

How tech millionaires are using 'impact investing' to make a difference

“Impact investing”, a term invented by JP Morgan, describes the latest fashion for socially and environmentally conscious finance



Karl “Charly” Kleissner, an Austrian by birth, found his fortune working in California’s Silicon Valley.

By Jeremy Warner

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What’s left to do with your money when you’ve made more of it than you can ever reasonably spend in a lifetime? It is a nice predicament to have. On America’s West Coast, where counter-culture meets the explosive wealth generation of the tech revolution, it is also an increasingly common one. And for many, it is producing a kind of existential guilt about the whole purpose and process of great wealth creation.

For some – epitomised by Microsoft’s Bill Gates – the guilt is best sated via the traditional, Carnegie route of philanthropy and endowment. For others – think the late Steve Jobs of Apple – enterprise and innovation is an end in itself.

For them, wealth creation is addictive; they leap from one venture to the next, each new fortune piled on top of the last one. For still others, it is the lure of politics, or the ruthlessness of the corporate

boardroom, that beckons. It's not guilt that motivates them, but power and being at the centre of things. Their wealth gets applied to these ends.

But beyond fast cars, private jets, yachts and mansions, there is a fourth way that is fast gaining traction: "impact investing", a term invented by some bright spark at JP Morgan to cover the latest fashion for socially and environmentally conscious finance.

One such practitioner is Karl "Charly" Kleissner, an Austrian by birth, who found his fortune and his niche while working in that great hothouse of entrepreneurial activity, California's Silicon Valley.

I met him recently at his relatively modest, though sublimely situated, abode at Big Sur on Highway 1, where the mountains tumble down to a wild and rocky Pacific coastline – all rolling waves, breaching whales, pelicans and basking sea lions.

To a stressed-out Londoner, his seems an idyllic life, and indeed it is. Yet with this idyll comes a sense of obligation, a determination to align his new-found wealth with the values and causes he believes in. It would be wrong to describe him as a pioneer of impact investing – the concept has a quite long vintage – but as founder of the 100% IMPACT Network, he is one of today's leading advocates of it.

To the cynic, the whole idea might seem somewhat phoney and self indulgent. Rich Californians seek myriad different forms of therapy to sooth their various neuroses, and this could be considered just one of them. To me, however, he seems to be genuinely onto something.

Profit and personal enrichment will always be the prime motivation for enterprise and commercial innovation, but it cannot be an end in itself. In an age when wealth accumulation is under more or less permanent political assault, it is essential that today's fortunes are seen to be put to good use. Kleissner offers a potentially inspirational approach to the problem.

Like a lot of investment strategies, impact investing is a quite nebulous and difficult concept to pin down. It can mean different things to different people, but in Mr Kleissner's case, it is about applying his good fortune, according to a well-defined set of guidelines, to investments that have clear social and ecological benefits.

Keissner earned his Silicon Valley spurs as chief engineer on the NeXTSTEP operating system, a precursor of Apple's later OS X and iOS operating systems. But his big break came with an

e-commerce business called Ariba. When this went public in 1999, it spawned the basis of Mr Keissner's \$100m (£61m) fortune. It also led to some deep soul-searching about what to do next.

“That’s when we had to ask the question,” he says, the “we” referring to his wife, Lisa, another alumnus of the Steve Jobs incubator. “What is this money for? We always planned to be affluent, and to have enough money to pay for our kids to go through university. But suddenly we had all this wealth and that’s when couples usually break apart, because one wants to buy a Ferrari and the other doesn’t. Sudden wealth can lead to terrible problems.

“So we went through a process to ensure we were on the same page. I quit my job in 2002 to create the time to figure it out. I didn’t want to carry on as a Silicon Valley engineer. That’s a young man’s game. They think faster and are more agile.

“I needed to figure out what to do with the second half of my life. We both wanted to do something positive for humanity and the planet, so that’s the path we took.

“The purpose of wealth cannot simply be to create more wealth. I wanted to make the assets I’d created work in a sustainable way. Our financial advisers found it difficult to understand at first, because they normally deal with people whose idea of investing their money is just to make more money. But we wanted to do something different.”

For the Kleissners simply signing over their money to ethical fund managers was never going to be enough. They wanted to get involved, to promote change, and to convince others that they should be pursuing the same ends.

The big foundations in the US tend to call it “mission aligned investment”, a strategy designed to ensure that all individual investments are perfectly aligned with the particular goals and purposes of the foundation.

Kleissner dreams of going further still, of transforming finance so that it is made to perform what he sees as its proper purpose of servicing society and environmental sustainability. Most impact investors will devote only a small part of their portfolio to this kind of investing, with the rest vested in a more traditional manner. But Kleissner is all in – hence the term 100% impact investing.

Even the cash element of his portfolio is deposited ethically, eschewing the big banks thought to be financing the American war machine and its extractive industries in favour of small, community development banks, which support local entrepreneurs and social enterprise. This is a man on a mission.

But nor is he some kind of brown rice-eating revolutionary.

Kleissner believes as much as the next guy in a healthy rate of return. At the same time, however, he is

contemptuous of the lottery-style winnings pursued by the venture capitalists of Silicon Valley. “Profit is a good thing”, he says, “but excessive profit is not”.

He says: “A typical venture capitalist wants a 100 times return on every 20th investment. We never expect that. Our expectation is for maybe a three times rate of return over five to seven years for half our investments. As for the rest, maybe two of them might pay and three fall by the wayside, giving us a two times rate of return overall. That’s enough.”

So is finance listening? After a fashion. The 100% IMPACT Network now has nearly 40 high net worth individuals and foundations under its umbrella, including three Brits, with some \$3bn to \$4bn of assets collectively. And the idea is gaining traction even among hardened money men.

To convince them, Kleissner concedes, he has to use the language of the old system, even though he’s advocating a new one. So he recently sold his sustainable investment philosophy to a group of London hedge fund managers on the basis that such enterprises were far less cyclical than conventional businesses, and therefore a good hedge against the next downturn.

“They understood that, and said hey, maybe we will put a little money into this stuff. But it is not enough. Most investors are driven by fear of losing their money, rather than the joy of making a positive contribution. We need to change the mindset.”

I ask him about Jobs, whom both he and his wife knew well. As a former hippy – well sort of – how come the Apple founder never became involved in this sort of investment? “You know I last communicated with Steve in 2004, I asked him whether he was interested in social entrepreneurialism, and he said that right then he was doing things that only he could do, reinventing all kinds of systems, and that was his contribution. There is a lot of ego in being a successful entrepreneur, and it is very difficult to step off the treadmill.

“Steve is a huge loss to humanity. He was a genius, able to stir the pot in a big way. Eventually you realise that you have to use your talents and your networks to make a positive contribution to humanity and once you reach that point, there is no way back. Steve didn’t have the time to reflect on that level. He was such a driven person, and he was so non-tolerant of mediocrity. This has its dark sides. World class engineers thrive in that environment. But in impact investing it is a different game.”

Can impact investing ever hope to go mainstream? If passion alone were all that were needed, Kleissner would have his transformation in the blink of an eye. Yet the momentum is already there for “100% impacters” to become a major part of the investment landscape.

How we moderate

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