



# Resilience in times of polycrisis

Long-term Investment Outlook 2023

Triodos @ Investment Management

**“This is no time for ease and comfort.  
It is time to dare and endure.”**

Winston Churchill

# Introduction

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We are in a polycrisis. Our ecosystems are on the brink of collapse, our economic system is stressed, and socio-political relations are under pressure. The consequences are increasing uncertainty, lack of progress on the sustainable development agenda and an unstable economy. Policymakers do not know where to start to fix this. And there is no easy fix because we cannot go back to our pre-polycrisis world. That world was fossil-fuelled and geared towards efficiency and perpetual growth; it brought us into this position in the first place.

In the current circumstances, we must find a new way to look at the future of our society and economy. The way out is a transformation, a multifaceted transition. This requires choices from society – policymakers, business, voters, investors: what needs to be broken down, what needs to be converted and what needs to be built up.

Resilience – the capacity of a system, be it an individual, a forest, a city, or an economy, to deal with change and continue to develop – should be valued more as an essential element in the economic system needed to first shelter against the polycrisis and thereafter as a prerequisite to transition.

Our longer-term message to investors is that investments should be aligned with the principles of resilience, transformation and long-term value creation instead of short-term risk-return profiles. In this year's long-term outlook, we will dive into the nature of the global polycrisis, resilience, and transformative investments. Creating a more resilient economy to make the necessary transformation is now more critical than ever. It is time to make a giant leap forward.



# Economic crisis – Chasing growth

The real economy is under pressure and so is our financial system, being a kind of virtual derivative of the real economy.

## Addicted to growth

The world's dominating economic system is capitalism. The key purpose of this system is wealth accumulation through profit making. This leads to a sharp dichotomy in society: between those who earn money by selling their labour and those who earn money by making a profit by investing. Both want to increase their earnings. The solution to the conflict between labour and capital is productivity growth: only by working smarter can both achieve their aim. Working smarter means more production per hour worked. With that rising productivity, there is more left to split between profits for employers and rising wages for employees, but also for consumers in the form of lower prices for products. For everyone to have a job, more must be sold, because then profits can be higher, wages higher, and so on. Voilà, conflict may have been averted, but at the cost of a growth addiction. Only growth placates the fundamental tension between labour and capital.

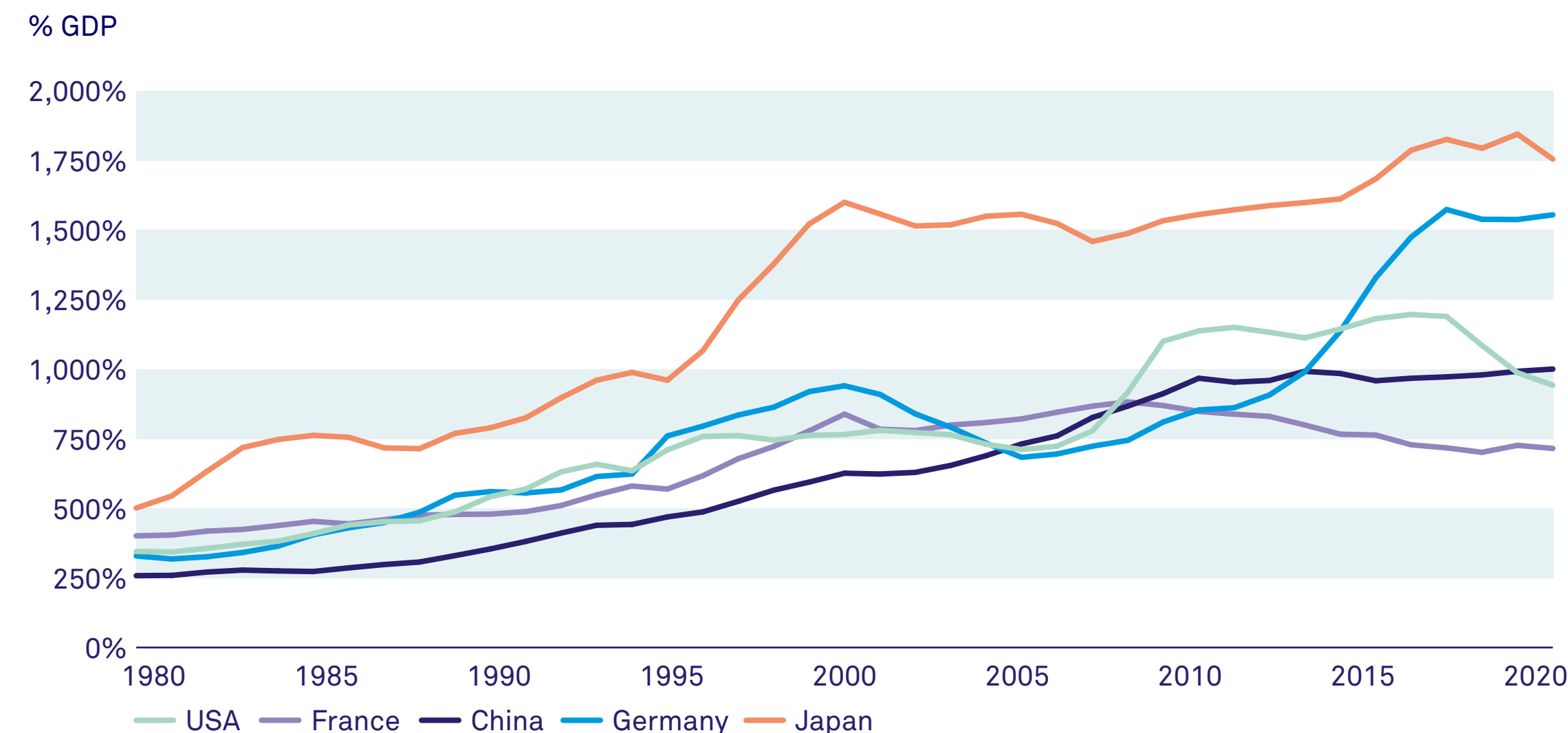
According to supply-side economists, the essential growth has merely two drivers: productivity growth and growth of labour supply. The outlook for both is not promising in advanced economies. Labour supply growth is decreasing in most advanced countries

and in some countries already declining. Proposed solutions for this, such as increasing retirement ages are only partly successful, while other options such as migration are in most countries politically very sensitive. Labour productivity growth is also declining in most Western countries and hence the 'growth machine' falters. This is a fundamental problem in all capitalist economies.

