



Report and Recommendation of the President to the Board of Directors

Project Number: 52017-001
June 2018

Proposed Equity Investment Exacta Asia Investment II, L.P. (Regional)

This is a redacted version of document approved by ADB's Board of Directors, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ESMS	–	environmental and social management system
IFC	–	International Finance Corporation
IPO	–	initial public offering
IRR	–	internal rate of return
SMEs	–	small and medium-sized enterprises

NOTE

In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52017-001	
Project Name	Exacta Asia Investment II, L.P.	Department /Division	PSOD/PSIS
Country	INO, MAL, PHI, SIN, THA, VIE		
Investee			
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Infrastructure finance and investment funds		25.00
		Total	25.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Partnerships (PAR)	Implementation	No gender elements (NGE)	✓
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Nonsovereign Operation Risk Rating - NA			
7. Safeguard Categorization	Environment: FI	Involuntary Resettlement: FI	Indigenous Peoples: FI
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB			25.00
Nonsovereign Investment Fund-Equity Investment-LP: Ordinary capital resources			25.00
Cofinancing			0.00
Others			0.00
Others *			225.00
Total			250.00

* Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment of up to \$25,000,000 in Exacta Asia Investment II, L.P. (Exacta II), a fund investing in Southeast Asia.

2. Exacta II will invest growth equity into lower middle-market companies in Southeast Asia according to investment themes relating to domestic consumption and export-driven growth.¹ Exacta II's strategy will take advantage of expansion in the manufacturing, technology and service sectors, driven by the region's young population, rising middle class and inexpensive labor force. Investing in Exacta II would allow ADB to participate in Southeast Asia's continued economic growth while providing development benefits. ADB's investment will help to deepen capital markets in the Southeast Asian countries for lower and middle-market companies who often struggle to find targeted growth equity.

II. THE FUND

A. Investment Identification and Description

3. **Description.** Exacta Capital Partners (Exacta) is a private equity fund manager that invests in companies in Southeast Asia.² Exacta succeeds Mizuho ASEAN Investment GP (MAI GP),³ which Kota Igarashi and Mizuho Bank, Ltd. established in early 2013, as the general partner of Mizuho ASEAN Investment L.P. (Fund I),⁴ the predecessor of Exacta II.⁵ Exacta invests in lower middle-market companies whose growth is driven by domestic consumption and/or exports, and has built in-depth knowledge and expertise in industries such as food and beverages, health care, business services, and manufacturing. Exacta employs 12 staff, including eight investment professionals based in Bangkok, Jakarta, Kuala Lumpur, and Singapore.

4. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].⁶

5. Exacta II, a Cayman Islands exempted limited partnership, is a closed-end private equity fund with a target capitalization of \$250 million. The fund's general partner, Exacta, is a Cayman Islands exempted limited partnership. Exacta will appoint Mizuho Asia Partners Pte. Ltd., a private company with limited liability incorporated in Singapore, as its investment advisor to provide investment advisory and administrative services to the fund.

¹ Exacta II intends to invest in lower middle-market companies, defined as companies with typical enterprise value of \$25 million–\$125 million, to comprise its primary investable universe.

² Exacta will only invest in developing member countries of the Asian Development Bank (ADB). It expects to invest primarily in the core target countries of Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam, which collectively constitute 95% of the investments of Mizuho ASEAN Investment L.P. (Fund I). Exacta may also invest opportunistically in Cambodia, the Lao People's Democratic Republic, and Myanmar. Exacta anticipates investments in Singapore to primarily benefit ADB's developing member countries in Southeast Asia. Exacta II documentation contains limits on the amount of any investment by Exacta II in companies that are primarily active in Singapore.

³ Exacta has the same management team as MAI GP.

⁴ Kota Igarashi is Exacta's chief executive officer. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)]. Further information, including integrity disclosure, is in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

⁵ References to Exacta include, as applicable, its predecessor, MAI GP.

