED fittings, which immediately reduced lighting energy consumption by 60% – that clearly has an impact environmentally, but also on the bottom line.

“As part of our thesis to build a regional retail leader, over the last few years, we have invested $40m in a new, highly efficient distribution distribution centre and where we centralize the distribution of approximately 85% of all goods sold in our stores. The new DC allowed CSD to develop an internal packaging recycling collection system, whereby trucks delivering supplies to stores collect recyclable materials rather than returning to the depot empty. We have also increased sourcing from local farmers, established an in-store oil recycling project supplemented with an education programme in local schools, implemented a programme to provide meals for families unable to afford food basics and created a social agenda in local cities.”

25 Values Drive Value
Q: And what effect did those measures have?
Nelson: "In environmental terms, these initiatives have saved 8.7 million kg of paper and 8,000 kgs of aluminium. They have also led to 2 million kgs of plastic recycled and the collection of 175,000 litres of oil, which has prevented 175,000 billion litres of water from becoming contaminated. In social terms, we have offered a new market for local farmers, provided 1 million meals a year and helped 30 NGOs.

"It’s hard to overstate the value created for the business through these initiatives. Not only have the deals with local farmers resulted in a 20% price reduction for goods, but our ESG initiatives helped secure up to $100m funding package with the Brazilian development bank BNDES at lower than market rates. BNDES also agreed to provide a R$100,000 loan for CSD’s social programme. We strongly believe that the financial benefits of our ESG practices are also reflected in CSD’s results: the company has tripled net revenues over the last six years and reported 14% like for like sales growth in 2016 – a time when the Brazilian economy has been through difficult times."

Q: Vlisco is another good example, isn’t it? Can you explain progress there?
Fash: "Yes, Vlisco is a West African textile and garment producer that used to source nearly all its cotton raw material from Asia. However, since our investment, the company has partnered with local cotton production projects in West Africa and now sources around 15 million yards or 25% of its grey cloth fabric from Ghana and Côte d’Ivoire. This has generated significant value added to the local economy and created over 5000 indirect jobs through its supply chain. It has helped to revive an industry that had previously been in decline in Africa.

"The social benefits are therefore clear, as are the environmental benefits of not transporting the cotton across continents. Yet there has also been an impact on the commercial success of the business – not only is local cotton cheaper to produce, but the proximity of producers to Vlisco’s West African production facilities enables Vlisco to reduce the amount of working capital tied up in the business, with clear benefit to the business’ cash flow."

Q: You also invested in training for Vlisco’s local communities. How has this created value?
Fash: "Yes, this is quite an important initiative. Over the last few years, Vlisco has established a tailoring academy in DRC, Nigeria and Ghana with the aim of training women in high level tailoring and business administration skills so they can achieve economic participation. This helps the trainees, who are from underprivileged backgrounds, yet it also provides a commercial benefit for Vlisco: it encourages customers to buy the company’s fabrics to be made into clothes by the academy graduates."
Education is a form of alchemy: it can transform someone’s life. It can improve job prospects, generate opportunities and alter a future for the better. Whether it comes in the form of a university degree or the learning of a second language, a quality education can significantly improve the economic prospects of the student and their family.

Across growth markets, education is at the centre of changing lifestyles, as employers pay premiums for qualified, skilled employees and students seek higher paid jobs.

We believe that without investment in education and skills and by relying solely on a “just add people” thesis realising the “demographic dividend” may never happen.

Through 70 years in growth markets we have seen that better education will contribute to rising incomes as it enhances employment opportunities. This will in turn help to fuel the middle class expansion and consumption in growth markets. Meanwhile, the growing demand for education will come full cycle and provide great business opportunities for the education sector.

A better educated workforce will benefit our businesses in growth markets, boosting the countries’ competitiveness attracting investments and macro-economic growth. Higher education standards are also vital to emerging countries as the economies are shifting towards more value-added sectors. Growth markets accounted for 51.0% of the world’s total manufacturing production in 2014.

Actis has built up extensive domain knowledge in the education sector; backing the trend for emerging market consumers to secure their own and their children’s future quality of life by investing in their education. Actis has invested over US$0.5 billion in recent years in the education sector, in businesses including China PSE and EIC Group in China; Universidade Cruzeiro do Sul and CNA in Brazil and Mundiapolis in North Africa (part of the Honoris United Universities platform).
Universidade de Cruzeiro do Sul is one of the largest private education groups in Brazil. The business owns post-secondary education institutions across multiple campuses and is recognised for its high academic standards.

At the time of Actis’ investment, in 2012, the Brazilian education sector was highly fragmented, with over 2,000 private institutions. Actis sought to expand the business through acquisition of similar mid-market private education institutions. It also pursued a strategy to diversify the course offering to include a distance learning proposition and to increase class utilisation through differentiated commercial policies that led to strong organic growth.

Actis helped the management team to identify and complete acquisitions of four education businesses. The acquisitions of UNICID and UNIFRAN, two private institutions in Sao Paulo, were both completed within 18 months of Actis’ investment. Cruzeiro’s further two acquisitions, FASS and CEUNSP, completed in 2014 and 2015 respectively. Over the course of Actis’ investment, Cruzeiro grew from 36,000 students in 2012 to over 160,000 students in 2016.

The distance learning program, which launched in 2013, now has 60,000 students, and provides greater access to education for Brazilians who cannot afford on-campus education.

Cruzeiro grew from 36,000 students in 2012 to over 160,000 students in 2016.

Actis sold its stake in Cruzeiro do Sul (“Cruzeiro”) to GIC Private Limited in March 2017.
CNA is a leading language school chain in Brazil with over 40 years of history teaching English and Spanish. Actis invested in CNA in 2012 and today it has more than 400,000 students per year learning languages in 600 units across the country.

