



# Report and Recommendation of the President to the Board of Directors

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Project Number: 47927  
October 2013

## Proposed Equity Investment OrbiMed Asia Partners II, LP Fund

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 25 September 2013)

Currency unit – US dollars (\$)

## ABBREVIATIONS

ADB	–	Asian Development Bank
ESMS	–	environmental and social management system
IPO	–	initial public offering
IRR	–	internal rate of return
OECD	–	Organisation for Economic Co-operation and Development
PEF	–	private equity fund
PRC	–	People's Republic of China
TA	–	technical assistance

## NOTE

In this report, "\$" refers to US dollars.

<b>Vice-President</b>	L. Venkatachalam, Private Sector and Cofinancing Operations
<b>Director General</b>	T. Freeland, Private Sector Operations Department (PSOD)
<b>Director</b>	M. Barrow, Private Sector Infrastructure Finance 1 (PSOD)
<b>Team leader</b>	J. Hall, Senior Investment Specialist, PSOD
<b>Team members</b>	I. Aguilar, Social Development Officer (Safeguards), PSOD
	H. Cruda, Senior Safeguards Specialist, PSOD
	S. Durrani-Jamal, Senior Economist, PSOD
	M. Greenhow, Senior Counsel, Office of the General Counsel
	B. Liu, Investment Specialist, PSOD
	T. Minnich, Principal Investment Specialist, PSOD
	A. Porras, Safeguards Officer, PSOD
	S. Roth, Senior Social Development Specialist, Regional and Sustainable Development Department

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## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE FUND	1
A. Investment Identification and Description	1
B. Business Overview and Strategy	1
C. Ownership, Management, and Governance	2
D. Financial Performance	3
III. THE PROPOSED ADB ASSISTANCE	3
A. The Assistance	3
B. Financial Analysis of Expected Returns and Assumptions	3
C. Implementation Arrangements	4
D. Value Added by ADB Assistance	4
E. Risks	5
IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT	6
A. Development Impact, Outcome, and Outputs	6
B. Alignment with ADB Strategy and Operations	7
V. POLICY COMPLIANCE	8
A. Safeguards and Social Dimensions	8
B. Anticorruption Policy	9
C. Investment Limitations	9
D. Assurances	10
VI. RECOMMENDATION	10
APPENDIXES	11
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

## PROJECT AT A GLANCE

<b>1. Project Name:</b> OrbiMed Asia Partners II, LP Fund		<b>2. Project Number:</b> 47927	
<b>3. Country:</b> Regional		<b>4. Department/Division:</b> Private Sector Operations Department / Private Sector Investment Funds & Special Initiatives Division	
<b>5. Sector Classification:</b>			
Sectors		Primary	Subsectors
Finance		√	Finance sector development; Investment Funds
Health and Social Protection			Health Finance, Health programs
<b>6. Thematic Classification:</b>			
Themes		Primary	Subthemes
Private sector development		√	Private sector investment
Capacity development			Client relations, network and partnerships
<b>6a. Climate Change Impact:</b>		<b>6b. Gender Mainstreaming:</b>	
Adaptation		Gender equity theme	
Mitigation		Effective gender mainstreaming	
Not applicable	√	Some gender benefits	
		No gender benefits	√
<b>7. Targeting Classification:</b>		<b>8. Location Impact:</b>	
<b>General Intervention</b>	<b>Targeted Intervention</b>		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
<b>9. Nonsovereign Operation Risk Rating : Not applicable (N/A)</b>			
<b>10. Safeguard Categorization:</b>			
Environment		FI	
Involuntary resettlement		FI	
Indigenous peoples		FI	
<b>11. ADB Financing:</b>			
<b>Sovereign/Nonsovereign</b>	<b>Modality</b>	<b>Source</b>	<b>Amount (\$ million)</b>
Nonsovereign	Equity	OCR	Up to \$60,000,000
<b>12. Cofinancing: N/A</b>			
<b>Financier</b>	<b>Category</b>		<b>Amount (\$ million)</b>
<b>Total</b>			
<b>13. Counterpart Financing: N/A</b>			
<b>14. Aid Effectiveness: N/A</b>			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment of up to \$60,000,000 in the OrbiMed Asia Partners II, LP Fund, not to exceed 25% of the fund's total capital commitments and not resulting in the Asian Development Bank (ADB) being the single largest investor in the fund.

