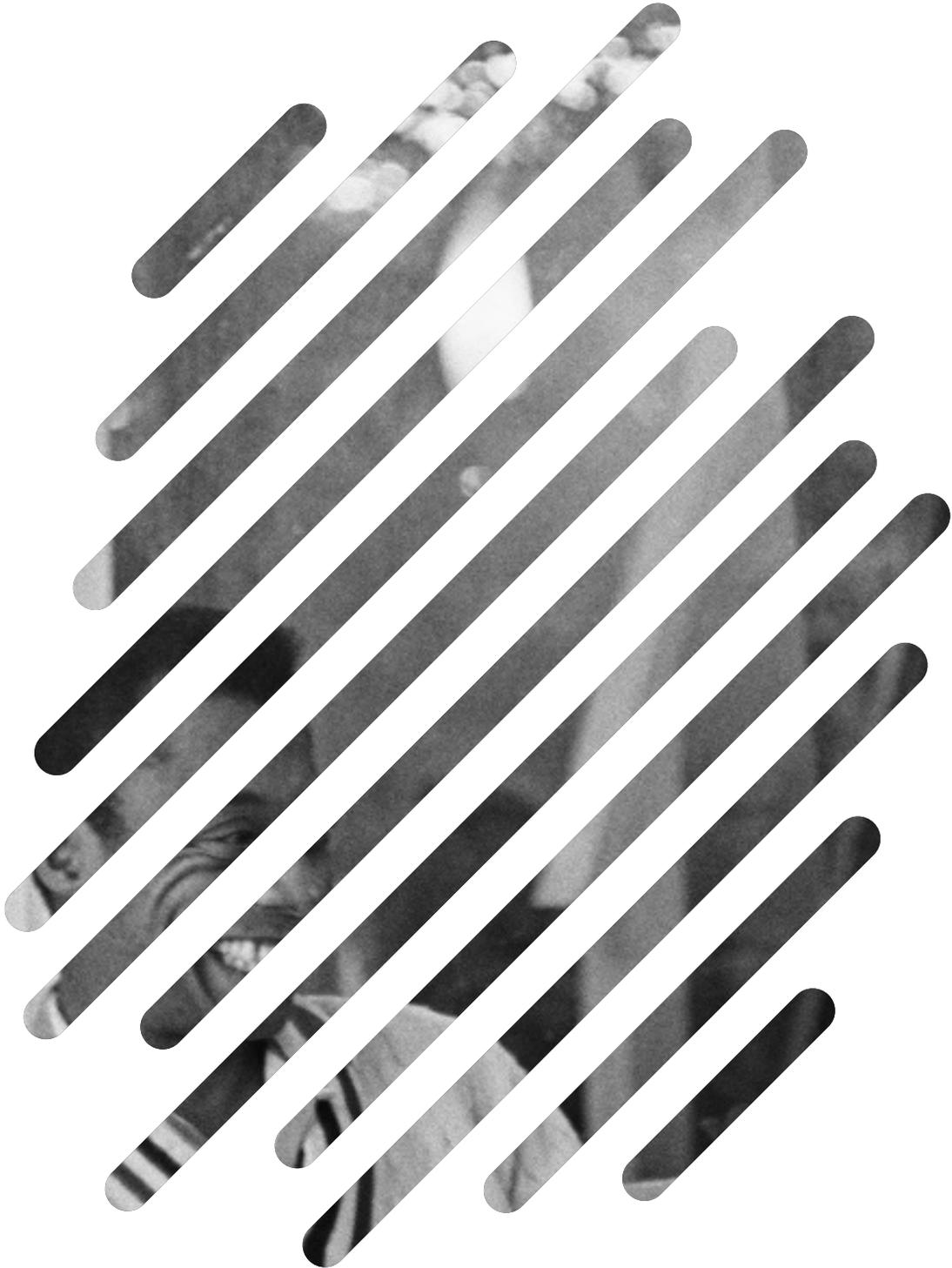




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# FACING CHANGE





## Facing Change

“You think your pain and your heartbreak are unprecedented in the history of the world, but then you read.”

James Arthur Baldwin was born in 1924, the dawn of the ‘Roaring Twenties,’ when for the very first time, the New Times Index of the 25 leading stocks reached 100 points. Before the future novelist and civil rights activist could celebrate his sixth Christmas, the same index of stocks had ballooned to over 450 points before the start of what proved to be a calamitous decline. The young man likely understood little of the historic events unfolding around him but would, in time, also make American history. James Baldwin would go on to harness a lifetime of traumatic experience, suffered as both a black man and a gay man, and become an eminent voice about the American soul and experience. In doing so, he helped the nation find perspective with which to face the changes needed at the time.

