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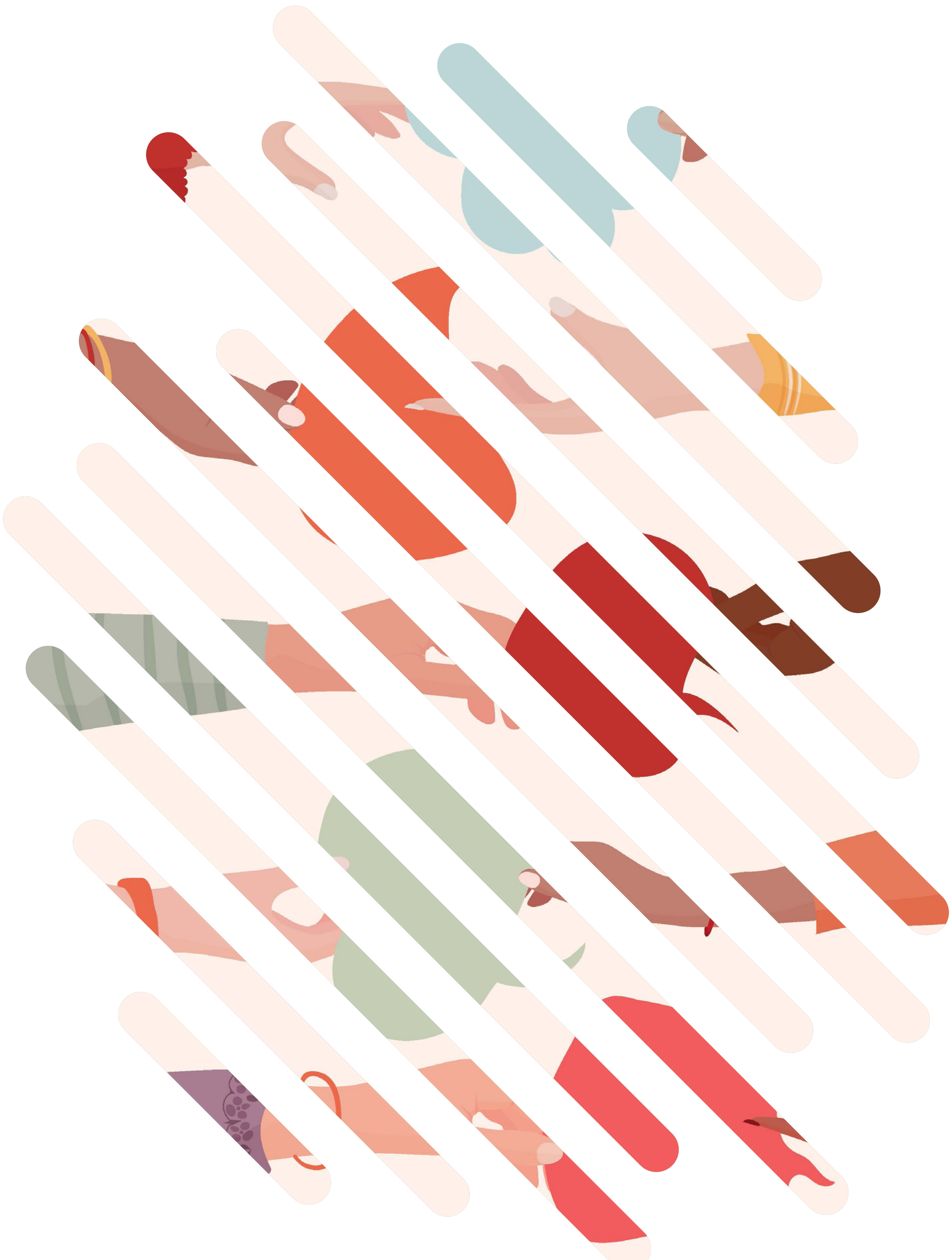

2022 / Q1 Commentary - Prepared by Crewcial Partners, LLC®

Lingua Franca

Humans, it is argued, became the dominant species on earth because of our superior capacity for language, which allowed us to socialize and, more importantly, cooperate. As tribes fanned out and societies grew increasingly multi-cultural, language necessarily evolved to facilitate engagement towards common survival. Many tens of thousands of unique languages have been spoken across over a hundred distinct language families over the course of human history, with thousands still in existence today. A select few, with certain expressions that have such a resonance they cross borders fully intact, penetrate the lexicon of another and serve as a further bridge for communication. In the English-speaking world, perhaps no language has done this more markedly than the original *lingua franca*, French.

There's an elegance and economy to French that manages to add a bit of sophistication to the mundane, an innate musicality that plays well to English ears. We don't talk about a feeling of having seen or experienced a present situation before. We simply say *déjà vu*. We don't explain that someone has the complete freedom to choose their course of action. We say *carte blanche*. We don't mention there's been a sudden seizure of power from a government, violent or otherwise. We say there's been a *coup*. We don't fumble over describing an embarrassing remark or act in a social situation. We say there was a *faux pas*. The French also have an evocative way of describing the reason for the existence of someone or something, *raison d'être*.