Since 2016, CNA has sold 1,900 language ‘kits’ - each kit serves one student to support the academic requirements of six months of English class.

CNA has a strong brand and high student satisfaction level, with a customer base spanning children, teenagers and adults keen to improve their career prospects through learning a foreign language.
Established in 2014, Honoris United Universities is a leading platform of multi-country, multi-language, multi-media and multi-discipline universities across Africa. Honoris United Universities’s anchor asset is Universite Centrale Group (UCG), Tunisia’s largest private tertiary education provider. UCG has c.6,200 students enrolled with over 4,400 higher education degree students across four universities (Health, Engineering, Business studies, law, and Communications) and 1,800 students in its two affiliated further education colleges.

Tunisian society has always valued education and has a well-deserved reputation for high standards of education quality, sought after by students across Francophone Africa. With 37% of Tunisians aged between 18 and 23 currently enrolled in higher education, Tunisia and Morocco in particular stand out as beacons of education excellence for students looking for a quality Francophone education.

In 2016, Actis added Mundiapolis, a top ranking private university in Morocco, to Honoris United Universities. Mundiapolis offers 21 international degree programs attracting over 30% of its 1,100 students from foreign countries, supporting our vision for Honoris United Universities to grow into a pan-African education provider.

Francophone Africa has a population of some 300 million and over three million students enrolled in higher education. Tunisia and Morocco in particular stand out as beacons of education excellence for students looking for a quality Francophone education.

In 2017, Actis made a further acquisition in Francophone Africa through an investment in EMSI, Ecole Marocaine des Sciences de l’Ingénieur the largest private institution in Morocco and the leading private engineering school, cementing its leadership in the region.

The second part of our strategy for Honoris United Universities was to expand into Anglophone markets to tap into the increased demand for English language education among students and employers in Africa. By 2017, we had already embarked on this leg of the journey, investing in an Anglophone distance learning business, the Management College of Southern Africa, better known as “MANCOSA”, and the REGENT Business School. Together, MANCOSA and REGENT cater for over 15,000 students in South Africa, Namibia, Botswana and Swaziland.

With five business now operating under the Honoris United Universities umbrella, Actis has recruited a CEO to oversee the group. Our strong networks in education globally meant that we were able to appoint an individual with a strong track record in the education sector, who will drive both organic growth and buy and build expansion plans.

Actis is sponsoring two Honoris United Universities graduates to complete a postgraduate qualification at one of the world’s leading educational establishments, such as Oxford University, Cambridge University or an Ivy League university in the US. The first beneficiaries of the scholarship are expected to start in October 2018.
Addressing the Skills Gap

The demographic dividend cannot simply be seen as “just add people”. Public and private investment in education and skills is crucial to the long term success of the growth markets.

As a long term investor in growth markets – addressing the skills gap at community and asset level is integral to building world class businesses. Below are some examples of Actis’ commitment to up-skilling employees, suppliers and local community members.

**Vlisco**
**Fabric production, Sub-Saharan Africa**
In 2014 Vlisco launched a tailoring academy aimed at empowering women through the ‘3 L’s’: learning, labour and leadership. The programme delivers high level tailoring skills and education in business administration. Each person completes four months of training and obtains a formal tailoring qualification at the end. The academies currently operate in Nigeria, Ghana and DRC and to date 383 women have participated.

**Actom**
**Electrical engineering, South Africa**
Actom has maintained an apprentice training programme for more than 20 years. The average annual intake is c. 120 and the apprenticeships last three to four years. Thus far, 1000 employees have been through the programme. An increasing number of women are being recruited for artisan training – last year’s cohort was c. 30% female. Actom also invests in its workforce, not just via on-the-job training but through registered (certificated) training, further education/training courses and university education.

**Tracker**
**Vehicle recovery, South Africa**
Trackers’ Tomorrow’s Man programme is an initiative aimed at empowering and developing grade 10-12 students through exposing them to positive role models, mentors, skills development and career guidance, and crucially, and away from lives of crime. Tracker launched Tomorrow’s Man in 2009, and it gained the support of over 140 corporate and public sector participants. In its 1st year, the event reached 400 students. Today, more than 6000 young men have been impacted.

**Garden City**
**Real Estate, Kenya**
In Nairobi, Kenya, Actis partnered with Arc Skills, an international Skills Development Centre. The programme provided around 300 disadvantaged young people, 38% of whom are female, from communities surrounding Garden City with internationally accredited qualifications in construction skills. This programme was truly transformational as 41% of participants had no employment history; however, following the training 46% reported they were employed.

**Honoris United Universities**
**Higher Education, North Africa**
Every year, each of Honoris United Universities universities and schools across Africa sponsor over 200 full scholarships to enable students to pursue degrees in the field of health, engineering, business, law, architecture, design, media or political science. The scholars are those that demonstrate academic excellence despite underprivileged backgrounds. Through these programs we provide access to higher education that builds careers and ensures our schools and universities deliver a positive social impact in the local communities.
A view from the portfolio:
Food Lovers Market

Andrew Millson
Head of Small Holder Development and Sustainability at Food Lovers Market

Andrew Millson, Head of Small Holder Development and Sustainability at Food Lovers Market tells us why corporate responsibility is not just a policy...

When fresh produce business Food Lover’s Market set out its plans for addressing corporate responsibility, the company was very clear that this was not a programme. Instead, the strategy that emerged was all-encompassing, seeking to answer the questions of: What is the purpose of our business? Who are our stakeholders? What kind of business do we want to create and work for? How do we develop a culture that we can be proud of? And, importantly, how can we be relevant both today and tomorrow?

