BRIDGES
Fund Management

The case for longer-term capital

If we want to achieve long-term social and environmental benefits, we need investment structures that enable impact businesses to think long-term

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N.B. This essay is an edited version of the transcript of Diana's 20/30 Visions interview, which you can watch at www.bridgesfundmanagement/2030Visions.

Cranemere is a holding company. We have permanent capital from our shareholders, and provide liquidity as well as growth equity to mid-market businesses, without a view to exiting our companies. The idea is to buy, build and hold: to keep the money we have from our shareholders compounding and continuously working.

The benefit for companies is that they have a long term, stable, values-aligned capital partner, who can help them continue their growth strategy and build the next chapter of their business. We typically do an environmental and social profit and loss analysis for each company, where we look at what their largest social and environmental externalities are. Then we work with the company to really address these in a way that increases the value of the business.

Before I joined Cranemere, I was a partner in a cleantech and sustainability growth equity fund. It was a very traditional 10-year fund structure: we typically held our investments for three to five years, and then would look to exit. I had the good fortune of taking a couple of companies public, as well as selling companies to larger corporations. But I discovered that while taking companies public might create a good exit for the existing shareholders, it often created problems for the company.

For example, we took an energy-efficient lighting business public. When we reported our results for the first quarter of the following year, the result was down on the first quarter of the previous year. We explained that we'd been investing in growth, and revenues had gone up more than 50% over the preceding year. But because we were down quarter on quarter, analysts reacted very badly and really hammered the stock. That was a real wake-up call for me about how difficult it is to continue with a long-term strategy in a public market, where analysts are looking for short term results.

On the impact side, there were also major constraints. Greening the supply chain and operations; making people equity owners of the business; redesigning the product to improve its environmental performance: all these investments took time to make. It could take several years to really capture the value.

AN ALTERNATIVE WAY

I started to think about whether there was an alternative way – so a company could continue to think and make investments for the long term, and also preserve its mission and culture and vision, which is often the secret sauce of these companies' success.

Then I met with Vincent Mai, who had come to a similar realisation: if you build and own a great business, why sell it?

The likes of Warren Buffet had shown that often, the best thing to do with a great business is just to hang on to it and keep investing in it. Once you have a relationship with management, once you know the sector and the company is performing well, it's less risky to keep building that business, and find a new way to invest in it, than it would be to sell it.

It also made sense for companies, because there was less of the distraction that comes from buying and selling businesses every three to five years.

So in terms of both looking for companies, and engaging with those companies to drive environmental and social impact, a long-term structure made a lot of sense.

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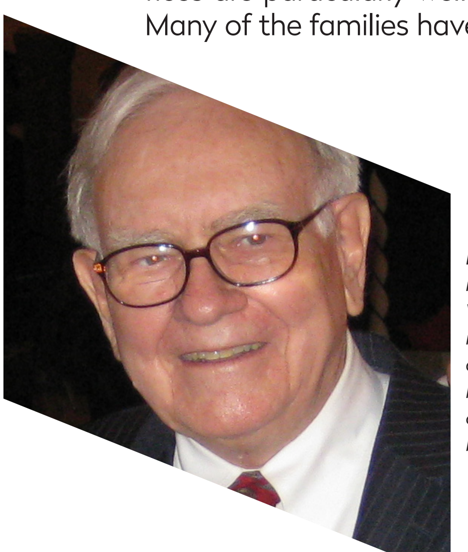
Commercial truck company Velocity Vehicle Group, a Cranemere operating company that is working with Daimler to electrify its vehicles, was attracted by the idea of a long-term capital partner

The biggest question investors had when we started fundraising for Cranemere was around managing liquidity. How would they get out?

We don't have a GP/LP structure; our shareholders own stock of Cranemere at the holding company level. Every year, we engage a third-party valuation company to value the operating businesses. And that rolls up into a new stock price of Cranemere every year. Thankfully, because our companies are doing well, this stock price has appreciated in a meaningful way over time. So liquidity is then managed at the Cranemere level, not the operating company level: we don't have to sell those businesses. As we mature, we're creating opportunities for our shareholders to sell some of their shares if they want some liquidity.

Another really important feature of Cranemere is our governance structure. So unlike a private equity fund, where there might be just an LP advisory board, we have shareholders that sit on the board of Cranemere, and we have quarterly meetings. Through that open, transparent communication, they are able to understand how the companies are progressing – and this creates a level of trust. It's very different to the GP/LP dynamic, where an LP is largely passive, just waiting for the exit.

