Blyver White paper

How fractional real estate ownership can contribute to social impact.

Sustained, inclusive and sustainable economic growth is essential for prosperity. This will only be possible ***if wealth is shared and income inequality is addressed****.*

(UN Sustainable Development Goals)

A white paper
by Blyver:

1. Increasingly investors want to invest with impact

Over the past several years, it has become clear that many investors want to invest in a way that their capital delivers both financial performance and a positive impact on society. What started out as a movement to bring ethical considerations into investing and evolved into "sustainable investment" with an emphasis on managing ESG[1] investment risk, is now clearly shifting its focus towards better understanding the ways that investments can contribute to solving societal problems.[2]

In a recent podcast interview, James Gifford and Fiona Reynolds, founding and outgoing CEOs of the Principles for Responsible Investment (PRI), representing $150 trillion in assets under management with almost 5000 investor signatories, discuss this change and also emphasize the need for institutional investors to direct more investments towards new technologies that can solve societal problems; "the move to thinking about sustainability outcomes is the next evolution."[3] This ambition for "impact investment'' is now also reflected in the responsible investment policies of many pension funds and insurance companies who have committed to the PRI principles.

Two other organizations, the Global Impact Investing Network (GIIN) and the Net Zero Asset Owner Alliance (NZAOA), together representing approximately 200 asset owner investors, are emphasizing the importance of "investor ambition and target-setting at portfolio level … (in order to have) impact on the real economy".

And it is not only institutional investors who want to invest for impact. A survey conducted by Morgan Stanley in 2017 found that US "millennials want strong returns and they want their money to have a positive impact" and "the key seems to be investors' belief that their portfolios can have substantive social and environmental impact."[4] In a 2020 study, the 2° Investing Initiative found that, of consumers stating an interest in sustainable investing (65-85% depending on the market), the largest subset does this because of a desire to "make a difference in the real economy".[5]

Finally, asset managers have been receiving the signals that their clients have impact ambitions and several prominent ones, including Bain Capital, BlackRock, Credit Suisse, Goldman Sachs, and JPMorgan Chase, started adding impact products to their portfolios.[6]

Bottom line:
Institutional investors like pension funds and asset managers, but also individual, retail consumers are increasingly interested in "impact investing".

[1] "ESG": Environmental, Social, Governance, the 3 considerations taken into account in sustainable investing.

[2] Impact investments: a call for (re)orientation; Timo Busch, Peter Bruce-Clark, Jeroen Derwall, Robert Eccles, Tessa Hebb, Andreas Hoepner, Christian Klein, Philipp Krueger, Falko Paetzold, Bert Scholtens & Olaf Weber (January 2021).

[3] Podcast: Sustainability: From inception to mainstream (November 2021).

[4] Sustainable Signals, Morgan Stanley Institute for Sustainable Investing (2017).

[5] A Large Majority of Retail Clients Want to Invest Sustainably, The 2° Investing Initiative (March 2020).

[6] How impact investing can reach the mainstream, McKinsey (2016).

2. What does "impact" mean?

There is no consensus on when an investment can be considered to have "impact". However, a number of frameworks can help.

The **Sustainable Development Goals (SDGs)**, launched by the United Nations in 2015, are the best starting point. Conceived with the objective to have universal goals in meeting environmental, political and economic challenges facing our world, they were adopted by all UN Member States as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.[7] Also because the funding gap to reach the SDGs is estimated at some $2.5 trillion per annum, the SDGs have been embraced by many impact investors as a useful frame of reference for directing investments towards, and assessing, impact.

The Sustainable Finance Disclosure Regulation (SFDR) adopted by the EU in 2019 is another useful framework. It references the SDGs, as well as the 2015 Paris Climate Agreement, and points to the need to "mobilize capital" for these purposes. In addition, it creates two categories of funds with ESG aims: "funds that promote environmental or social characteristics" (Article 8) and "funds with sustainable investment as their objective" (Article 9).

