

IMPACT INVESTMENT SUMMIT – Dinner Keynote – Evan Thornley 13Nov2017 – Sydney.

Firstly, I want to acknowledge the Gadigal people of the Eora nation – the traditional custodians of the land on which we meet and pay respect to their Elders past and present. I also want to acknowledge the extraordinary assembly of skill, capacity and most importantly heart that is in this room tonight – it is humbling to be surrounded by such a large section of the Impact Investment community, let alone to try to say something new or meaningful that won't be better said by others over the course of this Summit. Finally, I want to acknowledge and thank Julia and the Investing in Women Initiative who are sponsoring this evening. While I did run what I think was the first Nasdaq listed tech company with a majority of women on our senior management team, I wish to honour but I probably will not advance that vital cause tonight.

I had a difficult childhood. I grew up in a sole parent family on welfare. My Mum had 4 kids under the age of 7 and survived on what was then called the Deserted Wives Pension. When Mum had to go into hospital for a couple of weeks my 3rd Grade teacher let me stay at her home as there were no family or

friends to help us out. I grew up hungry ... a lot. When my sister and I were taken by a relative to the doctor he diagnosed most of what was ailing us as being caused by malnutrition. Perhaps that explains why I am 10cm shorter than both my father and maternal grandfather. I now have six sisters in all and some are now bringing up the fourth generation of welfare dependant sole parents in my family.

But it didn't have to be this way.

My parents met at Sydney University in the early 1960's – part of the elite 1% who could attend such an august institution – at a time when high school completion rates were in the 20%'s. What led to this collapse in our social and economic standing? Well let's just say my parents were pioneers and early adopters ... in the coming epidemic of family breakdown that has swept the modern West – and it catapulted us from the educated upper middle class to generations without hope in the welfare class in the course of a few years.

But through a series of unlikely accidents and kind interventions, I was given an opportunity for an education and a ticket out and I grabbed it with both hands

and ran with it. And I ran and ran. Firstly towards a financial future and secondly to right the injustices I had seen and felt in my childhood.

I ran into Melbourne Uni and student politics and the Labor Party. I ran to McKinsey to learn about business and ran off to NY for entrepreneurship in the media industry, hoping to become a progressive Rupert Murdoch. I ran into fatherhood and a tech entrepreneurship, went to Silicon Valley, ran up the Rich List for my sins and retired and ran home at 37 to try to fix Australia's economic policy. I ran into public policy with all guns blazing - started a think tank and backed GetUp! and ran and ran and ran into Parliament and out again back to Silicon Valley and Israel, dreamt up the GoodStart deal (which Michael Traill, Robin Crawford and many others deserve all the credit for implementing). I bought houses and cars and businesses and educations for my sisters and family and thought I could fix all that had gone wrong in our family and much else in the country at large. I ran until I was no longer the bright young thing on the make seeking to make an impact – as an activist, as a business person and then as an investor. I ran things and I ran hard for 25 years.

And five years ago I stopped.

I stopped running. Some of my ventures had succeeded, some had failed.

Much of what I hoped to change in politics and public policy had not moved the dial. I was recently divorced and an increasingly full-time sole father of 3

and my sisters and family were no better off than when all this started. I

stopped and asked some hard questions. I went back to my people – scattered

around regional Australia – my family and childhood friends in One Nation

heartland in regional Queensland and shittsville South West Brisbane where

my brother in law had just shot himself in front of his kids and to welfare valley

in North West Warrnambool. I tried to stop my 14 yr old niece getting pregnant

to her boyfriend when he got out of jail so they could get Centrelink to pay for

moving out of home.

And I found I had nothing useful to offer my people. They were cynical and

angry at all forms of Government. They were victims of big businesses in their

work life and as consumers - with pricing plans they would never understand

for their mobiles and supermarkets that priced their food higher than mine

because they were geographically isolated. I tried to get them all to

understand the liberating power of education – but I struggled to explain how

80% of the population was going to get itself into the top 20% of the class from

where all benefits flow! I saw the mother of my best friend – a woman who picked me up as a lost teenager and gave me a chance and then I called her a racist for voting for One Nation.

I look back on this time with shame and bewilderment. And so do my people. The local boy made good had returned home with a patronising attitude and a bag full of money and had never spent the time with them to understand their lives, their fears, their feelings or their dreams. I had been running too fast. I had been running away.

And so I began a journey to try to understand what was happening – not just to my family and my people – but, as I discovered, to an ever-growing portion of the Western World. Not just the lowest underclass as I, and you, might have imagined, but across a broad swathe of the middle. As a top Silicon Valley VC said to our YPO Chapter years later when asked to explain Trump’s victory: “I guess middle America was much bigger than we thought it was!”

