NPC

# INVESTING FOR IMPACT: PRACTICAL TOOLS, LESSONS, AND RESULTS

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KL Felicitas Foundation

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**http://klfelicitasfoundation.org/**

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# EXECUTIVE SUMMARY

The mission of the KL Felicitas Foundation (KLF) is two-fold: to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably and to advocate impact investing. It does this through aligning 100% of its assets with positive impact and building a movement for impact investing through financial and non-financial support.

When the Kleissners started on this journey in 2004—with the help of their investment advisor Raúl Pomares—impact measurement within the social investment field was practically non-existent. Fast forward more than ten years and measurement has moved along from this embryonic stage—but not quite beyond its infancy.

The analysis in this report shows that despite this immature market, the Foundation is actively contributing to the development of the field. Its assets, valued at around $10m, are almost entirely (99.5% as of 31 December 2014) invested in funds or organisations pursuing social and/or environmental returns while providing competitive financial returns. The data collected and analysed suggests that these investments are indeed achieving social impact—though not all to the same degree.

When aggregated by theme, the investments are contributing to some impressive outcomes. The question to ask, however, is are those social returns good enough? This is difficult to assess, unless targets are set (itself hard to do), or investments delivering similar services in similar contexts are compared. In the absence of data that enabled us to do either of these, we developed NPC's Impact Assurance Classification. This provides a way of assessing the quality and robustness of impact data produced by investees and enables comparison of this between investments. Although this is different from comparing impact, our belief—based on our experience of impact measurement in the charity sector over the last ten years—is that a developed, intentional impact measurement process is likely to be associated with a greater focus on impact, and by extension an increased probability of impact. We therefore suggest that this can be used as a reasonable, if not perfect, proxy measure for level of impact.

Our analysis has also highlighted the significant contribution that the Kleissners have made to the development of the impact investment field, acting as pioneers by moving their foundation to 100% impact investing and by catalysing, leading and supporting much of the necessary supporting infrastructure. Just like the whole field of impact investing, this report is a work in progress—one we and they would welcome feedback on. It is an attempt to contribute to the much needed development of impact measurement in the sector. Even though not perfect, we hope that it will contribute practical lessons on both measurement and process, which will ultimately enhance the social return from investments.

## The impact of the Foundation

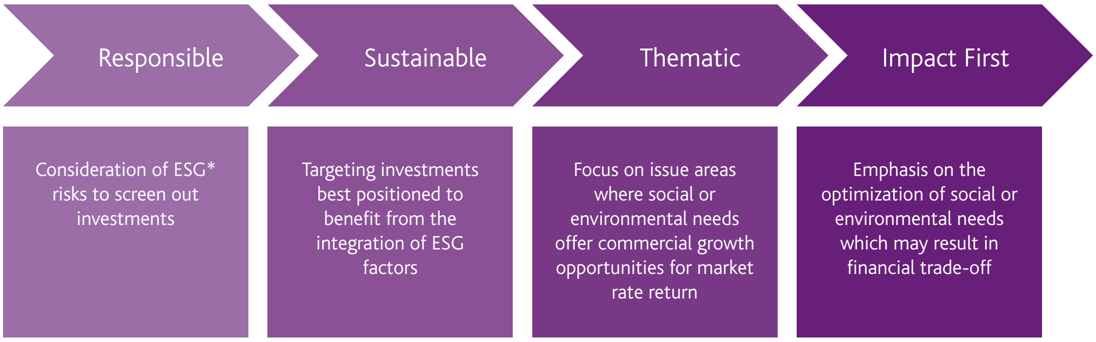
NPC conducted a review of the Foundation in 2015, analysing the impact both of its investment portfolio and its movement-building work. This report demonstrates that impact measurement for diverse investments in a global impact investment portfolio can be attempted. It can provide rich information on impact achieved by individual investments, across themes, and across the portfolio as a whole. The full methodology for our analysis is outlined on page 18 with practical tools for other investors provided on page 64.

There is no single common metric that can be meaningfully applied to the entire Foundation. The range of activities and support provided are too diverse, ranging from investments in organisations and funds to KLF's movement-building work. In addition, impact is evident at different levels for both the beneficiaries or cause each investment is addressing, and directly for investees themselves through both investment capital and additional support—be it grant funding, leveraging further capital, advice or advocacy.

## Impact of the investment portfolio

KLF's investment portfolio spans a spectrum of impact categories shown below, as defined by the Kleissners' advisors, Sonen Capital.

*Figure 1:* Sonen Capital's impact investing spectrum




*Environmental, social and governance factors. See Impact investing: basic lexicon on page 10.

NPC's impact analysis concentrates on KLF's investments in the Thematic and Impact First categories. These make up the overwhelming majority of the number of underlying investments in the portfolio, but currently represent only 34% of the portfolio's value, with the balance allocated to Sustainable investments. This difference between the number and value as a percentage of the portfolio is partly driven by the allocation to Thematic private investments, which have not yet drawn down all their committed capital. Beyond our analysis of the Thematic and Impact First investments, Sonen Capital has analysed the impact of KLF's Sustainable investments in public markets, a summary of which is included in the report. More detail on the investments in each impact category can be found on page 74.

In the report we present our analysis of the impact of seven of the Foundation's impact investments using our **impact dashboard**. These can be found on pages 27-33. We analysed the impact on beneficiaries and investees themselves; we also assessed their impact data against our newly developed **Impact Assurance Classification**. The process considers the extent to which each organisation measures and reports the work it does (outputs), how that fits with its aims, the change it is making (outcomes), and if possible, addresses the additionality question—in other words, the proof that the organisation's work is directly responsible for that change. This process is presented on page 20.

Where possible we aggregated the impact data of individual investments up into **thematic outcomes**. We did not attribute impact to the Foundation by % invested or holding size, for reasons discussed on page 34. But we can say that KLF's investment, often as one among many investors, contributed towards the social impact outlined opposite.

We also analysed the impact of the portfolio overall using IRIS metrics. The results we produced and the challenges we encountered are discussed on page 52.

KLF's investments have contributed towards:

- **Economic revitalisation of urban and rural communities in the US**—commercial lending to businesses in underserved communities supporting or creating **30,000** jobs.
- **Financial inclusion in under-banked US populations—5,452** new retail and savings accounts, and **$486.4m** in new affordable loans.
- **Financial inclusion in the developing world—19 million** borrowers supported and 94 microfinance institutions financed.
- **Growing social and environmental Small & Growing Businesses (SGBs) in the Global South—464** SGBs financed and **$225m** disbursed through loans or investment.
- **Growing agricultural businesses in the developing world—405 agricultural businesses** directly supported and **$236m** disbursed through loans, grants and investment to agricultural SGBs.
- **Increasing sustainable farming practices—790,000** hectares of land under sustainable management/cultivation.
- **Conserving land in North and Central America—360,000 acres** of land under protection or conservation, **19,500 acres** of land reforested or restored and **900,000** trees planted.
- **Reducing energy poverty in off-grid communities—1.8 million** energy production units sold.
- **Increasing renewable energy production—$335m invested** in renewable energy production and clean technology.

## Impact of the movement-building work

Investing 100% of its assets for impact is one focus of the Foundation. The other is to build a movement around impact investing. Through a mix of investments and grants, as well as the Kleissners' own time, the Foundation has contributed to developing an impact investing 'ecosystem', focused in particular on growing more effective investees, intermediaries, and investors. A significant achievement has been transitioning the portfolio almost entirely to 100% invested for impact across all asset classes—something they were repeatedly told was impossible. Throughout this journey the Kleissners have actively shared their approaches and lessons learned with the aim of encouraging and empowering others to follow suit.

As with the investment portfolio, attribution of impact has not been possible as the Kleissners and their foundation are usually one of a number of funders or supporters of an initiative. However through the data collected we have identified that the work of the Kleissners and the Foundation has contributed towards the following:

- creating and/or supporting **4** accelerators to build the capacity and impact of social enterprises, collectively reaching **681** social entrepreneurs, with **$126m** of capital raised by these enterprises attributable to these accelerators;
- creating and/or supporting impact investing intermediaries such as first-time impact fund managers and impact advisory firms; **$803m** has been raised to date through such funds, from **260** investors; **$497m** of assets are jointly managed by impact investing intermediaries supported by KLF, as of 31 December 2014;
- supporting the development of impact investing standards and tools, including IRIS metrics, which now have over **3,000** current users;
- creating and/or supporting a number of investor networks with a total of **738** members, up from **436** in 2011, delivering **39** events in 2014 reaching **2,243** participants; within these networks, **$5.8bn** of assets are currently committed to impact between network members, and **1,317** impact investment deals have been conducted to date across the network members; and
- contributing to the growth of impact investing: in a survey of leading US foundations in 2015, **80%** of foundations are currently making or potentially considering impact investments; this compares with only **58%** in 2013. The Kleissners can by no means take credit for all this growth, but their work has certainly contributed towards it to some degree.

## Lessons for the field

The process of analysing the impact of KLF has been a steep learning curve, particularly in the translation of the various theoretical frameworks into practice. There were notable challenges:

- The limitations of the data was the biggest challenge—there is a clear need to improve the standards of data provision and evidence across the sector. Our analysis is based purely on documents submitted by investees; we believe that validation of data through direct dialogue with investees would improve the quality but was beyond the scope of this review.
- Another issue is attribution. KLF is usually one of several investors in an organisation or fund, with the size of its investments often quite modest—on average around $75,000. One route could have been to calculate the proportion of each investee's impact that could be attributed to KLF based on the size of its holding, but this would have created an artificial picture of KLF's impact—possibly overstating the contribution where the Foundation provided only finance and, crucially, underestimating impact where the Kleissners have done more than just invest (such as providing cornerstone funding or hands-on support). **Therefore, all impact figures in this report show the total impact achieved by the investments—either on an individual level or aggregated by theme or across the portfolio—without breaking down KLF's individual contribution.**
- Aggregation was also difficult because only a minority of investees report on the same metrics. There is an increasing number of available tools and measures, such as **Big Society Capital's Outcomes Matrix**,[1] and **IRIS**[2] standardised metrics, that can be very helpful. But care needs to be taken in using these metrics. For example, in analysing KLF's IRIS data, we found there to be inconsistencies in the data reported.

## Guidance and tools

In the final section of this report, we provide guidance for other investors—tools and templates to help them measure their own impact, as well as lessons learned through the process. These include:

- It is important to measure all aspects of an impact investor's work to fully understand the impact. Because of the nascent state of the field, many impact investors are working across different aspects of the ecosystem in addition to investing their capital, and all parts of their activities should be assessed.
- Investors can have different levels of impact—on investees themselves through financial or non-financial support such as mentoring or capital raising, on beneficiaries, and on thematic outcomes. Assessing the impact of investments needs to be done on all three levels.
- Many impact investors have ambitious visions. Developing a **theory of change**[3] can be a valuable way of articulating that vision, breaking it down into measurable, intermediate outcomes.
- There is significant value in transparency and sharing processes and results for others to learn from, particularly at such an embryonic stage of a field's development.
- Impact data can be difficult to collect and organise. Enterprise contacts change frequently. We recommend that investors create a tracking system to monitor contact information, and the timing and format of impact reports from investees. Alternatively, investors could collectively fund the development of platforms that can be used meaningfully across the field.
- There is still much work to be done on the standardisation of outcome measurement. Investors today cannot tackle that challenge alone, but can help work towards standardisation by engaging with the standard measures, and with transparency, as a key aspect of their efforts.
- Impact measurement is a journey and the quality of impact measurement may vary according to an organisation's stage of development. Investors can support their investees with the process by helping with the selection of useful metrics that can tell their impact story. Transparency around results over time should encourage better practice.

> *"Proof of impact lies in our ability to measure it, and although in its infancy, measuring is a must for dedicated impact investors like us. The methods are imperfect, complex, and diverse. The numbers don't provide instant impact gratification. But data has meaning and an important story to tell. And understanding that narrative, for an impact investor, can be life changing."*

**Lisa Kleissner**
President and Co-Founder, KL Felicitas Foundation

*"As interest in impact investing mounts, there has been greater emphasis placed on measuring the financial returns of impact investing funds, as well as the actual impact these funds produce. We're delighted to see NPC publish this report into KLF, which is a concrete development toward a standardised framework for measuring impact. With this report, KLF complements work that Cambridge Associates has done to benchmark the financial returns of social impact investments, and does a great service for the entire impact investing community."*

**Annachiara Marcandalli**
Managing Director, Cambridge Associates

*"Taking thinking about measurement into practice, NPC and the KL Felicitas Foundation deliver in this report valuable guidance on how to approach the measurement of a whole portfolio's impact. Well done on another step forward."*

**Sir Ronald Cohen**
Chairman of the Global Social Impact Investment Steering Group and Founder Chair of Big Society Capital

*"Every investment is an impact investment. The problem is that most people don't know if their investments have a positive or negative impact. Happily, thanks to Lisa and Charly, more and more people are becoming "conscious" of the impact of their investments and are looking to align their wealth with their values. To enable investors to be aware of the impact of their capital, institutionalizing impact data collection and analysis is needed. This report is a step in this direction."*

**Jochen Wermuth**
100% IMPACT Network member and Founder of Wermuth Asset Management, Germany

*"Although not everything that matters can be measured, it is crucial for us to try so that others can learn from what we do, and we can hold ourselves accountable, and continue to improve. Thank you Lisa and Charly for bravely paving a path in the impact investing landscape. Your openness in sharing your journey is one of the most valuable gifts you could provide to those of us seeking to walk this road less travelled. By sharing what you have learned from your own experiences, and in particular the complex and fraught questions around measurement of impact, you have shone the light into a dark room that scares so many people in this field."*

**Danny Almagor**
100% IMPACT Network member and CEO of Small Giants, a certified B-Corporation, Australia

# INTRODUCTION

Charly and Lisa Kleissner have a bold vision—to transform the entire financial system towards considering and accounting for positive social and environmental impact. They actively pursue this vision through their family foundation—the California-based KL Felicitas Foundation (KLF)—as well as through their own personal time and effort.

The Kleissners are pioneers in impact investment. After deciding to take a portfolio approach to impact investing, in 2004 they took the decision to align 100% of their Foundation assets to social and/or environmental impact. This is very different to the majority of large US foundations engaged in impact investing which, on average, had allocated only 2% of their endowment or 0.5% of their grant budget to impact investing in the previous fiscal year.[4]

A secondary aim of the Foundation is to encourage others to follow a similar strategy. To this end, KLF has always been committed to sharing the lessons it has learned along the way. In 2013, for example, KLF's investment advisors, Sonen Capital, published the financial performance of KLF's impact portfolio to demonstrate that it is possible to achieve market-competitive returns while pursuing social impact.[5]

The next step was a complementary study to demonstrate social impact. We at NPC were delighted to be asked to conduct this review—both analysing KLF's impact data, as well as developing tools for others. Impact measurement is at the heart of our work, and the project has drawn on our broad experience of creating measurement frameworks, developing theories of change, and understanding the myriad of ways funders have impact.

The measurement of social impact is still in its infancy within the impact investment field. Theoretical frameworks are useful, but we particularly enjoyed the challenge of applying theory to a real-world situation where the quantity and quality of data, issues of attribution, aggregation, and so on, all play their part. Unlike an analysis of a portfolio's financial returns, there is no single common metric representing social return. Neither are there, as yet, impact benchmarks to compare the performance of a portfolio such as KLF's against those of others. By combining existing frameworks and tools—such as those developed by the **G8 Social Investment Taskforce**,[6] **IRIS**,[7] and **NESTA**[8]—with investment data, we developed a practical approach for assessing the impact of the KLF portfolio. The result is a new impact measurement framework: NPC's Impact Assurance Classification—a starting point to compare the quality of impact practice of investments across asset classes, sectors, and eventually financial returns.

In this report we aim to achieve two objectives:

1. **To review the Foundation's impact**—both of its investment portfolio and its advocacy work—to enable KLF to learn and improve as a funder and investor, but also to show other investors that it is actually possible to measure and report on the impact of such a portfolio. On a more basic level, we also hope that by detailing a range of investments and their impact, we can bring some tangibility to an often conceptual field.
2. **To produce a guide for other impact investors** interested in measuring the impact of their own portfolios, using the approach and practical tools we have developed, and sharing lessons learned in the process.

This impact report, and the approach we present, must be seen as a work in progress—we expect both to evolve over time. It is our hope that by developing this process and framework, and by sharing the results as well as the lessons learned, others can benefit. Combining this with the Kleissners' strong commitment to building the field, we are optimistic that others will follow suit.

**Whether you are a foundation, individual investor, investment advisor or philanthropist, we believe you will find this a thoughtful and potentially useful report and we welcome feedback on all aspects.**

# IMPACT INVESTING: A BASIC LEXICON

The brief lexicon below is provided for readers who may not be familiar with the concept of impact investing. This is adapted from ***Evolution of an Impact Portfolio***, published by Sonen Capital, which reflects the framework used by KLF.[9]

### 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 the 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 less to more integral 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. Sonen Capital 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, such as, for example, 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 practised by US private foundations, there is the option to consider this a Program-Related Investment (PRI), as defined by US tax law.

### Non-Impact Investments:

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

### 100% Impact Investment:

The intentional commitment by asset owners of 100% of their assets to positive social and/or environmental impact.

### 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 labour; and governance risk such as the presence of bribery and corruption within a business, or mismatched or illegal incentives.

### Impact Reporting and Investment Standards (IRIS):

A catalogue of generally accepted, mostly quantitative impact metrics; originally a 2008 initiative of the Rockefeller Foundation and subsequently a project of the Global Impact Investing Network (GIIN). The metrics are useful for projects where the indicators currently listed might be relevant, such as development of education systems in developing countries. Indicators include outputs—the products, services or facilities resulting from activities, such as the number of toilets built per school; and outcomes—the changes, benefits, or learning resulting from activities, such as improved educational attainment. It is not a prescriptive list—GIIN encourages organisations to develop further indicators which can also sit on the platform.

### The Global Impact Investing Rating System (GIIRS):

A third party impact evaluation and ratings system developed in the US. GIIRS provides both company and fund impact ratings derived from the B Impact Assessment. For companies, a GIIRS rating is comprised of an overall score and two ratings; one for its impact models, and one for its operations. The Impact Model Rating recognizes business models that are specifically designed to solve social or environmental problems through company products or services, target customers, value chain, ownership, or operations. The Impact Operations Rating evaluates the impact of the business in how it operates. These are sometimes referred to as ESG (or Environmental, Social and Governance) practices.

For funds, a GIIRS Rating is comprised of a Fund Manager Assessment Rating and two Investment Roll-Up Ratings: an Overall Impact Business Model (IBM) Rating and an Overall Operations Rating. The Fund Manager Assessment covers topics regarding a fund's policies and practices in deploying and managing its capital. The Investment Roll-Up Ratings are weighted averages of the portfolio companies' impact business model and operations ratings based on the amount invested in each company.

### B Corporations:

For-profit companies certified by US-based non-profit, B Lab, to meet rigorous standards of social and environmental performance, accountability, and transparency. B Corps must complete the B Impact Assessment and earn a reviewed minimum score of 80 out of 200 points; satisfy the requirement that the company integrate B Lab commitments to stakeholders into company governing documents; and sign the B Corp Declaration of Interdependence and Term Sheet. There are currently more than 1,000 Certified B Corps from 33 countries and over 60 industries.

### Asset class:

A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments).[10]

### Debt investment:

This is essentially a loan, so the return is fixed and not related to performance. However there is a risk that the investee will be unable to pay back the debt.[11]

### Equity investment:

This is when the return is related to the performance of the asset, ie, the level of profit or the value of the shares.[11]

### Accelerator:

Accelerators "accelerate" the growth of an existing company, so are focused on scaling a business. Accelerator programs usually have a set timeframe to work with a group of mentors.[12]

# OVERVIEW OF THE KL FELICITAS FOUNDATION

## A brief history

### Early days

In 2000, Charly and Lisa Kleissner established **The KL Felicitas Foundation**[13], following successful careers in engineering and architecture respectively, much of which was spent in Silicon Valley. Uniting their interests in entrepreneurship, and social and environmental sustainability, the Kleissners set up the Foundation with the aim of supporting social entrepreneurs and enterprises to develop and grow sustainably. They also set the intention of moving their foundation's assets into impact, but at the time were unable to find a suitable investment advisor.

The initial focus was strategy development. In 2003–2004 the Kleissners attended **The Philanthropy Workshop's** donor education programme which introduced them to thought-leaders and new ideas, such as Jed Emerson's concept of 'blended value' (this looks at breaking down the binaries of 'investor/philanthropist', 'profit/non-profit', and 'investment/grant' in order to maximise social and environmental outcomes).

Inspired also by the work of the **Acumen Fund** and Santa Clara University's **Global Social Benefit Institute**, the Kleissners began to think more seriously about how to support social entrepreneurs and impact-focused enterprises, and about challenging their investment advisors to move more aggressively into impact. Working with early-stage social enterprises around the world—for profits, non-profits and hybrid business models—provided practical experience and insight into the key ingredients that drive successful social organisations.

This experience led to a strategy focused on fully aligning their investment policy across asset classes with the Foundation's mission and values. They would take a blended approach to supporting effective social enterprises and other social sector organisations through combining grant funding and investments, enabling them to fully leverage the Foundation corpus ($10m) for impact.

### Getting to 100%

Armed with this new, and exciting, strategic focus, in 2004 the Kleissners approached wealth manager Raúl Pomares with the challenge of identifying investments with measurable social impact. What began as a carve out slowly morphed into a portfolio with investments across asset classes. Realising that there were few established methods or products for facilitating this transition, Pomares began developing methodologies, tools and frameworks to align personal, organisational and investment aims. From 2006, the process of moving the KLF portfolio of investments to impact began in earnest, but it took a good eight years to reach the current 99.5% level.

Realising that KLF was not the only investor needing to transition to the world of impact, Raúl Pomares—with support from KLF—founded **Sonen Capital** in 2011. KLF was one of Sonen's early clients, and provided capital and support at the inception of Sonen. Two years later Sonen published ***Evolution of an Impact Portfolio*** charting the development of the KLF's portfolio and publicly setting out its financial performance—a milestone in communicating transparently within the market.

While the majority of investments have been successful, there have been those that have not gone to plan, providing lessons along the way—most notably that a great mission with a great business plan is only as good as the leadership and skill set of the enterprise team. It also became clear that non-value-aligned investees and investors can inadvertently ruin an enterprise, and that targeted and timely engagement with an entrepreneur is essential.

### Evolving vision

While the Kleissners' core vision has remained unchanged, their focus and approach have evolved over time. Initially, the Foundation focused on supporting positive social and environmental outcomes in rural communities, aiming to tackle some of the structural reasons behind rural poverty (such as the 'brain drain' of educated and skilled workers to urban areas, and the 'last mile' problem of services failing to reach more remote locations). With time, however, the Kleissners have become more agnostic in terms of their beneficiary focus, with a greater emphasis on supporting 'best of breed' social enterprises to achieve greatest impact across sectors and locations. Support has not solely been in the form of grant or investment finance—the Kleissners take a hands-on approach to the development of effective, early-stage social businesses. In particular, they founded and/or support a number of social enterprise accelerators to provide coaching, skills training, and access to capacity building and funders for social entrepreneurs. Also, recognising that time investment is sometimes of more benefit than capital, Charly and Lisa Kleissner have been active on the boards of individual enterprises to help build capacity and expertise.

## Building an 'impact ecosystem'

As KLF's mission has evolved and the transition of its portfolio towards impact has gathered pace, the profile of the Foundation has also increased. The Kleissners have been active in bringing people together and advocating for impact investing, providing guidance through a transparent approach to evidencing their own journey, as well as creating and supporting organisations and tools aiming to grow the field. One such organisation is the **Toniic Institute**[14], co-founded with others in 2010, and focused on bringing together and supporting an international network of impact investors. This led, in 2013, to the Toniic **100% IMPACT Network**, a peer group of around 70 members who have intentionally committed 100% of their combined $4bn of assets to positive social and/or environmental impact.

The Kleissners have also influenced the development of other field building organisations, including the one that helped inspire their journey—The Philanthropy Workshop. Lisa Kleissner serves on their board and has been actively involved in delivering impact investing workshops. In 2009 Charly Kleissner is on the Global Advisory Board of **Impact Hub**, the international network of hubs providing an ecosystem of resources, tools and ideas to catalyse innovation for impact.

KLF has also invested time and resources in helping its investees improve their impact measurement as well as a myriad of initiatives to improve impact measurement for the sector as a whole. In addition there is a commitment to sharing its approaches, analyses, methodologies and metrics so they can be useful to others. This includes **investment evaluators**[15]—assessment forms completed during KLF's due diligence process which document a potential investment's alignment with KLF's impact investment strategy. KLF provides a blank evaluator template with guidelines for completion by other investors, and also publishes completed evaluators for all of its **program-related investments**.[16] The Kleissners contributed to the development of **Impact Reporting and Investment Standards (IRIS)**[17]—a catalogue of generally accepted, mostly quantitative impact metrics—and helped Toniic develop an **e-guide for impact measurement**.[18]

As a result of their work as impact-investing advocates, the Kleissners were awarded BNP Paribas's Prize for Individual Philanthropy in 2014 for demonstrating that '*impact investing can be a replicable investment strategy for philanthropists around the world*'. In the same year they were also identified as one of NPC's ***10 innovations in global philanthropy***[19]. They were also the recipient of the Santa Clara University 2015 Magis Award for their contributions to growing the field of impact investing.

# Timeline of KLF's activities

**2000-2009**

- Decision to work with **non-traditional advisors** (2000)
- Advisory Board Member of **Acumen Fund**
- Advisor to **Global Social Benefit Institute**
- Attended and supported **The Philanthropy Workshop** Programme
- Co-founded **Social Impact International**
- Publication of **MRI/PRI Evaluator Toolkit**
- Formal decision to take KLF to **100%** (2004)

**2009**

- Board Member of **The Philanthropy Workshop**
- Publication of Rockefeller Philanthropy Advisors' ***Solutions for Impact Investors***
- Advisors to and early adopters of **IRIS metrics**
- Co-founded & Board Member of **Dasra Social Impact** Programme
- Chair of Advisory board of **Impact Hub**

**2010**

- Seed grant awarded to **Capital Institute**
- Board Member & Chair of Investment Committee of **Impact Assets**
- Advisor to **Total Impact Capital**
- Co-founded **Toniic Institute**

**2011**

- Publication of **IRIS case study of KLF**
- Publication of **KLF's Investment Evaluator Tool**
- Supported launch of **GIIRS** ratings
- Supported formation of **Sonen Capital**
- Co-founded **Central & Eastern European Investment Ready Programme**

**2012**

- Conducted initial prototype of **IMPACT U**
- Publication of Toniic's ***E-Guide to Impact Measurement***

**2013**

- Publication of Toniic's ***Redefining Impact E-guide***
- Publication of Sonen Capital's ***Evolution of an Impact Portfolio***
- Publication of Toniic's ***Early Stage E-guide***
- Co-founded **Hawaii Investment Ready** Programme
- Co-founded **100% Impact Network**
- Supported launch of **B Analytics**

**2014**

- Board & Investment Committee member of **Aqua Spark** investment fund
- Created **Impact Hub Investor Circle - Vienna**
- Named one of NPC's ***10 innovations in global philanthropy***
- Winner of **BNP Paribas Philanthropy Grand Prix**
- Developed **100% Impact Network Portfolio Construction Tool**

**2015**

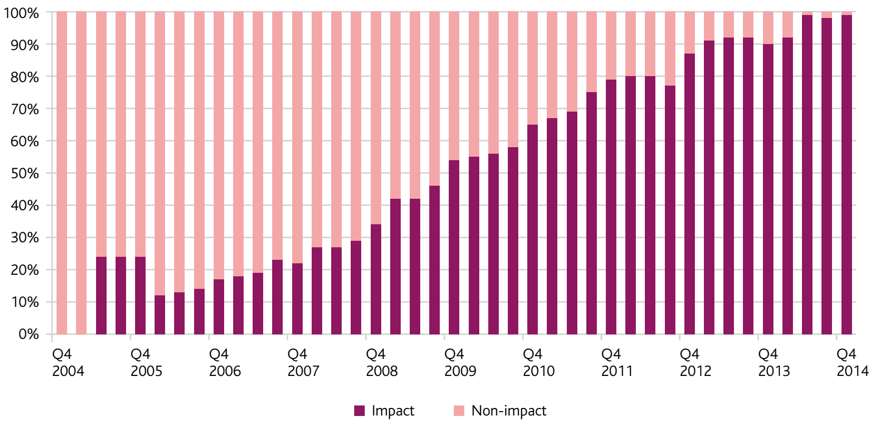
- Publication of **NPC's Review of KLF's Social Impact**
- Winner of **Magis Award from Santa Clara University**

# Current snapshot of the Foundation

KLF's Investment Portfolio was valued at $10.02m in December 2014, the date taken for all the following analysis. Of this, 99.5% is invested for social and/or environmental impact, with only 0.5% remaining in non-impact investments. We refer throughout this next section to this 99.5% as KLF's impact portfolio. As Figure 2 illustrates, it has taken a number of years to get the portfolio to this stage—in the early days it was hard to find suitable investment opportunities in all asset classes that met the Foundation's criteria.