## II. THE FUND

### A. Investment Identification and Description

2. **Description.** The fund, a Cayman Islands limited partnership, is a close-ended private equity fund (PEF) with a target capitalization of \$300 million that will invest in health care companies in Asia. The general partner will be OrbiMed Asia GP II, LP, a Cayman Islands exempted limited partnership. It will have an advisory services agreement with OrbiMed Advisers LLC (OrbiMed), a global health care asset manager. The shareholders of OrbiMed are substantially the same as the beneficial owners of the general partner.<sup>1</sup>

3. **Investment identification.** The fund's concept was driven by a 2011 cross-division regional project preparatory technical assistance (TA) project spearheaded by the Private Sector Infrastructure Finance 1 division of the Private Sector Operations Department, alongside the Private Sector Investment Funds and Special Initiatives division.<sup>2</sup> The goal of the TA was to examine the feasibility of establishing a PEF that would target opportunities that could commercialize affordable and accessible drug therapies for Asia's poor, and thereby increase the current low level of health sector interventions by the Private Sector Operations Department.<sup>3</sup> The TA project, led by global consulting firm McKinsey & Co., concluded that a successful health-focused private equity fund would experience stronger commercial success with a diversified investment portfolio of both therapeutic and nontherapeutic assets.

4. ADB invited 11 fund managers to express their interest in assisting in the implementation of the TA and the production of a formal report that could be used to establish an Asia-focused health care PEF aligned with ADB's development goals. At the conclusion of this process, OrbiMed was judged to be the most capable in establishing and managing such a PEF based on its platform and its previous success with its first fund, OrbiMed Asia Partners I, LP.<sup>4</sup>

### B. Business Overview and Strategy

5. Providing affordable and high-quality health care is an increasing challenge for ADB's developing member countries, particularly because of the region's unique patient and health care dynamics, including lower affordability, high prevalence of certain diseases, geographical dispersion, and urban and rural inequalities.<sup>5</sup>

6. In designing a PEF that will target commercial health care opportunities, the fund will leverage both (i) the expertise and track record of OrbiMed's global health care investing platform, and (ii) the TA outputs. The TA outputs include 29 key health care themes—19 in India and 10 in the People's Republic of China (PRC)—identified by the market analysis. (This

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<sup>1</sup> Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

<sup>2</sup> ADB. 2007. *Technical Assistance for Asia Life Sciences Fund*. Manila.

<sup>3</sup> See Summary of Regional Project Preparatory Technical Assistance for Asia Life Sciences Fund (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> OrbiMed agreed to reimburse ADB up to \$1.5 million for specific costs ADB incurred in relation to the TA.

<sup>5</sup> Sector Overview (accessible from the list of linked documents in Appendix 2).

information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

## **C. Ownership, Management, and Governance**

### **1. Ownership**

7. The fund is a Cayman Islands exempted limited partnership that will comprise strategic investors, foundations, family offices, and other institutional investors. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

8. The Cayman Islands is on the list of jurisdictions that have substantially implemented the internationally agreed tax standard.<sup>6</sup> The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) has determined, following its phase 1 peer review of the Cayman Islands, that the country has in place all the elements assessed to date in relation to the internationally agreed tax standard.<sup>7</sup>

9. Following a review of the fund, ADB does not believe that it has been established or is being used for cross-border tax evasion, money laundering, or terrorism financing.

### **2. Management**

10. The general partner is affiliated with the Delaware limited liability company, OrbiMed, which is the world's leading health care investing platform with more than \$7 billion in net assets under management as of 1 April 2013. OrbiMed maintains one of the strongest management teams of all health-care-focused PEFs in the market with 60 investment professionals—20 of whom hold PhDs or MDs, and 10 of whom are former chief executive officers or founders of health care businesses. OrbiMed professionals also serve on the boards of more than 50 health care companies. OrbiMed is one of the first health care investment firms to establish and manage a pan-Asia health care PEF—OrbiMed Asia Partners I, a \$182 million fund launched in 2008—and to maintain a significant team focused on health care investments across multiple Asian markets (footnote 1).

