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NOVEMBER 2013

FOR PROFIT, FOR IMPACT

The rise of 'impact investing'

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'No Trade-offs' Between Impact and Profit

How I Raised $250M for Impact Investing

Expert commentary on impact capital:

Andrea Auerbach of Cambridge Associates

Gene Wolfson of Catalyst Investors

Michael Elio of the ILPA

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CIO Erik Hirsch describes the intelligence his $170-billion advisory firm has gathered about the future of private equity

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Are PE firms really engaged in the "trade or business" of their portfolio companies? How a court case could change the economics of the industry

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Privcap Special Reports help market participants better understand opportunities and practices in private capital, as well as gain deep insights into the people with whom they may become long-term investment partners.

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Tesla: Built by Impact Capital

Job creation, economic growth, zero emissions—and a 38x return

Market analysis by Privcap CEO **David Snow**

When Nancy Pfund decided to invest in an electric car startup called Tesla in 2006, she was hoping to make a buck and bring economic benefits to the Bay Area. Tesla delivered both.

The story of Tesla, the first U.S. car company to go public since 1956, is widely celebrated and still unfolding. Under the leadership of Elon Musk, Tesla is a model of engineering success and capitalist reinvention. Less heralded is the fact that some of the company's early funding came from "impact investment" programs hunting for financial, environmental, and social rewards. So in addition to making really cool cars, Tesla stands as a much-needed example of success in impact investing.

In 2006, Tesla was going through its first institutional round of financing, led by VantagePoint Capital Partners. Pfund was then a partner in San Francisco–based JP Morgan Bay Area Equity Fund. (The firm has since spun out and is now called DBL Investors.) In addition to seeking to source investment opportunities in companies poised to grow strongly, DBL had a mandate to back businesses that would have a positive impact in the Bay Area. Generally speaking, this meant companies tied to green energy and lower fuel consumption, as well as the creation of high-value jobs in the region, especially in the parts of the Bay Area not as affected by the high-tech boom—including industrial communities in the East Bay area.

'When you're an impact investor… you can pull certain levers that are unavailable to investors who don't have social impact as a goal.'

Pfund stresses that DBL's style of impact investing is to look for sustainable business concepts that will also deliver the desired impact benefits. "Our due diligence (for Tesla) was very similar to what other people do," says Pfund. "We looked at the battery-pack technology, the IP, looked at the management team, the market size, and what it would take to really penetrate this market."

An important question for DBL was: Will we create a bunch of jobs but then lose our money and lose the jobs? The firm became comfortable that Tesla's early products would sell enough to warrant the risk. "Back then, the [lower-priced] Model S didn't exist, but the [luxury] Roadster was in early stages of design and prototype building," notes Pfund. "We felt that even if the Model S took forever, our downside would be protected, because they would make enough Roadsters to make it a successful company. You don't have to sell vast quantities of high-priced cars to have a reasonable business."

DBL invested an undisclosed amount in Tesla's C round and subsequent rounds. And given its broader economic goals, they found willing partners in California government when it came time to scout a factory location. The firm helped Tesla's management navigate the thicket of grants and government incentives to land a sweet deal for the NUMMI production facility in Fremont, formerly the home of a GM-Toyota joint venture that was shuttered in 2010. Tesla paid $42 million for the plant that same year in a deal trumpeted by then governor Arnold Schwarzenegger. The site now employs some 5,000 people.

Pfund declines to reveal any financial details of the investment's performance to date, but her descriptions tell the story: "a grand slam," "fantastic,"

Above: A Tesla car being built in a once-mothballed facility in Fremont, California; Nancy Pfund, DBL Investors

a "game changer," and "a fund-building return."

Some back-of-the-envelope math indicates a fantastic return indeed. Musk has said that Tesla's C round valued the company at $70 million. The company went public in 2010, and a year later, when DBL distributed shares to its limited partners, Tesla's market capitalization was roughly $2.7 billion. Using the C round as a starting point, that's a roughly 38x return. Pfund says her firm has held on to its own shares; since 2011, Tesla's share price has increased sevenfold.

DBL has backed other luxury businesses that sell impact-producing products to the higher end of the consumer market. Another example is Maiyet, a fashion brand that sources many of its artisanal materials with an eye toward "alleviating poverty, empowering women, or building peace."

Investors who pursue goals beyond the wealth creation of insiders often find they have important friends when the going gets tough. Pfund notes that the economic downturn that began in 2008 was otherwise poorly timed for Tesla, but a $500 million loan from the U.S. government (since repaid) was critical in helping the company bridge the crisis and reach its current level of success. "There was a whole hue and cry about how the government couldn't just bail out car companies in Detroit," says Pfund. "When you're an impact investor, because what you're doing is also important to society and policymakers, you can pull certain levers that are unavailable to investors that don't have social impact as a goal."

Impact investing, however defined, has been viewed with suspicion by some in the private investment world as being insufficiently returns-driven, what with its social goals and save-the-world mandates. In fact, impact investing done right finds many new friends for capitalist success, which can only increase the volume of cheering. /

Impact Capital: Where It's From, Where It's Going

Four impact investing experts share views on its potential and discuss the vexing debates about terminology and returns

David Snow, Privcap: Let's start with a question for Michael, who recently oversaw a WEF study on impact investing. Did you find that the term "impact" is helping or hindering its growth?

Michael Drexler, WEF: I think the trouble historically with the term "impact" was that it was carrying this connotation of reduced or diminished financial returns: the idea that it's a trade-off between social impact and financial return. And that's what spooks a lot of the mainstream investors, particularly those who have a fiduciary duty, like pension funds.

Of course, you can construct an investment in such a way that there is a trade-off between financial and social impact. The classic examples of that would be where you run the for-profit enterprise and you cut off some of your profits into a foundation that then looks out for the social impact. And we think that's one model of many, but not necessarily the only model in this space, and we believe that if done well, social impact can enhance economic returns.

Snow: Andreas, as you meet with many different investors who are interested in impact, what is the range of understanding that these investors have about the strategy? Do most of them expect a financial return?

Andreas Ernst, UBS: It's very heterogeneous. You will find that some of them - the more vocal ones who already have a very clear opinion of what impact investing is – will usually put more emphasis on the social side. And as Michael just alluded to, they believe that good, social impact equates to sub-optimal financial return.

On the other side you have investors that are less vocal, that are still about to make up their minds about how to allocate a part of their capital into investments with a proactive social impact. And these people would rather like to see investments that allow them to include "impact" in their investment portfolios.

Marcus Regueira, FIR Capital: I firmly agree with Andreas. Many investors have preconceived ideas either from a philanthropic side or the for-profit side. And these values, these interests reflect on their view of impact investing. One of the difficulties that we have had in terms of raising our fund is ignorance in a pure sense of the word - lack of knowledge. Some of them don't realize what impact investing is and so there's this education process before we can attempt to offer the product. This is a result of just how early-stage this industry is. And so as the industry consolidates, we will probably understand that impact investing is in everything in different forms, all the way from poverty alleviation to businesses that are directed toward a certain level of up-and-coming emerging low-income consumer.

