IMPACT INVESTING PIONEERS RELEASE REPORT TO MEASURE IMPACT OF PORTFOLIO

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A new impact investing report has been released in an effort to pave the way for family offices and other investors keen to measure the impact of their investments – alongside financial returns.

US tech entrepreneurs Charly and Lisa Kleissner (pictured) worked with UK-based charity research organisation New Philanthropy Capital to develop the Impact Assurance Classification – a framework detailed in a new report titled *Investing for Impact: Practical tools, lessons, and results* , published late last year.

The Kleissner's foundation, K L Felicitas, has a $10.02 million portfolio with 99.5% allocated for social and/or environmental impact. "Right now impact investors are always forced to explain whether they have competitive market rate concerns," Charly Kleissner said in an interview with Campden Wealth. "We hope that by doing this it will be as common to ask any fund manager, any investment, what their impact is."

The report analysed the couple's impact by investment, theme, and contribution to the field of impact investing. Lisa Kleissner said the process of analysing the foundation's impact differed from compiling its financial returns – something the couple began publishing in 2013. "We had the financial returns audited by an independent third party. That's easy, there's tonnes of companies doing it, but when we look at impact there's no equivalent doing it from the philanthropic side in the US." For that reason the foundation turned to London-based NPC.

Among the report's findings were that the foundation had contributed to four accelerators that had helped raise $126 million for 681 social enterprises; $497 million of assets managed by impact investment intermediaries supported by KLF, supporting the development of standards and tools like the IRIS metrics, which are used by over 3,000 users; and supporting member networks currently serving 738 members with a total $5.8 billion committed to impact.

Lisa Kleissner pointed out that NPC did not work out the couple's impact on a "pro rata" basis whereby an investor placing $1 million in a $10 million investment is credited with a tenth of the impact. "That may sound good from an analytical perspective, but it doesn't really align with if we were the first investors in a fund and that drove more capital into the fund," Kleissner says. "What they choose to do instead was aggregate impact and clearly say 'we don't attribute this to the Kleissners, however, this is the aggregate impact of this investment, this is their role in the investor-plus piece'. Then all of us can make our own conclusions about whether our engagement was instrumental in the overall aggregated impact."

Investments spanned asset classes with the bulk (41%) in public equities, dispelling the belief that impact investments are primarily found in private equity or debt. Case study investments featured in the report included: Ma'o Organic Farms, which seeks to address local food insecurity in Hawaii; the Media Development Investment Fund, which provides lowcost finance for independent media businesses; and BioLite, which makes off-grid cooking appliances for families in the developing world.

Charly Kleissner said impact investors have traditionally been tasked with proving the financial returns of their investments. Last year, the Global Impact Investing Network (GIIN) conducted research across private equity and venture capital that determined impact funds saw an average internal rate of return (IRR) of 6.9%, versus 8.1% for non-impact counterparts.

However, asset managers and investors are increasingly asking how, not if, to measure impact, says Kelly McCarthy, senior manager, IRIS and impact measurement at the GIIN. McCarthy added: "Increasingly we are seeing investors requesting that potential investees demonstrate their ability to measure and report performance data as a prerequisite for investment." The *Investing for Impact* report said a lack of adequate data was one of the major challenges in assessing the foundation's impact, that the IRIS and Big Society Capital's Outcomes Matrix were helpful standardised metrics, but there was some inconsistency in the way investees were using them.

McCarthy added that it is not current practice among impact investors to assess the negative externalities of their investments, but added that going forward investors might become more sophisticated in analyzing the carbon footprint or employment practices of their investments. “As we look toward companies and impact investors that have also been operating in the SRI or ESG space, we see greater sophistication and consideration given to assessing the footprint of the company.”

Family offices have previously been listed among the “pioneers” in impact investing, due to the interest of younger generations in the investment strategy and the desire of families to align their values with their assets, and the Kleissners work with many family offices through their impact network Toniic. “In the ideal situation the family allows the next generation with limited capital to carve out an impact fund to go and explore that topic,” Charly Kleissner says, adding that females too are often more likely to show an interest in the impact of investments.

“Then they hire a professional to actually manage an impact fund and they use that to figure out if they want to use all their wealth for that or not,” Kleissner says. Through Toniic, the couple has established the 100% Impact Network, which currently includes 50 asset owners who, to date, have collectively commited $4 billion to impact.

KLF’s investments have contributed towards:

• Economic revitalisation of urban and rural communities in the US—commercial lending to businesses in underserved communities supporting or creating 30,000 jobs.
• Financial inclusion in under-banked US populations—5,452 new retail and savings accounts, and $486.4m in new affordable loans.
• Financial inclusion in the developing world—19 million borrowers supported and 94 microfinance institutions financed.
• Growing social and environmental Small & Growing Businesses (SGBs) in the Global South—464 SGBs financed and $225m disbursed through loans or investment.
• Growing agricultural businesses in the developing world—405 agricultural businesses directly supported and $236m disbursed through loans, grants and investment to agricultural SGBs.
• Increasing sustainable farming practices—790,000 hectares of land under sustainable management/cultivation.
• Conserving land in North and Central America—360,000 acres of land under protection or conservation, 19,500 acres of land reforested or restored and 900,000 trees planted.
• Reducing energy poverty in off-grid communities—1.8 million energy production units sold.
• Increasing renewable energy production—$335m invested in renewable energy production and clean technology.

About the Author »

Jessica Tasman-Jones

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