Responsible Investment in the 21st century

A FIRESIDE CHAT WITH IMPACT GIANTS

March 21, 2014 · *by* homageconsulting · *in Empowerment, Impact investment* · *Leave a comment*

A Fireside Chat with Impact Giants

"*The best way to predict the future is to create it.*"

The above is a famous quote from the American President Abraham Lincoln and the management theory guru Peter Drucker. It was quoted by Lisa Kleissner of KL Felicitas Foundation when she wrote in Stanford Social Innovation Review[1].

As it is impossible to meet with President Lincoln and Professor Drucker, I jumped at the chance when Ms Annie Chen of the RS Group, a pioneer family office in Hong Kong, asked if I would like to moderate a breakfast discussion with Charly and Lisa Kleissner.

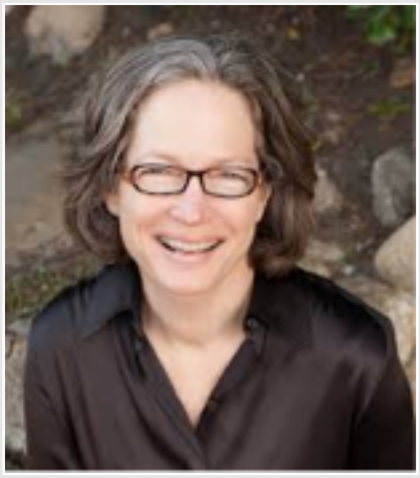
The Kleissners have many things in common, most notably, their warm

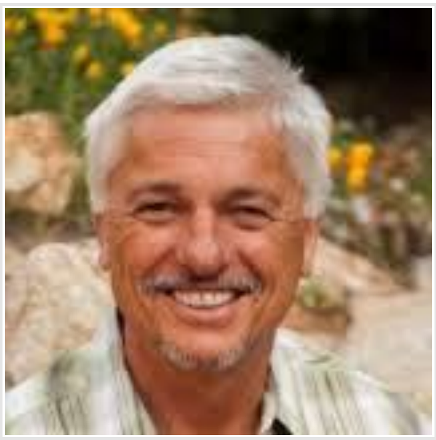
Search this site...

RECENT POSTS

- A Fireside Chat with Impact Giants
- Ways and Means of Social Innovation inspired by Xenophon, an Ancient Greek Philosopher
- Inspiration from Integrated Reporting Consultation to Intangible Assets Valuation – the Essence of Value Creation
- Will Social Impact Investing be the New Venture Capital?

smiles. They are both successful entrepreneurs who have witnessed and participated in the rise of Silicon Valley after moving from Austria to the Valley in 1986. Charly worked at NeXT Computer with Steve Jobs after Jobs was ousted from Apple in 1985. Charly has built successful enterprise software companies such as Ariba, a web-based e-commerce platform that grew from zero to US$1 billion revenue in four years. The company went public in 1998; and it was sold to SAP for US$4.3 billion in 2012[2].





Lisa, an architect by training, worked at Apple. Her fond memories of the company began when she joined the Advanced Technology team, and had the opportunity to work freely on strategic projects with innovators from a range of different backgrounds. This opened many doors for unique collaboration. As an advocate for and practitioner of cross-disciplinary learning[3], her experience fascinates me. Is this when she started developing the confidence and conviction to create her desired future?

"*No, no, it started way before that, although the Silicon Valley experience provided a unique opportunity to collaborate and innovate at scale with some very talented engineers in the lab*," Lisa said.

So below is a summary of my fireside chat with Charly and Lisa, whom I consider to be "Impact Giants" because they took the leap of faith in 2005 and converted their investment portfolio into a return-based impact

- Inspiration from the "One country, Two systems" model
- The Role of Social Media and Investment Opportunities for Responsible Causes

ARCHIVES

- March 2014
- July 2013
- April 2013
- February 2013
- January 2013
- November 2012
- October 2012
- September 2012
- August 2012

CATEGORIES

- Accounting fraud
- Asset allocatioin
- Banks
- China
- Corporate social responsibility
- Disclosure
- Empowerment
- Environment
- France
- Governance
- Impact investment
- Infrastructure

portfolio aligned with their values and the purpose of their foundation. More importantly, they are first to publish seven years of their financial results with absolute and relative performance data, in a report published by Sonen Capital in October 2013.

"*We have a dream for the future and it is quite simple: Investors no longer need to differentiate between impact and non-impact; and all investments are evaluated on financial and impact performance. It is this type of transparency that will finally enable all of us to create the future humanity and the planet deserve.*"

The Journey Began in 1974

Charly comes from Innsbuck, the capital city of the Tyrol state in Austria. When he was fourteen, he decided to actively seek an overseas experience. Upon application to the AFS intercultural programme, he won a space as an exchange student in Hawai'i. Charly met Lisa in 1974 when she was greeting another exchange student at the International Airport in Honolulu, and showed Charly the way to the Inter Island terminal. Lisa is from Hawai'i, and part-Hawaiian; she was studying at the University of Hawai'i School of Architecture at the time.

After many years of long distance relationship, following Charly's return to Austria after the AFS exchange programme, Lisa left her architecture firm in Honolulu to join Charly in 1982 when he was focusing on his PhD in Computer Sciences, specialising in distributed databases, at the University of Technology in Austria. They married in 1983, and decided to move to the United States in 1986 in order to chase the entrepreneurial dream that both keenly desired.

This was the first leap of faith in creating their future – a young couple moving to a new city with no jobs or connections. They joined technology companies and both had successful careers.