Snow: Marcus, as you speak to potential investors, do you ever find that you're talking to the regular-way private equity portfolio manager and, based on the lack of knowledge you mentioned, he tells you, "Oh, you guys should go talk to our non-profit group."

Regueira: Absolutely. Some of the investors, because of their filters and preconceived ideas, allocate impact investing into little boxes. And so, yes, there is a bit of confusion and a bit of mix-up. But when the investors understand what you're talking about in terms of not compromising, the impact-investing concept is immediately bought.

We have five or six of what we call anchor investors. All of them, of course, are DFIs or large institutional investors that already do impact investing. More and more, these folks are helping us to educate the financial-first investors.

Snow: A question for Will Galvin. As someone who is part of an organization that really follows the growth of enterprises from the ground level up, including very small agricultural operations in Africa, what is your view?

Will Galvin, Self Help Africa: There is something we need to say to begin with this concept of impact investing: All investing has impact, okay?

What we're getting to in this conversation is that there is an investment strategy that can have both the profit return and the social return, and you don't need to trade one off against the other. But one of the things that we do struggle with quite a lot is, well, how do you measure impact? I talk about what we call the "doughnut

The Impact Experts

Andreas Ernst
Head of Impact Investing
UBS

Marcus Regueira
Founding Partner
FIR Capital

Will Galvin
Head of Operations, U.S.
Self Help Africa

Michael Drexler
Senior Director,
Head of Investors Industries
World Economic Forum

Andreas Ernst runs the impact investing team for UBS and is part of the broader wealth-management platform serving ultra-high-net worth clients. Ernst and the team connect clients with impact investing third-party products, provides advisory services and run an exchange platform where clients can connect with investment and syndicate opportunities.

Marcus Regueira is a founding partner at Sao Paulo-based FIR Capital. He was the President of ABVCAP, the Brazilian Private Equity and Venture Capital Association, from 2006 to 2008. Regueira is also founder and board member of Instituto Hartmann Regueira, a not-for-profit organization whose mission is the co-entrepreneurship of social investments with small- and medium-sized companies, and the development of its best management practices.

Based in New York, Will Galvin is head of U.S. operations for Self Help Africa, a "pro-profit" organization which for thirty years has been promoting enterprise and business culture in rural Africa. Galvin was educated at Trinity College in Dublin. He spent two years working in emergency coordination in Africa with the Irish aid agency, GOAL. Before joining Self Help he practiced law in Dublin, specializing in criminal law and judicial review.

Michael Drexler is a senior director at the World Economic Forum based in New York, where he oversees a community of institutional and private investors. He joined the Forum after nine years at Barclays, where he most recently was Managing Director and Global Head of Strategy, Commercial/Investment Banking and Wealth Management.

'What we're getting to in this conversation is that there is an investment strategy that can have both the profit return and the social return and you don't need to trade one off against the other.' – Will Galvin

challenge." I can go and I can buy a dozen donuts for 10 bucks. And I can head into the street and hand them out to people. Okay, I'm being a little facetious, but I have impacted the lives of 10 people. And the fact that they may or may not have been hungry is neither here nor there.

There isn't a single way of measuring impact that people can agree on. And I think that the investor community needs to be educated about this: What exactly is it that they wish to see in terms of an outcome for their investment? They need to be very clear in terms of the industry, and they need to be very clear in terms of the measurement. What are we measuring? What numbers are there? How robust is the data that is coming from the impact investment?

Somebody who chooses to go down the route of impact investing wants to see their money "do good." There are so many different definitions of "doing good" that I think it helps if somebody, as they are going into the process, has a period of time where they are looking at the possibilities and the options.

Snow: Michael, do you sense that the range of ways to measure impact is a complicating factor in the growth of the asset class?

Drexler: Yes. I would very much agree with what Will just said. There currently are some good frameworks on measuring impact, namely the IRIS framework and the GIIRS [Global Impact Investing Rating System] rating. But they feel still very much like compliance mechanisms. And that's something that both practitioners in the field and investors look at a little bit suspiciously. They say: Well, how does this help us define intent? How does this really mesh with the business plan? Or is it just a 90-item tick box that we have to go through in order to call ourselves impact investors.

What will need to happen is an evolution of those metrics that is much more tailored to the individual investment and how it actually meshes with the business plan.

Ernst: There is an element of cost. Costs are an issue and can also eat up some of the profits. Yes, reporting needs to be robust, it needs to be credible. But do all investors expect the same granularity of impact reporting? The parallel that I like to point out is the iPhone. The first generation of iPhone users really probably used 70 percent to 80 percent of all features, and today people are probably at 30 or 40 percent of all features. So we're giving up a little bit of the features, but at the same time, we have the possibility of reaching many more people.

Galvin: One of the challenges is the spread-versus-depth issue. Very often investors are very happy when they see a top-line figure such as, you know, "Your investment has improved the lives of 500,000 people." This is great. But for me, that's a somewhat meaningless figure, because unless you get some data on to what extent it has improved the lives of those 500,000 people, it's really worthless.

I think something that says, "You have increased the incomes of 10,000 people by 50 percent," is much more valuable. The investor wants to see a return on his or her investment in terms of profit. Why shouldn't he or she also want to see a return in capital terms, in pure hard cash terms, for the beneficiaries on the impact side?

I think a focus on income, on hard cash, is a very useful way of escalating it.

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Snow: On to the subject of social-first versus finance-first investors. Isn't the finance-first world tremendously larger? And to characterize impact capital as social-first, isn't that preventing the expansion of an asset class because they're speaking a language and using benchmarks that most investors do not understand?

Ernst: We shouldn't forget that the concept of impact investing really was innovated in the foundation and non-profit world. They have some ownership and play a positive role ensuring that impact investing maintains the social element.

But yes, there is also a danger that... Closed societies speak and we use abbreviations and terms that the bigger outside world doesn't understand.

Drexler: There is probably no such thing as a wrong narrative. It depends on the audience. The social-first narrative works well with investors who have that orientation. It of course doesn't work well with financial-first investors that have a fiduciary duty. It's not so much a question of the wrong narrative; it's just what works for the audience.

'We shouldn't forget that the concept of impact investing really was innovated in the foundation and non-profit world.' – Andreas Ernst

It is possible to frame some form of impact investing around themes of access to frontier markets and better risk mitigation, because you're much closer to the grass roots of society. If framed that way, it's immediately a lot more appealing to a pension fund. It doesn't mean it's a right or a wrong narrative, because that narrative will be far less appealing to a philanthropist or a foundation.

Regueira: At the risk of oversimplifying here, the financial-first investor is more interested in output than outcome. Output measures numbers and is very similar to what financial-first investors look at. Outcome analysis and qualifying outcome analysis is really much more a social-first investor request than the financial-first investor request.

Snow: What is the bare minimum that an investment firm should do to call itself an impact investor? Set goals? Put impact plans in place?

Ernst: Every investment has a social impact, you know, either intentionally, unintentionally, either positive or negative. So I think for us it really boils down to intentionality. The intention needs to be there.

