PRIVATE EQUITY INSTITUTE
SAID BUSINESS SCHOOL
UNIVERSITY OF OXFORD

Saïd Business School cases

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Aureos Capital

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Introduction

Jack Edmondson sat in his office at Oxford University Endowment Management looking through a presentation he had been sent by Aureos Capital. As an Investment Director at OUEM he was responsible for building a portfolio of private equity investments. In so doing, Jack tended to look for private equity funds that gave the Oxford Endowment exposure to equity returns that could not be obtained via public markets. For instance, funds focused on early-stage ventures or distressed companies could yield attractive returns at the right time in the economic cycle, but were not easily replicated via public market investments. Similarly, the buy-out funds that focused on large public or private companies were not usually attractive – unless they could demonstrate exceptional ability to transform companies and create value in excess of their not inconsiderable fees.

For some months Jack had been thinking about emerging markets. Various routes were available to obtain exposure to equity returns in emerging markets, but many of the easily traded instruments and funds tended to have a bias towards Asia and the larger emerging markets. But Jack was also interested in Africa, where some countries looked poised for significant economic growth and where some private equity houses had started to develop expertise. Aureos was one such house, and Jack had read the investment memorandum and accompanying presentations several times. Now he had to make a decision.

The origins of Aureos

Aureos had an interesting history. Back in 1948 the UK Government had established the Colonial Development Corporation (CDC), which was set up to support private sector economic development in the former UK colonies. CDC was the world's first development finance institution (DFI), with funding coming from the UK foreign aid and development budget. Once most of these colonies became independent CDC was renamed the Commonwealth Development Corporation. During the first 50 years of its existence CDC had provided equity and loans directly to individual companies across the emerging markets, thereby building up a sizeable portfolio of several hundred investments. It retained, and reinvested, any profits that accrued. The UK Government ceased to provide additional funding in 1997, at which point CDC became a Public Private Partnership with a mandate to attract capital from other DFIs and private investors.

Rather than continuing to pursue the direct investment model, it was decided, in 2001, to create two fund managers – Actis and Aureos – who would take on CDCs existing investments. The investments in larger companies were allocated to Actis. For their investments in small and medium sized enterprises the CDC decided to enter into a joint venture with another DFI - the Norwegian Investment Fund for Developing Countries – who jointly created Aureos. The initial mandate for Aureos was to manage, and realize, the legacy portfolio of 139 existing investments that they allocated. In 2004 Actis was spun out of CDC via a management buyout, whereby CDC paid a management fee and carried interest to Actis for managing the legacy portfolio, and Actis was encouraged to raise new funds, still with an emerging markets focus, drawing in private capital. CDC could continue to invest as a Limited Partner (LP) in the funds. Aureos followed a similar path, and completed a management buyout in December 2008. As a result of this restructuring, CDC had become a fund of funds manager investing not only in the funds managed by Actis and Aureos but also in other fund managers that focused on emerging markets. By the end of 2008, CDC had LP positions totaling around £1 billion in 127 funds managed by 59 different fund managers, including sizeable investments in funds managed by Actis and Aureos.

Aureos funds

Jack looked again at the presentation he had been given after his most recent meeting with Aureos (see Exhibit 1). They ticked many of the right boxes. They were a specialized emerging markets player, unlike some well-known houses that were trying to stretch their brand into such markets. They had established an extensive network of professionals across 28 offices. They were currently managing over $1bn across their various funds, which made them one of the largest players. And the realized returns appeared surprisingly good.

He was also intrigued by their focus on responsible investment practices. CDC had always been a leading advocate of responsible investing, and had sought to ensure that their portfolio companies improved their business practices from an environmental, social and governance (ESG) perspective. Of course, in Jack's experience, many private equity funds claimed to take ESG seriously, but Aureos seemed to have gone a lot further than most. For instance, they had developed the Aureos Sustainability Index to measure the development impact of their investing (see Exhibit 2).

Aureos had a regional focus to their funds, and in the last 5 years had raised funds investing in South Asia, China, Latin America, and Central Asia. They were about to close their latest Africa fund, having already raised nearly $400m.

