NPC

IN PURSUIT OF DEEP IMPACT AND MARKET-RATE RETURNS: KL FELICITAS FOUNDATION'S JOURNEY

Plum Lomax, Anoushka Kenley, Abigail Rotheroe
and Sarah Denselow

April 2018

KL Felicitas Foundation

sonen capital

ABRIDGED VERSION

ACKNOWLEDGMENTS

We are extremely grateful to all those who contributed their time, knowledge, and experience to this work. The report is very much a joint effort between NPC and Sonen Capital, and we particularly thank Raúl Pomares and Will Morgan from Sonen, along with the rest of their team, for their work on the financial performance data. We would like to thank Olivia Prentice from the Impact Management Project for her valuable advice and input, providing the voice of over 700 practitioners in the impact investing field. And we are grateful to Dario Parziale from Toniic for his work on the impact portfolio tool which we have incorporated within this report.

It is also important to mention the support and guidance we have received from our colleagues at NPC—particularly Dan Corry, Tris Lumley, Rosie McLeod, Satdeep Grewal and Katy Murray.

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ABOUT THIS REPORT

Impact investing—investment whose goals are simultaneously and measurably both social and financial, aiming for private return as well as public good—is now a very significant asset pool. By some estimates,* in 2016, over $10 trillion of global assets were using sustainable strategies—including environmental, social, and corporate governance (ESG) factors, impact and community investing, and sustainably themed investing.

Even more significant is the rate at which sustainable investment is growing—up 41% from 2014.* As interest from individuals, institutions, and foundations gathers pace, so too has the involvement of global blue chip financial institutions, normally best known for a relentless focus on the single bottom line of pure financial return: BlackRock, UBS, Goldman Sachs, Bain Capital, and TPG are just a few of the institutions that now offer impact investment solutions to their clients.

If we are to ensure that this growing pool of assets has measurable and relevant impact—and as a result is able to continue to attract further flows of capital—then it is vital, now more than ever, that we do our very best to assess the social and environmental outcomes of those investments and get a handle on the likely impact of that capital. These efforts need to be transparently measured and widely reported. Without such transparency, the risk is that impact falls short of expectations, investors are disappointed, and the field fails to grow, loses momentum, or worse. Fund managers such those illustrated in the report—that are setting the pace in demonstrating impact—are to be applauded.

Charly and Lisa Kleissner are an important part of this growing movement. Through their KL Felicitas Foundation (KLF), managed by Sonen Capital, they now have over 13 years of experience in investing their $10m of foundation assets for impact. From day one, transparency—both on the financial returns and the social and environmental impact achieved by their investments—has been paramount. Learning from, and sharing, their failures as well as their achievements matters to them deeply; their mission is to transform the global financial system so that, one day, *every* investment made by *any* individual or institution accounts for its social and environmental impact—positive *or* negative. They see their role as challengers of traditional investment approaches, encouraging and enabling investors by building evidence, creating powerful tools, and co-creating support networks.

This review of KLF's social impact, combined with eleven years of financial performance data of their portfolio, is just one element in achieving their mission. To respond to the increasing demand for open datasets on impact-investing portfolios, the Kleissners have devoted significant time and resources to the Toniic Institute's T100 project—a multi-year study aggregating 76 impact investment portfolios (representing over $3.5bn of assets)—so that others can understand the intentions, impact, and financial risk and returns of impact investors.

NPC is delighted to have been KLF's impact partner for almost three years. We work together, along with its investment manager, Sonen Capital, to understand the impact of KLF's investments. Our work has shed light on two fundamental lessons:

1. Despite challenges for investors and investees, it is possible to measure the outcomes of a wide spectrum of investments across different asset classes and impact categories.

2. Impact (of varying degrees) can be achieved while gaining a financial return (of varying levels).

Throughout this document, we use the word 'impact' in relatively broad terms. We understand that in its truest sense, impact refers to the long-term difference achieved for individuals, families, communities, or the planet. But this is often extremely hard to measure, and more so for enterprises in the impact investment space where data is patchy and of varying quality—where we often must make do with proxies for impact such as outputs or number of people reached.

* Global Sustainable Investment Alliance (2017) *2016 Global Sustainable Investment Review.*

This is an abridged version of NPC's work for KLF. For the full-length version, with all the tools and approaches used, case studies, references, appendices and glossary, visit www.thinkNPC.org/KLF.

KEY FINDINGS

The Kleissners' goal with their foundation has been twofold: to create a 100% impact portfolio, with the deepest possible impact while achieving market-rate returns for the portfolio as a whole; and to build the impact investment field.

They do this by: making transparent the contents and performance of their portfolio; and by providing financial and non-financial support to cultivate networks, catalyse the work of others in the field, and develop new organisations and programmes where gaps are identified.

This report is an update of our 2015 review of the KL Felicitas Foundation, *Investing for impact: Practical tools, lessons and results*. We have amended our approach—focusing on **financial returns** as well as **social impact**, building on Sonen Capital's publication of KLF's financial returns, *Evolution of an impact portfolio: From implementation to results*.

We have assessed a wider spectrum of investments including publicly listed investments, considered their contribution towards the UN's Sustainable Development Goals (SDGs), and engaged with investees on their data. We also updated our Impact Risk Classification framework* to align with the latest thinking in the impact-investing field, particularly drawing on the work of the Impact Management Project.†

> For reasons discussed in our previous report, we do not uniquely attribute impact to KLF; instead, in all cases, we say that KLF's investment, often as one among many investors, contributed towards the social impact outlined below.‡

Social impact

The majority of KLF's investments are delivering on their own impact goals. For example, there are now 20,000 households cooking with BioLite's clean, efficient HomeStove, compared to just over 4,000 in 2014. Companies supported by Core Innovation Capital I are serving 25.3 million financially under-served customers in the US—up from 19.1 million in 2014, saving them over $5bn. By the end of 2016, Lyme Forest Fund III had permanently protected over 117,000 acres of high conservation priority land—up from almost 62,000 acres in 2014. MicroVest's portfolio companies have over 300,000 active borrowers, compared to under 200,000 in 2014. And by 2016, Better Ventures, through its investees, had cumulatively enabled 3.2 million individuals to access essential services (such as energy and healthcare), compared to less than half a million in 2014. These are just a few examples of some of KLF's thematic investments.

