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Champions of Impact Investing

By Abby Schultz Sept. 24, 2018 9:00 a.m. ET

The Rockefeller Foundation coined the term “impact investing” in 2007 to describe private investments that generate a financial return alongside social or environmental impact.

At the time, the idea wasn’t new; it just didn’t have a name, and, more importantly, there wasn’t a cohesive strategy or infrastructure to support the development of a variety of investment products. There also wasn’t a large base of investors ready and willing to buy these investments if they did exist.

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More than 10 years later, impact investing may not be mainstream, but it’s getting there, with at least \$228 billion in invested assets mostly in private markets, according to the Global Impact Investing Network’s latest figures. When the definition is broadened to include public funds seeking to invest in companies with the best environmental, social, and governance, or ESG, practices, the level of assets swells to nearly \$9 trillion, according to the latest figures from The Forum for Sustainable and Responsible Investment.

Yet leaders of the impact-investing movement are hardly resting on their laurels. They are thinking hard about how to push the market forward while being more effective at ending or alleviating intractable global problems, from clean water to poverty.

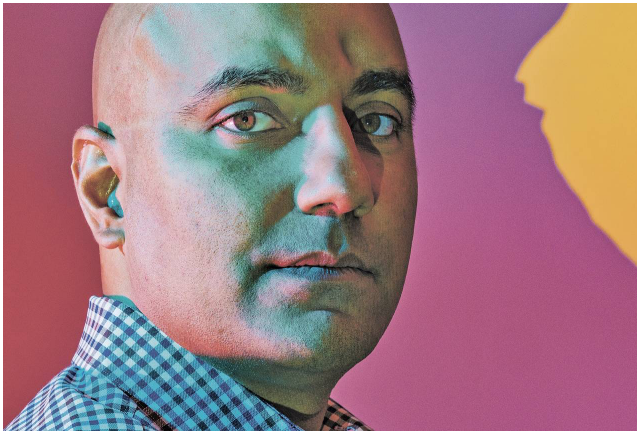


PHOTO: MAMADI DOUMBOUYA

AMIT BOURI

CEO and co-founder,
The Global Impact Investing Network

When Amit Bouri, CEO of the Global Impact Investing Network, or GIIN, was a researcher at the Monitor Institute in 2008, working on a project backed by the Rockefeller Foundation to figure out how to put impact investing into action, Jed Emerson and Karl “Charly” Kleissner were two of the pioneering individuals he reached out to for their expertise and experience.

Today, Emerson, a provocative thought leader for the movement, is re-examining what he calls the “purpose of capital,” finding that practitioners are too focused on impact investing as a new type of financial

investment and aren’t paying enough attention to creating real social change, environmental sustainability, and a better economy overall.

Kleissner and his wife, Lisa, were among the first to invest all of their personal assets in companies aligned with their values. He is aiming to turn modern portfolio theory on its head, creating new benchmarks for the financial system so that the key question for all investors becomes “what kind of impact do you want to have?” and not “how do I optimize market returns with a reasonable amount of risk?”

At the GIIN, Bouri is focused on growing impact investing and, moreover, expanding it to drive real “systems change”—involving government, the private sector, and philanthropy—to better tackle social and environmental concerns. “These problems are so big, they require an integrated approach,” Bouri said earlier this year as he was rolling out the GIIN’s “road map for the future of impact investing,” a global effort to accelerate the movement.

The United Nations estimates that \$2.5 trillion of funding is needed to address the U.N. sustainable development goals by 2030. As Bouri says, it’s tempting to see the progress that impact investing has made toward addressing sustainable agriculture or affordable housing and declare victory, but “when we think about climate change, despite all the momentum, all the energy and progress that’s been made, not a single industrialized nation is on track to meet its targets under the Paris climate accord.”

‘The system as it exists today isn’t working for the planet.’ ’
—Amit Bouri

In other words, there’s plenty of work to do—and plenty of money needed to do it. Investors can take some comfort from the fact that movement leaders like Emerson, the Kleissners, and Bouri are unflagging in their quest to find bigger and bolder solutions.

Amit Bouri grew up in Northern California as the eldest son of a single mother who had to go on welfare after divorcing, despite holding a master’s degree from her native India. Bouri was 3 years old at the time, and the next six years were tough. But his mother went back to school in the U.S. and eventually pulled her young family into the middle class and ensured that both of her sons went to college.