Aureos were keen to have the Oxford Endowment among their LPs, and Jack had to prepare an investment case for Sandra Robertson, the Chief Investment Officer. Was the case for investing at this time in emerging markets private equity convincing, and was it appropriate for Oxford University? How should he interpret the previous record of Aureos, especially in Africa? Did it matter that they had only recently become an independent fund, with an arm's length relationship to CDC? How real was the commitment to ESG, and, indeed, was it a plus or minus from the viewpoint of the Oxford Endowment – might there not be trade-offs between returns and responsible investing? Jack looked at his watch and realized he had promised his report would be in Sandra's hands by 11pm, and it was already 8.30pm. Thankfully, investment cases were limited to 1500 words, but it was still going to be tight to hit that deadline.

Exhibit 1: Presentation on Aureos Capital

Overview of Aureos Capital

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- Global private equity manager with a 18 year history of investing in Small to Medium businesses in emerging markets[1]
  - Founded in 2001 as a joint venture between CDC and Norfund with the initial mandate to manage our existing portfolio of 139 investments[2]
  - In December 2008, Aureos staff completed a full management buyout from the two founding shareholders. Aureos staff retains 100% ownership of Aureos Capital
- Unique global emerging market private equity manager
  - With US$1.2bn FUM, Aureos has invested in over 100 new transactions across Latin America, Asia and Africa with a current realised IRR over 30%
- Unrivalled infrastructure covering over 50 emerging market countries, with over 90 investment professionals across 28 offices worldwide
  - On-the-ground presence provides access to wide local and regional networks
- Investment strategy based on investing in Small to Medium businesses and building regional businesses
  - Focused on growth, buyouts and consolidations transactions generating yield throughout the investment cycles
- Focused on sustainable investing
  - Value creation is enhanced through improved corporate governance and environmental and social best practices

1. 17 year history through predecessor experience at CDC (UK Commonwealth Development Corporation)
2. CDC and Norfund (Norwegian Investment Fund for Developing Countries)

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Focused Investor

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Global emerging markets

- Investing in emerging markets for over 18 years
- Covering over 50 emerging markets worldwide

Niche investor in Small to Medium businesses

- Releasing the untapped potential of emerging market Mid-Market businesses
- Building local and regional leaders in the emerging markets

Backing proven businesses

- Particular focus on growth capital, buyouts and consolidations

Creating value through sustainable investing

- Improving environmental and social performance
- Developing, strengthening and improving management
- Improving corporate governance

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Investment Strategy

Maximising Upside While Mitigating Investment Risk

Building regional businesses:

- Actively creating investment opportunities
- Mitigating country risk
- Enhancing exit value

Focusing on expansions, buyouts, consolidations:

- Established, cash positive businesses
- Minimum 5 - 7 year operating history
- Up to US$10m initial investment per transaction
- No start ups/early stage, rescues or restructurings

Value creation through sustainable investing:

- Focus on environmental and social value addition
- Strengthen corporate governance
- Professionalise management

Portfolio approach to investment:

- Optimising asset allocation by applying multiple investment strategies and using proprietary technologies

Generating yield throughout the investment cycle:

- Use of geared equity structures to drive income
- Careful management of gap between gross and net IRRs
- Mitigate currency and liquidity risk
- Mitigate downside risk – capital preservation

Diversified sector approach:

- Investments across sectors including financial services, manufacturing, agri-business, FMCG, construction and services

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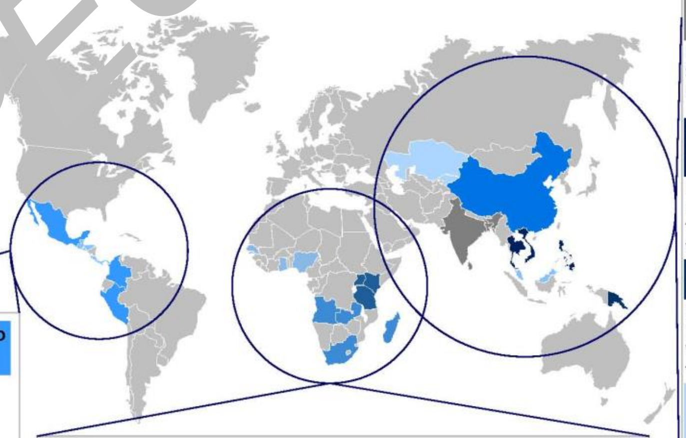
Continuing Growth in Emerging Markets



AUREOS LATIN AMERICA FUND	2008	2009
Mexico	1.4	-5.8
Colombia	2.5	-0.7
Peru	9.8	3.0