Also in view of the desire to contribute more to impact investment as discussed in the first paragraph, a significant number of institutional investors have stated a preference for Article 8, and in particular also for Article 9 funds, since SFDR was adopted.

Various academic papers also aim to define "impact investment".[8] In short, the academic view is that these are investments that focus on "real-world changes in terms of solving social challenges and/or mitigating ecological degradation". Furthermore, academics distinguish between "company impact" and "investor impact". Company impact being the change that company activities achieve in social and environmental parameters; also called: "impact-aligned" investments and "investor impact" being the change that investor activities achieve in company impact; also called: "impact-generating" investments.

Bottom line:
The SDGs and SFDR help assess when investments can be considered to make an "impact".
Academic papers provide additional criteria for defining, measuring and evidencing "impact".
Increasingly investors are stating a preference for "SFDR Article 8 & 9" impact funds.

[7] Resolution adopted by the General Assembly on 25 September 2015: Transforming our world: the 2030 Agenda for Sustainable Development.

[8] Most importantly: Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact; Julian F. Kölbel, Florian Heeb, Falko Paetzold, Timo Busch (2020); Impact investments: a call for (re)orientation; Timo Busch, et.al. (January 2021).

In addition to the lesson of World War II
– "never again war" –
there was also the lesson of the Great Depression, where poverty increased, the disparity between rich and poor increased, the disparity between the owning class and the working class increased, where a large part of the population was exploited in the economy ...

*That lesson is about **fighting poverty and ensuring livelihoods for people in ordinary professions.** That lesson has been very structurally forgotten over the last 30 years.*

And it must now be put at the top of the agenda with great urgency.

(Mathieu Segers, Maastricht University)

3. We need a better balance between “E” and “S”

In the last twenty years, ESG, sustainable investing and impact investing have risen to the top of the investor agenda. However, usually “E” (environmental) considerations dominate discussions. This is mainly due to the urgency of addressing climate change, considered the most significant “E” issue.

While we at Blyver understand and welcome these efforts we also feel that, as a result, “S” (social) issues have not received the attention and capital they deserve. We need to address this because there are very clear signals that the implications of not addressing “S'' issues are as great as, if not greater than, the implications of not addressing “E” issues. Here we discuss four key signals:

1. In Dutch television program VPRO Tegenlicht[9], professor of history Mathieu Segers reminds us that a key goal of establishing the EU was fighting poverty. The founders of the EU were inspired not only by the lessons of World War II - "never again war" – but also by the lessons of the Great Depression, where poverty as well as the disparity between the owning class and the working class increased, and where a large part of the population was exploited in the economy. All of which created the breeding ground for the radicalizing politics that eventually led to fascism, Nazism and World War II. But Segers points out that this lesson – which is about **fighting poverty and ensuring livelihoods for ordinary people – must now be put at the top of the agenda with great urgency.** Because it has been structurally forgotten over the last 30 years.

2. Above, we discussed the SDGs. While they have given the world a much-needed to-do list, we feel that many of the crucial elements in the text have been overlooked, because of the focus on “E” issues or because of the emphasis on the high-level goals (“No Poverty”, “Zero Hunger”, “Climate Action”) as represented in the familiar and recognizable coloured boxes. As a result, many people have missed some of the crucial detail.

A close reading of the UN Resolution shows us that these “S” issues pertaining to the sharing of **wealth and addressing inequalities** in fact underpin many of the goals and that therefore addressing them are essential if we want to reach the 17 goals more broadly. For example: “Sustained, inclusive and sustainable economic growth is essential for prosperity. **This will only be possible if wealth is shared and income inequality is addressed.**” “There are enormous **disparities of opportunity, wealth** and power.” “Develop quality, reliable, sustainable and resilient infrastructure, … to support economic development and human well-being, with a **focus on affordable and equitable access for all.**”