⁶ [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

6. **Investment identification.** Southeast Asia is one of the world's fastest growing economic regions, but it also has one of the lowest private equity penetration rates globally.⁷ The Asian Development Bank (ADB) identified Exacta through its dialogue with 15 private equity funds that invest in Southeast Asia. ADB initiated discussion with Exacta in September 2015 and has actively tracked the platform since then. Through its due diligence, ADB found Exacta to possess a strong culture of ownership among its investment team and a strong alignment of interests with its investors.⁸ The team appears to be cohesive, with no senior member departures since the platform's inception. Through Fund I, Exacta has demonstrated its ability to invest in lower middle-market companies, helping these companies improve their operations and exiting one investment profitably. Notwithstanding its 5-year track record, Exacta ranks favorably among comparable growth private equity funds in Southeast Asia according to Preqin data.⁹ Investing in Exacta II would allow ADB to participate in Southeast Asia's continued economic growth while potentially providing significant development benefits. Exacta will also enable ADB's Private Sector Operations Department to rebalance ADB's private equity fund portfolio's geographic exposure in Southeast Asia. ADB therefore views the proposed investment in Exacta II to be aligned with its private equity fund investment guidelines and a strong addition to its private equity fund portfolio.

B. Business Overview and Strategy

7. Exacta II intends to invest \$10 million–\$40 million per transaction in 10–15 investee companies with a typical holding period of 3–5 years. In instances where capital may be deployed over multiple tranches as a portfolio company scales up, the total investment size may be larger and additional co-investment capital may be sought from its investors. Exacta may commit a portion of ADB's capital toward listed companies and opportunistic investments (such as pre-initial public offering financing and private investment in public companies) to create early liquidity opportunities for investors.

8. While Exacta's investment approach focuses on individual stock picking across multiple sectors, it will also employ top–down portfolio construction principles to achieve the appropriate diversification benefits. Given the demographic and economic profile of Southeast Asia, Exacta has two major investment focuses: domestic consumption-driven businesses and export-oriented manufacturing companies in Southeast Asia. Exacta aims to be mostly an active minority investor, even though its deal team has the skills and experience to invest in majority stakes opportunistically. Exacta II aims to exit investments primarily via trade sales, initial public offerings (IPOs), and share buybacks by the founders and/or majority shareholders.

9. Exacta invests in businesses where there is strong alignment of interests between the founders of target companies and the fund. To aid in monitoring and to provide value-added strategic guidance to management teams, Exacta will typically take on board seats in its investee companies. Exacta has demonstrated its value to investee companies by introducing new technology, operational expertise, and proven brand names (products and services) from Japan to investee companies. Value addition also typically involves Exacta's efforts to grow businesses regionally, leveraging its regional presence and network.

⁷ UBS Group AG. 2017. Southeast Asia Private Equity Overview. Zurich. The report noted that Southeast Asia's private equity penetration of 0.2% is substantially lower than in markets such as the People's Republic of China (0.4%), India (0.4%), the Republic of Korea (1.0%), and the United States (2.5%). The report defines private equity penetration as the average aggregate private equity investment as a percentage of total gross domestic product for a country or region from 2013 to 2015.

⁸ [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

⁹ [Preqin](#). Preqin is a leading source of data and intelligence for the alternative assets industry.

C. Ownership, Management, and Governance

10. **Ownership.** Exacta II is an exempted limited partnership registered in the Cayman Islands. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

11. **Management.** [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)]. Exacta has eight investment professionals and four staff in legal and compliance, technology, finance and accounting, and human resources. Exacta expects to employ at least 14 staff by the final close of the fund.

12. Exacta generally avoids auctions, where company valuation is typically higher because of competitive bidding, and prefers to invest in proprietarily sourced transactions. It usually requires representation on the boards of the investee companies to provide strategic and operational guidance. Exacta has held at least one board seat in all but one of its Fund I portfolio companies.

13. Integrity due diligence was conducted.¹⁰ No significant or potentially significant integrity risks were identified. ADB's review of the entity does not give ADB cause to believe that such entity was established or is being used for money laundering or terrorism financing.

