Investor Spotlight: Charly and Lisa Kleissner & KL Felicitas Foundation

DR. CHARLY KLEISSNER, A SUCCESSFUL HIGH-TECH EXECUTIVE AND CO-FOUNDER OF THE KL FELICITAS FOUNDATION, SHARES HIS PERSPECTIVE WITH THE GIIN COMMUNITY.

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KL FELICITAS FOUNDATION

Global | General

GIIN: Historically, wealthy individuals have used philanthropy to address social and environmental issues. Why are you and your wife focusing on impact investing?

CK: The answer starts with our values. We want to contribute positively to the pressing challenge of our day, which, in our opinion, is moving the planet and humanity towards sustainability from an economic, social, environmental and spiritual perspective. We believe this requires a holistic approach. To us, it does not make sense to partition our grant-making and investing, especially because our investments could potentially contradict our values. Also, we are entrepreneurs and we always think about leverage. With limited capital and especially limited grants, what better way to enhance impact than using all available capital to reinforce what we believe in?

GIIN: Once you decided to use for-profit investing for social and environmental impact, how did you get started making investments?

CK: Lisa and I co-founded the KL Felicitas Foundation in 2000. At that time, I was working full-time as a high tech executive, and for the first two years I didn't have time to participate in the Foundation. Early in 2001 or 2002, Lisa asked our broker at the time, "can we do something social with our money?" and the broker offered passive screening. Lisa wasn't satisfied with that answer and she continued pushing our investment team. In 2003, I joined her to develop a holistic strategy for all of our capital, including what we do outside the Foundation. In 2004, we decided to invest the majority of our assets in impact investments. Believing in the validity of portfolio theory, we developed an asset class strategy which accounted for expected risk and returns. Then, we overlaid our impact goals, meaning that we began looking for impact investments in all relevant asset classes, including cash, fixed income, debt, equity, hedge funds, venture capital, real estate, and real assets.

GIIN: How does impact investing break down across the Foundation's portfolio?

CK: In 2004, we agreed that we would work up to investing 85 percent of our Foundation endowment assets in impact investments. About a year ago, based on the last five years of experience, we increased that target to 100 percent by the end of 2013. Between 2005 and 2010, we have increased our endowment assets in impact investing from zero to about 55 percent, and we will be at or close to 70 percent by the end of 2010.

GIIN: There's an assumption that investors must accept a trade-off between financial return and impact. What are your experiences with financial return targets and impact?

CK: We have around 30 impact investments now, the majority of which are "financial-first" investments that we expect will make competitive financial returns or better. A great example is Beartooth Capital, which restores and conserves ranch land. We invested in their first fund and were very happy with the financial returns and positive environmental impact.

Because our Foundation's mission is to enable social enterprises to grow sustainably, we also contribute some softer capital to early stage social enterprises through Program Related Investment (PRI). Forty percent of the five percent pay-out per year - meaning two percent of Foundation assets overall - goes to PRIs, which are legally required to place programmatic alignment ahead of financial return. "Impact-first" PRI investments are the only investments where we contemplate a financial trade-off, as the priority is to generate optimal impact.

[Editor's note: Dr. Kleissner uses terminology "impact first" and "financial first" as defined by the Monitor Institute.]

GIIN: What is your due diligence process for impact investments?

CK: Lisa and I provide the due diligence for the social impact ourselves or utilize experts familiar with the field. Once we have confirmed that an investment will have positive impact, we hand it over to the financial team for due diligence on the financial side. For financial-first impact investments, our financial team often does the financial due diligence first. Because they know the impact that we want to have, they will not look into anything that doesn't meet our sustainability or mission criteria. Then we overlay the impact due diligence. Sometimes the two due diligence processes go on in parallel. This process works because we have a very integrated team.

GIIN: Give us an example of an impact-first investment that you've made.