[9] VPRO Tegenlicht; May 2022, The ideal Union according to Mathieu Segers

3. Above, we discussed SFDR and in particular Article 9: "funds with sustainable investment as their objective". Since the SFDR was launched, significant interest in "Article 9 funds" has been generated, but here also the emphasis has been on 'green', climate-related and energy-related, environmental"E" investments. However, a close reading of the SFDR text shows that the aim of the regulation was to stimulate investments in "S" in equal measure:

> 'Sustainable investment' means an investment in an economic activity that contributes to a **social objective**, in particular an investment that **contributes to tackling inequality or that fosters social cohesion, social integration** and labor relations, or an **investment in human capital or economically or socially disadvantaged communities** ...

4. Finally, we want to point to the linkage between inequality and (lack of) support for measures to address climate change. Experiences in recent years in countries such as the Netherlands, France, the United States and Costa Rica often show that climate plans that do not also address socio-economic inequalities lack support with the general population who care most about employment and purchasing power – a fact that populist politicians frequently take advantage of.[10]

As Dutch astronaut and climate activist Andre Kuipers told us: "**inequality is the main danger to the climate.**"[11] In other words, if we fail to address these crucial "S" issues we will also fail to address the most critical "E" issue.

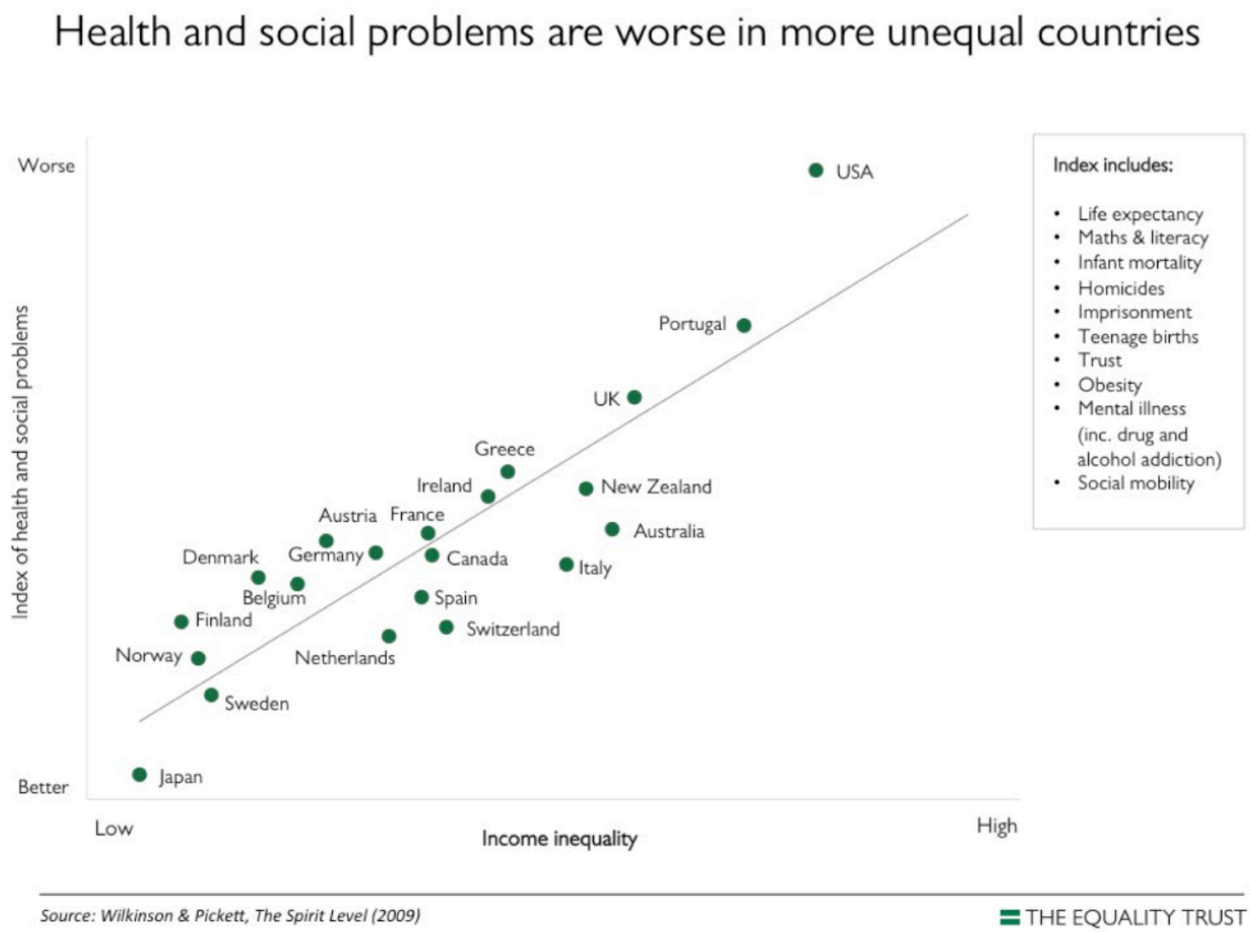
Bottom line:
Much emphasis in ESG and "impact" discussions has been placed on "E" – environmental – issues, even though the SDGs and SFDR intended to also address "S" – social – issues such as inequality. Also, we cannot successfully address climate change if we do not also address socio-economic issues.