The sustainable elements of the fund are achieving social and environmental impact. For example, the portfolio companies of Sonen Capital's Global Equity Strategy (public market investments selected for best-in-class ESG practices) demonstrate better social and environmental performance than the benchmark§: significantly lower (43%) water use and slightly lower (3%) water intensity than the benchmark, while the carbon emissions of the portfolio were more than five times lower than the benchmark.

Impact First investments can be higher risk. There are some investments within the portfolio that have not succeeded in becoming viable enterprises—despite very strong impact propositions. For example, SMV Wheels, a social enterprise providing a rent-to-own service for bicycle rickshaw drivers in India, is no longer in business due to a challenging business environment and inadequately skilled management. FAIM, which uses modern plant propagation techniques to improve the productivity of Rwandan farmers, struggled to achieve a sustainable business model. And Living Forest, an eco-development of forestland, lost its land in foreclosure. These failures are limited within the portfolio, mainly apply to Program-Related Investments (PRIs)or other Impact First investments, and reflect the risk-taking approach of KLF. Indeed, **we would suggest that an impact investor that does not have failures among their investments may not be reaching for hard-to-achieve impact.**

KLF's investees are contributing to 16 of the 17 UN Sustainable Development Goals (SDGs)—the exception being SDG 14: Life Below Water. The SDGs serve as a good proxy for looking at impact across a diverse impact portfolio and there is value in aggregating similar outcomes under their broad headings. This can bring rigour to analysing the data and seeing what can be compared. Table 1 summarises the key SDGs KLF investees are targeting and the ways in which they have contributed to the outcomes.

* See www.thinkNPC.org/IRC

† See www.impactmanagementproject.com

‡ See the box on page 17 of the full report

§ The MSCI All Country World Index (ACWI).

SUSTAINABLE DEVELOPMENT GOALS

Table 1: Key SDGs to which KLF investees have contributed[*]

1 NO POVERTY	• 37.3 million people with access to basic services • Over 26 million people benefitting from cost savings generated • $5.2bn in savings generated • 15,700 mortgages or loans for affordable housing	7 AFFORDABLE AND CLEAN ENERGY	• 6 million customers with affordable, clean energy products • 17.8 million metric tonnes of greenhouse gas (GHG) emissions, including CO2, avoided or offset—**equivalent to that produced annually by 3.8 million cars**[§] • 2.7 million MWh renewable energy generated—**equivalent to average annual energy use of 685,000 U.K. households**[**]
2 ZERO HUNGER	• $33.7m loans disbursed to agri-businesses • 665,000 smallholder farmers reached with loans • 397,500 hectares of land under sustainable management or cultivation—**equivalent to almost one million football pitches** • Over 26,000 tons of organic or fair trade food produced—**equivalent to 48 million meals**[†]	8 DECENT WORK AND ECONOMIC GROWTH	• 1,300 small and growing businesses received loans and 86 microfinance institutions financed • $107m disbursed or invested in small and growing businesses (SGBs) with environmental and social impact • 65,000 jobs created by commercial loans and stakeholders supported directly with income
3 GOOD HEALTH AND WELL-BEING	• Over 1.3 million people with access to healthcare and healthcare support • 115,000 people breathing cleaner air	15 LIFE ON LAND	• 21,300 acres of land permanently protected—**equivalent to over 20,000 football pitches** • 600,000 acres of land restored or under sustainable management—**equivalent to the size of Mauritius** • 472 miles of stream protected or restored—**equivalent to more than twice the length of the River Thames**
6 CLEAN WATER AND SANITATION	• 633 million litres of water purified in 2016—**equivalent to daily basic requirements of 1.7 million households**[‡] • 1,134 active toilets with over 53,436 daily uses • 2,469 metric tons of waste safely removed and treated • 69,000 acres of freshwater bodies and wetlands present on protected and sustainably managed land		

* Several of the KLF investees contribute to SDGs beyond the seven listed above. The Social Stock Exchange and Impact Assets, for example, contribute to SDG 17 (Partnerships for the Goals) by mobilising capital towards impact investments, and Purpose Global runs campaigns on several issues, such as gun violence (SDG 16) and climate change (SDG 13).

† United States Department of Agriculture defines a meal as 1.2lbs of food.

‡ World Health Organisation specifies that between 50 and 100 litres of water per person per day are required to meet basic needs.

§ www.epa.gov/greenvehicles/greenhouse-gas-emissions-typical-passenger-vehicle

** World Energy Council (2014) Energy Efficiency Indicators.

There has been an improvement in the impact practice of the portfolio since the 2015 analysis. Most investees (63%) are now classified in the top two stages of impact practice compared to less than half of investees in 2015. In part, this reflects the evolution of our Impact Risk Classification (IRC) framework (discussed further on pages 10-11 of this abridged report) where we have placed greater emphasis on commitment to impact (through principles and purpose), and acknowledgement that outputs can be a demonstration of impact so long as evidence exists that activities generate impact. However, it also reflects a growing focus on impact reporting within the impact investing sector, as borne out by our interviews with investees.

Failure to achieve appropriate levels of impact should be grounds for divestment or re-categorisation. There are two investments (out of 35 analysed using the IRC, representing less than 2% of the portfolio's value) that are not sufficiently pursuing social or environmental impact goals to be categorised as 'thematic' investments. KLF should choose to either re-categorize them as 'sustainable' or divest from these holdings.

Investor contribution

The Kleissners contribute more than just investment capital to their investees: they create additional financial leverage enabling enterprises and funds to attract other investors, provide mentoring and strategic advice, and are advocates for their investees, raising their profile. Through an online survey of KLF investees, (to which 93% responded), we found the following:

- Nearly **three in four respondents felt that KLF enabled them to attract additional funding** and nearly **half said KLF enabled them to increase revenue generation.** In a few cases there was some disappointment that KLF's involvement did not lead to as much new funding as expected.
- **Half the respondents felt KLF's advisory role had a positive impact on their organisation**—most often through strategic planning advice, support with impact measurement, and mentoring and coaching. A similar proportion also saw the positive impact of KLF's advocacy, particularly noting how KLF had raised their profile with other investors.
- **Several organisations referred to the credibility or 'stamp of approval' gained from having KLF as an investor**, and the two most common words to describe KLF were 'supportive' and 'leaders'.

