Sonen Capital

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Lessons from the Field

EVOLUTION OF AN IMPACT PORTFOLIO:

From Implementation to Results

In collaboration with The KL Felicitas Foundation

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TABLE OF CONTENTS

EDITORIAL: THE CHALLENGE ISSUED

Dear Readers,

In 2004, Lisa and Charly Kleissner of the KL Felicitas Foundation ("KLF" or the "Foundation") challenged me to develop a new way to build an investment portfolio that would align with their values and the Foundation's purpose while also ensuring KLF's ability to meet its financial obligations. This report describes the initial results of that challenge, and is the latest of a series documenting this journey. The concept was devised over many nights spent huddled around the Kleissners' dining room table. Our goal throughout this journey has been to share each phase of this process through a series of publications, so that others may benefit from the experiences and lessons learned.

In February 2008, with the publication of *Philanthropy's New Passing Gear: Mission Related Investing*, the due diligence and documentation phases of this project were open-sourced, thus effectively designing a toolkit for mission-related and program-related investments.[1] Building upon the work of others in the field, these tools brought discipline to the underwriting processes of investments committed to reinforcing the philanthropic purpose of foundations.

Throughout 2008 and into 2009, it became clear that this work had potential application for capital well beyond that held by foundations. Many had also begun to rally around the term of "impact investing," with numerous publications introducing the term to – and capturing the attention of – the greater investment community.[2]

Continuing with the commitment to sharing this journey, in the Fall of 2009, *Solutions for Impact Investors: From Strategy to Implementation* was published, in collaboration with Steve Godeke and others.[3] Designed as a "how-to" guide, the report provided a clear framework and methodology for asset owners of all types to engage in a disciplined approach to constructing investment portfolios across asset classes and impact themes.

Four years later, while awareness has greatly increased, the question of performance in impact portfolios remains a stubborn obstacle to action. Thus far, the industry's only available response has been to publish limited data sets. Those with no historical track records are oftentimes constrained to describing "expected" returns in their discussions of the potential for impact-based portfolio returns.

With this report, it is hoped that this question can now be answered. Through an ongoing partnership with KLF's founders and their unwavering commitment to blazing the trail forward for this field, the next chapter in our journey will share the evolution of KLF's Return-Based Impact Portfolio, and the financial and impact results achieved over the past seven years. In future publications, KLF intends to further explore both the impact generated, and the financial returns achieved, by a mature portfolio: KLF plans to fully disclose, analyze and illustrate the realization of its more targeted private impact investments.

The first part of this journey and the lessons learned along the way culminated in recognizing the need to build a specialized investment manager dedicated to fully execute the objectives of KLF and other like-minded investors. In order to carry out this purpose, Sonen Capital LLC ("Sonen Capital") was founded in September 2011. Although this report covers a period of time which, at times, predates the legal formation of Sonen Capital, this report's occasional use of the pronoun "we" is meant to acknowledge both my consistent role and continuous involvement with KLF and the portfolio throughout the entire time period described herein as well as to recognize KLF's ongoing collaboration with Sonen. As is always the case, past performance is neither indicative, nor a guarantee, of future results. The information presented herein does not represent a solicitation for investment services, and is provided solely for informational purposes.

Furthermore, any exercise in assessing financial returns of this nature requires interpretation. Capturing this process in a way that is both transparent and informative for readers requires that decisions be made with respect to a number of significant matters, including, amongst others: which methodology to use, which time periods to apply, whether to report gross or net returns, and which benchmarks seemed most appropriate for KLF's Return-Based Impact Portfolio. Recognizing these inherent challenges, this report has attempted to both address and mitigate these issues by presenting a comprehensive data set with relevant disclosures detailing our rationale, as well as by having a third-party performance consultant generate the source data. Furthermore, given that the portfolio's seven-year transition occurred during one of the most volatile periods in the history of modern capital markets, it is also acknowledged that the results are heavily influenced by macroeconomic events.

We leave ultimate judgment to the reader. It is my hope that by presenting real results, others may be empowered with the knowledge to take action in their own portfolios.

Raúl Pomares
Senior Managing Director, Sonen Capital LLC

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J.P. Morgan, The Rockefeller Foundation and the Global Impact Investing Network. "Impact Investments: An Emerging Asset Class," 2010.

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IMPACT INVESTING: A BASIC LEXICON

The term "impact investing" has been utilized in several ways in the existing literature. The definition employed by Sonen Capital recognizes that impact investing is a portfolio strategy that can be applied across multiple asset classes. This paper adds to our previous thought leadership work on the topic of impact investing, including the report *Solutions for Impact Investors: From Strategy to Implementation*, which was produced with support from the Rockefeller Foundation. The brief lexicon below is provided for readers who may not be familiar with this publication or with the concept of impact investing as a full portfolio strategy.

Impact Investing: Investing with the intent to generate both financial returns and purposeful, measurable, positive social or environmental impact.

Impact Investment Spectrum: A spectrum that defines approaches of investment management based on level of impact that exists in an impact portfolio. The four categories used by Sonen Capital in organizing KLF's Impact Portfolio to determine level of impact, moving from lower to higher impact, are the following:

- **Responsible:** Also known as Socially Responsible Investing ("SRI"), this approach involves the negative screening of investments due to conflicts or inconsistencies with personal or organizational values, non-conformity to global environmental standards, adherence to certain codes of practice, or other such binary impact performance criteria. We further use the term "Responsible" to capture investment activity that may proactively contain a social or environmental component in its strategy.
- **Sustainable:** Sustainable investments move beyond a defensive screening posture, actively looking for investments that are positioned to benefit from market conditions by integrating

environmental, social and governance ("ESG") factors into core investment decision-making processes. This can include corporate engagement, innovations and new markets that are recognized as a path to growth, with positive social and environmental benefits, e.g., alternative energy.
- **Thematic:** Thematic or mission investments have a particular focus on one or more impact themes, such as clean water or deforestation, and work to channel investment allocations in those particular directions. These are highly targeted investment opportunities, in which the social or environmental benefits are fully blended into the value proposition of a commercially positioned investment.
- **Impact First:** Investments that seek to optimize a desired social or environmental outcome, without regard for competitive return. They are open to trading off financial return for more impact where a more commercially oriented return is not yet available. When practiced by US private foundations, there is the option to consider this a Program-Related Investment ("PRI"), as defined by US tax law.

Program-Related Investments ("PRIs"): PRIs were created under Section 4944 of the Tax Reform Act of 1969. Under Section 4944, private foundations are allowed to make 'program-related investments' if the following conditions are met:

1. The primary purpose of the investment is to advance the foundation's charitable objectives;
2. Neither the production of income nor appreciation of property is the primary purpose; and
3. The funds cannot be used directly or indirectly to lobby or for political purposes.

These are often loans made at below-market rates to enterprises addressing social and environmental challenges, and are often made in alignment with a foundation's values to address a lack of available, flexible capital to early-stage enterprises. PRIs are considered to be impact first investments, and were pioneered by the Ford Foundation in 1968.

Environmental, Social and Governance ("ESG") Factors: Issue areas considered material in having an impact on business performance. Examples of these factors across each of these three categories include environmental risks such as more stringent regulation related to emissions and waste, or resource depletion; social risks such as worker safety and health or the use of child labor; and governance risk such as the presence or bribery and corruption within a business or mismatched or illegal incentives.[4]

Non-Impact Investments: Investments made for the sole purpose of financial return, without any explicit consideration given to the social impact of the investments.

Return-Based Impact Investing: Approaches to impact investing that exclude impact first (below-market) and non-impact investments.

4. Allianz Global Investors and RiskLab. "E.S.G. Risk Factors in a Portfolio Context - Integrated Modeling of Environmental, Social and Governance Risk Factors," 2010.

EXECUTIVE SUMMARY

In 2004, in order to meaningfully address the world's most pressing social and environmental issues, the KL Felicitas Foundation ("KLF" or the "Foundation") made the decision to begin a process that would eventually allocate 100% of the Foundation's capital to "impact investments" – that is, investing with the intent to generate both financial returns and purposeful, measurable, positive social or environmental impact. The Foundation determined that its needs would be met best by adhering to a return-based impact investment strategy, while taking select opportunities to introduce new concepts with impact first investments.

Since KLF made this decision, the experiment has helped reshape the investment landscape by leading investors to consider a growing array of financially compelling impact investment opportunities across almost all asset classes. The early results are compelling. Over the seven-year period from 2006-2012, the Foundation moved from 2% of assets allocated to impact to over 85%, while simultaneously achieving index-competitive, risk-adjusted returns.

We believe that the following performance discussion demonstrates that impact investments can compete with, and at times outperform, traditional asset allocation strategies, while simultaneously pursuing meaningful and measurable social and environmental impact. As one of the first comprehensive analyses of a portfolio-wide approach to impact investing based upon a set of measurable results, we believe that this report reveals several key findings, including the following:

1. **Investment Size and Options** – A thoughtfully developed, risk-aware portfolio approach to impact investing can be implemented across a wide range of portfolio sizes. New options in the impact marketplace allow investors to pursue a broad spectrum of financial and impact goals through both public and private strategies.

2. **Impact Alpha** – Positive impacts generated by an impact portfolio exist in several forms: in addition to producing positive social or environmental benefits, an impact investment

strategy may also result in strategic portfolio advantages, including potentially reducing overall portfolio volatility, or seizing opportunities to capture alpha through market inefficiencies and by capitalizing on long-term social and environmental trends.

3. **Diversification** – Our data further suggest that impact investments can address needs across a spectrum of impact opportunities and financial goals, and could potentially offer investors less-correlated exposures that also improve social and environmental conditions at local, regional and global levels.

Our experience with KLF's Return-Based Impact Portfolio illustrates the real potential of aligning a financially competitive investment strategy with specific social and environmental goals.

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 (i.e., performance that can be marked to market on a regular basis). Impact first (below-market rate) investment returns are also explored and reflected in specific sections. For purposes of accuracy and reliability, all non-impact investments (defined in the preceding section) as well as 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. **Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Reportable Portfolio's performance and Appendix IV for important disclaimers.**

In addition, the report shows the performance of each reportable Return-Based Impact asset class vs. traditional benchmarks – results which, we believe, demonstrate that impact investments can compete with traditional investment strategies. Table 1, on the subsequent page, shows a summary of the portfolio's Return-Based Impact investments' performance through December 31, 2012 by asset class against the benchmark for each asset class for 1-year, 3-year, and 5-year periods, and since inception for each exposure.

Table 1: KLF Return-Based Impact Performance vs. Benchmark for Reportable Investments by Asset Class

Period	1 Year	3 Year	5 Year	Since Inception
KLF Return-Based Impact Cash Equivalents (Since 5/2008) - Gross	0.66%	0.79%	NA	1.07%
KLF Return-Based Impact Cash Equivalents (Since 5/2008) - Net	0.41%	0.54%	NA	0.82%
3-Month Treasury Bill	0.08%	0.11%	NA	0.36%
KLF Return-Based Impact Fixed Income (Since 1/2006) - Gross	2.87%	0.52%	4.82%	5.85%
KLF Return-Based Impact Fixed Income (Since 1/2006) - Net	2.36%	0.01%	4.30%	4.48%
Barclays Global Aggregate	4.32%	5.16%	5.44%	6.10%
KLF Return-Based Impact Public Equity (Since 1/2006) - Gross	12.76%	9.02%	2.02%	4.68%
KLF Return-Based Impact Public Equity (Since 1/2006) - Net	12.21%	8.49%	1.51%	4.16%
MSCI World	12.62%	5.93%	-1.73%	2.64%
KLF Return-Based Impact Hedge Funds (Since 12/2006) - Gross	4.45%	4.40%	-6.54%	2.08%
KLF Return-Based Impact Hedge Funds (Since 12/2006) - Net	3.93%	3.89%	-7.01%	1.57%
HFRI Fund of Funds	5.31%	1.62%	-1.66%	1.07%
Total Return-Based Impact Reportable Portfolio (Since 1/2006) - Gross	5.65%	4.40%	-1.01%	2.56%
Total Return-Based Impact Reportable Portfolio (Since 1/2006) - Net	4.87%	3.63%	-1.75%	1.79%
Portfolio Weighted Benchmark	6.10%	4.25%	-1.90%	2.38%

(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. Net performance includes the additional expense of consulting fees paid by KLF for investment advisory services. Certain performance results presented in the table above precede Sonen Capital's formation in 2011. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of investments in marketable securities and other investments reporting values on a regular basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns, excluding all non-impact investments. Had these investments been included, performance may have been less.

(5) The portfolio-weighted benchmark is a blend of the 3-Month Treasury Bill, Barclays Global Aggregate, MSCI World, and HFRI Fund of Funds. 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.

(6) 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

(7) KLF Return-Based Impact Fixed Income performance is shown net of all fees, which includes Sonen Capital's fixed income management fee of 50 basis points

(8) KLF Return-Based Impact Public Equity performance is shown net of all fees, which includes Sonen Capital's public equity management fee of 50 basis points

(9) KLF Return-Based Impact Hedge Fund performance is shown net of all fees, which includes Sonen Capital's hedge fund management fee of 50 basis points

(10) 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

(11) Please refer to Appendix II for the definitions of the indices used in this report.

ALL INVESTMENT INVOLVES A RISK OF LOSS. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. PLEASE REFER TO APPENDIX IV FOR ADDITIONAL IMPORTANT DISCLAIMERS.

INTRODUCTION

Key Takeaways:

- Our analysis of KLF's Return-Based Impact Portfolio's performance over the last seven years provides a case study for examining real returns achieved through the application of impact investment strategies across asset classes in a mature portfolio.
- The impact investing spectrum defines an array of investment approaches that can guide an investor's vision for creating an impact portfolio that reflects both financial and social impact objectives.
- Based upon our primary research, in just 38 of the investments in KLF's impact portfolio, there are $37.2 billion of assets under management, which suggests to us that the impact sector, taken as a whole, is likely to have significantly larger absorptive capacity.[5]

Impact Investing

The term "impact investing" refers to an approach to investing that takes into account two goals: the intent to generate financial returns, and the intent to create purposeful, measurable, positive social or environmental impact through those investments. At Sonen Capital, we believe that impact investments have the potential to deliver exceptional, risk-adjusted financial performance with far-reaching social and environmental impact.

Impact investors consider a wide range of investment opportunities that generate social and environmental benefit. We believe that our impact investment strategy for KLF illustrates that impact goals are more effectively met when developed in concert with financial goals, achieving a portfolio that is balanced with regards to both aims.

Today, impact investments are available across the majority of generally recognized asset classes.[6] Efforts to size the industry have resulted in estimates ranging from $400 billion to over $1 trillion.[7] Based upon Sonen Capital's primary research, there are $37.2 billion of assets under management in just 38 of the investments in KLF's impact portfolio.[8] These data points suggest that there is significantly more capacity in the impact marketplace for investors of all sizes to find appropriate investments across asset classes. As further evidence of this industry's robustness, some impact investors now allocate capital based on risk factors and risk premia-based strategies *as well as* to achieve meaningful impact. Furthermore, impact investors can often find investments that fit their regional focus, with opportunities available on both the local and global levels.

Viewed as a rigorous investment discipline with the potential of generating strong returns with lower volatility relative to benchmarks, impact investing encompasses the spectrum of traditional asset classes and draws from a growing body of classification and evaluation systems.

The KL Felicitas Foundation

In 2000, Charly and Lisa Kleissner founded the KL Felicitas Foundation ("KLF" or the "Foundation") to address gaps in the ecosystem meant to support social entrepreneurs and enterprises. The Kleissners developed the following mission:

> "Our mission is to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families. The Foundation also actively advocates its Impact Investing strategy."

In 2005, KLF decided to put its entire portfolio of $10 million of assets to work, rather than base its impact solely in those assets set aside for grant-making activities. Since that time, the Foundation's assets have been invested in a manner consistent with the Foundation's mission of investing in social entrepreneurs and social enterprises worldwide and impact investments have been made across every major asset class in both public markets and private markets strategies.

As of the date of this paper's publication, Sonen Capital has transitioned over 90% of the Foundation's assets into impact investments, largely following the methodology described in this paper.

KLF's Return-Based Impact Portfolio has since evolved into an incubator designed to test Sonen Capital's thesis that investors can simultaneously achieve financial and impact goals. For KLF's Return-Based Impact Portfolio, Sonen Capital adopted a multi-strategy, multi-asset class portfolio approach to impact investing. We believed that this approach was appropriate and critical to providing access to the required diversification – across asset classes, strategies, sectors and geographies – given the relatively small size of the Foundation's assets. The evolution of KLF's Return-Based Impact Portfolio also reflects our systematic approach to impact investing: we balanced the need for financial

5. Based on the aggregate fund AUMs of 38 investments in KLF's impact portfolio.

6. Impact strategies within more specialized, niche asset classes such as Absolute Return Hedge and Commodity Trading Advisors are not yet available.

7. World Economic Forum. "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors," 2013.

8. Based on the aggregate fund AUMs of 38 investments in KLF's impact portfolio.

discipline and diversification with the investment opportunities available to KLF and the challenges of harnessing the growth of a nascent industry.

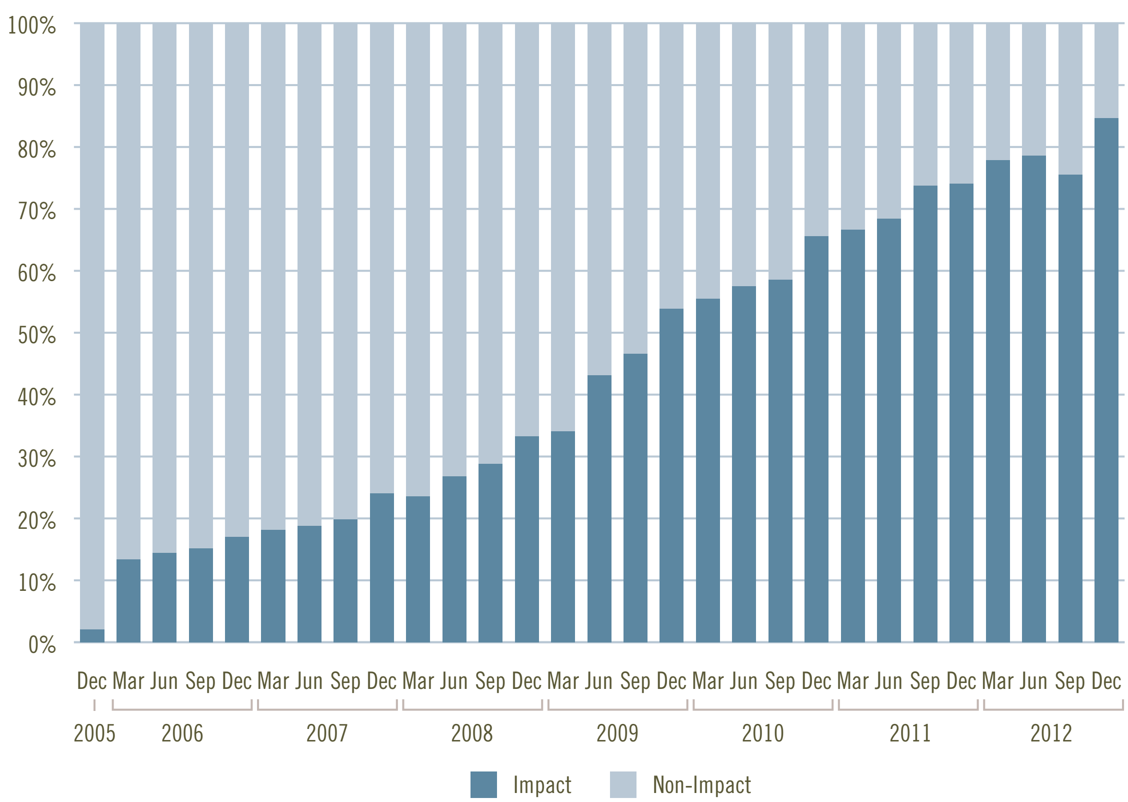
The composition of the Foundation's portfolio has evolved significantly over time. Indeed, as of December 31, 2012,[9] over 85% of KLF's Portfolio had been transitioned to impact investments, with the remainder scheduled to be transitioned to impact investments by the end of 2013. Figure 1 below shows the percentage of impact vs. non-impact investments in KLF's Portfolio from December 2005 to December 2012.