AUREOS CENTRAL AMERICA FUND	2008	2009
Costa Rica	2.7	-0.6
El Salvador	2.5	-1.0
Panama	9.2	1.3
Guatemala	3.8	0.6

AUREOS AFRICA FUND / WEST AFRICA FUND	2008	2009
Ghana	7.1	4.1
Nigeria	5.3	2.9
Kenya	1.7	2.6
Senegal	4.5	3.1

AUREOS EAST AFRICA FUND	2008	2009
Tanzania	7.5	4.8
Kenya	1.7	2.6
Uganda	9.5	5.0

AUREOS SOUTHERN AFRICA FUND	2008	2009
South Africa	3.1	-1.5
Madagascar	6.0	3.5
Zambia	6.0	3.0
Angola	14.3	-1.9

AUREOS SOUTH ASIA FUND	2008	2009
India	6.1	5.1
Sri Lanka	6.0	2.5
Bangladesh	6.2	5.0

AUREOS SOUTH EAST ASIA FUND I	2008	2009
Philippines	4.6	-0.5
Indonesia	6.1	3.5
Thailand	2.7	-3.2
Vietnam	6.2	3.5

KULA FUND II	2008	2009
PNG	5.8	3.5
Fiji Islands	1.2	-2.5
Vanuatu	4.5	-2.5
Tonga	0.7	0.3

AUREOS CENTRAL ASIA FUND	2008	2009
Kazakhstan	3.0	-1.5
Kyrgyzstan	6.6	0.5

AUREOS MALAYSIA FUND	2008	2009
Malaysia	4.6	-4.4

AUREOS CHINA FUND	2008	2009
China	9.0	6.5

Source: The World Bank Group

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Low Entry Valuations via Proprietary Dealflow

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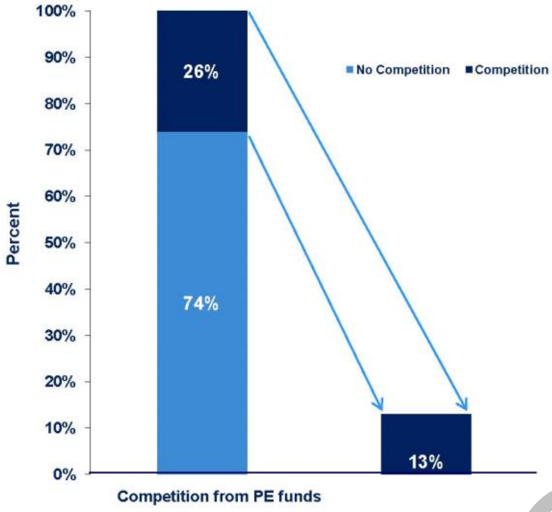

- In only 26% of deals Aureos faced any competition
- In only13% of deals Aureos faced other private equity competition
- Other competitors:
  - "Business Angels"
  - Trade buyers
  - Banks
  - DFI's
- Average entry multiple of [illegible]x historic EBITDA

Source: Aureos data

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Downside Protection

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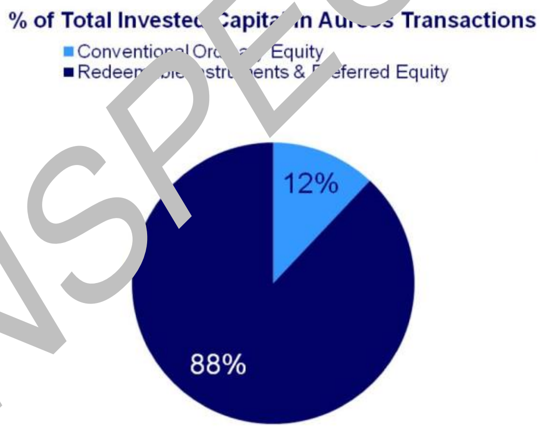