I read a lot, I travelled a lot, I listened a lot. And I saw anger and I saw despair. I saw nostalgia for a simpler time and I saw hatred. I saw ignorance and bigotry, yes, but I saw much more that was street wisdom and common sense,

kindness and patience, stoic acceptance and quiet heroism. And I saw almost nothing that Big Government or Big Business was doing that was even recognising the real problems, let alone providing answers – if anything, most of what both were doing was making things worse. That is where Impact Investment becomes a hope of the side.

But when I returned to my new world in the public policy and business elite, I didn't see bad people or bad motives either, by and large. I saw good people who worked hard, who dreamt of a better world, who went into public service or started moving their businesses towards triple bottom lines, inclusion policies, social ventures and, yes, impact investing. Good people who cared about indigenous rights, refugees, poverty, women's rights, same sex marriage and climate change. The educated upper middle class - the top 20% - had moved decisively to the left politically and were no longer willing to accept the hard edge of business without a social conscience and an environmental impact assessment.

As is often said about Americans and Australians, I saw “two peoples, separated by a common language”. In fact the 80% and the 20% lived almost entirely different lives in entirely different worlds. They consumed different

media. They ate different food. They cared about different things. They spoke, in truth, in quite different language. But above all, I saw the scale of the anger, despair and alienation. I saw a group of people that if they ever united behind a common cause could, in a democratic system, upend the entire educated middle class on their ears – an 80% that was fast losing patience with being loyal foot-soldiers for any of the political parties created by the 20%. And if it was growing in Australia, it exploded in America and across Europe as a result of the GFC. The game was up. They were mad as hell and they weren't going to take it any more. Four years later, we had Trump and Brexit and LePen and a resurgent Hanson and people are at first in denial, then disbelief, and still many see it as a temporary lapse of sanity soon to be restored by democracy, market economics and the power of educated expertise.

Only a people who fail to understand the sources of these problems could believe in such wildly wishful thinking. The cultural civil war has exploded onto centre stage and it is not ending any time soon. And unless we, who are trying to bridge these gaps, can find effective models, many of our efforts will be swamped by the forces that are driving this conflict.

So, is there something we are missing ? Are there forces at work, we have failed to understand or counteract ? Is this the temporary dividend of a blip in the financial system or a permanent change in our social fabric. Can we blame social media, the Russians, a sudden explosion of racism and bigotry ?

Five years ago, for me, a still small voice – a voice from my own life and experience, started resonating through the pages of my reading and leaping out from behind the corners of conversations with my people.

Jonathan Sacks is, for mine, the leading thinker of his generation. He started with a first class honours PhD in Philosophy from Cambridge and is a polymath who can take you thru anything from the history of the ancient world to quantum physics with remarkable erudition. He had his own regular broadcast on the BBC and has published 25 best-selling books and was elevated to the House of Lords. In his spare time he was the Chief Rabbi of the UK for two decades. I've read all 25 books but one thing he wrote stopped me in my tracks and changed my life. It was so simple, simplistic even, that I thought it unworthy of such a sophisticated thinker. Sacks said "the only thing that really matters in life, the only thing that ultimately brings satisfaction is our relationships". I have meditated on this every day for the last 5 years and

found it to be profoundly true. Anyone who thinks life is about the pursuit of happiness is destined to be disappointed – life is full of light and shade – but when we have a rich bounty of loving, close relationships, our sorrows are halved and our joys are doubled. It matters not where we sit on any spectrum of demographic classification, this simple truth endures.

The Grant Study at Harvard has now been going for over 75 years - a landmark longitudinal study of the human condition. And what has it concluded ? That the greatest correlation with human well-being is not wealth or education but the quality of intimate relationships. If these close relationships – family, close friends – are rich, positive and strong, life is good, almost no matter what else befalls us. If this fabric of relationships is patchy, weak or non-existent, life is precarious and has little margin for error. And if these relationships are toxic, abusive, violent or otherwise bad, life is pretty awful – again regardless of all other circumstances.

And in the modern West it is this fabric of intimate relationships which has suffered the most in the generations since WW2, but the impact is hidden from the educated elite because it occurs mainly in the lives of the 80%. The explosion of competitive individualism, materialism and the collapse of civil

society has set off a depth charge in the deep oceans of our society that has speed quietly, almost without notice, until it kept coming, with accelerating force, into the shallow relationship pool of our current atomised wasteland – the suburbs and regions of the modern West. And now it crests and builds into a tsunami of horrific force – something that few saw coming and fewer still can avoid or divert.