11. The general partner will staff a dedicated Asia team comprising at least 11 investment professionals (substantially the same team that managed OrbiMed Asia Partners I) based in OrbiMed's Shanghai and Mumbai offices (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy). OrbiMed's investment professionals have extensive local networks in the medical, scientific, health care, and private equity industries, as well as with regulatory bodies, in Asia. The Asia team will also leverage the resources and expertise of the OrbiMed platform, including the public equity team, the global private equity team, the royalty team, and other professionals across finance, legal, compliance, trading, and information technology.

12. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.) After reviewing OrbiMed's policies to combat money-laundering and the financing of terrorism, ADB is satisfied that sufficient integrity checks and

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<sup>6</sup> Organisation for Economic Co-operation and Development (OECD). 2012. *Progress Report on the Jurisdictions Surveyed by the OECD Global Forum in Implementing the Internationally Agreed Tax Standard*. Paris.

<sup>7</sup> OECD. September 2013. *Progress Report to the G20 Leaders: Global Forum Update on Effectiveness and On-going Monitoring*. Paris.

screening measures are in place (footnote 1). (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

### **3. Governance Structure**

13. The general partner will follow a three-stage investment process based on an approach developed and refined through its 20 years of health care investing: (i) investment screening of each potential portfolio company's operations, products, market opportunity, and valuation against the fund's mandate and strategy; (ii) deal structuring and due diligence; and (iii) preparation of investment proposals for presentation to the fund's investment committee.

14. Once an investment has been made, the team assists portfolio companies with strategic and operational objectives. One of the team's competitive advantages (relative to other Asia-only generalist firms) is the ability to tap into OrbiMed's global relationships with private and publicly traded health care companies. The general partner leverages these relationships to drive many facets of growth for portfolio companies, including business development, product licensing opportunities, and mergers and acquisition activity. The team members draw upon their decades of collective operating and management experience as entrepreneurs and board members to help portfolio companies achieve strong growth.

15. In addition to the investment committee, the fund also has an advisory committee of up to seven members representing the fund's investors. ADB will be represented on the advisory committee.<sup>8</sup>

### **D. Financial Performance**

16. OrbiMed, through funds under its management, has made private investments in the health care sector since 1993 and has developed a track record of effectively exiting investments at attractive returns. The funds managed by OrbiMed have invested about \$1.6 billion in more than 155 private investments across a wide range of health care subsectors and company stages. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

## **III. THE PROPOSED ADB ASSISTANCE**

### **A. The Assistance**

17. ADB will provide an equity investment of up to \$60,000,000 in the fund, not to exceed 25% of the fund's total capital commitments and not resulting in ADB being the single largest investor in the fund.

### **B. Financial Analysis of Expected Returns and Assumptions**

18. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

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<sup>8</sup> The role of the advisory committee is to represent the interests of the fund's investors. It will not participate in the fund's investment process or make investment decisions. A more detailed description is in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

## C. Implementation Arrangements

### 1. Exit Strategy

19. The fund has a 10-year term from final closing, with two options to extend for a maximum of 1 year each.<sup>9</sup> OrbiMed anticipates that the exit strategies for the fund's investments will include public offerings on both Asian and North American exchanges, and trade sales of portfolio companies to strategic buyers.<sup>10</sup> Sales to strategic buyers, including larger private equity firms, will likely be the most common exit strategy for portfolio companies. As many large developed-country health care companies are seeking to expand their activities in Asia, the mergers and acquisition markets in the PRC and India are expected to be active and grow robustly.

### 2. Reporting Arrangements

20. The general partner will provide ADB with (i) quarterly unaudited reports; and (ii) audited annual reports, including financial statements, a fund overview, and an overview of the portfolio with brief information on each portfolio company's performance and valuation. ADB will review this information and will follow up with the general partner when more information or clarification is needed. If the information received from the general partner raises issues that could impair the value of ADB's investment in the fund, ADB will decide whether to put the fund on a watch list for more frequent review and closer attention.

