

COVID-19

# The Street View

Actis Macro Forum

April 2020



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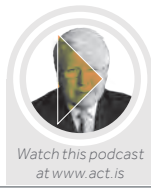
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# Street view or "View of the street"?

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**Welcome to this special edition of The Street View. Given global circumstances with many of our markets in varying degrees of lockdown, this edition provides both the "street view" and "a view of the street".**

Despite these challenging times, there has been no lockdown in our activity set at Actis and, just as importantly, our portfolio companies are working hard to deal with challenges in the current environment. In this edition we highlight results from Actis surveys of our portfolio companies undertaken by Ed Williams and David Kunzmann, from the Private Equity Value Creation Group. The good news is that preparedness is high and that Actis is supporting portfolio companies and management teams to battle with unprecedented challenges. The not-so-good news is that the majority of those surveyed see this as a multi quarter crisis. Only time will tell.

This global disaster is playing out in different ways and speeds across our world. No one should doubt that this is a human tragedy of epic proportion, one which falls hardest on the poor and disadvantaged. We do not lose sight of this point and it is encouraging to see the emphasis on managing through this crisis placed by Governments, multilateral agencies, corporate leadership and Actis professionals everywhere. In a series of "Street views" and "Views of the street" - some at ground level, some

from apartment windows - colleagues from Mexico City to Nairobi to Seoul share what is happening on the ground in their countries. Thanks to all of them for these insights and to Shami Nissan our Head of Responsible Investing for her insights on our concerted efforts to focus and innovate with a strong emphasis on the human dimension in this time of crisis.

Of course the human tragedy is reinforced by stark economic reality. No one should doubt that the crisis requires mobilisation of capital to support economies and their people. Multilateral agencies are playing a big part here alongside Government intervention in fiscal and monetary space. Portfolio capital has fled at the margin which exacerbates financial pressure in these economies. I look at the incentives and realities for portfolio flows in a reprint of an article - "Emerging Markets and COVID-19". I also take a brief dive into our fair value currency model to explain some of the workings and philosophy we employ to assess this key area of risk.

**We are attempting as ever not to be just another "Wall Street" view, but to give you a unique ground floor view of this crisis. No one is complacent about the current challenges but equally we remain attuned to potential opportunities and obligations - whether they be support on a human level or investment opportunities that emerge. We will be bringing you further updates including past and present experience on the front line of global investing and stewardship.**

In the meantime, from all at Actis to you and your families, please keep safe and well and keep in touch.







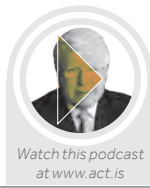


# Emerging Markets and COVID-19: Crisis or opportunity...or both?

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Do reserve losses, foreign exchange depreciation and recessions in Emerging Markets mean that investors should exclusively focus on developed markets for investments in a post-COVID-19 world?

No one denies that Emerging Markets have their drawbacks. Very few of them run a current account surplus other than when in recession; even China is now in deficit, meaning that economic growth and financial stability largely depend on foreign capital inflows. No one denies that the current crisis is enormous. Yet hold on before "emptying the baby out with the COVID-19 bath water"!

Twenty years back these flows were led by foreign direct investment, traditionally seen as stable capital with limited volatility. Opening up of financial systems and more liberal foreign exchange regimes post the 1994-2001 Emerging Markets crisis mean that today, more than 80% of cross border flows to Emerging Markets come in the form of portfolio capital and migrant remittances.

In general in Emerging Markets<sup>1</sup>, foreigners can own most of the debt in an Emerging Markets country<sup>2</sup>. This makes the recipient country vulnerable to a sudden stop of capital flow. Estimated outflows in 2020 to mid-March from Emerging Markets countries are over \$60 billion, an amount and pace which dwarves that of 2008 (Exhibits 1 and 2).

Prior to 2001 such flows saw destabilising currency dynamics under currency regimes fixed or pegged to the dollar.

Exhibit 1: The direction of Emerging Markets net outflows is ominous

IIF daily tracker of real money flows to Emerging Markets, in \$ mn (centred 6 week moving average)

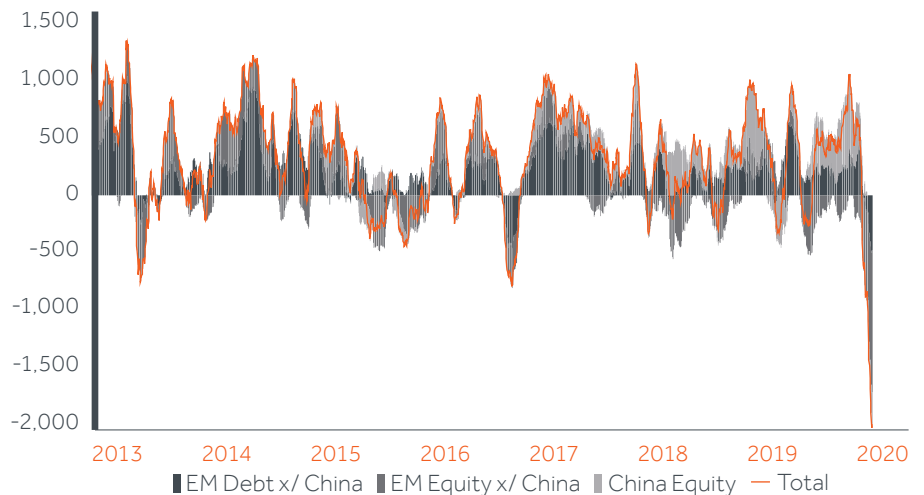
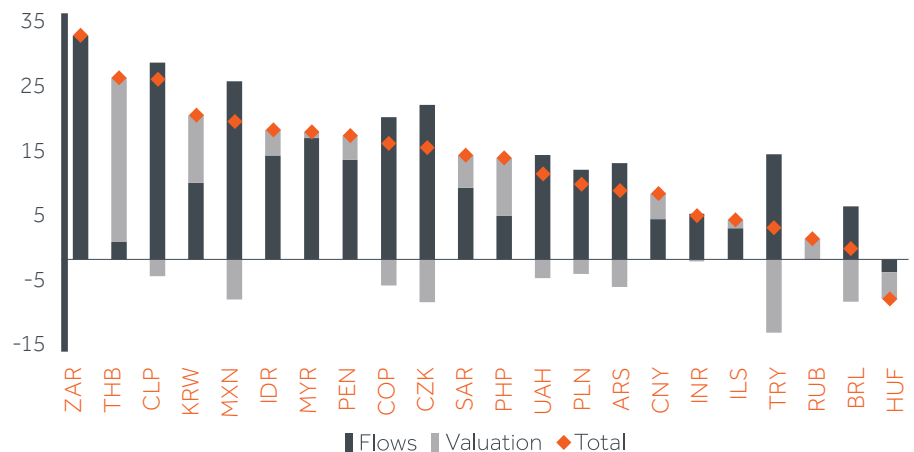


Exhibit 2: Estimated change in foreign investor portfolio position in stocks and bonds from 2010-2019, in % GDP



Source: Haver, IIF

Since then, FX reserves have been rebuilt and more flexible exchange rate systems introduced. Pegs do still exist, but the vast majority are in already dollarised countries, either trade based economies like Hong Kong or resource-based economies such as Saudi Arabia. Hence, while currencies do plunge, the impact of capital flight on domestic banking systems is manageable, albeit painful, where fiscal deposits form a material portion of banking system liabilities.

Emerging Markets are not one size fits all, even though during sell offs it feels that way. We would broadly divide them

into resource and non-resource driven economies. Brazil, Chile and South Africa fall into the first group whilst China, Korea, India and Turkey are in the second. Some fall into both categories-Mexico for instance-but currency movements do seem to reflect the greater rebalancing risks of resource economies.

**The single most important issue today in Emerging Markets is how that re-balancing works. And the message is clear - recessions and currency declines have provided good risk-adjusted return opportunities for foreign investors.**

<sup>1</sup> China is a significant exception

<sup>2</sup> In passing it is worth noting that the same is true for the UK where more than 40% of gilts are foreign owned

There is no systematic relationship between immediately observed economic fundamentals and hard currency returns.

'...Over the period 1900-2011 the quintile of countries with the hitherto weakest currencies produced materially better returns in dollars than countries with strong currencies...'

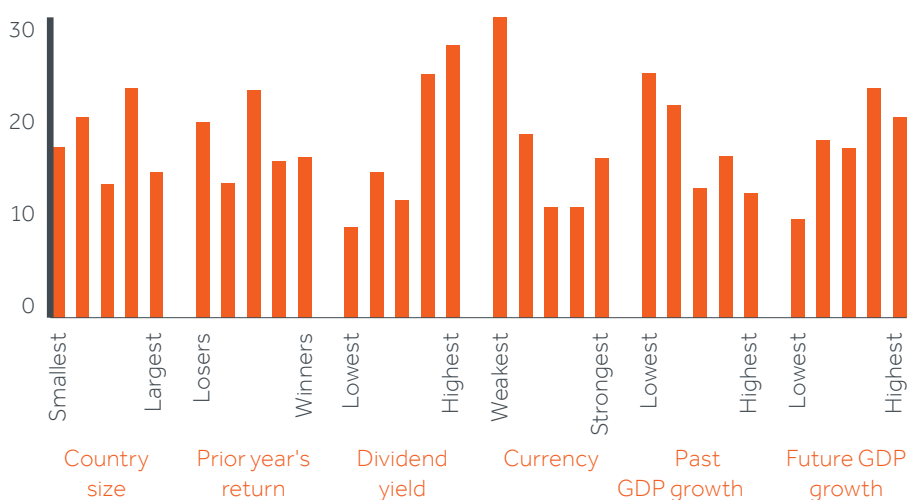
*Dimson et al reported in Financial Times 2012*

'...History suggests that over the long-term exchange rate movements largely reflect-and cancel out-the impact of inflation. Exposure to exchange rate fluctuations should therefore not dissuade investors from holding Emerging Markets assets...'

*Dimson, Marsh and Staunton Credit Suisse Investment Returns Year Book 2019*

Exhibit 3: Rotation strategies within developing markets (1976-2013)

Annualised returns (%)



Source: Credit Suisse Investment Returns Yearbook 2014

We have all heard the claim that Emerging Markets investing is first, second and third an FX decision. But one must pay attention to past lessons to benefit from future opportunities.

This reflects valuation arguments (e.g. UK asset valuations after Brexit) and the position in the monetary cycle where weak currency drives tightened domestic monetary conditions, putting downward pressure on local currency asset values. Heavily sold currencies and depressed domestic economies allow two "bites of the cherry" for foreign investors.

The best major Emerging Markets stock market over the period 1993-2018 was Brazil at 11% pa, yet China returns were only middling at 5.1% over the same period despite superior growth and lower inflation. A one-dimensional strategy driven around GDP growth and sound investment decision making make for sub-optimal performance.

The above 2014 analysis from Dimson et al (Exhibit 3) in fact shows no connection between currency and subsequent returns, indeed it suggests that the best returns come after a currency drawdown and a growth slowdown. This *sine qua non* is intuitive since a weak currency is accompanied by a reversal in flows, followed by tighter domestic monetary conditions.

So in a post COVID-19 world, all assets must be cheap...right?

The long term value of US equities has declined from the level shown in Exhibit 4 on this page, as have interest rates. If we assumed that there was a 20% drop in the Shiller Price-to-Equity metric, then it is currently around 30 times, which is hardly cheap by historic standards. Where "cheapness" exists in areas such as high yield or corporate debt or sub-sets of equities, it is accompanied by equally perilous cash flow dynamics in particular sectors like oil and gas, hospitality, transport and so on.

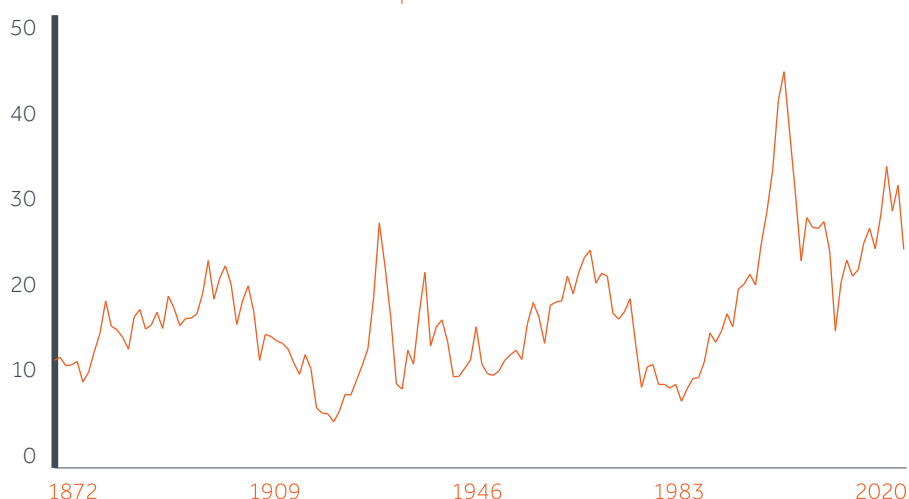
By contrast, Emerging Markets equities are now selling at or below book value. There are clearly vulnerabilities in Emerging Markets, particularly those where natural resources are a fiscal bedrock. Some countries - notably India - and Korea which are net importers of oil will benefit from materially lower oil prices. Equally, foreign investors dominate many Emerging Markets bond markets making amortisation and roll over uncertain in the near to medium term. The immediate sudden stop in world activity hampers trade so an Emerging Markets export or services led recovery on trade accounts is unlikely.

### Emerging Markets economies will not escape a brutal and rapid adjustment

Faced with these realities, two things are happening in Emerging Markets. Firstly, domestic demand is contracting sharply and secondly, currencies are falling because of outflows. Recessions across Emerging Markets are likely to ensue, further reducing fiscal take because indirect taxes in general are far more important than income-based tax given levels of per capita income. Exhibit 5 suggests there is little fiscal room to move for Emerging Markets Governments.

It is hard to escape the conclusion that 2020 will be a challenging moment for Emerging Markets' economies. Not only is growth under threat, but fiscal dynamics will be challenged by lower tax collections and in some cases reducing natural resource rents. Some Governments are going to face a protracted struggle to

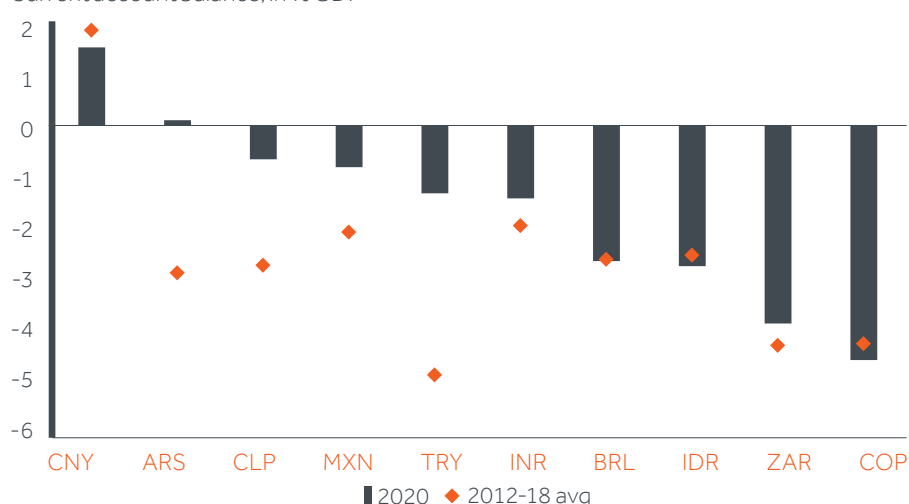
Exhibit 4: It isn't as if US assets are cheap



Source: Robert Shiller

Exhibit 5: Emerging Markets current account deficits are generally poor

Current account balance, in % GDP



Source: Haver, IIF

recover the gap generated by big fiscal deficits largely or partly financed by non-domestic flows.

### But there will likely be a wide open Emerging Markets "door"

It is likely that Governments will look to FDI to bridge fiscal holes. In an environment of tight domestic monetary conditions and reduced cross border flows, the buyers of these assets have considerable advantage. Equally as the private sector

becomes stressed by weak domestic demand, the private sector will be more open to foreign purchase of key assets. This was the case in Mexico post the 1994 peso devaluation, Asia after 1997-8, and Emerging Markets in general after 2008.

Weak currencies and economies have provided excellent subsequent returns for foreign investors. General economic conditions and fiscal balances are more volatile as an offset, so that in turn will require a lower price entry point to justify reward for risk.



## Some of this is already in the (Emerging Markets) price

Our argument based on historical evidence is that the best returns start from undervalued currencies and asset prices.