In addition to its investment portfolio, KLF provides grants of around $200,000 per annum. The majority of these are part of KLF's movement-building work to advocate impact investment, the impact of which is analysed on **page 57**. In addition, some grants are blended with investment capital to help build the capacity of an investee organisation. See **page 74** for a full list of grants made in 2014.

*Figure 2:* Impact vs Non-impact investments over time




**99.5%**

IS INVESTED FOR SOCIAL AND/OR ENVIRONMENTAL IMPACT

## KLF impact portfolio by impact category

Sonen Capital developed a spectrum for impact investing with four categories of impact, moving from less to more integral impact (from left to right in Figure 3). All investments within the portfolio are categorised into one of the four categories. For more definitions, see the lexicon on **page 10**.

KLF's impact portfolio across these four categories comprises of 43 investments with a combined value of $9.97m as of 31 December 2014. The majority (55.9%) of the portfolio by value falls into the Sustainable category. Although the Impact First and Thematic categories only account for 34% of the portfolio, they consist of 41 of the investments (17 are Impact First, 24 are Thematic). This difference between number and value as percentage is driven by the allocation to Thematic private investments, which, although they have a higher commitment amount, are still early in calling down capital. NPC has analysed the social impact of the investments across these two categories. Sonen Capital, meanwhile, has reviewed the social impact of KLF's Sustainable investments in public markets—a summary of which is provided on **page 54**. Note that a number of investments straddle two impact categories (see **page 74** for a full table of investments).

**14** COMPANIES **29** FUNDS

*Figure 3:* Sonen Capital's impact investing spectrum

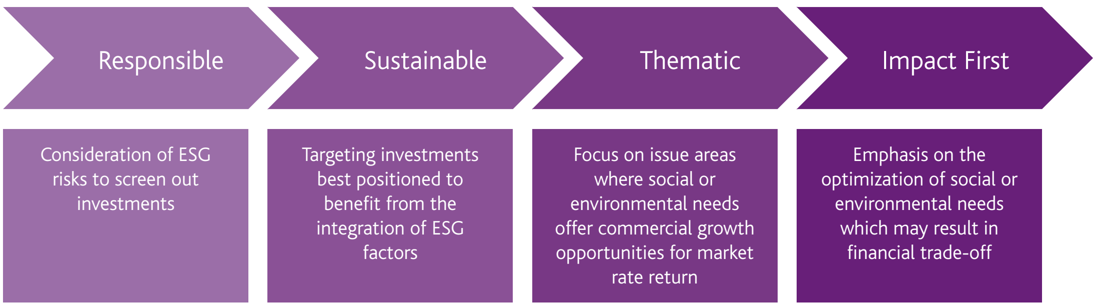
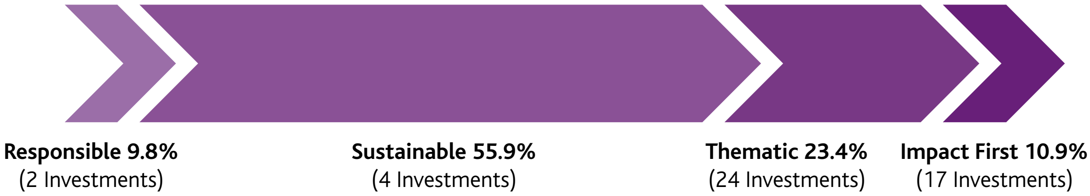


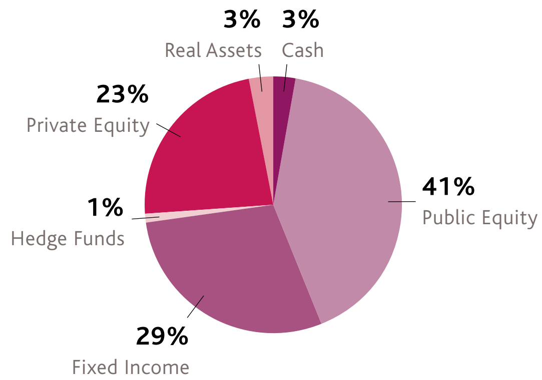
*Figure 4:* KLF's impact portfolio by impact category as of 31 December 2014




## KLF's impact portfolio by asset class

The largest portion of KLF's portfolio, by value, is invested in public equities through Sonen Capital's strategies. Traditionally it was thought that impact investments were largely comprised of private equity or debt investments, but as the market has evolved, it is increasingly possible to find compelling investments (both financially and socially) across other asset classes. As an example, KLF has cash deposits with a US development bank, Southern Bancorp, which helps revitalise rural communities and support local entrepreneurs (see **page 36** for more).

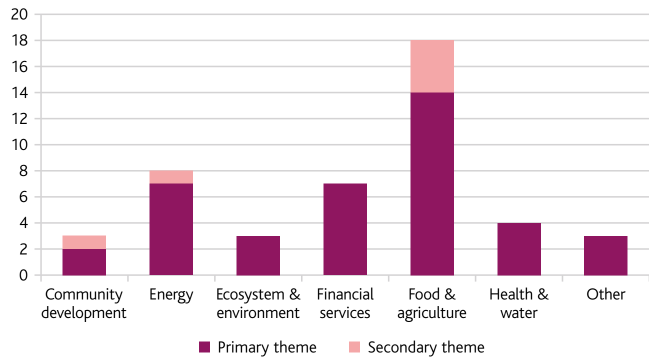
*Figure 5:* KLF's impact portfolio by asset class as of 31 December 2014




## KLF's impact portfolio by theme

KLF's Thematic and Impact First investments can be grouped together based on their area of work and the outcomes they are focused on, which we term 'themes'—although a number of companies or funds operate across multiple areas. For example, Root Capital is primarily a financial services organisation providing capital to small and growing agricultural businesses, but it has a secondary theme of food & agriculture given its lending focus. Each of these underlying themes is also evident in KLF's public markets investments, described in detail on **page 54**.

*Figure 6:* Number of investments by primary and secondary theme




## Financial performance of KLF's impact portfolio

In 2013, Sonen Capital **published a report**[20] analysing the financial performance of KLF's impact portfolio over the previous seven years (2006–2012), comparing those investments with 'reportable' performance with benchmarks across asset classes. Results were promising—the report demonstrated that it is possible to achieve index-competitive, risk-adjusted returns while pursuing social and environmental goals. Sonen Capital is due to publish an update of the financial performance based on 2014 returns in December 2015.

## Impact investment policy and process

The Foundation has a transparent impact investment policy and process, **published on its website**[21], with the aim of helping other impact investors on their own journey. Part of KLF's due diligence process includes completing **investment evaluators**[22], as described on **page 13**. (See **Appendix** for more details on their policy and process.)

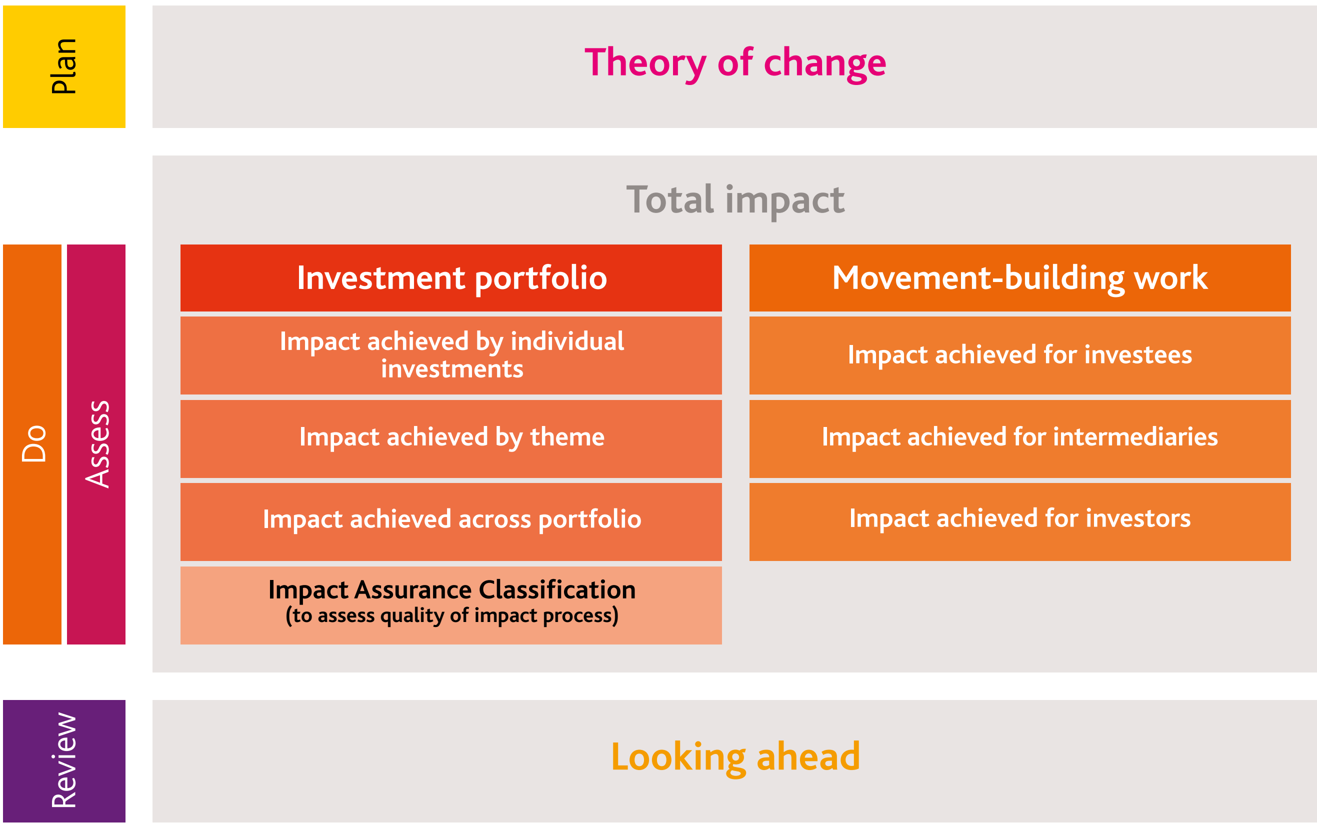
## The structure of KLF

The Foundation is a small family foundation without staff. Its board consists of Lisa, Charly, and their two adult children. Sonen Capital act as the Foundation's investment advisor and attend all board meetings.

# METHODOLOGY

The methodology we used to evaluate the impact of the Foundation was based on the **guidelines** set out by the Impact Measurement Working Group of the G8 Social Impact Investment Taskforce, of which NPC was co-chair. The guidelines split the process into four areas—Plan, Do, Assess, and Review. Each section of the report discusses the process associated with each step, and there is guidance for other investors on how to measure their own impact on **page 64**.

*Figure 7:* Methodology for evaluating the impact of the KL Felicitas Foundation

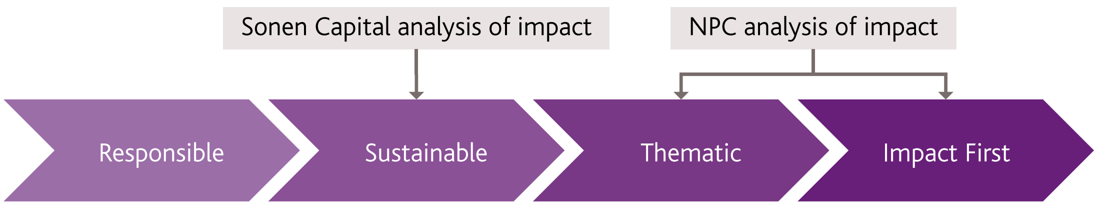


We undertook four main areas of work to produce this report:

1. **Developed a theory of change for KLF**—on the understanding that both the investment portfolio and the movement-building work of the Foundation required evaluation.
2. **Evaluated the impact of the Foundation's investment portfolio.**
3. **Evaluated the impact of the Foundation's movement-building work.**
4. Looking ahead, **assessed the Foundation in terms of its state of impact measurement**, based on the G8 Social Impact Investment Taskforce's **long term priorities**.[23]

The sources we drew upon are included within the body of the report.

## Which parts of the portfolio is this applied to?




As described on **page 16**, KLF has a spectrum of impact investments. For impact measurement purposes, KLF groups its Impact First and Thematic investments together, gathering the same kind of data for both types. In this report, we have analysed the impact of the investments within these two categories, while Sonen Capital has analysed the Sustainable portion of the portfolio, outlined on **page 54**. The Responsible portion of the portfolio is negligible.

Our impact review of the Thematic and Impact First investments does not explicitly include an assessment of ESG factors. Impact investments, as articulated by GIIN, are *'investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.'* ESG criteria, as described on **page 10,** refer more to business processes and practices, rather than how an organisation seeks to intentionally create impact through its products and services —which is the focus of our review.

# NPC's Impact Assurance Classification

To support the analysis of KLF's investment portfolio and to enable comparisons across investments, we have developed our Impact Assurance Classification. This is important as it is difficult to compare investments based on the actual impact they have achieved due to the different metrics used, especially if they are operating in different sectors.

The classification is based on our belief—from our experience of impact measurement in the charity sector over the last ten years—that a developed, intentional impact measurement process is likely to be associated with a greater focus on impact, and, by extension, an increased probability of impact. We therefore suggest that this can be used as a reasonable, if not perfect, proxy measure for the level of impact achieved. We also hope that reviewing impact practice in this way will encourage investees to improve their processes and report their outcomes more systematically, which in turn should support the development of the field.

Figure 9 outlines the process for the Impact Assurance Classification, which is based on reviewing an investment's impact data and processes around five components of good impact practice and scoring each from 0-3 (see figure 10 for detail on each of the components). This results in an overall impact practice score, which is then used to identify the Impact Assurance Classification of each investment—from stage 1 to 4 (figure 11).

A number of factors can influence the impact practice of an organisation and therefore the Impact Assurance Classification, as outlined below:

- **Stage of development:** A start-up enterprise is understandably less likely to have developed sophisticated measurement processes than an established business, so might receive a lower classification and visa versa. For example, two of KLF's investees at the highest stage (4)—Media Development Investment Fund and Root Capital—are among those that have been in existence for the longest (more than 15 years).
- **Impact profile:** An investment primarily seeking to deliver high financial returns with a lighter emphasis on social impact is likely to have a lower classification.
- **Maturity of business model:** Organisations that have more mature/proven models are likely to have better impact measurement practices and so a higher classification. For example, EKO Green Carbon Fund's Stage 2 classification reflects the innovative business model employed and the difficulty of quantifying early stage environmental investments. We would expect this to change over time as the fund is deeply committed to proving the model and its impact.
- **Sector:** Some sectors have a longer history of organisations working to provide both a financial and social return—microfinance, for example, is one sector where there are more established measurement standards and even shared outcomes. This would result in a higher Impact Assurance Classification.

Developing impact measurement processes is part of the journey to becoming an impact-driven organisation and we acknowledge and appreciate that you have to start somewhere. Investors can play an important role in supporting the development of good impact practice, just as the Kleissners have done—working with their investees to select useful metrics (both for an investor and for the investee itself) to report.

**For a more detailed explanation of how we developed this process, and for the full scoring framework to help other investors apply the methodology to their own investments, see page 69.**

*Figure 9:* The Impact Assurance process

**Score each component of impact practice**

From 0-3

**Calculate overall impact practice score**

Add up scores from each of the five components, max score of 15

**Identify Impact Assurance Classification**

Classify each investment into one of four stages based on impact practice score

**Map scores and stages across portfolio**

Compare individual scores and averages (by sector, asset class etc), prioritise areas for support/development

*Figure 10:* Components of good impact practice


**Outputs:**
- Variety of relevant outputs including context
- Comparison to targets or benchmarks
- Up to date

**Standardised metrics:**
- Use of industry standard metrics relevant to mission (eg, IRIS)
- Sharing of data to enable comparisons, where relevant

**Clarity of mission:**
- Clear theory of change or logic model for achieving impact
- Intermediate outcomes identified
- Evidence for assumptions

**Data to show change:**
- Quantitative data showing effect
- Qualitative evidence/case studies to support

**Additionality:**
- Evidence of causality of impact
- Beginning to address counterfactual

*Figure 11:* NPC's Impact Assurance Classification

| Stage 1 | Stage 2 | Stage 3 | Stage 4 |
|---|---|---|---|
| Some output data, pre-development of standardised metrics.<br>First draft mission statement, limited case studies.<br>Not yet addressing additionality. | Reasonable number of outputs, some standardised metrics, early anecdotal case studies.<br>Clear mission statement.<br>Starting to address additionality. | Developed list of outputs current within 24 months, well-articulated mission or theory of change.<br>Good case studies, quant data showing before and after effect.<br>Evidence building of additionality. | Relevant outputs to targets or historic, good use of standardised metrics, data within 12 months.<br>Clear theory of change & mission, detailed case studies, quality, up to date quant data showing effect.<br>Demonstrating additionality using control or comparison group. |

**Stage of development:** Longer-established organisations likely to have a higher classification.

**Impact profile of investees:** Organisations focused on optimisation of impact likely to have a higher classification.

**Maturity of business model:** More mature/proven models likely to have a higher classification.

**Sector:** Sectors with well-defined outcomes and good levels of evidence likely to have a higher classification.

# THEORY OF CHANGE

The first step required to measure the impact of KLF was to develop a **theory of change**, to articulate the Foundation's objectives and help to decide which aspects of its activities should and could be measured. A theory of change links an organisation's goals to its activities, setting out the intermediate steps and causal links needed for the final aim to be achieved. At NPC we see theory of change as the starting point in all our work measuring impact or thinking about strategy for impact.[24]

Working through our theory of change process with the Kleissners made it clear that they are working towards a goal of building and strengthening the impact investing ecosystem. This in turn contributes to their longer-term vision of a financial system which maximises positive social and environmental impact. The Kleissners aim to flip 10% of the $4trn of assets currently held by endowments, High Net Worth individuals, family offices, and foundations to impact investments (currently only 0.1% of these assets are held in impact investments). They believe that reaching this threshold will set in motion a move towards impact across a broader section of the investment market.

Having clarified this goal it was apparent that to capture the full impact of the work of the Foundation and the Kleissners we needed to look at their influence on convening the sector and building a movement, alongside analysing the impact of their investment portfolio.

## A dual-pronged approach

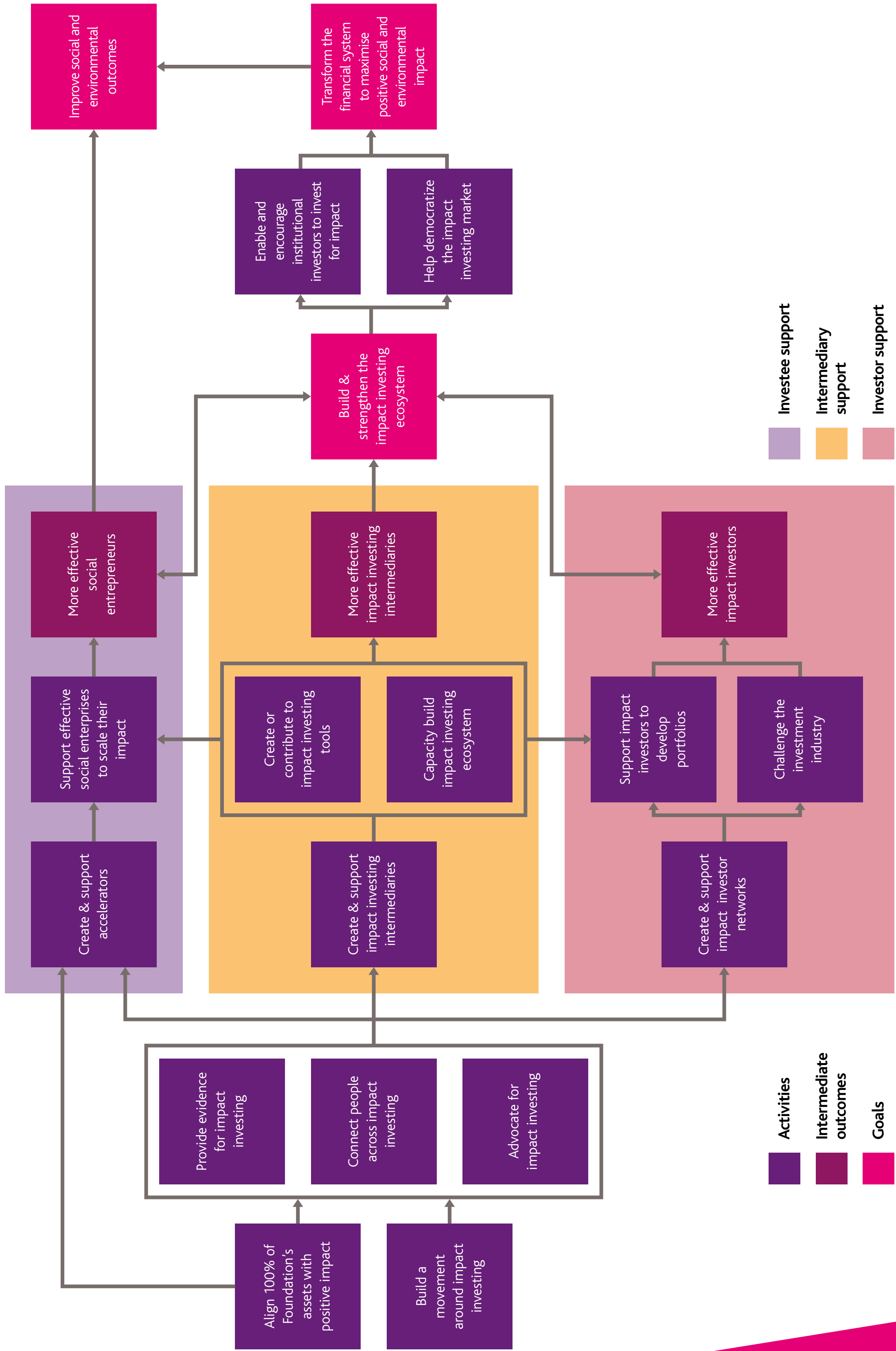
The Kleissners see themselves as taking a dual-pronged approach to building an effective ecosystem by:

- **Aligning 100% of the Foundation's assets with positive impact**—developing an impact portfolio across asset classes as an example and inspiration to other investors, as well as having direct effects on financed organisation and beneficiaries; and
- **Building a movement around impact investment**—by making transparent the contents and performance of their portfolio, and by providing financial and non-financial support to cultivate networks, catalyse the work of others in the field, and develop new organisations and programmes where gaps are identified.

Through this they aim to achieve three intermediate outcomes which are necessary precursors to a strong impact investing ecosystem:

- **More effective social entrepreneurs**—includes directly supporting early-stage social enterprises through portfolio investments, grants and hands on support as well as the Foundation's efforts in co-founding social enterprise accelerators in Hawai'i, India and Central and Eastern Europe.
- **More effective impact investing intermediaries**—involves developing and supporting organisations that provide the key infrastructure, resources and knowledge for the ecosystem to function. This includes working to develop and promote shared tools and resources to connect impact investors to effective social enterprises (such as supporting Sonen Capital, contributing towards IRIS metrics, and supporting first-time funds).
- **More effective impact investors**—working to bring other investors into the field (through, for example, Toniic and the 100% IMPACT Network) and in so doing influence capital to move to impact. Part of this is about encouraging personal transformation regarding individuals' financial decisions, but also challenging the investment industry as a whole.

## KLF's theory of change



# IMPACT ACHIEVED—KLF'S INVESTMENT PORTFOLIO

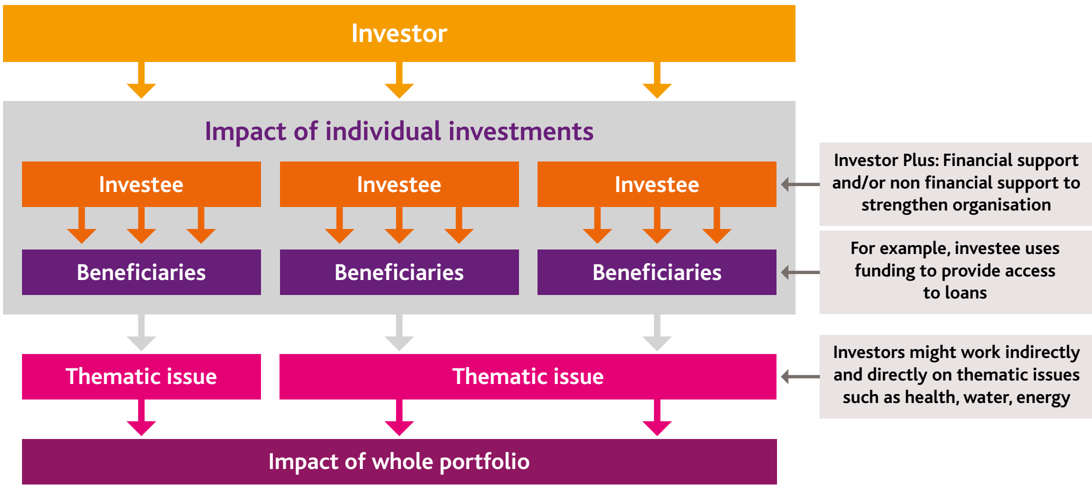
## Measurement approach

We analysed the impact of KLF's investment portfolio in three ways:

- the **impact of individual investments**, both on beneficiaries and on the investees themselves;
- aggregating the **impact by theme** where investments are clustered; and
- the **impact across the whole portfolio** through the use of IRIS metrics.

These three ways of analysing the impact reflect our thinking on the different levels of impact KLF has. Figure 8 below, adapted from NPC's report *Funding impact*, highlights these different levels[25].