21. The general partner will be required to submit its environmental and social management system (ESMS) to ADB and to report annually on environmental and social safeguards issues and development effectiveness indicators. ADB will monitor the receipt and quality of the ESMS reports and offer guidance if the general partner requires clarification on ADB's safeguard requirements.

## D. Value Added by ADB Assistance

22. **Refinement of investment approach.** Through the regional project preparatory TA (para. 3), ADB played a key role in (i) refining OrbiMed's investment strategy for the health sector in Asia, and (ii) helping the general partner capture the link between successful health care investing and solutions for the underserved. The TA helped the general partner identify more than 50 potential investees with potential for high development impact within its three targeted categories of operations: (i) for products—a manufacturer of affordable, portable diagnostics equipment for easy deployment in rural areas focused on HIV, hepatitis, tuberculosis, and dengue; (ii) for services—a network of primary health care clinics in tier 2 and tier 3 cities in northern India;<sup>11</sup> and (iii) for cost-advantageous production—a branded generic products company with an innovative distribution model for rural areas. The success of this strategy—and ADB's presence in the fund—will help signal that commercial investor returns in this sector can be made with impact-oriented investments.

<sup>9</sup> Any further extensions will be subject to unanimous approval of the advisory committee (including ADB's consent).

<sup>10</sup> The general partner will have the flexibility of listing on multiple exchanges, including the Hang Seng in Hong Kong, China and the Nasdaq in New York. While a recent reduction in initial public offering activities in the PRC was noted during due diligence, this is seen as a temporary, cyclical slowdown that will not limit the fund's ability to exit from its portfolio during its divestment phase.

<sup>11</sup> Generally, in India, tier 1 cities refer to those having a population of 10 million or more; tier 2 for those cities having a population between 1 million to less than 10 million, and tier 3 for those cities with a population size of less than 1 million.



23. **Capital mobilization.** Based on its experience with its first fund and the outputs of the TA, the general partner's refined investment strategy requires a larger fund size (at least \$300 million) that it can deploy, at scale, to make investments that will establish benchmarks for both the private equity industry and the Asian health care sector. To achieve this \$300 million target, the general partner is seeking ADB's participation as an anchor investor based on ADB's presence and reputation in Asia. ADB's commitment of up to \$60 million is therefore expected to send a strong signal to other investors, validating the social and development impact against a backdrop of strong financial returns. It is a prime example of ADB's "Finance++" concept of leveraging the institution's reputation and capital to mobilize third-party investment activity in developing member countries. ADB's investment is expected to mobilize at least \$180 million in additional commitments from investors.

24. Health care is a specialized sector within the private equity asset class, with limited distribution across mainstream institutional investors. This is especially true for Asian health care private equity, which operates in a sector with a deficit in overall spending. By investing in the fund, ADB will support the concept of health care investing through pooled investment vehicles, which are then envisaged to help unlock capital from fresh sources available for health care opportunities that can reach the underserved—and not just export-oriented, lower-cost, and generic therapies. Furthermore, while several funds target health care opportunities in North America and Europe, many institutional investors who are not familiar with investing in emerging markets have viewed an Asia-specific health care fund as being too specialized of an investment strategy, which presents a significant financing market gap.

25. **Raising standards.** ADB's presence as an anchor investor in the fund obligates the general partner to ensure that its investee companies comply with environment and social safeguard standards, and to report on development indicators. ADB's role, along with other members of the fund's advisory committee, will be to assist in providing oversight on important governance matters that are essential for companies to demonstrate as they seek additional sources of growth capital from institutional and/or individual investors.