## The pursuit of growth created fragility

The solution that is chosen up till now is what sociologist Wolfgang Streeck (Streeck, 2015) calls 'buying time' with money. Initially by increasing public spending (resulting in higher public indebtedness), followed by rising private spending and thus indebtedness. Each in turn defused a potentially destabilising social struggle, but each strategy exhausted itself after roughly a decade. In the process, the tax state transformed into a debt state and finally, today's consolidation state, where the locus of sovereignty has increasingly shifted to the financial interests of creditors trumping a state's responsibilities to voters. The first shift was driven by a sell-off of assets: privatisation of infrastructure, utility companies, rail roads and postal services. A further deterioration happened when public indebtedness rose on the back of the 2008/09 Global Financial Crisis (GFC), and again when the COVID-pandemic started.

Figure 2 Financialisation of the global economy



Source: wid. world/wir2022

At the same time, private asset ownership concentrated globally in the hands of a few asset managers. Technology, regulation, and globalisation were the driving forces of this development. This so-called asset manager capitalism (Tooze, 2022) is the most cynical form of capitalism: A few asset managers are universal owners of large parts of the global economy, but they do not care what happens as long as short-term returns are sufficient. Only when returns stall and de-risking is no longer possible, is it in the interest of asset managers to change course. This does not have to include trying to save the assets: if it is

better for risk-return to adjust the portfolio of holdings, they will suddenly do so, wreaking havoc to the real economy in the process. Consequently, asset manager capitalism is a very fragile, financialised economic system with financial shocks that have real economic consequences.

This asset manager capitalism rules the financial system. The economy has become more financialised than ever, as indicated by liabilities as a percentage of GDP (figure 2). The more financialised the economy, the more prone to boom and bust it is.

## Economic crisis – Chasing growth

### Regime shifts

In 2022, the financial system saw the end of a 40-year ‘moderation’ period during which interest rates gradually declined, inflation was low, and liquidity increased (see figure 3). It was also a period of macroeconomic stability, high productivity growth, globalisation, and emphasis on the supply side of the economy as key for success. The typical neoliberal economic model was a success.

The GFC was a watershed and led to a regime switch in most advanced economies:

- low productivity growth, resulting in slow economic growth,
- low inflation and even deflation because of abundant supply,
- fiscal austerity following market turmoil, such as the euro crisis and, because of this, extreme loose monetary policy leading to asset price bubbles.

Global debt positions are currently higher than ever. Of course, net positions count on a balance sheet. And as asset prices went up, the net wealth positions remained acceptable. However, longer balance sheets make the financial system more fragile, as we have seen in the financial crisis and the euro crisis. From that respect, not much has improved since then.

The current era of polycrisis is mostly characterised by chaos. Ecosystem crises and socio-political crises

make the economic environment very unpredictable. Therefore, deglobalisation, and sustainability transitions change the economic landscape drastically, where also policy makers – central banks and fiscal authorities – will try to be more targeted than before with their policy intervention.

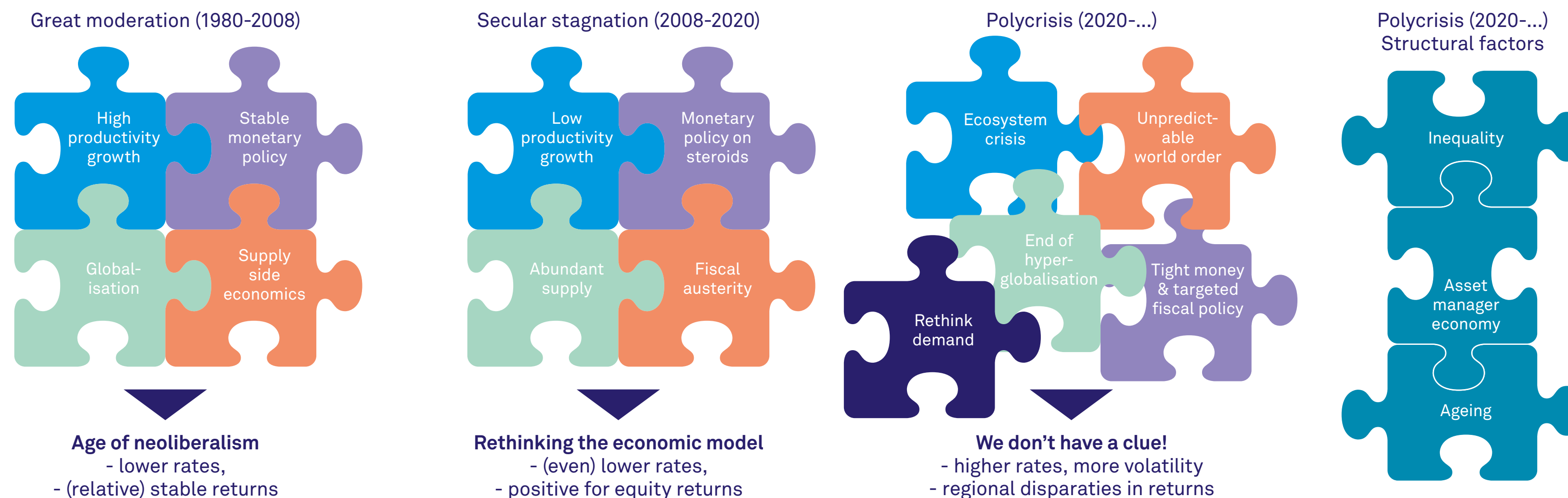
The current new economic and financial reality, with higher interest rates and higher inflation will put these balance sheets to the test: higher inflation will

reduce nominal debt positions which is good, but higher interest rates increase debt services costs. A new phenomenon in all of this is that we should not only discuss the supply side of the economy, but also rethink the demand side. We must reconsider the notion that increasing demand is always the solution for economic problems and may have to accept that in the long term it could aggravate the problems. What this would mean for our economic model: we have no clue at this moment.