Regueira: I've been part of an impact-investing board at EMPEA [Emerging Markets Private Equity Association], and some of my colleagues asked if we should call it an impact-investing council or not.

We all have a deep interest in impact investing and how it can evolve. We want to bring impact investing to the mainstream. When we see that "impact" brings to mind a bias toward social-first investing, we see that impact investing isn't really mature enough to be embraced by mainstream capital. In order to bring mainstream to impact investing, we will have to make it crystal clear in the minds of investors that the compromise between social and financial is not really important, that they are symbiotic. /

By **Joel Kranc**

HAS YOUR IMPACT INVESTING MADE AN IMPACT?

Increasingly, investors want to understand the non-financial impact of their investments. But despite progress on reporting standards, challenges remain.

Delivering financial returns is hard, but measuring them is relatively easy—dollars in, dollars out. For investment strategies that incorporate environmental, social and governance initiatives, however, measuring results is far more complex. Investors who back these programs want financial reporting, of course, but they also want ongoing assessments of environmental, social and governance (ESG) issues and numbers to back progress on investments with "social" goals.

Whether ESG is confined to a firm's risk-assessment and value-creation toolkits, or social impact is a firm's core mission, the reporting challenges are similar—how do you measure things that are not always easy to quantifiy?

Growing AUM

Impact and ESG strategies are indeed growing in popularity within the private capital universe. Mainstream private equity firms, including the largest GPs such as KKR and TPG, have set up ESG programs that report those results to investors alongside the traditional financial details.

That move is largely about the bottom line, says Andrew Malk, a managing partner with Malk Sustainability Partners in La Jolla, California. He says that economic imperatives have driven private equity to become more "resource-efficient" businesses. As it becomes increasingly hard to create value in a portfolio company, firms are discovering that producing less waste, and using less water and energy, can have a material impact on investment returns.

"There also is a recognition that environmental, social and governance issues are becoming more important in your due diligence," Malk says, as LPs become increasingly sensitive to things like reputational risk, and the financial fallout that can follow.

And limited partners aren't the only ones asking for impact reporting. Many large enterprise customers for PE-backed portfolio companies are interested in environmental and social information from vendors. Companies like Walmart, Unilever and Dell, for example, want to see a commitment to these mandates throughout their supply chains. "As a supplier to those companies you are already seeing, and are more likely to be seeing, questionnaires or RFPs asking about your own labor, environmental and social practices," says Malk. "If it's going into your brand then it is part of your brand."

Want to report impact?

The IRIS standards provide numerous classifications and specific ways to measure them.

CERTIFICATIONS
Indicate third-party certifications for products/services that are valid as of the end of the reporting period. List certification name, certifying body, and date since which the product/service has been continuously certified.

PERMANENT EMPLOYEES
Number of people employed by the organization at the end of the reporting period. This is the sum of all paid full-time and part-time employees.

POTABLE WATER PRODUCED
Amount of potable water produced during the reporting period.

HEALTH RELATED WELL VISITS
Number of well visits or screenings, including immunization visits, conducted by the organization during the reporting period.

GREENHOUSE GAS EMISSIONS
Greenhouse gases emitted through organization's operations in tonnes of CO_2 equivilent during the reporting period. Refer to the International Panel on Climate Changes (IPCC) emission factors. Leverage Global Reporting Initiative (GRI) guidance for this calculation.

Source: Deloitte

A HYBRID APPROACH

UK-based Truestone Impact Investment Management reports eight areas of impact, blending IRIS and its own proprietary standards.

- AGRICULTURE
- EDUCATION
- HEALTH
- ENERGY
- ENVIRONMENT
- FINANCIAL SERVICES
- HOUSING FACILITIES
- WATER & WASTE

Investing for Social Impact

A growing population of private investment firms, particularly in the emerging markets, have impact as a central mandate. A report from JP Morgan produced with The Rockefeller Foundation and the Global Impact Investing Network (GIIN) states that the global marketplace has earmarked some $100 billion for impact investments. That amount is estimated to grow to more than $400 billion over the next ten years.

Impact and sustainable business strategies are increasingly popular among high-net-worth investors. Many of the largest private banks, including at UBS, JP Morgan, BAML, Goldman Sachs and Morgan Stanley, have established platforms to serve clients who want to allocate capital to impact and related strategies.

Morgan Stanley, which just launched an Institute for Sustainable Investing, estimates that market size of the sustainable business opportunity as roughly $1 trillion. That's a lot of sustainability to measure and report.

Standardization

Perhaps the biggest push for standards comes from the many development finance institutions that invest in emerging economies either directly or through fund managers. These DFIs have social impact as a primary focus of their investment programs.

SECTOR	METRIC ID	IMPACT TYPE	METRIC NAME	MEASURE	DEFINITION
WATER & WASTE	IRIS ID: PI2073	Environmental	Hazardous waste avoided	Number of kilograms	Hazardous waste avoided based on refurbishing/reusing/recycling, during the reporting period.
	IRIS ID: PI9468	Environmental	Water produced	Litres	Amount of water produced during the reporting period. Footnote assumptions.
	IRIS ID: PI8043	Environmental	Potable water produced	Litres	Amount of potable water produced during the reporting period. Footnote assumptions.
	TIIM5	Social	Individuals provided with clean water	Number of people	Number of individuals provided with clean water as a result of the organisations activities during the reporting period.
	TIIM6	Social	Water treated	Number of litres	Amount of wastewater treated by the organisation within the reporting period.

For example, for development finance firms like CDC, employment numbers play an important role in their impact assessments. "One of our headline indicators is the employment that is supported and created by our investments," says Alex McGillivray, Director of Development Impact with CDC Group in London. "That's one of the things we really pay attention to when it comes back from the investee companies."

In 2007, TD Bank Financial Group adopted the Global Reporting Initiative standard for reporting ESG and impact investments. "It provides a level of credibility that what we are reporting on is, in fact, true and our processes and controls are in place. Not all reporters go to that degree," says Rachel Guthrie, Senior Manager, Corporate Responsibility with TD.

Yet despite the momentum toward standardization, Adam Spence, Associate Director with MaRS Centre for Impact Investing in Toronto, points out the challenges: "One is having standards in place. Another [challenge] is being able to get adoption and another is being able to regularly produce and benchmark that data in order to show that actual impact is taking place."

The standard that many are adopting is known as the International Finance Corporation (IFC) Performance Standards in Environmental and Social Sustainability. "It's a metric most of the development finance institutions have adopted and in turn require their funds to adopt," explains Zeller.

McGillivray of CDC Group notes recent efforts to enable companies to "sidestep" laborious and inconsistent reporting processes and to start inputting data directly into global information platforms like IRIS (Impact Reporting and Investment Standards), created by the Global Impact Investing Network. IRIS offers investors the opportunity to benchmark against peers and industry standards.

Zeller says, "IRIS is the only accepted framework across the impact investment industry, with the exception of the IFC standard. It is an effort to take all of these fragmented methodologies and combine them into one."

