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Grant Makers' New Tool

Couple's Commitment to Mission Investing Pays Off for Their Foundation

WHEN Charly Kleissner, a Silicon Valley technology executive, and his wife, Lisa, an architect, set up their foundation, they knew they wanted to focus on rural development, social entrepreneurship, and social investing—and they wanted the philanthropy's endowment investments to support those same goals. But finding an investment adviser proved to be a challenge.

"It wasn't that people met with us and said, 'Yeah, that's a great idea. Let's move forward on it,'" says Ms. Kleissner. "It was more like, 'Do you want a good investment, or do you just want to do philanthropy? Make up your mind.'"

The Kleissners persevered. Now, eight years later, more than 30 percent of their foundation's \$10-million endowment is held in investments that are designed to produce both financial returns and social or environmental benefits. And the couple has an ambitious plan to increase that portion to 85 percent by the end of 2010.

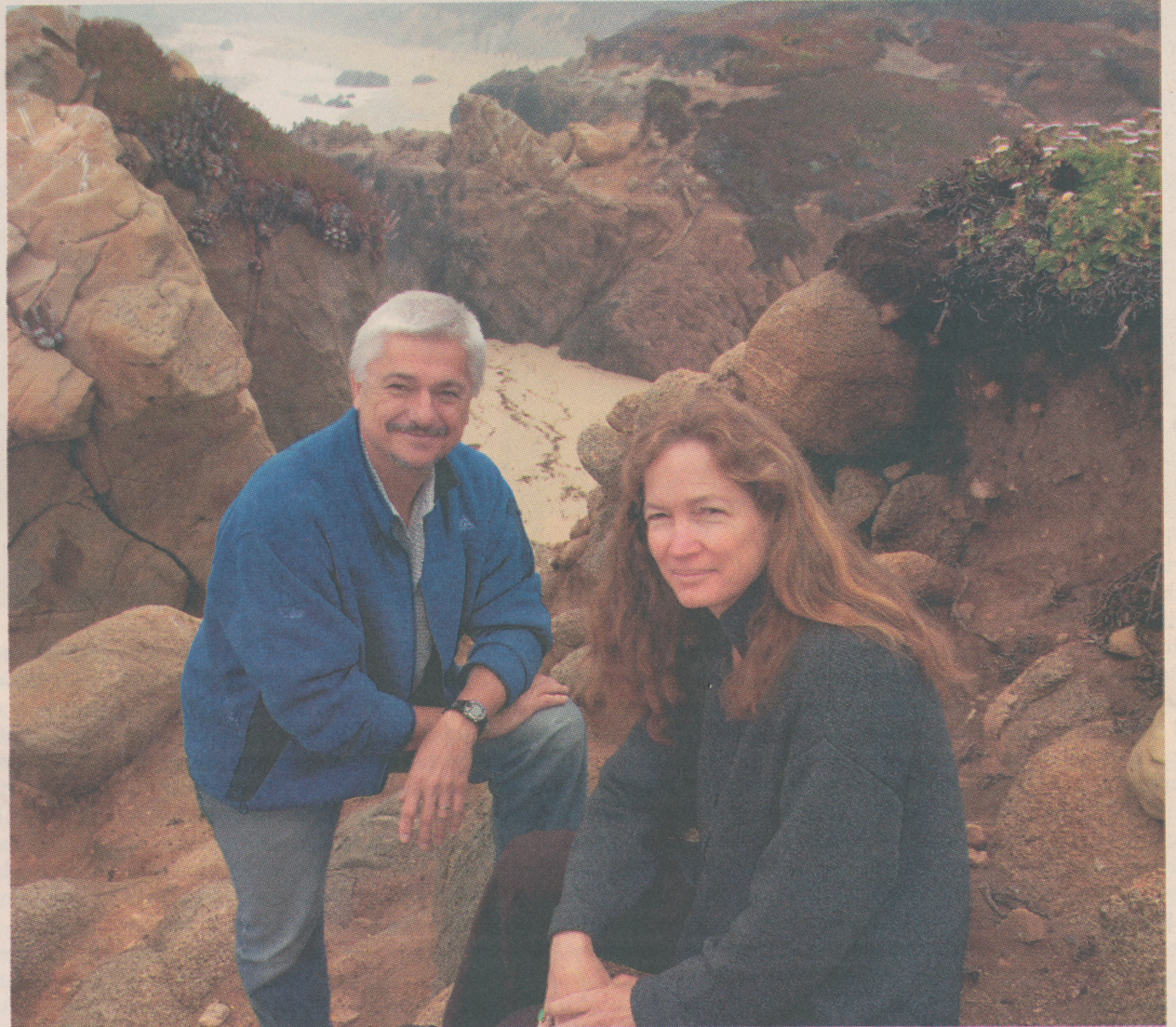
For the three years ending September 30, the performance of the foundation's portfolio has consistently been in the top quartile—and sometimes the top 10 percent—of the Independent Consultants Cooperative Foundation & Endowment Universe, a scale that measures portfolio performance.