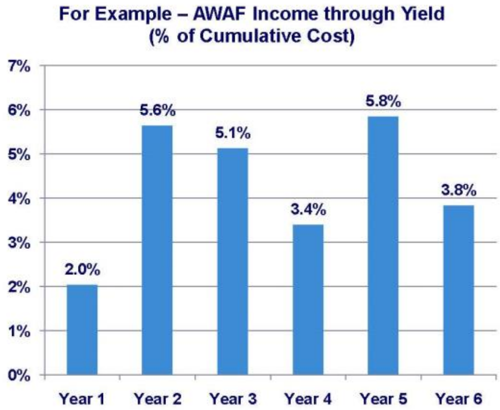

Downside protection via deal structures

Downside protection deal structures provides yield

Source: Aureos data

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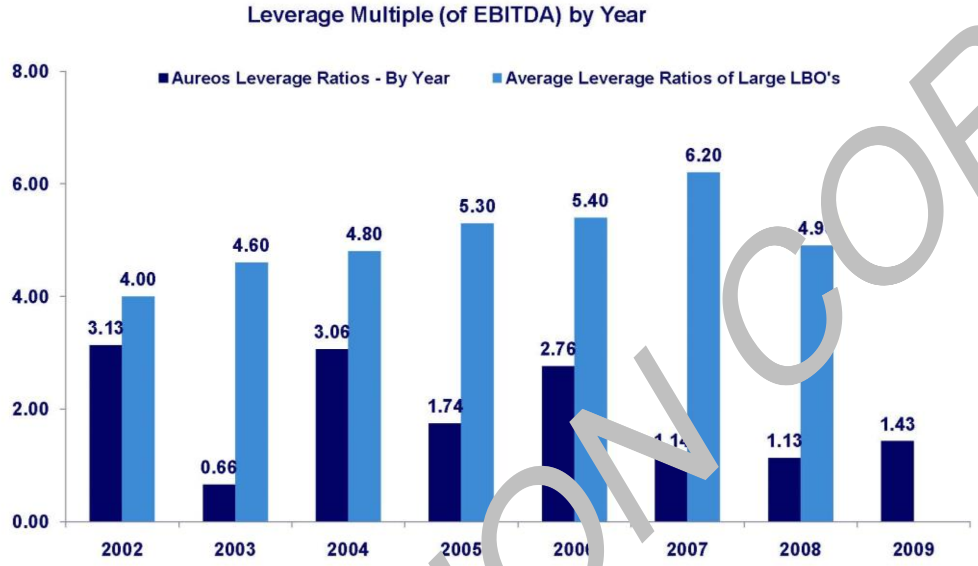
Low Leverage Levels



Source: Aureos data, Caryle Group Presentation

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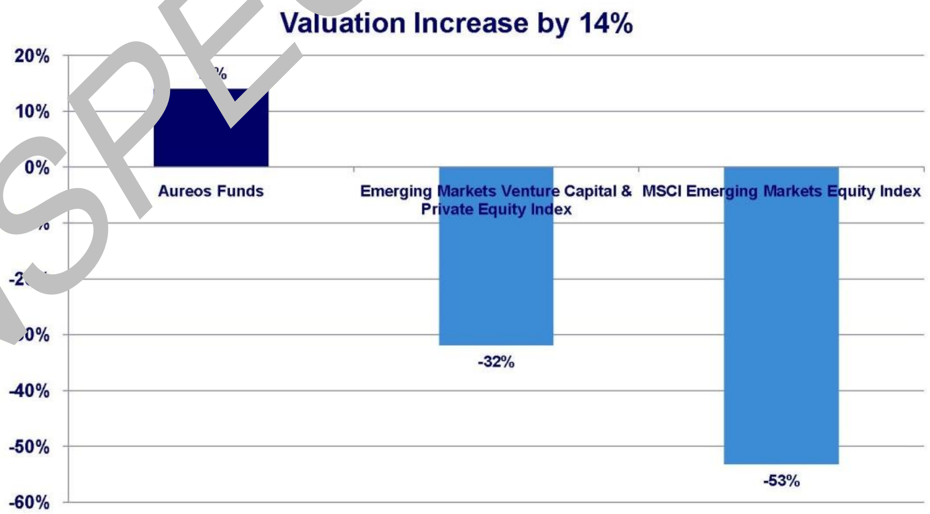
Aureos Funds Performance - 2008



Source: Aureos data, Cambridge Associates

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Aureos Global: Track Record Summary

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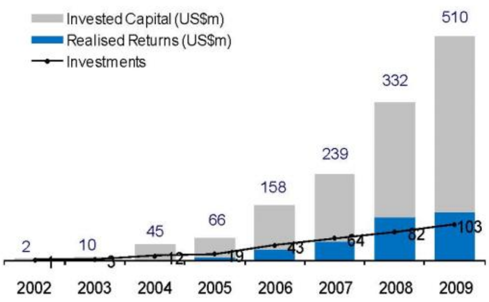
Realised Returns

