

Actis SFDR FAQs

What is the sustainable finance disclosure regulation?

It is a European Union law which implements part of the European Commission's 2018 action plan for financing sustainable growth. The action plan proposed a law to require EU institutional investors and asset managers to integrate sustainability considerations in their investment decision-making process. It also proposed that the law increases transparency towards end-investors on how asset managers integrate such sustainability factors in their investment decisions, in particular as concerns their exposure to sustainability risk. This has resulted in the European Union Sustainable Finance Disclosure Regulation ("SFDR").

Who does SFDR apply to?

SFDR applies to European Union retail fund managers, institutional fund managers, insurers, pension scheme managers and banks providing investment management services.

It also applies to financial service providers based outside of the European Union when providing services into the EU. The coverage of SFDR is extremely wide. It is a single regime covering traditional listed equities, fixed income, infrastructure, real estate, private equity and other asset classes.

Which Actis funds and entities are covered by SFDR?

SFDR applies to Actis funds marketed to investors based in the European Union from 10 March 2021. These funds consist of English partnerships (through which EU investors do not invest), and since 1 January 2021, parallel Luxembourg partnerships through which EU investors do invest. Actis funds are marketed and distributed to EU investors through the [Carne Group](#) in Luxembourg (and this arrangement is colloquially referred to in the market as a rent an AIFM option). As a result, a number of SFDR obligations apply to Carne as manager of the parallel Luxembourg partnerships. SFDR does not apply to Actis GP LLP directly because the UK has chosen not to implement SFDR domestically (at least not yet).

SFDR fund marketing obligations do not apply to Actis funds whose marketing ceased before 10 March 2021 or which are marketed after 10 March 2021 but not to EU investors.

How are funds classified under SFDR?

SFDR requires investment fund managers marketing funds to European Union investors from 10 March 2021 to include disclosures about environmental and social sustainability and the way in which sustainability is integrated in asset managers' decision-making processes. SFDR requires fund managers to categorise their funds as falling under one of three categories and to explain the category used in the marketing material for the fund. There are prescriptive legal requirements for each category which we have summarised in very broad terms below:

- *Article 9 funds:* the core focus of these funds is to make sustainable investments
- *Article 8 funds:* these funds promote environmental and/or social characteristics and the companies they invest in follow good governance practices including with respect to the oversight and management of those characteristics
- *Other funds:* they comply with minimum SFDR requirements

How are Actis funds classified under SFDR?

The private placement memorandum ("PPM") for each Actis fund marketed to European Union investors from 10 March 2021 onwards explains how Actis has classified that fund. Details are also available on the Carne [website](#).

As a responsible investor, Actis believes that all of its funds promote environmental and social characteristics in addition to placing good governance practices at the core of its investment decision making process, from origination to exit. This is in line with Actis' belief that "values drive value" and reflects Actis' approach to investment as summarised in Actis' Responsible Investment and Sustainability Policy.

How does SFDR fit in with Actis' focus on responsible investment?

SFDR is designed to accommodate many asset classes. As a private equity investor, Actis typically takes a significant stake in portfolio companies. Actis' approach to responsible investment reflects the role it can play as a significant minority or majority investor, a role not available to many investment managers. Actis welcomes increased transparency about how sustainability factors are integrated into investment decision making.

If Actis classifies its funds as Article 8 and or Article 9 funds, does this mean they prioritise environmental and social issues above financial returns?

No. Actis believes "Values drive value". We have never seen a compromise between responsible investing and delivering competitive returns. Our experience is that investing responsibly creates businesses that are more resilient, more innovative and better able to deliver societal benefits – and are, ultimately, more valuable.

In due course once clearer regulatory and industry guidance has been developed, further consideration will be given as to whether it is appropriate to classify Actis' Funds as coming under Article 9.

Does Actis take into account the principal adverse impacts of its investment decisions on sustainability factors?

Article 4 of SFDR requires fund managers to make a clear statement as to whether or not they consider "principal adverse impacts". We expect that fund managers who confirm they do consider principal adverse impacts will be required to make an annual disclosure against a mandatory list of adverse sustainability indicators set out in European Union legislation. That list has yet to be finalised. In addition, we expect fund managers opting into this provision will be required to obtain a set of data mandated by European Union legislation to generate this disclosure. Again, this data has yet to be finalised. At present, Actis is not in a position to conclude on whether it takes into account "principal adverse impacts". Once the mandatory sustainability indicators and required data have been published we will review our position and in the meantime will be closely monitoring developments in the guidance published.

Are you expecting any more legal developments in this area?

Yes. The European Commission has already announced a proposed update to the SFDR regime, expected to come into force in 2022. The EU Taxonomy Regulation, which sets standards for funds and other financial products which pursue environmentally sustainable objectives, is also due to take effect in 2022. The UK has indicated it will impose rules on asset managers based on the Taskforce on Climate-Related Financial Disclosures. Actis GP LLP currently expects to become subject to these rules and will have to comply with them from 2023.

Actis has published this FAQ document in order to help investors understand the background to SFDR and Actis' approach to SFDR disclosures. If you have any further questions please do not hesitate to contact your regular contact at Actis or our Compliance Department on Compliance@act.is

This FAQ is provided for information only. Investors should seek their own legal and ESG advice as appropriate.