Financial performance

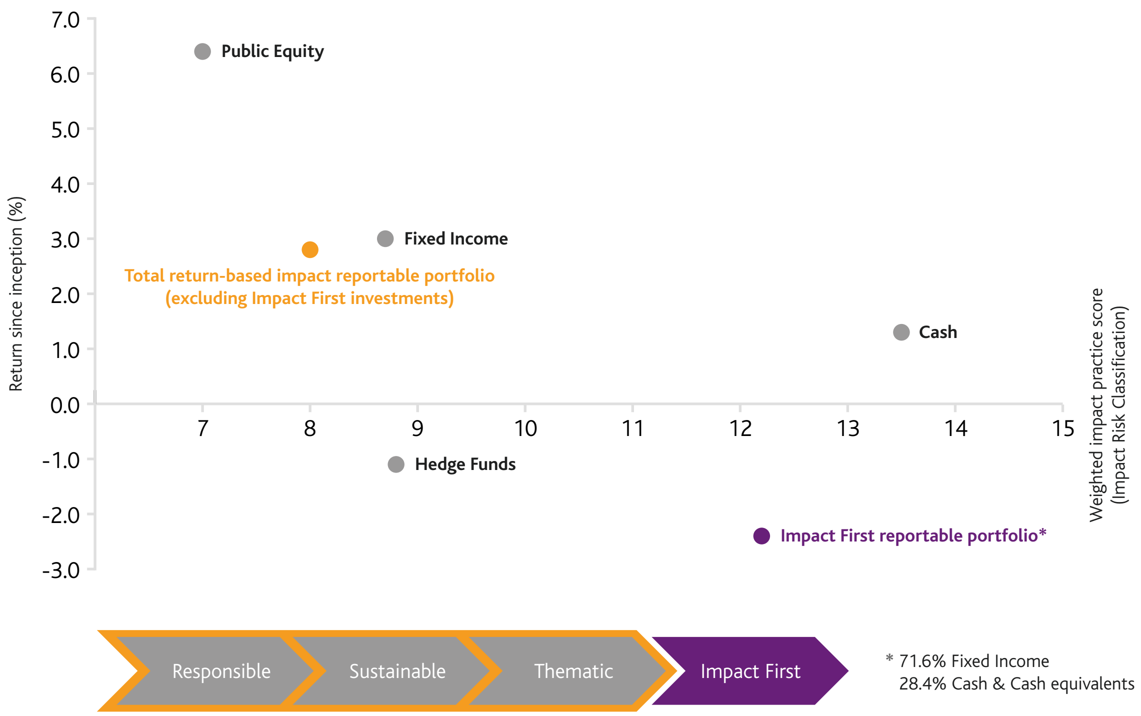
The Kleissners promote transparency across every aspect of the Foundation and regularly publish the financial performance of their portfolio. On a weighted total portfolio basis net of performance fees, the KLF **total return-based impact reportable portfolio** (ie, all investments with reportable performance, excluding Impact First investments) **has returned 2.75% pa since inception, outperforming the benchmark**. The **Impact First reportable portfolio** (made up of KLF's Program-Related Investments (PRIs), often accompanied by a grant) **has returned -2.5% pa since inception**.The aim to date of KLF's Impact First investments has been to achieve 0% returns, although they haven't quite achieved that goal due to their intentional risk-taking with the PRIs, prioritising social impact over financial return with this portion of their portfolio.

The performance data (shown on pages 58–60 of the full-length report) is at the total portfolio level and by asset class—including cash equivalents, global fixed income, global public equity, hedge funds, and the Impact First reportable portfolio (constituting 71% of the portfolio).

Specifically, this report details the performance of the Return-Based Impact Portfolio created by KLF, and more specifically those investments with so-called 'reportable' performance (ie, performance that can be marked to market on a regular basis). Program-Related Investments or other Impact First (below-market rate) investment returns are also explored and reflected. For purposes of accuracy and reliability, impact private equity and real assets investments (due to their immature stage in the investment lifecycle) are not included in the return calculations.

There is broadly an inverse relationship between financial return and impact practice. Figure 1 shows the market-weighted average Impact Risk Classification (IRC) score plotted against the financial performance of the asset classes since inception. It illustrates that Impact First investments have a higher average IRC score (ie, more advanced impact practice) and a lower financial return than the rest of the portfolio. See pages 10–11 of this abridged report for more on the IRC, and page 14 of the full-length report for more on the Responsible, Sustainable, Thematic and Impact First categories.

Figure 1: The relationship between Impact Risk Classification and financial return



* 71.6% Fixed Income
28.4% Cash & Cash equivalents

Field building

In addition to direct support for investees, the Kleissners devote significant time, energy, and resources to building the impact investment field as part of their theory of change. They focus specifically on growing the number of effective social entrepreneurs, impact investing intermediaries, and investors. As with the investment portfolio, we have not attributed KLF's impact to specific outcomes, but have identified that KLF has contributed towards:

- **creating and supporting four accelerators** to build the capacity and impact of social enterprises, collectively reaching 1,105 social entrepreneurs, with $239m of capital raised by these enterprises attributable to these accelerators;
- **creating and supporting impact investing intermediaries:** $484m has been raised through first-time impact investing funds that KLF has been involved with from the outset, which between them have 378 investors; a further $767m of assets are jointly managed for 973 clients by impact investing intermediaries supported by KLF;
- **creating and supporting investor networks**—specifically the Toniic Institute, which now has over 160 members representing almost 400 impact investors from 22 countries; there are now over 85 members representing 130 impact investors in a subgroup of Toniic, the 100% Impact Network; between them, members of this subgroup have committed 100% of their combined $5bn of assets to positive social or environmental impact; and
- **developing tools to help current and potential impact investors**, such as the Toniic's T100 project, publishing the aggregated portfolios of over 75 of the 100% Impact Network members.

Insights from the investees

Through interviewing 17 of KLF's investees about their approach to impact measurement and its challenges, we found the following:

There is a growing focus on impact measurement and management, being driven more by organisations themselves rather than investors. This is particularly the case when business metrics and impact metrics are so closely aligned and where tracking impact data is central to understanding and improving revenue generation. However, more investors are demanding to see qualitative data, such as case studies, in order to better understand impact.

The emphasis remains on tracking and reporting outputs rather than outcomes or impact. But output data, in some cases, can be sufficient if there is clear evidence of the link between outputs and the positive impact on people's lives and environments.

Several organisations are digging deeper beneath the data—for example, looking at user engagement, the profile of users (such as their household income), or feedback on the quality of goods and services provided, rather than just counting units sold.