14. Enhanced tax integrity due diligence was conducted.¹¹ ADB's review does not give ADB cause to believe that the transaction is being used for cross-border tax evasion.

15. **Governance structure.** Exacta's investment process is structured in five phases and includes two investment committee meetings.

- (i) **Sourcing and screening phase.** The deal team identifies and evaluates investment opportunities.¹²
- (ii) **Preliminary review phase.** This covers a commercial review of the company and the industry, the identification of a transaction structure, and the development of a preliminary value-added program.
- (iii) **First investment committee meeting.** The deal team obtains approval to incur expenses for due diligence and other transaction fees.
- (iv) **Detailed review phase.** This consists of detailed due diligence with the assistance of external advisors, negotiation of transaction documents, and continued development of a value-added program.
- (v) **Second investment committee meeting.** The deal team obtains approval to execute binding documentation and proceed with the investment.

16. Exacta will seek to put in place multiple exit strategies into each deal and considers the alignment of exit objectives as a key factor for investment.

17. In addition to the investment committee, Exacta will have an advisory committee to provide oversight on governance matters, including the approval of actual or potential conflict of interests. The advisory committee will also review Exacta II's valuation policy and the valuation of investee

¹⁰ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila. Further information, including integrity disclosure, is in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

¹¹ ADB. 2016. *Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity*. Manila. Further information, including integrity disclosure, is in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

¹² The deal team includes all the investment professionals involved in a transaction.

companies. The advisory committee will have up to seven members, who will be representatives of investors designated by the general partner. Exacta has confirmed that ADB will be represented on the advisory committee and Mizuho Bank can nominate one member to the advisory committee. Exacta will also establish an environmental, social, and governance subcommittee to advise Exacta II on relevant matters. All advisory committee members will have the right to appoint one representative to the environmental, social, and governance subcommittee.

D. Financial Performance

18. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

19. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].¹³

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

20. ADB will provide an equity investment of up to \$25,000,000 in Exacta II. ADB's proposed investment will not exceed 25% of Exacta II's total committed capital and will not result in ADB being the single largest investor in the fund.

B. Financial Analysis of Expected Returns and Assumptions

21. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

C. Implementation Arrangements

22. **Exit strategy.** Exacta II has a 10-year term from first closing, subject to two 1-year extensions upon the supermajority consent of the investors. Its anticipated exit strategies include trade sales to local and foreign strategic buyers, IPOs on local or relevant international stock exchanges, secondary sales to other private equity funds, and, where appropriate, share buybacks by the founders and/or majority shareholders of the investee companies.

23. **Reporting arrangements.** Each year, Exacta needs to provide ADB with quarterly reports, annual reports, audited financial statements, quarterly and annual fund overview reports with a short description of each portfolio company, annual environmental and social performance reports, and annual development effectiveness monitoring reports. ADB will review this information and follow up with Exacta if more information or clarification is needed. If the information from Exacta raises issues that could impair the value of ADB's investment in Exacta II, ADB could decide to put the fund on a watch list for more frequent and detailed review.

D. Value Added by ADB Assistance

24. **Promote private sector development.** An investment in Exacta II is in line with ADB's goal to address the unmet demand for private sector financing in Southeast Asia. Through this

¹³ [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

investment, ADB will help finance comparatively small to medium-sized companies in the region. Exacta II also aims to increase business efficiency, labor productivity, and overall employment. ADB's participation will, therefore, support the development of the private sector in countries where equity-related financing is limited and access to bank financing is difficult without hard assets as collateral. Moreover, through Exacta, ADB will foster regional cooperation through the knowledge transfer from Japan to Southeast Asia.

25. **Raise standards.** ADB and other members of the advisory committee will provide oversight on important governance matters, which are critical for companies to demonstrate as they seek additional sources of growth capital.

26. **Provide cofinancing opportunities.** Exacta values ADB's ability to provide both debt and equity financing directly to portfolio companies to help them grow. In addition to providing capital from its own balance sheet, ADB can help mobilize additional financing from third-party sources.