### Failing medicine

The need for growth to placate the relationship between labour and capital – or the interconnectedness of economic and social crises – can be illustrated by the recent economic history of the eurozone. When economic activity declined during the financial crisis, the euro crisis, and COVID-19 the economic and social system came under pressure, resulting in unemployment, lower purchasing power,

Figure 3 Polycrisis regime



Source: Triodos IM

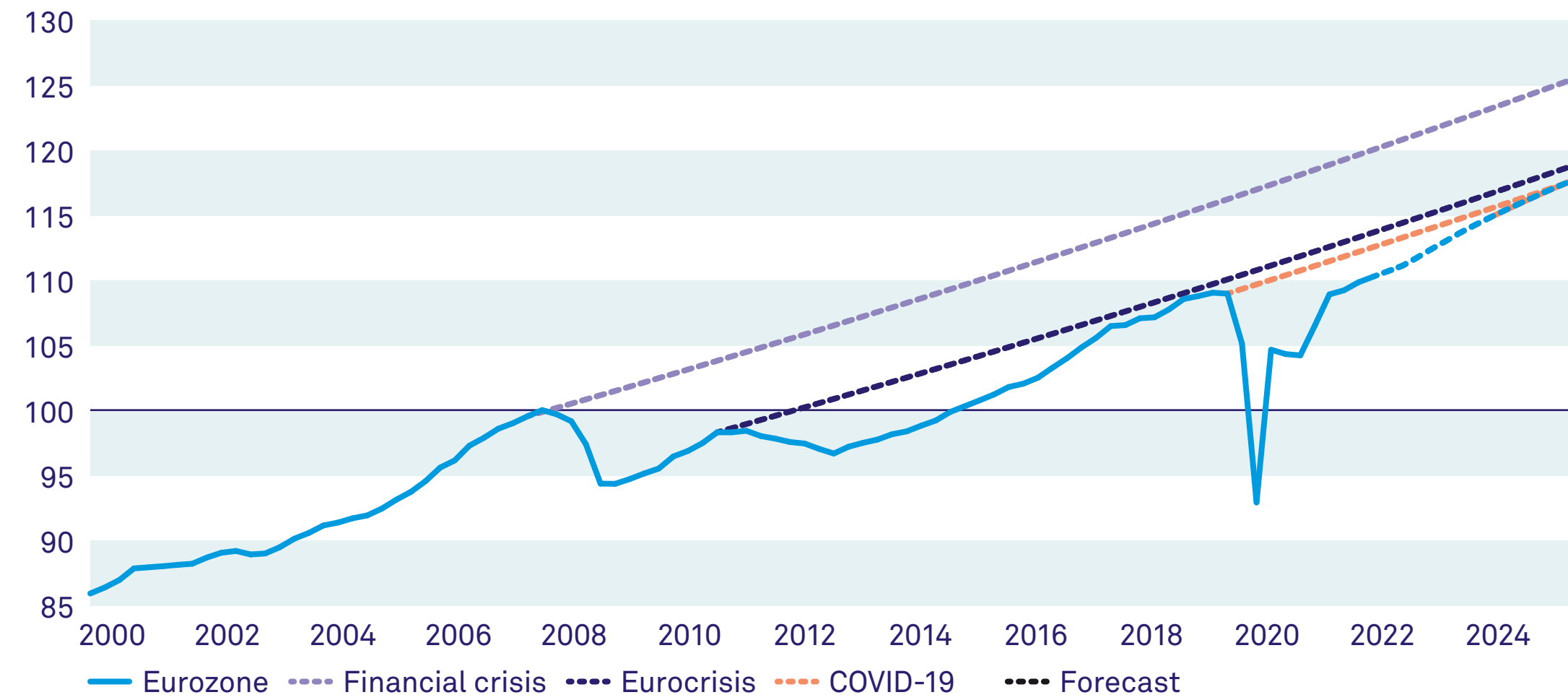
## Economic crisis – Chasing growth

higher debt, and rising inequality. Also striking was that the loss of economic growth was never repaired afterwards (figure 4). Whereas economists generally view these crises as unintended by-products of the growth-oriented system, rather than a core feature, they seem to lead to permanent losses.

The real economic system in advanced economies runs on its last legs. Not only because it is inherently polluting and non-sustainable from an ecological perspective, but also because its main stabilising force – economic growth – is becoming harder to maintain. Furthermore, the other main driver of growth in recent decades, cheaper inputs through increasing international trade and lengthening supply chains, is grinding to a halt in a range of interconnected socio-political crises.

**Figure 4 Lack of bouncing back of GDP**

Index, 2008 Q1 = 100



Sources: Triodos IM, NiGEM

# Socio-political crisis - Footloose capital and value-neutral trade

In the early 1990s, especially from a Western perspective, democracy and capitalism seemed to have won the battle with (Soviet) communism. It was the 'end of history' (Fukuyama, 1992) and the triumph of capitalism (Friedman, 2005). The iron curtain fell, globalisation increased, especially when in 2001 China also joined the World Trade Organisation (WTO). Growth could be pursued by shifting production to wherever it could be pursued most cheaply. At the same time, further integration of trade chains would guarantee that erecting trade barriers would be in no-one's interest. Capitalism and globalisation would ensure that mutual interests are so great that no one would dare go to war.

## Prosperity at the cost of dependency

By now it has become clear that international trade cannot be separated from political interests. Based on the misconception that trade is neutral, Western democracies and their financial sectors have yielded power to other great powers. These great powers have different norms and values. While the West was frantically chasing after short-term material prosperity, other actors have been developing a long-term strategic agenda. A case in point is Europe's dependency on Russian gas. Looming in the background is the much bigger power struggle between China and the US, the faltering leader of the capitalist world. China has long been involved in economic 'land-