*Figure 8:* Different levels of investor impact




### Impact of individual investments

Analysis of the impact of individual investments combines an understanding of two levels of impact:

- The impact KLF has on the investee themselves—Investor Plus. This is support (either financial or non-financial) beyond the investment itself that KLF provides to help an investee build their capacity and strengthen their organisation. The table opposite shows the different forms of Investor Plus support provided by the Kleissners to a number of their investees.
- The impact on the people, or issues, that the investees are trying to help. This is what is usually evaluated—that is, the number of people reached, and how their lives are changed, through a particular service or product. The individual case studies of KLF investments (see impact dashboards on pages 27-33) show the impact each fund or organisation has in their own area of focus.

We have also introduced NPC's Impact Assurance Classification for each investment, which provides a systematic way of evaluating the impact practice of each investee (see page 20).

### Impact by theme

Analysis of impact by theme aggregates the impact that one or more investees are having on a specific thematic issue (the third level in Figure 8). This may be the contribution of investees towards improving food security or access to clean water, for instance. Analysing this is difficult, but where possible we aggregated individual impacts to understand the investor's contribution to thematic outcomes. In KLF's case, this has been done through the thematic analysis on pages 34-47.

### Impact across the whole portfolio

To assess impact across the whole portfolio we used data on IRIS metrics where available, although encountered some challenges. See page 52 for details.

## Investor Plus framework

| Investor Plus category | Type of support | KLF investments receiving Investor Plus |
|---|---|---|
| **Finance** | Investment creates additional financial leverage through being catalytic, taking a cornerstone investment, bringing in public finance or combining with grant finance. | Healthpoint, ImpactAssets, MA'O Organic Farms, Microvest, SMV Wheels. |
| **Advisory** | Investment is accompanied by training, business and strategic advice and/or coaching. | Acumen Capital Markets, FAIM, Grassroots Business Fund, Healthpoint, ImpactAssets, MA'O Organic Farms, MicroVest, Persistent Energy Partners, SMV Wheels. |
| **Advocacy** | Investment is accompanied by advocacy and profile raising, access to networks. | Beartooth Capital, FAIM, Media Development Investment Fund, Purpose, SMV Wheels, Southern BanCorp. |

### Investor Plus in operation

ImpactAssets is a good example of an investment benefitting from KLF's Investor Plus activities. ImpactAssets is a non-profit financial services firm which aims to increase the flow of capital into impact investing and particularly to democratize and scale impact investing through offering products to appeal to small individual investors. KLF has been actively engaged with ImpactAssets from its inception as they share a common aim—of wanting to create access to impact products for everyone—an important component of building the ecosystem. KLF provided ImpactAssets with a $50,000 loan, complemented with a $90,000 grant to build the business, and in addition, Charly Kleissner is a board member and chairs their investment committee. KLF is a significant advocate for ImpactAssets, showcasing the organisation where possible in publications and at events. (See page 30.)

# Impact of individual investments

As part of the approach to assessing the impact of individual investments we have created an **impact dashboard**. This is structured to show the key features that are important for any impact investor to know, and to identify the different levels of impact from an investment—on an investee organisation and on beneficiaries.

The impact dashboard covers:

- **The mission and activities.** What is the company or fund aiming to achieve? A case study brings this to life.
- **Financial details** about the fund or company.
- **Details about KLF's investment**—date, value, asset class, and also the reason why KLF invested in the first place.
- **KLF Investor Plus**—has KLF provided additional support, financial or non-financial, to improve the capacity of the investee itself? Each investment is rated Low, Medium or High accordingly.
- **NPC's Impact Assurance Classification**—each investment is given a Stage 1 to 4 classification based on its impact practice.
- **Social and/or environmental impact achieved**—metrics reported by each investee, and put into historical context in the table, highlighting, where possible, those metrics which align with IRIS metrics.

To complete the impact dashboards for each investment, data was collected from impact reports, shareholder updates, annual accounts, and websites. None of this was specifically created for KLF but is available either publicly or for all investors. This differs considerably from a grant-maker requesting a bespoke monitoring report from a grantee. In addition, KLF keeps up with investees through email and phone correspondence and, where possible, on-site visits, and in some cases information was available from these.

We analysed the following components:

- **Quantitative outcomes.** This includes both investee's own metrics, and IRIS metrics (not provided by every investee).
- **Qualitative outcomes.** Case studies and narrative are important to get a picture of the impact an investment is generating. Though they cannot be easily used to compare different enterprises, they often create a fuller picture of impact that is specific to an organisation's location, business model, and stage.

The following pages provide impact dashboards for seven KLF investees. These were selected to show a variety of asset class, impact profile, stage of organisation and KLF involvement.

# Core Innovation Capital I

## Mission and activities

Core is a venture fund that invests in early growth-stage innovative companies serving the emerging middle class in America, which is largely under-banked. *'Our goal is to deliver our investors top quintile market returns, reach over 10 million financially underserved people in the United States, save them at least $50 per month and help create upward mobility and greater financial health.'*

Products can include payments, credit, financial capability and savings and investment instruments—both consumer-facing and business to business. Core invests in companies that deliver more efficient, well-designed financial products that save people time and money, create upward mobility, and scale broadly - driving both profit margins and consumer value.

## Case study

Banking Up takes advantage of the fact that under-banked populations are increasingly turning to their mobile phones for financial services. Banking Up offers customers 24/7 mobile and computer-based access to FDIC-insured accounts that have lower fee structures than most checking accounts and cannot overdraft, making it easier to save and access money. In 2014, 83% of active users (627,000) were low- or middle-income, saving up to $461 per annum ($201 in 2013). Annual bank charges per user dropped from $223 in 2013 to $169 in 2014. Active users remained virtually unchanged year-on-year. Core owns 32% of Banking Up and is a board member.

## Social/environmental impact achieved

Core's eight portfolio companies reached 11 million low and moderate income (LMI) consumers, and Core say this saves their customers a total $3.2 billion when compared against the most common alternatives in the market. Core's Impact Audit Report provides:

- a dashboard including impact and financial metrics for the past four years;
- annual progress against the Compass Principles; and
- Core Score Cards.

| Core aggregate portfolio score card | Score |
|---|---|
| **Compliance:** assessing data provision | 9.6 |
| **Long term value:** creating and measuring LTV | 6.3 |
| **Investor activism:** focusing on under-banked, consumer value | 7.5 |

Please note that this information does not constitute investment advice. Please see the disclaimer on the inside cover.

CORE INNOVATION CAPITAL

| About the fund | | | |
|---|---|---|---|
| **Inception date:** | 2011 | **Target geography:** | USA |
| **Location of fund:** | USA | **Capital committed:** | $44m |
| **Projected financial return:** | 4–5x | **Stage:** | First fund |
| **Impact theme:** | Financial services | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2011 | **KLF capital committed:** | $100k |
| **Asset class:** | Private Equity | **Impact type:** | Thematic |
| **KLF Investment rationale:** | **Catalytic** - KLF invested in this leadership fund targeting under banked communities in the US. KLF's endorsement via its commitment sent a strong message to the market. | | |

| KLF Investor Plus: Medium | |
|---|---|
| **Finance** | None provided |
| **Advisory** | Provided feedback from due diligence process to enhance fund's marketing campaign. |
| **Advocacy** | Allowed fund to use KLF name in marketing efforts and agreed to serve as a reference. The fund was also featured on KLF's website and in presentations. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 4.** Comprehensive impact report with theory of change, metrics, and proxies for additionality of investments. | | |
| **External ratings:** | GIIRS company rating 113 (2013) | **IRIS user:** | No |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Total active users** | 5.5m | 10.2m | 19.1m |
| **% Low & Moderate Income (LMI)** | 53% | 59% | 59% |
| **No. of investments included** | 4 | 6 | 7 |

# BioLite

## Mission and activities

BioLite is an off-grid energy company with a split business model. It produces the efficient electricity-producing CampStove for the recreational market in developed markets, and revenues fund the research and development of the HomeStove, a clean cookstove with electronics charging capability for off-grid communities around the world. Around 3 billion people cook meals on smoky, open wood fires—the majority of them with little or no access to electricity.

BioLite's aim is to reduce the negative health impacts of smoke in the home, and reduce fuel requirements, while increasing off-grid electricity access. The HomeStove reduces wood requirements by half, toxic emissions by 90%, and generates 2 watts of electric power while cooking to charge cell phones or power lighting. BioLite plans to scale rapidly, retailing 1m stoves by 2019. It is also expanding into new products such as the NanoGrid, a networkable off-grid lighting system.

## Case study

*'This stove reduces a lot of smoke, and I think it is increasing the lifespan of women at the clinic. It is safer and cooks faster than any of my old stoves. But the main benefit is that I no longer have to buy charcoal! With the HomeStove, I am now saving 60,000 shillings (about $20 USD) per month.'* Nurse Beluga Prossy on using the HomeStove at her clinic in Uganda.

## Social/environmental impact achieved

- Over 60,000 CampStoves sold in 2013, promoting a switch from fossil fuels in the camping market.
- Conducted HomeStove field trials (funded through a combination of earned income and grants) in 2013, gathering reliable customer data and testing a range of marketing options before scaling.
- In 2014, BioLite brought clean cooking and charging to over 20,000 people in India, Uganda and Ghana through selling around 6,000 HomeStoves. BioLite found higher than expected willingness to pay for the stoves.
- An estimated 250 hours per year are saved collecting fuel, and $200 per year saved buying fuel and charging phones off the stoves per family.
- To date, 29,415 people around the world are breathing cleaner air, over 13.6m watt-hours of electricity have been generated and over 15,000 tonnes of CO2 emissions avoided.



| About the organisation | | | |
|---|---|---|---|
| **Year founded:** | 2006 | **Target geography:** | India, Africa, Latin America |
| **Location:** | USA | **Net income (2014):** | Private info |
| **Projected financial return:** | Private info | **Stage:** | Growth |
| | | **Structure:** | For-profit company |
| **Impact theme:** | Energy | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2011 | **KLF capital committed:** | $77k |
| **Asset class:** | Private Equity | **Impact type:** | Impact First |
| **KLF Investment rationale:** | **Catalytic** - KLF was first investor leading the way for initial investment round. **Business model innovation** - adapted existing heat-to-electricity technology to produce innovative off-grid affordable products, optimized for two distinct markets: emerging and developed world. | | |

| KLF Investor Plus: Medium | |
|---|---|
| **Finance** | None provided |
| **Advisory** | Provided considerable feedback on business model and approach, although no formal role. |
| **Advocacy** | In addition to making some direct introductions to other potential investors, allowed firm to use KLF's name in marketing efforts and agreed to serve as a reference. Also featured on KLF's website, in blogs, and in publications. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 2.** Early stage, but clear theory of change and good case studies. Encouraged by RCT on health benefits of cookstoves, monitoring usage through electronic logging systems and testing marketing and finance innovations before scaling model. | | |
| **External ratings:** | GIIRS company rating: 103.8 (2013) | **IRIS user:** | Yes |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| **No of clients (PI4060)*** | 31,316 | 82,791 | 150,000 |
| **Jobs maintained (PI5691)*** | 15 | 22 | 45 |

* IRIS codes.

# EKO Green Carbon Fund (GCF)

## Mission and activities

EKO's Green Carbon Fund (GCF) was founded with the belief that capital markets have the ability to act as a price discovery mechanism for our natural resources, a crucial step in establishing a robust market function. The emergence of these natural capital markets creates opportunities for investments that can achieve positive social and environmental impacts as well as an attractive financial return. The GCF was created with a twofold mission: to reduce greenhouse gas (GHG) emissions through the development of land-based carbon sequestration projects, and to send positive market signals that validate the Californian carbon cap-and-trade market as credible and financially viable.

The GCF was one of the earlier arrivals to the California carbon market, which was created in conjunction with the State's regulatory cap and trade system for carbon emissions. This early participation showed the fund's commitment to the development of the market, not just in California, but in all potential environmental markets.

The GCF rewards landowners for sequestering carbon in biological systems (eg, trees), while at the same time providing offsets to companies who need them to meet their compliance obligations in the Californian market.

## Case study

The White Mountain Apache Tribe (WMAT) carbon project is an Improved Forest Management project covering 89,000 acres on the Fort Apache Indian Reservation in south-western US. The project has completed all stages of development and is now awaiting clearance from California's Air Resources Board. Credits are expected within the next 30 days. Once the credits are issued, WMAT will be the largest forest carbon project in the US to date, producing close to 4 million credits for California's offset market. The GCF is funding all aspects of project development and the project is the GCF's largest investment. Through this investment the GCF would not only ensure conservation and protection of 89,000 acres of pristine forests, but the sale of credits generated will also bring in much needed revenue for the Tribe as well as create jobs on the Tribal Reservation.

Please note that this information does not constitute investment advice. Please see the disclaimer on the inside cover.

encourage capital℠

| About the fund | | | |
|---|---|---|---|
| **Inception date:** | 2010 | **Target geography:** | USA |
| **Location of fund:** | USA | **Capital committed:** | $4.5m |
| **Projected financial return:** | 15-20% IRRs | **Stage:** | First fund |
| **Impact theme:** | Ecosystem services & environmental conservation | | |

Fund manager EKO merged with Wolfensohn Fund Management to form Encourage Capital in 2015, which will manage GCF.

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2010 | **KLF capital committed:** | $50k |
| **Asset class:** | Real assets | **Impact type:** | Thematic |
| **KLF Investment rationale:** | **Catalytic** - investment in first fund<br>**Business model innovation** - validating the Californian carbon cap-and-trade market | | |

| KLF Investor Plus: Medium | |
|---|---|
| **Finance** | In addition to investing in the fund, KLF has invested in the management company. |
| **Advisory** | On behalf of KLF's investment, Raúl Pomares assumed a seat on the fund's advisory board. |
| **Advocacy** | Allowed fund to use KLF name in marketing and agreed to serve as a reference. The fund was also featured on KLF's website and in presentations and publications. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 2.** Clear theory of change and output metrics. | | |
| **External ratings:** | B Corp Score: 102 | **IRIS user:** | No |

| Social/environmental metrics* | 2012 | 2013 | 2014 |
|---|---|---|---|
| **GHG Reductions (credits)** | 70k | 250k | 5,000k |
| **Forest under improved management (acres)** | 30k | 120k | 250k |
| **Investments made ($)** | $0.5m | $1.5m | $2.5m |

* Represents cumulative totals from various project over the years

# ImpactAssets

## Mission and activities

Aims to increase the flow of capital into investment products that deliver financial, social, and environmental returns by providing products and thought leadership for philanthropists, other asset owners, and their wealth advisors. A key aim is to democratise impact investing, making products available with lower entry levels for smaller investors. Spun out from the Calvert Foundation in 2010, ImpactAssets' three main activities are:

- **The Giving Fund**, a donor advised fund where assets are invested for positive social and environmental impact, and donors give grants to non-profits.
- **Impact Investment Notes**, high impact loan funds in thematic areas such as sustainable agriculture and micro-finance, with low minimum investment levels to attract small investors (launched in October 2015).
- **Field Building**, providing resources and events for individuals and advisors to help build the impact investing ecosystem. This includes ImpactAssets 50, an open source database of impact investment fund managers across asset classes.

## Case study

*'Philanthropy used to be considered a "feel good" activity while investments were purely financially-oriented, but now there's a richer spectrum. I joined ImpactAssets' Seed Ventures Platform because I wanted to invest in innovative enterprises that have potential for scalable impact through replicable business models that can be financially lucrative.'*
Brian Arbogast, a seed venture investor

## Social/environmental impact achieved

- The Giving Fund (Donor advised fund) currently has over $200m of assets of which 49% of the non-cash assets are invested in impact investments.
- From the Giving Fund, $25.3m grants were made in 2014 to 1,839 non-profit organisations.
- ImpactAssets has investments in over 150 impact companies, over 50 private debt and equity impact funds, and 14 impact mutual funds.
- Engaging and educating a growing number of wealth advisors through issue briefs and webinars. Over 1,400 were engaged in 2014.



IMPACTASSETS
INVEST WITH MEANING

| About the fund | | | |
|---|---|---|---|
| **Inception date:** | 2010 | **Target geography:** | Global |
| **Location of organisation:** | USA | **Net income (loss) (2014):** | ($635k) |
| **Projected financial return:** | 15-20% IRRs | **Stage:** | Start-up |
| | | **Structure:** | Not-for-profit |
| **Impact theme:** | Impact ecosystem | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2011 | **KLF capital committed:** | $50k loan $90k grants |
| **Asset class:** | Fixed income | **Impact type:** | Impact First |
| **KLF Investment rationale:** | **Catalytic** - First impact fund for Donor Advised Assets.<br>**Business model innovation** - another component of building out the ecosystem and providing greater access to impact investors through innovative platform.<br>**Blended capital** - grant + loan. | | |

| KLF Investor Plus: High | |
|---|---|
| **Finance** | The loan was complemented with a grant. |
| **Advisory** | KLF took a formal role on the investment committee. |
| **Advocacy** | The investment was featured on KLF's website and in presentations and publications. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 3.** Clear theory of change with output data and case studies. Would benefit from data on impact of invested assets and number of small investors to prove democratisation aim. | | |
| **External ratings:** | n/a | **IRIS user:** | Yes |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| **No of clients (PI4060)*** | 563 | 615 | 710 |
| **Giving Fund - assets** | $93.2m | $112.6m | $200.9m |
| **% of (non-cash) assets invested for impact** | 83% | 72% | 49% |
| **Giving Fund - grants made** | $8.7m | $21.5m | $25.3m |
| **Sales revenue (PI1775)*** | $427K | $715K | $939K |

* IRIS codes.

# MA'O Organic Farms

## Mission and activities

Founded in 2001 as Wai'anae Community Re-Development Corporation, MA'O Organic Farms works to address food insecurity in Hawaii by growing and distributing healthy organic produce while educating, training and empowering local young adults. Hawaii currently imports around 90% of its food, resulting in higher prices, greater carbon impact, and more food insecurity. The farm produces 2 tons of organic food per week from 24 acres. It also provides middle school to college training programmes and real-world experience and leadership on the farm to local at-risk youth. Interns take produced vegetables home improving nutrition in their family, and as an organic farm, it also restores the land, previously mistreated by unsustainable farming practices. MA'O is expanding to a new larger site (with 90 acres) and aims to produce 10 tons of food per week, and, by 2020, to support 500 youth per year with annual revenues of $10m.

## Case study

Kaui left high school with an uncertain future, and no clear method to fund college education, so she applied to MA'O's Youth Leadership Training programme. Through the YLT she completed an associates degree in food security and farming and then a Bachelor of Arts degree in Hawaiian studies. On graduating, she was offered a job as manager on the farm and is now a role model for her brothers and sisters at home as well as for enrolees on the farm. *'Here, these people feel "somebody cares about me!"'*

## Social/environmental impact achieved

- 2 tons of organic produce is sold weekly to markets and restaurants; 75 tons grown in 2014.
- Seven graduates in their early 20's now full-time managers of the enterprise. Hawaiian organic agriculture expertise is very limited so their skills are highly sought-after—average age of local farmers is 60.
- 24 acres of land now USDA certified organic farmland.
- 160 young adults trained in 2014 and provided with stipends, tuition, and educational counselling. $1.9m in grants were secured to pay for tuition and stipends.
- MA'O often provides the first job in a student's family. Graduates often come back to work on the farm.
- A further 1,219 youth visited the farm in curriculum-based experiential learning programmes.



### About the organisation

| | | | |
|---|---|---|---|
| **Year founded:** | 2001 | **Target geography:** | USA - Hawaii |
| **Location:** | USA | **Net income 2014:** | $2.4m |
| **Projected financial return:** | 1% pa over 9 years | **Stage:** | Start-up |
| | | **Structure:** | Not-for-profit |
| **Impact theme:** | Food & agriculture | | |

### About the KLF investment

| | | | |
|---|---|---|---|
| **Date of initial investment:** | 2014 | **KLF capital committed:** | $100k loan $75k grant |
| **Asset class:** | Fixed income | **Impact type:** | Impact First |
| **KLF Investment rationale:** | Addressing at-risk youth, food security, access to higher education. Provided $75k grant to support capital raising activities alongside loan. | | |

### KLF Investor Plus: High

| | |
|---|---|
| **Finance** | In addition to loan, grant capital provided to allow MA'O to engage a third party investment bank to formally structure the offering. |
| **Advisory** | Extensive work in advising MA'O, formally and informally. Started with Lisa's leadership in driving the accelerator which MA'O was selected to receive a grant to help it structure the financing mechanism. KLF has provided ongoing advisory support. |
| **Advocacy** | Direct introductions to other potential investors, and allowed MA'O to use KLF's name in marketing and agreed to serve as a reference. Also featured on KLF's website and in presentations and publications. |

### Social/environmental impact ratings

| | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 3.** Early stage venture, but well-articulated mission and good data provided - ie, on number of interns through programme and food produced. Clear case studies. | | |
| **External ratings:** | n/a | **IRIS user:** | Yes |

### Social/environmental metrics

| | **2012** | **2013** | **2014** |
|---|---|---|---|
| **Organic food produced (tons)** | 87.5 | 94.5 | 75.0 |
| **No. of interns trained** | 108 | 121 | 160 |
| **Farm sales (gross)** | $599,394 | $672,342 | $660,000 |
| **Other earned income** | $18,511 | $8,358 | $8,073 |

# Media Development Investment Fund

## Mission and activities

MDIF provides low cost financing and technical assistance to independent media businesses to help them to grow, achieve long term sustainability. and maintain editorial independence.

## Case study

- Indonesia: Kendari TV launched a project to track unmet campaign promises made by elected leaders, forcing officials to make the improvements to local infrastructure that they had promised to constituents.
- Zambia: Radio Breeze aired investigative reports exposing a network of corrupt police taking bribes at traffic checkpoints, which led to an investigation and the arrest of police officers.
- Bolivia: Newspaper and website Los Tiempos exposed procurement deals by city sanitation officials in Cochabamba, which led to an audit of sanitation department purchases and procurement reform.

## Social/environmental impact achieved[26]

**Reach:** Goal to increase access to free and independent information.

- 55.2m people received their news from MDIF clients, (13.6m digital and 41.6m traditional media).
- After 5 years working with MDIF, median reach increased 33%.

**Sales:** Goal to improve media businesses' long-term financial sustainability to protect editorial independence.

- After 5 years working with MDIF, median client sales increased 115%, averaging 25% growth year on year.
- Each dollar invested by MDIF leveraged $2.77 in client sales.

**Viability:** Goal to improve viability to enable maintenance of editorial independence and manage volatility (using 9 point risk rating scale based on financial and operating metrics).

- The median risk rating across the portfolio was 5.22, indicating a moderate level of risk.
- 47% of clients maintained or improved their financial viability year on year.

87% of clients reported on corruption scandals in their country.

89% of clients held their governments accountable for their policy promises.

| About the fund | | | |
|---|---|---|---|
| **Inception date:** | 1996 | **Target geography:** | Global |
| **Location of organisation:** | USA | **Committed capital (2014):** | $42m |
| **Projected financial return:** | 2–3% | **Stage:** | Established |
| **Impact theme:** | Financial services, Media | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2012 | **KLF capital committed:** | $50k |
| **Asset class:** | Fixed income | **Impact type:** | Impact First |
| **KLF Investment rationale:** | **Business model innovation** - supporting civil society by the development of independent and robust media businesses. | | |

| KLF Investor Plus: Low | |
|---|---|
| **Finance** | None provided |
| **Advisory** | None provided |
| **Advocacy** | Allowed fund to use KLF name in marketing efforts and agreed to serve as a reference. The fund was also featured on KLF's website and in presentations. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 4.** Clear theory of change, recent metrics, and piloting a media impact toolkit to measure progress against priority outcomes. | | |
| **External ratings:** | n/a | **IRIS user:** | Yes |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| **No. of clients (PI4060)*** | 54 | 59 | 66 |
| **No. of new clients** | 9 | 6 | 11 |
| **No. of countries** | 25 | 25 | 32 |
| **No. of new projects funded** | 25 | 16 | 19 |
| **New investments made** | $8.8m | $5.3m | $3.7m |

* IRIS codes.

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# Triodos Sustainable Trade Fund

Triodos Investment Management

## Mission and activities

The mission of Triodos Sustainable Trade Fund is to provide trade finance to farmer cooperatives and other agricultural companies in developing and emerging countries.

There is a huge shortfall in access to finance for smallholders, often a major problem for fair trade producers in developing countries, particularly at harvest time. If farmers cannot receive timely payment for their produce they are often forced to sell at a discount to local middlemen. Trade finance can remove this hurdle, enabling agricultural exporters to pay their farmers upon delivery of produce. The finance effectively bridges the exporter's cash-flow deficit from harvest time until they receive the final payment from the buyers.

Based on an export contract with a reputable buyer in Europe or the United States, the Triodos Sustainable Trade Fund can pre-finance up to 60% of the value of the contract value. The amounts lent range between $300,000 to $3 million, with loans typically between 6 and 12 months.

## Case study

Sol & Café is located in Northern Peru and is made up of approximately 1,000 farmers producing mainly coffee. For three years, the cooperative has focused on speciality and premium coffee—a niche market in the very competitive coffee sector—allowing members to reap benefits of higher yielding coffee. Besides being the connector to the global market, the cooperative has assisted members with a renovation programme, replacing old coffee bushes so that productivity can be secured for the next generation.

## Social/environmental impact achieved

- In 2014, 83,418 smallholders sold their harvest to organisations benefitting from trade finance from the fund.
- The fund disbursed €30m in 2014, up 19% year on year.
- Over 100,000 metric tonnes of a range of products were sold globally last year.
- The fund financed 16 cooperatives directly, reaching 28,000 farmers.
- All clients in the fund's portfolio offer training in sustainable farming practices, thereby increasing the share of certified organic land under cultivation.



| About the fund | | | |
|---|---|---|---|
| **Inception date:** | 2008 | **Target geography:** | Developing countries |
| **Location of organisation:** | The Nether–lands | **Capital committed:** | €22m |
| **Projected financial return:** | 2.5% | **Stage:** | Established |
| **Impact theme:** | Food & agriculture | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2009 | **KLF capital committed:** | $139,000 |
| **Asset class:** | Cash | **Impact type:** | Impact First |
| **KLF Investment rationale:** | **Alignment with core values**—filling a funding gap to enable access to export markets for farmers in developing countries. | | |

| KLF Investor Plus: Low | |
|---|---|
| **Finance** | None provided |
| **Advisory** | None provided |
| **Advocacy** | Allowed fund to use KLF's name in marketing and agreed to serve as a reference. The fund was also featured on the website and in presentations. KLF has promoted work of Triodos at numerous conferences. |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | **Stage 3.** Clearly defined mission, good selection of case studies, and broad range of metrics. | | |
| **External ratings:** | B Corp Score: 127 | **IRIS user:** | Yes |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| **Client organisations (PI9652)*** | 32 | 33 | 33 |
| **Sustainably farmed cultivated land area (ha) (OI6912)*** | 167,221 | 161,810 | 116,408 |
| **Volume exported (tonnes) (PI1290)*** | 73,765 | 107,402 | 100,781 |
| **Volume exported fair trade/ organic (tonnes)** | 17,645 | 34,389 | 36,357 |
| **No. of smallholders benefitting from fund** | 90,878 | 102,519 | 83,418 |
| **Loans disbursed (€m)** | 20.6 | 24.5 | 30.2 |

* IRIS codes.

# Impact by theme

The Kleissners did not build their portfolio with specific thematic focus areas in mind, and it is important to remember that when initial impact investments were made the available opportunities were limited. However they found their investments clustered around a number of themes shown below:

- Community development
- Energy
- Food & agriculture
- Ecosystem services & environment conservation
- Financial services
- Health & water
- Other

We have taken the five largest areas, where the vast majority of KLF's investments are operating, and summarised the key outcomes that the investees are aiming to achieve, and, where possible, have aggregated the impact data of individual investments within those outcomes. Within each theme, you can see the unattributed Impact Assurance Classification of each component investment, and the average impact practice score for the overall theme, compared to the average score across the whole portfolio.