It was a pivotal moment for a business that had grown rapidly over recent years. Established in Cape Town, South Africa in 1993 by brothers Brian and Mike Coppin, this fresh fruit and vegetable business has grown to include over 120 Food Lover’s Market stores across South Africa employing 16,000 people: more than 250 FreshStop convenience stores at Caltex service stations; FVC International, Southern Africa’s largest importer of fresh produce; an artisanal coffee brand, Seattle Coffee Co.; and Market Liquors, a liquor offering that is conveniently located next to Food Lover’s Market stores.

Purpose and profit

While corporate responsibility has always been part of the Food Lover’s Market DNA, the brothers were inspired to undertake a root and branch review of the way the company operated after reading Conscious Capitalism, a book co-written by Whole Foods Market co-CEO John Mackey.

Their first departure was to question the purpose of the Food Lover’s Market business. “Their first departure was to question the purpose of the Food Lover’s Market business,” explains Andrew Millson, Head of Small Holder Development and Sustainability at Food Lover’s Market. “That set in motion the development of a strategy that seeks to understand who our stakeholders are and how best to add value across all our stakeholder bases.”

Enter Actis

The brothers also realised that if they were going to continue to grow the business sustainably, they would need new capital and support from an investor that understood their market and what they were seeking to do. This is where Actis enters the story. In early 2016, the firm took a significant minority stake in the business. “We had previously invested in a number of other high quality food retail businesses in emerging markets,” explains Shami Nissan, head of Responsible Investment at Actis. “We knew this was an attractive opportunity and we were particularly excited by what the company wanted to achieve: its approach towards sustainability aligns very closely with our own.”

The last two years have seen Food Lover’s Market develop from a collection of businesses to becoming a more centralised, consolidated company with sustainability at its core. Actis is currently supporting the company to ensure that it complies with social and environmental standards and has helped to establish a formal ESG Committee and a Corporate Social Investment Committee to manage ESG strategies and ensure initiatives are implemented. Andrew Millson was brought in shortly after the Actis investment to lead the sustainability agenda and he has now established Earth Lovers, the formal sustainability strategy for the company.

Earth Lovers in action

The Earth Lovers approach has three main elements: the here and now, our people and the future. “Here and now relates to how efficiently the business operates,” explains Millson. “Our people is designed to ensure we have the right people with the right skills to take the company forward, and the future sets out to ensure that the business is ready for a changing world.”

The here and now

On the first directive, which address here and now, Earth Lovers has already made significant progress. “In many respects, we are playing catch-up when it comes to environmental initiatives, but we are moving fast,” says Millson. Waste reduction, for example, is one of the company’s big targets, with detailed monthly reporting on waste costs and recycling implemented for management to understand the costs and opportunities for improvements. This is leading to some interesting developments, with a 43% reduction in waste to landfill in just six months in some areas. In Cape Town, for example, all Food Lover’s Market food waste is now recycled into compost and energy, saving the business R250,000 per annum and with further opportunities identified.

On the energy front, the company is currently conducting a feasibility study to examine the potential of installing renewable sources across its distribution centres to reduce costs and increase environmental impact, with support from the Actis energy investment team. The key issue of water consumption is being addressed through the installation of water harvesting equipment at Distribution Centres and water meters to reduce usage. In addition, the company now no longer uses harmful cleaning agents in any of its Western Cape Food Lover’s Market stores.

The question of: What is the purpose of our business? ...to answer...
People power

The second directive, Our people, is also developing fast and necessarily so. Says Millson, “Our people need to drive this,” he says. “There obviously needs to be leadership from above and policies and communication to support this, but if we are to grow the idea of sustainability throughout the organisation, all our staff need to understand, appreciate and contribute to it.”

Key to achieving employee engagement is creating a culture that treats employees as part of the company’s extended family, says Millson. “And to do this, we need to know our people and the challenges they face,” he adds. Food Lover’s Market has therefore become the first corporate in South Africa to sign up to the Poverty Spotlight initiative through which staff complete a questionnaire that highlights the issues they face, including access to healthcare, education and clean water. This was backed up with nearly 90 individual interviews. Combined, the research identified a number of ways in which the company could support employees: for example, while most employees dreamt of a better life, 42% had no concrete, long-term plans of how to achieve this. Earth Lovers’ response has been to provide family budgeting courses and training, and safe transport was another area highlighted by the research and Earth Lovers is currently exploring ways of using its existing logistics capabilities to help staff get to work.

Further to this, through skills audits and leadership courses in conjunction with Henley Business School, Food Lover’s Market is ensuring that they have managers with the necessary skills to continue the rapid growth of the organisation in the coming years.

Yet Earth Lovers doesn’t just consider employees to be within the extended family. Suppliers are also important to the strategy. With this in mind, it has established training for local government workers on how best to support smallholders in a region where large, industrial farms dominate to ensure help is provided in the most effective and efficient way.

Future force

Clearly, the environmental, social and governance initiatives already put in place help create a business that is sustainable over the long term. However, Food Lover’s Market is also focused on creating a business that is relevant to customers in the future. The company focuses on addressing the growing trend towards healthier lifestyles and the consumers’ desire to understand the provenance of their food. Part of this involves providing healthy, fresh options across its stores, such as new Love Health ranges including preservative-free and sugar-free products endorsed through Earth Lovers. Its work with suppliers and supporting the next generation of producers in a way that takes into consideration climate change, is another key element of this. The company works with over 1,000 smallholders in South Africa, Zimbabwe and Zambia. Finally, Food Lover’s Market ultimately has its sights set on a public listing, with work already underway to ensure the business has the right policies, procedures and governance in place.