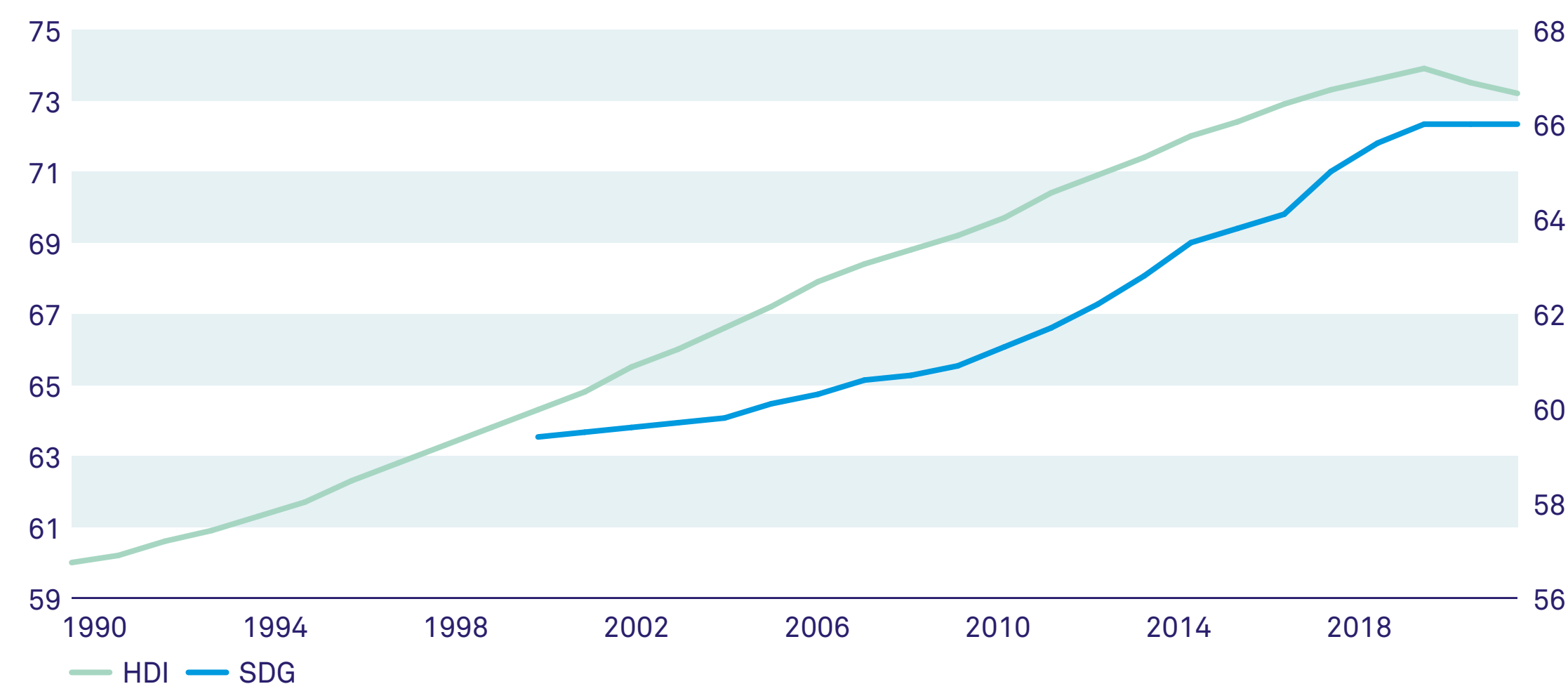
grabbing' and through its flagship 'One Belt, One Road' initiative is expanding its sphere of influence through investments and trade dependencies.

Trade is power. And the powerplay for energy, food, and resources is one of the biggest challenges in the coming years.

## Polarisation and inequality feed uncertainty

Certainly, comparative advantages lead to welfare gains. But one of the side effects is that the wealth gains are not distributed properly, which increases inequality. Using the mobility of capital – and crafting the international regime to facilitate this – capitalists managed to break free from (unionised) labour at the national or regional level and turn it into an international race-to-the-bottom. Greater income and wealth inequality within countries results from the low-skilled in richer countries having to compete with workers in countries with a much lower living standard. Wealth inequality is increasing as overpowered companies exploit their global supply chains and capital flies very efficiently through tax optimisation routes into the pockets of the very rich. As a result, social tensions and polarisation have increased (UNDP HDR 2021/2022).

Figure 5 Stalling progress



Sources: SDGindex.org and Worldbank

Because of all these developments, global wellbeing is no longer increasing. For the first time in years, progress on the Sustainable Development Goals (SDGs) stalled, while there was even a decline in the Human Development Index (figure 5).

But inequality does not only affect society: it also aggravates the ecosystem crisis: a concentration of wealth leads to overconsumption and to more emissions than necessary. The bottom 50% of the global population is responsible for 16 of emissions growth over the last 30 years, whereas the top 1% is

responsible for 25% of emission growth. In addition to that, unsustainable food patterns (such as too much meat and processed food) are both detrimental to health and the planet.