## Approach

Our approach for assessing the impact of the portfolio across KLF's thematic areas was to look for meaningful metrics to aggregate within each sector, as well as providing a qualitative description of common outcomes generated by KLF's investees.

We have not attempted to directly attribute outcomes reported by investees to KLF. One approach could have been to divide the impact achieved by the proportion of investment provided by KLF (for instance, if KLF had a 10% equity investment in a social business that created 10 jobs we could have attributed 1 job to KLF). However, we felt that this would create an artificial picture of KLF's impact, possibly overstating KLF's contribution where the Foundation provided finance but little else and, crucially, underestimating impact where the Kleissners have done more than just invest (such as providing cornerstone funding or hands-on support).

Instead, the following section provides an assessment of what broader outcomes KLF's portfolio has contributed towards. We feel this suits the purposes of this report as well as KLF's theory of change as, whilst understanding the impact of the portfolio on beneficiaries is important, the main focus of KLF's work is demonstrating that meaningful impact can be generated from investments across asset classes.

## Data sources

As the impact investing ecosystem develops, and the tools to support investors become more widespread, collecting impact data should become more straightforward. Ideally, all investees should report on a defined set of validated IRIS metrics or equivalent, which could be neatly aggregated by sector and across the portfolio.

While KLF has helped pioneer IRIS reporting, the amount of IRIS data it currently holds is still insufficient to make clear statements about the entirety of the portfolio. As a result, our approach was to combine IRIS data with that from other sources, principally annual reports, investor reports, and direct correspondence between investees and the Kleissners.

We did not attempt to validate the data we collated; we predominantly took it from public and private documents provided by each investee. In place of validation, our impact practice scores for each sector help understand impact risk—that is, the chances of the reported impact having taken place. Investees are classified at a higher stage on the basis that the standard of evidence is high, giving confidence that the reported impact has occurred. We recommend that as KLF's framework for data collection develops it should put in place systems for validation.

### Categorising investees by theme

**Investments were principally categorised, and their impact aggregated, according to KLF's thematic areas. Page 74 lists all the investments by theme. Some have a secondary theme if their work spans another thematic area. Therefore on the following pages some investments are included in more than one theme. This was to ensure that each sector analysis drew from the most relevant data sources to demonstrate investee impact across the thematic areas.**

## Key findings

KLF's investments have contributed, to some degree, towards:

- **Economic revitalisation of urban and rural communities in the US**—commercial lending to businesses in underserved communities supporting or creating **30,000** jobs.
- **Financial inclusion in under-banked US populations—5,452** new retail and savings accounts, and **$486.4m** in new affordable loans.
- **Financial inclusion in the developing world—19 million** borrowers supported and 94 microfinance institutions financed.
- **Growing social and environmental Small & Growing Businesses (SGBs) in the Global South—464** SGBs financed and **$225m** disbursed through loans or investment.
- **Growing agricultural businesses in the developing world—405 agricultural businesses** directly supported and **$236m** disbursed through loans, grants and investment to agricultural SGBs.
- **Increasing sustainable farming practices—790,000** hectares of land under sustainable management/cultivation.
- **Conserving land in North and Central America—360,000 acres** of land under protection or conservation, **19,500 acres** of land reforested or restored and **900,000** trees planted.
- **Reducing energy poverty in off-grid communities—1.8 million** energy production units sold.
- **Increasing renewable energy production—$335m invested** in renewable energy production and clean technology.

# Community development

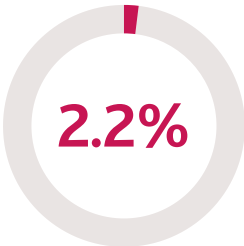
Although a small proportion of its total portfolio, KLF's investments in community development in the US and the UK support a range of outcomes principally focused in two areas: economic regeneration, and reducing reoffending.

**3*** INVESTEES **$74,785*** 2014 MARKET VALUE

* Excluding Sonen Global Fixed Income

| Investees | Asset class |
|---|---|
| Social Impact Partnership | Fixed income |
| Southern Bancorp | Cash |
| Urban Partnership Bank* | Cash |

* Secondary category investee




of KLF's Impact First & Thematic investments

## Outcome 1: Economic revitalisation of urban and rural communities

**30k**

JOBS CREATED OR SUPPORTED AS A RESULT OF COMMERCIAL LOANS BETWEEN 2012–2014[1]

Investments in Southern Bancorp and Urban Partnership Bank (UPB) support the financial inclusion of individuals (see financial services on page 44) as well urban regeneration in the areas they serve (Mississippi and Arkansas, and Chicago and Detroit respectively).

Sympathetic lending by Southern and UPB to entrepreneurs and small businesses in deprived areas (often shunned by large corporate banks) supports business development and jobs. UPB made commercial loans totalling $90m in 2014, $49m of this in the form of new business loans. Southern made 969 commercial loans in 2014, 59% of which were small business or micro-loans under $50,000. The latter supported 8,900 jobs in 2014, while UPB's lending helped to create or retain some 2,600 jobs from 2012–2014.

Both lenders also engage in wider community initiatives. The most high-profile example of this is Southern's work with partner organisations in developing strategic plans for communities around its banking locations; this includes leadership, housing, education, healthcare and economic development. The first community plan developed under this process, Phillips County strategic community plan (2003–2009) helped leverage $74m in investment and led to the restoration of over 300 homes.

## Outcome 2: Reducing reoffending in the United Kingdom

**8.4%**

REDUCTION IN FREQUENCY OF REOFFENDING FROM A COHORT OF 1,000 PRISONERS RELEASED BETWEEN SEPTEMBER 2010 AND JULY 2012[2]

KLF have invested in the Peterborough Social Impact Bond (SIB), a pioneering new mechanism for financing social interventions whereby investors are repaid based on the achievement of social outcomes. A total of £5m ($7.7m) was invested by 17 foundations in 2010 to fund a series of rehabilitative interventions for two cohorts of male offenders at HMP Peterborough in the East Midlands, with repayments linked to the reoffending rates of the cohort compared to a matched comparison group.

For cohort 1, RCT results indicated 8.4% lower reoffending rates in the 12 months after release compared to the control group, and a less encouraging 2.3% lower than the comparison group during the 6 months after the release for cohort 2.

KLF's motivation for investing in the Peterborough SIB was to support this new model for funding and delivering social change. This was the world's first Social Impact Bond, and 45 have subsequently been developed.

[1] Aggregated data from: Southern Bancorp, 2014 Annual Report; Urban Partnership Bank, 2014 progress report: 'Maintaining our Commitment and Resolve'.

[2] Ministry of Justice (2014), 'Peterborough Social Impact Bond: Final re-conviction results for cohorts 1'. MoJ Statistics Bulletin.

## NPC's Impact Assurance Classification

### Average impact practice score


### No of investees per classification


| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **Southern Bancorp** | A bank and development organization which provides low cost financial services to low income populations in the Mississippi River Delta. | Southern creates impact within the communities through the provision of finance to local businesses (1,159 entrepreneurs supported in 2014) and homeowners (supported 143 first time buyers in 2014). Southern also works in partnership with other agencies to develop strategic community plans in counties across Mississippi and Arkansas, with a focus on reducing poverty, and increasing educational attainment and employment. The first community plan (Phillips County) helped leverage an additional $74m in investment to the area. | Well-defined mission statement and impact statement. Case studies and timely metrics reported. |
| **Social Impact Partnership** | The vehicle set up to hold investors' funds for the Peterborough Social Impact Bond, designed to reduce reoffending among short-sentence male prisoners through the provision of rehabilitation and through-the-gate services. | The frequency of 12-month re-conviction events for the Peterborough SIB cohort 1 was 8.4% lower compared to a matched national control group (142 re-conviction events per 100 offenders compared to 155 re-conviction events per 100 offenders nationally). Interim findings for Cohort 2 show that the 6-month reconviction rate was just 2.3% lower than the national matched control group (84 re-conviction events per 100 offenders compared to 86 re-conviction events per 100 offenders nationally). | High standard of evidence from public external evaluations and matched comparison group to determine impact. |
| **Sonen Global Fixed Income*** | A multi-manager portfolio including sovereign bonds, supranational green bonds, municipal bonds, corporate bonds and agency-backed securities. Community development projects are supported by agency-backed securities in the investment strategy. | Community and economic development in low-income regions of the US supporting home ownership, affordable rental housing health and educational facilities and small business creation. In 2014, the strategy helped to finance a 91 unit affordable multi-family rental housing project; provided 55 mortgages for low-income borrowers; provided five small business loans (supporting up to 50 jobs), and financed a 238-bed nursing home. | n/a |

**Investments with community development as secondary category**

- **Urban Partnership Bank:** in 2014, UPB originated $90.4 million in commercial loans, of which new business loans totalled $49 million and commercial real estate loans totalled $41.4 million. (See financial services for main category.)

* Sonen Global Fixed Income excluded from NPC's Impact Assurance process

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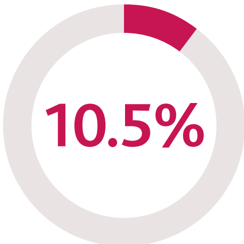
# Energy

As a signatory of the Divest-Invest Campaign, KLF has committed to investing in infrastructure, products and services that support the development of a sustainable energy economy - in particular, clean energy production for on- and off-grid communities. In the former case, the focus is on renewable energy and cleantech businesses selling to major energy markets; in the latter, social enterprises that support local off-grid energy generation.

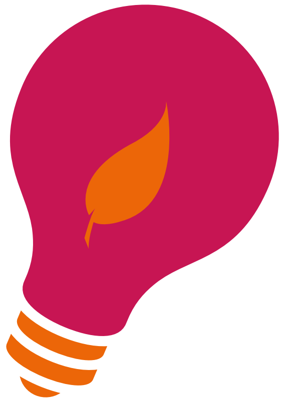
**5*** INVESTEES **$357,108*** 2014 MARKET VALUE

* Excluding Sonen Global Fixed Income

| Investees | Asset class |
|---|---|
| Acumen Capital Markets | Fixed income |
| Asia Environmental Partners | Private equity |
| BioLite | Private equity |
| Zouk Cleantech Europe I & II | Private equity |




of KLF's Impact First & Thematic investments



## Outcome 1: Reducing energy poverty in off-grid communities

**1.8m**

ENERGY PRODUCTION UNITS SOLD TO OFF-GRID COMMUNITIES IN 2013/14[1]

KLF's portfolio helps to reduce energy poverty in parts of the Global South through investments in funds (principally Acumen Capital Markets (ACM) and social enterprises (BioLite) that provide clean energy products through solar or biomass generation. BioLite, a manufacturer of clean and efficient cookstoves with electronic charging capacity, has supported the generation of 13,600 kilowatt-hours of electricity (as of Aug 2015) in India, Ghana, and Uganda.

There are corresponding social and environmental outcomes. Increased access to light and energy for businesses and homes has a positive impact on education and finance (by increasing available study time and extending business hours). ACM investee, d.light, for example, reports that it has generated over 9 billion additional productive hours for homes and businesses between 2008 and 2013.

Clean energy also improves health and environmental outcomes. Reducing kerosene use is a key goal for many of these organisations, and BioLite's impact in this area has contributed to 29,000 people breathing cleaner air (as of Aug 2015). According to BioLite this has also reduced $CO_2$ emissions by 15,000 tonnes.

## Outcome 2: Increasing renewable energy production

**$335m**

INVESTED IN RENEWABLE ENERGY PRODUCTION & CLEANTECH[2]

KLF's investments in renewable energy production are not solely confined to local energy generation for off-grid communities, but include investments targeted at renewable energy production projects with a focus on solar power, hydropower and waste-to-energy businesses. These include Asia Environmental Partners, a fund supporting renewable energy and environmental projects in Asia, and Zouk funds, Cleantech I and II, focused on renewable energy and resource efficiency technologies.

[1] Aggregated data from: ACM Annual Review 2013; Biolite – Shareholder Briefing June 2014;

[2] Aggregated data from: ACM Annual Review 2013; Asia Environmental Partners 2013 Annual Review; Social Alpha Quarterly Update Q2 2014; Zouk – Cleantech Europe I Investor Report Q1 2014; Zouk – Cleantech Europe II Investor Report q1 2014 [not to be distributed]

## NPC's Impact Assurance Classification

### Average impact practice score


### No of investees per classification


* 4 investments shown here as Zouk funds combined

| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **Acumen Capital Markets** | Debt, convertible debt, equity, and quasi-equity financing of small- and medium-sized enterprises in Africa and Asia. 26% of portfolio invested in energy. | In 2013, ACM's investments in energy sold some 1.8 million units and impacted 15.8 million lives. Investments focused on solar power generation and light production contributing outcomes around increased productivity, safety, and financial/physical wellbeing. | Detailed impact report, theory of change stated for each investment, social metrics with some examples of additionally provided. |
| **Asia Environmental Partners** | A fund making equity and equity-related investments in renewable energy and environmental services companies in Asia. | AEP's investments have supported the development of businesses involved in renewable energy generation (wind power, hydropower, biomass), water treatment and supply, and waste-to-energy power generation. | Investment summary focused on financials, some outputs. |
| **BioLite** | BioLite produces clean cookstoves with electronics charging capability for off-grid communities. It operates a spilt business model, funding the R&D of the clean cookstove from sales of a camping stove for the recreation market. | By providing people in off-grid communities with a cheaper and cleaner source of energy, BioLite creates impact by displacing kerosene use, improving health outcomes and increasing opportunities for study and work. To date, 29,415 people are breathing cleaner air as a result of the HomeStove; 13.6m watt-hours of electricity have been generated; and 15,000 tonnes of CO2 avoided. | Clear mission and case studies. Encouraged by move towards RCTs to test pilot projects. |
| **Zouk Cleantech I & II** | A private equity and venture fund manager that specializes in clean technologies and infrastructures | Zouk Cleantech creates environmental impact through investments in the development and manufacturing of solar, water and energy-efficiency technologies. | Focus on ESG screening. |
| **Sonen Global Equity and Sonen Global Fixed Income*** | Multi-manager portfolios across public equity and fixed income with various exposures to the global renewable energy industry and facilitating the transition to a low-carbon economy. | Public equity and fixed income investments that provide demonstrable exposure to increasing energy efficiency technology; expanding availability of renewable energy through technology or physical infrastructure; and developing renewable energy sources and distribution. | n/a |

* Sonen Global Fixed Income excluded from NPC's Impact Assurance process.

Please note that this information does not constitute investment advice. Please see the disclaimer on the inside cover.

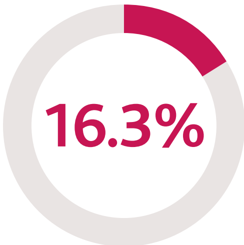
# Food & agriculture

KLF's investments in sustainable agriculture range from large funds financing agriculture businesses and smallholder farmers, to start-up social enterprises providing innovative products and business models supporting food and environmental sustainability. Three 'bottom line' outcomes are sought:

**6** INVESTEES **$556,010** 2014 MARKET VALUE

| Investees | Asset class |
|---|---|
| FAIM | Private equity |
| MA'O Organic Farms | Fixed income |
| Triodos Sustainable Trade Fund | Cash |
| Acumen Capital Markets* | Fixed income |
| Root Capital* | Fixed income |
| RSF Social Finance* | Cash |

*Secondary category investee




of KLF's Impact First & Thematic investments

## Outcome 1: Improved food security

The World Health Organisation suggests that food security is built on three pillars: availability, access, and use.[1] KLF's investments have impact primarily in relation the first two of these.

In terms of availability, investments have contributed to increasing crop yields in the Global South by supporting farmers to use new products and techniques. One example is FAIM which uses modern plant propagation techniques to produce large batches of disease-free staple crops in Rwanda, sold at affordable rates. Another is Acumen Capital Markets' (ACM) funding of the Copa Connect Smallholder Programme which, through training, has helped farmers in Ghana produce yields up to 5.6 metric tons per hectare above the nucleus farm average.

Investments also help farmers to access agricultural inputs, and,communities to access food. Farming cooperatives financed by Root Capital and Triodos, for example, provide access to equipment, storage, and credit for cooperative members. More generally, these investments help boost incomes of smallholders, increasing their financial security. Root's comparative evaluation of coffee cooperatives in Guatemala found that membership of financed cooperatives increased farmers' revenues and improved wellbeing levels.[2]

## Outcome 2: Agricultural business growth

KLF's portfolio supports agricultural business development both directly through investments in social enterprises, namely FAIM and MA'O Organic Farms, and indirectly through funds which finance businesses. Collectively, KLF investees directly supported some 400 businesses in 2013/14 through financial support and the provision of business advice and training.

Financial support is predominantly in the form of loans, although RSF Social Finance takes a blended approach supplementing the $13.8m it lent in 2014 with a further $930,000 in grants. Similarly ACM invests in businesses through a range of mechanisms including debt and equity.

As well as providing financial support, KLF investees also stimulate agricultural business growth through the provision of advice and training. In 2014, Root Capital's advisory service provided targeted financial management training to 278 current and prospective clients in particular need of capacity development. Employees at ACM contribute to business development through membership of steering committees at some of their agriculture investments such as GADCO in Ghana.

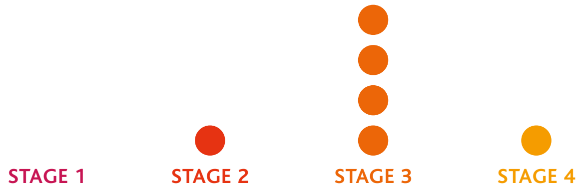
## Outcome 3: Sustainable farming practices

The ecological perspective reflected throughout the portfolio is central to KLF's investments in agriculture. All investees emphasise sustainability and actively foster sustainable and ecologically-sensitive farming techniques. Triodos' investment policy is, for example, guided by the principles of the International Federation of Organic Agricultural Movements (IFOAM) and all clients in their portfolio provide training to smallholders in organic farming practices. In 2014, some 55,000 suppliers to Triodos clients were certified organic producers. As well as supporting sustainable farming techniques, some investees directly support land conservation efforts. FAIM, for instance, uses its micropropagation techniques to develop bamboo plants which are used as the basis for soil stabilisation and reforestation in Rwanda. Similarly, RSF investee Madecasse (a social enterprise producing chocolate products) has preserved 140 hectares previously at risk of deforestation in Madagascar.

## NPC's Impact Assurance Classification

### Average impact practice score


### No of investees per classification




## Impact of KLF investees 2013/14

**790k**
HECTARES OF LAND UNDER SUSTAINABLE MANAGEMENT/CULTIVATION[3]

**405**
AGRICULTURAL BUSINESSES DIRECTLY SUPPORTED THROUGH LOANS, GRANTS, INVESTMENT AND SERVICE PROVISION[3]

**$236m**
DISBURSED TO AGRICULTURAL BUSINESSES[4]

| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **Forestry & Agricultural Investment Management (FAIM)** | FAIM uses modern plant propagation techniques to provide clean, healthy plants alongside modern farming technique instruction and marketing assistance to its farming partners in Rwanda. | FAIM's production of virus free plants and training provision creates impact by boosting rural productivity, creating jobs, diminishing demands for water/fertilizer, and increasing earnings for food processors. FAIMs support can lead to a trebling of yields in certain crops (eg, bananas and pyrethrum). | Clear articulation of theory of change. |
| **MA'O Organic Farms** | A certified organic farm which addresses food insecurity in Hawaii by growing and distributing healthy organic produce while educating, training, and empowering local young adults. | MA'O creates both environmental and social impact, sustainably farming 24 acres of land, producing 75 metric tons of food and supporting internships for 160 young people in 2014. | Early stage venture, but well-articulated mission and good data on number of interns through programme and food produced. Clear case studies. |
| **Triodos Sustainable Trade Fund** | Provides trade finance to certified organic and fair trade producers, many of them farming cooperatives, in developing countries and emerging markets. | Triodos provided working capital (€30m in 2014) to bridge the period from harvest time to payment from buyers—creating sustainable value chains—both in terms of the environment (organic) and farmers' pay (fair trade). This benefited some 83,418 smallholder farmers and supported the sustainable cultivation of 116,408 hectares in 2014. | Clearly defined mission, good selection of case studies, and broad range of metrics. |

**Investments with food & agriculture as secondary category**

- **Acumen Capital Markets:** in 2013, 56% of portfolio, invested in small and medium-sized agriculture enterprises in Africa and Asia. (See energy for main category.)
- **Root Capital:** in 2014, $178 in working capital provided to support small and growing businesses in Latin America, Africa and Asia. (See financial services.)
- **RSF Social Finance:** in 2013/14, $14.8 million provided through loans and grants to support enterprises contributing to sustainable food systems. (See financial services.)

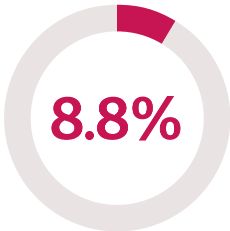
[1] WHO, http://www.who.int/trade/glossary/story028/en/
[2] Root Capital & MIF (2014) Improving rural livelihoods: A study of four Guatemalan coffee cooperatives.
[3] Aggregated data from ACM Annual Review 2013 – GADCO financial performance p.31; Root Capital Performance Report 2014Q4; Triodos Sustainable Trade Fund - Annual Report 2014.
[4] Aggregated data from ACM Annual Review 2013; FAIM – correspondence 2013 data; Root Capital Performance Report 2014Q4; RSF Annual Report 2014; Triodos STF - Annual Report 2014.

# Ecosystem services & environmental conservation

KLF's ecosystem and environmental investments are primarily real estate investments that contribute to conserving, restoring and reforesting previously degraded land and ecosystems, the majority of which are located in North America (the one exception is Pico Bonito, Honduras).

**7** INVESTEES **$300,387** 2014 MARKET VALUE

| Investees | Asset class |
|---|---|
| Beartooth Capital I & II | Real asset |
| Ecosystem Investment Partners II | Real asset |
| EKO Green Carbon Fund (GCF) | Real asset |
| Living Forest | Real asset |
| Lyme Forest Fund III | Real asset |
| Pico Bonito | Real asset |




of KLF's Impact First & Thematic investments

## Outcome 1: Conservation of land

The focus here is on funds which buy and restore previously degraded land, before donating development rights to NGOs or government, or selling the land on for sustainable management. One of the principle mechanisms through which KLF investees working in conservation in the US make financial returns, and protect land in perpetuity, is through the sale of conservation easements—agreements added to land deeds that empower conservation organisations to limit a deed holder's ability to develop land, as well as stipulating conservation requirements.

Beartooth Capital (I & II), Ecosystem Investment Partners II (EIP II), and Lyme Forest Fund III (LFF III) all generate revenue through conservation easement, which provides federal income tax deductions equivalent to the difference in the value of the land before and after the easement is in place. For example, to date EIP II has 31,906 acres of land under conservation easement, some 53% of the total acreage under ownership. Similarly, Beartooth Capital has worked with conservation agencies to protect over half of their acreage. Recent Beartooth deals include the sale of a conservation easement to the USDA Natural Resources Conservation Service (NRCS) to permanently protect 1,892 acres of a 3,047-acre ranch in California's Northern Sierra Mountain Range.

Living Forest has taken a similar approach, albeit within a different legislative context (Canada), ensuring that 85% of land owned is protected under a conservation covenant, co-signed by the Land Conservancy of Canada.

## Outcome 2: Mitigation of climate change & ecosystem degradation

Land restoration and conservation by KLF investees also contribute to the mitigation of environmental degradation occurring outside of their sites. Within this outcome area, the portfolio is divided between funds that provide climate change mitigation services, largely through the selling of carbon credits (Encourage Capital; Pico Bonito) and those that provide ecosystem services, principally through wetland/stream mitigation credits (EIP II; LFF III).

EIP II and LFF III generate a significant amount of their revenue through the development and maintenance of 'mitigation banks'—areas of restored wetland, stream or habitats paid for by private companies to offset unavoidable degradation in nearby ecosystems linked to their activities.

The principal KLF investee working in climate change mitigation is EKO Green Carbon Fund (GCF) which invests in ecosystem-based (forest, agriculture, soil) carbon offsets. Although still in its early stages, Encourage estimates that its investments should catalyse over 10 million tonnes of greenhouse gas reductions through forest biosequestration. In 2014, EKO GCF's carbon offsets generated 5m carbon credits on the California Carbon Market. Pico Bonito have also attempted to move into carbon markets, with sequestration from reforested land estimated at 60,000 tonnes of CO2 equivalent over the 30-year project lifetime. However, this component of their project has stalled due to depressed carbon markets.

## Outcome 3: Protection of native species

Conservation and mitigation services provided by KLF investees also help protect and restore habitats of native and endangered animal species. For example, LFF III's Waccamaw wetland mitigation bank protects the habitat of 2 federal endangered species—the Red-Cockaded Woodpecker and the Bald Eagle. Beartooth Capital's restoration of ranchland has also supported the resurgence of native and endangered species, including elk, deer and trout. Examples include Beartooth I's restoration of Big Springs Creek in Idaho which helped support the development of 60 Chinook Salmon spawning sites (prior to the restoration there were none).

## NPC's Impact Assurance Classification

### Average impact practice score


### No of investees per classification


* 6 investments shown here as Beartooth Capital combined.

## Impact of KLF investees 2013/14

**362k**
ACRES OF LAND PROTECTED OR CONSERVED[1]

**19.5k**
ACRES OF LAND REFORESTED OR RESTORED[2]

**900k**
TREES PLANTED[3]

| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **Beartooth Capital I & II** | Limited partnership funds which invest in ranchland throughout the American West. | Beartooth has permanently conserved over 15,000 acres of land through the sale of conservation easements. In restoring the land, Beartooth has planted native tree species and supported the protection of native animal species. | Good case studies and IRIS metrics. |
| **Ecosystem Investment Partners II** | Acquires, entitles, restores and manages strategic ecosystems, creating 'mitigation banks', which offset negative impacts caused by development on comparable ecosystems. | At time of writing EIP II owns over 60,000 acres of land, of which 31,906 acres are protected under conservation easements. EIP II has restored 3,955 acres of land, planting 500,000 trees in the process. | Detailed project level data and case studies. |
| **EKO Green Carbon Fund** | Invests in carbon offset projects, stimulating the carbon offset market while preserving land. | In 2014 EKO held 250,000 acres within Improved Forest Management Project areas. These areas supported a draw-down of $CO_2$ of nearly 1 million tons in 2014. | Clear theory of change and output metrics. |
| **Living Forest** | Mixed-use eco-development alongside permanently protected forests with high ecological value. | Living Forest holds 85% of land under protective covenants, accounting for 800 acres from a 950-acre site. | We have not seen much information on this investment. |
| **Lyme Forest Fund III** | An equity fund that invests in US timberland in order to earn a financial return while protecting wildlife habitat and water quality and sustaining local forest-based economies. | In 2013 LFF owned 75,000 hectares of land, with 30,000 hectares sustainably managed. LFF permanently protected 6,219 hectares and planted native tree species across 506 hectares. | Clear theory of change and reports well on IRIS metrics with good case studies. |
| **Pico Bonito** | A direct investment, protecting key forest areas surrounding Pico Bonito national park in Honduras through restoration, reforestation, and agroforestry. | Pico Bonito's current focus is on maintaining/upgrading land under ownership to increase environmental and social value. In 2013/14 this included expanding agroforestry activities and maintaining/expanding new tree plantation areas. | Clear mission, some data on project outputs. |

[1] Aggregated data from: Beartooth Capital, personal correspondence (acres of land restored); Ecosystem Investment Partners, Conservation Dashboard (Acres under conservation easement); EKO Green Carbon Fund, personal correspondence; Living Forest Communities 'Our Footprint' (land area under protective covenants); Lyme Forest Fund III, 2013 Impact Report (IRIS PI3924: Protected Land Area—Permanent Acres).

