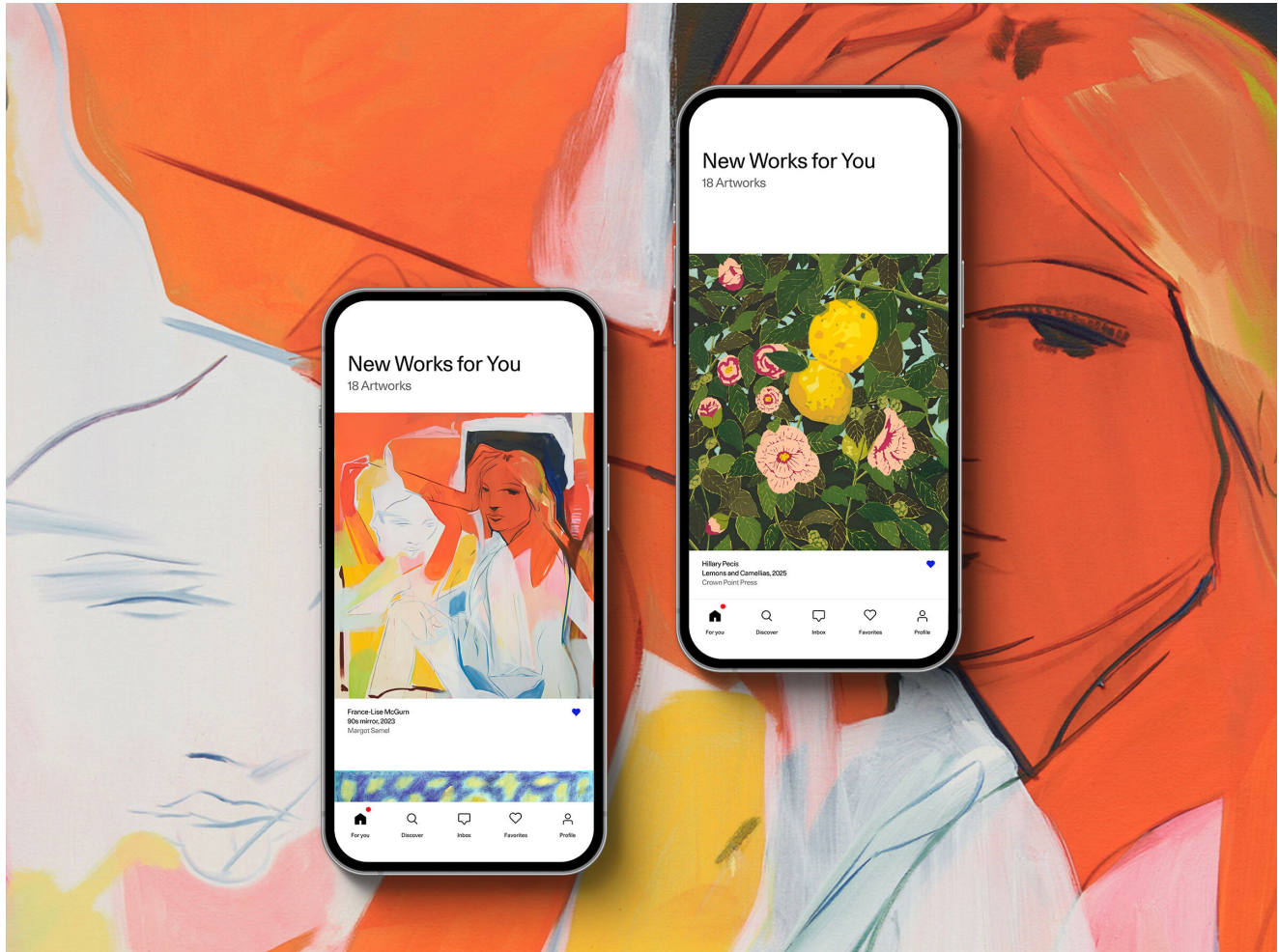


Why Investors Are Looking to Back Artist-Run Businesses

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Art Market

Alfredo Jaar

Culture=Capital, 2011

Goodman Gallery

Nearly two decades ago, when Laura Callanan was the deputy chief investment officer of the Rockefeller Foundation, she saw an interesting, if unconventional, investment opportunity: a loan to a recording company, Smithsonian Folkways Records, part of the Smithsonian Institution's effort to preserve the world of sound. She loaned the record label a significant sum on behalf of the foundation.

