

# KL Felicitas Foundation

## CASE STUDY

Charly and Lisa Kleissner founded the KL Felicitas Foundation in the year 2000 in Los Gatos, CA. After creating successful careers for themselves in Silicon Valley, as a technology executive and an architect, Charly and Lisa embarked on second careers in philanthropy. Creating a private foundation was an obvious choice for the Kleissners—it allowed them to direct not only their grant funding, but also the foundation’s investment strategy.

The Kleissners are interested in seeing how impactful a small family foundation can be by using modern philanthropic tools and strategies. For instance, rather than only paying out the minimum legal requirement of five percent of assets, the Kleissners are working to allocate the entire investment portfolio to holdings consistent with their values and the purpose of the foundation. The foundation’s primary interest is to address poverty through its support of global early-stage social entrepreneurs and social enterprises, with a focus on rural communities.

Apart from maximizing its own impact through strategic investing and grant making in social enterprises, the KL Felicitas Foundation (KLF) is an early adopter of emerging standards measuring the impact of these investments. Because of its close relationships with the Rockefeller Foundation and the Global Impact Investing Network (GIIN), starting in 2009 KLF began applying the Impact Reporting and Investment Standards (IRIS) across its investment portfolios, and is using IRIS performance indicators as a key evaluation tool to identify new grants and investments.

IRIS is a common language for reporting the social, environmental, and financial performance of investments. The IRIS standards are developed by industry experts, and are aligned with established standards where they exist, such as in microfinance.

The Kleissners use impact measuring and reporting to: illustrate the social, environmental, and financial success of the foundation; nurture their investments; evaluate future investments; and provide needed performance data to share with a growing community of impact investors. By providing a more definitive idea of what these impact investments are accomplishing in specific terms, the Kleissners believe more resources will be channeled to social enterprises, with the desired consequence of increased social and environmental benefits.

### Evaluating Investment Opportunities with Imperfect Data

As they began seeking investment opportunities for the foundation not only in the more narrow social enterprise space, but also with a target of social, environmental,



### KL Felicitas Foundation

The KL Felicitas Foundation was created in 2000 by Charly and Lisa Kleissner. Its mission is to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families.

FOUNDED 2000  
LOS GATOS, CA



KL Felicitas Foundation



and economic sustainability, the Kleissners learned quickly that there was no shortage of viable investment options in all asset classes. They have watched, over the last ten years, a growing interest in double- and triple-bottom line enterprises among philanthropists as well as private investors.

When possible, KLF evaluates both the social and environmental dimensions of each investment relative to its expected financial return, and then makes an investment decision appropriate for the foundation. While evaluating various potential investments, the Kleissners are easily able to compare financial returns and projections. However, the social or environmental results of these investments, ostensibly an integral part of these enterprises, are much more difficult to compare, assuming specific data is available at all.

Using ‘total number served’ as a proxy metric to determine the size, scale, and relative impact of two similar investments providing clean water in rural India, Lisa and Charly noted that one potential investment reported every single person who had come into contact with a water purification system over one year. Another similar investment reported how many users a community-based water system supported on a daily basis, which counted repeat users (in one day) and users from the same family. As is typical with many investments that KLF considers, the lack of comparative data between two similar enterprises make accurate differentiation impossible. In these cases, impact investors are often resigned to using only financial projections to compare these opportunities, thus overlooking or not weighing adequately the intrinsic social or environmental value of the investment.

### Applying IRIS to an Active Investment Portfolio

When KLF decided to apply specific IRIS performance indicators across its impact investment portfolio in 2009, the foundation had already devoted more than 55% of its assets to various impact investments. Working with an active portfolio enabled the foundation to determine what information and data would best describe the performance of these investments. Because comparability was a key goal for the Kleissners, they knew that they needed a common set of core performance indicators – which they chose from the IRIS metrics library – to apply to every investment across the portfolio. Because the portfolio included “clusters” of investments within specific sectors, some sector-specific IRIS performance indicators were also chosen for applicable investments. Additionally, the Kleissners realized that some non-quantifiable information about their investments would help them to evaluate performance, and so they created a proprietary set of qualitative performance indicators to track throughout the full portfolio alongside the IRIS metrics.

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#### KL FELICITAS REPORTING COMPONENTS



## Identifying ‘Core’ IRIS Performance Indicators

KLF first identified the ‘core’ IRIS indicators that would reflect the overarching goals of the foundation, and then applied these indicators to each holding in the foundation’s corpus, as well as all grants made by the foundation. These same core IRIS indicators will become a formal part of the investment evaluation rubric that the foundation uses in its due diligence process.

To develop an appropriate set of IRIS indicators that reflected the intended outcomes of the foundation’s work, KLF relied heavily on its mission, vision, and the key goals articulated by its founders. KLF’s primary interest is to help social enterprises scale their social impact. Charly and Lisa also believe that the foundation’s point of highest leverage is in early-stage enterprises – if KLF makes an early-stage investment and helps prove a concept, the foundation’s investment will likely catalyze further investment from larger investors and help that enterprise gain scale.