Cumulative Figures as at December 2009



- Invested in 103 companies and realised cash of US$139m to date
- Fully exited from 8 companies and partially from another 12
- 20 full and partial exits to date generating a cash multiple of 2.1x and an IRR of 31%

Top 15 Exits to Date

As at December 2009

Investment	Cash Multiple	US$ IRR	Country	Exit Type
C&I Leasing*	7.1	306%	Nigeria	Listed
UML / Equity Bank*	3.4	58%	Uganda	Listed
Pancake H*	3.2	83%	Philippines	Listed
Voltic	2.8	[illegible]5%	Ghana	Trade Sale
TTFC*	2.5	360%	Vietnam	3rd Party Sale
DLT*	2.3	35%	Sri Lanka	Trade Sale
Shelys	2.3	23%	Tanzania	Trade Sale
RDL*	2.2	[illegible]	Nigeria	3rd Party Sale
Real People*	1.8	45%	S. Africa	3rd Party Sale
CHL*	1.8	40%	Kenya	Listed
Difoto	[illegible]	40%	Guatemala	Trade Sale
[illegible]nuel	1.8	20%	Ghana	3rd Party Sale
Leasafri[illegible]	1.5	17%	Ghana	3rd Party Sale
Paras	1.3	53%	India	3rd Party Sale
SDL	1.2	9%	Tanzania	Put Option

*Partial realisation

Appendix B
Legacy Portfolio – Top 40 Exits

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Investment	Cash Multiple	US$ IRR	Country	Deal Type	Exit Type
PG Industries	24.0	212.0%	Zimbabwe	MBO	Market
Enetons/NEI	16.9	521.5%	Zimbabwe	MBO	Secondary Sale
TATEPA	10.6	46.0%	Tanzania	Start-up	Market
Karina Holdings	7.1	232.9%	Zimbabwe	MBO	Secondary Sale
Zi[illegible]	7.0	384.9%	Zimbabwe	MBO	Secondary Sale
[illegible]vescom Ltd2	5.7	31.2%	Mauritius	Start-up	Secondary Sale
[illegible]ybrid [illegible] Farm	5.0	158.6%	Zambia	MBO	Trade Sale
Associated Au[illegible]ways	4.0	22.3%	Sri Lanka	Start-up	Buy Back
Manda Hill	3.9	20.5%	Zambia	Start-up	Trade Sale
Brookside Dairy	3.8	21.2%	Kenya	Growth Capital	Buy Back
[illegible]dison Insurance	3.2	66.9%	Zambia	MBO	Buy Back
Millenium Information Tech.	2.7	10.0%	Sri Lanka	MBO	Trade Sale
Deacons (partial)	2.6	36.2%	Kenya	MBO	Secondary Sale
M.E.Charhon	2.5	36.0%	Zimbabwe	Replacement Capital	Trade Sale
Maputo Office Park I, II & III	2.4	54.8%	Mozambique	Start-up	Buy Back
UAP Provincial Insurance	2.3	54.1%	Kenya	MBO	Trade Sale
Tanga Cement	2.3	>1,000%*	Tanzania	Pre-IPO	Market
Dairibord	2.2	48.3%	Zimbabwe	PIPE	Secondary Sale
Niuprint Limited	2.1	27.9%	PNG	MBO	Buy Back
TBL2	2.1	81.1%	Tanzania	PIPE	Market

*Very short holding period (less than one month)

Legacy – Top 40 Exits

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Investment	Cash Multiple	US$ IRR	Country	Deal Type	Exit Type
TBL1	2.0	26.6%	Tanzania	PIPE	Market
Mount Elgon Orchards	2.0	21.6%	Kenya	Growth Capital	Buy Back
Lion Brewery Ceylon Limited	2.0	13.2%	Sri Lanka	Start-up	Market
Matrix Holdings Limited	2.0	16.1%	PNG	MBO	Buy Back
ABC Brewery Limited	1.9	26.8%	Ghana	Growth Capital	Market
Kelsey Holding Co	1.8	23.3%	Sri Lanka	MBO	Trade Sale
Lightload/Caribonum	1.7	26.0%	Zimbabwe	MBO	Secondary Sale
RS Fashions Limited	1.7	13.4%	Mauritius	Rescue/Restructuring	Buy Back
Ceylon Foods	1.7	15.2%	Sri Lanka	Start-up	Buy Back
CETA Construção e Serviços	1.7	12.2%	Mozambique	MBO	Buy Back
Voltic (Gh) Limited	1.7	16.3%	Ghana	Start-up	Buy Back
Industrial Gases	1.6	11.3%	Sri Lanka	Growth Capital	Trade Sale
Commercial Bank of Africa	1.6	18.4%	Kenya	Growth Capital	Buy Back
Pioneer Aluminium Factory	1.6	9.2%	Ghana	Pre-IPO	Market
Union Resorts Pvt Limited	1.6	8.5%	Sri Lanka	Start-up	Buy Back
Gomba Estates	1.6	19.1%	Tanzania	Growth Capital	Secondary Sale
Naiades Resorts Limited	1.5	15.1%	Mauritius	PIPE	Market
Metafold	1.5	21.7%	Zimbabwe	MBO	Secondary Sale
AVIS	1.5	29.2%	Zambia	Start-up	Buy Back
Standard Telephones and Cables	1.5	[illegible]6.8%	Zimbabwe	MBO	Secondary Sale