New initiatives and technology are helping both basic measurement and deeper quality assessments. Acumen's Lean Data approach was highlighted by several investees as moving the field forward.

Lack of time and lack of resources are the most significant challenges, along with getting reliable data from investees (particularly small or early-stage). This is resulting in funds becoming more selective about the metrics they report on or requests from investees—focusing on those critical to the investment thesis.

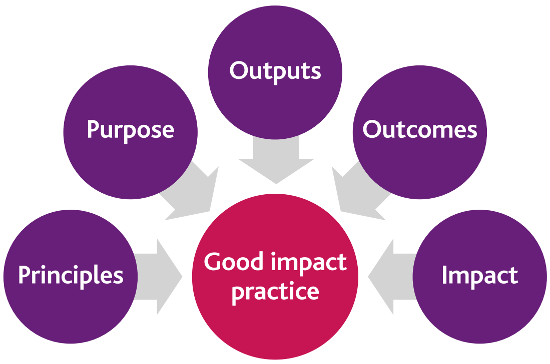
SDGs are seen as a useful framework by most investees, whereas GIIN's IRIS catalogue of impact metrics (iris.thegiin.org) were regarded by some as less relevant (and in some cases not even known about). There were mixed views about other standards, such as GIIRS ratings and B Corp certification—some organisations have benefited from the rating process, while others are concerned they are too unwieldy, not relevant, or come with the risk of constraining them to a particular direction.

NPC'S IMPACT RISK CLASSIFICATION (IRC)

What is the IRC?

The IRC is a systematic framework that enables comparison of impact practice across the impact spectrum. It encourages organisations to learn and improve—by not only setting out standards of impact measurement and reporting but also encouraging impact reporting transparency. From NPC's experience of impact measurement over the past fifteen years, we argue that a developed, intentional impact measurement process is likely to be associated with greater focus on impact, and by extension, an increased probability of impact. In short, what gets measured, gets managed.

Figure 6: NPC's Impact Risk Classification



The IRC assesses how robust an organisation's evidence of impact is, and how much *thought* and *focus* the organisation has given to how it (expects to) generate impact. Good impact practice is rated on five measures—principles, purpose, outputs, outcomes and impact.

Who benefits from using the IRC?

Investors can use the IRC to compare impact practice between investees and encourage improvement and greater transparency. The IRC on its own is not a due diligence tool—investors will need to assess other risk factors, alongside impact risk, such as leadership risk, execution risk, and external factors—but the IRC can be included as part of that pre-investment process. It can also help guide impact management plans, that is, setting goals and KPIs, and collecting, analysing, and learning from data.

Investees (funds or enterprises) can use the IRC as a framework for improvement and to assess how close they are to best impact practice.

Why is the IRC useful?

The IRC provides a framework for judging the relative impact practice of different enterprises or funds. It encourages transparent and consistent reporting of impact data to enable meaningful analysis of impact reports. It can be applied across all types of investment (fund or enterprise), sectors, and asset classes from ESG funds to thematic, high impact direct investments.

The IRC is designed to be most useful when comparing a range of investments with limited impact data. It considers both the theory underpinning practice and the evidence that activities lead to impact, which means it can apply to early-stage organisations yet to gather data.

The IRC incorporates key aspects of other frameworks, such as B Corp status, Nesta standards of evidence, IRIS metrics, GIIRs ratings, and Sonen Capital's AIMS framework (see the Glossary of the full report for more details).

How does it work?

The IRC is light touch and practical. The assessment can be based on public information (such as a website or annual reports) combined with investor updates or other impact data where available, and can be completed in one to two hours per investee. There are four steps.

Step 1: Score each component of impact practice from 0–3:

- **principles**—evidence that impact is integral to an organisation and drives decision-making;
- **purpose**—evidence of an impact thesis, theory of change, or logic model, and understanding of who experiences outcomes;
- **outputs**—quality, consistency, and relevance of data showing the scale of goods or services delivered and people reached;
- **outcomes**—quality, consistency, and relevance of data (quantitative and qualitative) showing whether change had taken place as a result of the goods or services; this can include existing data or evidence that demonstrates the likelihood that outcomes flow from activities; and
- **impact**—evidence of thinking about, and data showing, additionality of the outcome over what might have happened anyway, however limited this is by the absence of a true control group.

Step 2: Calculate overall impact practice score

Add up scores from each of the five components. The maximum score will be 15.

Step 3: Identify Impact Risk Classification

Classify each investment into one of four stages based on impact practice score.

Stage 1:	Stage 2:	Stage 3:	Stage 4:
0–6	7–9	10–12	13–15

The higher the stage, the more advanced the impact practice, and therefore the greater chance of the organisation achieving its impact goals.

Step 4: Map scores and stages across the portfolio

Compare individual scores and averages (that is, by asset class) across the portfolio.

The IRC provides an understanding of the impact risk—the risk of the intended impact not being achieved, although other risk factors, such as the external environment, governance, and operational capacity also matter. It is then up to investors to decide whether that intended impact is compatible with their values.

We have put together a short guide on the IRC, with guidance on how to use it, at www.thinkNPC.org/IRC.

As well as the IRC, we also used the UN Sustainable Development Goals (SDGs) and Impact Management Project frameworks to assess the impact of KLF's investees (as shown in the case studies overleaf). See pages 16–22 of the full report for details.

BIOLITE

About the fund			
Year founded:	2010	**Target geography:**	Global
Location of fund:	USA	**Capital committed:**	Private

About the KLF investment			
Date of initial investment:	2011	**Value of KLF investment:**	$89,737
Asset class:	Private equity	**Impact type:**	Impact First

Avoid harm | Benefit people and the planet | Contribute to solutions

WHO

WELL SERVED — UNDER-SERVED

Mix of investments

Around three billion people worldwide cook meals on smoky, open wood fires—the majority of them with little or no access to electricity. Open fire cooking causes over four million deaths per year through respiratory illness. BioLite's HomeStove and other energy solutions benefit rural households in off-grid communities in India and sub-Saharan Africa. BioLite also benefits the planet through its energy-efficient cooking and lighting products targeted at the recreational market.