Given the foundation’s goal of helping social enterprises scale social impact, and its self-defined niche of early-stage investments, the foundation needed only a small set of indicators, used as proxies, that would relay information on the growth and expansion of each enterprise in which KLF invested. The core indicators identified by KLF include five financial indicators that relate squarely to an investment’s financial health and ability to attract new capital, and two indicators that measure job creation and the total number of clients for each investment. See Figure 1 for more detail.

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FIGURE 1: IDENTIFIED CORE IRIS INDICATORS FOR KL FELICITAS FOUNDATION

|                       | IRIS INDICATOR                                    | DEFINITION*  |
|-----------------------|---|--|
| PRODUCT IMPACT        | Number of Clients (PI7094)*                       | The number of individual consumers served by the organization  |
|                       | Jobs Created in Financed Enterprise (PI3687)      | Net number of new FTE jobs at financed enterprise (including self-employed individuals and owners of businesses) |
| FINANCIAL PERFORMANCE | Direct Investment— Number of Investments (FP4359) | Number of debt and equity investments on balance sheet   |
|                       | New Investment Capital (FP8293)                   | Value of cash flows from both loans and investments  |
|                       | Contributed Revenue (FP3021)                      | Contributed revenue (operating grants and in-kind donations)   |
|                       | Earned Revenue (FP5958)                           | Revenue resulting from all business activities   |
|                       | Net Income (FP1301)                               | Net income from all business activities, including all contributed revenue.                                      |







\*Each IRIS performance indicator has a standardized definition which enables consistent reporting by all IRIS users. Similarly, each IRIS indicator is assigned a unique identification number which provides stability even as the IRIS taxonomy is revised to reflect up-to-date performance reporting best practices.

The foundation anticipates that using these core IRIS indicators will be useful in two ways: First, in the short-term this data will provide a comparison tool to help the foundation assess the relative performance *between* investments in the portfolio, as well as new potential investments, even across sectors. And second, in the mid- and long-term, the foundation can compare data from year-to-year *within* individual investments to determine if an investment is indeed expanding and scaling, and at what rate.

## Identifying Sector Specific IRIS Performance Indicators

In late 2010, the KLF investment portfolio contained more than 30 different holdings, sorted by the foundation into various investment types that align with the foundation’s programs and investment and sustainability policies. Among these holdings, various different ‘clusters’ of activity have emerged, most notably health, energy, and water; and land conservation and restoration. Starting in early 2011, KLF began collecting IRIS indicator data, internally named ‘KLF Supporting IRIS Indicators’ for each of these impact clusters in the foundation’s portfolio. Please see Figure 2.

FIGURE 2: KLF SUPPORTING IRIS INDICATORS

| IMPACT CLUSTER                     | KLF SUPPORTING IRIS INDICATORS   | DESCRIPTION  |
|------------------------------------|--|--|
| HEALTH, ENERGY AND WATER*          |  Clients provided new access to energy, healthcare, water <b>PI2822</b> | Number of clients, individuals or households, who were served by the organization and provided access to products or services they were previously unable to access. |
|                                    |  Energy Produced <b>PI8706</b>  | Energy produced during the reporting period (MWH)  |
|                                    |  Potable Water Produced <b>PI8043</b>                                   | Amount of potable water produced (L)   |
| LAND CONSERVATION AND RESTORATION* |  Land Reforested <b>PI4907</b>  | Hectares of land reforested during the reporting period  |
|                                    |  Land Preserved <b>PI2012</b>   | Hectares of land designated as a nature reserve  |
|                                    |  Sustainable Cultivated Land Area <b>OI2605</b>                       | Hectares under sustainable cultivation   |

\*In order to accommodate impact investments made in a wide variety of sectors, the IRIS taxonomy includes sector-specific performance indicators related to agriculture, education, energy, environment, financial services, health, housing/community facilities, and water.

## Using Complementary Qualitative Information

Qualitative indicators, while in many cases anecdotal, can combine with the discipline of the hard data provided by IRIS to render a fuller understanding of the impact of KLF’s investment activities, and in particular to see how and if KLF’s investment helped an organization gain greater scale. Selected qualitative data monitored by KLF for each investment is listed in Figure 3.

FIGURE 3: QUALITATIVE INDICATORS USED BY KL FELICITAS FOUNDATION

| KLF QUALITATIVE IMPACT INDICATORS | DESCRIPTION   |
|-----------------------------------|---|
| Catalytic Investment (Stage I)    | An investment that causes or accelerates impact beyond the investment itself.<br><i>Applicable Investments: Beartooth Capital, EKO Assets, Social Impact Bond</i> |
| Business Model Innovation         | Identify, nurture and share innovative business models.<br><i>Applicable Investments: eHealthpoint, Dasra Social-Impact early-stage social for profits</i>        |