This apocalyptic vision may or may not correspond with the world you see around you – for many, until a year or two ago, what I had this chat – it was seen as the ravings of a mad man. Post Trump, not so much. But the mounting evidence we now face makes it an increasingly unavoidable conclusion. Let me give you some core samples, from drillings deep into the fabric of the social geography we have built:

- Modern behavioural economics shows that we are not simply “rational economic agents” but we are deeply influenced by patterns of prior interaction, trust and other forms of decision-making and priority – emotions are often triggered by sub-conscious pattern recognition;
- Developmental psychology tells us that in the absence of stable attachments, children grow into adults unable to navigate the central features of their own relationships, the workforce or the community at

large. Indeed it was this – the development of non-cognitive skills (relationship skills) in the ages 0-6 that was the critical aim of Early Childhood Development work that we sought to restore through the GoodStart deal;

- If we accept that this is right and that to avoid forms of attachment disorder it is critical that a child grows up in stable association with loving adult figures, then riddle me this:
 - What proportion of children grow up without stable family formations in the educated upper middle class in America ?
Answer ... 6% ?
 - What do you think might be the answer for the non-high school completing working and welfare classes ? ... 68% - and in these communities, those remaining families fall apart twice as often
 - We are now entering a second generation of this impact – the children of this exploding social fabric are having their own children – the intergenerational multiplier effect is building and the tsunami has broken over the suburbs and regions of the whole of the modern West;

- What proportion of couples say they have a “very happy marriage” ? 40 years ago it 70% in the educated upper middle class. Today it is 65%. But for the working class it has plummeted from 55% to 25%.
- Two generations ago, 60% of all people said they trusted most people most of the time. Today, for the educated upper middle class – that bastion of faith in the goodness of humanity, the number remains at about 60%. For the white working class it has plummeted to 15%. Truly we are seeing Hobbes’ war of all against all – that leads to a life that is “nasty, brutish and short”
- Indeed, speaking of life expectancy, we are now witnessing the first group of people who are suffering a decline in life expectancy in the history of the modern world – this despite our ever improving medical knowledge – and this group are white working class men in America – due to obesity, substance abuse and suicide.
- It is widely understood by scholars and scientists that much addiction is self-medication for relationship distress or absence. Heck, even rats will drink the heroin laced water when left on their own, but prefer the plain H2O when happily ensconced in a pack environment. The current opiod crisis in America is a case in point. Do education levels, socio-economics and gender impact opiod usage levels ? Yes they do. Do you know what

factor has more impact than all the others combined ? Whether the person is in a stable domestic partnership or not. Those without stable domestic partnerships are up to 10 times more likely – the co-morbidity of these factors leads to married, educated women having 1 opioid death per 100,000 and single, uneducated men having 70;

- I have been through a divorce – it was a necessary but awful process that blows a big hole in your life and an even bigger hole in your children’s lives unless you can both manage it with remarkable equanimity. Some of you have no doubt been through this yourself and had friends and families who have. I wouldn’t wish it upon anyone. But understand how much worse it is in a working or welfare class family. When my friends get divorced, Dad usually moves out, gets another home with room for kids – week on week off or on the 9/5 day fortnight model. Everyone has less time and money than they had and things are tough, but can settle and be managed. But, a working class family can’t afford one house, let alone two. Dad is on a mate’s couch or in a boarding house. Neither parent can’t work as much as they used to with extra childcare responsibilities. The household economy has suffered a massive financial shock of dramatically increased expenditures, reduced income, all at a time of maximum emotional difficulty. Stable

attachments for children are torn asunder. And now we are reaping the intergenerational multiplier of the problems – as these children themselves become adults.

So if this is a massive problem across a huge proportion of our people, who has answers ? Who is even recognising it ? Where are the institutions in our society who's job it is to address it ?

When I discuss these issues with public policy makers, they don't disagree with the assessment but usually respond by saying "but what is the public policy solution to fix this ? The domestic sphere is not really our department" as if the lack of solution was somehow an abrogation of the existence of the problem.

The Enlightenment and modernity gifted us the gift of the scientific method but cursed us with the fraud of Individualism. The two are combined in a perverse way.

Let's start with the data. Many of us here are in what Robert Reich called the "symbolic analyst class" - we can crunch numbers with the best of them – pull the big levers in the machinery of the market or society and get dramatic

results. This industrial or mechanical model of society is very real in the eyes of most of the managerial class – whether in big Government or big Business. You capture data, measure segments, implement changes, test the results. Rinse and repeat. Much good has come from much of this scientific approach.