E. Risks

27. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

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IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impacts, Outcome, and Outputs

34. **Impacts.** The proposed investment will support established and well-managed small and medium-sized enterprises (SMEs) and middle-market companies in Southeast Asia in realizing their growth plans, thereby driving employment, tax generation, skills transfer, and regional trade. It will also strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

35. **Outcome.** The financial and social sustainability of private equity investments in Southeast Asia will be demonstrated.

36. **Outputs.** Exacta II is established; and capital is invested among 10-15 companies within the proposed five-year investment period.

B. Alignment with ADB Strategy and Operations

37. **Consistency with ADB strategy.** The proposed investment supports ADB's Midterm Review of Strategy 2020 in two areas: (i) private sector development and operations and (ii) finance sector development.¹⁴ ADB's assistance is an equity commitment to a private equity fund managed by a seasoned fund manager and focused on investing in and building economically sustainable small and medium-sized enterprises in Southeast Asia, which aligns with the Midterm Review of Strategy 2020's efforts to develop financial infrastructure and products.

38. **Consistency with sector strategy and relevant ADB operations.** Exacta II's investment goals align strongly with ADB strategies to enhance the efficiency and transparency of equity markets, removing barriers to financing for small and medium-sized enterprises, and promoting social and inclusive growth. Exacta II's investments are also consistent with ADB's plans for financial sector operations, which prioritize the need to enhance access to finance for small and medium-sized enterprises as part of the sector development agenda and the need to support the three pillars of the real economy: households, SMEs, and infrastructure.¹⁵ Exit strategies such as IPOs and trade sales will also help develop the local capital markets in the region.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

39. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009).¹⁶

40. **Category FI.** ADB has assessed the investment's potential environmental and social impacts, its risks associated with Exacta II's existing or likely future portfolio (or both), and its commitment and capacity for environmental and social management. Exacta II has adopted an environmental and social management system (ESMS) that requires it to appraise and manage investments following the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability; the International Labour Organization's core labor standards; the World Bank Group Environmental, Health and Safety Guidelines; and other industry-specific guidelines.¹⁷ The potential fund investee's business activities are not expected to require major infrastructure development or generate significant, adverse, irreversible, or diverse environmental and social impacts or risks; require involuntary resettlement; or adversely or beneficially affect distinct and vulnerable ethnic minority communities. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

41. Exacta II's ESMS requires it to screen investments against an exclusion list equivalent to ADB's Prohibited Investment Activity List. Investments are classified as one of four environmental and social risk categories (A, B+, B, and C), which align with ADB's Safeguard Policy Statement

¹⁴ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹⁵ ADB. 2011. *Financial Sector Operational Plan*. Manila.

¹⁶ ADB. [Safeguard Categories](#).

¹⁷ IFC. 2012. [IFC Performance Standards on Environmental and Social Sustainability](#). Washington, DC; International Labour Organization. [Conventions and Recommendations](#); and IFC. [Environmental, Health, and Safety Guidelines](#).

category classifications. ESMS procedures and requirements for environmental and social due diligence include the development and implementation of a corrective action plan, while the investment review and approval process explicitly requires inputs from the environmental and social due diligence. The ESMS also includes adequate procedures for required monitoring and reporting of approved investments.

42. ADB will require Exacta II to enhance its existing ESMS to ensure compliance with the Safeguard Policy Statement before ADB's first disbursement. Enhancements include guidance on (i) the alignment of the ESMS investment risk categorization criteria to ADB's environment, involuntary resettlement, and indigenous peoples categorization; (ii) the level of detail required for environmental and social assessments; and (iii) information disclosure and consultation with affected people following ADB's requirements.¹⁸ While Exacta II has not declared an intention to invest in companies engaged in business activities with *category A* impacts, the ESMS includes adequate procedures and requirements for screening, assessing, reviewing, implementing, and monitoring *category A* investments. ADB will have the right to be excused from contributing capital to any proposed investment that it assesses as being noncompliant with the ESMS.

