

MELBOURNE INVESTS FOR SYSTEMIC TRANSFORMATION (MIST)

Activating pathways for systemic investment
towards a regenerative Greater Melbourne



regen.melbourne



1 CONTEXT: MONEY IS NOT FLOWING IN SERVICE TO LIFE

There is now consensus amongst scientists and economic leaders that urgent change is required to safeguard our planet for human civilisation. From the sustainable development goals, to the planetary boundaries framework and the COP process, there is global agreement for change. However, progress towards meaningful change at the magnitude required is limited, with emissions rising, natural disasters increasing and inequality accelerating. Social and economic change that rises to the scale of our current challenges is elusive in the context of systemic inertia and the forces of status quo economics.

The United Nations [identifies finance](#) as a critical success factor for the fulfilment of the Sustainable Development Goals. Similarly, the [Paris Agreement](#) names finance as one of three essential strategies for reaching our climate goals. It is agreed that capital is a critical lever in driving positive change and addressing our global challenges. In response to this context there have been countless “sustainable finance” and impact investing initiatives in Australia and around the world. In fact, most people reading this will have been part of these initiatives. It is clear that our challenge is not a *desire* for change.

Instead, the problem is there is a mismatch between (a) acknowledging the urgent need to deploy finance in service of transformation and (b) the amount and quality of money flowing towards genuinely systemic action.

Wide-sweeping systems change is essential to address challenges such as climate change and urban amenity. However, our financial and investment systems (even those with a sustainable or impact focus) are geared to simple linear relationships between investments and outcomes, costs and benefits. Hence capital deployment is often limited to treating symptoms rather than solving for deep-rooted causes. As our partners at [TransCap Initiative](#) note, “the paradigms, structures, and practices of today’s financial sector prevent it from unleashing deep, structural change in the real economy.”

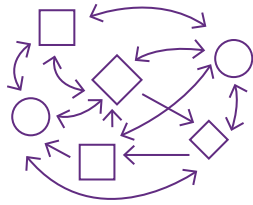
As such, the focus on simply increasing the quantity of capital into the “impact space” is only one half of the challenge. The other half is interrogating the quality of capital and shifting the finance paradigm and investment logic away from incrementalism and single-point solutions and towards systemic transformation.

Ultimately, our current financial paradigm is blind to the quality and magnitude of risks we face, and is equally blind to the transformational opportunity that lies in structuring system-level value. Money is not flowing in service to life.

We need new approaches.

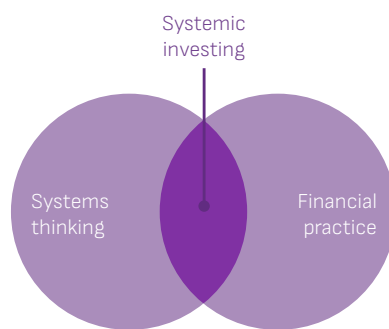


2 SYSTEMIC INVESTING: A NEW INVESTMENT LOGIC, A NEW PARADIGM



A growing group of researchers and practitioners around the world are exploring what an investment logic looks like that serves the primary purpose of systems change. This begins with the simple but critical understanding of a *system* as a complex set of interrelated elements that are working together to produce an outcome. A system could be a community, an organisation, an economic sector, a city or a country. Systems change therefore refers to a deliberate effort to alter the way a system acts, with the goal of achieving a preferable outcome. Acting with a systems lens involves both a different mindset and approach, alongside a suite of tools that allow for understanding and influencing a system.

Systemic investing is an investment logic which sits at the intersection between systems thinking and finance.



To drive systems change, our investment logic needs to also have a theory of change that is aligned with the reality of how change *actually happens* in the real, complex and messy world. The traditional investment logic treats the world as complicated – like a machine to be optimised. This logic assumes parts fit together in an efficient order, can be controlled, separated and optimised in isolation to improve the overall functioning of the machine. This ‘machine’ paradigm at best creates slower and less effective responses and at worst is dangerous and counter-productive for society when we implement strategies for change. This is because the world is complex, not complicated. Complexity recognises an ever-changing set of conditions, dynamic flows between inputs and outputs and intangible relationships that shape connections between parts of our systems.

The traditional finance paradigm based on optimising an economic machine has been incredibly powerful in driving towards its intended goal: profits and growth. Unfortunately this goal has led to multiple interconnecting crises. In order to shift towards the goal of a safe, resilient, robust and just future, we need a financial paradigm that recognises the full complexity of our natural and human systems. This includes understanding the nature of interconnectedness, the power of positive and negative feedback loops, going beyond direct effects and towards multi-order impact, and appreciating and taking responsibility for externalities.