But, almost all the data we have is denominated in the currency of that modern fiction – the sovereign individual. For almost all of human history, we saw ourselves as the sum of those who have gone before us, the continuity linking them to those who come after us and those with whom we share our daily lives today. We built cathedrals in the certain knowledge that those starting the job would not live to see the results – perhaps their great grandchildren will. The structure of people's names actually included their parents or their children or their tribe or their home town. We were "socially situated" and saw ourselves not as atomised individuals but as members of a local ecology. But modern market research and social science has us largely shorn of our attachments. Most often we are individuals segmented by age, gender, income, education or ethnicity. Sometimes by sexual or gender orientation. But if I tried to separate the segment of people who have rich and fulfilling relationships with close family, close friends and close community from those whose relationships are barren or non-existent or toxic and

dangerous, how would I do that ? We simply don't even see the relational fabric of people's lives at this distance. Only the people who know them – really know them - would even know.

So rather than have an ecological view of society – that all of us are interconnected, that what one person does deeply impacts those close around them and sometimes ripples into a much broader wave. Instead we have a mechanical model – if we move this huge market or social lever and bulldoze down this laneway, we'll shove “individual” people into the buckets and behaviours that we want from them. Whatever fabric of relationship that may be strained or broken is not usually our department – that's “private” stuff. The bull-dozer mechanical view of society is symptomatic of an industrial age that is nearly 100 years out of date. We now understand both natural ecology and network effects but we fail to honour the same reality in how we see ourselves and our lives – as deeply interwoven with those closest around us. Even Al Qaeda and ISIS understand that – a networked ecology model is faster, more autonomous and therefore more empowering to ordinary people.

So with modern capitalism and modern public policy so blind to the fabric of our lives and mechanical in their efforts to reap large scale change, how else

can we re-empower people to build stronger and better intimate relationships? To take back control of their lives from big business and big government? If we cannot do this, I remind you, we are likely to continue to reap the democratic whirlwind of populism that is at grave risk of destroying action on climate change, the free movement of people, the global trading system and much else besides.

Since our policy makers and corporations are numb to the problem and bare-arsed for solutions, some friends and I started looking to the past. To the time before we set off the depth charges that have destroyed the social fabric of our families and communities. We looked beyond the liberation movements and social activists of the 1960's and the causes they championed that are largely still active today – causes I have spent my whole life supporting and in some cases helping lead.

We became intrigued by a previous era of massive social change and the bottom's up movements that tried to help people deal with that change. In the full throws of the industrial revolution in second half of the 19th century a social movement was born that within a few decades encompassed more than half the households in the English-speaking world. I'll repeat that ... more than

half the households in the English-speaking world. And yet that movement is so lost to history that most of us have never even heard its name. I will call it the mutuality movement. It began with the friendly and fraternal societies and grew and grew. By the 1880's, the Manchester Unity was a global empire – yet it was principally run by local chapters. In the early 20th century the movement broadened still to become many things from Alcoholics Anonymous to the motoring clubs like the NRMA to the worker co-operatives of Mondragon, the John Lewis partnership in the UK and here in Australia, Fletcher Jones.

But the mutuality movements started with a very different basis for change. First, they said, we must change ourselves. Help each other change ourselves and our families, and then change our local community and maybe over time we can help change the world. Look after each other and build and strengthen our habits and character, our families and relationships, our communities and their common infrastructure and then maybe we can keep going and build large scale enterprises across the movement – nationally and then globally – united by a common set of values and governed, as much as possible, at a decentralised local level. If someone claimed unemployment benefits from the pool of their colleagues, but they knew he was malingering or on the grog, they wouldn't pay – they'd try to help fix the problem in their colleague. When

a family lost a loved one in an industrial accident, the whole community gathered to support the remainder, to educate the children, to give local, practical not just distant financial support.

So how did a movement that spanned the globe and had half of all households within it, wither to become the small, sometimes antiquated remainder that we see today in our worthy by small scale local building society or member-owned health fund ?

The villains, in short, were Big Government, Big Business and the scourge of the 20th century – the rise and rise of the managerial class. Big Government introduced centralized welfare – a system from which I am a personal and grateful beneficiary, but which has turned out to have more complex impacts and many unintended consequences. Big Business could accumulate capital in a way the mutuals and worker-cooperatives simply couldn't and in the scale driven industries, particularly manufacturing, this proved decisive. And for those mutuals that remained after WWII, their increasingly professional managerial class could see the opportunity to do the same job and be paid 10x more, by de-mutualising.