The Impact Investing Spectrum

The maturation of the impact investment industry has led to increasing opportunities for investors of all sizes to find appropriate investments across asset classes. Grounded by rigorous investment discipline and views on sustainability trends, investments can be thought of as belonging to an impact investing spectrum. The impact investing spectrum pictured on the next page summarizes Sonen Capital's view of the impact investing landscape, with a spectrum of opportunities ranging from classic investment (i.e., primary focus is on investment return) to grant making (i.e., primary focus is on philanthropy). Investable products are available in most asset classes for each of the impact categories shown on the next page.

KLF's financial and impact goals were aligned through Responsible, Sustainable, Thematic, and Impact First investments which reinforced its mission of investing in social entrepreneurs and social enterprises worldwide as well as its founders' values

Figure 1: Quarter Over Quarter Growth of Impact Portfolio



9. KL Felicitas Foundation Portfolio Overview available at: http://www.klfelicitasfoundation.org/index.php/impact_investing/port_overview/

of sustainability. The majority of KLF's investments currently fall into Sonen Capital's Sustainable and Thematic categories, with other allocations across the impact spectrum.[10]

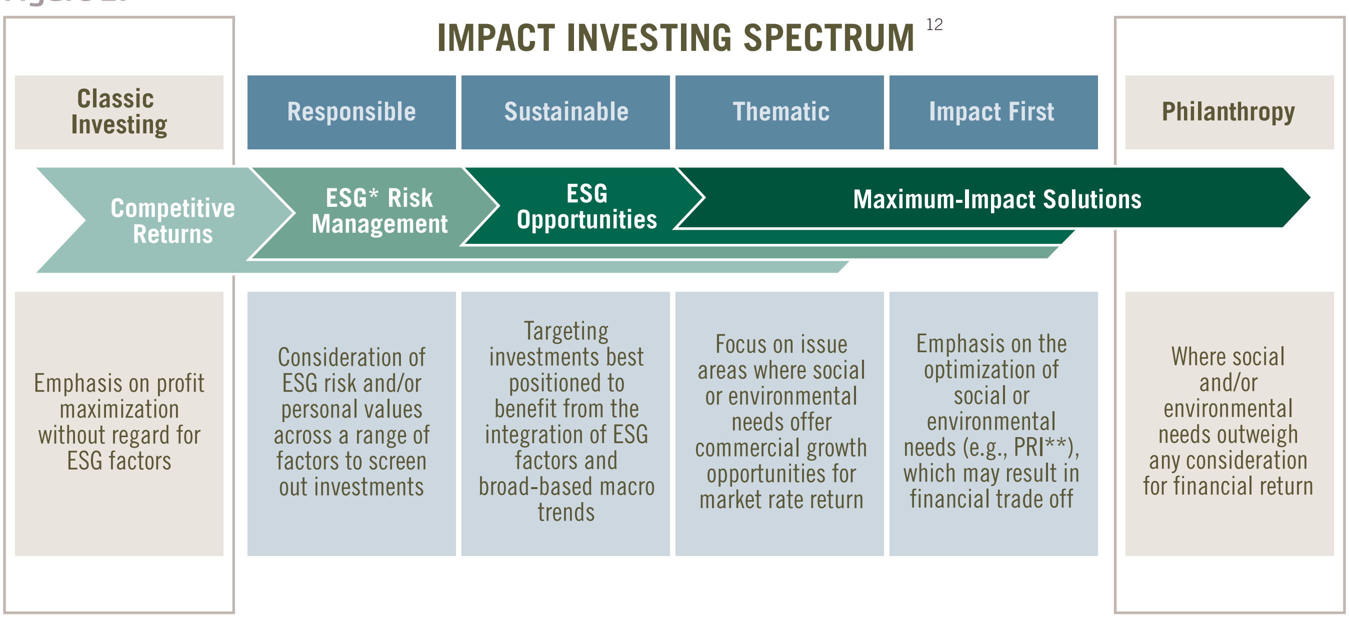
Impact investors allocate to Thematic investments in order to capture specific opportunities for returns and to target designated impact areas. Notably, KLF's Thematic investments generate well-defined impact and contain a series of strategies that stand to benefit financially from global trends, such as demographic changes, resource scarcity and developments in alternative energy. Throughout this paper, themed impact, found mostly in the context of Thematic and Impact First investments, is broken down by impact themes: Community Development, Energy, Financial Services, Water, Food and Agriculture, Health, Environment, Impact Ecosystem and Information Technology. Broad-based impact and ESG risk management strategies fall under Sustainable and Responsible, respectively.

Developing the Portfolio as the Impact Investment Industry Evolved

As the Foundation's assets were moved into impact, a balance was sought between financial and impact considerations. An effort was also made to reconcile KLF's mission with the realities of a growing industry and to maintain adequate diversification across risk exposures. Despite the challenges, most of which were inherent to a growing but still nascent impact investment industry, it has become increasingly possible to find financially compelling investments across asset classes that achieve the required impact criteria.

Although the impact investment industry now offers compelling opportunity sets across asset classes[11] and themes, finding appropriate investments in the early years of this transition proved difficult. In order to continue moving forward when financially optimal investments were unavailable, Impact First investments were made into high impact enterprises to satisfy KLF's impact goals.

Figure 2:



*ESG – Environmental, Social and Governance factors

**PRI – Program-related investments available to US investors as defined by the Tax Reform Act of 1969

10. As of September 2013.

11. As of September 2013, impact investment opportunities remain elusive in certain commodities and managed futures, but most other asset classes offer financially compelling impact opportunities.

12. The Impact Investing Spectrum has been adapted from the Spectrum of Capital, produced by Clara Barby of Bridges Ventures.

Program-related investments ("PRIs") were also incorporated into the strategy as a middle ground, by using them to satisfy a portion of the 5% annual philanthropic spending requirement. PRIs are investments made principally for a desired social or environmental impact with an expected financial return that can be below market or generally unadjusted for higher risks. For example, PRIs can often be made in the form of low-interest loans to enterprises addressing social and environmental challenges, in alignment with a Foundation's desire to address a lack of available, flexible capital to early-stage enterprises. PRIs leveraged KLF's financial resources in a manner that addressed impact goals, while still aiming to achieve modest returns.

PRIs were used to provide capital to organizations whose missions aligned closely with KLF's, but that likely would not meet KLF's expectations for financial returns. (By definition, PRIs typically prioritize impact over financial returns.) These PRIs or Impact First investments included allocations to fixed income

DIFFERENT OPPORTUNITY SETS: INVESTING FOR IMPACT IN BOTH PUBLIC AND PRIVATE MARKETS

Investing on behalf of a private foundation such as KLF has made it possible to test impact investment strategies and explore a wide variety of opportunities in both private and public markets. In so doing, a great deal was learned about how to execute a portfolio approach to impact investing. By the time the analysis period began, KLF had already spent years investing extensively in public and private markets, both in the context of the Foundation and elsewhere. From a financial perspective, it seemed like the right time to consider investing across asset classes and investment structures. The real challenge came in the form of impact selection: private markets allocations were sought for targeted social and environmental impact and uncorrelated financial returns; as for public markets, they were favored to achieve financial goals while generating diversified impact.

Private markets investments made it possible to target specific organizations, sectors and geographies by investing in private equity (various stages), private debt, hedge funds and real assets (including real estate). Underlying portfolio investments included microfinance debt and equity investments, clean tech and energy efficiency, community development venture capital, and sustainable forestry. In contrast to many institutional portfolio management strategies, direct investments in companies or PRIs were occasionally made, which altered the complexion of the portfolio. These investments were made to satisfy the Foundation's unique impact goals.

Public markets investments offered a large-scale, diverse set of impact investment opportunities that satisfied KLF's need to achieve market-rate, risk-adjusted returns. Until late 2009, the Foundation's public markets investments were in socially responsible and sustainability-themed public equity and debt investments. After 2009, opportunities arose in US core fixed income and hedge funds. While impact in the public capital markets may be less targeted than in private strategies (with the exception of certain thematic funds), investors can put their capital to work across many sectors and geographies, thereby rewarding and influencing a greater range of institutions that operate in the global marketplace. Broad-based sustainability investing can achieve the dual goals of financial performance and large-scale impact.

(notes and other debt securities), private equity, real assets and cash equivalents.

Additionally, over significant portions of the analysis period, large investments were made into Impact First cash equivalent products when financial and impact considerations could not be reconciled. Cash equivalent products helped protect the portfolio during the financial crisis of 2008-2009, but may have constituted a drag on the portfolio during the rally over the subsequent years following the trough of the financial crisis.

As the portfolio evolved over time, the industry became increasingly sophisticated, and the number of compelling investment opportunities grew. New strategies emerged in the public markets and research surfaced suggesting that investors might find sources of alpha by proactively incorporating Environmental, Social and Governance (ESG) factors.

As the impact investment landscape became more developed, a number of compelling impact opportunities arose in the private markets. Private equity, debt and real assets strategies made it possible to achieve relatively direct, measurable impact in a variety of the Foundation's thematic issue areas. As a complement, public markets strategies offered broad impact through investments into equity and debt securities issued by ESG leaders. The public markets offer opportunities for far-reaching and broad impact, while private markets present impact opportunities in innovative goods, services, conservation activities, land use, and infrastructure projects.

PERFORMANCE CALCULATION METHODOLOGY

To validate performance, KLF engaged Cairn Investment Performance Consulting ("Cairn"), a third-party independent firm to perform a calculation of the cash flows and returns of each security into which KLF had invested over the analysis period (2006-2012). Additional cross-sections of the portfolio have since been examined to give a more complete picture of the investments over the analysis period. When asset class performance for the Impact portions of the portfolio was calculated, Sonen Capital employed the same methodology used for the original asset class performance calculations.

Performance has been calculated by Cairn. Information used to calculate the performance and statistics included herein were provided by underlying investment managers and custodian statements. Cairn has neither audited nor verified the information provided.

Methodologies used to calculate investment returns are as follows:

1. Returns reflect the investment of all income. Residual cash in brokerage accounts has been included. Interest on fixed income investments has been accrued. Returns have been calculated using the Modified Dietz methodology for quarterly time periods, which time-weights cash flows on a daily basis. All statistics are presented in US dollars, and include the effects of foreign currency translation for applicable investments. Quarterly returns have been geometrically-linked to calculate annual and cumulative returns.
2. All investments have been valued at least quarterly, when market values or fair values are available. Certain investments are only valued annually, or may be carried at cost until valuations become available from the underlying fund manager. Values provided by underlying fund managers have not necessarily been audited or verified.
3. Gross performance is shown after the deduction of transaction costs, underlying investment management fees paid to the manager of applicable funds, and miscellaneous portfolio

expenses. Gross performance does not reflect investment management fees paid by KLF for investment advisory services. Net performance includes the additional expense of consulting fees paid by KLF for investment advisory services. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Reportable Portfolio performance net of all fees and Appendix IV for important disclaimers.

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WHO IS THIS REPORT FOR?

This report is intended for asset owners, advisors or other intermediaries who are interested in learning more about building portfolios of compelling impact investments that may not necessitate concessionary returns. Our experience with KLF's Return-Based Impact Portfolio has led us to believe that:

1. For asset owners:

a. There are opportunities to capitalize on inefficiencies in a relatively young marketplace.
b. Impact investments may reduce risk (including reputational risk) through exposure to organizations that are managed for both short- and long-term sustainability issues.[13]
c. Impact measurement is improving and current methodologies now allow investors to quantify their impact to varying degrees across assets.

2. For advisers or intermediaries who wish to satisfy clients' or institutional appetite for impact investments, opportunities exist to:

a. Rebuild trust lost with clients during the financial crisis by incorporating factors that matter most to them and aligning these issues with investment decisions.
b. Capture alpha from inefficiencies present in new markets.
c. Engage a new set of clients. Data show that early adopters of impact investment strategies skew to next generation and female investors. These investor types indicated in a number of recent surveys that they would prefer to have their assets aligned with their values.[14]
d. Attract and retain a younger and more diverse talent pool as socially- and environmentally-themed investing continues to gain traction, particularly as demographic changes and issues of resource scarcity continue to shift the investment paradigm toward an awareness of an ever more global environment and shared economy.

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13. Sustainability issues refer to the belief that a company's valuation is determined by long-term performance, which is a function of how well management integrates resource efficiency and the true cost of externalities throughout the company and its operations.
14. US Trust. "From Best Practices to Next Practices: In Search of Long-Term and Sustained Philanthropic Impact," 2013. World Economic Forum. "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors," 2013.

IMPLEMENTATION: IMPACT INVESTING POLICY AND PORTFOLIO CONSTRUCTION

Key Takeaways:

- An Impact Investing policy is the critical link to translating an impact investing strategy into tangible implementation steps.
- The KLF Impact Portfolio's allocations have evolved over time as opportunity sets have increased.
- Impact investing requires an additional layer of due diligence using a specific impact lens to identify investments that fit both the financial and impact requirements of the client.

Creating an Impact Investing Policy

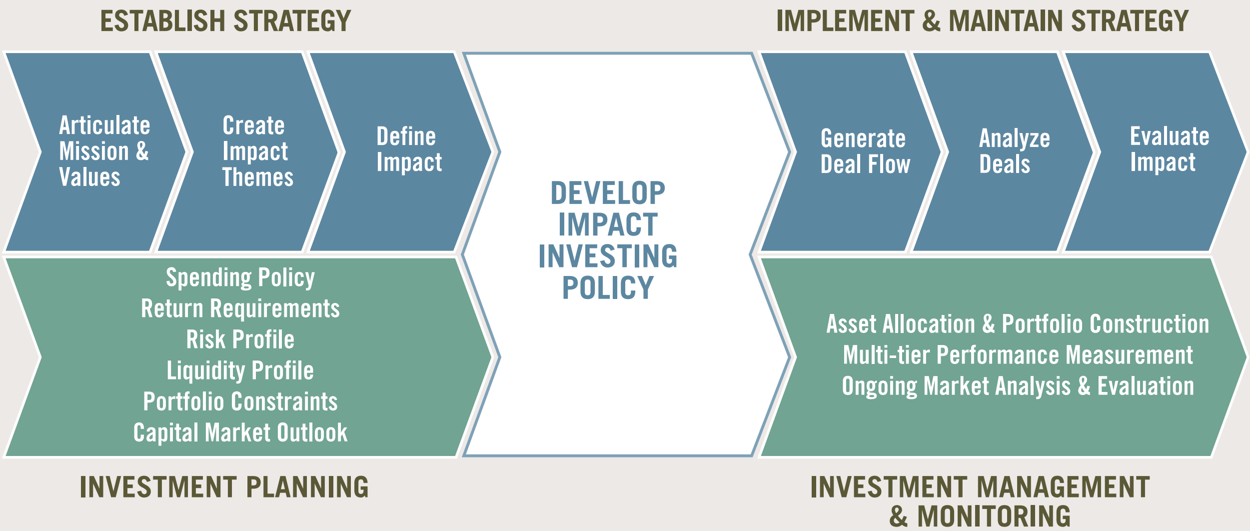
Solutions for Impact Investors: From Strategy to Implementation provides a framework through which impact investors could move toward action, from establishing an impact investing strategy to concrete steps toward implementing and maintaining an impact investing strategy. This framework, depicted on page 18 and described in greater detail in the aforementioned book, provided a roadmap in the seven-year journey of transitioning KLF's Portfolio to 100% impact.

Investment Policy

Constructing KLF's Return-Based Impact Portfolio required developing a comprehensive Impact Investing Policy. An Impact Investing Policy is the critical link to translating an impact investing strategy into a tangible implementation plan for investments to generate social and/or environmental impact. The policy was designed to incorporate impact criteria into the portfolio construction process and, to the extent possible, to select impact investments that satisfied the Foundation's Investment Policy Guidelines. The policy targets (Table 2) illustrate how KLF's Investment Policy was reframed with respect to asset allocation in order to achieve both financial and impact objectives.

These asset allocation targets are designed to diversify KLF's investments across and within asset

Figure 3: Impact Investing Cycle [15]



classes, while achieving lower volatility and risk over time. This highly diversified portfolio approach was applied to protect portfolio capital and achieve competitive returns. Anchored by rigorous financial analysis and ongoing assessments of factors affecting macroeconomic conditions, the portfolio was designed to be both robust and resilient across market cycles. As the impact investment universe

Table 2: Policy Targets

Asset Class	Policy Target	Allowable Range
Stable Assets	30%	25-35%
CASH AND EQUIVALENTS	4%	0-10%
FIXED INCOME INVESTMENTS	26%	20-30%
Growth Assets	57%	50-65%
PUBLIC EQUITY INVESTMENTS	27%	20-35%
HEDGE FUNDS	10%	5-15%
PRIVATE EQUITY	20%	15-25%
Inflation Protection Assets	13%	8-20%
REAL ESTATE	5%	0-10%
REAL ASSETS	8%	5-12%
TOTAL PORTFOLIO	100%	100%

15. Godeke, Steve and Raúl Pomares. “Solutions for Impact Investors: From Strategy to Implementation.” Rockefeller Philanthropy Advisors, 2009.

began to expand, so did the opportunity set through which KLF could express its preferences based on impact themes and investment views according to asset class targets.

However, the impact opportunities were not always appropriate from a risk allocation standpoint. At the outset of KLF's Return-Based Impact Portfolio construction, there were not enough accessible and/or suitable impact investments to achieve desired asset allocation targets. Due to these ecosystem constraints, KLF at times was heavily over-allocated to fixed income or cash products offering exposure to impact themes. In these instances, KLF's mission overrode portfolio optimization goals. Importantly, the impact industry has since matured enough to offer a more complete set of investment options, which has allowed KLF's Return-Based Impact Portfolio to be rebalanced towards its target asset allocation, while increasing considerably the percentage allocated to impact investments.

Adding "Impact" to Investment Due Diligence

Impact investors must conduct an additional layer of due diligence in order to assess the relative and absolute value of investment opportunities. Apart from the fundamental financial analysis and discipline that goes into investment decision-making, KLF used a specific impact lens based on the Foundation's charitable mission and its founders' values in order to further refine the investment selection process.

Traditional financial due diligence was not enough. It seemed important to also carry out the assessment of a potential investee's impact strategy, impact reporting capabilities and fit with the Foundation's mission. To this end, meetings were set up with portfolio managers and analysts, and each team's investment process was studied in order to understand how investment decisions were made, all in an effort to understand how ESG or impact factors are integrated to add value.

CLIMATE CHANGE SOLUTIONS THROUGH PUBLIC EQUITY INVESTMENTS

Opportunities to address climate change issues were uncovered by exposure to a variety of asset classes, both public and private. However, the lines were blurry at times, especially when it came to evaluating impact in public markets strategies. Investments into the largest US and global corporations – even the most sustainable among them – constitute a diffuse source of impact when compared to Impact First or Thematic private market strategies. Ultimately, it was determined that public equities were an essential exposure in KLF's comprehensive asset allocation and that investing in equities could actually increase the overall impact achievable in a portfolio. Public companies are often diversified across multiple business lines and operate globally, thus offering a unique impact opportunity to effect change on a large scale. The underlying fund managers in the public markets strategies invested in companies that were well positioned to grow as a result of environmental trends and could deliver impact globally by reducing resource consumption, increasing efficiency and developing environmentally-friendly technologies. As the ecosystem of third-party ESG data providers and evaluators continues to develop, it will be possible to glean more information about the net impact of the public markets investments. In the future, it seems that impact investing through public equities will remain critical to achieving global impact on a meaningful scale.

Each manager's due diligence processes differed depending on the nature of the strategy. The contrast in strategies included some clear divergence in terms of approach between public and private investments, but also included subtler differentiating characteristics between strategies focused on single industries or geographies. Thematic nuances required evaluating strategies on both relative and absolute merit. For example, water strategies are not inherently impactful simply because they invest either directly or indirectly in a vital resource. Certain water strategies invest far more heavily in resource-efficient operators, whereas others might focus on resource-hungry enterprises. As such, no single type of strategy was classified as inherently impactful solely based on its industry or focus.

