US CAPITAL GLOBAL
ASSET MANAGEMENT & CORPORATE FINANCE

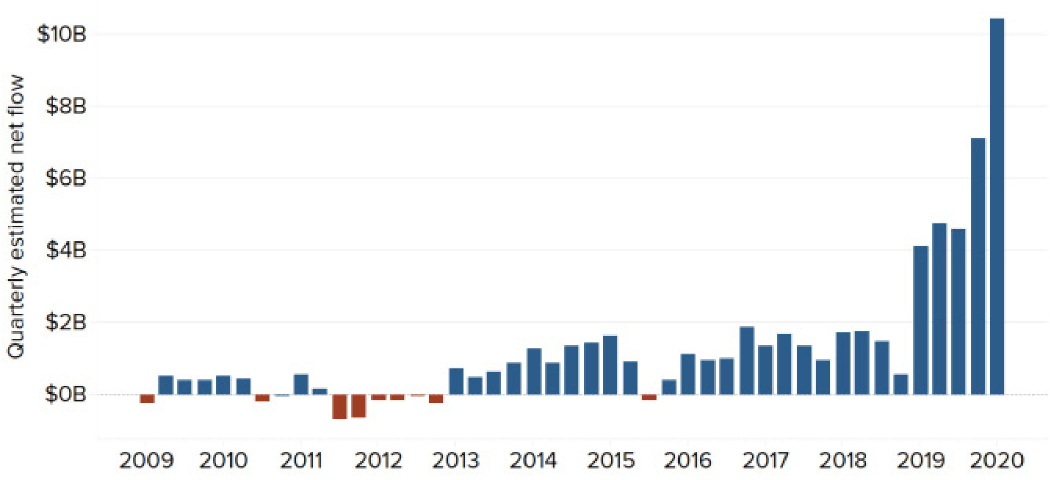
The Rise of Sustainable Investing and Impact Investing

Climate crisis campaigns and COVID-19 pave the way for a sustainable investing stronghold that is here to stay.

By **Jeffrey Sweeney**, Chairman and CEO, **US Capital Global**

Sustainable investing is by no means a new concept. But as with any emerging market, particularly one that distances itself from historically lucrative trends, some doubted its stability and claimed the arena of sustainable, impact, and ESG (environmental, social, and governance) investing to be a bull-market fad. But if the **record inflows of sustainable funds** in 2019 were not enough to dismantle such doubts, the market's impressive success during the pandemic's economic downturn has cemented its stronghold in the future of investing.

SUSTAINABLE FUNDS SEE RECORD INFLOWS IN 2020



SOURCE: Morningstar Direct, as of 3/31/2020. (ESG Integration, Impact, and Sustainable Sector funds as defined in Sustainable Funds U.S. Landscape Report, 2018. Includes liquidated funds; does not include funds of funds.

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Prior to COVID-19's pandemic status, financial thought leaders were already proclaiming green investing to be a **"mega trend" with long-term prospects** and predicting that 2020 would be a bumper year for green bonds. This was partially due to the growing sense of social and ecological responsibility among investors and corporations in the wake of the rising climate crisis campaigns, with investors around the world demanding socially and environmentally conscious options. This shift in consciousness—where consumer demand is outpacing the market—has had a tangible effect, with firms such as **BlackRock** inaugurating a new environmentally-focused standard for investing. Recognizing the climate crisis as a deeper and longer-term threat than any other financial crisis, Black Rock's Larry Fink noted that it is set to trigger "**a fundamental reshaping of finance.**"

Sustainable funds in the U.S. attracted **$21.4 billion in net flows in 2019**, four times 2018's record. By Q1 2020, sustainable funds had already reached half of this amount, while a BBH survey concluded that **nearly 74% of global investors** planned to increase ESG exchange-traded fund allocation in 2020, and Germany aims to be 100% renewable from 2038. Data shows that **asset managers have embraced sustainable investing** with significantly higher numbers of sustainable open-end and exchange-traded funds now than there were a decade ago: 311 in the U.S. and more than 2,500 in Europe. Moreover, **nine of the biggest ESG mutual funds** in the U.S. outperformed the Standard & Poor's 500 index last year, with seven beating their market benchmark over the past five years.