## E. Risks

26. **Deal pipeline.** While the demand for private financing in Asia's health care sector is vast, these markets are also competitive. There is some risk that the fund's committed capital will not be fully invested within the investment period or that the fund's investment objectives will not be fully realized. Partially mitigating this risk is (i) a pipeline totaling more than \$840 million identified for further due diligence by the general partner, with several potential deals in advanced stages of discussion; and (ii) OrbiMed's extensive track record, experience, and platform, which includes a significant team across key Asian markets for sourcing deals. Further, the general partner has a wide network of local industry relationships that provides it with significant access to proprietary deals. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

27. **Concentration.** While the general partner intends to invest in a diversified portfolio, the fund may be exposed to certain geographic and sector concentration risks due to its investment strategy. This risk is partially mitigated by the fund's diversification mandate: (i) no single investment may exceed 20% of the fund's aggregate commitments, (ii) no single health care subsector may exceed 65% of the fund's aggregate commitments with a minimum of three health subsectors to be invested, and (iii) no single country may exceed 70% of the fund's aggregate commitments.

28. **Potential conflict of interest.** OrbiMed conducts a wide range of investment activities across the globe and through various local teams. Situations may arise where OrbiMed may have an interest that conflicts with its duties or that of the fund. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.) Another conflict of interest could arise from OrbiMed fundraising for a successor fund during the investment period of the fund. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.) Where other specified potential conflicts of interest arise, the general partner will be required to refer the matter to its advisory committee, which will include a representative from ADB, for resolution. In addition, any member of the advisory committee, investment committee, and OrbiMed may present to the advisory committee a potential conflict of interest with respect to any proposed portfolio investment by the fund. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.)

29. **Divestment and exit risks.** The fund will pursue the following exit strategies in order of priority: trade sale, IPO, put option (if there is no IPO in 6 months), and drag-along rights.<sup>12</sup> OrbiMed usually structures a liquidation preference for its investments. While divestments might be difficult because of the state of capital markets in the target countries, the fund is not expected to be constrained by regulatory restrictions on exits. However, given varying regulatory environments in the target markets, the fund is keeping all exit options open depending on market conditions. Such flexibility is necessary to mitigate exit risks in the target countries.

30. **Regulatory and legal risks.** Potential risks to portfolio companies may arise because of regulatory changes in laws pertaining to the health care sector. To mitigate this risk, all OrbiMed funds consider potential legal and regulatory risks to prospective portfolio companies. To address such potential risks, the firm performs extensive due diligence, such as (i) reviewing historical correspondence between regulators and prospective portfolio companies, (ii) evaluating the risk of product rejection and/or withdrawal because of regulatory actions, and (iii) analyzing likely future reimbursement rates for health care products from public and private payers. In this fund, OrbiMed will invest the vast majority of its capital in commercial stage companies (i.e., those not at risk from clinical trial failures or regulatory rejections of key products).

31. **General risks.** The fund will be subject to the typical risks associated with equity and PEF investments not already mentioned, including (i) political, economic, and social risks; (ii) risks involving the performance of the underlying investment; (iii) liquidity risks; (iv) capital raising risks; (v) accounting and disclosure risks; and (vi) repatriation and tax risks.

#### IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

##### A. Development Impact, Outcome, and Outputs

###### 1. Impact

32. The success of the fund is expected to catalyze additional health-focused investments in the region through the private equity modality. The expected long-term impacts of the proposed

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<sup>12</sup> A put option is a contract giving a shareholder the right, but not the obligation, to sell its stake at a specified price within a specified time. Drag-along rights provide assurances to a minority shareholder that it may join any other investor (including the majority shareholder) in any sale transaction under the same price and terms.

investment are (i) improved access and affordability of health care goods and services in developing member countries, and (ii) the establishment of new health-focused funds in Asia and the Pacific which reflects development of the private equity industry. ADB's participation will provide institutional support to the fund, while also catalyzing future private equity activity (potentially resulting in similar funds being raised in the future). The private equity modality is expected to benefit health care companies in the PRC and India by (i) creating sustainable long-term value, (ii) improving the overall quality of health care goods and services, (iii) raising overall health care industry standards, and (iv) transferring international best practices to portfolio health care companies. These equity investments in health care, along with other needed public sector reforms, are expected to reduce out-of-pocket health expenditures in the PRC and India, which are home to 46% of the world's extreme poor (by number).