Additionally, constructing an adequately diversified, alpha-generating portfolio of investments required developing an extensive universe that could be culled to a short list. Over the seven years during which the Foundation's impact investment portfolio was developed, thousands of investment opportunities have been evaluated. One of the enduring challenges was that certain impact themes could only be accessed through one or two asset classes. The climate change example discussed on page 19 was, in many ways, an ideal test case because there were multiple avenues through which to express the theme. However, when this journey began, many other themes had relatively few high-quality investment opportunities. For example, community development strategies with acceptable track records were only accessible through a select group of managers. Many were private strategies, with the exception of low-yield fixed income and bank deposits that were attractive investments primarily for their impact characteristics.

DUE DILIGENCE FOR PUBLIC STRATEGIES

The due diligence began with an original universe of over 300 managers of public funds screened on the basis of their impact characteristics. Options that did not meet a minimum threshold for impact were immediately discarded. Several categories of public impact investment opportunities were examined:

- Negative screening: In today's parlance, these would be classified as "Responsible" strategies that screen out issue areas such as tobacco, firearms, nuclear energy or alcohol. In certain cases, these strategies offer appropriate performance alongside a reasonable impact proposition. These strategies are employed when a higher impact opportunity is unavailable.
- Positive screening: Sustainable strategies actively seek out issuers whose goods or services contribute social or environmental benefit, as well as those that stand to benefit from long-term social and environmental trends. In contrast to negative screening, positive screens allow managers to express themes and investment ideas through best-in-class approaches or through careful selection of companies that manage their ESG risks in a proactive manner.
- Social or environmental themes: Thematic strategies seek to focus upon a particular social or environmental trend, by expressing investment ideas that are best positioned to benefit from exposure to the theme. Typically, these managers attempt to reward the most progressive companies (or other issuers) for strong ESG performance within a theme, although some managers actively "discount" the laggards by shorting their stock or bonds.

After categorizing strategies, quantitative screens were applied to further narrow down the list. Managers who did not meet financial criteria or did not have sufficient track records for a proper assessment were set aside for continued monitoring. Managers who met KLF's financial criteria for a given asset class were then evaluated more deeply for impact.

Managers' impact strategies were examined in light of the position levels required by KLF's Investment Policy in order to generate adequate risk-adjusted returns at the portfolio level. This meant that, at times, there were tradeoffs to be considered. For example, not every public equity investment could simultaneously deliver maximum impact and financial performance. In the public markets, investments that achieved the most reasonable balance between financial results and impact goals were favored.

DUE DILIGENCE FOR PRIVATE STRATEGIES

Private strategies provided us with exposure to direct impact in themes important to KLF such as clean energy and technology, community development, sustainable forestry, sustainable ranchland and financial services for base of the pyramid ("BoP") communities.[16] In order to assess these strategies, extensive financial and impact due diligence was undertaken. The accessible universe of private markets opportunities totaled approximately 2,000 strategies by the close of the analysis period, and offered varying levels of impact, exposure to many different sectors and, of course, differing financial attributes.

By default, most of the strategies that were examined closely for potential investment fell into the Thematic investment category of the Impact Investing Spectrum. Private equity, venture capital and real assets strategies were the asset classes through which KLF was able to express the heart of its mission. However, a balance had to be struck between the desire to invest directly in companies or projects and the need to remain diversified (i.e., invest in funds). Generally speaking, allocations were made to funds, but, occasionally, when an investment's impact attributes seemed particularly compelling, direct investments were also made.

16. Base of the pyramid refers to the 4 billion people with annual incomes below $3,000 in local purchasing power. Hammond, Allen, William J. Kramer, Julia Tran, Rob Katz, and Courtland Walker. "The Next Four Billion," World Resources Institute, 2007.

INTEGRATING IMPACT TO SHARPEN DUE DILIGENCE AND GENERATE ALPHA

- **Investments were made in public strategies that incorporated ESG criteria because it was believed that quality management of ESG factors at the organizational level could contribute alpha over the long term and reduce volatility, particularly the part which occurs as a result of unsystematic risk.**

- **Some managers developed strategies that were designed to express secular views and capture value from long-term environmental and social trends. Others sought shorter-term price movements that could be attributed to ESG factors.**

- **Other managers were able to target diversified thematic opportunity sets, such as water, which can include companies in water infrastructure, utilities and water technology.**

- **Investments were also made through private strategies in areas such as clean tech, microfinance, agriculture and farmland, and community development.**

Asset Allocation

Once appropriate investments were identified, each investment to the Foundation's overall asset allocation targets was matched. An effort was made to avoid overexposure to any particular theme, sector, manager or company – sometimes even allocating to cash, cash equivalents or short-term debt when the desired exposures could not be matched with acceptable impact investments.

RESULTS: FINANCIAL AND IMPACT PERFORMANCE BY ASSET CLASS

Key Takeaways:

- KLF was an early mover in the implementation of impact investing strategies. As such, KLF's Return-Based Impact Portfolio evolved as the industry itself matured. Despite the potential challenges of such early adoption, KLF's investments performed in line with relevant benchmarks with no indications of a so-called "pioneer penalty."
- The analysis is focused on KLF's Return-Based Impact Portfolio – investments intended to deliver market-based returns with impact – and is benchmarked to traditional industry indices; we believe it is critical to uphold industry standards and a commitment to generally acceptable financial principles, while simultaneously pursuing impact.
- KLF's Return-Based Impact investments were not immune to the 2008 financial crisis and subsequent global economic downturn, although some of the behavior of these investments suggests defensive attributes.
- KLF's Return-Based Impact Portfolio performance ultimately cannot be separated from the inherent challenges of analyzing performance at a static point in time, particularly during a longer-term portfolio transition to impact (e.g., KLF's private equity allocations are relatively new; as such, until these allocations ripen and reveal the quality of their underlying investments, their returns will remain difficult to meaningfully interpret and compare to benchmark indices. This, as indicated previously, explains why KLF's private investments have been excluded from return computations.)
- Return-based impact investing is an inherently active investment strategy where manager and strategy selection plays a critical role in achieving results.

With *Solutions for Impact Investors: From Strategy to Implementation*, a framework was provided for examining the impact investing cycle, including a description of the implementation and maintenance process that can be used to execute upon an impact investing strategy. However, the real impact investing cycle ultimately ends with results. The following section reports the real results of this seven-year journey, tracing the evolution of KLF's Return-Based Impact Portfolio.[17]

In this chapter, an effort has been made to present information that only reflects a mature portfolio, while adhering to the reporting requirements of the KLF Board. The performance information presented does not comport with GIPS.

To that extent, the following analysis is organized with a view to each major asset class, with sub-asset class analysis where appropriate. Each return is benchmarked to traditional, recognizable, non-impact asset classes. This approach seems critical to ensuring general acceptance of impact investing by the broader investment community.

The focus of this analysis is KLF's Return-Based Impact Portfolio – that is, the investment exposure intended to deliver market-based returns with impact. The performance of the Impact First portion of the portfolio is reported separately, following the discussion of KLF's Return-Based Impact Portfolio performance. Non-impact investment performance for the portfolio is *not* included in this analysis. Although non-impact investments had an effect on the KLF's overall financial performance and ability to migrate to impact investments, these results are outside the scope of this report and are included by Sonen Capital in a different composite, other than that for Impact portfolios. By presenting in detail the results of the impact investments, our intent is to focus on demystifying perceptions of returns achieved by investors seeking impact.

The analysis also includes summary level information on the impact areas generated by asset class and at the total portfolio level. Impact reporting has been generated by Sonen Capital and is not verified by third parties.

IMPORTANT DISCLAIMER

Past performance is neither indicative, nor a guarantee, of future results. The information presented does not represent a solicitation for investment services, and is provided solely for informational purposes only. Please refer to Appendix II for the definitions of the indices used in this report.

KLF Return-Based Impact Cash Equivalents: Financial Results and Impact Activities

KLF's investment policy defines cash equivalents as accounts offering daily liquidity or with maturities of one year or less, where principal risk is minimal.

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17. For reasons indicated above that will be further developed in this report, KLF feels very strongly that providing "current" or "provisional" performance figures, especially as they relate to private investments, carries a substantial risk of misrepresenting any given investment's characteristics or future potential, which in turn runs the risk of misleading investors as pertains to those returns' interpretive power. As such, it is KLF's policy not to provide provisional return figures until such private investments are fully seasoned. This can have the effect of increasing reported returns, if one presumes that the initial investment period may be negative. For the returns of each such investment, please contact Sonen Capital. **Please also refer to Appendix IV for important disclaimers.**

KLF RETURN-BASED IMPACT CASH EQUIVALENTS

From May 2008 to December 2012, KLF's cash equivalent portfolio was comprised of cash deposits and CDs from community-focused banks, as well quarterly liquid funds providing debt to social enterprises. Contributions to returns were often the higher interest rate paid by community banks due to perceived and/or real risk. These risks were mitigated by KLF remaining within FDIC insurance levels. This risk was balanced by pursuing non-guaranteed increased yields available through exposure to international markets. Detractors from return came from the dramatic lowering of interest rates upon maturity of community bank CDs. As of December 31, 2012, Return-Based Impact Cash Equivalents amounted to 24.76% of KLF's Return-Based Impact Portfolio.

Figure 4: KLF Return-Based Impact Cash Equivalents vs. ML 3-Month T Bill

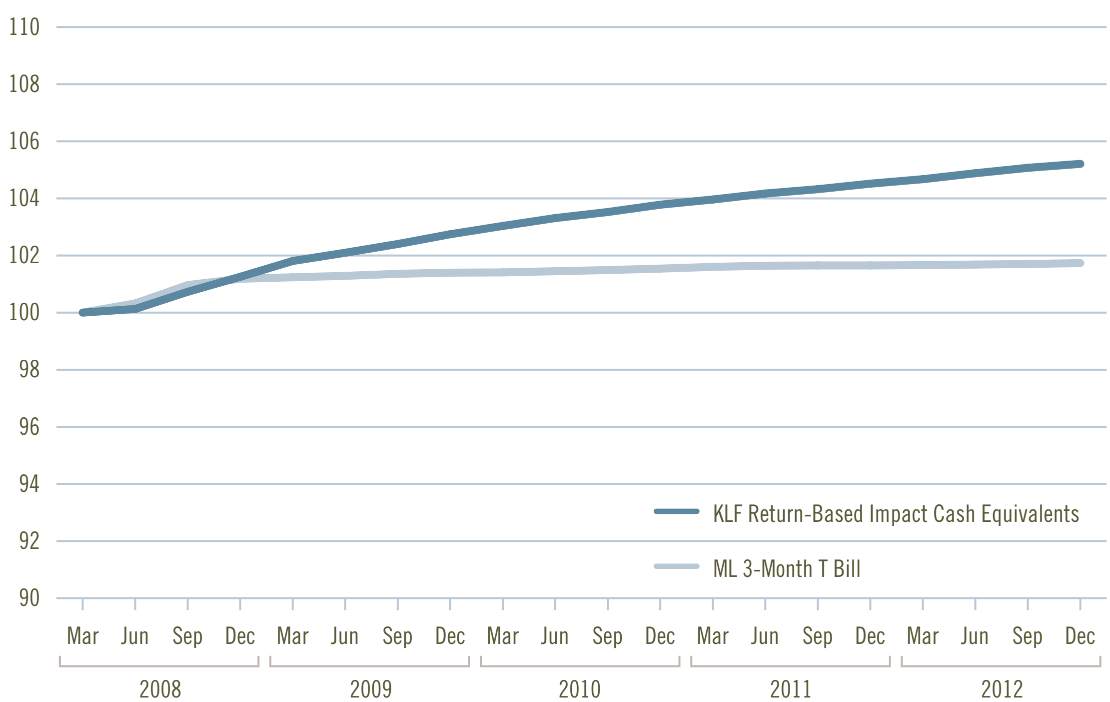

Table 3: KLF Return-Based Impact Cash Equivalents vs. ML 3-Month T Bill, Since Inception, 5/2008 Performance

Period	1 Year	3 Year	Since Inception	2011	2010	2009	2008
KLF Return-Based Impact Cash Equivalents	0.66%	0.79%	1.07%	0.71%	1.01%	1.47%	1.25%
ML 3-Month T Bill	0.08%	0.11%	0.36%	0.11%	0.14%	0.21%	2.08%

Risk Characteristics for the Period: 5/1/08-12/31/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact Cash Equivalents	1.07%	0.14%	0.06%	0.00%	0.49	0.32	5.04	0.14%	-3.56
ML 3-Month T Bill	0.36%	0.15%	0.08%						-3.8

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of liquid investments (marketable securities) only. Illiquid (private) investments are presented in their respective sections in this report and have been evaluated separately on a money-weighted basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) **Please see Appendix IV for important disclaimers.**

KLF RETURN-BASED IMPACT CASH EQUIVALENTS IMPACT

The cash equivalents allocation of KLF's Return-Based Impact Portfolio primarily delivers impact in community development and financial services themes. Figure 5 below illustrates the impact and geographic distribution of KLF's Return-Based Impact cash equivalents allocation. Table 4 (below Figure 5) provides more specifics on the underlying activities related to impact themes.

Figure 5: **Impact Themes and Geography for KLF Return-Based Impact Cash Equivalents**

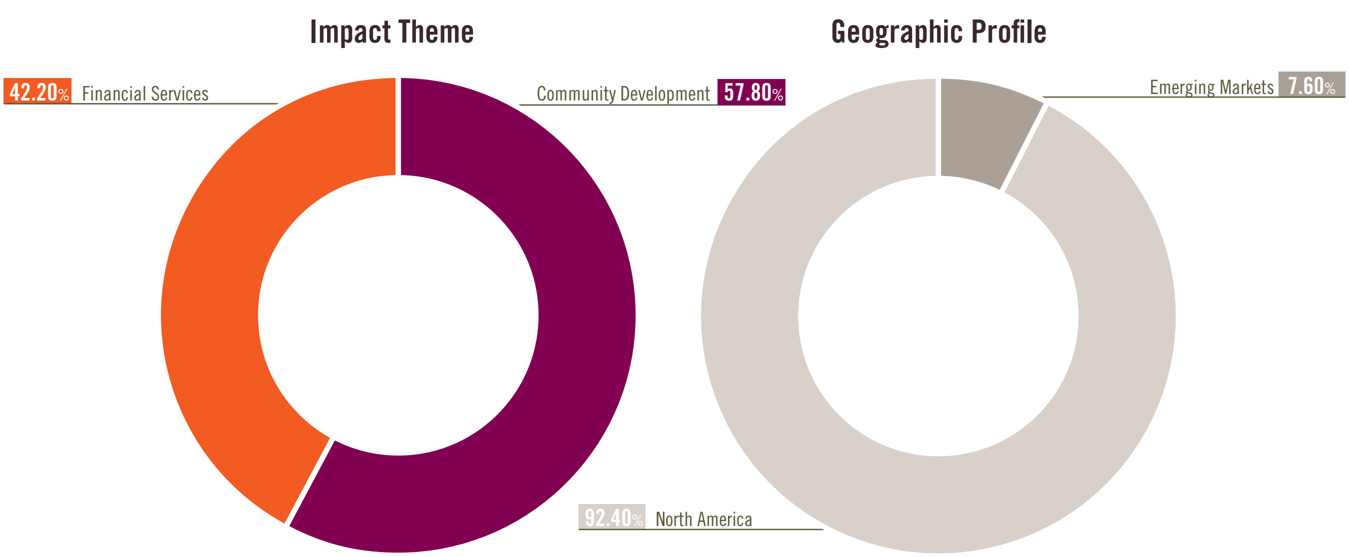

Table 4: Impact Themes for KLF Return-Based Impact Cash Equivalents Asset Class

Impact Theme	Impact Activities
Community Development	Basic financial services, education lending, housing finance and community revitalization projects in some of the most impoverished regions of the US.
Financial Services	Microfinance loans globally to working poor; Responsible financial services to low-income populations in US.

KLF Return-Based Impact Fixed Income: Financial Results and Impact Activities

KLF's investment policy allocates to fixed income securities from multiple issuers in both public and private strategies. Funds are further organized based on characteristics such as geography, duration, asset type and credit quality.

KLF RETURN-BASED IMPACT US FIXED INCOME

Over the time period measured, KLF's US Fixed Income portfolio had a primary exposure to agency mortgage-backed securities. In the final month of 2012, this exposure was diversified to add taxable municipal bonds and high-quality corporate credit. Detractors of return were primarily driven by sector concentration, limited scale, and vehicle availability (resulting in a fee drag). As of December 31, 2012, Return-Based Impact US Fixed Income amounted to 11.17% of KLF's Return-Based Impact Portfolio.

Figure 6: KLF Return-Based Impact US Fixed Income vs. Barclays US Securitized

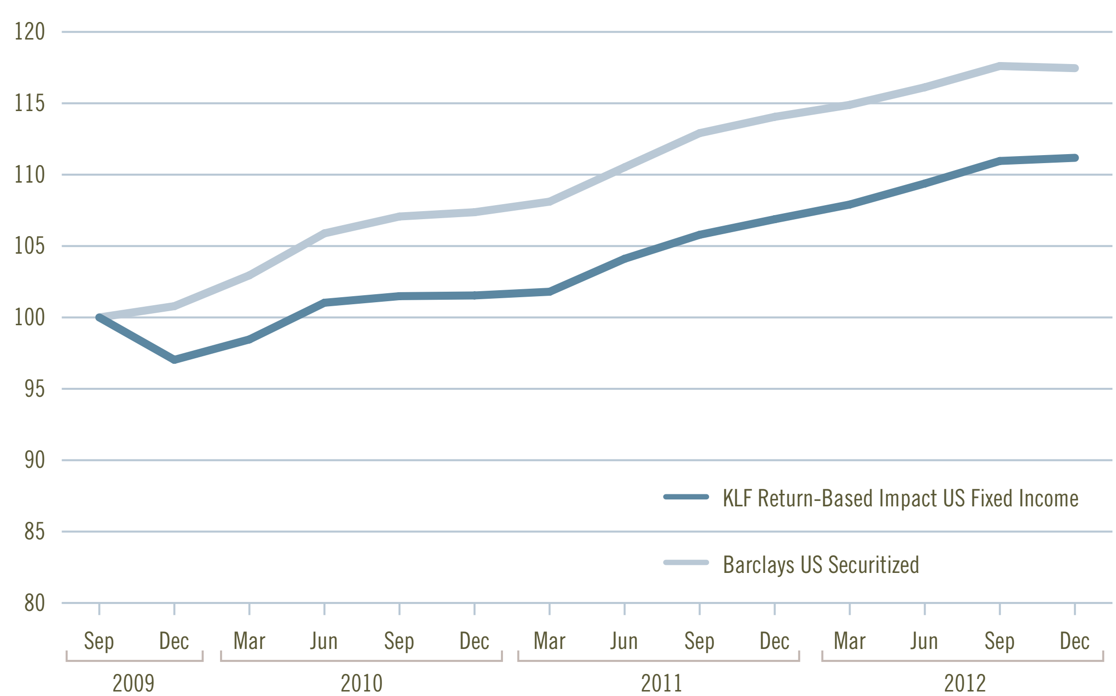

Table 5: KLF Return-Based Impact US Fixed Income vs. Barclays US Securitized, Since Inception, 11/2009 Performance

Period	1 Year	3 Year	Since Inception	2011	2010
KLF Return-Based Impact US Fixed Income	4.03%	4.64%	3.31%	5.25%	4.65%
Barclays US Securitized	3.00%	5.24%	5.08%	6.22%	6.52%

Risk Characteristics for the Period: 11/1/09-12/31/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact US Fixed Income	3.31%	1.38%	1.36%	-1.50%	0.95	0.41	2.31	1.06%	1.17
Barclays US Securitized	5.08%	0.86%	0.20%				5.67		14.57

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

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(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) **Please see Appendix IV for important disclaimers.**

KLF RETURN-BASED IMPACT GLOBAL FIXED INCOME

In addition to allocations focused on US return-based fixed income investments, KLF's Return-Based Impact Portfolio contained numerous allocations to global return-based fixed income investments. During most of the time period reported, this consisted of allocations to managers supporting the development of microfinance and small and medium enterprises throughout the developing world. In the final month of 2012, the portfolio was expanded with exposure to sovereign, quasi-sovereign, supranational and corporate credit. Detractors of return were primarily attributed to a higher concentration in specific sectors of emerging markets. This exposure, however, proved beneficial during the 2008 financial crisis, and was indeed a contributor of return during that period. As of December 31, 2012, Return-Based Impact Global Fixed Income amounted to 10.03% of KLF's Return-Based Impact Portfolio.