Callanan recently found herself sharing this history with the Smithsonian's chief operating officer, as they discussed how the institution could channel some of its \$1.7 billion in investable assets towards creative businesses through what Callanan calls "creativity lens investing."

Creativity lens investing is an emerging subset of the broader field of social impact investing, in which investors look not just at financial returns when evaluating a potential investment, but also at the societal benefit it could generate, as well. Building on the decades-old concept of "gender-lens investing," which evaluates investments based on their impact on women and girls, Callanan asks: What if investors targeted artists and creative entrepreneurs who are building socially oriented businesses?

Historically, Callanan said, the arts community has not been engaged in conversations around impact investing, seeking funding through more traditional channels such as private philanthropy and government support. But a growing body of research, much of it by University of Pennsylvania economist Mark J. Stern, shows that investing in creative placemaking yields multiple benefits, including quality jobs, social connections, and civic engagement.

Callanan, a former McKinsey & Company consultant specialized in impact investing and senior deputy chairman at the National Endowment for the Arts, founded Upstart Co-Lab to bridge the gap between the huge pools of institutional and philanthropic money available for impact investing, and the artists and creative people who need it to grow their businesses. The aim isn't to fund individual artworks or projects, but rather artists who "have decided that they want to move beyond the studio," she said, and "like other social entrepreneurs, they want to use the marketplace to scale and sustain a concept that they have."

"It's about producing a lot of beautiful things"

Robin Resch, a Berlin-based artist and entrepreneur, is using a creativity lens investment from Purpose Ventures to help scale up coGalleries, a business he founded that organizes intimate art tours of galleries, artist studios, and private collections in Berlin, London, and other European cities. Resch had been seeking an investment in the range of \$200,000 to \$800,000, but found that venture capitalists kept asking about his exit strategy—in other words, how he planned to sell the company and make the investment pay off.

"I don't want to sell it, so basically 95 percent of the regular investors would not be interesting for me even to target," Resch said.

"This is a conscious business," he added. "It's not just about making money, it's about producing a lot of beautiful things....It's about bringing people closer to art, creating friendships, finding art that you love."

Some investors told Resch they would privately support his project because they believed in what he was doing, but had to take a more mercantilist view for the venture capital funds they oversaw.

Callanan, who is an advisor to Purpose Ventures, was drawn to collaborate with the fund after seeing their investment in Resch's firm. She sensed a synergy between Purpose's investment thesis, to make long-term investments in companies that intend to remain independently owned and get repaid through dividends and share buybacks, and the community-oriented mission of creative lens investing.

Alexander Kühl, the founder and partner of Purpose Ventures, said Callanan has been instrumental in helping the fund bring the creative economy into its portfolio of investments.

"Before we met her, we didn't realize that our investment thesis around ownership structures is of particular interest to people in the creative space, creative social entrepreneurs, people who broadly are building startups that have to do with arts and creativity," he said. "There's a particular reason for that—if you work with a community of artists, if it's a digital product or something like what coGalleries does, something that showcases what artists do, then your business model is dependent on this community of artists wanting to contribute."

Startups that are eyeing a sale to a media giant or another big technology company, Kühl said, will lose the support of those artists. By contrast, Purpose Ventures's model of stewardship-ownership, in which the company reinvests its profits in the business and retains decision-making powers, makes it a natural fit for creative businesses that rely on the support of a community of artists.