Yet, as Millson says, there’s still much more to be done. “This is just the start of the journey towards creating a company and culture every single team member can be incredibly proud of,” he says.
Energy
Our approach: Energy

Mikael Karlsson
Head, Energy

Mike Till
Head, Energy

More than one in six people globally – 1.3 billion – do not have access to electricity, of which 95% are in countries in sub-Saharan Africa and Asia. Millions more do not have access to reliable sources of electricity. Globally, this is a serious issue. It is also a huge opportunity for investors in the power sector. By 2035, we expect investment worth $10trn in electricity infrastructure in non-OECD countries, including $4trn in Actis markets in Africa, Asia and Latin America. To date Actis portfolio companies have provided 65m people with access to energy with ~3.4M new electricity connections made and ~14.5 GW generating capacity built.

Our portfolio includes Aela Energia (Chile); Atlantic Energia Renovaveis (Brazil); Atlas Renewables (pan-Latin America); Ostro (India); Sprng (India); Zuma Energia (Mexico) Azura (pan-African); Eneo (integrated utility in Cameroon) and pan-African renewable energy company Lekela. These firms are all benefiting from the huge potential in their target markets. The countries in which we operate all have strong renewable resources, with net wind capacity factors of 45%-55%, compared to 25% in Europe and 30% in the US. They have world-class solar resources too. There is also an opportunity, particularly in Africa, to offer low-cost baseload power that is not as intermittent as wind or solar. We expect gas to grow faster than other thermal technologies, with 9.3GW of new capacity in Africa between 2016 and 2020. Therefore, Actis can offer attractive risk-adjusted returns from creating and acquiring electricity generation businesses that offer scale, diversification and growth; as well as market-leading electricity distribution businesses.

We have a systematic approach to value creation that is simple, repeatable and financially successful. Our approach to managing environmental, social and governance (ESG) risks is key. For example, we embed an ESG specialist within each energy company in which we invest. At Lekela, the head of ESG was the second appointment we made after the CEO. This role makes our firms resilient and well-equipped to manage risks.

We also establish an ESG committee at each company. This is made up of senior management and at least one expert from Actis; and helps to set the tone for the business by leading on initiatives including a Community Investment Strategy for each platform. We want our platforms to create ‘shared value’ with their host communities; this benefits local people while reducing risks associated with protests and other delays.

Our companies track their ESG risks on a quarterly basis and set targets to improve. This enables Actis to track progress and maximise value at exit.

There are other major benefits to this approach. It helps when we are raising capital from investors, development finance institutions, and banks that have signed up to Equator risk management principles. This is crucial as our companies grow.

A robust approach to managing ESG risks also helps our businesses to develop new projects quickly, and thus bring the platform to scale before we exit.

In short, this enables us to build resilient and scaleable platforms that are highly valuable for investors, and seize that $4trn opportunity in our chosen markets.
A holistic approach

Actis’s holistic approach to responsible investing means that we focus on specific environmental, social and governance drivers for value creation in our portfolio companies. This is one of the reasons why we developed our “Energy Impact Model” which we use to measure progress and set targets at all of our energy investments. The model is a framework that provides a systematic approach to measuring performance and improvement across six categories - finance, people, social/community, infrastructure, environment and governance.

The due diligence phase is our first opportunity to identify ESG issues and perform a gap analysis to determine commercial opportunities as well as risks. This means we can move quickly to make improvements once we own the business or establish the right framework when we create a platform. As majority owners of our energy businesses, we ensure there is a Head of ESG appointed at company level, with a direct line of reporting to executive management, and that an ESG sub-committee is established, typically as a sub-committee to the board of directors, to set the tone from the top, drive through improvements and oversee the development of new initiatives as initial action points are progressed. Ultimately, our aim is to create enduring, sustainable value in our energy businesses. We can only achieve this if the companies have the support of local communities and are viewed positively by regulators – we clearly understand the vital importance of securing a social licence to operate in the markets where we invest.

Building a national champion

Our approach in Guatemalan electricity distribution company, Energuate, exemplifies how we work with our energy businesses. In this instance, we helped to turnaround an operationally inefficient company with a poor safety record and a reputation for power outages, into a national champion. As with many of the energy companies we back, Energuate’s weak governance was a key factor in its underperformance from both a health and safety and operational perspective. By appointing new senior management with international expertise, and a new board of directors comprising both local and global best-in-class directors, while also investing heavily in regulatory and compliance training, we set the stage for transformation through cultural change underpinned by values of accountability and local autonomy. Health and safety was set as a key strategic priority for the company, reinforced by comprehensive employee and contractor training initiatives. The result was a 95% reduction in employee lost time injuries and a 98% reduction for contractors. In addition, average lost days from accidents fell from 84 a year to just four.

With 1.3bn people globally who have no access to electricity, connecting more communities and businesses to the grid and creating more capacity in the market provides a commercial opportunity for the energy companies in which we invest while also helping to improve living standards and employment prospects.
Combining local and global expertise is a key ingredient to success in our investments. While we work with management to implement international standards, our on-the-ground presence and local knowledge means that we understand the specific cultural challenges in our markets. In Guatemala, for example, it was clear that poor relationships with local stakeholders directly affected company performance as engineers were unable to read meters and were denied access to power lines requiring repair. The company put in place a Community Development unit, consisting of staff fluent in all 25 local dialects to communicate with customers and the local community. This significantly improved relationships in a country where linguistic diversity can present challenges for businesses. It also helped improve public safety awareness by establishing a comprehensive action plan involving hundreds of safety education visits, by staff at all levels of the organisation, to schools and local communities. As a result, Energuate not only improved its financial position but the trust built with local communities dramatically improved the reporting of faults and fallen lines. The response time for repairs fell from 14 hours in 2012 to just 29 minutes in 2014. Customer satisfaction also increased by over 100%.