## **2. Outcome**

33. The outcome is that the fund achieves positive financial returns with social benefits, and thus the viability of financing Asian emerging market health care through private equity. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy.) The fund also expects to improve the corporate governance and transparency of its investee companies, wherever needed, and contribute to overall (net) job creation and tax contributions.

## **3. Outputs**

34. The output will be the establishment of the fund and investment of the fund's committed capital. ADB's participation will send positive signals to the market, catalyzing investments from additional investors—particularly first-time investors in the sector or Asia's developing markets. This will enable the fund to reach the critical mass needed to create a diversified portfolio of health care investments. (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy).<sup>13</sup>

## **B. Alignment with ADB Strategy and Operations**

### **1. Consistency with Strategy 2020 and Country Strategy**

35. The fund will support Strategy 2020 in two areas: financial sector development and the health sector. ADB's assistance is an equity commitment into one of the largest pan-Asia, non-captive private equity funds focused on health care products and services. It is aligned with Strategy 2020's efforts to develop financial infrastructure and products. The assistance addresses a sector that ADB recognizes as "vital to development, productivity, social inclusion, and gender equity."<sup>14</sup>

36. Strategy 2020 supports inclusive growth and opportunities for innovation and value-added technology development. The strategy also recognizes the importance of cost-effective and quality health services. The Operational Plan for Improving Health Access and Outcomes

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<sup>13</sup> (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy).

<sup>14</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

Under Strategy 2020 supports health outcomes through more cost-effective services and regional public goods, and emphasizes developing partnerships with the private sector.<sup>15</sup>

37. The fund is aligned with the country partnership strategy for the PRC, 2011–2015<sup>16</sup> by financing catalytic projects that (i) drive change in private sector development, and (ii) provide an alternative source of capital to reduce the PRC’s reliance on TA funds and external financing to introduce innovation and access new technology. The fund will also contribute to the comprehensive health approach in the country partnership strategy for India, 2009–2012<sup>17</sup> by complementing ADB’s ongoing interventions in public health and sanitation with the delivery of improved health care systems and services.

## **2. Consistency with Sector Strategy and Relevant ADB Operations**

38. According to the health sector operational plan (footnote 16), ADB will (i) build on areas of the health care sector where it has distinct and demonstrable comparative advantages, (ii) work closely with other agencies showing technical expertise in health, and (iii) focus on—and measure—the health outcomes of its activities. Investment in the fund is consistent with these three aspects, as ADB will (i) leverage its institutional strength to mobilize capital into the health care private equity asset class, (ii) partner with the sector’s leading manager in health care investing, and (iii) establish a framework to monitor the outcomes and impacts of the investment.

## **3. Lessons from Previous Operations**

39. In May 2006, ADB approved a \$20 million equity investment in the Asia Healthcare Fund LP, which intended to invest in health care companies in India and other emerging Asian markets. The targeted \$200 million fund was subsequently terminated in March 2008 as it was unable to reach financial closure, primarily because of the fund’s challenges of launching with a first-time fund manager in an infant sector.

40. The lesson drawn from this experience is the importance in selecting an experienced and reputable fund manager with a proven track record in fundraising (and subsequently capital deployment). Highly attuned to this lesson, ADB selected an established, top-tier fund manager to execute this investment. ADB is confident that OrbiMed’s platform and track record establishes the firm as the best in its class and more than capable of achieving both developmental and financial project outcomes.

# **V. POLICY COMPLIANCE**

## **A. Safeguards and Social Dimensions**

41. Potential environmental impacts that may arise from the fund’s operations (manufacturing, marketing, and distribution of pharmaceuticals, medical devices, and diagnostics; operations of hospital groups and laboratory chains; and other services such as contract research manufacturing) include the generation of domestic and hazardous solid waste, air emissions, and wastewater discharges contaminated with infectious and hazardous materials and wastes. Other potential issues include threats to biodiversity, those related to bioethics, and occupational health and safety hazards. While varied, most of these impacts are

<sup>15</sup> ADB. 2008. *An Operational Plan for Improving Health Access and Outcomes Under Strategy 2020*. Manila.