So much for mutuality.

But now, my friends, conditions have changed again, and the opportunity exists to rebuild this movement – founded on faith in change at the personal level – mutual self-help, governed at the local level, yet growing to national and international scale. And as we try to recreate a version of this for the future, we can look to Silicon Valley. The shared economy. Crowd funding. Social networks, social commerce.

With much distributed wealth in the modern West, you can accumulate vast capital from aggregating households. From modern social network and social commerce technology we have dramatically reduced capital requirements to get to vast scale quickly and fractionally reduced market access costs. And with membership growth driven by values and personal connection, the sales, marketing and distribution cost lines plummet, leaving thick margins.

So I believe we can rebuild a new social movement, starting locally, by helping people build or rebuild the skills to honour and develop their intimate relationships. There are many models for this. Whether we use the tradition of new parents' clubs or the Forum processes of the business elite in YPO, or the

listening therapy processes of the 12 step programs, the need is clear – help each other, not just ourselves, focus our efforts not so much on our weight, our beauty or our wealth – but on being better at our intimate relationships – in our marriages, our parenting, our efforts to be a great friend or neighbour. When we have these skills, these bonds and the benefits that flow from them, then we can start building member owned enterprises using the best of modern social commerce and shared economy platform technology. At 500 households we can play in property and real estate together, at 2,000 households we can build our own schools, at 10,000 our own retail outlets, at 100,000 our own media and at 1M or more, our own banks, telco's and most importantly, shared data warehouses and member-controlled privacy infrastructure.

There is a name for this vision – the member controlled shared economy – the idea that Uber or AirBnB could and should be owned by their members. It's called the Platform Co-operative movement and it's building on the East and West Coast of the US and is embryonic here in Australia. But I believe, for all the reasons outlined above, that a solely economically-focussed platform co-operative movement will likely remain a niche ideological passion or lose its moorings when it successfully does scale, unless it is built in the back yards of

ordinary families and communities and built around the common bonds of mutual self-help and the priority of forming quality intimate relationships.

Let me illustrate with one small practical example we are working on now.

AirBnB can deliver better net yields to property owners, but is often the scourge of neighbourhoods and apartments for the uncaring impact of itinerant travellers and the impact on housing availability. We are looking to buy a small block of old flats, financed entirely by neighbours within walking distance. And we will run it thru AirBnB – with all the work going to local people. And to make our guests feel at home, we will host a dinner every Saturday night for all our guests and all our neighbours. A great way for travellers to connect and get local tips, for locals to meet travellers who can return the hospitality abroad, but really, the point is regular dinners for our neighbours to get to know each other. And with these advantages, at 80% occupancy, we can deliver a cash positive investment at 80% LVR and 30+% returns to equity over the lifetime. And with the remaining 20% of un-occupancy ? We will partner with a women's shelter to provide a permanent source of high quality furnished emergency accommodation for families escaping domestic violence. This way we build relationships, we make serious money and we address pressing social problems with a localised solution.

I believe if we can do that for many forms of social disadvantage, I think we can rebuild trust by empowering ordinary people and giving them a personal say in their future and their daily lives as families, workers and consumers – and with that the resentment of expertise that has led to distrust of everything from climate science to paying taxes or supporting immigration or free trade may begin to abate.

This vision may or may not make any sense to you or be in any way relevant to the great work you are doing in your corner of the Impact Investment sphere. But I would ask you to consider three questions when next you and your team are on strategic retreat or assessing the impact of what you do and the barriers to greater impact.

The questions are these:

- Firstly, have we caught the essential impact of the quality of intimate relationships to the lives of the people we are trying to help ? Does what we do help them improve that relational fabric or is it irrelevant or dangerous to that ?

- Secondly, does the emerging cultural civil war impair our work and lessen our impact – does what we do help diminish or fuel that cultural civil war between the 20% and the 80% ?
- And finally, if you happen to be impact investing at the cutting edge of the shared economy into the platform co-operative space, can you edge them towards a more-than-economic view of their mission and include a central place for mutual self-help and a decentralised and empowering governance approach or will it be at risk of being taken over by its own managerial class some time in the future ?

If these three questions are relevant to your work, our time here has not been wasted.

Thanks for lending your ears to my story and this vision – I hope the remainder of this Summit fulfils the remarkable potential that is gathered in this room and the minds, resources and most importantly, the hearts of all of you here present.

If anyone is directly interested in building the vision I outlined – it's a social movement called The Mutual Society – email me evan@evanthornley.com