In practice, systemic investing requires *funding architecture*: the emergent design of networked capital organised to achieve a complex goal. This is only possible through deep partnerships between diverse capital holders and collectives of change-makers. However, our current funding tools of deal structuring, term sheets and narrow impact reporting creates separation, entrenches power and most critically crushes the creative potential of emergence. The traditional investment paradigm fails to recognise that systems exhibit novel and non-linear behaviours that are not predictable from the sum of their individual parts. As the famous R. Buckminster Fuller quote recognises, “there is nothing in a caterpillar that tells you it will be a butterfly”. The traditional finance paradigm demands certainty and simplicity over the real world reality of emergence and complexity. As a result we have an impact landscape full of inspiring caterpillars and very few butterflies.

Funding architecture connects investors and philanthropists with those who can actively shape real world change, aligns these actors around a systemic theory of change and most importantly, ensures that all are ready and willing to work together to achieve the goal together. This approach harnesses the self-organising value that emerges and embraces the power of the unexpected, rather than remaining constrained by fixed mindsets and short term, linear and first order measures of progress.

As systems investor Danny Almagor (CEO and co-founder of Small Giants) notes:

“systemic investors think about nurturing the forest, not betting on which tree will be the tallest.”

3 THE LOCAL CONTEXT: MOVING SYSTEMIC CAPITAL IN SERVICE TO GREATER MELBOURNE

In early 2023 Regen Melbourne embarked on an exploration of the role of financial capital in the regeneration of our city. Using the *Swimmable Birrarung* Yarra River as a case-study, our team conducted foundational research on the nature and quality of capital flows around the river.

The goal of a *Swimmable Birrarung* Yarra River requires aligning with many stakeholders, many interfaces among communities, governments and businesses, and many beliefs about what the river represents and how it should be valued. A thriving river won't happen overnight and much work is already underway. There are many steps along the way to create the services, connections and changes that are needed across sectors. Systemic investing has a role to play in nurturing and fueling these steps in the complex and messy space of *transition*, while understanding and not losing sight of the holistic and long-term nature of *transformation*.

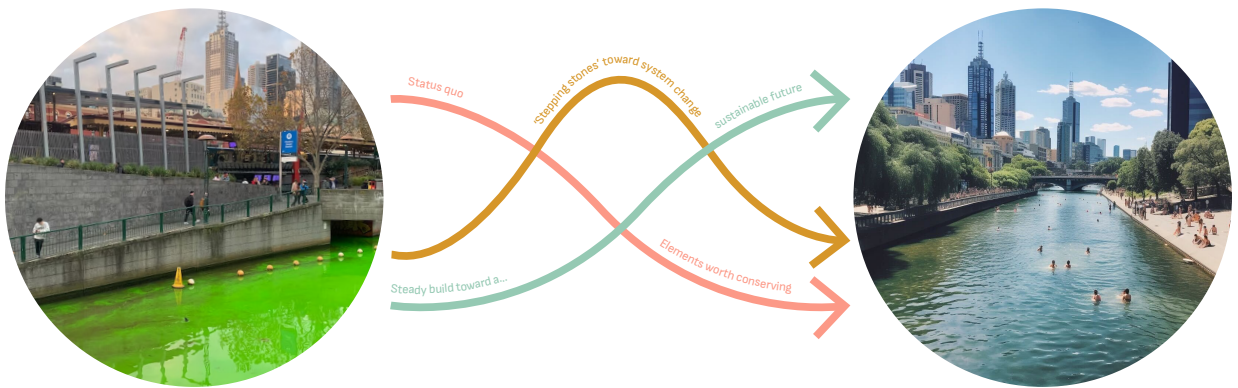


Image credits L-R: ABC News (Andie Noonan), AI rendering (Oliver Pelling) '3 Horizons' model modified from work produced by Bill Sharpe, the International Futures Forum and Three Horizons Practice Network