GIIN has also teamed up on an analytics platform with B-Lab, a non-profit organization dedicated to solving social and environmental problems through business. One of B-Lab's initiatives is to accelerating the growth of impact investing through use of B-Lab's GIIRS Ratings and Analytics platform. "Think of it as an assessment, not unlike a fair trade standard or an ISO standard, but focused on impact," notes MaRS' Spence. /

"When it comes to frontier markets like East Africa, some of the biggest limited partners in funds are development finance institutions. Those organizations tend to have very clear expectations on environmental and social impact" — Andreas Zeller

Impact Reporting Standards: An Overview

Organization	Standard
Global Impact Investing Network (GIIN) www.thegiin.org	Impact Reporting and Investment Standards (IRIS) are "generally accepted performance metrics to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry. . . a free public good to support more transparency, credibility and accountability in impact measurement practices across the impact investment market."
International Finance Corporation www.ifc.org	Performance Standards in Environmental and Social Sustainability provides "guidance on how to identify risks and impacts. . . designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities."
B-Lab www.bcorporation.net	B-Analytics measures impact on community, workers, the environment, the accountability of a company to its stakeholders and more.
Global Reporting Initiative (GRI) www.globalreporting.org	Sustainability Reporting Guidelines - Addresses economic, environmental, labour, human rights, society and product responsibility.

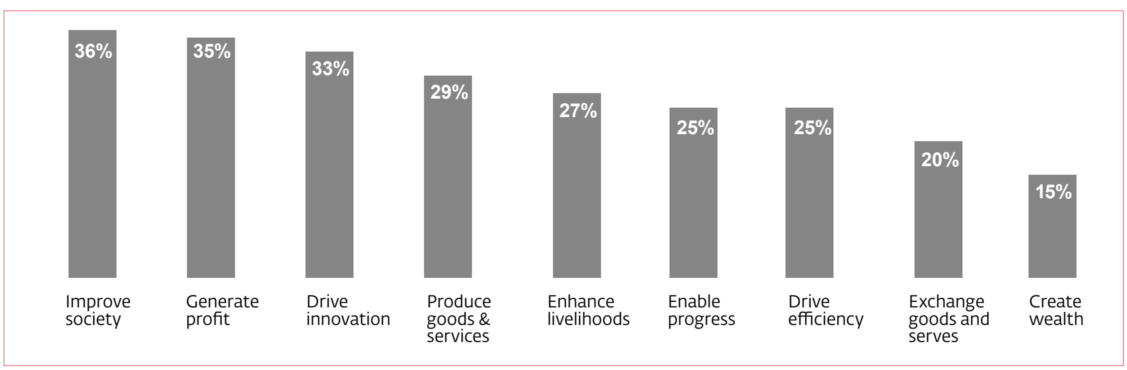
Impact by the Numbers

J.P. Morgan and GIIN estimate that some $9 billion will be formed for impact-capital strategies in 2013. Why was this capital formed, where is it headed, and what do managers and investors expect from this set of strategies?

Business As World-Improver

Millennial generation is asked: What is the primary purpose of business?

Source: Deloitte



Responsibility, Then Profits

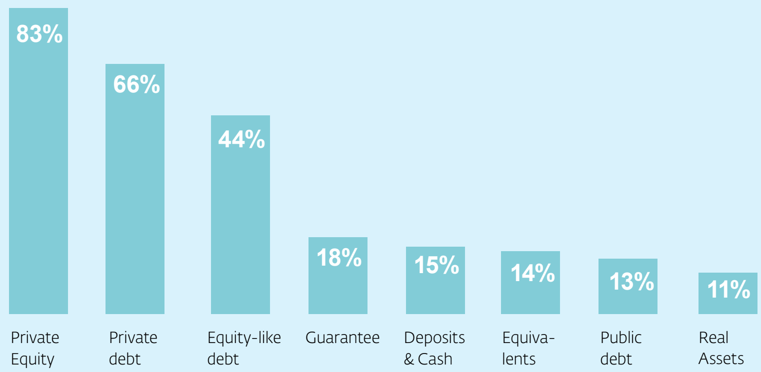
Investors are asked: What motivates you to allocate capital to impact investments?

Respondents ranked up to three

Source: GIIN, J. P. Morgan

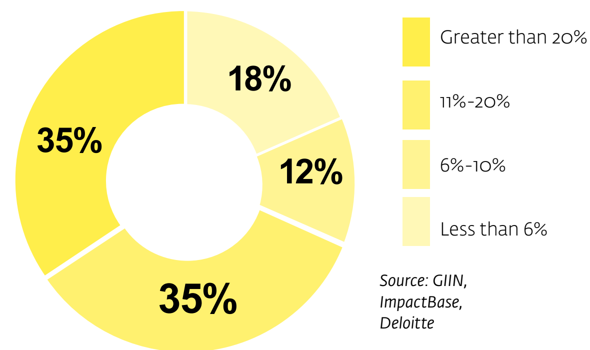
RANK	SCORE	AVAILABLE ANSWER CHOICES
1	61	They are a part of our commitment as a responsible investor
2	38	They are an efficient way to meet our impact goals
3	27	They are financially attractive relative to other investment opportunities
4	26	We are responding to client demand
5	25	They provide an opportunity to gain exposure to growing sectors and geographies
6	21	They offer diverification to our broader portfolio
7	5	We do so to meet regulatory requirements

Private Equity is for Impact
Investors are asked: What instruments do you use to invest in impact strategies?



Source: GIIN, J.P. Morgan

We Want Big Returns
Impact investment firms are asked: What are your target returns?



Source: GIIN, ImpactBase, Deloitte

#1
FAMILY OFFICES RANKED FIRST IN IMPACT INVESTING

Source: GIIN, J.P. Morgan

Family Wealth Leads the Way
Impact investment firms reveal source of capital by type of investor

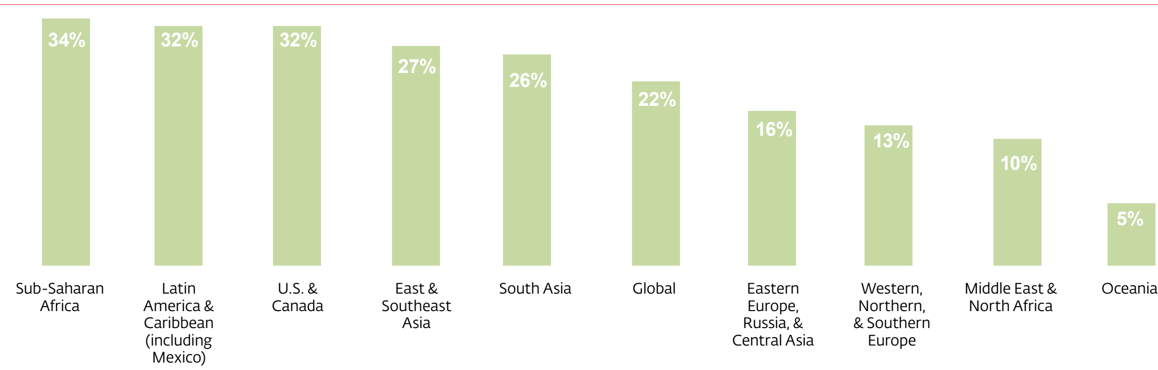
Respondents ranked up to three, in terms of total capital

Source: GIIN, J. P. Morgan

RANK	SCORE	INVESTOR TYPE
1	67	Family office/HNWI
2	59	Development finance institution
3	43	Diversified financial or insurance company
4	42	Pension fund or insurance company
5	40	Foundation
6	12	Endowment (excluding foundations)
7	11	Retail investor
7	11	Fund of funds manager

Emerging Markets in Focus
Investment funds say where their impact capital is heading

Source: GIIN, J.P. Morgan



Click to watch this video at privacp.com

Impact vs. Profits? There's No Trade-off

Jean-Philippe de Schrevel of Bamboo Finance believes the best way to address poverty is via the creation of profitable businesses. His institutional investors are expecting results in both areas.