CK: Let's take the example of Health Point Services, which aims to open hundreds of locations in rural Indian villages and provide four services: access to doctors over broadband, access to a pharmacy and medication, access to medical diagnostics, and access to clean water. Health Point Services tried to raise an equity round and were not able to initially raise the full amount. So, they reached out to the PRI community, asking for capital to complement the initial equity raised. What better use of PRI than to enable something the commercial sector would not? So, we made a bridge loan to cover the pilot phase with a 2% return that converts into equity when Health Point Services raises its next equity round. Through this, we can positively impact tens of thousands of rural families in India and realize the social impact of proving a concept that has the potential to scale up from seven villages to 40 villages, and then from 40 to 400 villages.

GIIN: Do you measure the social and environmental impact of your investments?

CK: There are myths, particularly among the financial community, that it's too difficult to measure impact. We fundamentally disagree. Because impact is part of the business mission of our portfolio companies, most of their management teams track and report impact. We try to influence our investments by giving them guidance about which metrics are of interest to impact investors. The current lack of consistency and standards is not an excuse to delay impact measurement. At the same time, in order to scale up the sector, we need to agree on terminology and comparative metrics. This is why we support IRIS (Impact Reporting and Investment Standards) and GIIRS (Global Impact Investing Rating System), which are well positioned to meet this need.

GIIN: Who are the key players in the growth of the impact investing industry?

CK: On the investor side, small foundations and high net worth individuals and families are the drivers. These players, like Josh Mailman, Meyer Memorial Trust and others, will influence more socially-minded larger investors, and then finally commercial institutional capital.

On the investee side, key players are social venture funds, like Calvert Foundation, Aavishkaar, RSF Social Finance and others, and businesses that explore blended financing streams, like Pico Bonito. Pico Bonito is a mission-driven, for-profit venture focusing on reforestation, agroforestry, and carbon credit based products. Their approach combines sustainable forest management, community development, and forest restoration and conservation. Ecologic, their not-for-profit partner. provides education, training, organizational capacity building and quality control services to the entrepreneurs and village organizations. By leveraging two different types of capital with different return expectations, Pico Bonito and Ecologic have a greater combined impact on poor rural communities and the environment in Honduras.

The growth of impact investing is also generating opportunities for new intermediaries: impact investment advisories such as Springcreek Advisors, impact investment banks like Intellecap, and impact investment consultants such as Imprint Capital and others. As these early players attract more capital and create more products with demonstrable impact, the impact space will see new key intermediaries and the development of a new accounting system to capture impact metrics.

GIIN: You're gearing up to launch an angel investing group called Toniic. Tell us about that.

CK: Yes, we're launching Toniic this fall at the Take Action! and Social Capital Markets (SoCap) conferences. Toniic is a global network of high net worth impact investors and philanthropists. There are a few motivations behind Toniic. First, many impact investments need multiple hundreds of thousands of dollars of capital, but some of our peers don't have the capacity to put more than $10,000, $25,000, or $100,000 in a single deal. Toniic will provide aggregation of seed-stage impact capital, starting with a minimum contribution of $25,000, and hopefully going down to $10,000 as we gain more experience. Toniic will also increase access to impact investing deal flow, and enable investors to share due diligence processes and bring more capital into deals important to them. We hope Toniic will plug a hole in the investing ecosystem.

GIIN: What do you recommend as first steps for someone beginning to think about impact investing?

CK: First, get started. Do one or two deals that achieve a desired impact. Eventually develop a strategy and long-term objectives, but don't let that hold up doing a deal or two.

Second, move your cash now. There's no reason not to support local or regional banks in an area of the U.S. that you care about. Find banks that support local entrepreneurs. As long as it's FDIC insured, there's no additional risk in moving cash from a bank that might invest in things you don't agree with.

Third, start gathering a team that understands your values. If your current advisors don't, either add someone as a peer to your current advisors, or make a replacement.

GIIN: Are there any important lessons you've learned that you would share with aspiring impact investors?

CK: It's very important to insist on implementing your vision. There are still a lot of nay-sayers out there, but don't give in to them. If you stay the course you can be very impactful. Also, participate in networks. People are there to help the sector to succeed. It's a collaborative effort, and if you reach out you will gain a lot of new friends that care deeply about the planet and humanity, which is a big reward. The books have not been written yet, and we need to co-create this industry together.