Endowments, foundations, and other non-profit institutions are all built around a mission that defines their *raison d'être* and construct portfolios that seek to generate a supportive financial return. Is that the extent of the connection? Is a portfolio simply a funding mechanism for good work? Can one build a portfolio that additionally supports one's mission, or at least doesn't directly contradict it, while maintaining or even enhancing its ability as a funding source? Or is this— to use a word whose origin predates both French and English— impossible.

The act of focusing on criteria that may produce multi-dimensional benefits is broadly captured by the acronym ESG (environmental, social, and governance).

Speak No Evil

For a long time, ESG investing largely went by another name: socially responsible investing (SRI) and generally involved exclusion. Screens were used to omit companies from a portfolio based on a desire to disassociate from certain questionable segments and industries. Depending on one's perspective, these could be somewhat easy to identify, but other areas presented more of a conundrum. Fossil fuel-driven energy companies became a target for college protestors eager to see their school endowments divest. But if energy companies should be avoided, should this apply to beneficiaries of fossil-fuel consumption, like automobile companies? Black and white becomes grey. Theoretically, lines can easily be drawn when it comes to investing in socially repressive countries, but different people have different conceptions of the forms such regimes take, once again introducing ambiguity. Wrapping one's head around these issues can be mind numbing, with little in the way of definitive answers.

This is why exclusion on its own may represent a missed opportunity. A more effective strategy incorporates an ESG framework to clarify opportunities and risks to achieve specific ends. Of course, the output is only as good as the inputs, and so measuring the ESG characteristics of a portfolio will always require a high degree of creativity and personalization. But the good should not be the enemy of the perfect. Tools for measurement are continuously improving, and companies are becoming more willing to provide the data necessary to help investors understand how they rank across ESG metrics.

But what of the *raison d'être* of an institution's portfolio?

Identify Your Dialect

Every person has their own idea of what constitutes a better world. Like language, for the great mass of people, these ideas are expressed differently merely in terms of form—the way to achieve this better world—with most of us firmly for better living conditions, the elimination of poverty, and the end of world hunger. Many foundations, just like individuals, have a mission or animating principle more specific and personalized in scope—the food insecurity of a certain community, the support of arts and creativity in schools, ensuring access to clean drinking water, or reducing harmful emissions. These initiatives are generally supported by a foundation through direct engagement, such as grants, community events, and public calls to action. They form the heart of an organization's *raison d'être*.

The portfolio is generally used to buoy the funding of an institution to support its spending on such efforts to realize its mission; however, especially in more recent years, the conversation is shifting towards how the portfolio itself can better complement or even fortify the missions it otherwise principally funds. Formulating a robust ESG framework for investing allows for organizations to consider the entirety of their actions in a more holistic sense, so they can both actively support their initiatives and generate the funding necessary to further their missions through embracing trends, efforts, and innovation already pointing in their direction. This helps create a loop of direct and indirect support to better realize the values shared among foundations and like-minded managers underlying the portfolio, all while maintaining a line of sight on returns able to support one's mission in perpetuity.

ESG is itself a burgeoning language, an iterative conversation, and there is no one size fits all solution. It requires an understanding of what you want to achieve, and investing in options that share your vision of the world.

Find Your Voice

"Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it… because it is good for our business" — Niall Fitzerald, former CEO, Unilever

Every dollar invested has an impact, good, bad, or indifferent, on the direction and functioning of our broader society, and people have always invested according to their personal prerogatives on these matters.

At Crewcial, we believe the pursuit of values-based goals and financial performance are inherently mutually inclusive, and one should consider whether the energy of our society is becoming increasingly directed towards an awareness of and demand for inclusion, equity, and social and environmental responsibility. This can lead to potentially lucrative, far-reaching opportunities to achieve missions while enhancing return targets and minimizing exposure to unnecessary risks through a patient, long-term-oriented approach.

For example, to sustain the world's need for energy, fossil fuels will eventually need to be superseded by new options for energy. A foundation with a mission to moderate humanity's carbon footprint can further this goal via the choices made in its investment portfolio through responsibly limiting exposure to or seeking to positively influence the worst actors affecting climate change. At the same time, by anticipating the longer-term trend towards clean energy and a more sustainable future, this same foundation can generate outsized returns over a longer time horizon by investing in businesses with game-changing potential in the energy space. Similarly, an organization with a directive to support DEI, in pursuing diverse managers, can both champion diversity while gaining all the benefits of getting in at the ground floor with a broad array of overlooked and differentiated talent.

We believe institutions can start to realize their portfolios' complete *raison d'etre* via the following:

• Memorializing their conviction to maximize their impact within the Investment Policy Statement—the essential first step.

• Ensuring policy statements clearly iterate the intentions and underlying values of the organization; this would include amending the policy statement to reflect the organization's particular objectives to ensure Crewcial and the underlying managers have a clearly aligned directive.

• Establishing specific thresholds, quantitative measures, and qualitative assessments to facilitate success, based on however the institution decides to define successful impact and financial success.