Figure 7: KLF Return-Based Impact Global Fixed Income vs. Barclays Global Aggregate

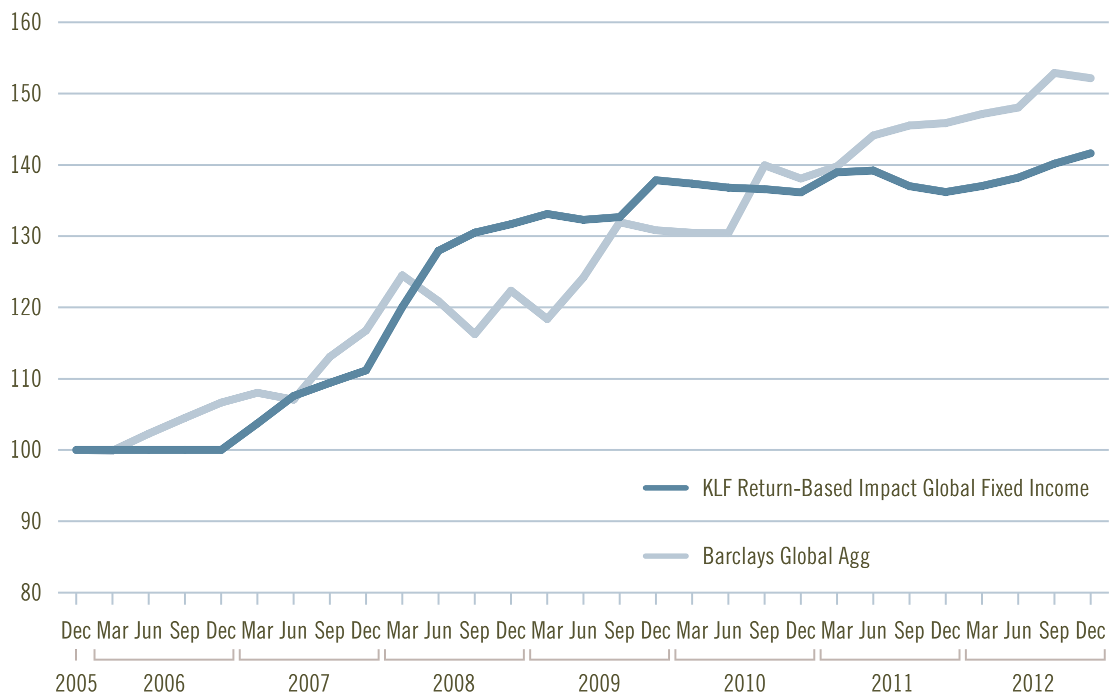

Table 6: KLF Return-Based Impact Global Fixed Income vs. Barclays Global Aggregate, Since Inception, 1/2006 Performance

Period	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Return-Based Impact Global Fixed Income	3.99%	0.90%	4.96%	5.10%	0.04%	-1.24%	4.68%	18.45%	11.17%	0.00%
Barclays Global Aggregate	4.32%	5.16%	5.44%	6.10%	5.63%	5.54%	6.93%	4.79%	9.48%	6.65%

Risk Characteristics for the Period: 1/1/06-12/31/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact Global Fixed Income	5.10%	2.18%	0.46%	3.68%	-0.06	0.04	1.53	4.60%	4.63
Barclays Global Aggregate	6.10%	3.20%	1.37%				1.53		2.65

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

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(6) **Please see Appendix IV for important disclaimers.**

KLF RETURN-BASED FIXED INCOME IMPACT

Prominent impact themes for fixed income investments (excluding PRIs) include financial services and community development. Financial services investments can be characterized largely by loans made to financial intermediaries who, in turn, relend proceeds to select beneficiaries. Consistent with the Foundation's mission focus on sustainable economic development of rural communities and families, the bulk of loan recipients in the financial services impact theme are underserved populations both in the US and in emerging economies that otherwise would not have access to capital.

Figure 8: Impact Themes and Geography for KLF Return-Based Impact Fixed Income Asset Class

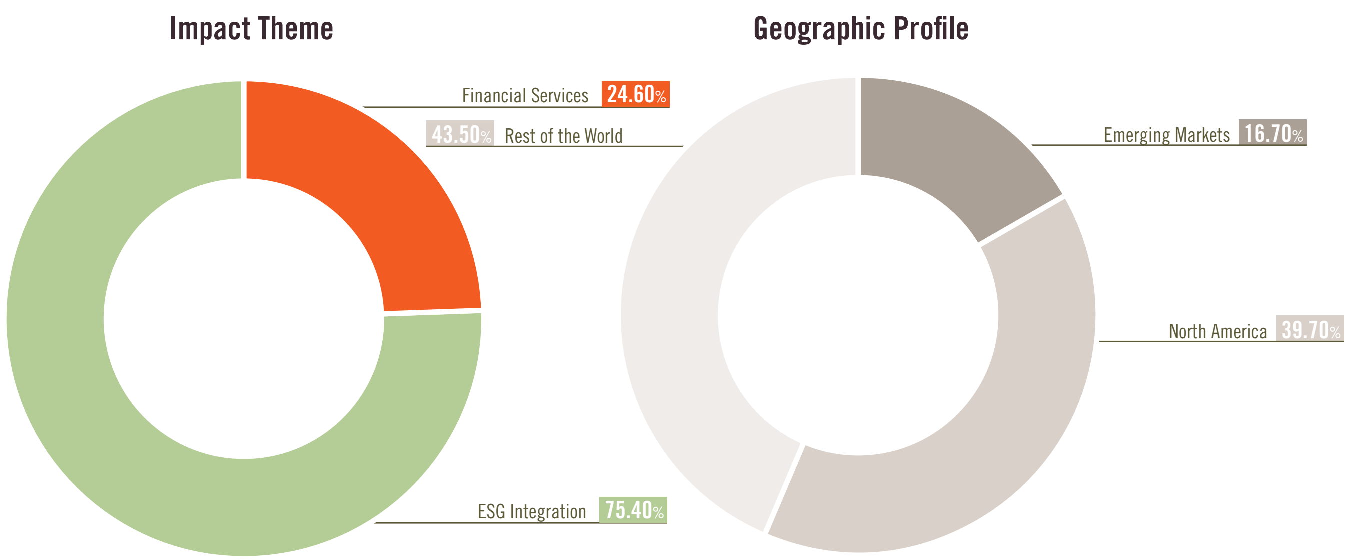


Table 7: Impact Themes for KLF Return-Based Impact Fixed Income Asset Class

Impact Theme	Impact Activities
Financial Services	Microfinance institutions globally
ESG Integration	Sovereign and corporate debt issues that integrate relevant Environmental, Social and Governance factors that may affect repayment.

KLF Return-Based Impact Public Equity: Financial Results and Impact Activities

KLF's investment policy allocates to public equities in the US, international and emerging markets. Underlying investment managers are categorized based on geography, market capitalization and styles.

KLF RETURN-BASED IMPACT US PUBLIC EQUITY

Over the investment period, the KLF return-based US public equities underwent a transition from an initial negative screening, or Responsible approach, to a more positive, proactive integration of ESG factors. Shorter-term underperformance is a result of slightly lower market capitalization in the actual portfolio, relative to the benchmark, combined with the historic rally in large cap US equities in 2012. Over the longer term, this capitalization tilt benefited the portfolio. As of December 31, 2012, Return-Based Impact US Public Equity amounted to 19.38% of KLF's Return-Based Impact Portfolio.

Figure 9: KLF Return-Based Impact US Public Equity vs. S&P 500

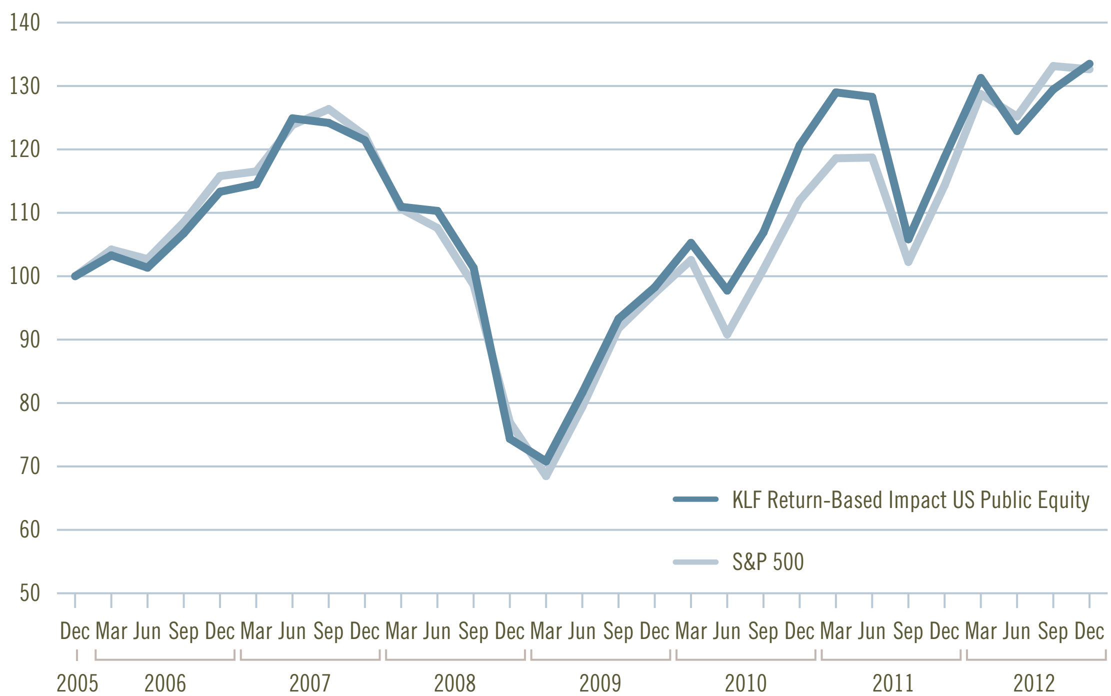


Table 8: KLF Return-Based Impact US Public Equity vs. S&P 500, Since Inception, 2/2006 Performance

Period	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Return-Based Impact US Public Equity	12.42%	10.76%	1.91%	4.22%	-1.57%	22.79%	32.14%	-38.77%	7.16%	13.32%
S&P 500	16.00%	10.88%	1.66%	4.12%	2.12%	15.06%	26.45%	-37.00%	5.50%	15.79%

Risk Characteristics for the Period: 2/1/06-12/31/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact US Public Equity	4.22%	9.61%	7.51%	0.42%	0.96	0.94	0.45	2.44%	0.56
S&P 500	4.12%	9.37%	6.38%				0.43		0.56

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of liquid investments (marketable securities) only. Illiquid (private) investments are presented in their respective sections in this report and have been evaluated separately on a money-weighted basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) **Please see Appendix IV for important disclaimers.**

KLF RETURN-BASED IMPACT GLOBAL PUBLIC EQUITY

Over the investment period, the KLF Return-Based Impact Global Public Equity strategy demonstrated considerable excess performance relative to its benchmark, which could, arguably, be attributed in large part to investments in high-quality companies combined with robust integration of ESG factors. As of November 30, 2012, Return-Based Impact Global Public Equity was 16.55% of KLF's Return-Based Impact Portfolio.

Figure 10: KLF Return-Based Impact Global Public Equity vs. MSCI World

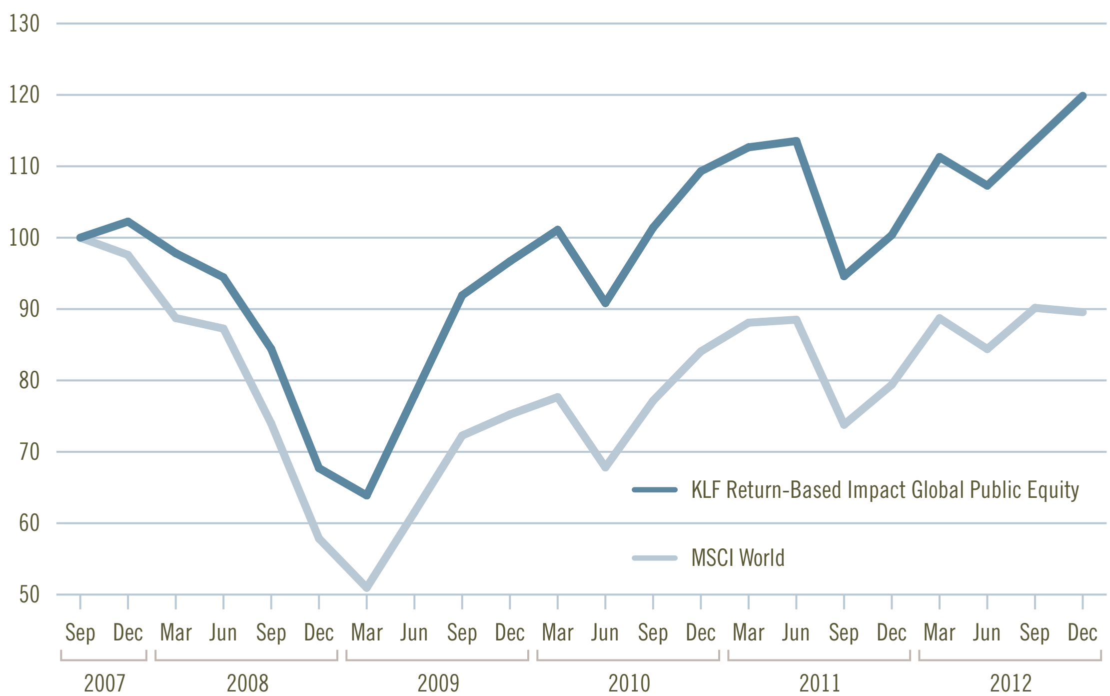


Table 9: KLF Return-Based Impact Global Public Equity vs. MSCI World, 10/2007 - 11/2012 Performance

Period	1 Year*	3 Year	5 Year	Since Inception	2011	2010	2009	2008
KLF Return-Based Impact Global Public Equity	19.44%	7.43%	3.23%	3.51%	-8.18%	13.04%	42.80%	-33.78%
MSCI World	12.80%	5.99%	-1.70%	-2.08%	-5.55%	11.76%	30.01%	-40.71%

* The return over an 11-month period was annualized to represent the 1-year return displayed in the above chart. The KLF Return-Based Impact Global Public Equity portfolio was fully liquidated on November 30, 2012 and was not reinvested until January 2013.

Risk Characteristics for the Period: 10/1/07-11/30/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact Global Public Equity	3.51%	10.50%	5.83%	5.53%	1.29	0.95	0.47	2.67%	0.49
MSCI World	-2.08%	11.61%	6.79%				-0.01		-0.19

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of liquid investments (marketable securities) only. Illiquid (private) investments are presented in their respective sections in this report and have been evaluated separately on a money-weighted basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) **Please see Appendix IV for important disclaimers.**

KLF RETURN-BASED IMPACT PUBLIC EQUITY VS. SUSTAINABILITY BENCHMARKS

As illustrated throughout this report, KLF's Return-Based Impact Portfolio is benchmarked to traditional recognizable industry indices. This is important in ensuring that the Foundation achieves market-based comparable returns in meeting its financial objectives. Furthermore, this could help support the broader development of the industry, by demonstrating a commitment to generally acceptable financial principles, while simultaneously pursuing impact.

Additional analysis was produced comparing KLF's Return-Based Impact Public Equity Portfolios to a number of sustainability indices, serving as a proxy for more passive approaches to investing for return-based impact. Although far from conclusive, the results appear to suggest that return-based impact investing may be better pursued with an active management strategy.

Table 10: KLF Return-Based Impact Public Equity vs. Sustainability Benchmarks[18]

2009	2010	2011	2012
KLF Return-Based Impact Global Public Equity 42.80%	**KLF Return-Based Impact US Public Equity 22.79%**	DJ US Sustainability Composite 2.70%	**KLF Return-Based Impact Global Public Equity 19.44%**
KLF Return-Based Impact US Public Equity 32.14%	**KLF Return-Based Impact Global Public Equity 13.04%**	MSCI KLD 400 Social Index 1.60%	MSCI KLD 400 Social Index 13.24%
MSCI KLD 400 Social Index 31.73%	MSCI KLD 400 Social Index 11.89%	**KLF Return-Based Impact US Public Equity -1.57%**	**KLF Return-Based Impact US Public Equity 12.42%**
WilderHill Clean Energy Mod EW TR USD 29.78%	S-Network Global Water 11.16%	**KLF Return-Based Impact Global Public Equity -8.18%**	DJ US Sustainability Composite 10.13%
DJ US Sustainability Composite 26.88%	DJ US Sustainability Composite 2.69%	S-Network Global Water -13.94%	S&P Global Clean Energy TR USD -16.16%
S-Network Global Water 24.90%	WilderHill Clean Energy Mod EW TR USD -4.76%	S&P Global Clean Energy TR USD -44.47%	WilderHill Clean Energy Mod EW TR USD -17.11%
MAC Global Solar Energy Index 22.38%	S&P Global Clean Energy TR USD -27.63%	WilderHill Clean Energy Mod EW TR USD -50.43%	S-Network Global Water -18.10%
S&P Global Clean Energy TR USD 7.35%	MAC Global Solar Energy Index -28.12%	MAC Global Solar Energy Index -64.65%	MAC Global Solar Energy Index -31.86%

18. See Appendix II for definitions of indices.

KLF RETURN-BASED IMPACT PUBLIC EQUITY IMPACT

Sustainable equities strategies rely on the integration of various environmental, social and governance ("ESG") data for investment selection and performance evaluation. Equities are managed by several separate and distinct strategies, each with differentiated approaches to evaluating the ESG performance of underlying companies.

While ESG integration is pursued throughout the equity portfolios, variations in managers' strategies further diversify the underlying holdings and benefit from multiple dimensions of ESG analysis. All managers maintain the conviction that ESG integration can enhance security selection, mainly by identifying specific ESG-related risks (that may negatively affect impact and financial returns in the near term) and opportunities (which may position a company for improved financial and impact returns over time).

Several managers pursue variations on a best-in-class strategy, essentially applying a strategy-specific series of positive ESG screens that evaluate companies' performance related to such topics as climate change, improved resource productivity (through corporate best practices), employee benefits and corporate governance/transparency. Active corporate engagement relating to these issues constitutes an integral part of these strategies.

Other managers evaluate ESG with a greater emphasis on environmental sustainability, particularly how companies can proactively position themselves to capitalize upon observed long-term global trends, such as resource scarcity, climate change, increased urbanization and higher protein diets.