We can see from listed equities that Emerging Markets assets are cheaper than those of the US. How about currencies?

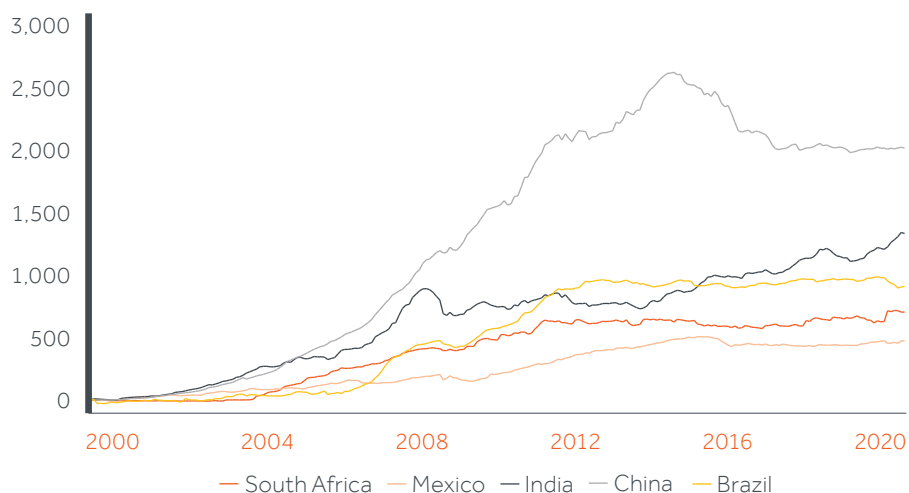
Actis generates a fair value model for major Emerging Markets currencies relative to the US dollar. The model looks at relative inflation differences in estimation of fair value. The concept of fair value can be elusive; you don't know that you are there until after you arrive, which means that only material deviations from trend are worth noting.

That said, the movements in 2020 are dramatic. In the initial stages of the COVID-19 collapse, resource heavy currencies such as the Mexican peso and South African rand were particularly weak as were those with fragile funding backdrops such as the Brazilian real and Turkish lira. More recently, wholesale deleveraging has also hurt currencies that benefit from lower oil prices such as the Indian rupee. Bearing in mind that COVID-19 is a deeply deflationary process, the vast majority of major Emerging Markets currencies are well below fair value and some face immediate devaluation pressures over and above the substantive depreciation to date (e.g. Nigerian naira).

Domestic recession, reduced trade with China and lower oil prices are creating a shortage of US dollars. The US trade deficit is almost entirely trade with China plus energy imports. A lower deficit means that fewer dollars are printed to finance these imports and leaves the rest of the world short of dollars.

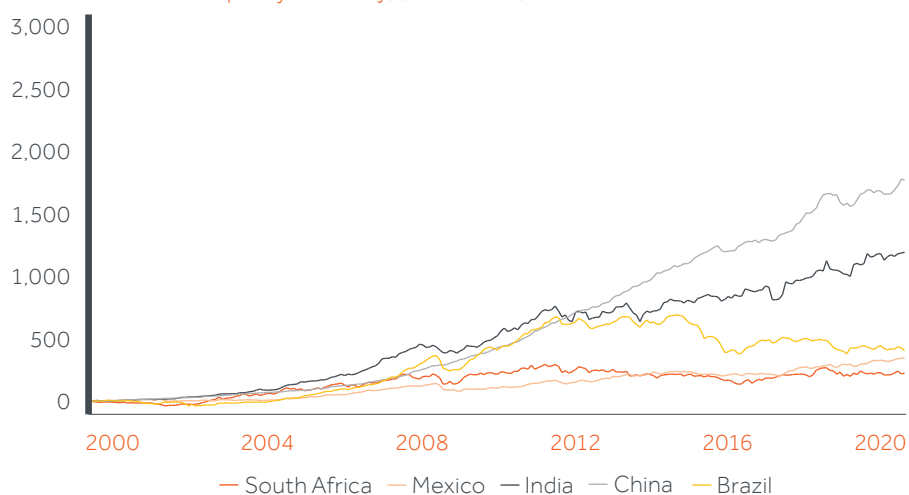
This will not last forever. Oil below \$40/bbl hits the US shale industry hard: cash flow break even levels are typically in the \$40/bbl plus range. Overseas receipts on the net international investment position also shrink as a result of a strong receiving currency. US exports will continue to be

Exhibit 6: FX reserves (2000 = 100)



Source: Cross Border Capital

Exhibit 7: Domestic liquidity stock Adj\$ (2000 = 100)



Source: Cross Border Capital

hampered by supply chain issues, even if these are only medium term. And finally, the major expansion of fiscal and monetary reserves through "pumped-up" QE and Fed swap lines supplies "unlimited" dollars to buyers.

The dominant risk to currency values is if the citizens of that country lose faith in the currency as a store of value. Under this circumstance - as Argentina, Venezuela and Zimbabwe have learnt so painfully - there is little way back. A swing from current account deficit to surplus reduces pressure on the exchange rate as demand for FX falls. Strong FX reserves and a

credible financial regime help this trend. Countries with strong domestic savings movements "mop-up" cheap local assets as foreigners sell out. The key though is that domestic holders of the currency do feel that the currency is a legitimate store of value, and low inflation rates help a lot in keeping this faith.

**Currencies do trend as the Actis FX Fair Value charts on page 8 suggest. Material deviations from the trend - either up or down - are threat or opportunity. Today - albeit with risk caveats - the balance is tipping towards opportunity.**

### Financial conditions matter

Lower currencies tighten domestic financial conditions. FX reserves tend to be utilised to roll over shorter term foreign currency liabilities. In turn the adjustment of trade accounts through plunging imports is particularly painful for resource economies and less so for trade-based countries. In time this is reflected in a trade off between asset pricing and volatility of financial conditions.

One piece of good news - for some of the larger Emerging Markets countries they enter the crisis period with strong foreign exchange reserves which allow them to sell FX and buy domestic currency thereby sustaining domestic liquidity for some time (see Exhibits 6 and 7). (FX reserves are of course simply a part of the balance sheet of the central bank which can use them to increase or decrease supply of local currency).

Equally this crisis begins with adequate stocks of domestic liquidity. These will be drawn down quickly as capital flows out. Better though to start in a healthy than a perilous position.

One worry-will countries introduce capital controls to try and trap foreign assets inside the country? This was attempted in 1997 by Malaysia and Slovenia. At the time the International Monetary Fund (IMF) frowned on these moves but in recent times the IMF seems to be mulling over the idea again. We doubt that this will happen other than in circumstances of extreme distress; for instance Turkey resisted this tactic in the devaluation crisis of 2018-19, reasoning that at a time when they needed to roll over debt and attract new capital, gating flows was hardly sensible. Our sense is that need makes countries more open to new flows - certainly this is the anecdotal evidence from China in recent months.

### So what of future Emerging Markets asset demand?

Global savings rates have been severely impacted by COVID-19 and globalisation has taken a huge blow. Savings schemes which discount future liabilities using bond proxies will see a material fall in funding ratios. 'Future-generation' funds sponsored by Governments will have experienced significant reductions in value if backed by natural resource-based cash flows, further hampering fiscal bail outs of the sort seen after the Arab Spring.

Leverage is proving to be a distinct negative and it is easy to conclude that US leveraged finance with little or no covenant backing is going to suffer a severe hit on asset values.

In this circumstance, the demand for long duration, stable cash flows closely linked to social stability will likely be material. This translates into demand for electrification and social infrastructure and these asset types will be at the top of a limited list of spending priorities. Buyers with dry powder will be in excellent positions. An absence of structured finance and applied leverage is an advantage as assets come with limited liabilities attached.

**COVID-19 is ravaging economies and savings as I write. Asset owners will struggle for a long time to recover lost ground. Taking the safe option is understandable whilst the tempest rages. "Getting back to land" as it abates takes skill and entails taking calculated risks. Happily, experience points the way to stable cash flows at low prices without excessive liabilities attached. Many of these will or should exist in the countries which make up 80% of world population and resources – that is the Emerging Markets.**





#### A personal note

The author has been investing in Emerging Markets and analysing them for over 30 years. He saw the "sugar rush" of the 1993 bull market being derailed by rising interest rates and tighter liquidity the following year. As a portfolio manager he recalls the gut wrenching shock of Mexico devaluing on December 20th 1994 which set off the rolling Emerging Markets crisis of the next 7 years. Along the way, he learned that

funding dynamics set prices more than a single issue. He watched on television as a major holding in Indonesia was "burnt to the ground" in 1998. He learnt over this period that recession and weak currency provided great opportunity and as a global asset allocator and director of investment strategy applied these lessons effectively in 2008-09. This time...

# Emerging Markets external financing landscape

Exhibit 1: Emerging Markets external debt

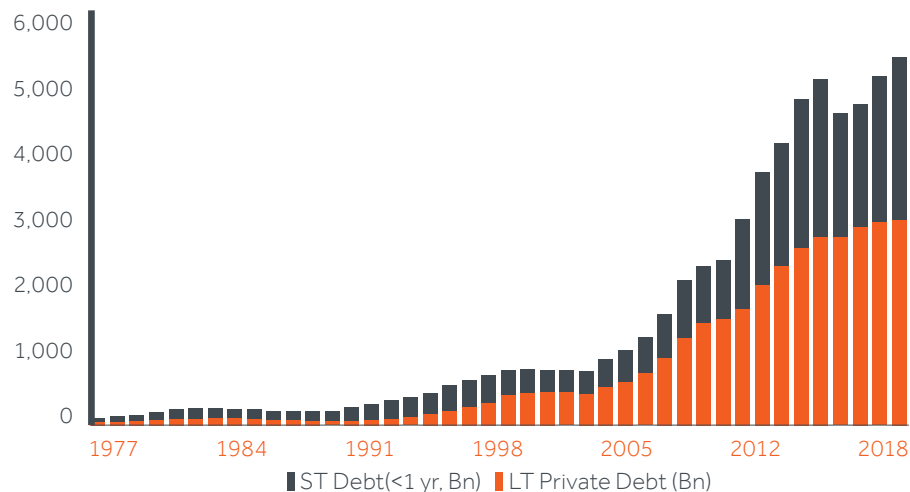


Exhibit 2: Percent of Emerging Markets external debt in US\$

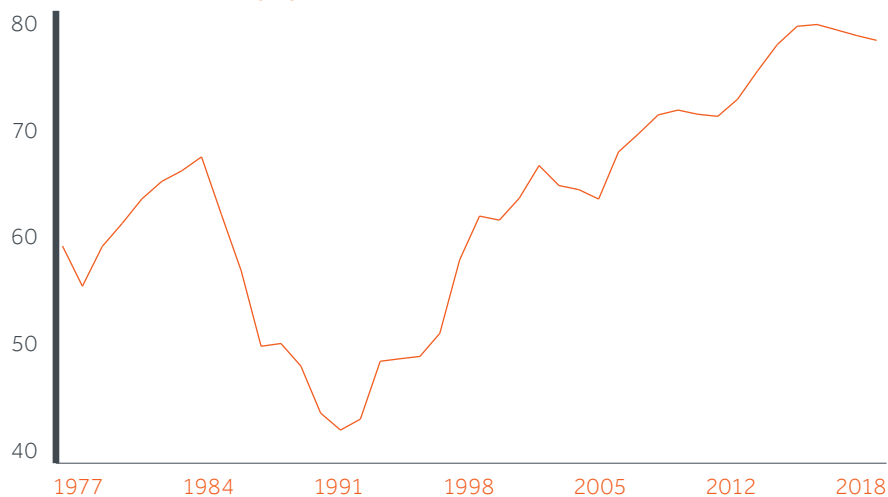
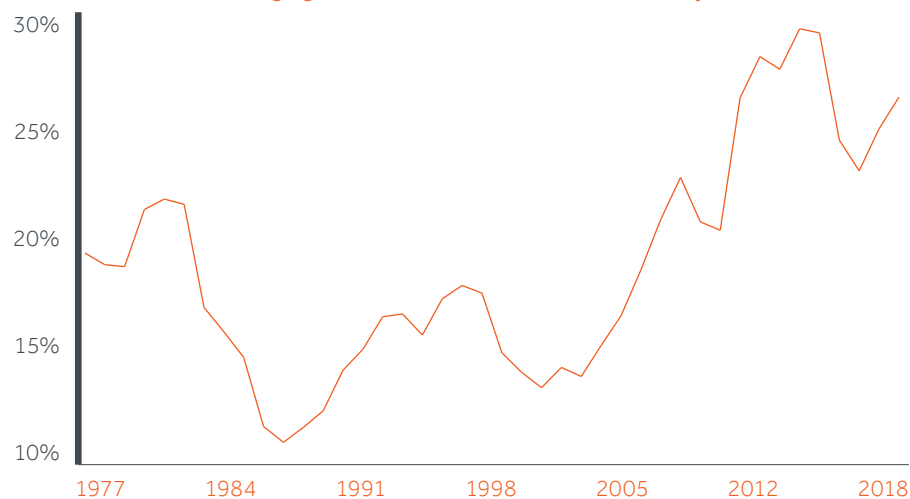


Exhibit 3: Percent of Emerging Markets external debt short-term (<1 year)



Source Cross Border Capital/IMF

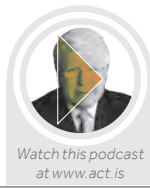


# Currencies and COVID-19

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**Currency plays a central role in global investing. Major trends over time influence portfolio outcomes both in terms of actual currency values and from the information embedded in local asset pricing. Currencies are like commodities - their prices reflect the laws of supply and demand. A currency is the price of the financial liquidity in the country of origin given that it is only Central Banks can issue fiat currencies.**

Nowhere is this truer than emerging markets. Hedging back to base currency is usually expensive or impractical. Emerging Market local currency bonds for instance are almost exclusively a bet on the local currency. Equities offer some diversification through the activities of the underlying companies but still reflect local currency conditions and liquidity.

Over time currencies trend. This reflects their attractiveness or otherwise as a source of value. Local investors hold domestic currency as a source of value and sell it when they lose confidence in the real purchasing power of their rupiah or lira or pesos. Foreign investors will make assessments based on the strength of the domestic financial system or their own intrinsic risk appetite. Such appetite waxes and wanes with global conditions. Thus, in a crisis, they sell more fringe foreign currency exposure and retreat towards "safer" currencies. If the domestic investor

in the country is unwilling to buy the local currency then values decline, financial conditions tighten and asset prices fall.

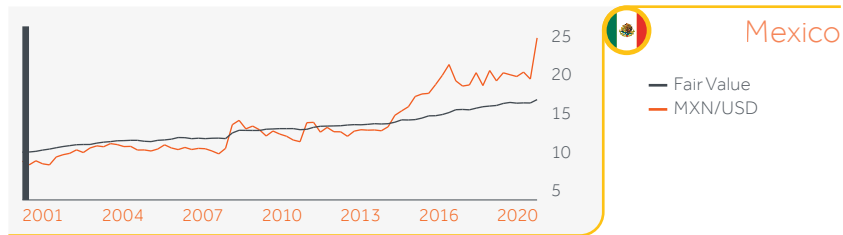
As a long-term investor, Actis has always acknowledged that currency trends can influence returns and the price and attractiveness of assets. The Actis 'Fair Value' currency model is designed to look at currency relative to the US dollar through the prism of relative terms of trade, inflation and productivity.

COVID-19 has led to sharp sell offs in floating Emerging Market currencies and consequential tighter liquidity. (As an aside this also works for fixed pegs where capital outflow is met by matched Central Bank intervention).

The enclosed graphs for major Emerging Market currencies point to a marked divergence between commodity exporters and importers. They also suggest that Emerging Market currencies have become undervalued in many cases (when the black line for fair value is significantly lower than the red line spot currency).

