Interview of Lisa & Charly Kleissner

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Imagine a global community of impact investors working together to make a positive social and ecological impact across the globe. That dream is a reality with Toniic, a global action community that empowers impact investors by providing them access to global deal flow and co-creating best practice tools. Together, Toniic's members in more than 26 countries learn how to align their financial assets with their personal values. **Steve Prostano**, head of **Family Wealth Advisors** for Bank of the West's Wealth Management Group, recently had the opportunity to sit down with Toniic members, **Charly and Lisa Kleissner** of the **KL Felicitas Foundation**, about their views on impact investing, Toniic's revolutionary T100 Project, and ways that the wealth management sector can engage clients in the new philanthropy conversation focusing on purpose-built/driven philanthropy.

Steve: What were some of the reasons behind your decision to start the KL Felicitas Foundation, and on a related note, what made you first decide to pursue impact investing through the foundation endowment?

Lisa: In 1999, while working as a consultant for the Community Foundation of Silicon Valley, several companies we had founders stock in went public. In conversation with the then CEO, Peter Hero, I explored the options of a family foundation versus a donor advised fund. It was Peter's recommendation that prompted us to set up a family foundation to allow us to direct the investments and create our own brand of philanthropy. In fact, Peter asked the foundation's legal counsel to help us set up the foundation.

In parallel, I was struggling with what I considered to be questionable investment choices presented to us by our then investment advisor. Charly and I did a lot of soul searching, and we agreed to challenge the investment advisor to find investment opportunities that created a positive good as well as a return. That was in 2000.

While we were not able to move forward until 2004, the more we explored the financial choices, the more determined we became to build a portfolio that we could be proud of. It ultimately took us 10 years! Today you can build an impactful portfolio in much less time.

Steve: Since you first scanned the field in 2000, what have been some of your proudest moments as impact investors?

Lisa:

1. While the early years were frustrating and finding quality investments difficult, the day our advisor, Raul Pomares, shared that he believed we had an opportunity to go to 100% – that was an exciting day!
2. We were invited to present at a conference in Anchorage, Alaska. Getting there was a bit challenging with our schedule and we were relieved when we finally got to the hotel. We showed up to the room where we were to present, and there was a very small group assembled. I thought to myself – sigh…all this way and so few people interested in impact. We did our presentation and then headed home. Three years later, at another conference, a woman came up to me in one of our sessions. She shared that she had been in the room that day in Anchorage. And as a result, their foundation moved $75 million into impact! You just never know when you are going to have impact.
3. Another proud moment – when our adult children and their partners began a deeper engagement in the impact objectives of the foundation. We are now working with them to envision KL Felicitas Foundation 3.0 with a sharpened focus on climate change and social justice.
4. And three years ago, we received recognition for our work in impact from BNP Paribas. Transforming finance requires years of diligent work and is often not the stuff that makes for great story telling. We were proud to receive the recognition, and we were even prouder to have a spotlight placed on impact investing by such an important global bank.

Steve: What were some of the reasons behind your decision to co-found Toniic?

Lisa: Charly and I were not the first people to struggle with the meaning of wealth. Nor were we the first couple to do impact investing. However, we might have been the first couple to share our story and investment portfolio so openly with the world. And through that sharing, families and individuals from around the world contacted us wanting to learn more about our work. It was this global emergence that led to the creation of Toniic.

When you are bucking against the headwinds of the financial industry, there is power in numbers. Toniic exists because it serves a vital need for individuals, families and foundations to have candid and often emotional conversations about what really matters. Together, Toniic members and the Toniic team have shared inspiring stories, built tools, and shared data. That body of knowledge is helping to inspire a new generation of impact investors, intermediaries and investees.

Steve: Since first co-founding Toniic and the 100% Impact Network, what are some of the things that you have learned? Is there anything that especially surprises you?

Lisa: We have learned that everyone, no matter the size of his or her assets or personal economic circumstance, can participate in the transformation of finance. And that everyone must take their own journey into impact, at their own pace.

I was at the Skoll World Forum recently and Darren Walker, President of the Ford Foundation, said that the only poverty there is, is a poverty of imagination. Impact investors, thankfully, do not lack for imagination. The surprise, as well as the good news, is how imaginative they are.