Figure 11: Impact Themes and Geography for KLF Return-Based Impact Public Equity Asset Class

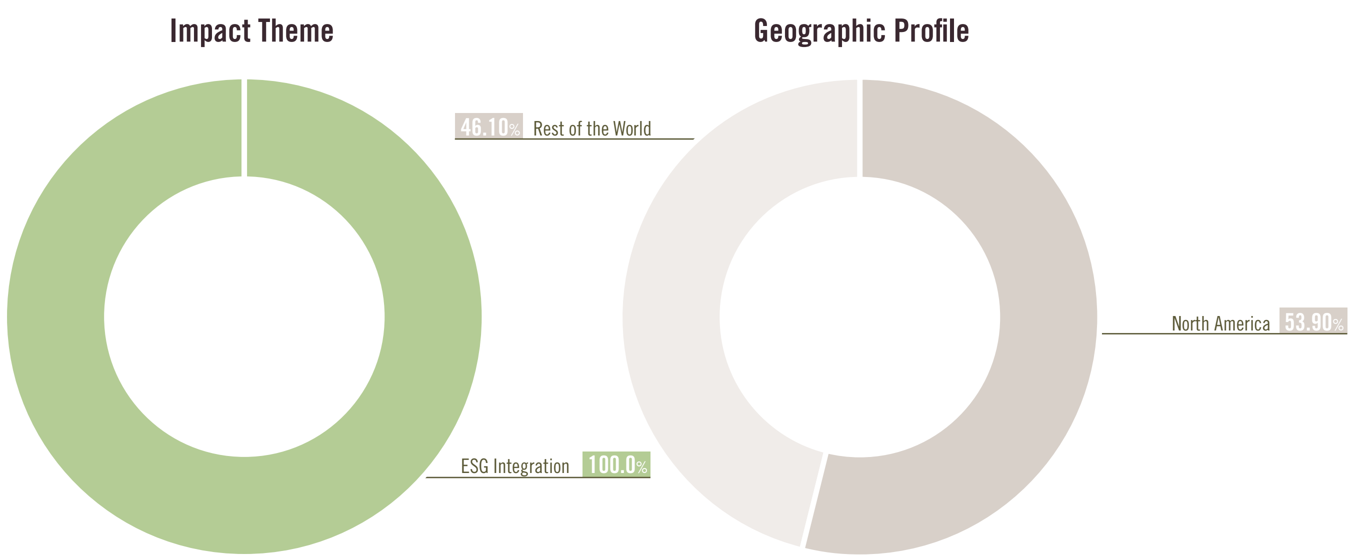


Table 11: Impact Themes for KLF Return-Based Impact Public Equity Asset Class

Impact Theme	Impact Activities
Sample ESG Indicators Used to Evaluate Performance	Sample ESG indicators include: a. GHG emissions/sales and total GHG emissions b. Use and management of hazardous materials in production c. Scope of supply chain standards and certification d. Percent of products with Design for Environment standards

KLF Return-Based Impact Hedge Funds: Financial Results and Impact Activities

KLF's investment policy focuses its hedge fund allocations to long/short strategies or highly activist managers.

KLF RETURN-BASED IMPACT HEDGE FUNDS

Initial options of funds were limited, resulting in a highly concentrated portfolio of just two funds, both of which pursued a long biased strategy. This approach proved very challenging during the economic crisis of 2008. In late 2010, a far more diversified portfolio was created, bringing more of a true long/short strategy to the hedge fund portfolio. With the solid and sustained equity rally that ensued following the crisis, the hedged nature of the diversified portfolio resulted in more stable returns. As of December 31, 2012, Return-Based Impact Hedge Funds amounted to 11.20% of KLF's Return-Based Impact Portfolio.

Figure 12: KLF Return-Based Impact Hedge Funds vs. HFRI Fund of Funds

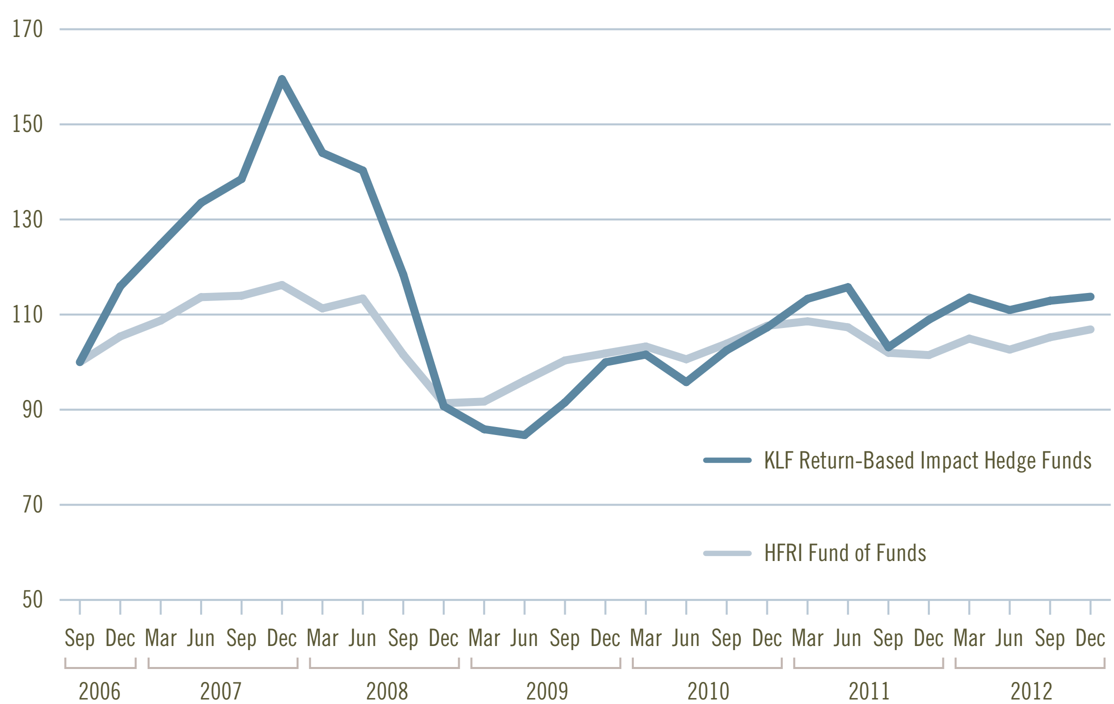


Table 12: KLF Return-Based Impact Hedge Funds vs. HFRI Fund of Funds, Since Inception, 12/2006 Performance

Period	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Return-Based Impact Hedge Funds	4.45%	4.40%	-6.54%	2.08%	1.50%	7.35%	10.15%	-43.11%	37.58%	15.94%
HFRI Fund of Funds	5.31%	1.62%	-1.66%	1.07%	-5.72%	5.69%	11.47%	-21.39%	10.26%	5.40%

Risk Characteristics for the Period: 12/1/06-12/31/12

Statistics	Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	R2	Sharpe Ratio	Tracking Error	Sortino Ratio
KLF Return-Based Impact Hedge Funds	2.08%	9.07%	6.83%	2.60%	1.76	0.72	0.26	5.94%	0.23
HFRI Fund of Funds	1.07%	4.19%	3.74%				0.00		-0.21

(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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of liquid investments (marketable securities) only. Illiquid (private) investments are presented in their respective sections in this report and have been evaluated separately on a money-weighted basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) **Please see Appendix IV for important disclaimers**.

KLF RETURN-BASED IMPACT HEDGE FUNDS IMPACT

Hedge fund investments as of December 31, 2012 consisted of two positions in funds that have a primary thematic focus on water, with a secondary focus on agriculture and energy. In this instance, investment strategies were formulated around the emerging global urgency to address resource scarcity, borne from population growth, increasing urbanization and higher protein diets around the world.

Hedge fund strategies invest in US-based companies that are providing products, goods or services that increase the efficient use of water, agriculture and energy resources with the expectation that global consumer and government spending on issues related to resource scarcity is bound to grow significantly in the near future.

Figure 13: Impact Themes and Geography for KLF Return-Based Impact Hedge Funds Asset Class

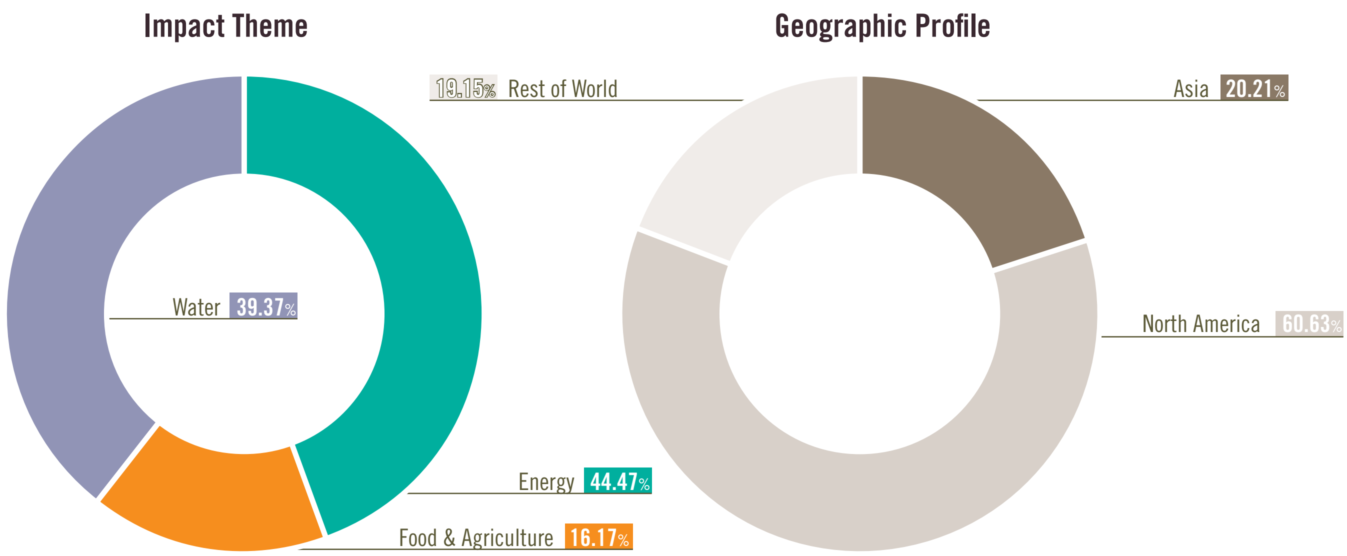


Table 13: Impact Themes for KLF Return-Based Impact Hedge Funds Asset Class

Impact Theme	Impact Activities
Water	Infrastructure, utilities, treatment technologies
Agriculture	Processing, fertilizer, equipment and retail
Energy	Wind, solar, biofuels, geothermal, energy efficiency and waste management

KLF Return-Based Impact Private Investments: Financial and Impact Discussion

Over the past seven years, the Foundation has made allocations to 13 private equity, venture capital, and private real assets funds featuring distinct social and environmental objectives in addition to their financial return targets. The initial allocations were heavily biased toward venture capital funds, which, while offering the benefit of diversification, blended a social component while pursuing a more traditional information technology-focused investment strategy.

KLF's private equity allocations were made at a relatively late stage during the portfolio's transition to impact.[19] The timing of KLF's private equity allocations is relevant because private equity fund returns often follow what is traditionally described in the industry as a "J-curve." The J-curve refers to the inherent tendency of long-term investments to deliver negative returns in the early years as management fees and capital are drawn while investments are held at cost and have yet to mature. Investment gains, for their part, are typically expected in the later years of the venture, as the portfolio seasons and investments mature,

19. For reasons explained above (See Supra note 17), returns are not provided for any private equity, venture capital or real assets investments.

creating value upon exit. The tendency for returns to be negative in the early years and to eventually turn positive (at times, significantly) toward the tail end of the investment cycle loosely resembles the pattern of a “J” (hence the name). It bears noting, however, that by contrast, some private equity investments occasionally present opportunities for an accelerated exit point resulting in very significant, though highly unusual, early financial return. Therefore, providing investors with such return figures could run the risk of mischaracterizing the nature, the term period, as well as the expected return of traditional private equity investments. For these reasons, among others, KLF believes that reporting private equity performance in the short run is not advisable, and that it seems both more informative and sensible to examine the performance of a given investment only after it has fully matured.

We also note that, for longer-term, illiquid investments, fund managers are typically biased toward holding investments at cost and/or at conservative valuations rather than reflecting subjective valuation increases in their portfolios. KLF’s Return-Based Impact Portfolio also includes a relatively higher proportion of growth stage investments reflecting the current nature of the underlying opportunities in the impact market. As such, any valuation methodologies based on cash flow multiples will generally penalize companies investing in growth.

As part of KLF’s private finance strategy, the Foundation has also made a series of direct equity and debt investments into companies pursuing business of social or environmental relevance. This direct investment portfolio includes companies involved in African agriculture and plant cultivation, Indian healthcare, community clean energy production and social campaign design and implementation. Moreover, this experience revealed that the process of making and managing direct investments is valuable, not only from a potential financial return standpoint, but also in terms of the sector knowledge imparted and the overall investment intelligence gained from being ‘on the ground’ investors in tangible, high-impact situations. Ultimately, although this investment amounted to a relatively small portion of the overall portfolio from a dollar commitment perspective, this experience has had an overwhelmingly positive influence on our ability to deploy capital to greater effect in more traditional strategies and asset classes.

KLF RETURN-BASED IMPACT PRIVATE EQUITY IMPACT

Private markets investments can provide a significant opportunity to target resources that generate specific social or environmental impacts. KLF’s mission was amplified by the use of targeted investments in the private markets, particularly as pertains to enabling entrepreneurs and enterprises to develop and grow sustainably, with an emphasis on rural communities and families.

Prevalent impact themes in the private equity asset class include clean or renewable energy, sustainable food and agriculture, water delivery and financial services for underserved populations. Underlying assets in this asset class are among the most highly-aligned with the Foundation’s social mission, and such investments were used to provide capital to high-impact enterprises with the potential for scale.

Investments in energy include a social enterprise that manufactures and distributes cook stoves globally. These stoves help reduce the toxic effects of indoor air pollution, reduce deforestation for cooking fuel and also provide a power source for small electrical devices such as lights or cell phones.

Figure 14: Impact Themes and Geography for KLF Return-Based Impact Private Equity Asset Class

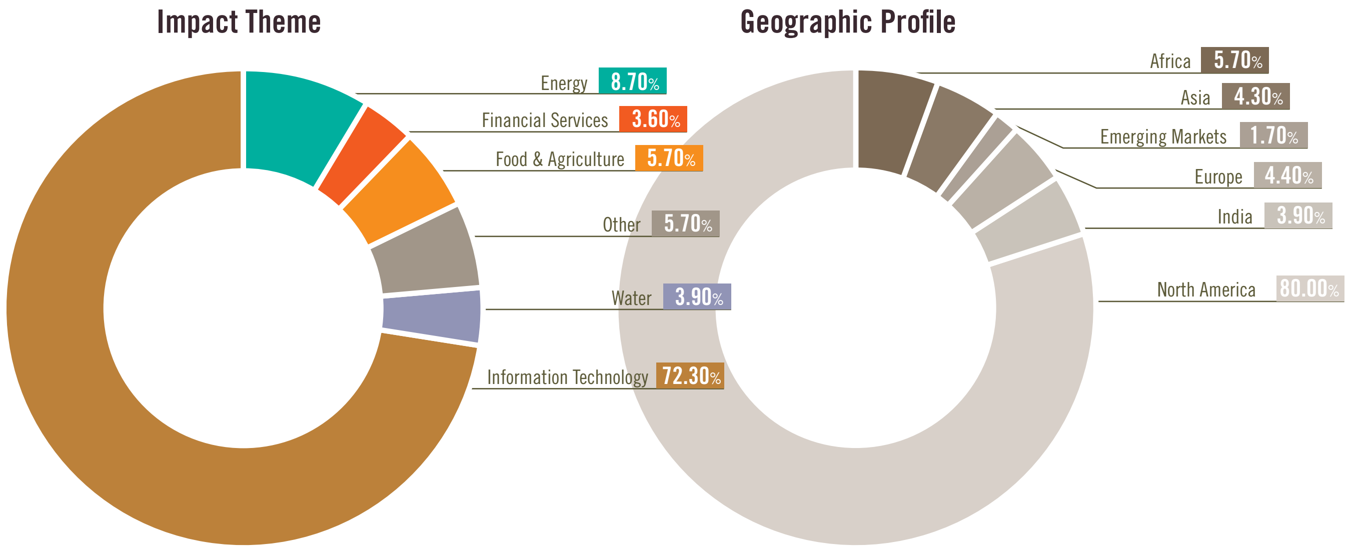


Table 14: Impact Themes for KLF Return-Based Impact Private Equity Asset Class

Impact Theme	Impact Activities
Information Technology	Growth stage companies providing job creation, mainly in the US but also in China and India
Energy	Clean cook stove technology for BoP
Agriculture	• Plant propagation nursery in Africa to increase food security and food availability in Africa • Supporting and networking smallholder farmers and connecting them to global markets
Financial Services	• Microfinance • Financing to cooperative BoP agricultural and artisan suppliers • Extending basic financial services to underbanked[20] persons in the US including credit enhancement and rehabilitation

Financial services private equity investments contribute a wide breadth of services and geographies to KLF's Return-Based Impact Portfolio. In the US, an investment focuses on underbanked consumers and, among other services, helps provide credit rehabilitation in order to help more consumers re-enter the US economy. Another investment focuses on providing women in emerging economies access to affordable credit and basic financial services. Yet another provides downstream financial investment to enterprises that are employing farmers, artisans and micro-entrepreneurs located in Africa and Asia. Such investment helps provide sustainable income for these populations as well as access to finance to expand their businesses.

20. The Federal Deposit Insurance Corporation ("FDIC") defines underbanked consumers as individuals who have a checking or savings account but also rely on alternative financial services such as money orders, check cashing, payday loans, rent-to-own agreements and pawnshops.

KLF RETURN-BASED IMPACT REAL ASSETS IMPACT

The real assets allocation in KLF's Return-Based Impact Portfolio includes investments primarily in ecosystem services (harnessing the direct and indirect benefits of intact, fully-functioning ecosystems, such as carbon sequestration or nutrient cycling).

Beyond the nascent market mechanisms that are beginning to add monetary value to a growing universe of marketable ecosystem services, KLF's Return-Based Impact Portfolio was also invested in enterprises that advance land conservation and sustainable forestry activities in the US.