Creating the Future

In 2000, they created their family foundation with the objective of helping social enterprises become more impactful. At the time, social enterprise was a new concept, and there were only a handful of venture philanthropists or impact investors. The Kleissners however, were intrigued by how they could create more positive impact on society. In

- Integrated Reporting
- Network effects
- Real estate
- Social Impact
- Social Innovation
- Social media
- Solidarity
- Stakeholder Engagement
- Transparency
- Two-sidedness
- User-generated content (UGC)
- Venture capital

particular, they wanted to invest in leadership.

They began with some negative screening strategies to exclude companies that were causing social and environmental harm. That was not enough. In fact, they spent three years trying to implement a meaningful impact strategy and failed because traditional investment advisors could only think in terms of a classical asset allocation framework – by asset type rather than by principles; or in Lisa's words, intention driven. Not until 2004 did they decide to re-categorise their investments into four different buckets that are impact-oriented, and begin investing according to this strategy. The four buckets are Responsible, Sustainable, Thematic and Impact First Investments. The asset classes they invest in cover:

(1) **Stable** assets comprising of cash and cash equivalents and fixed income instruments. Investing in community-focused bank deposits that are covered by FDIC[4] insurance enhances cash returns. Allocations to microfinance debt and emerging market high yield corporate debt proved beneficial during and after the 2008 financial crisis.

(2) **Growth** assets comprising of public equity investments, hedge funds and private equity. The public equity portfolio uses a classical allocation between US and non-US global equities, taking into account non-financial ESG factors. The global public equity portfolio significantly outperformed the MSCI World benchmark during the measurement period. Private investments take a thematic bias that addresses the issue of resource scarcity, investing in water, sustainable agriculture and clean energy.

(3) **Inflation protection** assets comprising of real estate and other real assets; and

(4) **Direct investments** comprising of programme-related investments in which Charly and Lisa are personally involved in managing and/or mentoring. They include African agriculture, Indian healthcare, community clean energy production and clean cooking devices for those at the bottom of the pyramid ("BoP"). One example given was BioLite, an off grid clean cooking stove startup based in Brooklyn, New York. The company began as a recreational camping stove manufacturer in the US and adapted its unique product for impact for the BoP. With an initial capital raise of US$1.8 million, the company surpassed all of its projected

sales targets for its first product – a cookstove with phone charger for the developed world recreation market. It now ships to over 70 countries. This year, they will be shipping their HomeStove, developed for the BoP market, to India and Africa.

It has taken the Kleissners seven years to convert their investments into a portfolio that is 93% impact driven; 100% is the goal they hope to achieve in the next year or two. As the portfolio evolves, the Foundation finds sources of alpha by proactively incorporating environmental, social and governance ("ESG") considerations; and as the impact market matures over time, there is a more complete set of investment options allowing them to rebalance the portfolio towards their target asset allocation (Pomares 2013).

Going forward, the Kleissners will continue to focus on connecting global impact investors, and on putting their capital at work in order to 'predict their future'. For example, they have started new programme initiatives in Eastern Europe to encourage the development of social enterprises in the former Soviet Union countries.

Epilogue

I have learnt that:

1) To live a rich life, it's not just about working for money, but about **making money work for us**. We can make use of financial assets so that they become a tool to realise our goals;

2) Do not be a by-stander – make **active and positive choices** in life because only then can we drive ourselves into the predicted future that we want; and

3) **Create opportunities** when they are not readily available – such as a total portfolio investment strategy against the conventional asset allocation thinking. Only when we create a new course can we avoid going down a well-worn path that we know is not to our liking.

In the impact investment ecosystem, there is a need for a layered capital solution – where funding and capital of different risk and return appetite can be appropriately structured in their rightful place to support social innovation from ideas generation to prototype to start up establishment and to scale up operation. This involves more than one or two working parties. I am looking forward to working with my client and corporate partners in creating such a solution.

"*A hui hou kakou – that's Hawaiian for 'until we meet again'*", says Lisa.

I am looking forward to my trip to the Valley this summer, and am going to make a proactive choice to pay some visits that will open new doors.

Reference

Pomares R. (2013) *Evolution of an Impact Portfolio: From Implementation to Results: Lessons from the Field* Sonen Capital and KL Felicitas Foundation October 2013.

Author: Christine Chow

Date: 21 March 2014

---

[1] Kleissner L (2013) Creating a Better Future Through Transparency Stanford Social Innovation Review 5 November 2013. Available at: http://www.ssireview.org/blog/entry/creating_a_better_future_through_transparency. Accessed 17 February 2014.

[2] Boulton C. (2012) SAP Buys Ariba to Combat Oracle, Cloud Vendors *The Wall Street Journal* 22 May 2012.

[3] The author of this blog teaches a cross-disciplinary MBA course related to responsible investment as an Adjunct Associate Professor at the Hong Kong University of Science and Technology. She also consults businesses on related areas and invests in socially minded private enterprises.

[4] FDIC stands for Federal Deposit Insurance Corporation in the US.

Be the first to like this.

Related

Will Social Impact Investing be the New Venture Capital? Inspiration from the "One country, Two systems" model
In "Corporate social responsibility"

The Enlightenment – From "Unknown Unknowns" to "Known Knowns"
In "Corporate social responsibility"

A Peep into the Asset Allocation Psychology of Major Asset Owners I
In "Asset allocatioin"

Leave a Reply

← Ways and Means of Social Innovation inspired by Xenophon, an Ancient Greek Philosopher