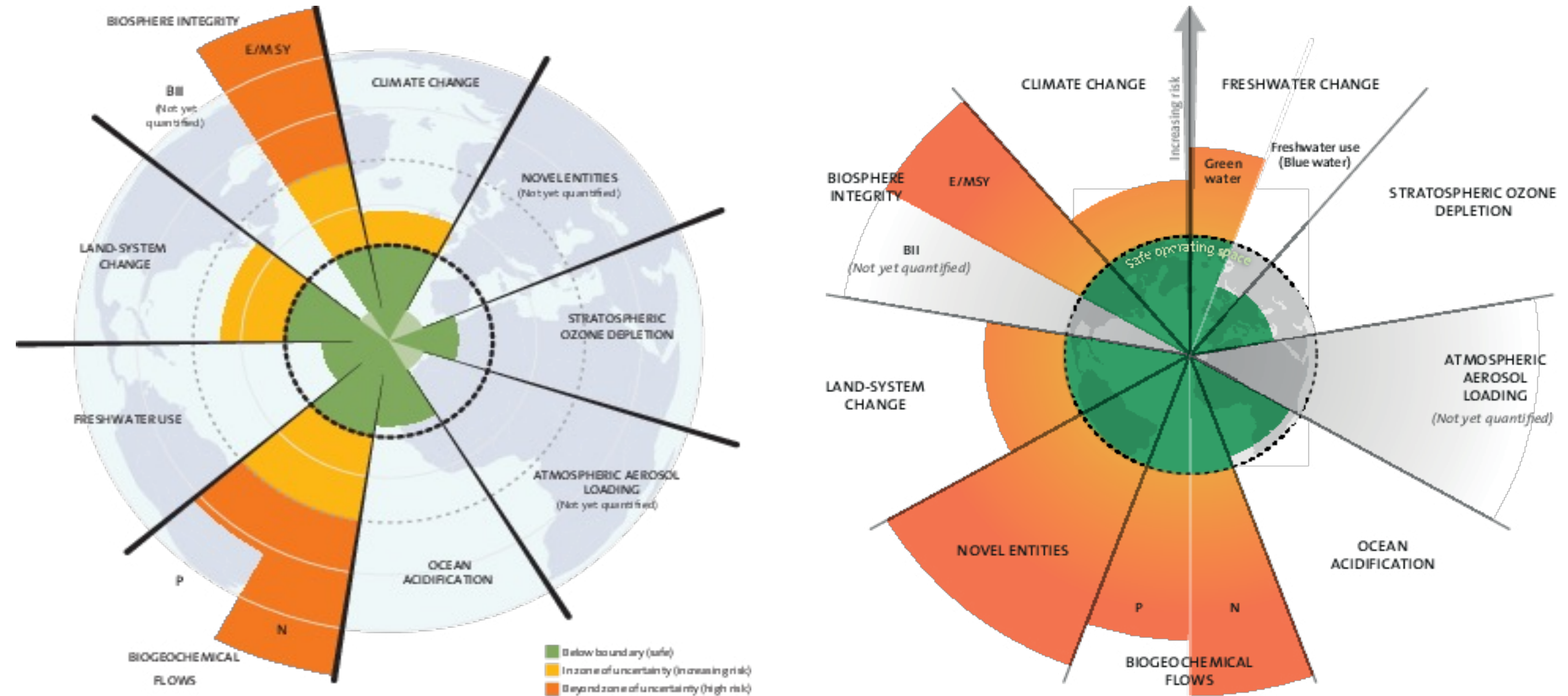


# Ecosystem crisis – the ultimate fragility

The ecosystem crisis is particularly pressing. The UN emission Gap Report describes the current situation around climate change mitigation as ‘a closing window’. We are on a path to 2.6 degrees of global warming. Scientists have published their 30th warning of a climate emergency (World Scientists’ Warning of a Climate Emergency 2022). It is ‘code red’ on Planet Earth, as they put it, a climate emergency. We see already the results, in terms of extreme weather conditions and their consequences: droughts, flooding, wildfires, melting ice, ocean acidification. It is not just a climate emergency, however. We are also facing a biodiversity crisis. The nine planetary boundaries are increasingly being transgressed: from four out of nine in 2009 to six out of nine in 2022 according to recent research. Increasing loss of biodiversity, land-system change, pollution, water scarcity, are all leading to enormous systemic challenges.

The complex of ecosystem crises is culminating, and tipping points are near (Science (2022)). Exceeding 1.5°C global warming could trigger multiple climate tipping points. The path to a ‘sustainable Anthropocene’ is getting smaller every day we continue to go on the same footing.

Figure 6 Environmental boundaries



Source: Stockholm Resilience Center

# The answer: resilience and transformation

The solutions - the within-system fixes - of the past to stabilise the economic system have become useless now that we find ourselves in a polycrisis. Increasing economic activity might solve the social challenges but would aggravate the ecological problems. Tackling our ecological challenges will probably enlarge the social problems if we leave the economic system intact. Apart from that, we are simply running out of options on how to increase economic growth and hence to stabilise capitalism.

If we want to avoid a total collapse, we must make ourselves, our economies, societies, and financial system, more resilient and in the process transform them into sustainable systems that respect the environmental and social boundaries of our planet.

Such a transformation consists of multiple transitions. But to get there we must make our system more resilient. Especially if the transition starts from a fragile state, it can only work if humans, societies, and ecosystems are resilient enough to deal with disruptive changes.

## A great transformation

In his book 'The Great Transformation' (Polanyi, 2001 (1944)), the Hungarian economic anthropologist Karl Polanyi describes how socio-economic changes in the 19th and early 20th centuries led to markets

becoming the dominant forces at the expense of social reciprocity and communities. He argues that the changes in regulation and thinking about markets are more dominant than real economic changes. This is still the case. Dominant financial players (the asset manager economy), disrupt the social fabric and destroy ecosystems.

In the same way as Polanyi suggested, we now not only have to change markets and investments to get out of the polycrisis, but also our thinking about markets. A more realistic and sustainable look at the longer-term future should include both the limits to growth as well as the transformative change needed to build a sustainable economy. A deep transition (transformation) is a series of connected and sustained fundamental transitions of a wide range of socio-technical systems in a similar direction (Schot & Kanger, 2018). This first deep transition started with the industrial revolution, had several waves (i.e. from steam, to combustion engines, to ICT). It took us to the place where we are now, facing the double challenge of environmental degradation and social inequality.

The second great transformation might emerge as a response to the polycrisis. This includes different transitions for society. Five transitions are needed for the transformation of the system (see box).

For all these transitions three choices must be made: what should be phased out (breakdown), what needs

Five transitions are needed to get out of the polycrisis. Although they can be seen as separate transitions, they are also interconnected and must be achieved in combination. An energy transition is not possible if it is not inclusive and if we make resource use not more sustainable. A wellbeing transition is not possible if it is done by increasing global production, thus harming ecosystems.

## Ecosystem transitions

- **Food transition:** From a predominantly extractive food system to regenerative agriculture, fair supply chains and healthy diets with the objective to have sustainable food systems.
- **Resource transition:** From a wasteful extract-use-dispose (linear) paradigm to an economy where resources, from materials to nature, are truly valued and used prudently, with the objective to create a circular economy
- **Energy transition:** From fossil fuel-based energy production to renewable energy generation and energy efficiency, with the objective to create of fossil-free economy

## Social transitions

- **Social transition:** From a society that incentivises competition and divisiveness to one that is rooted in solidarity and collaboration, with the objective to create thriving communities
- **Wellbeing transition:** From a narrow focus on material satisfaction to an economy that deeply values and nurtures broader individual wellbeing, with the objective to have a society with prosperous and healthy people.