[10] Ongelijkheid is het grootste gevaar voor klimaat, April 19, 2022, RTL Nieuws.

[11] Conversation with Blyver founder Frans Voskuil.

4. Making an impact on the S through distributing wealth

Making an impact on S, and measuring this impact, seems complicated to many investors who are seeking ways to improve their ESG performance.[12] However, many of the social issues find financial inequality as their root cause. As Sir Richard Wilkinson describes in his work, the effects of inequality on society are profound. Inequality affects amongst others: life expectancy (health), crime rates (safety), trust in government & in each other and social mobility (social cohesion).[13]



The figure above, from Sir Richard Wilkinson's TEDTalk, shows a reduction in inequality would positively impact all of the issues in the index of health and social problems. Blyver concludes that therefore tackling inequality is the best way investors can have significant social impact. Measuring this impact could be much more straightforward than is currently perceived. Keeping track of the wealth amassed by specific demographics could be sufficient.

[12] ESG research interviews conducted by Blyver

[13] https://www.ted.com/talks/richard_wilkinson_how_economic_inequality_harms_societies

5. Fractional ownership as a way of democratizing real estate ownership (impact on the real economy)

Recent research suggests that younger generations increasingly have limited access to property ownership and that this contributes to **less accumulation of wealth and therefore to inequality**.[14] Additionally, almost a million self-employed people in The Netherlands, who do not participate in any pension fund, are not compensating for this through amassing wealth in other ways. This leads to an increase in inequality with lack of home ownership being a mayor driver on the side of the less wealthy.[15]

Institutional investors, housing corporations and real estate funds now have a concrete, large-scale opportunity to make an impact on the S of ESG through fractional ownership of their assets. By creating a digital twin of these assets which can be divided into small fractions of (economical) ownership, the owner can invite consumers to participate.

The positive effect on social issues can be enhanced by focusing on participation within specific demographics. For instance, low financial literate consumers or those for whom home ownership is furthest away.

[14] Younger generations and the lost dream of home ownership, January 22, 2022, European Central Bank.

[15] https://www.dnb.nl/algemeen-nieuws/2022/werkenden-die-niet-deelnemen-aan-pensioenfonds-bouwen-prive-ook-weinig-pensioen-op/

6. Blyver: an invitation to make a difference

Blyver is inviting institutional investors, housing corporations and real estate funds to make a difference by joining their peers who are taking steps towards a more financially equal, and thus stronger society.

The Blyver platform allows fractional ownership of real estate by consumers in a safe and AFM compliant technical solution.

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