Our peers are re-inventing financial structures – like Toniic board member and investor John Kohler who designed the Demand Dividend, a quasi-equity structure for social investments. Toniic member John Fullerton of the Capital Institute re-structured an investment in a distressed enterprise as win-win for all stakeholders. MA'O Organic Farms, a non-profit transforming the lives of families in Wai'anae, Hawai'i, with the help of Total Impact Capital, a new generation of Impact Merchant Banks, built a financial model to successfully attract growth capital to scale their operations.

Steve: Why do you think there is resistance to the 100% Impact approach?

Lisa: Is there resistance? ☺ What we see is that when an investor or advisor has an opportunity to deeply consider the impact of their capital choices, they cannot go back to "business as usual". And now that more and more evidence is being published on the performance of investments screened for impact, the return question has been answered. Failure to address resource constraints, climate change, gender parity and more are now seen as reputational and financial risks for portfolio investors.

At Toniic, approximately half of new members transition to the 100% Impact Network within one year of joining. Access to a supportive impact network can accelerate understanding and spur the desire and ability to move to 100%.

Steve: In your view, what is the difference between impact investing and philanthropic investing, and why is there a need for both? How are those dollars best leveraged, respectively?

Lisa: A philanthropic investment typically seeks a 100% impact return only. Impact investors seek both an impact and appropriate financial return. Both types of capital are needed to build the vibrant and just world we deserve.

Grant capital is often needed to seed fund disruptive enterprises proving their theory of change. Grant capital is needed to support impact eco-system utilities and movement builders like B Analytics, Toniic, GIIN, and Capital Institute. Concessionary and commercial debt can help to build rigor and financial discipline in both for and not for profits. However, impact enterprises cannot scale without access to large pools of debt and equity, usually much larger than the size of capital foundations are willing to grant.

Blended capital can provide a unique "one two" punch. Grant capital, concessionary capital and capital seeking a market return can be layered vertically in an investment or can be organized horizontally from seed to scale. John Kohler's "Coordinating Impact Capital: A New Approach to Investing in Small and Growing Business" demonstrates how blending grants with impact investing can subsidize the impact of small and growing impact enterprises in order to reach customers who cannot pay the fully loaded cost of goods while helping to scale an enterprise. Ultimately, there is not enough philanthropic capital to solve our global challenges. Therefore, we must learn how to coordinate capital with different return expectations if we are to effect change at a systemic level.

Steve: Charly, you have said that Modern Portfolio Theory must be re-conceptualized to integrate positive impact, forming a Total Portfolio Theory. Can you explain more about Total Portfolio Theory, including the benefits that it would serve to investors, humanity, and the planet?

Charly: Modern Portfolio Theory is a hypothesis put forth in 1952 by Harry Markowitz in his paper "Portfolio Selection". It is an investment theory based on the idea that risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. It is one of the most important and influential economic theories dealing with finance and investment.

Modern Portfolio Theory has three serious flaws: First, it assumes that we are all rational investors, who only care about maximizing our financial returns. Impact investors clearly don't fit that bill, and behavioral scientists are starting to take our behavioral biases into account. Second, it assumes perfect markets, which is a convenient, yet unrealistic assumption. And third, it assumes – like most macro economists do – that the 'invisible hand of the market' will magically take care of so called externalities like climate change, social justice, inequality and poverty. Modern Portfolio Theory only looks at risk-adjusted modeling of financial returns. It does not take social and/or environmental impact into account.

Total Portfolio Theory (or Post Modern Portfolio Theory) is looking at the correlation and/or relationship between impact risk & impact return and financial risk & financial return, developing analytical frameworks and mathematical models exploring how various means for pricing positive social and environmental impact could be integrated and internalized into the system.

As we develop and apply the Total Portfolio Theory, market economies will contribute to solving the biggest environmental and social challenges as opposed to contributing to it.

Steve: The KL Felicitas Foundation recently has demonstrated that impact investors can construct a 100% Impact Portfolio and achieve competitive financial returns in all asset classes, all while positively impacting the world. What do you hope other investors will learn from the foundation's example?

Lisa: We hope they will learn to take more innovative approaches with their foundation capital and see their foundations as research and innovation labs for improving impact outcomes. With 98% of all foundation capital unaligned with mission, how can we hope to move the dial on the impact we care about?

Steve: One of Toniic's initiatives is the T100 Project, a multi-year study of the portfolios of over 50 Toniic 100% Impact Network members. What do you hope to accomplish through this project?