<sup>16</sup> ADB. 2012. *People’s Republic of China: Country Partnership Strategy, 2011–2015*. Manila.

<sup>17</sup> ADB. 2009. *India: Country Partnership Strategy, 2009–2012*. Manila.

site-specific and largely reversible, and can be avoided or mitigated by adhering to recognized international guidelines and best practices, and design criteria. Thus, it is likely that the fund's portfolio companies will be classified category B, while this transaction is classified category FI in accordance with ADB's Safeguard Policy Statement (2009). On social safeguards, the investment is expected to be classified FI treated as C since impacts on involuntary resettlement and indigenous peoples are unlikely.

42. In accordance with the Safeguard Policy Statement, the fund will establish and implement an ESMS commensurate with the impacts and risks of its operations and that of its portfolio companies. The fund's ESMS will include a provision to ensure that investee companies will establish and implement an ESMS that matches their operations' impacts and risks. The fund and its investee companies will comply with the applicable laws and regulations on environment and health and safety, (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy).<sup>18</sup> The fund's ESMS will include provisions requiring the fund and portfolio companies to comply with national labor laws (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy), in accordance with ADB's Social Protection Strategy,<sup>19</sup> (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy). The project is categorized as having no gender elements. However, the fund may have opportunities to invest in companies providing maternal and child care services, as well as potentially address the associated high out-of-pocket expenditures, especially in rural areas.<sup>20</sup>

43. During due diligence, the fund's key investment staff committed to establish, implement, and have in place an ESMS that is satisfactory to ADB before ADB's first investment in a portfolio company. A member of the general partner with the required qualifications and skills will be designated as the ESMS officer.

## **B. Anticorruption Policy**

44. OrbiMed and the general partner were 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**

45. The proposed equity investment is within the medium-term country, industry, group, and single-investment exposure limits for nonsovereign investments.

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<sup>18</sup> (This information was deemed confidential according to exception no. 97(iv) and 97(v) of ADB's Public Communications Policy).

<sup>19</sup> ADB. 2001. *Social Protection Strategy*. Manila.

<sup>20</sup> Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary; Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2.)

**D. Assurances**

46. Consistent with the Agreement Establishing the Asian Development Bank,<sup>21</sup> the no objection of the Governments of the PRC and India and any other member country of ADB where the fund will invest will be obtained. 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**

47. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the equity investment of up to \$60,000,000 in the OrbiMed Asia Partners II, LP Fund, from ADB's ordinary capital resources, 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.

Takehiko Nakao  
President

21 October 2013

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<sup>21</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved access and affordability of health care goods and services in DMCs</p> <p>Establishment of new health-focused funds in Asia and the Pacific</p>	<p>Out-of-pocket expenditures (as a % of private expenditure on health care) decreases to 77% by 2027 (from an average of 82% in 2010<sup>a</sup>) in ADB's DMCs with highest numbers of extreme poor</p> <p>By 2027, at least three other health care funds are launched in Asia</p> <p>By 2027, at least one other health care-focused funds targeting products and services for middle- to lower-income households are launched in Asia</p>	<p>WHO reports and <a href="http://data.worldbank.org">http://data.worldbank.org</a></p> <p>Preqin database</p> <p>Preqin database</p>	<p><b>Assumptions</b> Affordability is achieved through a combination of indigenized development, government subsidies, and medical plans</p> <p>Health care reforms led by the government</p> <p><b>Risk</b> Market opportunities in sectors other than health care are more attractive</p>
<p><b>Outcome</b> OrbiMed achieves positive financial returns with social benefits</p>	<p>By 2025, at least 75% of the fund's portfolio companies have accessed alternative sources of capital (e.g., through IPO, secondary sales)</p> <p>The fund yields at least 8% in aggregate net IRR</p> <p>By 2025, 100% of portfolio companies that required improvement in corporate governance demonstrate improvement in this area</p> <p>By 2025, fund portfolio</p>	<p>Fund's quarterly and annual reports; investee company's annual reports and audited financial statements</p> <p>Fund's annual audited financial statements and investee company data</p> <p>Contractual agreements with investee companies</p> <p>Human resource records</p>	<p><b>Assumption</b> Appropriate monitoring and social impact assessment tools are used to assess the fund's development outcomes</p> <p><b>Risks</b> General macroeconomic risks</p> <p>Counterparty risk</p> <p>Exit options fail to materialize</p>