[2] Aggregated data from: Beartooth Capital, personal correspondence (acres of land restored); Ecosystem Investment Partners, Conservation Dashboard (acres of wetlands restored); Lyme Forest Fund III, 2013 Impact Report (IRIS PI3848: Trees Planted—Native Species).

[3] Aggregated data from: Beartooth Capital, 'Rey Creek case study'; Ecosystem Investment Partners, Conservation Dashboard; Pico Bonito Investor Report 2014; Rainforest Alliance—Pico Bonito National Park Broadleaf Species Reforestation Project

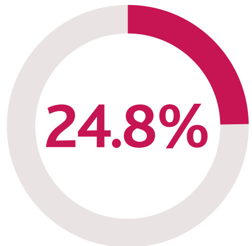
# Financial services

A significant proportion of KLF's portfolio (one quarter of its Impact First and Thematic investments) is invested in organisations providing financial services to underserved individuals, communities or businesses. These include microfinance institutions; funds and organisations helping to grow business in developing countries; and organisations promoting financial inclusion in North America.

**15** INVESTMENTS **$846,939** 2014 MARKET VALUE

| Investees | Asset class | Investees | Asset class |
|---|---|---|---|
| **Adobe Social Mezzanine Fund I** | Private equity | **MicroVest Short Duration** | Cash |
| **Core Innovation Capital I** | Private equity | **MicroVest GMG Local Credit** | Fixed income |
| **Developing World Markets** | Fixed income | **Root Capital** | Fixed income |
| **Grassroots Business Fund** | Private equity | **RSF Social Finance** | Cash |
| **Media Development Investment Fund** | Fixed income | **SMV Wheels** | Fixed income |
| **MicroVest Fund I** | Fixed income | **Urban Partnership Bank** | Cash |
| **MicroVest Fund II** | Private equity | **Southern Bancorp*** | Cash |
| **MicroVest Plus** | Fixed income | | |

*Secondary category investee




**of KLF's Impact First & Thematic investments**

## Outcome 1: Financial inclusion in the developing world

**19m**

BORROWERS SUPPORTED BY KLF INVESTEE PORTFOLIO ORGANISATIONS[1]

**94**

MICROFINANCE INSTITUTIONS FINANCED BY KLF INVESTEE FUNDS[2]

KLF has a total of six investments in funds that provide debt and equity financing to microfinance institutions (MFIs); these provide financial services to unbanked and under-served markets in 60 countries across the developing world. Five of these investments are in funds managed by MicroVest, while the other is managed by Developing Worlds Markets (DWM).

Both organisations invest in institutions working to boost financial inclusion, and both place a significant emphasis on **social impact**, each having their own impact assessment methodology to screen potential investees and to monitor the performance of portfolio organisations, an approach which encourages MFIs to think about, and monitor, their social impact.

Positive social outcomes for users of microfinance services are dependent on well-developed **client protection** policies. Both DWM and MicroVest endorse the Client Protection Principles (Smart Campaign), requiring investees to lend responsibly. As a result, some 99% of DWM's portfolio organisations include the terms and rates of loans in the loan agreement, and 92% have dedicated staff resources to implement complaint mechanisms for their clients. DWM also encourages investees to operate programmes to prevent over-indebtedness, with 60% of its portfolio organisations providing training and guidance to clients on evaluating their debt capacity.

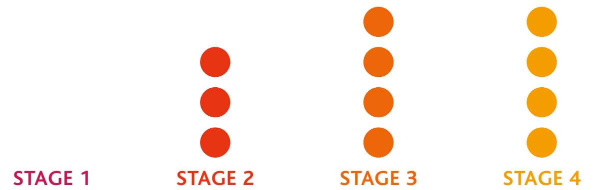
Another concern is to **increase the financial inclusion of women**, an issue highlighted by the World Bank's most recent Global Findex report.[3]. KLF investees are financing organisations working to address this issue, and, in the case of MFIs served by funding from MicroVest or DWM, the number of female clients (61% and 72% respectively) is well above the World Bank's average of 58%.

Please note that this information does not constitute investment advice. Please see the disclaimer on the inside cover.

## NPC's Impact Assurance Classification

**Average impact practice score**


**No of investees per classification***




* 11 investments shown here as MicroVest has an aggregate score

## Outcome 2: Growing social and environmental Small & Growing Businesses

**464**

SOCIAL AND ENVIRONMENTAL SGBS FINANCED BY LOANS OR EQUITY INVESTMENTS IN 2013/14[4]

**$225m**

DISBURSED OR INVESTED IN SGBS IN 2013/14[4]

KLF's investees provide funding to support small and growing business (SGBs) across a wide range of socially and environmentally impactful sectors, often in deprived areas. There are two key investment areas: funds that finance SGBs in a particular region (such as Adobe's support for social and environmental businesses in Mexico); and funds that focus on particular sectors (albeit with a bias towards the Global South). Examples of the latter include Grassroots Business Fund's (GBF) promotion of sustainable agribusinesses and artisanal businesses, and MDIF's support for independent media outlets.

Investment is often supplemented by practical support. GBF, for example, operates a Business Advisory Service (BAS) for all investees which considers both business model and social impact. GBF's model is distinctive in that the advice is embedded in their own impact measurement system—at the start of an investment, clients are scored in a number of activity areas (such as financial management or corporate governance) and these scores are monitored to track progress over time. GBF also identifies key goals for the next 12 months ('Success Factors'), with the percentage of these goals achieved recorded annually (FY 2013, 85% of success factors achieved among investees in Africa; 78% in Latin America; 84% in Asia).

In a similar manner, Media Development Investment Fund's (MDIF) Knowledge Bridge offers resources to help investees 'develop digital products, generate digital revenues and make informed decisions about their digital business'. For investees, this includes training and consultancy to support client development, as well as guidance for organisations seeking to establish or expand their online audience.

## Outcome 3: Financial inclusion of under-banked populations in the USA

**5,452**

NEW RETAIL AND SAVINGS ACCOUNTS OPENED IN 2014[5]

**$486.4m**

IN NEW LOANS IN 2014[5]

Financial exclusion in the USA is addressed through investments in community banks (Southern Bancorp, serving rural communities in Mississippi and Arkansas, and Urban Partnership Bank, serving under-banked communities in Detroit & Chicago), and in Core Innovation Capital (CIC), a fund which invests in early growth-stage companies providing financial services to America's emerging middle class.

The key outcome within this area is financial inclusion of previously underserved populations. Improved access is achieved through both local banking services (particularly, Southern Bancorp), as well as through online and mobile banking products (such as UPB's upbAnywhere mobile app, or the 'mobile wallet' service provided by Wipit, a CIC investee).

Providing affordable and sustainable services—cheaper and more accessible than those from larger commercial lenders—is the key to success. CIC investee, Oportun, for instance, provides unsecured loans to the low income Hispanic market with interest rates significantly below mainstream lenders. And in 2014, UPB helped restructure loans for former ShoreBank borrowers (which went bankrupt in 2010) enabling 210 homeowners remain in their properties.

Investees also support clients to increase their financial understanding/literacy through training and advice. Southern Bancorp, for example, runs financial education and counselling programmes across a number of topic areas including homebuying, credit reduction, and savings. Savvy Money, a CIC investee that provides online debt management services, also provides online guidance and training to support people to improve their financial well-being.

# Financial services

| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **Adobe Social Mezzanine Fund I** | The first capital and technical assistance provider to commercially viable, socially- and environmentally-focused SGBs in Mexico. | In 2014, Adobe invested in three new businesses disbursing $2.4m in mezzanine financing. In addition, Adobe supported business and impact development through the New Ventures Mexico social and environmental enterprise accelerator. | Data for each investment and beginnings of additionality considered when relevant for investment. |
| **Core Innovation Capital I** | A venture fund investing in early-growth stage innovative companies serving the (largely under-banked) emerging middle class in America. | Core's 8 portfolio companies reached 11 million low and moderate income consumers, saving them $3.2 billion against the most common mainstream providers. | Comprehensive impact report, with theory of change, metrics, and proxies for additionality of investments. |
| **Developing World Markets** | An asset manager and investment bank that promotes sustainable economic and social development internationally through investment in inclusive financial institutions (IFINs). | By year end, 2013, 425,680 borrowers directly financed by DWM portfolio investments. Some 72% of DWM IFIN clients were women, and 21% were classified as 'poor' or 'very poor' (with a further 69% classed as 'low income'). | Demonstrated commitment to measuring social performance of the investments. |
| **Grassroots Business Fund** | A fund that invests in viable businesses that generate sustainable earnings or savings for people with low incomes in Africa, Asia and Latin America. | In 2013, GBF clients directly supported 1.3 million individuals, generating $35.5m in income and cost savings. All GBF investees also receive additional support through GBF's business advisory service, 93% of whom said this helped them reduce business risk. | Clear articulation of theory of change backed up by impact dashboard including aspects of additionality. |
| **Media Development Investment Fund** | Invests and offers advisory services to strengthen independent media companies in countries where the media is under threat. | In 2014, 55.2 million people received their news from MDIF clients. Some 87% of clients reported on corruption scandals in their country, and 89% of clients held their governments accountable for their policy promises. | Clear theory of change, recent metrics, and piloting a media impact toolkit to measure progress against priority outcomes. |
| **MicroVest (aggregate)** | An investment adviser dedicated to applying a commercial framework to investing in low-income financial institutions (LIFIs) that provide ethical and sustainable financial services to under-banked populations. | At an aggregate level, MicroVest-financed LIFIs had 188,901 active borrowers at the end of 2013, with 52.3% of these clients being women. Of loans made in 2013, some 79.1% were 'productive loans' allocated towards manufacturing, agriculture, trade services, and other business related activities. | Clear theory of change, consistent metrics, and comprehensive impact scoring. |
| **Root Capital** | Provides capital, market connections, and financial training so that small and growing agricultural businesses in Latin America, Africa, and Asia can lift rural communities out of poverty. | In 2014, Root disbursed $178m in loans and reached 279 small and growing businesses (SGBs) that are improving livelihoods for 655,000 producers. Root also provided training to 278 small and growing agricultural businesses. | Strong theory of change, comprehensive impact report, and some data to show second order outcomes/ additionality. |

| Investee | Summary | Impact | Evidence |
|---|---|---|---|
| **RSF Social Finance** | Investing, lending, and providing services that support social enterprises. RSF invests in enterprises working in one of three sectors: Food & Agriculture, Education & the Arts, and Ecological Stewardship. | In 2014, RSF provided $32m in loans and $10m in grants to social enterprises working in its three sector focus areas. RSF's annual investee survey found that 3/4s of borrowers said working with RSF had a moderate to significant impact on how they work. | Clear theory of change, comprehensive impact reporting through various surveys. |
| **SMV Wheels** | A social enterprise providing a Rent-to-Own service for bicycle rickshaw drivers in India. | SMV Wheels provides cycle rickshaws and carts in combination with vocational and marketing support to lower caste men in India, enabling them to gain security, stability, and economic mobility. They have sold 1,675 vehicles since 2010, with 108 fully paid owners. | Clear theory of change, output data and some additionality reported. |
| **Urban Partnership Bank** | A community development bank which provides affordable financial products and services to low income and under-banked communities in Chicago, Cleveland, and Detroit. | In 2014, UPB set up 1,654 new retail accounts, totalling nearly $20m in new deposits. Loan restructuring by UPB also helped 210 borrowers to stay in their homes. | Well-defined mission statement, case studies, and some indication of outcomes achieved. |
| **Investments with financial services as secondary category** | | | |
| • **Southern Bancorp:** in 2014 set up 3,798 first time savings accounts and completed 2,754 tax returns free of charge, resulting in over $6m in refunds. (See community development for main category.) | | | |

[1] Aggregated data for 2013/14 from: Developing World Markets, Social Impact Performance Report 2014; MicroVest, Social Impact Report 2015.

[2] Aggregated data for 2013/14 from: Developing World Markets Microfinance Fund, Investor Update 2013; MicroVest, Social Impact Report 2015.

[3] World Bank 2015, The Global Findex Database 2014: 'Measuring Financial Inclusion Around the World'. http://www.worldbank.org/en/programs/globalfindex

[4] Aggregated data for 2013/14 from: Adobe Social Mezzanine Fund, Annual Report 2014; Grass Roots Business Fund, Investor Quarterly Report, March 2015; Root Capital Performance Report 2014Q4; RSF Annual Report 2014.

[5] Aggregated data for 2014 from: Southern Bancorp, 2014 Annual Report; Urban Partnership Bank, 2014 Progress Report: 'Maintaining our commitment and resolve'.

# Applying NPC's Impact Assurance process

Figure 11 below shows the Impact Assurance Classification for a number of KLF's investments, with the colours indicating the score for each component of impact practice—the darker the colour, the higher the score.

*Figure 11:* Impact Assurance Classification of selected KLF investees[*]

| | | Components of impact practice | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Investee | Date founded | Outputs | Standard metrics / IRIS score | Clarity of mission | Data to show change | Data to show additionality | External rating | Impact Assurance Classification |
| BioLite | 2006 | | | | | | GIIRS company 104 | Stage 2 |
| Core Innovation Capital I | 2011 | | | | | | GIIRS company 113 | Stage 4 |
| EKO Green Carbon Fund | 2010 | | | | | | B Corp 102 | Stage 2 |
| ImpactAssets | 2010 | | | | | | | Stage 3 |
| MA'O Organic Farms | 2001 | | | | | | | Stage 3 |
| Media Development Investment Fund | 1996 | | | | | | | Stage 4 |
| Root Capital | 1999 | | | | | | GIIRS company 133 | Stage 4 |
| Triodos Sustainable Trade Fund | 2008 | | | | | | B Corp 127 | Stage 3 |

**Increasing level of data provision**

**Outputs:** the majority of the investments analysed are strong on producing output data. A high score requires a good variety of up to date and relevant outputs, including context such as trend analysis or comparison to targets or benchmarks. MA'O, for example, produces an annual set of numbers covering data on apprentices and interns working within the project as well as on production, farm sales and $ per pound of farm production.

**Standard metrics/IRIS score:** this score takes into account if the investee reports on IRIS, or a similar standard or recognised metric, and if the investee reports on the core metrics requested by the Foundation (see page 52 for more). As an example, the Triodos Sustainable Trade Fund reports on a wide range of metrics relevant to its mission. The data is available in the annual report and it is up to date. The fund also reports on the core metrics requested by the Foundation.

[*] The investments in this table include the seven case studies on pages 27-33 and Root Capital, the most advanced investee in terms of its impact measurement processes.

**Clarity of mission/Theory of change:** a high score requires a clear theory of change or logic model. Many of the investments score reasonably well here, which suggests a well articulated mission but not necessarily a clear theory of change (which lays out how that mission will be achieved by the investee). Root Capital articulates its theory of change clearly illustrating how its capital, connections, and training combine to reduce poverty.

**Data to show change:** this encompasses quantitative and qualitative data, including case studies and data showing the effect of services or products. For example, the Media Development Investment Fund—which provides low cost financing and technical assistance to independent media businesses to support their growth and help them to achieve long term sustainability and maintain editorial independence—produces data on how the reach of media investees has changed over their period of investment, and similar metrics on sales and financial viability. MA'O, as another example, shows the increased rates of college starts and completion of their intern students compared to non-MA'O intern students from the same area.

**Data to show additionality and causality:** that investments are starting to show additional impact when compared to a benchmark. For example, Core Innovation Capital 1 reports on the financial benefit accruing to the user from the financial service it is offering compared to a relevant benchmark. Randomised Controlled Trials (RCTs), if appropriate, are an effective way of demonstrating causality and are beginning to emerge amongst investees. In Ghana, BioLite is participating in the world's largest public health RCT to demonstrate the emission reduction benefits of its cookstoves on maternal and pre-natal health. Root Capital is one of the more advanced in evaluating the counterfactual, proving that their work has caused incomes to increase, netting out the influence of all other factors.

Note that the Impact Assurance Classification does not include an uplift in score for external ratings, such as GIIRS and B Corps, but shows the score achieved, where relevant. Currently such ratings only apply to a fraction of the portfolio, but we acknowledge that, as the universe of these increases, relative scores could be incorporated into the process. However, at present there are only four GIIRS-rated funds in the portfolio, although there are eight GIIRS-rated asset managers—two of which are also B Corps. In addition there are three GIIRs-rated companies that the Foundation is directly invested in—two of which are B Corps. (See page 11 for more on GIIRS and B Corps.)

## Comparing Impact Assurance Classifications

NPC has classified all the Thematic and Impact First investments in the portfolio into one of the four stages. However, all our analysis for this report was based on assessing a mixture of public and private documents (shareholder updates, annual reports, impact reports, and so on); we did not engage with any of the investees directly to validate the data or to discuss their processes, given this is the first iteration of this process which we believe will evolve over time. Therefore, with the exception of the seven individual investments profiled—which have been reviewed by the investees themselves—we have not disclosed classifications for any of the other individual investments in this report.

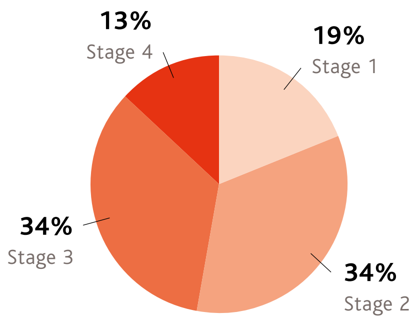
The main findings are:

- Across the portfolio, the highest scores are for clarity of mission (theory of change), and the lowest for contribution.
- Impact First investments are classified more highly than Thematic investments.
- Private equity is the asset class with the lowest average score—to some extent hindered by their need to keep data confidential.
- Financial services and food & agriculture are the most highly classified themes, energy the lowest (dominated by private equity holdings).
- Funds are classified more highly than individual companies.

The portfolio displays a spread of investments at different stages of their impact measurement journey, as shown in Figure 12. The majority of investments (68%) are classified as Stage 2 or 3, while 19% are at the first stage, and 13% are at the highest stage—Stage 4.

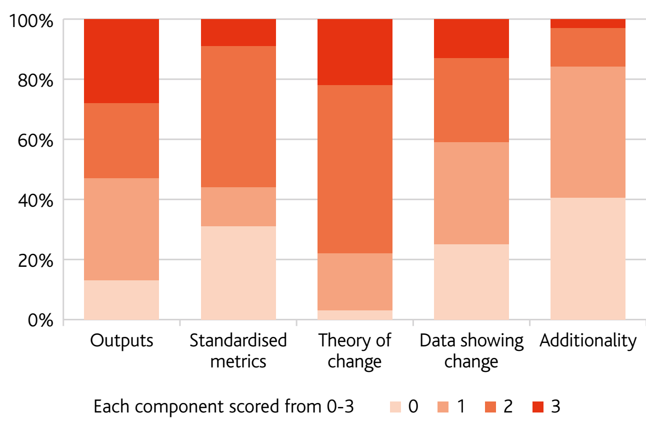
**It is important to re-emphasise that there can be very valid reasons for an organisation to be classified at a specific stage—such as the age of the organisation, the maturity of the sector, or the model and the type of investment. When looking at the KLF portfolio it is important to remember that it has been built up over a number of years and still consists of investments made in the very early stages of impact investing when impact measurement was in its infancy. That said, overall one would expect to see the mix of the portfolio adjusting upwards as good impact practice is implemented across the field.**

*Figure 12:* Breakdown of KLF portfolio by Impact Assurance Classification




When breaking this down into the individual components that make up the overall impact practice score (Figure 13), we can see that clarity of mission/theory of change is the category where most investments are the most advanced, with 68% of the investments scoring either 2 or 3 (on a scale of 0–3). The weakest area is the data to show additionality or causality: only 16% of investments here scored either 2 or 3. This is not surprising as it is very hard for organisations to prove causality between their activities and the outcomes achieved, and it may not always be necessary to do this if evidence of this exists from elsewhere.

*Figure 13:* Impact practice score by component

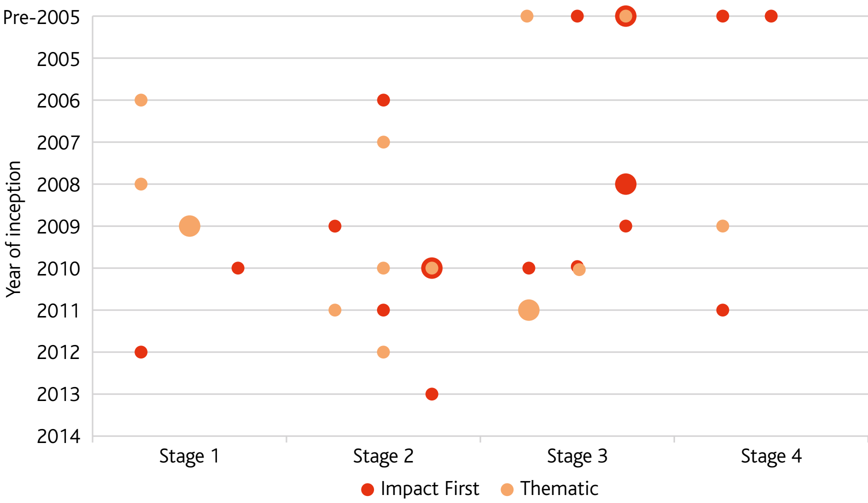


## Impact Assurance Classification by impact category

Figure 14 maps the Impact Assurance Classification for all investments within the portfolio categorised as Thematic or Impact First investments. We have also shown each investment relative to the year that the fund or company was founded. In general, the more established funds or companies have higher scores as their impact processes have had longer to develop, but this isn't always the case: there is one organisation in Stage 4 which was only established in 2011. Likewise, there are some more established funds and companies whose impact measurement processes are still at an early stage—these would be the ones worth analysing in more detail. On the whole, within the KLF portfolio these longer-established, lower-classified organisations tend to be Thematic, rather than Impact First, investments.

In fact, KLF's Impact First investments, on average, have a higher impact practice score than their Thematic counterparts; the average (out of 15) for the former is 7.9 compared to 6.1 for the latter. This is reassuring as Impact First investments are the part of the portfolio where social returns are prioritised over financial returns.

*Figure 14:* Impact Assurance Classification by impact category



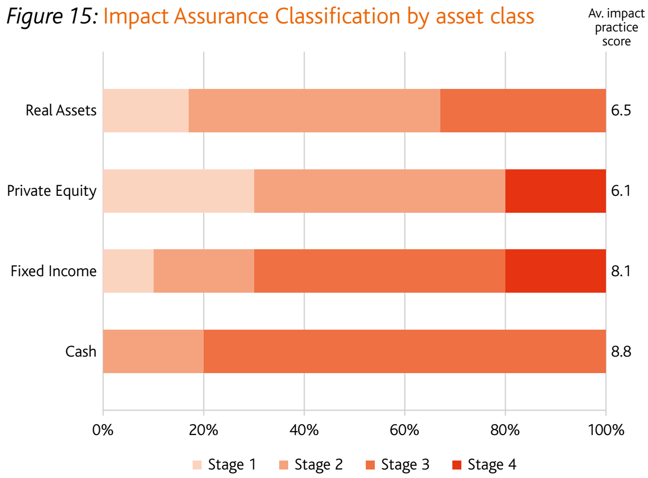

ON AVERAGE, IMPACT FIRST INVESTMENTS HAVE A HIGHER SCORE THAN THEMATIC INVESTMENTS

**Note:** Larger circles in Figures 14 and 16 denote more than one investment with the same score and inception year. Two colours show an investment from each category with the same score and inception year.

## Impact Assurance Classification by asset class

Figure 15 shows the average impact practice score by asset class, and the spread of investments achieving each Impact Assurance Classification within each asset class. The cash investments score the highest (8.8), while the private equity investments have the lowest average score (6.1), with 80% of investments in this asset class classified at either Stage 1 or Stage 2. This is in part due to the tendency for private equity organisations to keep their data confidential, restricting the availability of impact evidence. We also think that stage of development may play a role here: all the cash investments are funds or companies that have been established for at least five years. The split between Thematic and Impact First investments also matters: the majority of private equity investments are Thematic, which tend to score lower than Impact First.

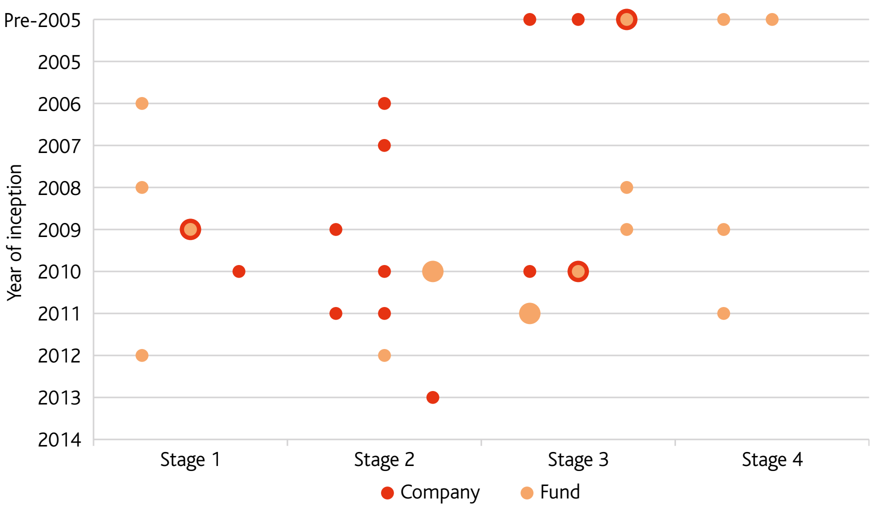
*Figure 15:* Impact Assurance Classification by asset class



## Impact Assurance Classification by type of organisation

Figure 16 below shows the relationship between the Impact Assurance Classification and investments classified as companies or funds. On average, funds score higher than companies (7.6 vs 6.4 out of a possible 15). This may be due to funds being required to report more rigorously on impact to attract investors, precipitating better impact processes, but we note also a greater variance in the Impact Assurance Classification of funds compared to companies. This may be due to the greater variety of funds analysed—including both Finance First and Impact First funds which often take a different approach to impact measurement. Due to the nature of the direct investment process, companies and investors often have direct conversations on the impact reporting required, which may explain the relative bunching of their Impact Assurance Classifications.

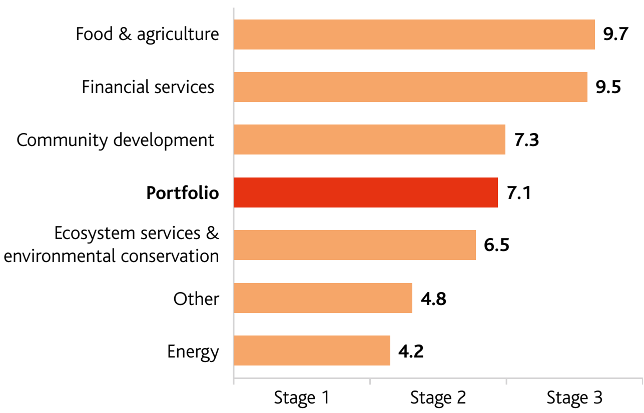
*Figure 16:* Impact Assurance Classification by company or fund




ON AVERAGE, FUND INVESTMENTS HAVE A HIGHER SCORE THAN COMPANIES

## Impact practice score by theme

*Figure 17:* Impact practice score by theme




As shown in Figure 17, the themes that have the best impact practice score tend to include the investments that are among the more established, but it also reflects the fact that impact measurement is more advanced in the themes that have more tangible outcomes (eg, growing agricultural businesses or microfinance lending to the financially excluded in the developing world). This compares to the environmental sector, for example, where there are a greater variety of business models being tested and more Thematic than Impact First investments.