We consider GME a role model in the industry as to how environmental and social standards are being embraced by top management and implemented throughout your organisation and projects.

Oana Raluca Craciun, April 2016
Senior Environmental Social Officer

FMO
Finance for Development

Overall, our approach is designed to create lasting value in the companies in which we invest. We believe that taking a holistic and systematic approach to responsible investing, set within a culture of continuous operational improvement, creates energy businesses with sustainable, profitable models that are valued highly when we come to exit and optimise returns for our investors.
Our extensive experience in emerging markets and deep sector knowledge means that we consistently implement best practice across our portfolio – we have an operationally focussed approach to ESG, as our investment in Eneo demonstrates.

When it comes to investing in electricity distribution companies in emerging markets, experience matters. The lessons Actis learned from our investments in Energuate (Guatemala) and Umeme (Uganda) meant that we not only spotted a compelling investment opportunity at Eneo (Cameroon) but we have a clear framework for how we can add value.

Here are two perspectives on how we are applying our distribution company experience to transform Eneo in Cameroon:

1. A top-down view from Adrian Mucalov and Ambika Srinivas in Actis’ Energy team
2. An on-the-ground perspective from Eneo’s Consultant Safety Specialist, Phil Ball

Adrian Mucalov
Director

Ambika Srinivas
Associate

Actis’ first priority at Eneo is to tackle safety issues. This focus on safety is vital for Actis, not only from an ethical point of view, but also because improvements made here are strongly linked to operational efficiency and financial value.

For a network to be operationally effective, it has to be run safely, with risks identified and managed. And a well-managed, operationally efficient business is clearly a more valuable one.

We firmly believe that setting the right tone from the very top of the organisation and strengthening governance is the starting point for raising safety standards and building a more valuable business. At Eneo, this meant improving the structure by strengthening the board of directors, recruiting a new CEO and CFO (both of whom are Cameroonian citizens with international experience), bringing in highly experienced non-executive directors and establishing key sub-committees, including ESG, audit, compliance and technical committees.

Our experience with Umeme meant that we knew which metrics should be the key indicators for tracking the company’s safety performance and the critical importance of tying these to management incentives. This ensures that safety is placed at the top of board meeting agendas and capital expenditure is directed towards maintenance, repair and replacement of poles, community education programmes and staff training.

We have also implemented financial incentives to influence the culture at Eneo. Through our role on the Board, we created a multi-year bonus scheme whereby top management will be rewarded for achieving certain safety targets. Additionally, in order to encourage participation in safety initiatives by all employees, Actis worked with senior management to include safety objectives as part of each employee’s annual performance review. In 2016, the first full year of these incentives, over 2,300 public safety talks were delivered by Eneo’s senior management team.

We also knew that, while this focus on safety had to come from the top, it also had to cascade through the organisation. This has resulted in a highly visible communication strategy that reaches all employees in the geographically diverse company.

Yet internal messaging and communications are just part of the answer. Experience with our other distribution companies meant we understood from the outset that trying to manage such a network centrally would be less than optimal. As a result, we have worked to de-centralise the business, empowering and incentivising regional and district managers to ensure safety targets are met. Autonomous local teams can now act quickly to ensure that the network is well maintained and that issues are addressed quickly.

Clearly, our work is still ongoing with Eneo. However, with an unwavering commitment from the top, a devolved management model that ensures local teams are accountable for, and rewarded for, improving the company’s safety record coupled with a proven systematic approach to identifying and managing risks, the business has already come a long way.
In many ways, the experience gained from working at Umeme provided a template for what we needed to do in the initial phases in Cameroon. Like Umeme, Eneo’s network spans vast areas of the country, much of it remote, rural and sometimes hard to access. Establishing call centres and emergency hotlines have been important initiatives for improving safety and repair response times.

Actis’ resolute commitment to improving public safety is at the core of our approach to Eneo. While school visits were a core component of the Umeme strategy, in Cameroon we have worked alongside the Ministry of Education to ensure that electricity safety is introduced onto the school curriculum – we know, for example, that children tend to come close to lines when they travel to school on foot and go out to collect water. They are also eager to share information they learned at school, such as the dangers associated with electricity, with parents and other family members.

Therefore our public safety initiatives at Eneo have been focused around producing 80,000 school posters, 850,000 flyers for schools, 150,000 community flyers and 50,000 school exercise books. We have also held community safety events, attended by around 800,000 people during 2016, led by local team members as well as senior staff, and this has been supported by partnerships with 45 local radio stations, where safety messages are delivered in local dialects to ensure they reach, and are well understood by, local populations.

And finally, investment in upgrading the network continues to be an important part of improving overall safety. In 2016 alone, we upgraded 68,000 poles and we have devised innovative solutions to the problem of rotting poles, such as putting in place shrinkable sleeves at the base of poles to dramatically increase their lifespan and reduce the number of trees felled.

We’ve seen through our experience with Umeme that the combination of investment, community engagement and a deep understanding of local issues works. That’s why we’re confident that a similar, but enhanced, version of the Actis approach to operationalising safety values will result in Eneo becoming a business that is not only managing risks effectively, but that is valuable both to potential buyers and the local population.
Actis Energy Impact Model (AEIM)

Actis has developed an Energy Impact Model to measure the impact Actis makes to building value across its assets. Established in 2011, the Actis Energy Impact Model assesses the value drivers in all our energy investments across six categories: Finance, People, Social/Community, Infrastructure, Environment and Governance. It helps us track and improve a company’s performance over time against these focus areas.