<b>Design Summary</b>	<b>Performance Targets and/or Indicators with Baselines</b>	<b>Data Sources and/or Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
	<p>companies generate an aggregate net increase of at least 10% in jobs</p> <p>By 2025, 70% of portfolio companies demonstrate a measurable improvement in the delivery of health care goods and services (i.e., quality, lower cost, improved access, and innovation as applicable)</p> <p>By 2025, fund's portfolio companies generate at least a 10% real increase in taxes paid on an aggregate basis.</p>	<p>of investee companies</p> <p>Fund's development effectiveness monitoring report; contractual agreements with investee companies</p> <p>Fund's development effectiveness monitoring report; contractual agreements with investee companies</p> <p>Audited financial statements of investee companies</p>	
<p><b>Output</b> The OrbiMed health care fund is established and capital is invested</p>	<p>The fund is closed with \$300 million in aggregate LP commitments by Q1 2014</p> <p>75% of committed capital is deployed within the investment period into 15–20 portfolio companies during 2014–2020</p> <p>The fund establishes an independent advisory committee (with ADB representation) before first disbursement</p> <p>The fund establishes an ADB-approved ESMS framework before first disbursement</p> <p>100% of the fund's</p>	<p>Fund reports</p> <p>Fund reports</p> <p>Fund reports</p> <p>Fund legal documents</p> <p>Fund's development</p>	<p><b>Assumption</b> The fund is able to raise the targeted capital commitments</p> <p><b>Risks</b> Weaker-than-expected investment pipeline, or inability of fund manager to execute on intended pipeline opportunities</p> <p>Exogenous factors (e.g., competition from other investors, currency rates) adversely affect capital deployment</p> <p>Exit options fail to materialize</p>



<b>Design Summary</b>	<b>Performance Targets and/or Indicators with Baselines</b>	<b>Data Sources and/or Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
	investments establish baseline data to gauge improvement in the delivery of health care goods and services (i.e., quality, lower cost, improved access, and innovation as applicable <sup>b</sup> )	effectiveness monitoring report; contractual agreements with investee companies	
<b>Activities with Milestones</b> 1. Operational arrangements (i) ADB's legal documentation is executed as by Q1 2014. (ii) Fund establishment activities are completed by Q1 2014. 2. Financing arrangements: ADB and other investors invest in fund by Q1 2014. 3. Fund activities (assuming final closing by Q1 2014) (i) The fund promotes itself in the market (2013–2014) (ii) The fund sources, screens, and invests in companies (2014–2020) (iii) The fund adds value to its investee companies (2014–2024) (iv) The fund seeks appropriate exit opportunities for its investees (2021–2024)			<b>Inputs</b> ADB: Up to \$60 million, not to exceed 25% of total fund size  OrbiMed: Up to \$10 million and fund management team activities (e.g., fundraising, deal execution)  Other investors expected to commit up to \$230 million

ADB = Asian Development Bank, DMC = developing member country, ESMS = environmental and social management system, IPO = initial public offering, LP = limited partner, WHO = World Health Organization.

- a. Of the 1.2 billion people living on less than \$1.25 per day in 2010, 13% lived in the People's Republic of China (PRC) and 33% in India. In 2010, average out-of-pocket health expenditures in the PRC and India (as a percentage of private expenditure on health) were 77.2% in the PRC and 86% in India. Source: World Bank's Poverty Reduction and Economic management staff estimates. (<http://data.worldbank.org/indicator/>)
- b. Suitable indicators and targets for these four criteria, as well as corporate governance, will be developed for each investee company and included in contractual agreements between the fund and investee companies.

Source: Asian Development Bank

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=47927-01-4>

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. Environmental and Social Management System Arrangements

#### **Supplementary Document**

10. Summary of REG: Project Preparatory Technical Assistance for Asia Life Sciences Fund