Innovative technology: the backbone of sustainability

One of the keys to this significant outperformance is **sustainability's integration with innovative technology** (the top performing S&P 500 sector this year) and its low engagement with industrials and energy (this year's worst performing sector). New advances in GreenTech are enabling entire societies to reshape themselves in accordance with the world's rapidly changing circumstances. Although these statistics may appear revelatory, at US Capital Global we feel that the marketplace is finally catching up with our own position, and continue to see a lot of interest in this sector in Europe and in the U.S.

From **renewable energy** and recycling companies to sustainable developers and healthcare, we have a long history of working with companies that utilize GreenTech, FinTech, and other innovative means to pave the way for a new, more enlightened approach to both finance and the way we live. One such example is **MIRIS AS**, the Norwegian smart city developer that creates hyper-sustainable, energy-positive real estate eco-hotel developments and data centers. The company is a leader in the

GreenTech arena, designing and implementing entirely new methods of construction and building functionality that are set to have a profound effect on the future of tourism and its carbon footprint. Its marquee development, the Svart Hotel (pictured below), which will be located at the base of the Svart glacier in the Arctic Circle, is a locally approved carbon-negative medium-green development that is designed to produce more energy for the community than it uses. Our affiliate registered broker dealer, **US Capital Global Securities**, is the placement agent for a €100 million convertible green bond offering for MIRIS.

While the Svart Hotel is an impact investment that directly attempts to find solutions to the climate crisis, socially responsible investments (SRIs) that utilize technology to navigate our changing environment are not limited only to GreenTech firms. We believe that the majority of our clients and portfolio companies represent positive social impact enterprises. **Takeout Group**, a Danish portfolio company of ours, supports small and large restaurants with a software-as-a-service application that connects them with economical delivery providers. Additionally, they provide all customer data to those restaurants to help build traffic and relationships, and local communities. It is no surprise that Takeout Group's software has become an especially pressing service during the COVID-19 crisis, when reliance on community support has become essential and local restaurants have been forced to generate new methods of business to avoid closure.

The new normal: rebalancing our relationships to investments and the environment

Forbes recently noted that **technology has become the key driver behind the sustainability movement** and the bedrock of ESG investing. Although this was already the case during last year's rise of sustainable fund inflows, the pandemic has boosted digitization across all sectors of the economy, strengthening the sustainable investing infrastructure. Like the climate crisis, the pandemic has illuminated our vulnerabilities, highlighting the truth that markets do not operate in isolation from the societies and natural environments in which they are situated. This shift in consciousness is urging innovators and investors alike to discover and support new ways of restoring and maintaining balance between the human and the natural world.

The long-term effects of COVID-19 will drive investments towards the digital economy, social concerns, and in particular human health and the health of the planet, which are not mutually exclusive. US Capital Global takes a keen interest in supporting the medical industry and one of our British MedTech portfolio companies, **Smart Matrix**, is near final approval determination in the EU for a medical device designed to eliminate the need for a skin graft after many skin cancer surgeries, leading to better cosmetic and medical outcomes. With hospitals under greater strain, MedTech advances that relieve their burden will increasingly become essential targets of impact investing.

As global issues become more pressing and precarious, sustainable investing is being used to help manage risk in uncertain times. Studies show that **70% of advisors** name superior risk management as the top reason their high-net-worth clients invest in responsible investments. Despite all previous criticisms, strong investor interest in 2019 and the indefatigable rise of sustainable investing in 2020—as COVID-19 raged through other markets—has proven the sector's tenacity, reliability, and deep value for widespread social and environmental benefit. It is, without a doubt, **the new normal**.

Jeffrey Sweeney is a fund manager with years of experience in direct lending and corporate finance for lower middle market businesses. He is Chairman and CEO at US Capital Global (www.uscapglobal.com), a full-service private financial group headquartered in San Francisco. The group aims to invest in companies that address the world's major social and environmental challenges, while generating long-term wealth for investors.