We are looking for shareholders who are long-term and appreciate the compounding. We've found that family offices are particularly well-suited to this. Many of the families have either owned or continue to run their own family business, so they understand how wealth is created through the long-term ownership of companies.



Legendary investor Warren Buffett is a famous advocate of long-term ownership of businesses

THE VALUE TO COMPANIES

We have partnered with one of the largest heavy-duty truck dealerships in the United States. It's a company that's leaning into electrification, working very closely with Daimler on rolling out not just heavy-duty but also mid-sized electric trucks. We knew this was going to be a long-term prospect to capture the value – maybe 10, 20 years. As a long-term shareholder, that's the kind of thing we get excited about. And that was a huge differentiator for us with the two founders of the business: the fact that we wanted to be their partner for this electrification process, providing steady stable capital, while at the same time providing the founders with some liquidity.

Our differentiation was also clear during COVID. As a long-term owner, our message to CEOs was: put employee wellbeing and health first. We told them that we weren't going to make cuts to preserve EBITDA in the short term. The message was: let's use our cash to keep our teams intact, so that we can then be ready to take advantage when markets reopen. Interestingly, we saw employee engagement increase in our companies – and in some cases, we were able to win new business as a result.

So one thing we've learned is that our long-term view, and our focus on envi-

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ronmental and social good, has been a differentiator for us in terms of building our brand and building relationships with companies.

We see this model as just another alternative in the marketplace. We're not against private equity; we're not against companies going public. But we think it's great for companies to have another option to choose from.

There are management teams that really want to continue with the company, who still have a 10- or 20-year vision of what this company can become. These teams may feel that staying private, with a stable, values-aligned capital provider is the best route forward. And that's where we provide an alternative. My interest has always been in creating as many options as possible for impact enterprises to keep growing, keep focusing on the long term, and keep building the environmental and social impact that drives the business's value.

WE NEED MORE LONG-TERMISM

Generally, the concept of long-termism is getting a huge amount of attention, even compared to five years ago. So why are we not seeing more holding companies?

The main reason is a lack of experience with this alternative model. The standard private equity 10-year fund cycle has been extremely successful for investors. So there's a tremendous amount of inertia. People gravitate to the thing they know, not the new kid on the block.

And there are people working on developing long-term structures. You have perpetual trusts, which are long-term structures to own a business for the benefit of a charitable institution. There are others raising longer-term funds.

Ultimately, we need more long-termism in the way that we invest, and in the way that companies are run. We are not going to be able to tackle issues like climate change and wealth disparity without companies having some time latitude to make investments in the environment, and in their people – which in the near term will incur costs, but in the longer term, makes the company more resilient and more attractive to the best talent.

So I think we're going to see an increasing convergence between companies wanting long-termism, and investors wanting to support that. And there will be further innovations to direct capital in this direction.

We also need investors, whether that's family offices or institutions, to be ready to put their money into some of these newer structures. That means understanding that yes, this may be different from what they've traditionally invested in. But if they care about issues like climate and income inequality, they need to think about how the way they invest enables or constrains an investment firm to achieve those long-term social and environmental benefits.

We need to have better symmetry between the impact that we are seeking, and the ownership structure through which we support and back those businesses.

"Investors need to think about how the way they invest enables or constrains an investment firm to achieve those long-term social and environmental benefits."

Diana Propper de Callejon has over 25 years of experience backing and building sustainability market leaders and purpose-led companies. She focuses on identifying and evaluating acquisition opportunities and partnering with Cranemere's operating companies on strengthening their environmental and social performance to build business value. She was previously co-managing partner at Expansion Capital Partners, where she was a board member of companies in sustainability markets including green building, energy services, and resource efficiency. Diana is on the Board of Trustees of the Natural Resources Defense Council (NRDC) where she chairs the investment committee, and the Advisory Board of Duke University's Nicholas Institute for Energy, Environment & Sustainability. She has an MBA from Harvard Business School and a Bachelor of Arts Summa Cum Laude from Duke University.

VISIONS 20/30

20/30 Visions is a series of interviews with global thought-leaders, exploring how we build a more sustainable and inclusive world in the next decade

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20 years
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