HOW MUCH

MARGINAL — DEEP EFFECT

FOR FEW — FOR MANY

20,000 HomeStove users, plus the planet

SHORT-TERM — LONG-TERM

Monitors usage and feedback

SLOWLY — QUICKLY

Immediate benefits

CONTRIBUTION

LIKELY WORSE — LIKELY BETTER

WHAT

IMPORTANT NEGATIVE EFFECT — IMPORTANT POSITIVE EFFECT

Health, social, environmental and financial benefits

BioLite produces clean, efficient, affordable cookstoves with electronics charging capability and lighting, thereby reducing negative health impacts and need for fuel, increasing off-grid energy access and improving financial well-being for its customers. It operates a parallel innovation model, supporting the emerging markets business until it is commercially self-sufficient with sales of cooking, charging and lighting products from the recreation market in the developed world, which encourage a switch from fossil fuels.

RISK

Impact Risk Classification:

Stage 4

Principles	Purpose	Outputs	Outcomes	Impact
✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓

Clear impact report, effort to assess customer feedback (quality and usage of products). Creating an additional effect in emerging markets—new clean and affordable energy products. Strong learning ethos.

KLF investor contribution: high		
Signal that impact matters	✓	As with all KLF investees, investment aligns with values.
Engage actively	✓	Introduced BioLite to other investors and enabled BioLite to raise additional capital.
Grow new or undersupplied capital markets	✓	KLF was first investor leading the way for initial investment round in innovative business model.
Provide flexible capital	✓	As an Impact First investment, KLF accepts disproportionate risk-adjusted financial return to generate a certain kind of impact.

Impact achieved: contribution to SDGs					
SDG	**Relevant impact target***	**Relevant impact metrics**	**2014**	**2015**	**2016**
3 GOOD HEALTH AND WELL-BEING	UN 3.9 Reduce the number of deaths and illnesses from hazardous chemicals, pollution and contamination	People breathing clean air (cumulative)	20,975	41,085	100,000
7 AFFORDABLE AND CLEAN ENERGY	UN 7.1 Increase access to affordable, reliable and modern energy services UN 7.2 Increase the share of renewable energy in the global energy mix	Households cooking with HomeStove (cumulative)	4,195	8,217	20,000
		Watt-hours generated by HomeStove (cumulative)	7,755,425	27,517,028	69,314,508
		Tons of CO_2e offset by HomeStove (since 2013)	8,316	30,583	75,253

Social or environmental impact achieved:

- 20,000 households are now cooking with a HomeStove (which uses 50% less fuel than an open fire) and 95% of customers are still using the HomeStove after three years.
- Over 40 million watt-hours of electricity were generated by the HomeStove in 2016. Through its clean energy products, BioLite has generated over 100 million watt-hours since beginning operations in emerging markets.
- The HomeStove reduces particle matter and carbon emissions by up to 90%. As a result, over 100,000 people are breathing cleaner air.
- An estimated $270 per year is saved per family from reduced expenditure on fuel, lighting, and phone charging.
- Since 2013, BioLite's HomeStoves have offset over 75,000 tons of CO_2e by reducing the amount of greenhouse gas emissions that would otherwise have come from a household's smoky open fire. These savings are independently verified by the Gold Standard Foundation and CDM, the leading carbon accreditation bodies. BioLite offsets all the carbon it produces as an organisation and then sells surplus carbon credits, re-investing revenue generated into its emerging markets' work.

Case study

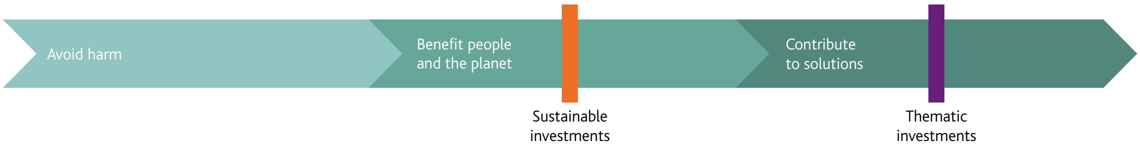
Mary, based in a village near Kampala, Uganda, saw her neighbour cooking on a BioLite HomeStove and jumped at the chance to explore an alternative cooking method. The smoke from her open fire had made cooking a painful task, it caused her eyes and nose to sting and she worried about her children's health as they were constantly coughing and sneezing. One year later, Mary, now a HomeStove owner, finds cooking comfortable. She can boil water for morning tea without causing her children to wake up coughing. Her family even offers to help her cook meals and after eating, they enjoy plugging an LED light into the HomeStove and sharing stories from the day. Mary's favourite part about becoming a HomeStove owner is the savings. Her old cooking fire required excessive amounts of firewood but her HomeStove is efficient and uses 50% less fuel. She purchases less wood and is saving 50,000 UGX ($15) each month. That extra money is going directly towards her children's school fees.

* Targets adapted from UN SDG Global Indicator Framework, as developed by the Inter-Agency and Expert Group (IAEG-SDGs). Metrics however tend to be investee specific, rather than the UN SDG indicators.

SONEN CAPITAL GLOBAL FIXED INCOME STRATEGY

About the fund			
Year founded:	2011	**Target geography:**	Global
Location of fund:	USA	**Capital committed:**	$111.6m

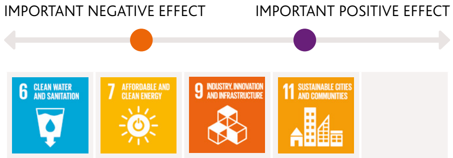
About the KLF investment			
Date of initial investment:	2011	**Value of KLF investment:**	$1,732,221
Asset class:	Fixed income	**Impact type:**	Sustainable ● Thematic ●



WHO

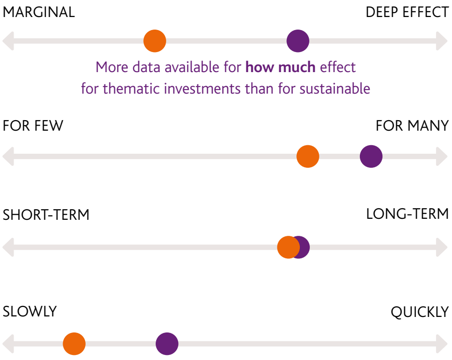
Sonen believes that public market investing can help address large-scale global challenges and can contribute to specific positive global social and environmental returns. Exposure is to fixed income investments that align with specific sustainability criteria or thematic impact objectives. Sustainable investments are measured by how they operate and manage related environmental, social or governance risks and opportunities. Thematic investments are evaluated on what organisations do, for example goods and services that directly address specific social or environmental needs.