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| Investment Combined with Grant Funding—Blended Capital | Equity investment or loan combined with grant capital provided by KLF.<br><i>Applicable investments: E + Co People Planet Notes Series; Impact Assets; Root Capital</i>   |
| Investment Combined with Public Support                | Investment support alongside sizable publicly-sourced investment (e.g. public healthcare).<br><i>Applicable Investment: eHealthpoint</i>  |
| Alignment with Foundation Core Values                  | Close alignment with one or more of the foundation’s core values regarding sustainability, rural communities and scaling innovation for high social impact.<br><i>Applicable Investments: all current program-related investments</i> |
| Connect Beneficiaries with Capacity Building Tools     | Provide various technical assistance and capacity building tools to the recipients of loans or investment support.<br><i>Applicable Investments: Dasra Social-Impact, Southern Bancorp, Root Capital, E+Co</i>                        |

While this qualitative data can include some ambiguity, it is KLF’s belief that this type of information, used alongside the IRIS data, is essential to understanding some of the different forces at play that may contribute to an investment’s success or failure. Over the long term (>5 years), the foundation will compare IRIS data with these qualitative indicators to determine if there is any correlation or causal relationship between the two.

### Helping Investees with Data Collection and Reporting

After identifying the core indicators that KLF would use to measure the impact of its investments over time, the foundation began to examine the social and environmental impact data that each of its portfolio enterprises collected. In many cases, data already collected by these enterprises translated fairly easily into an IRIS-compatible indicator. KLF is now engaged in discussions with each investee about its own use of IRIS as a reporting and monitoring tool, and is encouraging its investees to migrate to an IRIS-based system of measuring the outputs of their work.

KLF is judicious not to push investees too hard in migrating to IRIS, but makes the case to do so with three key selling points:

- First, KLF **investees can differentiate themselves** from other, similar enterprises by using a taxonomy that removes the ambiguity of impact reporting. By using IRIS, any impact investor can immediately understand what an enterprise’s outputs are, and how those outputs combine to render outcomes over time.
- Second, **IRIS indicators help investors ascertain the value of an enterprise’s outputs.** Because IRIS defines outputs in certain, specific terms, investors can calculate the unit cost of one output for any enterprise, and across enterprises. In this way, enterprises can highlight a comparative advantage through cost efficiencies, greater economies of scale, or otherwise.
- And third, **IRIS occasionally provides an opportunity for an enterprise to significantly enhance its impact reporting.** In KLF’s experience, social enterprises often do not have the technical capacity or the financial resources to adequately measure impact, let alone identify the output indicators that most closely relate to the enterprises intended outcomes. IRIS provides an elegant, easy-to-understand and pre-defined set of impact indicators, much like a menu, that an enterprise can adopt quickly and use readily.

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In some cases in KLF's own impact investing portfolio, encouraging an investee to migrate to IRIS actually simplified impact reporting, by helping reduce the number of indicators that were being tracked, identifying only indicators that closely related to the enterprise's mission, and implementing a systematic method by which to capture and report this data.

## Conclusions

KLF plans to apply its core IRIS impact indicators throughout its entire impact investment portfolio by the end of 2011, starting with its portfolio of program related investments. Supporting indicators, i.e. those which track clusters of impact in specific sectors, will also be collected and reported from any impact investment that operates in health, renewable energy, and water, or in land conservation and restoration. KLF anticipates that the indicators it uses to measure its impact will evolve over time, as the portfolio changes and as the IRIS taxonomy continues to evolve.

All IRIS impact data will be collected and reported annually, and will be shared publicly on the foundation's web site. KLF will also combine all IRIS impact data with its own series of qualitative indicators in order to deepen the foundation's understanding of whether, how, and why its investments helped social enterprises gain scale and increase their respective social impact.

By the end of 2013, the foundation plans to have 100% of its corpus committed to impact investing. For every investment that the foundation makes, foundation advisors complete an "investment evaluator," a publicly available due diligence tool that ensures tight alignment between the foundation's investments and its mission. IRIS impact indicators will be integrated into these investment evaluators as part of the due diligence process, and investees will be made aware, before any investment takes place, that KLF expects reporting on its core IRIS impact indicators whenever possible.

Last, KLF realizes that gaining scale for social enterprises takes time, and the founders have the patience and interest to see their investments bear fruit over the long term. The foundation will collect and report on core IRIS impact indicators annually, and it anticipates that meaningful data regarding scale and increased social impact will become apparent after three or five years. All findings from this process will be shared openly.

It is Charly and Lisa Kleissner's desire that, first, all of their investments have positive social and/or environmental impact; second, that through the use of the IRIS taxonomy, impact investors will learn about how to allocate resources more effectively; and ultimately, that more resources will be channeled to social enterprises and social entrepreneurs, resulting in large-scale positive social and environmental change.

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IRIS is an initiative of the Global Impact Investing Network (GIIN), a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. This work is informed by the GIIN Investors' Council, a diverse membership group comprised of leading impact investors. To serve the needs of the greater impact investing community, the GIIN recently launched ImpactBase, a database of impact investment funds designed to reduce search and transaction costs across the impact investing industry.

For more information, please visit [www.thegiin.org](http://www.thegiin.org).