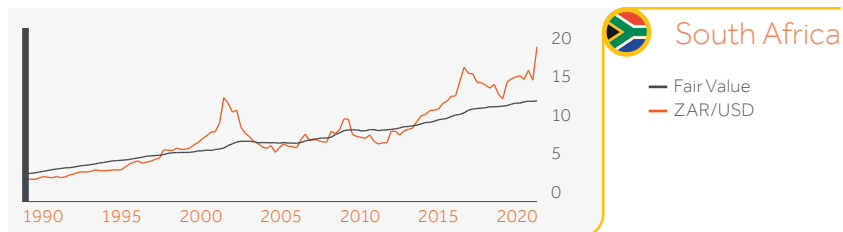
**This model is not designed as a short term trading model. Values can overshoot for long periods of time. Often the model shows no obvious signal. Acute weakness may lead to a loss of confidence in the currency by local investors meaning there is no obvious buyer (Turks and Argentines can identify with this today as did Zimbabweans and Venezuelans previously). But if the currency retains attraction for local investors and overshoots in the eyes of foreign investors, then the model suggests mean reversion can occur. This is where outsize gains can arise.**

# Actis FX Fair Value Model<sup>1</sup>



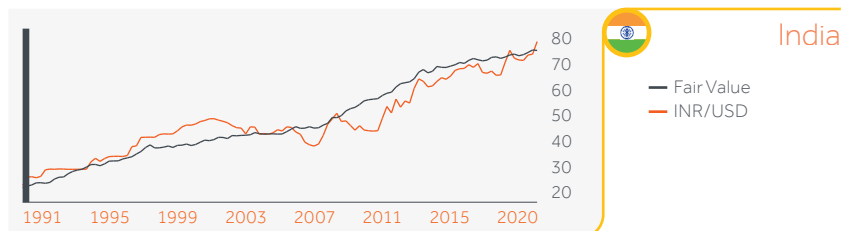
Mexico

— Fair Value  
— MXN/USD



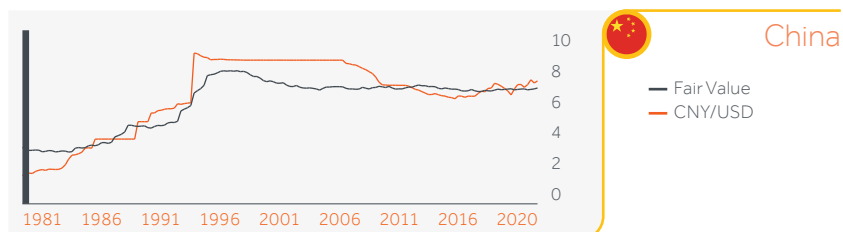
South Africa

— Fair Value  
— ZAR/USD



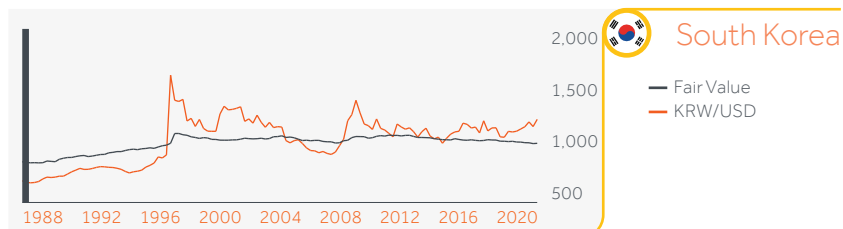
India

— Fair Value  
— INR/USD



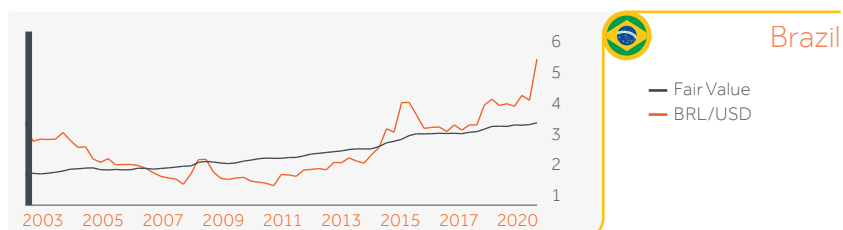
China

— Fair Value  
— CNY/USD



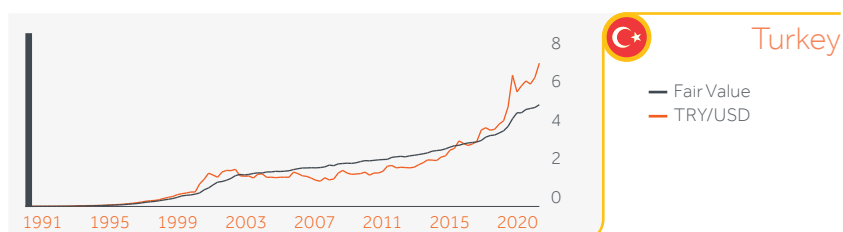
South Korea

— Fair Value  
— KRW/USD



Brazil

— Fair Value  
— BRL/USD



Turkey

— Fair Value  
— TRY/USD

<sup>1</sup> FX line above Fair Value line indicates currency is undervalued relative to Fair Value



# Actis asks: COVID-19 survey

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**Actis surveyed the senior leadership of its portfolio companies and its own professionals in early March 2020, and again six weeks later to understand what is top-of-mind regarding COVID-19.**

## Introduction

Actis is privileged to own almost 100 businesses across four different asset classes in 28 countries globally. Within our Private Equity business, we own four businesses in China, one of which is based in Wuhan itself. Through this unique network, we have been able to receive and to share early warning signals and best-practice responses in near real-time.

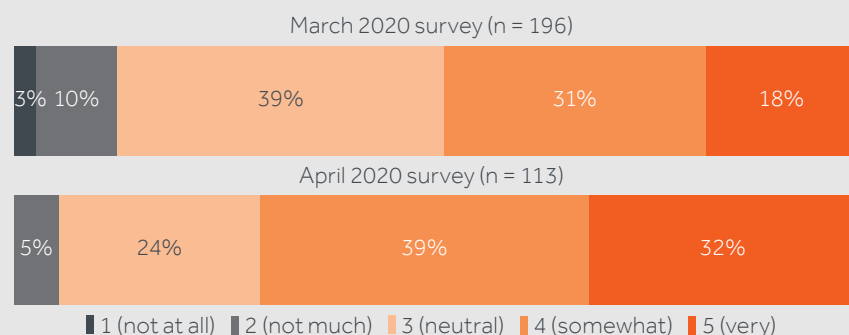
Between 26 February and 3 March, we ran a survey to gauge thoughts on the outbreak before it was assessed as a pandemic by the World Health Organisation on 11 March.

The survey showed that while concern levels were growing, more than half (51%) of respondents were either neutral or not concerned about the impact of COVID-19 on their businesses. While 30% of portfolio companies had a crisis management plan in place that was updated for COVID-19, 40% were either in the early stages of forming a plan or had no plan at that stage.

We re-ran the survey between 7 April and 15 April. Both the absolute findings, but also the shift in sentiment are worth highlighting.

## Growing concern about the COVID-19 impact

On a scale of 1 to 5 (1 = not at all concerned, 5 = very concerned), how concerned are you about the impact of COVID-19 on your business(es)?

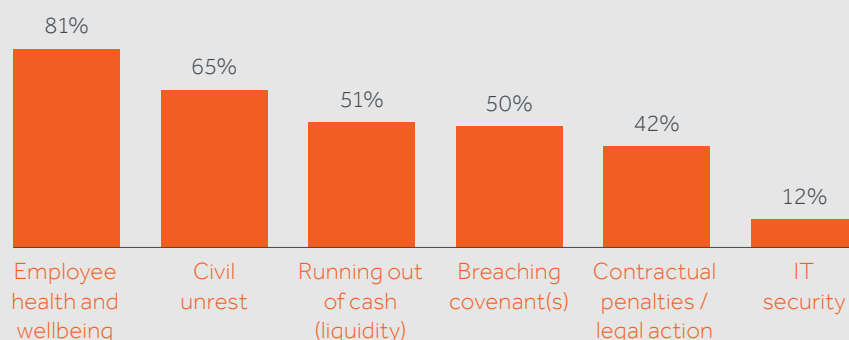


% of respondents

Source: Actis COVID-19 Surveys (March and April 2020)

**In the short term, employee health and wellbeing is the greatest concern, but civil unrest has emerged as a powerful theme**

Please rank your top-3 concerns in the short term (next 3-6 months)?



% of respondents selecting the issue as a top-3 concern (n = 113)

Source: Actis COVID-19 Survey (April 2020)

Understandably, there has been a marked increase in the level of concern around COVID-19. 71% of respondents are now "somewhat concerned" or "very concerned" about the impact of COVID-19 on their businesses, a view held consistently across all geographies and asset classes. Latin America has seen the greatest step-up in level of concern between our two surveys, from 25% being "concerned" or "very concerned" in March to 59% as of today.

81% of respondents rate Employee health and wellbeing among their top-3 concerns. This is followed by civil unrest (65% overall, highest in Sub-Saharan Africa (70%) and lowest in Asia (20%)) followed by running out of cash and breaching covenants (c.50%). IT security is a top-3 concern for just 12% of respondents.

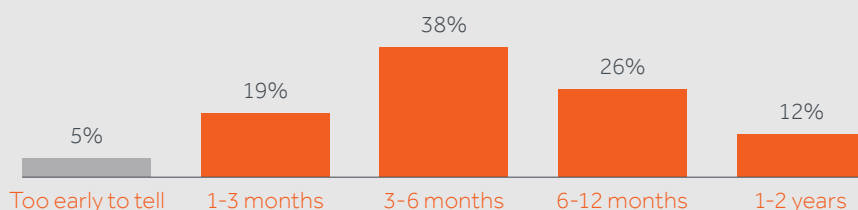
There is a wide distribution and no clear consensus around how long the current disruption will last. The most common response of "3-6 months" is shared by 38% of respondents. "1-3 months" (19% of respondents) and a duration of anything from 6 months to 2 years (38% of respondents) account for the remaining bulk of views. Only 5% of respondents consider it "too early to tell".

96% of respondents identify a recession as a concern in the longer term (after COVID-19). This is more than double the next highest response, which is ongoing civil unrest (45%). 65% of respondents identifying a recession as a concern believe it will be more severe than the 2008 Global Financial Crisis.

Perhaps unsurprisingly, 50% of respondents now cite "demand (sales)" as the area most at risk from COVID-19, compared to 34% in early March 2020, as the realities of lockdown and squeezed consumer spending begin to take hold.

No consensus around how long the current disruption will last, albeit it is not going away quickly

#### How long do you expect the current disruption to last?

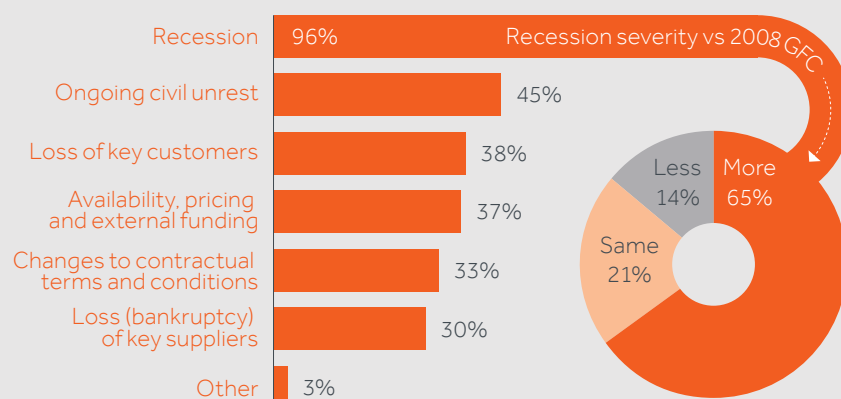


% of respondents (n = 113)

Source: Actis COVID-19 Survey (April 2020)

In the longer term, the greatest concern is a recession more severe than the one which followed the 2008 Global Financial Crisis (GFC)

#### Please rank your top-3 concerns in the long term (post-COVID-19)?

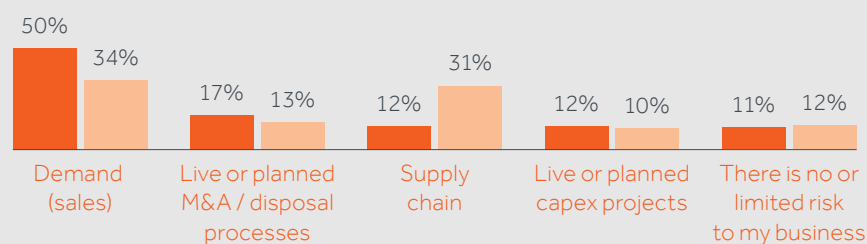


% of respondents selecting the issue as a top-3 concern (n = 113)

Source: Actis COVID-19 Survey (April 2020)

Demand (sales) is seen as most at risk from COVID-19 for all asset classes

#### Which area of your business is most at risk from COVID-19?



April 2020 survey (n = 113) March 2020 survey (n = 196)

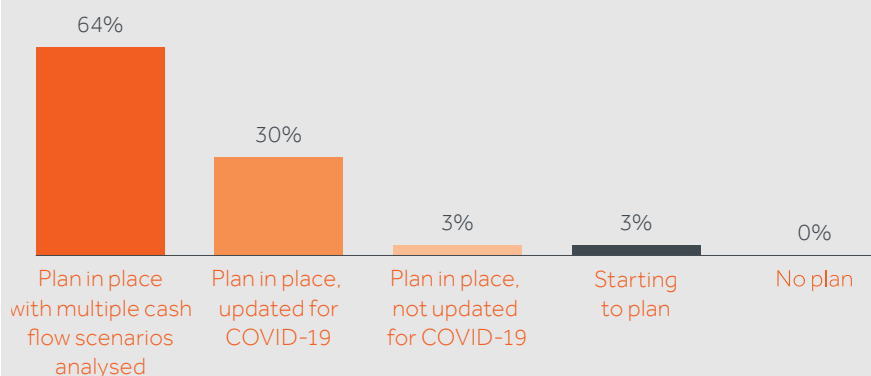
% of respondents selecting as 1st choice

Source: Actis COVID-19 Surveys (March and April 2020)



## Actis' portfolio preparedness is high

How would you rate the current status of your crisis management / business continuity / disaster recovery plans?

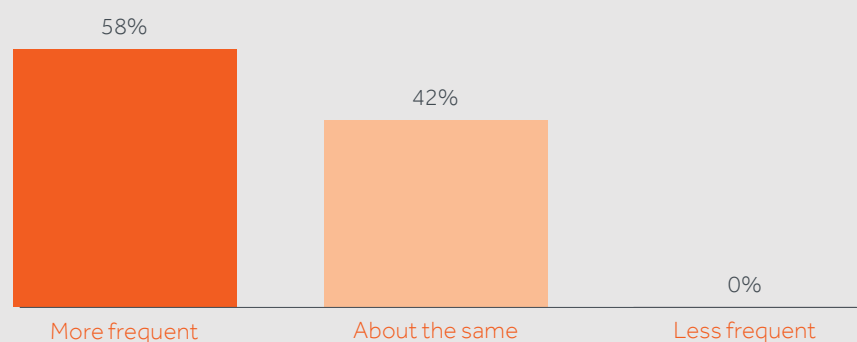


% of respondents (portfolio co management only, n = 33)

Source: Actis COVID-19 Survey (April 2020)

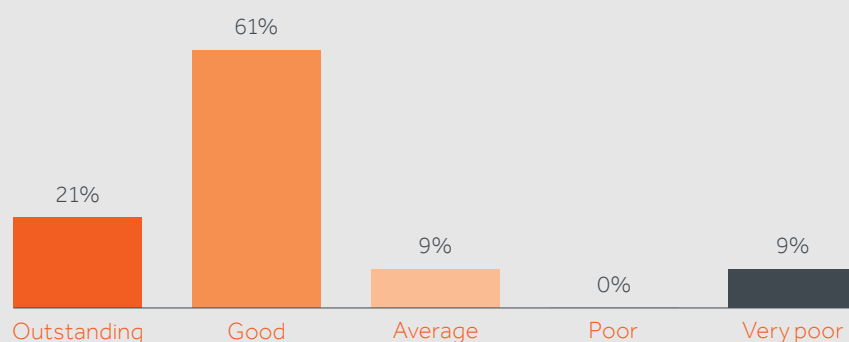
Our cohesive global approach has been well received by our portfolio companies

How have your interactions with Actis changed since the COVID-19 outbreak?



% of respondents (portfolio co management only, n = 33)

How would you rate the support you are receiving from Actis?



% of respondents (portfolio co management only, n = 33)

Source: Actis COVID-19 Survey (April 2020)

94% of portfolio management respondents say they have a crisis management plan in place which has either been updated for COVID-19 or which analyses multiple COVID-19 cash flow scenarios. All portfolio companies have revised cash flow forecasts in place. This is in contrast to the March survey – early in the crisis – when 40% either had no COVID-19 plan or were only in the early stages of forming a plan.

Preparedness has been at the heart of the Actis response and our cohesive, global approach appears to have been well received by our portfolio companies. Interactions with Actis are either "more frequent" (58%) or "about the same" (42%) as before the COVID-19 outbreak and in 82% of cases, the support provided by Actis has been rated as "good" or "outstanding".

Our support has been most powerful where we have been able to share information between companies and countries in different phases of their COVID-19 journey, boosting preparedness.