WHAT



Sonen invests in managers that use advanced Environmental, Social and Governance (ESG) risk and opportunity analysis to enhance their origination and evaluation of underlying global bonds. Sustainable investments involve an evaluation of ESG factors and look for companies that display ESG leadership in business practices. Thematic investments focus on climate change adaptation and mitigation, such as infrastructure (low-carbon transport), renewable energy, energy efficiency and waste management, specifically through exposure to Supranational and Corporate Green Bonds.

HOW MUCH



CONTRIBUTION

RISK

Impact Risk Classification:

Stage 2

Principles	Purpose	Outputs	Outcomes	Impact
✓✓✓	✓✓	✓		✓

Sonen produce an annual impact report which maps the portfolio to SDGs. Thematic holdings have a more direct and tangible connection with impact than sustainable although both struggle to evidence outcomes due to the nature of the investment.

KLF investor contribution: medium		
Signal that impact matters	✓	As with all KLF investees, investment aligns with values.
Engage actively		KLF provided some strategic input during Sonen's early days.
Grow new or undersupplied capital markets	✓	KLF invested in Sonen funds, but also directly invested in the firm which helped Sonen to grow and support other investors with similar values and requirements.
Provide flexible capital		

Impact achieved: contribution to SDGs

SDG	Relevant impact target*	Relevant impact metrics	
6 CLEAN WATER AND SANITATION	UN 6.3 Improve the quality of water by reducing pollution and reducing untreated wastewater	Proportion of wastewater safely treated	Fund invested in the DC Water and Sewer Municipal Bond. One of DC Water's facilities can treat more than 380 million gallons of sewage per day for more than two million Washington metro area customers.
7 AFFORDABLE AND CLEAN ENERGY	UN 7.1 Increase access to affordable, reliable and modern energy services	Renewable energy share in total final energy consumption	Fund invested in German Development Bank KfW's green bonds—issued to finance renewable energy projects. KfW is expected to save the equivalent of 2.2 million tons of GHG emissions annually through projects financed.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	UN 9.1 Improve quality, reliable, sustainable and resilient infrastructure	CO^2 emissions avoided Number of people with access to better transport	Fund invested in World Bank Green Bonds, issued to upgrade and green Rio de Janeiro's urban rail system. It aims to reduce 34,000 tons of CO^2 and serve an additional 70,200 passengers per day by project end.
11 SUSTAINABLE CITIES AND COMMUNITIES	UN 11.6 Reduce the adverse environmental impacts of cities by paying attention to air quality and waste management	Proportion of urban sold waste regularly collected	Fund invested in NYC Resource Corporation's bond which supports the installation of machinery at a solid waste disposal facility that processes 35% of all waste paper generated in New York.

Social or environmental impact achieved:

- The strategy made specific contributions to six of the UN Sustainable Development Goals, including health, water, energy, infrastructure, sustainable cities, and responsible consumption/production (four of which are illustrated above).
- In 2016, 55% of Sonen's fixed income strategy included sustainable holdings across sovereign, corporate and municipal bonds. Municipal bond holdings highlight leadership in sustainable urban planning, especially around wastewater recapture, recycling and reuse across the US
- About 40% of Sonen's fixed income strategy provides thematic exposures through Agency Backed Securities (ABS) such as those issued by Fannie Mae, municipal Bonds, corporate Green Bonds and supranational Bonds (such as World Bank and the European Investment Bank bonds). Within thematic investment, the top five sectors are community development (36%), alternative energy technology (10%), energy efficiency (9%), housing (9%), and clean power generation (7%).

Case study: Asian Development Bank, Indian Solar Transmission Sector Project

The bond funds energy transmission and distribution in India. With its massive and power-hungry economy, India has been experiencing power deficits. This lack of a reliable energy supply constrains the country's growth potential as well as making it difficult for the country's population to access reliable electricity. In order to meet growing demand, the government has set ambitious renewable energy goals—including the development of largescale solar parks.

Case study: Georgia Power Green Bonds

Georgia Power is an electric utility that services over two million residential and 300,000 commercial customers in the state of Georgia. The utility is involved in generation, purchase, transmission, distribution and sale of electric energy. Projects for the corporate Green Bonds include a collaborative agreement with the US military to build, own and operate solar installations that align with the military's goals for energy reduction and independence. Collectively, installations are planned to generate a total of 166MW of capacity across five military bases in Georgia. The 30MW facility at Fort Benning was operational as of July 2016. The 200 acre site uses over 134,000 PV panels at or below grid parity, demonstrating solar as a clean, reliable and affordable source of energy.

* Targets adapted from UN SDG **Global Indicator Framework**, as developed by the Inter-Agency and Expert Group (IAEG-SDGs). Metrics however tend to be investee specific, rather than the UN SDG indicators.

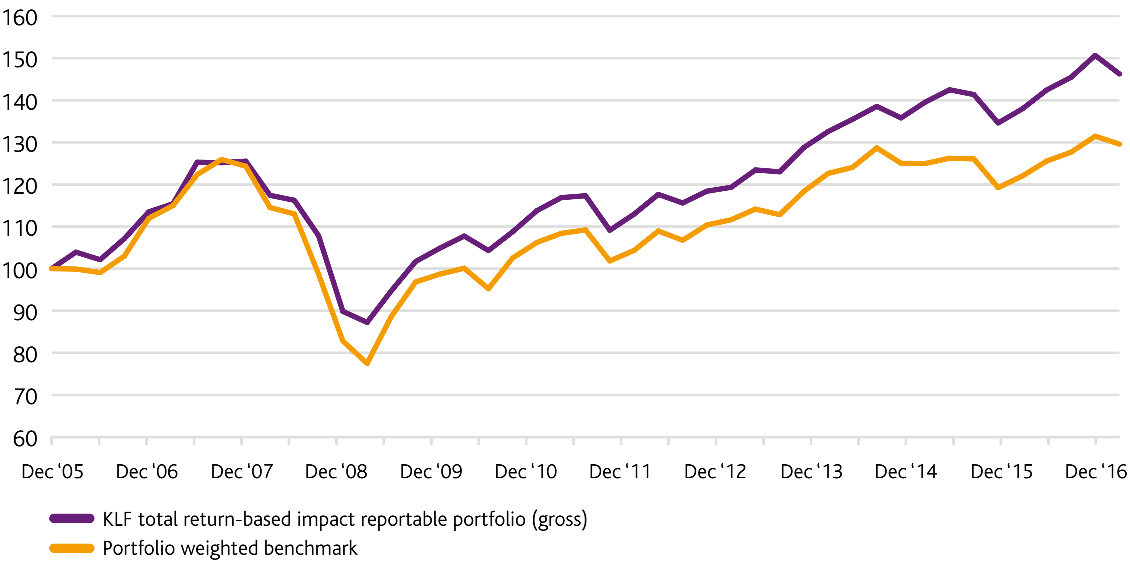
FINANCIAL PERFORMANCE OF THE PORTFOLIO

In 2004, the KL Felicitas Foundation took a decision to move towards a 100% impact portfolio. Since then the portfolio has divested its non-impact assets as impact investment opportunities increased and now almost 100% of the portfolio is invested for impact.

