Resilience and disruption: Agents of Impact share lessons from the pandemic

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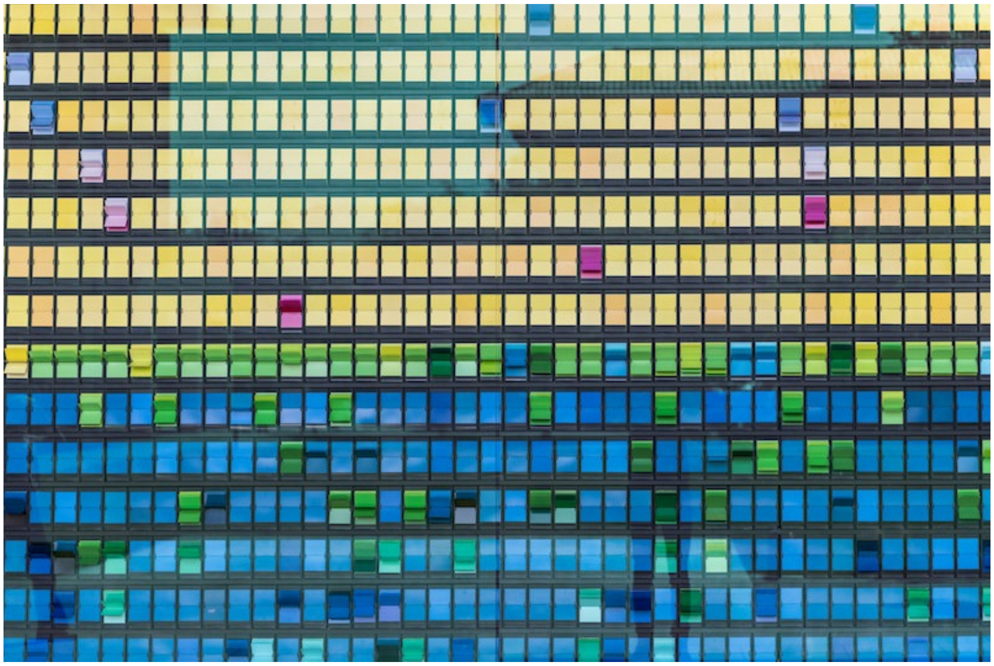

Editor's note: It seems the coronavirus pandemic could bring out either the worst or the best in us. The clear intent of the growing community of Agents of Impact: Let's make it the latter.

*We're using this post (bookmark it!) to update your dispatches from the global mobilization. Please send us yours at editor@impactalpha.com. New entries include Align's **Jennifer Kenning**, UpStart Co-Lab's **Laura Callanan**, and Catalyst Opportunity Funds' **Jeremy Keele**.*

*Two themes are emerging from your incoming contributions. First, **resiliency** has tangible value. Investments made in knitting together ecosystems and networks of trust help communities, companies and portfolios weather the inevitable surprises of pandemic, recession or climate change.*

*As Cornerstone Capital's **Erika Karp**, Caprock Group's **Matthew Weatherley-White** and Natural Investments' **Michael Kramer** note below, investing for positive social and environmental impact may have cushioned you on the downside; impact and ESG may yet position you for the upside.*

*Second, what if the global behavior change caused by COVID-19 *is* the long-predicted sustainability disruption? The thing few thought was possible – a dramatic drop in global carbon emissions – has just been achieved. Why revert?*

*"The silver lining is that we now have a roadmap for immediate and urgent corporate action that we can leverage to address climate change," says Calvert Impact Capital's **Beth Bafford**. "Our economy can turn on a dime." Preventable Surprises' **Jérôme Tagger** suggests the pandemic opens the way for a serious rethink of the role of the financial system. It's not too early to get to work on fulfilling the mostly unheeded maxim of the last global meltdown: Don't let a crisis go to waste.*

*The spirit of generosity, gratitude and optimism that animates so many Agents of Impact will go a long way in the current crisis. As **Laura Ortiz** writes from SVX Mexico, "Our job is healing ourselves, making ourselves whole, connecting with what life really is: water, soil, freedom, walking, the flow of love between us and life and our home planet."*

– David Bank, editor

Long-term strategies

"We are seeing various proof points play out across public markets for impact focused investments outperforming broader benchmarks," writes Align Impact's Jennifer Kenning. "But rather than reveling in the short-term outperformance as an indicator of some superior thinking, our focus is on executing on long-term strategies that solve systemic social and environmental challenges."

"These challenges rear their heads more prominently in a time of crisis but are at work all the time," she continued. "With the inherently collaborative nature of work being done across impact investments, our expectation is that the community and the relationships we have helped our clients build across the value chain will be more resilient to short-term shocks than any distressed businesses would."

Celebrate local capacity

'Disaggregated production' may be a reasonable strategy moving forward, says **Laura Callanan** of **Upstart Co-Lab**. Callanan points to **Upriver Studios**, **Mary Stuart Masterson**'s Hudson Valley-based film production company that's "making local work" outside of Hollywood (*see, "Investing in the impact of powerful new voices in film and video games"*).

Callanan also points to **Greenbelt Hospitality**, a collaboration of farmer **Matthew Moore** and restaurateur **Aric Mei**, that's embedded a restaurant experience into a two-acre working urban farm in Phoenix. Both companies, says Callanan, "are examples of how we can have world-class experiences, engage in top-quality work and do it at home rather than by moving and traveling."