For example, our China restaurants business gave us invaluable data and response ideas which we were able to share not only with our five other Food and Beverage business across South East Asia and Africa / Middle East, but also with our retail businesses (in Private Equity) and Real Estate colleagues as they started planning for the spread of COVID-19 outside China.

Today, as restrictions are beginning to lift in China, we can use the same recovery data to inform cash flow modelling in other parts of the portfolio.

### Conclusion

**We're not out of the woods yet. As this survey documents, there is widespread concern about COVID-19 and the impact that it is having on our people and our businesses. No one knows how long the current disruption will last but we will almost certainly experience a severe recession across our markets.**

Preparedness is key, and we are doing everything we can to support our businesses around the globe. Our COVID-19 Committee, in place since early February, continues to meet weekly, curating and cascading relevant information across our network.

Meanwhile, our teams around the world are more connected than ever – with each other and with our portfolio companies. And while there are challenges in working from home, 75% of our survey respondents believe we will work from home more frequently when this pandemic is over.

**So for the time being at least, stay home and stay safe.**

*The authors are both members of Actis Value Creation Group (VCG), which brings professional expertise and works alongside management teams and Actis' investment professionals to maximise the value of our portfolio companies.*









# Actis in action: Interventions taking place at portfolio companies

## Shami Nissan

Responsible Investment,  
London

s Nissan@act.is



**At Actis, we have always had a very practical and hands-on approach of working in partnership with our businesses. This has never been more true as the pandemic continues its global march across our markets. Today, we are in the trenches with our businesses, bringing our operational expertise and a singular focus on ensuring business continuity in the face of the virus.**

We are leveraging the entirety of the Actis platform to:

- Bring best practice in business continuity and disaster management – including ensuring each investment has fit for purpose business continuity and crisis management plans, and is benefitting from long term scenarios
- Create opportunities for direct exchange of knowledge between our companies, and across asset classes (eg protocols for construction sites are equally relevant to a Real Estate site as they are to an Energy Infrastructure site)
- Share lessons learned from our investments which bring valuable insights on resilience and how to plan for recovery

As an example our **Energy Infrastructure** companies provide essential public services through delivery of power to the grid and supply of electricity to

households. It is crucial they continue to operate to support economic activity and the fight against the virus.

Our power generation sites are located in non-urban settings, often in close proximity to communities. It's important to recognise that our key workers are members of these communities and therefore our businesses must consider how they can help quell the impact of the virus in their vicinity, to keep their own workforce (and their families) healthy, and to keep sites operational. This is even more important in regions where local authorities may be severely resource constrained.

### So what are our businesses doing and how is Actis supporting?

We have mobilised all the ESG Heads, COOs and CEOs of our Energy Infrastructure businesses to ensure we are sharing approaches to COVID-19, and we will continue to do so. Our businesses are implementing a range of measures to support communities and combat the virus:

- Liaising with authorities early (healthcare, education etc) to direct support to the most acute needs in the community – eg PPE and medical supplies for frontline healthcare workers in the nearest clinics/hospitals
- Supporting local businesses to re-purpose (eg tailors/seamstresses make masks)
- Collaborating with industry associations to coordinate responses and ensure efforts are additive not duplicative

- Information campaigns in communities and schools – via physical and online channels – to help combat misinformation, deliver key facts in simple language and via WhatsApp videos from trusted Community Liaison Officers
- Targeting females - communications aimed at women can be impactful given their role as carers of children, elderly, and regarding hygiene measures
- Liaising with community leaders, faith leaders, NGOs and others who are trusted sources of advice, and who safeguard the vulnerable (heads of care homes)
- Supplying communities in water-scare areas with additional water supplies (eg water tankers), as well as soap and hand gel to ensure hand-washing can continue
- Purchasing staple foods and non-perishables to support foodbanks and food parcel deliveries to the most vulnerable
- Post-pandemic: efforts will pivot towards livelihoods and upskilling and also psychological and mental health needs of the communities

**Beyond business continuity objectives alone, this is a moment which provides our companies the chance to demonstrate their social responsibility and to live their values – in doing so, they deepen their license to operate and can emerge with enhanced relationships with employees, communities, authorities and regulators in a post-pandemic world.**

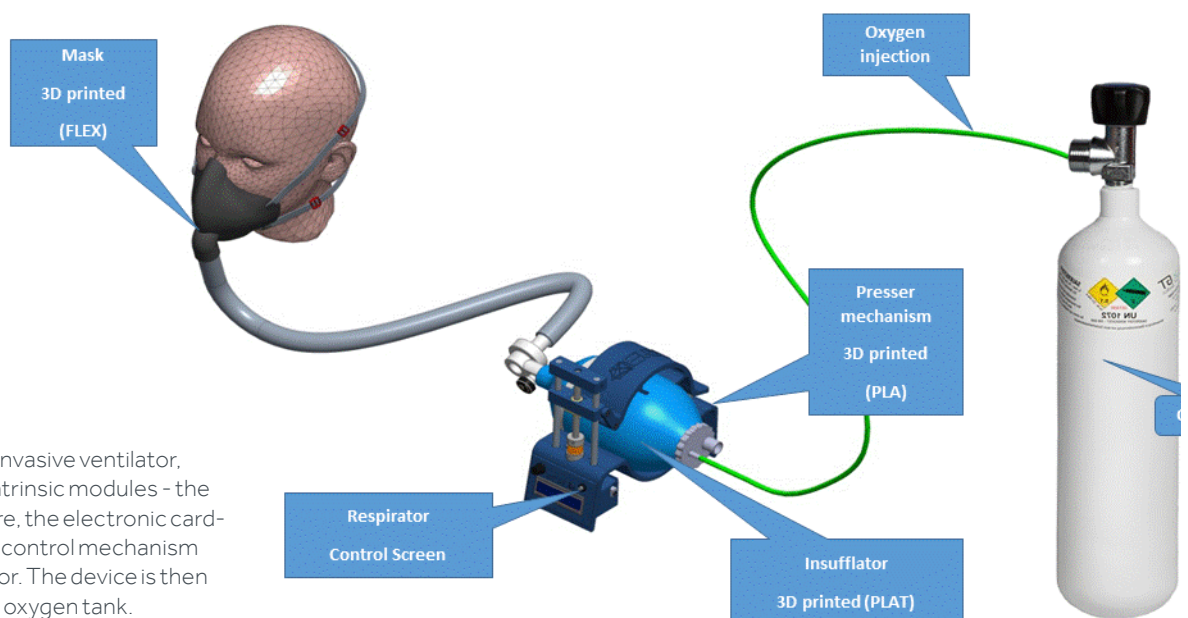


Echo Energia (wind energy generation platform) workers in Brazil  
"We are here for you. Stay home for us."

Honoris United Universities, the first and largest pan-African network of private higher education institutions, has mobilised its team of scientists, doctors, engineers, students and professionals to a prototype for a new non-invasive respirator, as well as face shields and splash protection masks, which can be affordably and quickly manufactured via 3D printing. The ventilator design is an open-source software without patent and will be distributed for free to public health services.

Project lead, Professor Nidhal Rezg, said, "It was critical to ensure it was affordable, easy and quick to produce and most importantly available to everyone. The device can be easily duplicated in different countries in Africa and around the world using software that can be downloaded – and it comes with a free instruction manual for ease of use. It has also been designed to be used in both a hospital and a home setting."

3D printed visor kit



3D printed non-invasive ventilator, consisting of 4 intrinsic modules - the mask, the venture, the electronic card-based ventilator control mechanism and the insufflator. The device is then connected to an oxygen tank.

## Guest view

# Chinese production redistribution across Asia – progress, winners and losers

Simon Ogus

CEO,  
DSG Asia Ltd,  
Hong Kong



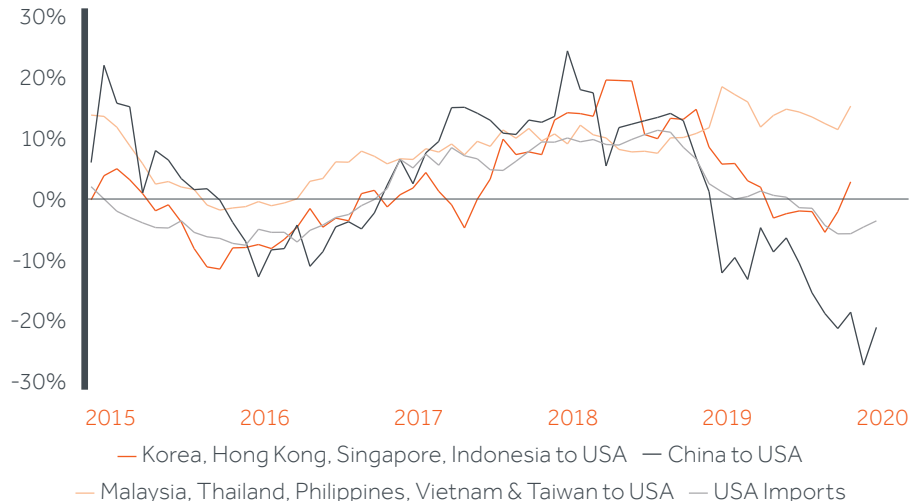
**The extent and ultimate duration of the destruction wrought by the COVID-19 coronavirus outbreak remains an open question. Yet the pandemic has already starkly exposed the fragilities inherent in over-engineered supply chains and just-in-time production lines. It seems fair to assume, therefore, that companies already contemplating their potential over-reliance on Chinese production and supplier bases will increasingly be acting to reduce such vulnerabilities. The recalibration of global supply chains is set to accelerate along with the likely Balkanisation of technology and financial markets.**

As 2020 began, sentiment had been boosted, at least temporarily, by a time-out in the US-China trade war. Unfortunately, Beijing's initial cover-up of the outbreak, notwithstanding its brutally effective second round response, has served to further fuel burgeoning anti-Chinese sentiment. Tensions have always been about much more than just trade and were never going to be solved fundamentally by China agreeing to buy a few more American agricultural products, nor indeed its more recent provision of medical equipment to other stricken countries. Nevertheless, rather than acting as a spur for renewed global cooperation, the virus has morphed into an unedifying secondary outbreak of finger-pointing and trade in conspiracy theories.

North Asia, employing an eclectic range of responses, albeit with certain communalities, appears to have had reasonable success in "flattening the curve". In recent weeks I have been conducting regular channel checks with various corporate and personal contacts across China and the region which indicate that labour supply and productive potential are steadily recovering. The emergent corporate fear though is that there will be no customers to buy their wares even if they can start to produce again as normal.

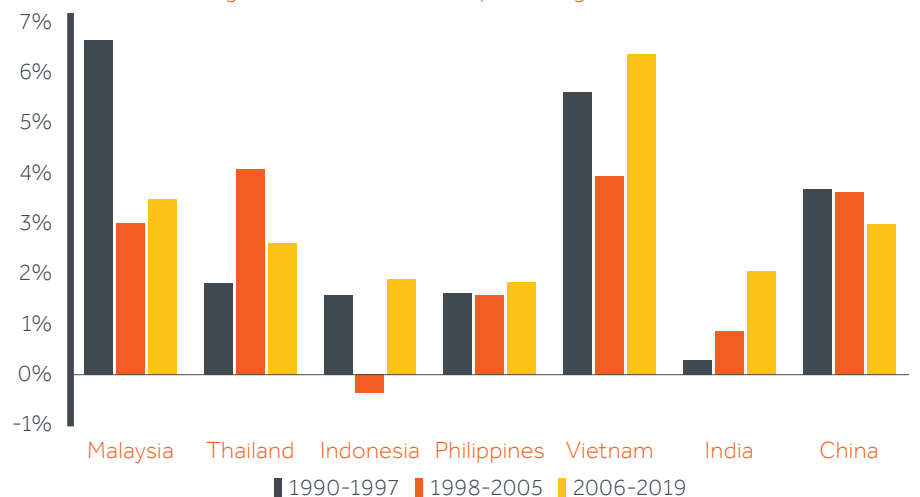
Specific to China, many private sector contacts – foreign and local – report that Communist Party officials have been dialling back the hostility to non-state enterprise which has characterised the

Exhibit 1: USA imports and Asia export growth (diversion)



Source: DSG Asia Limited calculations based on Government and other supranational data

Exhibit 2: Inward foreign direct investment as a percentage of GDP



Source: DSG Asia Limited calculations based on Government and other supranational data

Xi Jinping years. However, few seem willing to bet that such attitude changes are anything more than a near-term expedient. Hence, they are preparing for a world where separate entities are required to conduct business in domestic China and in other regional blocs. This will add to corporate costs in terms of system duplication and the requirement to hold higher inventories sourced from diversified supply locations. But few seem willing to abandon the lure of Chinese internal demand altogether.

As I have discussed in previous editions of *The Street View*, much of Asia is well positioned to benefit from such realignments assuming it can remain relatively politically neutral and can enhance its absorptive capacity. Not all

production can or will relocate from China but even small shifts away from the PRC represent large numbers in the context of its smaller neighbours. A welcoming investment climate, flexible labour markets and improved infrastructure should all help to attract renewed FDI flows.

Or so goes the theory. But how are relocations of production and disbursements of new investment playing out on the ground? Again, I have been meeting with companies and industry bodies, and, before the virus' onset, had been travelling extensively across the region, to fathom where more short term trade flows, and longer term capital investments, were being diverted.



Obviously, it is easier to rapidly rebook shipments and crank-up or dial-back production in different locations to circumvent tariffs, than it is to install and to begin operating out of greenfield capacity. The export diversion chart (Exhibit 1) shows clearly the near-term winners and losers. I should caution that overall export growth has remained pretty soggy across the board but if we just consider shipments to tariff-distorted USA, the major immediate beneficiaries have largely been in ASEAN with the notable exceptions of Indonesia (not participating) and Taiwan (doing very nicely, thank you).

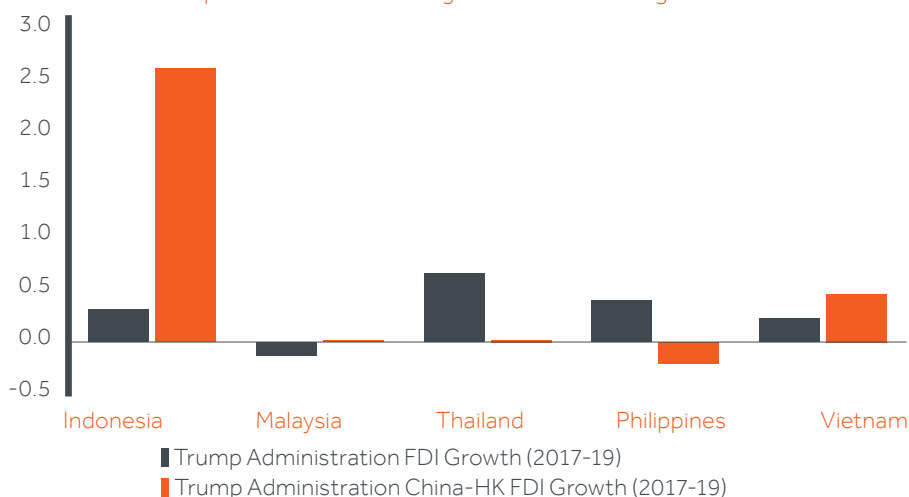
Vietnam has been the FDI darling of the region in recent years (Exhibit 2) while Thailand, Malaysia and, to a lesser extent, the Philippines, have plenty of installed capacity, that had been operating well below maximum utilisation rates for a number of years, which could subsequently be dialled-up again relatively quickly. Indonesia, with its restrictive labour laws and nationalist, protectionist mindset, is the notable ASEAN outlier. The passage or otherwise of President Jokowi's recently-submitted Omnibus Bill through the Legislature will be a crucial development to monitor.

As for higher cost North-Asia, Taiwan has been similarly a trade diversion winner albeit more in terms of capital-intensive, higher value-added production. Japan has also seen a modest uptick in its US shipments but Korea, for reasons both external and self-inflicted has failed to participate.

The more immediate evidence from FDI flows is rather less conclusive. For starters, installing new capacity is hardly an overnight process. Moreover, the fluid nature of the trade dispute makes long-term planning rather challenging. Accordingly, if a company has capacity in alternative locations not being fully utilised, longer-term, new investment decisions may tend to be postponed.