Figure 15: Impact Themes and Geography for KLF Return-Based Impact Real Assets Asset Class

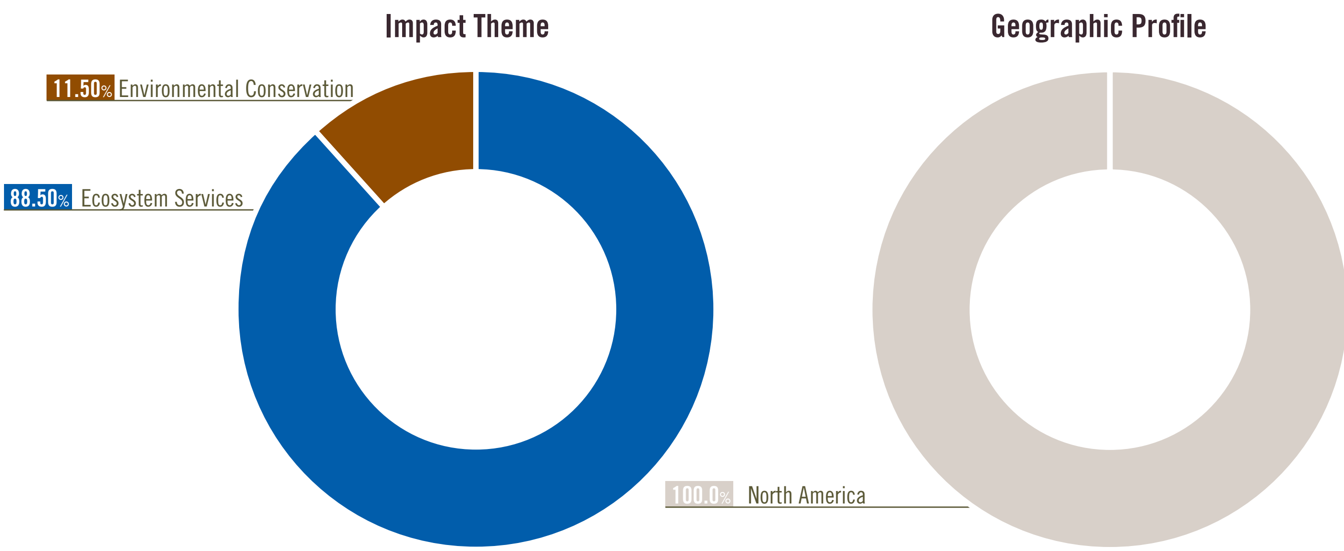


Table 15: Impact Themes for KLF Return-Based Impact Real Assets Asset Class

Impact Theme	Impact Activities
Environmental Conservation	• Wetland and stream mitigation banking • Conservation finance • Carbon sequestration • Transfer of development rights • Sustainable and certified timber and agriculture
Ecosystem Services	• Carbon and GHG offsets • Biodiversity and conservation market • Forestry management • Rangeland conservation • Enhanced agriculture practices

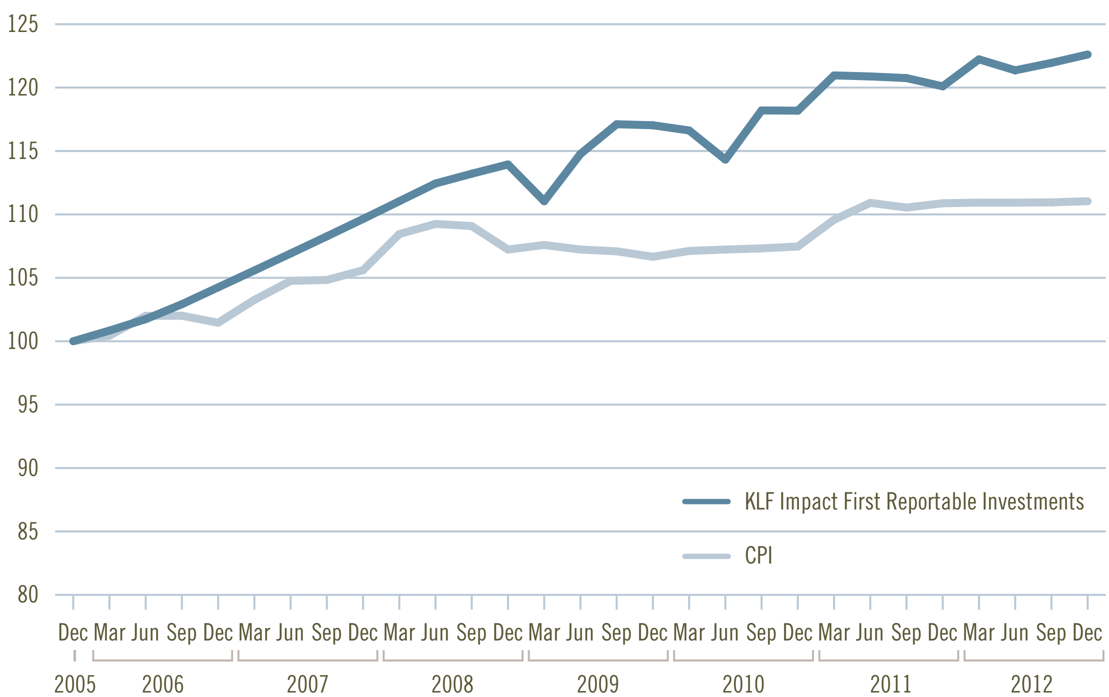
IMPORTANT DISCLAIMER

Although the Impact First portfolio strategy figures among the impact investment strategies pursued by KLF as part of its overall Impact Portfolio, we note at the outset of this section that, any and all investment decisions relating to the Impact First portfolio since its inception, including those described in this section, have been made exclusively, and in their entirety, by the Foundation, without the advice, counsel, or input of Sonen Capital. Since Sonen Capital's role in the Impact First portfolio strategy was, and continues to be, strictly limited to executing Impact First investments as directed by KLF, neither the merits, the returns, nor any part of the investment strategy underlying such investments can in any way be imputed, attributed, or otherwise ascribed to Sonen Capital.

KLF Impact First Performance: Impact Activities and Financial Results

The following investments were made with an Impact First focus, meaning that their expected outcomes were more heavily dependent on their ability to create an impact that aligned with KLF's mission than their ability to achieve financial returns. Given their specific dual goals of generating both impact and returns, KLF chose to incorporate an Impact First portion of its portfolio that was evaluated with reduced requirement of financial performance in exchange for greater social or environmental impact. KLF's Impact Investment Policy outlines more specific parameters around the balance between financial and impact aims to ensure that each investment is consistent with the overall portfolio strategy pursued by KLF. KLF uses return of capital, plus the Consumer Price Index ("CPI") as the general financial benchmark for its impact first investments. This allows KLF to determine if the dollars invested with an impact first approach is creating positive leverage (returning capital) and keeping pace with inflation. KLF's ultimate goal is to allow this portion of its portfolio to serve as a revolving pool of capital, available to make high impact investment on an ongoing basis.

Figure 16: **KLF Impact First Reportable Investments vs. CPI**



((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. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

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In addition to Impact First investments that provide a reportable return, KLF has made a number of private equity-style Impact First investments. These investments included a high-risk sustainable timber investment in Central America, community development investments benefitting disadvantaged populations in Europe and an investment providing access to financial services in Africa.

As of December 31, 2012, KLF Impact First investments amounted to 10.64% of KLF's Total Portfolio.

KLF IMPACT FIRST IMPACT

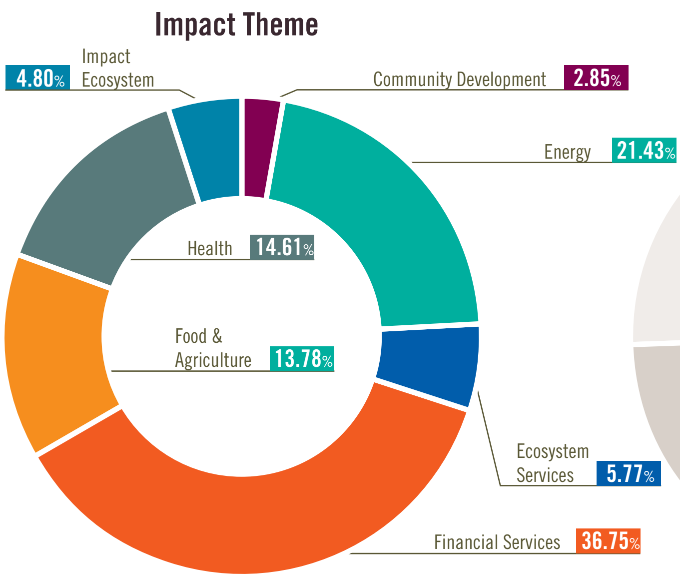
In pursuing its mission, KLF dedicated 10% of its assets to "impact first" investments, i.e., those investments that prioritize social or environmental impact over financial performance. This portfolio of investments is comprised of 17 separate high-impact investments that are highly aligned with KLF's mission, and are comprised of five asset classes, including cash, fixed income, real assets, real estate and private equity. The portfolio of impact first investments also presents a broad array of impacts across these asset classes.

Fifteen of the 17 investments are program-related investments (PRIs), as previously described. In contrast to a typical investment made from the Foundation's corpus, an Impact First investment is intended to maximize social or environmental returns, but assumes a higher degree of risk in that the investment may not deliver competitive financial returns. However, the anticipated social or environmental impact of these investments is both significant and highly aligned with the Foundation's mission.

An example of an Impact First Investment includes a low-interest loan made to a social enterprise that subsequently uses funds to finance high-impact enterprises in the areas of food and agriculture, education and the arts, and ecological stewardship. Additionally, one real estate investment simultaneously protects high conservation value coastal rainforest and provides a limited number of homes to an ecologically-minded living community in British Columbia.

KLF's Impact First investments are nearly evenly distributed by geography around the world, with a presence on nearly every continent.

Figure 17: Impact Themes and Geography for KLF Impact First Investments



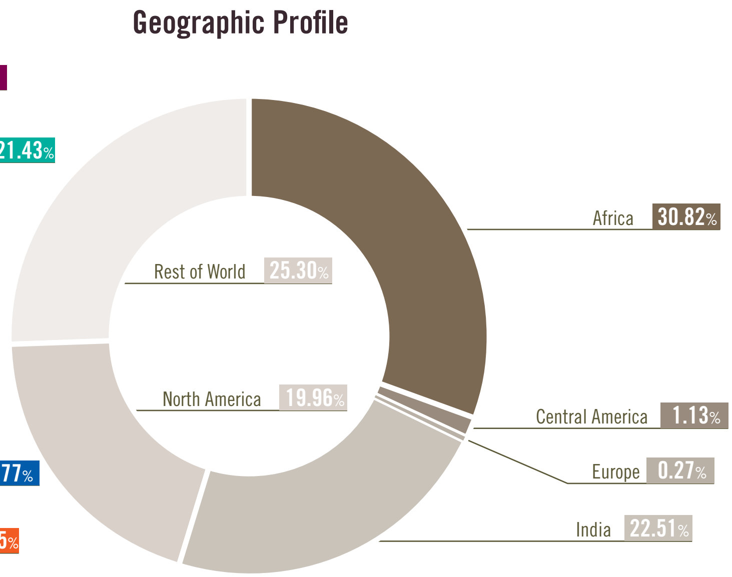


Table 16: Impact Themes for KLF Impact First Investments

Impact Theme	Impact Activities
Financial Services	• Loans to independent media globally • Loans to organic and fair-trade farmer cooperatives in Asia and Africa • Microcredit and small business financial services globally • Job creation and economic empowerment for rickshaw drivers in India
Energy	• Renewable energy products and services, energy efficiency, clean energy infrastructure, water quality and treatment • Rural distribution of renewable energy sources and basic infrastructure
Health	• Potable water and healthcare services in rural India
Food and Agriculture	• Loans to organic and fair-trade farmer cooperatives in Eastern Europe
Environment	• Conservation of high ecological value coastal rainforest adjacent to ecologically-minded living community in British Colombia. • High conservation-value land protection; certified forestry; related job creation in rural Central America.
Impact Ecosystem	• Finance for US-based organization that builds the infrastructure and capability for retail-based impact investing opportunities
Community Development	• Small business financial services to boost rural employment and job retention, help small businesses expand and increase community economic sustainability

The Impact First investments in KLF's Portfolio are highly aligned with the Foundation's mission and present a broad array of impacts across asset classes. For most of these investments, specific impact data are being collected based on the Global Impact Investing Network's Impact Reporting and Investment Standards ("IRIS"). IRIS provides an opportunity for impact investors to collect standard impact indicators across multiple investments. The use of IRIS enables comparisons between investments as well as aggregation of data within the portfolio.

KLF uses IRIS indicators to illustrate the social, environmental and financial success of the Foundation and its investments; nurture KLF's investments; evaluate future investments; and provide needed performance data to share with a growing community of impact investors.

KLF applies a common set of core performance IRIS indicators to every investment across the portfolio, which includes both social and financial indicators. And because the portfolio included "clusters" of investments within specific sectors, some sector-specific IRIS performance indicators were also chosen for applicable investments. Last, KLF also monitors a small set of qualitative indicators uniformly across the portfolio to gather even more information about its investments and to assist in performance evaluation. The indicator selection process is described in more detail in a case study published by the Global Impact Investing Network ("the GIIN") available at: http://iris.thegiin.org/materials/case-study-kl-felicitas-foundation.

IMPACT DATA: KLF IMPACT FIRST INVESTMENTS

In 2009, seven impact indicators were identified in order not only to monitor investees' progress, but also to help gauge KLF's own effectiveness in helping to expand the amount of resources available to social entrepreneurs and social enterprises through impact investing, a central tenet of the Foundation's mission.

SOCIAL IMPACT INDICATORS

In order to monitor the relative level of activity and social performance of its investees, we examine the total number of clients that each investment serves annually. This can be individuals (such as loan recipients or recipients of healthcare services) or organizations (i.e., businesses or other enterprises that received funding or services).

Table 17: KLF Social IRIS Impact Indicators

Key Questions on Impact and Strategy	IRIS Indicator		Definition
What is the relative level of activity of the enterprise? How many people is it affecting?	Number of Clients	Number of Client Individuals (PI4060)	Number of individuals or households who were clients during the reporting period; The total number of consumers.
		Number of Client Organizations (PI9652)	Number of businesses or organizations that were clients during the reporting period.
	Jobs Maintained at Financed Enterprise(s) (PI5691)		Net number of FTE jobs at financed enterprise (including self-employed individuals and owners of businesses)

The total number of jobs maintained at the financed enterprise is also monitored, as it provides information both on relative levels of economic activity and self-determination for employees, as well as on the financial health of the underlying investment (with the assumption that if the financed enterprise is hiring more employees, more quality jobs are being created and the enterprise itself is flourishing). See Table 17 on the previous page for IRIS indicators and definitions.

FINANCIAL IMPACT INDICATORS

A central part of KLF's mission is to advocate its impact investing strategy and catalyze additional resources to the impact investing industry in order to increase the amount of resources that are made available to finance solutions that address the most pressing and systematic global challenges, beyond the realm of aid, philanthropy and grants. Providing the institutions and entrepreneurs in this sector with access to capital holds the dual promise of financing solutions that improve human or environmental conditions, as well as reaping the financial benefits of meeting true need, a market identification mechanism in itself. KLF's mission of transparency is founded upon the desire to dismantle the persistent obstacles that prevent other potential impact investors from entering this space, and sharing the experiences gained in navigating challenges to realize opportunity that aligns impact with mission without sacrificing financial returns.

To this end, a series of financial indicators are also monitored in an effort to reveal how well the Foundation's investments are able to: a) employ resources to expand the scale of operations; b) attract additional resources from other sources; and c) gain greater sustainability and financial self-sufficiency.

In order to create reliable indicators, the number and dollar amount of direct investments that an investee gathers over the course of the reporting period (indicators FP4359 and FP8293) are carefully tracked. These two indicators simply reflect the amount of dollars raised by the investee and the number of sources that provided the investment.

In 2012, it was determined that the relative level of activity of KLF's 10 fund investments (in the Impact First portfolio) should be monitored by tracking the total value of loans and investments made to underlying entities. (Funds in KLF's Impact First portfolio typically gather resources from investors and then proceed to make their own downstream investments into enterprises). Indicator FP2136 tracks the total value of underlying investments during the reporting period.

Lastly, three indicators that originate directly from the income statement are monitored, including contributed revenue (FP 3021, or the amount of grant dollars provided to the organization), earned revenue (FP5958) and net income (FP1301).

Some KLF investments are either hybrid non-profit/for-profit organizations, or are social enterprises that also gather grant resources from philanthropic organizations. In these cases, KLF aims to monitor the flow of those grant resources and the relative proportion of those funds vis-à-vis earned revenues and net income. In addition, since the net income figure also includes contributed revenue, this has made it possible to monitor the exact amount of net income that does not include grant support. See Table 18 on the following page for IRIS impact indicators and definitions.

Table 18: KL Felicitas Financial IRIS Impact Indicators

Key Questions on Impact and Strategy	IRIS Indicator	Definition
What is the financial position and strength of the enterprise? Is it attracting other investment? What type, and from whom?	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
	Total Value of Loans and Investments (FP2136)	Value of financial portfolio products including loans and investments in investees. (Funds only)
	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

IRIS impact data have been collected from nearly all of KLF's Impact First investments for the period 2009-2012. IRIS has proven to be a useful tool despite some challenges in implementation, namely ensuring that investees are reporting on the precise indicator as defined in the IRIS taxonomy. One of the key benefits of the systematic collection of this impact data is the ability to monitor trends in the impact performance of underlying investments. This is particularly evident in the *Number of Clients Served* and *Jobs Maintained in Financed Enterprise* indicators, in which year-on-year data reveals that most KLF investees are scaling their activities significantly.

With the right focus on financial indicators, it becomes easy to monitor how well KLF's investees are attracting other resources, as well as how fund investees are putting invested dollars to work in underlying investments of their own.

Table 19: KL Felicitas Sector IRIS Impact Indicators

Impact Cluster	Sector IRIS Indicators	Description
Health, Energy and Water	Clients provided new access to energy, healthcare, water (PI2822)	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 (PI8706)	Energy produced during the reporting period (MWh)
	Potable Water Produced (PI8043)	Amount of potable water produced (L)
Land Conservation and Restoration	Land Reforested (PI4907)	Hectares of land reforested during the reporting period
	Land Preserved (PI2012)	Hectares of land designated as a nature reserve
	Sustainable Cultivated Land Area (OI2605)	Hectares under sustainable cultivation

SECTOR AND QUALITATIVE INDICATORS

Six sector indicators focus on health, energy and water, as well as land conservation and restoration. These do not form a part of the 'core' social and financial indicators for KLF, but are collected wherever relevant to underlying investments.

Last, qualitative indicators monitored by the Foundation are intended to shed light on how investees are scaling their activities, hybrid business models, and how investees may be taking advantage of related capacity building or technical assistance tools made available by the Foundation.

As more Thematic investments become a part of KLF's Return-Based Impact Portfolio, it is expected that there will be expanded opportunity to gather related impact data that can amplify the data that is being collected from the Foundation's Impact First portfolio.

KLF Total Return-Based Impact Reportable Portfolio: Financial Results

On a weighted total portfolio basis, the KLF Return-Based Impact investments performed in line with the asset class exposures they assumed over the investment period since 2006. While only accessing a maturing universe of investments and types of impact, KLF's Return-Based Impact Portfolio was able to remain competitive with widely accepted financial benchmarks based on the portfolio's stated asset and risk exposures. The portfolio on a broad basis provided for diversification benefits versus its market exposures.

Going forward, as the impact investment industry continues to evolve, KLF's investment portfolio is expected to benefit from a rapidly expanding universe of impact investment opportunities managed by increasingly capable investment professionals. Investment options are proliferating across asset classes, driven by growing investor preference and ensuing demand. While perhaps too early to conclude, the impact characteristics of investments seem increasingly more valuable in the investment decision-making process.

Figure 18: **KLF Total Return-Based Impact Reportable Portfolio vs. Portfolio-Weighted Benchmark**

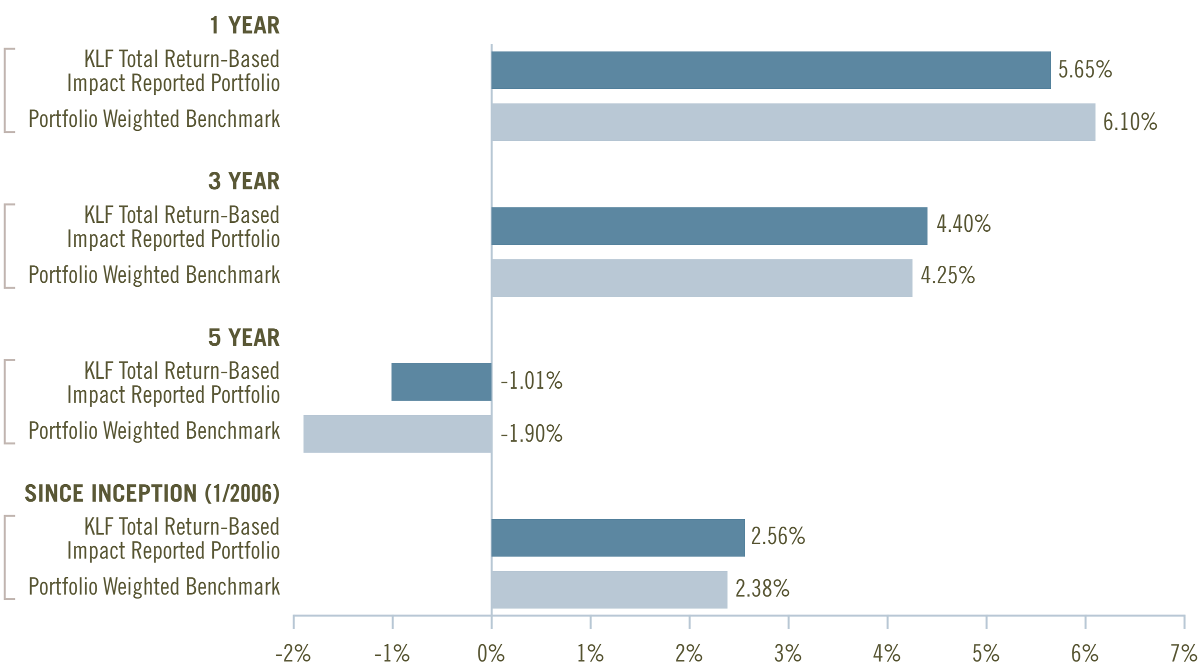


Table 20: KLF Return-Based Impact Reportable Performance vs. Portfolio Weighted Benchmark, Since Inception, 1/2006

Period	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Total Return-Based Impact Reportable Portfolio	5.65%	4.40%	-1.01%	2.56%	-0.74%	8.51%	16.71%	-28.43%	10.63%	13.47%
Portfolio Weighted Benchmark	6.10%	4.25%	-1.90%	2.38%	-0.16%	6.94%	12.90%	-28.98%	9.20%	18.81%

(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. Net performance includes the additional expense of consulting fees paid by KLF for investment advisory services. Certain performance results presented in the table above precede Sonen Capital's formation in 2011. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio performance net of all fees and Appendix IV for important disclaimers.