1. Governance
   - Board Effectiveness
   - Business Integrity

2. People
   - Health & Safety
   - Working Conditions

3. Social
   - Community Development
   - Stakeholder Engagement

4. Infrastructure
   - Reliability of Supply
   - O&M Performance

5. Environment
   - Water use
   - Environmental Incidents

6. Financial
   - Enterprise Value
   - CapEx/OpEx

| First Assessment | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
India is the fifth largest wind market in the world. Demand for power is forecast to grow at 5%-7% pa over the next decade as the Indian economy grows and growth revives. The country has a target of 100GW of solar and 60GW of wind assets by 2022. Ostro is an Indian renewable energy business; a best-in-class clean energy platform that delivers superior value sustainably and ethically.

Actis’ Responsible Investment team helped Ostro’s management recruit and install a Head of ESG to oversee environmental, social and governance issues and manage and mitigate any related risks.

Ostro experiences a range of ESG challenges endemic to India and other similar high growth markets, including lack of established standards on workers’ accommodation, labour conditions, access to safe drinking water and sanitation. To help management address these challenges, Actis’ RI team created a Labour Accommodation Standards Policy, based on international best practice. Crucially, Ostro ensures that this forms part of any agreement with contractors. The company also developed a Security/Human Rights Protocol in line with UN voluntary guidelines. Both of these policies mitigate risk whilst elevating standards at Ostro sites, helping to build a higher quality and more valuable company.

The evidence base for value creation is compelling, particularly in relation to health and safety. From March 2015- April 2016, workers undertook 2,120 hours of safety training hours - 301 hazards were identified and corrected. Ostro has also directly contributed to the creation of over 1500 jobs for Indian workers during the construction phase of its projects.

With these projects comes an opportunity to have a positive impact on local communities.

For example: Rajasthan is India’s largest state and also one of the driest. Access to drinking water is a major challenge for many rural villagers. This is compounded by the fact that the groundwater in Rajasthan has naturally-occurring high fluoride content. This is causing widespread fluorosis (fluoride poisoning) across the state, which manifests in dental and skeletal problems, joint immobility and can stunt children’s growth.

The ESG sub-committee agreed to direct some of the community investment budget towards safe drinking water. In addition to constructing water tanks an altogether more modern and innovative solution was formulated: a solar powered water dispensing ATM. The ATMs run 24/7 and use reverse osmosis and UV to purify water. The ATM is cloud connected, enabling Ostro’s Head of ESG to remotely track volume of water dispensed, number of families using the machine and pay per use transaction. Families are given a top up card to access clean water for a small amount of money. To date, Ostro has successfully supported 8 village communities, 650 families have used the water dispenser and 240,000 L of treated, safe drinking water has been dispensed.

Feedback has included:
- “The water unit gave me big relief from Muscle pains - my gratitude to OSTRO” said by Mr. Savarappa from Rallapalli village of Raila project
- “I used to drink muddy water and it caused sickness but now I am very happy to drink clean water, thanks to OSTRO” said by Mr Narayanareddy from Vysapuram village of Nimbhagallu project

Ostro has directly contributed to 1,500 jobs for Indian workers

650 families have used the water dispenser and 240,000 L of treated, safe drinking water has been dispensed.
Atlantic Energias Renováveis S.A.

Atlantic Energias Renováveis S.A. (Atlantic) is a renewable energy company headquartered in Curitiba in southern Brazil. Founded in 2009, it develops, implements and operates power projects from renewable sources, with a focus on wind farms.

Brazil is Latin America’s largest energy market with strong fundamentals for renewable energy growth. Responding to this, the government established a supportive regulatory framework that makes investment in renewable energy very attractive.

Wind energy feeds into the country’s vast existing hydro-thermal interconnected grid that stretches across the country, connecting remote projects to large demand centres such as Sao Paulo, Rio de Janeiro and Belo Horizonte. The operation of hydroelectric plants in Brazil depends on the hydrological regime, which is subject to significant seasonal fluctuations and which currently faces low levels of storage. Hydropower accounts for two thirds of the country’s energy generation and poses a challenge for grid stabilization. Usually, wind and hydro in Brazil are highly complementary due to the fact that winds are stronger during the dry season.

When Actis invested in 2013, Atlantic was technically and financially overstretched and projects were delayed. We provided much needed capital, governance and managerial skills to turn the company around, into what has become widely recognized as a world-class owner, developer and operator of renewable energy assets.

We convened a Board that incorporated experienced non-executive directors with complementary skills, established a clear business plan and brought together a cadre of senior project management, tax, legal and financial acumen. All 220 MW of contracted projects became operational just one year after we acquired the company. The key to our success has been our careful, methodical ESG approach to project development, building a scale sustainable business.

The key to our success has been our careful, methodical approach to project development, sustainably building a scale business.

Atlantic regards sustainable development as an integral part of its strategy. Sound governance is the foundation of every aspect of Atlantic’s health and safety practices as well as its environmental and social activities.

Sound governance is the foundation of every aspect of Atlantic’s health and safety practices as well as its environmental and social activities.

Beyond simple adherence to local laws, Atlantic recognises the strong business case for developing and fairly rewarding employees for their performance. Our standards are extended to all our contractors and their subcontractors, ensuring the provision of quality working conditions. The company introduced a company-wide balanced scorecard system and an incentive scheme for management. Atlantic also provides specialised training programmes to fill identified capacity gaps and provides financial assistance to employees to fund higher education.