High-quality measurement is among the most notable obstacles if we are to make the impossible possible. At Crewcial, we are tackling this topic with the view that the goal should not be to make the complex simple; it should instead be focused on thoughtfully navigating this long journey with our clients. To any end, ESG, value, and impact assessment is far more achievable when accompanied by a well-defined framework developed through active conversation, repetition, and refinement—the building blocks underpinning our evolving work in this area.

Language for Survival

Pinpointing the origin of any language is not an exercise in precision, but many historians place the origin of French somewhere around the 9th century, with roots as a vernacular dialect of Latin. Structurally, the language hasn't changed much over the last few centuries, but it does continue to evolve linguistically, driven by its domestic and overseas variations and interactions with new ideas and dialects. French is not only one of the six official languages of the United Nations; it is the official language – or one of the official languages – of 33 different countries.

The language of ESG, impact, and value-aligned investing is still evolving rapidly, with the history of its current iterations measured in years and decades, not centuries, but to capture the dual advantage it can confer in terms of mission and returns, it requires a need for greater fluency.

There are myriad problems in the world today, and the investment community has certainly begun to realize it is better to be a part of the solution than part of the problem. Some people believe the world is too far gone, that we have no choice at this point but to accept the status quo. But smart investors think differently, and know the ultimate outcome is not yet a *fait accompli*.

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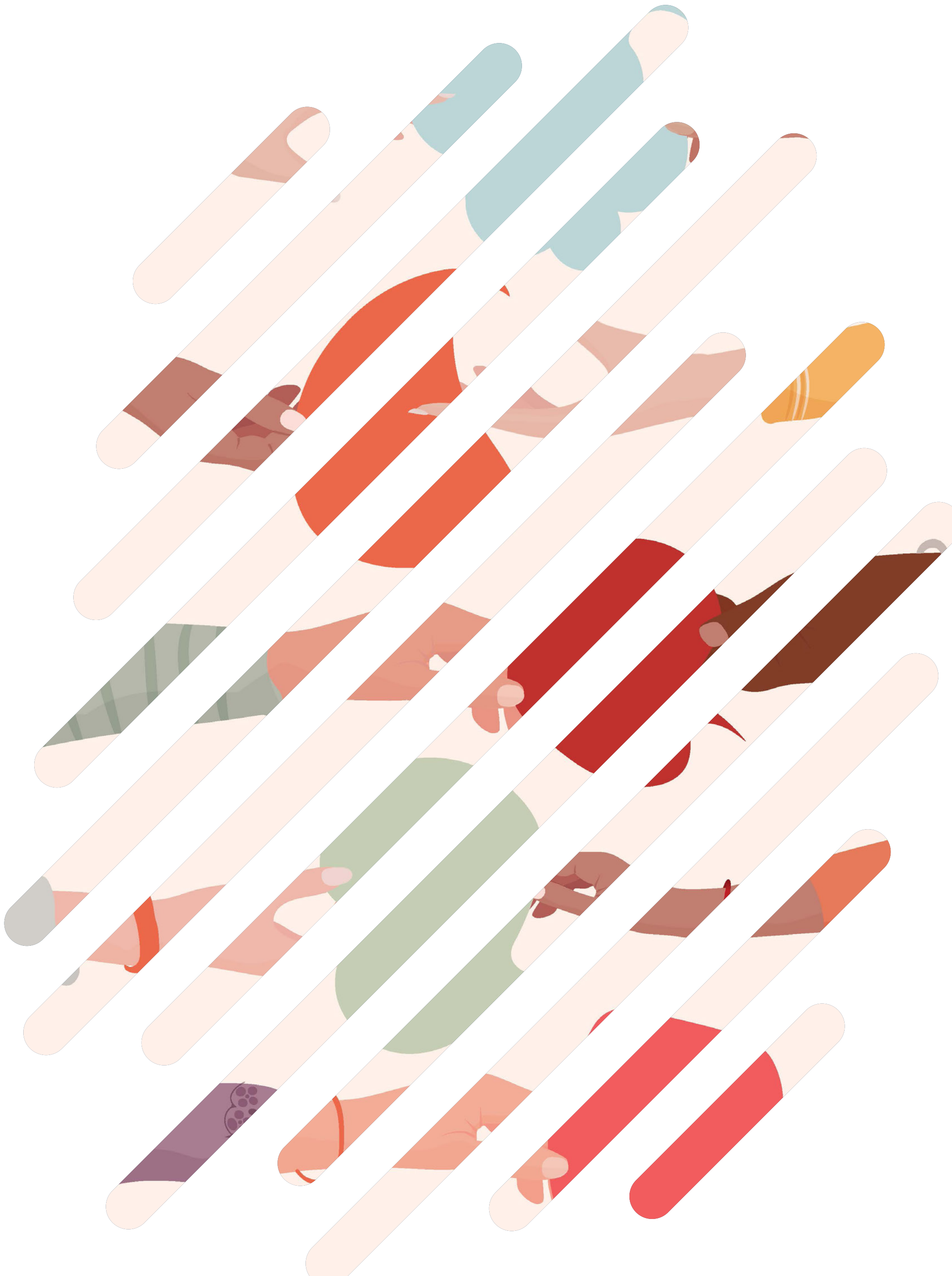

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