(3) The above asset classes consist of liquid investments (marketable securities) only. Illiquid (private) investments are presented in their respective sections in this report and have been evaluated separately on a money-weighted basis.

(4) Unless explicitly noted, the performance displayed is that of KLF's Return-Based Impact Portfolio, which consists entirely of impact investments made to achieve market-rate returns.

(5) 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).

(6) The portfolio-weighted benchmark is a blend of the 3-Month Treasury Bill, Barclays Global Aggregate Index, MSCI World 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.

(7) **Please see Appendix IV for important disclaimers.**

TOTAL PORTFOLIO IMPACT

Moving beyond a traditional understanding of impact results, we now consider KLF's Return-Based Impact Portfolio's impact in its entirety. An examination of the full portfolio impact provides what could be interpreted as a compelling illustration of how impact, used as a lens for asset allocations, may not necessarily imply making a financial sacrifice. Based upon KLF's demonstrated experience since 2005, it seems possible to construct a risk-adjusted impact investment portfolio across all asset classes, especially given the increasing capital inflows and interest in the space. In addition, there are evermore increasing options that can help investors align their assets with a specific social mission with emerging alternative investment vehicles and fund of funds structures pursuing impact.[21] In most cases, corpus investments can amplify a foundation's social mission considerably. Some asset classes, however, necessarily have more diffuse or indirect impact. Public equities, for example, often do not deliver explicit and quantifiable impact to the extent that private market vehicles can. Still, KLF's allocation to public equities (32% of the overall portfolio) utilizes strategies in which managers select underlying assets based on environmental, social or governance sustainability attributes and related performance indicators.

As of December 31, 2012, KLF's Return-Based Impact Portfolio was 85% allocated to impact investments consistent with the Foundation's mission. The following discussion will focus on the asset class complexion of the portfolio, specifically to illustrate how numerous and varied the impact investing opportunities are for socially-minded investors.

Impact investments were allocated across all asset classes making it possible to identify specific social or environmental impacts for each. As a greater number and wider spectrum of impact investment

21. World Economic Forum. "From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors," 2013; US SIF. "The Impact of Sustainable and Responsible Investment," 2013.

opportunities continue to become available to investors, it is anticipated that all asset classes will be capable of delivering risk-adjusted, financially competitive and mission-aligned impact returns to investors.

Nearly one third (31.9%) of KLF's assets have been invested in relatively "high-impact" investments, i.e., Thematic and Impact First investment strategies. Thematic and Impact First strategies provide the greatest opportunity to align investments with narrow social and environmental objectives, and thus, this portion of the portfolio contributes most to the Foundation's impact intentions. Contrary to conventional wisdom, these "high-impact" investment strategies are available to investors in multiple asset classes, including cash, fixed income, private equity, real estate, real assets and hedge fund strategies.

About 45.3% of KLF's assets are invested in various sustainable strategies, dominated by public equities and fixed income managers that use ESG integration methodologies in investment selection. The Sustainable investment category also includes impact positions in hedge funds and private equity.

As evidenced in Figures 19 and 20, specific impacts can be delivered through multiple different asset classes across KLF's Return-Based Impact Portfolio.

Figure 19: **KLF Impact Investments by Impact Strategy and Asset Class**

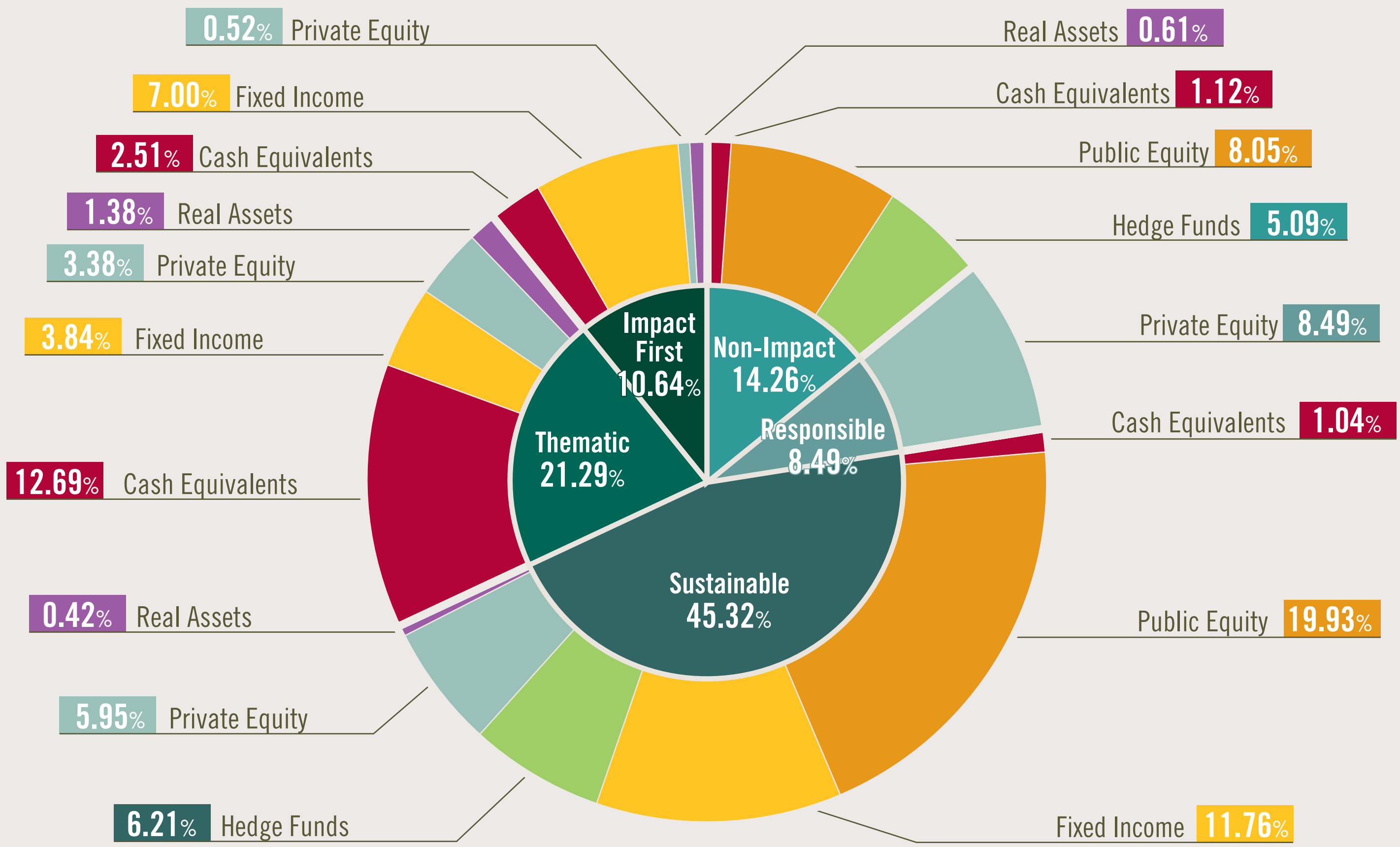
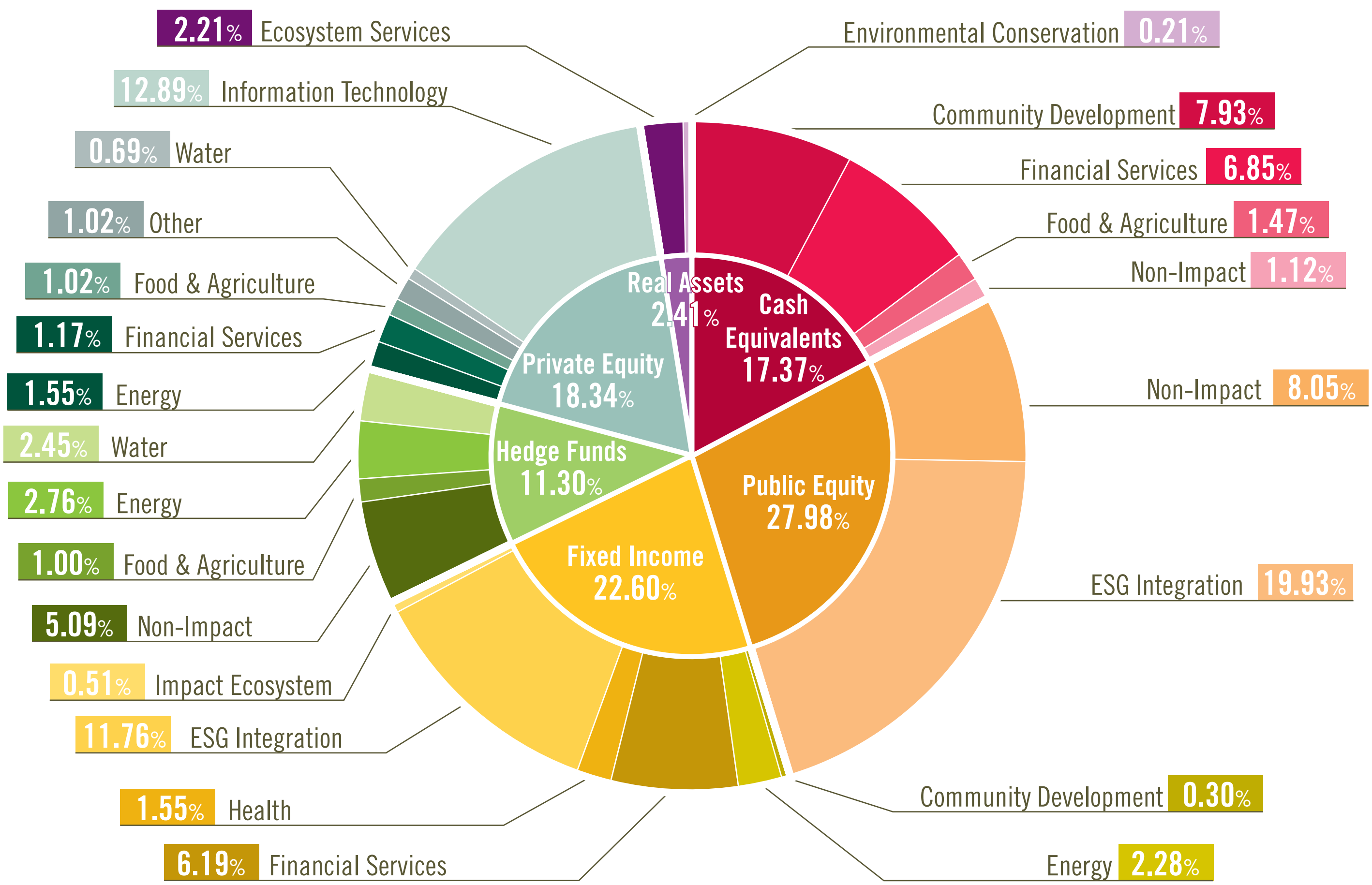


Figure 20: **KLF Asset Class Exposure and Impact**



OTHER IMPACT MEASUREMENT FOR KLF'S PORTFOLIO

As a part of KLF's larger effort to catalyze resources in impact investing, and to build upon industry standards that can be of use to future impact investors, the Foundation makes use of other third-party ratings that help communicate impact and provide benchmarks for relative impact performance across similar investments.

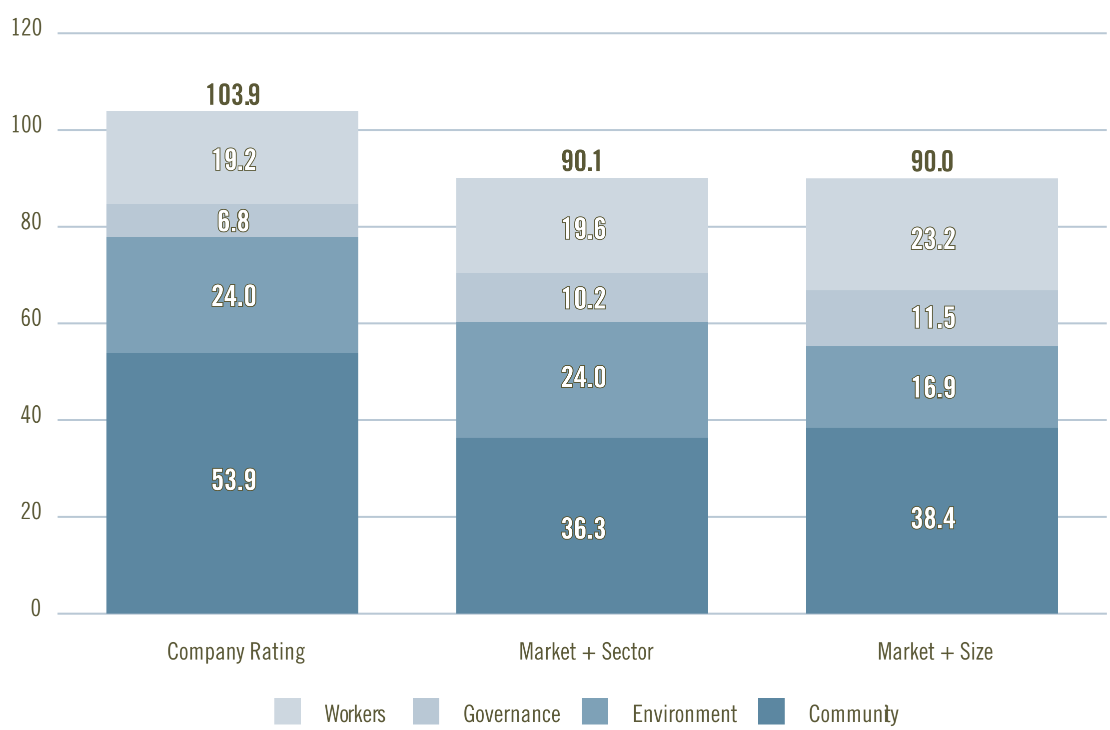
KLF is a Global Impact Investing Rating System ("GIIRS") Pioneer Investor and, as such, has declared an investment preference for GIIRS-rated funds and companies as part of its impact investing strategy. GIIRS ratings provide an easy-to-understand assessment of the social and environmental impact of funds and companies, analogous to a Morningstar investment ranking. Read more about GIIRS at www.giirs.org. GIIRS ratings also provide benchmarking information, so that investors may see the relative performance of one investment over another at any given time. Within the KLF portfolio, five companies are GIIRS-rated and six funds are GIIRS-rated (out of the 24 eligible funds and companies in the KLF portfolio eligible for a rating). *(continued on page 54)*

(continued from page 53) KLF continues to make the case that pursuing a GIIRS rating can assist funds and enterprises in measuring and benchmarking their impact, utilizing the assessment as an impact improvement tool and attracting investment resources. It is KLF's hope that new additions to the portfolio also commit to the GIIRS rating process to facilitate standardized impact reporting for the entire portfolio. See Figures 21-23 below for sample fund and enterprise GIIRS ratings.

Table 21: Sample Enterprise GIIRS Rating

GIIRS Ratings Dimensions	Definition
Governance	Related to the mission, stakeholder engagement, governance structure and controls, and the overall transparency of the underlying companies.
Workers	Focuses on how the underlying companies treat their workers in terms of compensation, benefits, training, work environment and ownership.
Community	Covers the impact of the underlying companies on external community stakeholders.
Environment	Focuses on the direct and indirect environmental impact of the underlying companies.

Figure 21: Sample Enterprise GIIRS Ratings, Overall Rating by Impact Area vs. Benchmarks



Enterprise 1: GIIRS' five-star rating system is comprised of individual scores in Governance, Workers, Community and Environment, based on a thorough questionnaire submitted by corporate management and reviewed by GIIRS staff.

GIIRS scores for enterprises can also be benchmarked to similar companies that operate within the same sector. In this case, the Company Rating (103.9) is compared to other companies that operate in the same market and sector (Market + Sector = 90.1). The Market + Size rating (90.0) includes companies of a similar size (by staff) that also operate in the same market. In this case, this KLF investment outperforms both benchmarks.

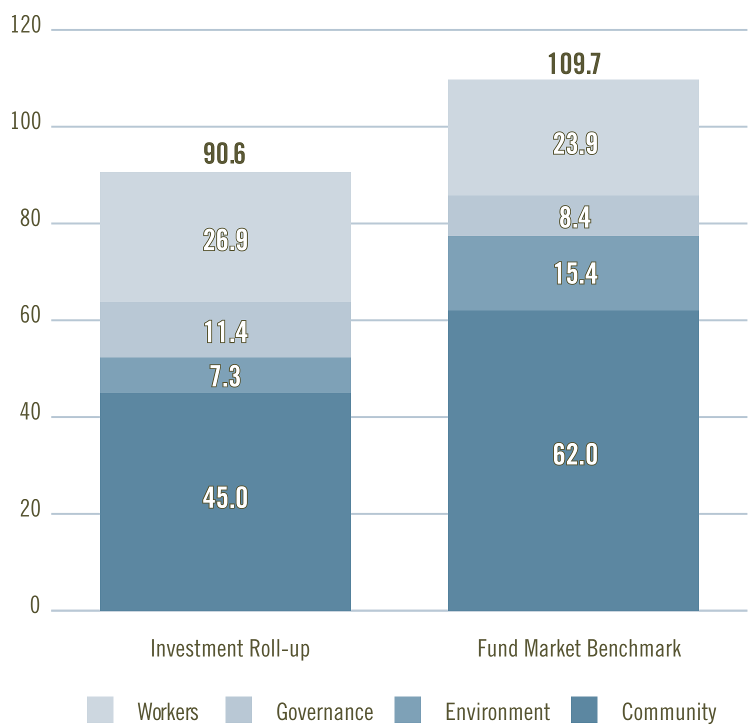
fund's portfolio companies. The fund's investments roll-up to an aggregate score of 90.6, compared to a Fund Market Benchmark score (an average impact score for all GIIRS rated companies in the same target market) of 109.7.

Impact synergies across investments and asset classes

KLF uses its mission to inform its investment selections, and the result across the portfolio is a focus on a number of specific impact themes, including:

a. Financial services for the underserved;
b. Small business and job creation;

Figure 22: Sample Fund Rating: Financial Services in Emerging Economies



GIIRS Fund Ratings are comprised of a Fund Manager Assessment (10% of total score) and an Investment Roll Up score (90% of total score), consisting of a weighted average of scores from the

c. Community development services and projects in low and median income regions;
d. The environment; and
e. Energy.

In examining KLF's impact investment portfolio from the highest level, specific impact synergies are evident across disparate asset classes, illustrating the various investment opportunities that exist across impact areas and asset classes. For example, the provision of clean drinking water in rural communities in India is the key impact for one of KLF's private equity, Impact First investments. Two public equities strategies, however, also focus on the provision of water, but at a more diffuse level, focusing on water infrastructure, water utilities and water purification technologies that stand to benefit large segments of the world's population by virtue of where these investments are focused (i.e., India and China).

Considering energy-related investments highlights an example of the various points to entry across asset classes. KLF has two investments that focus on providing clean energy solutions for some of the world's poorest and most disadvantaged populations: one Return-Based private equity investment and one Impact First fixed income investment. One firm is providing clean-burning, fuel-efficient cook stoves that reduce indoor air pollution – a major cause of premature death in developing countries – and reduces the need for deforestation in those regions. The other firm is funding a number of enterprises and building basic infrastructure that provides low-cost sources of illumination and energy in rural Africa.

Another example from the energy portfolio that illustrates the multi-dimensional nature of impact investments is one of the Foundation's private equity investments focused on large-scale technological solutions to energy efficiency, renewable energy technologies, and basic infrastructure that can expand the reach of energy efficient electrification worldwide.

With a focus on sustainable economic development, the provision of a wide range of financial services is another prominent theme within the Foundation's portfolio that is reflected across multiple asset classes, including private equity, fixed income and cash. Financial services includes an array of activities, including basic cash micro-lending services to base of the pyramid populations in emerging economies, and credit rehabilitation services for disadvantaged consumers in the US.