Atlantic also believes in playing an active role in the communities in which it operates. In 2014 the company commenced sponsorship of the Joao Paulo II Child Care Centre for disadvantaged children; an example that we hope will stimulate other businesses with whom we engage to follow suit. We fully sponsor one child per employee every year and our employees spend time with the children, teaching them about sustainability and renewable energy.

Atlantic is considered ‘a jewel’ in a highly competitive sector with a reputation for delivering on promises.

Actis appointed a new CEO in January 2015 and subsequently Atlantic has progressed on many fronts, achieving 330 MW fully operational with 130 MW under construction and another 200 MW contracted pipeline, most of which are adjacent to our existing facilities.

In the words of a leading European investment bank, Atlantic is considered ‘a jewel’ in a highly competitive sector with a reputation for delivering on promises.
Real estate
Our approach: Real Estate

David Morley
Head, Real Estate

Cities in Africa will see major change over the next three decades. Currently, around 500 million people live in Africa’s cities – or 40% of the continent – but that is on track to hit 1.3 billion by 2050. Africa is in the midst of rapid urbanisation.

In sub-Saharan Africa, city populations are expanding at a compound annual growth rate of 4%, compared to 0.2% in Europe, and there is a shortage of high-quality real estate due to historic under-investment. This means huge potential for developers.

Our strategy is to invest in distinctive and high-quality schemes in growing African countries with a scarcity of ‘grade A’ real estate. We achieve this by using expertise from developed real estate markets. This enables us to develop projects with strong green credentials, which are attractive to local and international buyers.

Current schemes include the $540m mixed-use Garden City project in Nairobi, Kenya; Twin Lakes Mall in Lagos, Nigeria; and the office-led One Airport Square in Accra, Ghana.

We have embedded responsible investing principles throughout these schemes. The first way we do this is by developing to international environmental standards. This has helped us to reduce energy and water use by 30%, which cuts running costs.

These projects also command higher rents. Our tenants, including multinationals, have sustainability targets to meet; and both they and investors will pay more for buildings that are future-proofed and resilient. In short, it makes business sense.

And it has enabled us to develop pioneering projects: Garden City is the first LEED-certified mall in Kenya; and Heritage Place in Lagos is Nigeria’s first LEED building. These are just two examples.

A second major part of our approach to responsible real estate investing has been installing on-site solar as standard. Again, this helps to cut energy costs, while also reducing projects’ reliance on both the grid and on polluting diesel generators.

And third, we focus on the social benefits of schemes. Our projects bring a host of benefits to local communities while offering services to the fast-growing middle class. Key benefits include creating jobs during construction and operation; supporting the local supply chain; and promoting small businesses. We track all of these initiatives.

One great example of this is our work at Accra Mall. As well as delivering jobs and supporting the supply chain, this project attracted investment to the surrounding area; boosted activity in the retail sector; and provided people with better and more affordable goods. We have also supported tenants by providing customer service training, and advised suppliers on ways to meet standards and manage their stock.

There is large growth potential for developing retail schemes in sub-Saharan Africa: the region has 500,000 sq m of shopping centres, compared to 21 million sq m in South Africa alone. Meanwhile, there is 2 million sq m of commercial office space in sub-Saharan Africa, compared to 15 million sq m in South Africa.

Investing responsibly enables us to support communities, developers, investors and occupiers. Our approach can play a vital role in the evolution of Africa’s sustainable mega-cities of the future.

Actis stewardship in green buildings

1. One Airport Square, Ghana
   - First green-rated building in Ghana and West Africa
   - ~30% reduction in energy use
   - Actis played a critical role in the creation of the Ghana Green Building Council

2. The Exchange, Ghana
   - IFC Edge Certified – 30% less energy, 25% less water

3. Heritage Place, Nigeria
   - First commercial building in Nigeria to achieve LEED certification in both design and construction
   - 30–40% reduction in energy use

4. Garden City, Kenya
   - First LEED certified retail mall in E Africa
   - 50% water saving and 30% energy saving
   - First Green Star certified development in East Africa
   - One of Africa’s largest solar panel covered car parks (generate 1200 MWh/yr)
   - 70% of construction material sourced locally
   - Awarded Kenya Vision 2030 Status
   - Actis invited to join Kenya Green Building Council Board
Commercial Case for Green Buildings

Owner

"Why would I want to own this green building?"

Increased occupancy rates
Slower depreciation
Lower exit yield

Developer

"Why would I want to build this green building?"

Source: Adapted from World Green Building Council

Tenant

"Why would I want to lease this green building?"

Higher rental and sales prices
Increased market value
Lower design and construction costs
Quicker sales
Rapid return on investment
Reduced vacancies
Lower refurbishment costs
Corporate image and prestige value
Compliance with legislation and CSR requirements
Lower transaction fees
Reduced downtime
Lower operating costs
Health and well-being
Increased productivity

Tenant

"Why would I want to lease this green building?"

Source: Adapted from World Green Building Council
Garden City

Garden City is a $500m mixed use, greenfield development comprising retail, leisure, office and residential segments. The site provided Actis with an opportunity to create an innovative, ambitious development; one that would embody the principles of urban sustainability and become a destination of choice for people from all over Nairobi. Uniquely, it has a public open space at its heart. Other developers regard green space as a waste of money; Actis see it as adding value.

While many of the low-carbon initiatives/technologies incorporated at Garden City may not be considered innovative in a developed market, in contrast, in a growth markets context, in 2011, this was undoubtedly a truly pioneering scheme. Garden City provides solid proof that developed market sustainability principles are transferrable to growth markets. Not only are they feasible in growth markets, they are highly desirable, scalable and financially astute.