43. Exacta's environmental and social team will supervise all investees against environmental and social risks and any agreed time-bound action plans; and report the investees' performance to ADB through its annual ESMS reporting, which is due 90 days from the end of each financial year.

44. **No gender elements.** Exacta II is limited in its capacity to generate measurable gender mainstreaming outcomes within portfolio companies. The ESMS sets out requirements for compliance, as applicable, with (i) national labor laws; (ii) measures to comply with internationally recognized core labor standards, pursuant to ADB's Social Protection Strategy (2001); and (iii) information disclosure and consultation with affected people.

B. Anticorruption Policy

45. Exacta was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism; and remedies for ADB in the event of noncompliance.

C. Investment Limitations

46. [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)].

D. Assurances

47. Consistent with the Agreement Establishing the Asian Development Bank (the Charter), ADB will proceed with the proposed assistance upon establishing that the governments of the ADB member countries where the fund will invest have no objection to the proposed assistance

¹⁸ Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary; and Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2).

to Exacta II.¹⁹ ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

VI. RECOMMENDATION

48. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the equity investment of up to \$25,000,000 from ADB's ordinary capital resources in Exacta Asia Investment II, L.P., with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Stephen Groff
Vice-President

18 June 2018

¹⁹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with			
<p>Support provided for established and well-managed small and medium-sized enterprises and middle-market companies in Southeast Asia to realize their growth plans, thereby driving employment, tax generation, skills transfer, and regional trade^a</p> <p>Capacity of domestic financial institutions strengthened to encourage and expand access to banking, insurance, and financial services for all (Sustainable Development Goal 8.10)^b</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Financial sustainability of private equity investments demonstrated	a. At least 75% of the fund invested in target industries by 2023 (2018 baseline: 0) b. Fund yield (aggregate internal rate of return) reached at least 8% in United States dollar terms by 2028 (2018 baseline: not applicable) c. Fund investee companies grew employment by at least 10% during the holding period (2018 baseline: not applicable) d. Fund investee companies generated at least a 25% increase in taxes paid on an aggregate basis by 2028 (2018 baseline: not applicable)	a–d. Exacta II's annual development effectiveness monitoring reports; Exacta Capital Partners' quarterly and annual reports on Exacta II	Market dynamics and sector cycles affect investment opportunities within target industries. Unsuccessful exit from investments adversely affects returns. Foreign exchange rates fluctuate, changes to monetary and fiscal policies, as well as foreign exchange control regulations.
Outputs 1. Exacta II established 2. Capital invested	1. Exacta II established with \$250 million in aggregate limited partner commitments by Q1 2019 (2018 baseline: 0) 2. Exacta II's invested capital deployed to 10–15 portfolio companies by 2023 (2018 baseline: 0)	1–2. Exacta II's annual development effectiveness monitoring reports; Exacta Capital Partners' quarterly and annual reports on Exacta II	The investor base is weaker than expected and the fund is unable to raise the targeted \$250 million. The investment pipeline is weaker than expected and leads to deployment challenges. Competition from other investors reduces the attractiveness of investment opportunities.

Key Activities with Milestones Output 1: Exacta II established 1.1 Execute ADB's legal documentation by Q3 2018. 1.2 ADB and other investors invest in Exacta II by final closing in Q1 2019. Output 2: Capital invested 2.1 Exacta II sources, screens, and invests in companies from 2018 to 2023.
Inputs ADB: \$25 million (equity) Others: \$225 million (equity)
Assumptions for Partner Financing Not Applicable ADB = Asian Development Bank; Exacta II = Exacta Asia Investment II, L.P.; Q = quarter. ^a Defined by project. ^b United Nations. Sustainable Development Goal 8 . Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=52017-001-4>

1. Sector Overview
2. Ownership, Management, and Governance
3. Details of Implementation Arrangements
4. Contribution to the ADB Results Framework
5. Financial Analysis
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Safeguards and Social Dimensions Summary
9. Financial Intermediary: Environmental and Social Management System Arrangement