## Impact Assurance Classification vs financial return

We would have liked to map the Impact Assurance Classifications against financial performance, and hope to do so in future years. It might demonstrate that a trade-off in financial return was justified by a higher likelihood of social return. At this stage, there was not enough financial return information on individual investments (particularly private equity type investments) to be able to do this.

# Impact across the portfolio—use of IRIS metrics

In order to look at impact across the whole portfolio, a consistent set of metrics is required. The work that IRIS has done in creating standardised metrics for investees to report on is helpful in this regard.

In 2009, KLF selected a series of IRIS metrics to collect from its PRI investments (see page 10 for definition) to measure impact on a sector level and across the portfolio. The core IRIS metrics are sufficiently high level to apply to all types of investment. They split between Product Impact indicators and Financial Performance indicators and have been selected to provide evidence of the Foundation's focus on helping social enterprises scale social impact. The core indicators include two that measure number of clients and jobs, and eight that relate to an investment's financial health and ability to attract new capital. In addition, sector-specific IRIS indicators have been selected around health, energy and water, and land conservation and restoration. See appendix for more definition of each metric.

## IRIS metrics selected by KLF

| Core IRIS Indicators | |
|---|---|
| **Product Impact**<br>• Number of Clients (Client Individuals (PI4060) and Client Organisations (PI9652))<br>• Jobs Maintained at Financed Enterprises (PI5691) | **Financial Performance**<br>• Number of Loans Outstanding (PI1478)<br>• Value of Loans Outstanding (PI7569)<br>• Number of Equity Investments Outstanding (PI1914)<br>• Value of Equity Investments Outstanding (PI7940)<br>• New Investment Capital (FP8293)<br>• Revenue from Grants and Donations (FP3021)<br>• Sales Revenue (PI1775)<br>• Net Income (FP1301) |
| **Sector-specific IRIS Indicators** | |
| **Health, Energy & Water**<br>• Client Individuals Provided with new access to Energy, Healthcare, Water (PI2822)<br>• Energy Produced (PI8706)<br>• Water Produced for Service Sale: Potable (PI8043) | **Land Conservation and Restoration**<br>• Land Reforested (PI4907)<br>• Land Directly Controlled: Sustainably Managed (OI6912) |

This year, KLF has worked with B Analytics to collect the data from an expanded group of investees (10 companies and 15 funds)[27]. However it is not always possible to collect IRIS data, often because an investee is a large or established business with many investors, such that it cannot, or will not, cater to KLF's requests, or because the investee already has a way of measuring impact that it strongly prefers.

## What we found

Where possible, we have tried to draw out reliable metrics. In doing this we have split the analysis between data collected from the funds and from KLF's direct investments in companies. IRIS metrics for funds involve the funds themselves aggregating the impact of their own investments within their funds to come to an overall total.

Although we have displayed below the aggregated data collected for both the funds and the companies, we suggest much care is needed in interpreting and using these results. This is because the data set is incomplete as a result of a varying number of responses from year to year (exacerbated by the expansion of the polled organisations) and inconsistencies in the data provided. However, we view this year as exceptional and the extra data that has been collected this year can be used as a baseline to enable a more complete analysis in the future. As with the thematic analysis, we have not taken into account the extent to which KLF can claim a part of the impact reported (by, for example, considering the percentage of an investee's shareholding); instead we have focused on the total impact of each investment, towards which KLF will have contributed to some degree.

## Aggregated IRIS metrics for KLF fund investments

This year, 15 funds (out of 29 in the portfolio) were asked to report on IRIS metrics. These responses have been aggregated below and reported the following metrics:

**7.5m**
INDIVIDUALS REACHED[*]

**620**
CLIENT ORGANISATIONS DEALT WITH[†]

**529k**
JOBS MAINTAINED AT SUPPORTED OR FINANCED ENTERPRISES[‡]

**$300m**
VALUE OF LOANS OUTSTANDING ON THE BALANCE SHEETS OF THE FUNDS

The funds were also asked to report on any relevant sector metrics in health, energy and water, and land conservation and restoration. In 2015, four funds reported the number of hectares of land directly controlled and sustainably managed. The total was 904,133 hectares.

### Progress year on year

For some investments, mainly those in the Impact First category, KLF has built up a historic timeline of IRIS information, giving it a year-on-year perspective of progress.

Some funds[§] have contributed core IRIS metric data since 2009. This data has been analysed separately and shows:

- The total number of clients reached has grown steadily and jobs maintained have grown at an even faster pace.
- The financial performance of the funds has been in line with the product impact, as sales revenue and the total value of loans and investments has grown. Conversely, revenue from grants and donations has fallen.

*Figure 18:* Number of clients reached and jobs maintained by KLF funds in aggregate

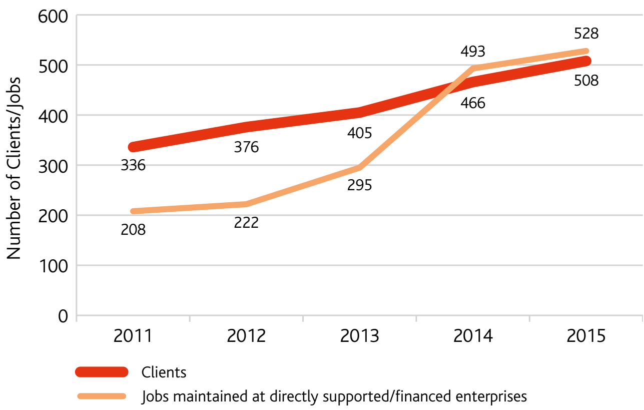
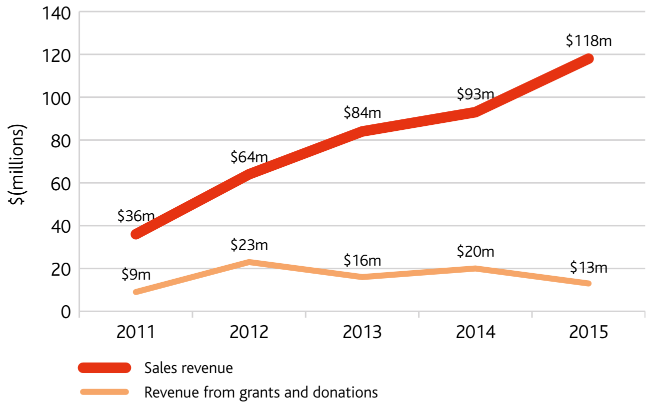



*Figure 19:* Sales revenue and grants & donations revenue by KLF funds in aggregate




## Aggregated IRIS metrics for KLF company investments

IRIS metrics are also collected for individual companies that KLF has invested in. The aggregation includes seven companies[‖] where data was collected in 2015.

Below is the aggregated data for 2014:

**80k**
INDIVIDUALS REACHED AND ENGAGED WITH OVER 200 CLIENT BUSINESSES

**135**
JOBS MAINTAINED

**$18m**
SALES REVENUE ACHIEVED AND RAISED NEW INVESTMENT CAPITAL OF $3.5M

**$4m**
COMBINED LOSS RECORDED

The companies did not report on sector metrics in 2015 although a number of the metrics on water, land and energy appear relevant. It may be that more education is required in this area and direct communication is necessary between the investor and investee.

* This metric is intended to capture the number of unique clients who were recipients of the organization's products or services during the reporting period.

† Number of businesses or organizations that were clients during the reporting period.

‡ 'Jobs maintained' is defined as the net number of FTE jobs at a financed enterprise (including self-employed individuals and owners of businesses).

§ Acumen Capital Markets I, Grassroots Business Fund, Media Development Investment Fund, Root Capital, RSF Social Finance, and Triodos Sustainable Trade Fund. Five funds contributed data 2011–2012. Six funds contributed data 2013–2015.

‖ BioLite, FAIM, Impact Assets, Living Forest Communities, MA'O Organic Farms, Pico Bonito, Purpose.

# Impact of KLF's public markets investments

All of the above analysis relates to KLF's Impact First and Thematic investments. However KLF maintains a sizeable allocation (around 60% of assets) to public markets impact investments, almost all of which is now invested in Sonen Capital's global equity and global fixed income strategies. The global equity exposure is approximately 40% of total assets, and the global fixed income exposure is approximately 20%.

Sonen's strategies mainly classify public markets impact investments as Sustainable but approximately 20% of all securities in both strategies are classified as Thematic:

- **Sustainable investments** are measured by how they operate and conduct business, and manage related environmental, social or governance (ESG) sustainability risks and opportunities. Sonen evaluates these investments through the use of ESG performance data and compares impact performance to conventional market benchmarks.
- **Thematic investments** are evaluated on what the organisations do: goods and services that directly address specific social or environmental needs such as climate change, resource scarcity, water, or poverty reduction.

Sonen Capital publishes its own impact report for these strategies, of which there is a summary overleaf. Many of the impact themes within Sonen's investment strategies in listed securities are also evident across the Foundation's Impact First and Thematic portfolio, most notably community development and energy.

## KLF's Investor Plus role with Sonen Capital

KLF and Sonen Capital have a close relationship. Raúl Pomares, Founder of Sonen, has worked with the Kleissners for 14 years, implementing their 100% impact investing strategy. KLF invested in the creation of Sonen Capital, and was an early investor in one of the first funds entirely focused on impact—part of KLF's mission to bring impact investing to others. In addition to a large portion of KLF's portfolio being invested in Sonen's fixed income and equity strategies, KLF continues to provide ongoing support to Sonen Capital in a number of ways, such as helping bring new clients to Sonen, co-presenting at conferences, or co-authoring impact-related publications.

## Sonen Capital: mission and activities

**Sonen believes that its public markets investing can help address large-scale global challenges, and that carefully constructed investment strategies utilizing the public markets can contribute to specific, positive global social and environmental changes while achieving competitive financial returns.**

**Sonen anticipates that, as ESG performance data becomes more widely available and coverage increases across public securities, impact investors' ability to further align investment portfolios with social or environmental preferences will increase. It believes that impact investors in public markets can make conscious choices about the deployment of their assets by identifying corporates with leading sustainability practices, and/or those companies that are proactively addressing social and environmental issues.**

**Sonen specializes in the construction and management of portfolios that provide investors with exposure to industry leaders in corporate sustainability practices and multiple social and environmental impact themes. Sonen utilizes a multi-manager approach in its portfolio construction. As a result, by combining varying investment approaches and styles, Sonen is able to deliver exposures to diversified and complementary impact strategies as well as financial diversification.**

**Sonen evaluates and communicates impact creation through the use of aggregated ESG data as well as through its proprietary AIMS impact framework. Sonen is committed to aligning the strategies with critical impact themes, including climate change, resource scarcity, and equitable social development globally. Where appropriate, Sonen works with its underlying managers to craft high-impact, bespoke investment strategies that target specific impact themes or otherwise aid in diversifying portfolio-level impact.**

For its strategies, Sonen monitors the ESG compliance of the individual managers, and ensures that aggregate sustainability performance among investment strategies exceeds that of conventional market benchmarks (which are also used to assess financial performance). Sonen can also request the removal of specific securities from the portfolio if sustainability performance does not meet client expectations or otherwise results in a diminishment of the overall ESG profile of the strategy in aggregate.

# Sonen Capital Global Fixed Income

## Activities

As of end of 2014, the portfolio is split between Sustainable (79.5%) and Thematic (20.5%) exposures.

## Sustainable

Exposure includes:

- sovereign bonds from federal governments that exhibit the best relative performance along specific sustainability dimensions, such as rates of education and healthcare, gender and corruption;
- corporate issuances by companies whose ESG performance enhances credit quality and increase prospects for long-term valuation; and
- US municipal bonds in specific sectors (infrastructure, education, sanitation) and whose issuers maintain ESG performance that enhances credit ratings.

## Thematic

Prominent impact themes include:

- community and economic development projects and financial services to low-income regions of the US, including home ownership, affordable rental housing and small business creation;
- corporate and agency issuances related to renewable energy, climate change and affordable housing;
- large-scale, multi-sector infrastructure projects that help rapidly growing economies adapt to and mitigate the effects of climate change; and
- municipal bonds that finance local services, such as environmental utilities, education, healthcare and basic infrastructure.

## Case study

Sempra Energy (Utility) has strong policies to reduce GHG emissions relative to industry peers and has toxic emissions below industry average. It has developed more than 1,380 MW of renewable power generation capacity in 2013, and renewable energy generation will comprise 42% of total capacity by 2018. Sempra has low water-use relative to utility peers as dry-cooling and reclaimed/recycled water is used at energy generation plants in the US and Mexico.

## AIMS Impact Framework

Various sectors in fixed income contribute to impact on a number of dimensions. Sonen has created a proprietary framework to better articulate the relative strength of each sub-asset class in the context of impact utility. Sonen's AIMS framework describes impact creation through four dimensions: Additionality, Intentionality, Measurability, and Scale.

Sonen evaluates financial and impact performance relative to the Barclay's Aggregate benchmark.

| About the strategy | | | |
|---|---|---|---|
| **Inception date:** | 2011 | **Target geography:** | Global |
| **Location of fund:** | USA | **AUM (end 2014):** | $US94m |
| **Projected financial return:** | Market return | **Stage:** | Established |
| **Impact theme:** | Sustainable and Thematic | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2011 | **Market value (2014):** | $2m |
| **Asset class:** | Fixed Income | **Impact type:** | Sustainable and Thematic |
| **KLF Investment rationale:** | **Catalytic:** early investor in fund targeting impact through public market investing. | | |

| Thematic exposure | 2013 | 2014 |
|---|---|---|
| **Agriculture** | 0.3% | 0.7% |
| **Community development** | 9.5% | 11.6% |
| **Energy** | 7.9% | 3.4% |
| **Health** | 0.0% | 0.2% |
| **Infrastructure** | 1.9% | 3.6% |
| **Waste and pollution** | 0.5% | 0.0% |
| **Water** | 0.4% | 0.0% |
| **Other** | 2.0% | 0.9% |

| AIMS Impact Framework | Sovereign Bonds | Corporate Bonds | Municipal Bonds |
|---|---|---|---|
| Sonen Impact Strategy – Global Fixed Income | Selection of sovereign government bonds with best-in-class ESG characteristics | U.S. and Emerging Market companies with best-in-class ESG performance; Green corporate bonds issued for specific environmental projects | Bonds financing specific activities such as education, infrastructure, or water/sewerage services in the U.S. |
| Additionality of Impact Creation | **Low** Limited opportunity to create additionality | **Medium** Help investors finance specific, discrete projects among smaller issuances | **Medium** Help investors finance specific projects at local level |
| Investee Intentionality | **Medium** Stronger ESG policies reflect modest intentionality | **High** Corporate green bonds finance specific environmental projects. | **High** Finance specific projects around infrastructure, water |
| Measurability of Impact | **Low** Outputs are difficult to attribute to single issuances | **High** Can be measured via ESG data; Green bonds generate measurable outputs | **Medium** Thematic deliver tangible outputs, quantifying long-term impact difficult |
| Scale of Impact | **High** Policies on sustainability create impact at scale | **Medium** Green bonds small; Best –in-class corporate bonds operate at meaningful scale | **High** Represent an enormous universe of ~$3.7T[2] |

# Sonen Capital Global Equity

## Activities

As of end 2014, the portfolio is split between Sustainable (79.1%) and Thematic (20.9%) exposures.

## Sustainable

Investments integrate ESG to:

- select companies that exemplify best-in-class sustainability performance, as measured by social and environmental KPIs;
- identify desirable ESG performance that creates positive sustainability outcomes;
- identify companies best positioned to benefit from a long-term transition to sustainable global economic development; and
- reduce ESG risks that can negatively affect shareholder value.

## Thematic

Investment focuses on:

- **Energy:** increasing energy efficiency among industry and consumers; building the renewable energy industry; and helping facilitate the transition to a low-carbon economy.
- **Waste and Pollution:** expanding the efficiency of waste management, including recycling and re-use; providing appropriate disposal of hazardous waste; and expanding environmental benefits of waste management.
- **Water:** water utilities that increase conservation and widen distribution; technologies in purification, efficiency and treatment; and infrastructure technologies.

## Case study

Manila Water Company, Inc (MWCI) was founded in 1997 and is based in Quezon City, the Philippines. MWCI operates a 25 year concession for water and waste water services.

Tubig Para Sa Barangay (TPSB) or Water for Poor Communities: Manila Water's inclusive business model illustrates the business case for delivering clean water and sanitation to low-income communities. The TPSB model partners with local governments and community organizations in the design and implementation of reliable water systems that provide a critical service to underserved, low-income households so they no longer rely upon illegal and unmonitored connections to water sources.

| About the strategy | | | |
|---|---|---|---|
| **Inception date:** | 2011 | **Target geography:** | Global |
| **Location of fund:** | USA | **AUM (end 2014):** | $US97m |
| **Projected financial return:** | Market return | **Stage:** | Established |
| **Impact theme:** | Sustainable and Thematic | | |

| About the KLF investment | | | |
|---|---|---|---|
| **Date of initial investment:** | 2011 | **Market value (end 2014):** | $4.1m |
| **Asset class:** | Equity | **Impact type:** | Sustainable and Thematic |
| **KLF Investment rationale:** | **Catalytic:** founder investor in fund targeting impact through public market investing. | | |

| Thematic exposure | 2013 | 2014 |
|---|---|---|
| **Agriculture** | 1.5% | 0.6% |
| **Community development** | 0.3% | 0.2% |
| **Energy** | 6.7% | 4.6% |
| **Health** | 1.0% | 0.7% |
| **Infrastructure** | 2.1% | 1.7% |
| **Waste and pollution** | 1.7% | 0.9% |
| **Water** | 11.8% | 8.1% |
| **Other** | 4.9% | 4.1% |

## Social/environmental impact achieved: Sustainable (2014)

Sonen evaluates its impact performance relative to a conventional market benchmark (MSCI ACWI). Environmental, Social and Governance impact performance is evaluated across eight Key Performance Indicators. Highlights include:

- total weighted carbon emissions were 9.2x lower than market benchmarks;
- average water withdrawal intensities were lower than amounts in the MSCI ACWI (84.2x for Global Equity), largely as a result of a lack of exposure to heavy water users, particularly in the utilities and power production sectors; and
- social performance: KPIs—supply chain labour management, controversial sourcing and health and safety—met or exceeded average benchmark performance.

## Governance

Sonen's public equity strategies benefited from higher rates of female representation on corporate boards, measured in terms of average gender proportions as well as across companies.

# IMPACT ACHIEVED—KLF'S MOVEMENT-BUILDING WORK

As well as building a 100% impact invested portfolio, the Kleissners spend a significant amount of time and energy, alongside a number of annual grants, helping to build the impact investing ecosystem, as demonstrated in their theory of change on **page 23**. This is to achieve their ultimate goal of transforming the financial system to maximise positive social and environmental impact.

Their work to build the ecosystem can be split into three main aims:

- **To grow the number of effective social entrepreneurs,** through creating and supporting accelerators which in turn help entrepreneurs tackling social and environmental challenges to scale their impact.
- **To grow the number of effective impact investing intermediaries,** through creating and supporting fund managers and advisory firms to establish impact funds or services, investing in innovative first time funds, and contributing to practical impact investing tools.
- **To grow the number of impact investors,** through creating and supporting investor networks, and challenging the investment industry (including wealthy individuals, family offices, foundations as well as traditional investment funds) to alter their policies and practices to take impact into account.

There is clearly significant overlap between these three areas, and with their investment portfolio. For example, Lisa has devoted much recent time to building an accelerator in Hawaii, the Hawaii Investment Ready Program, which supports, trains and capacity-builds indigenous and island social enterprises. One of the first of these was MA'O Organic Farms, a recipient of $100,000 of direct investment from the Foundation, as well as a $75,000 grant to fund capital raising activities. The organisation hired to help MA'O build their financial model and raise capital was Total Impact Capital, an impact investing merchant bank where Charly Kleissner has been an advisor, which also provides financial modelling services to various US based Social Impact bonds. The linkages between helping social enterprises, intermediaries and investors are strong and the Kleissners play a pivotal role in this space.

We have therefore created a framework which attempts to capture the impact of their various activities in each of these three domains, although many of the initiatives which they created or support do overlap in their goals.

Once the theory of change had been developed, we prioritised a number of areas to measure, selected key metrics to collect from individual organisations and, where possible, aggregated the impact achieved by the Kleissners' work.

Given the number of different projects and organisations involved, all doing something slightly different, it has been difficult to capture the impact of all the moving parts, but the information on the next page provides a snapshot of the Kleissners' contribution to growing the field within each of their focus areas.

# Outcome: More effective social entrepreneurs

## Activities

- **Social-Impact International** was created by the Kleissners and two other founders in 2004, developing a programme to combine mentoring with skills training and access to capacity-building and funders. First delivered in Hyderabad, India, it is a global initiative which has given birth to the three regional programmes below.
- **Dasra Social Impact** (DSI), launched in 2009, is today India's largest executive training programme for leaders of non-profits and social businesses, empowering them with funds, networks and skills to help them scale. Seven cohorts of entrepreneurs have been through the year-long programme, 181 alumni in total. Lisa and Charly provide coaching for DSI entrepreneurs as well as conduct sessions on impact investing for Dasra's clients.
- The **Central and Eastern European Investment Ready Programme** (IRP) is an accelerator programme based in Vienna, Austria for social entrepreneurs from Central and Eastern Europe aiming to scale up their ventures. Co-founded in 2011 by the Kleissners and a member of the Impact Hub Vienna, three cohorts have been through the programme to date—a total of 35 entrepreneurs.
- The **Hawaii Investment Ready Programme** is Social-Impact International's latest venture, an accelerator for Hawaiian social enterprises, co-founded by the Kleissners and the Kamehameha Schools in 2013 with one cohort of 25 entrepreneurs to date completing the programme. Lisa remains heavily involved, designing and delivering the programme.
- Alongside the above initiatives which the Kleissners developed and with which they have an ongoing practical role, they are also active supporters of, and advisors to, another accelerator, **The Miller Center for Social Entrepreneurship** based in Santa Clara University. Their **Global Social Benefit Institute** programme has been running for 13 years and to date has supported 394 social entrepreneurs from 63 countries. Lisa and Charly actively support the programme through coaching, workshops, and engagement on the Advisory Board.

## Impact achieved

Below is an aggregation of the impact of the various programmes above that the Kleissners have created or supported, and therefore have contributed towards, to some degree:

**4**
ACCELERATORS CREATED AND/OR SUPPORTED

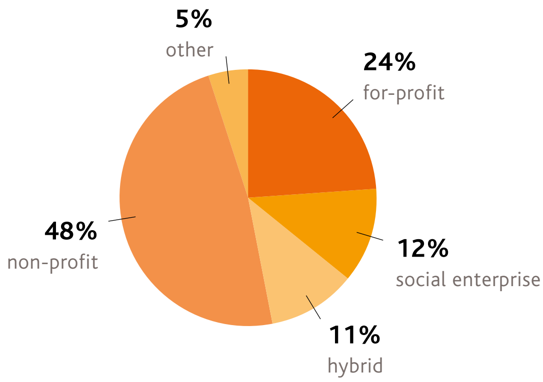
**38%**
OF ENTERPRISES WITH AT LEAST ONE FEMALE CO-FOUNDER

**681**
SOCIAL ENTREPRENEURS STARTED THE PROGRAMMES

**$126m**
OF CAPITAL RAISED THAT CAN BE ATTRIBUTED TO THE ACCELERATORS

**14%**
AVERAGE DROP OUT RATE

*Figure 20:* Enterprises through programmes, by status



# Outcome: More effective impact investing intermediaries

## Activities

### Creating and supporting impact investing intermediaries

- Funding, establishing and supporting **Sonen Capital**, a dedicated impact investment management firm. Sonen manages the Kleissner's wealth, and is responsible for building KLF's portfolio of impact investments across asset classes. In addition to being a key client of Sonen's, KLF has invested directly in the firm to help it grow and support other investors with similar values and requirements.
- **Total Impact Capital** is an impact merchant bank that specialises in sourcing and developing private investment opportunities that are socially and financially attractive, while also designing innovative, sustainable financial solutions for governments and non-profits to support their missions. The Kleissners have been key supporters and advisors to Total Impact Capital as it has developed its business model.
- **ImpactAssets** is a non-profit financial services firm which aims to democratize impact investing by offering products with lower minimum entry levels for retail investors. It also runs a donor-advised fund with over U$200m of assets from over 700 individuals and families, where assets are invested in over 200 impact companies or funds. KLF provided ImpactAssets with a loan as part of KLF's investment portfolio (see page 30), and in addition Charly Kleissner is the Chair of the Investment Committee and a board member.
- KLF has been an investor in, and sometimes advisor to or board member of, several **first-time funds** with the aim of getting them established, providing seed capital, and proving their model in order to attract further investors into the field. Some of the funds have gone on to raise further capital through follow-on funds. Examples of these investments include Beartooth Capital, Zouk Ventures CleanTech Europe, Better Ventures, Aqua Spark, and Encourage EKO Green Carbon Fund (see page 29).*

### Creating or contributing to impact investing tools

- As part of the Kleissners' efforts to build the impact investing ecosystem, they have been instrumental in building or contributing to the creation of various **impact investing tools**. These include a number of e-guides for the industry on impact investing, support for the evolution of measurement standards (such as IRIS metrics and GIIRS ratings), and the publication of KLF's own investment evaluators with an accompanying primer for other investors to adapt and use for their own portfolio. The publication of **Sonen Capital's** report detailing the financial performance of KLF's investment portfolio was also a contribution to building the field through its transparency, and helping investors understand whether impact adds to (or detracts from) financial returns. In addition, Charly Kleissner has spent significant time helping build a portfolio tool for other 100% impact investors—this is a template which enables impact investors to analyse their portfolios, by asset class and impact category using crowd-sourced impact themes.

## Impact achieved

Although many of these activities are quite different in nature, some of the overall contribution of the Kleissners' work to improve the impact ecosystem through growing effective intermediaries includes:

**$803.2m**
RAISED TO DATE THROUGH FUNDS THAT KLF IS INVOLVED WITH†, WITH **260** INVESTORS BETWEEN THEM‡

**40**
CURRENT USERS OF THE 100% IMPACT PORTFOLIO TOOL, COMPRISING AT LEAST **$380M** OF ASSETS

**$496.9m**
OF ASSETS JOINTLY MANAGED BY IMPACT INVESTING INTERMEDIARIES THAT KLF ARE INVOLVED WITH, AS OF DECEMBER 2014

**4,000+**
DOWNLOADS TO DATE OF SONEN CAPITAL'S REPORT, *EVOLUTION OF AN IMPACT PORTFOLIO*

**3,000+**
CURRENT USERS OF IRIS METRICS, THE MAJORITY OF WHOM ARE INVESTORS

**83**
FUNDS WITH A GIIRS RATING TO DATE, COMPRISING **$6.2BN** OF COMMITTED CAPITAL

**786**
COMPANIES NOW GIIRS RATED ACROSS **67** COUNTRIES

* Better Ventures II and Aqua Spark are investments made since December 2014, and are therefore excluded from the list of KLF investments as of 31 December 201.

† A combination of first and second time funds as well as capital raised by Total Impact Capital on behalf of impact enterprises and foundations.

‡ Not unique investors—some likely to be invested in more than one fund.