TRANSITIONS REQUIRED FOR A SWIMMABLE BIRRARUNG:

| | | |
|--|---|---|
| From the river having no rights | → | to the river as a living breathing entity |
| From the river being a largely ignored feature of the city | → | to a place for connection, character building, a source of stillness and resilience |
| From data about river quality being considered a protected feature for compliance | → | to data being transparent, easily accessible and an opportunity for citizenship, engagement and entrepreneurship |
| From water being taken from catchments as quickly as possible through stormwater | → | to a stronger emphasis on retention, percolation and slowing down flow rates and retaining water in the catchment |
| From the river being treated as a machine to be optimised | → | to the river as a complex adaptive system |
| From dis-aggregating priorities of water management from water supply and flood management | → | to integrative systemic approaches to cause and effect |
| From centralising responsibility and seeking measurement and control | → | to investing and trusting in local capacity, empowering people and institutions to care for the river |





Our research has identified a suite of systemic capital challenges in relation to the Birrarung Yarra River, some of which we share below. The combined result of these systemic challenges is that good projects and good ideas continue to stall, that leaders ready to shape change are under-resourced and that deep capabilities that we know exist across Melbourne are not being leveraged to their full potential.

While the below insights are focused on the regeneration of a river system, they speak to fundamental challenges with the current investment paradigm and the structural limitations to deep impact.

CHALLENGES AND OPPORTUNITIES TO SYSTEMIC INVESTING FOR A SWIMMABLE BIRRARUNG YARRA RIVER

| | Current state | Future state |
|-------------------|---|--|
| Scope | Valuation is often at the single asset level and requires simplification where societal needs are disaggregated into sub-systemic units and indicators. Silos in government and industry result in spending which optimises around one-dimensional outcomes. | The Birrarung Yarra River is one entity, fully connected from its source to its estuary and has an aligned investment logic. A thriving river is a process, not an end state, learning occurs when feedback is produced through actions that interact with each other and with their external environment. |
| Timeframe | Investment logic struggles to account for long-term benefits and disproportionately values short-term benefits. Risk and return logic is based on measurable, static current state revenue options. | Investment is guided by a long-term transformational societal vision for a Swimmable Birrarung Yarra River and recognises that progress will be non-linear and require prototyping, learning and refinement to mitigate risk towards a vision. |
| Accounting | The systemic risk and liabilities associated with the river are underestimated and dominant strategies are not positioned to take advantage of the transformational opportunities and systemic benefits of a regenerated river. Questions around “who pays” remain contested – as the river is a public resource. | Valuation accounts for the combinatorial value of a portfolio of initiatives and the emergent economic uplift that happens when a river thrives. Valuation accounts for adaptive capacity achieved through investing in community, intermediary and aggregation services. |
| Enablers | The current state applies economies of scale logic, generally optimised around water supply. River health data is limited and compliance focused. Partnership and blending capital is hard. | Scale is achieved in regional-level innovation, focused on capacity-building, enhancing trust and participation through strategic, multi-layered interventions. Novel partnerships between investors, government and other institutions who shape change are common. Data is abundant, accessible to citizens. |

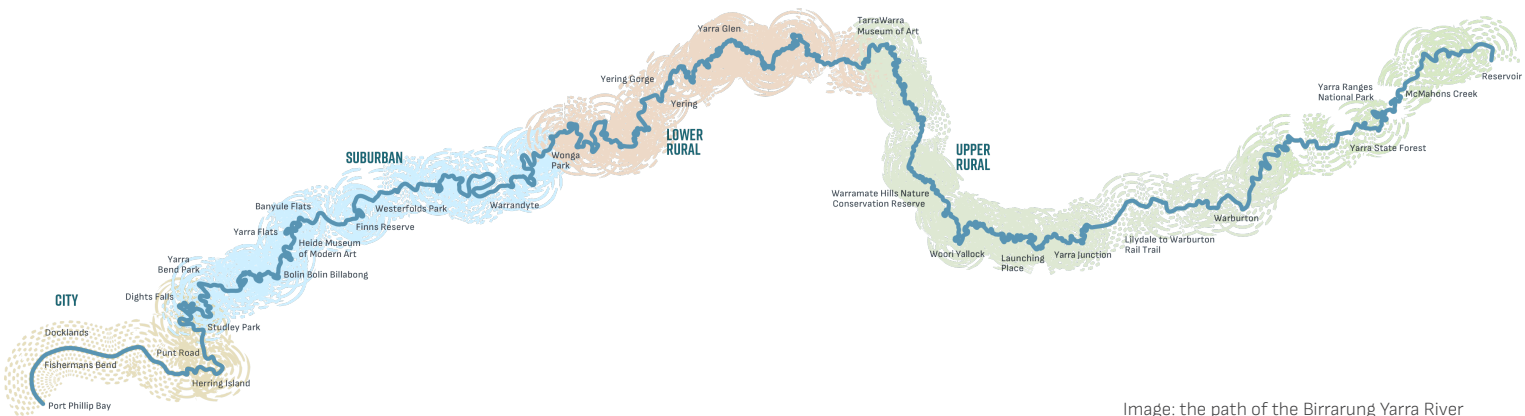


Image: the path of the Birrarung Yarra River



Through this process we also identified three significant mindsets (and associated practices) that dominate the current investment paradigm. These need to shift in order to create the conditions for capital to move in service to our broader regeneration:

Mindset shift 1

How Change Happens

We are seeking to shift the investment paradigm from a mindset of current state scarcity to future state abundance.

The current investment paradigm is dominated by short-term thinking and applies narrow notions of value based on current state risks and opportunities. Systemic investing requires a strategic repositioning to account for the cold hard reality of future liabilities and an active, entrepreneurial posture that cultivates the regenerative value that can be gained from future state abundance.

"If you invest in one-dimensional outcomes you get one-dimensional impact"
—Chief Impact Officer, Impact Investing

Mindset shift 2

Partnerships and Collaboration

We are seeking to move from siloed actors and single point investments to deep partnerships and funding architecture that supports many-to-many relationships.

Systemic investing requires the application of a real-world understanding of complex systems and their behaviours. The only way to do this in practice is through deep collaboration and novel partnership with the many actors that make up a system. This type of partnership is rare in finance and investment and requires financial resources and capability development.

We do not do blended finance well [here in Australia]. Philanthropic and investment capital don't cooperate with each other. A philanthropist would rather achieve less than help an investor. The inability of those sectors to work together is very frustrating.'
—CEO, Impact Investing

Mindset shift 3

It's about quality, not quantity

We are seeking a new investment paradigm, not simply more capital.

There is an abundance of capital seeking to create change and change-makers ready to move. Impact investment advocacy often seeks to attract a greater quantity of funds to the field. As a primary tactic, most approaches to this effort use traditional investment language and approaches. Hence, while a vast amount of money is flowing towards "impact", this has largely remained entrenched in a traditional single-point investment paradigm with short-term horizons and simplistic theories of change. This paradigm also remains dominant in government grant making and philanthropy.

'There is a wall of capital trying to resolve problems and a system that is not very good at landing that capital in the right place'
—Partner, Funds Management

These local insights compliment a growing field of international research on systemic investing, including:

- TransCap Initiative: [Systemic Investing for Sustainability](#)
- Centre for Systems Innovation: [Design Foundations for Systems Capital](#)
- SSIR: [Systemic Investing for Social Change](#)

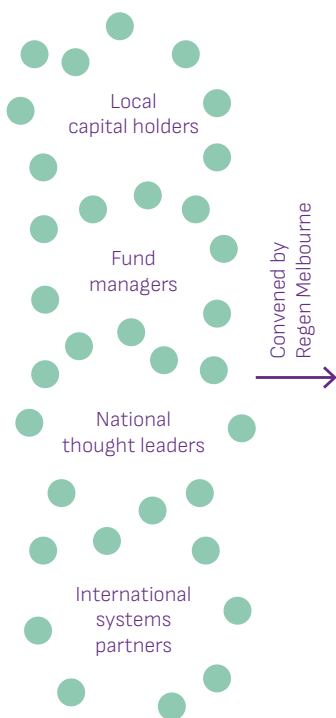




4 INTRODUCING MIST: FROM IDEAS TO ACTION

As a result of our foundation research, a formal collaboration has emerged that we are calling Melbourne Invests for Systemic Transformation, or MIST for short. This is a collaboration dedicated to nurturing a paradigm shift in purpose-led capital and actively prototyping investment vehicles at the intersection of systems thinking and finance.

Convened by Regen Melbourne, MIST includes local capital holders and fund managers, alongside national thought leaders including [Small Giants](#), [Climate-KIC](#) and [Centre for Systems Innovation](#), and international systems partners like [Dark Matter Labs](#) and [TransCap Initiative](#). Together, we will be actively driving three areas of work:



Area of work 1

Field building

Field building includes convening a network of actors across Greater Melbourne with an interest in the movement of capital towards regeneration, further research on the blockages and opportunities, the collection and distribution of case-studies and thought/practice leadership. This work will sit alongside and contribute to the growing international field of systemic investing.