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Legacy Portfolio: Summary Track Record

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Realised Returns

Cumulative figures as at December 2009

- July 2001, acquired 139 companies with value of US$72m
- 134 exits* to date generating US$132m for investors
- Remaining 5 companies are expected to return US$4.2m

Selected Exits

Investment	Cash Multiple	US$ IRR	Country	Exit Type
PG Industries	24.0	212%	Zimbabwe	Market
Enetons/NEI	16.9	522%	Zimbabwe	Secondary
TATEPA	10.6	46%	Tanzania	Market
Karina	7.1	233%	Zimbabwe	Secondary
Zimoco	7.0	385%	Zimbabwe	Secondary
Invescom Ltd 2	5.7	31%	Mauritius	Secondary
Hybrid Poultry	5.0	159%	Zambia	Trade Sale
A. Autoways	4.0	22%	Sri Lanka	Buy Back
Manda Hill	3.9	21%	Zambia	Trade Sale
Brookside	3.8	21%	Kenya	Buy Back
Madison	3.2	67%	Zambia	Buy Back
Millenium	2.7	10%	Sri Lanka	Trade Sale
M.E.Charhon	2.5	36%	Zimbabwe	Trade Sale
Niuprint Ltd	2.1	28%	PNG	Buy Back
Lion Brewery	2.0	13%	Sri Lanka	Market
Matrix Holding	2.0	16%	PNG	Buy Back

- See Appendix B for Top 40 Exits

* Including the sale of Acacia Fund to Swedfund for US$10.7m in August 2008

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Exhibit 2: Aureos Sustainability Index

The Aureos Sustainability Index System

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- Through the bespoke Aureos Sustainability Index (ASI), we have created a proprietary interactive tool to report development impact over the lifetime of our investments
- An ASI rating is assigned for every Aureos investment, based on six sub-categories of development impact
- An operating manual explains the selection of indicators and weightings assigned to the indicators which forms the Index
- The Index is based on an internally determined scale to allow us to monitor the relative performance of companies over the lifetime of the investments

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Leaders in Sustainable Investing

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- Aureos has developed through its extensive experience a win-win approach in SME investing
- Environmental, Social and Governance (ESG) factors are integrated throughout the investment process; deal sourcing to active management enhancing the long term value of portfolio companies and contributing to high valuations at exit
- Allows for achievement of both high attractive returns and sustainable impact

  A unique market position in terms of geography, deal size, and investment approach permits us to achieve both highly attractive economic returns and have a significant positive economic and social impact.
- This "Win-Win" strategy is based on three parameters:
  - Emerging markets' investing
  - SME investing focus
  - Value added investment approach

[DRAFT] & CONFIDENTIAL

The Indicators

- Aureos has selected the indicators we believe are the most relevant to the principle of sustainability
- These indicators are relevant in the context of building sustainable SMEs in Emerging Markets relating to:

[DRAFT] & CONFIDENTIAL

The Approach

- A synthesis of qualitative and quantitative information
- Comparability across deal types, deal sizes, sectors and regions
- Insight into the relationship between financial performance and 'intangibles'
- A framework for engaging with investee companies on key non-financial issues

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The Process

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- System is run once a year for all Aureos investments
- Quantitative data drawn from the Management Information System
- Qualitative questions for each sub-category of development impact
- Sub-categories aggregated for an overall development impact rating

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Tirta Marta

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Governance: Under Aureos stewardship, the company has implemented a management information system. With close monitoring and regular feedback from the Aureos deal team, the company has improved the accuracy of the financial reporting. Aureos also implemented independent oversight of the finance function.