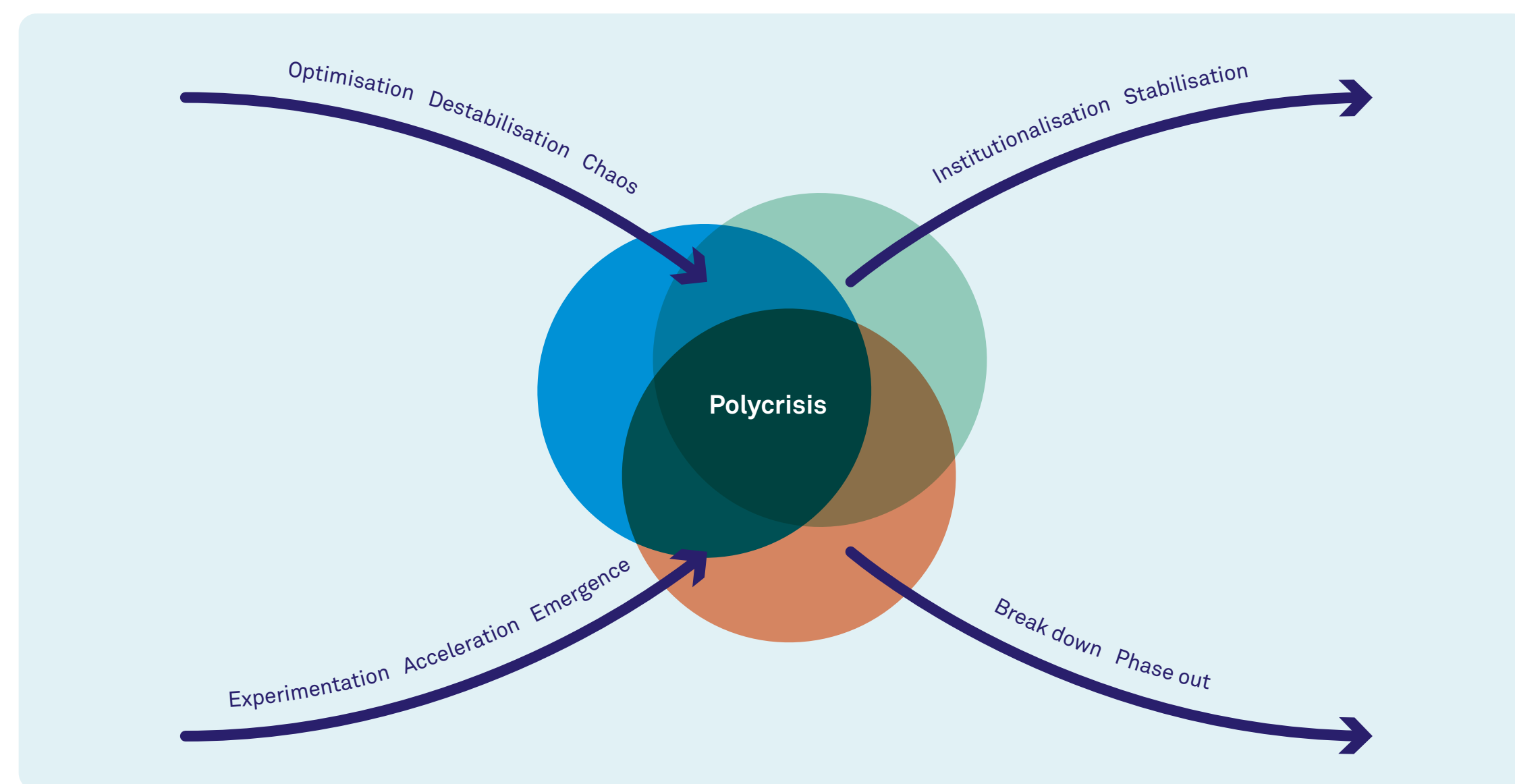
to be converted to contribute to a transition and what needs to be built up (see figure 7). These choices must also be made by investors to get a transition going: it is not (only) about directing capital to new technologies and helping companies to transition. It is also taking capital away from stranded assets. And as sooner as that happens, the faster a transition will go.

Three major shifts are needed to make this happen:

- First, a shift from asset manager capitalism to stakeholder capitalism. Those that have an interest in the economic activity that is financed must have a say instead of only universal owners. This ranges from capital owners, employees, neighbours to society at large.

## The answer: resilience and transformation

Figure 7 Transitions



- Second, from focusing (only) on supply-side solutions (renewable energy instead fossil energy, unsustainable resource use versus circular use) to demand-side changes. In essence, this means reducing overconsumption, reducing negative externalities of consumption, shifting consumer preferences and, in the end, reducing overall demand. These solutions need institutional changes such as changes in taxes (taxing negative externalities and tax shift from labour to resource consumption), redistribution of wealth and reducing the growth dependency of public finance.
- Third, a reorientation from risk-return to impact-risk-return. Investing and finance should be directed at creating value for society in transitions, where financial value is only one element of the full equation, which also includes natural capital, human capital, intellectual capital, and social capital. In our words, that would be 'real' impact investing.

### Increase system resilience

The first step, however, is to become more resilient to drive the transformation we need to become more resilient.

Resilience is the capacity to successfully buffer and adapt to change, to allow core system functions or attributes to persist across time (Holling, 1973). Resilience is commonly defined in two narrower ways that arose from assumptions of their associated disciplines: engineering resilience and ecological resilience.

Engineering (bounce-back) resilience is the time taken to return to the existing steady state following a perturbation, an idea at the heart of conventional economic theory (Gunderson & Holling, 2002). This idea can be seen from the way economic systems are modelled: economies are assumed to return to their 'equilibrium' or in some way defined stable growth state. The engineering definition, lacking a core underlying theory, does not account for critical thresholds and implicitly assumes that behaviours are stationary across time and that all other equilibria should be avoided (Allen & Holling, 2010). As a matter of fact, single-mindedly focusing on growth may cause a system to lose resilience by weakening its built-in coping mechanisms and accelerating the onset and severity of environmental shocks that will test those mechanisms.