Calling his journey from welfare to attending prestigious universities the “exception versus the rule” for children of single moms on welfare, Bouri’s early, challenging years shaped his perspective on how his life and career should create opportunities for others, many of whom are dealing with situations that are more difficult than he endured.

Today, Bouri, 40, is the CEO of the GIIN, a U.S.-based nonprofit he co-founded with seed funding from the Rockefeller Foundation and a network of investors, funders, and financial institutions. He got to the GIIN after stints at the management consulting firm Bain & Co. and the nonprofit Elizabeth Glaser Pediatric AIDS Foundation led him to get both a masters in public administration from Harvard’s Kennedy School of Government and an M.B.A. from Northwestern University’s Kellogg School of Management.

The dual degrees reflected Bouri’s realization that “we really need to think in a very integrated way about how the public sector and private sector need to come together to address the world’s big problems at scale.”

The GIIN does that by working across both the public and private sectors to drive private investment capital toward solving global social and environmental problems. The roots of the organization are at the Monitor Institute, a social change consultancy, where Bouri landed a job as a strategy consultant and began working on a project backed by the Rockefeller Foundation to determine how to create the infrastructure for impact investing.

The GIIN was one answer that came out of a “blueprint” for constructing this infrastructure, building off pioneering work being done across the globe by individuals and groups that were creating funds and portfolios, but in isolation. The idea was “can we bring this together as a market that really moves the needle on these huge issues that the world is facing,” Bouri says. “The potential that we were chasing is that we could be operating on a vastly different scale.”

Today, impact investing attracts mainstream financial institutions as well as foundations and wealthy families. Despite these gains, Bouri realized last year that it hasn’t been enough to make a dent in intractable social and environmental problems.

“The system as it exists today isn’t working for the planet; it isn’t working for the people, and it isn’t working for investors,” Bouri says. “There’s been so much movement around climate change, but we still see the progress isn’t fast enough; there’s so much technological and economic advancement, but inequality is more pronounced than ever before.”

So the GIIN came up with a plan that it’s calling the “road map for the future of impacting investing” to kick the sector up to a new level by strengthening the identity of what impact investing is and how to do it well,

and by changing the way people think about the role of finance and society.

The ultimate goal isn't a small one. Bouri's vision is for a holistic systems change that includes all asset owners, asset managers, consultants, lawyers, rating agencies, and every other financial-industry player, so that impact is integrated into all investment considerations along with market risks and return. "Our vision is ambitious," Bouri says. "We feel like at this moment in the world, we have to be."



PHOTO: JULIANA TAN

JED EMERSON

Founder,
Blended Value Group

social, environmental, and economic change.

"Capital is simply a tool," says the 59-year-old Emerson. "If we aren't clear on what we're trying to do with that tool, that's where we'll get in trouble, and where people will just assume positive impact in areas where they really shouldn't."

Emerson has thought a lot about what he calls the "purpose of capital," as he puts the final touches on a book by that name. As one of the founding thought leaders of impact investing, he is also arguably the sector's conscience, determined to ensure that the focus on making positive social and environmental change through investing isn't lost, as more investors and financial institutions enter the market.

Today, Emerson, a prolific author and speaker, runs the U.S.-based Blended Value Group, principally advising a handful of families on how to sync their financial investments with their values, drawn to the fact that families think less about investing vehicles than about "what am I trying to do with this wealth?" He also works with a couple of wealth management firms and serves as a senior fellow to both Toniic, a global network of individuals and families investing for impact founded by Charly and Lisa Kleissner, and ImpactAssets, which runs a U.S. donor-advised fund.

'Capital is simply a tool. If we aren't clear on what we're trying to do with that tool, that's where we'll get in trouble.'
—Jed Emerson

Emerson's father
was a
Presbyterian
minister, and his
mother was a

social worker. "I was kind of bred to do this kind of thing," he says. His career began catering to communities and young people, including a stint beginning in 1985 as the founding executive director of Larkin Street Youth Services in San Francisco, working with "street kids and the homeless" during the height of the

AIDS/HIV epidemic.