Network: Links made to an Aureos South Asia investment in a similar industry, leading to knowledge sharing and a recommended consultant from the Netherlands advising on product development and best practice. These recommendations have led to improved margins.

Tirta Marta was established 35 years ago, supplying high quality flexible plastic packaging to various multinational corporations. TM has succeeded in the commercialization of competitively priced, biodegradable plastic by blending tapioca starch and plastic resins.

Product development: The competitive advantage of the company is in bio-degradable packaging. Aureos secured funds for the company to explore US markets for bio-degradable packaging. The product increases the long term viability of the company as it is more defensible to competition while simultaneously being more environmentally friendly.

Strengthening Management: Key in Aureos' investment philosophy is the need to ensure there are strong management teams in place. Aureos helped the sponsor hire a new finance manager and a new production manager.

p.t. tirta marta flexible packaging industry

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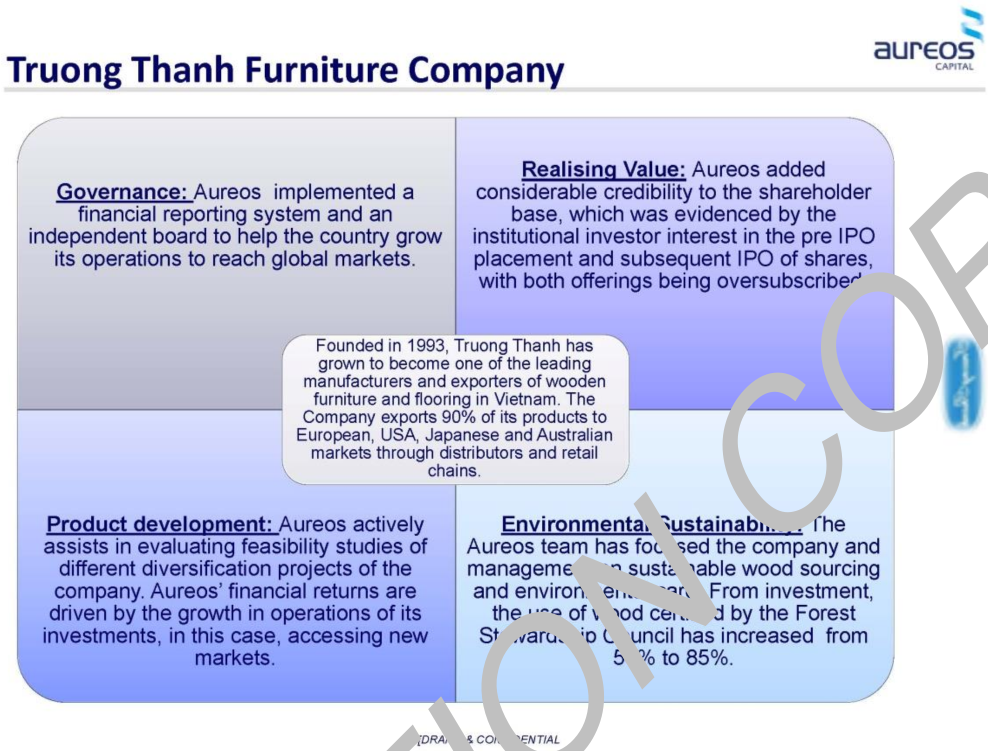
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Truong Thanh Furniture Company
Governance: Aureos implemented a financial reporting system and an independent board to help the country grow its operations to reach global markets.
Realising Value: Aureos added considerable credibility to the shareholder base, which was evidenced by the institutional investor interest in the pre IPO placement and subsequent IPO of shares, with both offerings being oversubscribed
Founded in 1993, Truong Thanh has grown to become one of the leading manufacturers and exporters of wooden furniture and flooring in Vietnam. The Company exports 90% of its products to European, USA, Japanese and Australian markets through distributors and retail chains.
Product development: Aureos actively assists in evaluating feasibility studies of different diversification projects of the company. Aureos' financial returns are driven by the growth in operations of its investments, in this case, accessing new markets.
Environmenta Sustainab The
Aureos team has foc sed the company and
manageme susta able wood sourcing
and environ From investment,
the of od cer d by the Forest
St ard ip C uncil has increased from
5 % to 85%.
DRA & COI ENTIAL