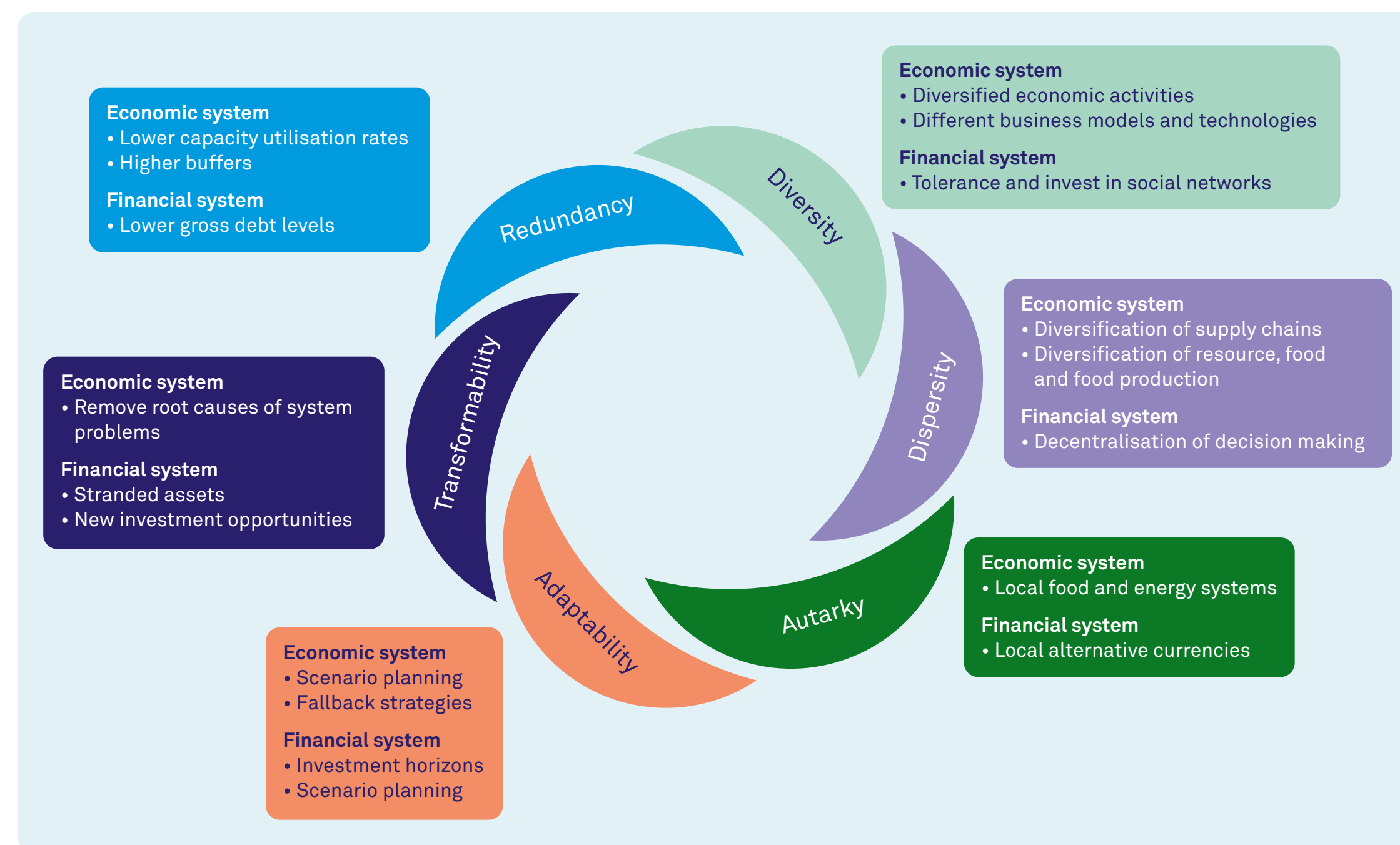
Ecological resilience emphasises conditions far from any equilibrium steady state, where instabilities can flip the system into another regime or behaviour (Gunderson & Holling, 2002). Resilience is measured by the magnitude of disturbance that can be absorbed before the system changes its structure by changing the variables and processes that control behaviour (Gunderson & Holling, 2002, p. 28). Although it was coined ecosystem resilience by Gunderson and Holling, it applies to the same extent to other systems, such as social or economic systems. That is why we rename it here as system resilience.

Economic system resilience can be defined as the capacity of an economy to endure, adapt to, and successfully recover from shocks, to maintain a base level of welfare for all people at least equal to that enjoyed before the shock occurred. It encompasses both preventing breakdowns from cascading into catastrophes, and avoiding collapse following a catastrophe, preferably while retaining or regenerating desired system characteristics and functions (Stanley, 2011).

Making an economy more resilient can take different forms and is time and state dependent. A resilient system is founded on six key principles (Stanley, 2011): Redundancy, Diversity, Dispersity, Autarky, Adaptability and Transformability (see figure 8). We discuss these one by one in the light of the current

## The answer: resilience and transformation

**Figure 8 Leverage resilience in polycrisis**



Source: Triodos IM (based on Stanley, 2011)

polycrisis and their implications for economic policy and investors.

While these principles also apply to ecological and social systems as well, we focus here on how to make the economic and financial systems more resilient,

based on these principles, and what the implications are for economic policy and investors.

**Redundancy** – functional substitutability of one system element for another – is a key feature of resilience. In simple words, it is having spare

capacity, slack, built in a system to be able to react to fluctuations and disturbances. This is the opposite of the Just-in-Time production type that now exists, and hence is also inefficient in a static sense. It implies that for the economic and the financial system, higher buffers are needed. Not only financial buffers, but also more capacity. Essentially, an economy should never run at full capacity (the equilibrium of standard economics) but should run below full capacity in a steady state to be more resilient.

**Diversity** – the degree of variance in the type and characteristics of components that make up a system – ensures that at least some parts of the system will be resilient to shocks.

Economies with only a few dominant sectors (typically commodity exporters) are vulnerable to shocks in those dominant sectors. A more diversified economy is, by nature, more resilient. But it is not only diversity in terms of economic sectors that counts. Also, diversity in terms of technologies and business models within an industry (concentration ratios but also business models) and diversity in the types of ownership structures (private, cooperative, etc.) determine resilience.

Diversity is also an essential element for resilience in the financial sector. A more diversified financial sector – in terms of financial institutions with different ownership structures for example – react different to shocks, with some firms more resilient to a shock than

others. And, of course, diversity in terms of portfolio holdings of investors helps resilience, especially in times when volatility is high.

**Dispersivity** – the distribution of essential system components and functions over space, scale, and time – ensures that a system is less vulnerable to disruption.

From an economic point of view, the lack of dispersivity has become very clear over the last few years. During the COVID-19 crisis, it became clear that many global supply chains are, to some extent, diversified but not dispersed. For example, some crucial parts of cars or electronic devices were manufactured in a limited number of regions. This led to supply chain disruption when lockdowns were installed. In addition, the Russia-Ukraine war made it quite clear that energy dependence can disrupt economies instantaneously. The same is true for food and resources like rare earth metals.

Increasing dispersivity can help in times of the polycrisis. Less algorithm-steered and centralised decision-making, for example, makes the system more resilient. It is more challenging to work on diversification of supply chains and supply of energy, food, and resources. Dispersion is a long-term, but in light of the latest turmoil, essential aspect to become more resilient.

## The answer: resilience and transformation

**Autarky** – a general state of self-reliance in which a system component can survive or continue functioning even when cut off from other systems – is one step further than dispersion. Autarky is predominantly an economic feature of resilience. Ecosystems, and to a lesser extent social systems, can never be autarkic, as they systematically depend on one and another.

Economic systems can be autarkic, but as the example of North-Korea shows, it often leads to impoverishment, as they miss out on the benefits of mutual exchange of skills, knowledge and resources. However, it serves sometimes a purpose to make part of the system self-reliant. For some vital economic and social elements autarky can be beneficial. Self-sufficiency in energy or food supply, at least for a limited period, can be considered necessary. Also, local currency systems can be beneficial because it can help to connect and exchange in local communities.