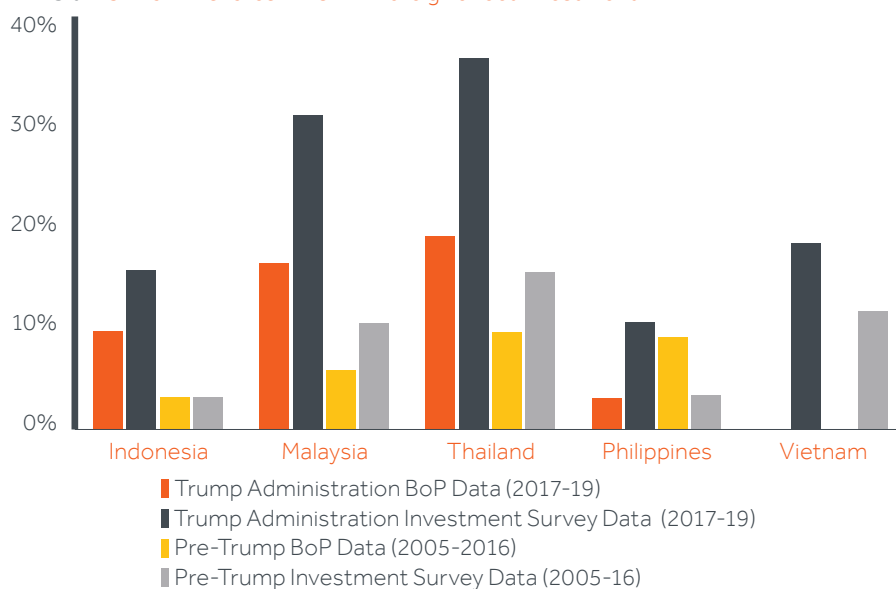
For Exhibit 3 and Exhibit 4, I have crunched the numbers on ASEAN foreign investment realisations from both the individual country investment survey and balance of payments (BoP) data series. I have then compared the foreign investment outcomes under the Trump administration (2017-2019) with those prevailing over the decade immediately preceding his election.

Exhibit 3: The Trump effect on ASEAN foreign direct investment growth



Source: DSG Asia Limited calculations based on Government and other supranational data

Exhibit 4: China-HK shares in ASEAN foreign direct investment



Source: DSG Asia Limited calculations based on Government and other supranational data

Turning first to pure growth rates under Trump, all the countries surveyed with (to me) the surprising exception of Malaysia, have seen significant pick-ups in inflows. However, with the exception of Indonesia, the China contribution has been rather muted (and seems to have been overwhelmingly concentrated in the resource sector) while despite the Duterte-Xi love-in, Beijing seems to have, if anything, scaled back its rate of deployments into the Philippines. It would seem to be non-Chinese firms who have been increasing their investments both here and in Thailand.

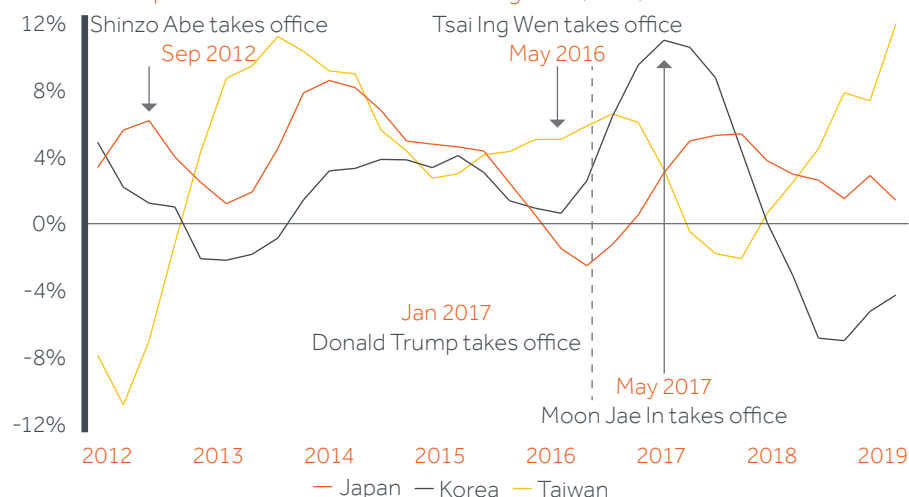
Nonetheless, there is no doubt that, from a very low base only a decade ago, China has become an increasingly important supplier of FDI. Hence if the POTUS and his posse really want to stem the flow of Chinese products into the US, they are going to have to develop an even more sophisticated (sic) pan-regional tariff and monitoring regime. Or indeed put in place measures to boost American savings rates...

Unlike ASEAN, North Asia has always been rather more closed to foreign investment. Hence any resurgence in export-oriented capex is largely reliant on re-onshoring by local producers with significant operations in China. This, in turn, is a function of a) company flexibility, b) the friendliness (or otherwise) of the investment environment, and c) labour supply and regulations. Increasing divergence has been seen across the region with capex surging in Taiwan, chugging along steadily in Japan, but contracting heavily in Korea.

Taiwan's outperformance owes little to Government policy – no DPP administration over the decades has demonstrated much in the way of economic competence – yet is rather due to its companies being more tightly integrated into the Mainland while also, traditionally, being more operationally flexible. As indeed are Taiwan's SMEs. While an unemployment rate below 4% suggests little or no labour market slack, the potential to attract back some of the more than 400,000, often skilled Taiwanese working in China potentially provides a flexible, skilled reservoir that dwarfs that possessed by Japan or Korea. The caveat is that these days, such workers are often paid significantly more on the Mainland than they are back home. Domestic wages will likely need to adjust upwards, therefore, but given real wage growth has averaged only 0.5% per annum over the past decade, this may be no bad thing.

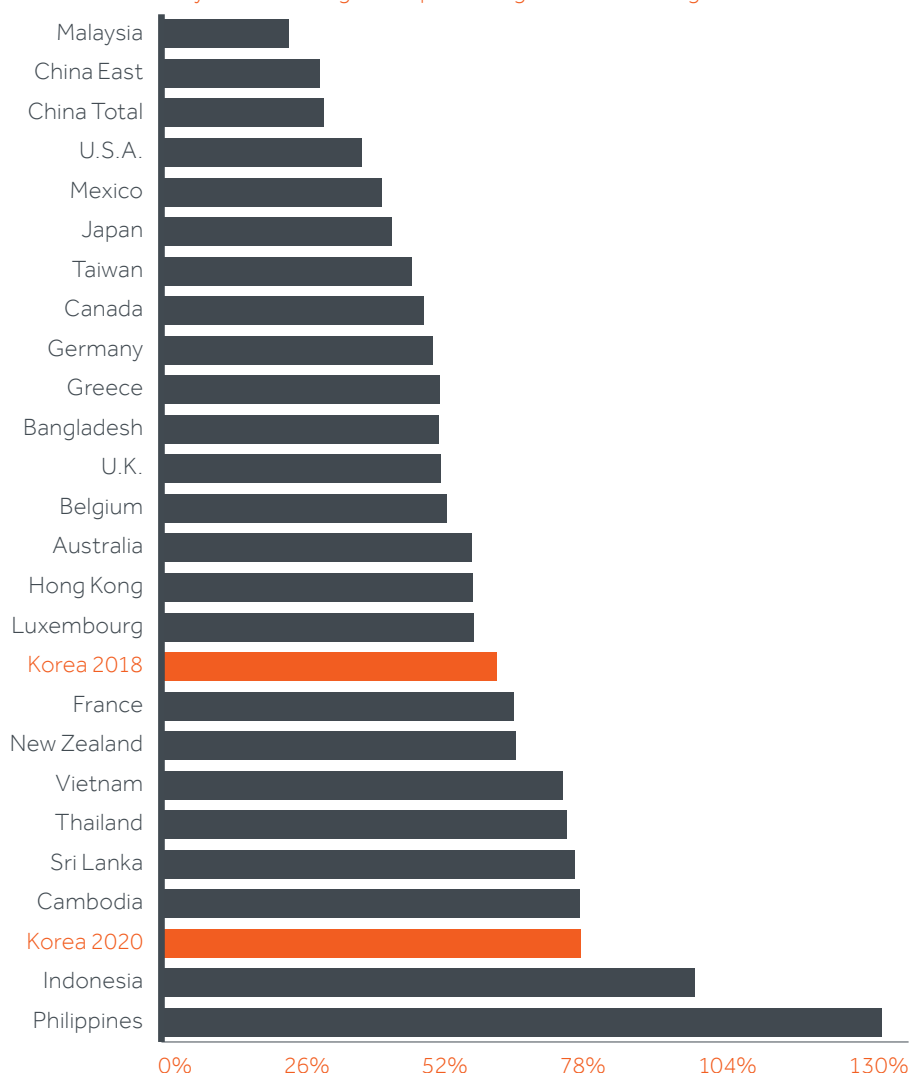
By contrast, Government policy in Korea, especially with respect to the labour markets, has been outright destructive under Moon Jae-in. In mandating a succession of double-digit minimum wage increases, the left-leaning President's intentions have doubtless been noble in the context of rising inequality and a less-than-generous welfare system. Yet driving minimum wages to the highest levels in the OECD relative to the median (Exhibit 6), in the context of a global manufacturing recession and an already struggling SME sector (Exhibit 7), has not been exactly helpful. Meanwhile, choosing this moment to pick a trade fight with Japan has provided the (rancid) icing on the cake.

Exhibit 5: Real private non-residential investment growth, %4QMA



Source: DSG Asia Limited calculations based on Government and other supranational data

Exhibit 6: Statutory minimum wages as a percentage of median\* wages



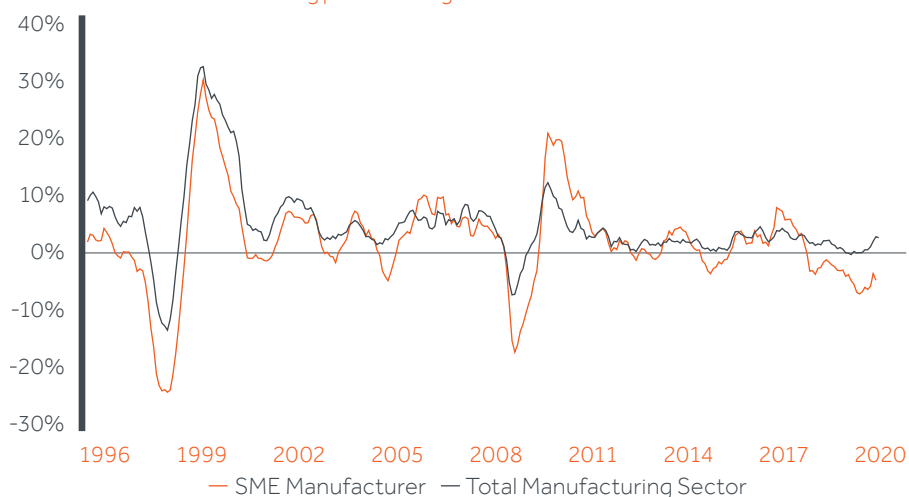
Source: DSG Asia Limited calculations based on Government and other supranational data

\* Average wages for non-OECD countries except for Hong Kong

Somewhere in the middle of Taiwan and Korea stands Japan. Given the 1 October 2019 increase in GST from 8% to 10% and the Rugby World Cup, the data are, understandably, going to be messy in the coming couple of quarters. Japan does not feel like is an economy on the brink of a major collapse though as transpired following previous GST rises. Arguably, it was Japan's lousy timing rather than the GST changes themselves that caused major dislocations in 1997 and 2014, and the COVID-19 outbreak, if prolonged, could yet still provide an unhappy reprise. Failing this, the domestic economy appears to be in better shape today while this time the Government was far more careful in designing a range of fiscal offsets to smooth the transition to the higher tax rate.

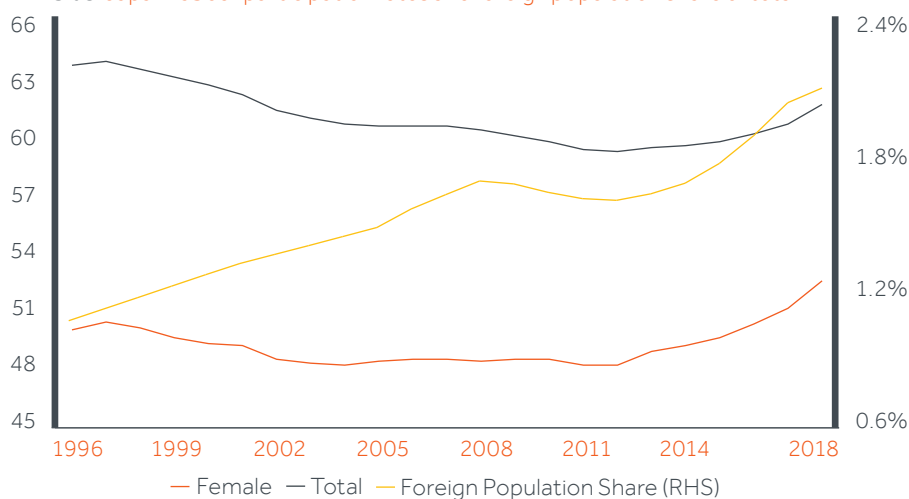
For sure, in the context of weak global trade, Japan is hardly booming while despite decades of ever-more expansionary monetary policies, inflation has remained stubbornly low. Nevertheless, with the labour supply continuing to expand steadily driven by increasing numbers of female and foreign workers seeking work, household income growth remains more than respectable.

Exhibit 7: Korea manufacturing production growth



Source: DSG Asia Limited calculations based on Government and other supranational data

Exhibit 8: Japan: labour participation rates and foreign population share of total



Source: DSG Asia Limited calculations based on Government and other supranational data



# Street view

## COVID-19 chronicles: China

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at [www.act.is](http://www.act.is)

While the rest of the world is in the midst of the most difficult period of the global pandemic of COVID-19, China is eager to get back to business. Most businesses have gradually returned to full force since mid-March across the country. Wuhan – epidemic “Ground Zero” – was the last city to relax its strict lockdown measures on 8 April after 76 days of lockdown, with more than 7000 people flying out of Wuhan city on that day. On the streets of Shanghai and Beijing, traffic jams have reappeared at rush hour, and people have cautiously started to take on business trips again, though preferably only intra-

city, and they are still cautious on air travel. There is guarded optimism on the streets of China’s major cities, as we seem to have won the battle with COVID-19. But concern remains with the danger of a “second wave” potentially coming from returning Chinese. On 10 April, one flight from Russia landed in Shanghai with 204 passengers, among which 60 were tested to be positive with Coronavirus. China is implementing mandatory testing on all international arrivals.

Our Private Equity portfolio companies have all resumed operations. Bellagio, a casual dining restaurant chain hard hit, along with the entire restaurant sector, saw an immediate rebound in demand from customers desperate to avoid any more home cooking. VSD, a medical consumable company in wound care, located in Wuhan where

COVID-19 started to spread, was the last to resume operations. RGB, a textile printing and dyeing business, continued to be impacted as most of its sales are to international markets which are in lockdown. Our biscuit business, JSL, benefited as lockdown led to biscuit gorging. Construction work at all the logistics warehouses and data centre projects in China under Actis’ real estate portfolio resumed by early April.

The Chinese central bank has injected massive liquidity to soften the blow to the economy. Many Private Equity and special situation funds are also actively looking for distressed opportunities in China. At the same time, lawyers are for the first time determining how to apply Force Majeure for clients who wish to pull out of deals agreed before January.



Back to normal? Signs of recovery at Bellagio as China resumes business

# Street view

## COVID-19 chronicles: Hong Kong

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**With 17 years behind us, SARS should have been a distant memory. However, back in 2003 Hong Kong was the epicentre of the outbreak, much like Wuhan for COVID-19. So when Hong Kong had the first confirmed case of this new SARS like Coronavirus on 22 January, it was no surprise that memory of SARS came back for most Hong Kong residents. There was an immediate rush for surgical masks, hand sanitisers, rice and toilet paper. There was no “shelter at home” requirement but most people broke from traditional Chinese New Year practice of visiting friends and families during the annual festivity and generally stayed home.**

Still reeling from the anti-China social unrest that had just started to ease at the end of 2019, the Hong Kong Government again came under pressure to seal the border with China to stem the inflow of visitors. A local union of medical service workers even went on a limited strike to put pressure on the Government. The border was essentially closed by early February and work-from-home was introduced for all non-emergency public servants after the Chinese New Year holiday. The Government also encouraged private companies to follow suit.

Despite the criticism of the initial response, the Government seemed to have the outbreak under control with the total number of confirmed cases in Hong Kong kept to fewer than 100 at the end of February. Government employees returned to office on 2 March and life seemed to slowly return to normal with people generally feeling that Hong Kong had avoided any community-wide outbreak.