Callanan says the coronavirus recession has her worried "that investors back away from commitments to impact entrepreneurs and a generation of good ideas, high potential companies and talent is stalled or lost." A corollary might be that investors back away from ESG, socially responsible and impact investment funds "especially the smaller, newer, thematically-focused and women-led, people of color-led groups that are more impact-focused, instead gravitating to the larger firms and larger funds that are weaker on real impact — or to conventional funds and advisors."

Another worry: "Philanthropy prioritizes its own intergenerational neutrality and purchasing power rather than addresses the crisis, effectively pitting grantees and issues areas against one another. Field-building support for impact investing is under-rated for its importance at this moment."

Volatility hedge.

The market downturn won't immediately hit Opportunity Funds raising capital, as investors are still looking to reduce their 2019 capital gains, which were huge. Going forward, the capital gains tax breaks that fueled interest in Opportunity Zones are likely to be much less of an attraction, says Jeremy Keele of **Catalyst Opportunity Funds** (*see, "Catalyst seeks to demonstrate positive impact with initial Opportunity Zone investments"*).

Motivated in part by the opportunity zone incentive, large family offices are moving full speed ahead with real-estate diligence and investments as other investors are distracted by market upheavals and shutdowns. Keele reminds us that some "impact" sectors offer protection from broader market swings. "Many of our investments target affordably priced multi-family housing where we expect renter demand will continue, or perhaps increase, during a potential recession."

Deepen connections and be patient

That necessary responses to the virus may be separating us is a good reminder of "how deeply connected we are and how impact investing at its core recognizes the connection between people, place, and planet," says **Michael Whelchel** of **Big Path Capital**, which is taking its April 21 Global Impact Capitalism Summit virtual. "Impact investing is intellectually honest to how our investments are intertwined with community and planet and recognizes that we are connected to each other more than we can imagine."

The general effect on impact venture capital and private equity will depend on how long the pandemic lasts, says **Impact Engine's Priya Parrish** (*see, "The three dozen investors putting Chicago on the impact investing map"*). "I believe there is enough momentum in impact investing that I don't believe the industry will face a setback disproportionate to other strategies," she says. "My experience is that good opportunities come out of market dislocations for patient investors."

Choices and scenarios for ESG in a time of pandemic

The coronavirus could be “a death knell” for environmental, social and governance investing “and set back investor responsibility for a generation,” writes Preventable Surprises’ **Jérôme Tagger**. Or, it could prompt “a re-think of capitalism and the global financial system.” Acting decisively on one systemic risk – the pandemic – he says, increases the world’s capacity to respond to other systemic risks – think climate change. Read on.

Portfolio resilience

“We were NOT predicting a virus. But we certainly have been aware of the potential for a black swan event to trigger a re-pricing of liquid assets,” **Matthew Weatherley-White** of Caprock Group reports from Boise, Idaho. “We’ve been steadily rolling down our exposure to leveraged assets on the premise that the credit cycle was stretched and that credit was more likely to contract than to expand at a rate anything like what we’ve seen since the Great Financial Crisis.”

He says Caprock’s impact portfolios appear to have experienced incrementally less volatility than conventional portfolios. “Which makes a ton of sense. If you don’t have exposure to carbon-intensive industries or money centers, you’ve certainly taken a hit but so far dodged the worst of the damage. Which is, of course, the whole point. ESG is a risk-mitigator just as much as it is an opportunity identifier.”

- **Least worst**. Of 2,800 ESG-themed funds analyzed by *Bloomberg* last week, 400 were in positive territory, and that was before the stock market’s Friday rebound. ESG funds opened before 2015 performed particularly well. Overall, ESG funds fell an average 12.2% (again, before Friday rebound), about half the rate of the S&P 500 decline. “Potential for outperformance may be related to the longer-term nature of good ESG integration,” said Cornerstone Capital’s Erika Karp.
- **Fossil free**. “Our flagship fixed income strategy has been fossil fuel free for 20 years and we have been able to avoid exposure to the energy names that have been hard hit by the recent turmoil,” reports Community Capital Management. “We are invested in companies with strong ESG ratings and track records that we think are equipped to come out of this period stronger than ever.”

This is not an era of changes. It is a change of era

“A system that counts its self-destruction (wars, sickness) as progress (GDP) is bound to break at some point,” writes **Laura Ortiz** of SVX Mexico. The S&P 500 may only recently have taken a hit, but “but the underlying assets (social & natural capital) had been in depletion for a while now.” This is not an era of changes, it is a change of era, Ortiz says.

“The material degrowth of the planet is not an option but a data point. Human life is not a certainty but a possibility. I think this past week just makes the obvious more visible. Our job is healing ourselves, making ourselves whole, connecting with what life really is: Water, soil, freedom, walking, the flow of love between us and life and our home planet. Regeneration will emerge from our healing: It is inevitable.”

Hold tight and ride it out

“Cultivating a resilient way of life means preparing for shocks to the economic system before they occur,” writes Natural Investments’ **Michael Kramer**, co-author of *The Resilient Investor: A Plan for Your Life, Not Just Your Money*. “This crisis is an excellent wake-up call for people to take personal life planning seriously and to develop and embrace a resilient mindset and lifestyle. It is also a time to remain calm and focus on whatever gives one peace of mind, for this ultimately is far more important than rates of return.”

He said he has received only two emails from concerned clients in recent weeks. “In theory, a virus shouldn’t be able to bring the global economy to a halt, or even a recession. It is likely a temporary disruption. The prudent course is to hold tight and ride this out. As such, the current volatility is not something that would cause us to change our investment advising philosophy; we prefer to make adjustments primarily based on our clients’ specific circumstances and needs and not rampant fear that causes the very conditions we all wish to avoid.”