**Adaptability** – building the capacity among parts of a system to be flexible and effective at adapting to change – is a crucial feature of resilience that is also needed in a transformation. It refers not only to adapt to a situation and enduring it but also to the possibility to change, to reconfigure, in response to shocks, without losing its primary function.

We can distinguish between passive and active adaptability. Passive adaptability is how systems, without preparation, react to disruption. Societies that have been stable and not prone to crises have less passive adaptability. They sometimes overreact when responding to a crisis, and citizens look to the government for help. Economic systems that are trained on efficiency have more difficulty adapting. However, their adaptive ability also depends on the other elements of resilience.

Active adaptability can be trained and fostered in society and the economy through adaptive management. For economic and financial systems, scenario planning can help to become more adaptive. It might lead to changes in how contracts are written, but the time horizon of investments can be defined differently. But it is not only about making plans. The mindset (open, curious) helps to be more adaptable. Trust, altruism, and reciprocity in society increase adaptability. In addition, in times of severe crises, clear leadership helps to overcome doubts and set a direction. In times of polycrisis, it makes sense to invest more in scenario planning: thinking the unthinkable and preparing for the worst is necessary. In that sense, climate adaptability is a real-life example of that. For investors, given the volatility, adjusting time horizons, or having the flexibility in the portfolio to adapt can increase resilience.

**Transformability** – the capacity of systems to use catastrophes as an opportunity to start over with new characteristics when existing conditions become untenable – is a crucial element of resilience. While redundancy is making backups for a computer, transformability is rebooting the computer after a system crash. Part of the memory is gone, but we still have the same structures and elements to start with again.

To enhance the transformative capacity of socio-economic systems, vision and purpose are critical. It helps a society to reflect on what challenges in current paradigms lead to the main problems. Our current socio-economic thinking is based on the paradigm of perpetual growth of material prosperity, yet it is the root cause of our many challenges. A way out is to educate about the present and alternative paradigms, their underlying principles and ideas, and grassroots movements and initiatives that show alternatives. In addition, the capacity to change, and to come to action is related to other elements of resilience: some ‘slack’ in society, trust, and better fallback positions all have transformative abilities. Firms can also transform. That is much easier when they have a healthy balance sheet, no forced growth expectations, and very ‘efficient’ management. Successful transformative companies are often also a combination of the purpose and vision of the owners, room to manoeuvre (resilience) and future-oriented ideas.

## A balancing act

In the midst of a polycrisis it is too easy to say that systems have to change, that a radical transformation is required. In the midst of chaos – also a typical element of a transition – it is also good to work on system resilience. But the balance is important here. If we invest too much in redundancy, diversity and adaptability, the much-needed transformation would probably not take place: we would only strengthen our current system. We would make it less efficient in an economic sense, less profit making in the short-term, but we would shield it from breakdown.

But parts of the system must be broken down. We simply cannot maintain our polluting, extractive economic system. That is why transformability is the most important element of resilience in the current times. All other elements of resilience must be used for the benefit of transformative capacity. This is the only way to accelerate a transformation.

# Investment lens - Resilient investing in transformations

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In our 2022 Long-term Outlook 'Transformation, returns, and trust' we highlighted the fact that transitions require trust. In times of polycrisis, trust alone is no longer enough. A regime shift requires a different approach. Therefore, we need to have more resilience in our systems to achieve the urgently needed transformations.

This is not the time to give a forecast of expected long-term returns. Of course, we can easily promise our clients a return of some 10%. No problem to make assumptions that will add up to that percentage. But this would hardly be meaningful. Normally these kinds of expected returns are either derived from historical returns or based on nominal economic growth forecasts. While it is clear that recent history will probably overestimate expected returns, so will economic forecasts based on growth.

Scenarios can help to give some insight in an unpredictable future. Whatever scenario we use, however, it is necessary to seriously reconsider our current growth paradigm. It is very likely that the global economy will contract in the coming years. If this happens based on a plan - planned degrowth - this would actually be a good thing for humanity.

## Impact, risk, and return

Our longer-term message to investors is that instead of long-term risk-return profiles, investments should be aligned with the principles of resilience and transformation. The lessons learnt from resilience come close to the ideas Katherine Collins took from nature in her book 'The Nature of Investing' (Collins, 2014): investments must be regenerative, resilient, and reconnected.

What does this mean for the long-term investment agenda intended to deliver the most impact, a decent return, and at modest risk?

### 1. Conscious, forward-looking investment choices

A clear vision and purpose of every investment is required: what should flourish, what should break down. This is also the answer to the macro growth dilemma: the macro economy must shrink, but certain sectors need to grow. Excluding certain activities while including others is the investment as well as the real-world solution. Regulation can help making the right choice. All SFDR-article 9 funds, so-called impact funds, are obliged to have an investment impact objective.

### 2. Reconnection with the real economy

One of the big flaws of the financial sector is that it makes money with money. But in the end, to get out of the polycrisis, it must be clear what investments add or distract in the real economy. Setting objectives is part, but not the whole solution. Impact management reporting is the answer. Setting objectives, steering, reporting on it and adjusting if necessary. This requires a lot from investors, especially at a time when many investments are managed passively.

### 3. More diversity in the financial sector and investment landscape

If everybody does the same in the same way, everyone gets the same outcome. Room for experimentation, risk, alternative finance constructions are key in a transformation. This is not only related to the risk-return profile for different financial instruments, but also related to regulation. In a time where regulatory and compliance costs for the financial sector is very high, it leads to dominance of scale and leads to uniformity. This is not a plea for less regulation, but for different regimes in regulation: depending on size and risk of investments. Proportionality is the key word here.

### 4. Networks and collaboration are key in the financial sector

Working together with other financial institutions, NGOs, public sector and academia, can be one of the accelerators in a transition. Knowledge sharing helps to spur new ideas, pooling capital and sharing risks increase the scale and scope of initiatives that can be financed.

### 5. Greater consciousness of the untenability of the system

De-risking the portfolios could mean excluding certain sectors. It could also mean focusing on demand-side solutions, rather than on supply-side ones; investing in car sharing, instead of in renewable energy. Investing in second-hand clothing platforms, instead of in fast fashion. Demand-side opportunities may well be the 'asset class' of the post-growth economy.

We're in a polycrisis and we are in it together. Our reaction - as citizens, voters, and investors will determine our future. Let it be a hopeful one.

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