Jean-Philippe de Schrevel, Founder and CEO of Geneva-based Bamboo Finance

Jean-Philippe de Schrevel *is a friendly, polite man, but if you want to get a rise out of him, suggest that his firm, Bamboo Finance, isn't focused on delivering financial returns.*

While Bamboo, along with a growing number of impact-investment firms, began life with a goal of lifting low-income people to better economic circumstances, its strategy is dependent on backing profitable businesses, he argues.

What follows is an edited transcript of a recent conversation between de Schrevel and Privcap CEO David Snow. In it, de Schrevel argues for the complementary goals of impact and financial returns, discusses the limits of impact reporting, and describes the attitudes of investors toward the impact style of investing.

The term "impact" is being used with greater frequency in the investment world. How does the Bamboo team define it and pursue its strategy around the world?

We came together because we wanted to do something about this world. We want to fight poverty. We want to fight environmental degradation. But we also realize that the magnitude of problems is so important that there's only one way to go about having meaningful impact, and that's via private businesses and private capital. So Bamboo Finance has been set up as an investment company—a private equity manager—that invests in companies benefiting low-income communities in emerging markets. So in a way, we are traditional private equity investors with the same job as any other private equity investor.

We just define the investment universe as a group of companies providing low-income communities with essential services. And so we invest in financial services, education, access to healthcare, access to affordable housing, access to clean energy.

You have two billion people in this planet with no access to financial services. You have 1.4 billion people with no access to electricity. Probably a third of the urban populations in the developing world live in slums. So it's not difficult to imagine that if you can find businesses with the right management teams, the right proposition, the right services at the right price point with the right distribution strategy, you'll make a killing.

How many people are in your firm?

Twenty-six.

Bamboo Finance at-a-glance

Founded: 2007
HQ: Geneva
Other Offices: Bogota, Nairobi, Singapore
Total Capital: $250 million
Funds: *Oasis Fund* (essential goods and services for low-income communities)
Financial Inclusion Fund (microfinance institutions and funds worldwide)
Solar For All Fund (with Ashoka and the Canopus Foundation; to bring affordable solar power to millions of off-grid households)

And how many countries are you covering?

Twenty-five.

So a relatively small team for a gigantic geographic area. How do you source opportunities and vet them, especially since many of these opportunities are relatively small?

Well, first of all, it's a small team, but decentralized. We have offices in Nairobi, Singapore, Bogota. Most of our investment-management team is in those three hubs. So we're close to the investment opportunities in certainly the three places that we're going to grow the team. I will not lie to you: At the beginning, sourcing was not obvious. Six years, seven years ago, we had to make ourselves known by going to conferences, being judges in business-plan competitions, etc., etc.

Today, with no false modesty, the deals are coming to us. We are frequent travelers. We are active investors. We sit on the boards. We're constantly on the phone, constantly on meetings. And we have maintained a ratio of deal to investment managers of three to four, maximum. And that's what we intend to maintain. And so I understand what you're saying, but I do believe that we have been able to source and monitor and manage our deals in a very efficient way.

Let's dig a bit further into the way you screen deals. Are there deals that you believe will be profitable, but because they don't have the intended impact, you pass on them? Isn't that difficult?

It's not difficult and we would clearly do that. The first step in our investment process is to check whether that company fits our impact criteria. And it means, does this company at the heart of its business deliver an essential good or service to low-income communities? Does it change their lives? Does it leave them better, yes or no? If it's yes, then we proceed to the financial divisions, and we then become fiercely financial, commercial investors. If they don't hit the bill, we just don't invest in them. And vice versa, by the way. If we see a very exciting social proposition but it doesn't meet our threshold of probably around 25 percent IRR, we will not do it. We would likely pass [those opportunities] on to philanthropy investors.

It seems there is a spectrum of definitions for impact capital. On the one hand, impact is pure capitalism that happens to also have social and environmental objectives. Then, on the other hand, impact capital means social objectives that come in a somewhat watered-down version of capitalism. Where does your firm lie on that spectrum?

Well, we don't see any trade-offs. I know that's part of the debate, but we don't see trade-offs between social, environmental, and financial returns. We can have the maximization of all of those criteria in one investment. That's what we believe in. That's what we are going to demonstrate over the next few years. People want to make it more difficult than it is.

When people ask me, what's the value for society of including poor communities in the financial system? I usually tell them, okay, let's do this exercise: Imagine that you have no bank account. You have no debit card. You have no credit card. You have no savings account. You have no retirement plans. You have no insurance whatsoever. You have no ways of wiring your money anywhere. And by the way, you just have $2 per day in your pocket. How do you feel? Do you think intuitively that the person will be in a better position to grow his business, to care for his family [via inclusion in the finance system]? I think so.

You bring up an interesting point, which is the reporting of both financial and "impact" information. Are there measures of impact success that can't be quantified? Do you think that it's futile for some groups to try to say, "We've created 27 units of happiness," and have that live alongside financial information?

I'm not judging the work of anyone. And I think any single approach to what we're trying to do is good. Philanthropy is good. Soft capital is good. Commercial capital is good. I'm after a system change. I'm after bringing the big pools of capital out there into life-changing companies. In order to attract those pools of capital, I need to show the returns, because otherwise the [investors] will never come.

I track the outreach of those companies, and I certainly believe that commonsense investors will infer that through this outreach, I'm having a tremendous impact. That's the way I've chosen to go. It's a pragmatic one. It speaks to investors, commercial mainstream investors.

Do you encounter resistance or lack of understanding from people in the charitable world who question whether the building of businesses is the best way to create an impact?

Well, of course we encounter this type of opinion. There are NGOs and not-for-profits that have done absolutely great things. [Some of them] have a very tough time envisioning the commercialization of what they have done. That's okay.

Let's look at the financial-inclusion example. There are probably a few instances in sectors where philanthropy and NGOs and not-for-profit action is best.

But for the sectors that I am focusing on with Bamboo—affordable housing, access to clean energy, even access to education, financial inclusion, healthcare—there are business models that go faster, more sustainably and in an exponential capacity to scale up way, way beyond what philanthropy would do for those sectors. I do believe that if you use private capital in those sectors, you will achieve more social good and more social impact than philanthropy.

Talk about how you have been able to raise $250 million as a first-time manager with essentially a first-time team coming together.