But the sense of ease was short lived. With the influx of local and foreign residents from US and Europe in early

March, the number of confirmed cases increased 7-fold in a month. As a result, Government and the private sector resumed work-from-home for most employees in mid-March. More stringent measures including the closing of many private businesses such as health clubs, beauty parlours and bars were gradually introduced. Public gathering are now forbidden

With most of the new cases traceable to recently returned residents and their close contacts, there is still a resilient sense of normalcy among local residents. People are getting used to working from home while fighting for a quiet “Zoom space” in their notoriously small flats with their children taking classes online. Neighbourhood cafes are becoming crowded co-working space for those seeking a change of scenery. At local grocery stores and wet markets, it is still a common sight to see people shopping for fresh meat and produce while dutifully wearing their surgical face masks. And with typical

weekend city dweller destinations like cinemas and malls either closed or shunned, more are taking up the healthier option of hiking along the many mountain trails, with some popular ones becoming jammed with face mask clad hiking novices.

Back in 2003, unemployment in Hong Kong reached a trough of 5% at the height of SARS. With COVID-19 having a much more devastating impact globally, the economic pain is likely to be deeper and longer lasting. There remains hope that Hong Kong, together with other East Asian nations and territories such as China, Korea and Taiwan, could avoid the fate of US and Europe with the current wave of outbreak and, thus, look towards mending the economic pain soon. It wouldn't hurt for the novice hikers to soon be able to return to the comfort of air conditioned shopping malls and cinemas when the summer months arrive.





# Street view

## COVID-19 chronicles: Korea

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Watch this podcast  
at [www.act.is](http://www.act.is)

### What we see on the ground

**Despite significant turbulence in the early stage of the outbreak in Korea, life now has mostly reverted to normal with the exception of everyone wearing a mask and frequently using hand sanitisers. Korea may not have the most sophisticated medical technology in the world, yet it is top class in terms of offering quality medical treatments on time at affordable costs. Visiting a medical clinic or general hospital has always been relatively easy and affordable. This did not change substantially throughout the outbreak due to a number of reasons: (i) the dedication and commitment of medical staff; (ii) the Government's prompt, efficient and transparent responses testing and tracking new cases almost instantaneously; (iii) a centralised public healthcare system that provides everyone access to quality medical services at an affordable price, and (iv) one of the world's highest concentrations of medical facilities per capita. Costs associated with the entire COVID-19 process, from testing to treatment are covered by the Government for all citizens, when such testing is deemed necessary by doctors. According to the Ministry of Health and Welfare, as of 17 April, there are 612 screening clinics across Korea.**

Demand for daily necessities has risen, yet many retail stores both online and offline are still full of supplies including hygiene products with no sign of panic buying. In addition to the Government regulated masks one can easily purchase any consumable items he/she needs at retail price, even in regions such as Daegu city which suffered the largest number of confirmed cases. Large public gathering activities have been

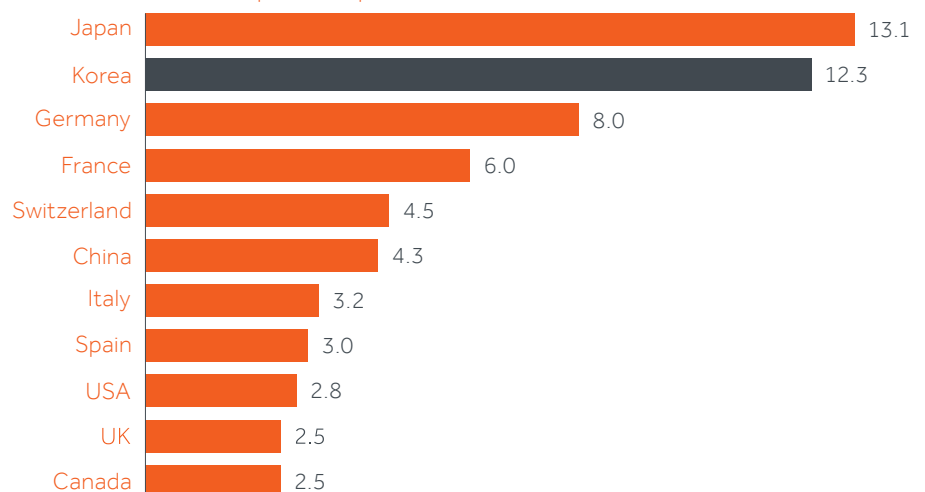
reduced (e.g., cherry blossom festivals routinely held in April), yet there are still many people in the streets and in public places, while making reasonable efforts to practice the so-called two metre "social distancing". The most notable change in these public places and the peoples' general behaviours is the increased awareness for sanitation and hygiene. It has become almost impossible not to see a hand sanitiser in any public place even including city buses and subway stations that also give away free masks often. Nevertheless, maintaining these available supplies has not been an issue. Many people never stopped working from the office throughout the outbreak and enterprises that required working from home are beginning to end the policy. Since the outbreak, the Actis Korea team has remained in its office, located in Gangnam, which has had no confirmed cases. Likewise the 99,141 m<sup>2</sup> Young City building we developed in Southwest of Seoul has continued to operate since the outbreak. Since completion, Young City has become a landmark office towers building in its submarket, successfully attracting target anchor tenants such as a call centre. While these tenants implemented a work-from-home policy partially to reduce the risk of the spread,

they have been largely unaffected with zero confirmed cases and they are now reinstalling their staff. On 15 April, Korea successfully held a parliamentary election in the midst of the pandemic becoming one of the first nations to hold a national election as scheduled since the outbreak, while many other nations postponed.

### Nevertheless, the negative impact is still serious

The economy has been hit by rapidly declining export activities and shrinking businesses. Domestically, the impact has been particularly severe on the self-employed and SMEs as (i) they are often the most vulnerable to such exogenous impacts, (ii) they mostly operate at offline retail venues suffering the heaviest blow, and (iii) Korea has one of the highest percentage of self-employed in the world. Our newly opened mixed-use hotel and multi-tenant retail facility in Seoul has been severely hit by the crisis, though the hotel is still faring relatively well with occupancy of 20-40%, much higher than other competing hotels. Understanding the challenges, we have been actively supporting our retail tenants suffering significant revenue cuts through marketing and promotions both monetarily and strategically. We are implementing

Exhibit 1: Number of hospital beds per 1,000 inhabitants



Note: USA data as of 2016; Canada data as of 2018.

Source: OECD



extra measures for the property management companies to control the virus spread including offering free hand sanitisers and installation of thermal cameras and antibiotic films across the entire facilities.

Korea has taken many initiatives to minimise the virus' impact on the economy through both monetary and fiscal policies. Key monetary policies include (i) lowering the policy rate by 0.5%p to a historic low 0.75%, (ii) providing unlimited liquidity over the next three months through open market operations (OMOs), which is effectively the nation's first attempt of quantitative easing, (iii) expanding the pool of eligible OMO participants to include select non-bank financial institutions as well as the list of eligible OMO collaterals,

(iv) easing collateral requirements for net settlements in the Bank of Korea ("BOK") payment system, and (v) increasing the ceiling of the Bank Intermediated Lending Support Facility targeting SMEs by KRW 5 trillion (c.0.26% of GDP) to KRW 30 trillion and lowering the interest to 0.25%. The BOK also opened a bilateral swap line with the Fed for US\$60 billion to stabilise the FX market. The Government announced a financial stabilisation plan of KRW 100 trillion (5.3% of GDP) focusing on supporting SMEs severely hit by the pandemic and stabilising the financial market including both equity and bond.

### The impact of the virus

The outbreak is expected to accelerate growth of online activities including retail, entertainment, education, and businesses. It has provided an opportunity for consumers to familiarise themselves with online platforms and activities, previously considered offline territory. Online orders of consumables have surged, data traffic created by media streaming service platforms has grown rapidly, and online schooling and working from home are now widely adopted across the nation. This trend has two key implications from a real estate perspective - (i) growing data traffic drives demand for cloud services, which require massive data centre space for operation and (ii) prompt and accurate delivery of a wide variety of daily consumables are the key to success for online retailers and this requires sophisticated logistics facilities located in strategically valuable areas.

That being said, offline space will continue to remain an attractive venue. Offline retail is becoming a form of entertainment offering unique shopping and visiting experiences that online platforms cannot. The same is true for hospitality businesses including accommodation services, which are expected to recover as travellers will eventually return back and locals will spend their leisure time at entertainment destinations. People are already becoming increasingly weary of staying indoors with limited activities and such suppressed demand for offline retail and entertainment could result in a sharp recovery once the crisis is over. A key lesson that the pandemic has taught us is the increased awareness about sanitation and hygiene, which has an important implication for offline space. Hence, maintaining hygienic and clean environment will become a key attraction factor for visitors and over the long term, offline spaces will provide more pleasant and safe environment that could attract more visitors.



Free hand sanitiser  
in city bus in Seoul

# View of the street

## COVID-19 chronicles: India

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**With 1.3 billion people and a significantly under-funded and ill-equipped public healthcare system, the rapid spread of the virus could potentially have a catastrophic impact in India. The Government has been acutely aware of the risks from an early stage of the crisis, and has put in place preventive measures starting as early as January 2020, when the first news reports of the COVID-19 spread emerged from China.**

India was early into the fight against COVID-19. Initial containment in January focused on travel from COVID-19 impacted countries, with travel ban and mandatory quarantine alongside extensive airport screenings. As the number of COVID-19 patients in India kept increasing, parts of the country went into a semi-lockdown in mid-March, including complete suspension of incoming international commercial passenger aircrafts; some restrictions on domestic travel; closure of educational institutions, gyms, museums, and theatres; bans on mass gatherings; and work from home policies for non-critical businesses. This was followed by a countrywide lockdown of three weeks starting March 25 (subsequently extended to 3 May), with all non-essential businesses and transport completely shut down, and people movement restricted to essential supplies and medical visits to doctors. For a country with an unorganised workforce of more than 400 million people, most of whom are daily wage earners, a complete lockdown was a difficult, but ultimately necessary step.

In tandem, the Government announced a series of fiscal and monetary measures to support the economy and its citizens, especially the most vulnerable low-income households. The Government announced a fiscal stimulus package in March (worth 0.8% of GDP), which entails direct benefit transfers (cash, food and cooking gas) to lower income households and insurance coverage for healthcare workers. Cash transfers have been facilitated through direct transfer into bank accounts of beneficiaries seeded with Aadhar (national biometric identification), although in cases where such bank accounts were inactive, beneficiaries have had to depend upon non-Governmental agencies for subsistence. The fiscal package was in addition to a commitment of US\$2 billion to upgrade the health infrastructure for COVID-19 including testing kits, personal protective equipment, ICU beds and ventilators. Monetary measures include a reduction in borrowing rates by 75-90bps and an injection of liquidity into the banking system through various means such as reduction of Cash Reserve Ratio (CRR) and providing direct liquidity to banks under long term repo operations. The Central Bank of India also recommended that all lenders offer their customers a moratorium of 3 months, on monthly instalments, on all outstanding loans. In addition, the Central Bank has provided regulatory forbearance on asset classification of loans to MSMEs and real estate developers.

Five weeks into the lockdown, there is partial success in slowing the spread of COVID-19 notwithstanding possible under reporting due to a slow ramp up of testing. However, the impact on the country has been profound, both in terms of dislocation in people's lives and the economic cost. Many sectors in the economy have come to a grinding halt while others have slowed to a trickle.

The closure of all offline stores (barring groceries and medicine shops) has materially impacted daily payment volumes at our portfolio company, Pine Labs, declining by more than 50%, while in store credit volumes enabled by Pine Labs have completely disappeared. New loan disbursements at Profectus Capital, our SME focused lending business, have come to a halt; however, the lockdown has seen demand almost double at another investee company, Big Basket, which is India's largest online grocery retailer. This has presented a unique challenge for the business, as it struggles to service this huge spike in demand, due to supply and logistical constraints, particularly the reduction in delivery personnel on the ground and decline in manufacturing activity leading to lower availability of goods. On the other hand, electricity supply has been classified as an essential service as a result of which operating plants of Sprng Energy (our renewable energy platform in India) continue to supply energy to the grid though there is a temporary halt in construction activities in new projects.

Our portfolio companies are focusing on cost management and preserving liquidity. Delaying capital expenditure, stretching vendor payments, recruitment freezes, shutdown of all marketing expenditure, renegotiation of rental payments, and substantial reduction in travel expenses over the year are some of the measures being put in place. In addition, they have activated Business Continuity Procedures (BCP) to ensure that the workforce is able to work from home smoothly, and remotely access all business-critical applications.



The unprecedented nature of the crisis makes it difficult to forecast the period and severity of disruption to economic activity and consumer behaviour. However, it is evident that certain businesses will have a more severe and longer lasting impact than others. Discretionary consumer spending on restaurants, movie exhibition, consumer durables, leisure travel, hospitality and vehicle purchases are expected to see a severe decline and a slow recovery over 6-12 months post the lockdown. In addition, lending businesses are expected to have a challenging 12-18 months, given the expected decline in consumer and business spending, and a spike in bad loans, as consumers and businesses struggle with repayments on their existing borrowings.

Severe reductions in growth estimates are inevitable as the lockdown period extends beyond the end of April and more recent data becomes available. Our expectation is that the policy response by the Government to the demand shock from COVID-19 will be focused on ensuring food security and minimum income support for the poor as well as monetary measures by the Central Bank in the form of rate cuts and liquidity enhancement.

In these unprecedented times, Actis portfolio companies have stepped up to help local communities deal with basic livelihood and health challenges. For example, Sprng Energy has focused its community engagement efforts towards provision of staple food materials in villages close to our project sites. In another intervention, Sprng is supporting local self-help groups in manufacturing of protective masks and spreading awareness about use of this vital protective equipment.

Sprng delivering essential food to isolated communities near their Transform solar plant in Telangana



Sprng is supporting local women self-help groups use their skills to make masks that are being distributed to village communities near its Rewa 250MW solar project in India





# View of the street

## COVID-19 chronicles: GCC

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**COVID-19 has spread across the Gulf region. As Governments around the globe grapple with stopping the spread of the virus, GCC states have closed borders, restricted travel and locked down populations. This includes closing places of worship and cancelling some highly sensitive and religious events creating high emotions in the Gulf and throughout the world. In addition to battling the disease, most GCC states are dealing with a significant drop in the oil price, with huge hits to Government revenues and funding challenges.**

Looking at some of on the ground statistics and actions by key GCC States:

KSA (Kingdom of Saudi Arabia), as of late April have >4,500 cases, increasing by 5-6% per day. The Government has implemented a full lockdown except for essential services and a complete curfew from 8pm to 6am each day. Holy sites in Mecca and Medina have been closed with highly restricted access, this resulting in a significant impact on Islamic holy tourism, estimated to be approximately five million arrivals a year.

To combat the impact the Government has provided interest free funding to banks to allow for payment and interest holidays. KSA nationals have been assured salary for any companies unable to pay salaries. Government fees and rental reductions. The shutdown is severely impacting all sectors, including the consumer sector, and our investee company Kudu (leading QSR chain) is having to navigate a very difficult environment and earn its revenues exclusively from home delivery and take away (during restricted operating hours).