The Kleissners say that they want their foundation's influence to extend beyond its grant making, and that when it came time to decide how the foundation's assets would be invested, they felt uncomfortable setting aside the beliefs that had led them to start the foundation in the first place.

"What we do in our work lives, what we do in our personal lives, what we do in our investment accounts—all of it is interwoven and part of the larger fabric of our life," says Ms. Kleissner. "We don't differentiate."

Building a Portfolio

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The foundation also makes investments that combine financial returns with social and environmental benefits that are outside its specific grant-making priorities, in order to expand the range of mission investments it has to choose from.

For example, the foundation has invested in Generation Investment Management's Global Equity fund. Generation Investment, co-founded by Al Gore, the former vice president, analyzes companies' environmental and social practices, in addition to their finances, because it believes that over time companies that are environmentally and socially responsible will outperform their competitors.

A disciplined approach is key to successfully integrating a foundation's charitable goals into its investing, says Mr. Kleissner. All of the foundation's decision makers need to work together to develop a very clear investment plan that lays out how it will apportion its endowment into each type of investment category.

"And then you need to follow that policy religiously," he says. "You have to say 'no' to investments that don't fall into it."

That can be difficult, says Mr. Kleissner, but it is critical to the foundation's long-term success. "Maybe you're emotionally all charged up" about a deal that doesn't fit, he says, "but that's not how you build a portfolio."

Mr. Kleissner says that while he and his wife are



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committed to finding investments that serve the greater good, they are also looking for deals that provide a market rate of return, and the couple works closely with their investment advisers to analyze potential investments' financial prospects.

The foundation has made an investment in a private real-estate fund managed by Beartooth Capital Partners that buys ranch land in the Western United States, improves its value by restoring habitats and combining parcels of land, and then creates a financial return for investors through responsible timber harvesting, agriculture, limited development, conservation easements, or carbon-offset or mitigation credits.

"When our investment team took a look at it, they liked it so much that they not only recommended it to us as a very good and a prudent investment, but they also put it in front of other clients," says Ms. Kleissner.

Sometimes, when the foundation's investment advisers determine that a potential investment will not be able to return a market rate of return, the foundation will instead make a program-related investment, such as a loan with a below-market interest rate.

But in those cases, the loans are counted as part of the foundation's grant making, not as part of its investment portfolio.

"We think it's necessary from a mission perspective to support social enterprises and social entrepreneurs who are not yet able to digest commercial

money," says Mr. Kleissner. "We use that discounted-return money in order to get them there."

The Kleissners have also noticed that some businesspeople pitching investment opportunities tend to play down their venture's social or environmental benefits.

"What they're running into is, if they lead with the social mission, they have a harder time attracting mainstream money than they do if they lead with the financial picture, even though both of those are robust," says Ms. Kleissner. "I'm hoping that down the road we'll see a trend where people aren't afraid to show their full cards."

Like other small philanthropies, the KL Felicitas Foundation still faces a significant challenge: Many of the funds it would like to invest in require a large minimum commitment, often \$1-million or more.

"How are you able to safely diversify without committing large pools of capital and basically parking all your eggs in one basket?" asks Ms. Kleissner.

One answer, she says, is organizations that pool money from small investors.

Ms. Kleissner says that while there are more opportunities for social investing today than eight years ago, she also believes investors don't realize how much is out there until they actually start looking for deals.

"When you buy a Subaru, all of a sudden you start to see a lot of Subarus on the road," says Ms. Kleissner. "Now that we're looking for social investments, we see quite a few."

—NICOLE WALLACE