Charly: One of the main reasons why investors are not moving more aggressively into impact portfolio investing is a lack of impact and financial return data, transparent and inspiring impact investor stories, impact portfolio construction tools, searchable impact directories and a lack of sample impact portfolios. The T100 Project is addressing this by providing tools, directories, and data to Toniic's members and by collaborating with the research community on multi-year studies of 100+ impact portfolios leveraging its anonymized data-sets.

This will enable researchers to make progress on behavioral biases as well as the Post Modern Portfolio Theory mentioned above.

Steve: As you may know, in our "Purpose Built Philanthropy" Program we are trying to encourage the field to help move the world forward in this direction - primarily through education. What else could we do to move investors and philanthropists forward?

Lisa: Toniic members cite 3 key influencers: impact advisors, impact networks & friends, and personal engagement. Some easy steps that Bank of the West can take with investors and philanthropists are as follows:

1. Start with the Investment Policy. Set impact targets, even modest ones, in your policy. Perhaps something as simple as asking your advisor to provide impact alternatives for every investment recommendation. By placing attention on your impact intentions within this document, you will begin the conversation.
2. Impact investing is best done as an experiential exercise. Doing an impact investment with a group from due diligence through to impact management is the best teacher. And it is best to start with a mature investment that publishes its impact annually. Financial inclusion, as a theme, is a good place to start as there is quite a bit of investment opportunity. And some of the product can provide early results, like MicroVest Short Duration Fund.
3. Join an impact network;) like Toniic. Learn from your peers.

Steve: What more should the financial sector be doing to help in this regard?

Lisa & Charly: We believe that the financial sector has the responsibility and obligation to be an active change agent. As the next generation of investors is coming of age, intermediaries who understand that the future of investing is values- and impact-based will thrive. The corollary of this is true as well, i.e., intermediaries who do not actively shape this transition will be disintermediated. The financial sector would be well advised to co-lead this transition with their clients.

Steve: How do you suggest the wealth management industry fill the gap between what advisors know and what investors want, so that we're all on the same page, regarding impact investing?

Lisa & Charly: This is a tough question to answer. The best strategy for the wealth management industry to fill the gap is to demonstrate that they care about impact, and that impact is not just a marketing gimmick. One of the most frequently asked questions in impact is about trust – can the advisor or the fund manager be trusted to truly deliver on the impact promise. Advisors can do this by getting educated about products and impact management approaches, processes and methodologies, and by demanding more impact transparency (both on the positive and negative impact) from products they recommend.

Steve: How do you see your family, including your work through the KL Felicitas Foundation and Social-Impact International, making your own impact in the world during the next decade?

Lisa & Charly: Current financial benchmarks are not serving impact investors, as they do not take impact into account. We envision a world where investors select the impact themes they really care about and then implement a 100% impact portfolio based on these themes. New impact benchmarks will be used to suggest an appropriate financial return depending on the impact risks the investors are willing to take.

Over the next decade, our family will morph our existing portfolio into a 100% thematic portfolio, focused on climate change and social justice; and we will offer this portfolio as a new thematic impact benchmark with full transparency on the impact risk we are willing to take and the resulting financial returns.

Steve: If you could deliver one message to investors worldwide, what would it be?

Lisa & Charly: Wealth comes with responsibility; and we believe it is the responsibility of wealth to invest for a healthy and prosperous people and planet.

Steve: How has investing with purpose brought your family together?
Lisa: Our transition into wealth was especially hard on our children. They were in middle and high school. While our children were too young to actively participate in the investment strategy, they did listen in. Now as adults, they are actively participating – both through the foundation and with their own life choices. I believe that addressing the transition into wealth through impact investing was more acceptable to all of us because we could align that wealth with who we are. It is hard to imagine doing this any other way.

a. Do you think it plays a similar role to philanthropy in that it can positively convene family members around a common topic?
   Lisa: Yes, starting with values can level the playing field. Several years ago, the family participated in a values "card game". Each person was armed with a deck of 50 cards. First, we put down the top three personal values, then the top three family values and then the top three foundation values – all from our perspective. We were pleased and surprised to see a lot of alignment! So, it is not hard to imagine that a values-aligned investment approach is an easy task for our family.
b. What are some of the differences and/or unexpected situations you encountered?
   Lisa: At the same meeting where we did the values discussion, our children challenged the focus of the foundation. They asked, "why is the foundation focused on rural communities when peri-urban and urban environments in the developing world have larger target populations?" We agreed and changed the foundation mission. It was very exciting for Charly and me to be challenged. The process has given them voice and allowed us to learn from how they think about solving for global challenges.