Over the past five years the portfolio has also reduced its US investments in public markets in favour of global strategies which can provide a broader set of investment opportunities. The financial performance figures for the portfolio reflect this journey. KLF is one of very few impact investors that has openly published performance figures (for more information, see Sonen Capital's *Evolution of an impact portfolio: From implementation to results* and the subsequent 2015 performance update).

The chart below shows that the total KLF Return-Based investments were able to compete with, and outperform, widely accepted financial benchmarks. Specifically, this chart details the performance of the Return-Based Impact Portfolio created by KLF, and more specifically those investments with so-called 'reportable' performance (ie, performance that can be marked to market on a regular basis). These investments include the investments in the cash, fixed income, public equity and hedge fund asset classes but excludes the Impact First reportable portfolio (KLF's Program-Related Investments—PRIs). For purposes of accuracy and reliability, impact private equity and real assets investments (due to their immature stage in the investment lifecycle) are not included in the return calculations. For purposes of comparability, results are reported net of all transaction costs and underlying investment management fees. Net returns include consulting fees paid by KLF for investment advisory services. Of the 45 investments in the portfolio, 17 are included in the financial performance figures—and these 17 investments represent approximately 71% of the Foundation's total assets (indicated by an asterisk in the table of investments in Appendix 1 on pages 74–77 of the full-length report).

Figure 20: KLF total return-based impact reportable performance (gross) versus portfolio weighted benchmark,* since inception (January 2006)



* The portfolio-weighted benchmark is a blend of the 3-Month Treasury Bill, Barclays Global Aggregate Index, MSCI ACWI IMI Index, and HFRI Fund of Funds Index. The blend is designed to approximate the exposures found in the reportable portion of KLF's impact portfolio. Each component of the benchmark is weighted in exactly the same proportion as the investments in the portfolio and is re-weighted on a quarterly basis to account for changes in investment sizes. For illustrative purposes, the graph above shows the growth of an investment of $100 over the designated period (but is based on actual returns for the actual amounts invested).

Figure 21: KLF total return-based impact reportable performance (gross) versus portfolio weighted benchmark since inception (1/2006) as of 31 December 2016*

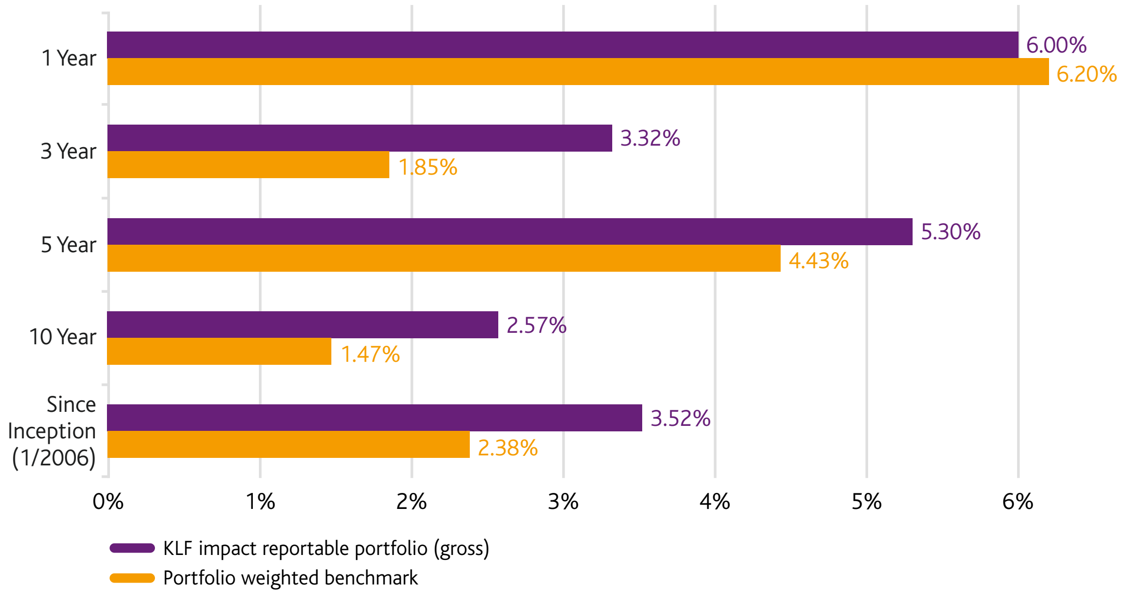


Table 7: KLF total return-based impact reportable performance (gross) versus portfolio weighted benchmark since inception (1/2006) as of 31 December 2016*

	1 Year	3 Year	5 Year	10 Year	Since Inception	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
KLF Impact Reportable Portfolio	6.00%	3.32%	5.30%	2.57%	3.52%	-1.16%	5.27%	11.11%	5.65%	-0.74%	8.51%	16.71%	-28.43%	10.63%	13.47%
Portfolio Weighted Benchmark	6.20%	1.85%	4.43%	1.47%	2.38%	-2.37%	1.91%	9.86%	6.99%	-1.79%	7.62%	19.20%	-33.40%	11.08%	11.93%

* (1) Performance has been calculated on a time-weighted basis and periods greater than one year have been annualized.
(2) Gross performance is shown after the deduction of transaction costs, underlying investment management fees paid to the managers of applicable funds, and miscellaneous portfolio expenses. Certain performance results presented in the table above precede Sonen Capital's formation in 2011. Returns include reinvestment of dividends and distributions.
(3) The above asset classes consist of cash, fixed income, public equity and hedge funds.
(4) The portfolio-weighted benchmark is a blend of the 3-Month Treasury Bill, Barclays Global Aggregate Index, MSCI ACWI IMI Index, and HFRI Fund of Funds Index. The blend is designed to approximate the exposures found in the reportable portion of KLF's impact portfolio. Each component of the benchmark is weighted in exactly the same proportion as the investments in the portfolio, and is re-weighted on a quarterly basis to account for changes in investment sizes.