"These artists will not want to contribute," Kühl said, to a company that's solely seeking to maximize profit. "They have a very different intention. They're not interested in making an investor rich."

Measuring impact

As socially responsible investing grew to the multi-trillion-dollar industry it is today, a variety of metrics arose to evaluate investments on environmental, social impact, and governance impact, looking at questions such as how much a company pollutes, whether it uses child labor, and how transparently its executive compensation is reported. One common misconception is that the arts field lacks similar tangible metrics, Callanan said. But beyond providing quality jobs and economic growth, arts organizations have been found to have correlated with lowered obesity, higher academic attainment, and enhanced safety within the communities where they are located.

"There is so much rich information and assessment tools already out there," Callanan said, which Upstart has collected and offers on its website. "They have been developed for arts funders, foundations, and for arts government funders to make the case about why we

should have government funding for the arts in America, and they're actually incredibly relevant and useful tools for folks working in community development, with an emphasis on low-income communities, or other types of impact investors."

Although Kühl is committed to investing in mission-driven companies, he said Purpose Ventures doesn't ask its companies to report impact. Most of their founders voluntarily report it anyway, he said, because they're so excited about the benefits seen in their communities and "want to make that visible."

"We are a little skeptical of impact targets because they can make you skew towards narrow goals," said Kühl. "These entrepreneurs, especially in the arts space, they are focused on impact anyway and we don't need to force them to achieve impact goals by measuring those and setting targets for them."

Resch, for his part, hasn't yet attempted to quantify coGalleries's social impact, but said he has been overwhelmed by the qualitative feedback he gets from people who have taken his tours. Clients consistently tell him it was the highlight of their time in Europe, or send him photos of the artwork they bought and share stories of the encounters they had during the tour. One artist, he said, even got into a bit of a debate with a collector who had visited her studio over the meaning of her work. The artist's daughter, who happened to be in the studio, stood up for her mother, explaining what the collector didn't understand about the work.

"It felt completely uncomfortable on all sides because I brought them together, but then afterwards this collector became a friend of the artist," Resch said. "Something came out of this encounter that is much deeper than buying a work of art."

Future opportunities

Callanan is also eyeing museums, art schools, and artist-endowed foundations, which have been "largely missing from the impact investing conversation," she said. By Upstart's calculations, these institutions have at least \$58 billion available to invest, some of which can be geared towards the arts and related real-estate ventures, such as affordable housing for artists (that figure is based on the endowment values of the largest 375 arts institutions in the U.S., and includes art schools, libraries, and other nonprofit organizations). Upstart also hopes to partner with 10 families and foundations over the next three years to build out the creative economy impact investment market.

Evan Beard, who oversees Bank of America's U.S. Trust Art Services division (and is a regular *Artsy* contributor), said impact investing has been slower to take hold in the arts space, since collectors and arts patrons prefer to gift or invest without an intermediary, such as an impact fund, and traditional arts philanthropy already works well. But he said the gallery space is ripe for disruption through impact investing.

“The business model for small to mid-tier galleries is too capital intensive, yet they play such a critical role in discovering and developing new artistic talent,” he said. “Impact investing models could be an option.”

Callanan encourages artists themselves, whatever their net worth, to seek out ways to make their investment dollars count.

“Any of us who are part of the financial banking system can operate as impact investors, and we can bring that philosophy and our values to our banking, our credit, and our investing activities no matter what our level of wealth is,” she said. “The main thing I would encourage creative people to do is use their financial position as another way to express their values.”

Correction: This article has been updated to reflect the following errors in reporting: Laura Callanan initiated a loan to Smithsonian Folkways records not Folkways Records & Service Co. Callanan is an advisor to Purpose Ventures, not a board member. Callanan was drawn to collaborate with Purpose Ventures after their investment in coGalleries; she did not introduce Purpose Ventures to Robin Resch.