“Not everything that is faced can be changed. But nothing can be changed until it is faced.”

Today, as we live a globally shared exhaustion from history’s latest challenge, we find that Mr. Baldwin’s wisdom has transcended even into the world of finance, where a bit of perspective might just help stoke the sense of purpose and control needed to face the changes of our time.

Thus, in honor of the venerable James Baldwin, this commentary departs from our standard topical deep dives to highlighting some of the noteworthy changes taking place in the world at large which naturally impact both the investment opportunity set and the results that can be achieved. It may give off a waft of macro, but we prefer to think of it as another manifestation of the investment expertise we’ve accumulated over four decades of helping non-profits face change and make a difference in their communities.

### **The Accelerated Pace of Healthcare Innovation**

In those periods of human history remembered for a sickness or disease, we also see a rise in medical innovation that propels the healthcare industry forward. We are living through one of these periods now.

Within 18 months of the COVID virus’ arrival on the world stage, at least five vaccines were produced and distributed, with effective new treatments becoming well understood in relatively short order as well. While much work remains, it is undeniable that the advancements in virology and vaccine manufacturing that have occurred over the last several years saved scores of lives, expediting society’s return to normalcy after a protracted period of uncertainty.

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The advancements in healthcare are, of course, not limited to virology. The entire medical ecosystem is evolving in leaps and bounds, increasing efficiency for more administrative tasks and tools, like personnel management, record-keeping, and coordination between patients, doctors, and researchers, as well as more life-critical functions, like the treatment of disease. While not limited to the healthcare space, digital infrastructure represents a growing and essential area driving change in healthcare innovation. This includes investments in the backbone underpinning technological innovation and driving systematic efficacy – the shovel sold to mine the gold.

For example, Unite Us provides software-enabled local networks to connect vulnerable populations and facilitate their care with the many stakeholders focused on social determinants of health (SDOH), including community-based organizations (CBOs), healthcare entities, and government stakeholders. The current process to coordinate care with CBOs is highly manual and time intensive due to a fragmented network of organizations, outdated contact information, and archaic or non-existent technology systems. The company's closed-loop system enables case managers to identify CBOs by service type and capacity, generate a referral, share relevant patient data, and track ongoing referral status and services administered. Through Unite Us, health systems and payers can better address patient needs, governments can ensure social services are utilized and improve community health, and CBOs can increase service utilization and support future funding.

In an ecosystem with so much innovation and talent, it comes as little surprise that investors are excited about allocating capital to this rapidly growing and disruptive space. Given its highly technical nature, we believe our clients are well served by specialists in the field who can approach this sector with a discerning eye and the ability to find and help develop truly effective and revolutionary improvements. But taking a step back, it is worth appreciating the range of such improvements across such a compressed period as a testament to human ingenuity in the face of seemingly overwhelming adversity.

### **Breakthroughs in Alternative Energy**

With solar panels decorating roofs and electric cars sharing roadways, it is difficult to imagine that refined petroleum was once a cutting-edge alternative energy source. Cleaner, more abundant, more adaptable, and easier to process and transport than previous resources (e.g., coal, trees, oils from plants and animals), petroleum reached its golden age at the turn of the 20th century and never really looked back. Today, however, fossil fuels are facing new headwinds, mostly of their own doing. The long-term hazards of burning these fuels – namely, climate change – pose an escalating threat to the industry's dominance.

However, in the past decade, the push for alternative energy has accelerated, with both individuals and governments wishing to free themselves from dependence on fossil fuels and potentially improve the long-term health of the planet and sustainability of other natural

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resources, such as fresh water and arable land. Technologies already well understood, such as hydro and wind power, were the first to be widely implemented, followed much later by newer technologies such as photovoltaic cells. Today, it is common to see roofs slated with solar panels across a wide range of areas. Electrical energy storage technology and the electrification of utilities, including transportation utilities, are the next improvement for the space, with resources dedicated to better facilitating the smooth distribution of the cyclical power-generation patterns of the sun and wind. All that aside, more recent developments in fusion technology have the potential to revolutionize the power-generation paradigm altogether.