# Outcome: More effective impact investors

## Activities

### Creating and supporting impact investor networks

- Created **Toniic Institute** in 2010, a global community of around 130 impact investors from 25 countries spanning individual investors, family offices, foundations and institutions. Members are empowered by Toniic as impact investors through sourcing deals, sharing due diligence, co-investing and knowledge-building. Charly and Lisa Kleissner were two of the five co-founders, and remain heavily involved—Lisa as Chair of the board, as well as providing Toniic with grants.
- Created the **100% Impact Network**, a subgroup of Toniic, currently comprising over 70 members who have committed to invest 100% of their combined $4.0bn assets to positive social and/or environmental impact, with around $1bn currently deployed. The Kleissners founded this network of investors who share best practice and tools to improve their approach to 100% impact investing.
- Although not primarily focused on impact investors, **The Philanthropy Workshop (TPW)** has played an important role in the Kleissners' impact journey (see page 12) and KLF continues to provide TPW with grant funding each year. TPW is a network of over 360 philanthropists from around the world, and provides members with strategic philanthropy education, primarily through its three intensive week-long modules, and networking opportunities for alumni. In addition to the Kleissners being active alumni of TPW, Lisa Kleissner is past Board Chair and currently Chair of the Finance Committee of the US TPW Board and the Global Advisory Board. She also provides impact investing workshops for incoming cohorts and alumni.
- **Impact Hubs** were started in London in 2005 as a gathering place for social and environmental impact pioneers. They are now a global community of around 11,000 members in more than 70 locations. Members can be social entrepreneurs, investors, policymakers or consultants, all with a common vision of making a positive impact in the world. It is an ecosystem providing members with resources, guidance, talent, spaces and collaboration opportunities. Charly Kleissner chairs the Global Advisory Board and KLF has grant funded the Impact Hub based in Vienna (which houses the Central & Eastern European Investment Ready Programme—see page 58).
- **Mission Investor Exchange** is a membership organisation of primarily US foundations and mission investing (another term for impact investing) organisations founded in 2012. It is a learning hub with extensive resources, and provides training events and networking opportunities for members, as well as actively promoting mission-driven investing and building the field. The Kleissners are members of MIE and have also provided grant funding in the organisation's early days.
- **Impact U** is a collaboration between KLF, Toniic, The Philanthropy Workshop and Santa Clara University, which Lisa Kleissner founded in 2012. Between them, they are creating an impact curriculum framework that is regionalised and informed by case studies extracted from Toniic members and their deal making. 30 people have been through the prototype programme to date; the full programme will be launched in 2016 and will allow peer to peer learning among the members of partner organisations.
- There are a number of other initiatives and networks that the Kleissners have supported, either through grants, their time, or both. These include **PYMWYMIC** (Put Your Money Where Your Meaning Is Community), the **Latin American Impact Investing Forum**, and **Social Capital Markets** (SOCAP).

## Challenging the investment industry

- The Kleissners' vision of transforming the financial system involves challenging the status quo of the current investment industry, and they work hard to demonstrate the viability of the impact investing approach through showcasing their own foundation's portfolio, as well as supporting other thought-leaders in values-aligned investing. One of their key aims is to shift 10% of the $4 trillion currently held by endowments, High Net Worth Individuals and foundations to impact investments. Their belief is that exceeding this threshold (currently only 0.1% of these assets are held in impact investments) will begin to set in motion a move towards investing for impact across a broader section of the investment market.
- Their advocacy work includes speaking at events, running seminars, giving media interviews, publishing blogs, articles and e-guides, and coaching individuals, families, and private groups.
- Capital Institute is a think tank which researches and sparks discussion on how to evolve the financial ecosystem. It has built a new conceptual framework for economic systems, 'Regenerative Capitalism', and believes impact investing offers an opportunity to change the current system. KLF provided an early grant to support the Institute's work.

While the Kleissners certainly wouldn't claim credit for the growth in impact investing that has occurred, it is fair to say that their work has in some way contributed to growing the field as follows:

| | | | |
|---|---|---|---|
| **738** MEMBERS ACROSS THE INVESTOR NETWORKS THAT KLF HAVE CREATED OR SUPPORTED*, UP FROM **436** IN 2011 | **39** EVENTS HELD IN 2014 BY THESE NETWORKS, REACHING **2,243** PARTICIPANTS (UP FROM **20** IN 2011 REACHING **54** PARTICIPANTS). | **$5.8bn** OF ASSETS CURRENTLY COMMITTED TO IMPACT BETWEEN NETWORK MEMBERS† | **1,317** IMPACT INVESTMENT DEALS TO DATE ACROSS THE NETWORK MEMBERS‡ |
| **32** EVENTS SPOKEN AT BY CHARLY AND/OR LISA IN 2014 | **80%** OF LARGE US FOUNDATIONS MAKING OR CONSIDERING IMPACT INVESTMENTS IN 2015, COMPARED TO **58%** IN 2013§ [28] | **$13.1trn** OF GLOBAL ASSETS USING SUSTAINABLE INVESTMENT STRATEGIES** [29] IN 2014, **UP 115%** FROM 2012 | |

* Toniic, Mission Investors Exchange, The Philanthropy Workshop.

† 100% Network, Mission Investors Exchange.

‡ 100% Network, Mission Investors Exchange.

§ 2015 Survey of 230 Private Foundations giving at least $10m annually and 2013 Survey of 211 Private Foundations giving at least $5m annually.

** This figure includes integrating ESG factors, impact/community investing, and sustainability-themed investing.

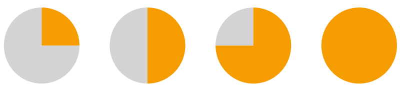
# LOOKING AHEAD FOR KLF'S IMPACT MEASUREMENT

Our analysis has highlighted the deep and early commitment of KLF to developing, adopting, and sharing best practice in impact investing. NPC has tried to capture and explain how the wide variety and multiple initiatives that KLF supports combine together in their theory of change. The Foundation seeks to continually improve what it does, as well as to provide short cuts, solutions and forums for others to join. Although we are unable to benchmark this, we believe that KLF is a leader in the field.

KLF is looking towards the long term—towards the future. So to assess the significance and importance of its work, NPC has reviewed KLF against the **four long term priorities** identified by the Impact Measurement Working Group of the G8 Social Impact Investment Taskforce.[30] These are seen in the table below.

*Figure 21:* Review of KLF against the G8 Social Impact Investment Taskforce priorities

| G8 long term priorities | Action | KLF Score | NPC Comment |
|---|---|---|---|
| 1. Embrace impact accountability as a common value | Be transparent about impact goals and ask others to follow its example |  | KLF's theory of change clarifies impact goals and how it seeks to achieve these |
| 2. Apply best practice guidelines | Integrate guidelines into impact investment process |  | This is a underway with best practice adopted wherever possible |
| | *Plan: Set goals and develop frameworks* | | *Reporting framework is clear* |
| | *Do: Collect and validate data* | | *Impact reporting from investees is varied in quality and requires more engagement to enable this* |
| | *Assess: Analyse data* | | *Will benefit from more complete and timely reporting* |
| | *Review: Report and make data-driven decisions* | | *Improvement required on previous stages to enable this* |
| 3. Establish a common language and data infrastructure | Use impact measurement standards and share impact data |  | KLF is limited by what is currently available but is supporting all relevant initiatives |
| 4. Evolve the field through ongoing learning and adaptation | Strive to improve impact measurement practices and learn from one another |  | KLF is transparent and committed to sharing all lessons with the field and continually improving practice |



Early days | Mixed progress | Going well | Excellent progress

KLF scores most highly on the priorities involving sharing and transparency around impact measurement; lower scores relate to the application of best practice guidelines. The latter reflects the immaturity of the impact measurement market and lack of good practice amongst investees more than any lack of will by KLF—and it will be an issue for any impact investor at this stage. In addition, KLF is committed to investing in the development of impact systems and standards evidenced by KLF's engagement with NPC for this report.

- **Embrace impact accountability as a common value:** KLF believes that by supporting the development of good impact practice, and encouraging and helping others to do so too, the field will advance. This report and the other initiatives that KLF has been involved in over the past ten years provide evidence for this and justify the highest rating in this area.
- **Apply best practice guidelines:** this report shows how the KLF impact investment process meets G8 best practice guidelines, split into the four phases:
  - **Plan**—set clear goals and develop frameworks. KLF has established a clear investment thesis laid out in its theory of change (page 23) which explains how the different activities are driving towards one goal. KLF has developed a framework for assessing performance (using ESG metrics with Sonen, and IRIS metrics with Impact investments) that has been tested in the development of this report. Thematic investments sit outside this framework but could be integrated going forward.
  - **Do**—collect and validate data. KLF's ability to monitor outcomes would increase if this was improved, such as by monitoring which reports have been received, and requesting those that have not arrived. We found that impact data is released infrequently and is not always timely which makes this task harder. Validating impact data occurs more with the direct investments and accelerators than the funds, reflecting the different type of relationship. One positive step would be to ensure that impact data is formally validated at regular intervals.
  - **Assess**—analyse data. A confident assessment of impact data is not possible for all investments because of the varied approaches to impact reporting adopted by the different types of investees (Sustainable, Thematic, Impact First). KLF has a framework in which it would like investees to report that is gaining traction, and at the same time KLF has strong relationships with many of the investees, monitoring them informally as well. Encouraging investees to improve their impact practice and move through the Impact Assurance Classification will increase the quality of impact data going forward.
  - **Review**—report and make data-driven decisions. KLF is transparent and shares data with all stakeholders. The quality of the data that it shares will improve over time as the initiatives that KLF has been involved in mature along with the market. KLF is open to changing its investment strategy at the investee and portfolio level in response to new information. The evidence for this lies in the changing composition of their portfolio and their open communication of lessons learned along the way.

  KLF is making mixed progress in this area. This is not a reflection of KLF's efforts—which have been significant, multi-faceted and sustained—rather it is a reflection of being at the forefront of investing in a new market, and the time it takes for good practice to become embedded.
- **Establish a common language and data infrastructure**—KLF is committed to using existing impact measurement standards and has contributed to the creation of shared language and data systems illustrated by the support of IRIS metrics and B Analytics. KLF is only limited by what is available in a relatively new market and therefore is rated as doing well in this area.
- **Evolve the field through ongoing learning and adaptation**—KLF is committed to improving, learning and sharing best practice, illustrated by the movement-building work, the 100% Impact Portfolio Tool, and this report. KLF is rated as making excellent progress in this area.

# IMPACT MEASUREMENT FOR OTHER INVESTORS

This review for the KL Foundation, and the parallel development of a suitable measurement framework to assess impact, has provided a model of transparency and methodology that, we hope, others will follow. We have shown not only that it is possible to measure impact, but we provide some guidance on how to go about it.

In addition, we have shown that KLF's approach—which involves measuring impact, openly sharing information, as well as being actively involved in impact advocacy—is much needed, and—if this report achieves its aim—will inspire others to replicate this type of review and, in the process, help to move the market forward. KLF, and we at NPC, have not by any means cracked all the issues in this emerging area, but we have shown that making progress is possible and is worthwhile.

With this in mind, we provide some tools for other investors based on what we have developed for KLF, drawing, where possible, on existing frameworks in the field. On the following pages we include:

- an overall framework for impact investors to measure their social impact;
- a guide to creating your own impact dashboards for individual investments;
- a guide to using NPC's Impact Assurance Classification;
- a discussion of the usage of IRIS metrics; and
- a discussion of the cost of measuring the impact of a portfolio.

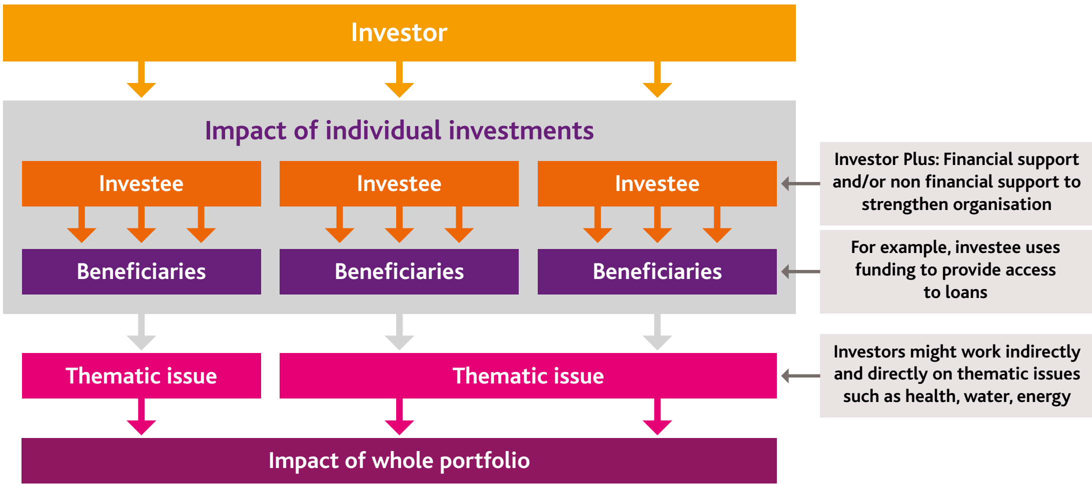
We have learned some key lessons on this journey which we highlight here (and which are unpacked in more detail in this section):

- It is important to measure all aspects of an impact investor's work to fully understand their impact. Because of the nascent state of the field, many impact investors are working across different aspects of the ecosystem in addition to investing their capital: all parts of their activities should be assessed.
- Investors can have different levels of impact—on investees themselves (through financial or non-financial support such as mentoring or capital raising), on beneficiaries, and on thematic outcomes. Assessing the impact of investments needs to be done on all three levels.
- Many impact investors have ambitious visions. Developing a theory of change can be a valuable way of articulating that vision, and breaking it down into measurable, intermediate outcomes.
- There is significant value in transparency and sharing processes and results for others to learn from, particularly at such an embryonic stage of a field's development.
- Impact data can be difficult to collect and organise, not least because enterprise contacts change frequently. We recommend that investors create a tracking system to monitor contact information as well as the timing and format of impact reports from investees. Alternatively, investors could collectively fund the development of platforms that can be used meaningfully across the field.
- There is still much work to be done on the standardisation of outcome measurement. Investors today cannot tackle that challenge alone, but can help work towards this by engaging with standard measures, and with transparency, as key aspects of their efforts.
- Validation of data through discussion with investees is a necessary component of any impact measurement.
- Impact measurement is a journey, and the quality of impact measurement is likely to vary according to an organisation's stage of development. Investors can support their investees by helping with the selection of useful metrics that can tell the impact story. Transparency around results over time should encourage better practice.

# Step-by-step guide to developing a measurement framework

The framework (see Appendix) we developed for both aspects of KLF's work—investment and advocacy—is an adaptation of the **seven guidelines** created by the Impact Measurement Working Group of the G8 Social Impact Investment Taskforce,[31] itself developed from existing guidance, particularly that of **Inspiring Impact** (a UK-wide collaboration around impact measurement, led by NPC),[32] **GECES** (Group of experts of the Commission on social entrepreneurship),[33] and the **European Venture Philanthropy Association** (EVPA).[34] We have also drawn on an earlier NPC report, ***Smart money: Understanding the impact of social investment***.[35]

*Figure 22:* Different levels of investor impact




It is important throughout the impact measurement process to capture the different levels of impact an investor can have. The diagram above highlights these different levels, and we have then applied this framework to KLF, in both their movement building work and their investment portfolio.

The first is the impact the investor has on the investee themselves—we call this Investor Plus. This is any financial and or non-financial support an investor might provide to an investee to help build their capacity and strengthen their organisation. It can also be applied to funders and their grantees. See **page 24** for how this applies to KLF.

The second level is the impact on the people, or issues, that the investees are trying to help. This is what is often most commonly evaluated—that is, the number of people benefitting from a particular service or product. The individual case studies of KLF investments (see **page 27**) show the impact of each fund or organisation in its own area of focus.

The third level is the impact that one or more investees are having on a specific thematic issue. This may be, for example, the contribution of investees towards improving food security, or access to clean water. Measuring this is difficult, but in some cases it is possible to aggregate individual impacts to understand the investor's contribution to thematic outcomes. In KLF's case, this has been done through the thematic analysis on **pages 34-47**.

## A measurement framework for an impact investment portfolio

Below is a template for other investors to adapt for their own purposes. It uses a step-by-step process for all the various elements of evaluating the social impact of a foundation.

We encourage impact investors to set up a framework for measuring their own impact, and have provided this primer to set out the various steps required, and issues to consider, so that each investor can adapt the steps for their own purposes.

| | Step | Issues to consider |
|---|---|---|
| Plan | **Set goals.**<br>Articulate the desired impact of the investments to serve as a reference point for investment performance. | • *Have you developed a theory of change? This will set out what you want to achieve (your final goals) and how you plan to achieve it through your portfolio. It will provide a theoretical framework to underpin your measurement efforts so you can move away from ad hoc, opportunist data collection.*<br>• *When conducting due diligence on a potential investment, consider how each investment will fit into your theory of change.*<br>• *If you plan to offer any additional support to an investee on top of investment capital (Investor Plus), consider the potential impact of that support and how to measure it.* |
| Plan | **Develop framework and select metrics.**<br>Determine metrics to be used for assessing the performance of the investments. Utilise metrics that align with existing standards. | • *If you have key thematic focus areas (housing, energy, community development, etc), select a number of outcomes to achieve within each thematic area. The **Outcomes Matrix** developed by Big Society Capital is a useful tool and includes outcomes and measures for 9 outcome areas and 15 beneficiary groups.*[36]<br>• *You may want to consider a select number of standardised indicators, such as **IRIS**[37], to collect across the portfolio.*<br>• *Work with potential investees on the metrics they plan to report on.*<br>• *In all cases, we recommend you prioritise the data collected so you are not trying to collect too much data. Do not be tempted to prioritise data that is easy to collect but does not tell you much about your impact.* |
| Do | **Collect and store data.**<br>Capture and store data in a timely and organised fashion. | • *Build a tracking system to see when impact reporting data is due; ensure information is provided on time and identify gaps.*<br>• *Collect impact information regularly from funds and companies. This will include both standardised metrics (ie, IRIS) to compare across the portfolio, along with an organisation's own impact metrics and case studies or anecdotes.*<br>• *Ask investee about the impact of any Investor Plus support your have provided.* |
| Do | **Validate data.**<br>Verify that impact data is complete and transparent by cross-checking calculations and assumptions against known data sources, where applicable. | • *Verify data through field visits, meetings with management and staff, and inputs from co-investors. We have found it particularly important to validate standardised metrics (such as IRIS) that are reported, where we have found data anomalies, even for the same metric reported by the same organisation year on year.* |

| | | |
|---|---|---|
| Assess | **Analyse data.**<br>Review and analyse data to understand how investments are progressing against impact goals. | • *Analyse impact data for individual investments—compare against targets and against historic data where possible.*<br>• *Assess each investment using NPC's Impact Assurance process to understand the impact practice of each organisation. A high score (ie, a robust impact measurement process) will provide more confidence that targeted impact will be achieved. You can then compare scores across the portfolio and investigate the outliers.*<br>• *Analyse impact data within thematic context. It maybe possible to aggregate if investments are working towards similar outcomes. This will provide you with a sense of how your collective investments are contributing to thematic outcomes. The impact data collected may lead you to update the priority sector outcomes you want to achieve.*<br>• *Where possible aggregate indicators collected across the portfolio (ie, IRIS metrics).* |
| Review | **Report data.**<br>Share progress with key stakeholders. | • *By collecting and analysing the data, you will be able to show the impact of the portfolio on different levels:*<br>– *by individual investment, by theme, across the portfolio*<br>• *Share Impact Assurance Classifications with investees and other investors: this will hopefully encourage investees to move up the impact process spectrum if they understand what best practice measurement looks like.*<br>• *Share impact report widely with other investors, investees and other key stakeholders.* |
| | **Make data-driven investment management decisions.**<br>Assess stakeholder feedback on reported data and address recommendations to make changes to investment thesis or theory of change. | • *Review the impact investment portfolio—and make any necessary trading decisions based on impact performance.*<br>• *You may need to review your theory of change as a result of your findings.* |

# Impact dashboard for individual investments

In order to understand the impact of individual investments, be they funds or direct investments, we have created impact dashboards. These provide an investor with all the information they require to look at each investment and understand the impact their money or support is having on both the investee itself and the beneficiaries or issues the investment is set up to help.

We have created a this template with explanations of each category for investors to apply to their own portfolio.

## Mission and activities

*What is the company or fund aiming to achieve? Who is it targeting? What are the main products or services delivered? Where does it work?*

## Case study

*Most companies or funds will provide a case study describing how their products or services are changing the lives of people they are working with. A case study can combine the mission and activities with the impact achieved.*

## Social/environmental impact achieved

*Gather examples of impact achieved in a recent year, or to a date which ties in with the mission. How many people reached? How their lives have been impacted? Some data may be quantitative, some may be qualitative.*

| About the company or fund | | | |
|---|---|---|---|
| **Year founded:** | *When was the company or fund established?* | **Target geography:** | *Where does the company or fund work?* |
| **Location:** | *Where is the company or fund headquartered?* | **Net income or capital committed:** | *For a company, provide net income. For a fund, provide total capital committed. Shows size.* |
| **Projected financial return:** | *What is the projected financial return?* | **Stage:** | *For a company: Start-up or Established.*<br>*For a fund: First, Second or Established fund.* |
| | | **Structure:** | *For-profit, Not-for profit, Hybrid* |
| **Impact theme:** | *Which theme or themes is it addressing?* | | |

| About your investment | | | |
|---|---|---|---|
| **Date of initial investment:** | *When did you make first investment?* | **Committed capital:** | *How much have you invested in total (plus grant finance if relevant)?* |
| **Asset class:** | *Cash, Fixed Income, Private Equity, etc.* | **Impact type:** | *KLF uses 4 categories – Impact First, Thematic, Sustainable, Responsible. Others use Impact First or Finance First.* |
| **Investment rationale:** | *Why did you invest in the first place? Could include: theme it addresses, projected financial return, innovative business model, catalytic investment, etc.* | | |

| Investor Plus: *Rate your level of Investor Plus support (Low, Medium, High)* | |
|---|---|
| **Finance** | *Does your investment create additional financial leverage through being catalytic, taking a cornerstone investment, bringing in public finance, or combining with grant finance?* |
| **Advisory** | *Is your investment accompanied by training, business and strategic advice and/or mentoring?* |
| **Advocacy** | *Is your investment accompanied by advocacy and profile raising, access to networks?* |

| Social/environmental impact ratings | | | |
|---|---|---|---|
| **NPC's Impact Assurance Classification:** | *This is an assessment of impact processes—whether the company or fund measures outputs, has a clear theory of change, reports on change created, shows additionality. Classify each investment from Stage 1–4.* | | |
| **External ratings:** | *Is it rated by GIIRS? Is it a B Corp?* | **IRIS user:** | *Does it produce IRIS metrics?* |

| Social/environmental metrics | 2012 | 2013 | 2014 |
|---|---|---|---|
| ***Show metrics achieved in historical context. Can be enterprise-own metrics, but highlight where standardised (ie, IRIS).*** | | | |

# Using NPC's Impact Assurance Classification

One of the questions investors often ask is how do you understand whether the impact achieved is enough? If a company or fund claims to be changing the lives of 600,000 farmers per year, or avoiding 10,000 tonnes of CO2 emissions, or saving under-banked consumers $2bn through innovative savings products, what does this data really tell you? If you have targets set at the start of an investment, you can potentially assess impact achieved against those targets. But that isn't always possible, especially if you are assessing the impact some years after the initial investment was made. And in many cases, particularly for early-stage ventures, those targets can be missed for very good reason as the business develops, and new ideas are tested—some of which fail, while others go on to be successfully scaled.

Another common question is how do you compare the impact of one investment against another? Particularly when they are operating in very different fields, using different metrics, are at different stages of development, or are in different asset classes.

We have therefore developed a systematic framework for investors—our Impact Assurance Classification—that goes some way to answering these questions. It is still in an embryonic phase and we hope it will improve and adapt over time and as more organisations use it.

## The Impact Assurance process

NPC's Impact Assurance Classification provides a systematic way of evaluating the impact practice and data of investees—both companies and funds. It is cross-sector and seeks to tackle the issue of varied, inconsistent, late, and incomparable impact data, and to encourage better practice. It focuses on the quality of the impact measurement process because we believe that a developed, intentional impact measurement process is likely to be associated with a greater focus on impact, and, by extension, an increased probability of impact. We suggest this can be used as a reasonable, if not perfect, proxy measure for the level of impact achieved.

Our classification builds on existing impact measurement tools that have been developed for the sector, such as IRIS metrics, GIIRS ratings, B Corp Scores and NESTA levels of evidence. As outlined in figure 23 it is based on reviewing an investment's impact data and processes around five components of good impact practice and scoring each from 0-3 (see figure 25 for detail on each of the components).

This results in an overall impact practice score, which is then used to identify the Impact Assurance Classification of each investment (see figure 24). The Impact Assurance Classification for each company or fund can be compared across different investments, and can also be monitored over time, to see how an organisation develops its impact practice. For KLF, the impact assurance process was carried out by examining impact reports and other documents post investment. This framework can also be applied within pre-investment due diligence and can be augmented by interviews with investees.

*Figure 23:* The Impact Assurance process

**Score each component of impact practice**

From 0-3

**Calculate overall impact practice score**

Add up scores from each of the five components, max score of 15

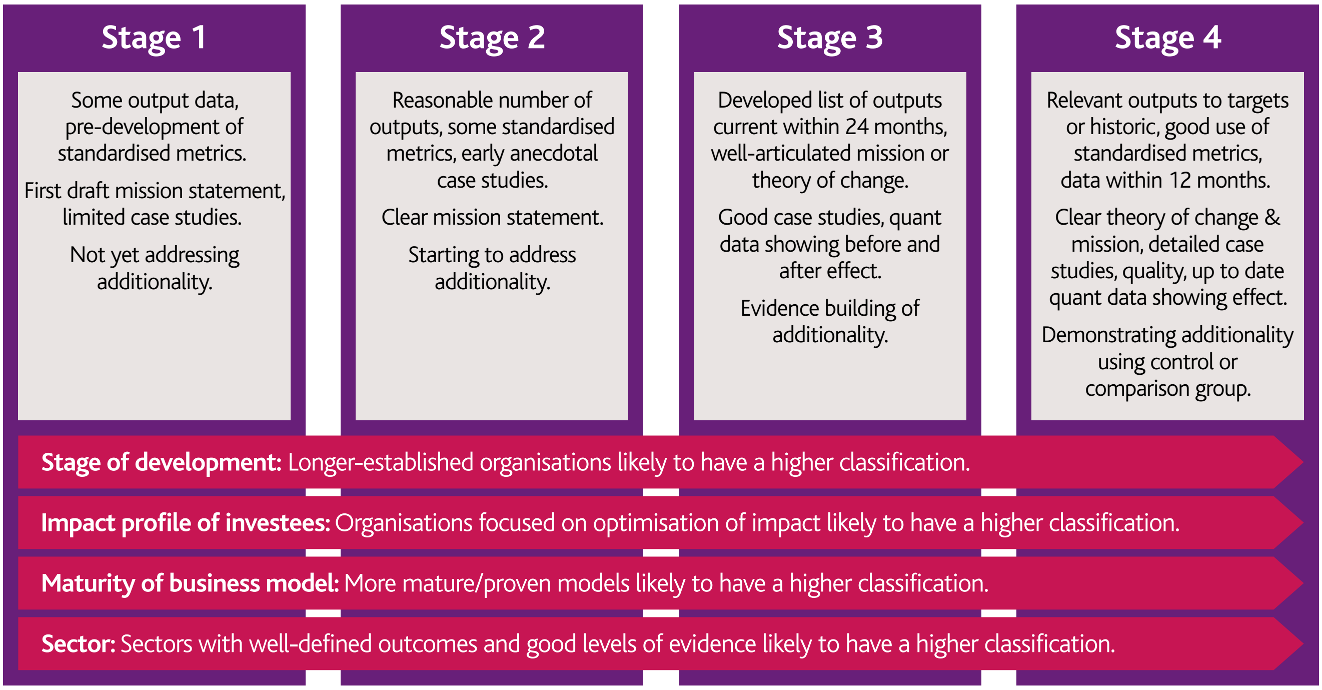
**Identify Impact Assurance Classification**

Classify each investment into one of four stages based on impact practice score

**Map scores and stages across portfolio**

Compare individual scores and averages (by sector, asset class etc), prioritise areas for support/development

*Figure 24:* NPC's Impact Assurance Classification




## Components of good impact practice

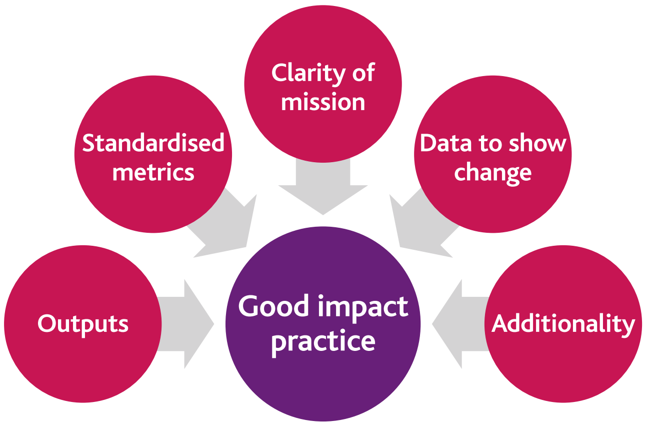
As detailed in figure 25, the first components to review are the quality of outputs—moving from up-to-date and relevant data towards standardised industry outputs, such as IRIS metrics. This is in recognition of an investor's need to be able to compare outputs reliably across similar investments.