Area of work 2

Prototyping

We believe in learning through action. Hence, we will be centering our efforts on a series of prototypes that build on the existing group of wildly ambitious projects, hosted by Regen Melbourne. This work will consist of structuring reference investments that showcase systemic investing models and practice, designing thematic funds that support multiple investments for an ambitious goal (such as the Birrarung RiverBank), and designing place-based fund vehicles that harness the potential of systemic investing.

Area of work 3

Activating Capital

We will also be seeking to activate a range of capital (grants, government, philanthropy, private investment, institutional investment) to tactically support our work and further the paradigm shift we are striving for.

MIST is an open collaboration for capital holders to come together and redesign the investment paradigm. But more than this, through a focus on place, we can test and learn together, create a beacon regenerative city and demonstrate the power of systemic capital to the world.

FOUNDING PARTNERS

MIST is convened by Regen Melbourne and led by Regen Melbourne CEO Kaj Löfgren. A network of founding partners govern the direction and activities of the collaboration:



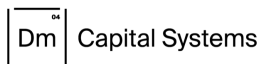
Regen Melbourne

Regen Melbourne is an engine for ambitious collaboration, in service to our city. We are the host of bold projects for a regenerative Melbourne. Powered by an alliance of more than 180 organisations, Regen Melbourne is working towards a thriving future for people and planet.



Climate-KIC Australia

Climate-KIC Australia orchestrates collaborative efforts to deliver connected and coordinated climate action. Climate-KIC Australia works across multiple levers of change, including technology, business models, markets, finance and investment, policy and regulation, knowledge and skills, organisational culture and ways of working.



Dm Capital Systems

Dark Matter Capital Systems works at the intersection of establishing new transition-critical asset classes, developing extensive system-scale portfolios for virtuous impact, and innovating system-scale operations, including many-to-many contracting and systemic value structuring. Dm Capital Systems currently works on projects across 4 continents and is part of Dark Matter Labs.



Coalition of Everyone

Coalition of Everyone is a registered charity established to regenerate democracy and democratise regeneration. We collaborate with communities to design and implement decision-making frameworks that include representation from all voices, including Nature and the future. We believe by remastering human technologies (collaboration, participation and deliberation), we can reset human systems with the living world.



Small Giants Academy

Small Giants Academy is a non-profit education and media organisation dedicated to developing the leadership required for a rapid transition to the next economy. Small Giants Academy also incubates breakthrough ecosystem initiatives through the Small Giants Lab and is a sister organisation to Small Giants Family Office.



Centre for Systems Innovation

Located at Griffith University, the Centre for Systems Innovation is working to grow the capabilities, mindsets and infrastructures for better futures. The Centre partners with organisations across sectors to create safe and courageous spaces and action learning opportunities to transform 'stuck' systems.

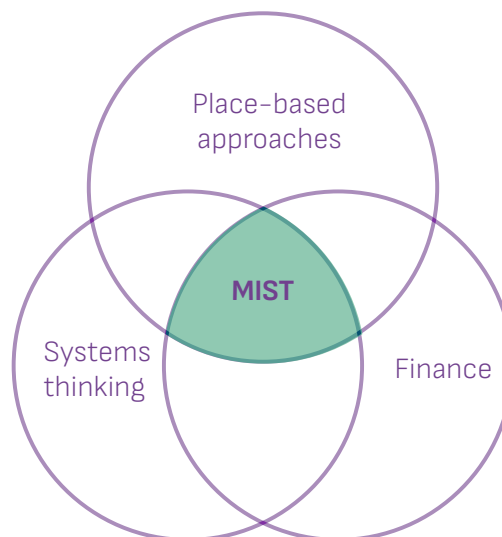


TransCap Initiative

The TransCap Initiative is a think-and-do-tank operating at the nexus of real-economy systems change, sustainability, and finance. The TransCap Initiative operates as a multi-stakeholder alliance coordinated by a backbone team and comprised of wealth owners, innovation leaders, system thinkers, research institutes, and financial intermediaries. Their community is open to anyone committed to their cause and values.

AN INVITATION

Our work at Regen Melbourne is centred around the question of how we can all best serve the regeneration of our city. As such, the contribution of MIST can be positioned at the intersection of finance, systems thinking and place-based approaches. We believe this creates a powerful opportunity to demonstrate what systemic investment looks like in practice:



We invite capital holders, change-makers and systems thinkers to join MIST as a partner organisation or as an individual.

Please get in touch:
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