'We don't see any tradeoffs... People want to make it more difficult than it is.'

De Schrevel interviewed by David Snow of Privcap. View the two-part interview here.

Well, I think we have to recognize, when we started Bamboo Finance, it was not the first company that I started. I started another company [earlier], mostly working with microfinance. So I guess when it came to the investors, I already had 10, 12 years' experience in these sectors so that probably gave some credibility to the proposal. Then, I believe, high-net-worth individuals and family offices appreciated someone speaking directly, transparently. They hopefully could feel the passion of what I was proposing and passion about the team.

[With] the institutional investors, which actually represent 75 percent, 80 percent of our LP base, it was a different sort of approach. We had to prove that we knew the business, we knew the sector, we knew what we were doing, that we were not improvising. We indeed were able to raise $250 million in tough years, 2008–2009. We've now deployed that capital, and we're ready to go for a second series of funds.

I would imagine some established big players want to rebrand themselves as impact investors, or at least launch divisions that are devoted to that style of investing. What is the bare minimum for a group to legitimately say that they are seeking impact?

To be called an impact investor legitimately, I believe that you have to have the intention to target those businesses that will intentionally go after a low-income, working-poor segment with the products and the services they need.

If you don't have this intention, you can call yourself an impact investor and, by any definition, everybody has impact, right? But I would say [to be an] impact investor, you would have to go and be intentional about defining your investments universe so that you trigger that impact.

This being said, if big houses of private equity were to go one way and call themselves impact investors and create divisions or special funds, I would really welcome that. Because what we need is not some small players pretending to work in a niche market. We want to have the big pools of capital come into those companies that are changing the world.

What we're after is to demonstrate that you can do it. Once we have demonstrated that, if others want to do it, compete against us, that's fantastic. That's how you build an industry. That's how you build a movement. /

By **Tanya Klich**

Catering to an Impact Fund

The journey of Hagar Catering, a business with a social mission that demonstrates how one can profit and change the world at the same time

When social entrepreneur Pierre Tami founded Hagar Catering and Facilities Management in Cambodia in 1998, his goal was simply to place the victims of human trafficking in dignified jobs. Catering is a labor-intensive business, and Tami felt the skills required could be taught to a struggling population on the margins of Cambodia's economy.

This was before the country's stunning Royal Palace and serene Mekong River turned Cambodia into a coveted global destination. Cambodian tourism had yet to balloon into a $2 billion industry and become an engine of economic growth. But by 2005, the tourism sector was booming, and Hagar Catering had transitioned from a few women learning basic cooking skills in a Phnom Penh shelter to a full-scale commercial operation employing over 135 survivors and serving 50,000 meals a month.

The success has led Tami to partner Cyrille Antignac and other businesspeople to form Uberis Capital, a socially responsible venture capital firm based in London and Cambodia that will try to replicate the Hagar model for the growing number of investors interested in impact capital.

'Hagar Catering is a social enterprise, but it is one of the most competitive businesses in Cambodia.'
– Cyrille Antignac

Phnom Penh, the city where Hagar Catering created much needed jobs.

The Beginning

"You can imagine that Cambodia in the 1990s wasn't what it is today," says Antignac. "The number of companies that were open to hiring women exiting rehabilitation centers was limited."

So Tami took an entrepreneurial approach to job creation by starting his own businesses under a new holding company. In addition to Hagar Catering, Hagar Social Enterprise Group (HSEG) launched companies like the textile manufacturer Hagar On-Time and soy-milk producer Hagar Soya to create further opportunities for the survivors.

Antignac says that the kinds of businesses typically targeted by private equity firms in emerging markets are urban and more likely to hire from the ranks of the growing middle-class. This wasn't where Tami wanted to create jobs.

Serving neglected rural populations instead requires a mindset rooted in reality. And in the Mekong region, particularly in Cambodia and Myanmar, that reality is the lack of a skilled workforce, according to Antignac.

"It's an attractive market as long as you can reach out to these people with the appropriate services, goods, or business models that can include

Hagar employees prepare a meal

them," he says.

At Hagar Catering, survivors of human trafficking learned basic skills. Most importantly, they were in a safe environment and paid an average salary of $106 per month (nearly double the country average, according to Uberis).

Today, Hagar Catering is Cambodia's largest catering company, serving more than 18 hotels and factory cafeterias. It is also the exclusive caterer to the U.S. Embassy.

"Its social-impact component doesn't change the commercial nature of the business or its financial performance," says Antignac. "This proves what we've been trying to prove. Hagar Catering is a social enterprise, but it is one of the most competitive businesses in Cambodia."

Monetization

When Hagar Catering needed expansion capital in 2009, its founders saw the opportunity for a profitable exit. In Q3 of 2010, Alain Dupuis, an investor and accomplished global restaurateur, agreed to take over 80 percent of the company. HSEG realized a 23 percent IRR on its investment.

The deal stipulated that HSEG remain a minority 20 percent shareholder and that the new owner would preserve the business's social mission.

"This 20 percent 'golden share' cannot be removed, so even if there is a change of majority shareholder, the social-impact strategy is protected," says Antignac. "This lockup clause is a good model for social investors in scaling up and exiting social businesses."

Uberis continues to use the Hagar case study to prove that social investments can deliver financial returns. The firm is currently working with Dupuis to build a Cambodian culinary academy. Its mission is to train food-service workers for the country's growing hospitality industry.

Antignac outlines Uberis's on-the-ground approach to growing a social enterprise in a developing market:

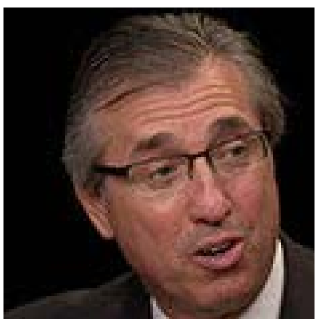
- Start early and secure market position. Hagar was in luck: the catering industry was undiscovered in the 1990s.
- Build up the business into a high-quality operation. While Hagar prioritized hiring the best chef to train cooks and developed high-grade menus, management didn't overlook training employees on hygiene and fully acknowledged the need to professionalize staff.
- Step in with expansion capital to stay ahead of the market. Antignac believes its deal with Dupuis came at a perfect time to solidify its number one position in the industry.

Uberis also expects to soon close an investment in a renewable-energy company that brings electricity to impoverished areas throughout Asia and the South Pacific.

"We focus on rural development because of its high scalability," says Antignac. "The businesses can benefit large groups of people. The first company we are investing in has reached 250,000 people in the past few years, and we plan to expand that business by $10 million to $12 million over the next five years."/

Experts Weigh In

Privcap asks four experts to weigh in on a single topic.
This month: Impact Investing.



Gene Wolfson

Mike Elio

Andrea Auerbach

Florence His

Measuring Social Returns

GENE WOLFSON

Partner, Catalyst Investors

We recently had a fund to funds dig deep to measure our minority employee percentage across our portfolio. It was one of their chief criteria for investing in us.

Catalyst invests in growth companies, which don't directly impact minorities, but it moves the general economy. These companies are expanding, not just through revenues but through employee growth as well. We just checked year over year employee growth across all of our portfolio companies, and it was north of 30 percent.