Table 8 shows the net financial performance of the portfolio since its inception in 2006 and for one, three, five, ten years and since inception on January 2006. Net of performance fees, the Total Return-Based Impact Reportable Portfolio has returned 2.75% annually since inception, exceeding the benchmark of 2.38% pa.

The table also includes the returns of KLF's Impact First Reportable Portfolio (consisting of KLF's PRIs).
First Reportable Portfolio (consisting of KLF's PRIs).
See the table on pages 74–77 of the full-length report for a list of all investments included in these performance figures..

Table 8: Financial performance of KLF Return-Based Impact Reportable Portfolio (net of all management fees) vs benchmark, as of 31 December 2016[*]

Asset Class	1 Year	3 Year	5 Year	10 Year	Since Inception
KLF Return-Based Impact Cash Equivalents[†] (since 5/2008)	1.85%	2.21%	1.60%	1.32%	1.32%
3-Month Treasury Bill	0.25%	0.11%	0.10%	0.79%	1.16%
KLF Return-Based Impact Global Fixed Income[‡] (since 1/2006)	1.94%	0.12%	0.18%	3.42%	3.05%
Bloomberg Barclays Global Aggregate	2.09%	-0.18%	0.21%	3.29%	3.59%
KLF Return-Based Impact Global Public Equity[§] (since 10/2007)	9.54%	5.22%	10.81%	5.66%	6.41%
MSCI ACWI IMI	8.37%	3.25%	9.62%	3.84%	5.29%
KLF Return-Based Impact Hedge Funds[**] (since 12/2006)	2.95%	-10.39%	-3.22%	-2.48%	-1.01%
HFRI Fund of Funds	0.44%	1.17%	3.41%	1.31%	2.10%
KLF Total Return-Based Impact Reportable Portfolio[††] (since 1/2006)	5.22%	2.55%	4.52%	1.81%	2.75%
Portfolio Weighted Benchmark	6.20%	1.85%	4.43%	1.47%	2.38%
KLF Impact First Reportable Portfolio[‡‡]	4.51%	-8.50%	-7.31%	-3.06%	-2.46%
CPI	2.23%	1.19%	1.37%	1.82%	1.88%

* Performance has been calculated on a time-weighted basis and periods greater than one year have been annualized. Certain performance results presented in the table above precede Sonen Capital's formation in 2011. The Foundation's asset allocation in its public market portfolio since the end of 2012 has had a greater orientation to global strategies. This change is reflected by the elimination of allocations to KLF's previous US public equity and US fixed income investments. The performance shown for the Foundation's global equity and global fixed income performance incorporate the performance of previous allocations to US equites and US fixed income.

† KLF Return-Based Impact Cash Equivalents performance is shown net of all fees, including Sonen Capital's cash strategy management fee of 25 basis points.

‡ KLF Return-Based Impact Global Fixed Income performance are shown net of all fees, which includes Sonen Capital's fixed income management fee of 50 basis points.

§ KLF Return-Based Impact Global Public Equity Performance is shown net of all fees, which includes Sonen Capital's public equity management fee of 50 basis points. Performance is shown up to 30 November 2012, after which KLF was not invested in Return-Based Impact Global Public Equity. The Foundation reinvested in the asset class in January 2013.

** KLF Return-Based Impact Hedge Fund performance is shown net of all fees, which includes Sonen Capital's hedge fund management fee of 75 basis points prior to 2016. For 2016 the fee was 1%.

†† KLF Total Return-Based Impact Reportable Portfolio performance is shown net of all fees, which includes Sonen Capital's managed account fee of 75 basis points.

‡‡ KLF Impact First Reportable Portfolio performance is shown net of all fees, which includes Sonen Capital's impact first management fee of 50 basis points.

For additional disclosure, see Appendix 3.

LOOKING FORWARD: KLF 3.0

The Kleissners have gone through the process of designing and implementing a 100% impact portfolio with a ten-year track record of competitive financial returns as well as impact results. In parallel with this process, through their KL Felicitas Foundation the Kleissners have been leveraging their capital and inspiring others to follow suit—as demonstrated in Toniic's T100 project (www.toniic.com/t100).

Demonstrating competitive financial returns, or what the industry calls risk-adjusted market-rate returns, requires that the average financial return of the investments in each asset class meets or exceeds the industry benchmark in each asset class. It is not surprising that these benchmarks are comprised of investments that the Kleissners could never invest in, not only because of the lack of intentional and measured positive impact but also because of their substantial negative impacts.

KLF is entering a new phase in its impact investing journey. From its initial focus on avoiding harm—detoxifying the portfolio from negative investments—it is now engaged in investing in funds and enterprises both benefitting people and the planet and contributing to solutions. The Kleissners have now decided to dedicate the next ten years of their Foundation to designing and implementing a 100% thematic impact portfolio, driven by the desire to contribute to the major themes of **climate change mitigation** and **social justice. They refer to this effort as KLF 3.0.**

By defining a floor of 0% financial return, they are freeing themselves from the shackles of inadequate and irrelevant financial benchmarks, and will offer KLF 3.0 as a modern benchmark for a 100% impact portfolio for these themes. The impact risk they are willing to take will inform the investment opportunities in various asset classes, not the other way around.

The Kleissners are not alone in that effort. A dozen 100%ers are taking a similar approach already, and they anticipate more portfolios to follow this approach, particularly Foundation portfolios. This approach flips Modern Portfolio Theory on its head, and puts impact squarely at the centre of portfolio design and implementation.

The Kleissners are committed to sharing their experience transparently with the impact eco-system as they embark on this next leg of their impact journey.

This is an abridged version of NPC's work for KLF. For the full-length version, with all the tools and approaches used, case studies, references, appendices and glossary, visit www.thinkNPC.org/KLF.

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

New Philanthropy Capital
185 Park Street, London SE1 9BL
020 7620 4850
info@thinkNPC.org

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www.thinkNPC.org