The next three component are based on the first three Nesta **standards of evidence**[38] which progress from articulating the model for achieving impact to evidencing the causality and additionality of an investment.[*] The objective of reviewing impact data in this way is to show how confident we can be that the evidence provided shows that an investment is having a positive impact.

The final informal aspect of the impact assurance process is the consideration of external ratings. These could be GIIRS ratings for companies and funds, the newly emerging B Corp rating, or a sector-specific kite mark. Whilst these ratings are not focused on outcomes explicitly, they bring an element of external validation and credibility to an investee.

There is a more detailed explanation of interpreting the ratings using KLF investees as examples on **page 48**.

*Figure 25:* Components of good impact practice




**Outputs:**
- Variety of relevant outputs including context
- Comparison to targets or benchmarks
- Up to date

**Standardised metrics:**
- Use of industry standard metrics relevant to mission (eg, IRIS)
- Sharing of data to enable comparisons, where relevant

**Clarity of mission:**
- Clear theory of change or logic model for achieving impact
- Intermediate outcomes identified
- Evidence for assumptions

**Data to show change:**
- Quantitative data showing effect
- Qualitative evidence/case studies to support

**Additionality:**
- Evidence of causality of impact
- Beginning to address counterfactual

## Calculating the impact practice score

Although this process is likely to develop and improve as we receive feedback from its use in different investment situations, we hope it is a useful staring point for other investors. We have therefore provided the scoring sheet below for others to apply to their own investments.

Each component of impact practice is scored 0-3 and these are totalled to provide an overall impact score out of 15 for each investment. This score is then used to identify the Impact Assurance Classification (stage 1 to 4).

| Component of impact practice | Description and score | | | |
|---|---|---|---|---|
| | 0 | 1 | 2 | 3 |
| **Outputs** | No output data. | Few outputs, no context or trend analysis. Out of date (pre 24 months). | Reasonable number of outputs, perhaps some context. Within last 24 months. | Good variety of relevant outputs, including context—y/y trend analysis, comparison to targets or benchmarks. Up to date (within last 12m). |
| **Standardised outputs** (IRIS or other recognised metrics) | No standardised metrics collected. | Limited number of metrics, not that useful, might be quite out of date. | Reasonable number of metrics. Data reasonably up to date (within last 24 months). | Wide range of metrics that are relevant to the mission. Shares data freely. Regular and up to date reporting (within last 12 months). |
| **Clarity of mission/ theory of change** | No clear mission or theory of change articulated. | Vague mission, not that well articulated. | Mission well articulated but not necessarily a clear theory of change. | Clear theory of change or logic model, well articulated. |
| **Data to show change** (quantitative and qualitative) | No case studies available and no quantitative data showing change. | Limited case studies, not that useful for impact analysis, and limited quantitative evidence showing effect. | Reasonable number of case studies, building some picture of impact—and up to date quantitative data showing before and after effect. | High quality case studies, detailing the impact of the work and high quality up to date quantitative data showing effect. |
| **Data to show additionality** | Not considered. | Beginning to address additionality of intervention. | Evidence developing to demonstrate additionality. | Robust tools used for demonstrating additionality, using a control or comparison group. |

# Using IRIS metrics

There are a growing number of standardised impact metrics in the field, and IRIS is one of the better established. KLF has been involved in their development from the beginning. (For more details of how KLF has integrated IRIS into their processes, see the case study published by IRIS on the Foundation's use of the metrics.[39]) Standardised metrics can better align the expectations of investor and investee, and ideally should lighten the reporting burden on the investee. Their use also allows an investor to understand the aggregate impact of their investments, compare the impact performance of an investment over time, or compare performances between investments, and even across sectors.

However, the data collected limits the extent to which this can be done because some investees choose to report on different metrics year on year, and in analysing KLF's data, we found there to be inconsistencies in the data reported, even on the same metric by the same organisation. Although it is not perfect, we fully subscribe to the development of IRIS metrics, but caution is required when analysing the data and aggregating up.

# Cost of impact measurement

We are often asked about the cost involved in measuring the impact of a foundation. The answer varies widely according to a number of factors such as the size and complexity of the Foundation, the state of existing measurement, and the level of detail required.

This project for KLF has taken around six months, on and off, for NPC, and has included:

- developing a theory of change;
- developing an overall measurement framework—setting out the required steps for both the investment portfolio and the movement-building work of the Foundation;
- developing the Impact Assurance Classification;
- collecting and analysing impact data from each investment;
- applying the framework to individual investments and analysing the results;
- aggregating the data by theme;
- analysing IRIS data for impact across the portfolio;
- selecting, collecting and analysing impact data relating to movement-building; and
- writing the report.

Setting up a measurement framework from scratch can involve a high front-end cost, whereas an annual audit process should be much less time-consuming and expensive. Although we would have liked to provide an estimate based on the value of the portfolio, this does not make sense as the cost depends more on the number of (rather than the value of) investments, and the degree of analysis required. However it's worth noting that early adopters of impact measurement, such as KLF, are paving the way for others—making it easier to follow suit and sharing the challenges they've faced. The tools and guidance in this report can be seen as a gift from the Kleissners to the sector—helping to lower the cost of measurement for other investors.

# CONCLUSION

## The Foundation

The KL Felicitas Foundation has an ambitious long-term goal. This report shows that the Foundation is making good progress in the steps required to realise its vision.

- Our analysis shows that KLF's contribution to building the impact investing field is considerable. It is thoughtful in considering all the elements required for success, and acts to create or support organisations or programmes required to fill the gaps. Developing its theory of change should enable the Foundation to continue this work in a targeted way.
- The measured impact of the Foundation's investment portfolio must be evaluated in the light of the fact that such impact measurement is still in its infancy. In practice, this means issues concerning both the quantity and quality of data, insufficient frameworks and metrics, and tough questions around attribution and additionality. This makes measurement challenging, but this report demonstrates that it is nevertheless possible to analyse an impact investment portfolio. We have shown what individual investments are achieving, and how companies and funds are contributing to specific thematic outcomes, such as increasing renewable energy production, growing social and environmental small businesses, and increasing sustainable farming practices.
- As NPC's Impact Assurance Classification shows, it is also possible to compare investments—not on their impact achieved but on their impact process. The picture is varied within KLF's portfolio—with investments at different stages of their measurement process—reflecting the nascent nature of impact measurement but also the diversity of companies and funds within their portfolio. We hope to see the average Impact Assurance Classification of KLF's portfolio adjusting upwards in future years as best practice is implemented.
- The report also highlights that KLF is making a difference to investees through the provision of advice, advocacy, or financial support beyond investment capital. This 'Investor Plus' approach is often hard to quantify but the positive stories are plentiful.
- It remains difficult, however, to produce an aggregate picture of the Foundation's impact. This applies to any funder, whether looking at an investor making impact investments, or a traditional foundation providing grants to charities. Unlike analysing the financial performance of a portfolio, there are no benchmarks to compare against, and no headline figure of social return achieved. Even using standardised metrics, such as IRIS indicators, it is not possible at this stage to provide aggregate results for the entire portfolio.

## The sector as a whole

There is a clear need to nurture, grow and improve impact measurement practice within the social investment sector as a whole. We believe the practices listed below would be a helpful starting point and welcome additional suggestions and dialogue.

- Investors and funds to become more willing to measure, report and share the methodology and impact performance of their own portfolios—to show it is possible to do, and for others to learn from.
- Investors to support and encourage investees to improve their measurement practice by helping them select appropriate metrics and use increasingly widely available tools, measures and standard outcomes. Where appropriate, investors should provide resources to their investees to measure their impact. They should also encourage collaboration on impact measurement by investees to work towards shared and standardised frameworks.
- Investors to follow existing guidance, such as G8 guidelines, to ensure that measurement is proportional and useful.
- Investors and investees to act on the learning from the impact information that is produced.

In line with the ethos of KLF, we hope the results, guidance and tools in this report can inspire and support other investors who are interested in understanding their own impact and that of their investees. We also hope this report will be a contribution to moving impact measurement practice within this sector forward.

# APPENDIX

## Complete list of KLF investments and grants – 31/12/2014

| Investment | Fund or company | Impact category | Primary theme | Secondary theme |
|---|---|---|---|---|
| **Cash and Equivalents** | | | | |
| Microvest Short Duration Fund LP | Fund | Thematic | Financial services | |
| RSF Social Finance | Fund | Impact First | Financial services | Food & agriculture |
| Southern Bancorp CD | Company | Thematic | Community development | Financial services |
| Triodos Sustainable Trade Fund | Fund | Impact First | Food & agriculture | |
| Urban Partnership Bank (Shorebank) | Company | Thematic | Financial services | Community development |
| **Fixed Income** | | | | |
| Acumen Capital Markets I, LP | Fund | Impact First | Energy | Food & agriculture |
| DWM Micro Finance Fund | Fund | Thematic | Financial services | |
| Healthpoint I and II | Company | Impact First | Health & water | |
| ImpactAssets | Company | Impact First | Impact ecosystem | |
| MA'O Organic Farms | Company | Impact First | Food & agriculture | |
| Media Development Investment Fund | Fund | Impact First | Financial services | Other |
| MicroVest Fund I | Fund | Thematic | Financial services | |
| MicroVest GMG Local Credit Fund | Fund | Thematic | Financial services | |
| MicroVest Plus | Fund | Thematic | Financial services | |
| Root Capital | Fund | Impact First | Financial services | Food & agriculture |
| SMV Wheels | Company | Impact First | Financial services | |
| Social Impact Partnership LP | Company | Impact First | Community development | |
| Sonen Capital Global Fixed Income | Fund | Thematic/ Sustainable | Cross-sector | |
| **Public Equity** | | | | |
| Sonen Capital Global Equity | Fund | Thematic/ Sustainable | Cross-sector | |
| **Hedge Fund** | | | | |
| DE Shaw Composite | Fund | Non Impact | | |
| FCOI II Holdings LP | Fund | Non Impact | | |
| Sansar Capital Ltd | Fund | Non Impact | | |
| Summit Offshore Water Equity Fund | Fund | Thematic | Health & water | |

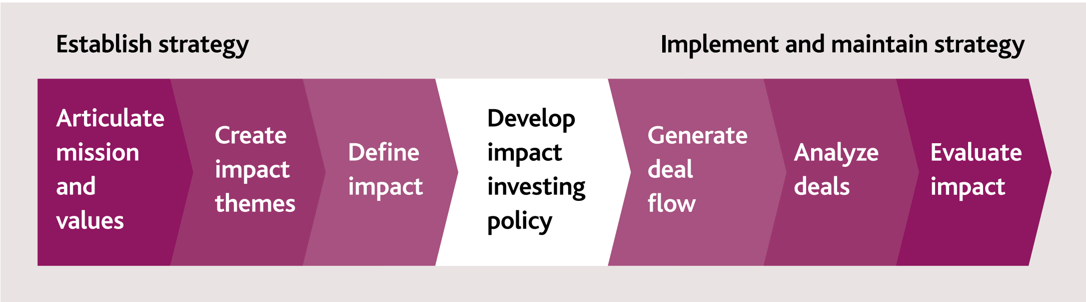
| Investment | Fund or company | Impact category | Primary theme | Secondary theme |
|---|---|---|---|---|
| **Private Equity** | | | | |
| Adobe Social Mezzanine Fund I LP | Fund | Impact First | Financial services | |
| Asia Environmental Partners | Fund | Thematic | Energy | |
| Better Ventures II LP | Fund | Thematic | Other | |
| BioLite | Company | Impact First | Energy | |
| Core Innovation Capital I | Fund | Thematic | Financial services | |
| FAIM (Forestry & Agri Investment Mgent) | Company | Thematic | Food & agriculture | |
| Grassroots Business Fund | Fund | Impact First | Financial services | |
| Legacy Venture III & IV LLC | Fund | Responsible / Sustainable | | |
| Micro-Vest Fund II A | Fund | Thematic | Financial services | |
| Persistent Energy Partners Fund I | Fund | Impact First | Energy | |
| Purpose Global LLC | Company | Thematic | Other | |
| Sail Safe Water Partners LP/ Waterhealth Int | Company | Thematic | Health & water | |
| SocialAlpha Investment Fund | Fund | Impact First | Other | |
| Zouk Ventures Cleantech Europe I & II | Fund | Thematic | Energy | |
| **Real Assets** | | | | |
| Beartooth Capital I & II | Fund | Thematic | Environment | |
| Ecosystem Investment Partners II LP | Fund | Thematic | Environment | |
| EKO Green Carbon Fund | Fund | Thematic | Environment | |
| Living Forest | Company | Impact First | Environment | |
| Lyme Forest Fund III LP | Fund | Thematic | Environment | |
| Pico Bonito LLC | Company | Impact First | Environment | |

| Grants | Primary theme |
|---|---|
| Ebola Fund | Impact ecosystem |
| Emersense Vienna (Central & Eastern European Investment Ready Programme) | Impact ecosystem |
| Grassroots Business Fund | Financial services |
| ImpactAssets | Impact ecosystem |
| MA'O Organic Farms | Food & agriculture |
| Social Impact International | Impact ecosystem |
| Toniic Institute | Impact ecosystem |

# KLF's investment policy and process

Over the last 14 years, the Foundation's investment process has evolved as the Kleissners, as well as their investment advisors, have learned about the impact marketplace. The mission of the Foundation, and the ways it carries out that mission, have changed to fit what they have learned, and the opportunities they have discovered. The Foundation uses Rockefeller Philanthropy Advisors' **Impact Investing Cycle** shown below as a framework for investment decision-making.[40]

*Figure 26:* The Impact Investing Cycle




*Source: Godeke, S. and Pomares, R. (2009) Solutions for Impact Investors: From Strategy to Implementation. Rockefeller Philanthropy Advisors.*

This framework is split into two distinct activities linked by the impact investing policy:

- establishing a strategy—which moves from articulating the mission through the development of impact themes to the impact targeted for the portfolio; and
- implementing and maintaining that strategy—which focuses on the mechanics of achieving that impact, including finding and making investments, and monitoring their impact.

## Establish strategy

| Steps | KLF's approach |
|---|---|
| **Articulate mission and values** to help clarify motivation. | KLF's mission is to enable social entrepreneurs and enterprises worldwide to develop and grow sustainably and to advocate impact investing. The Foundation has a:<br>• Commitment to high touch<br>• Belief that a grass-roots approach is more successful and sustainable than a top-down approach<br>• Belief that systemic societal problems can be addressed most effectively through cross-sector partnerships, market forces and/or hybrid solutions<br>• Commitment to leverage as many aspects of the Foundation's structure and activities as possible<br>• Commitment to considering the holistic impact of everything they do, reflected in the theory of change |
| **Create impact themes** in line with mission and values | The social enterprises that the Foundation supports in line with its mission have one or more of the following characteristics. They:<br>• Provide goods and services for the poor or disadvantaged<br>• Employ people from the poor or disadvantaged<br>• Are majority owned by the poor or disadvantaged communities<br>KLF's definition of social enterprise is broad and not limited to particular impact themes—so investments are spread across a range of impact themes and have been driven by the availability of suitable investments. Current themes include food & agriculture, energy, ecosystem services, environmental conservation, health, financial services and water. |
| **Define impact** | The Foundation believes that all portfolios assets can contribute towards impact and has impact investments in all asset classes including public equity, private equity, cash and real assets.<br>Investments are classified as:<br>• Impact First/ PRIs—investments with higher risk seeking a potential higher impact return and minimum expected financial return<br>• Thematic—investments focussing on issue areas for social and/or environmental needs and seeking financial returns approximating the average risk adjusted returns of similar investments made without regard to the mission or the programmes of the Foundation<br>• Sustainable—investments positioned to benefit from the integration of ESG factors and broad based sustainability macro trends which are typically equity investments<br>• Responsible—investments which allocate part of their profits either directly or indirectly to social beneficiaries<br>• Non impact—legacy investments as portfolio moves towards 100% impact |

## Develop policy

KLF's **Impact Investment Policy** is the bridge between establishing a strategy and implementing it.[41] It documents KLF's objectives and guidelines for the investment of its assets. The Policy guides the Foundation's board, staff, money managers, philanthropic advisor, and investment advisor to effectively invest, monitor, evaluate and manage the assets.

## Implement and maintain strategy

| Steps | KLF's approach |
|---|---|
| **Generate deal flow** | KLF's Impact Advisor, Sonen Capital, is primarily responsible for generating deal flow for all Sustainable investments.<br>KLF's Board is primarily responsible for generating deal flow for all Impact First investments.<br>All potential investments need to adhere to the Asset Allocation and Impact Investing Policy (with the exception of Impact First investments/ qualifying PRIs, which do not have to adhere to the Asset Allocation policy because these investments are made from the risk grant allocation).[42] |
| **Analyse deals** | For Sustainable and Thematic investments, financial due diligence is usually done first. For Impact First investments, impact due diligence is usually done first.<br>KLF uses the evaluator template (see Appendix) to document its impact due diligence.<br>Potential Thematic deals that turn out not to be robust enough may be evaluated as an Impact First deal. Once the financial and impact due diligence are completed, the Board makes the final decision on whether KLF will proceed with the investment.<br>KLF's investment advisor, Sonen Capital, takes the lead in implementing the investment, eg, gathering, reviewing and executing the Investment Agreement Document, articulating the monitoring and reporting requirements. |
| **Evaluate impact** | The Foundation is committed to evaluating impact and uses a combination of tools to measure this:<br>• Core IRIS indicators<br>• Sector specific IRIS indicators<br>• Foundation Qualitative Indicators. |

As part of the due diligence process, KLF uses the following qualitative indicators to decide whether to proceed with an investment. The indicators serve to provide a fuller picture of the impact and contribution that the investment will make towards KLF's mission. The indicator alignment with core values provides a final check on mission drift within the portfolio. The remaining indicators are predominantly focussed on how and if KLF's investment helped an organization gain greater scale. The table below shows the number of investments classified in this way with examples split between grants and investments in companies and funds.

| Qualitative Impact Indicator | Description | Examples | | | Number of Investments/ Grants |
|---|---|---|---|---|---|
| | | Grant | Company | Fund | |
| **Catalytic Investment (Stage 1)** | An investment that causes or accelerates impact beyond the investment itself. | Impact Assets | BioLite | Adobe Social Mezzanine | 14 |
| **Business Model Innovation** | Identify, nurture and share innovative business models. | Microcredit Enterprises | Social Impact Partnership | Beartooth Capital I | 22 |
| **Investment Combined with Grant Funding—Blended Capital** | Equity investment or loan combined with grant capital provided by KLF. | Grassroots Business Fund | M'AO Organic Farms | Grassroots Business Fund | 4 |
| **Investment Combined with Public Support** | Investment support alongside sizeable publicly-sourced investment (e.g. public healthcare). | | Waterhealth | Root Capital | 4 |
| **Connect Beneficiaries with Capacity Building Tools** | Provied various technical assistance and capacity building tools to the recipients of loans or investment support. | Emersense Vienna | SMV Wheels | | 4 |
| **Alignment with Foundation Core Values** | Close alignment with one or more of the foundation's core values | Social Impact International | FAIM | Lyme Forrest Fund III | all |

An investment may fall into one or more categories, for example:

- SMV Wheels is a blended investment (combining a loan and grant) accompanied by capacity-building support within an innovative business model of microfinance for rickshaw purchase in India.
- The holding in the Social Impact Partnership is classified as catalytic and business model innovation because it is an investment in the first social impact bond.
- The KLF investment in Waterhealth was made alongside public funds within an innovative business model.

Aside from aligning with core values, the two most common indicators are business model innovation and catalytic investment. These both reflect KLF's willingness to take risk, back new ideas, and fund start ups. Reflecting the success of this strategy, several of the first funds that KLF invested in have gone on to raise subsequent funds—including Beartooth Capital I, Core Innovation Capital I and Zouk Ventures. In the same way, direct investments in companies has often led to the ability to raise further tranches of investment. These include BioLite, MA'O Organic Farms, and SMV Wheels.

# KLF’s measurement framework

| | Step | As adapted to KLF investment portfolio | As adapted to KLF movement-building work |
|---|---|---|---|
| Plan | **Set goals.**<br>Articulate the desired impact of the investments to serve as a reference point for investment performance. | • Develop a theory of change.<br>• Complete Investment Evaluators. | • Develop a theory of change. |
| Plan | **Develop framework and select metrics.**<br>Determine metrics to be used for assessing the performance of the investments. Utilise metrics that align with existing standards. | • Select key outcomes for thematic areas.<br>• Decide on IRIS indicators to collect, both individual and sector.<br>• Work with investees on data to report on. | • Prioritise areas of measurement from theory of change<br>• Select key metrics to collect. Ideally agree these indicators at start of grant / activity. |
| Do | **Collect and store data.**<br>Capture and store data in a timely and organised fashion. | • Collect impact information (quantitative and qualitative) regularly from funds and companies.<br>• Request specific information from funds and companies<br>– IRIS data, GIIRS ratings<br>– Impact of KLF Investor Plus support.<br>• Build tracking system to see when each piece of information is due, ensure information is provided on time and identify gaps. | • Collect selected metrics and qualitative data from individual organisations. |
| Do | **Validate data.**<br>Verify that impact data is complete and transparent by cross-checking calculations and assumptions against known data sources, where applicable. | • Verify data through field visits, meetings with management and staff, and inputs from co-investors. (Hasn’t happened as part of this review process). | • Review public information and reports to build wider picture of impact. |
| Assess | **Analyse data.**<br>Review and analyse data to understand how investments are progressing against impact goals. | • Assess each investment against NPC’s Impact Assurance Classification. Ideally share this with each organisation and then more widely.<br>• Analyse impact data—vs targets and vs historic data where possible.<br>• Analyse data within thematic context, aggregate where possible—How far is each investment contributing to thematic outcomes?<br>• Update sector outcomes where necessary. | • Assess data provided vs targets and vs historic data where relevant.<br>• Aggregate data within outcome areas.<br>• Identify where key outcomes not being reached and how to address these. |
| Review | **Report data.**<br>Share progress with key stakeholders. | • Show impact on different levels:<br>– by individual investments<br>– by theme<br>– across the portfolio.<br>• Share report widely with other investors, investees. | • Create case studies of selected work. Verify these with each organisation.<br>• Display information relating back to theory of change. |
| Review | **Make data-driven investment management decisions.**<br>Assess stakeholder feedback on reported data and address recommendations to make changes to investment thesis / theory of change. | • Review investment portfolio—make any necessary trading decisions based on impact performance. | • Review movement building work. Make any necessary changes to grants or activities based on impact performance. |

# KLF's IRIS metrics

KLF has selected a set of core IRIS metrics that are sufficiently high level to have meaning for all types of investment. These split between Impact Metrics and Financial Metrics and have been selected to provide evidence of the Foundation's focus on helping social enterprises scale social impact. The core indicators include two that measure jobs and number of clients per investment, and eight that relate to an investment's financial health and ability to attract new capital. In addition sector specific IRIS indicators have been selected around health, energy and water, and land conservation and restoration.

| | | | IRIS Indicator | Definition |
|---|---|---|---|---|
| CORE IRIS INDICATORS | Product impact | Number of Clients | **Number of Client Individuals** (PI4060) | Number of unique individuals who were clients of the organisation during the reporting period. |
| | | | **Number of Client Organizations** (PI9652) | Number of enterprises that were clients of the organisation during the reporting period. |
| | | **Jobs Maintained at Directly Supported / Financed Enterprise(s)** (PI5691) | | Number of FTE employees working for enterprises financed or supported at the time of support / investment. |
| | Financial performance | **Number of Loans Outstanding** (PI1478) | | Number of loans on the organisation's balance sheet at the end of the reporting period. |
| | | **Value of Loans Outstanding** (PI7569) | | Value of loans on the organisation's balance sheet at the end of the reporting period. |
| | | **Number of Equity Investments Outstanding** (PI1914) | | Number of equity investments on the organisation's balance sheet at the end of the reporting period. |
| | | **Value of Equity Investments Outstanding** (PI7940) | | Value of equity investments on the organisation's balance sheet at the end of the reporting period. |
| | | **New Investment Capital** (FP8293) | | Value of funds invested in the organisation (both loans and investments) during the reporting period. |
| | | **Revenue from Grants and Donations** (FP3021) | | Value of the revenue that is contributed through grants and donations during the reporting period. |
| | | **Sales Revenue** (PI1775) | | Value of the revenue from sales of the organisation's products/ services during the reporting period. |
| | | **Net Income** (FP1301) | | Value of the organisation's net profit, calculated as total income minus total expenses, taxes, and cost of goods sold during the reporting period. |
| SECTOR-SPECIFIC IRIS INDICATORS | Health, Energy and Water | **Clients provided new access to energy, healthcare, water** (PI2822) | | Number of client individuals who were served by the organisation and provided access to products or services they were previously unable to access during the reporting period. |
| | | **Energy Produced** (PI8706) | | Energy produced and delivered to offtaker(s) during the reporting period (kWh). |
| | | **Water Produced forSale: Potable** (FP8043) | | Volume of potable water produced and delivered to offtaker(s) during the reporting period. |
| | Land conservation and restoration | **Land Reforested** (PI4907) | | Hectares of land reforested during the reporting period. |
| | | **Land Directly Controlled: Sustainable Managed** (OI6912) | | Hectares of land, directly controlled by the organisation, under sustainable cultivation at any point during the reporting period. |

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# TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

**Increasing the impact of charities:** NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

**Increasing the impact of funders:** NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

**Strengthening the partnership between charities and funders:** NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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