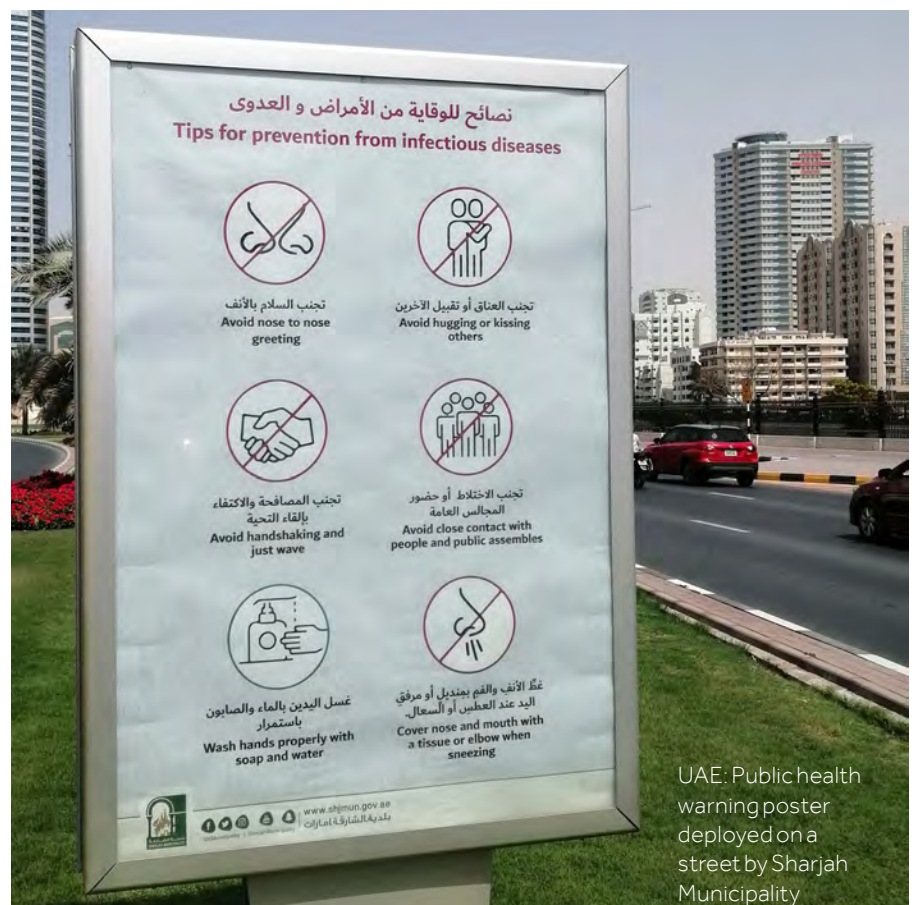
UAE (United Arab Emirates), to date has >5,000 cases, increasing by 7-8% per day. This virus impact has been

significant especially in the busy hub of Dubai, which thrives on tourism and retail footfall. UAE as a whole is exposed to Oil & Gas revenue, tourism and real estate, all of which are under significant pressure. The feelings of many are of high concern and worry due to job security and delays in business resumption. The Government has implemented a full lockdown from 1 April 2020, stopped all airlines operations and a number of hotels have shut down until tourism opens again. The shutdown is severely impacting all sectors, including the consumer sector, and our investee company Kudu (leading QSR chain) is having to navigate a very difficult environment and earn its revenues exclusively from home delivery and take away (during restricted operating hours). The Government has undertaken a major city disinfection drive and has restricted access in certain areas that are identified as high risk. There

is a major drive to move all services online and that is incentivised by the Government. The target for businesses to slowly resume is expected from 1 May 2020 onwards.

Qatar and Bahrain, have similar numbers to date of >4,000 cases, increasing by 3-5% per day. Kuwait and Bahrain, which are much smaller populations have >1,000 cases and increasing by 5% per day. Similar restrictions as in UAE and KSA are being applied as well.

Families are having to adjust to the new norm with children studying from home, this is expected to continue for the rest of the academic year until end of June 2020. Lifestyles are restricted to apartments or villas with restricted ability to conduct any outside sporting activities. Socialising is now entirely virtual. As GCC, braces for the sweltering summer temperatures in next few weeks people continue to live hoping and praying for life back to normal.



UAE: Public health warning poster deployed on a street by Sharjah Municipality

# View of the street

## COVID-19 chronicles: MENA

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**The COVID-19 global pandemic is a crisis unprecedented in the last 100 years. It has hit an under-prepared world, is now effecting all markets and sectors, and has resulted in a near-global shutdown of the world as we know it. Whilst Europe, the US and Asia are at a more advanced stage of the crisis, the MENA region is rapidly moving up the infection curve with challenges compounding.**

At a regional level, COVID-19 is taking its toll on economies in two main ways: shutdowns (ranging from partial to full) and loss of demand on the back of social distancing measures which are hampering consumption. While these are the two biggest challenges, clearly there are others - including supply chain disruption, loss of confidence, currency devaluations, liquidity constraints and slower M&A activity.

In Egypt, the most populous country in the MENA region, the Government has imposed an evening curfew since the end of March and has now extended it to the 23 April, albeit slightly reducing the curfew period to reduce congestion in public transport. As part of the curfew extension, the Government has now moved to ease some restrictions like authorising restaurants' home delivery services around the clock, although in dining is still not allowed. Government offices offering services to citizens will remain totally closed (the only exceptions being health and security related parts of the Government).

The Government has also taken a basket of measures to tackle the impact of COVID-19. On the monetary policy front, interest rates were cut by 300 bps to ease debt service burdens on borrowers. The Egyptian Pound, which has devalued by 2% since the crisis began, may come under further pressure on the

back of capital outflows (reserves dropped by c.US\$5.4 billion in March). The impact of capital outflows will be compounded by the double impact of slowdown in trade activity (which is effecting the Suez Canal traffic), as well as a severe drop in tourism activity, which was the main source of hard currency for the economy. The Government also took some active fiscal measures to ease the burden of COVID-19 on businesses, including a 3 months' postponement of taxes, abolishment of taxes for 6 months for tourism businesses, reducing the price of electricity to the industrial sector, as well as providing support in the form of export subsidies to exporters.

With the challenges posed by the crisis, The Government is also paying a lot of attention to social risk, and has taken measures to lighten the load on the general population. Measures taken include significant pay rises to healthcare workers, and setting up a relief fund to support employees laid off due to the crisis. The already established conditional cash transfer programs (Takaful and Karama), which are now covering over ten million people, will be of even more importance during the crisis to ensure that those most in need are able to weather the crisis.

In terms of daily life, working from home has become a big feature of the economy in the last two weeks, and even board meetings and shareholder meetings have now been allowed by the regulator to take place via video conferencing technology. There has been a big shift in consumer habits towards e-enabled platforms, be it for e-banking and digital payments (where our investee company Fawry is a leading player), or online grocery shopping via outfits like "Gourmet Egypt". Even medical services are increasingly reliant on limited contact (e.g. house visits and online test results offered from our leading labs business Integrated Diagnostics Holding), or shifting a large part of outpatient clinics at our leading hospital business Cleopatra Hospital Group to home

visits. Education modes are also increasingly shifting to online teaching (where our pan-African Higher Education business Honoris United Universities is leading the way in digital transformation of education across Africa).

The picture is very similar elsewhere in MENA. In the Maghreb region, Tunisia and Morocco are both under a lockdown, although public adherence to the lockdown is somewhat patchy especially in rural areas. The Governments there are actively working on providing support through multiple measures, but loss of tourism revenues, coupled with capital flows is taking its toll (including on exchange rates, which are coming under pressure), and social risk is very much top of mind for Governments.

All across MENA, COVID-19 is taking its toll. While the focus for now is on navigating the instant impact of the crisis, as and when this crisis abates there will be valuable lessons learnt by Governments, businesses, and people alike. Perhaps a key learning will be the importance of the new economy and digital transformation, which has now become a necessary feature for all sectors. Every cloud has a silver lining, and the COVID-19 silver lining (if one exists at this stage) is very much a digital one.

# View of the street

## COVID-19 chronicles: South Africa

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**The most famous of South Africans, Nelson Mandela, was a huge boxing fan. The image of him in the boxing ring in his younger years is common place in any collage of Madiba photographs. In early 2020, the boxing analogy would have South Africa deep in the late stages of a bout, staggering on wobbly legs from a decade of blows from corruption, mismanagement and ideology outcomes that have put the economy, employment and the fiscus on a weak footing. Then came the sucker punch of COVID-19.**

Entering this pandemic, the South African economy has delivered close to 1% GDP growth in recent years. Worrisome national unemployment levels of 28%, has been particularly concerning at the younger end of the workforce where the number is now over 50%. The antagonistic relationship between business and government had not recovered from the Zuma era. Financial mismanagement of parastatal organisations and municipalities has hardly helped. Eskom, the state owned power utility has until now been considered the biggest financial risk to the country where Ramaphosa's government seemed trapped between hard financial decisions including the need to reduce bloated staff costs and politically unpalatable layoffs.

Against this backdrop, there was a growing frustration at the perceived lack of action from President Ramaphosa in his leadership of South Africa. The consultative process of government and the question of how much power he has in his party have influenced these perceptions.

Then came COVID-19. Ramaphosa's response has been lauded almost unanimously by market commentators, as the moment this president wholeheartedly unified a

national response with tremendous personal leadership in the face of this crisis. He is seen to have acted swiftly and robustly, whilst appearing highly empathetic to the hardship that so much of South Africa now faces.

After so many years of dire leadership in South Africa, it feels we now have a statesman in charge.

The Ramaphosa response has been to introduce one of the most severe lockdowns in the world, whilst delivering this decision with authentic, empathetic leadership. Before a fatality was incurred, a national disaster was declared and within 10 days, a three week national lockdown was announced. This has been further extended by two weeks. During this time only food, healthcare, banking and security services have been deemed essential services. These vigilant early moves look to have had initial success in "flattening the curve", and certainly three weeks in South Africa has not hit the exponential spread of the virus seen in countries with less dramatic lockdown regimes. This has bought time for stretched and under resourced state healthcare services to ready themselves for the potentially dramatic strain on their resources, and to reach communities on much needed testing programs. The coming months, like the rest of the world, are fraught with uncertainty has to how far this virus will spread. Tremendous concern remains on the vulnerable. The high prevalence of HIV Aids and Tuberculosis in South Africa combined with constrained healthcare services, leaves a population vulnerable to the health impacts of the pandemic. The already high levels of unemployment, the number of poor people reliant on the informal sector for day to day economic survival, and now a further loss of formal incomes leaves a population vulnerable to dire economic impacts. Suggested hand washing protocols hardly help people with limited exposure to running water. Combined, the concerns of social tension as lockdowns are

extended presents a major risk that Ramaphosa must navigate in the decision path that lies ahead.

Whilst the healthcare impact is still in its infancy, the financial impact on the economy has been swift. A dramatic 30% currency in March, was followed by a Moody's downgrade on the eve of the lockdown (all three major ratings agencies now have the country on "junk" status), and now at the time of writing, an economy at near standstill during lockdown.

The Actis portfolio across South Africa has understandably been heavily impacted. Interestingly, six of our eight Private Equity portfolio companies in South Africa have some or all of their operations deemed an essential service. However even in these businesses the practicality of running the business is challenged by consumers staying at home, regulatory restrictions, and supply chain challenges. Our renewable power projects have been caught in regulatory uncertainty in the initial stages of lockdown but are now facing the challenge of Eskom announcing its plans to enforce force majeure clauses, to lessen its own financial impact of excess energy capacity during lockdown. Our single real estate investment is curtailing current new warehousing projects underway.

Through this remarkably challenging environment, there are some bright spots. New investment opportunities have emerged in Private Equity and Energy where fundamentally sound businesses or projects with robust prospects are seeking fresh capital or new owners.

At a national level, the unifying decisive government action and private sector support could just be trigger for a set of actions that lead to a brighter outlook once the COVID-19 era subsides. In South Africa this coming together for the communal good, is wrapped in the term *Ubuntu*. A profound need for national and global *Ubuntu* is what is needed in this uniquely challenged time.



# View of the street

## COVID-19 chronicles: Africa Energy

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**The beginning of the lifecycle of an African power plant is inherently global. Imported development skills, capital, equipment and contractors combine with local ingenuity, regulation and workforce to create a long-lasting electricity provider to fuel hungry economies.**

The African continent's reaction to the COVID-19 virus pandemic uncovers the complexities of that globalism. Across our portfolio we have nine projects under construction in four countries. You can't do much working from home in the construction field. Three of the projects are being built by Chinese contractors, who from January 2020 implemented quarantining at sites in Kenya and South Africa for any incoming Chinese nationals and worked around supply chain issues. This caused limited disruption and construction continued on schedule.

It was the February and March impact of the European and American COVID-19 outbreaks which had a greater effect. In South Africa, the first COVID-19 cases were detected in locals and Europeans returning from European ski holidays. In Kenya, the first case identified was a woman returning from the US via London. Worried about lack of medical resources, African Governments swiftly and smartly moved to close borders and imposed varying degrees of lockdowns to slow the spread.

In Kenya, while the Chinese and Kenyan workforce continued with appropriate health measures in place, other expats working as advisors and suppliers were repatriated, halting certain commissioning activities pending workaround solutions. A similar issue with expats has affected our wind project in Senegal.

In South Africa, where a more sophisticated local skillset is available and hence projects rely less on

expats, it has been a different story. The stricter national lockdown rules, in which people can only leave their houses to buy food or visit a healthcare facility unless their services are considered essential, has caused our construction sites to move to a skeleton crew and pause construction activities.

In addition to the construction projects, Actis portfolio companies own and operate an additional seven power plants around the continent.

Given the limited nature of on-site human activity during operations, and the deeming of operating plants as "essential services" during a lockdown, the impact has been less marked.

Health and safety can bring people together, especially in times of crisis. In Senegal, staff from Azura's Tobene plant and the neighbouring Lekela Taiba plant have been hosting workshops with community members including women, children and imams about COVID-19 symptoms, mitigation and treatment, including provision of soap.

While most of our African markets are seeing a temporary ~20% drop in electricity demand during the lockdowns, placing some strain on the utilities' balance sheets, we observe and are actively encouraging additional multilateral support to the African electricity sectors to ensure our offtakers remain healthy during and post-pandemic. In South Africa, Eskom sent force majeure notices to operating wind projects including ours in the Northern Cape, citing potential grid stability issues, which, if utilised and proven legitimate, offers limited curtailment ability in the PPA. This is expected to affect the Eastern Cape given its morning wind profiles and the reduced industrial day time demand during lockdown.

The future of the African energy sector is still bright. The fundamental and enduring power of low cost electricity supply in risk-mitigated structures in Africa means that these temporary COVID-19 interruptions will have minimal long term effect on our investments. Low cost electricity keeps hospitals working, schools open and factories running. Also and importantly it encourages FDI into countries focused on expanding their economies.

After the COVID-19 lockdown, we expect the renewable revolution to continue apace. Low cost electricity will be even more important in a post-pandemic world.



Azura ESG team during the Coronavirus awareness campaign program in Owegie primary school at Orior-Osemwede Community.

# View of the street

## COVID-19 chronicles: Nigeria

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### Low oil prices exposes fiscal vulnerabilities in addressing COVID-19

**Nigeria felt the impact of COVID-19 even before it confirmed its initial case in late February as slowing global demand and the inability to stabilise prices via production cuts depressed oil prices. With oil prices way below the original 2020 budget benchmark price of \$57, fiscal revenues could be at least 40% down year on year. Nigeria's ability to respond to the global pandemic and the associated global downturn has become even more daunting.**

### Containment strategy challenging for a mostly informal workforce

As confirmed cases rose, the Government implemented social distancing policies to contain/flatten the curve of the epidemic; including closing borders, stopping international flights, banning all gatherings and shutting down schools/universities. On 30th March, a 14-day lock down was instituted in Lagos and Ogun States and Abuja, the key international gateway cities that account for over 75% of the confirmed cases. COVID-19 has spread to 19 of Nigeria's 36 states most of whom are adopting of social distancing policies.

Containment and social distancing policies are necessary given a healthcare infrastructure that can't manage a full blown epidemic. Despite this, the sustainability of the lockdown is questionable. This reflects (1) the high levels of unemployment/under employment estimated at over 55% of working age population, (2) the near 90m people living on less than \$2/day; and (3) the high proportion of workforce in the informal sector dependent daily/weekly wages with no savings to tide over the lockdown. There has been

some intervention by the federal Government via direct transfers to a reported 2.6m people across the country and food distribution by regional Governments to about 0.5m vulnerable households. Ironically implementing these social programs resulted in chaotic crowds that totally negated the principle of social distancing.

Crowded and unsanitary living conditions in slums render social distancing impracticable and possibly ineffective. Hence, it is unlikely that the lockdown can be sustained for much longer without social upheaval. Already there have been sporadic violent incidents in suburbs of Lagos and Ogun.

### The COVID-19 healthcare response and impact

Federal and state Governments have ramped up COVID-19 response facilities and have been commended by WHO for the pro-activeness of the testing, isolation, tracing and monitoring of the confirmed cases and their contacts. Though widely noted that the rate of testing is still quite insignificant, the numbers of the critically ill patients presenting in hospitals remains low.

### Limited Capacity for Fiscal Stimulus

Depressed external conditions (capital flight by foreign portfolio investors, weaker diaspora remittances, pressure on external reserves and currency) and deteriorating fiscal conditions (from drop in oil prices, lower tax revenues, widening deficit and debt sustainability pressures) will increase economic misery in 2020. The economy is now widely expected to contract, unemployment will rise and inflationary pressures will worsen from the increase in VAT from 5% to 7.5% that came into force in February as well as the imported inflation from the adoption of the single exchange rate and the weakening of the NGN on NAFEX by 6.67%. The central bank announced monetary stimulus which are targeted at productive and impacted sectors, including

healthcare as well as regulatory forbearance to facilitate loan restructurings.

While revenue was reduced 40% reflect drop in oil revenues, costs only reduced by 3%. Hence, the fiscal deficit and borrowing are set to mushroom.

### Taking advantage of the crisis to implement key reforms

One positive, is the plan to seek low interest loans from multilateral agencies to fund its deficit, which will give an impetus to the Government's economic reform plans. Long planned oil subsidy removal, full deregulation of the downstream oil industry and adoption of single exchange rates have been recently announced as well as plans to privatise the refineries.