He eventually became disenchanted with philanthropy, finding that nonprofits didn't place enough focus on performance. George Roberts, a founder of the alternative investment firm KKR, was at a similar place when the two met in 1989. He later founded the Roberts Foundation, and Emerson was named the founding executive director. Today, the Roberts Enterprise Development Fund, or RedF, is a venture philanthropy, providing philanthropic capital to social enterprises that give transitional jobs to the homeless. "We had created what I think was the first current methodology around social return on investment," Emerson says.

The experience and subsequent exploring made him realize that it didn't matter how social change was delivered, as long as it happened, a thought process that led him to understand there's no reason to separate investment capital from philanthropic capital. "The real question for all of us is trying to understand what is the nature of the value we seek to create, and how do we best pursue that with all our resources and capacities," Emerson says.

As impact investing shifts from a fringe idea to a mainstream investing activity, attracting big investment managers like Bain Capital and TPG, Emerson worries that investors will take their eye off the reason for investing for impact in lieu of the market opportunity the sector represents.

"If we don't pay attention to this, I think in five to 10 to 15 years, we've made a lot of money, but we didn't do much to change anything—that's my fear," he says. "We really need to understand that what we are calling into question is modern financial capitalism."



PHOTO: GARI ASKEW II

Charly Kleissner and his wife, Lisa, began pushing the envelope of the impact-investing movement before the practice of investing for social and environmental good had a catchy name, and before there were products to invest in or advisors willing to support them.

More than a decade later, the Kleissners continue to push the movement forward. But as more assets gather in funds and companies that promise to provide clean water or affordable housing, the couple wants to make sure that investors flocking to the trend recognize what impact investing is about.

CHARLY AND LISA KLEISSNER

Founders,
Toniic

What it's not is ESG, investing in publicly traded companies that have good environmental, social, and governance practices. ESG investing is exploding as a global trend, and that's positive, says Charly, who is 61.

But ESG isn't creating "deep impact"; it isn't moving the needle on climate change or creating sustainable cities, and the institutions that provide ESG funds don't always clue in investors on how they determine why, for example, Facebook and Alphabet are top 10 holdings, as is true for the \$1.2 billion iShares MSCI KLD 400 Social exchange-traded fund.

Deep impact investing, by contract, is about creating measurable, visible, positive impact. “We need thematic impact investments that make a difference, be that in poverty alleviation or education or health care or whatever it is,” Charly says.

‘For us, wealth comes with responsibility.’
—Charly Kleissner

The Kleissners say impact investments should realize “the appropriate financial returns for the impact we want to achieve.” In other words, an impact investor won’t invest in a gold mining company that “messes up the planet,” even if the returns are great, since the miner isn’t accounting for the cost of pushing pollution problems onto society. “Somebody has to pay for it,” says Charly. “That’s a subtle argument, but I think we have to start making it.”

The Kleissners’ instincts to put their money toward good has driven their approach to investing since 2001, when they became flush with “significant wealth” at the end of a successful run as key players in Silicon Valley’s rise. Charly had held senior technology officer roles at start-ups like NeXT Computer and Ariba, while Lisa, now 64, was an architect who worked early on for Apple and later ran a facility project-management firm serving the valley’s biotech and high-tech companies in the 1990s.

“For us, wealth comes with responsibility,” Charly says.

While philanthropy may have seemed an obvious direction to take, it was a less familiar path to Charly, who grew up in Austria when large-scale giving wasn’t widely practiced.

The couple, who met in Lisa’s native Hawaii when Charly was a high school exchange student, also didn’t view philanthropy as effective. This point was driven home after the 2004 Indian Ocean tsunami, when millions of dollars flowing into the island nation of Sri Lanka did little to help fishing villages wiped out by the flood.

Values-based investing was a new concept at the time, but the couple threw themselves into figuring out how to invest for good.

By 2008, they found others searching for the same opportunities, and they formed a group that a couple of years later they named Toniic as a tongue-and-cheek reference to the GIIN.

They also founded a subnetwork within the San Francisco–based Toniic of investors who want to invest 100% of their assets for impact and have agreed to share what they do with one another and to open their portfolios, anonymously, to researchers. The hope is the data will attract more investors, including big institutional investors, to impact.

“The 100%-ers are at the forefront of changing the financial system,” says Charly. “While it is necessary to confidently navigate the old system and cast our arguments in the language of that system, we do so while inventing a beautiful new system that will serve humanity and our planet.”

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