As the options for directly investing in the alternative energy sector are growing to match expectations for a more sustainable planet, it's vital to align with investors that have deep experience and knowledge not only in the technology itself, but with the regulatory scaffolding surrounding the industry.

Among the next wave of opportunities will be companies putting the “guardrails” in place to maintain this development towards more sustainable energy choices. For example, Redwood Materials is creating a closed-loop supply chain for electric vehicles and energy products, which, among other things, should drive down the costs for batteries. It is developing programs to harvest lithium, nickel, cobalt, and copper from recycled car batteries, power tools, laptops, phones, etc., creating a valuable-materials stream around the EV battery production supply chain. Such companies are creating opportunities to invest in efficiency in a fast-growing industry while supporting a healthier planet.

It's clear that the transition away from fossil fuels is well underway, with permanent and positive benefits for future generations. It is certainly possible that a few generations from now, the only energy baron will be the sun.

### **Increased Investor Focus on the “S” in ESG**

Societal norms are naturally slow to evolve, and any period of seemingly rapid change is precipitated by many small steps towards a new model of thinking. Today, we see that diversity, equity, and inclusion concerns are at least a part of any serious corporate boardroom, and a frequent topic of discussion among investment committees as well.

Investment managers were also strongly impacted by a heightened awareness of these systemic issues, so much so that we've seen a demonstrably higher caliber of investment manager involved in ESG-oriented strategies, with an increased emphasis on the value of the social component. Environmental factors clearly remain important, and corporate governance is still relevant as well, but investors today understand that being forward-thinking requires not just a focus on core business operations but on core people operations, and companies that do this well are more likely to see it translate to the bottom line and a better world.

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To leverage the growing awareness of overlooked talent, many managers and companies are leading initiatives to develop the next generation that will be responsible for the breakout opportunities of tomorrow. Such programs and funds, like Base10 Venture's Advancement Initiative, invest in top private companies and donate a significant percentage of GP carry to help fund scholarships for the education of diverse students. Without compromising on returns, these funds offer a way to incubate promising under-the-radar future leaders and make the world a more equitable place, while further expanding the field of potentially lucrative business solutions across sectors going forward.

### **Democratization of Productivity and Increasing Power of Labor**

This past year was marked by a sea change in labor dynamics in the US. Dubbed "The Great Resignation," the labor market saw an astonishing number of workers change employers or leave the workforce outright. The causes were multifaceted, but regardless of the business segment, it's clear that employees now hold increasing leverage over employers, which has led to pressures to improve quality of life and compensation structures. On its face, this would seem to be a costly development for shareholders, but happier workers are more productive, and, importantly, more creative and active contributors to a business's success.

While reports indicate most resignations were due to workers responding to offers of higher wages and better conditions (such as the ability to work remotely), the US economy also saw a record amount of new business formation in 2021. This is a very promising development, as new business formation is an indicator of a strengthening economy. In contrast, the low formation numbers following the Great Recession are thought to have prolonged and deepened the economic slowdown. New businesses are likely to hire at multiples of their size and more effectively close microeconomic inefficiencies in local communities, either through scaling service or improving efficiency through innovative processes. Importantly, when very successful, these lessons often permeate the economic system to the benefit of all. This iterative process has the potential to challenge the existing ecosystem and democratize (and thereby improve) productivity and individual well-being across the economy.

A subset of these small businesses will scale considerably. They may find themselves in private or public markets, and eventually become investable by institutions. Additionally, the smaller public and private companies that were already ramping up could be among those on the edge of a breakthrough as a result of increased productivity.

By maintaining an awareness of the highly capable managers diving deep into these opportunities, we believe we can stay apprised of the most promising ideas exhibiting outsized return potential.

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### The Next Foot Forward

In his 1963 book “The Fire Next Time,” James Baldwin took on the Herculean task of appealing to a mass white audience with what he called “a plea that all Americans look to the true state of their land one hundred years after Emancipation.” The book, the title of which is derived from an African American spiritual, is regarded as one of the most influential books on race relations because it provided a desperately needed blueprint to a nation and people uncertain of the next foot forward.

We, in the financial realm, are equally well-advised to take a long-term perspective to the challenges we face while navigating turbulent markets. Given sufficient time and expertise, the large number of past experiences and current variables to consider across discipline, effective diversification, and other fundamentals of investing can be managed to harness essential outcomes from change. Our next foot forward remains persistently diligent in identifying the obstacles to leapfrog with our clients, with the always essential goal of landing upon the abundant drivers of change that give us cause for great optimism about the future.

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