Finally, various investments across multiple asset classes are qualified under the general term "environment." Examples in the real assets asset class include land restoration and permanent conservation activities in the continental US, including the development of sustainably-minded housing developments. Investing in commodities includes various "ecosystem services," essentially helping to monetize the benefits of such environmental goods as clean drinking water or carbon sequestration through ecosystems and habitat preservation. Investments in timber include sustainable forestry alongside land conservation and long-term employment opportunities for communities in the United States and Central America.

LOOKING AHEAD

This report provides an initial overview of the challenges and opportunities of developing a balanced portfolio that supports both financial and impact goals. This report illustrates – with real performance data from the seven-year returns of the KL Felicitas Foundation's impact portfolio – that the dual goals of performance and social value may be achieved through a careful methodology that supports both goals equally.[22]

The growing awareness of impact investment as a practice has resulted in a greater number of investors and entrepreneurs along each point of the impact spectrum with assets managed under sustainable and responsible investing principles growing by approximately 22% from $3.07 trillion in 2010 to $3.74 trillion in 2012.[23] By sharing KLF's journey, we at Sonen Capital hope that others can learn from its experiences and use its lessons to inspire them to action, empowered by the knowledge that it may well be possible to achieve both financial and impact goals in the same portfolio.

By creating an investment strategy based on positive outcomes, the KL Felicitas Foundation portfolio serves to illustrate that impact goals can help identify new market opportunities and could even reduce volatility, thus potentially resulting in truly positive performance across the board as well as a long-term strategy for meeting human and environmental needs by providing access to capital.

In evaluating these findings, it is important to keep in mind that diversifying a $10 million portfolio limits one's ability to access certain strategies and managers that could have otherwise been invested in. Thus, at times, this constraint may have contributed to higher transaction fees, given the need to create a diversified portfolio. On the impact side, there were instances where the asset size was also restrictive. In certain cases, given the nascent state of the impact space seven years ago, there were also times when KLF's size was simply larger than the market could absorb at the time. We believe that these constraining factors likely no longer impede present investors given the growth of opportunities in this space since the portfolio's inception seven years ago. Indeed, we believe the opportunities for impact investing have never been greater than they are today, and that they will continue to increase as more investors take social and environmental value into account when allocating portfolios for alpha.

For investors building and managing impact portfolios, we hope that the experience shared and results presented in this report provide confidence in the ability to harness the power of "and"[24] in order to allocate to impact investments that can compete with traditional asset allocation strategies, while also achieving measurable social and environmental impact. We believe this ability can only be enhanced as the impact investing industry – along with the universe of compelling investment opportunities – continues to expand to meet the ever-growing challenges facing communities around the world.

This report is the latest in an ongoing series of reports on impact investing authored by the team at Sonen Capital and KLF. As Sonen Capital and the KL Felicitas Foundation, along with the industry as a whole, continue on this journey, we will continue to share our experiences with our readers. While this report focuses primarily on the financial performance of an impact portfolio, we would like to emphasize that positive financial returns are but one component of a successful portfolio integrating both financial returns as well as lasting social and environmental impact.

As such, we look forward to publishing the next installment of this series which will focus primarily on the impact performance of KLF's Return-Based Impact Portfolio. In the private equity space, as KLF's investments ripen, we look forward to presenting a complete picture of both their financial returns and impact on local communities. Until that time, as always, we welcome your thoughts, feedback and insight as we all work toward building a stronger market in which investment capital can help address large-scale global challenges. As we noted at the beginning of this report, we hope that this is just the first step toward achieving real transparency in the market. We hope that our experience inspires others to take action and move from strategy to implementation and real results.

We at Sonen Capital would like to recognize Lisa and Charly Kleissner as true pioneers in the impact space, for the personal time and effort they have both devoted and invested in educating and engaging others for a cause they passionately support, standing behind their principles with 100% of their assets. We are honored to have had the opportunity to work with such visionary clients, and hope they will serve as an inspiration to others as they realize their vision of the transformative power of aligning mission, intention, and education. Sonen Capital was founded on the belief that investment capital can positively affect large-scale global challenges, but it is our clients that allow us to carry out this mission. For their support and trust, we remain tremendously grateful.

22. **Please refer to Appendix IV for important disclaimers.**

23. Common Fund. "From SRI to ESG: The Changing World of Responsible Investing," 2013.

24. See Jim Collins' work on this topic, which has inspired Sonen Capital's work in this area: http://www.jimcollins.com/article_topics/articles/building-companies.html

APPENDICES

APPENDIX I: GLOSSARY OF TERMS

Asset Weighted Benchmark – A blended benchmark that is re-weighted on a quarterly basis to reflect changes to asset weights in the portfolio over time. Asset-weighted benchmarks are more reflective of portfolio contents over time compared to benchmarks that are simply blended.

Beta – Beta measures the volatility, or systematic risk, of a fund or portfolio in comparison to the market as a whole. Beta represents the historical tendency of an asset to respond to swings in the market.

Blended Benchmark – Benchmarks are defined throughout the paper, where appropriate, or in the Glossary of Terms. For the purposes of this paper, blended benchmarks consist of two benchmarks combined to form a proxy for contents of a portfolio or asset class.

Correlation – A statistical measure of how two investments move in relation to each other.

Developed Markets – Includes economies with highly developed and regulated markets with large levels of market activity. These economies have relatively high per capita incomes and stable political regimes.

Down Capture Ratio – A statistical measure of an investment manager's performance in down-markets.

Downside Deviation – A measure of downside risk that focuses on returns falling below a threshold, also known as minimum acceptable return. For example, the MAR could be 0%, or a risk-free rate.

Emerging Markets – A category of economies that are becoming advanced, with some liquidity in local debt and equity markets, but without the market efficiency and regulatory stability present in advanced economies.

GIPS – GIPS standards are a globally accepted methodology for calculating and presenting investment firms' performance history that are widely relied upon by investment firms, their clients, and prospective clients for ensuring consistency of investment firm results.

Gross – Gross performance is shown after the deduction of transaction costs, underlying investment management fees paid to the manager of applicable funds, and miscellaneous portfolio expenses.

Illiquid (Not marked-to-market) – Investments that cannot be exchanged or converted to cash easily without a substantial loss in value.

Information Ratio – IR is a ratio of a portfolio's returns above the returns of a benchmark to the volatility of those returns.

Jensen's Alpha – Alpha measures performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of an investment and compares its risk-adjusted performance to a benchmark. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

KLF Direct Investments – Direct equity investments made into enterprises.

KLF Impact-Only Portfolio – The complete impact portfolio, including all liquid and illiquid impact investments.

KLF Return-Based Impact Private Markets Portfolio – These investments constitute the return-based portion of KLF's allocations to private markets. Per KLF policy, we will not report the performance of these investments until they are fully mature and seasoned.

KLF Return-Based Impact Reportable Portfolio – Return-based impact reportable investments are evaluated on a time-weighted basis, as is the standard for investments in marketable securities. KLF Return-Based Impact Portfolio – To isolate the performance of KLF's impact investments, we examined portfolio performance excluding non-impact investments.

Liquid (Marketable Securities) – Investments that can be converted to cash quickly at a reasonable price.

Program-Related Investment (PRI) – PRIs are investments in which the primary purpose is to accomplish a Foundation's mission, in which the production of income or appreciation of property is not a significant purpose, and in which influencing legislation or partaking in political campaigns is not a purpose.

Net – Net performance is shown after the deduction of transaction costs, underlying investment management fees paid to the manager of applicable funds, miscellaneous portfolio expenses, and includes the additional expense of consulting fees paid by KLF for investment advisory services.

Return – The gain or loss of a security in a particular period, displayed in this paper as percentages.

Risk-Adjusted Return – Captured in part by measures such as Alpha, Sharpe Ratio, and Sortino Ratio, risk-adjusted return is a concept that measures an investment's return by how much risk is involved in producing that return.

Risk-Return Tradeoff – Represents the concept that potential return rises with an increase in risk.

Sharpe Ratio – Sharpe ratio measures risk-adjusted performance by attempting to isolate returns generated by smart investment decisions from those generated by taking on additional risk.

Sortino Ratio – A ratio designed to isolate bad volatility from good volatility, providing a risk-adjusted measure of an investment's performance without penalizing it for upward price movements (good volatility).

Standard Deviation – Standard deviation measures the dispersion of a set of data from its mean.

Tracking Error – Measures the divergence between the price movements of an investment and the price movements of a benchmark.

Up Capture Ratio – A statistical measure of an investment manager's performance in up-markets.

APPENDIX II: INDEX DEFINITIONS

Barclays Global Aggregate Bond Index – A broad-based measure of global Investment Grade fixed-rate debt investments. The index covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit, and collateralized securities. The liquidity constraint for all securities in the index is $300 million. Securities included will have at least 1 year until final maturity and be denominated in one of 23 eligible currencies.

Barclays US Aggregate Bond Index – An unmanaged benchmark that covers the USD-denominated, investment-grade, fixed-rate, and taxable areas of the bond market. This is the broadest measure of the taxable US bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with maturities of 1 year or more.

Barclays US Securitized Index – An unmanaged index that tracks the performance of mortgage-backed pass-through securities issued by Ginnie Mae, Fannie, Mae, and Freddie Mac, investment-grade bonds, and asset-backed securities.

BofA ML 3 Month US T-Bill Index – The index measures the total return on cash, including price and interest income, based on short-term government Treasury Bills of about 90-day maturity. MSCI World GR Index – The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Cambridge Associates LLC US Private Equity Index – An end-to-end calculation based on data compiled from 1,017 US private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships, formed between 1986 and 2012. Pooled end-to-end return, net of fees, expenses, and carried interest.

Cambridge Global ex US Developed Markets Private Equity & Venture Capital Index – The index is an end-to-end calculation based on data compiled from 715 global ex US developed markets private equity and venture capital funds (includes funds investing primarily in Australia, Canada, Israel, Japan, New Zealand and Western Europe), including fully liquidated partnerships, formed between 1986 and 2013. The Western Europe Index consists of 468 funds and the Asia Developed Index consists of 98 funds.

Cambridge US Venture Capital Index – The index is an end-to-end calculation based on data compiled from 1,428 US venture capital funds (922 early stage, 159 late & expansion stage, 341 multi-stage and 6 venture debt funds), including fully liquidated partnerships, formed between 1981 and 2013.

CPI - The Consumer Price Index is an unmanaged index representing the rate of inflation of the US consumer prices as determined by the US Department of Labor Statistics. There can be no guarantee that the CPI or other indexes will reflect the exact level of inflation at any given time.

Dow Jones US Sustainability Composite – The Dow Jones Sustainability United States Index is composed of US sustainability leaders as identified by SAM through a corporate sustainability assessment. The index represents the top 20% of the largest 600 US companies in the Dow Jones Sustainability North America Index based on long-term economic, environmental and social criteria.

HFRI Fund of Funds Index – An equal-weighted index that includes over 800 constituent funds, both domestic and offshore. All funds report assets in USD, net of all fees, on a monthly basis and have at least $50 million under management or have been actively trading for at least 12 months.

MAC Global Solar Energy Index – Designed to track companies within the following business segments of the solar energy industry: companies that produce solar power equipment and products for end-users, companies that produce fabrication products (such as the equipment used by solar cell and module producers to manufacture solar power equipment) or services (such as companies specializing in the solar cell manufacturing or the provision of consulting services to solar cell and module producers) for solar power equipment producers, and companies that supply raw materials or components to solar power equipment producers or integrators; companies that derive a significant portion of their business from solar power system sales, distribution, installation, integration or financing; and companies that specialize in selling electricity derived from solar power. The Index is generally comprised of equity securities, including American depositary receipts (“ADRs”) and global depositary receipts (“GDRs”), traded in developed markets, as defined by the index provider. The depositary receipts included in the index may be sponsored or unsponsored. While the equity securities comprising the index are traded in developed markets, the issuers of such securities may be located in emerging markets.

MSCI KLD 400 Social Index – The MSCI KLD 400 Social Index comprises companies with high Environmental, Social and Governance (“ESG”) ratings and excludes companies involved in Alcohol, Gambling, Tobacco, Military Weapons, Civilian Firearms, Nuclear Power, Adult Entertainment, and Genetically Modified Organisms ("GMO"). The Index aims to serve as a benchmark for investors whose objectives include owning companies with very high ESG ratings and avoiding companies that are incompatible with specific values-based criteria. Launched in May 1990 as the Domini 400 Social Index, it is one of the first Socially Responsible Investing ("SRI") indices. Constituent selection is based on data from MSCI ESG Research.

MSCI World Index - The MSCI World Index captures large and mid cap representation across 24 "Developed Markets" countries (as of September 30, 2013 including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US). With 1,606 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

S&P 500 Index - The S&P 500 Index is an unmanaged index generally representative of the performance of large companies in the US stock market. The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are 500 leading companies in leading industries of the US economy and the index provides coverage for approximately 75% of US equities. The returns for the S&P 500 are total returns, including the reinvestment of dividends each month.

S&P Global Clean Energy Index – Provides liquid and tradable exposure to 30 companies from around the world that are involved in clean energy related businesses. The index is comprised of a diversified mix of Clean Energy Production and Clean Energy Technology and Equipment Providers companies. The index is part of the S&P Global Thematic Indices, which is designed to provide liquid exposure to emerging investment themes that cut across traditional industry definitions and geographical boundaries. The series incorporates a unique selection and weighting scheme that provides diversified and tradable exposure for these themes.

S-Network Global Water Indexes – Capitalization-weighted, float-adjusted indexes of the most prominent water stocks in the world. To be included in the S-Network Global Water Indexes, stocks must pass multiple screens, including for capitalization, float, exchange listing, share price and turnover. Since December 31, 2010, the indexes formerly known as Janney Global Water Indexes have been renamed S-Network Global Water Indexes. The S-Network Global Water Indexes are prominent global benchmarks for measuring the performance of stocks worldwide materially engaged in the global water industry.

WilderHill Clean Energy Index – An American Stock Exchange based index comprised of publicly traded companies whose businesses stand to benefit substantially from societal transition toward the use of cleaner energy and conservation.

APPENDIX III: KLF RETURN-BASED IMPACT REPORTABLE PERFORMANCE (NET OF ALL FEES)[25]

Asset Class	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Return-Based Impact Cash Equivalents (Since 5/2008)	0.41%	0.54%	N/A	0.82%	0.46%	0.76%	1.22%	1.07%	N/A	N/A
3-Month Treasury Bill	0.08%	0.11%	N/A	0.36%	0.11%	0.14%	0.21%	2.08%	N/A	N/A
KLF Return-Based Impact US Fixed Income (Since 11/2009)	3.51%	4.13%	N/A	2.80%	4.73%	4.13%	N/A	N/A	N/A	N/A
Barclays US Securitized	3.00%	5.24%	N/A	5.08%	6.22%	6.52%	N/A	N/A	N/A	N/A
KLF Return-Based Impact Global Fixed Income (Since 1/2006)	3.47%	0.40%	4.44%	4.58%	-0.46%	-1.73%	4.16%	17.89%	10.63%	-0.50%
Barclays Global Aggregate	4.32%	5.16%	5.44%	6.10%	5.63%	5.54%	6.93%	4.79%	9.48%	6.65%
KLF Return-Based Impact US Public Equity (Since 2/2006)	11.87%	10.22%	1.40%	3.70%	-2.06%	22.21%	31.52%	-39.11%	6.64%	12.77%
S&P 500	16.00%	10.88%	1.66%	4.12%	2.12%	15.06%	26.45%	-37.00%	5.50%	15.79%
KLF Return-Based Impact Global Public Equity (Since 10/2007)	18.86%*	6.90%	2.72%	3.00%	-8.65%	12.50%	42.14%	-34.15%	N/A	N/A
MSCI World	12.80%*	5.99%	-1.70%	-2.08%	-5.55%	11.76%	30.01%	-40.71%	N/A	N/A
KLF Return-Based Impact Hedge Funds (Since 12/2006)	3.93%	3.89%	-7.01%	1.57%	1.00%	6.82%	9.62%	-43.44%	36.95%	15.81%
HFRI Fund of Funds	5.31%	1.62%	-1.66%	1.07%	-5.72%	5.69%	11.47%	-21.39%	10.26%	5.40%
KLF Total Return-Based Impact Reportable Portfolio (Since 1/2006)	4.87%	3.63%	-1.75%	1.79%	-1.49%	7.71%	15.87%	-29.01%	9.82%	12.65%
Portfolio Weighted Benchmark	6.10%	4.25%	-1.90%	2.38%	-0.16%	6.94%	12.90%	-28.98%	9.20%	18.81%

Asset Class	1 Year	3 Year	5 Year	Since Inception	2011	2010	2009	2008	2007	2006
KLF Impact First Reportable Portfolio	1.59%	1.06%	1.75%	2.45%	1.12%	0.48%	2.20%	3.41%	2.66%	3.73%
CPI	0.15%	1.35%	1.01%	1.51%	3.17%	0.76%	-0.54%	1.55%	4.08%	1.46%
KLF Return-Based Impact Fixed Income (Since 1/2006)	2.36%	0.01%	4.30%	4.48%	-0.42%	-1.86%	4.67%	17.89%	10.63%	-0.50%
Barclays Global Aggregate	4.32%	5.16%	5.44%	6.10%	5.63%	5.54%	6.93%	4.79%	9.48%	6.65%
KLF Return-Based Impact Public Equity (Since 2/2006)	12.21%	8.49%	1.51%	4.16%	-4.30%	18.91%	34.91%	-37.42%	8.08%	14.14%
MSCI World	12.62%	5.93%	-1.73%	2.64%	-5.55%	11.76%	30.01%	-40.71%	9.04%	20.06%

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

(2) Return-Based Impact US Fixed Income and 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

(3) Return-Based Impact US Public Equity and Return-Based Impact Global Public Equity performance are shown net of all fees, which includes Sonen Capital's public equity management fee of 50 basis points

(4) 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 through 11/30/12, after which time KLF was not invested in Return-Based Impact Global Public Equity. The Foundation reinvested in the asset class in January, 2013

(5) Return-Based Impact Hedge Fund performance is shown net of all fees, which includes Sonen Capital's hedge fund management fee of 50 basis points

(6) 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

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

(8) Return-Based Impact Fixed Income performance is shown net of all fees, which includes Sonen Capital's fixed income management fee of 50 basis points

(9) Return-Based Impact Public Equity performance is shown net of all fees, which includes Sonen Capital's public equity management fee of 50 basis points

25. A management fee of 0.75%, applied quarterly, was used for the purposes of computing the performance (net of all fees) of KLF's Return-Based Impact Portfolio. This fee reflects a management fee ratio comparable to, or in excess of, that which KLF bore over the lifetime of the portfolio.

APPENDIX IV: IMPORTANT DISCLAIMERS

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Sonen Capital Role in Investments Presented. Neither Raúl Pomares nor Sonen Capital had any role in the Impact First Portfolio. In addition, Sonen Capital was founded in September 2011, and therefore much of the performance data presented in this report relates to investments made under the supervision of Raúl Pomares (with significant input from KLF) before the existence of Sonen Capital, and by an investment team that is different than that of Sonen Capital. There can be no assurances that Sonen Capital would have achieved similar performance, or that investments made by Sonen Capital in the future will achieve their stated objectives or avoid losses.

Report Coverage. This report details the performance of the Return-Based Impact Portfolio created by KLF, and more specifically those investments with so-called "reportable" performance (i.e., performance that can be marked to market on a regular basis). Impact first (below-market rate) investment returns are also explored and reflected in specific sections. For purposes of accuracy and reliability, all non-impact investments as well as 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 investment managers, transactional and underlying fees. Net returns include consulting fees paid by KLF for investment advisory services. Please refer to Appendix III for a comprehensive disclosure of KLF's Return-Based Impact Portfolio's performance.

Return Calculation Methodologies. Methodologies used to calculate investment returns are described in the Introduction to this report.

Performance. Past performance is not necessarily indicative of future returns, and there can be no assurance that any investment will achieve its stated objectives or avoid losses. References in this report to past returns of any investment program are no guarantee of future performance. There can be no assurance that the investments identified in this report will continue to achieve their stated past returns or achieve their targeted objectives.

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