Private equity gets a bad rap for leveraging and seeking synergies, because this usually means layoffs. But we're investing in companies that are growing, so we're supporting the economy through job creation.

The LP Perspective

MIKE ELIO

Managing Director, ILPA

ILPA members tend to focus on ESG. The space started under the impact-investing umbrella, but it has become mainstream. It is not necessarily a rationale for investing, but it's a style of investing, because the concepts of environmental, social and governance impacts have started to enter the lexicon of the risk managers. It's now more important to LPs in their process of asking about risks in these three areas. ESG is climbing the list

Seeking Information

ANDREA AUERBACH

Head of Private Equity Research, Cambridge Associates

We have a subset of clients who are actively seeking and evaluating managers on social criteria, but not enough at this point. Clients who do focus on impact investing usually ask how managers fold ESG into their investment decision-making process.

There's a movement toward investors asking about impact-investing styles and ESG upfront. Many are saying they want to include impact investing, but they don't want compelling returns to be secondary criteria. They now want both in tandem. Managers are preparing to readily share that information, and they are becoming proactively forthcoming. When that happens, more investors start to take impact into consideration.

Gaining Momentum

FLORENCE HIS

Founder, Business for the People

Impact as an asset class is gaining momentum: We witness significantly more mainstream investors partnering up with specialists in the area, exploring opportunities, seeking education and information.

Just the fact that impact is now recognized as an asset class should suffice to show the trend has picked up from interest to testing and to the formalization of a variety of products. These products are managed by people with a variety of talents and backgrounds. Now the spectrum includes equity, bonds, private equity, debt, microfinance, and retail products. These can reach the larger public, not only the elite who initiated the asset class. The related strategies are being called venture philanthropy, slow money, impact investment, SRI, patient capital, conscious capitalism, social business. . . you name it.

Metrics and tools have been developed to provide measurement of impact. In addition, trade exchanges and platforms are starting to emerge, such as crowdfunding, which will take the sector places that would not have been imaginable just a short while ago.

Finally, a fundamental socio-cultural element is in the mix. Younger generations and women are progressively gaining more and more access to the world of investment opportunities, and these typically exhibit a higher level of "consciousness" around values, purpose, community well-being, and solidarity.

All these metrics traced over time show acceleration toward a tipping point for impact capital.

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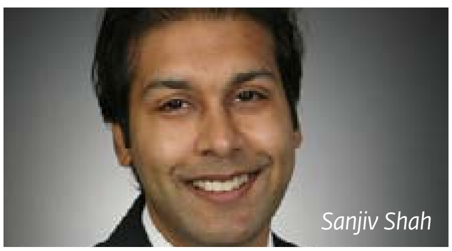
By **Tanya Klich**

The Hunt for Emerging Managers

Q&A with **Sanjiv Shah,** Managing Director, BAML Capital Access Funds Management


Sanjiv Shah

'We're not trying to change people's mindsets, focus, or investment strategy. We're trying to track what they've done historically, because it might overlap with the criteria that interest us.'

It may seem counterintuitive for a private equity fund of funds to look for less-established fund managers to back. But with heavyweights like CalSTRS, CalPERS, NYSCRF, and NYSTRS among its investors, BAML Capital Access Funds Management has clearly tapped into a growing demand for returns-driven strategies that also support social goals, such as building up the population of minority- and women-owned businesses and private investment firms.

The firm's assets under management now exceed $1.5 billion. Sanjiv Shah, a managing director at CAF, tells Privcap why his firm's emerging-manager program works well and how it often proves a "transformational" experience for GPs who never saw themselves as "impact" investors.

What kinds of GPs does your firm seek to back?

We invest in experienced and successful GPs who lack access to private equity capital. We also focus on portfolio companies overlooked or underserved by the market. Over time, we have shifted our concentration to investing with emerging PE managers.

If you look at our overall portfolio, you'll see overlap among our different investment criteria. But we're focused on the lower end of the midmarket. We believe small businesses will be significant employers and drivers of economic activity.

We seek opportunities that deliver returns with impact, providing institutional investors with a proactive strategy to invest in underserved or overlooked markets, including inner-city or minority-owned companies. I believe there is a large untapped market opportunity.

Are you seeking financial as well as social results?

There's this perception that if you're an impact investor, that may mean you aren't investing for financial returns. That's not the case for us. We're trying to invest in GPs that already have a proven track record of investing in economically blighted U.S. geographies and in demographic groups who don't have access to private capital.

We don't always lead with a specific mandate. We're not trying to change people's mindsets, focus, or investment strategy. CAF values reporting and gathering data

Impact Overview:
A sampling of results from the CAF portfolio

64%
provide capital to underserved markets

$2.9B
COMBINED PAYROLL

82%
have female or minority partners

102,000 workers employed

from our GPs, so we track what they've done historically, because it might overlap with the criteria that interest us or our clients. Then we conclude whether their investments already align with our strategy.

Once you have this conversation with managers, the result is transformational. GPs realize: "I didn't think there was a pool of capital that was interested in tracking this type of data."

We may be looking for a fund manager to invest in local manufacturing companies in the Midwest. Or the focus may be on companies located in geographically disadvantaged communities, such as Detroit. These same managers may be unaware that there are LPs interested in investments that have created hundreds of jobs in a rural or inner-city community. They may not value that this story may be important to LPs. The next step is our due diligence process, where we review static and consistent data at the company level. If their pipeline shows that they may invest in businesses with similar profiles in the future, that becomes the basis of whether we'd consider them an emerging manager.

'We're focused on the lower end of the mid-market. We believe small businesses will be significant employers and drivers of economic activity.'

How do you address the stigma of "social" investing?

We communicate with GPs who fear the label of "not a returns-first" investor. CAF emphasizes that both returns and impact are important. While we focus on quality and experience, the managers need to be comfortable knowing that we're going to track impact data and we're going to monitor the impact of their portfolio companies going forward.

History of BAML Capital Access Funds Management

Capital Access Funds, based in Chicago, was founded in 1997 as part of the Community Development Banking group, a subsidiary of Bank of America. The team initially invested in various equity products, including private equity and real estate funds which targeted underserved markets in the Midwestern U.S.

As Bank of America expanded as a result of industry consolidation in the mid-to-late 1990s, CAF evolved from being a generalist investor focused on both direct and indirect private equity and real estate investments in the Midwest to a product specialist with a national investment mandate focused exclusively on investing in private equity funds that were managed by individuals who historically lacked access to capital and/or that would target investment in companies that were located in underserved communities. The success CAF had in deploying capital around this focused strategy in the late 1990s caught the attention of a large institutional investor, eventually leading to CAF raising its first fund of funds vehicle with an outside investor in 2002.