### Impact on Actis Portfolio

Social distancing policies will likely remain in place until the global pandemic is fully under control. We thus expect that there will be more significant medium term impact on travel and hospitality, entertainment and retail subsectors exposed to discretionary spend consistent with other markets. Our investment in the Four Points Sheraton Hotel in Lagos, a business hotel has seen a shrinkage of its business from traditional overseas and regional business travellers due to the restrictions on travel and gatherings. New business opportunity has however arisen from corporates seeking to accommodate key workers close to the critical business sites during the lock down. This does not fully compensate for the lost revenues, but is welcome to in order to meet operational cash flow requirements.

Jabi Mall the leading destination mall in Abuja, is closed by the lock down except for essential services that include food grocers, pharmacies and restaurants (for takeout/ deliveries only) all of whom continue to trade relatively well. We expect that it may take six to nine months post COVID-19 for the trade levels and footfall to be restored. Hence, there



is active engagement with tenants and lender to address the cash flow challenges that the asset will face.

A more moderate impact expected on consumer sectors for non-discretionary goods and services for example education and non-bank financial services. In line with Government policies to curtail the spread of COVID-19, Nile University, Abuja, a leading private university acquired in 2019, closed. Classes have already resumed on-line minimising disruptions to the school calendar, the university's operations and cash flows.

As an increasing number of businesses are able to operate remotely given wider internet penetration and availability of collaborative tools. There has been a strong demand for data, e-commerce and electronic payment services and this is driving co-location services in data centres. The Actis owned datacentre, Rack Centre Limited, has experienced some positive impacts with the onset of COVID-19 such as improved debt collection and business enquiries as the importance of business continuity has been elevated.

Gbagada, Lagos, Nigeria, April 16, 2020.  
Lagos State official carrying disinfecting machines





# View of the street

## COVID-19 chronicles: Kenya

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**Global victory over the COVID-19 pandemic will not be declared until a solution is found in Africa, the last continent to be struck by the virus and the region least equipped to fight the humanitarian and economic consequences.**

Inadequate health services, little access to water and poor living conditions (where many live five to a room) make social distancing impossible and provide daunting challenges. Three quarters of the population in Africa are under the age of 35 and while these demographics may be expected to be helpful the prevalence of TB, HIV and malaria is likely to eclipse any benefit a young population may have in fighting the virus.

Forewarned by the rest of the world, African countries like Kenya have reacted quickly and decisively to mitigate the consequences of the pandemic. Benefiting from the experience and advice from its global partners a lockdown, including a travel ban and night time curfew to enforce social distancing, has been in place since late March long before the number of confirmed cases reached 100.

Kenya's economic policy response has been impressively bold but for an economy already operating a high fiscal deficit and an uncomfortably high level of national debt the Government can only do so much. African finance ministers have already made calls to the multilateral community for \$100bn emergency financing. All the evidence to date is that this support will be forthcoming.

The monetary and fiscal measures introduced by President Uhuru Kenyatta on 25 March are aimed at helping businesses preserve jobs and alleviating the suffering of the poorest many of whom lead a hand to mouth existence. Government officials have taken pay cuts and the

private sector's response has been to quickly rally behind these initiatives by contributing, often charitably, to the call to continue the supply of goods and services essential to everyday life.

Although the Kenya economy has the benefit of being one of the most diversified economies in sub Saharan Africa and, as an oil importer the recent oil crisis has had a positive effect on currency, balance of payments and inflation, the country's export facing industries such as horticulture, tourism and manufacturing have borne the brunt with a devastating consequence to jobs. The consumer and transport sectors have also been very hard hit.

At the core the financial services sector continues to operate effectively and banks are being encouraged by the regulator to be accommodating towards corporate debt restructurings. It is fortunate that Tier 1 banks came in to this crisis well capitalised and highly liquid. The Kenya shilling has, with support from the central bank, remained comparatively strong, however it remains to be seen for how long in the face of lower diaspora remittances and a collapse in exports.

Meanwhile life for the average Kenyan continues albeit quietly and with a great deal more uncertainty. The transition to a society now working from home has been made seamlessly, including in Government. The Nairobi Securities Exchange was able to switch to remote trading overnight.

Kenyans have always embraced technology and armed with their smart phones people are well informed and so far are observing the rules. Using Mpesa the popular mobile money transfer platform people are able to continue day to day financial transactions without leaving their homes. Home delivery service companies are booming.

Our portfolio in Kenya has investments in each of the three Actis asset classes giving us a broad insight into the varying challenges

this crisis has brought. As portfolio managers our immediate priorities have been employee welfare, liquidity management and cost control. So far we have not made any consequential redundancies in any of our portfolio companies, though many employees have been furloughed.

No one knows how long this will last but we are working closely with our management teams to have business continuity plans in place which model various scenarios. We are fortunate to have very accommodating relationships with our respective banks.

Each business offers its own unique challenges. Kipeto, our 100 MW wind farm currently in construction where CMEC is the EPC contractor, faces the social distancing challenge of 300 Chinese and Kenyan nationals living and working in close proximity to each other. The travel ban has prevented GE engineers from entering the country to commission the turbines.

Java, our quick service restaurant has been hard hit by the Government imposed lockdown and ban on in restaurant dining causing management to pivot the business to a take away and home delivery model. At Garden City, our retail mall development, tenants are faced with declining consumer demand, however we are seeing demand for development and leasing of hospitals, healthcare facilities and data centres.

The situation is fast moving and it is difficult to predict outcomes. Ultimately a shock of this kind will create a shift in business systems, supply chains, markets and consumer preferences and with each of our portfolio companies we are working with management teams to help them position their businesses for this new order.

# View of the street

## COVID-19 chronicles: Mexico City

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**The first confirmed case of COVID-19 in Mexico was reported on 28th February. While the situation deteriorated in China throughout February, then Italy and other European countries throughout March, Mexicans observed passively. After all SARS in 2002-2003 never made it to Mexico whilst H1N1 in 2009 was ultimately less contagious and lethal than initially feared. As late as mid-March President Andres Manuel Lopez Obrador, or “AMLO”, played down the threat of the virus to public health. As was widely reported by local and international media, AMLO encouraged people to “live life as usual” as he continued to kiss supporters in tumultuous rallies.**

It was the private sector and broader society that eventually started taking measures in the absence of a consistent message from authorities. While the Government announced countrywide suspension of activities in public schools starting March 20th, in reality many universities, private schools and certain state schools locked down one week before. Most large corporates mandated work from home protocols two weeks in advance of the Government's announcement for the suspension of all non-essential activities on 30th March.

Actis is a large investor in the power space in Mexico. Our portfolio companies took decisive early measures to protect personnel while ensuring the continued supply of electricity, aware of the responsibility we have to continue providing this critical infrastructure service for the country. We have constantly shared best practices, including adjusting operations, rotating shift schedules to minimise contagion risk and building redundancy into the system:

there is always a standby operating shift team in case a full operating team has to be placed on quarantine.

As we write this update in early April the country is on a mandatory lockdown that has brought economic activity to a halt. The scope of the economic contraction, estimated at negative 6% for 2020 by the World Bank, the sharpest contraction for any country in Latin America (except Venezuela), will likely exceed the debt crisis of the 1980s, the Tequila Crisis of 1995 or the financial crisis of 2009. On the face of it, Mexico is in the middle of a “perfect storm” with depressed Government revenues (given low oil production and low oil prices), COVID-19's supply and demand shock that will hit key sources of hard currency such as the auto industry and tourism, and erratic policy signals that have hindered investment sentiment.

The next 12 months will put to test Mexico's institutional framework, in an environment that includes a challenging security situation associated with drug gang violence and the public's disenchantment with the political and business establishment. AMLO, who ran a successful campaign on the back of a single-themed platform – tackling corruption – will himself be a key escape valve for social unrest as he still enjoys very high approval ratings, particularly among lower income segments who will be the hardest hit by the health and economic crisis. Alas, he has seen his approval ratings

fall by over twenty percentage points in the last twelve months prior to the COVID-19 crisis, although still at a healthy 59%, according to poll aggregator Oraculus.

Yet, this too shall pass. Mexico today benefits from manageable fiscal accounts, ample hard currency reserves and access to liquidity with the Federal Reserve and the IMF for a combined total of over \$300 billion. There is a credible monetary authority, and a competitive and open economy that will be well positioned for the recovery. In fact, following the debt crisis of 1986, the Tequila Crisis of 1995 and the financial crisis of 2009, Mexico enjoyed uninterrupted GDP growth for the next five years following each crisis that averaged in aggregate 4%.

At Actis, we are focused on ensuring our portfolio companies in the power sector navigate successfully through these challenging waters. Our focus on dollar-denominated long term contracted cashflows, with limited exposure to volume or price risk, provide us with a defensive position. More than ever, we look to do our part and are committed to delivering reliable, clean and cost competitive power. We are also actively pursuing new opportunities at a time of depressed asset prices, building on the expertise we have built on deploying capital in the energy space through the cycle for almost 20 years. V-shape or otherwise, the recovery will come.



# View of the street

## COVID-19 chronicles: Brazil

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"What we learn from history is that people don't learn from history"

**We saw this wave coming. From a health perspective, the measures taken to mitigate the spread of COVID 19 are supported by research and scientific data, the main objective is to save lives and avoid the collapse of an existing limited health system. In parallel, on the economic front, the overriding priority is to provide support to the low-income population and avoid unemployment, as well as keep small-medium enterprises (SME) from shutting down.**

Brazil's already fragile fiscal situation, which is running a primary deficit at 2% of GDP and public indebtedness at 75% will deteriorate further on the back of the fiscal stimulus to alleviate the sudden stop of the world economy. Meanwhile the high number of informal jobs poses an additional challenge on the implementation of income-transferring measures. On the monetary front, the dilemma of lowering interest rates vs additional pressure on BRL (down 30% YTD against USD) dominates the narrative.

### Keynesian treatment *a la* Guedes

Finance minister Guedes and his cabinet have prescribed a Keynesian treatment to the patient but with some doses of Friedman. The fiscal stimulus package is rooted in three main areas: (i) utilisation of the already established income transferring Bolsa-familia program expanding by more than 1million beneficiaries to c.15million families that will be able to receive an extra US\$110 monthly income, in addition to the

standard USD\$75 monthly income, (ii) an additional c.20million informal workers will also be eligible for the monthly income by registering on an app, and (iii) registered workers will be able to secure a yearly withdrawal from social security funds they contribute to. A program created by Temer's administration to enhance consumption during low economic activity, will secure additional liquidity to families by enabling a one-off c.USD200 income. The administration is considering a partnership with Payment Service Providers, such as our investee company Stone, to ensure income can be transferred to both individuals and SMEs.

The prescribed treatment for companies has a combination of new and traditional medicines – minimising impact on working capital by providing cheaper short-term facilities anchored on the all times low interest rate, SELIC 3.75%, or granting a grace period for interest payment for public banks and DFIs, and offering tax deferrals.

There are further measures to enhance bank lending capabilities by reducing compulsory bank deposit reserves from 25% to 17%, adding c.USD12bn to the financial system. The new medicine is in practice putting in place Paulo Guedes' liberal idea, of reducing labour cost and providing flexible working contract. The result is a relief to companies by reducing tax paid over gross salary, allowing the possibility to reduce the weekly working hours, or even suspending the existing contract, which will be paid temporarily by Federal government.

Despite the effort described above including a c.US\$100 billion fiscal package c.3% of 2020's budget reallocation and c.US\$50 billion additional budget approved the economic slowdown is inevitable – Brazil's GDP is now expected to contract from 2-4%, fiscal deficit may widen from 2% to 7% and public indebtedness climb to 85%.

Energy consumption year-to-date has posted a sharp decline of 1.5% with a year on year 18% reduction from 18 – 30 March. Furthermore, the energy bill has also been the object of an anti-cyclical measure by Bolsonaro's administration – a granted waiver for low income individuals to pay their bills for the next three months, while vetoing distribution companies from stopping supplying energy to those consumers.

Distribution companies ("DisCos") will be impacted by a greater need for working capital, as they are obliged to continue paying the long term energy contracts whilst payment from part of their customer base is being waived, which increases the receivables period. Some companies within the poorest region of the countries have c.20-28% low-income segment as a share of their residential segment.

The Treasury department and Ministry of Energy are providing funding of cUSD\$4 billion to support distribution concessions during this turbulence, replicating the same package designed in 2014 when the same companies faced a sudden shortage of power derived from poor hydrology.

### Lunch is served...

The effort and measures to overcome the challenges that COVID-19 imposes to an emerging economy have been put forward. We all agree there is "no free lunch", but currently our Feijoada (a delicious traditional stew of beans with beef and pork) is being reduced to a Brazilian lunch box, with some familiar and some new flavours thrown in. Our economy needs enough nutrients to have the strength to respond and to be fit for the years to come – recovery and deleveraging in mid-long term is a must.



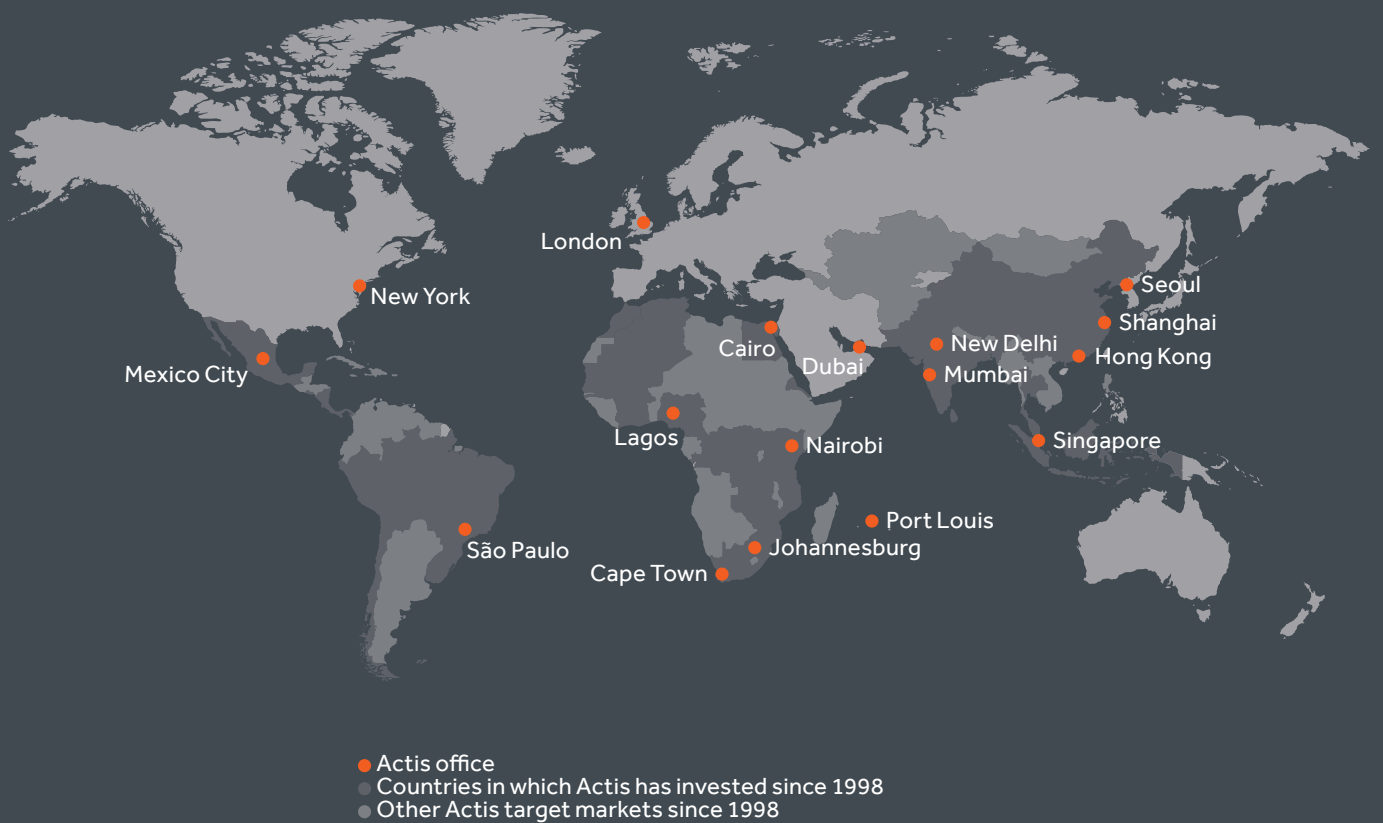


Social distancing at a Brazilian supermarket

Keep safe.

Keep healthy.

Keep in contact.



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