From the project’s outset, we adopted a ‘green by design’ approach, which incorporated environmental measures under the LEED (Leadership in Energy and Environmental Design) Sustainability Principles.

The first step involved the creation of a master plan, which set aside over 10% of the land parcel for public open space. The second step focused on maximising natural light and ventilation throughout the building frame, reducing the need for full air conditioning. The final step involved turning the roof of the shopping mall car park into Africa’s largest solar PV car port. As well as providing shade, the 3,300 solar panels generate approximately 1,250 MWh per year, and cut carbon emissions by around 750 tonnes per year. The system has delivered a 30% energy saving that reduces energy bills for tenants and ensures consistency of supply. In addition, 15% of the building materials comprised recycled content and materials were purchased locally where possible, with approximately 60% of construction materials sourced domestically.

Actis also worked in partnership with a local NGO (Maji Na Ufanisi), to address the four key development needs of local communities: water and sanitation; education; safety and security; and vocational skills.

Garden City Mall officially opened in September 2015. With 33,500 sqm of retail space across three floors, it is home to over 120 stores, offering a range of international and the best Kenyan brands. It has three acres of landscaped green space; with extensive planting of indigenous trees and gardens designed for families to enjoy, incorporating play fountains, a playground and an art installation.

Development of the next stage in Garden City’s evolution is now underway; a residential component, comprising a mix of townhouses and apartments, taking place in three phases. In common with other Actis projects, Garden City’s residential phase has sustainability at its core. The properties employ water-efficient sanitation facilities delivering a saving of 50% – of vital importance in the Nairobi area, where the regional environmental priority is water security.

Phase 1 of the real estate component has achieved Green Star certification; the first project certified for Kenya and the entire East African region. It is also the first residential project in Africa certified outside of South Africa and Actis was invited onto the Kenya Green Building Council Board.

Actis’ sustainability credentials were further recognized in 2016 when Garden City was shortlisted for the Financial Times and IFC, Transformational Business Awards.
Transformational impact of real estate

- Mixed use real estate developments not only have a positive impact on tenant businesses but they also attract new business into surrounding areas. These dual effects strengthen economies leading to economic growth and a rising tax base.
- Sourcing goods and services locally encourages the growth and development of SMEs to participate in value chains.
- Actis developments provide an integrated accessible venue fostering community inclusivity; given the diverse retail options available at such developments, they are able to attract people across all demographics and these interactions are beneficial for all.

- As well as creating jobs, best practice skills are transferred to local populations and construction standards raised. A significant proportion of jobs go to a younger lower skilled populations that might otherwise not have found an entry level job, and that such jobs allow them to get skills to transition to even better, higher paying jobs.

- When businesses grow and formalize they increase the tax base, both directly (their own tax payments) and indirectly (tax payments by businesses in their value chain, or businesses supported by their employees.) In the case of mixed use retail developments these impacts are generated during development (primarily through the construction sector), and during operation (primarily through the retail sector). The developments have also been shown to have spill-over effects on the broader regional economy by attracting new businesses and investors to the region.
Addressing the Skills Gap
Garden City Technical Training Centre

Kenya’s construction industry output has risen on average 13% year on year since 2014. There is an estimated gap of about 30,000 engineers, 90,000 technicians and 400,000 artisans, with the shortage of mid-level technicians and artisans hampering the country’s economic growth prospects.

At the same time, Kenya is experiencing high youth unemployment; 80% of those unemployed are below the age of 30.

As a prominent Real Estate investor, Actis sought to contribute towards the growth and quality of the construction industry, helping bridge the skills gap by partnering with ArcSkills to offer internationally accredited training to 300 young people selected from different community-based organizations in the informal settlements around the Garden City Mall in Nairobi. The mode of training is practical and modular, with the entire training taking place on live construction sites.

Pictures below are from the graduation ceremony for the first 130 participants in the scheme.

I am grateful to Actis and Arc Skills for granting me this training opportunity. I have learnt a great deal and now I can offer quality work for my employer. I also feel like I am at a place of higher advantage of securing jobs because I am now a certified artisan. This training has opened my eyes to new possibilities and I hope to further my education and make my dreams a reality.

Kevin Ombogo, a beneficiary of the training

Results So Far
- 46% in employment after graduation
- 89% pass rate of exam
- 41% had no prior employment history
- 38% female
- 130 students have completed training to date

Lilian Ashioya, graduate of the training program
Torbjorn Caesar and Shami Nissan of Actis
Graduates of the programme on site at Garden City
Awards and recognition

Winner: Asia, large-cap category

Three time winner of PEI African firm of the year award

FT / IFC transformational business awards 2016:
Garden City in Nairobi


GP & Advisor Awards 2016

Winner

Awarded A grades across the board

Winner: Most Influential Investor in Real Estate in Nigeria

Infrastructures Investor Awards 2016

Fund Manager of the year
Africa

Infrastructures Investor Awards 2016

Deal of the year
Africa
For more information, please contact:

Shami Nissan  
Head of Responsible Investment  
2 More London Riverside  
London  
SE1 2JT  
United Kingdom  
T +44 (0) 20 7234 5083  
M +44 (0) 791 781 8652  
snissan@act.is

James Magor  
Manager, Responsible Investment  
2 More London Riverside  
London  
SE1 2JT  
United Kingdom  
T +44 (0) 20 7234 5114  
M +44 (0) 7876 258 739  
jmagor@act.is

Actis office  
Countries in which Actis has invested since 1998  
Other Actis target markets since 1998