CAF: Underserved Markets Defined
- located in low- to moderate-income areas
- owned or operated by women or minorities
- focused on products or services targeting ethnic minorities
- based in an inner-city or rural area

CAF: What Makes an Emerging Manager
- amount of capital a fund manager is trying to raise
- how long the team has been around, whether it is their fund I, II, or III
- level of diversity in the senior ranks

The Impact Archives

Check out Privcap's full coverage of ESG, diversity, and impact investing in the private capital markets

VIDEOS

What Has Bonderman Seeing Green?
David Bonderman of TPG Capital explains how business and environmental stewardship can profitably co-exist

Mega-ESG: Carlyle, TPG Talk Culture and Responsibility
How have The Carlyle Group and TPG established their ESG programs? We learn from Bryan Corbett of The Carlyle Group, Ed Norton of TPG Capital, and Beth Lowery of TPG Capital.

Buliding an Environmentally Conscious PE Firm
How environmental consciousness grows among private equity firms—with Tom Murray of the Environmental Defense Fund

Carnegie's Diversity Challenge
Kim Lew, co-CIO of the Carnegie Corporation, explains the importance of diversity within private equity teams

Nigeria Needs Impact Capital
A conversation with Tokunboh Ishmael of Alitheia Capital

Climate Change Capital
Chenggang Jerry Wu, principal investment officer the World Bank's International Finance Corporation on battling climate change via the private markets

REPORTS & ARTICLES

Report: How ESG Creates Value in Emerging Markets
Executive summary of the Privcap series on ESG investment mandates in emerging market companies—and how the absence of such programs can put portfolios at risk

For-Profit is the New Non-Profit
Private equity is playing a central role in the rise of 'impact capital,' says Privcap's David Snow

Capital-Commitment Financing

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Experts explain the benefits of a subscription-finance tool for fund managers

David Wasserman, SMBC, and Albert Tan, Haynes and Boone

THE BENEFITS OF BRIDGE FINANCING
Albert Tan, Partner, Co-Chair, Global Capital Commitment Financing Group, Haynes and Boone

Private equity funds, particularly real estate private equity funds, use subscription, or capital, commitment financing as a form of bridge financing to satisfy the investment and business needs of the fund. They can use this particular facility – where the collateral is secured not by the assets of the fund but by the capital commitments of the investors – as near-term financing in lieu of calling capital from their investors during the life of the investment period of the fund. The biggest benefit is the fund is able to use it for all of its business needs: payment of fees, expenses, and defaulting investors. It can pay for other borrowings that the fund may have for other subsidiaries. The facility can be used to bridge all of that.

COMMITED CAPITAL COMMUNICATIONS
David Wasserman, Executive Director, Real Estate, Sumitomo Mitsui Banking Corporation

There are a lot of different structures and vehicles, but we estimate its size at slightly over $100 billion. The market right now is very liquid. Many banks are returning to the space, particularly money center banks from Asia and Europe.

It prioritizes the same concepts as any other debt facility, including communication between the lender and borrower and understanding their needs to get comfortable providing the credit. With the growth, we've seen both lender's counsel and borrower's counsel become very educated on the product. And as lenders, I don't even have to ask for these provisions to be kept in the limited partnership agreement anymore. They're automatically included because borrowers' and lenders' counsel just become more knowledgeable about the process.

TIME IS OF THE ESSENCE
Jeffrey Tucker, COO, Century Bridge Capital

The GP's right to make capital calls on the investors is no longer just a nice feature for a firm. It's now a necessary tool for a fund like ours. We have LPs all over the world and we're closing investments in China. When we issue a capital call in this market, there's a 10-business day period for everybody to fund their capital call. Then there's an additional step: money generally comes into Hong Kong or Singapore before it's converted into RMB.

In a recent project we were closing, the joint venture documents and the contracts were signed about four days before a government-imposed deadline when the capital had to enter China. In that scenario, there would be no way that we could fund the capital on time by issuing a capital call to our investors. So we used our subscription line, and then issued the capital call to our investors.

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Expert Q&A

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Expert Q&A with **Albert Tan,** Partner & Co-Chair, Global Capital Commitment Financing Group, Haynes and Boone

Albert Tan, Partner | **email:** albert.tan@haynesboone.com **Web:** www.haynesboone.com

How did Haynes and Boone develop a specialty in capital-commitment financing for private funds?

For the past quarter-century, we have had the largest full-time, dedicated practice group in capital commitment subscription financing. Our team of attorneys have represented lenders and private equity funds in North America, Europe, and Asia. It has recently migrated to Latin America.

Our firm has witnessed the evolution of the product since its inception, when it was used as a simple facility for one U.S.-based real estate private equity fund. It has since become a second-nature product for real estate funds, and we see it slowly moving to infrastructure, buyout, energy, and maritime funds.

The Haynes and Boone database contains analytical credit information for thousands of investors, with linkage to their ultimate credit source. Our database is also full of precedent documents due to our experience as lead administrative agent in key transactions worth over $20 billion.

The multi-disciplinary approach satisfies the interests of all the investors, the funds, and the lenders. /

Solutions Financing in Automotive Retail

How a strategic partnership is helping auto dealerships monetize the value of their real estate assets

Click to watch this video at privcap.com

What is a triple net lease?

When the tenant is responsible for all costs related to the asset being leased, in addition to paying rent.

Last year, sale lease-back specialist W. P. struck a deal with RML Automotive to acquire the real estate assets of eight U.S. automotive dealerships. It was the first of an expected series of similar deals in a space that both firms say represents a great opportunity.

For W. P. Carey, many automotive dealerships own great real estate and are great potential tenants. For RML, the deal represented an opportunity to unlock value and put capital to work in better way. According to Frank McLarty, CEO of RML, the Arkansas-based company had been growing strongly through acquisitions, and by 2012, "We wanted to continue to grow, so we looked for the best return on our equity investment. We also looked at the return we get on our operational investments versus the real estate—there's a substantial difference between the two."

Out of a desire to unlock the value of its real estate, RML entered into a sale lease-back transaction with W. P. Carey.

Jason Fox, managing director at the firm, says W. P. Carey carefully considers two elements when weighing a sale lease-back deal, first, the criticality of the real estate to the tenant, and second, the property's underlying, fundamental value. For many automotive dealerships, both of these boxes are checked.

Fox's team has found car dealerships, because they often sell new and used cars, are less impacted by economic cycles. Also, parts and services provide steady cash flow and cover 70 percent of fixed costs for the average dealership. W. P. Carey considers this element of stability attractive. "Few institutional investors are currently targeting this opportunity," says Fox.

According to McLarty, the sale-lease-back transactions bought out some other property owners, allowing RML to consolidate its landlord relationships into one lessor. "To have one institutional landlord whose interest is purely in being a long-term, triple-net lease landlord gives us the clarity and certainty we need to aggressively grow our business, whether it's by improving operations or acquisitions," says McLarty. "We can focus our attention and corporate resources on operating the business, not on complicated real estate negotiations."

In August, W. P. Carey completed a follow-on transaction with RML, acquiring a Toyota dealership in Texas for $15 million. The facility will be leased back to RML on a triple-net basis for 16 years.

According to Fox, W. P. Carey remains highly interested in automotive retail deals. "This industry meets many things we look for in a long-term net lease. Given the lack of institutional capital focused on only real estate in the automotive market, there are opportunities to find ways to invest money at good yields." /